A review of effectiveness of Development Finance Institutions in Botswana

(case study: Botswana Development Corporation and Local Enterprise Authority)

A research report submitted in partial fulfilment of the requirements for the Degree of Master of Management in Finance and Investments

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Abstract

Are development finance institutions (DFIs) in Botswana effective? To what extent do they contribute to the economic development agenda of the country? And can they be made to work better and more effectively? These pertinent questions form the background of this study. In particular, this study examines whether the DFIs are adhering to, and upholding their mandates. Using the performance management theory as the theoretical framework, we assess the common problem across DFIs and how they may be addressed. The paper further examines the financial performance and sustainability of these entities together with their impact on the economic growth of the country both individually and collectively as a sector. The study focused on a ten (10) year period between 2006/07 and 2015/16, the researcher was desirous of using current information, and at the time of this decision some of the DFI's were undergoing their Annual financial statement audits for the previous year that is 2017, hence the decision to use 2016 as the cut off year. Furthermore, the time period of the research, ten years was used to capture a full cycle of a typical investment. Lastly, human resource rotate, and records management is a challenge through the DFI's in Botswana, therefore a conclusion was reached that it would be a challenge to look at a period where no current personnel had an impact one way or another and for institutional memory purposes and the records maybe lost or inaccessible. The research revealed that for the period under review the DFIs in Botswana were very ineffective. Although they have created employment and sensitised Batswana with regards to the entrepreneurship mentality they have not lived up to or fulfilled their mandates. In spite of the existence of corporate governance structures there has been persistent poor performance, combined with serious concerns around financial sustainability and allegations of corruption and mismanagement. At the time of completing this research two (2) out of the four (4) DFIs were going through restructuring and retrenchment process. The recommendations put forward include review of the model frameworks with the view of implementing the framework utilised by successful DFIs in developed countries, improving and empowering the supervisory bodies, deliberate linkages between all DFIs to promote direct project transfer and co investments, appropriately capacitating the DFIs with the requisite skilled human resources and lastly accelerating self-sustenance plans.

Key words: Botswana, Development Finance Institution, effectiveness, agency theory, self-sustenance

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Declaration

I Katso Bonang Gaobakwe hereby declare that this research report is my own singlehanded work. It is submitted in partial fulfilment of the requirements for the Degree of Master of Management in Finance and Investments at the Wits Business School, Johannesburg, South Africa. I further declare that it has not been submitted for any Degree, examination or any other University before. I would also like to declare that I am employed by one of the DFIs, but the requisite procedure for research of this nature was followed accordingly. Firstly, a research permit from the steward Ministry together with a letter from the Managing Director endorsing the research were obtained before any information collection was commenced. Furthermore, all the information used for this report was obtained from the designated employees of the DFI.

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Abbreviations

BOB	Bank of Botswana
BDC	Botswana Development Corporation
BIDPA	Botswana Institute for Development Policy Analysis
BITC	Botswana International Trade Centre
BSE	Botswana Stock Exchange
BPOPF	Botswana Public Officers Pension Fund
BSB	Botswana Savings Bank
BDFIs	Bilateral Development Finance Institutions
BOSSC	Botswana One Stop Service Centre
CEDA	Citizen Entrepreneurial Development Agency
DFIs	Development Finance Institutions
DFRC	Development Finance Resource Centre
EDD	Economic Diversification Drive
EDFIs	European Development Financial Institutions
EIA	Environmental Impact Assessment
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICT	Information Communication Technology
IFRS	International Financial Reporting Standards
IFIs	International Finance Institutions
IMF	International Monetary Fund
ITPA	Investment and Trade Promotion Authority
KPIs	Key Performance Indicators
LEA	Local Enterprise Authority
LDCs	Less Developed Countries
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
NCCEE	National Conference on Citizen Economic Empowerment
NDB	National Development Bank
OECD	Organisation of Economic Cooperation and Development
PAC	Public Account Committee
PEEPA	Public Enterprises Evaluation and Privatization Agency
PWC	PriceWaterhouse Coopers
SADC	Southern African Development Community
SDGs	Sustainable Development Goals
SEZA	Special Economic Zones Authority
SIBs	State Investment Banks
SMEs	Small and Medium Enterprises
SMMEs	Small, Medium and Micro-sized Enterprises
SPEDU	Selebi Phikwe Economic Diversification Unit
SSA	Sub-Saharan African

Chapter 1: Background and Introduction

1.1 Introduction of field of Study

Development finance can generally be defined as the provision of finance to those market segments (such as projects, sectors or sections of the population) that are not properly served by the financial system. These segments include projects whose social benefits surpass their commercial ones; longer-term projects or projects with a long lead time; new unstudied or risky ventures, such as new technologies; and small and new borrowers who lack the appropriate security (Diamond, 1996; De Aghion, 1999; Marston & Narain, 2004; Micco & Panizza, 2004; United Nations, 2005 cited in Thorne and du Toit, 2009). It is the efforts of local communities to support, boost and catalyse expansion through public and private investment in physical development, redevelopment and/or business and industry. Development finance is the act of contributing to a project or deal that causes that project or deal to materialize with long-term benefits to the country at large and the community in which they operate. It requires innovative programs and solutions to challenges faced by the local businesses, industries, real estate and environment. For examples, there is a growing need for unique funding approaches to address environmentally polluted land, clean energy and specific solutions to unlocking capital access in the underserved markets and industries. Each of the problems that need to be resolved in the development space requires unique, innovative and targeted solutions. While there are different definitions for development banks, Diamond (1996) claims development banks are financial institutions whose main task is to promote and finance the private sector. Firstly, he means financing and promoting development projects, but experiences in the developing countries and other sources of special literature show that activities of development banks exceed financing of the private sector. While according to Ligeti (1985) another definition of a development bank is an institution that grants medium- and long-term loans in a developing economy. Finally, these definitions are completed and summarised by Kane, who declared that a development bank is a financial intermediary which grants medium and long-term funds for bankable projects and provides services connected with development.

There are loads of words and terms within the development finance industry space like debt, equity, loans, bonds, credits, liabilities, remediation, guarantees, security, warranty, concession, credit enhancement, venture/seed capital, angels, start-up capital, short-term, long-term, incentives, and gap financing. In the end, development finance aims to establish hands-on approaches that leverage public resources to resolve the needs of business communities, industry, developers and investors. The form (shares, equity or loans) and cost of financing offered by development banks depend on their cost of obtaining capital, their need to show a profit and pay dividends plus their appetite for developmental impact projects.

Arrow (1951) stated that the market failure theory justifies public intervention in the economy only if it is geared towards fixing situations in which markets fail to efficiently allocate resources. According to Mazzucato (2015) the market failure approach suggests that governments intervene to 'fix' markets by investing in areas with 'public goods' characteristics and by devising market mechanisms to internalize external costs or external benefits. Government failure is a situation where government intervention in the economy to correct the above mention market failure creates inefficiency and leads to even worse misallocation of scarce resources. Government has a crucial role to play to improve the inefficient market outcomes, hence the deliberate efforts to swiftly address market failures in the provision of capital, the birth of DFIs. There is abundant evidence on the link between finance and economic growth according to various researcher including (Demirguc-Kunt and Maksimovic, 1998; Beck and Levine, 2002 cited in Mathur and Marcelin, 2015) stated that hence the desire by governments to induce economic growth and reduce poverty and unemployment through ensuring availability of appropriate financing.

Bruck (1998) and the trio Yeyati, Micco, and Panizza (2004) stated that the defenders of state banking view development banks 'as a vital tool in resolving market failure leading to poor quality investments. Therefore, DFIs are expected to resolve market imperfections that could leave either financially viable projects or projects that generate positive externalities without funding. Furthermore, in economies with significant funding constraints, those banks can significantly improve capital scarcity and promote entrepreneurial accomplishment to boost new or existing industries (Armendáriz de Aghion, 1999; Cameron, 1961; Gerschenkron, 1962). In accordance with such an industrial policy view, development banks do much more than just lending to build large infrastructure projects. They also finance companies that would otherwise not undertake projects if it was not for the availability of more patient, longer-term, subsidized funding of a development bank (Rodrik, 2004; Yeyati et al. 2004). Amsden (2001) commented that the development banks may further provide companies with capital with subsequent conditions anchored on operational improvements and performance targets. In those circumstances, one would expect to see a trend of increasing capital investments and overall profitability across companies that have borrowed from development banks (Lazzarini, Musacchio, Bandeira and Marcon, 2002-09). The role of development banks or DFIs in economic development accordingly to Ferraz & Coutinho (2017) is an issue of increasing economic relevance and academic and policy debates, especially after the pro-active role they assumed, in many countries, in the aftermath of the 2008/2009 international financial crisis.

Although there is an outsized literature examining state-owned banks (Cole, 2009; Dinc, 2005; Khwaja & Mian, 2005; La Porta, et al. 2002), development banks are a peculiar and understudied type of lender especially in Botswana and Africa as a continent. Unlike state owned commercial banks, which tend to provide generalized lending similar to that of private banks, development banks specialize in longer-term lending to promote new industries and firms. In other words, such banks are supposed to have specialized competencies and a clear mandate to spur industrial development (e.g., Armenda´riz de Aghion, 1999) Lazzarini et al (2002-09). This is very well documented within the mandates of DFIs in Botswana though not successfully implemented for the period under review.

There is little empirical work on the role of State Investment Banks (SIBs) specifically in overcoming barriers to mobilizing finance. There is also an absence of detail on which instruments, channels and activities employed by SIBs have been effective and why, and little understanding of the mechanisms which allow SIBs to help mobilise private finance (Geddes et al., 2018). This presents an opportunity for further research to augment existing literature and to assist the DFI's themselves, especially for the African continent.

DFIs can either be public or quasi-public/private authorities that offer and support economic development through numerous direct and indirect finance programs. DFIs could issue tax-free and non-exempt bonds, provide credit enhancement programs, and offer direct funding, equity investments, or a broad range of access to capital financing mechanisms including facilitating IPO, syndication of loans, and advisory services amongst others. DFIs maybe be positioned at the district, county, township, borough or municipal level and often have the authority to provide development finance programs across multi-jurisdictional boundaries both in country and even across the borders.

Furthermore, DFIs can either be bilateral or multilateral. Bilateral Development Finance Institutions (BDFIs) are majority-owned by national governments and have historically served to implement government foreign development and co-operation policies, while multilateral DFIs, also known as International Finance Institutions (IFIs), usually have greater financing capacity and provide a forum for close co-operation between governments. Both types of institutions retain operational independence from their funding governments. Backed by government funds and guarantees ensuring their credit-worthiness, DFIs can raise large amounts of funds on international capital markets to provide loans or equity investment on either competitive or subsidised terms. According to a discussion paper by Prizzon and Engen (2018), the mandates and operations of multilateral development banks (MDBs) have evolved and expanded in recent decades. Many were created within the sixties, during the period of decolonisation, while others came into being after the end of the Cold War to support reconstruction, development and regional integration. MDBs were called upon to step up these efforts in the pursuit of the Millennium Development Goals (MDGs) which were anticipated to be achieved by 2015, and now the ambitious, universal and cross-sector Sustainable Development Goals (SDGs) and Agenda of 2030. Given their mandates, sector and country coverage and knowledge, MDBs can even play a task as catalysts for different types of finance – private sector, domestic revenues – encapsulated in the idea of scaling up resources from 'billions to trillions' to turn the SDGs into a reality.

Botswana has a varied range of DFIs, though all bilateral, they have different organisational structures and operational mandates. They also differ in the weight of their financial resources and the nature and scale of the projects they finance. There is, however, a common thread that defines them: to promote and facilitate the development of various industries through providing financial assistance to investors to contribute to the sustainable development and economic growth of the country. Moreover, assuming a Gerschenkonian stand, the scope of the mission of a development bank may be directly related to challenges a society faces at specific moments of time Mazzucato (2015). The facilities available to achieve the later include equity participation, loans, preferences shares, mezzanine debt, guarantees and a variety of hybrid facilities. This research was geared towards assessing, reviewing and analysing the effectiveness of four entities, Botswana Development Corporation (BDC), Citizen Empowerment & Development Agency (CEDA), the National Development Bank (NDB) and the Local Enterprise Authority (LEA) and their economic contribution to the country over the last 10 years. But only two entities were used for this research due to limitations of data and personnel availability. A recent work by the World Bank proposes three institutional functions – commitment, coordination and cooperation as critical determinants of public policy effectiveness (World Bank, 2017). The World Bank's views are behavioural, even normative concepts: policy effectiveness would be ensured if any institution, anywhere, anytime is committed to its mandates.

This study will focus on the different modus operandi of the institutions funded annually from the country's national budget versus the initial capitalization entities, it will further review the structures, strategies and performance of these entities and their contributions if any to the sustainable development of the country. A similar analysis will be undertaken between institutions providing finance and those that do not.

1.1.1 Overview of the DFIs in Botswana

Botswana Development Corporation (BDC)

The corporation was established in 1970 as a private company to be the country's main agency for the industrial development, its control is vested in the Board of Directors whom are appointed (and removed) by the Minister of Investment Trade and Industry (formerly housed under the Ministry of Finance and Development Planning until 2013, moved as part of government's reorganisation and rationalisation of its overall responsibilities and accountability). The corporation is managed by the Managing Director, assisted by two chiefs and four heads of departments. Most subsidiary companies are independent and BDC's only influence is exercised through the Directors it nominates to subsidiary Boards, except four 100 percent owned and internally managed property companies. Directors are also nominated to the Boards of associate and affiliate companies; such appointees largely act in an advisory and monitoring capacity (appointees do not necessarily have to be BDC employees).

Objectives, vision and mission statement

Its objectives, vision and mission have evolved over the ten-year period under review but has echoed the provision of financial assistance to investors with commercially viable projects, an innovative investment partner who pioneer new industries, stimulate private sector growth in Botswana and foster linkages with the local industry. It has further positioned itself to drive diversification and exports while creating significant employment. It was not until 2014 financial year when the BDC mandate was extended to include foreign investments, my review was extended up to three years later, but no single foreign investment was made by the corporation.

Products and services

BDC provides equity participation; loan facilities including hybrid debts for commercially viable projects. It further provides commercial, industrial and residential premises for rental purposes.

Citizen Entrepreneurial Development Agency (CEDA)

CEDA was established by the Government of the Republic of Botswana to provide financial and technical support for business development with a view of promoting viable and sustainable citizen owned enterprises. CEDA was incorporated as a company limited by guarantee on the April 12th, 2001 and commenced operations in June that same year. The company was mainly established as a response to a recommendation made by the National Conference on Citizen Economic Empowerment (NCCEE) held in July 1999, in order to introduce the professional management of the Government financial assistance initiatives and to rationalize the several projects offering similar schemes. The Agency was established to address the need for coherent and holistic support for the development of small, medium (SMMEs) and to some degree large-scale enterprises. CEDA offers funding for capital expenditure, stock or working capital in start-ups and existing business ventures. It also offers training and mentoring for new and seasoned entrepreneurs and unique business advisory services to entrepreneurs in numerous skills as identified through the needs assessment that is conducted during project monitoring.

The control of CEDA is essentially vested in the Board of Directors appointed by the Botswana Government. The Board of Directors is constituted with officials from Government and Non-Government agencies. In this way commercial sense balanced with the social responsibility of Government will come to bear on the operations of the agency. The main functions of the Board of Directors are to direct, monitor and control the strategic direction of CEDA, ensuring that robust business policies are practiced, and the objectives of the Agency are being met and exceeded where possible. The Chief Executive Officer is assisted by two Deputy Chief Executive Officer on the Operations and Corporate Services sides and Senior Management Team in managing the company.

Objectives, vision and mission statement

Its objectives, vision and mission have also evolved over the ten-year period under review but has echoed the provision of financial assistance to investors, fostering citizens entrepreneurship and empowerment while promoting economic diversification and encouraging the development of competitive and sustainable citizen enterprises. It also creates sustainable employment opportunities and promote the development of vertical and horizontal linkages between citizen enterprises and primary industries in Agriculture, Mining and Tourism.

Products and services

CEDA offers subsidies loans at average rates between 5% - 7.5% across different sectors, group funding (Mabogo – Dinku), it also offers training and mentoring to entrepreneurs through its Business Advisory Services Unit. CEDA further set up the CEDA Venture Capital Fund in 2003 to offer equity investments, preferences share and debenture participation as well as corporate guarantees. The ten-year fund was managed by Venture Partners Botswana, the initial funds of P200 million were invested across different economic sectors through either debt, equity or mezzanine facilities. The agency also participates in the following types of transactions:

- Start-ups or green fields.
- Early stage investing.
- Expansion capital.
- Mergers and acquisitions.
- Restructuring and turnarounds
- Management buyouts and buy-ins

National Development Bank (NDB)

NDB was established under Chapter 74:05 National Development Bank Act of Parliament in 1963. The Bank is owned by the Government of Botswana and operates under the control of a Board of Directors appointed by the Minister of Finance and Development Planning.

Objectives, vision and mission

Its mission is to provide innovative financial products and services which promote the economic development of Botswana.

The bank provides loans to projects that promote the economic development of Botswana, with a focus on the following sectors; agricultural, commercial, property development (commercial, industrial and residential commercial property), and industrial and tourism projects. The bank encourages manufacturing projects as their benefits to the society are more long term and normally add more value to inputs. NDB also offers performance bonds. Among other financing parameters the shareholder encourages NDB to finance projects that create employment, add value to local raw materials, export oriented, substitute imports and transfer technology to Botswana and to Batswana.

NDB finances individuals, both citizens and non-citizens residing in Botswana and it also finances Citizen and foreign companies provided they're registered and operate within Botswana.

Local Enterprise Authority (LEA)

LEA was established by the Small Business Act, Number 7 of 2004 as a Statutory Authority of the Government of Botswana. The Authority is guided by a Board of Directors drawn from both the private and public sectors and headed by a Chief Executive Officer.

LEA is a co-ordinated and focused one-stop shop that provides developmental and support services to the local industry needs of SMMEs, encompassing training, mentoring, business plan finalisation, market access facilitation, and facilitation of technology adaptation and adoption. The current key sectors are manufacturing, tourism, agriculture, and any services that support the three business sectors mentioned above.

Objectives, vision and mission

The Authority's mandate is centered around promoting entrepreneurship and SMME development through providing business development services inter alia through screening, business plan facilitation, training and mentoring. It also identifies business opportunities for existing and future SMMEs and promoting domestic and international linkages, especially between SMMEs and government, large business entities and other SMMEs. Furthermore, LEA facilitate changes in regulations, quality management systems and standards, infrastructure and access to finance, technology adoption and diffusion and generally promote entrepreneurship and SMME awareness.

Botswana Savings Bank (BSB)

BSB was established in 1963, originally called the Post Office Savings Bank it has changed countries and ministries to become what we see today. It was initially administered at the Department of Posts and Telecommunications Services of South Africa and Bechuanaland; South Africa then handed the Post Office Savings Bank to the Bechuanaland Postal Services Department under the Ministry of Works and Communications. In 1982, the Savings Bank was transferred to the Ministry of Finance and Development Planning and was upgraded to a full specialized Government Department with the title - the Botswana Savings Bank. In 1992, the Botswana Savings Bank Act was passed by Parliament, which established BSB as an independent, national financial institution, wholly owned by the Government of Botswana.

The bank's explicit mandate is to mobilize the nation to save as well as providing inclusive financial services under the supervision of the Bank of Botswana. The services of BSB are provided countrywide through special Savings Bank counters at the Postal Services network (there were 112 Post Offices by the end of 1998).

Products and services

BSB provides savings and loans to individuals and businesses. The bank prides itself on the provision of the lowest cost and fastest banking financial and life events services for all businesses and individuals from cradle to grave of all income groups in Botswana and beyond.

Other development facilitation organisations of importance:

Botswana International Trade Centre (BITC), Botswana (Formerly BEDIA)

BITC is an organisation established by an act of Parliament, to become an integrated Investment and Trade Promotion Authority (ITPA). BITC is an integrated Investment and Trade Promotion Authority with an encompassing mandate of investment promotion and attraction; export promotion and development including management of the Nation Brand.

The organization plays a critical role of driving Botswana's economic growth through attraction of Foreign Direct Investment (FDI), domestic investment, facilitation of expansions and further spearheads the growth of exports by promoting locally manufactured goods to regional and international markets. BITC drives wealth creation for Batswana by creating platforms that will ensure increased citizen participation in the economy and create sustainable job opportunities. Of significant importance within the role of this organization is building and maintaining a positive and impressive image of our country locally and internationally. It works closely with all the DFI's to achieve its mandate.

Through this encompassing mandate, BITC has committed to deliver service excellence to ensure the ease of doing business for investors. This commitment is made possible by the Botswana One Stop Service Centre (BOSSC).

BOSSC is a facilitation centre for investments within the BITC which consolidates relevant government agencies as one cohesive structure that provides quick, efficient and transparent services to investors. BOSSC has made available condensed and simple administrative procedures and guidelines for obtaining of business approvals, permits and licenses, thereby eliminating bottlenecks faced by investors in setting up and running of businesses in Botswana.

Products and services:

- Company and Business Registration
- Trade and Business License Applications
- Entry visas, work and residence permits

- Work Permit Exemptions
- Connection of utilities e.g. power, telecommunications and water
- Income Tax and VAT registration
- Facilitate access to industrial and commercial land
- Allocation of BITC factory space (subject to availability)
- Environmental Impact Assessment (EIA) Compliance
- Provision of information on the Botswana business climate, regulatory regime and investment opportunities
- Opening of Bank Accounts
- Provide specialist business advisory services.

BOSSC supports investors to obtain government authorizations within the shortest possible time. Facilitation services offered by BOSSC are available to all investors, including start-ups and existing local and foreign businesses. BOSSC receives applications for assistance from investors vetted/supported and accredited by BITC, BDC, Special Economic Zones Authority (SEZA) and Selebi Phikwe Economic Diversification Unit (SPEDU).

In line with government's desire to diversify the economy away from over reliance in the mineral sector, the BOSSC facilitates investment within productive sectors of the economy to create employment opportunities. They support all sectors for investment including qualifying projects sponsored by Government Economic Hubs and projects of strategic national importance.

BOSSC defined an investor as any lawful business/enterprise established, acquired or expanded by a domestic or foreign investor in accordance with the laws of the Republic of Botswana, committing resources of economic value over a reasonable period of time, in anticipation of profit. Projects to be facilitated by BOSSC should also demonstrate the following in order to be eligible to receive services;

- Number and quality/level of employment created;
- Potential for skills and technology transfer;
- Utilization of local raw materials in the production process;
- Potential for export and import substitution;
- Potential to create backward and forward linkages;
- Innovation and creativity;
- Priority sector under the Economic Diversification Drive (EDD).

Southern African Development Community – Development Finance Resource Centre (SADC -DFRC)
As a result of the recommendations of the DFS98 study, 15 DFIs adopted a Memorandum of Understanding in May 2000, establishing the DFI Network. In August 2000, the Network agreed to establish the DFRC under a Trust Deed, and to finance its recurrent administrative expenditure from start-up, then approach Donor Agencies for other infrastructure, technical and capacity building needs. The DFRC began operations on 1st July 2003 as the Secretariat and Central Hub for the DFI Network following approval of its establishment by the SADC Council of Ministers at their October 2002 meeting in Angola. The network is headquartered in Gaborone, Botswana and its many purpose is to provide capacity building, policy research and advisory services in development finance to SADC development finance institutions and Governments – thereby contributing to SADC's goals of economic growth and sustainable development.

Norsad Finance Botswana

Norsad Finance is an impact investor that provides flexible and customised financing solutions to mid-market growth companies in the Southern African region. Norsad finances strong commercial businesses and projects recognizing that growth needs to be sustainable and impact jobs (reduce poverty and unemployment), enable diversification (reduce dependence on resources and commodities) and promote economic and socio infrastructural effects.

Norsad Finance was incorporated in Botswana in 2011 and is IFSC accredited; however, its history spans over 25 years. It first started operating in 1990 as a multilateral agency based in Lusaka. The establishment of Norsad followed an agreement between four Nordic countries (Denmark, Finland, Norway and Sweden) and 11 Southern African countries (Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe) to establish an organization that can contribute to the economic development of Southern Africa by extending foreign currency facilities for the operations of private sector businesses. Norsad was a DFI until 2012, following the evolvement of Norsad to a limited liability company, it incorporated more customized and flexible debt and mezzanine funding structures to businesses in the Southern African region.

Its mission is to be the premier provider of customized longer-term risk capital to Southern African companies and financial services providers that are financially, socially and environmentally sustainable through flexible and customized financing solutions.

Norsad is a regional pure-play private credit firm offering medium-to-long term risk capital in the form of bespoke debt and mezzanine financing to mid-market companies in Southern Africa (SADC region). It is sector agnostic and target investments of USD 5 million to USD 10 million and seek alignment with its investee partners through the sharing of risk and upside. The facility tenures are determined on a case-by-case basis, but typically range from 3 to 7 years. Norsad also gets into partnerships with other financial institutions and investors by providing complementary financing that allows them to stay within their core lending mandates and investment policy while unlocking potential future lending capacity for their clients and positively impacting blended returns.

1.1.2 Botswana's Financial sector background

According to the International Monetary Fund (IMF) Country Report No. 17/250, the country's financial sector is open and relatively well developed, but there are too many commercial banks. Botswana had 11 commercial banks and 2 small state-owned statutory banks by the end of 2016, with a concentration of assets across only four (4) banks, they held about 80 percent of the banking system's assets. There seems to be an opportunity to merge some of these banks, cognisant of the country's population of 2.25 million people. All commercial banks are foreign-owned, including subsidiaries of some pan-African groups, I therefore believe there is a need for indigenous banks. There are also several nonbanking entities which account for about half of the financial system. The banks operating in Botswana are regulated and monitored through the Bank of Botswana, a hundred percent state owned central bank.

'The financial system has grown rapidly over the last couple of years, but there is still substantial room for further growth and improvement'(IMF Country Report No 17/250). The report further stated that banks, institutional investors, particularly pension funds and the Botswana Stock Exchange ("BSE") have experienced steady growth over the years on the back of a strong and stable political and economic environment, savings from diamond exports, and fiscal surpluses. In the nine-year period between 2008 and 2016, the assets held by pension funds grew from 30 percent of Gross Domestic Product (GDP) to 47 percent of GDP. This in turn facilitated a rapid increase in bank deposits and in stock market capitalization (which almost doubled in the same period). Likewise, Botswana's insurance premiums grew from 3 percent of GDP in 2005 to 13 percent of GDP in 2016, resulting in per capita insurance contributions being amongst the highest in Africa. Overall, the ratio of broad money (M2) to GDP rose rapidly from 10.6 percent in 2005 to 41.5 percent 2016. Despite this growth, there is still scope for further financial deepening.

According to the Bank of Botswana (2016), annual report, 'the banking sector in Botswana still remains adequately capitalized, liquid, and very profitable. The latest financial soundness indicators suggested that, benchmarked against comparators, the banking system is well-capitalized with adequate levels of liquidity. Banking profitability increased due to higher interest and non-interest income. Modest growth in personal incomes and high household debt ratios have prompted a more cautious approach to lending by commercial banks, resulting in a decrease in annual credit growth from 7.1 percent in 2015 to 6.2 percent in 2016. Non-performing loans in March 2017 increased slightly to 5.5 percent of total gross loans but remain manageable'.

Bank of Botswana (2018), in his closing remarks at the Botswana Stock Exchange – A Platform for Economic Growth and Diversification workshop, the Governor of BOB stated that empirical research has continually indicated a positive correlation between financial sector development, economic growth and poverty reduction. Unfortunately, the financial systems in a lot of African countries still remains small, fragmented and not very well diversified, providing only a limited number of services and evidently at relatively high cost. Equally, while Botswana's financial sector is comparable in size to other countries in the region, it remains relatively smaller and less developed compared to that of its upper middle-income peers. He further stated that the financial sector can only develop provided there is a supportive environment hinged on sound macroeconomic and financial stability, strong governance and institutions which adhere to the principles of transparency accountability, rule of law and legal framework that guarantees and efficiently enforces property rights. Further preconditions for the development of the financial services sector include a robust, efficient and innovative regulatory framework.

The relevant authorities could consider developing a financial sector hub for the country. The hub might contribute to private sector development as it could model its services, regulation, and infrastructure to make foreign investment easier and allow them to innovatively hedge their risks, thus enabling capital to be efficiently channelled into investment projects. If the authorities conclude that such potential is worth pursuing, the proposed strategy could be centred around:

i. ways to improve electronic connectivity, including having real time data from other markets, order routing systems, and ability to clear and settle trades in foreign markets within reasonable times. Fully stepping on to the 3rd industrial revolution;
ii. adopting the principles for Financial Market Infrastructures published by CPSS-IOSCO;
iii. a modernization of the national payments system by implementing the new Oversight Policy Framework and addressing gaps in the prudential and supervisory framework of non-banks financial institutions; and
iv. a strengthening of the clearing house to facilitate risk management in derivatives, net offsetting positions, and collection of collateral in the event of defaults.

The Governor of the BOB in his closing remarks (Bank of Botswana 2018), further stated that 'BSE has had a positive perspective and recorded a very satisfying year in 2017. The BSE had approximately fifteen thousand transactions at a total value of P2.5 billion for the year. In recent years, the BSE has actively expanded its coverage away from the financial and mining sectors to include, amongst others, listing of property and retail firms. That said, the scope of the BSE remains relatively small and shallow. There are some economic sectors which are not represented among the listings; domestic market capitalisation is also low, approximately 25 percent of GDP benchmarked to an average of about 60 percent for middle income peers and well over 100% for high income countries. Furthermore, trading volumes and liquidity remains relatively low, although some improvement has been observed'.

In line with the growth in pension funds' assets experienced in recent years, the main player, the Botswana Public Officers Pension Fund ("BPOPF"), in 2015, changed its investment strategy from balanced mandates to specialist ones which achieved cost savings in terms of fees and also increased the opportunity to enhance returns through appropriate asset manager selection. The Fund also adopted a citizen economic empowerment policy in the form of staff training, back office activities as well as local shareholding of its asset managers. An incubation programme was also introduced to create employment as well as grow the local capital markets. This program is very important to the Board as it is a way of ensuring that the BPOPF plays an active role in developing home grown asset management companies. In this regard, citizen companies undergo a legal due diligence exercise and once successful, they are each awarded half a billion Pula to manage.

1.2 Research Problem Statement

Historically, DFIs are formed by governments across the world with the aim of promoting economic growth and supporting social development. They generally offer credit and a large variety of capacity-building programs to households, Small and Medium Enterprise (SMEs), and also larger private companies whose financial needs are not sufficiently served by private banks or local capital markets. Therefore, in so doing, they seek to promote strategic sectors of the economy, such as agriculture, international trade, housing, tourism, infrastructure, and green industries, among other sectors, De Luna-Martinez, 2017. These may vary depending on the country's immediate needs and or future requirements. The Botswana government is no exception. All DFI's were created following an Act of Parliament, with a specific mandate. Some DFI's were funded through initial capitalisation while some form part of the annual national budget. State owned DFIs create employment, stimulate economic growth, pioneer new industries, stimulate private sector growth and linkages, drive diversification and exports. DFIs are seen as the government arm extended to tackle all the above issues. However, while these institutions have been in existence for a long period, there are no studies that show how they are performing as a sector. The local media constantly publish articles on their poor management, inefficiencies and scandals. This affects the public opinions and views on the input and successes of the DFI's in Botswana. A gap exists in answering the questions about whether the DFIs in Botswana are effective in delivering on their mandate, and how their effectiveness can be measured going forward. Such an analysis of the effectiveness of development finance institutions as a sector has not yet been explored in research, to my knowledge, hence the inspiration.

Furthermore, the CSO (2003; 2008) suggested that the credit requirements of SMEs are not sufficiently met. In the 1999 Informal Sector Survey, the main constraint reported by informal enterprises was lack of funding [26.3%] (CSO, 2003). In the 2007 Informal Sector Survey, one of the main constraints as reported by the informal enterprises was lack of funding [15.6%] and the main assistance required was improved access to loans and other credit facilities [52.8%] (CSO, 2008). This implies that banks do not necessarily lend to everybody who can afford the price of credit, however they apply some level of credit rationing using non-price mechanisms (Okurut and Botlhole, 2005). The rationed access to bank credit has substantial negative implications of stifling growth in SME sector, with serious implications for poverty and unemployment (Morewagae et al., 1995). Okurut, Olalekan and Mangadi, (2011). This is despite governments efforts in financing organisations such as the ones mentioned above.

Botswana is a small nation which has had its economy anchored on diamonds for the last five (5) decades. The cornerstone of Botswana's success has been one artefact, diamonds, in addition to a rigid adherence to prudent use of their revenues, which is a rarity within the African continent. According to The BIDPA Botswana After diamond study, it would now appear that diamond production will not decline significantly from current levels before 2050. 'Some improvements in mining technology and new discoveries mean the 'end of diamonds' once forecasted for 2018 has been pushed out to as late as 2050' as per a Rueter report (2015). The Government has identified boosting the SMMEs and developing them in to multinational corporations as one way of driving the economy to augment the declining income from the mining industry.

The development of the SMMEs sector has been entrusted to the DFI in the country at different levels. Unfortunately, these DFIs have been marred with poor performance and a substantial number of failed projects. The significant ones being the BDC BWP500 million Palapye Glass Project, The CEDA BWP200 million Venture Capital Fund, the LEA snowballing operating non-core expenses up to more than 90% of the annual government grant, and NDB's continuous liquidity problems. They have therefore been ineffective in fulfilling their mandates.

The ineffectiveness of the DFIs in Botswana has been due to a combination of factors including the lack of robust performance assessment and evaluation mechanisms, quality of governance and management, mandate and or mission drift, and poor interlinks between these DFIs. The government of Botswana has implemented several reforms including the formation of the Public Account Committee (PAC), the Committee on Statutory Bodies and State Enterprises, Public Enterprises Evaluation and Privatization Agency (PEEPA) in 2001. All these seem to have failed to ameliorate the poor performance as the root cause or problematic areas were never isolated and dealt with correctly, but rather blanket solutions were implemented addressing but only the symptoms. It is also evident that some of the committees were not pitched at the right levels that is being constituted with members of parliament only and not augment by the right skills from the private sector, furthermore the committees do not have the powers to enforce corrective action they simple make recommendations. The effectiveness of DFIs in Botswana needs to be further investigated to induce appropriate corrective measures and recommendations to assist these entities to function more effectively and live up to their desired mandates.

1.3 Objectives of the study

The study will explore in detail three groups of indicators of DFI effectiveness, namely, governance arrangements, financial sustainability, and leadership and management. The fundamental point is that regardless of whether one believes that government has a moral or ethical obligation to provide development assistance to Batswana, everyone can agree on the importance of having entities such as DFIs that maximize the likelihood that the provided funding reaches its intended beneficiaries and contributes to the growth and development of the economy of the country. The alleged failure rate of funded businesses raises doubts about whether development finance reaches the intended beneficiaries and has the intended impact of growth and development of the economy of Botswana.

The following five (5) questions have been posed by the researcher which then informed the objectives of the study:

General Question – What are the factors influencing effectiveness of DFIs in Botswana
Specific questions:

1. How are DFIs in Botswana performing with reference to their mandates?
2. What are the factors contributing to the performance of the DFIs in Botswana?
3. Do DFIs in Botswana have the potential to self-sustain?
4. How does governance structures affect performance of DFI?
5. Have the DFIs had any impact on the economic growth of Botswana?

Specific Objectives:

i. To assess the performance of DFIs in Botswana with reference to their mandates.
ii. What are the factors contributing to the performance of the DFIs in Botswana?
iii. To establish the potential for DFIs in Botswana to self-sustain
iv. To assess the effect of governance structure on performance of DFIs
v. To determine the impact of DFIs in economic growth of Botswana

1.4 Contribution of the Study

This research will make a specific contribution to government policy in relation to the structure, funding decisions and performance management of the DFIs. It will further assist the DFIs themselves in their own assessment of where they are in terms of achieving their mandates and what measures can be implemented to accelerate the same. It will also contribute to the literature on Botswana DFIs, with regards to the key contributions of this sector to the economic growth of Botswana and their impact on unemployment which is one of the greatest challenges in the country.

1.5 Organisation of the Study

In order to present data in a more meaningful and detailed manner, the study has been organized into five (5) chapters. The paper starts with an introduction followed by a review of the literature on DFIs and the concept of effectiveness followed by a discussion on the relevant theories. The next chapter discusses the methodology used in the paper. The presentation of data analysis and research findings were first presented per DFI, before undertaking a sectorial data analysis and interpretation on an objective by objective basis to provide a holist view.

Chapter 2: Literature Review

2.1 Overview

This study is informed by the variety of literature reviewed in the field of development finance and performance management, data collected from annual reports, insights, publications including newspaper articles and from the data collected from the respondent DFIs themselves. As indicated the study was about exploring the effectiveness of DFIs in Botswana based on the performance indicators of these institutions. Agreeing to Qunta (2015) a permeating issue in the arguments presented is that DFIs have very clear and specific deliverables worldwide, nationally, regionally and locally. Key among them is poverty alleviation, employment creation, facilitating entrepreneurship and value add through pioneering new industries, thereby contributing to economic growth.

This chapter focuses on evaluating the relevant literature on the key concepts relating to the DFI environment, with a focus on effectiveness and efficiency, development finance, performance management, performance indicators, and good governance. In undertaking the review of the effectiveness of the DFIs, it is important to understand the background to their establishment, operations, structures and accountability chain, together with the Acts of Parliament for each DFI. The global history of development finance institutions will also provide an important background on the subject matter and attempt to explain why it is where it is today.

The rationale for the establishment of government agencies is mainly efficiency and effectiveness in responding to service delivery challenges. Public entities are established because of the need for objectivity and more operational autonomy while retaining accountability in the delivery of services. They are also established outside the Public Service because of the requirement for strategic, social or economic intervention by the state or to deal with strategic risks and dangers that the state or society faces to its security, prosperity or wellbeing (Guzowska and Strak 2010).

According to Lazzarini et al... the two main views to development banks are the industrial policy view and the political view. The industrial policy view is anchored on the assumption that development banks operate in environments with capital inadequacy. By specializing in long-term finance neglected by the private sector, development banks facilitate the execution of valuable investments and projects that would not otherwise be carried out. This view is shared by Armendariz de Aghion, 1999; Bruck, 1998; Yeyati et al., 2004 amongst others. It is further argued that development banks may also set high standards for firms and subject them to performance targets conditional on their allocated capital (Amsden 2001). Thus, according to this view, development banks should improve firms' investment and performance. The political view, in contrast, places higher emphasis on the selection process. Governments will use their development banks to bail out failing companies (the soft-budget constraint hypothesis) or profit politically connected capitalists (the rent-seeking hypothesis). Indeed, one-way political connections translate into preferential access to finance is through state banks. In this case, the government uses its control of the country's scarce financial resources to bargain for political support and for politicians' private interests. The latter goes against the view of government intervention to 'fix' markets where there is market failure in relation to efficient allocation of scarce resources.

My view on Botswana's landscape is such that some DFIs are more susceptible to the political influence than others, the entities that are included in the annual national budget are significantly exposed to political interference than the initially capitalised counterparts. This equally has varying impacts on their holistic performance.

2.2 Development Banking in Retrospect

Development banks had a very important role in facilitating the industrialization, and later the post-war reconstruction, of Europe by providing the much-needed longer term funding. The oldest government-sponsored institution for industrial development is the Societe General pour Favoriser l'Industrie National, created in the Netherlands in 1822. However, some of the most significant developments in long-term state-sponsored finance occurred in France. In this respect, the creation of institutions such as the Credit Foncier, the Comptoir ' d'Escompte, and the Credit Mobilier in the four (4) years between 1848–1852, was of particularly importance, Armenda´riz de Aghion (1998). Among the most important early development banks was the privately-owned Credit Mobilier, established in 1848, it played a significant role in the European economy and is credited with increasing per capita income, disseminating skills in long-term funding and fostering competition. This model was later adopted by various DFIs including the Industrial Bank of Japan in 1900 and development banks in other poorer countries. However, notwithstanding its success, the Cre´dit Mobilier's most momentous problem was the conflict between its developmental objectives and the need for short-term profit (Cameron, 1953; De Aghion, 1999; United Nations, 2006a). Even now, more than ever, a hundred years later, the subject of conflicting objectives still remains at the apex of problems facing DFIs, Thorne and du Toit (2009).

Diamond (cited in Armendariz,1998) confirmed that the requirement for reconstruction following the World War I presented new motivation to the development of government-sponsored financial institutions. As reconstruction progressed, the institutions played the role of providing long-term finance to relatively new industrial sectors, such as iron, steel and shipbuilding. Both the costs of acquiring expertise and the risks associated with the financing of these new sectors were borne by the national governments in an increasingly sophisticated fashion. Government support took the form of share capital provision, loans at lower-than-market interest rates, the provision of state-guarantees to these institutions' bond issues, or a combination of the three.

These institutions are known to have had a very crucial role in the rapid industrialization process of Continental Europe and Japan Gershenkron, 1952; Cameron, 1953; Diamond, 1957; Yasuda, 1993. The number of DFIs has increased rapidly since the fifties; they have been encouraged by the International Bank for Reconstruction and Development and its affiliates. However, there is a general perception that more recent development banks in the Less Developed Counties (LDCs) have often failed to reproduce the accomplishments of earlier examples. High arrear ratios, poor cost-benefit evaluations, and extensive evidence of mismanagement and corruption have certainly contributed to the current disappointments.

Following the much-publicized failure of many DFIs in the seventies and eighties, the future of this type of development finance was brought to question (World Bank, 1989). Poorly controlled spending by DFIs in general delivered very little in terms of development but significantly contributed to fiscal crises in many developing countries (Nellis, 1986). As the policy trend shifted towards financial liberalization, many of these countries privatized, restructured or completely closed down their state-owned banks (Fitzgerald, 2006). The then prevailing view of development banks is summed up particularly well by Krahnen and Schmidt (1994:6):

Development banks still need to identify their rightful role in a world where financial repression is on the retreat. There is a possibility that they do not discovery such a role and gradually die.

It has been further argued that development banks can foster foreign investment, specifically the participation of development banks in a loan syndicate could be used to manage political risk. Development banks provide a so-called "political umbrella" because these banks can use their leverage to influence governmental decisions and deter adverse events that would negatively affect the project's outcome (Hainz & Kleimeier, 2011). This provides a mitigation to political risk and comfort to potential foreign investors.

I strongly share the views of De Luna- Martinez (2017) that although many of the institutions were created many years ago, data shows that many governments around the world still view these entities as an appropriate tool which can be successfully used to pursue economic goals. It was projected that around 20% of all DFIs currently in existence around the world were formed in the last seventeen (17) years. A further 33% were set up during the 80s and 90s – the decades in which mass privatizations took place in various parts of the world (De Luna-Martinez, 2017). The oldest DFI in Botswana was established in 1963, fifty-six (56) years ago and the youngest is only fourteen (14) years old.

2.3 Current Status

During the global financial crisis of 2008, DFIs played a very important countercyclical protagonist role in various jurisdictions, by increasing their lending operations when the private financial institutions experienced momentary difficulties in granting credit. Furthermore, in the aftermath of the global financial crisis the loan portfolio of more than two thirds of DFIs had continued to expand at double digit growth rates, therefore significantly contributing to global economic recovery efforts. (De Luna-Martinez, 2017).

The views of Calice (2013) are particularly relevant, as the current challenge is how to ensure that DFIs are effectively used as counter-cyclical policy instruments, while simultaneously guaranteeing that they play an active role in promoting financial access to all as well. This is especially relevant for Africa, where pervasive market failures in the provision of infrastructure finance, agriculture finance, housing finance and SMEs finance provide a strong rationale for an active developmental role played by DFIs.

The recent financial crisis, despite being originated in developed countries, has affected the whole world economy. The initial impact stemmed from the direct exposure of the emerging market financial institutions to subprime related securities. Such effect was comparatively small with reference to developed countries and emerging countries appeared resilient to this direct effect. However, some secondary effects have severely hit the emerging markets. The squeeze in international liquidity along with capital outflows and shrinking world trade have sharply affected the emerging market economies. On the back of this, many countries have been developing diversified policies to alleviate the consequences of the crisis and to support productive economic sectors. Besides the global effects, domestic credit crunch has led governments to intervene in financial markets. Against this background, many countries in the first world utilized development banks in many ways to rebuild their economies. In the process of an unfolding financial crisis, these DFIs have been called upon for various reasons:

- to stabilize domestic financial markets;
- to eliminate credit shortages caused by sharp cuts in private lending;
- to restructure corporate debts;
- and to attract capital inflows by creating new and innovative financial products and instruments.

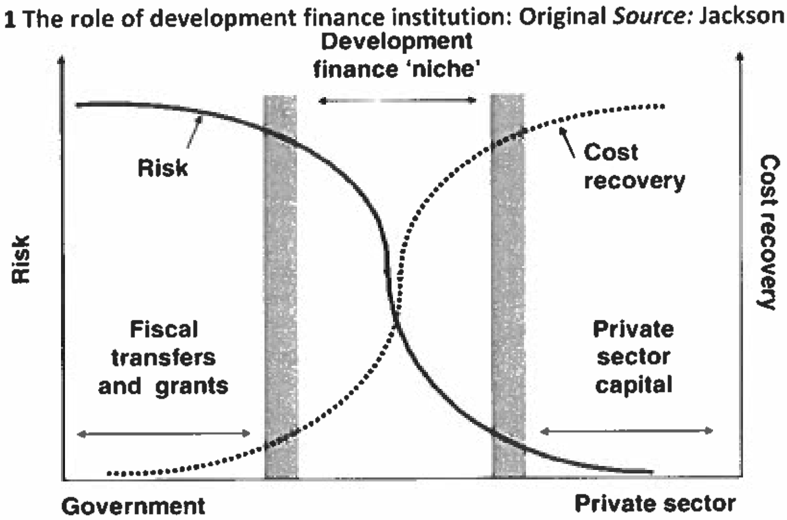
Financial sustainability coupled with good governance are critical elements for the success of DFIs. It is a risky venture to undertake projects in strategic sectors of the economy where there is insufficient financing by the private sector. To be effective, DFIs ought to have business models that ensure long-term financial sustainability through partnering with the private sectors. They also need to have sound risk-management tools and high corporate governance standards that insulate them from undue political interference (De Luna-Martinez, 2017). DFI's needs to ensure majority of their activities and transaction bring them close to achieving and living their mandates.

2.4 The role played by DFIs

There are at least two reasons according to Thorne & du Toit (2009) why the role played by DFIs is being reexamined. First, many governments persisted with these banks, with diverse results. Although there are still failures, a small number of development banks have successfully adhered to their mandates in a financially sustainable manner. Secondly, where governments have closed down or privatized these banks, the market failures that they had been meant to correct still negatively affect economic growth and development. Regardless of government efforts to address these failures (for instance, through supporting financial development), many LDCs still experience a shortage of long-term funding and finance for high-risk sectors such as startups and or SMMEs, and Botswana is no exception.

Figure 1 below depicts that development finance is complementary to government efforts and market funding through filling the niche between fiscal funding for projects from which no cost recovery is possible and private funding for projects that are financial results driven. The purpose of development finance in this instance is to lower the risks of investment in certain sectors or areas and induce full participation by the private sector in such investments (Marston & Narain, 2004; Musasike et al., 2004; United Nations, 2006a). It is channeled through a variety of institutions, and most countries, like Botswana, have more than one of such institutions.

Figure 1 **The role of development finance institution: Original *Source:* Jackson (2006)**



Development banks have a varied number of roles, and the significant ones include the following:

A. **the main role of DFIs is still to act in underfinanced areas** - (Torresa, & Zeidan, 2016)- stated that these would include the creation of credit to finance long-term investments; mitigation of market failures arising from costly asymmetric information; and the existence of externalities that result in underfunding of socially valuable projects (Gutierrez et al., 2011), alongside other development goals (Yeyati, Micco, & Panizza, 2007).
   The mitigation of market failure can be further drilled in to and broken down, according to the United Nations (UN, 2005:14), DFIs play at least five crucial roles in terms of addressing market failures:
   - Appraise the economic and social development impact of projects seeking financing;
   - Accompany investors in the long run through long-term loans;
   - Offer technical assistance to sectors essential for economic growth;

- Attract investors by facilitating financing operations; and
- Improve the undesirable impacts of financial crises through countercyclical financing by offering loans, especially during downturns, and combining efforts with regional financing institutions.

B. **To promote economic growth** - the private sector is extensively recognized as a critical driver of economic growth. Therefore, by encouraging private sector development, DFIs may foster development and promote economic growth. That being said, there is still a very limited literature around the empirical link between DFIs and economic growth (Massa et al., 2016). The development finance theme of co investment with the private sector that is currently trending is a quick and effective way of inducing fund flow and eventually promote economic growth. According to Massa and te Velde (2011), private sector investments by DFIs have grown rapidly over the past decade, with annual global commitments rising from $15.4 billion in 2003 to $21.4 billion in 2005 and $33 billion in 2009. A recent estimate is that annual commitments from DFIs as a whole grew from $10 to $70 billion between 2002-2014. Many DFIs have ambitions to play an even greater role going forward, continuing expansion and working more in fragile states Kenny et al. (2018). Dalberg (2010) claims that, in promoting private sector development, DFIs are guided by three main principles (see Figure 2):
   - Additionality: one of the important purposes of DFIs, is to invest in countries, sectors and areas where commercial investors and commercial banks would not because of the high risks involved and or longer-term funding requirements.
   - Catalytic effects: DFIs should pioneer new industry, essentially pave way for the private sector to follow. The finance provided by DFIs could help attract and mobilise the involvement of other private investors both directly and indirectly.
   - Sustainability: finance provided by DFIs allows country governments to realise projects that foster socioeconomic development, thus reducing dependency on aid.

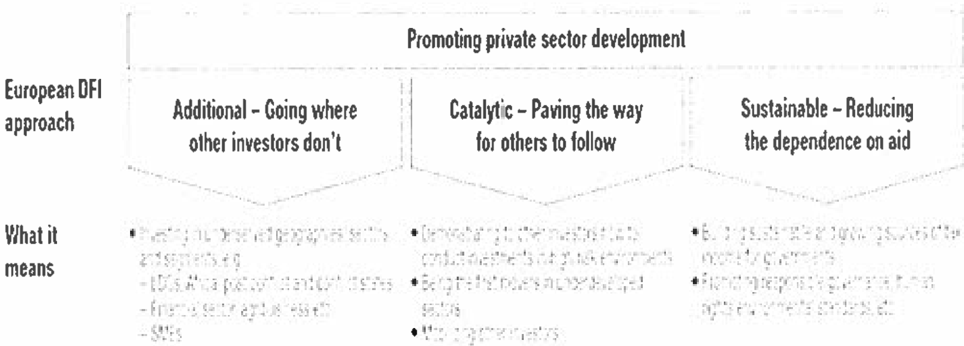


Figure 2 Ways through which DFIs promote private sector development

Though there has been no consensus on the effectiveness of national development banks for economic growth. While, on the one hand, government-led credit allocation can help countries faced with financial repression and incomplete and inefficient capital markets, on the other hand it may hinder the development of efficient capital markets. What is clear and undisputed is that most of the developed countries have at some point used, or still use, NDBs. There are no counterfactuals to the usage of NDBs in the development process, and they are still relevant players in many markets today. Until recently, Massa & Wil.,2016 presented new empirical evidence wherein the effect of DFI investments on the rate of GDP per capita growth, was positive for all DFIs and significant for IFC, DEG, CDC and the Overseas Private Investment Corporation (OPIC). Pooling DFIs, were found to have a significantly positive effect on the GDP per capita growth rate. If the DFI/GDP ratio increases by 1% (which is approximately $15 billion for the whole of SSA), per capita growth increases by 0.24% on average.

C. **Growth enhancing role during crisis periods** - Dalberg (2010) argues that DFIs played an important role in sustaining growth in the developing world, and in the African continent especially more so during the global financial crisis when most of these economies were experiencing a drastic drop in investments by the private sector. DFIs were successful in doing this in three ways:

- Acting counter-cyclically: DFIs tried to maintain a level of investment similar to that in previous years while private sector investments fluctuated greatly,
- Back-stopping financial institutions: DFIs supported the functioning of the private sector by replacing the services of commercial banks, which were discontinued or temporarily suspended primarily due to the high risk associated with them and/or liquidity issues experienced by the banks.
- Acting as a stabilizer: DFIs played a critical role in stabilizing investments in developing countries, especially through their co investment mandate.

Dalberg further noted that an additional strength of DFIs in periods of crisis is that they can introduce new products and services fairly quickly to respond to immediate market needs. In the case of Botswana, during the Selebi Phikwe economic slump BDC introduced a BWP15 million emergence fund that allowed rental concessions on its property portfolio in the region. These rental concessions were offered as a motivation for companies to set up warehouses in the area and further offered a ten percent (10%) rental reduction for all existing tenants as a motivation for them to retain operation and maintain employment numbers, while CEDA did not cease funding projects in the Selebi-Phikwe area despite the BCL's closure, in fact, the Agency availed additional funding to the tune of P40 million to fund viable businesses that seek to revive the mining town's economy through tangible employment.

D. **DFIs active role in tackling global challenges** - even though the world is becoming richer and more globalized, LDCs in particular are increasingly facing global challenges that are setting a new context for development and growth. The risks that are most likely to have the most impact in the coming decade are climate change, fiscal crises, economic disparity, global governance failures, storms and cyclones, geopolitical conflict, corruption, flooding and water security (WEF, 2011).
E. **DFIs in Botswana can play a key role in leading the country thorough to the fourth industrial revolution;** as many believe the country is still at the early stages of the 3rd industrial revolution. According to a newspaper article by Klaus Schwab (2018) 'The forces of the Fourth Industrial Revolution have ushered in a new economy and a new form of globalization, both of which demand new forms of governance to safeguard the public good". The Fourth Industrial Revolution, or the Second Information Technology Revolution as described by an Open Innovation Technology focus group, require dynamic new combinations between technology, market, and society through open innovation to fully respond as a company or a country. These are required to deal with the fusion of technologies that blurs the lines between the physical, digital, and biological spheres characteristic of the 4th industrial revolution.

2.5 Effectiveness of development finance

Effectiveness, according to the oxford dictionary, is the degree to which objectives are achieved and the extent to which targeted problems are solved. In contrast with efficiency, effectiveness is determined without any bearing to associated costs. Whereas efficiency simply means "doing the thing right," effectiveness means "doing the right thing." But according to Robbins, DeCenzo, Coulter & Woods (2014:7) effectiveness merely means achieving the goals of the company, or just getting things done. Though, McCann (2004) had a slightly different view and explained effectiveness as the criterion of the organization's successful fulfilment of their own purposes through core strategies. Robbins, DeCenzo, Coulter & Woods (2014:7) further confirmed that over the years there has been various models of effectiveness along with the criterion for measuring organizational effectiveness. The notion of effectiveness is of paramount importance to the understanding of organizational behavior. Nevertheless, organizational effectiveness is very complex, contentious, and difficult to hypothesize. Researchers have advanced in developing numerous models and theoretical approaches to try and measure it. Herman & Renz (1997) explicitly stated that there are as countless effectiveness models as there are models of organizations. Different models with their unique associated criteria reflect different values and preferences of schools of thought concerning effectiveness, Eydi (2015).

Eydi additionally confirmed that numerous authors have tried to decrease the intricacy of the effectiveness theory by narrowing the perspective from which effectiveness is viewed and/or measured [Cameron, & Whetten, (1983), Campbell, (1977), Connolly et al., (1980), Pfeffer, (1977), Goodman et al., (1998), and Goodman, & Pinning's, (1980)]. These various approaches to effectiveness can be incorporated under five distinct approaches. Essentially, theorists have postulated five approaches to measuring organizational effectiveness; the goals model, the system resources model, the process model, the multiple-constituency model and competing values approach (see Table 1 below). A few researchers have stress on the need to pay attention to the political view of effectiveness and advocate for the multiple-constituency approach as a viable option for investigating effectiveness in both a profit and a non-profit organizational context.

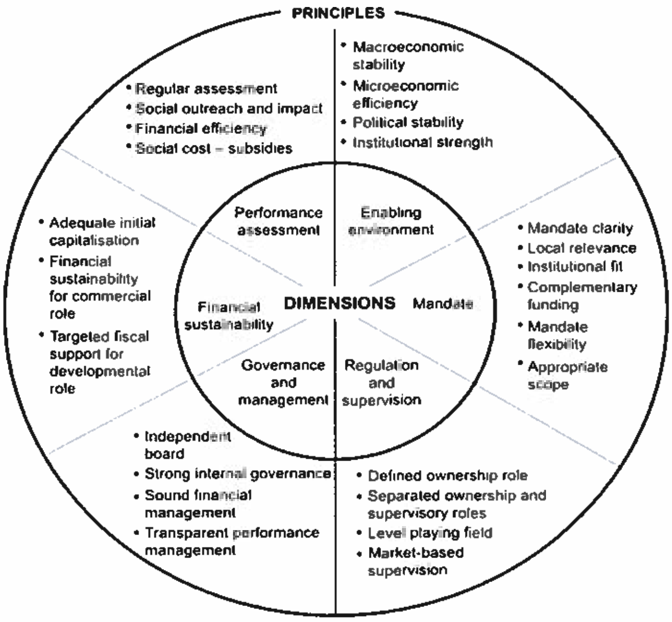
To create organizational effectiveness and guarantee sustainability, business leaders need to focus their attention on aligning their people, their systems, their structure and roles with the organization's strategy, while engaging their personnel with their jobs and with the organization. The organisational strategy needs to be handsomely aligned to the approved mandate of the DFI.

Table 1: Approaches to Organizational Effectiveness
(Sourced from Lewin & Minton, 1986)

Model			Effectiveness Defined	Effectiveness Criteria
Rational Goal Model			The extent to which goals are accomplished	Productivity. efficiency
Systems Model	Natural Systems	Human Relations	Employee satisfaction	Morale. cohesion
		Internal Process	Smooth internal functioning	Stability. control
	Open Systems	System Resource	Acquisition of resources from environments	Resource acquisition.flexibility
Multiple Constituency Model			Satisfaction of all Constituencies. trategic	constituencies Satisfaction
Competing Values Model			Integration of above definitions' effectiveness	Change in above criteria over time and space

However, there is a general perception that more recent development banks in the LDCs have often failed to replicate the successes of earlier examples. High arrear ratios, poor cost-benefit evaluations, and widespread evidence of mismanagement and corruption have undoubtedly contributed to the current disenchantment. The Botswana DFIs have not been immune to the above challenges. Though there is no universal model for development banking as it is clearly influenced by an assortment of factors, such as a country's level of development and the sophistication of its financial system amongst others. But a general framework as per figure 3 below may be derived for the role of such banking. The application and benefits of this framework will then be dependent on the country's level of developmental and financial needs.

Figure 3: A framework for successful DFIs



2.6 Governance

Governance is "the systems and processes involved with safeguarding the overall direction, effectiveness, supervision and accountability of corporations, Comfort, (2003), whereas the Organisation of Economic Cooperation and Development ("OECD") principles states that corporate governance involves a group of relationships between a company's management, its board, its shareholders and its wider stakeholders. The World Bank brief on Corporate Governance (2016) reconciles the above two definitions, as it states that corporate Governance (CG) involves the system by which firms are directed and controlled. It concerns breeding and encouraging more accountability to companies, owners and regulators, promoting efficiency and dealing in a more transparent manner, which in turn builds trust and confidence. Well-governed firms generally carry lower financial and non-financial risks and can generate higher more desirable returns for the shareholders.

A deep dive in to governance perceptions and best practice was necessary for this study as it has a direct impact on the efficiency and effectiveness of any company. The quality of governance and management calibre has in many cases meant the difference between the success and failure of DFIs functioning in the same environment, Thorne, & Du Toit (2009). In accordance with the G20 Finance Ministers and Central Bank Governors Meeting held on the 4th and 5th September 2015, I strongly believe in the quote that corporate governance is not an end in itself. It is a means to create market confidence and business integrity, which in turn is crucial for companies that need access to equity funding for more long-term investments. It further supports economic efficiency, sustainable growth and financial stability. It helps to ensure that shareholders and other stakeholders who contribute to the success of the corporation are treated fairly. Furthermore, from the view point that corporate governance determines how resources are governed and benefitted from, DFIs by default find themselves at the apex of resource distribution. The argument being that society can through enactment of social institutions ensure that the governance of companies is molded to effectively serve the broader society they survive from. This might be a core role of corporate governance reframed to advance public interest.

In accordance with the OECD the corporate governance framework can promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities amongst various supervisory, regulatory and enforcement authorities. The four (4) original fundamental pillars of corporate governance have been adapted to six (6) and are portrayed on figure 4 below. All six pillars are very important when it comes to successfully running an entity and forming sound mutually beneficial and professional relationships amongst stakeholders, including the board of directors, management, staff, clients, regulators and most importantly, shareholders.

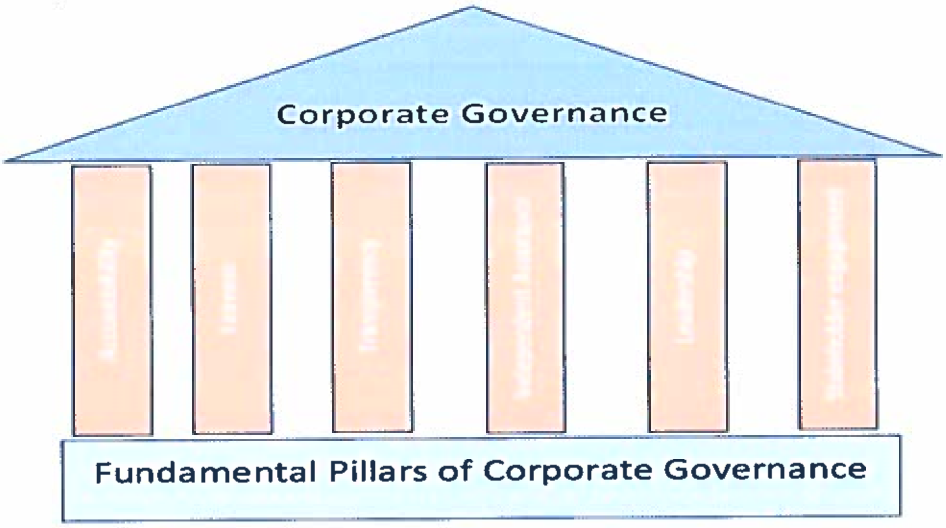


Figure 4 Pillars of Corporate Governance adapted from the OECD

The pillars were articulated by Gitau (2015) on his article titled "The Pillars of Good Corporate Governance" on the LinkedIn site:

- **Accountability** - embraces ownership of strategy and all tasks necessary to successfully accomplish organisational goals. This additionally suggests that owing reward and risk in clear context of predetermined value proposition. This viewpoint brings a positive approach to the concept of accountability, individuals would ideally be a bit more receptive if it contributes to their own personal performance. This applies from the employees through out to top leadership to fully embrace risk management within a defined formalised and articulated risk appetite. This also include fostering the culture of compliance to create real and perceived believe that the entity is operating within internal and external boundaries.
- **Fairness** – simply refers to treating all stakeholders reasonably, equitably and provide effective remedy for violations, and especially according the same treatment to minorities. Well established and effective communication channels are important in ensuring unbiassed and timely protection of resources and human capital as well as implementation of appropriate corrective actions.
- **Transparency** – actually means "having nothing to hide", an organisation that allows its processes and transactions to be observable to outsiders. Over and above that, utilising all the necessary disclosures, to informs everybody affected regarding its pronouncements. Transparency is an essential element of corporate governance as it creates an audit trail and ensures that all of the entity's actions can be checked and verified at any given time by an outside observer. This makes its processes and transactions verifiable, so if a question does come up about a step, the company can provide a clear answer.
- **Independent Assurance:** In progressing transparency it is important for non-direct actors to obtain confidence that executive actors are leading the entity towards pre-defined intent and not using it for self-gain and sourcing expert opinions on how applied approached can be enhanced. Assurance services provide independent and professional opinions that reduce the information risk (risk that comes from incorrect information). Independent assurance is the substantiation by a third party (not directly associated or responsible for quality assurance) and acceptance of the product/deliverable and/or the reliability of test results obtained from quality control and acceptance testing.
- **Leadership** - Direction "defining and offering leadership on organisation's agenda within the values and principles that frame the way business should be done. Those charged with governance are responsible for these key strategic issues and for providing leadership in establishing a suitable culture to drive the performance of the business. Without clear direction and course of action, policy

and procedures, the organisation is likely to struggle and never realise its long-term goals and potential. This should include leadership and core skills renewal to both retain knowledge/experience and ensure appropriate representation and continuity.

- **Stakeholder engagement:** Those charged with governance need to carefully identify the key stakeholders and how they interact with the business in a mutually beneficial way. There ought to be a clear policy on stakeholder engagement and communication and matter of stakeholder engagement should form part of the annual agenda and strategic plan.

Josia et al (2016) made an observation that better governance systems could be developed to assist regulation and compliance by corporations. In SSA it has previously been argued that corporate governance is non-existent (Shleifer and Vishny, 1997). Rwegasira (2000) further argued that going forward, African countries will have to develop or adapt corporate governance models to the peculiarities of their own specific economies. The author argues that as Africa develops it needs to critically assess both the Anglo-Saxon system as well the Japanese model and decide how to proceed. These two models are however based on the various strands of capitalism and other obtaining local factors. Africa needs to introspect and carefully consider what is relevant and applicable to its own strand of encompassing entrepreneurship and economic system used. Going forward African countries, Botswana included could then infuse compliance and enforcement mechanisms into its corporate governance system in order to create integrity (Okeahalam, 2004; Rossouw, 2005; Vaughn & Ryan, 2006; Ntim, Opong & Danbolt, 2012). The fundamental objective would be to avoid poor controls that lead to corporate collapse.

Botswana has recently drafted its own code of corporate governance, following the formation of the Botswana Accountancy Oversight Authority ("BAOA") through the Financial Reporting Act, 2010 as the independent oversight body of the accounting and auditing profession; to regulate the reporting of financial matters of Public Interest Entities (PIEs) and the corporate sector; and for matters incidental thereto. The principal objective of the Authority is "to promote high standards of corporate governance and compliance with professional ethics.

As already documented by Josia et al. (2016) a close examination of the Botswana Corporate Governance Code indicates that as with most other African countries the code has been fundamentally influenced by the so-called „„international best practice"" reflecting among others the OECD principles, the King Report(s) and the Commonwealth guidelines on corporate governance. I further share their views that the national code is not uniquely designed to tackle the pertinent governance issues on the local landscape. The Botswana code also makes claims of inclusivity but does not have very clear indicators of how it is oriented towards the stakeholder model. Many of the items are basically those beneficial to equity stakeholders. Non-equity stakeholders including ordinary employees and the society in general are not explicitly indicated. Whilst in general compliance itself might benefit society by keeping the corporation in business and by extension employment and possibility of increased taxes, there has to be some indications of moving beyond the singular bottom line to effectively and explicitly espousing the triple bottom line (see Wanyama *et al.* 2009).

According to the G20 Finance Ministers' and Central Bank Governors' meeting held between the 4-5 September 2015, the revised principles maintained several of the recommendations from previous versions as continuing essential components of an effective corporate governance framework. They also introduce some new issues and brought greater emphasis or additional clarity to others as per below. While a number of the principles are more suited for bigger companies than smaller ones, it is suggested that policymakers may wish to raise awareness of good corporate governance for all companies, including smaller and unlisted companies.

- **Ensuring the basis for an effective corporate governance framework;** there is need to emphasize the role of corporate governance framework in promoting transparent and fair markets, plus the efficient allocation of scarce resources. The framework should be focused on the quality and consistency with regards to the several fundamentals of regulations that influence corporate governance practices and the division of responsibilities between authorities. Renewed importance is now specifically placed on the quality and robustness of supervision and enforcement. The respective chapter further touches on a completely new principle on the role stock markets should play in supporting good corporate governance.

- **The rights and equitable treatment of shareholders and key ownership functions;** identifies basic shareholder rights, including the right to information and participation through the shareholder meeting in key company decisions. The relevant chapter also dealt with disclosure of control structures, such as issues of different voting rights. New issues in this chapter included amongst others the use of information technology at shareholder meetings, the procedures for approval of related party transactions and shareholder participation in decisions on executive management remunerations.

- **Institutional investors, stock markets and other intermediaries;** This was a completely new chapter which addresses the need for sound economic incentives throughout the investment process, with particular emphasis on institutional investors acting in their fiduciary capacity. It also emphasised the need for disclosure to ameliorate conflicts of interest that may compromise the integrity of proxy advisors, analysts, brokers, rating agencies and others that provide analysis and advice relevant to investors. It further touched on the new principles with regards to cross border listings and the importance of fair and effective price detection in stock markets, to limit arbitrage situations.

- **The role of stakeholders in corporate governance;** The Principles encourage active co-operation between corporations and stakeholders. It further highlights the importance of recognising the rights of each stakeholder either established by law or through mutual agreements. Lastly the chapter advocates for stakeholders' access to relevant information on a timely and regular basis and an opportunity for the violations of their rights to be remedied accordingly.

- **Disclosure and transparency;** identifies key areas of disclosure, including financial and operating results, company objectives, major share ownership, remuneration, related party transactions, risk factors, board members, amongst others. It further recognizes recent trends with respect to items of non-financial information that companies on a voluntary basis may otherwise include, for example in their management reports.

- **The responsibilities of the board;** provides guidance on the following key functions: review of corporate strategy, selecting and compensating management, overseeing major corporate acquisitions and divestments, and safeguarding the integrity of the corporation's accounting and financial reporting systems. New issues in this chapter were centred around the role of the board of directors in risk management, tax planning and internal audit. There were also new recommendations around board induction, training and evaluation and a reference on considering the formation of specialized board committees in areas like remuneration, audit and risk management and appointing members based on their capabilities and experiences.

  A properly functioning board maybe a vital success factor for a development bank because it could prevent undue political interference within the DFIs day-to-day management. Early on, Diamond (1957:71) referred to it as 'a very useful screen and protection for management'. The board annually contracts with the government on the objectives of the institution and has a fiduciary duty to oversee performance against those objectives. It also oversees the management of the institution and is accountable to both the government and the stakeholders for ensuring high standards of corporate governance. It must ensure that the bank has a clear performance contract, a strategic plan for achieving the objectives of this contract, proper financial controls and auditing, and a high level of disclosure. It must also ensure the ethical functioning of the organisation through a written code of ethics and adequate measures to prevent corruption (Scott, 2007).

2.7 Financing of Startups and Longer-term Facilities

Start-up capital is defined as capital required to finance the product development, initial marketing and establishment of a product facility. In start-up preposition the capital providers investment criteria shifts from the idea to the people involved in the business and the market opportunity. Before committing any finance, the investor assesses the managerial ability and capacity of the entrepreneur, besides the skills, suitability and competence of the managerial team are also evaluated Menon & Malik (2016).

Financing of start-ups and Longer-term Facilities by DFIs allows projects and products that would normally go unfinanced to materialise, but it has many significant challenges, that the commercial banks would shy away from. Most start-ups do not have the track record required for funding by the banks, and the uncertainty around reception of the products and services in the market coupled with unforeseen market dynamics exacerbates the challenges. Hence the need for DFIs to lead the way for commercial banks to follow. This also provides an opportunity for co investments to reduce the risk exposure of each party.

Longer term funding is also not preferred by commercial banks as capital is tied down on one project instead of being rolled multiply times to improve returns, furthermore successfully projecting for longer terms is much more difficult and unreliable than short term projections. DFIs are better positioned to provide innovative co-investment products to serve these projects and create linkages with the private sector.

2.8 SMMEs Sector

Small, medium and micro-enterprises (SMMEs) are globally reputed for employment creation, which reduces poverty, empowers citizens economically and increases the gross domestic product (GDP) (Mutoko, 2015). Okurut et al., further mentioned that economic diversification is a key policy driver for the Government of Botswana and one key area of policy concern is the enhancement of the performance of SMMEs. The SMME policy clarifies the definition by size of SSMEs in Botswana: a 'micro-'business is one with six or less employees and an annual turnover of up to P60 000 (US$6000). A 'small' business is one with less than 25 employees and an annual turnover between P60 000 and P1 500 000 (US$6000–US$150 000). A 'medium sized enterprise' is one with 25–100 employees and an annual turnover of P1.5 million–P5 million (US$150 000–US$500 000) (Task Force Report on the Policy on SMMEs in Botswana 1998). SMMEs have been recognised to play an important role in the Botswana economy in terms of employment creation. The statistics show that unemployment rate was at 20% in 2013, 17.6% in 2016 and currently 18.1%. According to the Statistic Botswana 2007 Informal Sector Survey, the number of informal sector businesses in Botswana was estimated at 40,421. This is an increase of 72.3 percent compared to the 1999 ISS which estimated 23,454 informal businesses of which 67.6 percent were owned by females and 32.4 percent by males.

While there are indications that the country's SMMEs receives an increasing attention, from a policy perspective, given their role of fostering economic growth, the sector is still faced with a shopping list of problems which lead to their failure rate not improving but rather growing further to completely undesirable rates. The Botswana Institute for Development Policy Analysis (BIDPA) noted in its recent working paper number 47, 2018, that if properly natured, small businesses can contribute immensely to the country's economy. Mannathoko (2011) revealed that SMME failure rate in Botswana was around 80%, with the majority (over 70%) failing within the first eighteen (18) months of operation Okurut et al.

The many challenges faced by SMMEs that have been previously identified include lack of finance, prohibitive costs in acquiring and effectively utilizing appropriate technology and limited managerial skills as well as little or no business acumen, there is a recent addition around poor or delayed payments from customers. Consequently, the sector suffers low productivity while the seeming inevitable influxes of well-established foreign investors who apparently prove adequate to the demands of business render SMME a casualty or victim of loose regulatory restrictions.

The BIDPA report continued to capture statistics around SMME failure rate, as per the African Economic Outlook report published in 2016 which stated that approximately 80-85 percent of small enterprises in Botswana cease trading within five years of start-up. In addition, few SMMEs have managed to grow and make the transition from SMMEs to larger enterprises. It was reported that only one or two out of 100 SMEs succeed in doing so. The report further states that this is due to limited leadership and management skills, lack of access to markets, poor work ethics, excessive laws and regulations, lack of information on government assistance programmes, lack of entrepreneurial "role models" and mentors together with financial constraints though several measures have been proposed to address some of these constraints. Evidently the SMMEs survival rates in Botswana have not been inspiring.

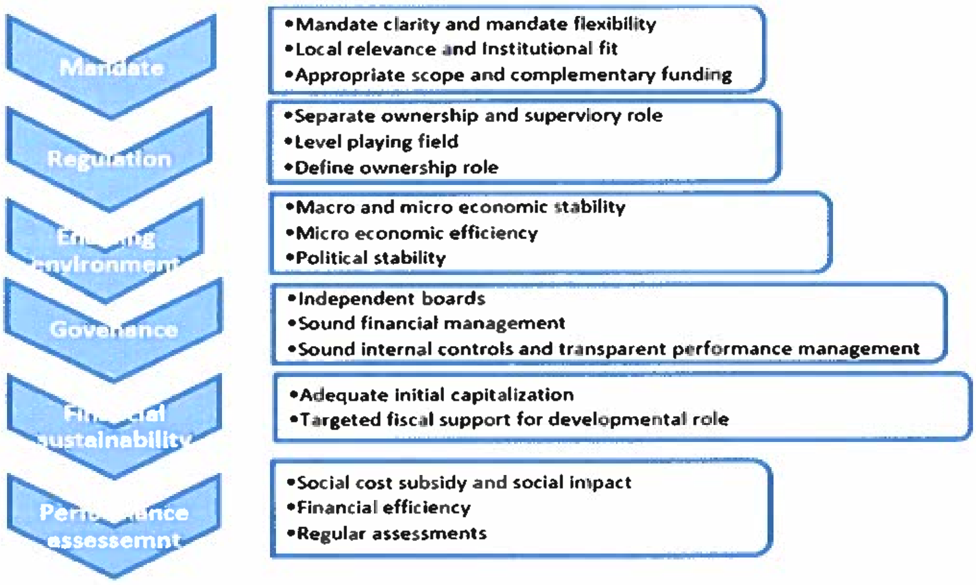
The SMME sector can contribute positively to economic growth and diversification as well as reduction in both poverty and unemployment rates if they are successful. The government and policy makers need to refocus and look at this sector as a real contributor, reforms should be implemented to mine the potential of this sector. The DFIs are a suitable vehicle that the government of Botswana as a sole shareholder could utilise to provide the required funding, training and business mentoring across this sector. Financing of SMMEs further encapsulates two roles of DFIs being to act in the underfinanced and underserved areas and to promote economic growth.

2.9 Model Framework for successful DFI's

As discussed in the earlier sections of this report and also confirmed by Thorne and du Toi, (2009) despite unflattering history of these DFIs, some governments are still eager to re-establish these institutions mainly to address the shortage of funding for higher-risk market segments and lead the private sector around the same territories. To avoid a repeat of the earlier failures mentioned above, government policy needs to be informed by an objective framework for the success of these banks.

Thorne and du Toi (2009) then concluded that the success of particularly the early DFIs and the widespread failure of many of the later ones are a rich source of lessons for development banking to draw from. On the back of these lessons and other relevant case studies, the following six interdependent dimensions (see figure 5) of the success of a development bank are outlined, and the principles involved in each of these dimensions are identified and further discussed.

Figure 5 Framework for successful DFIs



Source: adopted from Qunta (2015)

Thorne and du Toi (2009) suggested the framework as depicted on the figure above, consisting of six (6) important dimensions to be modified to suit the circumstances of each DFI and to carry it to success. The enabling environment is the foundation that everything rests upon, without macro and micro economic stability, efficiency and political stability all the other efforts are unlikely to deliver the desired returns. It is also important to have properly functioning institutions both on the legal side and administration side, for enforceability of contracts and payment processing and other business approvals respectively.

In reviewing of literature, it is evident that a DFI requires an appropriate and flexible mandate to ensure it is correctly positioned within the environment where it operates. That is necessary for a DFI to fill an exist gap and resolve specific challenges which the holding government might be struggling with. In reference to the earlier DFIs it is clear that misaligned or inappropriate mandates have disastrous effects, casing point most of DFIs in Botswana. A DFI mandate should aim to complement the private sector, through skills sharing and co-investing. A mandate needs to be clearly articulated and communicated to all stakeholders and it ought to be flexible to facilitate the necessary changes as and when required. With regards to a focused or more open mandate, I strongly believe a rigorous analysis of the DFI itself, its operating environment, the immediate needs of the country and a few other factors need to be undertaken before a determination of being a multi-sectoral or a narrowly focused DFI.

The third dimension is that of regulation and supervision, poor regulation and supervision by a government can and have in the past contributed to the collapse of many DFIs, including the Development Bank of Zambia in the nineties (BAR, 2006.) The main concern here is the potential conflict of interest in the regulation and supervision of DFIs. Caprio et al. (cited by Thorne and du Toi (2009) warns that this 'inherent conflict of interest in both owning and supervising banks is very difficult to resolve' A serious conflict of interest exist as government in the case of DFIs in Botswana is the sole shareholder, the regulator and supervisor all combined. This could be dealt with through either privatization of the DFI as an extreme measure or as suggested by Thorne & du Toit (2009) a formation of a separate ownership entity, as it could further improve the interlink and synergies between these DFIs.

The quality of governance and caliber of management has in many cases meant the difference between the success and failure of DFIs functioning in the same environment. For example, while the Brazilian development bank, BNDES, is seen to be successful owing to its strong management, the perception of the management of the Caixa Econoˆmica Federal is far more criticized (BAR, 2006; United Nations, 2006a). Thorne & du Toit (2009). The role of a properly functional Board is also a critical success factor for any DFI, it should be appropriately constituted with a variety of skills required for the business and should also include independent non-executive directors. The Boards should have specialized sub committees to support it in executing of its responsibilities, the most common ones being audit, investment, risk management and human capital committees. Trainings should be undertaken on codes of ethics, fiduciary roles and responsibilities and the performance of the Boards. Furthermore, the Board should be evaluated annually through self-evaluation or by the shareholder(s).

Financial sustainability - Diamond (1996:12) defines financial sustainability as 'the capacity [of development finance institutions] to attract, on the basis of their own performance, the capital they required to pay their creditors, sustain their shareholders' interest, and support their own growth'. A financial sustainability requirement protects the government against the kind of largescale losses experienced during the collapse of development banks in the seventies and Macro-framework for successful development banks in the eighties, Thorne & du Toit (2009). The desire for DFIs to be financially sustainable could lead to mission drifts, competition with the private sector instead of complementarity and other undesirable results. To strike the balance between developmental mandates and financial sustainability is a common DFI dilemma which required innovative ways to manage and guards against. The financial sustainability expectation should be filtered down to all entities funded and or assisted by the DFI, simply because that is the most significant area where value can either be created or lost.

According to Thorne & du Toit (2009), appropriate performance assessment contributes to clear policy decisions: when the public and the government are periodically engaged and are well informed about the value add of DFIs, these organizations tend to have a strong incentive to become more efficient and effective. Yaron, and Schreiner (cited in Thorne & du Toit 2009), stated that over the past decade or so, the performance of DFIs has increasingly been assessed on the basis of the twin measures of outreach and sustainability. This study takes a step further with regards to measuring the DFIs individual annual contributions to GDP, and the contribution of the sectors as a whole. This is a new contribution to the Botswana DFI literature and has great opportunity for further research.

2.10 Challenges faced by DFI's

According to World Bank Report (1989), a range of financial, political and management problems contributed to the failure of many DFI's. I believe these are still noted as real challenges facing DFI and Botswana is no exception as evidenced from the interviews conducted on the two DFIs utilized in this case study;

- The operating environment in developing countries is weak and turnaround times for critical business requirements are still unacceptable.
- Governments or corrupt officials often interfered in DFI activities, the state involvement and or interference in the operations of the DFIs could stir them up for corruption. For clarity, corruption in this instance can be identified as a selection of projects that are funded for some ambiguous reasons. These projects may not be aligned to the mandate nor are not maximizing the DFI's expected returns,
- DFIs are poorly managed and regulated, and do not operate on commercial principles.
- DFI mandates can be rigid and often inappropriate, and some are stand-alone banks instead of being integrated into the whole financial system; and
- DFIs struggled to reconcile their conflicting objectives of maintaining financial sustainability while pursuing socially desirable outcomes.
- the common dilemma between the developmental objectives and the need for short-term profits, the World Bank Report (1989:106) sums it up by stating that DFIs found it difficult to finance projects with high economic impact but low financial returns and simultaneously remain financially viable.
- Lack of financially viable projects and sound technical partners with the requisite industry experience and knowledge.
- **Attracting and retaining quality and result-oriented staff** - DFIs are in competition with the private sector to attract talent. Though they are in most cases at a disadvantage when it comes to absolute

levels of compensation. At the same time, their value proposition is on job stability and a sense of purpose, which are strong motivations for personnel to join and stay. Equally for existing DFI employees, moving to a commercial bank can be a challenge because they may have less experience, plus the talent pool in Botswana is relatively small.

2.11 Theoretical framework

2.11.1 Agency Theory

Agency problems arise when managers entrusted with the responsibility of maximizing shareholders' wealth run the firm in ways that shareholders are unsure that managers' decisions are value-enhancing and not self-serving. These agency problems, when manifested in value-decreasing investments or high opacity, tend to galvanize shareholders into the kind of activism aimed at increasing information on managerial decisions (Demsetz and Lehn, 1985; Rediker and Seth, 1995). Such transparency by management enhances the prudence of managerial decisions and congruency of shareholders and managers' interests; and ultimately mitigates agency costs (e.g., in the form of lower cost of capital) (Jensen and Meckling, 1976). Ojah & Mokoaleli-Mokoteli (2012). Several authors have looked at the agency theory, including Peng et al. who stated that the agency theory views the firm as a nexus of contracts between principals (such as owners) and agents (such as managers and employees). Because agents do not completely share owners' goals and because agents tend to have better information about the tasks, agents may have both motivation and opportunity to behave in a way that maximizes agents' own utility at the expense of principals (Jensen & Meckling, 1976). Agency theory argues that firms led by self-interested managers may grow to a point with diminishing returns to owners unless there are proper corporate governance mechanisms to rein in the managers. They further argue that given the focus on private firms, the underlying assumption of most theories of the firm is that the firm is profit maximizing. This assumption obviously does not always hold in State owned enterprises (SOEs). Thus, not surprisingly, SOEs have been largely outside the scope of existing theories of the firm.

Hence the agency problems are much more complex when it comes to SOEs, and in this case DFI's in Botswana, as the common shareholder through the four entities under review is the Government of Botswana and by extension and entitlement the people of Botswana. The DFI's and other SOEs are further allocated to various Ministries and government departments for stewardship on behalf of government. These departments are tasked with monitoring of these entities which includes appointment of the management and Board Members. The relationship between the Board and management is very important, as the board depend on Management to provide them with reliable information on a timely manner and management expects the Board to entrust them with strategy execution and implementation, while also providing guidance and direction.

This agency problem caused by the separation of ownership and control has long been a great concern for economists, He & Sommer (2010). They further stated that both external and internal mechanisms have been identified to deal with the agency problem between managers and owners. Of all monitoring mechanisms the Board is viewed as the ultimate internal control monitor. The mechanisms for dealing with the agency problem are properly outlined by Boshkoska (2015), she states that in order to prevent the managers to abuse their position and power and protect their interests, the stockholders may use several different mechanisms. In the text that follows, the measures are divided into two groups:

a) Internal measures:
    - Internal audit;
    - Change in the salaries and payments of the managers;
    - Concentrate ownership;
    - Good corporate governance/management.

b) External measures:

- External audit;
- Market of capital;
- Law/legal frame

By aligning agent and principal goals, agency theory attempts to bridge the divide between employees and employers created by the principal-agent problem. The majority of agency experts tried to design contracts that could align the incentives of each party in a more efficient way. Traditionally, such contracts resulted in unintended consequences, such as moral hazard or adverse selection. Information asymmetry is a critical component in the agency theory; hence the recommendation of financial reporting and disclosure as a move to ameliorate information asymmetry between management and parties dealing with their companies, including shareholders, lenders, suppliers, customers, etc. (Ball, 2001). According to Miller 2005, a powerful conclusion emerged, not from any single segment of the literature but as a holist view, that actually there is no one size fits all or distinctive "solution" to the principal-agent problems. Instead, a Coasean "contingency" theory is formed based on numerous conditions inside the firm (characterized by production technology, severity of information asymmetry, and relative risk-preferences of principals and agents) call for unique "solutions" to the principal-agent issues Miller (2005). This is a very openminded view one that I fully subscribe to.

Miller further argued that in a Coasian manner, the different intra-organizational transactions can best be structured by different kinds of employment contracts. He recommended that the literature on principal-agency theory will facilitate explanation around why specific contracts are best applied to specific transactions. Fundamentally, principal-agency theory is about trade-offs; it is not surprising that the nature of the trade-offs shifts subtly as conditions change, resulting in different kinds of solutions in different settings.

A review of the corporate governance structures of the target DFIs' together with associated Acts and legislation were performed under this study as a way to establish the extend of the principal agent problems and mitigants put in place by those charged with governance. In the Principal and Agent framework we should observe significant institutional reforms and interventions by the member government if the entities stray from their principal mandates and mandated objectives, Nielson and Tierney (2003).

2.11.2 Accountability Theory

Bovens (2010) distinguishes between the two most prevalent uses of accountability: as a virtue and as a mechanism. As a virtue, accountability is considered desirable in public officials, government agencies, and firms; hence, in this context, accountability is a positive feature of an entity. As a mechanism, accountability is a process in which a person has a potential obligation to explain his/her actions to another party who has the right to pass judgment on those actions and to punish or reward appropriately. Bovens' definition of accountability as a mechanism is almost identical to the definition given and used by Tetlock and various coauthors (Tetlock 1983a; b; 1985; 1992; Tetlock 1999; Tetlock and Boettger 1989; 1994; Tetlock and Kim 1987; Tetlock, Skitka and Boettger 1989). In the case of SOEs, and DFIs in particular the managers have to account to the Board of Directors, and the Boards have the right to pass judgement and administer potential positive or negative consequence in response. The same further applies to the Boards' accountability to the respective governing Ministry, the Minister to the President of Botswana and final the people of Botswana.

The DFIs in Botswana are state owned, some were initially capitalised while others receive varying level of government support and or funding on an annual basis. This then makes accountability deep rooted in these entities and the government and other sponsors have the right to hold the entities accountable. The government expects these entities to act with transparency and account for the decision made with regards to utilisation of funds provided by government.

The past several years, have seen scholars increase their attention to the phenomenon of accountability. These efforts, for the most part emanated from social psychology, where accountability is viewed as a description of a category of causal factors of behaviour in social settings, Frink & Klimoski (2004), they further argue that the drive to survive can consume organizational motivations and strewn across the landscape of organizational history are the wreckages of accountability failures. Indeed, the ravaging of the Arthur Andersen accounting firm in the Enron and WorldCom debacles can be defined as a failure of accountability for the accountability watchdog (not to mention the accountability failures in those two firms).

Organizational responses to the need for accountability from its members include the creation of such mechanisms as formal reporting relationships, performance evaluations, employment contracts, performance monitoring, reward systems (including compensation), disciplinary procedures, supervisory leadership training, personnel manuals, etc. Accountability is not only limited to management and employees it also extends to the Board of directors, the Board retains accountability and liability concerning the exercise of its delegated authority.

Accountability encapsulates control and responsibility, usually associated with sanctions with personal liability and geared towards correcting some previous misconducts. Lately the practice changed to what is termed as new or managerial accountability. According to De Vries (2007), this new breed of accountability is underpinned on information symmetry and timely distribution, assessing behaviour and performance and further providing commentary with valid reasons, trust and horizontal relations between the owners, other stakeholders and those charged with governance. Though it fully departs from the long-held belief that in essence, everybody is accountable to everybody and has to be able to justify their decisions, it might allow for quick and direct reprimand where necessary. This idea behind what is now called public accountability that public bodies are accountable to the public for not wasting the taxpayers' money, for being economical, efficient, achieving the goals and being effective in the long run carries many disadvantages. De Vries & Sobis (2010) mention five:

- The first problem related to the ever-changing nature of accountability processes is the negative effect on administrative costs. Unfortunately, the number of reports under the heading of accountability has increased rapidly. As Olson et al tell us: "Information is not a free good. Collecting data, structuring data and reporting information consumes time and costs money" (Olson et al., 2001: 511).

- The lacking utility of such accountability as a standard operating procedure. The administrative costs would not present such a pandemic and would be controllable, if the annual financial statements could be utilised to provide all the relevant information for public decision making. However, often these accounts are never even discussed, interrogated or utilised for their intended purposes. Using Botswana and the targeted DFIs as examples one had a period of five (5) years where annual financial statements were not concluded or submitted to the relevant bodies as per the founding Act, while the others had two years where the accounts were never finalised for publishing.

- There is no consistency with regards to reporting items, only the measures that have been successfully achieved are included in these so-called accountability reports, namely the positive bias. Olson et al., speaks to, "The rise of self-audits" (under traditional auditing concepts of independence, a blatant contradiction in terms) is a classic illustration of the increased importance and trust placed in processes of formal accountability" (Olson et al., 2001: 510).

- The other effect of the modern approach to accountability is that it still remains unclear who is answerable when thing goes seriously wrong, simply due to the complexities of collaborative government and the implementation of privatization, the creation of semi-independent agencies. Lastly there is the burning issue that public accountability is very costly, does not add any value, it is ineffective, unfair, dissolute, infers that it should be totally dismissed.

2.11.3 Theory of bureaucracy

Bureaucracy by definition is an organisational structure that is characterised by many rules, standardised processes, procedures and requirements, number of desks, meticulous division of labour and responsibility, clear hierarchies and professional almost impersonal interactions between employees". According to the bureaucratic theory of Max Weber, such a structure was indispensable in large organizations in structurally performing all tasks by a great number of employees. In addition, in a bureaucratic organisation, selection and promotion only occur on the basis of technical qualifications.

Bureaucracy has also been described as a personnel and administrative structure of an organization. Business, labour, religious, educational, and governmental systems depend on a large workforce arranged in a hierarchy to carry out specialized tasks based on internal rules and procedures. The term is used mostly in referring to government administration, especially regarding officials in the federal government and civil service. It is often used derogatorily to suggest waste, inefficiency, and red tape, (Max Webber, 2009). The term 'bureaucracy' has been widely used with invidious connotations directed at government and business.

Weber's theory of bureaucratic management has two essential elements. First, it entails structuring an organization into a hierarchy. Secondly, the organization and its members are governed by clearly defined rational-legal decision-making rules. Each element helps an organization to achieve its goals. Weber developed the principles of bureaucracy—a formal system of organization and administration designed to ensure efficiency and effectiveness. The targeted entities all have a clear hierarchy and organisational structure together with set approval limits at different levels, from the Board of directors all through to some stuff committee. Each level with clear allocated roles and responsibilities, and in some instances one committee reviews and recommends to another which then increases the turnaround times and is at times described as "red tape". This has been identified as the modus operandi of all DFIs in Botswana.

2.12 Conceptual Framework

This section of the study deals with the holistic view of the concepts, assumptions and theories that underpin this study. This section further drills down on what defines an effective organisation, and how effectiveness of the DFI's will be measured in this study.

2.13.1 Organisational Effectiveness Concepts

According to Martz (2010), conceptually, organizational effectiveness is an enigma. On one hand, it is one of the most central constructs studied by organizational researchers. It is the ultimate dependent variable for organization researchers and of high relevance to practitioners and those engaged with the organization. On the other hand, its definition and conceptualization are ambiguous, and numerous perspectives have been taken to describe organizational effectiveness. Notwithstanding the meaningful attempts to clarify the concept of organizational effectiveness and advance organizational effectiveness evaluation, limited progress has been made toward reaching consensus on a single model or approach. Instead, most DFIs have focused on a particular conceptualization of organizational effectiveness informed by a particular characterization of the organization and the values of the relevant constituency (e.g., management, employees, consumers, owners, taxpayers, investors, directors, community members).

The concept of organisational effectiveness (sometimes called organisational "success" or organisational "worth") is ordinarily used to refer to goal attainment. In this sense, it is a functional rather than a structural concept, Georgopoulos & Tannenbaum (1957). The concept is used developmentally in this study, that is to study the effectiveness of the target organisation over a ten-year period. They further define organisational effectiveness as the extent to which an organisation as a social system, given certain resource and means, fulfils its objectives without incapacitating its means and resources and without placing undue strain upon its members.

Performance measurement is also of great importance in this study, the most quoted performance measurement definition is Neely et al.'s. (2002, p. xiii) "the process of quantifying the efficiency and effectiveness of past actions. This definition of performance measurement specifically emphasises effectiveness as well as efficiency. Performance measurement provides the information needed to assess the extent to which an organisation delivers value and achieves excellence. This definition also relates well to the balanced scorecard. The usual four scorecard dimensions – financial, customer, internal processes, innovation and learning – are implied: financial aspects are included in "delivering value", customers and stakeholders are key to the definition, while internal processes, innovation and learning are central to the way organisations are managed, Moullin (2007).

Eydi (2015), has confirmed that a number of researchers have attempted to reduce the complexity inherent in the effectiveness theory by narrowing the perspective from which effectiveness is viewed and/or measured. These various approaches to effectiveness can be subsumed under five different approaches. In other word, theorists have postulated five approaches to measuring organizational effectiveness the goals model, the system resources model, the process model, the multiple-constituency model and competing values approach (see Table 1 below). A few researchers stress on attention to political view of effectiveness and recommend the multiple-constituency approach as a viable alternative for investigating effectiveness in both a profit and a non-profit organizational context.

The effectiveness of a DFI like any responsible company cannot be measured through one single approach; The below figure depicts a link between the Organisational Effectiveness approaches and key concepts.

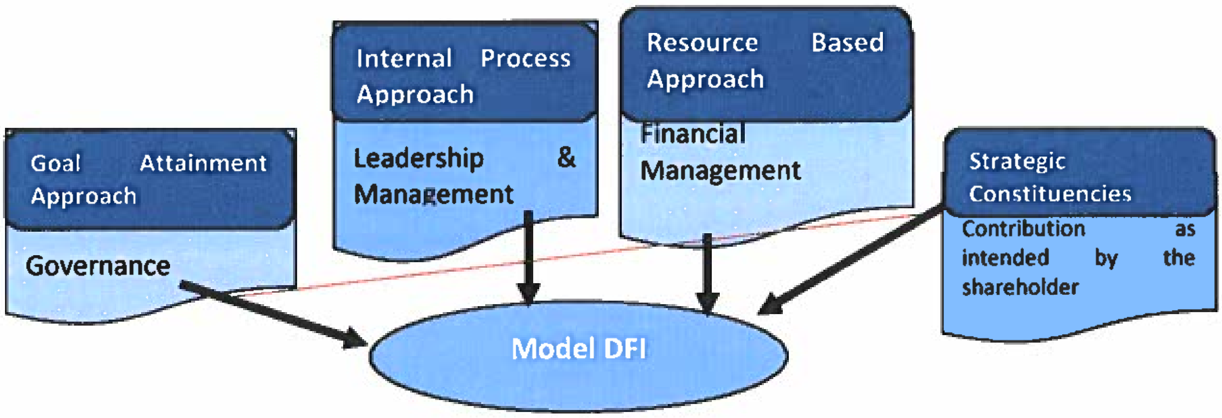


Figure 6 Organisational Effectiveness approaches and key concepts

2.13.2 Measuring of effectiveness for DFIs

The review of literature and assessment of DFIs in Botswana has led to the same realization as Qunta (2015), considering there is no agreement on how to measure organisational effectiveness and there is disparity in the use of effectiveness indicators by practitioners and academics (Cameron, 1986), a set of effectiveness indicators focusing on the DFIs was developed for the purpose of this study. There seems to be some agreement that organisational effectiveness requires multiple criteria and it must consider both means and ends (Robbins, 1983). The choice of model and criteria should be flexible and appropriate for the context. With these considerations, the indicators of effectiveness were formulated after the analysis of the documents from the DFIs that were surveyed.

Figure 7 Measures of DFI Effectiveness

Source: Adopted from Qunta (2015)

- Vision and mission Statements and a wide understanding of the mission and its implementation into programs for target sectors
- A review of governance practices, especially because DFIs can lose all of their capital due to weak corporate governance structures and practices
- A view of the enabling environment together with the supervisory and regulatory framework
- Current strategies versus original mandate and how well the entities have lived up to and upheld their mandates over the period under review,
- Annual reporting in line with all strategic objectives, to avoid positive biasness,
- The number of entities or companies assisted by these DFIs', how many of those have succeeded over five years, how many are still in existence, how many have failed and some explanation for their failures,
- Quality of the portfolio and a percentage of non-performing loans
- For those receiving funding from the national budget, an analysis of the funds received annually against the returns and a determination of whether the entities should be self-sustaining
- General financial performance and ratios
- Internal processes for approval of their products and services and possible appeal procedures
- Interactions with the shareholder and stakeholders in general
- Reactions and contributions to counter cyclical activities
- Annual investments econometrically analyzed against GDP and GDP per capita
- Contribution to the SDGs

2.13.3 Public sector performance measurements

Models and theories of performance management system - Performance management is a concept in the field of human resource management. It is a continuous process of identifying, measuring and developing the performance of individuals and aligning performance with the strategic goals of the organization, Aguinis, (2009). According to Olufemi, performance management in public entities is a strategic approach to the management of public resources and involves the quest for efficiency and effectiveness in public service delivery. This approach has become a statutory performance measure to deliver quality services in a dynamic and diverse public sector environment (Pillay and Subban, 2007:55). One way of classifying performance measures is by the phase of production that they pertain to (i.e. input, throughput, output, and outcomes performance measures). To the extent possible, the goal is to develop performance measures that fit together within an integrative, managerially relevant framework. This has proved difficult to achieve even in for-profit firms, Nakamura & Warburton (1998).

A performance indicator or key performance indicator (KPI) is a type of performance measurement. KPIs evaluate the success of an organization or of a particular activity (such as projects, programs, products and other initiatives) in which it engages. Qunta (2015) stated that the role of performance indicators in organizations might seem a simple issue. However, there is much confusion relating to the use of performance indicators in the public sector environment. Performance indicators have a variety of uses depending on their purpose and location in each organization. According to Immordino (2010), they can be used:

- To monitor the overall strategic or operational performance of organizations;
- As an instrument for hands-off control over lower levels of the organization;
- As a tool for day-to-day management by the 'street level' bureaucrat; and
- As part of the process of individual performance appraisal, for example, allocating performance related pay.

Performance evaluation

Given a set of indicators available for outputs and inputs of an entity, the question becomes how one should evaluate the information offered by those indicators. Since financial measures such as profitability are not sufficient for assessing performance, one has to look at other efficiency and productivity measures. But, to assess whether a given level of a measure indicates good or bad performance, one has to rely on comparisons. For this purpose, one has to establish benchmarks based on the history of an enterprise and the experience of others. Benchmarks can reflect efficiency and productivity or best practice procedures, depending on what types of indicators are more appropriate for performance assessment. Also, benchmarks can be best practice standards defined by experts or the performance of actual enterprises that are comparable with the one under review, Esfahani.

Financial Auditing within the Public Sector - The financial records of DFIs in Botswana are subject to auditing. The auditing functions are conducted in accord with strict legal requirements and established accounting procedures. They are carried out by firms and or persons with formal professional qualifications in financial accounting who are institutionally insulated from the organizational units they are responsible for auditing. In addition, the formal rules and procedures for official audits cannot be readily altered by those being audited. These audit practices not only help to ensure that public funds are used appropriately, but they also help insure the reliability of the resulting financial data, Nakamura & Warburton (1998). The audits for the years under review for both the DFIs used in this study were conducted by one of the big four audit firms, being Deloitte, PriceWaterHouse Coppers, KPMG or Ernest & Young.

2.13.3 Relevance of the Theories

The four theories discussed in this study (agency theory, accountability theory, theory of bureaucracy and performance management theory) were used to answer the research questions as follows and other key concepts, though a greater focus was placed on the performance management theory as per below table:

Table 2 Relevance of theories

Agency Theory	Accountability Theory	Bureaucracy Theory	Performance Management Theory
Good governance	ascertain whether the DFIs are effective in achieving their respective mandates	Internal processes and procedures	if the sector adds any value to the economic development of Botswana
Stakeholder engagements			Examine the performance

			of DFIs and how they can be effectively monitored to improve their impact
			value creation and sustainable investments
			Goal attainment

The below figure links the relevant theories discussed in this study with the conceptual frameworks.

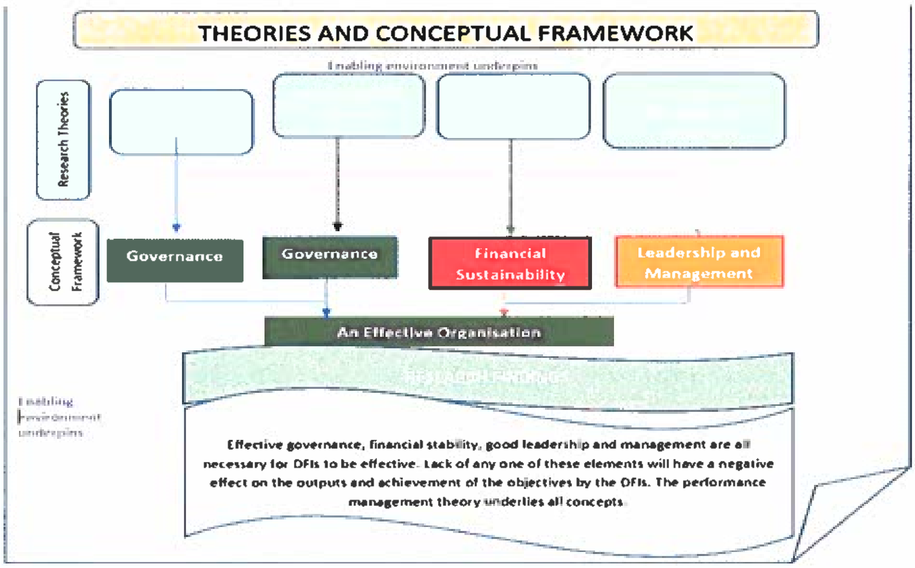


Figure 8: Linking of theories and the conceptual framework

Chapter 3: Research Methodology and Description of Data

3.1 Introduction

This chapter focuses on the methodology, followed by a description of the data, and justification for the chosen research methods. We discuss the different qualitative research methodologies and point out their strengths when it comes to meeting the needs of different design concepts (Chenail, 2011). A combination of qualitative and some quantitative research approaches were used in this study but the investigation is mainly exploratory in nature. Triangulation as one of the best ways to enhance validity and reliability in qualitative research as it can help overcome the deficiencies associated with using one method Neuman (2006). By triangulating at data collection phase, attempts were made to provide a confluence of evidence that breeds credibility (Eisner, 1991: 110). Data manipulation to portray a better image of these organisations is a likely occurrence, as some executive are likely to view any negative findings as an attack on their performance as opposed to an opportunity to right some wrongs and improve the impact of these organisations. Triangulation is a technique used by qualitative researchers to check and establish validity in their studies by analysing a research question from multiple standpoints. Data was collected using three different instruments: document analysis, structured questionnaires, and face-to-face interviews. The document analysis enabled the design and customization of the questionnaires to be used for collection of data from different DFIs and relevant government bodies. In extension, these sources are likely to be stakeholders in the sector—respective government official, other researchers, DFI staff, other community members, and so forth.

Patton (2002) cautions that it is a typical misconception that the goal of triangulation is to attain consistency across information sources or approaches; in actual fact, such inconsistencies may be likely given the relative strengths of different approaches. The researcher viewed, these inconsistencies not as weakening the evidence but rather as an opportunity to uncover deeper meaning in the data.

To my knowledge, this is the only existing study, providing evidence addressing among others the relationship between DFIs and economic growth in Botswana. There are, however, a few papers looking at the impact of DFIs on different regions like Qunta, (2015) focused on Kwa Zulu-Natal in South Africa, Namusonge (2004), with a focus on Kenya, while Massa et., al focused on the macroeconomic effects of development finance institutions in sub-Saharan Africa. This study attempted to combine the method used in all three above-mentioned studies, the method used in the first two is to review reports and interview a selected number of stakeholders (i.e. project officers and top management officials of the considered DFIs as well as client enterprises), and then analyse qualitatively and quantitatively the collected information to determine the success rates of projects financed by DFIs. While the last one uses descriptive data analysis in specific countries and relate specific changes in outcome variables to changes in DFI investment. They further tested for the effects of DFIs on macroeconomic variables using econometric techniques, and the same was to be performed for Botswana on the impact on economic growth and compared to the country results presented by Massa et., al (2016). Data limitations rendered this very difficult at this time but has created an opportunity for further research on the same.

The government Acts, mandates and strategic objectives of each DFI were analysed, in the process of populating the questionnaire and one on one interview questions for data collection. Two of the DFIs with available information and willingness to assist with this research were used as a case study especially for the sectorial analysis.

3.2 Research Permit and all relevant approvals

A research permit was obtained from the Ministry of Investments, Trade and Industry to undertake this study. Several meetings were held with various senior officials of the respective DFI's including Chief Executive Officers, where possible, to introduce the study, its objectives and obtain buy in. The purpose of these introductions was to build rapport and to ensure that we obtain information at executive level to improve the content, relevance and trustworthiness of the information provided.

3.3 Data Collection

This study required the use of time series data over a period of ten years from financial year 2006/07 to 2015/16 for each of the two (2) organisations used for this case study. Some comprehensive data collection strategies were employed to ensure good quality data. The websites of some of these organisations were sufficiently populated with up to date data and relevant reports. I further visited the National Library and where access was granted I also visited the libraries and resource centres at these entities for further information. Internet searches were performed to source various articles regarding the target companies and where necessary the stories were corroborated during face to face interviews. The GDP figures were obtained from the World Bank country reports for analysis against the DFI annual investments obtained from the annual reports and verified through questionnaires. The annual audited financial reports for the years under review for both the DFIs used in this study were audited by one of the big four audit firms in Botswana, being Deloitte, PriceWaterHouse Coppers, KPMG or Ernest & Young.

3.3.1 Document Review and Analysis

All available documentation including audited annual reports, journals and all publications were reviewed and analysed with a view of determining a pattern of how the entities have individually and collectively performed, and evolved over the period under review with regards to achieving their mandates, corporate governance structures and compliance and impact towards strategic and sustainable investing to stimulating economic growth, servicing the underserved market, and pioneering new industries while promoting exports and creating sustainable employment.

3.3.2 Self-administering Questionnaires

Following documentation review and analysis of available information, questionnaires were populated and transmitted to senior management of the target entities to disseminate to respective teams within the entities to populate. The significant areas of interest were around the mandates, agency theory and stakeholder interactions and achievement of financial and strategic targets over the period under review. The interview questions were uniquely adopted to suit each entity.

3.3.3 Face-to-face Interviews

In a face-to-face survey, an interviewer was physically present to ask the survey questions and to assist the respondent in answering them. This survey delivery mode offered the researcher many advantages over mail and telephone surveys in terms of the complexity and quality of the data collected. Compared with mail and telephone surveys, face-to-face surveys offer significant advantages in terms of the amount and complexity of the data that can be collected. For example, face-to-face surveys were significantly longer. The additional length of time allowed the researchers the opportunity to ask more questions, longer questions, more detailed questions, more open-ended questions, and more complicated or technical questions. It further presented the opportunity to ask to follow up questions where necessary.

Following documentation review and analysis of available information, face to face interviews with senior management of the target entities were conducted to obtain an in depth understanding and full clarity on matters that were not fully addressed during document analysis and to further clarify and corroborate some of the data. The significant areas of interest were still around the mandates, agency theory and stakeholder interactions and achievement of financial and strategic targets over the period under review. The interview questions were uniquely adopted to suit each entity.

Interviews were held at the offices of each of the targeted entities, with available senior managers based on availability, following the review of the self-administering questionnaires.

3.4 Data Management and Consolidation

As adopted from Qunta (2015), to facilitate easy retrieval of data, some of the interviews were recorded while at the same time notes were taken during the interview process. All interview notes were typed using Microsoft Word and kept in electronic files per DFI. All questionnaires collected were filed in a secure place and a back-up mechanism created in the office and home of the researcher. The information collected from document analysis and review was triangulated with the questionnaires completed and face to face interview conducted to verify the reliability of the data. This was performed to corroborate and improve the quality of the data used for results analysis.

Data limitations were experienced with regards to the intended quantitative analysis of the impact of DFI disbursements on the country's GDP, as undertaken by Massa et al, (2016) and compared to other sub-Saharan African (SSA) countries. Rather a data preliminary analysis on the descriptive statistics and the correlation of the two were undertake based on the available information at the time of this study.

3.5 Ethics and general conduct

According to the English dictionary ethics or moral philosophy is a branch of philosophy that involves systematizing, defending, and recommending concepts of right and wrong conduct. The quality, timely provision of data was overtly reliant on the target DFI personnel, and the study was a success as the research did not cause any harm to anyone. Furthermore, the researcher made a deliberate effort at all times not to violate any code of ethics and or conduct.

3.6 Promoting integrity and objectivity

As adopted from Qunta (2015), as part of ensuring the integrity of the study, the researcher established a secure place wherein documentation and materials were stored, with the exception of some annual reports which were limited in supply and one of the DFIs requested that they be returned for their internal libraries. An audit trail is available for each of the themes that are presented for each of the DFIs. The materials used, reference materials, notes, interviews, questionnaires and various draft reports were safely kept.

Chapter 4 Results and Analysis

4.1 Findings and Results - Botswana Development Corporation

The corporation was established in 1970 as a private company with a primary mandate of driving the industrialization of the country by providing financial assistance to investors with commercially viable projects. BDC provides both debt and equity funding to projects both locally and across Africa. BDC was mandated to invest outside of Botswana's borders in 2014. The corporation's funding starts from a minimum of BWP30 Million.

4.1.2 Introduction

This section focuses on the findings from BDC, the findings are presented according to the meaningful themes that emerged from the indicators that were researched.

The Corporation only started to experience the global financial crisis effects in the financial year ending 2009. BDC's bottom line was adversely affected as a result of the need for the Corporation to make additional bad debt provisions as a consequence of the less than desired performance of some of the Corporation's subsidiaries. The global recession did significantly impact on the operations of a number of its subsidiaries and of note is the Lobatse Tile Ltd which closed down in that same year.

A non-refundable grant of circa BWP50 million was received from the Government of Botswana in 2000, for the construction of some properties. This grant has been included in noncurrent liabilities and is amortized on the same method for charging depreciation on the properties.

The data used for results analysis and contained in the tables in this section was obtained from Audited Annual financial statements, corroborated and augmented through self-administering questionnaires and face to face interviews. The financial statements of BDC were audited by Deloitte Botswana for the ten-year period under review.

4.1.2 Respondents' Profile

The respondent was an Acting Chief Investment Officer, responsible for investment strategy execution and performance monitoring post investing. He has been with BDC for three and half (3.5) years and previously with CEDA for another four (4) years, while the self-administered questionnaire was completed by the Chief Finance officer who is a Chartered Accountant, a fellow member of Botswana Institute of Chartered Accountants, holds a Masters' in Finance and Investments from the London School of Business and has been with the corporation for seven years.

4.1.3 Original Mandate and its evolution

BDC's original mandate was to be the country's main agency for commercial and industrial development. BDC's role is to:

- Provide financial assistance to investors with commercially viable projects.
- Support projects that generate sustainable employment for Batswana and add to the skills of the local workforce.
- Encourage citizen participation in business ventures.

Furthermore, BDC was meant to support the development of viable businesses which perform one or more of the following functions;

- Use locally available resources.
- Produce products for export or to substitute imports.
- Foster linkages with the local industry.
- Contribute to the development of Botswana's resources and overall economy

Currently BDC's primary mandate is clearly articulated and understood by all stakeholders as to drive the industrialisation of the country by providing financial assistance to investors with commercially viable projects. BDC provides both debt and equity funding to projects that perform one or more of the following functions:

- Pioneer new industries
- Unlock value in existing industries
- Stimulate private sector growth and foster linkages with the local industry
- Drive diversification and exports
- Create significant employment.

BDC undertakes projects to satisfy the above-mentioned functions. The split of NPLs in monetary terms as shown on Table 5 (BDC non-performing loans) revealed that over the ten years under review the NPLs reached a high of 71% and BDC managed to maintain it within acceptable levels (6%) for only two (2) years in the entire period. The average NPLs for the ten-year period was 28%. Furthermore, the total number of projects in the BDC portfolio for each of the ten years under review was depicted in Table 6: with an emphasis on non-performing number of projects at a very high average of 21% over the ten years. The write off as depicted on table 7 were also very high. Lastly, the number of new projects undertaken for the period under review is summarised at table 10 (BDC New Business) shows that a significant number of them closed down with in the first few years. On the back of this it would be very difficult for the corporation to fulfil its functions as articulated above with the exception of employment creation.

It is very important for a mandate to be flexible and evolve over time, but the fundamentals need to be maintained. The corporation has essentially dropped its developmental mandate in pursuit of financial sustainability. This leaves a huge void in the financial markets where projects with a social or developmental impact are left unfunded. According to (Gutowski, Knedlik, Osakwe, Ramdoo, and Wohlmuth, 2015/16) 'the Corporation however ended up neglecting its industrial development mandate and instead transformed itself into a major property developer'.

4.1.4 Governance Structures

The corporation seems to have a fully functional Board, with its respective committees and sub committees in line with best practice, there are statistics reported on an annual basis on each member's attendance and corresponding remuneration. Yet the fraud and mismanagement allegations are still prevalent. The quality of the governance structures is now brought to question, are these committees serving their intended purposes. According to the BDC annual reports for the period under review, risk management underpins the execution of BDC's strategy and mandate. As such, material risks and uncertainties faced by the Corporation have been identified and strong mitigations put in place in order to manage these positions. Having approved policy, framework and risk governance structures by the Board of Directors, BDC management was undertaking implementation of the same.

Stakeholder Interaction

The respondent stated that the corporation has a good relationship with government. He further indicated that the shareholder does not interfere with the operation, but rather has a keen interest in the activities of BDC and makes enquiries on specific transactions from time to time. There are quarterly interactions between Management and the Board of director. The interaction with MITI is through monthly reports and annually visits to or by the Minister.

According to the BDC annual reports for the period under review, it has established a Social Responsibility Fund to assist deserving communities, the assistance is intended to contribute to the welfare and empowerment of the qualifying communities. The Corporation's Corporate Social Responsibility has evolved into three main components, which are, donations, sponsorships and Corporate Social Investment.

Agency Costs

The table below examines operating expenses fluctuations over the ten (10) year period under review and compares them to the corresponding revenues. The operating expenditure were inclusive of salaries and other remunerations. The staff costs reached highs of 70% and also dropped down to lows of 23% in some years but the average for the ten years was 48%. The fluctuations indicate periods of overstaffing and understaffing eras both of which have a negative impact on the performance of the corporations.

Table 3 BDC Agency Costs

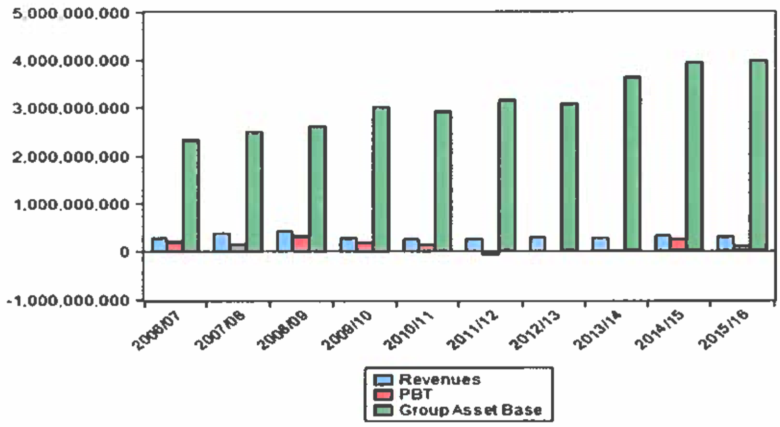
Period	Actual Operational Expenditure	Annual movement	As a percentage of revenues	Staff Costs	As a percentage of expenses
2015/16	243,858,000	60%	77%	96,912	40%
2014/15	151,977,000	-52%	45%	84,908	56%
2013/14	318,011,000	-11%	111%	77,259	24%
2012/13	356,760,000	135%	112%	80,796	23%
2011/12	152,106,000	-34%	55%	72,780	48%
2010/11	229,213,000	36%	86%	86,995	38%
2009/10	168,852,000	11%	60%	101,012	60%
2008/09	151,950,000	9%	35%	92,831	61%
2007/08	140,011,000	64%	36%	83,240	59%
2006/07	85,503,000	-1%	31%	59,687	70%
Total	**1,998,241,000**			**836,420**	

4.1.5 Revenue, Profits and Assets analysis

The financial performance of the DFI was assessed based on growth achieved on revenue, Profit before tax and group asset base augmented with a review of other relevant ratios.

During the ten years under review the asset base of BDC was growing at an average rate of 7% per annum, while the corresponding revenues and profits were declining. The losses reached a low of BWP220 million in 2013 before the position started to slowly improve again.

Figure 9 BDC Revenue, Profits and Assets Analysis



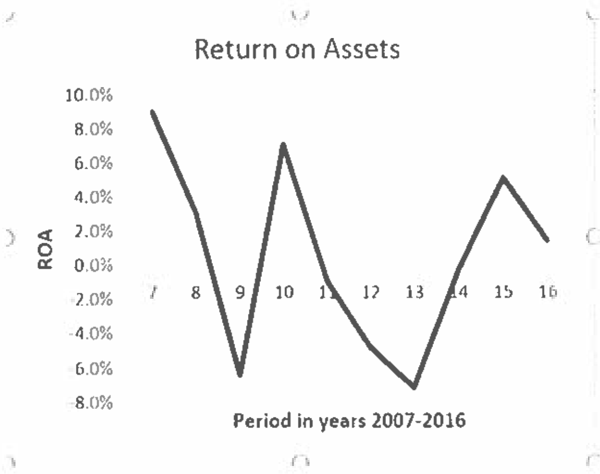
4.1.6 Return on assets (ROA)

ROA is the money quantitative relation that shows the proportion of profit an organization earns in relevance to its overall resources. It is commonly defined as net income divided by total assets, it is an indicator of how profitable a company is relative to its total assets. The net income used below is excluding the sale of assets and other comprehensive incomes. The ROA shows a decline from 2008, an ultimate low in 2013 hitting minus seven point one before seeing an improvement.

Figure 10 BDC Return on Assets

Period	Group Asset Base	Net Income	ROA

2006/07	2,347,014,000	211,901,000	9.0%
2007/08	2,518,971,000	77,576,000	3.1%
2008/09	2,632,349,000	(168,000,000)	-6.4%
2009/10	3,018,944,000	213,000,000	7.1%
2010/11	2,931,020,000	(27,000,000)	-0.9%
2011/12	3,170,267,000	(153,000,000)	-4.8%
2012/13	3,090,237,000	(220,000,000)	-7.1%
2013/14	3,635,553,000	(7,782,000)	-0.2%
2014/15	3,956,000,000	202,180,000	5.1%
2015/16	4,000,000,000	58,223,000	1.5%

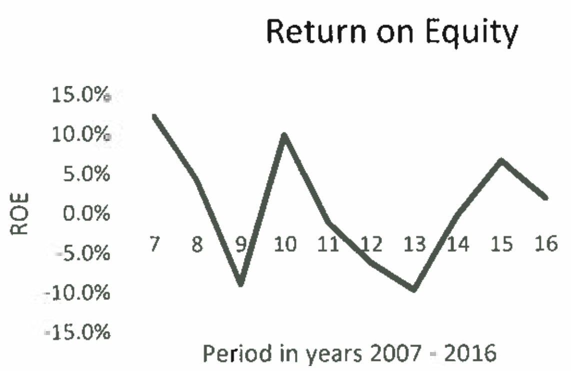


4.1.7 Return on Equity (ROE)

ROE ratio essentially measures the rate of return that the owners of common stock of a company receive on their shareholdings. The ROE also shows a decline from 2008, an ultimate low in 2013 hitting minus nine point seven before seeing an improvement.

Table 4 BDC Return on Equity

Period	Equity	Net Income	ROE
2006/07	1,732,660,000	211,901,000	12.2%
2007/08	1,869,975,000	77,576,000	4.1%
2008/09	1,870,438,000	(168,000,000)	-9.0%
2009/10	2,162,275,000	213,000,000	9.9%
2010/11	2,294,667,000	(27,000,000)	-1.2%
2011/12	2,443,876,000	(153,000,000)	-6.3%
2012/13	2,263,175,000	(220,000,000)	-9.7%
2013/14	2,548,272,000	(7,782,000)	-0.3%
2014/15	3,075,838,000	202,180,000	6.6%
2015/16	3,176,433,000	58,223,000	1.8%



4.1.8 Non-performing and Performing loans

A non-performing loan (NPL) is defined as a loan on which the borrower is not making interest payments or repaying any principal, as per agreement, for a period of ninety (90) days. An assessment of non-performing loans (NPLs) was undertaken, high levels of nonperforming loans (NPL) or bad debt are problematic both to the bank and to the economy in general. Banks are under pressure to devise strategies to manage NPL portfolios. In the past BDC did not have a targeted NPL level but the general level of NPLs across DFIs is around 5%, in the period under review the BDC NPLs reached a high of 71% and a minimum of 6%. The two years where the NPLs were above 35% were due to one glass project which was fully impaired to the value of BWP318 million and BWP328 million in 2014/15 and 2013/14 respectively. (Excluding this project, the NPLs were at 17% and 12%)

Table 5: BDC Non-Performing Loans

Period	Total Loan Book	NPL	NPL %	Performing Loans	%

2015/16	291,112,048	96,328,763	33%	194,783,285	67%
2014/15	592,757,134	420,105,052	71%	172,652,082	29%
2013/14	578,148,467	396,487,274	69%	181,661,193	31%
2012/13	453,808,814	26,365,748	6%	427,443,066	94%
2011/12	306,806,538	17,039,342	6%	289,767,196	94%
2010/11	206,312,360	22,087,852	11%	184,224,508	89%
2009/10	148,548,259	19,206,945	13%	129,341,314	87%
2008/09	192,349,271	60,065,015	31%	132,284,256	69%
2007/08	209,224,000	41,347,000	20%	167,877,000	80%
2006/07	184,413,000	39,815,000	22%	144,598,000	78%

4.1.9 Quality of the loan book

The quality of BDCs loan book has fluctuated significantly over the ten years under review, as per table five (5) six (6) and seven (7). BDC has had a non-flattering history of bad investments, the casing point being the Fengyue Glass Project where BDC lost a total of BWP511 million as per the June 2013 audited financial statements. The statistics presented in the three tables are a real threat to the sustainability of the corporation and significant emergency measures need to be put in place to turn around the situation.

Table 6 BDC Number of Non-performing projects

Period	no of projects	non-performing	%
2015/16	31	9	29%
2014/15	33	12	36%
2013/14	33	11	33%
2012/13	34	5	15%
2011/12	34	4	12%
2010/11	37	6	16%
2009/10	35	6	17%
2008/09	35	6	17%
2007/08	34	6	18%
2006/07	32	5	16%

4.1.10 Annual impairments and write offs

In accordance with the International Financial Reporting Standards (IFRS) BDC undertakes an assessment of impairments and calculation of the recoverable amounts of assets (including investments) on an annual basis. Table 7 below depicts the impairments and write offs over the ten years under review, with major write offs being Lobatse Tile in 2010/11 and Fengyue Glass Project in 2015/16. The highest impairment and write offs as a percentage of investments for the same period is 18% in 2008/09 and 17.8% in 2015/16 respectively.

Table 7 BDC Impairments & Write offs

Period	Impairments	Write-Offs
2006/07	18,455,358	-
2007/08	26,107,591	-
2008/09	271,051,549	-

2009/10	31,151,146	-
2010/11	283,220,298	281,161,416
2011/12	241,708,968	682,285
2012/13	241,437,399	-
2013/14	116,751,118	12,848,413
2014/15	61,276,823	80,666,111
2015/16	16,691,600	545,500,996

4.1.11 Main Reasons for business failures

The respondent confirmed that some of the challenges as raised in the annual reports over the years under review are real and are still affecting the corporation to date:

- According to the financial year 2012/13 Annual Report some projects failed because BDC had invested in projects which are suboptimal in their commercial sense due to lack of the appropriate capabilities or capacity to handle such complex project. This ties in with the challenge of sourcing the right talent as pointed out by the respondent.
- The effects of the global economic slowdown which started affecting developing countries from 2008 were only reported by BDC in 2013. The Managing Director's stated that the challenging operating environment has negatively affected BDC and its subsidiaries,
- The respondent indicated that some of the projects failed due to access to market challenges,
- Lack of suitable technical expertise and financial partners for possible co investments

4.1.12 Opinion of External Auditors

The financial records of DFIs in Botswana are required to be audited in terms of the Companies Act of Botswana (Companies Act, 2003). As discussed earlier in this paper the auditing functions are conducted in accord with strict legal requirements and established accounting procedures and are conducted by certified, independent firms with professional and qualified personnel.

For the period under review, from financial year 2007 through to 2016 the BDC financial statements were qualified four (4) different times as per below analysis. The common qualification justifications being impairments and valuation of subsidiaries.

- **2007/08** – qualified opinion with an emphasis of matter paragraph on the continued losses at Lobatse Tile a 100% subsidiary. The losses, together with the continuing economic uncertainty in the subsidiary's main markets, indicated that the recoverable amounts of property, plant and equipment, capital work in progress and raw material inventory may not exceed the recorded cost of these assets at the financial year-end. The subsidiary's management had not determined these recoverable amounts and therefore the auditors were not able to perform adequate audit procedures regarding the valuation of these assets.
- **2009/10** - qualified opinion with an emphasis of matter paragraph on the impairment of Lobatse Tile a 100% subsidiary. Disagreement on the impairment of this subsidiary by the Auditors which would change the Corporations profit for the year from BWP49 million to a loss of P 6 million.
- **2010/11** – qualified opinion with an emphasis of matter paragraph with regards to the valuation of the investment in Fengyue Glass Manufacturing (Botswana) (Proprietary) Limited, an associate equity and debt instruments, accounted for at cost and amortized cost respectively, as at 30 June 2011. Subsequent to the year end, the Board had also approved additional funding to Fengyue Glass Manufacturing (Botswana) (Proprietary) Limited of P332 million to cover additional costs on the project. The Auditors were unable to obtain sufficient appropriate evidence about the carrying

amount of the investment in Fengyue Glass Manufacturing (Botswana). The Board of Directors later instituted a forensic audit on this company.

- **2011/2012** - qualified opinion with an emphasis of matter paragraph with regards to the valuation of the investment in Fengyue Glass Manufacturing (Botswana) (Proprietary) Limited, an associate equity and debt instruments reflected at BWP422 million as at 30 June 2012, and again the Auditors did not receive sufficient appropriate evidence about the carrying amount of the investment.

4.1.13 Quality of performance targets

The respondent indicated that in the past periods the performance targets were not clearly defined, until the last ones where it is very clear, double the business in five (5) years but Figure 11 below on BDC KPI Measurement 2010-13 depicts quality performance indicators which are measurable and relevant.

4.1.14 Target versus actual performance

The corporation's achievement of its own KPIs has been very poor as indicated below;

Table 8 Disbursement targets and actuals

Period	Targeted	Actual	Difference	% Difference
2015/16	137,716,000	80,956,000	(56,760,000)	-41%
2014/15	-	54,560,000	54,560,000	n/a
2013/14	433,482,000	46,609,000	(386,873,000)	-89%
2012/13	789,256,000	332,595,000	(456,661,000)	-58%
2011/12	449,784,000	324,622,000	(125,162,000)	-28%
2010/11	557,259,000	260,078,000	(297,181,000)	-53%
2009/10	597,111,000	86,838,000	(510,273,000)	-85%
2008/09	357,469,000	232,024,000	(125,445,000)	-35%
2007/08	336,854,000	215,020,000	(121,834,000)	-36%
2006/07	128,500,000	102,286,000	(26,214,000)	-20%

The figure below as extracted from the June 2012/13 annual reports confirms the underperformance of the corporation against its own KPIs over the 2012 and 2013 financial years, the corporation achieved most of their targets in the 2010 and 2011 financial years.

Figure 11 BDC KPI Measurement 2010-13 *(Source: BDC Annual Report 2013)*

Audited Results
YEAR-END 30TH JUNE 2013

Measurement	2010 Target	Actual	2011 Target	Actual	2012 Target	Actual	2013 Target	Actual
Return on Investment (ROI)	13%	14%	4%	9%	3%	-9%	-1%	-5%
Return on Capital Employed	7%	17%	7%	15%	2%	-5%	2%	-1%
Return on Assets (ROA)	16%	12%	4%	11%	2%	-3%	1%	-1%
Gearing	39%	5%	36%	7%	45%	5%	36%	22%
PORTFOLIO GROWTH	10%	-0.2%	10%	25%	25%	6%	39%	11%

4.1.15 Impact of the DFI – Sustainability

Financial sustainability

BDC started with an initial capitalization of ZAR71 000 in 1971, raising to BWP11,2 million in 1981 and BWP230,5 million in 1991, BWP1.26 billion in 2011, the Corporation's investments reached BWP2,3 billion in 2012, and BWP 3 billion in 2016, spread across the different sectors of the economy.

Significant Ratios

- **Interest Coverage ratio**
  The interest coverage ratio establishes the ability of the corporation in terms of undertaking its obligation to pay all outstanding debts. It was calculated by dividing a company's earnings before interest and taxes by the company's interest expenses for the same period. BDC generally had a health interest cover except for the years between 2012/13 through to 2013/14.
- **working capital ratio**
  This ratio measures the corporation's ability to cover its short-term liabilities with liquid assets. The quick ratio takes a step further and removes the less liquid asset being inventory from the current ratio calculation. There was no significant variance between the two ratios as the corporation is not in the business of holding inventory.

- **Cost to income ratio**
  This ratio looks at corporation's costs in relation to its revenue. It was calculated by divide the operating costs by the revenue, the average cost to income ratio for the period under review was 65%.

- **Debt to Equity ratio**
  This ratio was calculated by corporation's total liabilities by its shareholder equity contribution;

Table 9 BDC Significant Ratios

Period	Interest Cover	Current Ratio	Quick Ratio	Cost to Income	Debt to Equity
2006/07	4.0	5.74	5.63	31%	24%
2007/08	4.1	3.94	3.70	36%	22%
2008/09	10.0	2.26	2.13	35%	20%
2009/10	6.5	0.89	0.83	60%	8%
2010/11	5.8	1.78	1.68	86%	9%
2011/12	4.0	1.07	1.01	55%	7%
2012/13	1.3	1.01	0.93	112%	17%
2013/14	1.6	0.74	0.69	111%	15%

2014/15	4.4	1.63	1.56	45%	17%
2015/16	3.0	1.82	1.78	77%	17%

Sustainability of funded projects

At the time of finalising this report fifty-two (52%) percent of the companies listed in the BDC 2016 annual report had closed down for various reasons. The table below depicts twenty-five (25) new business funded by the corporation in the ten years under review and thirteen (13) of them closed down most of them with in the first five years.

Table 10: BDC New businesses

Period	new business	Status
2006/07	1	fully paid off
2007/08	5	3 closed down
2008/09	3	3 closed down
2009/10	4	2 closed down, 2 paid off
2010/11	3	2 closed down, 1 NPL
2011/12	2	1 closed down
2012/13	3	2 closed down
2013/14	NIL	n/a
2014/15	2	2 NPLs
2015/16	2	operational

4.1.16 Sources of Capital

According to the respondent and the annual reports reviewed BDC sources all its capital independently of the shareholder. The corporation has successfully sourced funding both locally and internationally from larger DFIs based on its own balance sheet strength and favourable credit rating.

4.1.17 Contribution to Sustainability Development Goals:

According to the United Nations website, the Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. These are meant to tackle the global challenges we are faced with, including those related to poverty, inequality, climate, environmental degradation, prosperity, and peace and justice. All these goals are interlinked in order to leave no one behind, it is imperative that we achieve each Goal and target by 2030. The corporation does not have specific KPIs around the SDGs, but they have implemented some environmental measures including the use of smart lights, recycling water for watering plants and use of indigenous plants with minimum water requirements. Furthermore, light bulbs are collected separately for special disposal. The above mentions assist towards energy and water conservation together with the responsible production and consumption through recycling of the bulbs. There are certainly opportunities for improvement in this area.

4.1.18 Impact of the DFI – Employment Creation

BDC as a company has one branch in the capital city, Gaborone and the table below shows direct employment number and the corresponding gender split. The corporation did not have any disabled employees during the period under review. The BDC group consisted of an average of forty (40) companies and their employment numbers are as per below. (Legend: n/a means information not available).

Table 11 BDC Employment Numbers

Years	Total Employed	Male	Female	Group Employment
2015/16	56	23	33	4,090
2014/15	62	26	36	n/a
2013/14	83	43	40	n/a
2012/13	88	42	46	n/a
2011/12	94	46	48	2,415
2010/11	85	42	42	2,386
2009/10	81	41	40	1,715
2008/09	77	n/a	n/a	3,405
2007/08	76	n/a	n/a	3,600
2006/07	73	n/a	n/a	1,266

4.1.19 Impact of the DFI – Economic growth

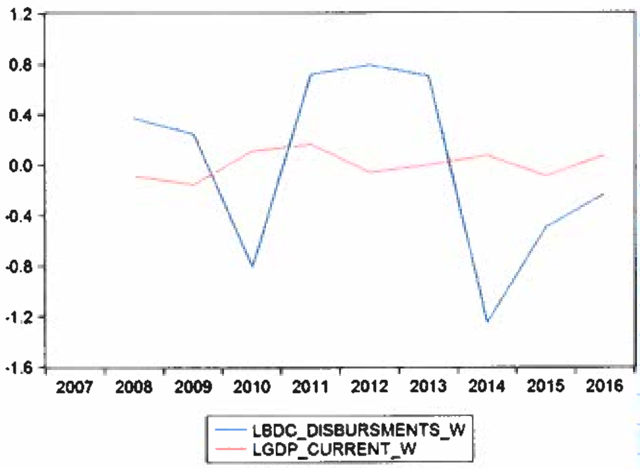
BDC paid dividends to government amounting to BWP145 million in the ten years under review. Furthermore, the corporation is also a tax paying private company and remitted to the Receiver of Revenue a total of BWP385 million as per the table below.

Table 12: BDC's Cash Contribution to Government

Period	Dividends	Taxes	Total
2006/07	19,800,000	14,218,000	**34,018,000**
2007/08	23,122,000	23,500,000	**46,622,000**
2008/09	-	34,600,000	**34,600,000**
2009/10	32,279,000	46,400,000	**78,679,000**
2010/11	38,700,000	100,613,000	**139,313,000**
2011/12	6,494,000	(6,462,000)	**32,000**
2012/13	-	35,906,000	**35,906,000**
2013/14	-	43,496,000	**43,496,000**
2014/15	-	47,441,000	**47,441,000**
2015/16	25,000,000	44,915,000	**69,915,000**
Total	**145,395,000**	**384,627,000**	**530,022,000**

BDC needs to explore bigger projects to increase its disbursements and relativity to the country's GDP, based on the graph below for the ten years under review there was volatility on the disbursements of BDC while the GDP was more stable. BDC disbursements had no influence or impact to the country's GDP for the period under review.

Figure 12: Summary Statistics of GDP & BDC Disbursements



	LBDC_DISB...	LGDP_CUR...
Mean	16.44242	23.32443
Median	16.51218	23.40105
Maximum	17.31985	23.51141
Minimum	15.35472	23.05221
Std. Dev.	0.745489	0.171977
Skewness	-0.169881	-0.533176
Kurtosis	1.469757	1.652109
Jarque-Bera	1.023784	1.230798
Probability	0.599360	0.540425
Sum	164.4242	233.2443
Sum Sq. Dev.	5.001780	0.266185
Observations	10	10

The skewness of both the disbursements and the GDP carried a negative sign, and the kurtosis was less than three (3), the data is slightly skewed to the negative. The P-value of 60% and 54% are above the level of significance at 2% so we do not reject the null hypothesis of normal distribution. The table below depicts the covariance and correlation of the Botswana GDP and the BDC disbursements and there is a slight inverse relationship between the two with a covariance value of -0.02 and correlation at -20%.

Table 13: Covariance & Correlation between the GDP & BDC disbursements

Covariance Analysis: Ordinary
Date: 03/24/19 Time: 16:45
Sample: 2007 2016
Included observations: 10

Covariance	LBDC_DISB...	LGDP_CUR...
LBDC_DISBURS...	0.500178	
LGDP_CURRENT	-0.023362	0.026618

Correlation	LBDC_DISB...	LGDP_CUR...
LBDC_DISBURS...	1.000000	
LGDP_CURRENT	-0.202471	1.000000

4.1.20 BDC Investment by Sector

BDC has the biggest weight of its portfolio of investments in the property sector as depicted by the table below;

Table 14: BDC Investment by Sector

Period	Agriculture	Industry	Services	Property	Total
2006/07	2%	36%	9%	53%	100%
2007/08	2%	44%	9%	45%	100%
2008/09	3%	50%	8%	38%	100%
2009/10	4%	48%	11%	37%	100%
2010/11	4%	37%	9%	50%	100%
2011/12	4%	39%	8%	48%	100%
2012/13	4%	38%	7%	51%	100%
2013/14	4%	39%	10%	48%	100%
2014/15	4%	40%	10%	45%	100%
2015/16	5%	19%	10%	65%	100%

4.1.21 Impact of the DFI – market failures and financial inclusion

According to the self-administered questionnaire the corporation does not have a focus on either the low-income earners or women specifically. The respondent further indicated that the corporations sweet spot for loans is between BWP100 million and BWP150 million and a tenure of 10 years which does not address the gap of large projects with longer term capital to facilitate the much-needed developments.

4.1.22 Customer Satisfaction Survey

Both the 2007/08 and 2008/09 annual reports highlighted developments and interventions being effected to ensure sustainability of business, governance and legal compliance including workplace health and safety, customer satisfaction and perception/reputation surveys, brand audit all of which will be finalized in the ensuing financial year. But the results of which were never published.

4.1.23 Corruption and mismanagement allegations

There has been two major allegations of corruption and mismanagement one being around the glass factory (see table below) and the second being the recent dismissal of the BDC Managing Director with allegations of failing a lifestyle audit. The respondent indicated that internal processed have been fully reinforced to guard against losses similar to the glass factory but as is the nature of business there are no guarantees. The table below indicate the chronology of events up to a loss of BWP511 million for the corporation.

Table 15: Glass Project chronology of Events

Original Source: Piet (2016) adopted from Motshegwa et al.

Year	Action taken
2007	The concept of a glass project is discussed between BDC and Ministry of Finance and Development Planning.
2008	A delegation is sent to China to identify and meet with potential partners for the project.
2009	A plot is set aside for the project in Palapye and meetings are held between the partners - BDC and Fengyue Glass company.
2010	Finances are availed for the project and the contractor mobilises to the site to start construction works.
2011	Newspaper reports indicate that things are not going well with the glass project. November 2011: The National Assembly sets up a special select committee to investigate the allegations of corruption at the glass project.
2012	The Parliamentary Report is released and BDC applies for liquidation of the project.
2013	The liquidator reveals that the project was in a mess and that there were no records whatsoever of what was going on.
2015	The liquidator announces that there are prospects of new owners taking over the company.

4.1.24 Alternative structures/models

The current BDC model is still very relevant and suitable for the intended purposes, and any change or move to privatise would create a void in the market that would be difficult to deal with.

4.1.25 Summary of BDC Findings

The study was aimed at establishing the effectiveness of BDC as a DFI in Botswana. This was assessed by investigating the impact of the DFI on significant issues affecting the country as articulated in the previous chapter, Chapter 3 covering the Research Methodology.

The DFI was assessed on achievement of its mandate, governance structures, financial performance including significant ratios, quality of targets and KPI's, quality of loan book, creation of sustainable business and main reasons for failure. It was further assessed on the level of employment creation both directly and indirectly, its contribution to the SGDs and general impact to economic growth. Indicators of effectiveness have been linked to research questions in order to answer the latter.

Table 16: Linking research questions to findings

No	Research Question	Indicators
1	How are DFIs in Botswana performing with reference to their mandates?	Is BDC's current mandate significantly different from the original one?
		Has BDC been successful in fulfilling its mandates?
		Is BDC successful in developing business including SMMEs in Botswana?
		Has BDC been successful in employment creation, both directly and indirectly?
2	What are the factors contributing to the general performance of the DFIs in Botswana?	Has BDC realised year on year growth on revenue, assets and profit?
		Is the level of operating expenditure reasonable compared to market?
		Does BDC have quality performance measures?
		Has BDC achieved its own targets?
3	Do DFIs in Botswana have the potential to self-sustain?	Does BDC have the potential to source funds independently?
		Is BDC profitable?
		How is BDC's quality of loan book including non-performing loans?
		BDC's level of impairments and write off?
		Does BDC have a roadmap to self-sustenance?
4	How does governance structures affect performance of DFI?	Does BDC have the requisite governance structure?
		How are the levels of agency costs at BDC compared to successful DFIs?
		What has been the opinion of external auditors on the BDC annual financial statements?
		Are there corruption or mismanagement allegations and how are they addressed?
5	Has the DFIs had any impact on the economic growth of Botswana?	How many sustainable new businesses have been assisted?
		Has BDC contributed to the country's GDP?

BDC's performance with reference to its mandates

The question of whether BDC has been successful with regards to its mandate can be answered based on the actions of the corporation and its foot print thus far;

Table 17: BDC Mandate Review

No.	Indicator of performance	Results	Comments
1	Is BDC's current mandate significantly different from the original one?	Yes	BDC has essentially dropped its developmental mandate in pursuit of financial sustainability. This leaves a huge void in the financial markets where projects with a social or developmental impact are left unfunded
2	Has BDC been successful in fulfilling its mandates?	No	Industrialisation of the country has lagged behind its peers, some with even fewer resources than Botswana.
3	Is BDC successful in developing business including SMMEs in Botswana?	No	Not at the level where it should be playing in the market, large projects with longer term tenures would have a visible impact
4	Has BDC been successful in employment creation, both directly and indirectly?	Yes	There is still room for improvement, with the country's unemployment rate at 18%

Conclusion - ineffective

The overall conclusion from the documentation reviewed and the respondent's comments is that though BDC has previous successes the period under review saw the corporation drifting from its original mandate to a more commercialised DFI.

General performance of BDC

The performance of BDC has been deduced from areas surveyed including the annual targets, and actual performance as published in the annual reports.

Table 18: BDC performance level

No.	Indicator of performance	Results	Comments
1	Has BDC realised year on year growth on revenue, assets and profit?	No	BDC only realised growth on assets, revenues and profits were declining for the period under review. BDC made losses in five (5) out of the ten (10) years reviewed
2	Is the level of operating expenditure reasonable compared to market?	No	The corporation's operating expenses reached 112% of revenue in some years and averaged 65% over the ten (10) year period.
3	Does BDC have quality performance measures?	Yes	Though the respondent felt that the quality of performance measures was not good the documentation reviewed revealed something different.
4	Has BDC achieved its own targets?	No	BDC did not meet any of its disbursement targets for the ten (10) year period under review.

Conclusion – ineffective

The overall conclusion from the documentation reviewed and the questionnaire results is that BDC has not performed very well in the ten years under review. This was confirmed by the corporation's organisational transformation and business re-modelling in 2014.

BDC's potential to self-sustain

BDC was initially capitalised by Botswana government in 1970, it has pioneered many industries in the past but the last ten years seems to have been a true test of the corporation's resilience. The legends for the below results are as follows:

- Average: level of performance is not good, but is improving
- Poor: Level of performance is unacceptable

Table 19: Level of BDC's self-sustenance

No.	Indicator of performance	Results	Comments
1	Does BDC have the potential to source funds independently?	Yes	All the capital sourced during the period under review was based on BDC's own balance sheet.
2	Is BDC profitable?	Average	BDC has had very profitable periods and has also made significant losses but has clearly proven that it can be profitable.
3	How is BDC's quality of loan book including non-performing loans?	Poor	BDC has written off the non-performing loans in 2014/15 so the NPL is now expected to normalise to industry standards of 5%.
4	BDC's level of impairments and write off?	High	The period under review saw a write off of circa BWP500 million on one investment, if excluded the level of impairments and write off normalises.
5	Does BDC have a roadmap to self-sustenance?	Yes	BDC's Managing Director's comments on the 2016/17 annual reports confirmed the commitment to its strategic goal of doubling the business in five years (#DTB5) and defending the corporations gains in revenue, profit, and impact investing.

Conclusion – Effective

Although BDC has underwent some transformation, it has remained resilient and self-sustaining for almost fifty (50) years. There is certainly opportunity for improvement to mirror the more successful DFIs in developed countries.

Governance structures & agency costs

Table 20: BDC Governance structures & Agency Costs

No.	Indicator of performance	Results	Comments
1	Does BDC have the requisite governance structure?	Yes	BDC has appropriate structures according to the applicable corporate governance requirements, the question of quality and effectiveness of these structures is paramount.
2	How are the levels of agency costs at BDC compared to successful DFIs?	High	The corporation's agency costs reached 112% of revenue in some years and averaged 65% over the ten (10) year period. But the corporation has made pronouncements around defending the corporations gains in revenue, profit which translates to cost containment.
3	Are there corruption or mismanagement allegations and how are they	Yes	Some Senior officials were dismissed over fraud and misappropriation of funds. BDC has augmented its internal processes to prevent fraud as much as possible.

	addressed?		
4	What has been the opinion of external auditors on the BDC annual financial statements?	average	BDC financial statements were qualified four (4) different times in the ten (10) years under review. The common qualification reasons being impairments and true valuation of subsidiaries.

Conclusion – ineffective

BDC's impact on the economic growth of Botswana

Table 21: BDC's impact on the economic growth of Botswana

No.	Indicator of performance	Results	Comments
1	Number of new business assisted?	Poor	Poor quality businesses were created and funded, sustainability was very poor as most of them closed down within the first five years
2	Analysis of BDC's disbursements against GDP?	Average	BDC paid dividends of BWP145 million and tax of BWP385 million in the ten years under review.
			The BDC disbursement were insignificant compared to the country's GDP and there was even a slight inverse relationship.

Conclusion – ineffective

4.2 Findings and Results - Local Enterprise Authority

4.2.1 Introduction

This section focuses on the findings from the review of LEA. The findings are presented based on significant themes that emerged during the study. The mandate of LEA is to promote entrepreneurship and SMME development. The agency, unlike the other three (3) DFIs in Botswana does not offer financial products like loans and advances but rather has a mandate of promoting economic growth through:

- Provision of business development services, through screening, business plan facilitation, training and mentoring;
- Assessing SMMEs with the view of identifying existing and future business opportunities;
- Promoting domestic and international linkages, especially between SMMEs and government, large business entities and other SMMEs;
- Facilitating changes in regulations, quality management systems and standards, infrastructure and access to finance;
- Facilitating technology adoption and diffusion;
- Promoting general entrepreneurship and SMME awareness.

The questionnaire was amended to suit the operations of LEA and to as much as possible collect comparable data.

The data used for results analysis and contained in the tables in this section was obtained from Audited Annual financial statements, corroborated and augmented through self-administering questionnaires and face to face interviews. The financial statements of LEA were audited by PriceWaterhouse Coopers (PWC) for the ten-year period under review.

4.2.2 Respondent's Profile

The respondent was a Director of Innovation & Sector Support, who also assumes the role of the Leather Park Coordinator and he is responsible for managing and day to day operations of the incubators with assistance of incubator managers based at each location. He started as an Incubator Manager in 2009, so he has been with the Agency for ten (10) years. The self-administered questionnaires were completed by the Director Corporate Services, a Chartered Accountant and a fellow member of both Association of Chartered Certified Accountant and Botswana Institute of Chartered Accountants. He has been with LEA for seven (7) years.

4.2.3 Original Mandate and its evolution

LEA started off with a mandate to promote and develop SMMEs through providing targeted interventions for four (4) sectors being manufacturing, agriculture, services and tourism.

The respondent indicated that the mandated shifted in 2009-2014 to focus on SMEs specifically the diary, piggery, leather and horticultural sub sectors. These were areas of interest informed by the high import bill and the list of clients registered in the Agency's database. The micro entities were provided with more generic over the counter services, but this led to them being left behind and created a gap with regards to small enterprises enrolled into the agency's programs.
Currently LEA is undergoing a transformation, as a second chance provided by the government for the agency to fully execute its mandate and for its impact and footprint to be visible.

The respondent further confirmed that LEA has not fully lived up to its mandate, and the expectation of its clients and sponsor. The agency has not produced the calibre of businesses which they intended, strong home grown competitive SMMEs with export potential.

Out of Fifty (50) LEA assisted companies surveyed, twenty-one (21) were still operational. These twenty-one companies were found to be in the desirable sectors in terms of mandate of the agency but were all too small with regards to the intended outcome of producing robust, competitive SMMEs with the ability to export their products and services. Furthermore, based on their size, they unfortunately, could not make the impact required from LEA in line with the government expenditure. The largest employed only 24 people and none of them were in a position to export.

4.2.4 Governance

The agency seems to have a fully functional Board, with its respective committees and sub committees, there are statistics reported on an annual basis on each member's attendance and corresponding remuneration. Yet the agency is still not delivering on its mandate and has disproportionate operating expenses year on year. The quality of the governance structures has now been brought to question, are these committees serving their intended purposes. The organisation has further implemented an ERM framework from which a comprehensive corporate risk register was generated. The risk register focuses on effective risk management by identifying risks which could have a negative impact on the achievement of corporate and business objectives, as well as control measures necessary for mitigating these risks. Regular reviews are conducted to assess and update the risk register.

Stakeholder Interaction

The respondent indicated that the agency has a good relationship with the steward ministry, there is no interference rather there is align in terms of the mandate and delivery thereof. LEA interacts with the ministry on a monthly basis through monthly reports, and on an adhoc basis where there are enquiries and or questions on specific matters. He stated that the Ministry has become relatively involved on the development of SSMEs as an initiative to augment the decline in revenues from the mining sector. Interaction with the Board of directors is quarterly through normal board meetings and special boards, so roughly eight (8) times a year and through some of the Board subcommittee where board members are appointed.

Agency Costs

Over the period under review LEA had very excess agency costs with most of the grant being spent on non-core activities. The table below shows both operating expenses and staff costs expressed as a percentage of the government grant received. For the year ended 2013 the operating expenses were more than double the grant while the staff costs alone were 111% of the grant. The average for operating expenses and staff costs over the ten-year period being reviewed is 113% and 61% of the grant respectively.

Table 22 LEA – Government grant versus Expenditure

Period	Grant	Actual Staff costs	Operating Expenses	Staff Costs
2015/16	147,708,000	97,901,086	114%	66%
2014/15	144,200,000	86,809,895	107%	60%
2013/14	134,000,000	85,461,857	106%	64%
2012/13	70,008,200	77,746,332	207%	111%
2011/12	121,946,913	76,094,238	120%	62%
2010/11	125,534,498	83,569,360	111%	67%
2009/10	126,011,810	76,654,623	106%	61%
2008/09	120,000,000	73,271,205	109%	61%
2007/08	120,000,000	49,954,264	72%	42%
2006/07	25,806,167	5,035,264	78%	20%

4.2.5 Financial Performance

The financial performance of the agency was analysed based on the usage of the grant received, and the utilisation thereof. As per the below table the deficit was as high as 84% of the grant for the 2012/13 financial year and the largest surplus for the period under review was 35%.

Table 23: LEA Financial Performance

Period	Grant	Deficit/Surplus	Percentage
2015/16	147,708,000	(9,613,889)	-7%
2014/15	144,200,000	2,381,519	2%
2013/14	134,000,000	3,271,394	2%
2012/13	70,008,200	(58,995,290)	-84%
2011/12	121,946,913	(5,277,382)	-4%
2010/11	125,534,498	792,964	1%
2009/10	126,011,810	9,739,455	8%
2008/09	120,000,000	1,410,230	1%
2007/08	120,000,000	42,327,874	35%
2006/07	25,806,167	7,546,907	29%

4.2.6 Financial Reporting alignment to strategy

The annual reports included a significant part of the strategic objectives, but in most years some targets were not fully articulated and directly compared to actual performance.

4.2.7 Opinion of External Auditors

The financial records of LEA are required to be audited in accordance with Section 25 of the Small Business Act (Chapter 43:10) and Companies Act of Botswana (Companies Act, 2003). As discussed earlier in this paper the auditing functions are conducted in accord with strict legal requirements and established accounting procedures and are conducted by certified independent firms with qualified personnel.

For the period under review, from financial year 2007 through to 2016 the LEA financial statements, as verified by PWC, represented a true and fair financial position and there was no qualification for the entire nine-year financials reviewed. I had a limitation on availability of annual reports for the period under review as the financial year 2009/2010 annual report could not be located and therefore was not fully analysed but the figures were obtained from the 2010/11 comparatives.

4.2.8 Quality of performance targets

A consolidation of the respondent's comments and the documentation reviewed revealed that the agency's KPIs are around promotion of citizen entrepreneurship, further diversification of the economy, promotion of exports, development of a competitive SMME community, creation of sustainable employment opportunities, promotion of the development of vertical integration and the horizontal linkages, between SMMEs and primary industries in agriculture, mining and tourism, improved efficiency in the delivery of services to business and promotion of business linkages between small and large enterprises.

These are measured through the number of entrepreneurs trained and mentored, attendance of other trainings, outreach, number of business plans received and converted, import bill reduction and other specific targets like the leather park development. The targets are clear and measurable though the annual reports did not fully articulate the achievement of these targets and the respondent were of the view that record keeping is a challenge across the organization and the statistics could not be confirmed.

4.2.9 Target versus actual performance

The respondent affirmed that the agency has not been very successful in its objective to assist in reducing the country's import bill particularly in areas such as the production of vegetables, milk and dairy products. Furthermore, the Leather Sector Park project was conceived as the result of a research study; Situational Analysis of the Leather Industry in Botswana in 2010, with the view of building a fully-fledged leather park and this was yet to be implemented at the time of release of this paper.

4.2.10 Impact of the DFI – Targeted training and mentorship to entrepreneurs

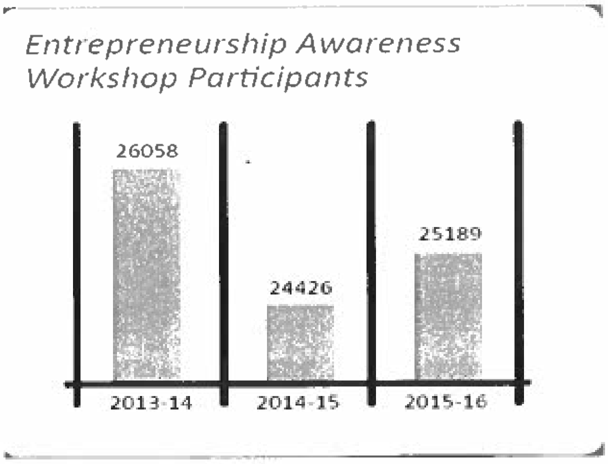
Training

The trainings delivered included basic training courses such as record keeping, essentials of management and sales and marketing while advanced training courses offered included fruits and vegetable processing, food hygiene, modern technology in vegetable production, quality management systems amongst others. LEA further facilitates for entrepreneurs to attend trade fairs, where exhibiting clients met the invited buyers, and discussions are held around specific market requirements and other relevant topics. It is also an opportunity for markets to disseminate information that empowers the SMMEs and assist them in ensuring that their products and services are market ready.

During the financial year 2007/08 the agency was in the process of BOTA accreditation as a training institution and simultaneously developing a curriculum for the training courses to be offered. This was achieved in 2010 and LEA was able to train participants across the country targeting Senior Secondary School leavers (Form 5s), employees from retrenching organizations as well as final year Brigades and Vocational College students.

The promotion of entrepreneurship is also being achieved through participation at various outreach activities across the country. LEA continued to inculcate an entrepreneurial spirit amongst Batswana. This is being achieved through Entrepreneurship Awareness Workshops (EAW), in partnership with the Ministry of Education and Skills Development with the aim of exposing students to alternatives other than formal employment, see figure below for attendance statistics.

Figure 13 LEA Entrepreneurship Awareness attendances
Source: LEA annual report 2015/16



Mentorship

The consultancies and mentoring assignments included nutritional analysis determination, shelf life determination, branding and packaging designs, trade show coaching, intellectual property awareness and implementation, as well as business policies development and different programmes run on an annual basis.

4.2.11 Impact of the DFI – Sustainability

LEA does not maintain full records of its alumni, or any entities that have failed to complete the programmes. A sampled survey of fifty (50) companies assisted by LEA was undertaken and the results are as per the table below: Of the operational entities, six (6), 28% indicated that they obtained funding based on their own business plans and efforts or have only attend one course offered by LEA. There is opportunity to explore further.

Table 24: LEA's new businesses

Status	No.
Operational	21
Non-Operational	18
Not found	11

The agency is not directly involved in any of the global sustainability initiatives, but trains entrepreneurs across its thirteen branches to produce vegetables to improve their own livelihood and contribute to the country's food security.

4.2.12 Impact of the DFI – Employment

The table below depicts LEA's employment numbers firstly it shows direct employment across the branches and the total indirect employment of companies benefiting from its services. There was a growth trajectory on the direct employment numbers with an average growth rate of 9% while the group statistics were haphazard.

Table 25 LEA Employment Numbers

Years	Total Employed	No of Branches	Group Employment
2015/16	322	13	636
2014/15	307	13	1,445
2013/14	300	13	n/a
2012/13	312	13	661
2011/12	319	13	614
2010/11	307	16	1,004
2009/10	299	13	585
2008/09	295	13	1,016
2007/08	239	13	n/a
2006/07	164	13	755

4.2.13 Impact of the DFI – Economic growth

Currently it is grievously impossible to measure the impact of LEA towards the economic growth of Botswana, the respondent indicated that the entity faced the same challenges and has since collaborated with Statistics Botswana to work on a statistical formula to measure the impact of LEA's activities to the GDP of the country.

4.2.14 Impact of the DFI – market failures and financial inclusion

LEA is not a capital disbursing urgency so the issues of addressing market failure and financial inclusion do not apply, but the agency makes an effort to educate women and lower income earners.

4.2.15 Impact of the DFI – Incubation facilities

Business incubation - A programme designed to support the successful development of start-up enterprises by offering infrastructure and other services in a controlled environment. The respondent stated that the incubation has been one of the agency's success stories, following the 2014 turnaround strategy which included expelling all companies housed in the incubations and starting afresh, the agency has graduated more than 10 clients who are operational outside the incubation centres.

Table 26: LEA Incubation Statistics

Incubator	Number graduated	still Operational	Planned to graduate
F/Town	5	5	2
Pilane	10	9	4
Gaborone	4	2	2
Glenn Valley	109	31	21
Kutla	79	16	90

4.2.16 Customer Satisfaction Survey

The agency undertakes a biennial customer satisfaction survey, the results of the survey revealed that the current and previous customers had a high level of satisfaction, 86% and 85% for financial years 2012/13 and 2007/08 respectively. LEA has documented, implemented and maintains a Quality Management System (QMS) in accordance with the requirements of the international ISO 9001:2008 Standard.

4.2.17 Self-sustenance

LEA has been operational for just over ten (10) years, it is fully funded by the Botswana government with no other sources of income. The operational costs have spiralled out of control and have reached an unsustainable level hence the current retrenchments at the agency. The agency has plans for cost reduction, procurement controls and additional revenue generation.

4.2.18 Challenges faced by the Agency

According to the respondent, LEA faced the following challenges since inception;

- Budget constraints as their only source of funds is government
- Skills and capacity – there is a general lack of business acumen amongst its staff members
- The average client has very low entrepreneurial skills so there is lack of innovation and differentiation of ideas and products
- There is a mentality of entitlement amongst Batswana
- Cost control and containment has been a challenge which has led the agency to restructuring and retrenchments
- The agency has remained behind with regards to the use of technology in delivering its mandate

4.2.19 Complaints and appeal provision

According to the respondent LEA has set up complaints handling structures to facilitate and mediate on complaints and appeals raised throughout the agency's services. There is also a possibility to escalate all the way to the highest office, being the Ministry.

4.2.20 Corruption and mismanagement allegations

The respondent stated that there have been no corruption incidents against the organisation and there were no reports found on allegations relating to the agency.

4.2.21 Summary of Findings

The study was aimed at establishing the effectiveness of LEA as a DFI in Botswana. This was assessed by investigating the impact of the DFI on significant issues affecting the country as articulated in the previous chapter, Chapter 3 covering the Research Methodology.

The DFI was assessed on achievement of its mandate, governance structures, quality of targets and KPI's, training and mentoring statistics, assistance of sustainable business and main reasons for failure. It was further assessed on the level of employment creation both directly and indirectly, its contribution to the SGDs and general impact to economic growth. Indicators of effectiveness have been linked to research questions in order to answer the latter.

Table 27: Linking research questions to findings

No	Research Question	Indicators
1	How are DFIs in Botswana performing with reference to their mandates?	Is LEA's current mandate significantly different from the original one?
		Has LEA been successful in fulfilling its mandates?
		Is LEA successful in developing business including SMMEs in Botswana?
		Has LEA been successful in employment creation, both directly and indirectly?
2	What are the factors contributing to the general performance of the DFIs in Botswana?	Has LEA effectively utilised the government grants received?
		Is the level of operating expenditure reasonable compared to market?
		Does LEA have quality performance measures?
		Has LEA achieved its own targets?
		Number of entrepreneurs trained and mentored?
3	Do DFIs in Botswana have the potential to self-sustain?	Does LEA have the potential to source funds independently?
		Is LEA profitable?
		Does LEA have a roadmap to self-sustenance?
4	How does governance structures affect performance of DFI?	Does LEA have the requisite governance structure?
		How are the levels of agency costs at LEA compared to successful DFIs?
		What has been the opinion of external auditors on the LEA annual financial statements?
		Are there corruption or mismanagement allegations at LEA and how are they addressed?
5	Has the DFIs had any impact on the economic growth of Botswana?	How many sustainable new businesses have been assisted?
		Has LEA contributed to the country's GDP?

LEA's performance with reference to its mandates

The question of whether LEA has been successful with regards to its mandate can be answered based on the actions of the corporation and its foot print thus far;

Table 28: LEA's Mandate Review

No.	Indicator of performance	Results	Comments
1	Is LEA's current mandate significantly different from the original one?	No	LEA's mandate has not change or drifted much but rather it has opened up to include more sectors.
2	Has LEA been successful in fulfilling its mandates?	No	The respondent has confirmed that the agency was able to sensitize the nation but has not produced the calibre of businesses which it intended, strong home grown competitive SMMEs with export potential.
3	Is LEA successful in developing business including SMMEs in Botswana?	Average	LEA has coverage with 13 offices across the country, a large number of business have gone through their services and the skewed spending towards operating costs infers that the agency is not successful and could certainly improve on this regard and tilt their spending toward operations and activities that push their mandate.

4	Has LEA been successful in employment creation, both directly and indirectly?	Yes	There is still room for improvement, with an unemployment rate of 18%

Conclusion – Ineffective

LEA has not been successful in fulfilling its mandate and at the time of this report was going through a restructuring to position itself to fully deliver on its mandate and have a visible foot print.

General performance of LEA

The performance of LEA has been deduced from areas surveyed including the annual targets, and actual performance as published in the annual reports.

Table 29: LEA's General Performance

No.	Indicator of performance	Results	Comments
1	Has LEA effectively utilised the government grants received?	No	A significant portion of the grant was going towards the agency's operating costs, in certain instances more that 100%, with the greatest amount going towards staff costs
2	Is the level of operating expenditure reasonable compared to market?	No	The review revealed that the level of expenditure is significantly high and has led the agency in to restructuring and retrenchments especially of senior officials.
3	Does LEA have quality performance measures?	Yes	Though not measured consistently on the annual reports, this could either be an issue of poor performance or records management as stated above.
4	How has LEA achieved its own targets?	Average	Though not measured consistently on the annual reports, this could either be an issue of poor performance or records management as stated above.
5	Number of entrepreneurs trained and mentored?	High	But the agency has no follow through and tracking mechanisms to assist and monitor the trainees to start or grow their own businesses.

Conclusion – Ineffective

At the time of this paper the agency had separated with more than 50% of its executive management team as a way of restructuring and channelling a larger portion of the grant to its core activities as a way to accelerate fulfilment of its mandate.

LEA's potential to self-sustain

The agency is fully funded by Botswana government, in the ten years under review they received grants totalling BWP1.1 billion, and BWP1.2 billion which is 111% was spend on non-core activities, majority of which was staff costs. The agency had accumulated deficits of BWP70 million for the financial year 2013/14 as per the annual financial statements.

Table 30: LEA's potential to self-sustain

No.	Indicator of performance	Results	Comments
1	Does LEA have the potential to source funds independently?	No	LEA does not have a strong balance sheet nor an independent credit rating to offer prospective providers of capital.
2	Is LEA profitable?	No	LEA recorded a deficit in three (3) out of the ten (10) years under review but had operating expenses more that the grant in eight (8) of those years.
3	Does LEA have a roadmap to self-sustenance?	Yes	The restructuring was at the tail end at the time of issuing this report, and LEA had a target of shifting its expenditure ratio 60% to core business and 40% operational expenses.

Conclusion – Ineffective

Governance structures & agency costs

Table 31: LEA Governance & Agency costs

No.	Indicator of performance	Results	Comments
1	Does LEA have the requisite governance structure?	Yes	LEA has appropriate structures according to the applicable corporate governance requirements; the question of quality and effectiveness of these structures is paramount.
2	How are the levels of agency costs at LEA compared to successful DFIs?	Above	A significant portion of the grant was going towards the agency's operating costs, in certain instances more that 100%, with the greatest amount going towards staff costs
3	What has been the opinion of external auditors on the LEA annual financial statements?	Good	For the period under review, from financial year 2007 through to 2016 the LEA financial statements represented a true and fair financial position and there was no qualification for the entire nine-year financials reviewed.
4	Are there corruption or mismanagement allegations at LEA and how are they addressed?	No	There were no reports of corruption or mismanagement for the ten (10) years that the agency had been in existence.

Conclusion – Ineffective

The skyrocketing agency costs raised further question around the quality and effectiveness of these governance structures, and further renders the agency ineffective.

LEA's impact on the economic growth of Botswana

Table 32: LEA's impact on economic growth

No.	Indicator of performance	Results	Comments
1	How many sustainable new businesses have been assisted?	Average	LEA has assisted many businesses, but none has been able to grow to a robust, competitive and exporting status
2	Has LEA contributed to the country's GDP?	No	Despite the BWP 1.1 billion spent into LEA the value add in terms of contribution to GDP through development of robust SMMEs could not be quantified.

Conclusion – Ineffective

LEA is yet to produce high calibre entrepreneurs who are able to grow and expand their businesses to create the expected impact both on the import/export bill and on the GDP.

4.2.22 Conclusion

This section summarises, presents and interprets the overall findings on the effectiveness of BDC and LEA individually as DFIs in Botswana over the ten-year period from 2006/07 to 2015/16. Based on the indicators used for effectiveness BDC has not been effective in achieving its objectives and fulfilling its mandate. All the data reviewed showed that BDC was 20% effective while LEA was 0% effective for period under review. BDC was not able to achieve its own performance targets and though the corporation has created some jobs and had some new project disbursements it did not have any significant impact on the economic growth of the country.

LEA has certainly sensitised Batswana and created some awareness around entrepreneurship, but it was not able to achieve its own performance targets and though the agency has created some jobs it has eroded value through excessive operating costs and its impact to the economic growth of the country could not be estimated. The respondent indicated that LEA has had the same challenges in attempting to measure its impact and has since collaborated with Statistics Botswana to devise a formula that the agency can utilise to measure its impact accurately. The impact of LEA in promoting entrepreneurship and SMME development could not be measured, but the assessment and interpretation of documentation reveled that there is a great number of SMMEs registered in the LEA SMME directory and the entrepreneurs have attended at least one training program offered by LEA.

4.3 A sectorial data analysis and interpretation

4.3.1 Introduction

Based on the literature contained in earlier chapters, and all the ensuing sections where DFIs were assessed individually, this section aims to provide an in-depth analysis on the DFI sector and determine whether they have achieved their collective objectives. In the last two sections, the findings were presented with respect to each of the indicators of effectiveness per DFI. This chapter is aimed at consolidating the findings from all the entities surveyed in order to make recommendations that will contribute towards the enhancement of the effectiveness of the DFIs in Botswana.

4.3.2 Impact of DFIs in Botswana

Governments around the world created DFIs to promote economic growth and support social development. They should ideally provide credit and a wide range of capacity-building programs to households, SMMEs and even larger private corporations whose financial needs are not sufficiently served by private banks or local capital markets. DFIs are either initially capitalised or are funded through grants as included in the annual national budgets, in this manner the DFIs are in a better position than commercial banks to build large infrastructure projects with longer term facilities. Further lend to companies that would not undertake projects if it was not for the availability of long-term, subsidized funding of a development bank.

Botswana had a population of 2.25 million people in 2016, and according to the Statistics Botswana lower scenario projections the population of Botswana will increase from about 2,024,904 persons in 2011 to a possible 2,565,855 persons by 2026. This is an expected fourteen (14%) percent increase over a period of ten (10) years, yet the country is not self-sustaining in terms of food production despite one of the largest population of cows and livestock and availability of land. The small population further poses a market feasibility threat and forces companies to look for market outside the country's borders. This then forms part of the DFI mandate in the country.

4.3.3 Mandate fulfilment by DFIs

DFIs in Botswana were not effective in fulfilling their mandates in the period under review. The developmental role for DFIs is a fundamental and critical one as it cannot be delegated or abandoned without grievous consequences. Based on the findings in the previous section the DFIs in Botswana have been ineffective with regards to their developmental mandate, and therefore require a refocus to fully embrace their developmental role especially through new and innovative ways of delivering on this matter.

The entrepreneurship and SMME development mandate are also of great importance though the DFIs in Botswana have made traction, there is more to be done to produce sustainable, robust SMMEs who can reduce the country's import bill, visibly contribute to the economic growth, employment creation and income diversification which the country enthusiastically seeks.

The issue of fulfilling mandates seems to be a common ailment across all DFIs irrespectively of their funding status, that is both initial capitalised and annually funded DFIs were found to be ineffective with regards to fulfilling their mandates.

4.3.4 DFIs and governance

The DFIs had appropriate structures according to the applicable corporate governance requirements, but poor performance and corruption were still prevalent. This then makes the question of quality and effectiveness of these structures' paramount. Magang and Magang (cited in Motshegwa et al.) makes allegations to the effect that researchers have found that in Botswana 'the ability of boards of directors of SEOs and or parastatal organisations to effectively discharge their oversight functions is severely compromised'. They further inferred that these board members are ineffective due to the fear of being relieved of their roles and using the BDC as a casing point. Motshegwa et al (2017) stated that while the BDC executive management at the time was busy trying to hide their impropriety the following whistle blowers: Ms Rosemary Mogorosi and three board members Mr Nightingale Kwele, Mr Odirile Merafhe and Mr Thuso Dikgaka decided to "expose the shenanigans at BDC" (BOPA, 2013). Consequently, Mogorosi was sacked from her job by BDC management and the three Board Members were sacked (see Tadu & Mukonya, 2016 on the consequences of whistleblowing & Vandekerckhove, 2016) by the Minister.

4.3.5 Performance management and achievement of targets by the DFIs

DFIs in Botswana were ineffective in achieving their own targets in the period under review, though they were found to have quality KPIs. Performance management and evaluation needs to be seriously augmented to facilitate regular review by the DFI's themselves and the supervisory bodies to allow for timely corrective actions to be implemented to improve efficiency and effectiveness.

4.3.6 Employment creation by the DFIs

The DFI sector was considered to be effective in employment creation, as supported by the statistics below though there was still room for continuous improvement, with the current unemployment rate of 18%. It should be noted that the BDC's group employment number for the period between 2013 and 2015 were averaged from previous years as the data was not availed. On an annual basis BDC as a self-funded company created more employment than the government funded agency as per the table below.

Table 33: Sectorial Employment numbers

Period	LEA	BDC	Total	Total Funding	Cost per job
2015/16	958	4,146	5,104	228,664,000	44,801
2014/15	1,752	2,606	4,358	198,760,000	45,608
2013/14	300	2,627	2,927	180,609,000	61,704
2012/13	973	2,629	3,602	402,603,200	111,772
2011/12	933	2,502	3,435	446,568,913	130,006
2010/11	1,311	2,471	3,782	385,612,498	101,960
2009/10	884	1,793	2,677	212,849,810	79,511
2008/09	1,311	3,482	4,793	352,024,000	73,445
2007/08	239	3,676	3,915	335,020,000	85,573
2006/07	919	1,339	2,258	128,092,167	56,728
Total	**9,580**	**27,271**	**36,851**	**2,870,803,588**	

The figure below shows that cost per job created was on the rise, reaching an all-time high of BWP 130 thousand per job in 2012 before it started to decline again.

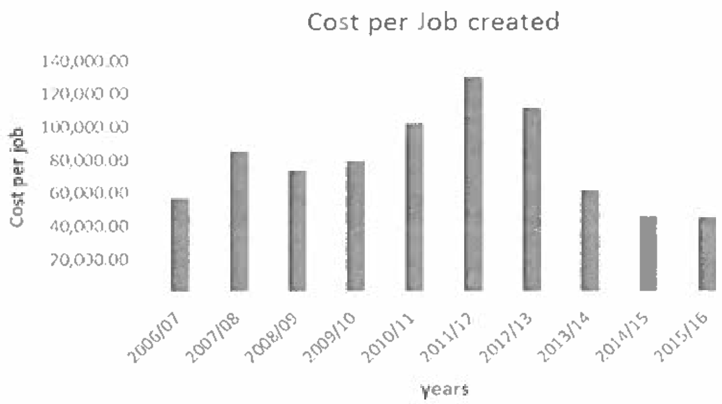


Figure 14: Cost per job created

4.3.7 DFIs reaction to government requirements

The DFI have been very responsive to the shareholders requests, there are monthly reports to both the Ministry and the Office of the President, though requested these reports were not provided. The DFIs responded very well to the government initiatives during the Selebi Phikwe economic slump, BDC introduced a BWP15 million emergence fund that allowed rental concessions on its property portfolio in the region. These rental concessions were offered as a motivation for companies to set up operations in the area and further offered a ten percent (10%) rental reduction for all existing tenants as a motivation for them to retain operations and maintain employment numbers, while CEDA did not cease funding projects in the Selebi-Phikwe area despite the BCL's closure, in fact, according to a newspaper article (2016) the Chief Executive Officer revealed that the agency availed additional funding to the tune of P40 million to fund viable businesses that seek to revive the mining town's economy and create tangible employment.

4.3.8 A look at the success rate of DFI funded business

The oldest DFI in Botswana was established in 1963, fifty-six (56) years ago and the youngest is only fourteen (14) years old. These entities have surely had previous successes but the ten years under review was marred with poor performing and defaulting investments as evidenced by the number of business closed off in the same period and the level of NPLs together the corresponding write offs. Failing SMMEs are a world pandemic and DFIs in Botswana are not immune.

4.3.9 Financial Sustainability of DFIs

The DFIs in Botswana are all state owned, and mostly rely on government direct funding through the annual national budget with the exception of BDC. The need for financial sustainability, and self-sustenance with minimal reliance on government handouts was fully acknowledged by the DFI respondents as a matter of national importance. At the time of this study two (2) of the DFIs were going through a restructure and or retrenchment exercise. As per the results under each DFI the excessive operational expenses, the high impairments and write off are a hinderance to sustainability plans. The analysis of each DFI implied that until the recent past the government funded DFIs were not concern about being self-sustaining. It is reassuring though to see the entities undertaking tough measure to remain in operations and making plans for self-sustenance. It is certainly a step in the right direction, but a lot is yet to be done.

4.3.10 DFIs contribution to SDGs

The contribution of the DFIs to the SDGs was limited to inhouse measure around energy conservation, recycling and food production for self-sustenance and small-time sales. Massa & te Velde (2011) urged that while DFIs have traditionally focused on addressing capital market imperfections and investing in viable enterprises and financial intermediaries, they can play a vital role in tackling global challenges. This requires an expansion of their focus to entail addressing market and coordination failures associated with technology adoption and the environment (in some cases they already do this) and an appreciation of allocating funds where the greatest challenges and market failures lie. Equally the DFIs could go an extra mile in championing the SDGs, educating the nation on the transformational benefits of these goals and further inducing action on the same.

4.3.11 DFIs contribution to Economic Growth

Massa et al. (2016) concluded that DFIs can help transform economies and increase incomes. As SSA countries grow, they are meeting new challenges and constraints that aid grants alone unable to address them. While aid is falling as a source of funding, DFIs and FDI are increasingly taking the lead in the development finance options. They found that the DFIs studied were effective in bringing growth and economic transformation but the same could not be said for DFIs in Botswana, which calls for these DFIs to undertake larger, longer term investments with more significant impacts.

The self-funding DFIs were found to be much better contributors as the taxes and dividends paid over the period under review were quantifiable. On the other hand, the DFIs funded from the annual national budget are tax exempt were buried with insurmountable operating non-core expenses that surpass the grants issued and fully erode value.

Chapter 5 Conclusion and Recommendations

5.1 Introduction

This chapter presents a summary of the key findings derived from the research. It reflects on the overall research question, which is the effectiveness of DFIs in Botswana.

5.2 Conclusion

The study revealed that the DFIs in Botswana were not effective for the period under review. A DFI will be effective when the fundamentals of its mandate are followed to avoid mission drift; when the governance structures are of good quality, i.e. role clarity among all stakeholders; when boundaries are drawn and respected, and when performance objectives are reviewed on a periodic basis with a view of implementing appropriate corrective measures. This has been referred to as an enabling environment. It has emerged that the supervisory hand for the DFIs in Botswana was very weak and requires to be significantly augmented.

The study found that though the DFIs in Botswana are appropriately positioned, LEA offers training mentorship and entrepreneurship development with no capital disbursements, CEDA offers funding up to BWP 30 million, NDB offers up to circa BWP40 million and BDC has a significant financial muscle offering funding from BWP30 million up to BWP300 million, there were significant disconnects noted in terms of graduation of clients from one DFI to another. There is much to be gained from pooling resources, mutual learning and sharing of experiences and resource optimisation. There were also minor overlaps noted with regards to training and mentoring.

Financial sustainability is of paramount importance when we talk to the effectiveness of DFIs; An effective DFI is self-sustaining and has a significant impact on the country's GDP. The initially capitalised DFIs proved to be more self-sustaining than the ones funded annually from the national budget.

It was further concluded that though the DFIs in Botswana were ineffective, initially capitalised and self-funding DFIs were found to be slightly more effective than DFIs annually funded from the national coffers, (20% versus 0%). While the latter are tax exempt, the former's contributions through taxes and dividends could be quantified. The impact of the non-disbursing DFIs was very difficult to quantify, hence the approach of LEA to collaborate with Statistics Botswana and work on a statistical formula to measure the same will be a very welcome development.

5.3 Recommendations

Based on the conclusion above, the challenges experienced by each DFI and the persistent unflattering performance of the DFIs in Botswana, the following are suggested measures and mechanisms to be implemented as an effort to improve the effectiveness of DFIs in Botswana:

- Independent review of the current frameworks and augmenting the same to achieve the model effective frameworks as implemented by successful DFIs in developed countries obviously with adjustments to suit each DFI and the current operating environment.
- Deliberate linkages between all DFIs to promote direct project transfer and co investments to ameliorate costly delays experienced by business at the ceiling of the services provided by each DFI
- Robust supervisory and monitoring mechanism including reconstituting committee like the PAC with appropriately skilled professionals with the willingness and ability to make a difference in our country. Furthermore, the committee to be empowered as much as possible to enforce beneficial

recommendations geared at improving the performance of these DFIs. Careful considerations need to be made worldwide with regards to a supervisory body for DFIs similar to Central Banks with regards to monitoring commercial banks and Nonbanks Financial Institutions Regulatory Authorities for other non-bank financial entities.

- Annual reporting and accounting for the funds allocated from the national coffers to be mandatory, with submission deadlines and punitive repercussions for non-compliance;
- Mandates to remain flexible but the fundamentals to be jealously guarded against,
  - BDC to revert to its developmental and industrialisation mandate, through undertaking larger projects which the private sector would not normally undertake and further segregating an agreed percentage of its annual profit for development projects.
  - LEA to be legislated in the allocation of grants received, at least fifty (50%) percent to be utilised on value adding core activities.
- Measure have to be undertaken to appropriately capacitate the DFIs with the requisite skilled human resources, through readily available resources and graduate programs that develop and nurture the right talent. Significant effort to be placed on the goal for conducive organisational culture and mentoring programmes.
- The DFIs to accelerate self-sustenance plans and include the same in to its objectives for continuous monitoring to ensure implementation of timely corrective actions to remain on course to self-sustain.
- DFIs to obtain independent credit ratings and maintain the status quo,

5.4 Research Limitation

The researcher experienced serious limitations with regards to availability of data and the willingness to disclose certain information for research purposes. The initial methodology was anchored on assessing four DFIs to facilitate a richer and more representative sectorial impact analysis but unfortunately CEDA had limitations in terms of availability of information including annual reports which were never published for the period from 2012/13 to date. Furthermore, both CEDA and NDB had limitations with regards to availability of senior personnel to complete the questionnaires and conduct face to face interviews. Data for some years was not availed and average based on previous years was used, for example the BDC employment numbers for 2013 through to 2015 were averages.

The above mention coupled with the time constraints with regards to submission deadlines led to the researcher excluding the two DFIs from the results analysis, this therefore presents an opportunity for further research.

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Appendix 1 – Research Permit

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PRIVATE BAG 004
GABORONE
BOTSWANA

REPUBLIC OF BOTSWANA

ALL CORRESPONDENCE MUST BE ADDRESSED TO
THE PERMANENT SECRETARY

Ministry of Investment, Trade and Industry

REFERENCE: TI 1/21/1 XII (30)

20th February, 2019

Ms Katso Bonang Gaobakwe
P O Box 3226
Gaborone

Dear Madam

APPLICATION FOR A RESEARCH PERMIT:
KATSO BONANG GAOBAKWE

Your letter of request for an Application for Research Permit refers.

I am pleased to let you know that we have approved your request to conduct research study titled:

> **"A Review of Effectiveness of Development Finance Institutions in Botswana".**

This permission allows you to access our libraries in Botswana, books, reports etc. as well as interviewing relevant stakeholders who would be able to assist you to get information on your research topic.

Please note that you are required to deposit a bound copy of your research papers/books at Botswana National Archives, the University of Botswana Library, and the Ministry of Investment, Trade and Industry.

Thank you.

Yours faithfully

Peggy O. Serame
PERMANENT SECRETARY

Appendix 2 – Organisational Questionnaire

Appendix 3 – Interview questions

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[i] Development bank is used all-encompassing throughout this study, including development finance institutions and state-owned development banks.