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WORKING PAPER NO.35

Policy and Institutional Dynamics of Sustained Development in Botswana

Gervase S. Maipose



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1 2 3 4 5 11 10 09 08

This working paper is a product of the Commission on Growth and Development, which is sponsored by the following organizations:

Australian Agency for International Development (AusAID)
Dutch Ministry of Foreign Affairs
Swedish International Development Cooperation Agency (SIDA)
U.K. Department of International Development (DFID)
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Cover design: Naylor Design

About the Series

The Commission on Growth and Development led by Nobel Laureate Mike Spence was established in April 2006 as a response to two insights. First, poverty cannot be reduced in isolation from economic growth—an observation that has been overlooked in the thinking and strategies of many practitioners. Second, there is growing awareness that knowledge about economic growth is much less definitive than commonly thought. Consequently, the Commission’s mandate is to “take stock of the state of theoretical and empirical knowledge on economic growth with a view to drawing implications for policy for the current and next generation of policy makers.”

To help explore the state of knowledge, the Commission invited leading academics and policy makers from developing and industrialized countries to explore and discuss economic issues it thought relevant for growth and development, including controversial ideas. Thematic papers assessed knowledge and highlighted ongoing debates in areas such as monetary and fiscal policies, climate change, and equity and growth. Additionally, 25 country case studies were commissioned to explore the dynamics of growth and change in the context of specific countries.

Working papers in this series were presented and reviewed at Commission workshops, which were held in 2007–08 in Washington, D.C., New York City, and New Haven, Connecticut. Each paper benefited from comments by workshop participants, including academics, policy makers, development practitioners, representatives of bilateral and multilateral institutions, and Commission members.

The working papers, and all thematic papers and case studies written as contributions to the work of the Commission, were made possible by support from the Australian Agency for International Development (AusAID), the Dutch Ministry of Foreign Affairs, the Swedish International Development Cooperation Agency (SIDA), the U.K. Department of International Development (DFID), the William and Flora Hewlett Foundation, and the World Bank Group.

The working paper series was produced under the general guidance of Mike Spence and Danny Leipziger, Chair and Vice Chair of the Commission, and the Commission’s Secretariat, which is based in the Poverty Reduction and Economic Management Network of the World Bank. Papers in this series represent the independent view of the authors.

Abstract

Botswana represents one of the few development success stories in Sub-Saharan Africa. Real GDP growth averaged almost 9 percent between 1960 and 2005, far above the Sub-Saharan Africa average. Real GDP per capita grew even faster, averaging more than 10 percent a year—the most-rapid economic growth of any country in the world. The crucial question is: why has Botswana grown the way it has done, and what lessons does it offer?

This evidence-based story is an account of policy and institutional dynamics of sustained growth and development in Botswana—illuminating the role of leadership. It shows how a secure political elite (with overwhelming electoral support since independence) has pursued growth-promoting policies and developed, modified, and maintained viable inherited traditional and modern institutions of political, economic, and legal restraint. These institutions have remained robust in the face of initial large aid inflows and spectacular mineral rents, producing a growth pattern that has been both rapid and cautious. The nature of the Botswana developmental state is illustrated by the way in which the state mobilized development resources—especially savings, investment, and human resources, widely known as the primary drivers of economic growth—and prudently managed the economy without becoming excessively involved in the nuts and bolts of production. It demonstrates that through intentional policy choices and countercyclical instruments, countries can shift from aid-dependent to trade-led natural resource development (though probably with narrow-based growth), to a broader development strategy as long as the state is capable and operates within effective institutional design. Botswana's story is a sterling example of how the critical issue in development is not so much access to resources but how resources are managed.

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Policy and Institutional Dynamics of Sustained Development in Botswana

*Gervase S. Maipose*¹

Botswana represents one of the few development success stories in Sub-Saharan Africa. Real GDP growth averaged almost 9 percent between 1960 and 2005, far above the Sub-Saharan Africa average. Real GDP per capita grew even faster, averaging more than 10 percent a year—the most-rapid economic growth of any country in the world (Leith 2005).

Botswana has racked up “an impressive record of prudent macroeconomic policies and good governance, which has moved the country from being one of the poorest in the world to the upper-middle income range,” according to the recent International Monetary Fund (IMF) Surveillance Report (as quoted by the Government of Botswana 2007: 1). With its huge reserves of mineral wealth, especially diamonds, the main engine of economic development, Botswana has steered a development path in a manner that has largely avoided both the resource curse and Dutch disease.²

Botswana is the oldest liberal democracy in Africa, with a good governance record and a market-based economy. It is a sterling example of how the critical issue in development is not so much access to resources but how resources are managed. Botswana has wisely invested its diamond wealth, using the revenues to improve the social and economic infrastructure that is crucial for general economic and human resource development. Government expenditure and lending are the avenues through which windfall gains are transmitted to the rest of the economy.

At independence, in 1966, Botswana was one of the poorest countries in the world. It relied on foreign grants (initially from the United Kingdom) for all its development spending and most of its recurrent budget. After Botswana reached middle-income status in 1992, most donors either closed their missions or scaled

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² Dutch disease arises when rapid development in one sector (in this case the mineral sector) retards development elsewhere or crowds out all but the most robust activities, obstructing new industrial or export development in other sectors, possibly permanently.

back programs. Foreign aid declined from about 61 percent of the budget in 1970 to less than 2 percent in 2006/07 (Government of Botswana 2007).

To a large extent, Botswana's development record is the story of exceptional state management of good fortunes. Initially, the country received aid from the international community. Later it relied on natural resources, particularly the growth in export earnings from diamonds, which have been effectively managed by the state.

The first section of this paper examines the institutional context of Botswana's developmental state, analyzing its role in explaining the country's sustained growth and political stability. It begins by describing the conditions at independence, identifying traditional governance practices that affected the country's future development, and reviewing the country's economic development and policy changes. The second section seeks to explain why Botswana's experience has been so different from that of other African countries by looking at the roles of good luck and good fortune. The third section identifies remaining challenges. The last section summarizes the chapter's main findings.

The Developmental State and Governance Orientation

Botswana is a landlocked country located in the middle of southern Africa. It shares borders with Namibia, South Africa, Zambia, and Zimbabwe. The country's total land area is about 582,000 square kilometers—about the size of Kenya, France, or Texas. The population of about 1.8 million people is tiny relative to the size of the country. With two thirds of the country covered by the Kgalagadi Desert, climate conditions are harsh—mainly arid, with inadequate rainfall. Less than 5 percent of Botswana's land is arable.

Once a British protectorate, Botswana became independent on September 30, 1966. It has maintained a stable multiparty democracy since independence that is often cited as the foremost example of good democratic governance in Africa. At independence the constitution established a multiparty nonracial democracy that maintains basic freedom; basic rights, including property rights; and an independent judiciary. One of the most significant features of competitive politics in Botswana is the peaceful coexistence of the ruling party, which controls the central government, and the major opposition party, which has tended to control some of the main urban local governments.

Botswana is the least corrupt African state, with a relatively participatory and transparent political system with roots in the country's traditional Tswana customs. Unlike many Sub-Saharan African countries that gained independence in the 1950s and 1960s and abandoned multiparty democracy shortly after independence, or others (such as Angola and Mozambique) that never gave democracy a chance, Botswana has allowed democracy to flourish. Democracy,

political stability, the rule of law, transparency, and participatory political process seem to have contributed to the success and sustainability of the country's development.

Conditions at Independence

Botswana started on its development path with virtually no infrastructure, few productive assets, and a largely uneducated populace. Compared with other British colonies in the region, it suffered acute neglect by the authorities. The country was initially administered from Mafeking, in South Africa. Under the system of "indirect rule," administrators adapted indigenous governance structures to legitimize colonial rule and minimize administrative overhead, retaining traditional chiefs as rulers of their people while using them as instruments of colonial rule. With the exception of the railroads, the country's infrastructure was undeveloped.

As a result of this neglect, the legacy at independence was stark: Botswana was one of the poorest countries in the world, with per capita income of about \$80 a year. More than 90 percent of the population depended on subsistence agriculture for its livelihood, literacy levels were among the lowest in Africa (the country had a mere 22 university graduates), and there were only eight kilometers of tarred road in the entire country (Acemoglu, Johnson, and Robinson 2003). The abattoir in Lobatse provided virtually the only job opportunities in the country, forcing a significant percentage of Botswana men to work in South Africa. The government depended on foreign aid (mostly from the United Kingdom) not only for investment projects but for recurrent expenditures. The country's prospects were far worse than those of many African countries. Rather than discouraging the leadership, however, these weak prospects led to resolve to chart a course that would lead the country out of poverty and away from dependence on foreign aid.

The regional context at independence was also inhospitable. Except for its border with independent Zambia, Botswana was initially surrounded by racist regimes, with South Africa initially intending to annex it.

The hostility of its neighbors led Botswana to develop strong relations with the international community, particularly Western countries, which provided aid. The government adopted a policy of public support for regional liberation struggles while quietly maintaining economic ties with South Africa (Maipose, Somolekae, and Johnston 1996). Botswana was instrumental in establishing the Southern African Development Coordinating Council (SADCC) in 1980. SADCC later became the Southern African Development Community (SADC), a regional development organization of Southern African member states with a focus on economic, social, and political development. SADC has broad programs of action that seek to encourage socioeconomic cooperation (such as free trade among member states) and eventually regional integration. The country's political situation improved with the independence of Zimbabwe in 1980 and Namibia in

1991, as well as the end of apartheid in South Africa (although the political change in South Africa can be viewed as both a blessing and a curse insofar as Botswana's development is concerned, as discussed below).

Against these difficult conditions at independence, Botswana had four inherent advantages. First, the country has large mineral deposits (of copper, diamonds, soda ash, coal, and nickel) as well as other outstanding natural resources (such as national parks and game reserves). It owes its success to the exploitation of natural resources, especially diamonds, discovered in 1967. The basic tenet of the country's development approach has been to optimize the benefits of the revenue from natural resources by reinvesting them in developing the productive capacity of the economy by investing in education and training, health, infrastructure, and other areas. As elaborated below, this approach is considered a foundation of the country's sustainable development. The vesting of mineral rights in the state and the establishing of the government as the custodian of wildlife resources have allowed the government to equitably spread services and development across the country, thereby enhancing national unity.

Second, the country's population is more ethnically homogeneous than that of most other African countries. The 80 percent of the population that speaks Setswana gets along reasonably well with the non-Setswana-speaking minorities (Picard 1987); ethnic differences have not been politicized to the extent of being used as interest groups.

Third, by ruling largely through traditional administrative systems, the colonial administration did not supplant strong traditional governance structures, especially the participative and consultative traditions. Benign neglect by the colonial authorities meant that Botswana's leaders were able to chart a pragmatic political and economic course free of ideological reaction against colonialism.

Fourth, Botswana's proximity to South Africa was both a curse and a blessing. Before South Africa's democratic transition, Botswana benefited from its location in several ways.

Botswana leaders took advantage of the geographical situation of their country to project their democratic experiment on the doorstep of apartheid. They appealed for support to the United Nations and its agencies, to foreign governments, and to international humanitarian agencies. The message was fairly clear and simple: Botswana was a young poverty-stricken nation, but whose political success could contribute to racial harmony and peaceful transformation in Southern Africa. By the mid-1970s this democratic ideology and the country's geopolitical situation had begun to pay dividends. (Molutsi 1993: 52)

Companies invested in Botswana in order to take advantage of the large South African market within the Southern African Customs Union (SACU) without violating the international sanctions against the apartheid regime. Although the democratic transition bodes well for Botswana in the long run, it

has meant the loss of some companies, which relocated in South Africa's industrial heartland in order to reduce transport costs, avoid paying the high relative wage and utility costs in Botswana, and circumvent quota restrictions by South Africa on imports from Botswana.

Although South Africa is not a major market for exports and the easy access to South African goods and services has somewhat hindered Botswana's diversification efforts into manufacturing sector, proximity to South Africa has facilitated exports to Europe, and South Africa has provided most of Botswana's imports. Regional economic organizations—such as the SACU, which Botswana has belonged to since 1910, and the rand monetary system, from which Botswana withdrew in 1976 in order to gain full control over its own monetary policy—proved to be viable inherited external institutions of restraint that loosened up some crucial constraints that landlocked countries tend to face.

The Indigenous Nature of Botswana's Developmental State

Some analysts, including Wylie (1990), Edge (1998), and Maundeni (2001), call Botswana an “indigenous developmental state,” because the state-led development strategy has been blended with precolonial Tswana political theory and social history regarding the role of the state, leadership, the relationship between the political and economic elite, and the consultative process that underlines public policy making. The coexistence of wealth and power is traditionally and culturally legitimate under Tswana polity (Wylie 1990; Parsons and others 1995) providing solid ideological orientation for Botswana's leadership.

Tradition, history, and attitudes appear to be critical to understanding modern Botswana institutions and policy choices. The precolonial Tswana culture regarded state leadership as crucial to the process of accumulating wealth; the centrality of the state was promoted to facilitate economic accumulation and redistribute wealth (Maundeni 2001). The Tswana chieftaincy was “the trunk from which new leaves sprouted ... the ‘wife,’ milk-pail and ‘breast of the nation’” Wylie (1990: 32). The state-led development strategy appears to have blended well with precolonial Tswana political theory regarding the role of the state, the leadership, and the intimacy between the political and economic elite (as evidenced “by the use of the term *kgotsi* for both chief and rich man” [Wylie 1990: 23]).

Consultative processes that underlie Botswana's policy making, including managing of negotiations and contracts, are firmly established within traditional institutions such as the *kgotla*, the traditional open assembly forum or meeting place that provides individuals with an opportunity to express their views and strives to achieve a degree of consensus (Lekorwe 1989).

The use of expatriates reflected Botswana's “long tradition of using friendly outsiders to help cope” with problems (Lewis 1993; Maundeni 2001). Lewis cites how “the three principal tribal chiefs took the lead in proposing protectorate

status for Bechuanaland” with “help from the London Missionary Society in convincing the British government” (Lewis 1993: 22). Tlou (1998) and Maundeni (2001) show how chiefs used foreigners for required skills. Whereas many African governments were highly suspicious of foreigners, the international economy, and the role of international companies and the free market, Botswana had open-minded views, partly because of its experience and partly because elite cattle owners had participated as partners with the Colonial Development Corporation in what looked like a good accommodation of local and external interests (Morrison 1993).

In many respects the role of the state in Botswana is similar to that in the East Asian miracle economies, where the state has been strategically interventionist. But aspects of Botswana’s traditional, multiparty democratic system of government offer a sharp and refreshing contrast to authoritative and undemocratic regimes elsewhere (including China and the East Asian miracle economies) that lack a history of democratic institutions until quite recently if at all.

The ruling Botswana Democratic Party (BDP) has been in power since independence, democratically keeping the opposition at bay. This secure political elite (with overwhelming electoral support since independence) has pursued growth-promoting policies and developed, modified, and maintained viable inherited traditional and modern institutions of political, economic, and legal restraint. These institutions have remained robust in the face of initial large aid inflows and spectacular mineral rents, producing a growth pattern that has been both rapid and cautious.

While many other African leaders listened to radicals, Sir Seretse Khama, the country’s first president, listened to conservative and market-based advisors. Whereas Kaunda and Nyerere were teachers, the BDP’s founders had direct engagement in production, as leading cattle men and landowners. Being historically associated with wealth accumulation and production, the Tswana elite had interests in putting in place and upholding a legal framework governing property rights and commercial disputes.

Founding fathers in other African countries fought for independence and mistrusted foreign investment (which they subsequently threatened, nationalizing foreign companies). In Botswana the situation and mindset were completely different. Colonial rule in Botswana came by invitation; it ended through peaceful means, after the three principal tribal chiefs proposed that Bechuanaland be granted protectorate status by the British government; subsequently nationalists negotiated for independence and its timing (Maundeni 2001).

The indigenous nature of the Botswana developmental state is illustrated by the way in which the state mobilized development resources—especially savings, investment, and human resources, widely known as the primary drivers of economic growth—and prudently managed the economy without becoming excessively involved in the nuts and bolts of production. Botswana has minimized the adverse consequences of the resource curse and Dutch disease by

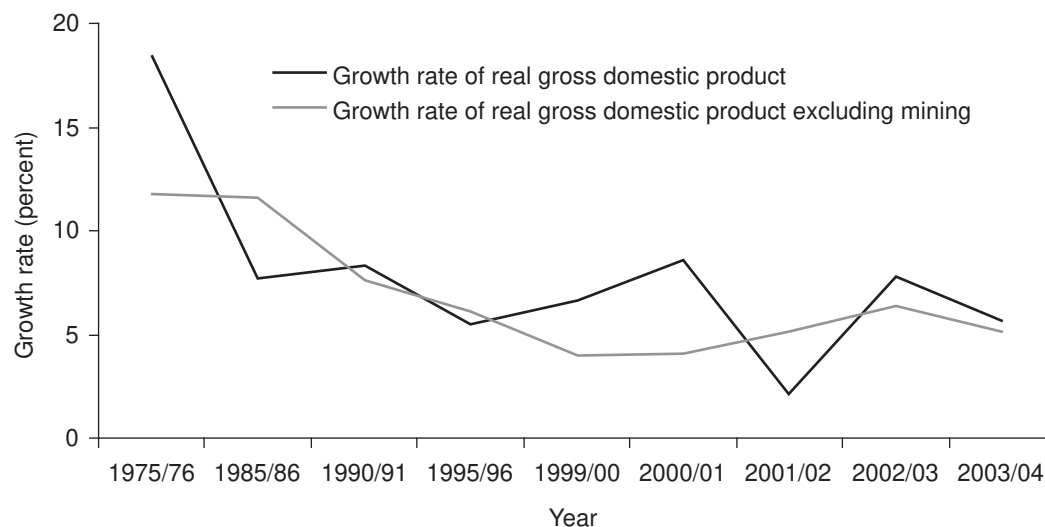
creating a relatively strong and competent state that has provided vision and prudent management through traditional and modern institutions of governance.

Economic Performance and the Phases of Growth

Despite an inauspicious start, the government established a remarkable record of economic growth decades after independence, thanks in part to the discovery of extremely rich mineral deposits. The annual rate of real GDP growth has been impressive, both with and without mining (figure 1). In addition to having the highest annual growth rate in the world between 1966 and 2004 (Leith 2005), Botswana was among the fastest-growing economies in the world from 1980 to 1990, a period during which most African countries experienced negative growth. Average real income in Botswana was nearly 10 times higher in 1990 than in 1966. By 1990 GNP per capita was \$2,540 (the second highest in Africa after Mauritius), and Botswana was one of the few African countries to reach middle-income status (Duncan and others 1996).

Although it is easy to attribute Botswana's impressive record to mineral wealth, many countries with similar or superior natural endowments were unable to transform them into sustained economic growth. Many development analysts have attributed Botswana's success to generous initial support from the donor community, sound economic policies, and careful fiscal and monetary management (Harvey and Lewis 1990; Mogae 1992; Duncan and others 1996; Acemoglu, Johnson, and Robinson 2003; Leith 2005). The country is an excellent example of astute state management of good national fortunes (foreign aid followed by natural resource wealth).

Figure 1: Real GDP Growth, With and Without Mining, 1975/76–2003/04



Source: Author, based on data compiled from Bank of Botswana annual reports.

Economic growth was accompanied by impressive social gains, largely as a result of heavy government and donor investment in socioeconomic infrastructure. Public expenditure in the social sectors averaged 10–12 percent of GDP between 1980 and 1990, up from just 4 percent in 1973 (Mupimpila 2005). The colonial government spent little in excess of administrative costs; the independent government spends about 40 percent of GDP a year, primarily on infrastructure and human capital. This figure is one of the highest in Africa, comparable to that of Norway (Acemoglu, Johnson, and Robinson 2003; Leith 2005; Hillborn 2006).

In contrast with the rest of Sub-Saharan Africa, Botswana improved its socioeconomic performance considerably over the past three decades. Despite a widely dispersed rural population, access to education, health services, sanitation, and clean water increased dramatically (table 1), with about 95 percent of the population having access to safe water by 2004.

Table 1: Economic, Demographic, and Social Indicators, 1980–2004

Indicator	1980	1990	2000	2004	2000/04	Sub-Saharan Africa 2000//04
Economic indicators						
Annual GDP growth (percent)	12.0	6.8	7.6	4.9	5.5	4.0
GNI per capita (US\$)	960	2,450	2,870	4,360	3,286	506
Annual GDP growth per capita (percent)	8.2	3.9	6.5	5.0	5.5	1.5
Resource balance (exports minus imports) (percent of GDP)	–13.4	5.3	21.7	7.5	13.4	0.8
Revenue/GDP ratio	34.4	58.7	—	—	—	—
Gross fixed capital formation (percent of GDP)	40	37	20	31	26	18.2
Gross domestic savings (percent of GDP)	27	43	42	38	40	19
Unemployment rate (percent)	13.9	21.6	15.8	24.6	—	—
Poverty rate (percent)	59	47	—	30	—	—
Inequality (Gini coefficient)	0.556	0.537	—	0.573	—	—
Demographic and social indicators						
Population (million)	0.9	1.3	1.6	1.8	—	—
Urbanization (percent)	18	32	48.2	52.9	—	—
Public expenditure on education (percent of budget)	—	—	23.1	25.3	—	—
Access to safe water (percent)	77	89	94	95	—	—
Access to health service (percent)	36	55	69	79	—	—
Access to sanitation (percent)	—	38	—	41	—	—
Primary education enrollment rate (percent)	76	82	90	93	—	—
Adult literate rate (percent)	—	71	78	82	—	—
Life expectancy (years)	46	64	56	40	—	—

Source: World Bank 2000, 2006; Government of Botswana (various years).

— Not available.

The 25 percent of total public expenditure that has been allocated to education has yielded impressive results: virtually all Botswana children now attend junior-secondary school, and the adult literacy rate is more than 85 percent. Life expectancy at birth rose from 48 years in 1966 to 65 years in 1990, before declining to 56 years in 2000 and 40 years in 2004, mainly as a result of the AIDS pandemic.

Initially based on agriculture and heavily dependent on foreign aid, Botswana's economy grew rapidly as a result of the development of the mining sector, particularly the diamond industry. The economy has been strategically led, influenced, and managed by the state and decreasingly financed by foreign aid.

Acknowledging the importance of policy choices, Botswana has been strategically interventionist, as demonstrated by its practice of producing medium-term public sector national development plans and consistently using annual budgets as the main instruments for translating plans into action since independence. As the government owns about half of the diamond industry, much of the revenue from depletable resource exports accrues to the government, making public spending and saving strategies a key component of overall economic growth, especially if fiscal and monetary policy measures are appropriately balanced and sequenced (Collier 2007). According to Collier (2007), Botswana has impressive checks and balances, notably rules for public spending; all public spending projects have to pass a dual hurdle of honesty and efficiency, with honesty maintained by rules of competitive tendering and efficiency enforced by technical scrutiny of the rate of return on each proposed project.

Botswana's evolution can be broken into three broad policy regime phases of growth experience. The first phase, which overlaps with colonial rule, covers the 1960s to 1975. This period is described as a period of initial base creation—a transitional phase beginning with some uncertainty about the nature and economic base of the Botswana state and ending with institutional transformation and a development policy direction. Just as the form of colonial rule was negotiated by the traditional ruling chiefs, who asked for a British protectorate, Botswana's transition to independence was a result of peaceful negotiation, with a significant degree of continuity in terms of both leadership and institutional setting. Attainment of political independence meant that the country was no longer under the threat of being incorporated into the minority-dominated states of South Africa or Southern Rhodesia (now Zimbabwe). Furthermore, because the country was ruled as a British protectorate rather than a colony, the traditional Tswana political culture survived during the colonial rule, with a significant degree of continuity after independence. Given this background, the new elite that hurriedly prepared and assumed political leadership modified some inherited traditional institutions as a basis for building a democratic and accountable system of government. They also tacitly

challenged white-ruled and racist southern African regimes by ultimately merging local interests into a broader commitment to create a nonracial (reformist) and unitary state. This period was characterized by the end of colonial rule; the introduction of a multiparty democratic system of government and the continuation of the inherited market-based economy; the integration of traditional institutional structures (such as customary courts and the participatory *kotla* system, the inherited open local assembly/forum or meeting place) into modern institutions; and a policy stance that sought to maximize the flow of foreign aid and private investment. The result was moderate growth and the creation of a strong foundation for good governance. During this period the government decided to remain under what retrospectively turned out to be useful external institutions of restraint in monetary and fiscal policies—the Rand Monetary Authority and the SACU—and the renegotiation of the formula for redistributing customs revenue. Before 1969 Botswana received a fixed percentage of the common revenue pool (0.28 percent, as provided for under the 1910 agreement, and 0.31 percent, as amended in 1965). Under the terms renegotiated in 1969, the basis of Botswana’s share of revenue was the level of imports from all sources. This led to enormous increases in revenue, especially when new mining ventures opened (Harvey and Lewis 1990). During this period the government also negotiated with tribal chiefs for the transfer of mineral rights. As a result of these negotiations, the central government was able to legislate itself as the holder of mineral rights in tribal lands (Leith 2001, 2005; Maundeni 2004), thereby strengthening national unity and cohesion and preempting regional conflicts over mineral rents. The thrust of development policy entailed experimenting with state-led development strategy in a mixed liberal economy. This institutional baseline was similar to that of many other African countries at independence, though the institutional design in Botswana was more pragmatic and less dogmatic than in many African countries.

The second phase (1975–89) saw the consolidation of both the market-based, state-led development strategy and continuity with the multiparty system of government, avoiding the wave of one-party or military regimes and forms of socialist/communist ideologies that swept across Africa. Botswana managed to negotiate access for its beef into the European Economic Community at prices above world market prices under the special provisions of the 1975 Lomé Convention. This move increased the value of the principal capital asset of economic inheritance in Botswana, cattle. The result was growth in the export market for beef and the entrenchment of a system of property rights. The policy thrust emphasized a well-established market system, especially for exports, and the creation of a strong and competent state that provides visionary leadership and management.

One of the most important policy choices was the decision to negotiate for joint partnership with the mining companies. These agreements entailed leaving the management of the enterprises to private partners. Retrospectively, they can

be viewed as the start of a “smart partnership” between the private and public sectors. The diamond company—the de Beers Botswana Mining Company (Debswana)—is a 50/50 joint venture between the government and De Beers. Some observers wonder how the government managed to negotiate such a good deal with a multinational company. The explanation lies in the nature of Botswana’s political economy, the nature of the interests at work, and demonstration effects outside Botswana. Asset owning by the state is traditionally legitimate; negotiations leading to partial state ownership of mines reflected the state’s traditional role as a conduit for redistributive policies (Maudeni 2001). The wind of nationalization sweeping across the developing world in general and Africa in particular provided both leverage for Botswana negotiators and a good reason for the foreign investor to want to circumvent nationalization. As a very poor country, Botswana risked scaring off foreign investors, who were perceived as crucial to development. The leadership therefore initially negotiated for just a 20 percent interest, with a provision that left the agreement open for further negotiation should any party feel disadvantaged. Later Botswana increased its equity to 50 percent by buying another 30 percent of the company’s shares and increasing its mineral royalties (Gaolathe 2001b). Afraid of the consequences of nationalization elsewhere and in order to fortify what turned out to be a profitable business interest, the mining companies were willing to give more shares to the government (Harvey and Lewis 1990). Thus the outcome of the negotiations reconciled the two sides’ interests. By leaving company management in the hands of De Beers, Botswana avoided the mistakes made by countries such as Zambia, where the state was actively involved in management as well as bolts and nuts production. This policy choice in Botswana has worked well in terms of financial returns, confidence and trust, and consultations over development policies.

It is during this period that the mining sector clearly emerged and consolidated itself as the engine of growth in Botswana. The strategic and positive role of the state also emerged as a conduit through which the vast financial resources—mainly from mining but also from foreign aid—were redistributed to create public goods and services. The government used this period to consolidate its pragmatic approach to development.

This period was one of rapid economic transformation but limited structural diversification. Moreover, the very lumpy nature of some large investments, especially in the mining sector, caused growth to be uneven (Harvey and Lewis 1990). Periods of very rapid growth were followed by periods of relative stagnation, during which GDP was sustained at or near its new higher level by government spending of the revenue generated by the previous boom.

The third period includes the end of the 1980s, the 1990s, and the new millennium. This period is characterized by a new reorientation toward private sector-led development, with an emphasis on economic diversification, export competitiveness, and privatization. Politically, the period is marked by increased

electoral competition; a growing political opposition; realignments and diversification in economic and social interests, as a result of rapid urbanization; the spread of education; and new production ventures, leading to complex policy choices within a competitive regional and global environment. It is a period of slower economic growth (although growth picked up again after 2002), as a result of two main factors: reduced growth of the mining sector in the absence of new mining projects and an overall situation that is not conducive to generating growth that is less dependent on the mining sector and foreign entrepreneurs.

One of the reasons why higher growth has not been achieved is that the dynamics of Botswana's new political economy order require complex political choices. An example is the way in which the foreign exchange rate was managed. Initially, the government resisted adjusting the exchange rate to keep it competitive for economic diversification, mainly because Botswana was experiencing rapid urbanization, growing unemployment, and an increasing appetite for costly imports. The opposition parties took advantage of these issues to highlight their differences with the ruling party. When the ruling party regained electoral confidence and the opposition was in disarray, the government pushed a new wave of economic liberalization, which included making the exchange rate competitive by introducing a crawling band exchange system.

Just as the start of the first phase was marked by policy and negotiations that attracted private foreign investment in the mining sector—leading to initial diversification from agriculture to mining—the third policy regime period is marked by some initiatives for privatization as well as economic diversification into service and manufacturing sectors. This phase of policy regime is marked by three related policy thrusts toward further economic and political liberalization: the liberalization of interest and exchange rates and the reactivation of privatization, including the sale of public assets and companies and outsourcing. These changes notwithstanding, the basic goal of development remains to optimize the benefits of revenue from natural resources by reinvesting them in developing additional productive capacity.

Sectoral Makeup of the Economy

Agriculture's share of GDP has shrunk significantly since independence, falling from more than 40 percent in the 1960s to about 4 percent during the 1990s and 2.5 percent in 2003/04 (table 2). Over the same period the mining sector's share of the economy rose from almost zero to a peak of about 50 percent in 1986, before sliding to 35 percent in 2003/04.

Table 2: Sectoral Distribution of Gross Domestic Product, 1966–2003/04 (percent)

Sector	1966	1975/76	1985/86	1990/91	1995/96	1999/00	2000/01	2001/02	2002/03	2003/04
Agriculture	42.7	20.7	5.6	4.8	4.1	2.7	2.7	2.6	2.4	2.5
Mining and quarrying	0	17.5	48.9	39.5	33.9	33.7	36.5	34.7	35.9	34.7
Manufacturing	5.7	7.6	3.9	4.7	4.8	4.5	4.1	4.0	3.9	3.7
Water and electricity	0.6	2.3	2.0	1.7	2.1	2.4	2.4	2.4	2.5	2.3
Construction	7.8	12.8	4.6	7.6	6.2	6.2	5.8	5.9	5.6	5.7
Trade, hotels, and tourism	9.0	8.6	6.3	5.9	9.9	10.5	10.3	10.9	10.5	10.2
Transport	4.3	1.1	2.5	3.2	3.6	3.9	3.8	3.7	3.5	3.1
Banking, insurance, and business services	20.1	4.7	6.4	8.8	11.2	11.2	10.8	11.4	10.9	10.5
General government	9.8	14.6	12.8	13.5	15.4	16.2	16.0	16.9	16.4	17.2
Social and Personal	0	2.8	2.5	4.2	6.6	6.3	6.0	6.3	6.1	3.8
FISIM (Financial Intermediation Services Indirectly Measured)	0	−0.7	−2.0	−2.3	−2.6	−3.5	−3.3	−3.6	−3.8	−3.7
Taxes on imports	0	0	0	8.1	5.8	6.2	5.4	5.2	4.3	4.3
Net taxes on products and production	0	7.9	6.4	1.1	1.7	2.2	2.1	2.3	3.9	4.3
Real GDP growth rate	0	18.4	7.7	8.3	5.5	6.6	8.6	2.1	7.8	5.7
Real GDP growth rate excluding mining	0	11.8	11.6	7.6	6.1	4.0	4.1	5.1	6.4	5.1

Source: Bank of Botswana 1988, 1998, 2005.

Note: Year runs from July to June.

The period 1978–89 was a period of unusually rapid growth (Harvey and Lewis 1990) followed by a period of unusually slow growth (Gaolathe 2001a; Sentsho 2005). The rapid sectoral growth of the mining sector in the late 1970s and late 1980s came to an end as a result of three factors: the world recession and glut in the diamond market, which led to reduced output and stockpiles of inventory; the lack of new mines or mine expansions; and setbacks in other mining activities, especially the near collapse of the soda ash project and the deepening crisis in the copper subsector, which was barely surviving. Since the crisis the mining sector has recovered, increasing slightly its dominance of the economy.

The share of manufacturing has remained almost constant, at about 4 percent GDP share. A major setback in the manufacturing sector came from the closure and relocation to South Africa of vehicle assembly plants, especially the Hyundai Motors facility factory, the largest of all the factories, leading to a loss of vehicle exports and jobs.

Like other sectors that have maintained their share of GDP, manufacturing grew in absolute terms during the period of rapid overall growth. In relative terms, however, which are crucial for structural transformation, its share of the economy has not changed over time. In fact, other than agriculture, mining, the government, and recently the service sector, which is dominated by tourism and the emerging financial services following the establishment of Botswana Financial Centre, little structural transformation has taken place.

Whether manufacturing is indeed the way to go remains unclear. On the one hand the growth of the manufacturing sector has played a key role in every case of successful development. On the other hand, there are questions about the viability of manufacturing in Botswana given the efforts made so far, such as tax incentives and generous subsidies under the Financial Assistance Policy (described below).

Policy Choices

Botswana's leaders adopted an open policy toward foreign investment and pursued a nonaligned foreign policy, in order to maximize the volume and diversify the sources of foreign aid. The country's early opening to foreign investment was rewarded by large inflows, especially during the 1980s and 1990s. Foreign direct investment (FDI) played a significant role in the country's development effort; the mining sector was developed in "smart partnership" between the foreign investors and the government (as a shareholder), providing the resources critical for the first phase of economic diversification.

Mobilization of state financial resources was based on a two-pronged approach of mobilization of foreign aid and private FDI. These policies paid off well, leading to the discovery and successful exploitation of copper, nickel, and diamonds. They increased aid flows from an increasingly wide range of donors, who initially financed the entire development budget and about half of recurrent expenditure.

The leadership also adopted growth-promoting policies that were closely related to historical economic links with the white-ruled South Africa—a clear demonstration of a pragmatic approach motivated by national interest while remaining opposed to the racist regime. One of these policy choices was the decision to join the Southern African rand monetary area after independence, thereby limiting the country's discretion over monetary policy at a time when it might have been tempted to engage in deficit financing given its limited financial and manpower resources. The government's pragmatic sense was also demonstrated by the decision to remain within the SACU of 1910 and to renegotiate the revenue distribution formula in 1968. These policy choices ensured a flow of revenue for needed development projects (Harvey and Lewis 1990). Retrospectively, they limited the temptation to adopt the growth-retarding import-substitution industrialization policies that many African countries pursued.

When a policy was subsequently made to gain control over monetary and exchange rate policies—following a decision to leave the monetary union in 1975 and to create the country's own currency, the pula, in 1976—the country was well prepared to undertake this responsibility. The decision was timely given Botswana's interest in pursuing independent economic strategies and its prospects of growing aid and mineral revenue (Hudson 1978; Herman 1997).

Another important policy choice was the approach to national development, underlined by development planning and pragmatism—not dogma—for economic policies and the overall strategy of state-led development. Botswana's development analysts acknowledge the significance of state strategic intervention, especially the idea of formulating and implementing a national development plan, a forerunner of development planning, as an instrument for resource mobilization and management in what was basically a market economy. Each of the country's development plans has sought to promote four national principles—democracy, development, self-reliance, and unity—leading to four overall national development objectives: rapid economic growth, social justice, economic independence, and sustainable development.

Botswana's economic development strategy exploits its mineral worth, investing the proceeds from mining in improving social and economic conditions and creating new economic opportunities while at the same time encouraging foreign aid and private (foreign) investment. This strategy has the potential to achieve sustainable growth, because physical and human capital is renewable whereas the mineral endowment is not (Bank of Botswana 1997). State management capacity was enhanced by some early government policies, such as land policies and their management by land boards; the vesting of mineral rights (taken from local/traditional authorities) by the central government; the negotiation of equity/business shares as opposed to the nationalization of the mines; and the policy of gradually localizing by relying on foreign experts. These policies averted land and mineral right disputes, the main source of tribal or regional conflicts in some countries. Equally important, they did not threaten private foreign investment or reliance on foreign operational experts' technical and management competency.

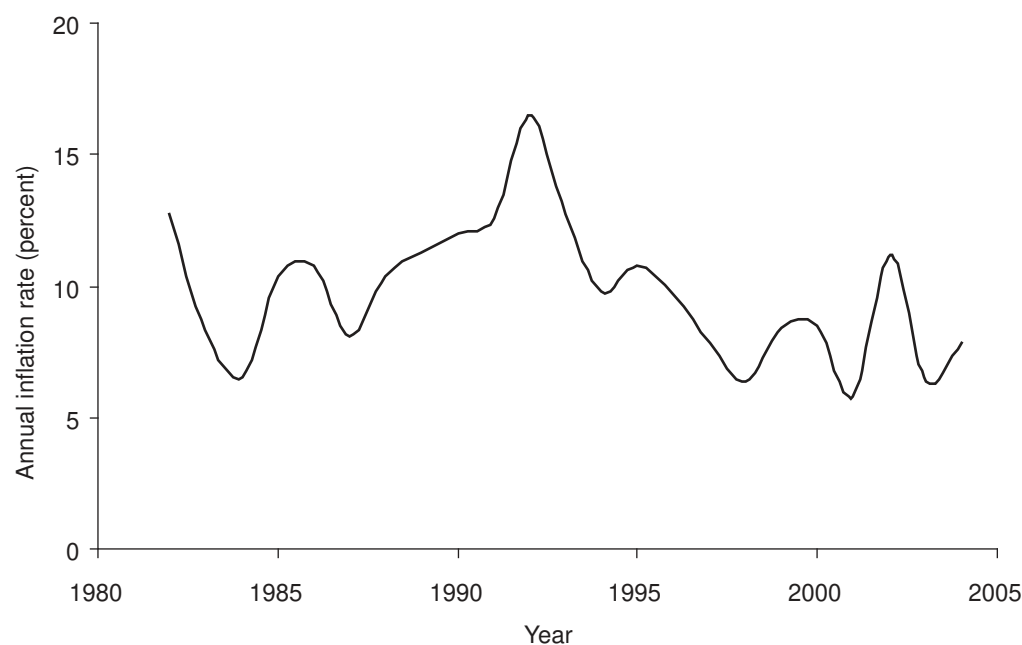
In the absence of a significant modern private sector, the government played a pivotal role in undertaking certain crucial tasks and providing basic public infrastructure. This type of development strategy led to the dominance of government in the economy. Government spending accounted for about 35 percent of GDP in the mid-1990s, similar to that of many developed countries.

At the aggregate level Botswana's expenditure-to-GDP ratio is similar to that of many developed countries, but the composition of specific items of expenditure differs significantly. In developed Western countries a far greater proportion of government spending goes to income transfers; direct involvement in economic activities (as measured by capital formation, intermediate consumption, and wages and salaries) is relatively low (Wright 2001).

The composition of spending in Botswana also differs from that of other African countries. Unlike other African countries, Botswana spends very little on debt interest payments. It also devotes a smaller share of total spending to wages and a larger share to intermediate consumption and spending on capital goods. Spending on capital goods includes seed capital provided through the Botswana Development Corporation and other parastatal companies, which have played a major—and generally successful role—in stimulating the development of private business across a range of sectors. This pattern reflects financial constraints that have resulted in a squeeze on investment and spending on goods and services (and to a lesser extent labor costs) in many African states.

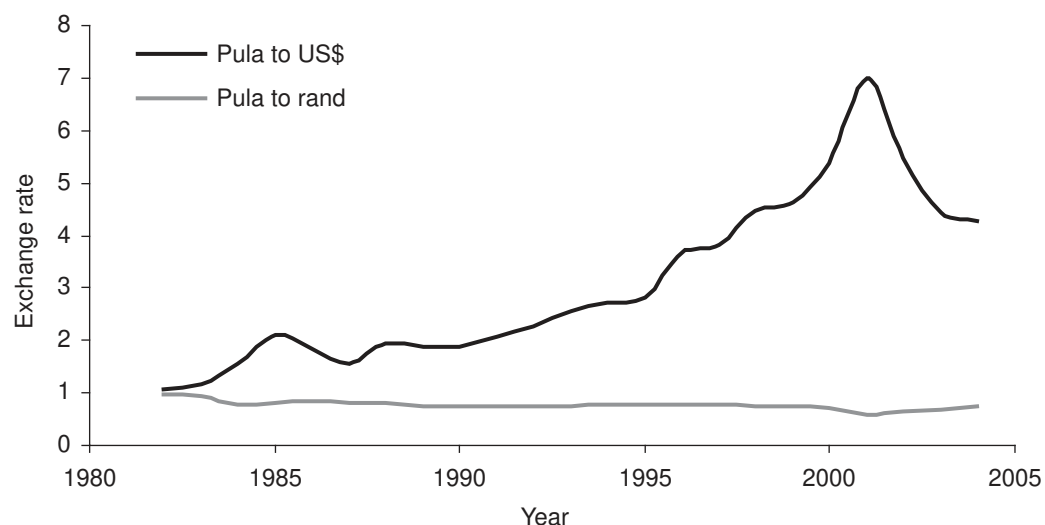
Management of inflation and the current account has been good over the years, consistent with a broad countercyclical policy of managing booms and slumps. Although the economy has experienced booms and slumps, the slumps have not been dramatic and the government has been successful in avoiding extreme episodes of government-led inflation (Hill and Knight 1999). Indeed, the rate of inflation has been relatively moderate, especially following the recent surge in economic growth (figure 2). Policy included bold decisions not to award salary or wage increases for public servants during the sensitive election years of 1994 and 1999 because of projected deficits.

Figure 2: Annual Inflation Rate, 1982–2004



Source: Author compilation based on Bank of Botswana annual reports.

Figure 3. Pula to US\$1 and Pula to Rand Exchange Rate, 1982–2004



Source: Author compilation based on Bank of Botswana annual reports.

Knowing that it must stand for election every five years has made the government responsive to citizen opinion in designing development policies, programs, and priorities. By doing so, it has remained in power since independence. The ruling party's electoral dominance has meant that it does not need to seek "quick fixes" to economic development problems during bad periods. "The government has had a good sense of priorities and limits and did not reach too far, too fast" (Harvey and Lewis 1990: 7).

For example, recommendations on wage and salary increases are made to the government by the National Employment, Manpower and Income Council, taking into account macroeconomic and budgetary constraints each year. As noted, the decisions not to award wage and salary increases in 1994 and 1999 elections years were bold, because these policy choices were seemingly not based on politics. One could say that electoral victory was probably taken for granted, at least in view of the perceived good performance record by the ruling party and its electoral dominance since independence. The government chose to forgo an obvious opportunity to "buy off" the political opposition, especially during the 1994 elections, which were held against the background of a general economic down-turn. This decision was probably miscalculated, given the major electoral setback in terms of parliamentary and local government seats and the popular vote.

The leadership's commitment to growth and macroeconomic stability seems to be a plausible explanation. One can also argue that prudent macroeconomic management, for which a democratically elected Botswana government has acquired a reputation, is perceived, at least by the ruling party, as one of the ways of enhancing public confidence and therefore its own credibility and legitimacy.

Exchange rate policy has been quite consistent since the country left the rand monetary area, created an independent currency, and began managing a fixed exchange. Unlike a floating exchange rate regime, it is not easy to determine the appropriate exchange rate under a fixed-rate system. Overvaluing the currency frustrates export diversification by crowding out all but the most robust exports. To avoid this problem, over the years Botswana has deliberately set the pula at a level below the perceived equilibrium rate, despite substantial foreign exchange reserves, equivalent to about three years of imports requirement in 2006 (Government of Botswana 2007) (figure 3). This strategy was designed to avoid Dutch disease and encourage nontraditional exports. The policy has also been in the interest of the cattle industry.

Determining the exchange rate became increasingly complex following the decision by South Africa to float the rand/dollar exchange rate and as a result of the rising rate of urbanization and affluence in Botswana, a highly import-dependent economy. First, with the rand floating, changes in the rand/dollar exchange rate are echoed in the rand/pula exchange rate, making the ongoing task of setting the appropriate level complex.

Second, South Africa is the major source of Botswana's imports and inward direct investment, as well as the destination for most nontraditional exports. This makes the competitiveness and stability of the pula/rand exchange rate a crucial policy choice for Botswana's development. Third, the rate of urbanization is very rapid and the benefits of rapid economic growth are trickling down, expanding the affluent class and diversifying economic and social interests. This means that more and more Botswana are going abroad for studies, owning imported cars, and building or expanding houses. These developments, especially rapid urbanization and growth in economic and social interests (for a country that is highly dependent on imports), have posed a serious dilemma for Botswana, seemingly leading to a heavier weight on the real exchange rate of the pula against other currencies, especially the rand and the dollar. This puts potential Botswana nontraditional export producers at a competitive disadvantage with respect to those of South Africa and appears to have slowed the rate of economic diversification. As a result, the government had no choice but to realign the exchange rate in 2005 by moving from a pegged system to a floating system (the crawling band exchange rate regime) to maintain the country's competitiveness, as measured by the real effective exchange rate (Bank of Botswana 2006). The move was partly spurred by the ruling party's most recent electoral victory, which restored government confidence.

Another recent development related to policy choices concerns privatization and how competing interests may have stalled implementation. The government budget lies at the heart of Botswana's socioeconomic development—acting as a conduit by which the rent earned from the extraction of diamonds or other dividends is transferred from surplus-generating sectors and enterprises to benefit the population at large. For this reason the government has been under

pressure not to sell public assets. A few rich Batswana advocate privatization, at least by selling to citizens some shares the government owns, as a means of empowering Batswana. Trade unions have been resisting privatization out of fear of job losses and the sale of national assets to foreigners. Thus although the government has a clear policy on privatization, it has been under pressure not to privatize or at least to stall privatization. This pressure appears to have cost the country in terms of FDI, which is flowing to other countries mainly because of privatization (Allan 2002). Despite an enabling environment and high national credit ratings, FDI inflows have significantly declined, from about 20 percent of GDP in the 1980s to less than 5 percent and as low as 1 percent in recent years (World Bank 2004; Bank of Botswana 2007).

Engines of Growth

What will be the sustainable engine of growth in Botswana? The answer is complex. Botswana needs to start thinking in terms of multiple engine jumbo jets, not single-engine trains. This appears to be the vision of Botswana's leaders, as reflected in the themes of the recent national development plans, annual budgets, and some key facets of macroeconomic policies (Bank of Botswana 2006; Government of Botswana 2003b; MFDP 1997, 2004, 2005, 2006). All of the policies emphasize the need for economic diversification and international competitiveness, through the development of financial services (building on the country's tradition of political stability, high international credit ratings, a relatively stable currency, strong reserves and prudent management [Paul and Motlaleng 2005]) as well as upper-end tourism (based on the country's unique natural heritage and good infrastructure). The growth of the banking and tourism sectors is already apparent.

Downstream beneficiation of minerals represents another possibility. The first phase of the downstream beneficiation of diamonds is expected to create at least 3,000 jobs (MFDP 2007); the buildings for the eight companies already registered are already under construction.

Though not a major sector so far, diamond-related manufacturing appears to be set to grow significantly. Building on its reputation for effective negotiations, Botswana is seeking to consolidate its position as the world's largest diamond producer by adding manufacturing and trading facilities. The renewal in 2004 of two 25-year mining leases for the Jwaneng and Orapa mines with De Beers saw Botswana insist on a greater share of the profits. The government has also insisted that London's Diamond Trading Company move to Gaborone by the end of 2008. Investment has already started in the underdeveloped but rapidly growing diamond manufacturing sector (*Sunday Standard*, June 17–23, 2007). Diamond polishing and jewelry manufacturing have been insignificant relative to diamond production. These are competitive areas but key areas of comparative advantage for Botswana.

Botswana has been at the factor-driven stage of economic development, highly dependent on vulnerable primary products for growth. The shrinkage of agriculture in favor of mining—not manufacturing—is not regarded as a sustainable development path in the development literature (Weiss 1988; Stern 1989). The development of a mineral “staple” such as diamond exports in Botswana has been thought of as a potential springboard for structural transformation not through expansion of the mineral sector itself but through its linkages to the rest of the economy (including fiscal linkages). Botswana policy makers seem to be fully aware of this, as reflected in their development strategies and some key facets of macroeconomic policy.

The Dynamics of Political Economy

Botswana’s rapid economic growth is attributed to effective state management—a long track record of good policies. It is useful to briefly reflect on some of these policies.

On the political front, Botswana adopted a multiparty democratic system of government to manage political competition. This policy choice conformed relatively well with the first wind of democratic transformation cutting across new independent African states in the 1960s. During the 1970s, when one-party and military regimes swept the region, allegiance to mass participation and multiparty politics continued in Botswana, which held its second multiparty election. The leadership’s commitment to democracy reflected the quality and interests of the ruling class, especially those of Khama and the ruling BDP. Moreover, democracy tied relatively well with the consensus-seeking approach that had deep roots in the Tswana culture.

All of Botswana’s main political parties were founded in the early 1960s or trace their origin to preindependence political parties. Until recently, serious electoral competition (general parliamentary and local government elections) had been between two main political parties with diametrically opposed ideological orientations (see table A.1). The BDP is known as the liberal/conservative party; the Botswana Congress Party, subsequently replaced by the Botswana National Front, is known as the radical left or socialist/communist-oriented party.

The BDP was put in power in 1966 and reelected in 1972 with an overwhelming and largely rural-based majority. The opposition increasingly became an urban-based party. Following divisions in the opposition, which lead to the creation of many new political parties, the ruling party spread its dominance to capture some urban constituencies, reasserting its political dominance, despite the growth in power of the combined opposition over the years. Analyzing public policy from an institutional perspective, it was inconceivable for Botswana’s ruling elite, who enjoyed overwhelming electoral majority, including support from traditional rulers, to do away with the multiparty democratic system that operated in their interest.

This issue has two interrelated points. First, the evolving political system was basically a de facto one-party system dominated by the conservative-led BDP government. Its leaders chose to retain the state quo, maintain stability, and avoid instability. The social background of the political leadership, particularly the founding father, Khama, and the conservative ideological orientation of the ruling party combined with some other factors to determine regime performance. Khama avoided confrontation with the traditional authorities and allowed the well-entrenched system of property rights to remain in place.

By the early 1970s few countries in Africa retained multiparty systems; the only political competition in most countries was competition within the single party. This trend was not decried by some development analysts, such as Huntington (1968), who posited that authoritarianism was necessary for rapid social/economic development and political stability in some situations, as evidenced by the East Asian miracle countries, which were authoritative and undemocratic regimes until quite recently. The crucial question is why Botswana did not follow the trend in Africa. Another related question is why diamond rents were not captured by vested interests, as happened in other parts of Africa and the world. The answers are elaborated on in what follows.

The institutional context of rapid growth and early sectoral transformation were crucial for explaining the forces behind some crucial development changes and policy choices. The quality of democracy/governance was important in influencing policy choices and reconciling various interests (Humpreys and Bates 2001). The fact that the interests of the Botswana elite were largely homogeneous, based on cattle and landowning, made it relatively easy to reach consensus on policies. The leadership of the ruling party had considerable interest in promoting its version of good government. Knowing that it must stand for election every five years, the ruling party pursued policies it believed would gain it the political support necessary to defeat its opponents. The key rural development programs, such as the Arable Land Development Programme and the Accelerated Rural Development Programme, were initiated in the 1970s; attention given to the cattle industry was not biased against rural areas, where the majority of the electorate lived. Thus neglect of rural interests, a widespread problem in Sub-Saharan Africa, was largely avoided in Botswana because the BDP-led government was representative, widely supported and elected by the rural majority, and the ruling elite had interests in rural development policies and programs.

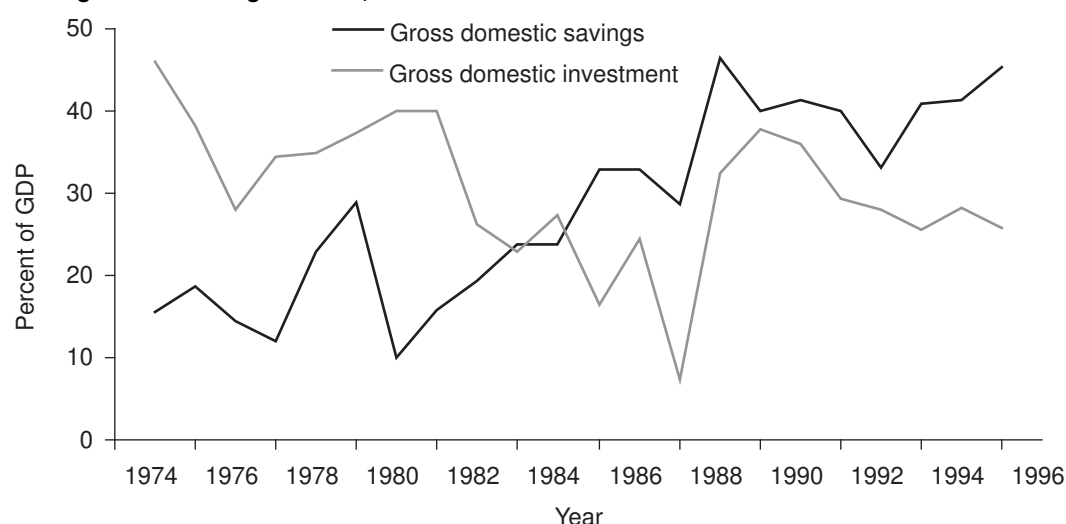
The Institutional Dynamics of Growth

The savings available to a nation can come from domestic and foreign sources; the rate at which capital stock accumulates contributes to determine the rate at which productive capacity is created. Unless sufficient foreign saving can be attracted, domestic savings are needed for investment to stimulate growth. It is therefore necessary for development analysts to understand the sources of savings and their implications for sustainable development.

Gross domestic investment and gross domestic savings as a percentage of GDP fluctuated widely between 1974 and 1996 (figure 4). These figures reveal the sources of Botswana's development funding, the level of the country's external financial dependence, and its capacity to generate its own financial resources for development.

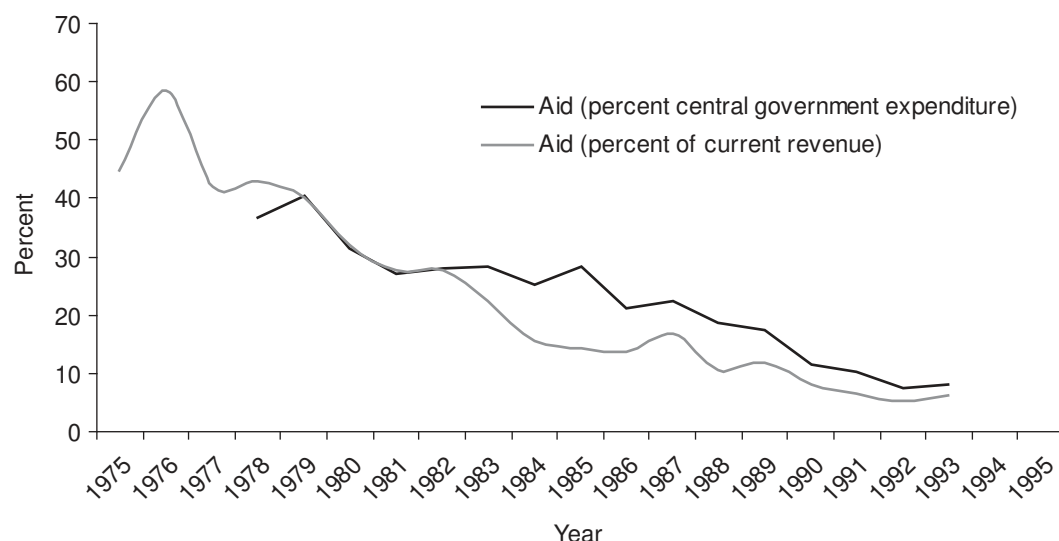
The economic role of foreign capital, including aid—especially its contribution to growth, investment, and savings—has changed over time. In the early years aid was essential in relaxing macroeconomic constraints, particularly the foreign exchange constraint, and financing thus the development budget. Investment exceeded domestic savings before 1986, with the shortfall financed by foreign savings. During this period Botswana was a net recipient of capital flows. Thus Botswana's rapid rate of economic growth depended to a considerable degree on capital from abroad during its first two decades of independence. The period of sustained and exceptionally high economic growth rates from 1966 to 1989 also coincided with sustained jerks or step-like increases in aid to Botswana (figure 5). What was the contribution of aid to investment financed by foreign savings?

Figure 4: Gross Domestic Investment and Gross Domestic Savings as Percentage of GDP, 1974–1996



Source: Author compilation based on data from Bank of Botswana 1998.

Figure 5: Foreign Aid as a Percentage of Central Government Expenditure and Current Revenue, 1975–95



Source: Author based on data from Bank of Botswana 1998.

In a simple economic growth model, the rate of growth is directly proportional to the savings ratio divided by the incremental capital–output ratio. Statistical analyses show a close correlation between investment in physical capital and economic growth as well as a correlation between the shortage of foreign exchange (needed to import machinery, equipment, and inputs) and negative growth or capacity underutilization (Barro and Sala-i-Martin 1995). Aid can thus be said to have made significant a contribution to early growth, although private investment increasingly played a greater role. Perhaps most important, aid helped finance much of the original public investment in infrastructure and mining, facilitating private capital inflows, especially to the mining sector (Maipose and others 1996).

The creation and strategic role of special funds was also an important aspect of Botswana’s growth-promoting policy and overall development strategy (Harvey and Lewis 1990). Like many other open economies relying on one or two primary exports, Botswana experienced volatile revenues and tended to grow in a series of discrete steps. The government tried to minimize such disruptions and to avoid a boom-and-bust cycle in the budget by taking a long-term view of revenue trends and attempting to stabilize expenditure around a sustainable growth rate. Reserve accumulation during good or boom periods and rapid response to adverse terms of trade shocks are two crucial facets of Botswana’s extremely prudent macroeconomic policy, which treats diamond price increases as temporary and declines as permanent.

Several measures to achieve stability were instrumental in enhancing sustainable development during the budget deficit period, when revenue lagged behind its historical trend. In an effort to anticipate problems and opportunities, the government created three funds to provide for stabilization reserves, public

debt service, and local development opportunities (Faber 2001). These measures were taken after the first year of budgetary independence in 1973, in anticipation of the fact that having achieved domestic responsibility for spending it was important to develop vehicles for prudent management.

The Domestic Development Fund has been the key domestic source of funding for development projects. Funds intended for capital expenditure together with finance from external funding agencies are deposited into the fund and then paid out to meet approved capital project expenditures. The fund helps the government avoid costly delays in project implementation by, for example, allowing donors' funded projects to go ahead on a reimbursement basis. It has also been effective in integrating foreign aid into annual budgets.

The Revenue Stabilization Fund helps even out fluctuations in revenue trends and accumulates assets from budget surpluses. The idea is to run a budgetary surplus in good years to accumulate assets that can be run down in deficit periods. Volatility can be detrimental to growth in several respects. Botswana has maintained very high fiscal discipline for many years to avoid the problems associated with volatility. The Revenue Stabilization Fund has not been used regularly for the main purpose for which it was overtly founded. For 16 years before 1998/99—the year of the first budget deficit—the government recorded budget surpluses and built up cash balances at the Bank of Botswana; these funds had their counterparts in the accumulation of foreign exchange reserves the Bank invested and managed (Jefferis 1998a; Setlhare 2005). These savings—a form of reserve funds—were used to finance budget deficits in 1998/99 and 2002/03, thereby avoiding inflationary forms of deficit financing.

The Public Debt Service Fund is earmarked for debt servicing, thereby avoiding arrears as well as debt crises. The money from this fund is used to lend to public enterprises. Together with state-owned financial institutions, it makes the government almost as big a lender as commercial banks. The high level of foreign exchange reserves is a result of a deliberate policy to accumulate as much as possible for unexpected changes in the balance of payments.

Established in 1973, the fund was to receive and safeguard moneys made available to it or earned by it. It was to be used to meet in future payments of debt charges by the government. The fund was to derive its resources from two main sources—moneys appropriated from time to time by parliament and moneys accrued or realized from any investment or deposits made from moneys in the fund.

The Public Debt Service Fund grew to become the largest source of loan funds, especially for public enterprises in Botswana, partly because of relatively low public debt and primarily because it operated as a form of investment bank without its own staff. It had revenue but virtually no expenses; it held substantial assets but no liabilities (Faber 2001). The fund enabled Botswana to avoid debt burden and “simultaneously became a device for siphoning government

surpluses away from the recurrent budget and as a source of funding for the capital formation” required by the public enterprises (Faber 2001: 317).

All of the special funds (which can be viewed as budget surplus funds), as well as the foreign exchange surplus, are invested to generate financial resources, building financial assets. The significant increase in the nonmineral sources of government revenue, especially since 1989, is primarily due to public investment revenue. Profits of the Bank of Botswana (mainly from off-shore investments) are now one of the major sources of government revenue.

Effective economic management has also been reflected in progressive adjustments of the exchange rate to encourage other sources of foreign exchange earning. The government explicitly pursued a countercyclical policy in the management of foreign exchange reserves and cash balances, basing year-to-year spending decisions on the intermediate-term forecasts of export earnings and government revenue and on a realistic view of spending capacity.

Viewed as a package, these measures enabled Botswana to moderate the inflationary pressure that would have followed massive government spending and to avoid Dutch disease, fluctuations in revenue trends, incomplete or understaffed projects, and disproportionately large debt-servicing obligations. Despite considerable political pressure (especially from the opposition, which advocate more state spending on social services and employment creation), the government avoided the temptation to spend reserves.

The decision to adopt the principle of sustainable budgeting demonstrates an effort to anticipate problems and opportunities and to take measures to deal with them rather than wait to be forced by donors or economic crisis. Reserve funds have enabled the country’s development effort to proceed uninterrupted for many years, especially during the two years of fiscal deficits, 1999 and 2001.

Government as the Main Agent in Savings and Investment

Fiscal revenue and expenditure trends reflect a consistent view of development and priorities in government policy, including how to facilitate the role of the private sector, throughout the 1980s and 1990s. All three main sources of income—customs union revenues, mineral revenues, and aid—grew rapidly. On the expenditure side, despite its enormous revenue base, the government has been cautious, creating budget and trade surpluses throughout this period. Although afraid of turning rapid growth into an inflationary spiral, the government did relatively well in building socioeconomic infrastructure and developing human resources, without which little growth would have been achieved or sustained.

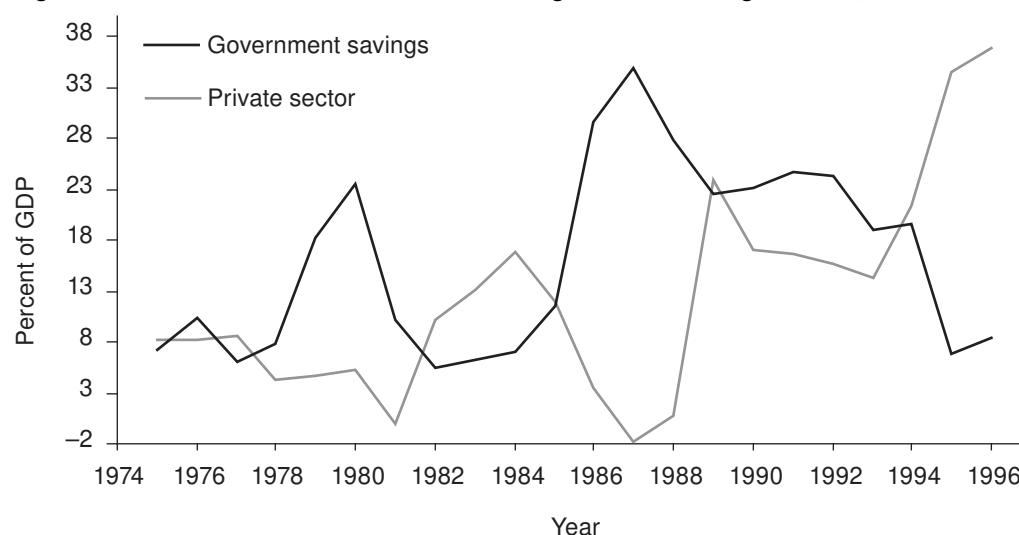
During the 1980s and 1990s, the contribution of domestic savings to investment rose significantly, actually exceeding domestic investment as already noted in figure 4. Domestic savings financed almost all gross fixed capital formation for the first time in 1984, even though capital inflow remained positive.

The high investment rate was supported by a high savings rate, with domestic savings growing impressively in the post-1984/85 period, rising from 16 percent of GDP in 1975 to 45 percent in 1995/96 (see figure 4). The country's average savings rate was much higher than the African average and higher than that of any country in the world except Singapore (see table A.2). Savings have been dominated by the government.

Savings and investment trends have been volatile, a pattern associated mainly with changes in the volume of activity in the mining sector—the main engine of growth. This volatility is correlated with changes in GDP growth (see figure 1).

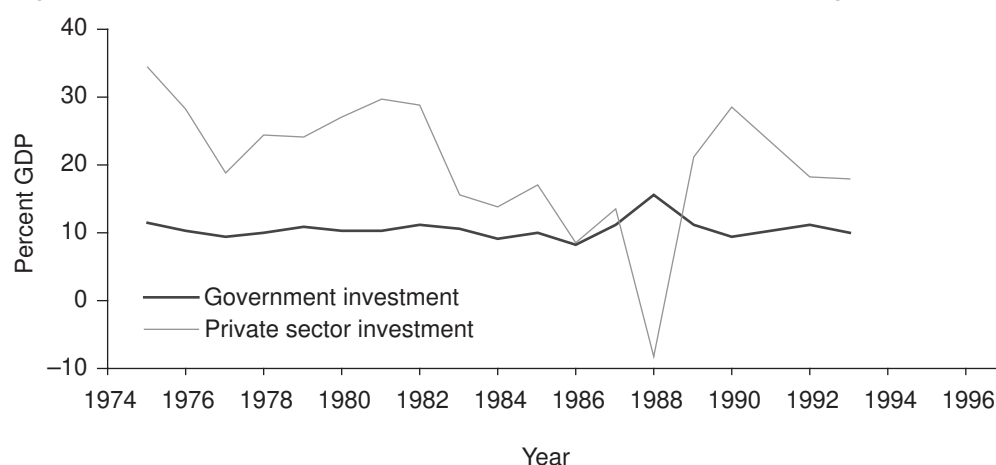
A breakdown of sources of growth in savings and investment provides insights into how savings and investments have influenced economic growth and what role the state and private sectors have played in that process. Until recently, the government—not the private sector—was the major source of savings (investible funds) (figure 6). In contrast, investment has been dominated by the private sector; the government's strategy has been to avoid investment spending or at least to invest in a manner consistent with the absorptive capacity of the economy (figure 7).

Figure 6: Government and Private Sector Savings as a Percentage of GDP, 1974–96



Source: Author compilation based on data from Bank of Botswana 1998.

Figure 7: Government and Private Sector Gross Investment as a Percentage of GDP, 1974–96



Source: Author compilation based on data from Bank of Botswana 1998.

There has been a significant change in the composition of savings since 1994, with private savings rising and public savings declining. This positive development followed adoption of the Financial Sector Development Strategy in 1992, which, together with other policy instruments, led to the maintenance of positive real interest rates and the introduction of attractive Bank of Botswana certificates as the key intermediate target or objective of monetary policy.

It was during this period that policies for savings mobilization were implemented (Motsomi 2001; Reinke 2001; Siphambe 2007). The mobilization of savings from the private sector became increasingly important to sustaining growth rates, especially in view of the projected government budget deficits and the subsequent decline in the level of public sector savings (Motsomi 2001).

With regard to investment, the role of government can be described as relatively consistent and stable to ensure provision of basic services and infrastructure (see figure 7). The government has also helped facilitate the private sector as a source of investible funds; the government, which has been a major saver in the economy, has maintained a low investment rate relative to the high—and widely fluctuating—private sector's rate of investment (see figure 7 and table A.3). This interventionist and facilitative role of the state puts the government in a dominant position in the economy, in which it acts as a conduit through which the vast financial resources (released mainly through the mining sector) have been channeled into the general socioeconomic development of the country. This strategy continued to be followed for much of the post-independence period, before being modified in the 1990s—a period of relatively slow growth during which government savings began to decline and private sector saving increased significantly.

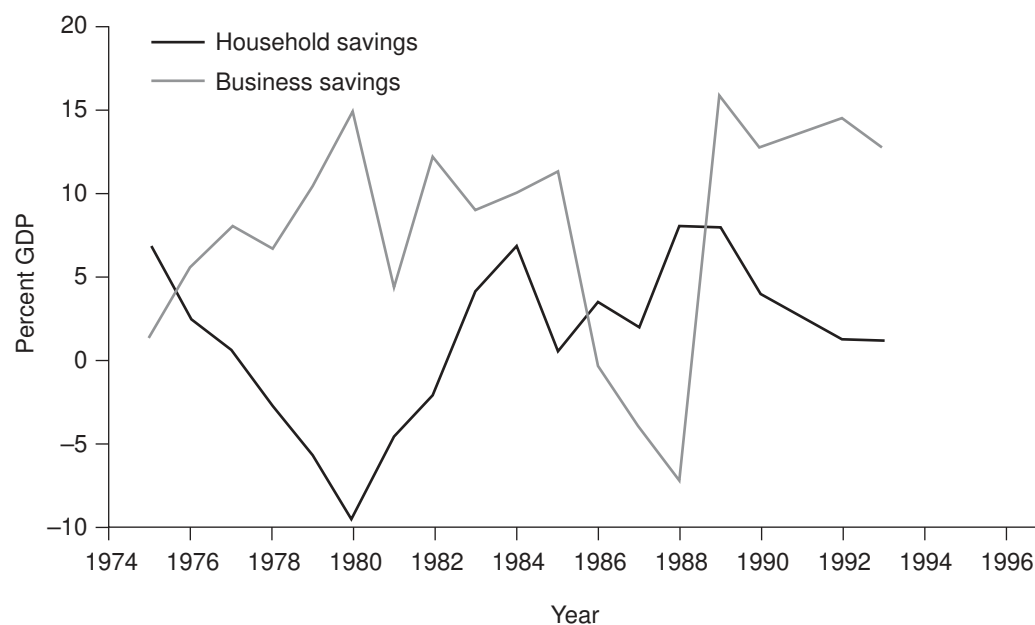
Household savings have been low compared with business savings (figure 8). This pattern is unusual: in many developed countries the households savings sector tends to dominate savings, releasing investable surplus for the business and public sectors (figure 8). A situation in which government dominates savings is not a sustainable pattern; household savings need to be activated (Bank of Botswana 1997).

The government has put in place policy measures (such as attractive saving rates and the issuance of Bank of Botswana certificates) to increase private sector, especially household, savings. The impact has been positive and the trend has been reversed from the mid-1990s in a sustainable direction.

Development and mobilization of human resources

Human resource development and mobilization are critical for development growth; development and innovation are ultimately by people, for people. The Botswana state has conducted itself relatively well in this respect. Between 1992 and very recently—when the consequences of the AIDS epidemic turned back progress—the country had been rated among the top developing countries in the United Nations Development Programme’s Human Resource Development Index. The country still ranks high among developing countries in terms of conventional indicators of human resource development, such as access to education, health, water, and sanitation (life expectancy has been reduced by AIDS).

Figure 8: Household and Business Gross Savings as a Percentage of GDP



Source: Author compilation based on data from Bank of Botswana 1998.

Botswana dealt with the shortage of skilled labor by increasing the technical sophistication and professionalism of the government. Foreign technical assistance and foreign operational experts, usually expatriates, were integrated into and occupied line positions rather than advisory positions; they were instructed not to localize too quickly until qualified nationals were available. Against the background of commitment to training Botswana domestically and overseas, the postindependence government pushed for early localization of top management positions in order to ensure that key decision making in public sector management was transferred to Botswana's citizens as soon as possible. For other positions localization was designed to proceed gradually and systematically, replacing expatriates only when locals had acquired the qualifications and experience necessary to do the job (World Bank 1984; Somolekae 1998). Key ministries, such as the Ministry of Finance and Development Planning (MFDP) relied heavily on long-term expatriates for almost two decades after independence (Somolekae 1998). This strategy helped avoid patronage through a bloated civil service (Stevens 1981; Maipose, Somolekae, and Johnston 1996). These policies helped established good management practices, especially prudent economic management, in Botswana; the country now has a merit-based and strong public service machinery. The astounding success of Botswana, in marked contrast to many other African countries, is thus a testimony to the efficacy of foreign technical assistance and professionalized local civil service.

The cultural and historical context of human resource mobilization and development is also important to appreciate Botswana's growth orientation. Why did Botswana political leaders insist that localization should not take precedence over strong public management professionalism? Government leaders tended to respect the views of experts, largely liberal economists in line with their ideology, partly because Botswana has a long tradition of using and trusting friendly outsiders according to their perceived national interest (Lewis 1993; Maundeni 2001). Because it was traditionally normal to work with and trust knowledgeable and qualified foreigners, Botswana's leaders pursued a slow but smooth localization policy—a wise staff development policy that exploited legitimate ambitions to give progressive responsibility to people with the capacity for it. According to Somolekae (1998), the political leadership believed that an appeasement policy, which gives in too readily to pressures based on unreasonable ambitions, might start a process of progressive reductions in standards, which would be difficult to arrest and difficult to remedy.

Botswana labor laws have been and continue to be extremely restrictive. They do not tolerate strikes (Leith 2001, 2005), and it is not uncommon for striking workers to be fired. To avoid the unemployment effects of excessive minimum wages observed elsewhere, the level was set lower than in other African countries, and until recently wage and salary levels in the private and parastatal sectors were expected to generally conform to and not significantly

exceed those paid by the government to comparable grades (Leith 2005; Maundeni 2004).

Industrial and private sector development initiatives

The government has promoted many industrial and private sector development initiatives. The international community regards Botswana as one of the few African countries that has consistently tried to put in place the required institutions, policies, and regulatory frameworks not only for attracting FDI but also for developing the private sector (Siphambe 2007). Citing a few of such deliberate state initiatives may be illustrative. Established in 1970, the Botswana Development Corporation (BDC) is a public-owned nonbank financial institution. It is the oldest public institution that has been instrumental in nurturing and developing private sector enterprises. BDC plays an important role in promoting sustainable economic diversification and private sector development by providing both loan and equity financing. It has been involved in joint venture operations in various sectors of the economy, including manufacturing, industry, hotel and retailing, and real estate. The National Policy on Economic Opportunities of 1982 contained measures to improve the participation of Botswana in economic activities. The Industrial Development Policy of 1984 focused on promoting economic diversification. Financial support programs, such as the Financial Assistance Policy of 1982 and the program that replaced it (the Citizen Entrepreneurial Development Agency), share a common objective of facilitating the development of enterprises that produced tradable goods (exports or import substitutes) and creating employment opportunities as well as support for small, medium, and microenterprises, for which establishment of a separate and small credit scheme has been recommended with an initial grant from the government. The Trade and Investment Promotion Agency (TIPA) was established in 1984. In 1999 it was replaced by the Botswana Export Development and Investment Authority (BEDIA), whose mandate is to encourage, promote, and facilitate the establishment of export-oriented enterprises and provide selected services, with special emphasis on attracting foreign investors and encouraging joint ventures. The country's diversification policy, adopted by Parliament in 2000, has been spearheaded by the Public Enterprises Evaluation and Privatization Agency (PEEPA).

A brief account of how a few of these initiatives worked and their impact is useful. The Financial Assistance Policy (FAP) was launched in 1982. Its main objective was to develop new and expand existing enterprises in order to stimulate employment and diversify the economy, especially in the manufacturing sector. The scheme provided short-term grants to new or expanding businesses, initially in the form of labor and capital subsidies, tax holidays, and training subsidies. The amount of finance available varied according to the location of the project or enterprise, with rural areas receiving greater encouragement. Although the form of the FAP assistance policy changed

over the years, it remained centered on subsidies (mainly grants). Some 1,320 projects had been approved by the end of 1986, with the expectation of creating more than 12,000 jobs; these figures trebled by the end of 1995 (BIDPA 2000b).

The program was reviewed and evaluated four times—in 1984, 1988, 1995, and 2000. The first three reviews supported the continuation of the program, arguing that the scheme was achieving desired results, especially for textile industries, though abuses were also noted (Siphambe 2005, 2007). The last review identified many problems and widespread abuses, as well as high failure rates among small FAP-assisted projects. It noted that a significant number of medium and large-scale companies could not sustain themselves beyond the five-year assistance period. The evaluation report was very critical of the whole concept of subsidies, concluding that FAP was no longer cost-effective, that it was not achieving its objectives, and that it was counterproductive by creating a sense of public dependence on government.

The program was abolished and was replaced by the Citizen Entrepreneurial Development Agency (CEDA), targeting citizens and (since 2003) joint ventures between citizens and foreigners only. CEDA's main objective is to develop sustainable citizen-owned businesses to create employment and diversify the economy. Financial support is provided in the form of subsidized loans and risk sharing as long as the business is viable. CEDA provides subsidized loans (not grants). Projects must pass business evaluation criteria. By the end of 2004, more than 1,200 applications had been approved, creating more than 7,000 jobs. CEDA's impact has been assessed as "encouraging and much better than FAP" (MFDP 2006).

Explaining Botswana's Success

Explanations for Botswana's success story tend to oscillate between emphasis on good luck and good management (Harvey and Lewis 1990; Tordoff 1993). In his address to the International Conference on Southern Africa and East Asia in 1991, President Festus Gontebanye Mogae (vice-president of Botswana at the time) observed:

Indeed, while it is recognized that Botswana's development record reflects "good luck" to a substantial degree, we are also proud of the reputation that has been established for "good management" on part of the government.... Although the national diamond endowment has for the past 15 years or so been the main element in the "good luck" factor, it is nevertheless recognized by those who are well acquainted with our country that we have striven with good effect to minimize adverse consequences of the "mineral-led economy" syndrome (Somolekae 1998: 29).

Good fortune and good management are interrelated. Botswana's achievements owe something to good fortune but more to good management (Tordoff 1993; Leith 2005). Some other countries that enjoyed windfalls of resources immediately after independence (such as Zambia [copper], and

Nigeria [oil]) did not perform nearly as well as Botswana did (Harvey and Lewis 1990; Maipose, Somolekae, and Johnston 1996). Indeed, in some African countries, such as Angola and the Democratic Republic of Congo, natural “fortunes” were either transformed into personal riches or mismanaged and dissipated on regional and civil wars. The important lessons and challenges for the region seem to be less about good fortune than about good management.

The role of good fortune

The elements in the good fortune factor are basically four: inflow and impact of foreign aid; the national mineral endowment, particularly diamonds; the production and marketing of diamonds within the Central Selling Organization, the production and marketing cartel run by De Beers; and a small and homogenous population. The diamond marketing cartel under the control of De Beers has been in continuous operation for more than six decades; it is one of the most successful commodity buffer stock arrangements in the world as well as the world’s longest-lived producer cartel (Jefferis 1998a). Botswana has not suffered an extended period of depressed demand and low prices of diamonds and has enjoyed political stability since independence. This development context—a strategy to stabilize expenditure around a sustainable growth rate and ensure political stability—goes a long way toward explaining why “diamonds appear to be forever” in Botswana. Diamonds are an exhaustible resource, however, that has not been put to good use in many other African countries with similar natural fortune.

It is unfair to compare Botswana’s diamond-led boom with oil-led booms in Nigeria and copper-led booms in Zambia, where poor economic performance has been partly attributed to a variety of adverse external shocks and to depressed export earnings for many years. The sharp decline in copper prices created havoc with Zambia’s development efforts. That said, it can be argued that poor management of the crisis probably prevented a recovery, though the long period of depressed copper prices could have made recovery difficult. The decline in copper price may be qualified as bad luck for Zambia. But Botswana has had “bad luck,” too—in the form of serious profitability problems in the Bangwato Concessions Limited (BCL)—the first joint venture Botswana company running copper-nickel and soda ash mines, which commenced operation in 1973 and 1991, respectively. These projects have been a drain on government revenue during many years of their operation (Gaolathe 2001b).

With regard to foreign aid, Botswana has been a long-term recipient of foreign development assistance. It long received the highest per capita aid in the region, and aid in the form of grants continued to flow long after Botswana attained middle-income status (Maipose, Somolekae, and Johnston 1996). But unlike the situation in most African countries, which have become increasingly dependent on aid, with disappointing impact, Botswana managed its aid resources effectively and sustained economic growth with decreasing

dependence on aid (Stevens 1981; Carlsson, Somolekae, and Van de Walle 1997; Maipose and Somolekae 1999). The main point is that the experience of other African countries with diamond endowments and aid inflow, such as the war-torn Angola and Sierra Leone, has been quite different.

Botswana's small and largely homogenous population is easier to govern than larger, more ethnically diverse countries. Botswana has also benefited from its close economic ties to South Africa.

Botswana has no debt burden because of its diamond windfall and the way it has managed that windfall. Botswana progressed from being a very poor country at independence to becoming a middle-income country in the mid-1990s, with positive implications for the country's debt profile. When the country was classified as a least developed country, nearly all of its foreign aid was in the form of grants, complemented with loans at highly concessional rates. The then cash-trapped country could not have resorted to increasing trade taxes (even for import-substitution industrialization) or printing money, because its membership in SACU and the rand monetary area restricted its discretion in trade and monetary policies. The result was a lack of internal public debt. Following its graduation to middle-income status, Botswana has had a very low external debt burden. Fortunately, debt servicing took place when Botswana was already a prosperous middle-income country. As a result, debt service has not impaired the ability of the government to operate normally, and the country can choose whether or not it makes economic sense to repay off its external debt.

This experience can be contrasted with that of Zambia, which was a middle-income country in 1960s and 1970s. Zambia did not qualify for concessional loans and borrowed from the commercial windows of preferred creditors (such as the World Bank and the International Monetary Fund), which rescheduled or cancelled their debt only recently. Much of the acquired debt was short term, and it increased the country's internal debt—all in the hope of a recovery in copper prices. Zambia had a debt profile of a middle-income country and had to service or repay its external debt after it had been reclassified as a poor country. Although Zambia has benefitted from debt relief and is doing relatively well under a new policy regime and reformed institutions, its debt-service costs impair its ability to operate normally.

The role of good management

It is one thing to have good fortune or receive windfall foreign aid resources; it is another thing to put good fortune to good use. Indeed, many of the favorable circumstances in its history would not have transformed Botswana on their own. They had to be exploited to national advantage. Experience elsewhere and analysis of Botswana's development policies suggest that the quality of domestic economic policies that a government pursues and the institutional context of public governance have a greater influence on economic and social progress than good luck or external assistance. Good luck, like foreign aid, can have an

important catalytic and supportive effect, but ultimately the quality of domestic policies and general hallmarks of a capable state are what count most (Brautigam 1996).

Many analysts acknowledge the exemplary ethical leadership and foundation made by the country's first president, Sir Seretse Khama. He firmly established a precedent for high ethical standards, a strong and relatively independent but accountable civil service, and the developmental orientation of the government. These attributes have been carried on and built on by his successors (Tordoff 1993).

Behind Botswana's high growth pattern lie two remarkable paradoxes: the fact that rapid growth occurred despite an extreme shortage of skilled/educated manpower and the fact that Botswana avoided Dutch disease. Manpower constraints did not seriously affect economic growth partly because of increased inflows of foreign aid in the form of technical assistance and the policy of allowing foreign operational experts to occupy line positions and partly because Botswana avoided rushing into "Africanization," realistically dealing with skill constraints through access to imported skills while cautiously embarking on building its own human capacity. This strategy helped avoid patronage through a bloated civil service (Stevens 1981; Maipose, Somolekae, and Johnston 1996). Dutch disease was avoided mainly because the government took care not to spend more than the economy could absorb and to avoid the boom and bust cycle common to mineral-led economies. This strategy, composed of a set of rules for smoothing public spending in the face of revenue shocks and accumulating financial assets for future generation, has been the lifeline for Botswana's sustainable development. The history of resource revenue shocks is that booms have often been the prelude to crises; the institutional dynamics of growth for resource-rich economies relate to devices for smoothing expenditure, creating financial assets, ensuring good macroeconomic performance, and establishing systems of accountability (Collier and O'Connell, 2007).

The institutionalization of prudent macroeconomic management, including emphasis on openness, macroeconomic stability, and recurrent funding, has played a key role in the country's success (Harvey and Lewis 1990; Hill and Knight 1999; Leith 2005). While many African countries cried foul against what they claimed as imposition of macroeconomic reforms or "conditionalities" by the IMF and the World Bank, Botswana had already internalized and regularized the fundamentals of macroeconomic management and tended to adjust without external pressure.

The main reason why windfall gains have not been captured by vested interests relates to a combination of the way the competitive multiparty political system has been institutionalized and the way the leadership has fought corruption. The hallmarks of a capable state are strong institutions of governance, including powerful watchdogs, the rule of law; intolerance of corruption, and transparency and accountability in the management of public

affairs. A participatory and transparent political system limits corruption and increases the likelihood that the intended beneficiaries have a voice in development efforts. These factors have contributed to the success and sustainability of development efforts in Botswana, partly because of “impressively strong checks and balances, notably rules for public spending” (Collier 2007: 13).

Visitors who enter Botswana through the country’s main international airport are greeted by a sign reading “You are entering a zero tolerance of corruption zone.” Although corruption exists—and is probably growing in Botswana (Good 1994)—corruption by public officials has always been dealt with harshly; compared with almost anywhere else in Africa, public affairs in Botswana have been generally free of venality (Sharma 1998). Following some public inquiries into mismanagement in a few public organizations—inquiries that exposed corrupt practices involving both ministers and officials—the government acted harshly by firing and imprisoning those involved and taking long-term measures to deal with the problem. Dealing with culprits harshly sent a message of intolerance of corruption; to nip the problem in the bud, the government established anticorruption institutions, such as the Ombudsman and the Directorate on Corruption and Economic Crimes. These institutions have performed relatively well (Sharma 1998).

National development planning and its integration with the annual budgetary process have been the foundations of Botswana’s development management machinery and the basis for managing its windfall gains (Stevens 1981; Raphaeli, Roumani, and Mackella 1984; Maipose, Somolekae, and Johnston 1996). The country relies on a six-year planning cycle, with mid-term reviews to update the plans in response to changes in the economic and political context. National development plans are essentially plans for public spending and human resource use. The MFDP plays a central role in developing them. On the basis of the projections underlying the Botswana macroeconomic model (which includes forecasts for economic output and growth, employment, foreign trade, government revenue, and so forth), the MFDP derives three main ceilings for the public sector: the skilled labor ceiling; the recurrent expenditure ceiling (which in recent years must be financed out of recurrent nonmineral revenue), and the development expenditure ceiling (Jefferis 1998a). Initially, the national development plans were constructed around the programs and a “shopping list” of projects for which finance was derived from own current income, mainly mineral rent or donor support. For effective aid management and coordination, donors are asked to support (and have flexibility to choose) projects that are already identified as national priorities in the national plan. This increases national project ownership and avoids problems encountered elsewhere in Africa, where donors have allegedly imposed or taken over design of key policies and programs (Van de Walle and Johnston 1996). In Botswana the plan

and how it is enforced ensure that program and projects address government priorities.

The planning system has worked relatively well in Botswana (World Bank 1984; Harvey and Lewis 1990; Maipose, Somolekae, and Johnston 1996). A review of the literature on the nature of development planning and its institutional, operational, and procedural relations with budgeting, suggests that the government budget is a key instrument in converting a development plan into a program for action (Hermans 1962; Waterston 1979). In Botswana this is structurally enforced by putting overall economic, financial/budgetary, and planning responsibilities under the powerful MFDP with a considerable degree of career continuity for largely merit-based staff. In this way planning in Botswana is not an academic exercise of little operational value; it is a means of enforcing accountability. The country's development planning strategy also explains why the government has done relatively well in redistributing mineral revenue to the wider society and economy, especially with regard to investment in physical and human capital and targeted subsidies, without incurring the adverse consequences of the mineral-led economy syndrome. "The government's commitment to planning is not intended to stifle private initiative but to create favourable conditions in which the private sector can contribute to national development," according to the MFDP. "There would be no point in setting targets for variables that are not within government's control, or in imposing controls whose costs (in administrative resources or disruption to the economy) outweighed the benefits" (MFDP 1985, paras. 2.2–3.4).

Another important success factor is that planning in Botswana, done through broadly based consultative system committees with representatives from the grassroots to the top, is a more open process than in many other African countries. The ruling party, interest groups, the private sector, and Parliament are involved in plan preparation. The resultant plan is not a planner's plan, because many stakeholders, including politicians, feel committed to it. The government tries to avoid introducing major projects not incorporated in the original plan and can refuse foreign aid that does not meet national priorities (Hopkins 1994).

Operational success of development planning in Botswana is partly explained by traditional and historical aspects. Openness and consultation have always been essential in what is now Botswana; they served as a springboard for modern development planning and its legitimacy for support and implementation, though policy making including planning is dominated by government officials (Somolekae 1993). The tradition of cooperation also explains why both the political leadership and planners worked together from the start to ensure that plans were formulated and implemented.

The Economic Committee of the Cabinet, created during the transitional plan soon after independence, continues to function. It is made up of permanent secretaries and their ministers. It is a forum where both sides deliberate on policy

matters—ensuring that politicians and experts keep one another informed about what policies need to be implemented, reviewed, and why. The main advantage is that both sides learn in the process by keeping the political leadership in the picture about what is going on; bureaucrats learn something, including about the constraints and worries facing the political leadership (Somolekae 1998). Another important institutional development was the creation of a National Economic Advisory Council to ensure that the nongovernmental sector would not be left out of the planning process.

The MFDP has been politically and administratively powerful. Until recently it was headed by the vice-presidents and heads of each of the four main divisions, known as directors. They are of permanent secretary rank; the permanent secretary in the ministry ranks above the rest of the permanent secretaries within the civil service structure. The practice of putting political and administrative leaders of unquestioned authority at the top of the ministry made it easy to impose the necessary discipline to ensure that priorities are respected and targets vigorously pursued. Dr. Quett Masire, the vice-president until 1980 (when he became president) had considerable political weight and enjoyed the respect of civil servants, who have had a good deal of career continuity, with some officers serving more than 20 years (Maipose, Somolekae, and Johnston 1996). At the political level the ministry has had four ministers since independence—Masire, Mmusi, Mogae (the current president), and Gaolathe. Whereas in many African countries donor representatives may see key ministry positions change hands several times, in Botswana civil servants watch heads of donor agencies come and go.

Good macroeconomic performance relates to how monetary and fiscal policies worked and interacted to create a conducive macroeconomic environment. The Bank of Botswana is an autonomous body, charged with responsibility for promoting and maintaining monetary stability and ensuring proper functioning of a sound monetary, credit, and financial system to promote balanced and sustained economic development. The Bank of Botswana and the MFDP have coordinated their activities well, resulting in general good macroeconomic performance, as measured by monetary stability, the rate of inflation, exchange rate management, and budget deficits.

Compared with rapid growth under authoritative regimes in China and the Asian Tigers or in emerging democracies in many African countries, multiparty democracy in Botswana seems to have been institutionalized. The ruling party, in power since independence, has had unimpeachable electoral legitimacy, the product of fair and honest regular elections; the main opposition party has continuously shared in the exercise of political power at the local level, where it has controlled some towns, including the capital city, since the 1980s. This situation seems to reflect continued confidence in the ruling party, its leadership, and policies.

Some critical political observers, such as Good (1997, 2003), interpret continuation of a single party in power as one of the main limitations of Botswana's democracy, which has not been seriously tested. This critique is probably applicable to all liberal democracies in which the party in power did not change for a long time, such as Italy and Japan. In Botswana the dominance of the ruling party is probably one of the main reasons explaining political stability and good economic management. The experiences of government changing hands peacefully in Malawi and Zambia cannot make the ruling BDP complacent. The increasing trend of the popular vote of the combined opposition is a serious threat to the predominance of the ruling BDP.

Botswana's "national fortune" has not been mismanaged. The strategy of state-led development has worked well, partly because politics has been relatively free of the corruption and patronage common in many African countries. Botswana is often cited as the foremost example of a stable multiparty democracy in Africa that maintains freedom of speech, press, and association; ensures property rights; and provides rule-based governance. The judiciary is independent of both the legislature and executive branches, and Botswana has one of the best human rights records in Africa. A participatory and transparent political system has combined with disciplined political leadership to limit corruption and enhance public accountability. Most of the hallmarks of a capable state (as identified by Brautigam 1996 and Leftwich 1995) appear to be in place in Botswana.

The checks in place appear to have worked relatively well in Botswana. The country has been lucky to have produced honest and committed leaders, which has created trust in government and the leadership to spearhead development and handle the national fortune.

Future leaders must meet the challenging of continuing the exemplary example of past leaders. They must reinforce strategies for empowering Botswana economically, by enhancing the new strategy of private sector-led development. There is a strong feeling within Botswana that the country is rich, but citizens are quick to qualify that the country's wealth is in the hands of the government and to some extent foreigners, not the people. They point to the absence of many indigenous businesspeople outside the cattle industry, high levels of unemployment, and poverty as evidence. This perception has been reflected in voters' choices and to some extent in the size and expenditure pattern of the budget. The 1990s marked an end to economic boom, which may partially explain the overall decline in the BDP's share of the popular vote since 1974. It may also explain why government expenditure has been growing at a considerably faster rate than revenue, especially since 1998, leading to the overwhelming electoral victory in 1999 and 2004. Between 1998/99 and 2002/03, for example, total revenue and grants grew 73.6 percent while expenditure has grown 124.7 percent, leading to budget deficits in three of these five years (Government of Botswana 2003a; Mupimpila 2005).

Despite the disappointing performance of the BDP in the 1994 election and the rise of popular electoral support for the opposition, the government did not impose new forms of central control or display authoritative tactics in order to regain its electoral support. Instead, the government encouraged meaningful popular participation by introducing electoral reforms that could have worked against it, such as redemarcation of electoral constituencies in 1997, leading to the increase in seats in urban areas, where BDP support has been relatively low; reduction in the voting age from 21 to 18; introduction of an independent electoral commission; and limiting of the presidential term of office to two terms (Molomo 2000). By making these reforms, Botswana demonstrated once again its ability to operate a democratic system of government successfully over a long period of time, proving that democracy is not a Western prerogative. The country continues to be a shining regional model of working democracy, though some reforms, such as the need for direct election of the president, have been advocated but not yet adopted (Molomo 2000, 2003).

The poor quality of governance and budgeting led Hyden (1983) and the World Bank (1992) to note that in African countries, which are characterized by weak policy and administration and a culture of personal and ethnic loyalties, government failure has proved to be a bigger problem than market failure. Some African development analysts have also increasingly acknowledged poor governance as the main problem facing the region (Lipumba 1994; Elbadawi 1996). Although one cannot prove that the development of a stable and largely noncorrupt democratic system of government in Botswana has contributed to good economic performance, the evidence suggests that the two are more likely to be complementary than competing; some analysts have shown that the quality of accountability structures in place is crucial, at least for resource-rich countries (Collier and O'Connell 2007). This is a lesson that has implications for the region and many parts of the developing world. Many African countries have put in place multiparty democratic systems, and good governance is being enforced as one of the key conditions for obtaining foreign aid. But democracy and good governance have yet to be institutionalized, and the region has had reversals in countries such as Angola, Nigeria, Rwanda, and Sierra Leone. The institutionalization of the hallmarks of good political governance in Botswana appears to be one of the main reasons why development has proceeded well.

Extraction of resources from the economy

State extractive capacity is “a measure of the ability of a government to raise the revenue it needs to pay for the expenses of implementing its policies and goals” Brautigam (1996: 83). It is one of the four dimensions of state capacity (the others are regulatory, administrative/managerial, and technical capacity). Some development analysts regard extractive capacity as the most important element of the state capacity, mainly because financing capacity can be used to increase other forms of state capacity (Skocpol 1985).

Botswana has displayed an extraordinary level of state extractive and saving capacities. The level of performance is far beyond that of most other countries in the developed and developing world (Bank of Botswana 1998; World Bank 1999). Between 1980 and 1996 government revenue (excluding grants) as a percentage of GDP averaged more than 50 percent, peaking at 64 percent in 1988 and falling to a low of 44 percent in 1993 (World Bank 1995a, 1999). Financial aid as a percentage of public capital expenditure fell from almost 100 percent in the 1960s to 15 percent in 1992 (Somolekae and Johnston 1996); in 2005 it represented just 2 percent of public capital expenditure (MFDP 2006). Foreign debt remains almost insignificant, with a debt service ratio of about 3 percent of export earnings in 2005 (World Bank 2007).

Botswana is unique in terms of its capacity to save its financial assets to finance development efforts. Unlike nearly all aid recipients in Africa, Botswana has had a substantial net inflow of foreign exchange in the form of mineral rents, complemented by development aid. Much of these inflows accrued to the government; a significant proportion of public revenue in the form of annual budget surpluses and foreign exchange reserves has been saved, in the form of off-shore capital investment or savings abroad (Jefferis 1998a). This situation has made Botswana unusual in three interrelated respects. First, the economy has excess liquidity with respect to the absorptive capacity of the economy, with domestic savings exceeding domestic investment since 1986. Second, all of the main sources of government revenue—minerals, customs union revenues, foreign exchange reserves, and aid—are denominated in foreign exchange, and the tax burden/incidence does not fall directly on the country's citizens. Third, Botswana holds one of the highest levels of international reserves in the world, equivalent to about 40 months of imports of goods and services as of the end of December 2005 (MFDP 2006). Income from its offshore investments and savings constitute the second or third major source of government income, a development that effectively makes Botswana an exporter of capital. Prospects of becoming one of the region's financial centers look good; the government has begun facilitating this transformation.

Remaining Challenges

Despite impressive gains, Botswana faces a number of challenges, particularly the need to further diversify the economy, cut unemployment, and reduce poverty and income inequality. Rapid growth sustained over a long period has had limited impact on structural economic diversification: diamonds continue to dominate exports (see table A.4). The diamond industrial sub-sector remains the main engine of growth—accounting for about 70–80 percent of total exports, 50 percent of government revenues, and 40 percent of GDP. GDP growth in other sectors has, to a significant extent, been induced by the mineral sector through

fiscal linkages, including linkages to the government sector and its impact on the growth of the construction and financial sectors.

Many development analysts have noted that the traditional unequal distribution of resources and incomes, including cattle ownership, increased during the decades of exceptional growth; Botswana has one of the highest levels of income inequality in the world (Leith 2005; UNDP/BIDPA 2006). The Gini coefficient—a measure of inequality—which declined somewhat between 1980 and 1990, increased marginally, from 0.537 to 0.573, suggesting that the growth experienced between 1990 and 2004 may not have been pro-poor (Siphambe 2007). Unemployment and poverty are to some degree structural problems. The mining sector, which accounts for 35–50 percent of GDP, is so highly capital intensive and automated that it accounts for just 4 percent of total formal sector employment (see table A.5 and figure A.1).

Given this situation, the government has placed high priority on raising economic growth and reducing unemployment and poverty through a conservative Keynes-inspired fiscal policy that combines low taxation (to stimulate private investment) and distributive expenditure. The country's fiscal policy includes at least three types of programs that affect poverty directly or indirectly (UNDP/BIDPA 2005). The first type of program includes expenditure designed to stimulate investment or enhance production in order to promote employment creation (examples include as the Financial Assistance Policy and the Citizen Entrepreneurial Development Agency). The second type of program includes efforts to reduce unemployment and poverty by enhancing livelihoods, especially in rural areas and for agricultural development (examples include arable lands development programs and drought relief programs). The third type of program involves implementing social safety programs for the unemployed and people without alternative sources of income (examples include old-age pension schemes and programs for the destitute). Although these fiscal policy development programs have not reduced high unemployment or inequality rates (BIDPA 1997), these rates would have been much higher without these interventions, which have markedly reduced the impact of drought. Rural political support for some of these projects, such as food relief, which have created an entitlement situation. Dependency on government handouts in some regions remains strong, and public spending for this purpose may still be necessary as long as poverty in Botswana continues to be partly associated with natural conditions that make farming precarious. To ensure sustainability, the government's approach to poverty reduction is to stimulate broad-based economic growth through sound macroeconomic management and attraction of local and foreign private investment.

Fortunately, there has been both an increase in both trickle down from the wealthier segments of society and the growth sectors of the economy—mainly through fiscal linkages—and political consciousness of the need to reduce unemployment and poverty. As a result, the number of people living in poverty

fell from 59 percent of the population in the 1980s to 47 percent in the 1990s and 30 percent in 2005 (Siphambe 2007). Although unemployment rose from about 14 percent in the 1980s to about 25 percent in 2004, it has fallen significantly since then—to about 18 percent in 2006, and the declining trend is projected to continue (CSO 2007).

The very lumpy nature of some big investments, especially in the mining sector, caused growth to be far from even (Harvey and Lewis 1990). Periods of very rapid growth were followed by periods of relative stagnation, during which GDP was sustained at or near its new higher level by government spending of the revenue generated by the previous boom.

Botswana's underlying fiscal problems are the vulnerability of the budget to external shocks and the overdependence of government revenue on mineral rent. The other main concern is the government's overwhelming dependence on diamond revenue and the extent to which the dominance of diamond-related revenue sources may have retarded the development of other sources of income. This observation led some analysts, such as Wright (2001), to wonder whether Botswana suffers from a particular kind of "fiscal Dutch disease." In the 1995/96 budget, for example, mineral revenue contributed 47 percent of total revenues. Together with the revenues from the Bank of Botswana (earnings from offshore cash investment) and SACU, which relies on diamond-based capacity to import, the contribution was 82 percent. In contrast, nonmineral income tax accounted for 6 percent and sales tax revenues 4 percent of total revenue. The same trend is apparent for in the 1989–2001 budgets. "Such a tendency," argues Wright (2001: 168), "can be characterized usefully in the same terms as the so-called Dutch disease problem of exchange rates."

This argument is persuasive, but it needs to be qualified. Dutch disease arises when the rapid development of one sector crowds out all except the most robust activities, obstructing new industrial/export development elsewhere, possibly permanently. The government of Botswana is aware of this danger. Economic diversification policies entail broadening the tax base in the medium to long term. Botswana's exchange rate policy seeks to maintain a real effective exchange rate that is supportive of macroeconomic stability and productive activities in an economy that is highly dependent on imports.

The government has not ignored the development of other alternative revenue sources, as demonstrated by the gradual extension of the scope of the sales tax since its introduction in 1982 and the 1995 decision to introduce a broad-based value added tax (VAT) to replace the sales tax (Government of Botswana 1997a and 2001). To encourage savings and stimulate investment and growth in the economy, in 1994 and 1996 the government reviewed the structure of income taxation. It reduced the top marginal rate of personal income taxation from 40 percent to 25 percent and set the rate for businesses that qualify as manufacturing operations at only 15 percent. While the move entailed losing some taxable income in the short run, low tax rates are known to induce people

to declare their taxable income and to encourage savings and investment, which will eventually broaden the tax base and increase revenue. Establishing itself as a low tax jurisdiction has also given Botswana a clear advantage within the Southern African region.

It has been suggested that although economic growth has been very rapid so far, it may not have been as rapid and diversified as it could have been; long-term self-sustaining growth seems to be uncertain in view of a few negative dimensions indicated above. The rate of real growth slowed during the past decade, but the country recovered significantly and prospects are good for high sustained growth (MFDP 2006, 2007). Slow growth largely reflected reduced activities in the mining sector and lower mineral revenues. Growth was also slowed by the fact that policy choices and timing have become more complex given the increasing divergence in interests and the impact on electoral outcomes. Policy ambivalence grew until electoral confidence returned, restoring the incentives for pursuing good management policy, such as exchange rate adjustment to enhance international competitiveness and economic diversification.

Conclusion

Botswana's development strategy, as laid out in the transitional plan and elaborated on in subsequent national development plans, has been state-led growth based on minerals—copper, nickel, and subsequently diamonds. The strategy of state-led development and national economic planning was not unique to Botswana; many African countries adopted more or less the same strategy. The strategy worked well in Botswana and the country prospered because of good policies, conducive institutional design, and a policy in which the developmental state managed the economy without getting excessively involved in the nuts and bolts of production.

Botswana's course was so different from that of other African countries for several reasons. A secure political elite (with overwhelming electoral support since independence) has pursued growth-promoting policies and developed, modified, and maintained viable inherited traditional and modern institutions of political, economic, and legal restraint.

The ruling elite's interest in growth coincides with that of the rural majority, explaining their persistent victories over the urban-based opposition. Public investment in urban infrastructure, provision of urban social services, and general improvements in income and delivery of public goods as well as prospects for more development have kept a takeover by the opposition at bay. This explanation seems to be consistent with political economic models in which policy makers who need to satisfy larger constituencies face checks and balances within the decision-making process, are subject to electoral review, and function

in stable institutional environments are more likely to produce good policies for growth (Humphreys and Bates 2001). A more encompassing regime or democratic government would choose to expand future productive capacity rather than maximize transfers to the narrow elite; this is one of the main reasons why “fortune rents” were not captured by vested interests. The political stability and well-established democratic process in Botswana also reduced the perception of investment risks associated with violent regime change.

Botswana’s democratic system of governance appears to have enhanced good policies. National-level policy has been contested through regular elections and meaningful legislative roles, both enforcing the discipline of accountability for results that benefits the electorate. In contrast to other African countries, Botswana’s traditional governance structure was not supplanted or manipulated by colonial governance systems. The modern state integrated that system into the legislative system, with some traditional institutions, such as the house of chiefs, coexisting with the modern representative parliament.

Botswana has the experience needed to confront the challenges and sustain growth. Some of the policy choices entail regular review of existing policies that have worked well, such as the exchange rate and privatization policies, which might help improve the performance of the external sector and enhance its role in achieving the broader development goals. The Botswana developmental state is taking advantage of three windows of opportunities: both privatization initiatives and intentional diversification policy choices within the mining sector itself, services led by tourism and financial sectors, and manufacturing, notably the downstream diamond industry factories. All three new sectoral sources of growth—tourism/financial services, coal mining and its downstream generation of electricity, and the cutting and manufacturing of diamonds—are trade- or export-led; all have been made possible by direct government initiatives and negotiations, illuminating yet again the significance of leadership.

Botswana offers lessons for other aid- and natural resource-dependent developing countries concerning the importance of prudent management in avoiding aid dependency, the natural resource curse, and Dutch disease. It demonstrates that an aid- and natural resource-dependent country can enter into a virtuous cycle in which sound economic management and political stability create conditions for further economic and political development. Through intentional policy choices, countries can shift from aid-dependent to trade-led natural resource development (though probably with narrow-based growth), to a broader development strategy as long as the state is capable and operates within effective institutional design.

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Appendix

Table A.1: Electoral Performance of Major Parties in Botswana, 1965–2004

Party	1965	1969	1974	1979	1984	1989	1994	1999	2004
<i>Number of seats in Parliament</i>									
BDP	28	24	27	29	28	31	27	33	44
BNF	—	3	2	2	5	3	13	6	12
BPP	3	3	2	1	1	0	0	—	—
BIP/IFP	0	1	1	0	0	0	0	—	—
BCP	—	—	—	—	—	—	—	1	1
BAM	—	—	—	—	—	—	0	0	0
Total	31	31	32	32	34	34	40	40	57
<i>Percentage of seats in Parliament</i>									
BDP	90	77	84	91	82	91	67	83	77
BNF	—	10	7	6	15	9	33	15	21
BPP	10	10	7	3	3	0	0	—	—
BIP/IFP	0	3	2	0	0	0	0	—	—
BCP	—	—	—	—	—	—	—	2	2
BAM	—	—	—	—	—	—	—	0	—
Total	100	100	100	100	100	100	100	100	100
<i>Percentage of popular vote</i>									
BDP	80	68	77	75	68	65	55	54	53
BNF	—	14	12	13	20	27	37	25	23
BPP	14	12	6	8	7	4	4	—	—
BIP/IFP	5	6	4	4	3	2	4	—	—
BCP	—	—	—	—	—	—	—	11	18
BAM	—	—	—	—	—	—	—	5	1
Other	1	0	1	0	2	2	0	0	—
Rejected	—	—	—	—	—	—	—	5	5
Total	100	100	100	100	100	100	100	100	100

Source: Botswana Independent Electoral Commission 2002; www.iec.gov.bw.

— Party did not exist or folded in order to join other party.

Table A.2: Institutional Gross Savings at Current Market Prices and Savings as a Percentage of GDP

Year (as of end of June)	Government (1)		Households (2)		Businesses (3)		Private sector (households and businesses) (4)		Gross domestic savings (private sector and government) (5)		Rest of world (6)		Gross national savings (7 = 5 + 6)		Industrial countries	South Africa	Singapore
	Gross savings at current market prices	Gross savings as percent of GDP	Gross savings at current market prices	Gross savings as percent of GDP	Gross savings at current market prices	Gross savings as percent of GDP	Gross savings at current market prices	Gross savings as percent of GDP	Gross savings at current market prices	Gross savings as percent of GDP	Gross savings at current market prices	Gross savings as percent of GDP	Gross savings at current market prices	Gross savings as percent of GDP			
1975	15.9	7.2	15.3	6.9	3.1	1.4	18.4	8.3	34.3	15.5	70.4	31.8	104.7	47.3	22.6	29.2	29.4
1976	31.1	10.3	7.9	2.6	16.9	5.6	24.8	8.3	55.9	18.6	52.0	17.3	107.9	35.9	23.0	28.1	32.6
1977	20.9	6.0	2.5	0.7	27.6	7.9	30.1	8.6	51.0	14.5	48.0	13.7	99.0	28.2	23.3	28.0	33.5
1978	32.4	7.9	-11.3	-2.7	28.5	6.9	17.2	4.2	49.6	12.0	88.6	21.5	138.2	33.5	24.2	30.4	34.5
1979	103.7	18.3	-31.9	-5.6	58.7	10.4	26.8	4.7	130.5	23.0	73.6	13.0	204.1	36.0	24.0	32.8	36.3
1980	181.9	23.6	-74.4	-9.6	114.6	14.9	40.2	5.2	222.1	28.8	71.1	9.2	293.2	38.0	23.0	36.5	37.5
1981	88.0	10.1	-38.5	-4.4	38.5	4.4	0.0	0.0	88.0	10.1	270.9	30.9	358.9	41.0	23.1	32.5	40.7
1982	49.9	5.5	-17.6	-2.0	109.4	12.2	91.8	10.2	141.7	15.7	252.2	28.0	393.9	43.8	21.2	29.3	43.5
1983	71.1	6.2	48.3	4.2	103.1	8.9	151.4	13.1	222.5	19.3	124.5	10.8	347.0	30.1	20.8	28.2	46.1
1984	96.8	7.0	96.5	6.9	137.1	9.9	233.6	16.8	330.4	23.8	34.7	2.5	365.1	26.2	21.8	27.6	45.7
1985	212.3	11.6	11.7	0.6	208.6	11.4	220.3	12.0	432.6	23.7	128.7	7.0	561.3	30.7	21.2	29.2	40.1
1986	717.5	29.6	90.2	3.7	-7.9	-0.3	82.3	3.4	799.8	33.0	-343.9	-14.2	455.9	18.8	21.4	27.5	38.9
1987	980.8	34.9	59.9	2.1	-112.2	-4.0	-52.3	-1.9	928.5	33.0	-203.8	-7.3	724.7	25.8	21.5	25.9	39.9
1988	1059.7	27.9	307.2	8.1	-277.7	-7.3	29.5	0.8	1089.2	28.7	766.5	-20.2	322.7	8.5	22.3	25.7	42.3
1989	1310.9	22.5	466.3	8.0	931.6	16.0	1397.9	23.9	2708.8	46.4	-819.9	-14.0	1888.9	32.4	22.6	25.8	43.7
1990	1507.9	23.1	265.9	4.1	845.4	12.9	1111.3	17.0	2619.2	40.1	153.8	-2.4	2465.4	37.7	22.0	23.1	45.7
1991	1838.5	24.6	—	—	—	—	1251.3	16.7	3089.8	41.3	379.7	5.1	3469.5	46.4	21.7	21.3	47.4
1992	2038.1	24.3	100.7	1.2	1212.1	14.5	1312.8	15.7	3350.9	40.0	-890.8	-10.6	2460.1	29.4	21.3	18.8	38.8
1993	1731.1	19.0	118.4	1.3	1176.1	12.9	1294.5	14.2	3025.6	33.2	-480.5	-5.3	2545.1	27.9	21.4	19.3	47.4
1994	2172.6	19.5	—	—	—	—	2367.3	21.3	4539.9	40.8	930.7	8.4	5470.6	49.2	—	—	—
1995	854.0	6.8	—	—	—	—	4336.8	34.6	5190.8	41.4	789.2	6.3	5980.0	47.7	—	—	—
1996	1230.8	8.4	—	—	—	—	5404.7	36.9	6635.5	45.4	1816.9	12.4	8452.4	57.8	—	—	—

Source: Botswana data are from various national accounts published by the Central Statistics Office.. Data for industrial countries, South Africa, and Singapore are from the World Bank World Tables 1995. All other data are from Bank of Botswana Annual Report and Economic Review 1997.

— Not available.

Note: Figures are in millions of pula. Government savings include savings of both the local and central government. Household savings include savings of households and private nonprofit institutions serving households. Business savings include savings of private nonfinancial enterprises and nonfinancial parastatal organizations.

Table A.3: Institutional Gross Investment at Current Market Prices and Investment as Percentage of GDP, 1975–96

Year (as of end of June)	1.Government	% GDP	2.Households	% GDP	3.Businesses	% GDP	4.Private sector (households and businesses)	% GDP	5.Total (private sector and government)	% GDP	International rates		Asia
											Industrial countries	Developing countries	
1975	25.7	11.6	15.7	7.1	60.3	27.3	76.0	34.4	101.7	46.0	22.9	25.5	21.5
1997	30.6	10.2	20.2	6.7	64.2	21.4	84.4	28.1	115.0	38.3	23.4	25.0	21.7
1977	33.1	9.4	18.4	5.2	47.2	13.5	65.6	18.7	98.7	28.1	23.7	25.5	21.7
1978	41.5	10.1	32.4	7.9	67.7	16.4	100.1	24.3	141.6	34.4	24.0	25.5	23.5
1979	61.2	10.8	21.6	3.8	114.9	20.3	136.5	24.1	197.7	34.9	24.4	25.2	24.5
1980	78.6	10.2	23.6	3.1	185.6	24.1	209.2	27.1	287.8	37.3	24.0	25.5	24.1
1981	90.1	10.3	19.2	2.2	23.7	27.5	260.0	29.7	350.2	40.0	24.0	26.4	26.8
1982	101.3	11.3	10.1	1.1	248.3	27.6	258.4	28.7	359.7	40.0	24.0	24.9	25.6
1983	123.4	10.7	-7.8	-0.7	187.7	16.3	179.9	15.6	303.3	26.3	22.4	22.9	25.2
1984	126.3	9.1	-1.6	-0.1	192.5	13.8	190.9	13.7	317.2	22.8	21.4	22.1	24.0
1985	184.3	10.1	-17.4	-1.0	332.3	18.2	314.9	17.2	499.2	27.3	21.9	22.3	24.2
1986	197.1	8.1	8.0	0.3	194.6	8.0	202.6	8.4	399.7	16.5	21.6	21.9	23.7
1987	321.5	11.1	12.0	0.4	364.0	13.0	376.0	13.4	688.5	24.5	21.3	22.5	24.3
1988	588.9	15.5	67.8	1.8	-379.2	-10.0	-311.4	-8.2	277.5	7.3	21.6	23.6	26.1
1989	660.1	11.3	86.8	1.5	1142.1	19.6	1228.9	21.1	1889.0	32.4	22.4	24.6	27.3
1990	605.3	9.3	118.8	1.8	1741.2	26.6	1860.0	28.5	2465.3	37.7	23.0	24.3	29.1
1991	—	—	—	—	—	—	—	—	2687.7	36.0	22.5	23.5	28.4
1992	946.5	11.3	-124.2	-1.5	1637.8	19.6	1513.6	18.1	2460.1	29.4	21.5	23.7	28.6
1993	910.5	10.0	171.8	1.9	1462.8	16.0	1634.6	17.9	2545.1	27.9	21.2	23.3	27.5
1994	—	—	—	—	—	—	—	—	2837.8	25.5	21.0	23.4	28.5
1995	—	—	—	—	—	—	—	—	3531.8	28.2	—	—	—
1996	—	—	—	—	—	—	—	—	3774.4	25.8	—	—	—

Source: Botswana data are from various national accounts of Botswana published by the Central Statistics Office as reported in the Bank of Botswana Annual Report 1997. Data for industrial countries, developing countries, and Asia are from IMF International Statistics Yearbook 1996.

— Not applicable.

Note: Government investment includes investment by both the central government and local governments. Household investment includes investment by households as well as private nonprofit institutions serving households. Business investment includes investment by financial institutions, private nonfinancial enterprises, and nonfinancial parastatal organizations.

Figure A.1: Formal Employment in Selected Sectors, 1980–2001

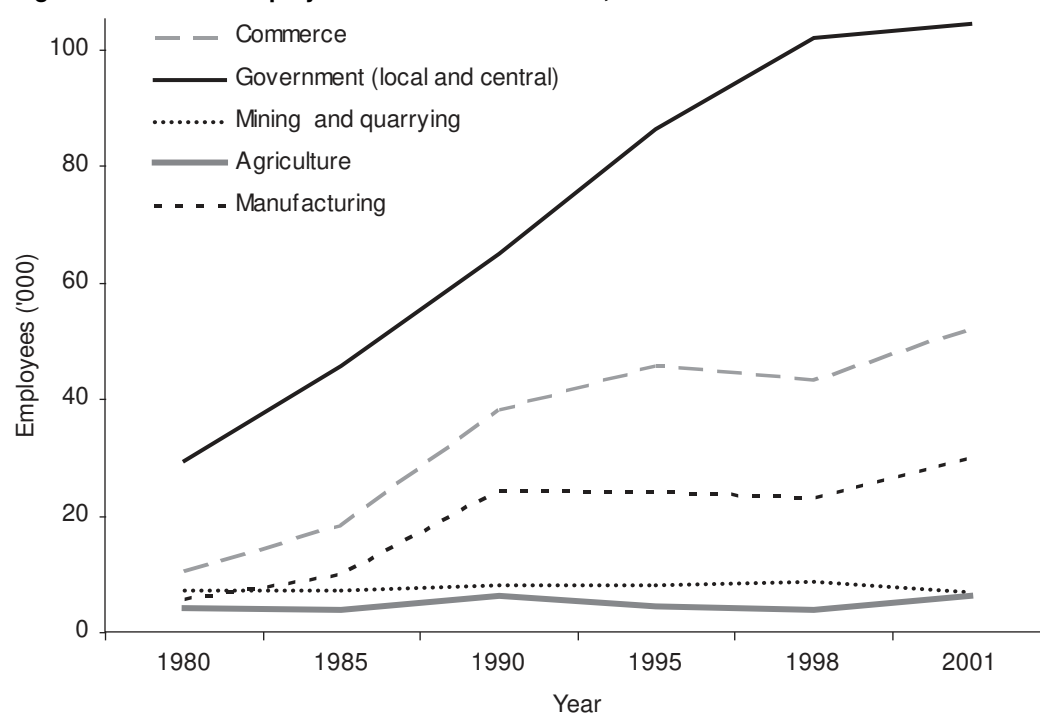


Table A.4: Distribution of Exports by Principal Commodities, 1980–2004
(percent of total exports)

Year	Diamonds	Copper, nickel, and matte	Vehicles and parts	Other goods	Meat and meat products	Textiles	Hides and skin	Soda ash	Live animals
1980	60.6	20.8	0.0	6.6	7.2	4.0	0.8	0.0	0.03
1985	70.4	8.1	0.0	5.2	6.5	1.9	7.8	0.0	0.02
1990	78.7	8.2	0.0	5.9	3.2	3.4	0.6	0.0	0.01
1993	78.2	5.2	2.1	6.9	3.8	2.2	0.5	1.2	0.02
1994	74.9	5.2	6.1	5.3	3.7	3.6	0.6	0.7	0.05
1995	67.1	5.5	16.1	4.8	3.0	2.5	0.6	0.4	0.04
1996	70.4	5.5	14.1	4.0	2.5	2.4	0.4	0.9	0.02
1997	73.8	4.6	11.4	4.2	2.2	2.4	0.3	1.1	0.02
1998	69.5	5.0	11.1	6.0	3.4	3.5	0.4	1.1	0.03
1999	79.4	4.6	5.5	5.7	1.8	2.0	0.2	0.9	0.02
2000	82.3	6.0	2.0	5.1	1.9	1.8	0.3	0.7	0.01
2001	84.5	4.2	2.1	4.0	2.6	1.4	0.4	0.9	0.05
2002	85.8	3.4	2.5	4.6	1.6	1.3	0.2	0.6	0.01
2003	82.9	7.9	2.8	3.5	1.3	1.5	0.1	0.1	0.00
2004	80.0	8.8	3.6	4.2	0.3	3.1	0.1	0.0	0.00

Source: MFDP 2005.

Table A.5: Number of Paid Employees by Sector and Economic Activity, 1980–2001

Sector	Employment						Annual growth rate (percent)
	1980	1985	1990	1995	1998	2001	
Agriculture	4,300 (5.2)	4,000 (3.4)	6,400 (3.1)	4,500 (1.9)	4,000 (1.7)	6,300 (2.31)	–0.23
Mining and quarrying	7,200 (8.6)	7,300 (6.3)	8,100 (3.9)	8,100 (3.5)	8,600 (3.6)	7,000 (2.56)	1.13*
Manufacturing	5,600 (6.7)	9,900 (8.5)	24,300 (11.6)	24,000 (10.3)	23,100 (9.6)	30,000 (10.9)	8.35*
Electricity and water	1,500 (1.8)	1,900 (1.6)	2,100 (1.0)	2,500 (1.1)	2,700 (1.1)	2,800 (1.03)	2.78*
Construction	13,400 (16.1)	11,500 (9.8)	31,000 (14.8)	22,400 (9.6)	25,100 (10.4)	28,600 (10.48)	4.98*
Commerce	10,400 (12.5)	18,300 (15.7)	38,300 (18.3)	45,700 (19.6)	43,200 (17.9)	52,100 (19.08)	7.99*
Transport and communication	3,400 (4.1)	5,700 (4.9)	8,500 (4.1)	8,700 (3.7)	8,500 (3.5)	10,000 (3.66)	5.74*
Finance and business services	4,300 (5.2)	6,800 (5.8)	6,100 (2.9)	17,700 (7.6)	15,800 (6.5)	18,100 (6.63)	8.34*
Community and personal services	2,400 (2.9)	3,900 (3.3)	7,200 (3.4)	9,800 (4.2)	4,700 (1.9)	5,200 (1.9)	5.36*
Education	1,300 (1.6)	1,900 (1.6)	2,100 (1.0)	3,800 (1.6)	3,900 (1.6)	6,600 (2.42)	6.37*
Government (local and central)	29,500 (35.4)	45,600 (39)	65,100 (31.1)	86,200 (36.9)	102,000 (42.2)	104,300 (38.2)	6.88*
Total	83,300	116,800	209,000	233,400	241,700	273,001	6.42*

Source: BIDPA 2004.

* Statistically significant at the 1 percent level.

Note: Figures in parentheses show percentage of total employment. They include the private sector and parastatals and exclude government and self-employment. Based on regression estimates using data for 1980–98.

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Gervase S. Maipose, *University of Botswana*

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