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Institutional Dynamics of Sustained Rapid Economic Growth with Limited Impact on Poverty Reduction

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1.0 INTRODUCTION AND PAPER OUTLINE

Introduction

Botswana is widely cited as Africa's foremost "success story". According to the recent IMF Surveillance report, as quoted by the Government of Botswana (Budget Speech 2007:1), "Botswana has been among the world's fastest growing economies over the past 40 years, with an impressive record of prudent macroeconomic policies and good governance, which has moved the country from being one of the poorest in the world at independence in 1966 to the current rating of upper-middle income range." Real GDP growth averaged 9 percent between 1965/66 and 2005/06 – an outstanding and uncontested economic performance record of any country in the world (Leith 2005:4).The country is also the longest liberal democracy in Africa with good governance record and market based economy; and the country has relatively strong checks and balances, notably for ensuring public accountability and rules for both public spending and general economic management. Known for huge reserves of mineral wealth, especially diamonds, which are the main engine of economic development, the country's development path has been steered in a manner that has largely avoided both the resource curse and 'mineral-led economy syndrome'- the Dutch disease.. However, the country's exceptional real GDP growth rate, sustained since independence in 1966, has had limited impact on economic diversification and most importantly on alleviating high unemployment/poverty levels which are relatively too high for a country at this level of GDP per capita income. Generally viewed as pronounced deprivation in wellbeing or lack of resources and/or capabilities necessary to meet basic human needs, poverty eradication is one of the main development challenges that Botswana faces. It should be noted from the outset that development is a process and does not take place in vacuum but in a given institutional context which influence policy as well as the quality of development outcome (Lipton 1977; Leftwich, 1995, 2006; Bates, 2002; World Bank, 2004). It is therefore imperative, as the main concern of this paper, to determine the political and institutional dynamics of poverty and inequality in Botswana's development.

Taking the "policy regime approach/orientation, the broad crucial question is why and what is the institutional context to explain the situation, including what is being done to sustain growth with concerted/focused efforts to address unemployment/poverty problem – the pro-poor development – in order to attain the Millennium Development Goals (MDGs) which in Botswana entails eradicating poverty by 2016? Thus, the main objective of this chapter is to illuminate the political and institutional dynamics of sustained rapid economic growth with limited impact on poverty alleviation, and shed light on challenges for pro-poor, inclusive development process. It is argued that the inherited and new institutions of political, economic and legal restraint proved robust in the face of initial large aid inflow and spectacular mineral rents, producing a growth pattern that has been both rapid and cautious, but with limited impact on economic diversification and poverty alleviation, regarded as the main development challenge. Attempt is made to explore why and how the institutional arrangements of a developmental state in Botswana appears to have been sufficiently dedicated to rapid economic growth with what looks like *a basic needs approach to poverty reductions* until quite recently. Yet growth is valued not because it further enriches the already well-off, but because it gives an opportunity to significantly and lastingly improve standards of living for the majority, including the poor. For a country to achieve the characteristics of development it is a requirement that poverty is alleviated, income levels are considerably improved, and that resources and opportunities are distributed by a modern state in order for all segments of society to benefit (Seers, 1972; Adelman, 2003; World Bank 2001,2006). Poverty reduction is not only a matter of appropriate policies and strategies, but also and (probably) most importantly a matter of appreciating political forces and coalition that influence demand, design and implementation of growth and development strategies that are pro-poor and are expressed and sustained in the enabling institutional arrangements inherited and enacted by the state (Leftwich 1995; 2006).

Taking a policy regime orientation, the chapter starts with a synoptic analysis of the orientation of the indigenous nature of the Botswana developmental state and governance aspects – providing a general background for appreciating growth experience in policy regime episodes and subsequent analysis of macro-economic situation and dynamics of political economy. The second part illuminates institutional dynamics of growth – focusing on state resource mobilization – financial and human capital – and significance of state good management aspects. The chapter ends with an analysis of state management structure and institutional entanglement, offering lessons as well as some development challenges facing Botswana. The thrust is towards explaining institutional context of the Botswana's developmental state and how this helped to shape leadership interest in growth and stability – leading to high growth rate with limited impact on poverty alleviation outcomes, determined by microeconomic agents responding to policy environment and external shocks

Growth and Poverty Dynamics in Policy Regime Episodes

Botswana's development policies as well as strategies for poverty reduction are integrated into the country's broader National Economic Development Planning, guided since independence by the four national principles of, *Democracy, Development, Self reliance*, and *Unity*. Except for the additional principle of *Social Harmony* that was added under the fourth National Development Plan, all these principles are still applicable in the current planning period, 2003/4 to 2008/9. The fundamental planning objectives set out in National Development Plans since independence are: *sustained development, rapid economic growth, economic independence, and social justice*. Sustained development entails the need to ensure a pattern of development that can go on over the long-term and the key to sustainability is economic diversification. The government aims to achieve this by investing the wealth generated from non-renewable resources, such as minerals, into social and physical infrastructure; and encouraging viable productive activities that can maintain economic growth, and minimize vulnerability to economic fluctuations and create jobs. Rapid economic growth is fundamental to overall development and economic growth must exceed the population growth rate in order to achieve an increase in average living standards. Without economic growth, redistribution policies cannot be sustained. Economic independence entails strengthening infrastructure, diversifying production and markets, and enhancing ownership of policy or programme initiatives. Social justice recognizes that the ultimate aim of development is to improve quality of life and it has two main corollaries – a concern for fairness in development and access to opportunities, and that every citizen ought to have a minimum living standard consistent with heatl and human dignity. These objectives have reinforced each other in shaping Botswana's overall development vision, and the basic route through which poverty has been addressed has been through employment creation and participation of citizens entrepreneurs in business ventures. Economic diversification (with emphasis on competitiveness) has been viewed as a central vehicle for attaining the objectives of social justice, economic independence and sustainable development (MFDP 1997; 2003; 2006.

The overall growth record of independent Botswana can be captured in one sentence. Initially based on agriculture and heavily dependent on foreign aid, the rapid economic growth and general development in Botswana have been driven by the mining sector, particularly the diamond industry, and have been strategically led/influenced and managed by the state and decreasingly complemented by foreign aid within the overall institutional context of a liberal market economy and multi-party democratic system of government. Acknowledging the importance of policy choices, the Botswana state has been strategically interventionist, demonstrated by the practice of producing medium-term public sector National Development Plans, consistently using annual budgets as the main instruments for translating plans into action since independence in 1966. Being a resource-based economy, with Government as one of the main share-holder owning 50 percent of the diamonds industry – the bulk of the revenue from depletable resource exports accrue to the Government, thereby 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). The resource-based Botswana economy has largely avoided the known adverse long term effects of Dutch disease and volatility – mainly on account of relatively well institutionalized good state management. Botswana, according to Paul Collier (1997:13) has impressively strong checks and balances, notably rules for public spending, and 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 careful technical scrutiny of the rate of return on each proposed project.

Government development policies and strategies that affect poverty have changed overtime, and one can discern different policy regimes. Policy choices matter in terms of quality and how they are made as well as their implication for growth outcome. Thus, periodization of growth experience is analytically necessary and it embodies the idea that Botswana's evolution can be broken into policy episodes – three broad policy regime phases of growth experience (from 1960s to 2006) – analyzing each period according to the policy environment, and explaining each main episode in terms of interest of the policy makers and the institutional forces acting upon them.

The first phase which overlaps with colonial rule from 1960s through independence to 1975 is described as a period of initial base creating - a transitional phase starting with some degree of uncertainty about the nature and economic base of the Botswana state, ending with institutional transformation and development policy direction. Just as the form of colonial rule was negotiated for by the traditional ruling chiefs who went to ask for British Protectorate, Botswana transition to independence was a result of peaceful negotiation between the elite and the colonial power with a significant degree of continuity both in terms of leadership and institutional setting and how they were modified. Given removal of the incorporation threat into white minority-dominated states of South Africa and/or Southern Rhodesia (now Zimbabwe) also the survival traditional Tswana political culture within the colonial context, the new elite that hurriedly prepared and assumed political leadership ultimately merged local interests into a broader commitment to create a non-racial (reformist) and unitary state. This period was characterized by end of colonial rule; introduction of multi-party democratic system of government under the inherited market-based economy; integration of traditional institutional structures (such as the customary courts and the participatory kotla system) into modern institutions, underlined by the policy stance that sought to maximize the flow of foreign capital – aid and private investment, resulting into moderate growth of the time. It was during this period that the government decided to remain under what retrospectively turned up to be useful external institutions of restraint respectively in monetary and fiscal policies – the Rand Monetary Authority (RMA) and Southern African Customs Union (SACU) – and also the renegotiation of the formula for redistributing customs revenue. It was also during this period that the government negotiated with the chiefs for the transfer of mineral rights and the central government was able to legislate itself as the holder of mineral rights in tribal lands (Leith 2000:24; Maundeni 2004:27), thereby strengthening national unity and cohesion and pre-empting regional conflicts over mineral rents – a source of conflict in some countries. The thrust of development policy entailed experimenting with state-led development strategy in a mixed liberal economy, and this institutional baseline was largely similar with many African countries at independence, though the institutional design in Botswana was basically pragmatic as opposed to 'dogma' in many African countries..

The second phase from 1975 to 1989 saw the consolidations of both the market based state-led development strategy and continuity with multi-party system of government – avoiding the wave of one-party or military regimes and forms of socialism/communism ideologies cutting across the African region. Botswana managed to negotiate for beef access into the European market – offering market incentive of general interest for Botswana ruling elite based on cattle and land owning, leading to general appreciation of export market for beef and minerals and well-entrenched system of property rights. The policy thrust, as shaped by interest and institutional context, was towards having well-established market system, especially for export; building a relatively strong and competent state that provides visionary leadership and management role. One of the most important policy choices was a decision to negotiate for joint partnership with the mining companies – agreements which entailed leaving management of enterprises to private partners, retrospectively seen as the start of what can rightly be described as institutionalized 'private-government smart partnership.' For example, the diamonds company – the de Beers Botswana Mining Company (Debswana) is a joint venture between Government and De Beers, each with equal share of 50 percent. Some observers wonder why the Botswana Government managed to extract a good and generous deal of 50 percent share with a multinational foreign company. The explanation lies in the nature of Botswana's political economy - the nature of the interest at work, and demonstration effects of experiences external to Botswana. Assert owning by the state is traditionally legitimate and negotiations leading to state partial ownership of mines reflected state traditional role as a "conduit" for redistributive policies (Maundeni 2001). The wind of nationalization, sweeping across the developing world, and Africa in particular, provided both leverage for Botswana negotiators and also a good reason on the part of the foreign investor to circumvent outright nationalization. Being a very poor country Botswana risked frightening foreign investment – perceived as crucial for the country's development. Thus, the leadership initially negotiated for a minority shares of 20 percent with a provision which left the agreement open for further negotiation should any party feel disadvantaged as subsequently happened when Botswana enlarged its equity to 50 percent by buying 20 more shares as well as increased mineral royalties (Gaolathe, 1997). Afraid of the consequences of nationalization elsewhere and in order to fortify what turned up to be a profitable business interest, the mining companies were willing to offer more shares to the Government of Botswana that took advantage of the situation to negotiate for a greater share of the mineral fortune (Harvey and Lewis, 1990). Thus, the outcome of the negotiations was a reconciliation of interests, leading to a mutual relationship of the Government of Botswana with De Beers. By leaving company management in the hands De Beers, Botswana avoided the pitfall mistakes made by some countries like Zambia, where the state was actively involved in management as well as bolts and nuts production. This policy choice in Botswana has worked mutually well in terms of financial returns, confidence/trust and consultations over development policies. It is during this "policy regime" period that the mining sector clearly emerged and consolidated itself as the engine of growth. It was also during this period that the strategic and positive role of the Botswana state emerged in clear perspective as an instrument of society – a conduit through which the vast financial resources mainly from the mining sector and partly from foreign aid were redistributed to create public goods and services - and consolidating its pragmatic approach to development management.

The phase turned out to be a period of rapid economic transformation, marked by fastest economic growth – registering jerk-like annual growth rates and it was also a period of tremendous increase in employment opportunities with good prospects for poverty reduction as well as structural diversification. The period is underlined by state assertion as *a developmental state*; sectoral transformation in which agriculture and mining switched their lead positions; noticeable changes regarding the trends in domestic savings and investment over time with the ratio of savings to GDP subsequently exceeding investment. It was also during this phase that the state emerged as a major saving agent and as a conduit for redistributing 'rent' to the rest of the economy to enhance economic growth. Politically, the pragmatic ruling party with overwhelming rural support managed to consolidate its grip on state power by defeating its opponents, thereby building electoral security and confidence over its development policies.

The third period, though overlapping to some degree with the end of 1980s, covers the whole 1990s through the new millennium, and the strategy recognizes that income poverty is quite high and adopts a national strategy for poverty reduction. The period marks a start of a new policy environment, signaling end of state-led development strategy and a new reorientation towards private sector-led development with emphasis on economic diversification, export competitiveness, privatization options, and comprehensive focus on poverty reduction/eradication within a timeframe of the National Vision 2016. Politically, the period is marked by increased electoral competition, threatening combined opposition challenge, re-alignment of the main interests arising from rapid urbanization and spread of education as well as Batswana's –strives in new production ventures leading to complex policy choices within a competitive regional and global environment. It is also a period of reduced rate of economic growth and noted for high levels of unemployment and poverty - at least initially before the economy started to pickup and poverty declining again, all explained by complex political choices given the new dynamics in Botswana's new political economy order. Just as the end of the first phase was marked by policy and negotiations which attracted private foreign investment in the mining sector – leading to initial diversification from agriculture to mining – the third policy regime is also transformational, marked by some initiatives for privatization as well as economic diversification into service and manufacturing sectors, made possible by direct government negotiations, especially the recent mushrooming of the downstream Botswana diamond industry factories whose impact has yet to be seen. However, the basic tenet of the country's development approach has continued to be to optimize the benefits of revenue from natural resources by re-investing them into developing further productive capacity of the economy.

1. PRAGMATIC DEVELOPMETAL STATE & GOVERNANCE ORIENTATION

Botswana's approach to development as well as governance orientation is basically pragmatic – avoiding ideological dogma, and this has influenced the country's conception of the poverty problem and operational policies and strategies for poverty alleviation within the overall national development strategy, underpinned and integrated into the country's National Development Plans, highly institutionalized at least since 1970. For an individual or a household unit, poverty is usually viewed as pronounced material deprivation in wellbeing associated with income or consumption. The Botswana poverty reduction strategy captures a broader conception of poverty which has a multiplicity of dimensions – encompassing deprivation in many aspects of life, such as unemployment which is usually associated with income and consumption, lack of education, ill health, vulnerability, powerlessness, social exclusion, etc, thereby opening up a broader range of policies that the government can follow in order to reduce poverty, and this widens institutional dynamics of the poverty problem (MFDP, 2003). Thus, in addition to overall income poverty (measured by income and consumption or resource deprivation to meet basic human needs, such as food, shelter, clothing, etc), there are two other forms of poverty – the capability or human poverty, and what is referred to as the participation poverty. Deprivation in essential capabilities analyzes the range of things people can do or lack of essential capabilities for a human being to work his or her way out of poverty, such as lack of education, health and some other services which deprive individuals an opportunity to work or live a good life, while participation poverty focuses on exclusion of people from the socio-political processes that influence human welfare outcomes – analyzing the extent to which the poor are excluded from the political processes, thereby end up being unable to put their interests on the public agenda and therefore count on the benevolence of others to have their issues dealt with in public policy and public spending (). It is not our intention to discuss in detail the operational concept of poverty or some other indicators of welfare and specifications of their critical threshold levels. Our main orientation is to use the general operational poverty concept in order to illuminate the political and institutional dynamics of the poverty issue in Botswana. In the final analysis, it is the overall income poverty that has been at the centre of Government and public concern in Botswana given the general good delivery of some crucial public goods/services – evidenced by increasing access to education, health and water services, which are crucial ingredients of capability poverty – and institionalization of democratic governance and participatory structures for public policy making over the years, such as the *kotla* system, thereby somewhat moderating deprivation related to participation poverty.

The institutional context of rapid growth with limited impact on poverty alleviation is crucial for explaining the forces behind some crucial development changes and some policy choices and institutional factors that might account for high poverty levels and challenges for reduction. This section will provide a historical background to the development and evolution of concentration of state power and continuity of policy, and also examining the evolution of inequality and poverty. Since attitudes towards inequalities and poverty may be rooted in normative values and distribution of resources and incomes are subject to conscious government policies, it is imperative to take a retrospective view to understand and appreciate modern Botswana institutions and some policy choices. The following questions need to be explored: What are the political forces and coalitions which have demanded concentration of state power and continuity of policy, leading to developmental orientation of the government? To what extent contemporary inequalities and poverty appear to be inherent in the socio-economic structure going back to history? To what extent government intervention policies and programmes have cemented existing structures or have entered into a "virtuous cycle" where redistributive tax/mineral rent and transfer systems (social sector spending) and institutional capacity to deliver/implement produce lower levels of poverty and inequalities which in turn help those at the lower end achieve better life? In an international comparison income divides and poverty levels are high in Botswana (). What we need to establish here is the extent to which they have been so (high) in a historical perspective and whether or not they have increased or reduced in the decades of exceptional economic growth and also explore institutional explanation for the situation.

Growth and Poverty Context: Historical & Social-Economic Background

As elaborated upon in the other sections below, the country's socio-economic development has depended on a variety of factors, including its pre-colonial history, local tradition and the quality of its leadership. What follows tries to illuminate the significance of the leadership aspect – the policy and institutional dynamics of sustained growth in Botswana. Formerly a British protectorate, Botswana became independent on 30th September 1966. The country is land-locked, located in the middle of Southern Africa, and it shares borders with South Africa, Zimbabwe, Namibia, and Zambia. The total land area is about 582,000 square kilometers and this is about the size of Kenya – another African country, France in Europe, or Texas in USA, but the population – currently estimated to be about 1.8 million – is quite small relative to the size of the country. With two-thirds of the country largely covered by the Kgalagadi desert, climate conditions are harsh – mainly arid with inadequate rainfall and arable land is scarce with less than 5 percent of cultivatable land area, and this situation has seriously constrained the potential of the agriculture sector for employment creation and poverty alleviation.

Botswana has been a stable multi-party democracy since independence in 1966 and it is often cited as the foremost example of good democratic governance in Africa. The constitution at independence established a multiparty and non-racial democracy which maintains basic freedom, basic rights including property rights with an independent Judiciary. One of the most significant features of competitive politics in Botswana is the peaceful co-existence between the ruling party which controls the central government and the major opposition party which has tended to control the local governments in the capital city and in some other major towns of the country. Botswana is also known as the least corrupt African state with a relatively participatory and transparent political system with roots stemming from the country's traditional Tswana custom. Botswana's democracy has survived and continued to grow, while many sub-Saharan African countries that gained independence in the 1950s and 1960s soon abandoned multi-party democracy after independence and some countries, such as Angola and Mozambique, did not give democracy a chance. Thus, democracy, political stability, rule of law, transparency, and participatory political process are the political factors that seem to have contributed to the success and sustainability of development effort..

Botswana started on its development path with virtually no infrastructure, few productive assets, and a mostly uneducated populace. In comparison to other British colonies in the region, Botswana suffered acute neglect by the authorities. The country was initially administered from Mafeking in South Africa, largely relying on the indigenous/local authority institutions – the system known as "indirect rule" which, in practice, adapted indigenous governance structures to legitimize colonial rule and minimize administrative overhead, and sustained traditional chiefs as rulers of their people, while basically using traditional rulers as instruments of the colonial administrators. Apart from the railway line socio-economic infrastructure (whether in the form of roads, schools or clinics) were undeveloped. As a result of this colonial neglect, the legacy at independence was stark: the country was one of the poorest in the world, with a per capita income of some US

$80, and with over 90 percent of the population depended on subsistence agriculture for its livelihood; literacy levels were among the lowest in Africa, and the country had only 22 university graduates; and there was only eight kilometers of tarred road in the entire country (Acemonglu et al 2003.79-82). Apart from the abattoir in Lobatse, virtually no job opportunities had been created, and a significant percent of Batswana men were working in South Africa; and the government was dependent on foreign aid (mostly from Britain), not only for investment projects, but also to finance its recurrent expenditures. Thus, prospects for rapid development at independence did not seem encouraging, and certainly worse than that of many African countries. Yet this led to a resolve on the part of political leadership to chart a course that would lead the country out of poverty and away from dependence on foreign aid.

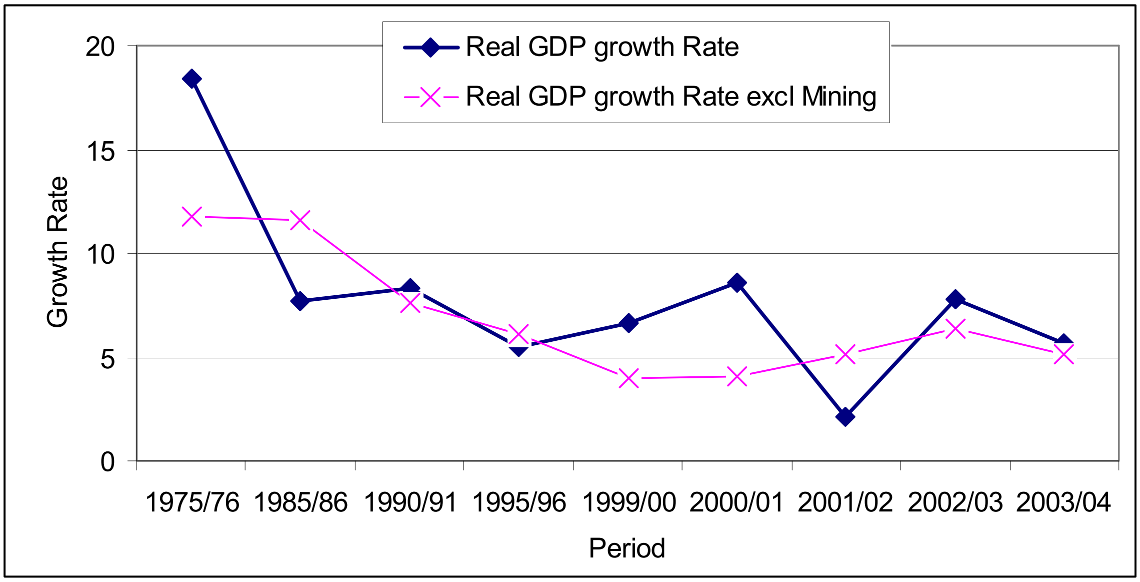
The regional context at independence was also inhospitable. Except its border with independent Zambia, Botswana's initial geo-political environment was largely hostile – completely surrounded by the minority and racist regimes for one and half decades and South Africa initially had intention to annex Botswana. Along with Lesotho and Swaziland, Botswana was linked to South Africa through the South Africa Customs Union (SACU), established in 1910; and it was also part of the Rand Monetary Authority – well entrenched regional fiscal and monetary institutions of restraint. The hostility of immediate neighbours led the country to develop strong relations with the international community, particularly the Western countries (from where aid was attracted); and the government adopted a policy of public support for regional liberation struggles, while quietly maintaining economic ties with South Africa (Maipose at al 1996). Botswana was instrumental in establishing the Southern African Development Coordinating Council (SADCC), which was subsequently transformed into Southern African Development Community (SADC) -based in Gaborone. The situation improved with the independence of Zimbabwe in 1980, followed by Namibia in 1991, and the new political dispensation in South Africa itself., though this can be seen both as a blessing and a curse in so far as Botswana's development is concerned as elaborated upon later.

In spite of the difficult conditions at independence, the country has four inherent advantages. One is the existence of several minerals (such as copper, diamonds, soda ash, coal and nickel) as well as some other outstanding natural resources (such as National Parks and Game Reserves). Botswana owes its success to the exploitation of natural resources, more especially diamonds. The basic tenet of the country's development approach has been to optimize the benefits of the revenue from natural resources by re-investing them into developing further productive capacity of the economy such as education and training, health, infrastructure, etc; and the government's approach to poverty reduction is to stimulate broad-based economic growth through sound macroeconomic management and attraction of foreign direct investment.. As elaborated upon below, this is considered to be a foundation for the country's sustainable development; and the vesting of mineral rights in the state as well as making Government the custodian of the wildlife resources have allowed Government to strive to equitably spread services and development across the country, thereby enhancing national unity. Second, the country's population is more ethnically homogeneous than in most other African countries. It is estimated that approximately 80 percent of the population are

Setswana speaking, living relatively well with the non-Setswana language groups (Picard 1987:5-8) and ethnic differences have not been politicized to the extent of being used as interest groups and this situation has contributed to the unusual degree of political stability. Third, by ruling, for the most part, through traditional administrative system, colonial administration did not supplant strong traditional governance structure, especially the participative and consultative tradition that characterize policy-making process in Botswana, while the benign neglect by colonial authorities meant that Botswana's leaders were able to chart a pragmatic post-independence political and economic course, free of ideological reaction against colonialism. Fourth, Botswana's proximity to South Africa has been both a blessing and a curse. Although not a major market for exports and easy access to goods and services has somewhat hindered Botswana's diversification efforts into manufacturing sector, proximity to South Africa has facilitated export to Europe, and South Africa has provided most of Botswana's imports. Further, the membership of Botswana in regional economic organizations, such as the Southern African Customs Union (SACU) that has been in force since 1910 and initially the Rand Monetary System proved to be viable inherited external institutions of restraint and loosened up some crucial constraints associated with land-locked countries, though Botswana subsequently withdrew from the Rand Monetary System when the country introduced its own national currency in 1976 in order to be in full control of her own monetary policy.

Despite an inauspicious start, the government managed to engineer a remarkable record of economic growth decades after independence – thanks in part to the discovery of extremely rich mineral deposits, most notably diamonds. Botswana's GDP annual growth rate over the years is certainly impressive, and so has been real GDP growth rate excluding mining as shown in (figure 1.1). Besides being the only country with the highest annual growth rate for forty years (Leith 2005), Botswana's economy was among the fastest growing in the world even from 1980 to 1990 – a period when most African countries experienced negative growth. Average real income levels were nearly 10 times higher in 1990 than they had been in 1966. By 1990 GNP per capita was US $2,540 (the second highest in Africa), and Botswana was one of the few African countries to reach middle-income status (Duncan et.al 1995:1) and it is now in the upper-income range. Although it is easy to give credit for this growth to the country's mineral wealth, it has to be acknowledged that many countries with similar or superior natural endowments were unable to transform them into sustained economic growth. Many development analysts have attributed the country's success to initial generous support from the donor community, sound economic policies and careful fiscal and monetary management (Harvey and Lewis 1990; Mogae 1992:4; Duncan et. al 1995; Acemonglu et.al 2003; Leith 2005). It is a case of good state management of national fortunes – decreasingly foreign aid and increasingly natural resources management.

Figure 1.1



Source: Calculated from Bank of Botswana Annual Reports and Sources shown in Table 1.2..

Table: 1.1

Economic-Social Indicators

Economic Indicators	**1980**	**1990**	**2000**	**2004**	**2000/04**	**Sub-Africa 2000//04**
GDP growth (Annual %)	12.00	6.80	7.60	4.90	5.50	4.00
GNI per capita (US $)	960	2,450	2,870	4,360	3,286	506
GDP per capita (Annual %)	8.20	3.90	6.50	5.00	5.50	1.5
Resource Balance(Exports minus Imports) GDP %	-13.40	5.30	21.70	7.50	13.40	0.80
Revenue GDP ratio	34.4	58.7	-	-	-	-
Gross fixed capital formation (GDP %)	40	37	20	31	26	18.20
Gross domestic savings (GDP %)	27	43	42	38	40	19
Unemployment rate*	13.9	21.6	15.8	24.6	-	-
Poverty Rate*	59	47	-	30		-
Inequality:*	0.556	0.537	-	0.573	-	-
Demographic & Social Indicator						
Population (million)*	0.9	1.3	1.6	1.8		-
Urbanization (%)*	18	32	48.2	52.9	-	-
Public Exp. On Education (%) of Budget*			23.1	25.3	-	-
Access to Safe Water	77	89	94	95		
Access to Health Service	36	55	69	79		
Access to Sanitary	-	38	-	41	-	-

Primary Education. Enrollment rate	76	82	0	93	-	-
Secondary Education Enrollment rate	-	-	-	-	-	-
Adult Literate rate	-	71	78.1	82	-	-
Life Expectancy	46	64	56	40	-	-

Source: Africa Development Indicators, 2000 & 2006, The World Bank, Washington, DC. * Government of Botswana Various Reports.

Economic growth was accompanied by impressive social gains, largely due to heavy government and donor investment in socio and economic infrastructure. Public expenditure in the social sectors has averaged between 10 and 12 percent of GDP since 1980 compared to 4 percent in 1973 (Mupimpila 2005:88-93). While the colonial government spent little in excess of administrational costs, the independent government has spent around 40 per cent of GDP primarily on infrastructure and human capital, and this figure is one of the highest in Africa and comparable with Norway (Acemonglu et al. 2003:85; Leith 2005:83Hillborn 2006:16). Education gets about 25% of total public expenditure, and in spite of a widely-dispersed rural population, education, health services, sanitation and clean water have all become more accessible (Table 1.1). For example, access to safe water is about 95 percent; while the transition rate from primary to junior secondary education is now 100% and the adult literacy Rate is over 85%; and 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 HIV/AIDS pandemic. In contrast with the rest of sub-Saharan Africa, Botswana's socio-economic performance improved considerably over the past three decades.

However, there are a number of challenges facing the country - and these problems are normally associated with developing countries, especially the three inter-related challenges of further economic diversification, alleviation of unemployment, poverty and income inequality. These development problems/challenges in Botswana appear to be inherent in the socio-economic structure going back in history. Many development analysts have noted that the traditional unequal distribution of resources and incomes, including cattle ownership, have increased during the decades of exceptional growth; and Botswana has one of the highest degrees of income differences in the world (Good1994:205; Peters 1994; Hillbom 2006:15). It is also clear from table 1.1 that Gini coefficient – a measure of inequality – which declined somewhat between 1980 and 1990, increased marginally from 0.537 to 0.573 thereby suggesting that the growth experience between 1990 and 2004 may not have been pro-poor (Siphambe 2005). Unemployment and poverty problem is, to some degree, a structural problem. The mining sector, which has accounted for between 35 and 50 percent GDP sectoral dominates , has not been a big employer because the industry is highly capital intensive and automated, accounting for only 4 percent of the total formal sector employment (Appendix E and F)..

Fortunately, there has been both a "trickle down" from the wealthier segments of society or the growth sectors of the economy – mainly through fiscal linkages - and most importantly political consciousness of the need to fight unemployment/poverty rates. As a result, poverty in terms of income levels have been significantly improved from 59 per cent of individuals being poor in 1980s to 47 percent in 1990s and declined significantly to 30 per cent in 2005. Although unemployment, another income poverty indicator grew over the years from about 14 percent in 1980s to about 25 percent in 2004 (table 1.1, the latest Labour Force Survey of 2005/2006 indicate that the rate has fallen significantly since then to about 18 percent and projections suggest a continuation of overall decline trend (CSO 2007).

Indigenous Nature of the Botswana Developmental State

Botswana falls in the category of developmental states (Leftwich, 1995; 2007; van de Walle, 1996). This has been qualified by some analysts, (such as Wylie 1990; Edge1998; and Maundeni 2001) as an "indigenous developmental state", because the role of the state in Botswana has its own traditional and historical significance. The state-led development strategy, an idea which has been shared with many other developing countries, is in Botswana unique (hence indigenous) blended with pre-colonial Tswana political theory and social history regarding the role of the state, leadership and the intimacy of political and economic elite, and also the consultative process that underlines public policy making system. The role of the state in Botswana is, in many respects, similar with the development success story of the "East Asian miracle" where the state has been strategically interventionist rather than crisis-driven under a capitalist market economic development formula. But the institutional context of rapid growth in Botswana – that is, aspects of its own tradition and multi-party democratic system of government – offer a .sharp and refreshing contrast to authoritative and undemocratic regimes elsewhere (including China and the East Asian miracle economies) which do not have a history of democratic institutions until quite recently if at all. Unfortunately, the government approach to development management, though acknowledgingly prudent through sound macroeconomic management has been largely technocratic and has not stimulated broad based economic growth mainly because the country's Gross Domestic Product (GDP) and exports depend highly on minerals (especially diamonds) extraction. Analyzed from this perspective, the high level of unemployment and poverty are, to some extent, structural – a situation in which manufacturing and agricultural sectors (which can absorb idle workforce to reduce poverty) have not been prominent in Botswana's growth scenario. These are the sectors which should ultimately impact positively towards poverty reduction through employment creation, though public expenditure geared towards implementing social safety nets programmes, to target those not participating in employment and those no having alternative sources of income will still be necessary a long as poverty in Botswana is still associated with natural conditions, such as drought, disease and the like.

Given the fact that that the ruling Botswana Democratic Party (BDP) has been in power since independence, democratically and competitively keeping the opposition at bay, we are inclined to depict Botswana as an "indigenous developmental state", in which secure political elite (with an unimpeachable electoral support since independence) has pursued growth-promoting policies, developed or modified and maintained viable inherited traditional and modern institutions of political, economic, and legal restraint. These institutions proved robust in the face of initial large aid inflow and spectacular mineral rents, producing a growth pattern that was both rapid and cautious, mainly because of the orientation of Botswana's developmental state and how this helped shape interest in growth and stability – leading to growth outcomes determined by microeconomic agents responding to the policy environment and external shocks.

Indigenous nature of the *Botswana developmental state* is illustrated by illuminating how the state mobilized development resources – especially savings and investment, and human resource, widely known as the primary drivers of economic growth – and prudently managed the economy without itself getting excessively involved into the nuts and bolds of production. The country's development story line may be captured in one sentence. Striving with good effect to minimize adverse consequences of the resource curse and "mineral led economy" syndrome (to which similar other economies tend to be prone), it is argued that Botswana's "success story" is largely a result of effective/good management effort – demonstrated by the long track record of good policies – pursued by a relatively strong and competent state that provides a visionary and management role (operating) under effective traditional and modern institutions of governance and restraint.

Dynamics of Political Economy and Poverty Reduction

This section provides the political and ideological institutional context of rapid growth in Botswana – that is illuminating the significance of a multi-party system of government and its impact on poverty reduction. After addressing the grand structural design of the Botswana democratic state in relation to poverty alleviation, we narrow our focus on the following issues and questions: The Basis of Botswana's multi-party democratic system, electoral trends and composition, and in-built checks and balances for accountability. Looking back, what are primary institutional factors that might account for poverty levels before and post-colonial period? What is the significance of the interests of the Botswana ruling elite, including the ruling party leadership interest in sustaining democracy and promoting their own version of good governance – seeking "profit" in the form of "political income"? By looking at how institutions allocate resources, we should be inclined to answer the question of how do institutional rules shape primary and secondary distribution, thereby exploring the basic but fundamental question about politics: Who gets what, when, how and what difference it makes in society? And looking forward, what are primary challenges for poverty reduction? Answers to above questions will provide a good context to appreciate many of the state intervention development policy programmes that directly or indirectly affect poverty.

The country's political economy has fundamental bearing on policy choices. Like many other development analysts before us, the country's rapid economic growth is attributed to the effective state management – the long track record of goods policies. It is therefore imperative to briefly reflect on some of these policies during this phase of the country's development. On political front Botswana adopted a multi-party 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. But this does not explain why the system survived and continued allegiance to mass participation and multi-party politics when one-party and military regimes swept the region by 1970s – a period Botswana could have followed suit, but chose not to and had the second multi-party election. There is no documented evidence identifying key points at which decisions were made and/or confirmed. Much of this comes down to the quality and interests of "the ruling class" especially within the ruling Botswana Democratic Party leadership and Sir Khama himself. Moreover, democracy tied relatively well with the consensus-seeking approach that had deep roots in the Tswana culture as elaborated upon later.

All the main political parties were founded in early 1960s or they trace their origin (as break-a ways from) pre-independence political parties. Until quite recently, serious electoral competition (general parliamentary and local government elections) has been between two main political parties with diametrically opposed ideological orientations. These are the Botswana Democratic Party (BDP), known as the liberal/conservative party, and the Botswana Congress Party - subsequently replaced by the Botswana National Front (BNF), known as radical left or socialist/communist oriented. The BDP led by Khama who was earmarked to become chief of one of the prominent tribes, was put in power in 1966 and re-elected in 1972 with an overwhelming and largely rural-based majority, while the opposition increasingly became an urban-based party (Appendix A). Following divisions in the opposition – leading to many new political parties, the ruling party increasingly spread its dominance to capture some urban constituencies, reasserting its political dominance, even though the combined opposition has also increased significantly over the years. Analyzing public policy from institutional perspective, it was inconceivable for Batswana ruling elite, who enjoyed overwhelming electoral majority including support from the traditional rulers to break the system that was operating in their interest as compared with the radical ideology of the opposition. This issue has two interrelated points, which are elaborated upon later. First, the evolving political system was basically a *de-factor* one-party system dominated by the conservative led BDP government. Being reasonable and good leaders – a reputation they were building -- they chose to retain the state quo and to 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. Although drawn from a very few educated elite, Khama's social background was not, for stated or unstated reasons, confrontational with traditional authorities and the well-entrenched system of property right, evidently so in agriculture especially cattle industry to which most leaders were tied and in line with the capitalist development strategy BDP led government was advocating.

Being a poor country then and knowing the resource constraints that they faced, Botswana leaders adopted an open policy towards foreign investment and pursued a non-aligned foreign policy to maximize volume and diversify sources of foreign aid. These policies paid off well – leading to the discovery and successful exploitation of copper, nickel and diamonds; increasing flows of aid from an increasing wide range of donors, initially financing the whole development budget and about half of its recurrent expenditure. Another policy that is cited as a good move was the gaining of access to the EEC for beef exports, at prices above world market under the special provisions of the Lome Convention negotiated for by the government and signed in 1975. This was very important for the agriculture sector by boosting the principal capital assert of economic inheritance, cattle – beneficial to many people, though only a few dominated the sector. They also adopted growth promoting policies that were closely related to historical economic links with the white-ruled racist South Africa – a clear demonstration of pragmatic approach motivated by self-national interest while remaining opposed to racist regime. One of these policy choices was the membership of the Southern African Rand Monetary Area (RMA) during the early period of independence, thereby limiting the country's discretion over monetary policy at a time of implied temptation for deficit financing given limited financial and manpower resources that Botswana had. Relatedly, the pragmatic sense of the government was also demonstrated by the decision to remain within the Southern African Customs Union of 1910 and renegotiation of the revenue distribution formula in 1968, a policy choice, which ensured a stream flow of revenue for needed development projects (Harvey & Lewis, 1990). Retrospectively, this policy limited temptation for growth retarding import-substitution industrialization policy which many African pursued. These examples illustrate how Botswana's membership in RMA and SACU provided external agency of restraint both in crucial trade and monetary policies. When a policy was subsequently made to get control over monetary and exchange rate policies - following a decision to move out of the monetary union in 1975 and the creation of the country's currency, the Pula in 1976 - the country was well prepared (in terms of its own capacity) to undertake this responsibility. The decision was timely given Botswana's self interest to pursue independent economic strategies and prospects of growing aid and mineral revenue, the need to have full control over macro-economic management and manage strategic reserves, including foreign exchange reserves (Hudson 1978; and Herman 1997:181; 215).

Another important policy choice to note was the approach to national development, underlined by development planning and pragmatism – not "ideological dogma" – for economic policies and the overall strategy of state-led development. As elaborated upon later, Botswana's development analysts acknowledge the significance of state strategic intervention, especially the idea of formulating and implementing a national development plan, a fore-runner of development planning, as an instrument for resource mobilization and management that runs up to-date in what was basically a market economy. Each of the country's development plans has since then sought to promote four national principles of democracy, development, self-reliance and unity - leading to four overall national development objectives of rapid economic growth, social justice, and economic independence and sustain development.

Botswana's economic development strategy was and continued to exploit the country's mineral worth and invest the proceeds from mining in improving social and economic conditions and create new economic opportunities, while at the same time encouraging the role of foreign aid and private (foreign) investment. This strategy of transforming the mineral endowment into an endowment of physical and human endowment has the potential to achieve self-sustaining growth because physical and human capital is renewable, whereas the mineral endowment is not (Bank of Botswana, 1995: 5). State management capacity was enhanced by some early government policies, such as land policies and their management by Land Boards; vesting mineral rights (taken from local/traditional authorities) into central government; negotiated equity/business shares as opposed to nationalization of mines; and the policy of gradual localization by relying on foreign experts. These policies averted land and mineral right disputes which are the main source of tribal or regional conflicts in some countries, and equally important private foreign investment was not threatened and reliance on foreign operational experts enhanced technical and management competency.

Politically, it is also important to note that Botswana was still running a multi-party system of governance and yet many other African countries had abandoned the system for one-party or military regimes by 1970s (Tordoff 1993:4). The point is that by the early 1970s few countries retained multi-party systems and, with the “odd exceptions”, such as Botswana and the Gambia, political scientist had to talk in terms of competition within the single party rather than of competition between parties. It must be added that this trend was in line with some development analysts such as Huntington(1968) who thought that authoritarianism was necessary for rapid social-economic development and political stability in some situations, as evidenced from East Asian miracle countries which were authoritative and undemocratic regimes until quite recently. The crucial question is: why did Botswana not follow the obvious trend in Africa – a choice, which has paid off for the country? Another related question is: why were diamond rents not “captured” by vested interests as happened in other parts of Africa and the world? The answers have been briefly touched on and elaborated upon in what follows below.

The institutional context of rapid growth and early sectoral transformation were crucial for explaining the forces behind some crucial development changes and some policy choices. The quality of democracy/governance was important in influencing policy choices and reconciling various interests (Macartan Humpreys 2000). By 1974 Botswana had two competitive general parliamentary and local government elections won by the Botswana Democratic Party BDP, in power with overwhelming and largely rural-based majority (Appendix A). The two main political parties had different ideological orientations and the main opposition party was regarded as “a radical left” with socialist/Communist ideals (Maundeni 2001). But the interests of the Batswana elite were largely homogeneous, based on cattle and land owning as already noted. This made it relatively easier to reach consensus on policies. The leadership in the ruling party had considerable interest in promoting their own version of good government. Knowing that it must stand for election every five years - seeking “profit” in the form of “political income” - the ruling party pursued policies it believed will gain it the political support necessary to defeat its opponents. Priorities of the key rural development programmes, such as Arable Land Development Programme and Accelerated Rural Development Programme) initiated as early as 1970s, and attention given to the cattle industry had not been biased against rural areas where majority of Botswana electorate lived. Thus, neglect of rural interests, a widespread problem in sub-Saharan Africa (Bates), was largely avoided in Botswana because the BDP-lead government was representative, widely supported/elected by the rural majority and the ruling elite had interests in rural development policies/programmes. Most of the development programmes that were initiated in the late 1970s and 1880s (such as Arable Lands Development Programme, ALDEP; Accelerated Rainfall Arable Programme, ARAP; Drought Relief Programmes;

Financial Assistance Policy, FAP; Self-Help Housing Agency, SHHA; and Rural Development Programmes) have had redistributive results with noticeable impact on reducing high unemployment and inequality rates as already noted (table 1.1). But the trend was not subsequently sustained, especially from 1990s with rapid urbanization compounding the problem. However it has to be appreciated that the situation would have been much worse without these interventions and they have markedly reduced the impact of drought and maintain rural political support for the government through strong networks for some of these projects, such as food relief, which have created an entitlement situation and dependency on government handouts in some regions.

The main reason why "windfall gains" have not been captured by vested interests relate to a combination of the way competitive multiparty political system has been institutionalized, as noted above, and the way the leadership has strived to enforce zero tolerance of 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 been present in Botswana, and have contributed to the success and sustainability of development efforts partly because of "impressively strong checks and balances, notably rules for public spending" (Paul Collier, 2007:13). Although corruption exists and probably increasing in Botswana (Good, 1995), corruption by public officials has always been dealt with very harshly, and compared to 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 some corrupt practices, involving both ministers and officials – the government acted harshly by sacking and imprisoning those who were involved, and took long term measures to deal with the problem. Dealing with culprits harshly sent a message of intolerance, consistent with what has been happening hitherto; and to nip the problem in the bud, the Government decided to establish an anti-corruption institutions, such as the Ombudsman, and the Directorate on Corruption and Economic Crimes. These institutions have performed relatively well (Sharma 1998). A keen awareness for visitors who come through the main international airport is the sign post reading that "you are entering a zero tolerance of corruption zone".

It is not easy to speculate why Botswana adopted certain policies such as resisting the temptation for one-party system that was cutting across Africa and why some similar policies worked well in Botswana and not so well in many other countries. As already noted survival of Botswana's liberal democracy is partly explained by the country's tradition, because it is solidly based upon the inherited political culture. Viewed in another light, democracy was in the interest of Botswana leaders - seen as a "magic wand" with which to deliver a better public good by using it to attract foreign resources and manage internal politics. Being one of the poorest countries in the world, Botswana's leaders had clearly recognized how valuable "a commodity democracy" had become internationally and they engaged in a conscious effort to project their country as a liberal political and economic model for the rest of Africa (Molutsi 1993). The international community viewed the choice of a multi-racial and multi-party democracy in the context of a racially troubled Southern Africa of 1960s/1970s with considerable sympathy and this paid off in terms of inflows of aid and foreign direct investment. In terms of managing national politics, democracy in Botswana operated in the ruling BDP interest. As electoral results show (in Appendix A), Botswana opposition was not a threat to the dominance of the ruling party and the system operated more or less like a *de factor* one-party system in which the opposition was marginalized, and it worked well to contain various interests and ensured social political stability. In view of the above analysis, we are inclined to conclude this section by saying that in the absence of serious electoral threat over development agenda and the fact that no opposition party has come to power since independence, it is tantamount to academic exercise to speculate a different approach to development and the impact it would have had on poverty alleviation in Botswana. This leads us to reflect on institutional dynamics of growth including state management capacity and poverty reduction.

2. SPOTLIGHT ON INSTITUTIONAL DYNAMICS OF GROWTH

This section addresses the capacities of state apparatus – which according to Theda Skocpol (1985) is seen as a measure of the ability of a government (the machinery of the state) to make and implement its policies and accomplish its goals, focusing on four analytical dimensions of state capacity: regulatory, administrative, technical, and extractive. Primarily focusing on and highlighting institutional dynamics of the role of the state in development, including resource mobilization for development – savings and investments and significance of state management capacity - the thrust is towards explaining the "indigenous" nature of Botswana's developmental state and how this helped shape interest in growth and stability – leading to growth outcomes determined by microeconomic agents responding to the policy environment and external shocks.

<u>State Resource Mobilization: Financial & Human Resources</u>

Co-existence of wealth and power is traditionally and culturally legitimate under Tswana polity (Wylie, 1990:25-27; Parsons et al 1995:89), thereby providing solid ideological orientation of the Botswana leadership. Being basically pragmatic – following a capitalist development strategy – Khama listened to conservative and market-based advisors/economists, while many other leaders listened to radicals. Whereas Kaunda and Nyerere were teachers – owning no crucial means of production – the BDP's founders, such as Seretse Khama and Ketumile Masire, have had direct engagement in production, leading cattlemen and land owners. Being historically associated with wealth accumulation and production Tswana elite had interest around land and cattle in putting in place and upholding a legal framework governing property rights and resolution of commercial disputes. It is also important to note that while other independence founding fathers elsewhere in Africa "fought" for independence and "mistrusted" foreign investment (which they subsequently threatened and foreign companies nationalized), in Botswana the situation and "mindset" were completely different – actually in the opposite direction, and they strived to take advantage of foreign investment. As already noted colonial rule in Botswana came by "invitation" and it ended through peaceful means because of traditional rulers – the three principal tribal chiefs - "invited" a colonial power by proposing Bechuanaland "protectorate status" to the British government and subsequently nationalists "negotiated" for independence and its timing (Maundeni 2001). Against this background, it was therefore not surprising that they pursued open policy for foreign investment with which they negotiated for equity shares to work in partnership – not nationalization (Lewis and Harvey 1990). Thus, Botswana leaders have not been against foreign direct investment (FDI) and the country's early opening to foreign investment was rewarded by large inflows especially between the mid1970ss and early 1980s. FDI played a significant role in the country's development effort and in "smart partnership" with the government (as a share-holder) they developed the mining sector – providing the resources critical for the first phase of economic diversification from purely agriculture to include mining and this was instrumental in employment creation and therefore sustainable poverty alleviation. State financial resource mobilization was basically a two-pronged approach – mobilization of foreign aid and private foreign investment and it is imperative to reflect on each of these strategies.

<u>Foreign aid</u>, like foreign direct investment, is power and has interests. The government worked to attract aid from a number of donors and built donor's confidence through ensuring proper allocation and efficient management of aid-supported projects and the government budget (Stevens 1981; Maipose at. Al 1996). Being the only liberal democracy with liberal economic policy surrounded by racist and minority ruled southern African states, Botswana attracted sympathy from the Western donor agencies – leading to large inflow of aid; and this might have motivated the Botswana political leadership to keep the liberal democracy and economic system in place. Molutsi analysis is clear on this point:

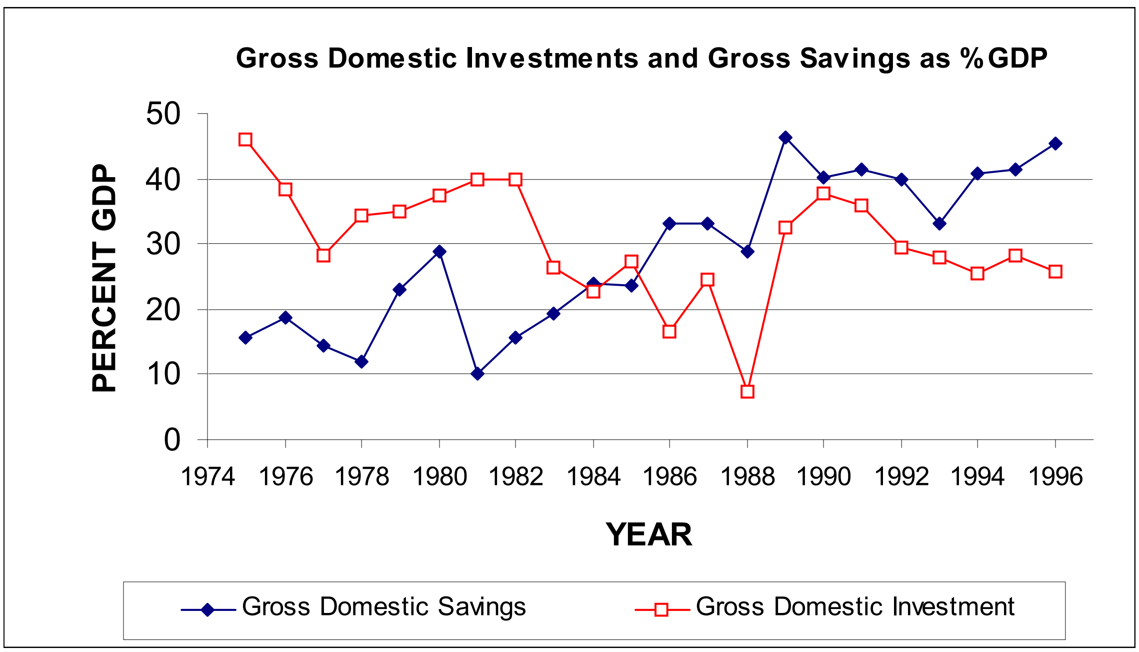
> Botswana leaders took advantage of the geographical situation of their country to project theirs a democratic experiment on the doorstep of apartheid. They appealed for support to the United Nations and its agencies, to foreign governments to international humanitarian agencies. The message was fairly 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 geo-political situation had began to pay dividends. (Molutsi 1993:52)

Thus, in addition to using foreign aid effectively, aid agencies were also motivated by the country's democratic attributes in the troubled southern African region. In fact, international aid was a crucial resource that the government initially used strategically to develop physical and social infrastructure, which helped to diversify its economy. To reconcile the interests of foreign capital, the government had a relatively open economic policy as already noted. Private foreign capital was attracted by political stability, a relatively open liberal economic policy, and maintenance of enabling environment, especially macro-economic stability for foreign and private investment. The role of foreign capital – foreign aid and private investment – is somehow shown in Figures 2.1 and 2.2 below.

The links between savings, investment and growth as well as employment creation are well established in economic theory and need not be elaborated upon here where primary concern is to show growth promoting role that the Botswana developmental state has played in resource mobilization and economic management. The objective is to establish, without the benefit of an econometric analysis for empirical test, correlation that might exist between savings, investment and growth, and also resource mobilization by the state in Botswana. The analysis may be seen as a reflection of the growth model with which the classical economists argued that the rate of economic growth depended on the proportion of an economy's activities that were productive and the rate of surplus (savings) for reinvestment.

Trends in gross domestic investment and gross domestic savings as a percentage of GDP are shown in figure 2.1. The savings available to the nation can come from domestic and foreign sources, and the rate at which capital stock accumulates contributes to determine the rate at which productive capacity is created.

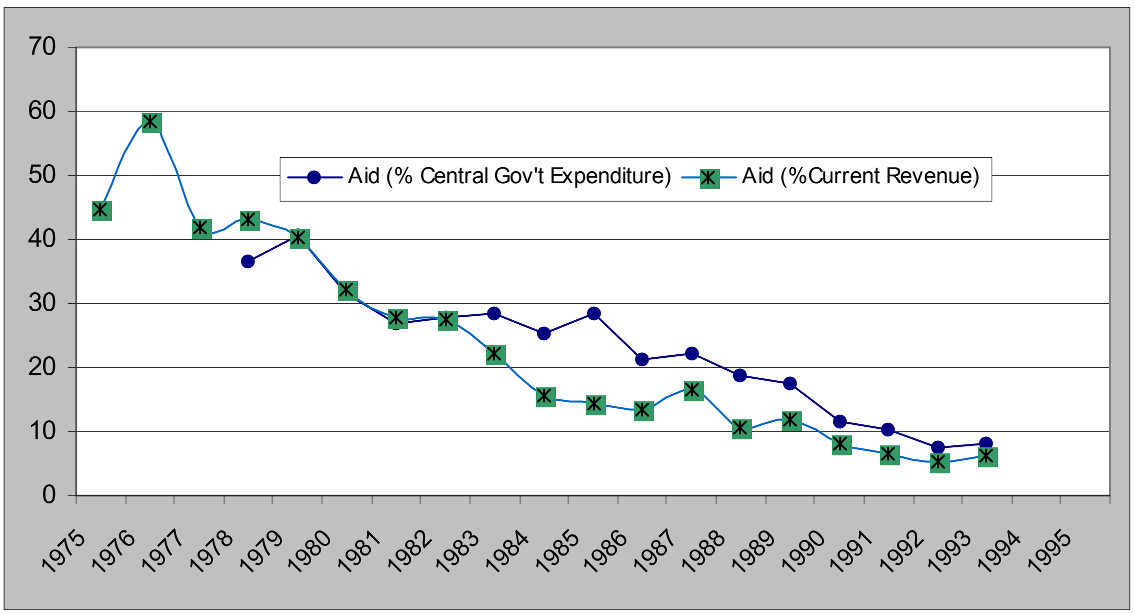
Figure 2.1



Source: Calaculated from Botswana "DAC data" 1998

Taking into account the main observations made above and the trends of saving, and investments depicted in figure 2.1, a number of points related to economic impact of foreign capital inflows can be raised. To start with, the economic role of foreign capital including aid -- especially its contribution to growth, investment, savings, and employment creation -- has changed over time. In early years, aid was essential in relaxing macro-economic constraints -- particularly the foreign exchange constraint and financing development budget, and thus financed priority government projects. It may be seen from the figure that investment exceeded domestic savings before 1986, and the shortfall of domestic savings over investment was obviously financed by foreign savings. During this period, Botswana was a net recipient of capital flows. Thus, the country's rapid rate of economic growth, at least during the first two decades of independence depended to a considerable degree on capital from abroad. The period of sustained and exceptionally high economic growth rates annually from 1966 to 1989 -- also coincided with sustained jerks or step-like increases in aid to Botswana (Figure 2.2), and this had obvious positive impact on employment creation and poverty reduction. How can we have a rough idea of the contribution of aid to investment financed by foreign savings?

Figure 2.2



Source: Calculated from Botswana "DAC data" 1998

Aid's contribution to Investment and Savings is roughly shown in Figure 2.2. In simple economic growth model, the rate of growth is directly proportional to the savings ratio divided by the incremental capital-output ration (ICOR). Statistical analyses tend to show a close correlation between investment in physical capital and economic growth and also a correlation between shortage of foreign exchange (needed to import machinery, equipment and inputs) and negative growth or and capacity under-utilization (Barro & Sala-Martin 1995). On the basis or backdrop of this relatively simple economic growth theory, aid could be said to have made significant contribution to the early growth, although private investment increasingly played a greater role (Figure 2.1 above seen together with Figure 2.2). Perhaps most importantly, aid helped finance much of the original public investment in infrastructure and mining -- facilitating private capital inflows especially for the mining sector (Maipose et al 1996) and so was the efficacy of foreign technical assistance given the policy to avoid rapid localization. A well-functioning infrastructure is regarded as a precondition for economic development and sustained growth. On the basis of this argument it can be concluded that, Botswana's development strategy of opening up to foreign investment and prioritizing infrastructure and the donor's response to support infrastructural development and to sustain technical assistance were in the right direction, and it was probably this combination which was lacking or not sustained in many other African countries. Analyzed from institutional perspective, a number of state management interventions (such as mobilization of financial resources, development planning, prudent macroeconomic management, and democratic system of governance, and overall state competence capacity), became increasingly regularized, bureaucratized, and professionalized, as elaborated upon below, starting with creation and management of special funds.

The Creation and strategic role of Special Funds was one of the most important institutional aspects of Botswana's growth promoting interventions and overall development management strategies (Harvey & Lewis, 1990). Like many other open economies relying on one or two primary exports, Botswana's revenue can be volatile, and tended to grow in a series of discrete steps. Government tried to minimize such disruptions and to avoid a "boom, and bust" cycle in the government budget by taking a long-term view of revenue trends and attempting to stabilize expenditure around a sustainable growth rate. A number of measures were taken to achieve this and these measures continued to be useful and instrumental for enhancing sustainable development during the budget deficit period when revenue lagged behind their trend level. First, in an effort to anticipate problems and opportunities, three funds were established to provide for stabilization reserves, public debt service, and local development opportunities (Faber, 1997). These measures were taken after the first year of budgetary independence in 1973 anticipating that having achieved domestic responsibility for spending, it was important to develop vehicles for prudent management. A brief account on the modus operandi of reserve funds is useful for appreciating institutional dynamics of this innovatiom.

The Domestic Development Fund (DDF) has been the key domestic source of funding for development projects. Money intended for capital expenditure together with finance from external funding agencies, was first paid into the Domestic Development Fund and then paid out of it to meet approved capital project expenditures. The Development Fund helped the government to avoid costly delays in project implementation by, for example, allowing donors' funded projects to go ahead on a reimbursement basis, and it was also effective in integrating foreign aid into annual budgets – a practice that has enhanced local/national ownership of donor funded development programmes/projects (Maipose et al 1996) The Revenue Stabilization Fund (RSF) helped to even out fluctuations in revenue trends and accumulates assets from budget surplus. The idea is to run a budgetary surplus in good years to accumulated assets that would be run down in deficit periods. Volatility can be detrimental to growth in several respects. Botswana has maintained very high fiscal discipline – exceptionally for many years to avoid problem associated with volatility. For example, the Revenue Stabilization Fund had not been used regularly for the main purpose for which it was overtly founded. For sixteen years prior to the 1998/1999 financial year – a year of the first budget deficit after many years of budget surpluses - the government recorded budget surpluses and built up cash balances at the Bank of Botswana, which had their counterparts in the accumulation of foreign exchange reserves that the Bank invested and managed (Setlhare 2005). These savings – a form of reserve funds – were used to finance budget deficits in 1998/99 and 20002/2003 financial years, thereby avoiding inflation forms of deficit financing. Hence, the significance of the Revenue Stabilization Fund – a long-term strategy for evening out fluctuations in revenue and for managing resource booms.

The Public Debt Service Fund (PDSF) was earmarked for debt servicing thereby avoiding arrears as well as debt crisis. The money from this fund was used to lend to public enterprises and combined with state-owned financial institutions to make the government become almost as big a lender as commercial banks (Faber 2001). The high level of foreign exchange reserves is a result of a deliberate policy to accumulate as much as possible for unexpected changes regarding the balance of payments. Established in 1973, the main purpose of the Public Debt Service Fund was to receive and safeguard moneys made available to it or earned by it, and the fund was to be utilized to meet in whole or in part, future payments of debt charges to be made 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 mainly because it operated as a form of investment bank but which did not behave like one because it had no staff of its own; it had revenue, largely with no expenses; and it was possessed of very substantial asserts but no liabilities (Faber 2001:314). 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).

A related important strategic institutional orientation that positively subsequently affected policy choices to note is that all these special funds (which could be seen as budget surplus funds) including foreign exchange surplus were invested to generate more financial resources, building financial asserts. The significant increase in the non-mineral sources of government revenue, especially since 1989, is primarily due to government investment revenue. Bank of Botswana profits (mainly profits from off-shore investments) are now one of the major sources of government revenue. Effective economic management was also reflected in progressive adjustments of the exchange rate to encourage other sources of foreign exchange earning. The government explicitly pursued a counter-cyclical policy in the management of foreign exchange reserves and government 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. Seen 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 who advocate for more state spending on social services and employment creation) the temptation to spend reserves was avoided. Regardless, the decision to adopt the principle of sustainable government budgeting demonstrates effort to anticipate problems and opportunities and proceed to take measures to deal with the situation rather than wait to be "forced" by donors or economic crisis. It is clear from this brief account that reserve funds have enabled the country's development effort to proceed uninterrupted for many years, including the financial covers during the two years of fiscal deficits that had been recorded in 1999 and 2001. This leads us to reflect on a related aspect of Botswana's fiscal policy and its implications for poverty reduction – government as the main agent in savings and investment in the country.

Government as the main agent in Savings and Investment

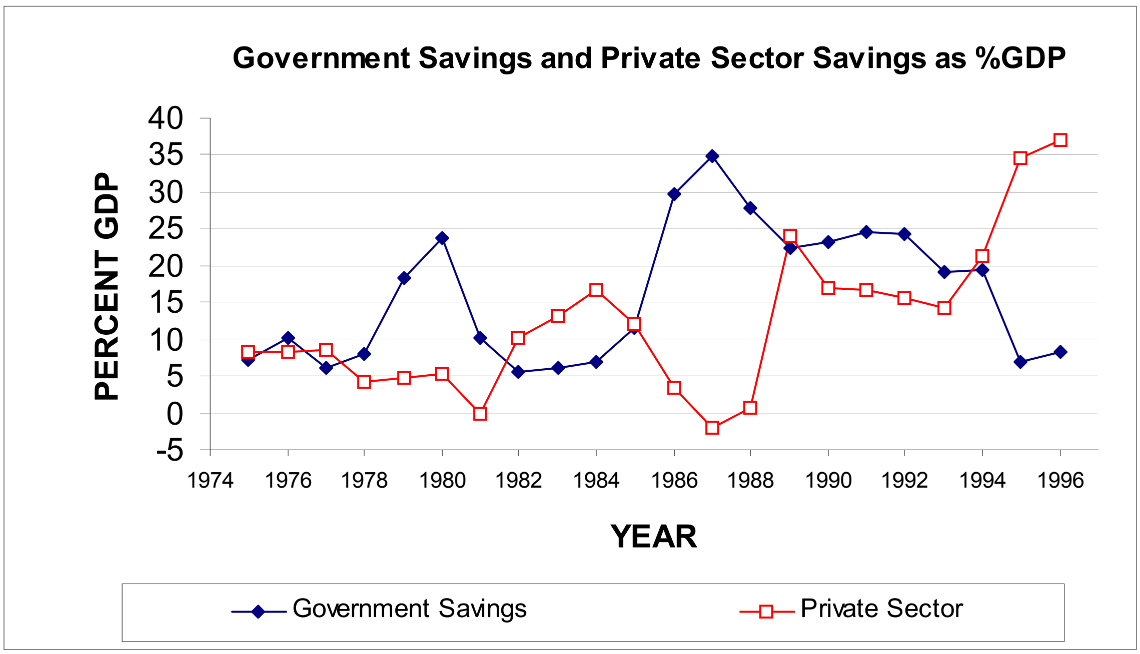
Before a comprehensive National Strategy on Poverty Reduction (NSPR) was formulated in 2002 and adopted in 2003, the government's approach to poverty reduction has for many been to stimulate broad-based economic growth through sound macroeconomic management, employment creation and attraction of foreign direct investment as already noted. Fiscal policies – expenditure, lending and to some extent tax measures, have been the main avenue via which "windfall gains" are transmitted to the rest of the economy. Thus, fiscal revenue and expenditure trends reflected a coherent view of development and priorities in government policy including how to facilitate the role of the private sector throughout the 1980s and 1990s. All the three main sources of income - customs union, minerals and aid grew rapidly and the peak in aid inflows was attained before it declined in relative terms and replaced by earnings from foreign exchange reserves. On expenditure side, the government has been rather cautious despite its enormous revenue base, resulting in budget and trade surpluses throughout this period (Figures 2.3; and 2.4). Although afraid of turning rapid growth into an inflationary spiral, the government did relatively well in building socio-economic infrastructure and developing human resource without which little growth would be achieved and sustained. It is therefore imperative to analysis direct role of government in domestic savings and investment by reflecting on figure 2.1 above and analyzing trends in figures 2.3, 2.4 and 2.5 below.

It is clear from figure 2.1 above that while domestic savings as a share of GDP was negative in mid-1960s and inflows of foreign aid and foreign investment into the country increased the contribution of domestic savings to investment rose significantly during this period. Actually, it was during this period that domestic savings began to exceed domestic investment. Domestic savings financed almost all of Gross Fixed Capital Formation for the first time in 1984, even though capital inflow remained positive.

Another important aspect worth noting is the extent to which the high investment rate in Botswana was supported by a similarly high savings rate, and also the extent to which domestic savings grew impressively in the post-1984/85 period – rising from 16% of GDP in 1975 to 45% in 1995/6 (Figure 2.1). It is also clear that the country has been prone to volatility in the savings and investment trends, a pattern mainly associated with changes in the volume of activity in the mining sector – the main engine of growth – and this correlated with the GDP growth rate changes (figure 1.1). However, the country's average savings rate was much higher than the African average and any other country in the world except Singapore (Appendix B), and savings have been dominated by the government.

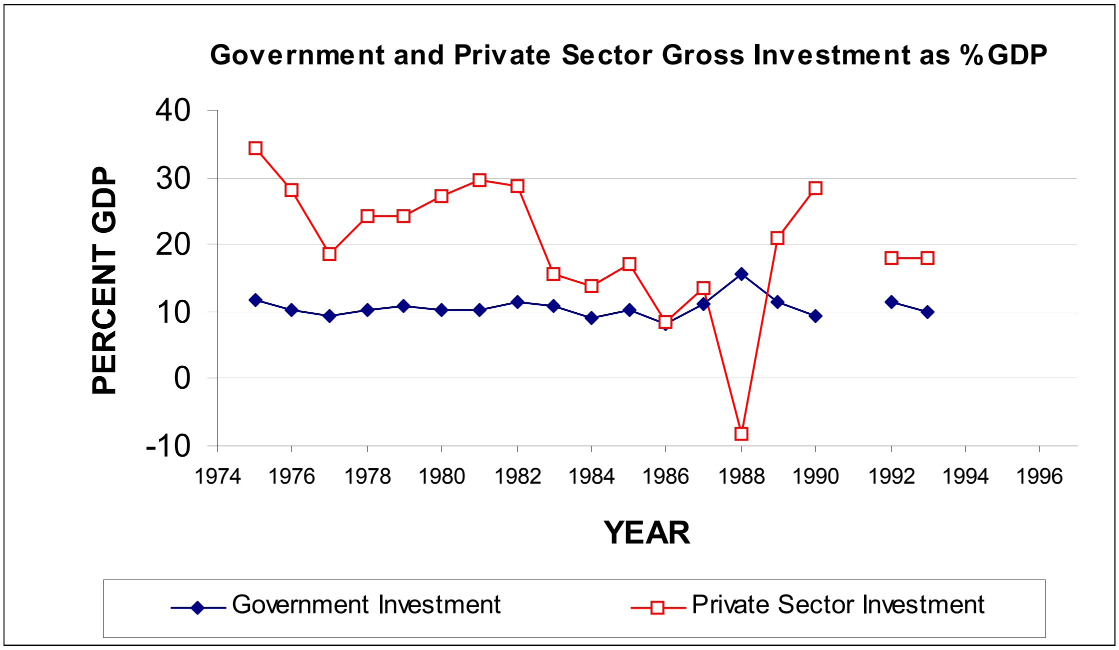
A Break down of sources of growth in savings and investment as shown in Figures 2.3, 2.4 and 2.5 (which have been worked out from the Bank of Botswana data in Appendices B and C) give us a rough but useful insight into how savings and investments have influenced economic growth and also the role of the state vis-à-vis the private sector in that process. Interestingly, it is the government – not the private sector – that in Botswana was the major source of investible funds until quite recently (Figure 2.3).

Figure 2.3



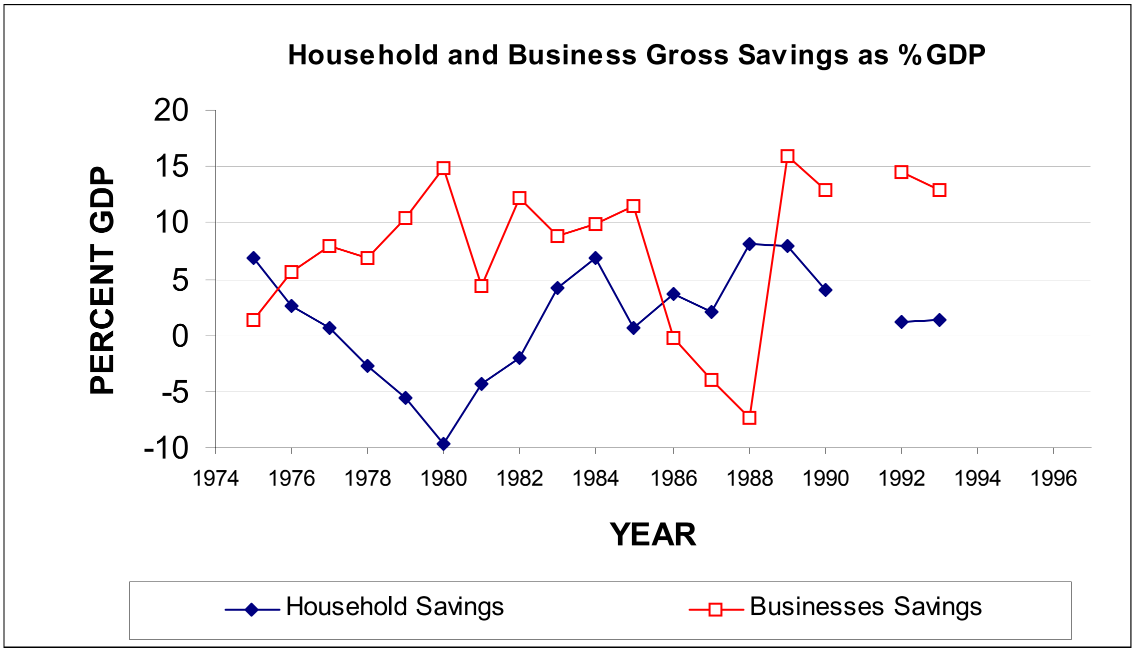
It is also important to note that there has been a significant change in the composition of savings from 1994 – largely accounted for by the private sector, while public sector savings declined. This was a positive development and it was envisaged following the adoption of the Financial Sector Development Strategy in 1992 which, among other policy instruments, led to the maintenance of positive real interest rates and introduction of attractive Bank of Botswana Certificates (BoBC) as the key intermediate target or objective of monetary policy. It was during this period that policies for savings mobilization were effected (Motsomi, 2001; Reinke, 2001; Siphambe, 2007). The mobilization of savings from the private sector became increasingly important in order to sustain growth rates, especially in view of the projected emergency of government budget deficits and the subsequent decline in the level of public sector savings (Motsomi 2001:87).

Figure 2.4



With regards to investment rate, the role of government can be described as relatively consistent and stable to ensure provision of basic services and infrastructure, and it has also been facilitative for the private sector as a source of investible funds, because the government which has been a major saver in the economy has had fairly low investment as compared to high and also widely fluctuating private sector's rate of investment (Figure 2.4 and Appendix C). It is basically this situation – a scenario of an interventionist and facilitative role of the state – which puts the Botswana government in a dominant position in the economy, seen as a conduit through which the vast financial resources (released mainly through the mining sector) have been channeled into the general socio-economic development of the country. This appear to have had significant direct and indirect impact on poverty reduction given the rate at which employment opportunities were created and sustained as partly reflected in table 1.1 and appendixes A and B. This strategy continued to be followed for much of the post independence period until it was modified in the 1990s – a period of relatively slow growth and government savings began to decline with significant reduction in employment opportunities, while the private sector saving increased significantly.

Figure 2.5



Looking at the source of private sector savings, it is clear from figure 2.5 and Appendix C that household savings has been quite low compared to business saving – a unique pattern because in many developed countries households savings sector tend to dominate savings, releasing investable surplus for the business and public sectors. We do not have latest national account figures to see the current trend, though there has been positive development following deliberate policies for savings mobilization as noted above. However, a situation in which government dominates savings is not a sustainable pattern. Hence, the need to activate household savings (Bank of Botswana 1997). The government has since put in place policy measures (such as attractive saving rates and issue of Bank of Botswana certificates) to increase private sector, especially household savings. Expectedly, the impact on private sector has been positive and the trend has been reversed from mid 1990s in a sustainable direction (figures 2.3 and 2.5).

The importance of government in the "public-private sector divide" was linked to initial pivotal role in undertaking certain crucial tasks in the absence of a significant modern private sector, and in providing basic public infrastructure. This type of development strategy led to the dominance of government in the economy. Interestingly, the ratio of total government spending of about 35% GDP was in mid 1990s and even now similar to that of many developed countries, but the share of income transfers as a percentage of total government expenditure has been proportionally very small – actually almost insignificant in Botswana and yet it is the income transfers component that is conventionally to income poverty targeting. Information based on IMF data for 1992/93 and taken as given from analysis by Wright (1997:152) is penetrative. It compares Botswana to "typical" economy from each of Europe to which Botswana's ratio of total government spending to GDP was somewhat similar and Africa with smaller ratio. At the aggregate level, expenditure GDP ratio is somewhat similar to that of many developed countries, but the composition of specific items of expenditure in Botswana differs significantly. In developed western countries a far greater proportion of government spending is due to income transfers, while the direct involvement in economic activities (as measured by capital formation, intermediate consumption and wages and salaries) is relatively low (Wright 1997). Thus, in addition to the greater extent of transfers, the European case is characterized by smaller – both of expenditure and GDP – spent on wages and salaries, intermediate consumption and capital expenditures. In Botswana the reverse is the case, and the government has tended to spend more for other categories of social services, such as education, health and water services which are closely associated with human capital development, thereby attacking poverty from the capability angle. The composition also differs from the African countries. Botswana differs from the general African case by almost negligible spending on debt interest payments, as well as a smaller share of total spending going on wages and more on intermediate consumption and spending on capital goods, including Seed capital provided through Botswana Development Corporation (BDC) and other parastatal companies (public enterprises) that have played a major and generally successful role in stimulating development of private business across a range of sectors. This pattern reflects financial constraints, which elsewhere in many African states, have resulted in a squeeze on investment and spending on goods and services, but less so on labour costs. Given this orientation, the Botswana state can be described as developmental – certainly facilitative of the country's sustained development, and the country has done very well in human resource development which is briefly highlighted in what follows bellow.

Human resource development and mobilization are very critical for any country's development growth. Development and innovation are ultimately by people, for people. The Botswana state has conducted itself relatively well in this respect. Until quite recently – following the adverse consequences of the HIV/AIDS epidemic – the country has been rated among the highest levels in developing countries in the UNDP Human Resource Development index since 1992. Except for life expectance that has been reduced by HIV/AIDS epidemic, the country is still highly ranked among developing countries – using conventional indicators of human resource development, such access to education, health, water, sanitation as already indicated in table 1.1 in the introductory section. Thus, the capability aspect of the poverty agenda has been relatively well managed and many children of the poor have avoided or they are likely to escape poverty. One of the paradoxes of Botswana's success development story is, as already noted, that the rate of growth was exceptionally high and yet there was extreme shortage of skilled/educated manpower. Again, it is insightful to reflect on the role of the state management capacity in dealing with inherited manpower constraint. As already noted and briefly picked up again in the section about specific management factors, , manpower constraint did not seriously affect economic growth partly because of the way Botswana has managed foreign aid technical assistance – integrating it into national planning and budgetary structures; and partly because Botswana avoided rushing into "Africanization/localization" as a matter of deliberate policy (Maipose at al. 1996).

The strategy was oriented towards increasing technical sophistication and professionalization of government. The institutionalized practice of intergrading aid into national management structures entailed that foreign technical assistance or foreign operational experts, usually known as expatriates, were also integrated into and occupied line positions rather than advisory positions with a guideline not to localize fast enough until qualified nationals were available. Against the background of commitment to training Batswana domestically and overseas, the post independence 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 citizens as soon as possible, but for other positions, localization was designed to proceed gradually and systematically, replacing expatriates only when locals have acquired the qualifications and experience necessary to do the job (World Bank 1984 Somolekae, 1998). It should be added that key ministries, such as the MFDP, relied heavily on long-term expatriates for a long time – for almost two decades after independence (Somolekae, 1998:50). This strategy helped to avoid patronage through a bloated civil service (Stevens, 1981; Maipose et.al 1996) and it enhanced professionalization of the public sector. Against this background, it is also not farfetched to understand and appreciate why good management practices, especially prudent economic management, have been relatively well institutionalized in Botswana than in many African countries which rushed the process of localization; and the country can now boast of having merit-based and strong public service machinery. Thus, the astounding success of Botswana, in marked contrast to many other African countries, is testimony to the efficacy of foreign technical assistance and professionalized local civil service. This was mainly because Botswana consciously eschewed concern about "Africanization" and systematically hired foreigners into senior civil service positions and replaced them with trained nationals when they were ready.

The cultural and historical context of human resource mobilization and development is also important to appreciate Botswana's growth orientation in this respect. Why did Botswana political leaders insist that localization should not take precedent over strong public management professionalization of government? The policy was repeatedly justified, but the main explanation has historical significance, more or less along the manner in which the 1972 Income Policy, Labour law and discipline were contained by a combination of measures. Botswana government leaders have tended to respect views of experts, largely liberal economists in line with their ideology and partly because Botswana has a long tradition of using and trusting friendly outsiders/foreigners according to their perceived national interest (Lewis 1993:22; Maundeni 2001:144). Because it was traditionally normal to work and trust knowledgeable and qualified foreigners, Botswana leaders pursued a slow but smooth localization policy, enabling nationals to acquire the necessary skills and experience – a wise staff development policy that exploited legitimate ambitions to give progressive responsibility to persons who had the capacity for it. According to Somolekae (1998), the Botswana 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. Relatedly, Botswana labour laws have been and continue to be extremely restrictive and relatively effective in the sense that strikes are not tolerated (Leith, 2000) and there has been no legal strike I have been aware of for almost two decades and it is not uncommon for striking workers to be sacked. To avoid the job effects of excessive minimum wages observed elsewhere, the level was to be set, and until quite recently, wages 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 2000:37; Maundeni 2004:31-32).

Industrial and private sector development initiatives that the Botswana state has consistently promoted are many – a clear indication of government deliberate policies and strategies in this direction. As already noted, this is in line with its ideological orientation and fundamental economic planning objectives, especially the objective of sustained development which regards economic diversification as the key for the other objectives of rapid economic growth, economic independence, and social justice. It is not possible to cover all government initiatives for enhancing wider private sector participation in the economy, including policies and strategies specifically for citizen economic empowerment. What needs to be noted to paraphrase Simphambe (2004:14) is that Botswana is regarded by international community as one of the few African countries that has consistently tried to put in place the required institutions, policy and regulatory frameworks, not only for attracting foreign direct investment (FDI), but for the development of the prate sector. Seen as an integral part of the overall strategy for poverty reduction, industrial and private sector development initiatives are encouraged as viable productive activities that can maintain economic growth and create sustainable jobs.

Citing a few of such deliberate state initiatives may be illustrative. Established in 1970 as a custodian of public business entities in the joint ventures, the Botswana Development Corporation (BDC), which is a public-owned non- bank financial institution, can be described as the oldest public organ that has been instrumental in the nurturing and development of private sector enterprises. Since its establishment, BDC has continued to play an important role in sustainable economic diversification and private sector development in the form of both loan and equity financing, and has been involved in joint venture operations in different sectors of the economy – manufacturing, industrial, hotel and retailing, real estate, etc. The National Policy on Economic Opportunities of 1982 contained measures to improve the participation of Batswana in economic activities, while the Industrial Development Policy in 1984 focused on promoting economic diversification. Financial support programmes, such as the famous Financial Assistance Policy of 1982 which was reviewed four times (1984; 1988;1995; 2000) and the programme that replaced it – the Citizen Entrepreneurial Development Agency (CEDA) have shared a common objective of facilitating the development of enterprises that produced tradable goods (either exports or import substitutes) and creating employment opportunities. So has been the role of the Support for Small, Medium, and Micro Enterprises (SMMEs). In the export market, Trade and Investment Promotion Agency (TIPA) was established in 1984 and this was replaced in 1999 by 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 venture partnerships. 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. For this purpose, it is insightful to reflect on the Financial Assistance Policy (FAP) and its off-spring – the Citizen Entrepreneurial Development Agency (CEDA). They are the most widely cited initiatives that have been reviewed and reports are readily available. The Financial Assistance Policy (FAP) was launched in 1982 and its main objective was to develop new and expand existing enterprises in order to stimulate the growth of employment and to diversify the economy, especially in the manufacturing sector. The scheme provided short-term grants to new or expanding businesses – initially taking the form of labour and capital subsidies, tax holidays and training subsidies. The amount of finance available varied according to the location of the project/enterprises, with rural areas receiving greater encouragement. Although the form of FAP assistance policy changed over the years, it remained centred on subsidies – mainly grants and encouraged entrepreneurial development and employment creation. The demand or response was high. For example a total of 1320 projects had been approved by the end of 1986 with the expectation of creating over 12,000 jobs; and these figures trebled by the end of 1995 (BIDPA, 2000). The programme was reviewed and evaluated four times – 1984, 1988, 1995 and 2000 – and the first three of the reviews supported the continuation of the programme, arguing that the scheme was achieving desired results especially for textile industries which diversified Botswana's exports, though abuses were also noted (Siphambe 2007). The last review identified many problems and widespread abuses as well as high failing rates among small FAP-assisted projects and 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 free subsidies and widespread abuse – concluding that FAP was no longer cost-effective and that it was not achieving its objectives and it was counter-productive by creating a sense of public dependence on government. The programme was abolished and it was replaced by the Citizen Entrepreneurial Development agency (CEDA) – targeting citizens only.

CEDA's main objective is to develop sustainable citizen owned businesses to create employment and to diversify the economy. Financial support is provided in the form of subsidized loans and risk sharing so long the proposed business is viable. Compared to FAP, CEDA provides subsidized loans (not free grants); projects must pass set business evaluation criteria; and it targets citizens only and quite recently joint ventures between citizens and foreigners as from 2003. By the end of 2004, over 1200 applications had been approved, creating over 7,000 jobs. CEDA's impact has been assessed as "encouraging and much better than FAP" (MFDP 2006).

It is not possible and it is not our intention to review how government policies and strategies for private sector development and citizen empowerment have worked, but it is clear that the Botswana developmental state has deliberately pursued the policy of private sector development in line with its ideological orientation and institutional setting. As discussed under the political economy dynamics above and picked up in the concluding section, private sector development has enlarged and diversified Batswana's business interests – initially rooted in the cattle industry to include commerce, industry, real estates, etc individually or in partnership with foreign capital. There is no doubt that this orientation in development policy has affected poverty reduction positively, at least through creation of employment opportunities This leads us to a crucial question about the role of the Botswana developmental state in economic management. The crucial question is: what are the institutional factors, which accounted for Botswana as a successful developmental state so far, and what are the common challenges and lessons?

State Management Capacity and Implications for Poverty Reduction

The analysis of developmental orientation of government, especially its management capacity and implications for poverty reduction is explored illuminating key institutional aspects of Botswana's development management, such as development planning, macroeconomic management, state extractive capacity, and good governance aspects. The explanation for Botswana's "success story" and the outlook for the country's future prosperity tend to oscillate between emphasis on the "good luck" factors, on the one hand and emphasising the "good management", on the other hand (Harvey & Lewis 1990:6-7; Tordoff 1993:282). The current President (when he was the Vice President) reasserted this observation in his address to the International Conference on Southern Africa and East Asia in Gaborone, January 1991. He observed that:

> Indeed, while it is recognised 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 recognised by those who are well acquainted with our country that we have striven with good effect to minimise adverse consequences of the 'mineral led economy' syndrome (Somolekae 1998:29).

It must be added that the two factors -- "good luck" and "good management" -- are inter-related, but independently constituted. To start with, the achievements owed something to "good fortune", but more to careful or "good management" (Tordoff, 1993:282; Leith, 2005). Some other countries which enjoyed a windfall of resources immediately after independence (such as Zambia and its copper, and Nigeria and its oil) did not perform nearly as well as Botswana did (Harvey & Lewis 1990; Maipose et al 1996:440-441). Indeed, the reader does not need to be reminded that in some African countries such as Democratic Republic of Congo and Angola natural "fortunes" were either transformed into personal riches and externalised into personal foreign bank accounts or/and mismanaged and dissipated into regional/civil wars. The important lessons and challenges for the region seem to be less about the "good fortune" factor than the elements of "good management," and these are analysed in the next paragraphs.

The elements in the good luck factor are basically four, though a detailed survey could reveal some other complementary issues. These are: inflow/impact of foreign aid; the national mineral endowment, particularly diamonds; the production and marketing of diamonds within the most durable and successful producer/marketing cartel run by De Beers, the Central Selling Organisation (CSO); and small and basically homogenous population. The “good fortune” element in terms of the natural mineral endowment or exploitation of mineral worth, such as copper, oil, gold and also diamonds, applies also to many African countries. However, the diamonds marketing cartel under the control by De Beers (unlike for copper and oil under their respective producer organisations) has now been in a continuous operation for over six decades; and it is one of the most successful commodity buffer stock arrangements in the world and it is also the most durable producer cartel (Jefferis 1998:306-308). Botswana has not suffered an extended period of depressed demand and low prices of diamonds and has enjoyed political stability since independence. This aspect goes a long way in explaining why "diamonds are forever" in Botswana, at least so far. However, it is probably rather naive, certainly not realistic, to compare Botswana's diamond-led boom with copper-led and oil-led booms in Zambia and Nigeria respectively. In these countries poor economic performance has been partly attributed to a variety of adverse external shocks and more particularly depressed export earnings for decades or, at least, many years. One can not avoid to acknowledge the extent to which a sharp fall and extended period in copper prices caused havoc with Zambia’s development efforts. This 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. This may be qualified as “bad luck” for Zambia. In fact, Botswana has had “bad luck” too – serious profitability problems with regard to the BCL copper-nickel and soda ash mining, which commenced operation in 1973 and 1991 respectively. These projects have been a drain on government revenue during many years of their operation (Gaolathe 1997:409).

With regard to foreign aid Botswana, like all Sub-Saharan African countries, has been a long term recipient of foreign development assistance. As an aspect of “good luck”, the country has had 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 et. al 1996). But unlike the situation in most African countries, which have become increasingly dependent on aid with disappointing impact, Botswana has managed its aid resources effectively and sustained economic growth with decreasing dependence on aid (Steven 1981; Carlsson et. al 1996; Maipose et. al 1999). The main points is that the experience in other African countries with diamond endowment and aid inflow but have governance problems, such as the war torn Angola and Sierra Leone, has been quite different. Many ordinary citizens do not know who benefit from the "diamonds fortune" in those countries and few benefits from foreign aid.

In terms of country size, Botswana is a large country - mainly arid and drought is a regular occurrence with scarce arable land - conditions that make communication difficult and agriculture a precarious undertaking. The country’s population is quite small and although there are different tribes (seemingly dominated by Tswana speaking) the population looks largely homogeneous at least in the sense that 'tribalism' and 'sectionalism' are not sharply used to explain electoral behaviour and leadership competition in Botswana. With these observations one can appreciate, to some degree, advantages of "small country" effect in key macro-economic indicators, and managing of people relatively easier than is the case in large but ethnically divided populations in many other African countries. This background partly explains factors behind high GDP per capita, frustrations regarding broad/agricultural-based poverty reduction strategies, while multi-party political system and good macro-economic management contained various interests - thereby managing not just the country's wealth but also the diversity of its people. Thus, the context of the "good natural fortune" is crucial.

Additional elements in the "good luck" factor relate to the benefits derived from the country's close economic ties with South Africa. Botswana has no debt burden because of two main reasons. First, and foremost, this is due to diamond "windfalls" and how this has been managed. The second explanation related to how the economic status of the country has changed during the post-independence period. The country has progressed from being classified as very poor country at independence to middle-income status in the mid 1990s with positive implications of the country's debt profile. When the country was classified as a least poor country, nearly all Botswana's foreign aid was in the form of grants complemented with very concessional loans. Further, the then cash-trapped country could not have resorted to increase trade taxes (even for import-substitution industrialisation), and inflationary money printing option. Mainly because the country's membership in Southern African Customs Union (SACU) and the Rand Monetary Area restricted its discretion in trade and monetary policies, leading to no internal public debt. Thus, following the country's graduation to the middle income status, Botswana has had a very low external debt burden and the profile of that external debt was basically that of a poor country. Fortunately, debt – servicing or choices to repay – takes place when Botswana is a prosperous middle-income country. Given this situation, debt service costs has not impaired the ability of the Botswana government to operate normally and the country can even choose whether or not it makes economic sense to repay off its external debt. This again may be contrasted with Zambia, which was a middle income country in 1960s and 70s. She could not qualify for concessional loans, and borrowed from the commercial windows including preferred creditors (such as the World Bank and the IMF) who until quite recently never rescheduled/cancelled their debt. Much of the acquired debt was short-term in addition to increasing internal debt – all in the hope of copper prices recovering soon. As an aspect of "bad luck", copper prices remained depressed for long time. Unfortunately, Zambia had debt profile of a middle income country and had to service or repay its external debt when the country, ironically, had been reclassified among the poor countries of the world. Although Zambia is among the African countries that have befitted from debt relief and is doing relatively well under the new environment of new policy regime and reformed institutions, the point is that debt-service costs can impair the ability of the borrower to operate normally.

The arguments above give some rough indication of the relative importance of the "good luck" factor elements and the extent to which Botswana exploited them to national advantage - illuminating significance of policy choices and context of “good fortune”. Many of these "good luck" elements constitute the context or experiences, which may be or may not be applicable to other countries. How Botswana has taken advantage of the favourable events and other aspects, which constitute "good management" or importance of policy choices factor is the primary concern of what follows.

The elements in the Good Management factor are many and basically different, though inter-related. These are the experiences of Botswana which offer many practical lessons and pose challenges for the region. It is one thing to have "good fortune" or receive windfall foreign aid resources, and it is another thing to put one's fortune to good use. Indeed, many of the favourable events -- the "good luck" elements discussed above -- could not, on their own, have transformed Botswana at all. They had to be exploited to national advantages. Experience elsewhere and analysis of Botswana's development policies suggest that the *quality of domestic economic policies* that a government pursues and quality of institutional context of public governance have an inordinately greater influence on a country's economic and social progress than any form of "good fortune" 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). What follows is in the nutshell an account of "managing good fortune" by the state in Botswana (1998) and this is regarded by many analysts as the most important factor in explaining the country's success story. It brings to the surface the key lessons and challenges drawn from Botswana’s experience.

Significance of Tradition and History on post-colonial institutions and attitudes appear to be critical to understanding modern Botswana institutions and some policy choices. The pre-colonial Tswana culture regarded state leadership as crucial to the process of accumulating wealth and centrality of the state was promoted to facilitate economic accumulation as a worthy state function and redistribute, thereby having an interdependent relationship between the state and economic owning class (Maundeni 2001). The Tswana chieftaincy was, according to Wylie (1990:32) “the trunk from which new leaves sprouted and was the “wife”, milk-pail and “breast of the nation”. The point that has already been made and needs repeating here is that state-led development strategy appears to have blended well with pre-colonial Tswana political theory regarding state role, leadership and the intimacy of political and economic elite. Political and economic powers were interdependent (Wylie 1990; Good 1993) and this is analytically evidenced “by the use of the term *kgotsi* for both Chief and rich man” (Wylie 1990:23).

Relatedly, consultative process which underline Botswana policy making process including managing of negotiations and contracts are firmly established within the traditional institutions, such as the *kgotla* where there was an opportunity to express one’s view and a need to achieve a degree of consensus. We have also already noted that the use of expatriates with relatively high degree of trust conforms, to some degree, with Botswana’s “long tradition of using friendly outsiders to help cope” with problems

(Lewis 1995; Maundeni 2001). To illustrate this point, Lewis cited how "the three principal tribal chiefs took the lead in proposing protectorate status for Bechuanaland" with the "help from the London Missionary Society in convincing the British government" (Lewis, 1995:22) and Tlou (1998) and Maundeni (2001:114) showed how chiefs used foreigners for required skills. Whereas many independent African governments were highly suspicious about "foreigners", the international economy and about the role of international companies and the role of free-market, Botswana had open minded view partly due to unconscious or retrospective view of past experience and because Botswana elite cattle owners had participated as partners with the Colonial Development Corporation in what looked like a good accommodation of competing interests – local and external (Morrison 1995:23).

National Development Planning and its integration with the annual budgetary process has been the foundation of Botswana's development management machinery, and the basis for managing its windfall gains -- mineral rent and foreign aid (Stevens 1981; Raphaeli et al 1984; Maipose et al 1996); and policies as well as strategies for poverty alleviation are also contained in development plans. As already noted, government expenditure and lending are the main avenues via which "windfall gains", mainly from diamonds wealth and to some extent aid, are transmitted to the rest of the economy, directly or indirectly affecting poverty. 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, and the Ministry of Finance and Development Planning (MFDP) plays a central role. On the basis of the projections underlying the Botswana macro-economic model (which includes forecasts for economic output and growth, employment, foreign trade, government revenue etc.), MFDP derives three main ceilings for the public sector. These are the skilled labour ceilings; the recurrent expenditure ceiling (which in recent years must be financed out of recurrent non-mineral revenue) and the development expenditure ceiling (Jefferis 1998). Initially, the National Development Plans were constructed around the programmes and a "shopping list" of projects for which finance was derived from own current income, mainly mineral rent or sought from donors. For effective aid management and co-ordination, the 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 elsewhere in Africa where donors have allegedly "imposed" or taken over design of key policies/programmes (Van de Walle & Johnston 1996). In Botswana the plan and how it is enforced ensures that programme and projects address government priorities.

We do not have to go into details about how the system works. However, it is a common view among donors and development analysts that the planning system has worked relatively well in Botswana as opposed to many instances of failure in many developing countries (World Bank 1984; Harvey & Lewis 1990; Maipose et al 1996). A review of literature on the nature of development planning and its institutional, operational and procedural relations with budgeting, suggests that a government's budget is a key instrument in converting a development plan into a programme for action (Herman 1962:319; Waterston, 1979:201). In Botswana, this is structurally enforced by putting overall economic, financial/budgetary and planning responsibilities for the government under a powerful Ministry of Finance and Development Planning 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 and it is a means of enforcing accountability. It also explains why the government has done relatively well to redistribute mineral revenue to the wider society and economy especially with regard to investment in physical and human capital and targeted subsidies without adverse consequences of the mineral led economy syndrome. Further, "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" - noting that "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 - NDP6, paragraph 2.2-3.4)

Another important aspect is that planning in Botswana, done through a broadly-based consultative system of committees from the grass-root to the top, is a more open process than is the case in many other African countries, with the ruling party, interest groups, the private sector and parliament sufficiently involved in plan preparation. The resultant plan is above all not a 'planner's plan' because many stake holders including politicians feel committed and the government tries as much as possible to avoid the temptation of introducing major project not incorporated in the original plan and can refuse foreign aid if it does not meet national priorities (Hopkins 1994). As already noted, operational success of development planning in Botswana is partly explained by traditional and historical aspects. Even in early stages when plans were centrally conceived, there is evidence to show that policies were and continue to be realistically rooted in the tradition of the people and this has broadened participation in policy and planning initiatives. Thus, participation poverty does not seem to be pronounced or entrenched deprivation in wellbeing of Batswana given the participatory institutional provision for planning and policy making initiatives. A case in point is again the relevance of the *kgotla* institution through which traditional leaders consultatively made and legitimized policies, because it provided the community a forum to express one's view and a need to achieve a degree of consensus. Openness and consultation were always essential and this was 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). It 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 Cabinet, created during the Transitional Plan soon after independence, continues to function even today and the committee is made up of permanent secretaries and their ministers. It is a forum where both sides sit and deliberate on policy matters – ensuring that politicians and experts keep each other 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 of what is going on and bureaucrats learn something including about what constraints and worries the political leadership might be having (Somolekae 1999:33). Another important and related institutional development was the creation of a National Economic Advisory

Council to ensure that the non-governmental sector could not be left out of the planning process. It may be true that poor people have not been able to put their interests on the public agenda – tending to count on the benevolence of others to have their issues dealt with in public policy and spending given the extent to which the bureaucrats have tended to dominate the planning and policy making process in Botswana (Somolekae and Hope, 1999:). However, one van argue that given the given the nature of the participatory institutional system in place, the crucial issue is not so much about institutional weakness or lack of provision, but how to operationalize it effectively and probably how to redesign the institutional arrangements to make the life support system of the people, especially for the poor, both competitive and equitable.

Another important institutional aspect to note is that the Ministry of Development Planning in Botswana has been politically and administratively powerful. Until quite recently, the ministry was politically headed by the Vice-presidents and heads of each of the four main divisions, known as Directors, are of permanent secretary rank while the permanent secretary in the ministry ranks above the rest of the permanent secretaries within the entire government civil service structure. The practice of putting political and administrative leaders of unquestioned authority at the top of the ministry proved relatively easy to impose the necessary discipline to ensure that priorities are respected and targets vigorously pursued. Sr Quett Masire, the vice-president until 1980 (when he became the president) had considerable political weight and enjoyed the respect of civil servants who, like ministers, have had a good deal of career continuity with some officers going up to over twenty years (Maipose et al. 1996:51). At political level for example, the Ministry has had four ministers since independence – Masire, Mmusi, Mogae (the current President) and now Gaolathe. Whereas in many African countries donor representatives may see key ministry positions change hands several times, the Botswana civil servants watch heads of donor agencies come and go. Clearly, development planning has been successful in Botswana for many reasons partly rooted in the country's tradition, history and how competence was acquired through trial and error experience, and quality and commitment of the country's leadership within the general context of conducive governance institutional framework as reflected upon in what follows bellow.

<u>Good governance record</u>, underlined by the nature of Botswana's political system and the quality of its political leadership, is another important institutional factor which explains good management. The development of a stable and relatively non-corrupt multi-party democratic system of government, coupled with good leadership quality, entailed putting in place administrative system that provided an enabling environment for development. It also reinforced national vision in government plans and helped ensure accountability. Compared to rapid growth under authoritative regimes in china and the Asian Tigers and new fragile/emerging democracies in many African countries, multi-party democracy in Botswana seem to have been institutionalised. The ruling party, in power since independence, has had unimpeachable electoral legitimacy, the product of fair and honest regular elections (Appendix A), and the main opposition party has continuously shared in the exercise of political power at local government level where it has controlled some urban towns including the capital city since the 1980s. This situation, in our view, seems to be a continuing vote of confidence in the ruling party, its leadership and policies.

Some critical political observers, such as Ken Good (1997; 2000), have interpreted continuation of one-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 where governments did not change for a long time, such as Italy and Japan, and this in Botswana is probably one of the main reasons for explaining sustainability of political stability and good economic management in Botswana. Further, regional experiences of government changing hand peacefully in Zambia, Malawi and Kenya cannot make the ruling BDP complacent at all. The increasing trend of the popular vote of the combined opposition is a serious threat to the predominance of the ruling BDP (Appendix A).

Given the nature of political context in Botswana we are inclined to argue that the "national fortune" has not been mismanaged and the strategy of state-led development has worked well partly because politics have been relatively free of corruption and patronage, common in many African countries. Botswana is often cited as the foremost example of a stable multi-party democracy in Africa, which maintains freedom of speech, press and association and most importantly property rights and rule-based governance. 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 the good and disciplined political leadership to moderate/limit corruption and most importantly enhance public accountability. Most of the hallmarks of a capable state (as listed by Brantigam 1996; Leftwich 1995) appear to be in place in Botswana – an African country with relatively strong institutions of governance.

The question is: Why have these factors evolved and worked well in Botswana and why has a democratically elected government in a country with a small population failed to deal with the poverty problem effectively? Again part of the answer goes back to tradition and history and the poverty issue has been in development policy agenda since independence – preferring to deal with it as part of the "economic growth and sustainable development formula" without which employment creation opportunities and attack on poverty would not be sustained. Given the democratic nature of the Botswana political system and the relatively impressive strides made in provision of the crucial social services, poverty is so much a problem of lack of participation and human capability deprivation, but more as an income problem and this is how poverty has been approached as Botswana's development challenge. The country has a strong tradition of participation and consultation at all levels of public life from the village to central government, and this has strong roots from *Tswana* custom of holding "town meetings" known as the *kgotla* which still exists and is part of the local consultative network (Lekorwe 1989:217). Many analysts and Batswana themselves acknowledge the exemplary ethical leadership and general foundation made by the country's first President, Sir Seretse Khama. He firmly established a precedent for high ethnical standards, a strong and relatively independent but accountable civil service, and a developmental orientation of government. These attributes have been carried on and built upon by his successors

(Tordoff 1993:281). Although there are cases of corruption and probably increasing (Good 1994; 2001), there are also cases of suicides (for fear of obvious consequences), resignations or dismissals (on matters of principle/accountability) and imprisonment involving politicians and government officers. The point is that state action remains largely predictable for ensuring public accountability.

Thus, the "checks" in place appear to have worked relatively well so far in Botswana. It must be added that the country has been probably luck to have produced honest and committed leaders so far. Hence, the general trust in government or the leadership to spearhead development and handle "national fortune." This emphasises the importance of good governance and leadership quality as some of the key lessons for many countries in the region. But it also raises a challenge for Botswana future leadership to hold on exemplary leadership or/and re-enforce the need for on-going strategies for empowering Batswana economically through privatisation to reduce over-dependence on government and enhance the new strategy of private-sector led development as a sustainable route. There is a strong feeling among the Batswana that the country is rich and they acknowledgingly rate it among a few richest countries in Africa, but they are also quick to qualify that the country's wealth/money is in the hands of the government and to some extent foreigners, and not the Batswana. They point to absence of many indigenous business people outside the cattle industry, disappointing high level of unemployment and noticeable poverty among the people as evidence. This perception has been partly translated into voters' choice and to some extent the size and expenditure pattern of the government budget. The 1990s marked an end to economic boom, which may partially explain why BDP did not relatively do so well in 1994 and the overall decline in the party's share of the popular vote since 1974 (Appendix A). It may also explain why government expenditure has been growing at a considerably faster rate than revenue, especially from 1998 leading to the overwhelming electoral victory in 1999 and 2004. Over the five years from 1998/99 to 2002/2003, for example, total revenue and grants have grown by 73.6 percent, while expenditure has grown by 124.7 percent, leading to budget deficits in three of these five years (Budget Speech 2003:29; Mupimpila 2005). This is illustrative of interests at work in line with economic theory of democracy – explaining the victories and defeats, the compromises and the bargains -- as the ruling BDP wants to continue ruling with its electoral dominance and indeed managed to regain overwhelming support again in 1999 and 2004 elections and the leadership succession within the ruling party went on well.

A related point worth noting is that despite the disappointing performance of the ruling BDP in 1994 election and the rise of the popular electoral support for the opposition, the government in Botswana did not impose new forms of central control or display authoritative tactics in order to regain its electoral support. But instead the government encouraged meaningful popular participation by introducing electoral reforms which could have worked against it, such as re-demarcation of electoral constituencies in 1992, leading to the increase in the seats for the urban areas where BDP support has been relatively low; the reduction in the voting age from 21 years to 18 years, introduction of an Independent Electoral Commission and limiting the presidential terms of office to two terms (Molomo 2000). By taking these reforms Botswana demonstrated, once again, its ability to operate democratic system of government successfully over a long period of time – proving that democracy is not a western prerogative and the county 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 taken on board – at least not yet (Molomo, 2000; 2003). The peaceful co-existence between the ruling party that controls and dominates the central government and the major opposition that has tended to control local governments in the capital city and some of the main towns in the country is a feature that has enriched democratic culture in Botswana, especially the tolerance of opposition. In many African states, harassment of the opposition including increased central control and authoritarian strain tend to resurface following any sense of electoral insecurity, especially in the context daunting economic problems as we have seen in Zimbabwe, Zambia, Malawi, Nigeria and Ghana, though the democratic spirit that is now so much in evidence, has not been quenched in these countries.

The country's evidence on governance is illustrative within the region. The general poor quality of governance and budgeting in many African countries led Hyden (1983) and the World Bank (1992) to note that in African countries, which are characterised by weak policy and institutional performance (weak 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 1994:3; Elbadawi 1996). Although one cannot prove that the development of a stable and largely non-corrupt democratic system of government in Botswana has contributed to good economic performance, the available evidence suggests that the two are more likely to be complementary than competing; and 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 implication for the region and in many parts of the Third World. On the positive development, many African countries have now put in place multi-party democratic systems and good governance is being enforced as one of the key conditions for getting foreign aid. On a cautious note, democracy and good governance have yet to be institutionalised – not imposed from elsewhere and the region has had reversals in countries such as Nigeria, Sierra Leone, Luanda and Angola. The point wealth repeating is that the hallmarks of good political governance have been relatively well institutionalised in Botswana, and this appears to be one of the main reasons why development has proceeded well in the country. Indeed, even poverty levels, though admittedly still too high for a country at this level of development, has been declining and it remains among the top agenda issues of a democratic and accountable government. Another aspect about the country's development, which is important to note, is the way the Botswana state has performed in extracting resource from the economy. This deserves some explanation as a separate issue.

The degree of state extractive and saving capacities, which the Botswana state has displayed, has been incredible. In fact the level of performance is far beyond what many countries have been able to do and this applies even when one compares Botswana with the countries in developed and developing world (Bank of Botswana 1998: World Bank 1999). State extractive capacity, as defined by Brautigam (1996:83) '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', and it is analytically seen as one of the four dimensions of state capacity - regulatory, administrative/managerial and technical. Some development analysts regard this as the most important elements of the state capacity mainly because financing capacity can be used to increase other forms of state capacity (Skocpol 1998:17).

Against the above background, a number of observations can be made about Botswana. The overall extractive capacity has been quite impressive by regional and probably international standard. During the period 1980 to 1996 government revenue (excluding grants) as a percentage of GDP, averaged over 50 percent - reaching the peak of 64% in 1988 and the lowest flows of 44% in 1993 (World Bank, 1995; 1999). Second, unlike most other African countries, aid represents a small portion of Botswana's national budget and is hardly significant in other key macro-economic variables (Carlsson et al, 1997:14; World Bank 1999). Financial aid as a percentage of public capital expenditure has come down from near 100 percent in 1960s (Stevens 1981) to 15 percent in 1992, and represents about 2% in the recent statistics (Maipose et al, 1996; 1999, figure 1.1). Moreover, foreign debt remains almost insignificant and the debt service ratio is about 3% of export earning. The recent development on the flow of aid is, to a significant degree, a reflection of Botswana as a "phase-out country" for the key donors who have scaled down their programmes or closed their missions with a sense of completed task, and the country was at one time listed among the new donors for the International Development Association (IDA 2000:13).

Botswana is also rather unique in terms of state capacity to save its financial asserts to finance development efforts. Unlike nearly all the recipient of aid in Africa, Botswana, in relative terms, 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, and a significant proportion of public revenue in the form of annual budget surpluses and the foreign exchange reserves have been saved - constituting off-shore capital investment or savings abroad (Jefferis 1998:38). This situation has made Botswana unusual in three inter-related respects. First, the economy has excess liquidity vis-à-vis absorptive capacity of the economy, with domestic savings exceeding domestic investment since 1986 (as already illustrated in figure 2.1) and the government has been a net saver - not borrower as is the case in many countries, while households have been net borrowers from the banking system (Motsomi 1997). The evidence for these observations are to some extent shown in figures 2.3, 2.4 and 2.5 respectively plotted from statistical data in Appendices B and C. The dominant savings position of the public sector in Botswana is a moot feature. Some people may argue that this is not a "conventional" practice and therefore not sustainable. Some other people can see this as a good attribute for a developmental state - leading saving and investment in the initial stage. In many developed economies, the household sector is the main or net saving sector that releases resources for business and public sectors (Reinke 1997). To encourage private sector savings, especially the house-hold sector, the government has broadened coverage of the Bank of Botswana certificates to attract small savers and a new funded pension scheme for public service was effected in April 2001 to afford public officers the opportunity to manage their own pension benefits (GoB, Budget 2001:3), and private sector savings have improved significantly since then (figure 2.3)..

The second unusual fiscal aspect is that all the main sources of government revenue – minerals rent, customs union, foreign exchange reserves, and aid - are somewhat denominated in foreign exchange and the tax burden/incidence does not directly fall on Batswana. In other words, there is a close link between the budget and the foreign sector, and this link may be demonstrated by over-reliance on corporate income/revenue or tax and dividends collected from companies that export mineral products, the proportion of foreign trade taxes in total revenue, the proportion of domestic sales tax or value added tax on imported goods/services, income from foreign exchange reserves, and foreing aid/grants. It appears that over 80 percent of total government revenue is directly or indirectly linked to the foreign sector – making the resource base potentially exposed or vulnerable to a variety of external shocks that have been moderated by institutional mechanisms that Botswana has put in place. This is a clear case of "windfall gain" - partly explaining the vulnerability of the whole fiscal situation and why the capable Botswana government has taken expenditure-smoothing institutional mechanism and prioritizing strategies and can also afford low income tax rates to stimulate growth with long-term fiscal pay off. The third unique aspect about Botswana is the advantage of holding one of the highest levels of international reserves in the world, equivalent to approximately 40 months of imports of goods and services as at the end of December 2001 (GoB, Budget Speech 2002:7). Income from its offshore investment/savings, as already noted, constituted the second or third major source of government income - a development which effectively makes Botswana an exporter of capital. Prospects of becoming one of the region's "financial centres" look good and again, the government has taken a lead in facilitating this transformation.

The underlying fiscal problems, which are interrelated, are the vulnerability of the budget to the external shocks and the over-dependence of the 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 (1997), to wonder whether or not Botswana suffers from a particular kind of "fiscal Dutch disease." In the 1995/96 budget, for example, mineral revenue contributed 47% of the total. Together with the revenues from the Bank of Botswana (earnings from offshore cash investment) and the Southern African Customs Union (SACU) which relies on diamond-based capacity to import the contribution was 82%. In contrast, non-mineral income tax and the sales tax accounted for 6% and 4% of the total revenue, respectively. In fact, one can observe more or less the same trend from 1989 to 2001 budgets. 'Such a tendency,' argues Wright (1997:168), 'can be characterised 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 and also to appreciate the institutional mechanism that the Botswana government has put in place to make a potentially venerable budget sustainable.

The well-known "Dutch disease" effect arises where the rapid development of one sector, in this case the export mineral sector with its substantial revenue to government, crowds out all except the most robust activities, thereby serving to hamper/obstruct new industrial/export development elsewhere, possibly on a permanent basis. That government has been aware of this danger is in doubt not. Economic diversification policies, if successful, entail broadening up of 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, and does not disadvantage, macro-economic stability and productive activities in the economy that is highly dependent on imports. The Central Bank has been able to chart the country's own monetary policies; and the need to excise its own monetary autonomy was one of the main reasons that motivated Botswana to leave the Rand Monetary Authority – common currency area – in 1976. This is in line with the goals of sustainable economic development as well as diversification for sustainable employment creations and, therefore, sustainable sources of public income. It should also be acknowledged, as Wright (1997) implies to some extent, that the government in Botswana has not ignored the development of other alternative revenue sources and this is demonstrated by the gradual extension of the scope of the sales tax since its introduction in 1982 and the subsequent decision to introduce broad-based value added tax (VAT) to replace sales tax (GoB Budget, 1997 & 2001). The main institutional mechanism that has shielded Botswana's vunerable revenue base is a fiscal policy that is consistent with growth and stability by tending to bring public spending into line with the average level of revenue expected overtime. This has actually meant running a budget surplus in good years and a deficit in periods when exports are lagging behind their trend level, or when other negative factors predominate; and a period of the commodity boom is taken as temporary and this has been observed over the years – hence institutionalized.

A related issue to reflect on is the extent to which the tax system has been pro-poor and not regressive. Since independence, at least from the start of the mining enterprises, the country's tax burden does not directly fall on the Batswana – certainly not too heavy to worry about because a substantial share of government revenue is derived from various forms of mineral rent, customs and off-shore investment earnings; and the progressive income tax system virtually excludes most of the low income people from paying tax (). Further, the Value Added Tax (VAT) was designed not to cover or was revised to exclude basic goods and services from taxation; and the agricultural sector, where majority of the poor households live (both as employees and self-employed households) is hardly taxed in the sense that many are exempted and the sector is highly subsidized (). To encourage savings and stimulate investment and growth in the economy, the government in 1994 and 1996 reviewed the structure of income taxation. It reduced the top marginal rate of personal income taxation from 40% to 25% and the rate for businesses, which qualify for the status of manufacturing operations, is only 15%. While this 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, and this would eventually widen the tax base and increase revenue. The tax reforms have also given Botswana a clear advantage within the Southern African region in having the potential for establishing itself as a low tax jurisdiction, building on the country's long track record of political stability and prudent economic management which needs to be reflected upon.

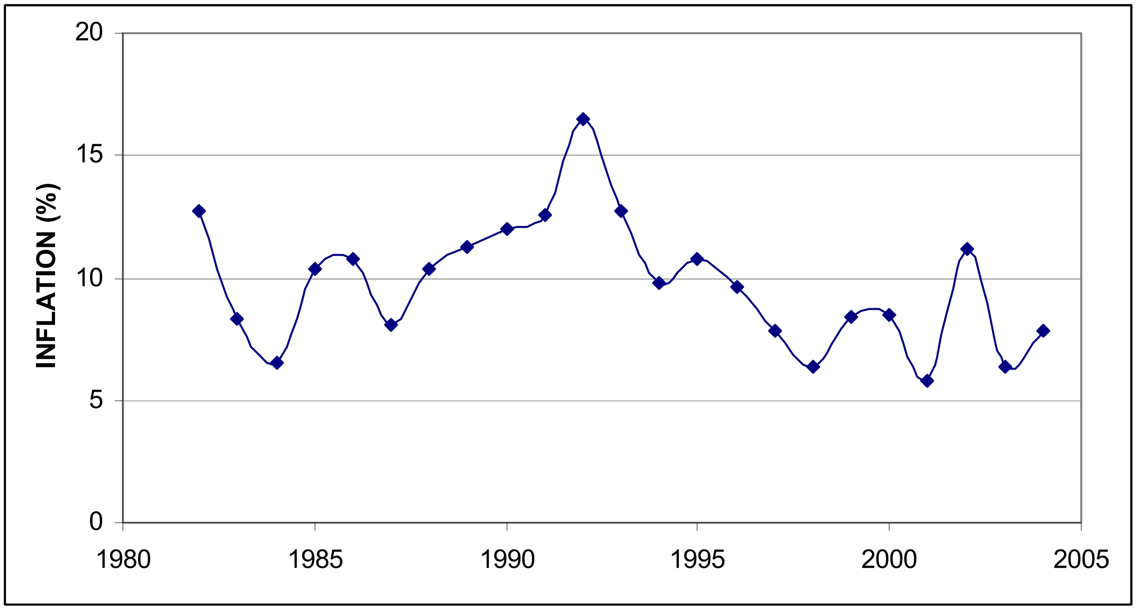
<u>Prudent macro-economic management</u> including emphasis on openness, macro-economic stability and recurrent funding, for which Botswana has acquired a good reputation, has been relatively well institutionalised, and this is regarded by many analysts to have played a key role in the country's success (Harvey & Lewis 1990; Hill and Knight 1999; Leith 2001). A conducive economic environment is good for attracting investment – local and foreign – and therefore good employment creation and this together with macroeconomic stability enhance poverty reduction. While many African countries cried foe against what they claimed as imposition of macroeconomic reforms or "conditionalities" by the IMF and the World Bank, Botswana government had already internalized and regularized the rules or "fundamentals" of macroeconomic management and tended to adjust without external pressure. The institutional context of this aspect of state development management capacity has been highlighted under the section dealing with state orientation for resource mobilisation – capital and human resources. We can just highlight a few dimensions of sound economic management. First, Botswana's main economic development strategy has been to exploit the country's mineral wealth, and invest the proceeds in improving social and economic conditions and creating new economic opportunities. Strikingly, the government has been able to maximise the domestic benefits of its mining development, increase its domestic savings and investment, and diversify (rather than suppress) the non-mining economy, while at the same time avoiding mineral curse and mitigating the potentially adverse effects of mineral-led development syndrome as already noted. Second, the government has had a relatively good sense of priorities and a conscious policy of reviewing key policies and programmes in light of set targets to appreciate limits and opportunities consistent with expected revenue and absorptive capacity of the economy. For example, when Botswana's economic and fiscal prospects were expected to improve dramatically, the government established in the first year of budgetary independence in 1979 the Public Debt Service Fund (PDSF) and the Revenue Stabilisation Fund (RSF). These funds were conceived as mechanisms that would, respectively, enable the country to service its debt obligations, and cope with temporary revenue shortfalls that might arise from fluctuations in international mineral markets, drought and other contingencies. These funds, as already noted, turned out to be good vehicles for prudent management -- simultaneously working as a device for siphoning government surpluses away from the recurrent budget and as a source of funding for the capital formations and public debt management. Managed by the central bank, Government budget savings and foreign exchange reserves are new sources of development revenue as well as providing seed capital for financial service sector – a growing ingredient part of the service sector.

Third, 'good' macroeconomic performance relates to how monetary and fiscal policies worked and interacted to enhance favourable macroeconomic environment. As already noted Botswana at independence was a member of the Rand Monetary Area and used South African currency – the rand – until 1976 when Botswana introduced its own currency in order to run its own monetary policy. The Bank of Botswana is an autonomous body, charged, under it Act, with the responsibility of promoting and maintaining monetary stability, and ensuring proper functioning of sound monetary, credit, and financial system to promote balanced and sustained economic development. Without going into details, the Bank of Botswana and the treasury – the Ministry of Finance and Development Planning – have coordinated their activities well, resulting in general good macroeconomic performance. This is evidently measured by monetary stability, inflation rate, exchange rate management, budget deficits, and these have been relatively well contained in Botswana (figure 3.1 and 3.2 below).

Management of inflation and current account has been good over the years, consistent with a broad counter-cyclical policy of managing booms and slumps. Although the Botswana economy has, to some degree, experienced booms and slumps, the latter have not been dramatic and the government has been relatively successful in avoiding extreme episodes of government led inflation which actually has been relatively low (Hill and Knight 1999). Indeed, the rate of inflation has been relatively moderate, especially following the recent surge/recovery in economic growth under the new milelium (Figure 3.1). A conscious and deliberate policy in this regard, illustratively included bold decisions not to award salary/wages increases for public servants during the sensitive election years in 1994 and 1999 because of projected deficits, and yet they could have easily done so and increase the deficit which could be financed through past savings. This said, it would be right to point out, from a different perspective focusing on interests and policy choices, that the Botswana government has been fully aware of its dominance of the electoral space. The decisions to award or not to award wage/salary increases are recommended to the government by the National Employment, Manpower and Income Council taking into account macro-economic and the budgetary constraints each year. The decisions not to award salary/wages for public servants in elections years were "bold" because these policy choices were seemingly not based on gains and losses of votes. One can say that electoral victory was probably taken for granted, at least in view of perceived good performance record by the ruling party and its electoral dominance since independence. The government chose to forego an obvious opportunity to "buy off" the political opposition, especially during the 1994 elections, which were held against the background of general economic down-turn. This was probably miscalculated given the major electoral setback in terms of parliamentary and local government seats and popular vote the ruling party lost (Appendix A).

Self interest in growth and macro-economic stability seems to be a plausible explanation. One can also argue that prudent macro-economic management, for which a democratically elected Botswana government has acquired reputation, is perceived, at least by the ruling party, as one of the ways of enhancing public confidence, and therefore credibility and legitimacy of the ruling party. This too is a good device for "vote-buying." The government's self-imposed adoption of orthodox stabilisation and adjustment policies is viewed by many development analyst of Botswana's scene as illustrative of strategic state intervention, and this is in sharp contract to "forced adjustment reforms" in some other African countries.

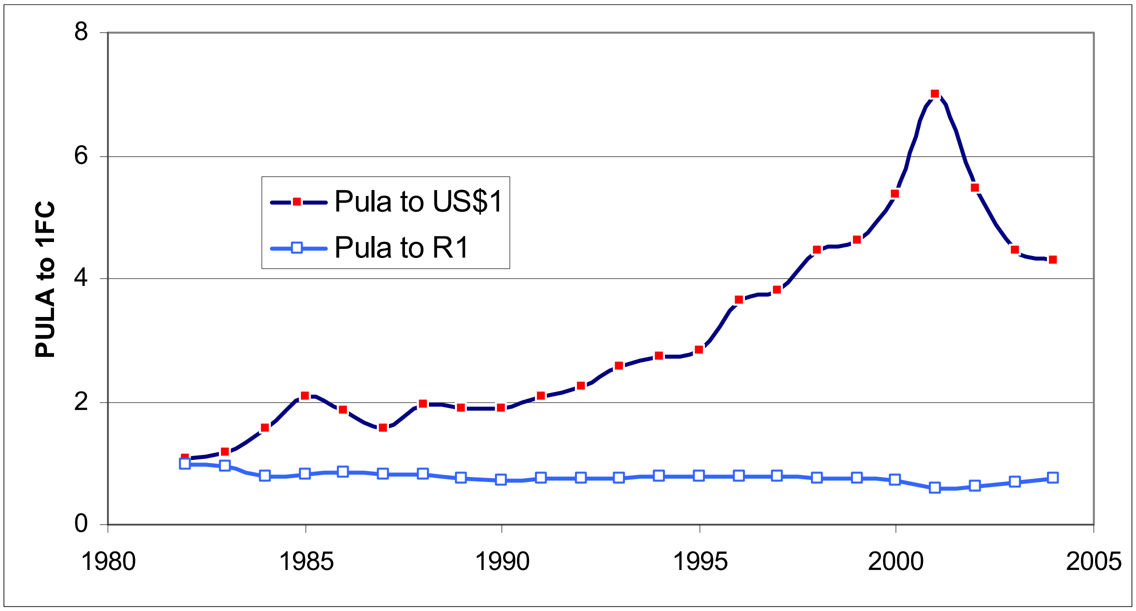
Figure 1: Annual Inflation in Botswana as at end of year (1982-2004).



Source: Compiled from Bank of Botswana Annual reports.

Exchange rate policy has been quite consistent since the country moved from the RMA and created an independent currency in 1976 and they have managed a fixed exchange. Unlike a floating exchange rate regime, it is not easy to determine the appropriate level with a danger having an over-valued currency, which would frustrate export diversification by crowding out all but the most robust exports. Botswana has deliberately over the years set the Pula at a level below the perceived equilibrium in spite of substantial foreign exchange reserves, currently equivalent to about three years imports requirement (GoB, Budget Speech 2007). This strategy was designed to avoid the “Dutch Disease” effect and encourage non-traditional exports. The policy has also been in the interest of the cattle industry, the basic assert for Batswana elite with relatively broad social linkages.

Figure: 3.2: Exchange Rate – Pula to US $1 and Pula to Rand



Having made the above observations, it is also worth noting that determining the exchange rate has become increasingly complex following the decision by South Africa to float the Rand/Dollar exchange rate, and also increasing rate of both urbanization and affluence among the Batswana in a highly import dependent economy. Why and how? 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 deciding on 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 non-traditional exports. This makes the competitiveness and stability of the Pula/Rand exchange rate a very crucial policy choice for the country's sustainable development. Third, the rate of urbanization is very rapid and the benefits of rapid economic growth are somewhat trickling down, expanding the 'affluent class' and diversifying economic/social interests. This means that more and more Batswana are going abroad for studies, owning imported (expensive) cars and are building or and expanding houses. This development in interest alignments (for a country that is highly dependent on imports) and the movement of the Rand/Dollar exchange rate have posed a serious dilemma for Botswana policy choice regarding the exchange rate – seemingly leading to a heavier weight on the real exchange rate of the Pula against the other currencies, especially the Rand and the US Dollar. This had put potential Botswana non-traditional export producers at a competitive disadvantage vis-à-vis South Africa, and appeared to had slowed down the rate of economic diversification and therefore the rate of employment creation during the 1990s. The government had no choice but subsequently to re-align the exchange rate to make it competitive (figure 3.2) – a move that was encouraged by the latest electoral victory (Appendix A).

Another recent development related to policy choice dilemma is about privatisation and how competing interests might have stalled implementation – probably with adverse implications both for growth and employment creation. In the most integral sense the role of government budget lies at the heart of Botswana's socio-economic development – acting as conduit by which the rent earned from the extraction of diamonds or other dividends are transferred from surplus generating sectors/enterprises to benefit the population at large. Partly for this reason and increased popular support for the opposition Government has been under pressure not to sell public asserts while a few rich Batswana advocate privatization as a means for empowerment. Trade Unions have been resisting privatisation for perceived job losses and fear of selling national asserts to foreigners. Thus, although the government has a clear policy on privatisation, it has been under pressure not to or at least to stall the process of implementation and this appears to have cost the country in terms of inflows of foreign direct investment (FDI) as compared to its other countries which are benefiting mainly because of privatisation (Allan, 2002). Further, despite the existence of a conducive enabling environment and high national credit ratings over the years, FDI inflows has significantly declined from the ratios of about 20 percent of GDP in 1980s to less than 5 percent and as low as 1 percent in recent years (World Bank, World Development Indicators,2004; Bank of Botswana, 2007). This again might have adversely affected general economic growth and employment creation for sustainable poverty reduction.

However, and notwithstanding the above observations about the forces that might have adversely affected growth and employment creation during the last decade, many analysts acknowledge and praise Botswana for good macroeconomic management since independence (). Obviously, prudent economic management – technical and professional of state capacity - has been institutionalised in Botswana – a regularised practice/behaviour that has been practised over the years and it is an element of "good management factor" which is taken seriously without external pressure as allegedly the case in many other African countries where donors have tried to buy/induce reforms. Consequently a virtuous cycle emerged. 'In contrast, macro-economic instability had engendered a vicious cycle in all too many African states' (Van de Walle & Johnston 1996:89) until quite recently following regional-wide market orientation and institutional reforms. State capacity – a measure of the ability of a government to implement its policies and accomplish its goals – has another relevant institutional dimension that should be reflected upon and this is the administrative capacity which is the ability to manage resources of the state and to ensure accountability and efficiency in service delivery (Theda Skocpol 1985).

Institutional Arrangements for Service Delivery and Poverty Reduction

Poverty reduction, as already noted, has long been pursued in Botswana as one of the developmental strategies articulated directly or indirectly in a number of national policy documents, such as the National Development Plans, the National Vision 2016, the National Policies on Rural Development, the recent National Poverty Reduction Strategy, and Annual Budgets through which policies and programmes contained in all policy documents are operationalized and implemented. No fewer than seven institutional arrangements – structures or mechanisms – have been used for providing and delivering public goods and services, and also for directly or indirectly attacking poverty. Following the analytical perspective by Savas (1987, 58-92), these institutional arrangements are: government service, intergovernmental agreement, market, contracting, voluntary, grant, voucher, and to some extent self-service. The term government service is used widely – denoting the delivery of a service by the government ministries/departments and agencies including activities carried out by state-owned and state-run enterprises. Thus, the ministries, such as for Education, Agriculture, and also state owned Water Utilities as well as the autonomous Bank of Botswana are all treated as government agencies and they all – for our purposes - come under government service with respect to providing many public goods and services and deciding what shall be provided, for whom, to what degree or at what level of supply, and how to pay for it. Relatedly, intergovernmental agreement or institutional system denotes a situation in which any of the government department or agency agrees to use or contracts to pay another government agency to deliver/supply a service; and in this covers cases whereby the central government departments use local authorities to distribute supplementary food relief to the poor and also assist to manage drought relief and destitute programes, as elaborated upon below.

Producing a service or actually service delivery may be seen as a separate function/matter in the sense that government ministries/departments or agencies that are responsible for providing specific services at collective expense do not have to actually produce or deliver such services using government institutional structures, equipment and government employees, because there are other different possible institutional delivery structures that can and have been used, such as contracting, voluntary, market, grant and voucher institutional arrangements. In Botswana, as is the practice in many countries, the government and its many agencies have contracts not only with local governments (as already illustrated for intergovernmental agreements) but also with private companies/firms and non-profit organizations for delivery of goods and services. Indeed many public roads, schools, hospitals/clinics, etc are built by private companies which employ ordinary Batswana, thereby attacking poverty through employment creation. Similarly, some of what used to be direct public services, such as cleaning of government offices, feeding school children and grounds maintenance, etc, have been privatized. Such "contracting out" is the institutional arrangement most commonly referred to positively in discussions about privatizing conventional public services in Botswana and it is good for employment creation and therefore for poverty alleviation, as distinguished from privatizing the hotly debated and highly resisted state-owned enterprises, such as the Air Botswana and Botswana Power corporation, for fear of job loses and poverty aggravation.

Grants and vouchers institutional systems are two different but interrelated structural arrangements for service delivery that the Botswana government has used to some degree to provide some goods and services, especially some targeted subsidized goods and services. Under the grant system, the subsidy in the form of money, tax exemption or loan guarantees is given by the government to the producer and the effect of such grants is either to reduce the price of a particular good/service or make such goods/services free for eligible consumers, who can then go into the market place. Sorghum and maize meal are highly subsidized in Botswana so that the poor and low income people can afford these staple foods, the existing problem is that access is not targeted – all consumers pay the same price. Tertiary education, including university, largely operates under the grant system – making it possible to "free" poor family students from the poverty trap. Another good example is the government-induced provision of low-cost housing – the Self-Help Housing Scheme – targeting the low income people, especially in the urban centres where it has proved successful. The voucher institutional system or arrangement has been designed to subsidize the poor directly by giving money to the targeted poor consumers who the have a choice to get what they need from the marketplace or distributing the commodities directly to the poor. The good examples of these are the Old-age Pension Scheme, which is basically "a cash hand-out" for the poor to buy what they need from the market; and many aspects in the Social Safety Nets Programme, such as supplementary and primary school feeding programmes. Tertiary education is also funded through the voucher system – that is through government sponsors or bursaries to access education outside the country.

The voluntary institutional arrangement for service delivery is also common in Botswana and this denotes existence of charitable or conventional non-governmental voluntary organizations which perform community services to people in need or they advocate for the poor. NGOs have been very instrumental in the multisectoral approach against HIV/AIDS and there is a lot of information as to the precise extent to which they are utilized by the government and donor agencies. The Remote Area Development Programme (RADP) which started in 1978 – springing from earlier government initiative that targeted to help Basarwa to benefit from national economic development – was designed to assist all citizens in remote places characterized by severe poverty, lack of income, education, low literacy level, health, drinking water and depend on deteriorating ecological resource base (BIDPA 2003). Although some internal reviews of the programme observed a number of constraints to achieving the goals and lack of coordinated inter-.ministerial commitment, the programme has been relatively successful in addressing physical and infrastructural needs of the RADP, especially in areas supported by NORAD which engaged NGOs in service delivery (BIDPA 2003). NGOs have also been instrumental in advocacy – drawing government attention to the plight of the disadvantaged, and in some cases, they have worked government and donors in bridging the gap and providing basic services including funding education, as the University of Botswana TROMSO Basarwa case demonstrate. The Self-service or self-help institutional arrangement has also continued to be relied upon, and this has been inherited from Botswana history and culture, modified to suit the modern institutional setting. Self-help is the most basic delivery mode, and many schools and health facilities were build or complemented through self-help schemes. This together with the extended family system (as a self-service unit) constitute the original and relatively reliable local welfare system, offering no compelling need for modern nursing homes and conventional senior citizen housing; and when the need for these services arise (as is increasingly evident for institutions like the Co-oping Centers for Peopled Suffering from HIV/AIDS), they are built on strong heritage foundation.

How the various institutional arrangements have been operationalized in service delivery can be illustrated further by briefly showing how monetary and fiscal policies have worked to tackle the poverty problem – a two pronged strategy. As already noted, the Bank of Botswana – the central bank – is a relatively autonomous and has been responsible for ensuring macro-economic stability, mainly through interest and exchange rate management to control inflation and maintain Botswana's competitiveness, especially for exports and contribute to attract foreign investment. This is good for economic diversification, employment creation, and hence sustainable poverty reduction. The country's fiscal policies have four aspects that affect poverty directly or indirectly. One of these is expenditure geared towards enhancing production and entrepreneurial development with specific objectives of local economic empowerment, employment creation and poverty reduction. Examples are programmes such as the Financial Assistance Policy (FAP) that was launched in1982 and abolished in 2002; and replaced by a similar organization - the Citizens Entrepreneurial Development Agency (CEDA), targeting citizens only or foreign investors with joint citizen participation.

The second set of fiscal policies and programmes that have affected poverty public investment in infrastructural development, such as roads, social services conventionally known as "merit goods and services" that in Botswana are largely provided by the public sector – absolutely free of charge or they are highly subsidized and those who can not afford (following the resent cost recovery measures) have targeted free access. Infrastructural development create construction jobs that positively impact on poverty through various forms of contracts tendered by private firms, and in Botswana it is widely known that when a "government sneezes" – that is when it cuts or suspends capital expenditure – the whole economy "gets the cold" with adverse consequences for employment and poverty reduction as well. Government policy has given much better results than can be detected simply from levels of income poverty because it has tremendously improved human capital and the capabilities of the poor as evidenced by access to education (from primary to university level) including pupils/students feeding, health, and water, thereby directly attacking capability poverty. The third set of fiscal policies/programmes that affect poverty are those that have been geared towards enhancing livelihood, such as Drought Relief Programmes, Arable Lands Development Programme, Self-Help Housing Scheme, National Policies on Rural Development, including Community Based Programme Strategy for Rural Development etc. The implementation of the strategy involves many players in a concert-like situation involving ministries of agriculture, health and local government as well as district level institutions such as the District Development Committees, Non-Governmental Organizations, Community Based Organizations and individuals – enhancing the Community Participation Strategy (MFDP,2003). The overall strategy aims at reorienting existing institutional arrangements in order to foster community self-mobilization and ownership (MFDP, 2003). The fourth type of fiscal policy and operational programmes that alleviate poverty are geared towards implementing "social safety nets" – targeting the unemployed and handicapped people with no sources of income; and examples are Destitute Programme, Old age Pension Scheme, Supplementary Feeding Programmes – vulnerable group feeding programme, and primary school feeding programme, Labour Based Relief Programme, Home Based Care, World War II Grants. Although there noted capacity and abuse related problems, the Government, through the Ministry of Local Governmemt, and Department of Social Services, have made tremendous effort to ensure that there are facilities in place throughout the country (). All these different types of programmes have been planned for and sustained over the years through annual budgets.

CONCLUSION: ANALYSIS AND IMPLICATIONS

To understand Botswana's development success story, we have looked backward, to create a retrospective view of past experience. The perceived development strategy prospect for Botswana, as laid out in the Transitional Plan and elaborated upon in subsequent National Development Plans such as 1968-73 was growth based on then known minerals – copper, nickel and subsequently diamonds – and that development was to be led by the government. It is important to note that the strategy of "state-led" development and national economic planning, which Botswana pursued successfully, was not a strategy unique to Botswana. Many African countries adopted more or less the same strategy. But the strategy worked very well in Botswana and the country prospered because of good policies and conducive institutional design in place. The same strategy was associated with, and it was until quite recently blamed for, the general economic crisis in many African countries most of which have been under authoritative/one party regimes.

There is one difference which seems to be the main explanation. In Botswana a secure political elite (with an unimpeachable electoral support since independence) has pursued growth-promoting policies, developed or modified and maintained viable inherited traditional and modern institutions of political, economic, and legal restraint. Under institutional context of restraint, self interest in growth coincided with the interest of the Botswana ruling elite with roots in the cattle industry and increasingly in partnership with foreign investment. Illustrated by how the state mobilized development resources – especially savings and investment and human resource development – it has been shown that the Botswana developmental state managed the economy without itself getting excessively involved into the nuts and bolds of production under pragmatic institutional design.

Democratic system of governance appears to have also enhanced good policies in Botswana. National-level policy has been contested through regular elections and meaningful legislative roles, both enforcing a discipline of accountability for results that are expected to benefit the electorate more broadly. The long democratic tradition was built on a tradition of Tswana consensus, helped by virtual ethnic homogeneity and sustained traditional legitimacy of power. In contrast to other African countries, Botswana's traditional governance structure was not supplanted/manipulated by colonial governance systems and the modern state has integrated that system into the legislative system, with some traditional institutions, such as the house of chiefs, coexisting with the modern representative parliament.

The interest of the Botswana ruling elite is encompassing as it has rural roots and caters for majority interests in the cattle industry and diamond areas. Self interest in growth coincides with that of the rural majority, explaining their persistent victories over the urban-based opposition. Public investment in urban infrastructure, improved provision of urban social services, general improvements in income and delivery of public goods as well as prospects for more development kept potential opposition takeover at bay - increasingly even in urban areas. Because no opposition party has come to power, the policies and strategies of the ruling party over poverty reduction have never been challenged – certainly no alternative strategy has ever been implemented. This explanation seems to be consistent with political economic models in which policy makers who need to satisfy larger constituencies, who face checks and balances within decision making process, who are subject to electoral review and who function in stable institutional environments are more likely to produce good policies for growth (Humphreys and Bates, 2001). A more encompassing regime would choose to expand future productive capacity rather than maximize transfers to the narrow elite, and this is one of the main explanations for why "fortune rents" were not captured by vested interests. The political stability and well established democratic process of regime change in Botswana also helped to reduce the perception of higher investment risks typically associated with violent regime change.

However, it has been suggested that although economic growth has been very rapid so far, there are grounds to think that it was not probably as rapid and diversified as it could have been and long-term self-sustaining growth seem to be uncertain in view of a few but crucial negative development challenges and constraints indicated above. The rate of real growth has slowed down during the last decade, but the country has recovered significantly and prospects are good for high sustained growth (MFDP- Budget Speech 2006, 2007). Again slow growth was mainly due to reduced activities in the mining sector and mineral revenue. The problem is also partly due to the fact that policy choices or and timing have become more complex given the increasing divergence in interests, and how this impacted on electoral outcome – leading to ambivalence in policy stance until when electoral confidence bounced back, restoring confidence and incentive, once again, for pursuing good management policy thrust, such exchange rate adjustment to enhance international competitiveness and economic diversification.

Major macro-economic puzzles are few but significant. Negatively, a growth rate of that magnitude, sustained for a long period, has had limited impact on structural economic diversification and diamonds have overwhelmingly continued to dominate exports (Appendix F). The diamonds industrial sub-sector remains the main engine of growth – accounting for about 70 to 80 percent of total exports, 50 percent of Government revenues and 40 percent of GDP. It should also be appreciated that the GDP growth in other sectors has, to a significant extent, been induced by the mineral sector through fiscal linkages, such as the Government sector and its impact on the growth of the construction and financial sectors. Second, Botswana's population, currently estimated at 1.7 million, is quite small relative to its geographical size and real GDP growth rate but the level of unemployment and inequality in income have not been sufficiently reduced and these are some of the major development challenges. As noted in the introductory section of the paper, the problem of unemployment and to some extent poverty is partly a structural challenge in the sense that the mining sector which dominates the economy with between 35 and 40 percent of GDP share, account for only 4 percent of the total formal employment (Appendix D and E). A positive and a remarkable puzzle of international credibility is that Botswana has avoided suffering from Dutch disease; and rapid growth has been sustained and yet skilled and educated manpower over the period was both in extreme shortage and relative scarcity – a resource that is currently under serious threat from the HIV/AIDS infection for which concerted effort is focused and it is treated as a national emergency, both in terms of leadership commitment and resource allocation (MFDP, 2007)..

Since the quality of policies and individual actions have been crucial for the country's success so far, Botswana has a good past experience to help confront the challenges and sustain growth. Some of the policy choices entail regular review of some existing policies that have worked well, such as the exchange rate and privatization policies that might contribute to improving the performance of the external sector and enhance its role in achieving the broader development goals with positive impact on employment creation as well as poverty reduction. Fortunately, there are three windows of opportunities that the Botswana developmental state has seized. These are potentially transformative in terms of impacts from both privatization initiatives and diversification policy initiatives/choices within the mining sector itself, services led by tourism and financial sectors, and manufacturing – notably the downstream Botswana diamond industry factories. All these three new sectoral sources of growth – tourism/financial services, coal mining and its downstream generation of electricity, cutting and manufacturing diamond products – are basically trade or export-led and all have been made possible by direct government initiatives and negotiations, illuminating yet again the significance of leadership. These are expected to have significant impact on employment creation and income poverty. Thus, while Khama, the first President, is regarded as the founding father of state developmental orientation of government with exemplary ethical leadership and accountable public service, Sir Masire, the second President, is associated with consolidation of the main attributes of the Botswana developmental state. The legacy of Mohae – the current President who is basically a technocrat and has been one of the key players in institutionalization of macroeconomic management and he is about to retire, relates to the new forms of structural transformation, especially privatization and diversification into services and downstream manufacturing to make Botswana the Diamond Centre of the world which was previously farfetched but now in reach.

The overview of Botswana's development record is, to a large extent, the story of exceptional state management of "good fortunes" or "generous gifts" – initially aid from the international community and subsequently natural resources (significant mineral resources) particularly diamonds exports for which there is virtually no domestic demand. In the final analysis and in line with Spence's re-candling of Adam Smith's classical perception, it is the resources of the global economy – in this case foreign aid and the growth of export earnings – that have been effectively managed by the state to stand out as driving forces in sustaining high growth which is transmitted to the rest of the economy. The significance of political and institutional dynamics of growth in Botswana's success development story cannot be questioned. Economic growth and development have been sustained and poverty, seen as an income problem, is in relative terms high but has been declining over the years – seemingly inevitable that not everyone will benefit equally as Botswana develops. One can add that poverty in a growth-oriented Botswana appears to be a pronounced deprivation in income/consumption – income poverty linked to employment problem – not closely associated with capability poverty or human poverty and participation poverty. The fact that there has been “a trickle down” from the wealthier segments of society and a political consciousness of the need to fight high poverty rates is not in question and is not in itself an institutional reason for concern at all. Illustratively, poverty in terms of income levels have been significantly improved from about 59 per cent of individuals being poor in 1990s (Jefferis 1997:484; BIDPA 1997; table 1.1) to about 30 per cent in 2005 (Siphambe 2007, table 1.1); and the actions of the Botswana government in improving capabilities of the poor and human capital in general have been commendable; and these are improvements that stand out in regional context.

In this respect, Botswana offers lessons for other aid and natural resource dependent developing countries concerning the importance of conducive institutional setting - especially prudent management in avoiding aid dependency and the natural resource curse and Dutch disease as well as having the blessing of leaders who are not prone to rent seeking. It also demonstrates that an aid and natural resource dependent country can enter into a ‘virtuous cycle’ when 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 so long the state is capable – a strong and competent state to provide a visionary leadership and managerial role – and operating within effective institutional design. Hence, the significance of policy and institutional dynamics of sustained growth in Botswana that this paper was oriented to illuminate.

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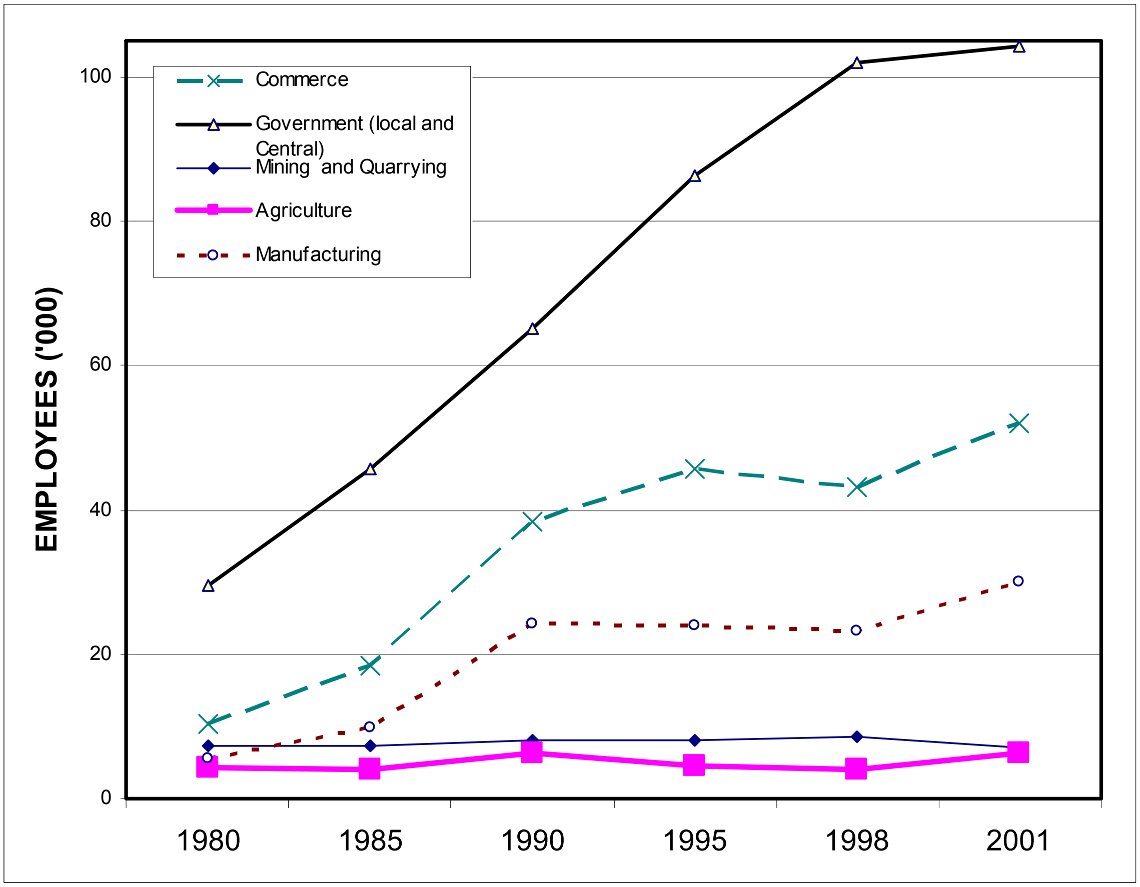
Appendix D: Number of paid employees by sector and economic activity, 1980-2001 (Selected Years)[a]

Economic Activity	Number of Persons Employed [Percentage Share] 1980	1985	1990	1995	1998	2001	Annual Growth Rate (Percent)†
Agriculture b	4,300	4,000	6,400	4,500	4,000	6,300	-0.23ns
	(5.2)	(3.4)	(3.1)	(1.9)	(1.7)	(2.31)	
Mining and Quarrying b	7,200	7,300	8,100	8,100	8,600	7,000	1.13╪
	[8.6]	[6.3]	[3.9]	[3.5]	[3.6]	[2.56]	
Manufacturingb	5,600	9,900	24,300	24,000	23,100	30,000	8.35╪
	[6.7]	[8.5]	[11.6]	[10.3]	[9.6]	[10.9]	
Electricity and Waterb	1,500	1,900	2,100	2,500	2,700	2,800	2.78╪
	[1.8]	[1.6]	[1.0]	[1.1]	[1.1]	[1.03]	
Constructionb	13,400	11,500	31,000	22,400	25,100	28,600	4.98╪
	[16.1]	[9.8]	[14.8]	[9.6]	[10.4]	[10.48]	
Commerceb	10,400	18,300	38,300	45,700	43,200	52,100	7.99╪
	[12.5]	[15.7]	[18.3]	[19.6]	[17.9]	[19.08]	
Transport and Communicationb	3,400	5,700	8,500	8,700	8,500	10,000	5.74╪
	[4.1]	[4.9]	[4.1]	[3.7]	[3.5]	[3.66]	
Finance and Business Servicesb	4,300	6,800	6,100	17,700	15,800	18,100	8.34╪
	[5.2]	[5.8]	[2.9]	[7.6]	[6.5]	[6.63]	
Community and Personal Servicesb	2,400	3,900	7,200	9,800	4,700	5,200	5.36╪
	[2.9]	[3.3]	[3.4]	[4.2]	[1.9]	[1.9]	
Educationb	1,300	1,900	2,100	3,800	3,900	6,600	
	[1.6]	[1.6]	[1.0]	[1.6]	[1.6]	[2.42]	6.37╪
Government (local and central)	29,500	45,600	65,100	86,200	102,000	104,300	
	[35.4]	[39]	[31.1]	[36.9]	[42.2]	[38.2]	6.88╪
Total	83,300	116,800	209,000	233,400	241,700	273,001	6.42╪

Source: BIDPA (2004).

a: does not include self-employment. b: includes private sector and parastatal (excludes government).
†: based on regression estimates using data for the period 1980-1998. ns: statistically not different from zero.
╪: statistically significant at 1%.

Appendix E: Formal Employment for Selected Sectors .



Appendix A: Electoral Performance of Major Parties in Bostwana 1965 – 2004

Party	1965	1969	1974	1979	1984	1989	1994	1999	2004
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	-
Total no. of Seats	31	31	32	32	34	34	40	40	57
% of Popular Vote									
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
% of Seats									
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

Source: Botswana Independent Electoral Commission 2002, Voter Apathy Report, Gaborone, March: p. 75; Botswana Independent Electoral Commission, Elections 2004, www.iec.gov.bw**,**

APPENDIX B: INSTITUTIONAL GROSS SAVINGS AT CURRENT MARKET PRICES (PULA MILLION) AND SAVINGS RATES (SAVINGS AS A % OFGDP)

	F3		F4		F4		F3		F3,F1				
As at end	Govt		Household		Businesses		Private Sector		GDS		ROW		G
of June	1.0	%	2.0	%	3.0	%	4=2+3	%	5=4+1	%	6.0	%	7
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	
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	
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	
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	
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	
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	
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	
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	
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	
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	
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	
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	
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	
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	
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	
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	
1991	1838.5	24.6					1251.3	16.7	3089.8	41.3	379.7	5.1	
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	
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	
1994	2172.6	19.5					2367.3	21.3	4539.9	40.8	930.7	8.4	
1995	854.0	6.8					4336.8	34.6	5190.8	41.4	789.2	6.3	
1996	1230.8	8.4					5404.7	36.9	6635.5	45.4	1816.9	12.4	

Notes: Government savings include savings of both the local and central government.
Household savings include savings of households and private non-profit institutions serving households.
Business savings include savings of private non-financial enterprises and non-financial parastatal organisations.
GDS means gross domestic savings; ROW means rest of the world (foreign) savings and GNS means gros national savings.
.. means that data were not available from source.

Source: Botswana data are from various National Accounts of Botswana published by the Central Statistics Office as reported in Annual Report 1997, Bank of Botswana, .
Data for industrial countries, South Africa and Singapore are from the World Bank 91995), World Tables.

APPENDIX C: INSTITUTIONAL GROSS INVESTMENT AT CURRENT MARKET PRICE

	INSTITUTIONAL GROSS INVESTMENT AT CURRENT MARKET PRICE (PULA MILLION) AND INVESTMENT RATES (INVESTMENT AS A % OF GDP)										COMPARATIVE INTERNATIONAL INVESTMENT RATES		
As at end of June	**Government 1.0**	**F2 %**	**Households 2.0**	**%**	**Businesses 3.0**	**%**	**Private Sector 4=2+3**	**F2 %**	**Total 5=4+1**	**F1 %**	**Industrial countries**	**Developing countries**	**Asia**
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			

Notes: Government investment includes investment by both the local and central government.
Household investment includes investment by households as well as by private non-profit institutions serving households.
Business investment includes investment by financial institutions, private non-financial enterprises and non-financial parastal organisations.
..means that data were not available from source.

Source: Botswana data are from various National Accounts of Botswana published by the Central Statistics Office as reported in the Annual Report, 1997, Bank of Botswana
Data for industrial countries, developing countries and Asia are from the International Monetary Fund (1996), International Financial Statistics Yearbook.