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The Gem of Africa: A First-Hand Look at Botswana's Successful Economic Development

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The goal of this paper is to examine the extent to which Botswana has followed a state-run model of economic development. How has the government balanced socialist policies with liberal market reforms? These two types of development philosophies have been at odds in Africa since independence. Socialism emphasizes self-reliance, regional integration, protectionism, import-substitution industrialization (ISI), and state-run enterprise. However, the World Bank, IMF, and other international donors have pushed developing nations to abandon socialism and open themselves to the free market by dismantling trade barriers, devaluing their currencies, privatizing industry, and creating favorable climates for foreign investment. Starting in the 1980s, these donors made loans conditional on such reforms, called Structural Adjustment Loans (SALs).[1] Botswana has never accepted SALs and has been far less reliant on foreign aid in its development process than all other African countries, yet has done remarkably well. It is now an upper-middle income country, with the highest per capita GDP of the continent. Botswana's government has pursued centrally-planned development with a heavy emphasis on state-owned enterprise and wealth redistribution. But recently the government has begun a shift towards IMF-style liberal market reforms on its own. What motivates such policy choices, and what role have they played in Botswana's successful economic development? This paper argues that the government still directs Botswana's economy and is actually leading the new-drive market liberalism because they recognize the need to diversify. Botswana provides proof that state-run development is not always the huge disaster that western donors claim it will be.

Botswana was one of the 10 poorest countries in the world after independence from Britain in 1966, with a per capita GDP of only $70.[2] Yet

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from this inauspicious beginning, the first president, Sir Seretse Khama, and his governing Botswana Democratic Party put the country on a path to massive growth and successful modernization. Botswana transformed its economy within 15 years, a true triumph of smart planning made possible by political consensus and national unity.[3] Growth rates averaged 9% between 1965 and 1999, peaking as high as 14%. This is stunning when compared to the 5.3% growth for Sub-Saharan Africa as a whole.[4] Today, annual per capita GDP is over $10,000, placing Botswana among the ranks of upper-middle income countries. Botswana also has the highest credit rating in Africa, large stockpiles of foreign reserves ($5.1 billion in 2003-2004), and a low budget deficit.

Scholars cite numerous reasons for Botswana's unique development success. A crucial proximate factor is the country's diamonds, which were discovered in 1970. Botswana is the world's largest producer of diamonds and is home to the most valuable mine in the world—Jwaneng. Diamonds account for 70-80 % of the country's exports and one-third of its total GDP.[5] Yet simply having such mineral wealth is not enough to guarantee prosperity; Nigeria, Ghana, and other African nations are similarly rich in national resources yet lag far beyond Botswana in economic development.

The key to Botswana's success is that diamond revenues have been successfully managed by the government. The sole diamond mining company is Debswana, which is 50% owned by the government and 50% owned by DeBeers. In fact, DeBeers used to own 85% of the company, while the government managed only 15%, but Botswana negotiated an increase in ownership in 1974.[6] Because of the 50/50 partnership, the government currently earns 47% of its total revenue from diamonds and is able to keep the tax burden low—corporate taxes are capped at 25%, and a value-added sales tax (VAT) was only introduced in 2001.[7]

The government uses diamond revenues to redistribute wealth among its citizens and to invest in public infrastructure, both prime examples of Botswana's socialist policies. Government investments include constructing schools and hospitals, covering costs for students through the university level, providing start-up loans for new enterprises, conducting job training programs, and financing construction of the Trans-Kalahari Highway to better connect the land-locked country to its neighbors. Botswana also spends a significant amount to overcome major public challenges like the arid, infertile climate and the HIV epidemic. The Arable Land Development Program (ALDEP), for instance, involves government-sponsored research of dry-lands agriculture.

Further, Botswana has the highest HIV infection rate in the world, measured at 37.3% in 2003.[8] The government leads the fight against the epidemic. It provides free HIV testing and anti-retroviral (ARV) drugs for all citizens in addition to its spending on a public education campaign to stop the spread of the disease. Perhaps an ingredient even more crucial to Botswana's success than its diamonds is, therefore, its accountable, non-corrupt government.

Transparency International ranks Botswana's government 32nd in the world, ahead of many Asian and European countries, and the World Bank and IMF continually praise Botswana as a model democracy. But why is the government good in Botswana while mired in corruption and civil disputes almost everywhere else in Africa? Some explanations cite the country's small size and ethnically homogenous population, both of which reduce conflict over resources, while others credit Botswana's existing communitarian and democratic culture. For instance, tribal chiefs traditionally had to respond to the needs of the people, whose voices were heard at regular public meetings at the village *kgotla*, or central gathering place. President Khama infused the new national government with this idea of government's responsibilities to the public good and helped to fashion pride in a national identity.[9]

Using this philosophy, Botswana's government has led the nation's economic development with a series of National Development Plans similar to the Soviet Union's Five-Year plans. The first NDPs focused on infrastructure development in the country and support for the mining sector. They also set GDP growth rate targets, goals for expansion of industry, and estimates of the development budget. Currently Botswana is implementing NDP 9, scheduled to last from 2003-2009. The proposed development budget for 2006-2007 was 5.8 billion pula, out of a total state budget of 22.4 billion, to be distributed among government ministries for development projects like the HIV/AIDS program, Village Water Supply & Sewerage, Secondary Roads Improvement Program, and numerous others.[10]

More recent development goals focus on diversifying the economy away from mining and toward manufacturing, agriculture, and services sectors. To pursue these goals, the government has engaged in several free-market reforms that resemble IMF and World Bank programs, while not shifting to pure western-style capitalism. The major impetus behind these changes is high unemployment—officially 26.8% in 2005[11]—caused by the reliance upon diamond mining, which is not labor-intensive and thus produces few jobs. President Mogae and a large number of Batswana agree that unemployment is the biggest problem facing the country today.[12] The narrow domestic market—there are only 1.7 million inhabitants in the country—also makes starting up domestic manufacturing very difficult and forces Botswana to rely on its export market. A major goal of NDP 9 thus involves increasing competitiveness in the global market and attracting foreign investment.[13] The government abolished foreign exchange controls in 1999, maintains a low corporate tax rate (maximum 25% but 15% for manufacturing as an incentive), and places no prohibitions on foreign ownership of companies. The central bank, the Bank of Botswana, is also careful to maintain moderate inflation rates (7.6% in November 2004) while keeping corruption low. The National Assembly passed a Copyright Law in March 2000, a Competition Policy law in August 2005, and also amended the Companies Act which governs registration of businesses in early 2006 in order to simplify and expedite the licensing process. The combination of these factors led the Heritage Foundation and the Wall Street Journal to rate Botswana among the top 30 countries in the world and number one in Africa on their 2006 Index of Economic Freedom.[14]

There are also bills on the National Assembly floor to create a Foreign Direct Investment Strategy and a Privatization Master Plan. But even in the absence of final laws, the state has made efforts to increase invesment and privatize industry. There was a big push, starting in 2004, to privatize Air Botswana, though this transition is not yet completed. There is also talk about privatizing the Botswana Telecommunications Corporation (BTC), though this is highly controversial.[15] Nationalization of private property is prohibited. Also, many parastatals, including the Botswana Development Corporation (BDC), are commercialized. That is, they operate independently of government subsidies and other support. According to BDC Public Relations officer Sayi Dewah, when the organization was founded in 1970, it was completely funded by the government, but a restructuring in 1996 forced them to become reliant on non-government income. They now cover their budget using revenue from Equity Participation and shares in the dividends of companies they help start—of which they mandate a minimum of 25% ownership.[16] However, many parastatals and government-run utilities like the Botswana Power Corporation are still de facto monopolies.

Since 1997, 22 foreign companies have set up in Botswana, employing 5,540 people, but the country seeks to attract a great deal more FDI. Promoting such investment is the domain of the parastatal BEDIA, which also helps to find niche markets abroad for Batswana products, including beef sold mostly to South Africa and the European Community and textiles sold to the US under the duty-free agreements created by the African Growth and Opportunities Act (AGOA). In the past BEDIA focused heavily on the manufacturing sector but faced difficulties due to high trade and transportation costs (importing raw materials, transporting everything overland from ports in South Africa, purchasing 70 % of the country's electricity from South Africa).[17] As a result, greater hopes are now placed in the services sector, especially the International Financial Services Center (IFSC) launched in 1999. The goal of the IFSC is to attract companies to outsource their banking and accounting operations to Botswana (seven companies have applied and been approved thus far, partly attracted by tax incentives).[18] Manufacturing businesses the BDC and BEDIA continue to promote are those which build on resources located within Botswana. For instance, the BDC's most successful companies include Secheba Breweries and Lobatse Clay Tiles, both of which require few imported raw materials.[19] BEDIA has also conducted recent feasibility studies into manufacturing beef by-products and jewelry. Additionally, a tannery plant has already been opened near the Botswana Meat Commission abbatoir in Lobatse. As for the jewelry sector, until this point all raw diamonds have been exported to the DeBeers Diamond Trading Company (DTC) in London for polishing and jewelry-making.[20] However, an agreement was signed in May 2006 to create a DTC headquarters in Botswana. Now all diamonds from mines in Botswana will be cut and polished in the country, and a legitimate jewelry industry may become a real possibility.[21]

Another action taken by the government to promote exports was a major pula devaluation last year. In Feburary 2004, the currency was devalued by 7.5%, which by all reports had only minor negative side-effects and succeeded in making Botswana products more affordable in foreign markets. But then in June 2005, a second devaluation, this time of 14.4%, caused a large jump in inflation (to 8.6%) and arguably caused the current economic slow-down.[22] It caused inflation and did not help exports significantly, according to BEDIA Research Officer Reginald Selelo, because it made the South African rand more expensive and thus increased input costs—electricity, overland haulage (all South African companies), and raw materials—which raised the price of goods for export, counteracting the gains from the devaluation. Kagiso Mangadi, a recent Economics graduate from the University of Botswana, agreed with Mr. Selelo that the government made an unwise decision with the second devaluation.[23] But in his 2006 speech on the budget, Minister for Finance and Development Planning Baldezi Gaolathe defended the pula devaluation, saying, "Inflation is expected to come down during 2006 when the once-off effects of the new exchange rate regime will have abated."[24] He further claimed that the textile, tourism, and mining sectors have already begun to feel positive effects of the devaluation. The Bank of Botswana Annual Report for 2005 supported his claims but showed only a small effect of the devaluation; textile exports increased 99%, but mostly because of AGOA, and would have been up 85% without the devaluation.[25] Some do not think such small gains are worth the negative effects, but the issue remains hotly debated.

Though the pula devaluation debacle seems to indicate that the development balance is tipped in favor of World Bank and IMF-style market reforms, there are still many domains in which Botswana eschews the policies favored by the international financial community. Many involve "Citizen Preferential Treatment." For example, the Companies Law still prohibits foreign ownership in a sizeable number of industries: welding, bricklaying, school furniture, butchery and fresh produce, bars, government building projects, road contracts, and supermarkets. The government's local procurement policy (LPP) requires that at least 30% of government purchases be reserved for local companies.[26] Foreign investors do not have access to government assistance grants and loans, including a new venture capital fund for small businesses called the Citizens Entrepreneurial Development Agency (CEDA). Interestingly, this fund was established in 2001 after the Financial Assistance Policy of 1995, a loan and incentive scheme that was available to foreigners, was scrapped because of widespread abuse by beneficiaries.[27]

Also, though many expatriates live and work in Botswana, they do not have the same job security as Batswana citizens. For example, Mr. Tirtha Sen, the head of the Botswana Institute of Accountants and an Indian national, has been living in Botswana for eight years. He said foreigners are welcomed in Botswana as long as they are performing useful jobs that citizens cannot yet perform as efficiently, but the government prefers to replace them with Batswana as soon as possible.[28] Mr. Sen personally has no problem with the temporary nature of his contract; he is working to help replace his own position since he helps to run the Botswana Accountancy Institute, whose aim is to train native Batswana accountants. The use of foreigners in certain native jobs is very contentious in Botswana. There is significant political pressure to oust foreigners from certain positions and give them to citizens. Kittie Trail, an American missionary working for the International Mission Board in Gaborone, described how another American friend of hers worked at the Botswana Power Corporation. In 2005 the BPC refused to renew his contract. His position was given to a Motswana, and he was left without a job.[29] Mrs. Trail saw this as very unfair, but Kagiso Mangadi thinks it is a legitimate way to increase domestic employment. Problems only arise when the Batswana who are used to replace foreigners are truly not qualified, allowing productivity to suffer as a result.

This dilemma illustrates the struggle in Botswana over how much to liberalize business standards so as to mollify Western trading partners and how much to pursue protectionist or even socialist policies, such as favoring Batswana citizens in hiring. Overall it seems the socialist side of Botswana's development is still winning out. The IMF makes it clear they think Botswana has not taken market reforms far enough. They remark, "Botswana's policies have generally been consistent with Fund advice over the years… However, they have not made much headway in creating an environment conducive to private business, which has been underscored in previous discussions."[30] The degree to which Botswana has liberalized is based on a measured assessment of what is necessary to sustain economic prosperity and diversify, but the government still maintains ultimate control of the development process. Is it crucial to have such hybrid policies with both socialist and free market elements? Can the growth of Africa's jewel be sustained and replicated elsewhere? Potential future research might compare development policy models across countries and determine what lessons other nations can learn from Botswana's success.

Notes

1 Smoot, Kaitlyn. "To Adjust or Not to Adjust? The Process of African Government Choice to Accept or Reject Structural Adjustment Programs." College of William and Mary, May 2006. This was a paper I wrote for a seminar on International Organizations; it looked at SALs in four case study countries—Cote d'Ivoire, Ghana, Zimbabwe, and Botswana—and provided inspiration for my extended research into Botswana's economy.

2 Harvey, C., and S. Lewis. *Policy Choice and Development Performance in Botswana*. Basingstoke: Macmillan, 1990.

3 Stigitz, Joseph S. "Botswana, a Development Success." in "Chapter 2: Broken Promises," in *Globalization and its Discontents*. (New York: W.W. Norton, 2003): 36-39.

4 Mmusi, P.S.. "Reflections on Botswana's Economy" in *Botswana's Economy Since Independence*, ed. M.A. Oommen, F.K.Inganji, and L.D. Ngcongo, xv-xx. New Delhi:

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[11] Bureau of Economic and Business Affairs. "2005 Investment Climate Statement—Botswana." US State Department. February 2006. http://www.state.gov/e/eb/ifd/2005/41987.htm (accessed July 16, 2006).

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[15] "Mobile Operators Happy with BTC Privatization," Daily News Online, 2006. http://www.gov.bw/cgi-bin/news.cgi?d=20060627(accessed June 27, 2006).

[16] Dewah, Sayi. Interview with author. June 16, 2006. This interview and other interviews were conducted during the author's three-week trip to Gaborone, Botswana in the summer of 2006.

[17] Selelo, Reginald T. Interview with author. June 19, 2006.

[18] Department of Economic and Business Affairs. "2005 Investment Climate Statement—Botswana." US State Department Website. http://www.state.gov/e/eb/ifd/2005/41987.htm (accessed July 16, 2006).

[19] Dewah interview.

[20] Selelo interview.

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[22] Bank of Botswana, 62.

[23] Mangadi, Kagiso. Interview with author. June 6, 2006.

[24] Gaolathe, 4.

[25] Bank of Botswana, 64.

[26] Bureau of Economic and Business Affairs.

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