

UNIVERSITY OF THE WESTERN CAPE



Department of Economics

**The Future of National Flag Carriers in developing Countries:
Air Botswana's Privatisation Struggle**



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A mini-thesis submitted in partial fulfilment of the
requirements for the degree of Masters (structured) in Economics

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Declaration

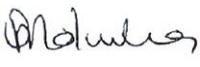
I, the undersigned, Onalenna Molwelwa, declare that this mini-thesis titled

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is my own work, that it has not been submitted for any degree or assessment at any other university and that all the sources I have used or quoted have been indicated and acknowledged by means of complete references.



Signature 

26 February 2011

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Keywords

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Air transport

National flag carriers

Air Botswana



Abstract

The airline industry is very complex. The industry has over the years become intrinsically unbalanced, because it is an industry continuously buffeted by new developments and constraints. A number of developing countries are currently faced with the dilemma of malfunctioning flag carriers. On one side the debate calls for full privatisation of the national airlines, on the other side governments are not willing to let go of flag carriers as they are deemed to hold national pride. This study evaluates the feasibility of Air Botswana's privatisation exercise by analysing case studies of national airlines from six developing countries. Four of the countries in the sample are those that possess more or less similar characteristics with Botswana. The other two were randomly chosen.

The study looked particularly at the operations of national carriers and governments' efforts to sustain the airlines' operations. Evidence has shown that many countries struggle to maintain operations of their flag carriers, but few countries are willing to completely leave the airlines in the hands of the private sector because of national pride. On the other hand, many of those airlines that get into private hands fail and end up being closed down or go back into state hands. These airlines are also perceived to be development tools, in particular for tourism development which is a predominant economic activity in many developing countries. For this reason, many states do not favour privatisation, even though the perception is that the airline industry is better handled by private businesses.

The main conclusion of the study for Botswana is therefore that neither full state ownership nor full privatisation is the solution to addressing the problem of ailing flag carriers. There is no single solution, but a combination of several. A broader global view of national airline operations clearly shows that approaches adopted by many successful national airlines, in both developed and developing countries, is some form of partial privatisation.

Table of Contents

Declaration	i
Acknowledgements	ii
Keywords	iii
Abstract	iv
Abbreviations	x

CHAPTER 1

Introduction and Background	1
1.1 Significance of Air Travel and National Carriers	1
1.2 Airline Dynamics	2
1.3 The Privatisation Challenge	5
1.4 Problem Statement	8
1.5 Objectives of the Study	10
1.6 Methodology	11
1.7 Outline of the Study	12



CHAPTER 2

Botswana's Economic Development: Progress and Challenges	14
2.1 Geographic Spread	14
2.2 General Characteristics	14
2.2.1 Social and demographic dynamics	15
2.2.2 Socio-political context	16
2.2.3 Natural resource context	17
2.3 Key Sectors in Botswana's Economic Development	18
2.3.1 Mining	18
2.3.2 Trade	19
2.3.3 Agriculture	20
2.3.4 Financial services	20
2.3.5 Tourism	21
2.4 Economic Policy Stance	22
2.5 Proximity of South Africa	27
2.6 The Impact of the World Economic Crisis	28

2.7	Conclusion	29
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CHAPTER 3

	The Strategic Role of the Transport Sector in Botswana	32
3.1	Introduction	32
3.2	Modes of Transport	33
3.2.1	Water	33
3.2.2	Rail	33
3.2.3	Road	34
3.2.4	Air transport	35
3.3	Connectivity	36
3.3.1	Domestic places	36
3.3.2	Regional links	41
3.3.3	Global links	42
3.4	Conclusion	42

CHAPTER 4

	Botswana's Air-Transport Sector	44
4.1	Market Size	44
4.2	Air-Service Providers	44
4.2.1	Air Botswana	45
4.2.2	Mack Air	47
4.2.3	Moremi Air Botswana	48
4.2.4	Sefofane Air Charter	48
4.2.5	South African Airways	48
4.2.6	South African Express	49
4.2.7	Conclusion	49
4.3	Air Botswana's Privatisation Efforts	49
4.3.1	Air Botswana pre-1988	50
4.3.2	Air Botswana 1988 to 1999	50
4.3.3	Efforts since 2000	51
4.4	Air Transport Imperatives	53
4.4.1	Efficiency	54
4.4.2	Safety	54



4.4.3	Reliability and consistency	54
4.4.4	Affordability	55
4.5	Conclusion	55

CHAPTER 5

	Airline Industry Experience: International Lessons	56
5.1	Introduction	56
5.2	National Flag Carriers: Global Trends	56
5.3	The Privatisation Challenge	58
5.3.1	Full privatisation	59
5.3.2	Partial privatisation	61
5.3.3	Other strategies	64
5.4	National Airlines: Case Studies of Developing Countries	66
5.4.1	Nambia: Air Namibia	66
5.4.2	Zambia: Zambian Airways	69
5.4.3	Bolivia: Boliviana de Aviacion	71
5.4.4	Kazakhstan: Air Astana	73
5.5	Other Lessons	75
5.5.1	Niger	75
5.5.2	India	75
5.6	Conclusion	76

CHAPTER 6

	Scope for Future Developments	78
6.1	Introduction	78
6.2	Futility of one-dimensional Solutions	79
6.3	The Search for Package Deals	80
6.3.1	Public-private partnerships and liberalisation	81
6.3.2	Liberalisation and strategic alliances	81
6.3.3	Public-private competition and diversification	83
6.3.4	Airline mergers and liberalisation	83
6.4	Implementation Challenges	84

CHAPTER 7

Summary and Conclusions 87

7.1 Summary 87

7.2 Policy Implications of the Study 88

7.3 Further Research Direction 89

References 90

Annexures

MAP 1: Road Network 106

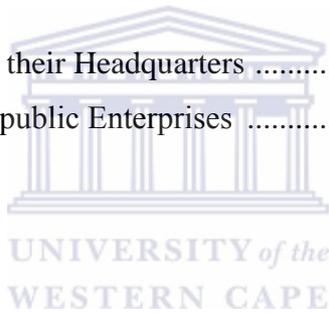
MAP 2: Botswana 107

MAP 3: Airports and Airfields 108

MAP 4: Domestic and International Airline Routes 109

TABLE 1: District Councils and their Headquarters 110

TABLE 2: Some of Botswana’s public Enterprises 111



Abbreviations

AB	Air Botswana
AfDB	African Development Bank
Aids	Acquired Immunodeficiency Syndrome
ARV	Antiretroviral
AU	African Union
BA	British Airways
BDC	Botswana Development Corporation
BEDIA	Botswana Export Development and Investment Agency
BIDPA	Botswana Institute for Development and Policy Analysis
BOA	Boliviana de Aviacion
BSE	Botswana Stock Exchange
BR	Botswana Railways
BTB	Botswana Tourism Board
CAAB	Civil Aviation Authority Botswana
Caricom	Caribbean Community
CEO	Chief Executive Officer
CGP	Country Governance Profile
CIA	Central Intelligence Agency
DRTS	Department of Road Transport and Safety
DTCB	Diamond Trading Company Botswana
GDP	Gross Domestic Product
GNP	Gross National Product
FSNC	Full Service Network Carrier
Hatab	Hotel and Tourism Association of Botswana
HIV	Human Immunodeficiency Virus
IATA	International Air Transport Association
ICAO	International Civil Aviation Organisation
IFC	International Financial Corporation
IFSC	International Financial Services Centre
IMF	International Monetary Fund
JAL	Japanese Airlines

LAB	Llyod Aereo Boliviano
LCC	Low-cost carriers
MAS	Mine Air Services Limited
MFDP	Ministry of Finance and Development Planning
MIC	Middle-income country
MOA	Ministry of Agriculture
MTI	Ministry of Trade and Industry
MTC	Ministry of Transport and Communications
n.d.	No date
NDP	National Development Plan
PEEPA	Public Enterprise Evaluation and Policy Agency
PPADB	Public Procurement and Asset Disposal Board
PPP	Public-private partnership
RCC	Regional Cooperation Council
SAA	South African Airways
SADC	Southern African Development Community
SAE	South African Express
SOE	State-owned enterprise
UNAids	Joint United Nations Programme on HIV and Aids
Unctad	United Nations Conference on Trade and Development
US	United States
USAID	United States Agency for International Development
WTTC	World Travel and Tourism Council
VAT	Value-added tax

CHAPTER 1

INTRODUCTION AND BACKGROUND

1.1 Significance of Air Travel and National Carriers

Time is a key variable for trade and the basis upon which choices between different transport modes are based when travelling to remote places (Unctad, 1999: 3–4). Air transport is vital in the determination of overall transport costs as it shortens the time required to reach far destinations. As the saying goes, time is money, and with efficient air transport one can conduct business more easily and effectively. Being the pivotal means for the worldwide transport system, air transport represents a fundamental component in facilitating economic activities and accelerating integration (AU, 2005: 2). Piermartini and Rousova (2008: 1) supported this view when they noted that in the same manner, air transport is fundamental in establishing and maintaining relations among distant economies. To ensure full participation in the international community, a country must be capable of providing quality air services over and above safety and handling air travellers in a professional manner (Unctad, 1999: 8). Civil aviation has therefore become a key indicator of national development.

Most countries in the world have national airlines which are “flying their national flags high” in the industry. Ssamula (2009: 3) defines national airlines as airlines that are entirely or partly owned by their national governments. These are also referred to as national carriers or flag carriers. The expression “flag carrier” can be traced back to the time when nations developed government-owned airline companies. Because of the high capital costs of creating and maintaining airlines, governments had to take the lead. The aviation industry was also greatly regulated which meant negotiations concerning aviation rights regularly involved governments rather than airlines. This denied airlines the right to an open market. Bilateral aviation agreements could specify rights that only locally registered airlines qualified to receive, hence several states ended up jump-starting airlines in a bid to avoid foreign competition. A number of states also created flag carriers for reasons that could be explained as being pro-home or to give support to the country’s economy, primarily in tourism (Ssamula, 2009).

Airlines that are entirely private still face government regulations, which are mainly politically and economically guided, even though some are for safety reasons. The state dictates route networks and air fares as well as operational requirements for airlines. Governments would most of the times subsidise their national airlines to improve its status, such that the development of other local carriers, which could bring tough competition, is discouraged or even prohibited. Where private airlines were allowed, the state ensured that the national carrier is protected both in the domestic and international market setting. In the United States for example, the Fly America Act allowed international travel funding for US flag carriers only. However, the airline industry has of late been deregulated, and some airlines are being turned into corporations as public companies or state-owned enterprises, while some have been fully privatised. This has seen less recognition for flag carriers than before (Morrison and Winston, 1995: 4). Recently the term can even refer to private airlines as long as they display national colours. The airline can be either run by the state, owned by the state or state-designated in the sense that the state accords the entity special rights or privileges.



1.2 Airline Dynamics

The airline industry has proved to be a very complex industry since the Paris Convention of 1919 (when various states got into bilateral agreements in an effort to define what was permitted and under what conditions) and the Chicago Convention of 1944 (when liberalisation was introduced to offer freedom in terms of access to markets and in terms of capacity and pricing). The challenges of the airline industry have of late further increased and become pronounced globally. Both large and small airlines have experienced a fall in performance (AU, 2005: 3). In 1978, US airlines went through greater instability than any other country or region due to deregulation. American Airlines is cited as the sole US legacy carrier that has survived deregulation without bankruptcy. Low-cost carriers such as AirTran Airways, Southwest Airlines, Skybus Airlines and JetBlue presented a stern challenge to legacy airlines with their business capability (Borenstein, 1992).

In Europe, deregulation took place at the beginning of the 1990s, and the airline industry also experienced a shift to the use of budget airlines, particularly on shorter networks. Ryanair and EasyJet are among the budget carriers that are believed to have grown at the

expense of national carriers. Several national carriers turned to the private sector for financing, like British Airways and Ireland's Aer Lingus (Dearden, 1994). ICAO (2009: 1) describes these as regulatory and industry trends resulting from regulatory movements towards liberalisation and the airline industry's response to the ever changing and more competitive market place. The industry has over the years become intrinsically unbalanced, because it is an industry continuously buffeted by new developments and constraints. For example, while airline operating expenses are rising, revenue sources in several developing countries have become scarce.

Against that background, global legacy carriers and other private airlines have developed intense financial and operational instruments to remain buoyant. This led to the development of various airline business models over the years in order to compete and survive in this complicated industry. Four common models have been identified. The first one is known as the *global network carrier* or *Full Service Network Carrier (FSNC)*. These are airlines that proffer hub-and-spoke network structures contributing a broad assortment of routes which reduces expenses by consolidating passengers to and from their hub. The hub is habitually situated at the airline's base airport. The economic base of these airlines is the connection availability hence liberalisation and free entry markets have significant benefit for these airlines (Ssamula, 2009: 1).

Regional carriers have been sustained as either feeder carriers for larger network carriers (to constantly supply the spokes and hubs) or as niche players that exploit market opportunities that exist because of geographic features, such as operating vigorously from small regional airports or focusing on business-class airlines (e.g. executive jet airlines) and express freight transport like DHL and Federal Express (Ssamula, 2009: 1). Then there is the *Low-Cost carriers (LCC)* business model which is guided by stern devotion to specific industry focus areas like dense routes, high frequency of service, maximisation of flying hours, use of secondary airports, point-to-point, short haul, no delays and quick turn-around. These carriers strive to combine low costs and low fares with high demand and high-capacity use. Lastly, *Charter carriers* are those that offer *ad hoc* transport services for passengers on demand. The kind of businesses are normally offered by companies that are principally betrothed with sightseeing services and air-taxi services, or who offer entrée to tourism destinations as well as transporting passengers by helicopter from one local airport to another, either scheduled or unscheduled (Ssamula, 2009: 2).

Owing to the complexities of the airline industry, there have been further developments where airlines enter into co-operations to overcome the challenges of the industry. Airlines have entered into *code-sharing* partnerships where one airline sells tickets for flights offered by another airline under its own airline code. An example is a code-share partnership made in the 1960s between Japan Airlines (JAL) and the Russian Aeroflot on Tokyo–Moscow flights, where Aeroflot operated the flights with its aircraft while JAL sold tickets for the flights as if they were JAL flights. The *airline alliances* strategy also became widespread in the 1990s. The alliances normally work as implicit mergers to avoid government restrictions. Examples include the Star Alliance, Oneworld and SkyTeam which are groups of airlines that harmonise their passenger service programmes (for instance lounges and frequent flyer programmes), tender special interline tickets and regularly engage in wide-ranging code sharing (Ssamula, 2009: 2).

Another strategy is *airline interlining* (also known as “interline ticketing”). It is a chosen commercial agreement involving individual airlines aimed at handling itinerant passengers requiring multiple airlines. There have also been outright *mergers* where two airline companies would come together to establish a single company. An example is Chilean LAN Airlines SA’s imminent merger with Brazil’s TAM S/A. Airlines also have developed *spin-off airlines*, creating spin-off niche carriers. For instance, regional carriers, LCC or charter aircraft have become evident in developing countries. Mango Airlines is an LCC example that entirely belongs to South African Airways (SAA) (Ssamula, 2009: 2).

Over and above all these efforts, there are other strategies specifically aimed at generating revenues. These include *financing instruments* that airlines can choose from, including operating leases, derivatives, wet, damp and dry leases, debt for equity swaps, cross-equity swaps, forward-fuel contracts and venture capital; *Outsourcing Aviation Services* entails closing ticketing offices in city centres to curb high real-estate expenses and outsourcing call-centres. *Diversification* (growing the non-aeronautical business revenue) includes the latest exponential expansion of the e-commerce industry which has produced revenue sources that LCC aggressively exploit (Ssamula, 2009: 2).

Thus, struggles to generate more profits and stay in business are getting intense and maybe even outrageous. It was recently reported that one Italian firm going by the name of Avioninteriors has released new stand-up plane seats. These seats, termed SkyRiders, are expected to offer both lower fares and more capacity on board. According to Roberts

(2010), the release follows the announcement by Ryanair that they intend to introduce standing room on their aircraft with tickets costing as little as £5 per passenger.

1.3 The Privatisation Challenge

While the developed country-airline industry in general, including flag carriers, seem to be doing well, their counterparts in developing countries are crawling behind. The industry challenges are too much for these flag carriers. According to Unctad (1999: 3–4) the inequality in the competition between airlines in developing countries and those in the majority of developed countries is one of the significant characteristics of present and expected trends in the air-travel industry.

AU (2005: 1) also observed that African airlines are no longer able to participate efficiently in global air-transport markets reliant on bilateral arrangements, owing to the creation and reinforcement of continental trading blocks predominantly in Europe and America. Mounting competition on profitable global routes resulted in mergers of major intercontinental airlines over and above multi-airline collaboration in joint operations intended to consolidate the airlines' market shares. The *status quo* has promoted marginalisation of the commonly feeble African carriers in this all-important market (AU, 2005: 3).

Developing countries increasingly have to face the need to reduce or even eliminate subsidies while at the same time they try to secure a place in the market for their airlines. Privatisation has been seen as the solution. Privatisation is defined as the economic process where ownership of property is transferred from state (or public) to private ownership. In the airline industry, the objectives for change of ownership vary, but the common one is operational efficiency and improvement of the carriers' financial performance. The fundamental argument for privatisation is that governments have few incentives to make sure that enterprises in their ownership are well run. In contrast, private owners have such an incentive because they will lose money if businesses are run poorly. Ideally, privatisation propels the establishment of organisational, social and legal infrastructures and institutions that are vital for an effective market economy. Furthermore, it is easier for

privately-held companies to raise capital in financial markets than for publicly-owned ones (Klein, 2008: 2).

The economic foundation of privatisation lies in the principal-agent theory and the public-choice theory. The public-choice theory argues that though government can improve economic efficiency by providing public goods which the market system will not make available, government might also fail to provide some public goods whose production is economically justifiable, while providing other goods that are not economically warranted. When privatised, these economically unwarranted goods/services will be produced with fewer of the society's scarce resources, thereby freeing the unneeded resources so that government can provide other desired goods or services (Arbor, 1984: 84). The principal agent theory also emphasises the importance of private property rights in the provision of the best possible incentives for principals to scrutinise the actions of their agents, where there is imperfect information which can result in market failure (Ross, 1973: 134/5).

Some measures that have led developing countries to intensify their participation in air-transport services are investment issues, i.e. improvements of the national airline or, alternatively, promoting the privatisation of the flag carrier. The issue is to foster increased access to international competition. To do so, airlines' attractiveness must be adequate to present them as potential candidates for co-operative arrangements such as code shares, and they must be reputable companies that can be successfully privatised through national or foreign capital. Without a market-orientated approach, it will get more and more difficult for carriers in developing countries to preserve their traffic share in international routes (Unctad, 1999: 9, 12–13).

Privatisation of national airlines has accelerated since the mid-1980s, and several prominent national carriers such as Air Canada and British Airways, have undergone this transition to private-sector ownership. Other examples may also be cited where only partial privatisation has taken place, with national governments retaining some proportion of the ownership. For instance, Malaysian Airlines has 30 per cent Malaysian government ownership, while the Singapore and Phillipines governments own 53 per cent and 46 per cent of Singapore Airlines and Philippine Air Lines respectively (Craig, n.d.: 4). The plan behind taking away an airline from direct state control over to private hands is to improve

service and financial performance. The key aspect is the shift in tenure which tends to be the impetus needed to bring about a stronger commercial focus.

Yet, airline privatisation has proved to be a tedious task in developing countries. In their study on the relation between performance of airlines and ownership, Backx, Carney and Gedajloric (2002: 213) found that state airlines perform badly as compared to mixed and private-sector airlines. They caution however, that for a number of reasons, privatisation has produced inconclusive results due to the fact that organisational performance is a multi-dimensional process which is also sensitive to various inter-related factors. This, they say, complicates relations between ownership structures and airline performance. They concluded that particular circumstances, such as the size of the markets, financial support from the state in cases of poor surface transport linkages and airline networks that are subjugated by very few dense routes, are crucial factors to consider in developing countries.

But, whilst developing countries do not usually possess comprehensive information on the airline industry, they are required to make swift decisions when the system faces bottlenecks due to rapid growth. Thus, although ownership structure highly matters concerning the performance of international airlines, there are many other important factors that matter, like scale and scope advantage, the presence of competition in a carrier's domestic market and geographic or regional base. Incidentally, competition in a carrier's domestic market tends to stimulate passenger service spending and passenger load factors, two factors which have no link to ownership structure. Patterns in competition within the region, along with regulation, also matter (Backx, Carney and Gedajloric, 2002: 213).

In the Caribbean Islands, the Caricom Secretariat observed that regionally domiciled airlines have on occasion been unsuccessful, whether public-sector-owned, privately owned or a mixture of public and private ownership. Even successful business people in the region have failed to turn these airlines into profit-making entities. Although the 1990s privatisation of Caricom airlines achieved service improvements, it failed to provide efficient airlines capitalisation and did not alleviate the lack of scale economies. Very small domestic markets, acute seasonality of traffic, non-competitive aircraft costs and operating costs give rise to lack of scale economies. Many of the privatised airlines such as

Air Jamaica resorted to public ownership because the private sector could no longer fund the loss-making airlines. Even if sold debt-free, the potential partner for Air Jamaica would need to invest a fortune in order to attain operational effectiveness (Caricom, 2009: 7–8).

Kirkpatrick and Parker (2005: 513-35) claim that privatisation functions best in developing economies, provided it is incorporated into a wider course of structural transformation. They note that it is important for the design and implementation programmes of privatisation in developing countries to recognise the country's characteristics that impact on privatisation policies. But even then privatisation is no easy task. Ramamurti (2000: 526) explains that privatisation entails a variety of organisational transformations occurring in diverse contexts, which makes it a highly complicated phenomenon.

1.4 Problem Statement

This study is motivated by the poor performance of airlines in developing countries and the on-going debates on the privatisation of these national airlines. In particular, the study focuses on the privatisation struggle of Botswana's national flag carrier, Air Botswana. Quite a number of state-owned airlines in developing countries are making huge losses, and the privatisation exercise is seen as an effort to address inefficient operations. Even though privatisation can strengthen public finances by reducing the huge subsidies which governments often have to sink into loss-making enterprises, privatisation in Africa remains highly controversial and politically risky. To some extent privatisation has been denounced as a form of economic recolonisation. Politicians in particular view privatisation as an exercise that transfers national wealth from locals to foreigners. Furthermore, for many ordinary Africans, privatisation is a very secluded procedure if not secretive, and taking part in the process is not even in their wildest dreams (Harsch, 2000: 8–9, 15).

The government of Botswana has lately stepped up preparations for Air Botswana's privatisation programme. Air Botswana succeeded two failed previous national carriers known as Botswana National Airways and Botswana Airways Corporation. On 01 April 1988, the government of Botswana took over Air Botswana as a parastatal corporation and the airline became the nation's flag carrier. In the years 1988 to 1993, Air Botswana

incurred financial losses, and in 1994 the Botswana government wrote off the airline's losses and changed them into equity. The airline then showed some profitability between 1999 and 2003, but continued with loss making afterwards with the exception of the 2007/08 financial year. A decision was taken in 1994 to reorganise and recapitalise Air Botswana in preparation for privatisation (Air Botswana, 2010). Yet, the privatisation exercise, which commenced in 2003/04 botched several times and is still to take place.

The first attempt to privatise Air Botswana saw Air Mauritius and Comair come forward as strategic partners for the airline. However, it failed when both strategic partners withdrew from the process with Air Mauritius citing the downturn in the global air-travel markets, while Comair cited increased competition by low-cost airlines in the South African market (Malema and Mokgoabone, 2004). The Botswana government suspended the process in 2004 but resuscitated it in 2006. The airline was nearly privatised in 2006 when South African Airlink was selected as the preferred bidder (PEEPA, 2007: 12).

In 2008, the long negotiations collapsed when the government decided not to proceed with privatisation, claiming that the terms offered by Airlink were not acceptable. The government then took the decision to recapitalise the airline again and secure a management contractor for the operations of the airline in preparation for its eventual privatisation (PEEPA, 2008: 12). A management contractor, International Development Ireland, was secured in 2009 and the airline currently still continues its preparation for privatisation.

This difficult process evolved despite the fact that a study conducted by Adams (2002), found that Botswana hosts a very conducive environment for the entire privatisation process. Political stability, decades of peace and good relations with both its regional and international neighbours all contribute to Botswana's attractiveness. Safety, low levels of corruption and a well educated work force are also important factors. Botswana has one of the highest GDP growth rates in Africa, a high revenue-earning mineral export market, strong foreign direct investment, large reserves, low debt and a stable monetary value. These factors all make Botswana a worthwhile place for both domestic and foreign investment. Furthermore, the state of public enterprises in Botswana is promising. With the commitment of government to the principles and adoption of privatisation, the interest of private-sector investors in obtaining parastatals and the desire of the public to see a

reduction in the size of the government machinery, the privatisation policy for Botswana has a good basis for success (Adams, 2002: 62–3).

Despite failed previous privatisations, and the issues raised concerning scope and scale economies, governments continue to initiate efforts to hand over ailing flag carriers to the private sector. On the other hand, the experience of other small developing countries is such that there are very limited chances for smaller airlines such as Air Botswana, normally lacking specialised aviation knowledge, to operate an independent service without financial support of government. Even the larger international airlines form associations with other larger airlines to obtain benefits of scale and scope economies, in order to reduce the cost of operations.

1.5 Objectives of the study

The study specifically seeks to investigate case studies of national airline operations in developing countries comparable to Botswana in terms of physical and economic characteristics, with the aim to draw lessons for the intended privatisation of Botswana's national airline. Such study should provide an insight into the pertinent issues in airline operations and privatisation particularly in developing countries where almost all national airlines are ailing.

The main question of the study is whether Air Botswana is a viable “project” for both the private sector and the government. Even though the country's economy is not in shambles, government faces reduced revenue sources due to an undiversified economy and the projected depletion of its non-renewable diamond resources. On the other hand one wonders if the air-transport sector could be left entirely in the hands of private players.

To address this issue, the study will thus try to answer the following questions.

- What has been the international experience on the operations of national airlines?
- How has the privatisation of national airlines fared in developing countries?
- Are there alternatives for cases where complete privatisation seems to have failed?
- Which solutions seem most relevant to Air Botswana's situation?

1.6 Methodology

The research takes a qualitative approach, which is described as a move towards gathering a comprehensive understanding of human actions and the reasons that direct such actions. The qualitative method not only seeks to answer the *what*, *where* and *when* of decision-making, but it also scrutinises the *why* and *how* of the decision-making. Thus, lesser but resolute samples are more frequently preferred over larger samples. Qualitative methods generate data just on the particular cases considered, with broader conclusions merely viewed as hypotheses.

The study relies mainly on published material. The major source of data has been the internet as the relevant documents cannot be easily obtained directly from most of the respective institutions. To obtain reliable and quality data of the particular airlines and other global institutions, we used the websites of bodies like IATA, ICAO, the World Bank and the International Monetary Fund. General data on privatisation was collected from libraries, the internet, government departments and organisations directly involved in privatisation.

As indicated, we aim to develop a case study that helps us to address the challenges of Air Botswana's privatisation. This case study is based on an in-depth investigation of a group of national airlines, to explore international experience and find underlying principles. Information-orientated sampling rather than random sampling is used in the selection of case studies because an average case from random sampling would lack the richness of information. Initially, a sample of twenty (20) national airlines was looked at with four considered as case studies. These airlines are from developing countries that have similarities with Botswana in terms of either being a developing country, having middle-income status, a huge area with sparse population and have a national airline.

The study does not consider the full spectrum of privatisation policies in Botswana, though it would be appropriate and valuable to allow more in-depth understanding regarding the privatisation of SOEs in the country. This project evaluates the efforts to privatise Air Botswana and the reasons behind full privatisation of the airline both in the previous and current macro-economic settings. While most previous studies have focused on the privatisation of national airlines and have made recommendations on business models for

African airlines, none that I am aware of have provided options for cases where both the adopted business models and privatisation seem to be failing. On the notion that no single solution is appropriate due to varying country circumstances, this study provides strategic options which include a combination of business strategies rather than focusing just on privatisation or a single business model.

Before 1966 Botswana was a poor African state, but things changed after the country attained independence in September 1966. Diamonds were discovered, and mining became the major economic activity. Botswana's economy grew rapidly with very little if any challenges. But there is need to ensure that economic growth is sustainable. Diamonds are non-renewable resources, hence the government of Botswana cannot expect to continue to foster growth through mining only. Non-renewable resources get depleted, hence the funds generated from them should be invested wisely.

Projects such as Air Botswana should be an investment which would continue to generate revenue for the economy even after diamonds are exhausted. Botswana's current economic stand requires budget prioritisation such that projects that drain the economy are seriously looked into. Even though the diamond market is recovering after the credit-crunch calamity, it is important to apply caution on public funds use. It is against this background that this study seeks to assess the viability of Air Botswana and its privatisation where the government has recognised the need for more selective use of public finances to ensure sustainable development in the long run (Makgapha, 2010).

1.7 Outline of the study

The study has seven sections. The second section will discuss the setting in terms of progress and challenges in Botswana's economic development, while section three takes on the strategic role of the transport sector in the country's economy, considering her vastness and low population-density characteristics.

The fourth section will be dedicated to the operations of the air-transport sector in Botswana. Section five will look at details of the airline industry with emphasis on a selected case study of national airlines in developing countries, before zooming into

operations of Air Botswana and the government's privatisation efforts. Section six presents the scope for future developments. A conclusion on future strategic options for Air Botswana will be presented in the last section.



CHAPTER 2

BOTSWANA'S ECONOMIC DEVELOPMENT: PROGRESS AND CHALLENGES

2.1 Geographic Spread

Botswana is located in the heart of southern Africa, in the southern hemisphere's subtropical high belt, landlocked between Namibia (west and north), Zimbabwe (north-east), South Africa (south and south-east) and Zambia. The country has an area of 582 000 km² (MFDP, 2003: 5). Botswana is among the largest countries of the world, coming after Ukraine as number 45 and roughly as large as Madagascar (Maps of World, 2010). The country has fifteen administrative centres made up of ten district councils and five town councils (Department of State, 2010) (also see Annexures: Table 1). Towns and villages in Botswana are vast distances from each other which can make getting around the country quite a challenge. Major towns and villages are connected by highways and some have airports or airstrips for air travel (see Annexures: Map 1).

Botswana's roads on major routes consist of tarmac, gravel or sand tracks. Air transport is not dominant even though it would be the most appropriate mode of transport for a landlocked country which is sparsely populated. Air transport would provide an efficient transport system in connecting mining towns and tourism villages within the country and linking the country to global markets. Puri (2003: 55) has argued that an adequate transport infrastructure is a key factor in the achievement of a nation's diversification endeavour, opening out trade and connecting markets and resources into an integrated economy. The infrastructure also links villages with towns and even connects remote and developing regions (Puri, 2003: 56). Located at the core of the SADC region, Botswana's transport systems also acts as a transit hub for the movement of commodities from South Africa to other SADC neighbouring states in the north and west as well as, to a lesser degree, from other SADC states to South Africa (Kaboyakgosi, 2003: 3).

2.2 General Characteristics

Before we look at the different sectors of Botswana's economy and how these are influenced by the transport infrastructure, we can briefly summarise a few general characteristics, including the social, political and resource base of local developments.

2.2.1 Social and demographic dynamics

According to the Central Intelligence Agency (2010), the population of Botswana is estimated at 2 029 307 as at July 2010. Botswana is characterised by a youthful population with 36,7 per cent of total population aged below 15, while only five per cent represented the 65-plus population in 2001 (MFDP, 2003: 15). Botswana faces complex development challenges such as unemployment and poverty, but HIV-Aids has been the major challenge thus far (MFDP, 2003:13-14). The pandemic has reversed most of the past achievements made in the health sector. High HIV prevalence rates were reported among the younger age groups and the productive sectors of the population. In fact, HIV-Aids is a serious threat to sustainable economic growth, particularly as it negatively affects the labour force, investment and savings (MFDP, 2003: 21–22).

In 2001, the government treated the pandemic as national priority and made anti-retroviral (ARV) drugs available to all Botswana. To reduce the financial pressure the government of Botswana developed the National HIV-Aids Policy and the National HIV-Aids Strategic Plan which ensure participation of all stakeholders including the private sector and international-development partners in lowering the incidence and minimising the impact of the scourge (MFDP, 2003: 23). During the financial year 2007/08, combating the HIV-Aids scourge saw a total of US\$212 million (or BWP1,4 billion) spent, with the government contributing 60 per cent of the amount, while the balance came from the Bill and Melinda Gates Foundation, UNAids, USAID and pharmaceutical companies (AfDB, 2009: 5).

Another issue challenging Botswana is lessening poverty and inequality which still refutes Botswana's remarkable macro-economic and governance achievements. With an unemployment rate of roughly 20 per cent and approximately one-third of the population living below the poverty datum line, it is hard to believe that the country has managed to assume middle-income-country status. In this context, the AfDB notes that, notwithstanding Botswana's impressive economic achievements, there are chances that high-income inequality might negatively impact on the country's development scenario in the long run. The 2008 Central Statistics Office report depicts unemployment rate more than 60 per cent in age group 15- to 19-year-olds and roughly 45 per cent in the 20 to 24 age group during 2005/06.

The success in dealing with these challenges of alleviating poverty, reducing unemployment and providing health services throughout the scattered towns and villages in Botswana also hinges on efficient transport systems. Yet, the same challenges also compete with the transport sector for funding (AfDB, 2009: 5).

2.2.2 *Socio-political context*

Botswana currently is a parliamentary republic. There are four main political parties in Botswana, namely the Botswana Democratic Party (BDP) which has been the ruling party since independence, the Botswana National Front (BNF) considered the main opposition, the Botswana Congress Party (a break-away of the BNF) and the Botswana Movement for Democracy (BMD), a new break-away party from the BDP and currently the leading opposition in parliament. There is good implementation of democratic principles displayed through respect for political rights, civil liberties and economic freedom. Elections have been held every five years since independence in 1966. Botswana established an independent Electoral Commission in 1996 to further consolidate the country's repute for free and fair voting (AfDB, 2009: 1).

AfDB's 2008 Country Governance Profile (CGP) for Botswana found that the country occupies a position in the top quartile of different governance indices internationally, and on the whole, it is at the top of countries in the African region. This is attributed to several factors, such as cautious economic administration, efficient national-development plans, devoted leaderships, inherent checks and balances as well as a competent judicial system. AfDB quotes Transparency International's Corruption Index (2007) as ranking Botswana in the 36th position globally in terms of being less corrupt (AfDB, 2009: 2). The World Bank's "Doing Business Report" of 2010 allocated Botswana the 45th position, making the country number three in Africa. The 2008 and 2009 rankings were 52 and 39 respectively. Botswana also came fourth in governance in Africa as per the Mo Ibrahim Foundation Index. This makes the country more attractive for foreign direct investment (African Economic Outlook, 2010).

As already noted, Botswana is in the heart of the SADC area, and the SADC headquarters are located in Gaborone, Botswana's capital city. This makes Botswana important within

the SADC region, but it also stresses the need for efficient transport systems within and beyond the country to facilitate movement of goods and people. In fact, air transport being the most efficient mode of travel is crucial for the transportation of SADC delegates and staff residing in Botswana.

2.2.3 *Natural-resource context*

Botswana is characterised by a semi-arid climate with hot summers and warm winters. It has a large wildlife population and a variety of minerals, over and above arable and range land. The Kalahari Desert covers 70 per cent of Botswana's land surface. The world's largest inland delta, the Okavango Delta is found in the north-west part of Botswana. There is also a large salt pan in the north, known as the Makgadikgadi Pan. In the south-east part of Botswana lies a part of the major river of southern Africa, the Limpopo River. The Chobe River separates Botswana and Namibia in the Caprivi Region, and meets with the Zambezi River at Kazungula. These rivers have presented many opportunities for tourism development, but they also require efficient air transport (Nations Encyclopaedia, n.d.).

The country's environment is not very conducive for agriculture, particularly crop farming. There are, however, some significant agricultural activities. A huge portion of the population still practices subsistence agriculture. Population concentration is mainly in the country's south-eastern part, characterised by relatively more favourable climatic and soil conditions, hence suitable for arable farming (MFDP, 2003: 4). Cattle farming has been a major economic activity since independence. Cattle farming also requires an efficient transport system because cattle need to be transported to abattoirs which are great distances from extensive cattle-farming areas. In the northern region, farmers take their cattle to the Francistown abattoir which is about 500 km at most. The farmers in the western part of the country use the Lobatse abattoir which is up to 700 km from farms. The beef also has to be transported to Europe which is the major buyer of Botswana's beef.

Most significant for the country's development, Botswana has lots of minerals, particularly diamonds. Mineral exploration consists of gold deposits at Mupane, copper-nickel at Selibe-Phikwe, coal at Morupule, diamond mines at Orapa, Letlhakane, Jwaneng and Damtshaa as well as salt and soda ash at Sua-Pan (MFDP, 2003: 9). Other diamond mines include the Lerala Diamond Mine owned by DiamonEx Botswana, the Boteti Exploration

(AK6 deposit near Letlhakane), which is owned by De Beers Prospecting Botswana, Debwat Explorations, and African Diamonds and the Gope Exploration, a 100 per cent subsidiary of Gem Diamonds. Botswana is among the largest producers of diamonds globally. The diamond-mining industry is controlled by the government of Botswana in partnership with De Beers of South Africa through the company named Debswana (Department of Mines, 2008: 5). Connectivity between these mining towns and other centres in Botswana and in nearby South Africa is very crucial for the competitiveness of this dominant industry.

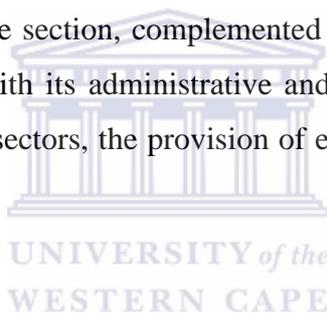
2.3 Key Sectors in Botswana's Economic Development

To understand the development dynamics, growth opportunities and development challenges of Botswana, we have to briefly review its main sectors, which include mining, agriculture and trade in the one section, complemented by tourism and financial services, as well as the public sector with its administrative and social-development services. We shall see that in each of these sectors, the provision of effective transport is crucial for the development process.

2.3.1 Mining

Mining provides roughly 40 per cent of all government revenues with diamonds being the major source of revenue. Debswana operates four diamond mines in Orapa, Jwaneng, Letlhakane and Damtshaa. The fifth diamond mine in Lerala is not operated by Debswana. In 1999, Botswana produced over 30 million carats of diamonds from the Orapa, Jwaneng and Letlhakane mines in total, which was approximately 25 per cent of global production. While Orapa is considered the world's number two kimberlite in diamond production, the Jwaneng mine is said to be the richest diamond mine globally (De Beers Group, 2010). Debswana and Bamangwato Concessions Limited (BCL) are the two major mining companies in Botswana.

In 2006, DTC Botswana (DTCB), which is an equal joint venture between the government of Botswana and De Beers, was established. The DTCB is envisaged as the key institution to develop a sustainable and lucrative downstream industry in the country. It is among other things expected to act as a mechanism for the spread of other international businesses



in Botswana. Thus, the Ministry of Minerals, Energy and Water Resources has already licensed 16 cutting and polishing companies to operate in Botswana, with the DTCB selling rough diamonds from its aggregated mix to these companies. The establishment of diamond cutting and polishing in Botswana is expected to pave the way for downstream activities starting with manufacturing and selling of jewellery. The development of the diamond industry is also expected to augment the existing small secondary-industry sector, thus creating more opportunities to promote the country's economic growth (De Beers Group, 2010). Yet, diamonds are non-renewable resources which are prone to depletion. This makes it imperative for the government of Botswana to diversify the economy to ensure continued revenue generation if diamond production ceases.

2.3.2 *Trade*

Botswana is positioned in the heart of southern Africa which has a market of approximately 200 million people. It is a member of Sacu (the Southern African Customs Union) together with Swaziland, Lesotho, Namibia and South Africa. Botswana is involved in several trade negotiations which are expected to generate more market opportunities for investors who wish to invest in the country. These include Sacu-USA, the European Free Trade Agreement (Efta) as well as negotiations with China and India. The Botswana Export Development Investment Authority was established in 1997 to encourage the export of goods manufactured in the country (Ministry of Trade and Industry, 2010).

Throughout its colonial period and a few years post-independence, Botswana traded mainly with South Africa, Great Britain and Western Europe. In the 1970s, the country's imports from Europe went down and more imports came from African countries, particularly South Africa. In 1996, more than 74 per cent of Botswana's exports went to the European Union (EU) while more than 21 per cent went to Sacu countries, 3 per cent to Zimbabwe and the remaining 2 per cent to other countries. 78 per cent of imports were from Sacu countries, eight per cent from the EU, six per cent from Zimbabwe and the rest from other countries. Most of Botswana's exports are raw materials with minimum processing. The country mainly exports diamonds, copper, nickel and meat, while imports are dominated by machinery, transport equipment, textiles, foodstuffs and petroleum products (Nations Encyclopaedia, 2010).

2.3.3 *Agriculture*

Agriculture used to be Botswana's economic backbone, contributing approximately 30 per cent to the country's GDP. Things have changed drastically so that by 2008 agriculture contributed less than two per cent to the GDP. Natural circumstances, such as floods, animal diseases and intermittent droughts, have contributed to this poor agricultural performance. It is also affected by the country's limited access to markets and the absence of basic infrastructure in the remote rural areas. An agricultural hub has been established to act as a means for the commercialisation and diversification of agriculture and to ensure food security. Projects in the hub include the Zambezi Agro-Commercial Integrated Development Project and the National Agricultural Master Plan for Arable Agriculture and Dairy Development (NAMPAAAD). Besides NAMPAAAD, there is also the Young Farmers Fund which includes cattle rearing, dairy production and poultry as well as the Integrated Support Programme for Arable Agriculture Development (ISPAAD) (Ministry of Agriculture, 2010).

Government is also working on the improvement of the national beef herd, together with the reform of the Botswana Meat Commission and the Banyana Ostrich Farms restructuring (Ministry of Agriculture [MOA], 2010). A majority of Botswana still practice agriculture, but agricultural production is mainly for domestic consumption, supplemented by imports. Agricultural imports totalled \$348 million in 1998, while exports stood at \$114 million. Even though agriculture used to be the major economic activity back in the 1970s/80s, diversifying the country's economy cannot expect too much from agriculture due to the country's desert climatic conditions and the global warming threat (MOA, 2010).

2.3.4 *Financial Services*

Botswana's banking system is among the most competitive and advanced in Africa. The financial sector adheres to global standards in terms of transparency of financial policies and banking supervision, and this offers liberal access to credit for entrepreneurs. The country has three statutory banks and seven commercial banks which are small by global standards, but competitive and rapidly growing. The statutory banks are the Botswana Savings Bank (BSB), The National Development Bank (NDB) and the Botswana Building Society (BBS), while commercial banks include Bank of Baroda, Barclays Bank, Bank

Gaborone, Stanbic Bank, Capital Bank, Standard Chartered Bank and First National Bank (MFDP, 2010). The Bank of Botswana (BoB) is the country's independent central bank. There are two merchant banks as well, Investec Bank and United Leasing Company (MTI, 2010).

The Botswana Stock Exchange (BSE), the national stock market, is in charge of operations and regulations of the equities and fixed interest securities market. Government, quasi-government and private sector can raise debt and equity capital through the BSE. The BSE is host to many of the finest companies undertaking business in Botswana. These companies embody a variety of industries and commerce. They range from tourism and information technology to wholesaling and retailing and to banking and financial services. Up till now, the BSE is among Africa's most efficient stock exchanges, with an average of 24 per cent total return during the preceding 10 years. The BSE is now considered to be number three in southern Africa's largest stock exchanges based on market capitalisation (MTI, 2010).

The centre of Botswana's financial services is quite naturally Gaborone, with the other major centres also well equipped with service points. Here again, efficient transport between the distant centres and the banking financial hub of southern Africa is of great importance.

2.3.5 *Tourism*

Tourism is also a growing sector in Botswana characterised by ecotourism. Roughly 17 per cent of Botswana is designated as national parks, and once the country's vast private concessions are included as well the figure rises to 40 per cent (Simply Botswana, 2010). The recent Tourism Satellite Account (TSA) report forecasts \$1,620 billion worth of economic activity to be generated by Botswana's travel and tourism industry. The government of Botswana has, in fact, made travel and tourism an economic priority in the diversification process. The industry is expected to grow at a rate of five per cent *per annum* in real terms, which is above the global average of 4,3 per cent and sub-Saharan's 4,5 per cent. Currently, the travel and tourism industry is contributing more than 19 per cent of total employment and some 16 per cent of non-mining GDP. These forecasts are an

indication that Botswana's tourism product base is likely to enlarge quickly and attract a much wider variety of tourism tastes and budgets (Botswana Tourism Board [BTB], 2010).

The success of Botswana's tourism industry is tied to an efficient transport system. At this stage, only 18 per cent of Australian/New Zealand and European visitors, plus 30 per cent of American visitors come to Botswana directly by air. The rest of these usually high-spending people get into Botswana by road through South Africa and other adjacent African countries. They generally use tour packages that cover a number of countries, with the origin and destination points of these tours, to a degree, dependent on the accessibility of appropriate airline services, especially the direct intercontinental flights that are currently unavailable in Botswana. The absence of direct long-haul flights therefore means Botswana's share in these tour packages is squeezed and the country loses out on initial guest expenditures as well as end-of-trip expenditures (WTTC, 2007: 48).

2.4 Economic-Policy Stance

The private sector has played a major role in the economy, mostly in partnership with the government. Mining for example is dominated by private companies such as Debswana (owned by De Beers and the government of Botswana), BCL, DiamonEx Botswana, Boteti Exploration and Gope Exploration among others (Department of Mines, 2008: 5). In the tourism sector, aside from national parks and game reserves, private tour operators dominate the industry. The agriculture sector is also in the hands of private people. The government of Botswana acknowledges this fact in its privatisation-policy document, noting that the country has a well developed private sector with the ability to compete with or even replace some government departments in offering particular services (MFDP, 2000: 2). The government of Botswana has even observed that the private sector was the main employer in broader sector context between March 2008 and March 2009 with 179 000 employees as compared to 96 167 employed by central government, 28 162 by local government and 14 497 by public enterprises (MFDP, 2010: 6).

Botswana's constitution prohibits nationalisation of private property. Botswana is number two after South Africa, among sub-Saharan African countries to protect intellectual property rights as per the 2009 International Property Rights Index. There is also the Botswana

Development Corporation (BDC) which is both an investor and lender with the aim to contribute to Botswana's economic transformation and diversification. The International Financial Services Centre (IFSC) has also been established in the country to draw companies that are presently operational or plan to set up in Africa to locate their administrative head offices in the jurisdiction of IFSC so they can enjoy the benefits offered by IFSC Botswana (MTI, 2010).

Botswana has also demonstrated good economic governance. In 2004, Transparency International ranked the country as the least corrupt in Africa, surpassing many European and Asian countries. The country has also been rated as among the two most economically competitive countries in Africa by the World Economic Forum, while in 2004, Moody's and Standard and Poor's gave the country grade "A" for credit rating, making the country the best credit risk in Africa. Botswana encourages private or foreign investment and management. The country has a low corporate tax rate at 15 per cent. There are no prohibitions on foreign ownership of companies. The government of Botswana has developed additional policies to enhance competitiveness. These include the Competition Policy, the Privatisation Master Plan, a new Foreign Direct Investment Strategy and a National Export Development Strategy (MTI, 2010).

In much of the developing world, particularly Africa, decolonisation was followed by a shift to nationalisation in the quest to promote nation-building and economic development. Over time, the incompetence that manifested in state-owned entities put nationalisation in the spotlight. What followed then was a significant shift towards privatisation right across the world. With the IMF and World Bank's conditional assistance for privatisation, the process picked up momentum in the 1980s.

Government is the major service provider in the country. Service provision is dispensed through central government, local government and public enterprises. The important transport service, which is the focus of this study, is among the services provided by government. Through the Ministry of Transport and Communications, the government of Botswana provides the transport infrastructure and services. The Department of Roads facilitates the construction and maintenance of all public-road infrastructures while road transport services such as the issuance of permits is the responsibility of the Department of Road Transport and Safety (DRTS). The Civil Aviation Authority Botswana (CAAB) deals

with the construction of airports and other issues relating to air services. Air Botswana and Botswana Railways offer air- and rail-travel services.

The performance of the public sector has not been impressive, and the government of Botswana has come up with a number of policies and strategies aimed at reforming the public sector. Reform covers all government sectors including parastatals and public enterprises. Reforming the public sector in Botswana involves particular components of authorities such as decentralisation, public administration, corporatisation, commercialisation and privatisation (Kaunda, 2004: 1).

In reforming the public sector, the government of Botswana also recognises the fact that both the public and private sectors play a vital role in the development of an economy, hence they should be looked at as complementary sectors rather than substitutes. The government of Botswana therefore seeks to find the best means of harmonising the strengths and limits of both sectors as well as ensuring that they complement each other in every possible way (MFDP, 2000: 1). The government of Botswana has developed a Public Private Partnership (PPP) Policy and Implementation Framework, incorporating Implementation Guidelines, Standardised Contract Provisions and an institutional structure. The PPP policy is expected to speed up provision of infrastructure and utilise private-sector financial assets and expertise, while the government provides the essential regulatory supervision. In the process, implementation constraints faced by the government will be alleviated, hopefully leading to continuous efficiency gains in the delivery of infrastructure services. In that context, a PPP Unit has been established and tasked with harmonising all the implementation processes to avoid replication of tasks to be undertaken by different stakeholders (MFDP, 2010: 12).

The government's sound macro-economic policies and vigilant managing of the diamond wealth has contributed to Botswana's accomplishment of vigorous economic growth since the country assumed independence. The country became the largest diamond producer globally both in terms of value and volume, with the mining sector becoming the key driver of growth. In fact, mining has provided revenue for all public projects, including Air Botswana. This is why the government of Botswana has managed to hold on to the airline despite its operational losses. But, following decades of vigorous development, the pace of

Botswana's economic development has slowed with average real GDP growth of only 4,3 per cent between 2003/04 and 2007/08 (AfDB, 2009: 2–3).

The need to prioritise the public budget due to lower revenue has over the past years increased calls for the privatisation of public enterprises. Botswana has many of its public enterprises positioned for privatisation. Air Botswana was the first entity to make an effort to become private, but the exercise has not been successful. The reasons behind nationalisation and privatisation are the same. Both are influenced by ideology, the need for financing, ensuring accountability and efficiency. Wealthy governments favour nationalisation, but in times of financial distress they may opt for privatisation. In Canada, for example, privatisation was influenced by the state's financial stature at the time and was not just a craze. Left-leaning states however, will usually favour nationalisation, even if faced with financial distress (Taylor, 1998: 533–4).

Though many governments in developing countries are not against private-sector intensification, the social responsibility of alleviating poverty and reducing inequalities encourages state dominance in certain sectors of the economy. Privatisation often involves the shedding of jobs and foreign dominance of local elites. State-owned companies, in contrast, are believed to have a unique political benefit since they are expected to effect extensive redistribution of benefits in the economy, while private ownership mainly benefits minority interests. State companies are therefore seen to facilitate the political objective of more equitable distribution. Moreover, state companies safeguard the national interest. There is even an argument that in very small home markets, such as Botswana's, monopolies are at times more competent than in markets with rivalry (Taylor, 1998: 525–6).

Looking hard at the past few decades, Botswana started as one of the poorest African countries at independence in 1966 and turned into a rapidly developing market economy described as being among the most flourishing African economies with a well renowned diamond industry and tourism. The government of Botswana has managed to maintain a sound fiscal policy, notwithstanding the 2002 and 2003 successive budget deficits and a negligible level of foreign debt (CIA, 2010). The country's public sector has grown with at least twenty-five public entities. With diamond revenues the government of Botswana

could afford this expansion of the public sector and maintaining loss-making state enterprises such as Air Botswana.

There has been a change recently with projections of depletion of the non-renewable diamond resource and global economic meltdown. Due to the international financial and economic crisis which sharply reduced diamond exports, Botswana experienced a record loss of national income. The crisis threatens to halt the hard earned development made and poses a challenge to efforts to maintain rapid economic growth, at the same time as augmenting the sources of growth away from the mineral sector. It is therefore crucial that new opportunities for economic growth are discovered and supplementary sources of government revenue found. Success in this regard is hinged on strategic and exceedingly productive investments in both people and infrastructure as well as in policy reforms to increase private-sector involvement (MFDP, 2010: 1).

In Botswana, non-financial public enterprises make up roughly six per cent of the GDP and contribute a little less than six per cent to total employment. Their allocation in total investment is above 15 per cent, way above their contribution to employment and GDP. Financial public enterprises like the National Development Bank, Botswana Savings Bank and Botswana Co-operative Bank have not been overly successful. Broader performance evaluation is necessary rather than assessing profitability as it will enable consideration of alternative policy strategies. The government acknowledges that it is high time public enterprises started to function like business-orientated firms (MFDP, 2000: 5). Even though some of the commercial public enterprises did well financially during the year 2007/08 (with the Botswana Housing Corporation making a net profit of P158,3 million) there were loss makers, with Air Botswana leading at a net loss of P87 million. As part of the plan to advance the effectiveness in the public sector and cut duplication efforts, the government of Botswana has decided to rationalise parastatals and other public entities which have so far not been earmarked for privatisation (MFDP, 2010: 10–12).

Thus, Botswana is currently faced with great challenges in reforming public enterprises. (Refer to Annexure 2 for a list of some of the enterprises.) Lack of an efficient system for the monitoring and evaluation of public enterprises has presented itself as one of the main structural inconveniences. This has occurred regardless of the Public Enterprises Monitoring Unit (PEMU) established in the Ministry of Finance and Development

Planning. The unit is in charge of performance monitoring of state-owned enterprises in partnership with PEEPA. Owing to the non-existence of a relevant legislation and regulatory framework to steer the privatisation course, PEEPA has met substantial challenges since its establishment. In fact, no public enterprises have undergone privatisation yet, despite the ten-year existence of PEEPA (African Economic Outlook, 2010).

2.5 Proximity of South Africa

Botswana is surrounded by Namibia, Zambia, Zimbabwe and South Africa. Of these countries South Africa has proved to be the major competitor with world-class transport infrastructure. The country's rail- and air-transport systems are regarded the largest and probably the best in Africa. Ports link South Africa with all African coasts, Asia, Europe, Australasia and the Americas. The government of South Africa recognises the transport sector's contribution to the country's global competitiveness and sees the sector as an engine for continued economic development. For Botswana this all implies that relatively efficient transport is available close-by, making it virtually impossible for Botswana institutions to effectively compete.

Another factor that puts Botswana at a disadvantage is the energy shortage. Botswana depends on South Africa for energy supply. The country imports more than 70 per cent of its electricity from South Africa (MFDP. 2010: 19). But it has recently been evident that South Africa is also experiencing shortages of electricity supply owing to the country's rapid growth coupled with its massive electrification programme and rapid industrialisation. South Africa's electricity company, Eskom, is currently working on expanding its infrastructure to meet the demand (SouthAfrica.Info, 2010).

South African airlines, SAA and SAE are also major competitors with Air Botswana on the most important Johannesburg–Gaborone route. While SAA covers many international routes, AB does not have international flights. Regional routes are also very few to the extent that flying to central and north Africa requires passengers to connect at Johannesburg. South Africa enjoys the advantage of being connected to the rest of Africa and the world by use of both national airlines and even private ones. While the South

African airlines offer both charter and scheduled services, AB only offers (limited) scheduled services and the rest are charter services by charter airlines, which is also only within the SADC region. Long-haul passengers headed to Botswana would therefore prefer South African airlines, particularly SAA and SAE, to avoid the hassle of connecting through different airlines. This presents a serious challenge to Botswana's air-transport sector.

Lastly, with a huge market the Republic of South Africa (RSA) is better placed than pint-sized Botswana. Botswana also imports inputs necessary for economic activities from the RSA, which means the success of Botswana's economic growth relies on good relations and co-operation between the two countries. So far the two enjoy good relations, but it is important to note that with tough economic situations and public entities now having to be run as businesses, things might change. A good example is the on-going tussle between SAA and AB on the Johannesburg–Maun route. According to Mmegi (2010: 317), Botswana's view is that SAA should leave the route solely to AB, but what should be remembered is that both airlines are in business and running a business has got nothing to do with being kind and friendly. The airline industry is tough and growing as well as intensifying one's business is what matters. While direct flights on this route have been suspended until the two countries come to an agreement, tourism passengers in particular suffer serious inconvenience as they have to connect at Gaborone. Further, AB's poor service can bring more harm than good to Botswana's tourism sector as it is not automatic that leaving the route exclusively to it, AB will be able to provide efficient air service.

2.6 The Impact of the World Economic Crisis

The present global economic slump has exposed the country's susceptibility to external shocks, given to its extremely narrow economic base. Owing to the crisis, the stance for medium-term economic growth was not hopeful. Real growth was expected to remain lethargic for the period 2009–11. Furthermore, with the South African economy (which is Botswana's main market for non-traditional exports) also likely to keep on declining in tandem with global trends, the global economic downturn forced Botswana to further push its efforts on economic diversification. To make matters worse, Botswana's diamond

production is likely to fall brusquely after 2020, and is most likely coming to an end around the 2030s (AfDB, 2009: 2–3).

The country's overall economy is reported to have shrunk by 6,3 per cent in the 2008 last quarter and by a further 20,5 per cent in the first quarter of 2009, only recovering with 24,9 per cent GDP growth in real terms in the 2009 second quarter. Economic recovery continued into the third quarter of 2009 with 4,1 per cent GDP growth in real terms (MFDP, 2010: 4–5). Part of the recovery in the mineral sector in 2009 can be linked to the impact that developments in the world economy had on the diamond industry. However, output is expected to remain lower than the long-term trend for the next two years, owing to uncertainties in global economic projections. The economy will experience a self-effacing real growth due to the avoidance of a sharp drop of government spending. Overall, real GDP growth is therefore forecasted at about zero for 2009/10 and approximately five per cent in 2010/11 (MFDP, 2010: 4–5).

The international financial catastrophe directly struck Botswana's budget through reduced commodity export revenues, particularly for diamonds. Overall government takings fell by roughly 18 per cent in the fiscal year 2009/10, with mineral tax and royalty proceeds plummeting from 17 per cent to 12 per cent of the GDP. Overall revenue fell to 34,8 per cent in 2009 from 37,2 per cent of GDP in 2008, whereas total spending rose from 32,3 per cent of the GDP to 40,2 per cent. Consequently, the fiscal balance deteriorated in excess of 10 percentage points of GDP, resulting in a deficit of around 5,4 per cent in 2009 from a surplus of five per cent of the GDP in 2008. The majority of the fiscal deficit was financed through domestic sources, i.e. by means of bond sales on the country's stock market (BSE) and by drawing on reserves. The government further took a US\$1,5 billion loan from the AfDB to sustain the broader budget. The government also increased the VAT rate by two per cent from 10 per cent, beginning 01 April 2010, to recover its revenue loss and to finance future spending (African Economic Outlook, 2010).

2.7 Conclusion

Approximately two-thirds of government revenue is generated by the diamond sector, hence the decline in diamond production resulted in considerable revenue losses.

Nevertheless, the fiscal surpluses realised in the preceding years, along with sufficient foreign reserves, allowed the government to maintain major expenditures in the 2009/10 budget. A pro-cyclical policy was therefore avoided and therefore the recession was not exasperated. This, however, came at the cost of the country's first fiscal deficit since 2003, with a deterioration of the budget balance by roughly 10 percentage points of GDP, presenting a deficit of 5,4 per cent in 2009 from a GDP surplus of five per cent in 2008 (African Economic Outlook, 2010).

The global economic crisis has caused damage to Botswana's main export sector, and the speed of the recovery of the global economy determines the country's future economic performance. However, the stance on the government's ratings is negative, which is an indication of the strains inflicted by the crisis on government finances (Smarts, 2010). It also reflects the increase in fiscal-policy challenges and challenges on long-term growth prospects that is linked to the levelling-off of diamond production. The Finance Minister has noted that "Every project must more than pay for itself, in terms of current and future benefit to justify the extra cost of borrowing" (MFDP, 2010: 2). There is therefore a need for comprehensive scrutiny of the way business has been done and to accept that current challenges call for a new set of solutions and strategies that require the government to be geared up to abandon previous practices that give no desired results anymore (MFDP, 2010: 2).

Botswana's Institute for Development and Policy Analysis (BIDPA) has further stressed the difficulty that Botswana will face in relation to the implementation of Botswana's diversification strategy (Toka, 2010). NDP 10 implementation presents the greatest challenge with its considerable resource requirements. The plan runs through 2016, which is an important phase for the realisation of Botswana's Vision 2016 strategy, which itself requires huge financial resources. The picture here is a plan that will be characterised by deficits which may result in high public debt and a potential harm to investment. It also has the potential to crowd-out resource allocations when servicing the debt becomes the priority, following debt accumulation (Toka, 2010). According to AfDB (2009: 10–12), while it is in the category of upper middle-income countries, Botswana still faces several weaknesses and challenges (such as a prioritisation exercise) to make sure that enough growth-enhancing projects are funded and the fact that Botswana's economic

diversification success, together with employment generation and the trimming down of inequalities, hinges on the development of an efficient private sector.



CHAPTER 3

THE STRATEGIC ROLE OF THE TRANSPORT SECTOR IN BOTSWANA

3.1 Introduction

Being landlocked and a vast area puts Botswana's transport infrastructure under pressure, in particular as the geographic position demands that the country also acts as a transport hub for transit to and from neighbouring countries. The government of Botswana has since independence made efforts to connect the country locally and regionally (MCST, 2010). The Ministry of Transport and Communications is tasked with the provision of the transport infrastructure and services. The Department of Roads, the Department of Road Transport and Safety, the Civil Aviation Authority Botswana, Botswana Railways and Air Botswana are charged with the provision of the different transport infrastructure and services elements. Surface transport plays a fundamental role in the economy, mainly because the country is landlocked. Besides, developing the land-transport infrastructure is extremely challenging, so much so that present surface transport modes often fail to satisfy all mobility needs. Road traffic normally grows faster than road capacity, which could be seen as an opportunity to invest in air traffic as it is comparatively more flexible (Regional Cooperation Council [RCC], 2010:1).

It is important that a country makes sufficient investments in its transport infrastructure and services. Traditionally, transport infrastructure and services have been the responsibility of the state. Substantial investment risks, lengthy gestation phases and uncertainty of return are the major factors causing the lack of interest by the private sector. The incidence of externalities further justifies why the state has to take the leading role in providing basic transport infrastructure services. Yet, the necessary resources for maintaining and expanding these infrastructure facilities are often way above what public budgets can afford. Over the years, protected by restrictive practices, public enterprises have grown so big and operated as natural monopolies offering poor quality service. Many of them incur heavy losses and require ongoing government support, which has led to calls for liberalisation to allow competition in the transport sector and restructuring for privatisation of public enterprises. The other reason for calling for private-sector involvement in the provision of transport-infrastructure services is the need to improve

efficiency. But it is a hard task to involve the private sector in the development of transport-infrastructure services (Puri, 2003: 58).

3.2 Modes of Transport

There are four types of transport system in Botswana, namely water, rail, road and air. The water-transport system is not very widespread as the country is mostly covered by desert. The system is used mainly in northern Botswana where the Chobe River and Okavango Delta are used, mainly for tourism purposes. The rail system runs from the south to the eastern part of the country and is almost a defunct mode of transport. Roads on the other hand are the most widely used form of transport in the entire country, while air transport, though essential, is very limited in coverage. The net asset value of roads is estimated at P15 billion, which is way above the values of all other transport modes. Road transport covers almost 93 per cent of the total passenger-transport volume while rail and air account for the remaining seven per cent (MCST, 2010) (see Annexures: Map 2 for all the links).

3.2.1 Water

Water confers important physical properties of resilience and less friction, which makes it the most efficient form of transport in the transportation of large and heavy cargo across extensive distances. Water transportation routes include rivers, lakes, seas and oceans. This form of transportation involves very high terminal costs as ports are very expensive to construct, maintain and upgrade (Comtois et al., 2009). Transport modes include ferry, ship, boat and canoe. Being landlocked, Botswana has no major water transport, except for boats operated by tour operators and canoes used by locals in the Chobe and Okavango rivers. There are two ferry points, one at Kazungula (Botswana and Zambia border), and another at Mohembo for crossing to Seronga village in Botswana and further into Angola.

3.2.2 Rail

Botswana Railways (BR) provides both local and regional rail transport through its links with South Africa's Spoornet and Zimbabwe's National Railways. BR also provides rail links to Malawi, Tanzania, Mozambique, Angola, the DRC, Zambia, Swaziland and Namibia (MFDP, 2003: 142). There are, however, no direct services with these countries at present. In 2002, Botswana had 888 km of gauge railway inside the country and as

connecting links to neighbouring countries. BR operates a line that runs from Cape Town to Harare via Bulawayo, with stops at Gaborone, Francistown, Ramatlabama (on the border with South Africa), Plumtree (on the border with Zimbabwe), Serule, Lobatse, Ramokgwebana and Palapye.

The rail sector has not performed well over the past decades, and hence rail is mainly used for bulky cargo (MFDP, 2003: 143). The rail sector further experienced a major obstruction in 1999 when Zimbabwe diverted Botswana-bound traffic to South Africa through the Beitbridge connection (Kaboyakgosi, 2003: 3). Freight services continue to function while passenger services have all been put on hold in 2009 except along the Francistown–Zimbabwe link.

3.2.3 *Road*

Road transport plays a critical role in the lives of Botswana. The government of Botswana provides and maintains the road infrastructure. There are fully paved highways and good-quality tarmac roads connecting all major towns and district capitals. Off main routes, the roads range between fine, high-speed gravel roads and deep, bumpy sandy roads. The Trans–Kalahari Highway provides a link to Walvis Bay in Namibia and to the Gauteng Province in South Africa. Another highway, the Trans–Molopo Highway, was opened to traffic recently, also connecting Botswana to South Africa. Botswana boasts a well developed road network to all towns and major administrative or district centres (MFDP, 2003: 142). In 2000, there were close to 20 000 km of highways with 8 761 km bituminised and 11 200 km unpaved and gravelled (Kaboyakgosi, 2003: 3).

Transport service throughout the country is provided by several passenger-transport companies which offer daily routes between and within major towns and villages. All passenger-licensed public transport is identified by blue number plates. Buses operate between towns and villages, while taxis and mini-buses (or combis) operate in the smaller places. There are also buses and mini-buses that operate between Botswana and neighbouring South Africa, Namibia, Zimbabwe and Zambia. Taxis carry five passengers at a time including the driver. Combis are of different sizes with the smaller ones carrying a maximum of 13 passengers including the driver. Each combi operates a circular journey within a particular route. Arrangements can be made with the taxi driver, at additional

costs, if a customer wishes to travel alone. There are also private taxis, normally referred to as cabs, which can be called to pick up customers at particular places. Car-hire services also exist, provided a customer holds a valid international drivers licence. These are offered by companies such as Avis, Budget-Rent-a-Car and other travel agencies. Some hotels also provide mini-buses to transport customers (BTB, 2010).

3.2.4 Air transport

Air travel in Botswana dates back as far as 1919, but regular air-transport operations only began in 1984, after the establishment of the Sir Seretse Khama International Airport in Gaborone. Botswana pledges to make available a competent, safe and consistent air-transport service that is of international standard. The government is currently upgrading four international airports, viz. Sir Seretse Khama Airport, Francistown Airport, Maun Airport and Kasane Airport. The government of Botswana has also undertaken some deregulation initiatives aimed at reducing constraints on market forces (MFDP, 2003: 146). The country's national airline, Air Botswana (AB), offers scheduled cargo and passenger flights together with competing designated airlines like South African Airways (SAA) and South African Express (SAE). Scheduled services within the country are monopolised by AB, while charter-service providers fly mainly to places where AB does not operate. There are 12 airports with paved runways, and approximately 80 airstrips with unpaved runways. Air Botswana uses four of the paved airports for both domestic and international transport needs (Kaboyakgosi, 2003: 3).

The four major airports are owned and operated by the state. The government of Botswana also owns around 27 airfields. AB has the full share of scheduled services and 60 per cent of international flights into or out of the country, while SAA and SAE hold the rest of the international market share. To operate in Botswana's air-travel sector, the operating aircraft must originate from a country that has a bilateral agreement with Botswana, and/or the airline must be properly registered in Botswana under the Companies Act. The Civil Aviation Act of 1977 allows only the government of Botswana and Botswana companies incorporated in Botswana to own aircraft in the country or a share therein. A bilateral agreement between Botswana and South Africa is fully operational, while agreements with other countries are partial or non-operational. Partial agreements include Zambia, Zimbabwe, Namibia and Kenya (Kaboyakgosi, 2003: 5-7). The London–Gaborone route

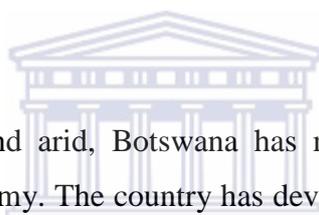
was terminated in 1999. Other non-operational agreements are with Malawi, Belgium, France, Germany, the Netherlands and Pakistan (Kaboyakgosi, 2003: 9).

3.3 Connectivity

Internally Botswana is well connected with highways to all major towns and villages. There are also access roads to smaller settlements around the country. At the regional level, Botswana is linked to South Africa, Zimbabwe and Zambia through road and air networks, while Namibia connects through road only, except for private air-charter services for tourism purposes. Recently Botswana developed a link to Kenya through a code-share agreement with Kenya Airways. No direct link to the global market exists. The country depends on Johannesburg in South Africa for flight connections to other continents and other countries in Africa.

3.3.1 Domestic places

Though sparsely populated and arid, Botswana has managed to integrate much of its interior into the national economy. The country has developed a modern transport network that is able to support and sustain the government's social, economic and investment policies and programmes (MFDP, 2003: 137). This section provides a brief description of key places inside Botswana and across the border in neighbouring countries. The table on page 37 summarises the network, indicating the distances between places and the mode of transport which are significant for Botswana's transport infrastructure.



Key Destinations in Botswana

Origin	Destination	Distance km	Road	Rail	Air
Gaborone	Francistown	436	Tarred	Cargo only	Scheduled and charter flights
	Ghanzi	665	Tarred	Nil	Charter
	Jwaneng	162	Tarred	Nil	Charter
	Kanye	90	Tarred	Nil	Nil
	Kasane	927	Tarred	Nil	Scheduled and charter flights
	Lobatse	72	Tarred	Cargo only	Charter
	Maun	887	Tarred	Nil	Scheduled and charter flights
	Mochudi	42	Tarred	Nil	Nil
	Molepolole	51	Tarred	Nil	Nil
	Orapa	528	Tarred	Nil	Charter
	Selibe-Phikwe	407	Tarred	Nil	Charter
	Serowe	317	Tarred	Nil	Charter
Tsabong	516	Tarred	Nil	Charter	
Francistown	Kasane	485	Tarred	Nil	Charter flights
	Selibe-Phikwe	146	Tarred	Defunct	Nil
	Serowe	208	Tarred	Nil	Nil
	Maun	490	Tarred	Nil	Charter flights
	Orapa	229	Tarred	Nil	Nil
Ghanzi	kanye	581	Tarred	Nil	Nil
	Maun	279	Tarred	Nil	Charter flights
	Tsabong	628	Tarred	Nil	Nil
Jwaneng	Kanye	82	Tarred	Nil	Nil
	Lobatse	128	Tarred	Nil	Nil
	Orapa	696	Tarred	Nil	Debswana Aircraft
Kanye	Jwaneng	82	Tarred	Nil	Nil
	Lobatse	50	Tarred	Nil	Nil
	Tsabong	433	Tarred	Nil	Nil
Kasane	Maun	507	Tarred	Nil	Scheduled and charter flights
Lobatse	Jwaneng	128	Tarred	Nil	Nil
Maun	Serowe	570	Tarred	Nil	Nil
Mochudi	Molepolole	93	Tarred	Nil	Nil
Molepolole	Serowe	367	Tarred	Nil	Nil
Selibe-Phikwe	Orapa	390	Tarred	Nil	Nil
	Serowe	179	Tarred	Nil	Nil
Serowe	Orapa	211	Tarred	Nil	Nil
Tsabong	Jwaneng	355	Tarred	Nil	Nil

SOURCE: Department of Roads (Botswana) Kilometreage Chart (March 2000)

- **Francistown**

Francistown is the second-largest city in Botswana and is situated along the country's major road and air-transport links, making it the key transport hub. There is a railway line connecting Francistown with Harare through Bulawayo in Zimbabwe. The route also connects Francistown with the sister city Gaborone in the south. Tared roads connect Francistown to Lobatse through Gaborone in the southern part of the country and to Ramokgwebana in the northern part of the country, then to Kazungula through Nata in the north. Francistown Airport had a passenger volume of 29 223 in 2003. The airport is currently being expanded to increase its capacity. AB connects Francistown with Gaborone. Francistown is Botswana's oldest town. It has been known for gold mining and is currently an industrial hub (Maps of World, 2009). The city also hosts one of the largest referral hospitals in Botswana.

- **Gaborone**

Gaborone is Botswana's capital and the largest city. It is also the South-East District's administrative capital with 191 776 dwellers as per the 2006 population survey. The city is tucked in the eastern corner of the country, close to the border to South Africa. Sir Seretse Khama International Airport serves the city. The airport lies in the north, 15 km away from the city. It offers flights to Harare, Johannesburg, Lusaka, Nairobi, Francistown and Maun, with connections to Kasane and Livingstone. Gaborone is the headquarter of Air Botswana and in 2008 it recorded 15 844 aircraft flights, coming second after Maun Airport. The city accounts for 51,6 per cent of passenger traffic in the whole country with 244 073 international passengers and 333 390 domestic passengers counted in 2008.

There are long-distance buses and mini-buses linking Gaborone with Johannesburg in South Africa, Harare in Zimbabwe, Windhoek in Namibia and Lusaka in Zambia. Domestically Gaborone connects directly by road with Francistown, Selibe-Phikwe, Ghanzi, Maun, Lobatse, Mahalapye, Palapye, Serowe, Kanye, Jwanend, Molepolole, Mochudi and the surrounding villages. As mentioned already, train services have been put on hold (Maps of World, 2009).

- **Ghanzi**

Ghanzi is located in the western part of Botswana and had a population of 9 934 in 2001. The township shares a border with Namibia. The town hosts the Ghanzi Craft project

which is a Danish volunteers' project started in the 1950s to support local artists sell their art-crafts (World Guides, 2010). There are quite a number of cattle farmers in the Ghanzi region, which is considered one of the largest beef producers in the country. The Ghanzi Airfield only serves charter airlines. The Trans-Kalahari Highway connects Ghanzi with Namibia and with Gaborone and other places in the southern part of Botswana.

- **Jwaneng**

Jwaneng, a town in the Southern District, was developed following the establishment of the Jwaneng diamond mine. The town has paved highways connecting it to other parts of the country, while the Jwaneng Airport, which is a Debswana property, also serves the town. There are, however, no scheduled air services (World Guides, 2010).

- **Kasane**

Kasane is situated on the point normally referred to as Africa's "Four Corners", where Botswana, Namibia, Zambia and Zimbabwe almost meet. It serves as Chobe District's administrative centre with 7 638 dwellers in 2001. The town is located along the Chobe River's south bank, on the border with the great tip of Caprivi Strip in Namibia. Roughly eight km to the east of Kasane, Botswana has 1,6 km of the Zambezi River directly beneath its convergence with the Chobe River. Kasane presents an easy entrance to the Chobe National Park. Kasane's tactical position at the meeting point of Botswana, Zambia, Zimbabwe and Namibia has lately stimulated its growth. Kazungula, located six km to the east of Kasane, acts as the border post linking Botswana with Zimbabwe and the corridor for the Kazungula Ferry connects Botswana to Zambia. Kasane is a central point of debarkation designed for the Victoria Falls in Zimbabwe, the Caprivi Strip in Namibia and Livingstone in Zambia. Through its tactical position, Kasane has turned into a popular tourist town both regionally and internationally (AB, 2010). Kasane Airport serves Maun and Gaborone through Air Botswana. There are mini-buses operating between Kasane and Francistown, Maun and Nata.

- **Lobatse**

Lobatse is 65 km south of Gaborone in the south-eastern part of the country. In 2002 the town had a population of 29 700 dwellers and it is an administrative district centre with a town council. Lobatse hosts Botswana's High Court and the Botswana Meat Commission.

There are good road-transport links to Gaborone and other places, and the town relies on SSKA for air-transport services (Lonely Planet, 2010).

- **Maun**

Maun had a population of 43 776 in 2001, making it the fifth-biggest place in Botswana. It is the country's "tourism capital" as well as Ngamiland District's administrative centre. Numerous safari and air-charter operations run trips into the Okavango Delta from Maun. Maun is therefore the ideal doorway to the Okavango Delta. The place is also a travel hub, with the country's busiest airport offering daily flights from Gaborone, Namibia, South Africa and Victoria Falls. In addition to Maun's importance as a strategic destination, the Maun Carnival, organised in April of every year, is among the major events in the country's social calendar (AB, 2010). Access to the Okavango Delta is made possible by local air-charter operators. The town is well linked to other parts of the country, with tarred roads and buses operating to Kasane, Ghanzi, Francistown, Nata, Shakawe and the capital city Gaborone (Lonely Planet, 2010).

- **Orapa**

Orapa hosts one of Debswana's diamond mines and is located in the east-central part of Botswana. The town has good road links to most parts of the country. Orapa Airport serves the Debswana-operated aircraft which links the town to Johannesburg and Gaborone as well as other significant destinations (Maps of World, 2009).

- **Selibe-Phikwe**

Usually referred to as Phikwe, the town used to offer maximum employment to Botswana through its copper-nickel mining company BCL since 1973. The town had 49 849 inhabitants in 2001. With the projected depletion of nickel, the economic activity has gone down, and the government of Botswana is currently working on a strategy to diversify the town's economy. Mining activities are still expected to continue up to the year 2020. There are road links to many parts of the country as well as a rail line which used to transport ore. Selibe-Phikwe airport serves the town through charter services (Maps of World, 2009).

- **Serowe**

Serowe used to be the largest village in Botswana with approximately 9 000 inhabitants. It is located in the country's central part and is home to the Khama Rhino Sanctuary, where the endangered white rhino population is protected.

- **Tsabong**

Tsabong is situated deep in the Kalahari Desert and serves as the administrative centre for the Kgalagadi District. In 2001 the village had a population of 6 591 (World Guides, 2010).

3.3.2 *Regional links*

- **Johannesburg**

Johannesburg, located about 400 km from Gaborone, is South Africa's biggest city and is Gauteng's provincial capital, which makes it the largest and wealthiest centre in sub-Saharan Africa. Johannesburg is among the 40 largest metropolitan places globally (AB, 2010). The city is linked to Botswana by tarred roads through Botswana's Tlokweng and Ramatlabama border posts. Air Botswana operates daily flights to Johannesburg through Gaborone and Maun as well as several times a week via Francistown and Kasane.

- **Harare**

Harare is Zimbabwe's capital with a population of approximately 1 600 000, with 2 800 000 residing in the metropolitan area (2006). It is Zimbabwe's biggest town as well as the country's administrative, communications and commercial centre (AB, 2010). The city is linked to Botswana by tarred roads through Francistown. Air Botswana operates flights to Harare several times a week from Gaborone and Kasane.

- **Lusaka**

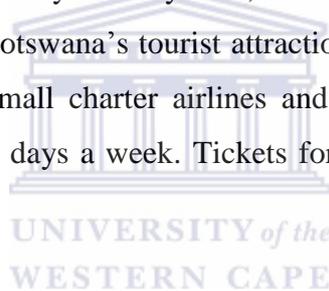
Lusaka is Zambia's capital, situated in the southern part of the country's central plateau. It has 3 100 000 dwellers (2007 estimate) and is the governmental and commercial hub. The four major Zambian highways branch out north, south, east and west from Lusaka. The city is home to the Lusaka International Airport. It is linked to Botswana by tarred road through Francistown.

▪ **Nairobi**

Nairobi is Kenya's capital and major city, with roughly three million dwellers. It is Africa's 13th on the basis of population and number four in size and infrastructure development. Nairobi counts now among the outstanding cities in Africa in commercial and financial terms. The city is served mainly by Jomo Kenyatta International Airport, which is the biggest airport in Central and East Africa, with more than 4,9 million passengers in 2008. The airport serves as the key transit hub for passengers to East Africa and Central Africa's smaller cities. The airport offers direct flights to intercontinental passengers from Asia and Europe (Wikipedia, 2010). Air Botswana offers flights to Nairobi through a code-share agreement with Kenya Airways.

▪ **Windhoek**

Windhoek is Namibia's capital city, with a population of 250 000 people. Travelling to Botswana from Windhoek is mostly done by road, with a distance of 750 km to Gaborone. The nearest popular route to Botswana's tourist attraction sites is the Windhoek–Maun air route, which is serviced by small charter airlines and Air Namibia. Air Namibia offer regular scheduled flights three days a week. Tickets for these flights are usually sold out long before departure dates.



3.3.3 *Global links*

As a landlocked country, Botswana's connectivity to global markets depends largely on neighbouring countries, in particular South Africa, with Johannesburg as the main connecting point for international air passengers. For example, passengers from Namibia connect at O. R. Tambo International Airport to Gaborone and from there to wherever they are headed (e.g. Maun or Kasane). Air Botswana does not service any international routes, and international passengers rely on SAA and other airlines operating from South Africa. Map 4 in the Annexures shows Botswana's international air routes.

3.4 Conclusion

It is evident that the government of Botswana still has a lot to do in terms of connecting the country both internally and externally. The vastness of the country requires not only an efficient road-transport system but also an air-transport system which can cover long

distances within a short period. It is also a fact that road infrastructure is costly as it takes a long time to construct and has to be maintained to ensure that it is in a good state. Botswana's roads are said to be under a lot of pressure owing to the rapid traffic growth domestically and the fact that it has to connect with neighbouring countries. Air transport on the other hand is still poorly developed as it is only available in very few places in the country. It does not even cover all the important towns, nor all the mining towns. While most of the tourist destinations enjoy access to air-travel service, it is mainly charter which is often expensive and requires group bookings. Places such as Ghanzi have no scheduled air services despite being an important destination with tourism and cattle farming activities. The town is also at the Namibian border, which makes it a gateway for tourists headed for Walvis Bay in Namibia. These few examples show the challenge facing air transport and the future of Air Botswana in the further development of the country.



CHAPTER 4

BOTSWANA'S AIR-TRANSPORT SECTOR

As already noted in the earlier chapters, the air-transport sector is expanding, more people want to fly and more airlines are entering the market. While the global air-transport market is growing, Botswana's air-transport market is stagnant, due to constraints like the small size of the market, poor air-transport infrastructure and the absence of competition in the air-transport sector. In this chapter, details of the country's air-transport sector are discussed together with the government's efforts to improve the sector.

4.1 Market Size

Botswana's domestic air-transport market is very small, given the small overall population. Yet, the international market can bring greater benefits if tourism is wholly exploited. For the local market, government is the main client with public officers trying to reach remote places, especially where there is need for expertise. Experts are located in the few larger towns, but they have to visit places across the country. This is particularly common in the health sector. Aside from this, Botswana's capital city Gaborone hosts the Southern African Development Community headquarters. The SADC's general mandate is to promote economic growth, development and economic integration in southern Africa. The headquarters of the Regional Centre for Southern Africa (RCSA) is also located in Gaborone. The organisation is tasked with the implementation of the United States Agency for International Development's Initiative for Southern Africa (MFDP, 2010). These international agencies create a demand for regular air links with other regional centres, even though total numbers of travellers may be limited.

4.2 Air-Service Providers

Botswana's air industry has not been liberalised yet, with Air Botswana enjoying strong government protection. Government maintains that it aims to make available a competent, safe and consistent air transport service that meets international standards. The government has undertaken some deregulation initiatives aimed at reducing constraints on market forces, recognising the fact that deregulation creates a more conducive environment for the

smooth operation of the industry. The Air Transport Policy is to ensure further liberalisation of the aviation sector and perk up market access (MFDP, 2003: 146). The country's national airline, Air Botswana (AB), offers scheduled flights together with the competing designated airlines South African Airways (SAA), South African Express (SAE) and Air Namibia. Scheduled services inside the country are monopolised by AB, while charter services fly mainly to places where AB does not operate.

The airline currently operates a regional network consisting of four domestic sectors and five regional sectors. The airline also offers scheduled flights which include charter services in the SADC area (AB, 2009). All other local airlines provide air-charter services, mostly inside the country, but also regionally. Charter flights differ from scheduled airlines in that the former can adjust times to suit the customers' preferences. In addition, airlines can opt for lesser known airports, which are more *en route*, while avoiding hectic airports. Air charter is also convenient for customers aiming to stop over at a number of distant places over a short time period, requiring very little time in transit. The Botswana operations are mainly tasked with transporting visitors, employees and cargo to safari camps in the Chobe, Okavango and adjacent places. Ninety per cent of the country's operations occur inside the Maun, Shakawe and Kasane triangle (Hatab, 2008).

We can now briefly summarise key features of the different airlines operating in Botswana.

4.2.1 *Air Botswana*

Air Botswana (Pty) Ltd was established on 02 July 1972, replacing two unsuccessful previous national airlines, namely Botswana National Airways, which operated between 1966 and 1969, and Botswana Airways Corporation, which ran from 1970 to 1971. Air Botswana Holdings was in charge of aircraft tenure and rental as well as serving as the investment company for Air Botswana. During its early years Air Botswana contracted several flight services to South African Protea Airways through Air Services Botswana, which was a local Botswana subsidiary. The Botswana government absorbed Air Botswana as a parastatal corporation on 01 April 1988 based on the Air Botswana Act (1988). It thus became the nation's flag carrier.

AB offers scheduled flights locally and regionally. On the ground, the airline includes the current engineering hangar located at Sir Seretse Khama Airport, where the airline's technical personnel does maintenance of the local fleet as well as on aircrafts owned by other African airlines. This competence has attracted ATR operators from Malawi, Kenya, Zambia and Tanzania, making a considerable contribution to AB's overall income. Air Botswana also operates a cargo service linking Gaborone and Johannesburg three times a week.

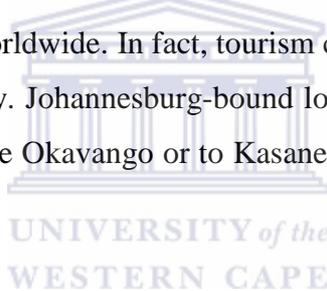
AB started its flight operations in August 1972 using a Fokker F-27 Friendship, which was then the company's only aircraft. During the 1970s, Air Services Botswana operated a Gaborone–Manzini–Johannesburg–Harare–Gaborone return route, besides domestic services from Gaborone to Maun, Francistown and Selebi-Phikwe. Towards the end of the 1970s, Air Botswana had an HS 748, a Douglas DC-3 and a Vickers Viscount 754 under its operations. The Vickers Viscount 754 was leased from Protea Airways. When the Botswana Development Corporation was established in 1981 it was one of its tasks to help with the acquisition of aircraft for lease by the airline. Due to a shortage of their own qualified crews, the airline seconded crews from Comair to operate the leased Fokker F27. Maintenance was at that stage contracted out to Safair Freighters (Wapedia, 2010).

A Lockheed L-100-30 Hercules was leased in 1983, leading to the formation of Air Botswana Cargo, aimed at operating cargo charters. When South African Airways stopped its services to Lesotho and Swaziland, AB acquired a second F27 to serve Maseru and Manzini. In December 1984, a sixteen-seater Dornier Do 228-200 was leased from Kalahari Air Service, and the company flew and maintained the aircraft on behalf of Air Botswana. It was at the end of 1984, on 10 December to be precise, that the Sir Seretse Khama International Airport was opened, and Air Botswana has since operated from the airport. The Gaborone, Francistown, Lusaka, Johannesburg, Manzini, Maseru, Harare, Maun, Selebi-Phikwe and Victoria Falls routes were added to the route network during 1985 and 1986 (Wapedia, 2010).

The Fokkers were sold in 1988 after the arrival of two ATR 42–230. The first BAe 146 arrived in November 1989 and it started service on the Gaborone–Harare route, which ran five times a week in conjunction with Air Zimbabwe. It also serviced other destinations of the airline's network in southern Africa. The airline also got into block-seat travels with

several international airlines, which included a contract with British Caledonian which offered seats on the Lusaka-Gaborone segment of the London–Lusaka–Gaborone service (Wapedia, 2010).

Over these years, AB tried to meet the needs of air transport as extensively as feasible inside the country, while at the same time serving critical markets outside Botswana. The local route network links Gaborone with Botswana's second city (Francistown) and with Maun, which is on the rim of the enormous Okavango Delta. The network also links Gaborone with Kasane, which provides an entrance to Chobe River National Park located on the northern boundary with Namibia. Regional destinations are Johannesburg, Lusaka, and Harare. More recently, Air Botswana offers a service linking Gaborone and Nairobi in a code-share mutual service with Kenya Airways. The airline's timetable tries to take into account the requirements of the business and leisure customers, and it also actively supports the emerging tourism sector. Botswana is a destination full of distinctive natural attractions that woo tourists worldwide. In fact, tourism comes second to mining as a major revenue source in the economy. Johannesburg-bound long-haul tourists readily transfer to Air Botswana to continue to the Okavango or to Kasane for the Chobe National Park (AB, 2009).



Currently, Air Botswana has a fleet of six aircraft, viz. three 47-seater ATR 42-500 and two new ATR 72-500. Comfortably configured with 68 seats, the 72-500 is the latest in the family of twin-engine turboprops, which has deep seats, a quieter cabin, smooth ride and enhanced air conditioning. It is powered by upgraded versions of the same Pratt and Whitney engines that gave the smaller ATR42-500 its exceptional performance. The company also owns a BAe 146 with seat a capacity of 78 passengers (AB, 2009).

4.2.2 *Mack Air*

Mack Air is a charter airline with its base in Maun. The airline was established in 1994, offering charter services for tourist travel, and it furnishes game lodges with flights for their customers, does medical evacuations, aerial photography and provides customised scenic flights. Mack Air is a very reputable air-charter company that has operated in the northern part of Botswana and the Okavango Delta for more than 15 years. Mack Air has over the years managed to build up a name by providing a consistent, competent and

amiable service with emphasis on safety. Mack Air operates 14 aircraft. The company's largest aircraft is the 14-seater Cessna 208B Grand Caravan. Other aircraft include the Gippsland GA8 Airvan and a Cessna 210 Centurion. The workhorse of the fleet, of which Mack Air operates six aircraft, is the Cessna 206 Stationair (Hatab, 2008).

4.2.3 *Moremi Air Botswana*

Moremi Air Botswana is a charter airline also based in Maun. Established in 1995, it operates a fleet of seven Cessna and Islander aircraft – all perfectly suited to regional and international flying. Moremi Air offers services not only in Botswana but also to destinations in neighbouring Zambia, South Africa, Namibia and Zimbabwe. In addition to operations based at Maun Airport, the company has an aircraft stationed permanently at Kasane, close to the Zambian border. This enables it to offer easy and cost-effective daily transfers from Kasane to Livingstone, the Caprivi Strip and Victoria Falls. Moremi Air also undertakes short scenic flights from Maun to the Okavango Delta and from Kasane to Victoria Falls as well as a seven-hour day trip around the Okavango (Hatab, 2008). Moremi Air Services' fleet includes single and twin-engine aircraft suitable for local trips in addition to turbine aircraft suitable for both international and regional flying.

4.2.4 *Sefofane Air Charter*

The Sefofane Air Charter company is based in Maun as well, operating within the country and also in other southern African countries, including Zimbabwe, Namibia, Zambia and South Africa. The airline was founded in 1991 operating just one Cessna 206. Today Sefofane has many aircrafts as well as its own repairs company known as Northern Air Maintenance. The company offers services mainly for Wilderness Safaris, which is one of the largest safari operators in southern Africa. The company has offices in Windhoek, Harare and at Lanseria Airport, South Africa, which gives it the most extensive track of any southern African air-charter company. It is from these offices that the company's aircraft fleet is managed for the operations conducted in the different countries (Hatab, 2010).

4.2.5 *South African Airways*

In addition to being the leading local and global airline company in South Africa, SAA is South Africa's flag carrier. SAA headquarters are in Airways Park at O. R. Tambo

International Airport in the Gauteng Province. Through hubs in Cape Town and Johannesburg, the airline offers services to 37 international destinations. SAA serves five destinations locally and 32 external destinations in 26 countries across America, Africa, Asia, Oceania and Europe. SAA offers international routes to cities such as New York City, Buenos Aires, Washington/D.C., São Paulo, Munich, London, Hong Kong, Frankfurt, Perth and Mumbai. The majority of international and intercontinental flights originate from Johannesburg, and the one and only intercontinental route from Cape Town is to London. Furthermore, SAA operates several local and regional routes including its links with Botswana.

4.2.6 South African Express

South African Express (SAE) took to the skies on 24 April 1994. The airline's current shareholder is Transnet and is a subsidiary of the SAA Alliance. While the airline is autonomous of South African Airways in its operations, its flights are integrated in the alliance, therefore the airline uses the South African Airways designator code, reservations and check-in facilities. SAE has of late converted into an entirely owned subsidiary of the Department of Public Enterprise. The SA Express fleet includes the latest 50-seater aircraft which comprise the De Havilland Dash 8 Series 300 turboprop, the Canadair Regional Jet Series 200 BER, branded the Express Jet by locals, and the modern 74-seater De Havilland Dash 8 Series Q400 turboprop (SA Flights, 2010).

4.2.7 Conclusion

This brief review of the airlines offering services inside Botswana clearly reveals the difficult situation of Air Botswana. The expanding market for tourists is extensively covered by local air-charter companies, while the major external routes are covered by SAA and SAE, leaving the less popular local destinations for the national airline. This should be kept in mind when we now review the privatisation efforts of Air Botswana.

4.3 Air Botswana's Privatisation Efforts

The government of Botswana has tried to privatise Air Botswana three times but without success so far. What follows is a chronology of Air Botswana's establishment and operations to date.

4.3.1 Air Botswana pre-1988

In its operations after taking over from the two unsuccessful national carriers in 1972, Air Botswana (through Air Services Botswana) did not seem to have a bright future. Its contract with Air Services Botswana was not renewed but was awarded to British Airways in 1981 for a six-year period. Lack of own qualified crews also appears to have been an issue, as the airline relied on crews from Comair while maintenance was contracted out to Safair Freighters. Nevertheless, the airline continued to expand with the formation of Air Botswana Cargo in 1983 when South African Airways stopped serving Lesotho and Swaziland. The completion of the Sir Seretse Khama International Airport in 1984 saw Air Botswana operating from the airport as its headquarters. After 1986, the airline steadily expanded its route network to encompass Gaborone, Francistown, Maun, Selebi-Phikwe, Johannesburg, Harare, Lusaka, Manzini, Maseru and Victoria Falls.

4.3.2 Air Botswana 1988 to 1999

Air Botswana became the nation's flag carrier after its absorption as a parastatal corporation by the Botswana government in 1988. The airline sold its old fleet and acquired two ATR 42-230 in 1988 and its first BAe 146 in 1989. The airline started co-operation with other international airlines through block-seat schedules, which incorporated an accord with British Caledonian offering seats on the Lusaka-Gaborone segment of the London-Lusaka-Gaborone service. Yet, the airline did not make any profits, but rather incurred huge financial losses. For example, in 1994 the government had to write off AB's P74 million losses. The losses were then converted into equity, and the government decided to recapitalise the airline to make it ready for privatisation.

While the airline was still awaiting the Privatisation Policy, which came into being in 2000, a tragedy befell the airline in 1999 when one of its pilots committed suicide by crashing an empty ATR 42 into two other Air Botswana ATR 42 aircraft at Sir Seretse Khama International Airport. This incident left the airline with only one BAe 146. To add insult to injury, the remaining aircraft was non-operational for a year due to mechanical problems, which forced the airline to lease an aircraft to discharge flight schedules.

4.3.3 *Efforts since 2000*

Air Botswana continued to incur high financial losses, partly because of using an old fuel-inefficient fleet, soaring operational costs, overstaffing, failure to attract and retain skilled pilots as well as poor management. The airline's growth potential was also hindered by the high costs it incurred, together with poor quality of service, high insurance premiums, sluggish uptake of the latest technology and low-keyed marketing. Nevertheless, between 1999 and 2003, Air Botswana did not receive any government subsidy. In fact, in 2007/08 Air Botswana was doing very well for a small national airline, when it actually declared a surplus of P17,5 million. That was seen as a staggering achievement for an organisation that had been losing money beforehand. Yet, only a year later, in 2008/09, Air Botswana lost a staggering P87 million (Consumer Watchdog, 2010).

The course of privatising Air Botswana started on 19 April 2000, when the Botswana government signed a consultancy contract with the International Financial Corporation, a World Bank ally. IFC was then chosen as the government's key consultant in the privatisation initiative. The first phase aimed at reviewing the regulatory framework and strategic options. This phase was completed in 2001. At this stage, however, the privatisation exercise was suspended due to the downturn in the international air-transport market owing to the attacks on 11 September in the United States. The exercise was resuscitated in 2002, with the intention to conclude it by 2003 (Motlogelwa, 2007 c).

In 2003, the Botswana government put forward Air Mauritius and Comair as preferred strategic partners for the airline. The successful bidder was to receive a 45 per cent share in the airline, and the government would also hold 45 per cent, while 10 per cent would be held by staff. The company was to be listed on the Botswana Stock Exchange once the airline assumed its place under new tenure (Motlogelwa, 2007 b). Unfortunately, in September 2003 Air Mauritius withdrew from the procedure, citing the slump in international air-travel markets owing to the September 2001 terrorist attacks. In December 2003 Comair also withdrew, partly due to increased competition by low-cost airlines in South Africa's air travel market. This led to the suspension of the search for a strategic partner in February 2004 (Malema and Mokgoabone, 2004).

Despite these negative responses, the government of Botswana still remained committed to completing the privatisation of Air Botswana. Subsequent to heavy losses in the first quarter of 2006, the government resuscitated the airline's privatisation efforts. This was at a stage when the airline was reported to have defaulted on its US\$45 000 cost to the BAe 146 lease from April to July 2006. It had to pay the arrears following a warning that non-compliance with the contracts could mean lease termination and exposure to claims for damages from the corporation, which would tarnish the airline's image in the course of the privatisation (Motlogelwa, 2007 c).

In September 2006, African World Airways Ltd, Airlink of South Africa and a local Botswana truck- fuel transporter Lobtrans (Ltd) placed bids for the tender to take over Air Botswana. Other shortlisted companies that did not tender their bids included Comair, Ethiopian Airlines, ExecuJet, Tourism Empowerment Group and Interair South Africa. Airlink was put forward as the preferred bidder for Air Botswana in November 2006, and it was anticipated that Air Botswana would be wound up, leading to the creation of a new airline to be branded Botswana Airlink. The government would hold a controlling 50,1 per cent share while Airlink was to hold the remaining 49,9 per cent. Botswana Airlink would have disposed of the 46-seater ATR 42s, and would in its place operate a 29-seater BAe Jetstream 41s, believed to be better suited for low-traffic local routes. The deal also encompassed the retrenchment of the entire 300 staff of Air Botswana, while only about 180 people were to be rehired by Botswana Airlink (Motlogelwa, 2007 c).

In October 2007, the Botswana cabinet decided that the Airlink deal was no longer feasible, and hence the Botswana government stopped negotiations with Airlink. Reports cited as reasons that Airlink wanted to replace Botswana's national colours on the airline's aircraft with South African colours. But the major concern was that the proposal was not in line with the country's air-transport requirements as it failed to tackle government objectives for the advancement of transport and tourism sectors in Botswana (Gaotlhobogwe, 2007).

After the Airlink deal failed, the government decided to look for a management company to operate Air Botswana for a three-year period (Gabathuse, 2007 and Motlogelwa, 2007). The search began in November 2007. In the meantime, the government went further to

recapitalise the airline, injecting P100 million to enhance the airline's performance and thus making it more attractive for privatisation (Mmegi, 2007).

Press reports indicated that in August 2008, a certain Alexander Lebedev, apparently a Russian oligarch, showed some interest in acquiring shares in Air Botswana. Lebedev used to be president of the National Reserve Corporation which is among Russia's most renowned financial institutions. Lebedev also had a 31 per cent stake in Aeroflot. He was invited to make a presentation of his bid, which incorporated expanding Air Botswana's route network to Düsseldorf Airport in Germany which was the base of Blue Wings in which Lebedev's National Reserve Corporation had 48 per cent ownership. Unfortunately, by the end of 2008 Lebedev had abandoned his plans to invest in Air Botswana, constituting yet another drawback in Air Botswana's privatisation efforts (Gaotlhobogwe, 2008 b). However, the government still sees the need to improve the air-transport sector as a crucial factor for diversifying the economy and creating job opportunities, especially by harnessing the tourism industry. In this light, the struggle to privatise the airline is still on.

As one further step in this direction, Air Botswana has adopted a code-share contract with Kenya Airways in July 2009, beginning flights to Gaborone in September the same year with three flights per week. In August 2010, Air Botswana launched its Gaborone–Lusaka direct flight, bringing the number of the national carrier's across-the-border destinations in the region to three. Before the Lusaka connection, AB only operated direct flights to Johannesburg and Harare. After the Lusaka link, AB will be targeting Luanda (Angola) next. Meanwhile, Botswana is waiting to sign new bilateral air-service agreements with Angola, Egypt and Singapore.

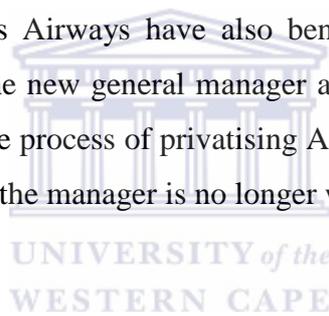
4.4 Air Transport Imperatives

There are four major imperatives in Botswana's air-transport market. As long as these issues are not addressed, the air-travel market will deteriorate, and Air Botswana's chances for survival will further decline. The success of the privatisation of the airline lies in these four issues both before and after the exercise is completed.

4.4.1 *Efficiency*

Previous discussions have already mentioned the inefficiency of AB since its inception. Besides financial losses, poor administration is a serious concern at AB. In April 2010, Air Botswana grounded two of its new HR 72 aircrafts bought in March and May 2009 because it discovered that they do not have maintenance plans. It appeared that the engineering department did not put together a proper maintenance plan for the two aircrafts. In addition an HR 42 had to be grounded because it had a wheel- and icing-problem. The airline then leased two aircrafts from third parties for about P5 million a month although the airline was already in financial difficulties (Lute, 2010).

In May 2010, Air Botswana eventually recruited a general manager who, according to reports, had a lot of experience that can be of use to turn AB into a profitable carrier. The manager has worked as country manager for Virgin Atlantic and for British Airways. Kenya Airways and Mauritius Airways have also benefited from that person's airline-industry experience. In fact, the new general manager arrived at a time when government once again wanted to restart the process of privatising AB and he was expected to expedite it (Lute, 2010). Unfortunately, the manager is no longer with AB.



4.4.2 *Safety*

AB dominates the air-travel market in Botswana, but safety is currently a major issue, due to use of old aircraft and the shortage of experienced pilots. Air Botswana is reported to have withdrawn its membership from the International Air Transport Association (IATA) due to the airline's failure to meet the December 2008 cut-off date of the IATA Operational Safety Audit. The airline had plans to rejoin IATA in 2009 but is yet to do so. The Minister of Transport has in 2010 informed the parliament that the Air Botswana management team was working round the clock to ensure that IATA reinstates the airline by September 2010 (Mmegi, 2009 b).

4.4.3 *Reliability and consistency*

Air Botswana has always encountered delays in its flights, inconveniencing many of its customers. In particular business people and tourists have expressed disappointment in this regard. The latest incident, as reported by Mmegi newspaper (Benza, 2010 a), happened when over 100 delegates, who were going to attend the BOCCIM's National Business

Conference (NBC) opening session in Francistown, got stuck at Sir Seretse Khama International Airport for more than five hours, following a delay of both Air Botswana's scheduled flight and a chartered service (Benza, 2010 a). Such a reputation can be fatal for any efforts to privatise the airline.

4.4.4 Affordability

Lack of competition has resulted in very high air fares, making air transport an unaffordable service in Botswana. Thus, middle-class workers in Botswana cannot afford AB fares. This is particularly important on the Gaborone–Johannesburg route, where many people now prefer to take road transport from Gaborone to Johannesburg because the air fares are too high and flights are not reliable. Road transport is seen by many as reasonably priced and more reliable. Locally, even the small elite who can afford to fly, often opt for road transport because the air fares do not reflect the quality of services offered.

4.5 Conclusion

The facts put forward in this chapter regarding the range of airlines operational in Botswana, the (poor) performance of Air Botswana and its failed privatisation efforts clearly reveal the dilemma of the airline and, in fact, the embarrassing position of the government of Botswana. The situation is all the more difficult, given the slowdown of the local economy due to the global crisis and the expected exhaustion of the diamond resource over the next decades. On top of these issues, we find pressures of the socially and economically deprived people in the remote rural areas and smaller towns, who look up to “affordable transport” as the way to steadily improve their quality of life. Before we take an integrated view at these challenges, the next chapter summarises some international lessons that seem to be relevant for Botswana.

CHAPTER 5

AIRLINE INDUSTRY EXPERIENCE: INTERNATIONAL LESSONS

5.1 Introduction

The driving force behind the evolution of the developing world's aviation industry is akin to that of the developed world: to establish and maintain a national flag carrier. The prime motivation behind national airlines is the view that to be linked to the external world is critical, based on the vagaries of the economic regulations and world politics (Unctad, 1999: 8). Keeling (1995) as quoted in Bowen (2002: 426) observed that the airline industry is now the favourite travel sector for tourists, international migrants and for transporting high-value, low-bulk commodities. The majority of developing countries have state-owned airlines which they consider to be strategic tools for development (Ndhlovu and Ricover, 2009: 45). Botswana's national flag carrier, Air Botswana, for example, has its operations schedule planned in full support of the tourism industry which is the country's second chief revenue earner following mining (AB, 2010). This makes Air Botswana very important in the country's diversification strategy which has tourism at the top of its agenda.

International air transport (both passenger and freight) plays a decisive role in international integration and affects the development of all sectors of an economy (Piermartini and Rousova, 2008: 1). In this section, four developing countries have been selected, and their efforts to establish and maintain a flag carrier are evaluated. These are countries that are more or less similar to Botswana in terms of being developing, having vast areas and being sparsely populated, landlocked and with a national airline either fully or partly state-owned. The countries include two from southern Africa, one from central South America and one from central Asia. The chapter also looks at a few other examples, which were randomly chosen. Initially we consider the experiences of these airlines, followed by references to the wider debate surrounding privatisation as an answer to the problem of ailing national carriers.

5.2 National Flag Carriers: Global Trends

While national airlines originally seemed to be accepted as the base for international air transport, deregulation has brought a change to that perception. Although the change took a

full swing in developed countries, in the developing world governments are still dragging their feet. It is argued that the delay in fully deregulating the airline industry is that the developing world has been marginalised by the western world's deregulation. According to Bowen (2002: 426) a number of developing countries have tried to deregulate the industry, but not much has been achieved, as the Western deregulation has impacted negatively on the developing world. Bowen (2002: 425) contends that airline deregulation has increased the inequality in accessibility of gateways in international airline routes. Sub-Saharan countries were cited as the most affected, as they have become even more isolated during the Western deregulation period.

When comparing the airline industry between developed and developing states, Hooper (1998) further noted that the industry is still fairly tightly regulated in developing countries. In 1990 Australia deregulated its domestic airline industry, which led to the merger of the state's two airlines and arrangements for an integrated aviation market with New Zealand. In contrast, the Indian government still controls air fares, and airlines are expected to cross-subsidise operations that are not profitable. In fact privatisation seems to be at the bottom of the state's agenda. This has resulted in air fares declining in Australia whereas they went up in India, and the market continues to grow remarkably in Australia at the same time as it is constrained in India (Hopper, 1998: 109).

Despite these high air fares, airlines in developing countries around the globe continue to fight for their survival despite their governments' efforts to save them. Ohunayo (2010) observed that flag carriers are floundering with overpowering debts. He observed that although a national carrier is not a prerequisite, nor is it necessary for bilateral negotiations, many countries which could not sustain their first flag carriers (including Ghana, Greece, Cameroun, Argentina, Zambia, Gabon and Senegal) have tried in vain to establish another flag carrier. These countries liquidated their national airlines after realising that they were sinking much of tax-payers' funds. Commenting on Nigeria's plans to establish a new airline, Ohunayo (2010) recalled that Nigeria Airways could not make it even with complete monopoly of the Bilateral Air Services Agreement. Thus, there was no guarantee that the new flag carrier will make it in the current aggressive and concession-ridden air-travel business. He therefore argued that, if having a national carrier is felt to be a must, then the cost, risk and lessons from other airlines should be seriously considered.

5.3 The Privatisation Challenge

Several measures that have led developing countries to intensify their participation in air-transport services are actually investment issues, such as improvements of the national airline or alternatively promoting the privatisation of the flag carrier. The issue is to foster increased access which corresponds to greater international competition. To do so, airlines' attractiveness must be adequate to present them as potential candidates for co-operative arrangements such as code shares, and they must be reputable companies that can be successfully privatised through national or foreign capital. Without a market-orientated approach, it will get more and more difficult for carriers in developing countries to preserve their traffic share in international routes (Unctad, 1999: 12-13).

The concept of privatisation of national airlines goes back a long way. In Asia, one of the early examples was the Korean National Airlines (KNA), which in the 1960s became private and is today the primary carrier in the Republic of Korea operating as Korean Air Lines. Restructuring of national airlines is a concept that has been accepted in developed and developing countries alike. The key aspect in national airline restructuring is the ownership transformation that occurs when the private sector takes over, and the refocusing of the airline that follows (Craig, n.d.: 3-4). Under restructuring, national airlines are normally sold (either partly or wholly) to private companies, to other airlines or through share issues to the wider public (Craig, n.d.: 2). Two ways of privatisation are usually considered.

Total privatisation is common among national carriers of developed nations and prevalent among the wealthier Asian countries. Total privatisation may occur in one of two basic ways.

- Through out-right sale to one or more major investors (e.g. Korean Air Lines owned by a major Korean *chaebol*).
- Through out-right sale by means of share issues to the public (e.g. British Airways).

Another arrangement can include combining the two methods such as the case of Qantas, the Australian national carrier, which was privatised in two stages: British Airways bought 25 per cent of the airline in 1993 and later-on the remaining 75 per cent were sold through a public floatation of shares.

Partial privatisation is common where a government wishes to raise capital for the airline, but still wants to maintain some ownership. For example, Malaysian Airlines is owned by the Malaysian government and Brunei Investment Agency. Further progression in the privatisation process may occur when an airline sells parts of its operations to other investors. These could include activities commonly carried out by an airline as support activities, like aircraft maintenance, air-cargo operations, flight catering, ground handling, etc. (Craig, n.d.: 5). It is important to again note that a restructuring approach adopted by one country is not necessarily the best for every nation as situations differ so widely. We can now briefly elaborate on these two ways of privatisation.

5.3.1 *Full privatisation*

Backx, Carney and Gedajlovic (2002: 213–20) studied the performance of public-owned entities, private entities and mixed ownership, and they concluded that private ownership is superior in performance. Both public and mixed ownership displayed lower levels of profits and worker efficiency, less aircraft utilisation and lower ratios of in-flight personnel to overall staff, when compared with private ownership. While a mixture of public and private ownership outperformed solely public ownership, private ownership outperformed mixed ownership, which implies private ownership is better than the rest. Backx, Carney and Gedajlovic (2002) further controlled for GNP levels, home region, firm size and domestic competition, and they still found the same results, i.e. that privatisation is best. Therefore, one may conclude that states should privatise public firms to improve performance, except if there are other factors influencing the situation.

In this light, Backx, Carney and Gedajlovic (2002: 219) indicated that factors such as affluence and the existence of competition in the domestic market as well as the geographic area of the airline's base are of great influence to an airline's performance. Regulation and competition patterns in the region are of importance too. Furthermore, scope and scale advantages should be taken into consideration.

Privatisation is also favoured over state ownership in as far as state enterprises are usually not monitored well. Government as a shareholder relies on bureaucrats as its representatives, but these bureaucrats have little motivation to ensure thoroughness in

supervising the entity because of a lack of rewards. Moreover, these bureaucrats are spread all over the public realm which makes it difficult for the state to have a representative who can be held responsible for enforcing the will of the state. In this regard Mar and Young (n.d. 282, quoted in Perkins, 1994) described state ownership as “ownership by all of the people which really means a sense of ownership by none of the people”. Another issue concerns professional conduct. Managers of public entities have at times acted together with overseers appointed by government, to pocket the enterprise’s wealth and thereby crippling it. Finally, mixed objectives that face public entities easily hinder performance. The quest for profit achievement parallel to pursuing public policies, like the creation of employment, gives state executives a headache.

We can distinguish two major forms of full privatisation, it can be instantaneous or carried out gradually.

- **Full divestment**

This type of full privatisation entails selling an entity or giving it away as an ongoing business, or even closing it down completely. Government can sell the company to one buyer, or can offer shares to the public, employees or users of the service. For example, in a country where the airline industry supports tourism, tour operators could be the buyers. Government might also decide to just give away the company to one of the group of people mentioned above. A non-performing entity can be liquidated if there is no hope of ever turning it around or when a suitable buyer cannot be found. This translates into privatisation in the sense that the company assets are sold to better users (Savas, n.d., 8–9).

- **Gradual displacement**

This form of privatisation occurs as the private sector slowly increases its role in the economy while the role of the state slowly diminishes. Displacement usually attracts very little or no political battling. It can be by default when government service is inadequate and the public turns to the private sector who might have noticed the lack and hence increased their supply of the particular service. Or the government would just withdraw its service provision, and private companies expand their offers to cover the shortage. Deregulation is another way that government can use to reduce its involvement in the provision of goods and services. State entities, such as airlines, most of the time exist because private entities are not allowed to compete with them (Savas, n.d.: 9–11). Air

Botswana for example controls the domestic air-travel market because no carriers are allowed to offer scheduled flight services. Deregulation requires that government lifts these restrictions and allows other domestic carriers to compete with Air Botswana by providing scheduled flights in the local market. This challenge to a state monopoly could displace the state entity completely.

5.3.2 *Partial privatisation*

There are many reasons for privatisation of national airlines, but common to all are efficiency and revenue. According to Peter (1997: 49–50), selling an entity is expected to bring in more cash to government, on the assumption that private companies are run more effectively. Yet, the private sector in developing countries is often reluctant to buy an ailing airline, as they do not see future profit prospects, given existing market characteristics. Interested buyers may submit proposals showing that the airline has to be scaled down to a small carrier, but governments might want to see their airlines maintaining the big flag-carrier status over and above becoming efficient after the privatisation exercise. This may in fact be the reason for holding on to their ailing flag carriers but seeking some private ownership. This trend is evident in the Air Botswana scenario, and in some of the airlines evaluated in the case-study section. If, after privatisation, the flag carrier collapses, governments may even establish new flag carriers on a wholly state-owned basis. Again, this calls for partial privatisation, where the state maintains part of the ownership and can therefore ensure that the carrier maintains its status.

Mar and Young (n.d.: 280-282) presented a Chinese example of partial privatisation where corporatisation and shareholding were adopted without fully privatising the state airline. China Eastern Airlines and China Southern sold shares to the public in 1997, when China initiated market reforms aimed at bringing institutional transformation in state companies to international standards. The airlines generated capital through share sales and generally improved their performance.

Within the context of such partial privatisation, a few specific issues seem important to be considered – also for Air Botswana.

▪ **Corporate Governance**

Governance becomes a key issue when operating state-owned enterprises. It imposes a fiduciary duty to ensure that the company is operated efficiently, to the benefit of the tax payer. This can be achieved in three ways.

Managerial governance

In this type of governance model institutional investors are tasked with ensuring that the rights of owners of an entity are not violated while professional executives carry out daily management duties. For example, Ghana International Airlines, established in 2004 by a private foreign investors group and the Government of Ghana, replaced the defunct Ghana Airways (that had ceased operations in 2004). The management team included the former Chief Executive Officer (CEO) of Kenya Airways and other experienced airline professionals. Ghana International Airlines was designated as the national airline in 2005 (Ssamula, 2009: 3).

Entrepreneurial governance

In this type of model individual business persons own and control the company. Such entrepreneurs are free to take decisions without consulting any committees and are free to come up with new ideas and strategies. Federal Express' Fred Smith and Virgin Atlantic Airways' Richard Branson have been able to develop innovative business models because they were not constrained by the conventional wisdom and traditional airline-business models (Ssamula, 2009: 3).

Stakeholder governance

This type of governance model is characterised by ownership that is shared by various "insider" stakeholders such as employees or banks. For example, the main shareholders in Korea's Asiana Airlines are two government banks as well as a group of investors and partner airlines. However, professional executives are tasked with daily management of the entity. Another example was seen in Swissair, which acquired equity stakes in numerous airlines to secure contracts for its information technology, consulting, logistics, engineering and catering businesses, which it anticipated would grow into successful stand-alone business units (Ssamula, 2009: 3).

- **Public-private competition**

In this case employees of the particular public company are encouraged to battle it out with private contractors for the provision of a particular service. This strategy is believed to be effective in performance enhancement, especially in companies where privatisation is looming. Employees compete fiercely to avoid privatisation and therefore retain their jobs. The strategy however requires a level playing field to facilitate fair competition for both outsiders and insiders (Savas, n.d.: 5).

- **Public-private partnerships**

Hodge and Greve (2005: 1) define PPPs as mutual institutional actions involving actors from the private and public sectors. The justification for PPPs is that combining the two distinct qualities of the private and public sectors would bring about the best outcomes, benefiting both parties (Hodge and Greve, 2005: 4). PPPs have two proportions – financial and organisational. This means there must be financial engagement by both parties as well as a joint venture where the organisational relationship between the two parties is very tight (Hodge and Greve, 2005: 5). The partnership that exists between the government of Botswana and De Beers in diamond mining could, for example, be extended to the air-transport sector, as the sector has lately become quite crucial for Botswana's continued development.

- **Franchising**

A private company may be awarded exclusive rights by the state to supply a specific service or goods. The company then pays the government a certain franchise fee. Franchising could also be in the form of a lease where the state could lease its aircraft to charter airlines. Air Botswana could franchise some of the charter carriers operating in the Maun and Kasane routes to offer scheduled flights on those particular routes. Franchising could also be in the form of a concession, which involves using the public domain such as airspace to carry out business activities (Savas, n.d.: 6).

- **Grants/subsidies**

Rather than indulging in the provision of specific services itself, the state could choose a private company and extend financial support in the form of loans with lower interest charges, grants and favoured tax treatment to such a company, in order to have the particular service provided (Savas, n.d.: 7).

▪ **Outsourcing/contracting-out**

In this case the state contracts-out an activity to a private company to undertake the service either on a profit or non-profit basis. Thus, support services such as aircraft maintenance and food catering can be contracted-out to private companies. A different strategy is outsourcing aviation services, which entails closing ticketing offices in city centres to curb high real-estate expenses and outsourcing sales via call-centres. With the development of the internet, sales-distribution channels in the airline industry have been revolutionised. Low-cost carriers are reliant on direct-sales techniques via the internet, therefore doing away with the need for costly commissions to travel agents and pricey call-centres. As an example, Ryanair's ticket distribution is at three per cent of costs against 10 per cent at larger airlines (Ssamula, 2009: 2).

5.3.3 *Other strategies*

Kay and Thompson (1986: 23–25) argued that it is not ownership *per se*, but rather the relation between ownership and competition that enhances effectiveness. Therefore, better private-sector performance depends for the most part on competitive markets. They gave an example of Australia's domestic air-travel market, which used to be controlled by Ansett Airlines, a private carrier, and Trans-Australia Airlines, which is publicly owned. As a result of public policy, that ensured a balance among public and private operators in the industry, investigations on the performance of the two airlines did not reveal any differences. They contend that it is the competitive environment that supports improvements in efficiency under all types of ownership. It follows that a regulated private company facing very limited competition does not perform any better than a public company. In fact, the private company's performance may even be worse. They further observed that privatisation enhances efficiency only when supported by liberalisation, and in cases where the two collide, liberalisation should be chosen over privatisation. Therefore, there are possibilities to introduce competition in industries such as the airline industry, without necessarily privatising state firms (Kay and Thompson, 1986: 31).

We can briefly refer to a few examples of such steps that fall short of full privatisation.

- **Code-sharing**

In this partnership one airline sells tickets for flights offered by another airline under its own airline code. An example is a code-share partnership made in the 1960s between Japan Airlines (JAL) and Aeroflot on Tokyo–Moscow flights, where Aeroflot operated the flights with its aircraft, while JAL sold tickets for the flights as though they were JAL flights. Code shares allow airlines to extend their operations into places where they could otherwise never afford to launch bases or acquire aircraft. (Ssamula, 2009: 2).

- **Airline interlining**

Also known as “interline ticketing”, airline interlining is a commercial accord involving individual airlines aimed at handling itinerant passengers requiring multiple airlines. Interline agreements are typically specific to a proviso or Global Distribution System (GDS) and may apply to paper and/or electronic tickets. Interlining agreements are different from code-shares in that the latter generally involves numbering a flight with the airline’s code albeit the flight operation of another airline (Ssamula, 2009: 2).

- **Spin-off airlines**

This strategy fits into evolving business models in thin markets, particularly when there is the probability of creating spin-off niche carriers, like regional carriers, LCC or charter aircraft. An example is the Moçambique Expresso, an airline based in Maputo, Mozambique, which operates domestic and regional scheduled as well as charter services. The airline was established in 1995 as Linhas Aéreas de Moçambique’s (LAM) Special Operations Department. Mango Airlines is an LCC example that entirely belongs to SAA. It began its operations in 2007 and competes in the same domestic market as SAA, operating with an ex-SAA fleet (Ssamula, 2009: 2).

- **Airline mergers**

A merger takes place when two companies come together to form a single company. A merger is especially akin to a takeover or an acquisition, but in the case of a merger current stockholders of both companies maintain a joint interest in the new corporation (Ssamula, 2009: 2). An example is the Chilean LAN Airlines’ imminent merger with Brazil’s TAM S/A. Faced with tough competition from the developed-country airline industry, developing country flag carriers could consider merging to establish a single regional airline, in fact, two or three countries could also create a single airline. Kim and Signal

(1993: 550) provided evidence which showed an increase in efficiency and market power following airline mergers during the period 1985 to 1988. But they also cautioned that, whereas efficiency improvement reduced prices of air tickets, market power may raise the prices again.

▪ **Diversification**

The latest expansion of the e-commerce industry has produced revenue sources which LCC aggressively exploit. For example, Ryanair raised over half of its operational revenue through activities that are not linked to flying. Such diversification activities include car rentals and hotel-room reservations through which LCC's can earn commission by way of advertising and also by offering flight-package deals via the internet (Ssamula, 2009: 2).

This brief overview of the wide range of strategies or “models” related to privatisation shows how many options there are and how important it is for governments and private sector partners to fully understand local contexts and dynamics. As indicated earlier, the most appropriate model should take into account these local circumstances as well as the particular priority goals of government and the potential partners.

Having reviewed the wide range of options or models in the context of privatisation, we can now deepen our insight through a brief review of four cases of national airlines in developing countries.

5.4 National Airlines: Case Studies of developing Countries

5.4.1 Namibia: Air Namibia

Namibia borders the South Atlantic Ocean, flanked by Angola and South Africa. The country has a total area of 824 292 km². Climatic conditions in much of the country are that of a desert: hot, dry, with sparse and erratic rainfall. The population is estimated at 2,1 million inhabitants. Namibia's natural resources include diamonds, gold, silver, copper, uranium, tungsten, lead, tin, lithium, cadmium, zinc, salt, hydropower and fish. Namibia's economy relies a great deal on mineral extraction and the processing for export. The mining sector contributes eight per cent to the GDP. However, mining generates over 50 per cent of foreign-exchange income. The country is the fourth-largest non-fuel

minerals exporter in Africa. Employment in the mining sector is only roughly three per cent of the labour force, whereas subsistence agriculture is a source of livelihood for approximately 35 to 40 per cent of the population. The economy is strongly linked to South Africa such that the Namibian dollar is pegged one-to-one to the South African rand (CIA, 2010).

When Namibia attained independence in 1990, the country had just over two-hundred aircraft on its aircraft record. Currently the figure is close to four-hundred and the number of air-travel passengers at the major international airport has gone up from over 200 000 in 1989 to almost 500 000 in 1998. Regular foreign airlines serving Namibia have increased further since 1990. Namibian carriers have also increased from four at independence to more than 30 at present. Facing this growth of air transport, the Namibian government has developed the basic infrastructure at major airports and upgraded the air-navigation system to cater for the increase in air traffic. As of July 2010, Namibia has 129 airports, 21 of which have paved runways (CIA, 2010). The country also has 2 629 km of railway lines and 64 189 km of road (5 477 km paved).

With the restructuring of Trans Namib, Air Namibia (Namibia's national airline) is now a separate company, with the anticipation that this airline will take key responsibility in harnessing the growth opportunities of the transport sector (Nations Encyclopedia, 2010).

Air Namibia is based in Windhoek and operates scheduled international, regional and domestic passenger flights as well as freight services. Windhoek's Hosea Kutako International Airport is home to the airline's international hub, while the smaller Windhoek Eros Airport hosts a domestic-services hub. Air Namibia came into being in 1946, then known as South-West Air Transport and renamed South West Airways in 1959. In 1978, South-West Airways amalgamated with Namib Air and retained the Namib Air identity. It became the national airline in 1987, after the Namibian government' had acquired the majority shareholding in 1982. It was renamed Air Namibia in October 1991 following the country's independence.

Like all other airlines in developing countries, the journey has been rough for Air Namibia. During the 2001/02 financial year, Air Namibia received a financial bail-out amounting to N\$296 million. The state subsidy was N\$325 million during 2002/03, and N\$400 million

for the year 2003/04 (Jauch, 2002: 3). In fact, Jauch (2002: 3) has argued that it cannot be justified that millions of dollars of public funds are spent every year to keep parastatals like Air Namibia alive at the expense of other pressing developmental priorities. According to him, the critical questions that need to be raised have to do with the poor quality and incompetence of the entities' management and kid-glove treatment they receive from government. The latter seems content with just pumping money into the entity, with very little expectations in terms of longer-run profitability. To him Air Namibia is a disaster case that justifies privatisation as the solution to ailing parastatals.

Dentlinger (2004) also reported that after years of financial upheaval the national carrier, like many African airlines, has failed to show even the slimmest of profits. The appointment of a new CEO was hoped to tackle the challenge of turning around the embattled national airline. The new CEO believed that Air Namibia needs a good manager, to improve efficiency and profitability. In 2004 the airline finally freed itself of its greatest liability (the airline's flagship Boeing 747-400 Combi), opting instead to rent the aircraft to fly the intercontinental route and hoping to generate profits in 2005.

On the turnaround strategy, the new CEO is reported to have noted that turnarounds come after identifying new territories and new roles, focusing on them and developing indicators to evaluate the success. The new CEO was confident that there is a place for a national airline in Namibia and for opportunities for growth. Air Namibia had wanted to restart the route to London in 2004, but the lack of a suitable aircraft to lease for this venture stalled the plan. When questioned whether the airline should still entertain the idea of entering into private partnerships, the CEO noted that such a decision would have to be based on whether the government wanted to relinquish its sole ownership. In fact, the benefits of any partnership would have to be demonstrated; besides, the timing had to be right. He also felt that Air Namibia's problems had been compounded by the turbulence of the international aviation industry. Rising fuel costs, a fluctuating world economy and terrorist threats to travel caused instability for many airlines. The central tenets for running an airline like Air Namibia should be profitability, load factors, service levels and route structures (Dentlinger, 2004).

Air Namibia's alleged operational incompetence attracted political interventions during these years. Maletsky (2008) reported that the Republican Party called on the country's

president to launch an investigation into alleged mismanagement at Air Namibia. The party president told the media in Windhoek that the national airline was not only a “bottomless pit” but a major disaster risk, due to nepotism, mismanagement, financial indiscipline, double standards and low spirits by staff.

The airline’s fleet at 24 May 2010 includes one Airbus A319-100, two Airbus A340-300, two Boeing 737-500 and four Beechcraft 1900D. There are plans to expand the fleet with an Airbus A340-300 and a Boeing 777-200 on international flight, and to substitute the old Boeing 737-500 presently operating on regional routes. Embraer 135 and ATR 42 are also being considered to replace the old Beechcraft 1900D fleet on domestic routes. Air Namibia’s local networks include Lüderitz, Mpacha, Ondangwa, Oranjemund, Walvis Bay and Windhoek. External routes include Luanda, Zimbabwe’s Victoria Falls, Accra in Ghana and Kumasi as well as Maun in Botswana. In South Africa it includes Johannesburg and Cape Town, and overseas Frankfurt is the only destination.

5.4.2 *Zambia: Zambian Airways*

Zambia is located in southern Africa, east of Angola. It has an area of 752 618 km², and a population of 11,8 million inhabitants. The Zambian economy has rapidly grown over recent years, with an annual real GDP growth of roughly six per cent from 2005 to 2008. The 1990’ privatisation of copper mines reduced public-budget pressures, and it significantly improved the chances for profitability in copper mining. The output from copper mines has risen gradually since 2004, as a result of higher copper prices combined with increased foreign investment. Despite the negative impact on the GDP resulting from the recent fall in world commodity prices and demand, an early recovery in the price of copper and a plentiful maize harvest aided Zambia’s most recent economic improvement. There have also been efforts to develop tourism as a step to diversify the economy with the air-transport system cited as vital to the development of tourism (Meeuws, 2004).

A great deal of development in Zambia has relied on rail transport, which links Zambia with Tanzania as well as the southern African net. With the deteriorating state of the rail infrastructure, nearly all bulky imports and exports, including domestic cargo, now rely on roads. Excessive use of the roads puts pressure on the infrastructure, which also is not up to standard, with almost 80 per cent of gazetted roads made of gravel if not soil. Many years

of poor maintenance have left roads in very bad shape. At this stage, air transport is not efficient, and private air-travel providers do not cover extensive services to remote tourism centres. There is also a need to upgrade key airports to encourage tourism development and other activities that could attract international airlines into Zambia (Kanyama, 2009). At this stage, Zambia has 94 airports, but only eight with paved runways (CIA, 2010). The government has commenced the revision of the Civil Aviation Act to update the Zambian air-transport law to current regional and global best practices. In order to take advantage of Zambia's unique geographic position and establish itself as a hub for air transport, the government has invited the private sector to establish air-cargo hubs at selected locations across the country.

Zambia Airways was established in 1964 as a Central African Airways subsidiary. It became Zambia Airways when the country became independent in 1967. The government has been involved in running the airline until 1992, when it resolved that the carrier should take responsibility for its debt services and use its own revenues to cover operating costs. On this basis, and taking into account a deteriorating economic climate, the airline scaled back both locally and globally. In 1995, the carrier was liquidated. Twelve years later, in 2007, government bought into another airline, Zambian Airways, which is not in any way related to Zambia Airways. Zambian Airways was originally the privatised Mines Air Services Limited (MAS). MAS was a subsidiary of the state-owned Zambia Consolidated Copper Mines. The Zambian government disposed of MAS in 1998 during the mine's privatisation, and the airline started to operate as Zambian Airways. However, the airline has not done any better than Zambia Airways, as in 2009 it suspended its services – mainly due to rising fuel expenses and an accumulated debt of US\$29 million.

When Zambian Airways suspended its operations in 2009, the aim was to restructure the airline or to negotiate a government bailout. The airline's shareholders included JCN Holdings which belonged to a local company (Seaboard), a US firm and Post Newspapers, a leading private Zambian newspaper. Most recently Zambia Airways has been at loggerheads with the state-run company National Airports Corporation (NAC) about a US\$2 million debt stemming from unpaid parking and landing fees as well as departure taxes. As of July 2010, the government-ordered investigations into the operations of the defunct Zambian Airways were partially completed. Details of the investigations are that

Zambian Airways owes three banks an amount of US\$5,9 million in secured loans, and its employees are also owed a large amount in arrear salaries.

Before its suspension of operations the Zambian Airways fleet included three Boeing 737-200 with a capacity of 118 and two Raytheon Beech 1900D Airliner with a capacity of 18. Internal routes included Chipata, Livingstone, Lusaka, Mfuwe, Ndola and Solwezi. External routes included Johannesburg, Dar-es-Salaam and Lubumbashi in the DRC.

5.4.3 *Bolivia: Boliviana de Aviacion*

Bolivia is in central South America, southwest of Brazil. It measures 1 098 581 km² in area. The population is estimated at 9,8 million. Bolivia has rich natural resources including gold, tin, zinc, iron, tungsten, hydropower, natural gas, oil, lead, antimony, timber and silver. However, Bolivia is described as one of Latin America's poorest and least-developed states. During the 1990s, the country introduced reforms to stimulate private-sector investment and economic expansion. In 2008, increases in the prices for exports in the mining sector and hydrocarbons led to a fiscal surplus, but the 2009 global downturn resulted in a recession. This, coupled with the poor infrastructure, has of late presented a great challenge to the economy. Although Bolivia is rich in natural resources, it is still heavily reliant on foreign aid to fund development projects. Debt expenses are a major obstacle for Bolivia's economic progress, despite the recent restructuring of most of the foreign debt (CIA, 2010).

Bolivia has 881 airports, but only 16 are paved. Bolivia's principal international airports are in Santa Cruz and La Paz. Bolivia is cut off from important international markets, such as those in Europe, North America and Asia, due to its geographical position. This makes air transport vital for connecting the country with the rest of world. In fact, developing air transport was expected to bring in many tourists, making tourism one of the economic-growth drivers (IATA Economics, 2007: 2)

Boliviana de Aviación (BoA) was created by the Bolivian government, to replace the distressed Lloyd Aereo Boliviano as the country's national airline besides AeroSur. Its headquarters are in Cochabamba. The airline began operations in 2008, starting with

domestic routes and becoming global within eight months. Bolivia's previous national carrier, Lloyd Aéreo Boliviano (LAB) closed down because it faced financial turbulence.

Lloyd Aéreo Boliviano had been established on 15 September 1925, and it first flew internationally in July 1930. The airline was restructured by government and it became the national carrier in May 1941. It expanded steadily and in 1950 it received the Condor de los Andes honour that government awards to exceptional Bolivian companies. By 1969, Lloyd Aéreo Boliviano had expanded its operations into Spain, the United States and central America. Yet, the year 1994 saw the airline running into economic difficulty. The government searched for prospective local buyers in the private sector, but was eventually opened to international investors. On 19 October 1995, a Brazilian carrier known as VASP purchased 50 per cent of the company. Unfortunately, as LAB's economic difficulties persisted, VASP decided in 2001 to sell its shares back to Bolivian investors.

Three years later, LAB bought a 50 per cent share in Ecuatoriana de Aviación. LAB at that stage operated several Ecuatoriana routes through code shares. However, in 2006 LAB's constrained financial position limited its capacity to fly. The airline had to return the leased Boeing 767s because of failure to honour payment. In March 2007, the Bolivian government suspended LAB services and the entire operations were stopped in April. The airline continued its search for financiers and at the same time it continued restructuring. LAB briefly revived operations in December 2007, but the Bolivian government has since created a new airline, Boliviana de Aviación, to replace Lloyd Aéreo Boliviano.

BoA seems to have done well so far. Schipani (2010) quoted the airline's general manager as saying their aim is to prove to the world that a well-run state-owned company is sustainable. According to the manager, LAB was a reputable carrier during the 1970s and 1980s. Following the partial privatisation of the airline, poor management and some accidents led to its collapse. The manager also noted that LAB's fall revealed that the market had been monopolised, resulting in very poor quality of service, provided at unreasonably high prices. BoA took this as a business opportunity that would ensure benefits to customers. The airline is reported to have managed to increase air travel customers by addressing some of the needs of the poor. Thus, first-time flyers are reported to have praised BoA as good and affordable.

BoA started with only \$15 million, and with its focus on excellent levels of service aimed to occupy the middle ground between regular commercial airlines and low-cost airlines. BoA copied UK's Easyjet and Azul in Brazil as examples to manage costs, while British Airways has influenced the terms of service. BoA does not provide business-class facilities, thus stressing its concept of making air travel affordable to all in one of South America's poverty-stricken nations. Just prior to BoA's operations, about 1,2 million travellers passed through Bolivian airports annually, but since BoA entered the market, the figure is said to have gone up by 900 000 (Schipani, 2010).

This revolution has been greeted with resistance, particularly by BoA's major private-sector competitor, Aerosur. While BoA has accused Aerosur of being a monopolist in the earlier period, Aerosur has cried foul ever since BoA began operations, arguing that the many new seats created by BoA are not needed by the market. Aerosur's manager has argued that BoA has lowered prices by charging fares way below expenses because it enjoys government subsidies. He noted that what BoA is doing is a political battle because the government cannot stand private business, with the government's watchdogs monitoring them closely (Schipani, 2010).

By mid-2010, Boliviana de Aviacion's Fleet consisted of four Boeing 737-300 with a passenger capacity of 138. Boliviana de Aviacion's destinations (as of March 2010) encompassed one external route into Buenos Aires (Argentina), while local routes included Cobija, Cochabamba, La Paz, Santa Cruz de la Sierra, Sucre and Tarija.

5.4.4 *Kazakhstan: Air Astana*

Kazakhstan is in central Asia, slightly west of the Ural River. Its total area is 2 724 900 km², and the current population is about 15,4 million. The country's natural resources include huge petroleum deposits, copper, coal, natural gas, iron ore, chrome ore, manganese, nickel, molybdenum, cobalt, lead, bauxite, gold, zinc and uranium. The country has 14 provinces and three major cities (CIA, 2010). Kazakhstan is one of the former Soviet's largest republics in the region. The country has a large agricultural sector, dominated by livestock and grain. Owing mainly to the country's energy sector, its socio-economic transformation and bountiful harvests as well as increased foreign investment, Kazakhstan has seen high growth since 2000/01 (CIA, 2010).

Kazakhstan suffers from a distinct geographic problem, viz. the underdeveloped transport infrastructure creates barriers to trade growth and foreign direct investment (Ho-Kyung, 2004: 112-113). Nevertheless, the country has 97 airports, 65 with paved runways and 32 with unpaved runways (CIA, 2010).

Air Astana is Kazakhstan's flag carrier operating scheduled local and international flights with major bases in Almaty International Airport and Astana International Airport. Air Astana became the flag carrier in 2002 following government's closure of Air Kazakhstan. The airline is a shared venture, with the Kazakhstan government owning 51 per cent while BAE Systems PLC of the UK owns 49 per cent. The previous national carrier, Air Kazakhstan was established following Kazakhstan Airline's bankruptcy during the late 1990s, soon after it had been established in 1995. It had been created in the early 1990s as Kazakhstan Airways and became Air Kazakhstan in 1997. Its operations came to a halt in 2004 when it was declared bankrupt due to heavy debts (Air Astana, 2010).

Just like the other airlines, Air Astana has faced tough market conditions owing to the global meltdown, recording a 15 per cent decrease in revenues in 2009. But the airline managed to make net profits of \$48 million thanks to its cost-cutting plan adopted in 2008. The profit accrued from savings on domestic fuel costs attributed to a fall in the prices of fuel in 2008. The airline also streamlined its supply arrangements during 2009, thereby bringing down costs (Air Astana, 2010: 9).

Air Astana owns a fleet of 22 aircraft and has just ordered a new Airbus 320. It will also introduce the Embraer E190 for regional flights, besides the Boeing 757-200 and Boeing 767-300ER fleet. The airline intends to expand its fleet to 34 aircraft in 2014 and to 63 in 2022. Air Astana provides air services to 21 local and 23 international destinations. Of late, the airline has opened routes to Baku, Bishkek, Kuala Lumpur and Novosibirsk. It has also gone further to improve its regional route network and increased flights to Frankfurt, Bangkok, Moscow and Istanbul. The airline has code-sharing deals with a number of major airlines like Air Baltic, Austrian Airlines, Asiana Airlines and KLM Royal Dutch Airlines. Air Astana also has the capacity to offer services to more than 300 places through its interline partnership agreements with 93 airlines (Air Astana, 2009: 7).

5.5 Other Lessons

5.5.1 *Niger*

Niger is among the world's poorest countries, ranking close to the bottom on the United Nations' human-development index. The landlocked sub-Saharan nation has an economy that relies heavily on subsistence farming but possesses some of the world's major uranium deposits. Niger's economy has been devastated by recurring droughts, desertification and very rapid population expansion. The government sources almost half of the public budget from foreign aid funds (CIA, 2010). There is a serious shortage of reliable and safe air transport in Niger. The only available domestic charter airline serves mines and oil companies. Niger has 27 airports out of which only 10 have paved runways (CIA, 2010). As a landlocked state air transport is a vital contributor to the development of the country. In this context the government of Niger has made efforts to establish a national carrier that would address the need for air transport in the country, but this has so far not succeeded.

Escadrille Nationale du Niger is Niger's flag carrier with its base in Niamey at the Diori Hamani International Airport. The airline's fleet consisted in July 2009 of only one Boeing 737-200. The airline had been created after many failed attempts by the Niger government to maintain a national airline. First there was Aero Niger (1961 to 1966) which was replaced by Air Niger in 1966. The government of Niger owned 94,5 per cent of shares in Air Niger, with the remaining shares held by Air France and Union des Transports Aeriens. Air Niger was closed down in 1993 and was succeeded by Air Niamey, which operated an air-charter airline in 2007. In April 2009, another national airline, named Arik Niger, was formed but it also collapsed in February 2010. Arik Niger was a subsidiary of Nigeria's Arik Air.

5.5.2 *India*

India is among the first nations to embrace civil aviation, and Air India (then Tata Airlines) was one of the first west-Asian airliners in 1932. The carrier was also among the world's first airlines that started operations with no government support. In 1946, the airline was turned into a public limited company. Government acquired 49 per cent of the airline, and the airline was approved as the chosen flag carrier. Lately, the story is a sad one as Air India is cited as one example of a troubled national airline (Tiwari and Upadhyay, 2010).

The airline's turnaround strategy which envisages break-even by 2014/5 has been dismissed owing to the amount of accumulated losses and debts incurred by the airline. Reports show that Air India has accumulated losses amounting to \$3 billion and is in \$3,8 billion debt. The airline, despite having been India's proud flag carrier at one point, has become a mockery, constantly portrayed badly in the media. Even after receiving more than \$400 million in state handouts, the carrier failed to improve its performance. There have been debates on whether Air India should continue as the flag carrier or be fully or at least partly privatised, as it has become a burden on government. Those calling for its closure have argued for private airlines like Kingfisher and Jet Airways as alternative flag carriers. They note that even national airlines such as Singapore Airlines, Air Canada, Alitalia and Lufthansa are partly owned by the state or completely private carriers (Tiwari and Upadhyay, 2010).

5.6 Conclusion

From this chapter we can conclude that striving to have a flag carrier is not a matter that is peculiar to a particular country. Many countries have flag carriers, either state-owned or private or a combination of these. Almost all countries, rich or poor, small or big, have flag carriers which come at great costs for local taxpayers. Our case studies indicated that many developing countries struggle to maintain their national airlines. Some countries have gone to the extent of establishing new national airlines even after the collapse of former flag carriers and regardless of all the costs imbedded in the process of sustaining one. Albeit different political and economic settings, running a sustainable national airline is still complex.

It has already been shown that air transport is crucial in the development of tourism, a sector that has lately become the prospective driver of economic development in many developing countries. Botswana, being among these countries, needs an efficient air-transport sector to fully harness its tourism potential. Tourism is the next revenue source after diamonds, hence there is need to intensify the sector as the country tries to diversify from diamond mining. When projections of diamond depletion were made and the financial meltdown hit the country through a reduction in diamond sales, it seemed justifiable to hand over Air Botswana to the private sector, as it has become a serious

liability to the government. Recent reports on the other hand show an improvement in the diamond industry, which is rapidly picking up momentum. But this should not be mistaken to mean the government can now retain the airline. Different means of turning the airline into a profitable entity must be sought. The answer to troubled airlines such as Air Botswana is a tricky one. Full or partial privatisation may or may not be the answer. It therefore becomes imperative to weigh up different options (individually or as a combination) in order to come up with the most appropriate solution. In the next chapter, some of these different strategic options are discussed in detail.



CHAPTER 6

SCOPE FOR FUTURE DEVELOPMENTS IN BOTSWANA

6.1 Introduction

It is evident from the review of other case studies that Botswana is not alone in her struggle to run a flag carrier. A number of flag carriers in developing countries are facing the same predicament. It is also evident that the airline industry is very complex, and that there are no simple solutions to the problems that airlines face in their journey of becoming reputable entities. British Airways for example, did not just privatise overnight. While the sale of BA was announced in 1983, the actual sale took place in 1986 (Eckel, Eckel and Singal, 1997: 278). The airline had been debt-ridden for some time, and its privatisation was all but spontaneous. Thus, the government of Botswana is right by not giving up, but to maintain the airline while continuing to search for an appropriate solution. When we look at the AB privatisation project, we note that the idea was birthed in 2000, but had to be suspended owing to the depression in the global air-travel markets following the terrorist attacks on 11 September 2001. The project was reignited in 2002, intended to be completed in 2003, but it again stalled because the market had not fully recovered. As we showed, the third effort also did not materialise.

In this chapter, several options are considered, that may be of assistance to the Botswana government in addressing the problems faced by Air Botswana. It should be stressed that these are not firm recommendations but rather strategic options that can be adopted either individually or as a combination, depending on the prevailing circumstances. After all, the relevance of any policy tool depends on the particular setting where and when it is being applied. Ramamurti (1999: 145) stressed the issue of relevance of policy tools to local conditions by noting that policy makers in developing countries should be more sceptical about privatisation promises, not in the conceptual sense, but in its relevance to the distinctive setting of their particular countries. Therefore, to reiterate, the strategies discussed here are not recommended solutions to the problems of just any ailing developing-country flag carrier, but a range of options that could be adopted after consideration of home conditions.

6.2 Futility of one-dimensional Solutions

Taylor (1998) argues that privatisation is no child's play as it involves major challenges during the process and after it has been completed. This has been evident from AB's privatisation exercise ever since its inception. The exercise has been marred by social, economic and political controversies with the opposition parties arguing that the exercise has either not followed the right procedure or leads to a public burden. One argument put forward is that the exercise will result in the loss of jobs which will worsen the unemployment problem and hinder poverty-reduction policies. National pride also comes in as both politicians and the public would want the airline to remain a flag carrier. Alternatively, they want the airline to be sold to private locals rather than foreigners to ensure the nation's "wealth" remains in the hands of nationals. After all, citizen empowerment is the term on everybody's lips at the moment.

The process is also complicated by the fact that AB has been operating very poorly both administratively and commercially. The future does not look promising and one wonders if any reputable private investor will be interested. According to Taylor (1998: 529), a loss-making entity and/or one with no commercial future is not marketable. Some industry observers have argued along this line to explain why the government of Botswana has not succeeded in privatising the airline. Furthermore, if the airline was a private entity it would already have been shut down as private owners are loss-averse. Yet, the country needs the airline for tourism purposes since much of the country's diversification effort rests on tourism. With tourism at the forefront, the government of Botswana cannot afford to just sell off the airline to the private sector.

So far the Botswana government has pumped millions into the airline to revitalise it for privatisation even though the airline continues to sail deep into losses. The government has also reconfirmed its commitment to privatise the airline. Yet, is privatisation really the only option? Maybe the government should consider other options, even if it means combining them with privatisation. Kay and Thompson (1986: 23–24) noted that as much as there are efficient and inefficient public entities, there also exist efficient and inefficient private companies. They also observed that, even though private companies are generally more efficient than public companies, there are several cases where private companies have failed to enter the market due to market pressures. Market discipline is what helps to

improve a private firm's performance compared to state firms (Kay and Thompson, 1986). Botswana's market is currently heavily regulated, which makes it difficult for the airline industry to reveal its true status. The private sector in Botswana continues to call upon the government to seriously and expeditiously consider liberalisation. At the moment liberalisation implies the privatisation of AB.

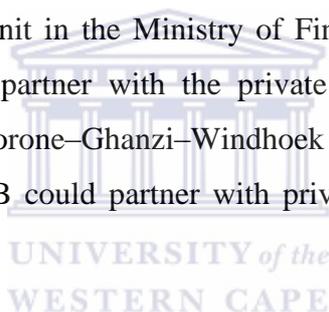
While airlines cannot be left completely in the hands of private owners, there is mounting evidence that ownership does influence performance. Backx, Carney and Gedajlovic (2002: 219) assert that fully private and public-private airlines are doing better than entirely public airlines. Eckel, Eckel and Singal (1997: 275) supported this notion when they observed that a shift from state to private ownership enhances economic competence. They cited British Airways as example, arguing that the airline became more profitable and competent during the three years following its privatisation in comparison to its performance three years before it became private. Mar and Young (n.d.: 284) further contend that privatisation, even when not fully implemented, results in performance improvement. They gathered evidence which showed that shifting responsibility from government to the corporate sector improved performance in China Eastern and China Southern Airlines. This suggests that there is not only one solution to the problem, hence the focus should include a wider range of strategies. The government of Botswana should not only focus on privatising the airline but should consider options which can be implemented as a package.

6.3 The Search for Package Deals

This section looks at options considered relevant in the quest to address problems of Air Botswana. The approach would encompass a package of two or more strategies rather than just adopting one strategy. From previous discussions it is evident that the air-transport market has a potential to grow, but it is hindered by insufficient flight services both internally and externally. Through the privatisation of AB, the government of Botswana is making an effort to involve the private sector and relieve the public budget. After all, Botswana's public-finance status has deteriorated due to the world recession and the reduction in diamond revenue.

6.3.1 *Public-private partnerships and liberalisation*

Debbage (1994: 190–3) has contested that for an airline to gain more competitiveness, the respective government must move away from a restricted bilateral co-ordination such as Botswana’s opposition to open-skies multilateralism. Because market sizes differ from one country to the other, this approach towards liberalisation would facilitate the attainment of market equality. The government of Botswana could first liberalise the domestic market and take advantage by getting into partnerships with private charter carriers, for example by leasing bigger AB aircraft to these small airlines for use on certain routes. The opposite can also be done, where AB partners with other airlines through code shares before the market is fully liberalised. The government can also adopt the Debswana approach in the airline sector. Hodge and Greve (2005: 2–3) view PPPs as the key option to privatisation as they aim to combine the strengths of both public and private sectors. They even argued that the PPP concept is better than privatisation. The Botswana government recognises PPPs and has even created a PPP unit in the Ministry of Finance and Development Planning. Thus, the government could partner with the private sector to improve the air-travel market. For example, the Gaborone–Ghanzi–Windhoek and the Maun–Ghanzi–Windhoek routes could be connected. AB could partner with private transport operators to operate flights on these routes.



6.3.2 *Liberalisation and strategic alliances*

Piermartin and Rousova (2008: 1) noted that liberalisation of the aviation market positively relates to traffic volume such that a greatly liberalised market could have significantly higher traffic volumes. The size of a carrier and the resultant economies of scope are very important in a liberalised market. To compete successfully in a liberalised market, airlines have resorted to strategic alliances to retain and/or expand their territories (Burton and Hanlon, 1994: 209). While Air Botswana taps into the option of adopting code shares and other forms of alliances, liberalising the market would be beneficial for the airline as it is already established at home. Furthermore, AB can partner with domestic charter airlines and increase scheduled flights inside the country so that when the government liberalises the market internationally, it would already be widely liberalised domestically. AB could then get into more strategic code shares with other regional and even international airlines. This way, AB would retain its domestic market while expanding internationally.

Alliances are critical for AB to attain cost economies. Economies of scale accrue for smaller airlines such as AB, while scope economies are realised when partnering airlines combine their current networks to offer connecting services for new markets. They can also share costs of marketing where they have well established positions in particular markets. Thus, partnering with SAA on the Maun–Johannesburg route might be an opportunity for AB to grow. Economies of experience would also accrue when AB partners with carriers that are more knowledgeable about the airline industry and more experienced on the targeted markets. The problem of skills shortages and poor management as well as funding requirements of AB could then be resolved, because alliances could help to get the right to use assets and resources and even benefit from competencies possessed by partners. AB should also realise that strategic alliances are a way of turning your rival into a partner. In fact, for small and weak carriers this could be the only option to compete with global rivals (Evans, 2001: 237).

Airline co-operation has become very important in the airline industry. Cho and Park (1997: 155) have observed that code shares increase an airline's share of the market and accrue more benefits for airlines that have fewer rivals in the market such as Air Botswana. Currently AB competes only with SAA as other sub-Saharan airlines do not fly to Botswana. AB does not offer any flights on Air Namibia's Maun–Windhoek route. AB has signed a code-sharing deal with Kenya Airways in 2009. This is a good move which should be expanded. Brueckner (2001: 1476) affirms that by joining alliances and co-operating through code shares, a carrier manages to penetrate the global market without engaging in any new form of investment. Partnering with other African airlines that fly to international destinations is imperative if AB is to penetrate the international market. The other reason why AB should harness the code-share option is that such strategic alliances have greater benefits in markets that are emerging (Cho and Park, 1997: 163). Thus, the sub-Saharan air-transport market has lately been identified as a rapidly growing market. AB should treat this as an opportunity to co-operate with big international carriers. Hansen and Youssef (1994: 417) attest to this by providing evidence where the SAS and Swissair alliances helped thwart the problem of small domestic markets.

6.3.3 *Public-private competition and diversification*

AB can also harness the option of allowing its employees to provide certain services, such as catering while at the same time engaging in other business activities such as accommodation and car-hire services. The AB customer service is currently not impressive, and it may have worsened due to the looming privatisation of the airline, which will result in job losses. Giving staff a chance to offer complementary services could help to also change employees' attitudes to customers as they feel part of the business process and therefore develop some sense of ownership. In terms of engaging in other business activities, SAS is an example of an airline that acquired several hotels through the Vingresor Leisure Group (Bratlie, 1989: 223). The product dimension can be enhanced when the airline diversifies into other tourism areas, thereby strengthening the travel service chain and ensuring that the customer receives a tailored product (Bratlie, 1989: 224).

6.3.4 *Airline mergers and liberalisation*

Lawton (1999: 101) argues that liberalisation improves competition and offers a set of choices for airlines. Debbage (1994: 194) further noted that in order to increase their competitive gain at important local airports, big airlines in Europe have merged with smaller local airlines. For example, British Airways merged with British Caledonian. Air Botswana might want to merge with some of the already established charter airlines to ensure continued profitable operations, particularly in remote tourism places where these airlines have been operating. According to Toh (1998: 67) domestic mergers help a carrier to face tough competition in global markets, because the carrier retains a stronghold on the domestic market. Mergers with regional airlines cannot be ruled out either. For example, AB could consider a merger with Air Namibia on the Maun–Windhoek route, which is currently under-utilised even though it is an important route.

Lawton (1999: 91) has argued that civil aviation could play a crucial role in the regional integration through the evolution of uniform air-traffic policies. He acknowledges however, that it takes time and effort to evolve, given the likelihood of national opposition. As a SADC member and in a move towards the achievement of open-skies policies of the Yamoussoukro Decision, Botswana might initiate the move with countries such as Namibia and Swaziland, which are also struggling to maintain their flag carriers. In fact,

Marawa (2003: 8) suggested that co-operation between Comesa and the SADC might bring into line air-transport liberalisation programmes as stipulated in the Yamoussoukro Decision. The government of Botswana might look into this proposal, hoping that it would help establish Botswana as a hub.

6.4 Implementation Challenges

In adopting strategies to turn around the ailing carrier, the government of Botswana should have at the back of its mind that the appropriateness of strategies differ from one country to the other. Therefore, relevant strategies should be adopted, even though it is not always simple to distinguish the effects of market conditions from those that are the outcome of deregulation. In their study on the short-term impacts of Scandinavian airline deregulation, Randoy and Strandenes (1997: 215) observed that the differences in the two countries' economic activities and changes in the demand for air travel resulted in different market developments. They also highlighted the fact that policy approaches adopted by Sweden, when deregulating differed from the Norwegian policy approach.

Botswana's air-travel market is heavily regulated, with the fact that AB does not operate in other destinations (which are dominated by private charter airlines) being comparable to automatic privatisation. In the Maun and Kasane areas in particular the air travel market is dominated by private airlines. The impact of further liberalising the market cannot be easily predicted. There is a possibility that the market shares will not change. Currently, only AB offers scheduled flights, and allowing other carriers to offer scheduled services may only impact on flight volumes in destinations that they already serve. These airlines might also not make any effort to enter routes previously served by AB, but may rather handle other routes, such as Maun–Windhoek and Gaborone–Windhoek. Some carriers may merge or form alliances to compete more effectively. Even if AB is privatised before liberalisation, the impact may be limited if the private carriers form alliances to retain their routes, making it hard for AB to even penetrate the domestic market. Thus, there are many possibilities, as already indicated, and the net outcome cannot be predicted with certainty.

With regard to mergers, ownership tends to complicate the whole process, regardless of whether it is domestic or foreign. In Sweden, government-owned SAS and Linjeflyg

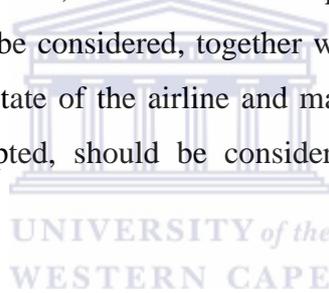
merged successfully, while the merger of SAS with Braathens SAFE in Norway failed (Randoy and Strandenes, 1997: 214). Government ownership and the pride derived from having national-flag colours displayed on carriers are a hindrance to mergers with foreign airlines (Debbage, 1994: 194). Thus, the possibility of AB merging with other airlines (such as Air Namibia) has very little chance of being realised when one considers the issue of national flag carriers. Yet, the possibility cannot be ruled out completely. With regard to PPP implementation Hodge and Greve (2005: 5) identified challenges relating to exclusive decision-making by governments and the opportunistic behaviour of private-sector partners. They contend that the success of PPPs hinges on joint decision-making by both parties. While PPPs are beneficial, they may also become a burden when private partners are only interested in benefiting from public funds, without showing commitment to the success of the partnership. In Canada, for example, PPPs came to be referred to as “Problem, Problem, Problem”.

Debbage (1994: 195) cautions governments on the danger of multiple-overlapping alliances which can complicate network systems. Brueckner (2001: 157) identified choice of alliance partners as crucial to the success of partnerships, noting that dominant partner alliances perform far better than less dominant ones. Therefore airlines should take into account the characteristics of the carriers they consider as alliance partners. Cho and Park (1997: 163–64) have also warned that inter-competitor alliance partnerships should be approached with caution as partners may possibly be former competitors. Thus, where airlines share a large market, it would be wiser to go for an equivalent carrier than smaller carriers as inter-competitor alliance partners. In Botswana’s case, rather than consider smaller carriers, SAA might be a better choice than Air Namibia.

Hamilton and Marish (2002: 402) further cautioned that alliances may have exorbitant money-related costs over and above the risk of tarnishing an airline’s reputation in cases of failure. They mention examples such as the Alitalia–KLM collapse and the termination of Canadian Airlines’ One World membership, owing to a take-over by Air Canada. In this light, Evans (2001: 238–9) offered some advice on partner selection when considering alliances. Thus, geographical fit is very important: carriers that are in overlapping markets, with the exception of border markets, should be avoided at all costs. Secondly, a potential partner should show commitment through the willingness to share risk. These two points can be linked to the AB and Airlink deal, which failed after long negotiations. There were

doubts concerning the reputation of Airlink, which was perceived to be lacking in safety. When rejecting the Airlink proposal, the Botswana government argued that the proposed deal would not benefit the tourism-sector development as it did not take into account the country's transport policy objectives. While AB wanted to expand, Airlink was going to downsize the airline. Some unconfirmed newspaper reports even stated that Airlink was not interested in AB's fleet, hoping to bring their own fleet. The government might have looked at this as an unwillingness to share risk on the side of Airlink.

Third, no partner should try to assume total control of the alliance. Fourth, an alliance partner must display the ability to do their part in the alliance, and finally it is important for partners to share the same cultural and operational characteristics for compatibility sake. AB should therefore consider sub-Saharan airlines when searching for partners. On this note, the government of Botswana should be forewarned that, whatever strategy is adopted in addressing the problems of AB, caution must be applied at all times. The country's economic background should be considered, together with the time of implementation of the particular strategies. The state of the airline and many other factors that can have an impact on the approach adopted, should be considered to ensure informed decision-making.



CHAPTER 7

SUMMARY AND CONCLUSIONS

7.1 Summary

This chapter summarises the findings from literature as well as empirical evidence on operations of developing-country national airlines and privatisation efforts of these airlines. The global airline industry was once heavily regulated with the view of protecting national airlines which were seen as projects for nationhood-building. Heavily regulated domestic markets influenced the liberalisation of the airline industry through bilateral agreements, which were later followed by multilateral agreements as competition intensified in the industry. Nowadays, many flag carriers in the developed world are privately owned or partially privatised. In that process, developing-country airlines were left behind, due to the marginalisation that resulted from co-operation by the well developed airlines in the Western world. Governments continue to hold on to the concept of state-owned flag carriers for development reasons. AB is a good example of a national carrier perceived as a development tool. The airline is seen to be necessary for the development of tourism, which is a high-priority target sector in the country's long overdue diversification programme.

While developed-country airlines have successfully penetrated the developing world's airline markets, developing-country airlines are still grappling with successful operations at domestic-market level. Some of these governments have maintained regulated air-transport markets, but this has often resulted in the further marginalisation of their airlines. Many of these developing countries cannot financially sustain the carriers' operations and have looked to the private sector for funding. Yet, the limitations of small and secluded markets continue to be problematic, even after private-sector take-overs, resulting in airlines closing down or being returned to public ownership. After all the government's efforts to privatise Air Botswana, it does not look like the airline would survive private ownership. To avoid such privatisation failure, the government of Botswana might consider partnering with the private sector rather than leave the airline entirely in private hands. On the other hand, finding new financing strategies is most important, since the government cannot any longer afford to finance AB from the public purse.

The evidence from the case studies support these conclusions. They reveal a long and looped history of privatisation efforts in developing countries. Coming to the focus of the study, it is not easy to predict how the privatisation of AB will eventually turn out. With developing-country governments' conventional approach of first privatising the airlines before liberalising the sector, we can only watch as the drama unfolds. This approach is also influenced by the fact that governments want carriers to retain flag-carrier status after privatisation. However, experience has shown that while the air-transport sector remains regulated, the privatisation of national airlines in developing countries is also a-job-and-a-half. Therefore, developing countries might find it fitting to adopt a different policy approach in dealing with the problems of their airline industries.

Debbage (1994: 200) concluded that the success of any policy approach depends largely on strategic negotiations along with previous bilateral negotiations between governments, taking into account limitations resulting from poor infrastructure development and the liberalisation of the air-travel market among others. A multilateral-negotiating system seems essential for achieving market equivalence. The main conclusion is that developing countries should look at other strategies besides privatisation and should not only focus on a single strategy but must be prepared to combine different strategies. Botswana has to give priority to the development of the air-transport infrastructure. Liberalisation alone cannot improve the air-travel market as airlines might be interested but would not come to Botswana if the infrastructure is poorly developed.

7.2 Policy Implications of the Study

The reality is that the era of wholly state-owned flag carriers has long ended, while the liberalisation of the air-transport sector is making the regulation of the industry in developing countries impossible. Lawton (1999: 101) even commented that owing to liberalisation of the airline industry, many governments have been forced to privatise their flag carriers. Rather than focus on the issue of their airlines being marginalised by developed-country airline co-operation, developing country airlines should also strategically adopt these forms of co-operation arrangements, hoping thereby to successfully compete in the global market. Debbage (1994: 200) has argued that there is nothing like a perfectly competitive open-skies setting. He notes that even large global

airlines do not yet operate in such an environment, where only the very large airlines dominate the market. Peter (1998: 85) further observed that even after liberalisation, hub dominance and customer-loyalty schemes will act as barriers to entry, hence having a good network becomes the major thing.

Borenstein (1992: 71) therefore concluded that policy-makers should facilitate competition and effective operations rather than adopt anti-competitive marketing strategies. At a minimum, this calls for the allowance of foreign competition in domestic markets. Delta and American Airlines are cited as examples, where management initially was strongly opposed to deregulation, yet at the end the airlines significantly benefited from the deregulation exercise (Borenstein, 1992: 70). Finally, when analysing the airline's profitability, there is the issue of the airline industry being cyclical with a number of variable factors that have long-term impact on profitability. This should be borne in mind before long-term profit trends are established (Peter, 1998: 84).



7.3 Further Research Direction

This study focused mainly on the operations of flag carriers in certain developing countries and the outcomes of the privatisation efforts to turn ailing carriers into profitable entities. The findings reveal a trend of poor flag-carrier operations and unfruitful privatisation efforts. It is essential to further carry out studies that encompass a broader scope of the many developing countries. A limited number of countries were selected for the case studies which could compromise the generalisation and validity as well as the reliability of the study.

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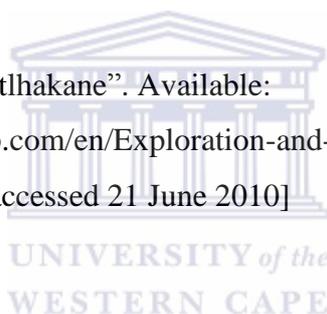
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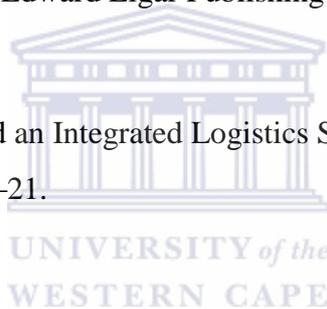
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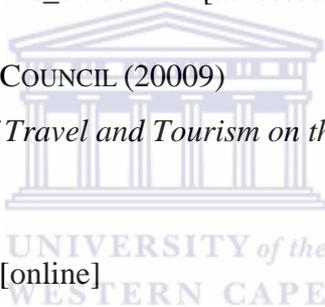
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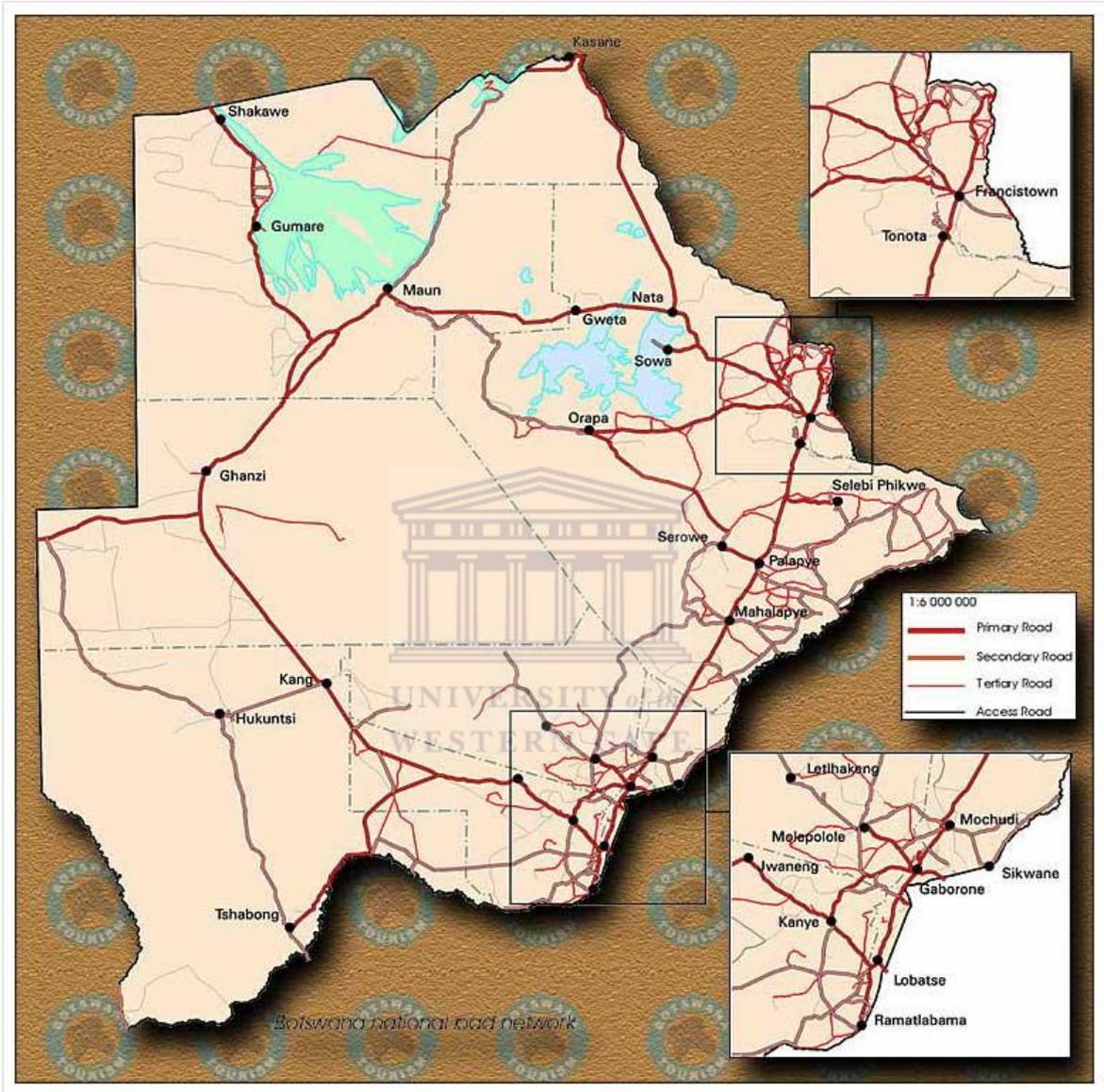
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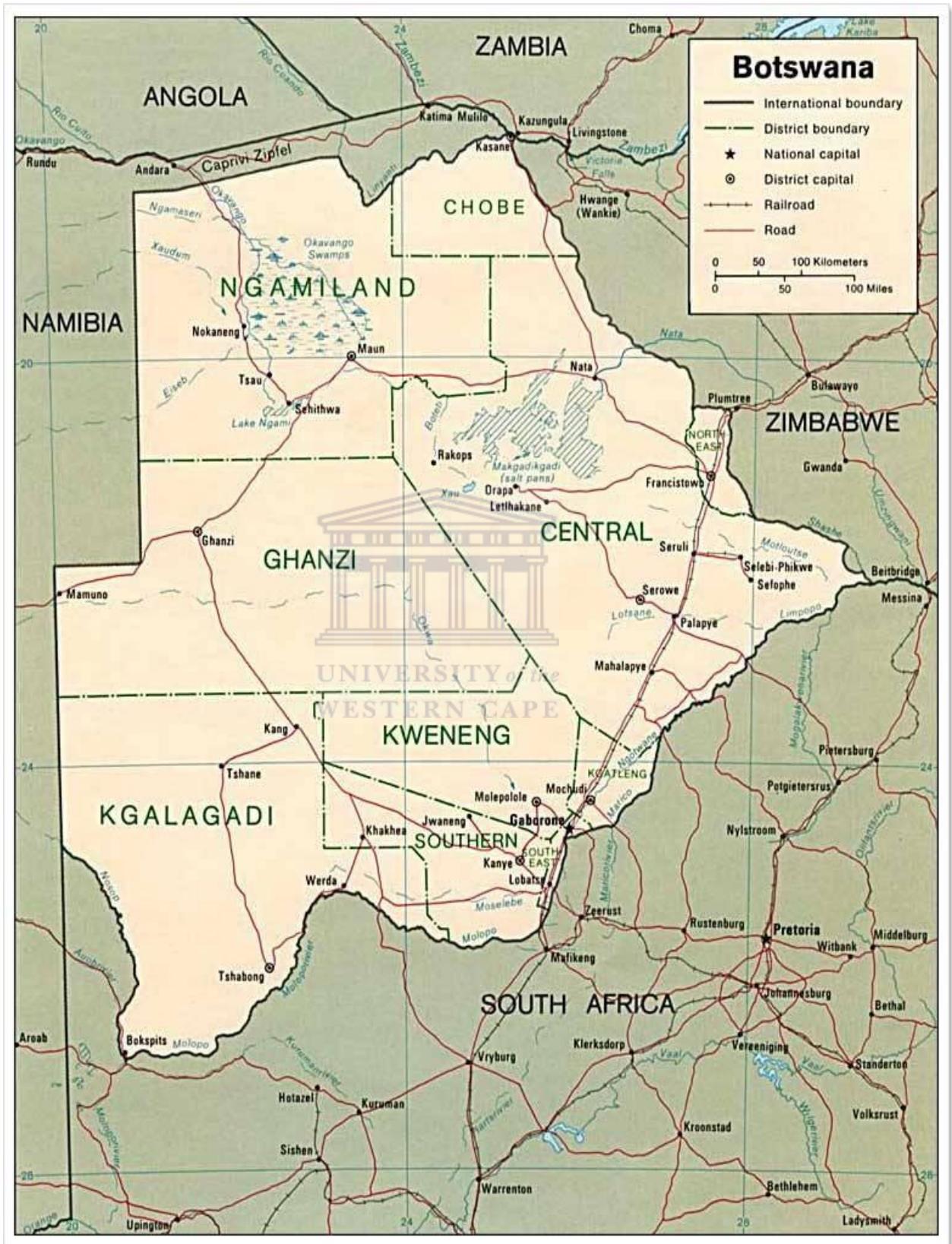


ANNEXURES
MAPS AND TABLES

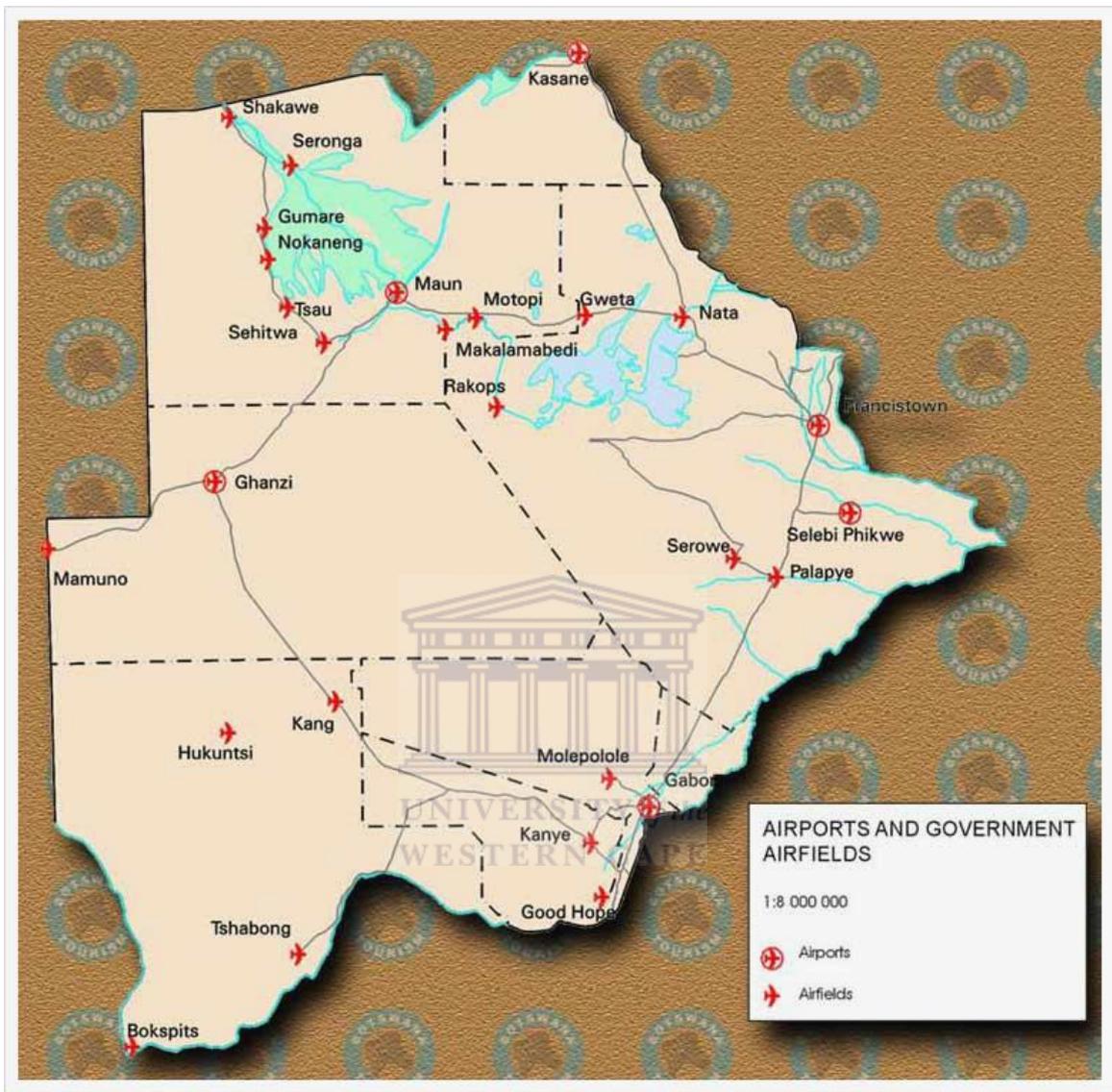
MAP 1: Road Network



MAP 2: Botswana



MAP 3: Airports and Airfields



MAP 4: Domestic and International Airline Routes



TABLE 1: District Councils and their Headquarters

District	HQ	Description (figures: 2001 estimates)
1 Central	Serowe	This is the largest of Botswana's districts by population and area. Three of Botswana's mining towns (Orapa, Selibe-Phikwe and Sowa Town) are found in the Central District. Area 147 730 km ² , population: 563 260, population density 3,8/km ²
2 Ghanzi	Ghanzi	Sometimes called Gantsi. The district is in western Botswana, adjoining Namibia in the west and spreading east greatly into the heart of Botswana. A great fraction of the eastern half of Ghanzi constitutes the Central Kalahari Game Reserve. The majority of Botswana's beef farmers are found in Ghanzi. Area 117 910 km ² , population 33 170, density 0,3/ km ²
3 Kgalagadi	Tsabong	Kgalagadi is in the south-west of the country, at the border with Namibia and South Africa. Kgalagadi forms a big part of the Kalahari Desert. Area 105 200 km ² , population 42 049, density 0,4/km ²
4 Kgatleng	Mochudi	Kgatleng is located along South Africa's North West Province, and in the east along the Limpopo Province. Area 7 960 km ² , population 73 507, density 9,2/km ²
5 Kweneng	Molepolole	Kweneng is historically Bakwena homeland. Area 35 890 km ² , population 230 335, density 6,4/km ²
6 North-East	Masunga	North-East borders the Matabeleland South Province of Zimbabwe. Francistown, is located in this district. Area 5 120 km ² , population 132 422, density 26/km ²
7 North-West	Maun	North-West is made up of Chobe and Ngamiland districts. The district shares borders with three countries (Namibia, Zambia, Zimbabwe). It hosts many of Botswana's tourist attractions, including the Okavango Delta and the Chobe River national parks. Area 129 930 km ² , population 142 970, density 1,1/km ²
8 South-East	Gaborone	South-East borders the North West Province of South Africa. The district is also home to Lobatse town which hosts the Botswana Meat Commission abattoirs. Area 1 780 km ² , population 276, 319, density 155/km ²
9 Southern	Kanye	Also known as the Ngwaketse district. Some of Botswana's leading beef farms are found in this district as well as state-owned beef ranches, which facilitate agricultural support assistance to local farmers. Also produced is maize and sorghum, the country's staple crop. The country's third diamond mine, Jwaneng, is located here. The district borders South Africa's North West Province in the south. Area 28 470 km ² , population 186 831, density 6,6/km ²

TABLE 2: Some of Botswana's public Enterprises

- 1 Air Botswana (AB)
- 2 Botswana Development Corporation Ltd (BDC)
- 3 Botswana Export Development and Investment Authority (BEDIA)
- 4 Botswana Institute for Development Policy Analysis (BIDPA)
- 5 Public Enterprises Evaluation and Privatisation Agency (PEEPA)
- 6 Botswana Technology Centre (BOTEC)
- 7 Botswana Telecommunications Corporation (Telecomms)
- 8 Botswana Telecommunications Authority (BTA)
- 9 Public Procurement and Asset Disposal Board (PPADB)
- 10 Botswana Tourism Board (BTB)
- 11 Botswana Unified Revenue Service (BURS)
- 12 Bank of Botswana (BOB)
- 13 Civil Aviation Authority of Botswana (CAAB)
- 14 International Financial Services Centre (IFSC)
- 15 Botswana Savings Bank (BSB)
- 16 Botswana Accountancy College (BAC)
- 17 Citizen Entrepreneurial Development Agency (CEDA)
- 18 Non-Bank Financial Institutions Regulatory Authority (NBFIRA)
- 19 Botswana Stock Exchange (BSE)
- 20 National Development Bank (NDB)
- 21 Botswana Building Society (BBS)
- 22 Botswana Export Credit Insurance (BECI)
- 23 Botswana Motor Vehicle Accidents Fund (BMVAF)
- 24 Botswana Power Corporation (BPC)
- 25 Water Utilities Corporation (WUC)
- 26 Botswana Housing Corporation (BHC)
- 27 Botswana Meat Commission (BMC)
- 28 Botswana Agricultural Marketing Board (BAMB)
- 29 Botswana Railways (BR)
- 30 Botswana Postal Services (BPS)
- 31 Banyana Pty Ltd
- 32 Institute of Development Management (IDM)
- 33 Rural Industries Promotion Company (RIPCO)
- 34 University of Botswana (UB)
- 35 Botswana College of Agriculture (BCA)
- 36 Botswana National Productivity Centre (BNPC)
- 37 Botswana Vaccine Institute (BVI)
- 38 Botswana Bureau of Standards (BOBS)
- 39 Local Enterprise Authority (LEA)
- 40 Botswana Examinations Council (BEC)
- 41 Botswana National Sports Council
- 42 Botswana Tertiary Council (BTC)