



REPUBLIC OF BOTSWANA

ADDRESS BY

H.E. MR. FESTUS G. MOGAE
PRESIDENT OF THE REPUBLIC OF BOTSWANA

TO THE MEMBERS OF THE
BUSINESS COUNCIL ON INTERNATIONAL
UNDERSTANDING (BCIU) IN NEW YORK

ON

MONDAY 23RD JUNE, 2003

Mr. Peter Tichansky, President of the Business Council for International Understanding

Mr. Dean Andrews, Director of Operations, America's Orient Express Hotels, Incorporated

Honourable Jacob Nkate, Minister of Trade and Industry

Honourable Joy Phumaphi, Minister of Health

1. Distinguished Business Executives, I have gladly taken the opportunity and the invitation from the BCIU to visit this important world city of New York again, to talk on this occasion on key aspects of my country's development aspirations. My previous address was to the Council on Foreign Relations on Democracy and Good Governance. Before that I had addressed this very Council on general economic reform. This time round I wish to talk to this gathering of members of the BCIU about the desire of my country to become the hub of the financial services business in Africa.
2. I believe that many of you will already be aware of the dramatic socio-economic changes which have taken place in Botswana since Independence. From humble beginnings following Independence in 1966, when we were classified among the twenty-five poorest countries in the world, we have enjoyed a prolonged period of stability and consistently strong economic growth. We now have a per capita income of about \$3 500, which has promoted us to the Middle Income Country category in the IMF/World Bank ratings. With efficient exploitation of mineral resources, mainly diamonds, and sound economic and financial management, we have achieved an annual average rate of economic growth of 9% over the past three decades.
3. This has transformed our economy and society. We have seen dramatic improvements in virtually all the social indicators. Our economic infrastructure is modern and well maintained. We have made major advances in providing comprehensive health and education services and there is easy access to these services for the entire population.

4. Ladies and gentlemen, despite our continuing efforts towards broadening the economic base, our economy remains narrowly based and therefore, inherently vulnerable. Economic diversification is therefore of paramount importance and it is the key challenge that we now face and which I am here today to invite you to help us resolve.
5. A cornerstone of our economic strategy is to continue to diversify the economy away from the heavy dependence on mining and provide the basis for stable and balanced growth. Financial services are among the sectors we have chosen for concerted support and promotion. It is for this reason that the development of Botswana as a location for the provision of cross-border financial services is a component of our policy to improve the country's competitiveness in global markets. The financial services sector is the most global of internationally traded businesses and the requirements for growth and participation fit in well with Botswana's other strengths. These requirements include adherence to open market economic norms; a stable exchange rate regime, having a good telecommunications infrastructure, a well-educated and trainable pool of people; a first class regulatory regime; and a welcoming approach to inward investment.
7. Government's investment in education, telecommunications and its longstanding commitment to prudent economic management have created a conducive environment that allows us to compete in the cross-border financial services marketplace. The launching, in 2000, of Botswana's International Financial Services Centre, commonly known as the IFSC, is one of the important initiatives to achieve the objective of diversifying the economy and increasing employment opportunities for Botswana citizens.
8. Distinguished Business Executives, our long and excellent relationship with the International Monetary Fund and World Bank played an important part in the decision to establish the IFSC. They recognized that we continued to have, uniquely in Africa, all the essential ingredients for a thriving financial services sector.

These include:

- A well-established, stable and multiparty democratic political system, entrenched principles of non-racialism, universal human rights and the primacy of the rule of law.
 - Sound and effective macro economic management, and prudent financial husbandry. This is based on our belief that the market, rather than the state, ultimately allocates resources more efficiently.
 - The abolition of exchange controls in 1999 has added to these essential ingredients.
9. The fundamental aim of the IFSC initiative is to establish in Botswana a world-class hub for cross border financial services with a view to; creating job opportunities for the increasing flow of educated graduates from our educational institutions; developing new skills and technologies; and creating linkages with major institutions in this globally traded business.
10. Ladies and gentlemen, in pursuing the growth of the IFSC we established a competitive package of incentives that allow international business to use Botswana's comparative advantages to access markets across Africa and elsewhere in the world. I wish to underscore our unique advantages in this area which include the following:
- Transparency International in its Corruption Perceptions Index of 2003 rated Botswana to be the least corrupt country in Africa and, in the larger international context, we are as high as number 24 on this score. This is crucial for business as corruption can pervert decision making processes and the transparency that business needs.
 - We have acceded to international conventions and observe internationally accepted guidelines on combating the global scourges of money laundering, and the financing of crime and terrorism. The conventions to which we have acceded include the Basle Statement of Principles; the Financial Action Task Force (FATF),

the International Monetary Fund and United Nations Conventions on the Suppression of Terrorism.

Further, in response to global and also national concerns, we have amended the Proceeds of Serious Crimes Act to give our Directorate on Corruption & Economic Crime additional powers to combat fraud and money laundering.

Ladies and gentlemen,

- For the last two years, the major international rating agencies – Standard and Poors and Moody's have assigned Botswana sovereign ratings in the "A" grades, which is higher than any other sub Saharan African country. Indeed, we have seen strong international interest in our first local currency government bond issue, which we launched in March this year.
- Just three weeks ago, Botswana emerged as the leading nation among 21 African countries ranked by the World Economic Forum according to the quality of public institutions, corruption-busting efforts, respect for the rule of law including adherence to contracts.
- We have put great effort into creating a modern legislative framework for effective regulation of IFSC operations. This includes an amendment of the Income Tax Act to cater for the privileged IFSC tax regime. In addition, we have introduced a Collective Investment Undertakings Act, which provides a legal framework for Mutual Funds. Later this year we propose to enact legislation which will enable the growth of a Botswana based captive insurance and reinsurance industry.
- Although our general tax regime compares well with that of the other parts of the world, I wish to stress that we have deliberately avoided the model of a tax haven, as tax havens are frowned upon by the regulatory authorities in both the U.S. and the E.U. and as we believe this is an unsustainable approach. Our basic corporate tax rate for IFSC companies is 15%. The initiatives we have taken are not short term gimmicks but a sustainable long term policy framework. In terms of the Income Tax (Amendment) Act of 1999, this rate will apply until the tax year 2019/2020.

- The Botswana IFSC framework provides for full transparency, applies a complete information exchange programme through a double taxation treaty network and requires the establishment of genuine economic activity in the country.
 - We have continued to create a business friendly environment in all respects. This was recognized in 2002, for example, by the Washington DC -based Cato Institute, which now classifies Botswana as Africa's most liberalised economy.
11. Ladies and gentlemen, we know that we must maintain and continue to improve our investment infrastructure and social services. In this connection, for the financial services sector the key issues are, first, to provide people with the right education and experience to meet the needs of the sector. The University of Botswana turns out about 1 900 undergraduates and post graduates in any year. Apart from these, we have many Botswana students pursuing both under and post-graduate courses abroad. We also have a specialised accountancy training college, whose academic programme meets rigorous international standards. Secondly we need to enhance our communications infrastructure. Here, the most important issues for companies operating cross border businesses are good air links with Gaborone (our capital city) and a modern telecommunications system that services the private sector efficiently. We are in the process of further enhancing our international connectivity and are willing to sit down with investors to agree what else needs to be done to attract them.
 12. With regard to airline services, there are 8 daily flights, in either direction, between Gaborone and Johannesburg in South Africa and the flying time is only one hour. From Johannesburg flight connections can be made virtually to any destination in the world. For telecommunications, the Botswana Telecommunications Corporation is investing in a substantial upgrade of the telecommunications network in order to meet both local and international customer needs effectively and efficiently.
 13. We are convinced that investment and trade flows between the United States and Africa will increase overtime because of the vast untapped opportunities in our continent.

14. The presence of the headquarters of the Southern African Development Community (SADC) in Gaborone enhances Botswana's role as a regional financial services hub. In addition, the launching of the NEPAD Initiative should also help to generate higher financial flows between the United States and Southern Africa. We therefore believe Botswana can serve as an ideal regional gateway for financial services business. Possibilities in this area include regional headquarters and treasury operations for financial and non-financial companies wishing to access the wider market in our continent and in our time zone, as well as back office processing for financial services providers in the mutual funds, insurance or banking sectors.
15. My Minister of Trade and Industry, the Honourable Jake Nkate, the Minister of Health, the Honourable Joy Phumaphi and I are going down to Washington to participate in a U.S.-Africa Business Summit organised by the Corporate Council on Africa. While there we will mount an exhibition on doing business in Botswana. I want you to help us achieve our diversification objectives, not through aid nor charity but by telling us what it takes to attract you to invest in a country such as mine.
16. I am also accompanied by six representatives of private companies and parastatals, present here at this lunch, who would like to make business contacts.
17. For these various reasons that I have just outlined, we are convinced you will increasingly find Botswana an effective base and launching pad into the African continent, which possesses untapped potential – a vast market which is rich in natural resources.
18. With these few remarks, it has been a pleasure to be able to address you all. I thank you for your attention and I will be very pleased to speak further with you and answer any questions that you might have.
19. I thank you.