

**FACTORS THAT CONTRIBUTED TO THE ECONOMIC  
SUCCESS OF BOTSWANA**

by

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B.A., Brock University, 2008

RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF  
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## **ABSTRACT**

At independence in 1966, Botswana was one of the poorest countries in the world, dependent on foreign assistance and poor grade cattle for economic growth. However, following the discovery of diamonds in 1967 the country has radically changed. The purpose of this paper is to explain some of the reasons why beyond simply the discovery of diamonds, Botswana was economically successful following 1966.

The first reason Botswana's economy was successful is because of their specific history and location. The second factor to be explored is leadership, specifically the role that Seretse Khama played in encouraging the economic success of Botswana. Luck and institutions were also very important in Botswana's economic success. As a resource rich economy, Botswana is at risk to contract the 'Dutch disease', but for the most part through prudent policy they have been able to achieve macro-economic stability.

**Keywords:** Botswana; economic growth; luck; diamonds; institutions; Seretse Khama.

## **DEDICATION**

To my parents, whose encouragement and support throughout my entire life have always given me the freedom to do what I thought best.

## **ACKNOWLEDGEMENTS**

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## LIST OF ACRONYMS

ACP – African, Caribbean and Pacific Nations

AfDB – African Development Bank

AFM - Africa Research Monitor

AGOA – Africa Growth and Opportunity Act

ANC – African National Congress

ARB – Africa Research Bulletin

BDP – Botswana Democratic Party

BoB – Bank of Botswana

BIDPA - Botswana Institute for Development Policy Analysis

BMC – Botswana Meat Commission

BPP – Botswana People’s Party

BSAC – British South Africa Company

CSO- Central Selling Organization

CStO – Central Statistics Office

DTC – Diamond Trading Company

EEC – European Economic Community

EU – European Union

FAO – Food and Agriculture Organization of the UN

FDI – Foreign Direct Investment

GDP – Gross Domestic Product

HIC – High Income Country

IMF – International Monetary Fund

ITA – International Trade Administration

KPCS – Kimberly Process Certification Scheme

LIC – Low Income Country

MCTS – Million Carats

MIC – Middle Income Country

ODA – Overseas Development Agency

PAC – Pan African Congress

RMU – Rand Monetary Union

SACU – South African Customs Union

SDR – Special Drawing Rights

UN – United Nations

UNCTAD – United Nations Conference on Trade and Development

UNDP – United Nations Development Program

USD – United States Dollars

WHO – World Health Organization

## **CHAPTER 1: INTRODUCTION**

Botswana is often depicted as an economic success story in a region that has few examples of sustained economic growth. This success was by no means guaranteed as at independence in 1966, Botswana was one of the sixth poorest states in the world (Fidzani, 1998: 232). The average income in 1966, was 60 Pula a year, or about \$80 USD (Colclough & McCarthy, 1980: 54). The country was in the midst of one of the worst droughts in a century, and nearly one-fifth of the population was dependent on government rations (Samatar, 2005: 231). The prospects for success in Botswana seemed limited. Yet more than forty years later Botswana has become an upper middle-income country. The country is the only African state since independence to hold regular free and fair elections with universal suffrage. The real per capita income was \$9,652 in PPP adjusted terms by 2006, higher than all but three non-oil producing states in Africa (World Bank, 2007: 6; Beaulier, 2003: 231). Much of this growth is due to the discovery of diamonds, and revenues generated from the exploitation of vast diamond reserves. Diamonds were an essential part of the success, and some have argued that without diamonds there would have been no sustained economic growth (Jerven, 2009: 13-14). However, the discovery of diamonds does not automatically guarantee growth. As former Botswana President Fetus Mogae (2005: 34) said in 2005: “Natural resources no matter how lucrative cannot develop a country without political stability, sound economic management and prudent financial husbandry.” In this paper, Botswana’s economic

growth will be explained by looking at some of the specific factors that allowed Botswana to succeed.

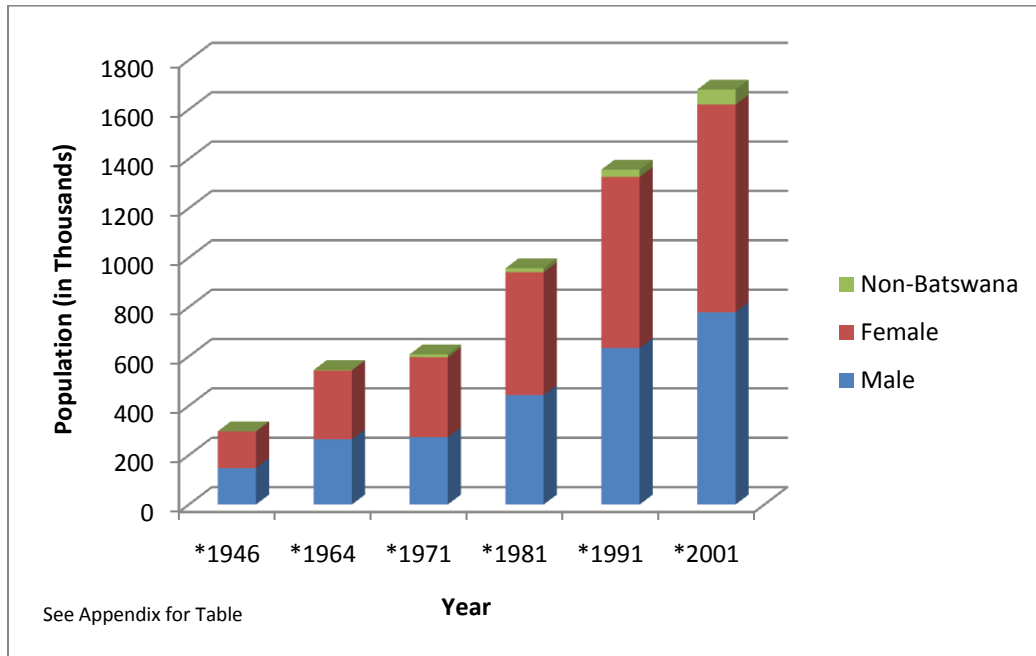
Four factors played the greatest role in determining Botswana's ability to use diamonds as an engine of growth. The first factor to be addressed is the historical legacy of colonial rule in Bechuanaland Protectorate and the impact this rule had on the development of institutions and the leadership of the post-independence government. The second factor to be addressed is the leadership of the post independence government, and the difficult decisions they made that benefited the state in the long term. The third and fourth factors work in tandem, Botswana has been lucky but this luck does not automatically result in sustained growth, for sustained growth requires good institutions. The term institutions will be used to describe the main tools of governance: democracy and financial policy.

## **THE COUNTRY**

Botswana is a small landlocked country about the size of Texas (see Map 1). The population in 2006 was estimated at nearly 1.8 million, with more than 80% of the people living along the fertile eastern border of the state (CStO, 2009: 7). The country experienced a high population growth rate after World War II, the population went from just under 300,000 in 1946 to more than 1 million people in the mid 1980s (See Figure 1). Botswana is ethnically homogenous with somewhere between 80% and 90% belonging to one of the eight major Tswana tribes (Molutsi & Holm, 1990: 324), although others contest that 50% are actually real Tswana (Acemoglu et al., 2001: 11). Only about 4% of the land is cultivated, with the majority of the land being used to graze cattle (Acemoglu

et al., 2001: 9). Around 70% of the country is covered by the Kalahari Desert. The proximity to the desert results in a 20-year drought cycle with 15 years of reasonable precipitation and 5 years of drought (Harvey & Lewis, 1990: 6).

**Figure 1: Population of Botswana**



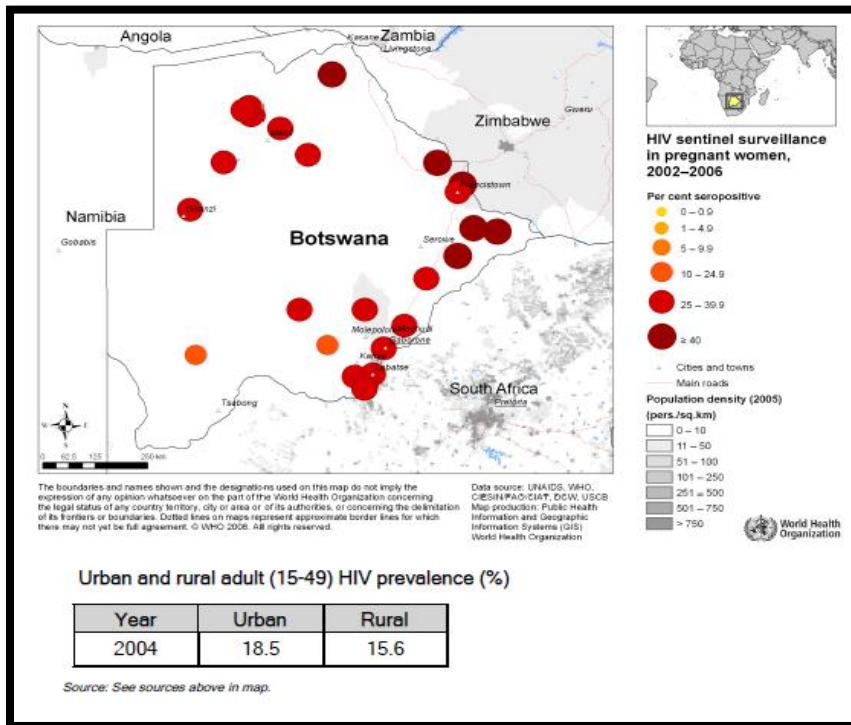
SOURCE: Leith, 2005: 12

## PROBLEMS

Botswana has successfully moved from one of the poorest countries in the world to an upper-middle income country. Yet, there are still a number of major problems that need to be addressed. Botswana has one of the highest HIV/AIDS prevalence rates in the world. According to the WHO prevalence rates were 18.5% in urban centres and 15.6% in rural communities. Figure 2 shows the epidemic has become widespread, and is not geographically isolated in a specific part of the country. This has lowered the life expectancy rate from 68 years in 1995 to 36 years in 2006 (WHO, 2006: 1). Poverty is widespread, with 23.4% living on less than \$1 per day; this is an increase from 19.9%

living at that level in 1993/1994. Relative poverty has declined from 59% in 1985/86 to about 30% in 2002/2003 (CStO, 2009: 13). The GINI coefficient measuring income inequality was 0.605 in 2008; this figure has increased from 0.552 in 1985/86 (see Table 1)<sup>1</sup>. This could limit future economic growth (UNDP, 2007/2008)<sup>2</sup>. The main economic engine in the country is mining, but Debswana, the major diamond corporation, employs only 8,000 workers (Hillbom, 2008: 203). Agriculture is still the major employer as figure 3 explains, employing close to 30% of the population.

**Figure 2: HIV Prevalence Rate in Pregnant Women 2002-2006**



**SOURCE: WHO, 2008**

<sup>1</sup> Good (1993:203-204) argues, that inequality is growing because the wages of high government officials is growing faster than entry level positions. Paterson (2006: 52) argues that the post-colonial government has perpetuated existing inequality. This is perhaps clearest in the live-stock industry, as the government has invested in the export of cattle that has mostly benefited the few large ranch owners.

<sup>2</sup> Long-term economic growth is dependent on stable social conditions and a stable political environment (Easterly & Pritchett: 38). The IMF projects that diamond reserves will be exhausted by 2030, they further argue that unless the government takes significant steps to gradually decrease spending, future growth could be inhibited by a sharp revenue decline (Dorsey et al., 2007). Alesina and Perotti (1993: 2) argue that more unequal societies are more politically unstable and this political instability has an adverse effect on investment and growth.

**Table 1: Botswana GINI Coefficient**

Year	GINI- Coefficient (National)
1985/86	0.556*
1993/94	0.537*
2006/07	0.60
2007/08	0.605

SOURCE: UNDP, 2007/2008; \*Leith, 2005: 18

**Figure 3: Employment by Industry, Region and Sex in 2005/2006**

Industry	Total			Cities/Towns			Urban			Rural		
	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female
<b>Total</b>	<b>539,150</b>	<b>281,762</b>	<b>257,388</b>	<b>139,794</b>	<b>71,513</b>	<b>68,281</b>	<b>158,873</b>	<b>77,045</b>	<b>81,828</b>	<b>240,483</b>	<b>133,203</b>	<b>107,279</b>
Agriculture	161,367	98,805	62,561	3,465	2,131	1,334	22,936	13,314	9,623	134,965	83,361	51,604
Mining and Quarrying	14,173	12,457	1,716	11,274	9,626	1,648	1,274	1,206	68	1,626	1,626	-
Manufacturing	35,973	16,010	19,962	12,535	6,558	5,977	11,623	5,515	6,108	11,815	3,937	7,878
Electricity & Water	4,163	2,626	1,537	1,928	1,329	599	1,618	905	713	617	392	225
Construction	27,587	23,111	4,476	9,325	7,776	1,550	10,793	8,908	1,885	7,469	6,427	1,041
Wholesale & Retail Trade	77,401	27,924	49,478	24,405	10,768	13,637	30,360	10,613	19,747	22,636	6,543	16,093
Hotels & Restaurant	14,667	3,770	10,898	5,026	1,672	3,354	4,752	781	3,972	4,889	1,317	3,571
Transport & Comm.	16,050	10,496	5,555	6,839	4,359	2,480	7,211	4,697	2,514	2,000	1,439	561
Finance	8,424	3,018	5,406	5,966	2,044	3,922	1,608	556	1,052	850	418	432
Real Estate	25,255	15,554	9,701	13,495	7,560	5,935	8,558	5,739	2,819	3,202	2,255	947
Public Administration	37,348	22,312	15,036	14,110	8,274	5,836	15,341	8,789	6,552	7,897	5,249	2,648
Local Government	22,809	12,227	10,582	4,579	2,111	2,467	8,506	5,210	3,297	9,725	4,906	4,818
Education	43,245	15,182	28,063	9,726	3,289	6,436	18,081	6,366	11,716	15,437	5,527	9,911
Health	14,002	5,393	8,609	4,185	1,238	2,948	6,508	2,508	4,001	3,308	1,648	1,660
Other Community	10,554	5,213	5,342	4,415	2,216	2,198	3,647	1,600	2,046	2,493	1,396	1,097
Private Households	25,235	7,208	18,027	7,853	215	7,638	5,828	230	5,598	11,553	6,762	4,791
Foreign Mission	895	456	439	668	349	320	227	108	119	-	-	-

SOURCE: CSfO, 2008: 18

## AT INDEPENDENCE

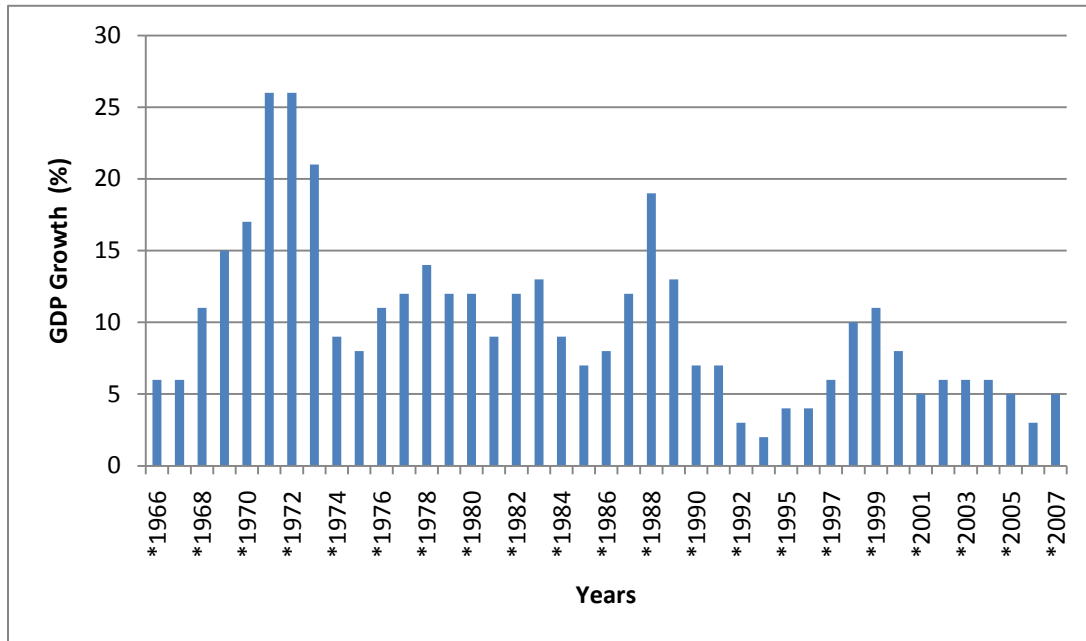
Although the data are unclear on the exact growth rates of Botswana (Jerven, 2009) all sources agree that growth was rapid and sustained (see Figure 4). Botswana has had the fastest growing GDP per capita in the world since independence in 1966 (see Table 2). However, this success was not guaranteed. At a speech before the United Nations (UN) General Assembly President Seretse Khama (1970: 124) said:

When my government took office in 1965 we were faced with a problem of underdevelopment of classic proportions...Not one single secondary school was completed by the colonial government during the whole 70 years of British rule. There was little provision for vocational training even at the lowest levels... We were in the humiliating position of not knowing many of the basic facts about Botswana on which development plans could be based. We are still learning about the resources of our own country.



At independence there was minimal infrastructure. The colonial period had left the country with only a railway, an abattoir built and 12 kilometers of paved road. There was virtually no mining industry and the new government was dependent for 50% of its budget on grants from Britain (Acemoglu et al., 2001: 17). The economy was dominated by a fledging cattle industry that was highly unequal as 15% of farmers controlled 75% of the cattle and 45% of the rural population did not own cattle (Mayende, 1994: 498). In 1965, fishing, forestry and agriculture accounted for over one-third of GDP and beef represented 85% of total export earnings (Hillbom, 2008: 198). However, only, 10% to 15% of farmers produced a surplus crop and only 30% met their subsistence needs (Mayende, 1994: 495). Erratic rainfall patterns meant that farmers turned to live stock production to try and minimize inputs and subsidize arable farming, although cattle ownership itself was risky, as farmers had repeated problems with ringworm. Around 50% of the population was dependent on remittances from South Africa. These remittances were not especially large in size either; in 1974 the average remittance for a 9-month worker was P49 or 65 USD (Colcough & McCarthy, 1980: 256). Most saw Botswana at independence as little more than another Bantustan dependent on South Africa for its future (Acemoglu et al., 2001: 17).

**Figure 4: Annual GDP Growth Rate 1966-2008**



SOURCE: World Bank, 2008

**Table 2: Growth Rates over Selected Periods**

Country	1999 Population (thousands)	1999 GDP/Cap (\$US)	11-Year Growth Rate (%) (1966-1976)	22-Year Growth Rate (%) (1966-1988)	33-Year Growth Rate (%) (1966-1999)
Botswana	1,610	3,124	4.0	5.1	7.0
Chile	15,020	4,505	5.2	3.5	2.1
China	1,266,840	782	8.0	NA	NA
Hong Kong	6,840	23,247	1.8	3.9	4.6
Indonesia	209,260	654	2.7	3.1	3.8
Korea	46,860	8,684	5.1	5.7	6.1
Lesotho	2,110	437	2.5	NA	NA
Malaysia	22,710	3,467	4.4	NA	NA
Singapore	3,890	21,837	4.8	5.0	6.2
Thailand	61,810	2,006	4.4	4.7	4.6

SOURCE: Leith, 2005: 4.

At independence, the education level of the society was abysmally low. In 1972, 88.6% of those employed in the formal sector had a primary school education or less (Poteete, 2009: 559). In 1955, less than 500 students were in the final year of primary school and only 50% to 60% were able to pass standard 7 examinations (Harvey & Lewis, 1990: 18-20). The quality of education was also quite poor, primary class sizes averaged

44 pupils and of the 1,345 classes 231 had over 80 students (Harvey & Lewis, 1990: 18-19). Realizing Botswana would become independent, the British began a rapid expansion of education services, but the system was unable to cope with the increased requirements and quality declined further; the standard 7 pass rate went from 59% in 1961 to 43% in 1965. At independence the country was believed to have about 40 Batswana who were University graduates and about 100 people with secondary school leaving certificates. Moreover, in 1965 only 16 secondary school students were capable of pursuing higher education (Samatar, 1999: 63). This neglect of education by colonial authorities was not specifically applied to the Bechuanaland Protectorate; similar statistics exist in Zambia. There they had twice as many University graduates, but Zambia's population was eight-times the size of Bechuanaland (Harvey & Lewis, 1990: 20).

Life expectancy at birth rose from 48 years in 1966 to 65.3 years in 1995 prior to the HIV pandemic (Mogae, 2005: 32). Health statistics tended to show that the population at independence was healthier than the average Sub-Saharan African state with a higher life expectancy and lower infant mortality rate. This was due to climate and the role of livestock in producing healthier diets (Harvey & Lewis, 1990: 23). The missionary hospitals, compensated for the lack of government spending, and contributed to a better health situation. As Table 3 shows, between 1900 and 1966, the administration spent more on veterinary care than they did on health care (Colclough & McCarthy, 1980: 29).

**Table 3: Functional Breakdown of Expenditures by the Protectorate Administration**

Period	General Administration	Police	Medical	Education	Veterinary and Agriculture	Public Works Extraordinary	Total recurrent	Development Expenditure
1900-25	54.4	37.1	1.7	1.2	3.4	2.2	100	--
1926-35	51.8	20.0	7.5	3.4	10.9	5.8	99.4	0.6
1936-45	41.4	11.5	9.4	4.1	12.8	9.5	88.7	11.3
1946-55	35.3	10.8	9.9	4.8	12.6	12.9	86.3	13.7
1956-66	41.0	6.6	5.9	6.3	10.0	4.9	74.7	25.3

SOURCE: Coclough & McCarthy, 1980: 29.

Hostile foreign government geographically surrounded Botswana. Namibia, despite UN objections, was governed by South Africa. In 1965, South Rhodesia, declared unilateral independence from Britain and was hostile to African majority rule. So despite clear sympathies for the African National Congress (ANC) and other African national movements, Botswana was in a difficult position. They attempted to maintain a neutral position in international forums, refusing to vote on several important UN resolutions condemning South Africa and South Rhodesia, while at the same time offering sanctuary to fighters from various rebel groups (Robinson & Parsons 2006: 116).

## **ECONOMY**

There are many examples of states that have large natural resource endowments yet are unable to develop or use those resources to sustain economic growth<sup>3</sup>. Botswana has proved able to achieve sustained growth while at the same time maintaining stable exchange rates, and increasing development spending. The country was able to balance the budget by 1973, and by the late 1970s was running recurrent budgetary surpluses

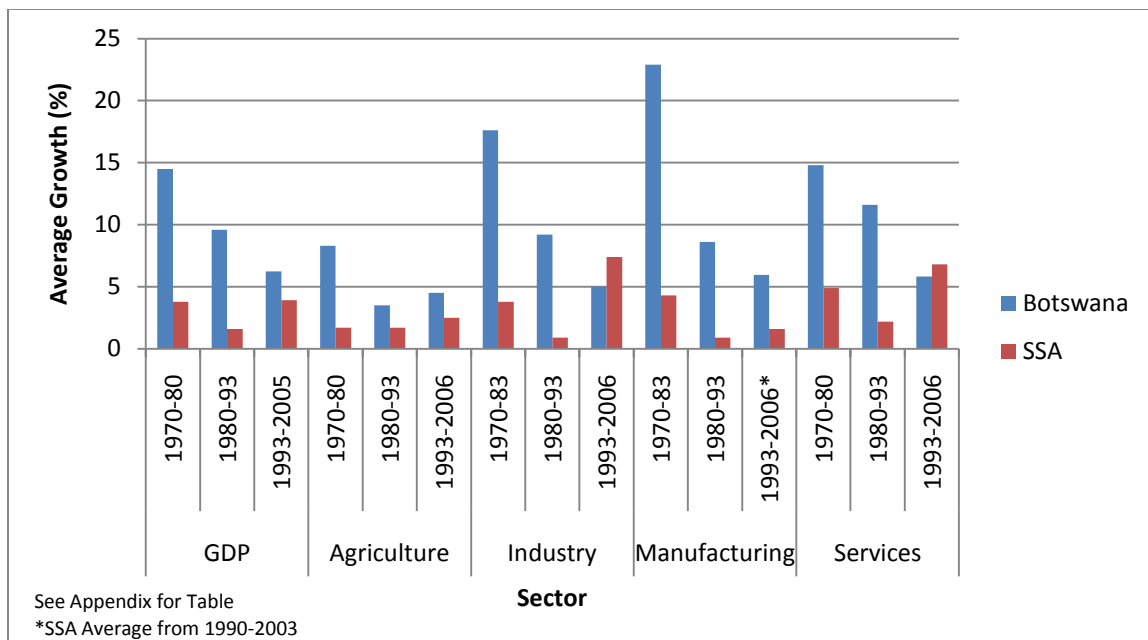
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<sup>3</sup>The Democratic Republic of Congo has natural resources that work out to \$24 trillion dollars, yet remains one of the poorest states in the world (Morgan, 2009).

(Meisenhelder, 1994: 43). Botswana has used their resources in a prudent manner and as a base for high economic growth, while for the most part avoiding the Dutch disease<sup>4</sup>.

Figure 5 shows successful economic growth in all sectors of the economy implying that growth is not just focused on mining. Hope (1996: 53) argues this has been accomplished through sound macroeconomic policies that have avoided consumption and encouraged state savings. Although a large part of early growth was due to a low starting position, sustained growth is attributable to policy choices.

**Figure 5: Average GDP Growth in Different Sectors**



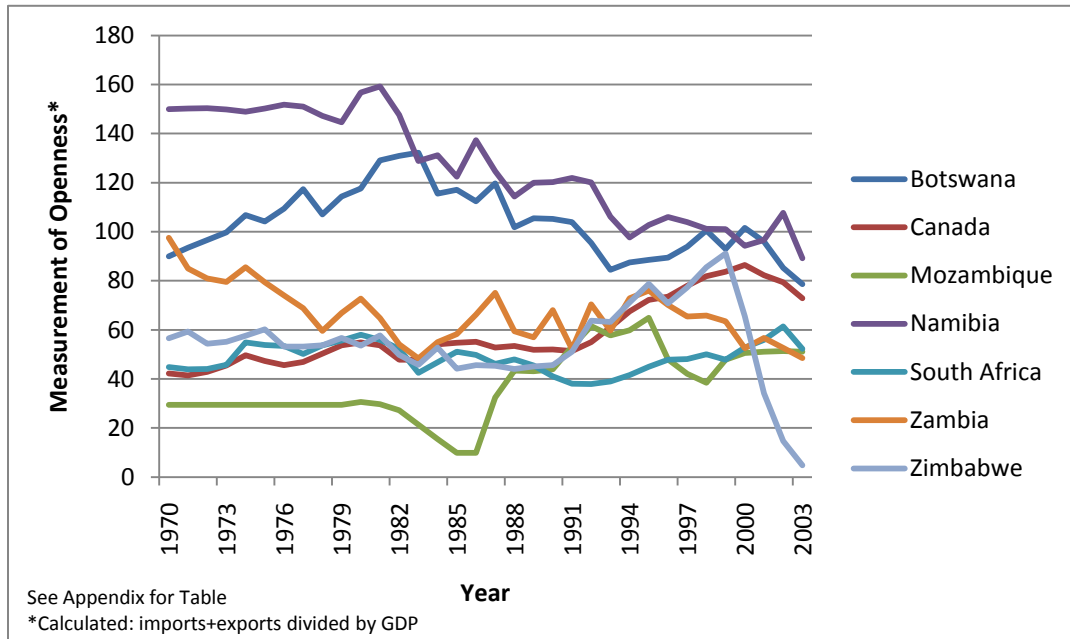
**SOURCE: World Bank, 2008; CStO, 2007; Siwawa-Ndai, 1997: 344; Kapunda, 2005: 4; Matsheka & Botlhomilwe, 2000: 42; Mbaye, 2002: 17; Velde & Cali, 2007: 12; FAO, 2009; Lawrence, 2005: 1124**

Botswana, since joining South African Customs Union in 1910 has had a very open economy; both exports and imports regularly exceed 50% of GDP (Hope, 1996: 54; see Figure 6). The country adopted liberal policies quite early in its development, and

<sup>4</sup> Dutch disease occurs when a state's income experiences a sudden large increase usually associated with resource discoveries. After production of the resource begins the country's currency appreciates. This leads to a decrease in price competitiveness and a decline in the export of manufactured goods. The appreciation of the currency also encourages the import of goods, weakening the competitiveness of domestic industry not associated with the natural resource discovery (Sachs, 2007: 181).

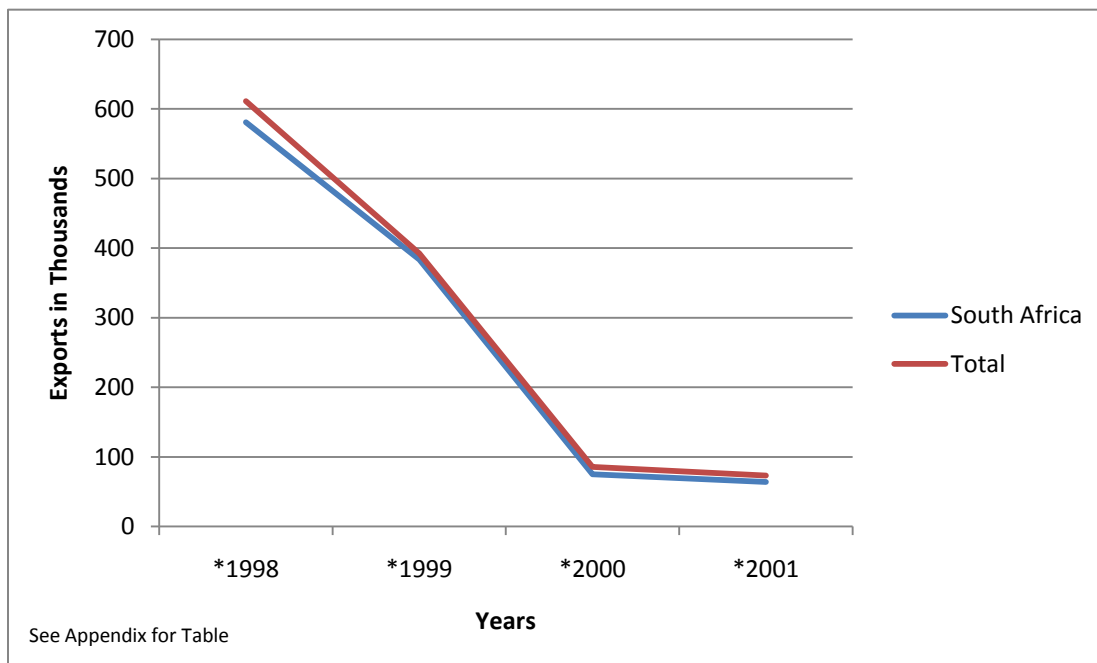
national development plans have always emphasized the role of government as a facilitator not as an active participant (Siphambe, 2004: 355). The country has avoided protecting domestic firms and has offered mostly short-term subsidies to small enterprises (Harvey & Lewis, 1990: 159). Botswana has free trade agreements with Zimbabwe and duty free access to all members of SACU, although South Africa also has a history of undermining free trade within SACU; a notable example is South African treatment of a Hyundai factory established in Gaborone. Through state action South Africa effectively blocked Hyundai cars produced in Botswana from accessing South Africa's market or being sent to Australia through South African ports (Good & Hughes, 2002: 51-52). In 2000, South Africa instituted taxes and other NTB to hinder the import of cars from Botswana into South Africa. The result was a significant decline in production as Figure 7 shows. This collapse has occurred despite significant demand growth in South Africa, from 2005-2006 demand increased by 23.9%, after a 27% increase in 2004 (Ford, 2006). As a member of SACU, Botswana does not control external tariffs instead they receive compensation from South Africa.

**Figure 6: Measure of Economic Openness**



SOURCE: Heston, Summers & Aten, 2006

**Figure 7: Motor Cars and Other Motor Vehicles Exported from Botswana in Pula**

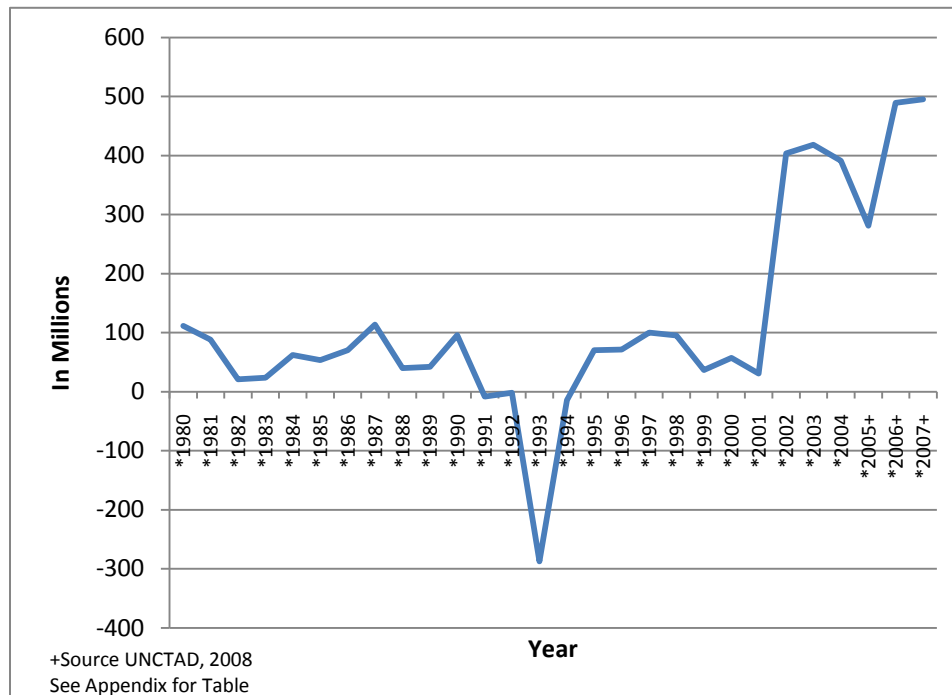


SOURCE: BIDPA, 2005: 7-8

The government has sought advice and assistance from international financial institutions. Due to savings from diamond production Botswana could not seek development loans from the IMF or World Bank, but they did encourage their advice, and implemented their recommendations (Beaulier, 2003: 234). The state's finance laws have made them globally competitive and are in the top third of the world rankings (Kim, 2007: 23). Government actions have been aimed at attracting foreign direct investment (FDI), offering significant incentives to attract reputable international corporations (Good & Hughes, 2002). The country is also one of the few African states that allow foreign-owned companies to repatriate capital gains, and the OECD praises the investment climate in the country (OECD/ AfDB, 2007: 141). However, most FDI is still directed to the mining sector, and foreign firms outside mining have generally been unsuccessful in Botswana (Good, 2005: 27). FDI declined in the late 1990s, but has shown an upward trend since 2001 (See Figure 8).



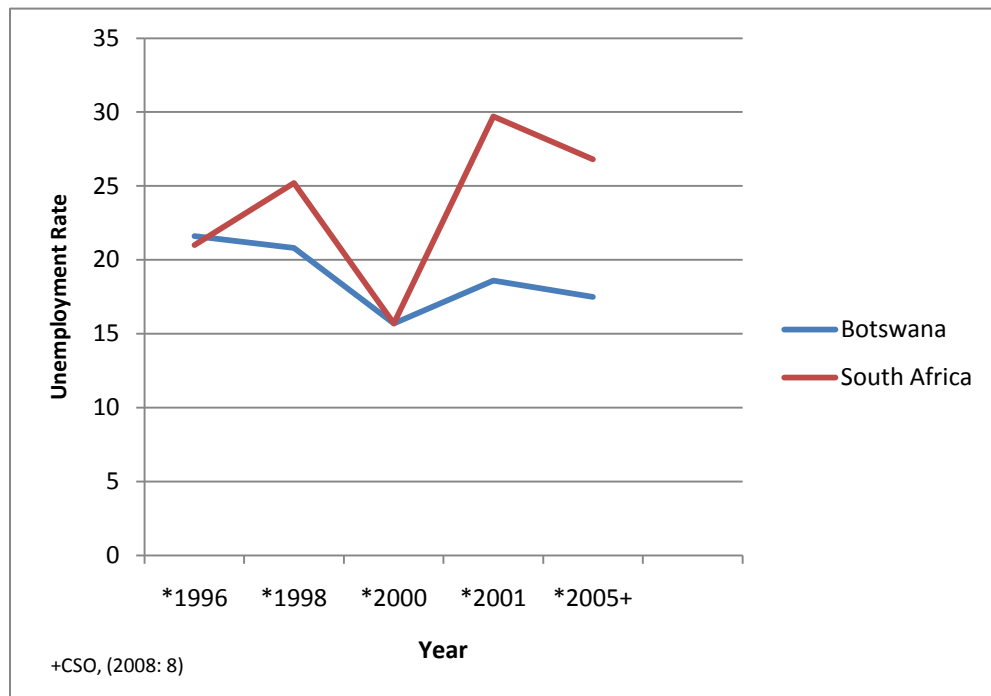
**Figure 8: Botswana FDI Total Inflows in Millions (USD)**



**SOURCE: UNCTAD, 2006: 4**

Labour markets are not rigid, and unions are not aggressive (Dorsey et al., 2007: 22). However, domestic wages are considered high compared to productivity (Mpbanga, 1997: 378). The official unemployment rate is 17.5% and some estimate the actual rate is double that figure (AFM, 2009: 5). Botswana's labour situation is similar to what is experienced in South Africa (see Figure 9). Despite the high unemployment rate there is still a severe shortage of skilled workers in several areas of the formal economy. Much of the trained manpower moves abroad notably seeking employment in South Africa (AfD, 2002: 5-6). Siphambe (2004: 358) argues that high unemployment might be due to the support given by family's that has allowed job seekers to continue to look for employment without reducing wage expectations, as many low-paid jobs are filled by illegal migrants: mostly from Zimbabwe.

**Figure 9: Unemployment Rate in South Africa and Botswana**

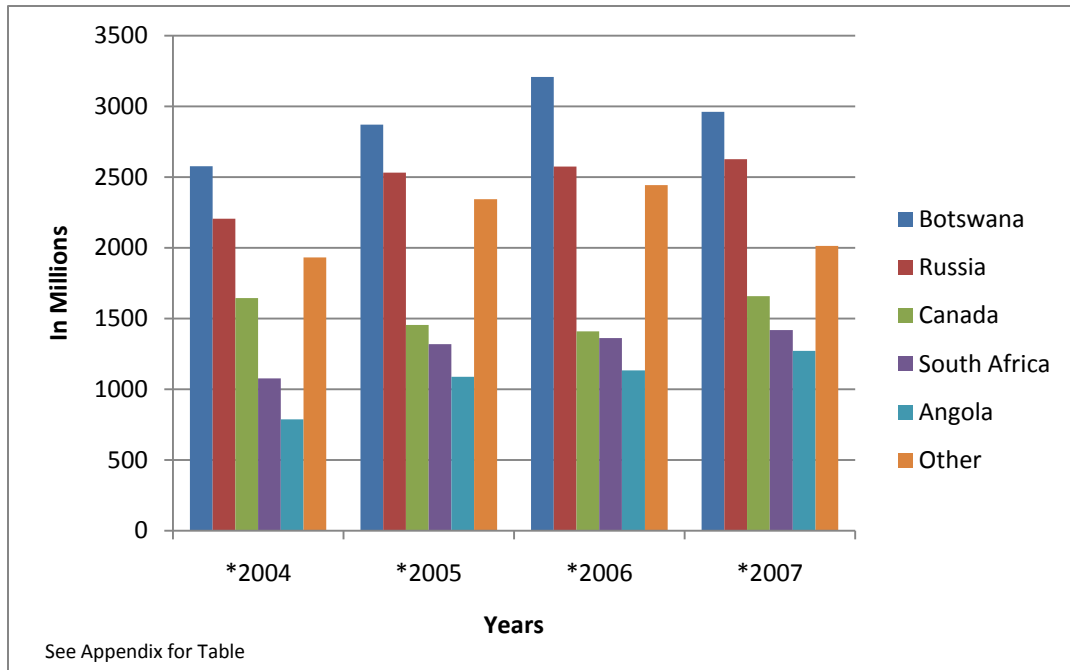


SOURCE: ILO, 2007: 62-63

## DIAMONDS

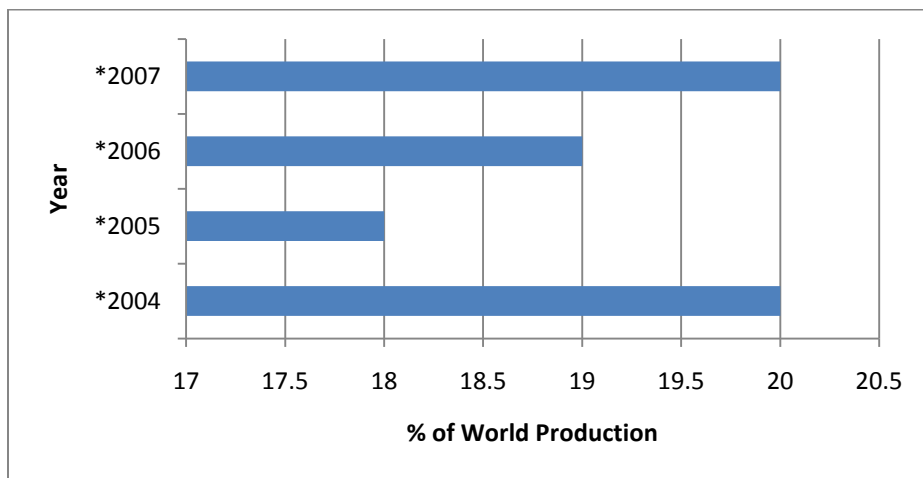
Diamonds are the key factor in the economic growth of Botswana. Botswana is the largest producer of diamonds in the world in both quantity and value (see Figure 10). They have the world's largest reserves and three of the top five most profitable mines in the world. Botswana is also in a position as the world's largest producer, usually around 20% of global supply (see Figure 11), to exert pressure on the world markets and alter prices (World Bank, 1999: 9). Botswana production is about 75% gem quality and 25% industrial diamonds (see Figure 12). The price of industrial diamonds ranges from \$7-\$10 dollars per carat (Olson, 2003: 22.2), while gem quality diamond prices are dependent on the four 'C's' (cut, carat, clarity and colour).

**Figure 10: Annual Global Production USD\$ in Millions (USD)**



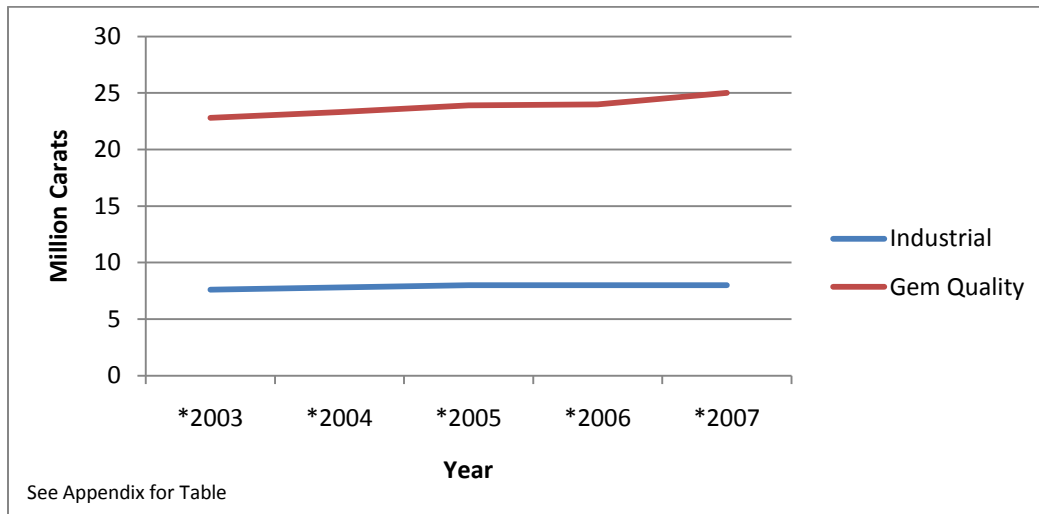
SOURCE: KPCS, 2004; 2005; 2006; 2007

**Figure 11: Botswana's Share of World Diamond Production**



SOURCE: KPCS, 2004; 2005; 2006; 2007

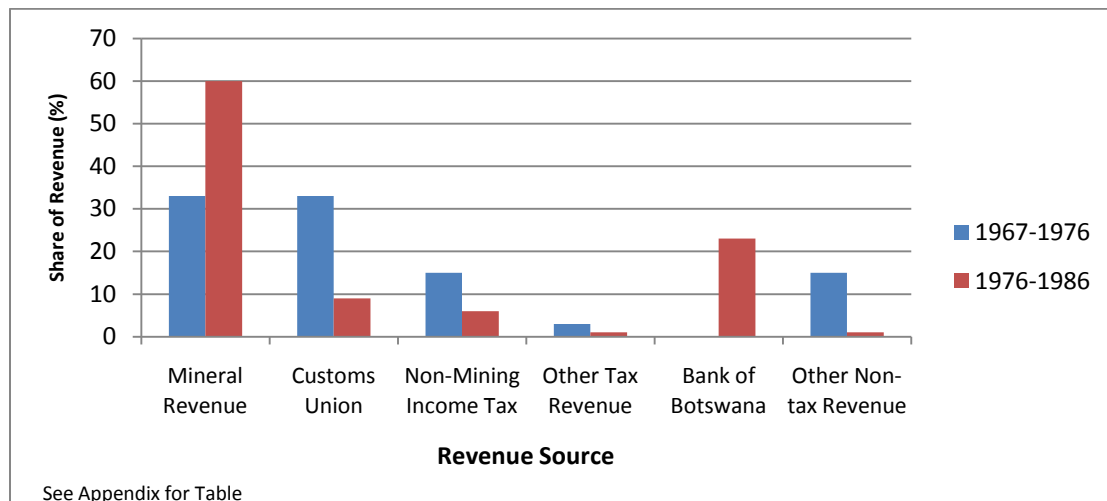
**Figure 12: Industrial and Gem Quality Diamond Production in Botswana**



**SOURCE: Olson, 2009: 21.9**

Diamonds are the main source of foreign exchange earnings, and accounted for 75% of total annual exports between 1997 and 2007. Jerven (2009: 15) argues, “The main export and the engine of growth was diamonds. If Botswana had relied on manufacturing and agriculture alone GDP would have failed to keep pace with the population growth.” In addition, 95% of mineral revenues come from diamonds and accounted for 63% of government tax revenues (Dorsey et al., 2007: 6). Figure 13 shows mineral revenue increasing as a share of government revenue.

**Figure 13: Sources of Government Revenue, 1967-1986**



**SOURCE: Harvey & Lewis, 1990: 195**

It is important to note the types of diamonds mined in Botswana are from kimberlite pipes. This means that the diamonds are embedded in hard rock underground, like diamonds mined in South Africa, Namibia and Canada. Kimberlite mines are capital and technology intensive making it difficult for individuals to prospect for diamonds. Alluvial mining<sup>5</sup> is the other type of diamond removal. This involves individual miners or groups of individuals in direct competition with each other.

Diamonds were discovered in 1967 at Orapa. Following this discovery, the government, and the diamond mining company De Beers established a joint company known as Debswana. The initial agreement reached in 1970, provided a royalty based on production levels, the agreement was an 85/15 split of Debswana with the government receiving 15% equity stake in Debswana, and a 50/50 split of profits (Taylor & Mokhawa, 2003: 263). Shortly after production began at the mine in Orapa the government realized how profitable the operation was, thus when De Beers approached the government in

<sup>5</sup> Alluvial diamonds are found scattered along river beds. These are the type of diamonds found in Sierra Leone, and the Democratic Republic of the Congo (Wrong, 2000: 116). The main benefit of kimberlite pipes in comparison to alluvial diamonds is the security of tenure.

1974 to exploit the mine at Letlhakane, the state demanded, under the previous contract, that they re-open negotiations. The new agreement was more intensely negotiated, and Botswana gained a 50% stake in Debswana as opposed to 15% and the total share of profits increased from 50% to 75% (Jefferis, 1997: 304). Under this new contract each party appoints half of the company's board members, and neither party has overall control of the company.

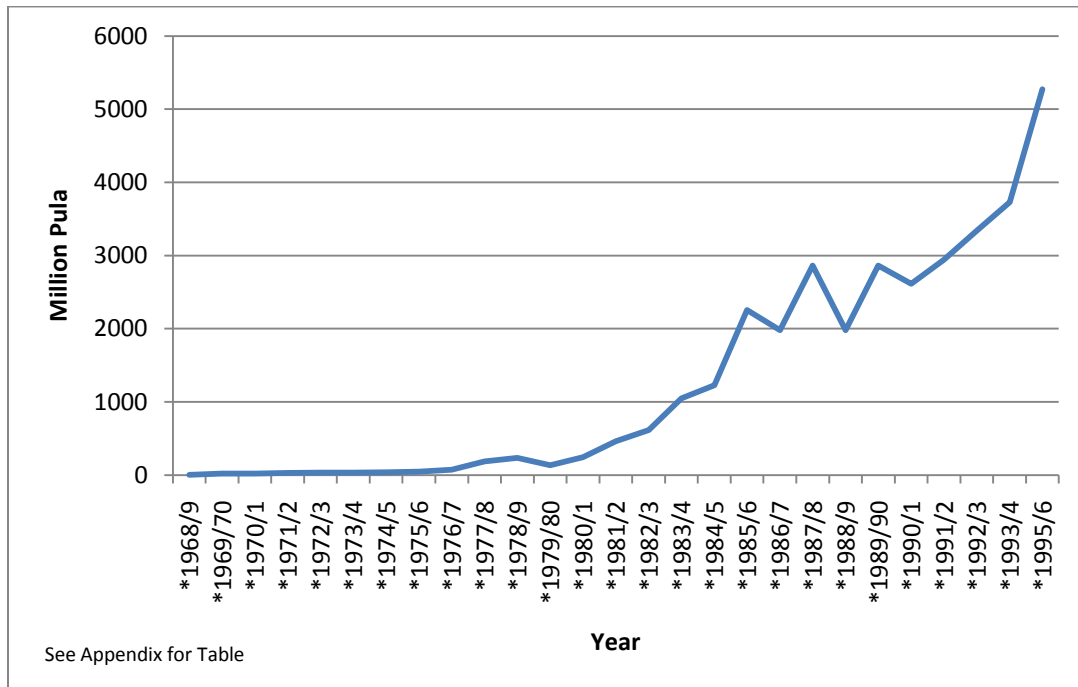
Botswana diamonds were marketed initially through the Central Selling Organization<sup>6</sup> (CSO), which is owned by De Beers. CSO/DTC heavily influences the prices of world diamond markets looking to maintain stable price levels, by controlling a significant portion of rough diamonds. This is done through agreements with the major producing countries (Leith, 2005: 62). The CSO/DTC maintains a buffer stock of diamonds that they use to influence market prices. Under CSO/DTC's buffer stock arrangement if supply increases relative to demand, the buffer stock will take in the excess supply; this prevents prices from falling and also allows producers to sell all of their produce. In the opposite case when demand rises relative to supply the commodity is sold from the buffer stock, this contributes to the normal supply of diamonds and prevents substantial price increases and gives producers reasonable assurances of revenue flows (Jefferis, 1998: 307). For instance, in 1994, the CSO had a buffer stock of \$4.4 billion USD or about one year's supply (Jefferis, 1998: 307). De Beers has also been quite successful at marketing diamonds, the famous advertisement "Diamonds are forever" reinforces the idea that diamonds resources are finite and should not be resold (Leith, 2005: 62). Jefferis (1998: 307) estimates that diamond production costs only account for

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<sup>6</sup> Now become the Diamond Trading Company (DTC)

20% of revenues meaning a profit of 80%. He further argues that, “contrary to popular belief, diamonds are plentiful and would be cheap if it were not for the operation of the cartel (Jefferis, 1998: 307). As a result of this arrangement, Botswana has experienced relatively stable returns on its resources. Figure 14 shows the long-term stability experienced by Botswana diamond production.

**Figure 14: Value of Diamond Exports in Botswana**



SOURCE: Samatar, 1999: 146

## **CHAPTER 2: HISTORICAL LEGACY OF COLONIAL RULE**

Bechuanaland Protectorate was established by Britain in 1885. The apparent purpose of creating the Protectorate was to maintain Britain's access to Central Africa, and discourage the advancement of the independent Boer Republics into Bechuanaland and the German expansion east from South West Africa, now Namibia (Harvey & Lewis, 1990: 15). An underlying reason for the protectorate was the possibility of natural resource extraction, and advancing the interests of Cecil Rhodes' British South Africa Company (BSAC) (Parsons, 1985: 29). Whatever the legitimate reason for the establishment of the Protectorate, it had three major impacts on the future of Bechuanaland and independent Botswana. First, the Protectorate built on the Tswana nationalism against the encroachment of influence and direct control exerted by Afrikaans and South Africa. Second, Bechuanaland status as a Protectorate resulted in reduced influence, less structural change than a traditional colony. Some scholars (Picard, 1987: 96; Beaulier, 2003: 233; Robinson & Parsons, 2006: 121) have labeled it benign neglect, the British did not alter pre-colonial institutions and thus when independence came the negative externalities of colonialism were not present. Furthermore, Britain's indirect rule had the effect of exposing the population of the Protectorate to the possibilities of South African rule. Third, the British influence in certain areas although less apparent than other colonies still dramatically altered Botswana society.



## TSWANA UNITY

The possible transfer to South Africa always influenced British colonial rule in Bechuanaland. The Tswana favoured the retention of British authority. They preferred it to the prospect of incorporation into South Africa or South Rhodesia (Ramsay, 1998: 62). Nationalism developed in resistance to possible Afrikaner annexation (Morton, 1998: 44). Similar to the rest of Southern Africa, the nationalism that developed in Botswana was in resistance to South Africa (Raphael et al., 1984: 12). This led to a less antagonistic relationship with the British as the prospect of domination by South Africa or South Rhodesia discouraged popular mobilization against British rule, and encouraged the population to work with colonial authorities (Ramsay, 1998-a: 103-104). Opposition to South Africa furthered tribal cooperation and created the conditions for a unified nation state.

The origins of Tswana resistance to Afrikaner encroachment began with the wars fought following the Great Trek<sup>7</sup>. Tswana tribes unified to fight against encroachment into their territory by the Boer Republics. According to Tlou and Campbell (1997: 170):

The most important result of the wars was the uniting of the Batswana against a common enemy. This was to lay the foundations for a future Republic of Botswana, in which merafe recognizes a common unity.

Despite the military victory Afrikaner and Tswana continued to come into conflict with one another, these conflicts prompted Chief Matsheng to ask the British for protection in 1870 (Sillery, 1974: 45).

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<sup>7</sup> Great Trek saw some 14,000 Afrikaner migrate to establish the settlements of Western Transvaal, Natal and Orange Free State.

Following the first Boer war and after the Boers had attempted to annex Northern Bechuanaland, Britain agreed to Chief Matsheng's request Bechuanaland became a Protectorate. Part of their reasoning for accepting Bechuanaland was to assist Cecil Rhodes in expanding his British South Africa Company (BSAC). Rhodes wanted to connect his operations in South Africa to South Rhodesian mining concessions obtained in 1888 that granted him exclusive mining rights in Western Rhodesia (Ramsay, 1998: 69). He also had a vision for Bechuanaland that included a European settlement along the fertile eastern part of the country (Picard, 1987: 30). Rhodes had already established settler communities in the west in Ghanzi district and in some parts of the east. The Tswana chiefs strongly opposed BSAC control and with the assistance of the Aboriginal Protection Society successfully lobbied the Queen to maintain the Protectorate under British control. Rhodes also lost British support with the failed 'Jameson Raid'<sup>8</sup>. The Jameson Raid proved to British authorities there was too much risk in granting all the power in Bechuanaland to Rhodes and BSAC. This event also sparked the second Boer-War, which brought a reevaluation of British policy in Southern Africa, and the realization on the part of the British that Bechuanaland's future seemed intimately tied to the Republic of South Africa (Colclough & McCarthy, 1980: 13-14). In 1910, the South Africa Act created the Union of South Africa. The Act also called for the eventual amalgamation into South Africa of the Crown Territories of Bechuanaland, Basutoland, and Swaziland. However, after significant opposition from the chiefs in Bechuanaland the immediate integration was put on hold (Ramsay, 1998: 84). The tribe was unified in their opposition to joining South Africa.

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<sup>8</sup>Jameson Raid was launched by Leander Jameson against the Boer Republic at Johannesburg. The raid was launched from within Bechuanaland.

## UNITY THROUGH MARRIAGE

In 1947, Seretse Khama the heir to the Chieftaincy of the Bangwato tribe married Ruth Williams. The marriage caused an international political row, as Ruth was white, and Seretse was black. South Africa reacted with hostility, as the National Party had just been elected and had aimed to institute apartheid<sup>9</sup>. Seretse's Uncle, Tshekedi, acting regent of the Bangwato tribe in which Seretse was heir to the throne, also opposed the marriage. Tshekedi opposed the marriage on two grounds, first the tribe was not consulted about the decision, and second because the woman was European and thus could threaten the long term stability of the tribe (Picard, 1985: 15). After returning to Bechuanaland from London, Seretse was able to convince a kgotla (tribal meeting) of the merits of his marriage. This action unified the tribe around Seretse.

The British favoured the position taken by Tshekedi. They did not want to anger the South African government and exiled Seretse to London until 1956. As Anthony Sillery (1974: 149), who was resident Commissioner at the beginning of the incident said: "No one doubted that the real reason why recognition was withheld (from Seretse) was reluctance to upset the South Africans, who on the subject of miscegenation are hardly sane." The British had two major goals in maintaining a close relationship with South Africa, first South African uranium was being used to create Britain's first nuclear weapon, and second the British wanted South Africa to play a stronger role in the Middle East. The exile of Seretse unified the residents of Bechuanaland, and created further

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<sup>9</sup> Daniel Malan, the South African Prime Minister, was adamantly opposed to the marriage. South Africa responded by banning Seretse from migrating to South Africa, to prevent him from going to the administrative capital in Mafeking, South Africa. Seretse responded by saying his banishment made him no different than every other black man in South Africa saying, "people are practically prohibited immigrants; they cannot move from one part of the Union to another without some sort of permission from the Native Commissioner" (Williams, 2006: 102).

support for the institutional framework of the kgotla. Shortly before the ban was lifted, Seretse said: “[these events] have convinced me that the whole Bangwato Nation is now more united than at any time in living memory (Williams, 2006: 184).”

By supporting Tshekedi and sending Seretse into exile, the British unintentionally contributed to the democratic development of Bechuanaland. In 1948, when the British ignored the kgotla decision about Seretse and Ruth’s marriage it had the result of weakening traditional leadership and strengthening calls for democratic rule. At the kgotla, Seretse famously called for a vote to decide on his future with the tribe. This was the first time in the history of the kgotla that the tribe voted on a decision setting a precedent of elections for important decisions, and inspiring a future democratic state. The vote overwhelmingly supported Seretse and isolated Tshekedi. The British supported Tshekedi, and by exiling Seretse they further weakened the institution of chief within the tribe. When Tshekedi and Seretse renounced their claims to the chieftaincy the institution of chief was eliminated within the largest tribe. The whole experience also turned Seretse and Tshekedi into nationalists that wanted independence from Britain (Robinson & Parsons, 2006: 119).

Botswana nationalism developed in resistance to South Africa, and the encroachment of their society onto traditional Bechuanaland culture. By unifying behind a common enemy, the tribes established cooperation and a base line for a future nation state. As Collier (2009: 61) argues ethnic division in poor countries usually results in conflict. According to Leith (2005: 30) depending on how you measure ethnic composition, Botswana could have just as much ethnic diversity as Democratic Republic

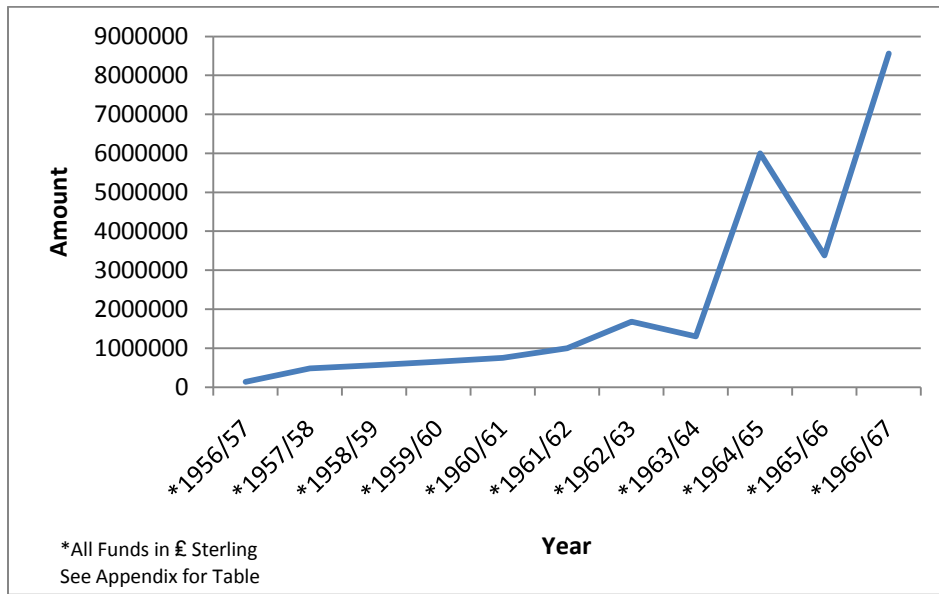
of Congo or Tanzania. Yet ethnic conflict that threatened other states was never present, this was due to previous cooperation under colonial rule.

## **BENIGN NEGLECT?**

Despite declaring Bechuanaland a Protectorate in 1885, the British only began administering it in 1890 (Ramsay, 1998: 68- See Map 2). The possibility of transfer put Bechuanaland in a type of limbo, as neither the British nor South Africa felt obligated to invest in the territory. The clearest symbol of this neglect was Mafeking, the location of Bechuanaland's administrative capital, which is not in Bechuanaland, but rather in South Africa. Raphaeli et al. (1984: 11) argue that the colonial authorities acted the way they did because they were convinced the Protectorate had no natural resources, and their absence meant there was no need for the British to establish a permanent administration. Their independence only became clear in 1954, after the possibility of joining the Central African Federation failed.

When the British realized that transferring Bechuanaland to South Africa was not viable and independence seemed to be the inevitable result they dramatically increased assistance. As Figure 15 shows, grants to Bechuanaland from 1956/57 went from £140,000 to £8,564,000 in 1966/1967. Increased spending did not result in immediate changes, at independence, the new capital Gaborone had a population of only 4,000 and much of the infrastructure and amenities were incomplete (Harvey & Lewis, 1990: 23).

**Figure 15: Annual Government Grants from Britain to Bechuanaland**



SOURCE: Picard, 1987: 102

Colonial neglect was clearest in health and education, and as late as 1948 spending was under £5 million per year. Official spending was focused on maintaining law and order, in 1899, police were consuming 51% of the Protectorate's budget; the combined police budget for both British Bechuanaland<sup>10</sup> and Bechuanaland was 60% of the total budget. By 1912, this had fallen to 30%, but the colonial government had also imposed a 'hut tax' and a 'poll tax' that covered 60% of costs (Picard, 1987: 35, 98-99). Private investment was responsible for the Protectorate's largest infrastructure project. Rhodes had built a railway to connect BSAC concessions in South Africa and South Rhodesia having it run through Eastern Bechuanaland, he received a 10-year £20,000 annual subsidy from the government for this project (Picard, 1987: 99).

Picard (1987: 96) argues that if the British did not develop the territory, it did prevent the territory from being controlled by South Africa and left the people of

<sup>10</sup> Annexed by the Cape Colony in 1895 (see Map 2).

Bechuanaland with their socio-economic system largely intact. Contrary to other colonial experiences, the British did not send large groups of settlers, nor did they stoke ethnic conflict leading to post-independence conflicts. Unlike other colonies, Britain during the 1950s, did not attempt to maintain control of Bechuanaland through military action. This factor impacted post-colonial government as one Botswana MP said, “Since we did not fight for independence, our politics of development was not the politics of ideology” (Raphaeli et al., 1984: 13).

Bechuanaland also maintained some key pre-colonial institutions. A number of scholars point to the maintenance of *kgotla*<sup>11</sup> as being a reason democracy has prospered in the post independence period (Molutsi & Holm, 1990: 325; Odell, 1985: 61). Martin (2008: 40) claims that the *kgotla* created an implicit bargain between the chief and his people that made him accountable and created constraints to his rule. A delegation to Britain in the 1950s claimed the *kgotla* had been “invested with authority in the determination of our affairs equivalent to that of Parliament to the British people” (Williams, 2006: 99). Other scholars disagree citing the absence of popular participation as responsible not for democracy, but for the emergence of an authoritarian system. Good (1992: 71) argues that the pre-colonial system emphasized control and turned the majority of the population into a type of serf. Du Toit (1995: 21) highlights the hierarchy built into the system, the stratification of the society and the political system. He also contends that the whole process guaranteed only limited consent. Picard (1987: 38)

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<sup>11</sup> The *kgotla* is a meeting where the tribe will discuss important issues. Women, younger males, and minority groups were excluded and those of commoner status were not expected to contribute in the discussion. Chiefs would set the agenda, and the most prestigious members of society would speak, the forum would continue until all points of view were heard and no new points were being raised (Molutsi & Holm, 1990: 325-326). The tribe would then reach a consensus, and this decision would be put forward for consideration by the chief.

argues that the British attempted to maintain stability and did this by supporting the chiefs against their opponents. This affected the balance between chiefs, their advisors and the kgotla as the chiefs became more authoritarian.

As a Protectorate, Botswana had more control over their internal activities, but the British still played an important role. By 1895, intervention by colonial authorities was always a possibility and leaders acted accordingly (Picard, 1987: 37). In some cases acquiescing to these policies resulted in negative externalities, and a general reluctance to follow a similar path in the future. For instance, by the late 1940s it became clear that there were some natural resources to be found in Botswana, it was not yet known that Botswana found itself on the largest reserve of diamonds in the world, but it was assumed that Bechuanaland had some copper-nickel, asbestos, and a few other resources.

However, there was great reluctance on the part of chiefs to negotiate concessions with companies because of past experiences. In general, the chiefs, and in the future the Botswana government, took a very cautious line in negotiating with international mining companies, and this reluctance has served them well. Chiefs did not want to repeat the experience of the Tati Company. The company was located in a region named Tati, the mining firm had been established in 1890 to exploit, what at the time was thought to be huge gold reserves. The company ran the community similar to the norm in South Rhodesia, in which non-Europeans were not allowed to own farms; the result was a tense racial relationship (Picard, 1987: 116). This experience along with other colonial interactions did not have the effect of changing the entire society, but it did have a traumatizing effect that made the authorities much more reluctant to simply concede resources when made extravagant promises.



## **GREAT IMPACT?**

The British may have neglected to spend money on education, healthcare, and infrastructure, but this does not mean they did not have a huge impact on Bechuanaland and the future Botswana state. Colonial initiatives changed the lifestyle of the average Batswana. Bechuanaland was primarily an agriculture society and most savings were tied up in cattle. Through the implementation of the hut tax, poll tax and native tax, British authorities inadvertently forced mainly males to seek wage employment, in order to meet their tax requirements, changing the society from a rural economy to a modern wage labour economy (Paterson, 2006: 16). The migration of labour to South Africa created what Picard (1987: 113) called a “proletarianized” peasantry, a working class dependent upon urban conditions, but residing in rural areas. The Tswana had a history of working in South Africa for wages, as early as 1844 migrants were working on South African farms and in mines. However, after 1899 the system became much more pervasive as shown in Table 4. In 1902, there were 357 miners recruited, by 1905 the number was 2,352. Between 1905 and 1925, the number of migrants went from a low of 2,400 to a high of 9,000. At its peak in 1943, emigration to South Africa reached 50% of the male population (Beaulier, 2003: 233). Despite the structural changes occurring, protesting the tax was not seen as a viable option as the colonial authorities had already shown they were willing to deal harshly with those who refused to pay the tax. In Batlhaping, a Tswana community located in South Africa, the population rebelled against paying the tax. Authorities responded by killing more than 1,500 and taking around 4,000 captive and sending them to work in the Western Cape under slave like conditions (Ramsay, 1998: 80).

**Table 4: Migrant Batswana Working in South Africa**

Years	Batswana Workers in Chamber of Mines Organization	Total Batswana Mine Workers 'Officially Recruited'	Reported Absentees Working in South Africa	Likely Magnitude of Total Absentee Workings in SA
1935/36	7,000	N/A	N/A	10,300
1946	7,000	N/A	14,250	20,000
1964	16,000	N/A	35,000	52,000
1970/1	16,000	26,000	45,700	60,000
1974	20,000	N/A	N/A	60,000
1975	19,000	26,000	N/A	60,000
1976	26,000	32,000	N/A	70,000
1977	25,000	32,000	N/A	70,000

SOURCE: Coclough & McCarthy, 1980: 254.

The method of administering the tax centralized control of the tribe in the hands of the chief (Paterson, 2006: 75). The Chief collected taxes and in return received 10% of the revenue (Picard, 1987: 111). The tax system had three more general long-term effects on a future Botswana state. First, it institutionalized a system of tax collection, and allowed for the normalization of taxation for the purpose of generating government revenue. Second, the wage labour system that evolved out of tax collection transferred the population away from a subsistence model that was not working effectively, into a slightly more diversified formal wage sector (Picard, 1987: 2). Third, the system increased income inequality as chiefs accumulated large fortunes. This structural inequality remains, although opportunity and access to education has greatly improved suggesting that inequality should decline.

## **CHAPTER 3: LEADERSHIP**

Many scholars have pointed to the exceptional post-colonial leadership found in Botswana (Harvey & Lewis, 1990: 9; Hillbom, 2008: 192). The failure of many great leaders in Africa usually led to the military take-over of civilian governments and a decline in both the economy and the general standard of living. It was different in Botswana, according to Makgala (2005: 304): “Seretse’s human character and outstanding leadership qualities translated into Botswana’s national character” and this led to successful economic growth. According to Harvey & Lewis (1990: 9), Khama set the tone of government with “common sense, good humour, honesty, and a desire to learn lessons from other countries.” Beyond being well educated and pro-democratic, Seretse adopted policies that benefited the entire nation, rather than simply his ethnic group.

When a politician or leader dies suddenly and no clear successor is present, it is sometimes referred to as a ‘coup from heaven’ (Maier, 2000: 7). Tshekedi Khama died in 1959; he was just 54 years old. He had been influential in determining the direction of the tribe, and was considered to be the main spokesman for the Protectorate (Leith, 2005: 25). After a period of separation following the 1948 kgotla, Seretse and Tshekedi reconciled their differences, and when Seretse was allowed to return to Bechuanaland in 1956 both took up positions in the African Advisory Council and the Joint Advisory Council. Tshekedi was very close to Seretse, but their personalities were quite different, and both had their own view of where to lead Bechuanaland. According to Williams (2006: 305): “Seretse’s approach to politics was very different: he attracted support

instead of creating conflict and antagonism...he was firmly committed to democracy, unlike his more autocratic uncle.” Seretse was much more popular than his uncle, when political parties were being formed in the early 1960s, a number of parties attempted to retain him as leader.

Tshekedi was a different type of leader than Seretse, he rarely allowed dissent, and exiled many royal relatives that had opposed his actions (Maudeni, 1998: 120). Many felt as though Tshekedi was a tyrant who excluded the mass of the population from participation in political affairs (Maudeni, 1998: 120). Furthermore, he over-used regimental labour<sup>12</sup> on projects that the population did not support (Williams, 2006: 209). To some Tswana, the kgotla of 1948 was a sort of constitutional displacement of Tshekedi, and if Tshekedi had returned to power he would have faced significant opposition (Williams, 2006: 209). Prior to Tshekedi’s death, Seretse was quite content to live in the shadow of his uncle. Henderson (1990: 32) suggests that Seretse was willing to follow anyone so long as they would ensure stability and encourage political development. The death of Tshekedi removed a political opponent of Seretse; his death also removed any possibility of a federal state or an authoritarian leader.

Seretse Khama was the first leader of independent Botswana. He was elected in the first elections in 1965 with 80% of the popular vote. His political party, the Botswana Democratic Party (BDP), won 28 out of 31 seats. The main opposition party, the Botswana People Party (BPP), won the additional three seats. Seretse had initially established the BDP in response to the BPP, fearing that a more radical government

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<sup>12</sup> Regimental labour was a sort of ‘rite of passage’ for males. Tshekedi used the regiments for public projects, notably building the Bangwato National College (Dutfield, 1990: 47).

would come to power if the BPP won. The founders of the BPP had developed their political opinions through the struggle against apartheid in South Africa. Many figures had ties to the ANC and the PAC and were sympathetic to the ANC's Freedom Charter that called for redistribution and nationalization of key industries (Ramsay & Parsons, 1998: 143). This was countered by Seretse, who was an adamant capitalist; a radical stance in the region at the time (Samatar, 2005: 243-244). While in power, Seretse adopted pro-market policies on a wide front, including low and stable taxes for mining companies and kept income tax low to deter evasion (Beaulier, 2003: 236).

Seretse, as a cattlemen and landowner was historically associated with wealth accumulation. This association meant he had an interest in upholding property rights and setting up laws to resolve commercial disputes. The leadership of Botswana was heavily vested in the cattle economy, and this relationship helps to explain why they encouraged capitalism. Robinson and Parsons (2006: 121) argue, "Beefocracy of Botswana at independence was led by large ranchers such as Seretse Khama within the national elite, who provided the model of personal accumulation..." Unlike other African states that attempted to create a third way, Botswana always followed the capitalist model. Seretse avoided nationalist rhetoric, did not take over any foreign owned enterprises and encouraged foreign investment. He was also a very tolerant man that bore no grudges, choosing to forgive and forget (Henderson, 1990: 31). His opinion was that Botswana required foreign expertise and taking action against colonial authorities or white held properties would be counter-productive and limiting to this goal. Attracting international mining firms illustrates Seretse's approach, according to Gaolathe (1997: 402), "The Botswana authorities generally approached mining from a developmental and

commercial perspective, rather than from a dogmatic nationalist viewpoint, even at a time when many developing countries were nationalizing major mining operations.”

Seretse took a pragmatic approach towards development; that was inspired by conservative and market-based ideas (Maipose, 2009: 113). The government focused on long term development, BDP cabinet members stayed in the same positions for long periods gaining expertise in a certain portfolio (Leith, 2005: 33). Seretse’s approach was also coupled with an austere lifestyle that discouraged corruption and patronage. Makgala (2005: 320) says, “in Botswana politics the way to moral high ground is by turning your nose up at money and comfort. And the fastest way to fall from political grace is by demanding money and comfort.” The establishment of this culture is based to some extent on the behavior of Seretse.

Seretse was also adamant that Botswana would continue to employ expatriates saying, “We would never sacrifice efficiency on the altar of localization” (Leith, 2005: 57). Due to the lack of investment in colonial education programs, educated Batswana civil servants would not emerge to fill positions held by expatriates until the mid-1970s and early 1980s. At independence, expatriates filled 74% of high level government (Raphael et al., 1984: 40). Rather than fill these positions with unqualified citizens, the leaders chose to employ expatriates. Between 1974 and 1977 the number of expatriate workers grew from 950 to 1,770 and as late as 1984 there was still 950 expatriates working within the government (Raphael et al., 1984: 40; Picard, 1987: 209). The civil service even after independence included a high number of expatriates. Botswana utilized foreign aid workers, and encouraged foreign assistance to be in the form of human resources (Raphael et al., 1984: 40). For instance, the Reserve Bank utilized top

personnel from the IMF (Maketla, 1982: 78). Many expatriates employed by the government on temporary contracts or with aid agencies stayed permanently in the country.

The case that perhaps best exemplified Seretse's leadership was the creation and implementation in 1967 of the Minerals and Mining Act and the Tribal Territories Act. Prior to these pieces of legislation sub-soil land rights were complicated, as some rights were vested with each respective tribe, crown lands were held by the government and some land had already been ceded to international mining companies. Seretse viewed the restructuring of mining concessions as essential to creating revenue for the central government. In 1965, he wrote in the BDP election manifesto:

Consequently leaving mineral rights vested in tribal authorities and private companies must necessarily result in uneven growth of the country's economy, as well as deprive the Central Government of an important source of revenue for developing the country ... (Leith, 2005: 60).

Under the two pieces of legislation sub-soil rights were granted to the central state (Martin, 2008: 44). This took the important step of centralizing state authority, and gave the new state the possibility of revenue. Further emphasizing Seretse's leadership was that the major copper-nickel concession and most diamond concessions were located in Bangwato tribal territory. Seretse eased what could have easily become a tense situation, by granting all revenue to the central government. Further evidence has suggested that Seretse knew prior to independence that diamonds had been found at Orapa in Bangwato territory (Jefferis, 1998: 301).

After Botswana became independent, a major goal of Seretse was for the state to become self-sufficient. Unlike a number of current and former African leaders, Seretse acted to implement economic independence. At independence Botswana was reliant on grant-in-aid from Britain to finance their budget, but by 1972/1973 after obtaining mineral concessions Botswana obtained the revenue necessary to fund their own budget. This incident is described as one of Seretse's proudest moments in government (Wright, 1997: 147).

This attitude towards economic assistance manifests itself in negotiations with specific aid donors. Botswana was quite proactive in the establishment of development projects. They would set specific goals, and then allow donors to select projects (Whitfield, 2009: 333). Botswana was very careful in the planning process only accepting worthwhile projects and avoiding white elephant schemes that affected other African states. Botswana's negotiating ability has been praised as they have not been afraid to use skilled foreign expertise when they lack internal capacity. Their goal through negotiations was to encourage resources to flow through already established institutions. This strengthened domestic capacity by showing aid could be used effectively. By setting a precedent it encouraged future assistance to go through the same government institutions. Further, Botswana has also refused aid when it did not meet their development requirements, refusing assistance from apartheid South Africa, while still encouraging FDI from the same country (Maipose et al., 1997: 32). The geopolitical situation of Botswana made it attractive to foreign aid groups, as development agencies could hardly invest in apartheid South Africa or a racist South Rhodesia. This made Botswana one of the highest recipients of aid per capita in all of Africa (Maipose,



2009: 109). Yet this assistance did not fuel patronage, and overall aid has decreased from nearly 100% of public capital expenditure to about 3% (Maipose, 2009: 109).

## CHAPTER 4: LUCK

Botswana was lucky<sup>13</sup>; this assisted in the successful growth of the economy. According to Acemoglu and Zilibotti (1997: 711), “Only economies that receive lucky draws will grow, whereas those that are unfortunate enough to receive a series of bad news will stagnate.” Easterly and Pritchett (1993: 38) point out that economic success (or failure) in the developing world is typically a short lived phenomenon. Growth rates are surprisingly volatile and states are apt to experience regular boom and bust periods that significantly impact long term growth rates. Most states do not experience sustained economic growth, but rather follow a cyclical pattern of boom, bust and stagnation (Easterly & Pritchett, 1993: 38). The difference between those states that achieved sustained economic growth and most developing states is a combination of luck and institutions. According to Easterly and Pritchett (1993: 38):

A country may have good luck to avoid negative shocks, but without good policy it will turn in only a mediocre performance. Similarly, a combination of poor luck and poor policy can turn what should have been tremors into full fledged shocks.

This section will look at examples of luck in Botswana and the next sections will examine institutions showing that good luck and institutions played a significant role in Botswana’s economic growth.

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<sup>13</sup> Luck refers to internal and external shocks to economic growth. Internal shock could include a drought or natural disaster and an external shock could be a sudden change in the balance of trade.

## REVENUE SOURCE

First and perhaps the most important stroke of luck was the discovery of diamonds. Acemoglu and Zilibotti (1997: 711) argue: “Economies that are lucky enough to receive good draws at the early stages will have more capital and thus will achieve better risk diversification and higher productivity.” Botswana was incredibly poor at independence, Jerven (2009: 15) argues: “If Botswana had relied on manufacturing and agriculture alone GDP would have failed to keep pace with the population growth.” Diamonds produced the positive shock to their terms of trade that allowed them to invest in the development of other sectors of the economy.

Botswana discovered diamonds in 1967; De Beers found the world’s second largest kimberlite pipe at Orapa about 250 km west of Francistown (Patterson, 2006: 5). The initial capacity was 2.5 million carats a year (Jefferis, 1998: 301). By 1983, production at Orapa had reached 8 million carats a year (Gaolathe, 1997: 408). This gave Botswana a much needed revenue source to invest in required infrastructure and improve education and health facilities. Around the same time as the discovery of the second pipe at Orapa two smaller pipes were found at Letlhakane; a village about 30 km south-east of Orapa. These pipes produced only 540,000 carats per year, but contained more gem quality diamonds than Orapa (Jefferis, 1998: 301).

Easterly et al., (1993: 7) argue: “shocks, especially to the terms of trade are an important determinant of variations in growth rates...” Botswana experienced very few negative shocks; rather with the exception of 1980-1981, 1994 and 2008-2009 diamond prices have remained relatively stable. Botswana’s diamond production continued to increase as new discoveries resulted in positive shocks to the terms of trade. Even in

cases when Botswana experienced a negative shock it was quickly solved through a new diamond discovery that compensated for the decline in prices by an increase in volume.

## **RECESSION AND DIAMONDS**

In 1980/1981, demand for diamonds decreased dramatically and for the first time since the 1940s De Beers implemented a quota on production to reduce supply. These quotas would remain until 1985, when demand returned. Botswana diamond sales dropped from over \$300 million USD in 1980 to about \$160 million USD in 1981 (Harvey & Lewis, 1990: 132). Demand was so low that Botswana was unable to sell diamonds for half of the year (Leith, 2005: 84). This external shock weakened Botswana's terms of trade and lowered the growth rate from 12% to 9%.

In 1977, De Beers discovered a massive kimberlite field at Jwangeng, about 125 km west of Gaborone. Jwangeng would become the world's richest diamond mine (Harvey & Lewis, 1990: 57). In 1982, the Jwangeng mine mitigated the bad luck experienced because of weakened demand in the west, as it came into production. Under the quota system Botswana was allowed to sell a certain amount to the CSO. This amount was determined by the share of diamonds Botswana had relative to the overall production of countries associated with the CSO. With the Jwangeng mine in operation Botswana had a greater share of global production and could sell more diamonds to the CSO. In 1981, as a percentage of CSO sales Botswana accounted for 11%. This figure rose to 19% in 1982 and 30% by 1984/85 when the quota system was still in place (Harvey & Lewis, 1990: 132).

## **MARKET ACCESS**

At independence cattle were the state's main export earner. As a commonwealth state and former Protectorate, Botswana enjoyed preferential access to British markets. In theory they also had in theory duty-free access to South Africa's market under the South African Custom Union (SACU) agreement of 1910, but South Africa was apt to occasionally restrict beef imports to protect their farmers (Colclough & McCarthy, 1980: 16). In 1973, the British joined the European Economic Community (EEC), and their accession affected Botswana farmers' access to new markets. After joining the EEC, the British Commonwealth gained some access to European markets (Dinan, 2005: 64-65). This acted as a positive shock to Botswana's terms of trade increasing the income of farmers. Rural development greatly benefitted from access to European markets.

Through British membership to the EEC a change occurred in how the British supported their farmers. With EEC membership, Britain joined the Common Agriculture Policy (CAP). This policy modified the supports given to British farmers. Under the old British subsidy system, farmers in Britain received income supports, this kept consumer prices low. By joining the CAP British farmers now received subsidies through a price support mechanism, which meant higher prices for consumers, but higher wages for farmers based on production levels.

## **LUCK AND INSTITUTIONS**

The two examples, listed above recognize the importance of luck. However, the end result could not have been obtained without good institutions and proper legal

framework. Leung et al., (2004: 384) argue: “that good luck should be seen as a natural consequence of good policy.” In July 1987, De Beers purchased a large stock pile of Debswana diamonds. In return Botswana received a combination of stocks and cash equal to 5.2% of the outstanding shares of De Beers and the ability to name two members to the board of directors of De Beers. These stock piles had accumulated during the recession of the early 1980s. As opposed to consuming the revenue from these stock piles, Botswana chose to invest and greatly improve their position within the De Beers cartel. By gaining a stake in the company they gained preferential access to information they were formally not privy to and further protected their stake in Debswana.

The Lomé agreement with the European Union was accomplished with significant effort from Botswana negotiators. They were able to gain access to a large quota and received a rebate of 90% of the variable import levy (Harvey & Lewis, 1990: 54-55). From 1972 to 1981 European prices were 20% to 50% higher than any other market which the Botswana Meat Commission (BMC) operated in. Having access to a bigger market made farmers less dependent on South Africa and weakened the impact of South Africa’s periodic acts of protectionism. Higher wages were also important despite the declining share of the cattle industry in the overall economy, though it still accounted for 40% of total exports in 1974 (Harvey & Lewis, 1990: 55). Live stock has a dominating position as a share of rural livelihoods; accounting for 80% of overall agriculture GDP (Hillbom, 2008: 198). Further, agriculture continues to employ 24% of the population (Poteet & Gramajo, 2005: 28).

Economic freedom plays a very important role in the relationship between luck and institutions. Luck is important for creating positive shocks to the economy, but the

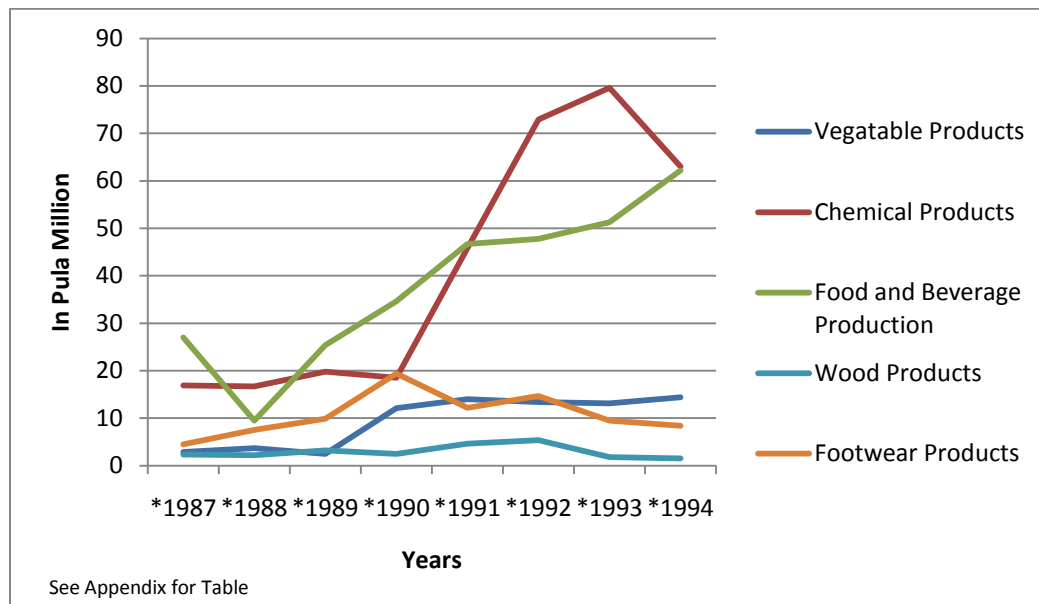
way the revenue generated from that shock is very important for maintaining growth and not returning to either stagnation or negative growth. Acemgolu and Zilibotti (1997: 711)

outline the process:

Agents decide how much to save and how much of their money to invest in a safe asset with lower return. The rest of the funds are used to invest in imperfectly correlated risky projects. However, not all risky projects are available to agents at all points in time because of the minimum size requirements that affect some of these sectors. The more “sectors” (projects) that are open, the higher the proportion of their savings that agents are willing to put in risky investments. In turn, when the capital stock of the economy is larger, there will be more savings, and more sectors can be opened. Therefore, development goes hand in hand with the expansion of markets and with better diversification opportunities.

Botswana has not been a rentier state dependent on diamond production. Government investment in health, education and infrastructure has had the effect of diversifying the economy. The expansion of this sector created new economic interests (see Figure 16). Government development of education eventually allowed Botswana to compete for investment in financial services. The states reputation for political stability encouraged the development of a tourist industry. Private wealth according to Poteete (2009: 561) supported the expansion of commerce and professional services. However, structural unemployment remains a significant problem and government attempts to address this have largely failed.

**Figure 16: Performance of Non-Traditional Sector**



SOURCE: Mpbanga, 1997: 383

Programs designed specifically to diversify the economy have failed (Good, 2002). Diversification failures have not been due to ‘Dutch disease’ but rather a combination of size of domestic economy and protectionist measures instituted by South Africa. Botswana has been unable to attract large employment intensive firms because of the size of the domestic market; international companies that are attracted to Botswana are drawn because of their proximity to South Africa. Thus, they have to offer incentives to companies that would otherwise simply locate in South Africa. In the past, direct competition with South Africa for FDI has resulted in Botswana being partially frozen out of South Africa’s market (Hope, 1996: 55). The only foreign firms to succeed from previous diversification schemes have been textile manufacturers, and this was at great cost to tax payers (Kaunda & Miti, 1995: 369-370). Recent efforts have been geared towards diversification within the diamond industry. The government has attempted to establish a domestic diamond polishing and cutting industry. De Beers sold close to \$360 million worth of diamonds to domestic cutters to encourage this industry. Diamonds are

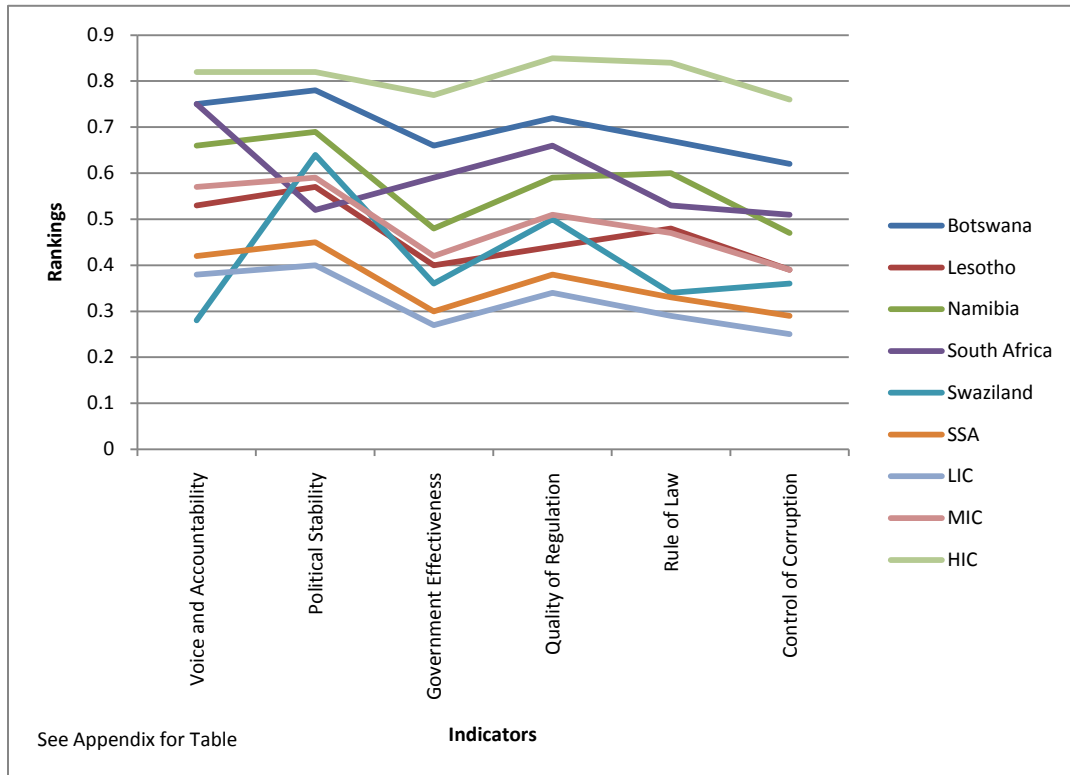


usually sent to Israel, Germany, and India for polishing, but the government has pressured the company to sell to domestic cutters and polishers (ARB, 2008: 17735).

## **CHAPTER 5: INSTITUTIONS**

Institutions and policy have an important role in determining long-term economic growth. Easterly and Pritchett (1993: 38) argue that “established policies have an appreciable effect on economic growth rates and help to explain why some countries are able to sustain growth and others are not.” The institutions of governance namely the institutions of democracy, the civil service and financial policy in Botswana are an exception on the African continent (see Figure 17). Global indicators designate Botswana as a leader in Africa, as Figure 18 shows Botswana ranks in the top fifty in competitiveness and corruption indexes (Dorsey et al., 2007: 30). Botswana has held free and fair elections every five years since 1965. Instances of corruption within the government have been few and when ministers have been found to be corrupt they have resigned, as anticorruption policies are fair and transparent (Atshushi, 2006: 11). Elections complement a system of laws that protect private property rights, contracts are enforced and personal freedoms are maintained (Acemoglu et al., 2001: 1-2). The bureaucracy has a history of being meritocratic, and the government has pursued a smooth localization program (Maipose, 2009: 114). Finally, fiscal policy has been exceptional, notably conservative macroeconomic policy and good economic management practices. The next sub-section will examine the role that institutions played in the economic success of Botswana.

**Figure 17: Governance Research Indicator Country Snapshot 2002**



SOURCE: Atsushi, 2006: 9

**Figure 18: Measures of International Corruption and Competitiveness**

Corruption Perception Index, 2004 by Transparency International	Global Competitiveness Report, 2004 by World Economic Forum	Africa Competitiveness Report, 2004 by World Economic Forum	Africa Public Institutions Index, 2003 by World Economic Forum
1. Finland	1. Finland	1. Botswana	1. Botswana
2. New Zealand	2. United States	2. Tunisia	2. Tunisia
3. Denmark	3. Sweden	3. South Africa	3. Gambia
5. Singapore	6. Norway	4. Mauritius	4. South Africa
15. Germany	7. Singapore	5. Namibia	5. Mauritius
17. United States	45. Botswana	6. Gambia	6. Egypt
31. Botswana	47. Italy	7. Egypt	7. Tanzania
77. Morocco	66. Turkey	8. Morocco	8. Ghana
90. Tanzania	76. Philippines	9. Tanzania	9. Algeria
144. Nigeria	93. Nigeria	10. Ghana	10. Morocco

SOURCE: (Dorsey et al., 2007: 30)

## DEMOCRACY

Since independence, Botswana has enjoyed uninterrupted democratic rule. Complaints about electoral fraud have been minimal, but opposition parties complain about unfairness during campaigning, hinting at problems with access to media and equal representation of ideas (Mathe, 2009: 26). Elections have been held every five years since 1969, with the BDP winning every election. Though Botswana is considered a democracy, at the same time it is a one-party dominated state. As Table 5 shows, the opposition contest elections but have little chance of gaining enough seats in parliament to achieve power. Good (2004: 29) has called Botswana, a soft authoritarian state because of the power granted to the government, and more specifically the President. Minority groups face discrimination. The treatment of the Basarwa people has been quite controversial and sparked international outrage (Odell, 1985: 65; Taylor 2003: 222).

**Table 5: Number of Seats won in the National Assembly**

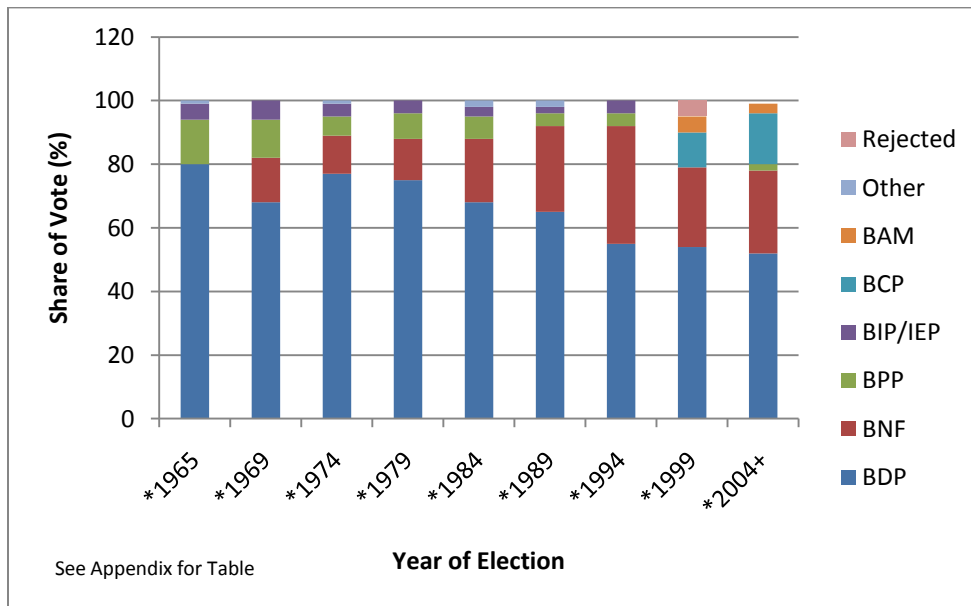
Party	1965	1969	1974	1979	1984	1989	1994	1999	2004*
BDP	28	24	27	29	28	31	31	33	44
BNF	--	3	2	2	5	3	13	6	12
BPP	3	3	2	1	1	0	0	--	0
BIP/IFP	0	1	1	0	0	0	0	--	0
BCP	--	--	--	--	--	--	--	1	1
BAM	--	--	--	--	--	--	0	0	0
Total	31	31	32	32	34	34	40	40	0
The President Appoints 4 MPs									

SOURCE: Taylor, 2003: 217; \*EISA, 2007.

Opposition parties are considered weak; Taylor (2003: 217) highlights a survey that found over 50% of the respondents felt the opposition was limited in its influence on government and a further 16% claimed the opposition had no influence on government. However, opposition parties have won local elections and governed local councils; opposition parties have also worked in coalitions with the government in local councils

and have gained more of the national popular vote in the past three national elections (Molutsi & Holm, 1990: 324; see Figure 19). Democracy is an important tool, and leaders in both the opposition and government recognize the accountability found in the process (Mogae, 2005: 34). The post-independence government approached policy through a consensus approach. Legislation was circulated for all relevant ministers to comment and only after a consensus was reached would it be passed to cabinet. This process became institutionalized through regular consultations with ministers. The government regularly established Presidential Commissions that outlined government rationale on certain issues. These commissions were given the independence to produce recommendations that differed from government policy (Leith, 2005: 56).

**Figure 19: Percentage of the Popular Vote Won by Party in National Elections**



SOURCE: Taylor, 2003: 217; +EISA 2007

Democracy in Botswana has done two things very effectively that have specifically benefitted economic growth. Democratic rule has resulted in stability and discouraged conflict. Botswana has not experienced the levels of violence that occurred

in Namibia, South Africa or Zimbabwe. There is not a threat of social breakdown, which encourages long-term investment. Second, the system has shown to be accountable and is receptive to the demands of the population.

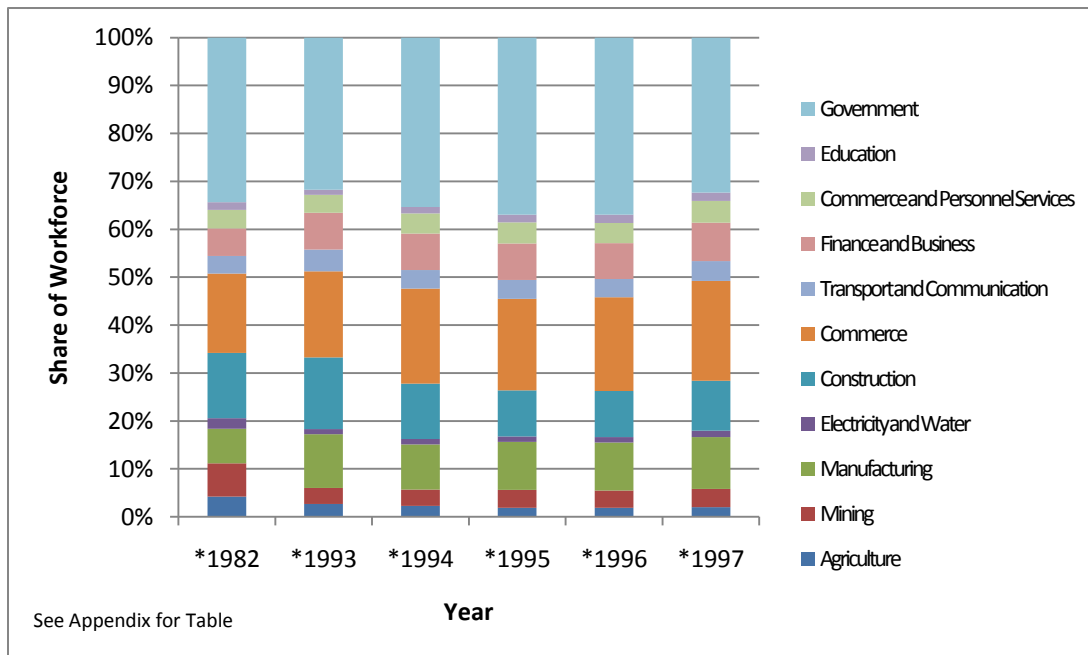
The level of corruption in Botswana is pale and restricted. Transparency International (2008) ranks Botswana 36<sup>th</sup> in its global rankings of perceived corruption. According to Good (1994: 516) corruption is an elite phenomenon, and in no way comparable in magnitude to some of the more notorious examples of corruption on the continent. When government officials have been found guilty of corruption such as the case of Vice President and Minister for local government P.S. Mmusi they have resigned their position.

Botswana has had significant success in building state capacity (Maipose, 2009: 114). According to the World Bank, “Public sector management is performed in Botswana with commendable attention to detail, discipline and dedication by the civil service. It is considered one of the most successful in Africa...” (Raphaeli et al., 1984: 2). The government encouraged the development of a heavily skilled civil service. After 1966, this came through agreements with aid agencies and expatriates. The government encouraged aid agencies to invest in human resource development. USAID for example focused on building the institutional capacity of primary schools spending a total of \$9 million USD in 1981 on manpower development to provide training (Raphaeli et al., 1984: 41).

In the mid-1970s the bureaucracy began to receive university graduates and by the mid-1980s university graduates were a significant component of the civil service. As

Figure 20 shows, the government is the country's biggest employer and government employees generally receive higher compensation than those operating in the private sector. Civil service has expanded as a share of national income from P0.4 billion in 1982 to P3.3 billion in 1991 (Paterson, 2006: 78). The average wage of someone working for the government is 40% higher than someone working for the private sector, and wages account for 30% of total government expenditure (Dorsey et al., 2007: 25).

**Figure 20: Share of Formal Employment by Industry, 1982-97**



SOURCE: Siphambe, 2004: 358

The establishment of a meritocratic civil service allowed Botswana to encourage donors to funnel development assistance through government channels. The government also established monitoring capabilities that created the institutional capability to observe spending and implementing this also created a culture of accountability that prevented the encroachment of corruption and patronage. Civil servants in Botswana have shown a strong ability to negotiate which came from, their experience negotiating with

international mining companies. The agreement that created Debswana and the 50/50 partnership is considered by some to be one of the “best mineral exploitation contracts in the world” (Jerven, 2009: 14). This partnership allows authorities access to diamond production information, and this prevents De Beers from participating in adverse practices such as transfer pricing. The deal also gives Botswana a stake in the long-term viability of the company, and discourages politicians from destabilizing Debswana by ordering increases in production when government revenue is low.

## **AVOIDING THE DUTCH DISEASE**

Botswana has adopted cautious macroeconomic policies that avoided consumption and encouraged investment (Samatar, 1999: 4). The government took the approach that no mining revenue should be spent on consumption; instead this revenue should be invested in development spending with a focus on infrastructure, education and healthcare (Poteete & Gramajo, 2005: 28). Instead of consumption the government has accumulated large foreign exchange reserves (see Figure 21) as a buffer against systemic shocks. Highlighting this Former President Fetus Mogae (2005: 32) wrote:

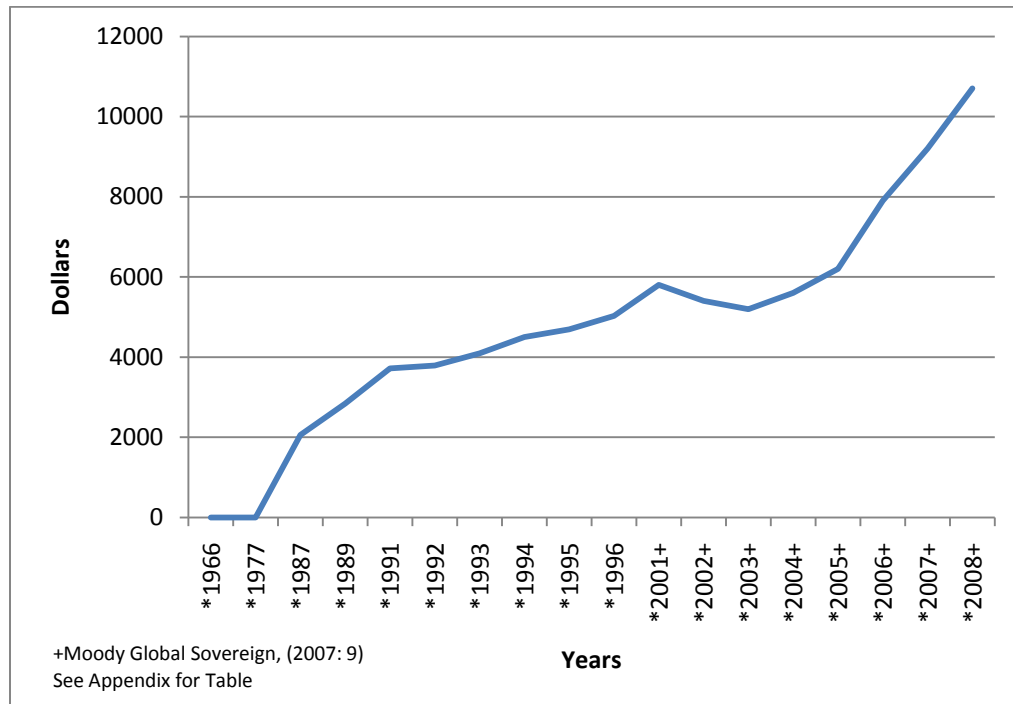
The thrust of fiscal and expenditure policy was to invest diamond revenues in productive assets rather than consumption. Given Botswana’s vulnerability to drought, other natural hazards and fluctuations in the international diamond markets, the accumulation of savings to smooth out the effects of the negative impact of these on our domestic economy was a prime consideration.

The government spends about 30% of its budget on what it considers to be investment; this includes healthcare and education (Wright, 1997: 159). Expenditure on healthcare and education have been rising as a portion of the overall government budget going from



22% in 1992 to 29% by 1996/1997 (Jefferis & Kelly, 1999: 213). The result of increased healthcare spending saw life expectancy increase to 68 years by 1995, but with the onset of the HIV/AIDS epidemic that expectancy number has declined dramatically (Siphambe, 2004: 356). The spending on education has resulted in impressive gains as Botswana nearly doubles the Sub-Saharan African rate of Primary and Secondary School enrollment (Siphambe, 2004: 356). Leith (1997: 23) also points to impressive gains in the average years of schooling, as the population went from an average of 1.46 years of schooling in 1964 to 4.82 years in 1991 this occurred while the working age population was increasing annually by 2.76% (Leith, 2005: 22). Botswana has also developed a modern infrastructure network going from just 12 km of paved road to over 9,000 km by 2008 (Hillbom, 2008: 207). Furthermore, at independence the country had no effective country wide communications network, yet by 1976 there was a country-wide telephone system.

**Figure 21: Botswana Foreign Exchange Reserves in Millions of Dollars**



**SOURCE: Samatar, 1999: 4**

Botswana's main export partners are Europe, the United States, and Japan; the world's largest diamond markets. Most goods manufactured in Botswana go to Zimbabwe, and Botswana receives most of its imports from South Africa (Harvey & Lewis, 1990: 170). With the collapse of Zimbabwe's economy under Mugabe, exports have shifted to other members of SACU, notably Namibia. Botswana has also seen a rise in textile exports to the United States under the Africa Growth and Opportunity Act implying that the textile production remains competitive. Textile trade to the United States increased from \$2,461,666 in 2001 to \$31,499,394 in 2007 (ITA, 2009).

Most scholars agree that the Dutch disease has not affected Botswana (Samatar, 1999: 4; Gaolathe, 1997: 44). As Figure 22 shows, the Pula was not allowed to appreciate, despite large balance of payment surpluses. The exchange rate between Botswana and its major regional trading partners fluctuates within narrow limits. The government method

of planning assisted in steadily easing government spending upwards, as Figure 23 shows after 1984 the government experienced significant budget surpluses that were saved and not consumed. In the late 1980s government lending increased dramatically, resulting in high inflation rates, and government spending did not come back under control until 1994 (Leith, 2005: 85). The government has also sought other sources of revenue besides simply mining ventures. In 1982, a sales tax was introduced, and taxes on alcohol and tobacco were increased. The sales tax has evolved into a VAT tax in 2002. Progressive income taxes have been in place since independence and were used as a major source of government funding (Wright, 1997: 169).

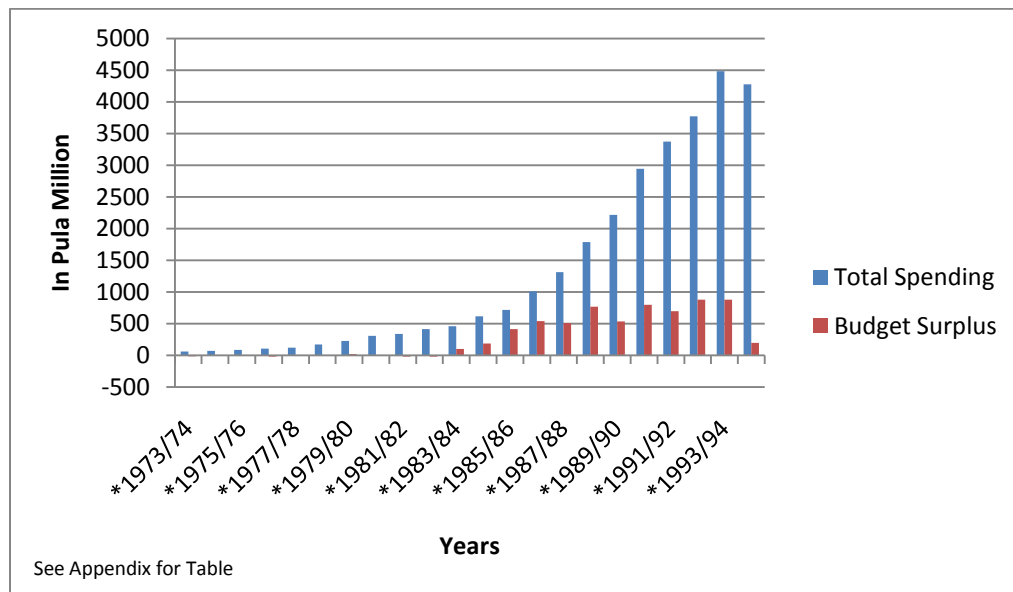
**Figure 22: Chronology of Exchange Rate events from 1966 to 1996**

Date	Action	Comments
1966-76	Participation in rand monetary union.	No independent exchange rate or monetary policy.
August 1976	Introduction of the pula, pegged at USD 1.15.	Rand pegged to US dollar at same rate ensuring parity between pula and rand.
April 1977	5% pula revaluation.	Anti-inflation measure.
January 1979	Rand taken off US dollar peg and floated.	Rand appreciates against US dollar as gold price rises.
June 1980	Pula taken off US dollar peg. Introduction of pula basket comprising SDR and rand.	To reduce volatility of rand/pula exchange rate.
November 1980	5% pula revaluation.	Anti-inflation measure as imported inflation rises following pula depreciation against rand.
May 1982	10% pula devaluation.	Part of stabilisation measures in response to 1981-82 balance of payments crisis.
February 1984	Foreign debt standstill for South Africa and run on the rand.	Rapid depreciation of the pula against the dollar as rand continues to depreciate.
July 1984	5% pula devaluation.	Competitiveness measure following rand collapse and rapid pula appreciation against the rand.
August 1984	Rand weight in pula basket adjusted.	To reduce drift of pula from rand.
January 1985	15% pula devaluation.	Additional competitiveness measure in response to rapid pula appreciation against rand.
January 1986	New pula basket introduced.	Due to rapid rand appreciation.
June 1989	5% pula revaluation.	Anti-inflation measure.
August 1990	5% pula devaluation.	Competitiveness measure.
August 1991	5% pula devaluation.	Competitiveness measure.
June 1994 to date	Technical adjustments.	Changes to the basket to reflect trade patterns and reversal of weight drift aimed at maintaining competitiveness and real exchange rate stability.

Source: Bank of Botswana.

SOURCE: Masalila & Motshidisi, 2003: 124

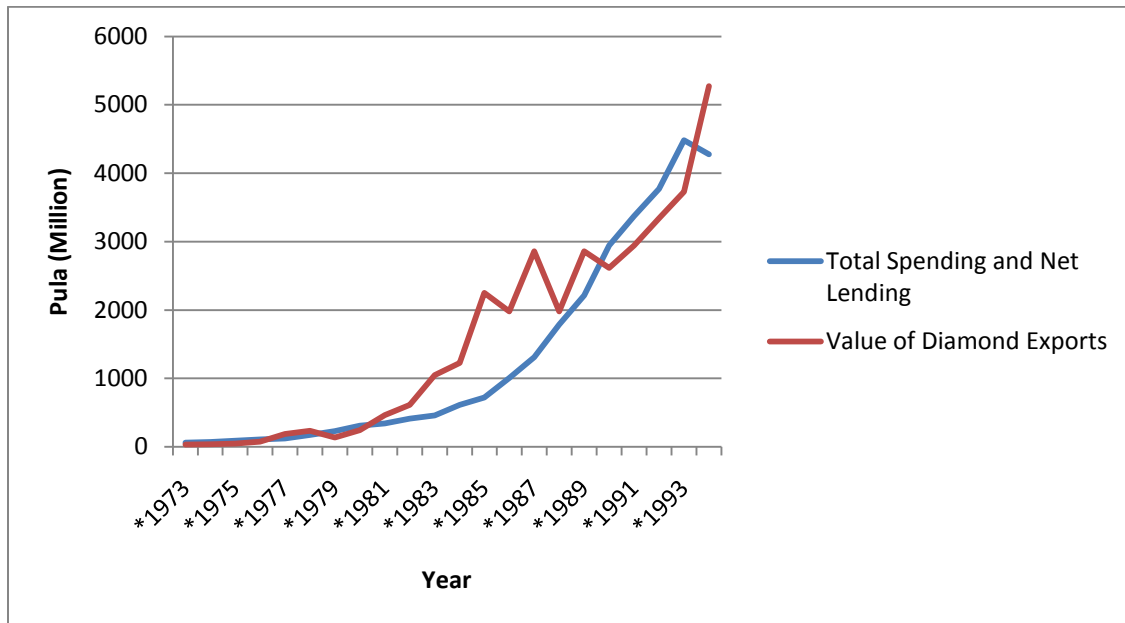
**Figure 23: Total Spending and Budget Balance 1974-1995**



SOURCE: Gaolathe, 1997: 46)

Hillbom (2008: 202) argues that Botswana avoided the Dutch disease only because when diamonds were discovered there was no real domestic industry and Dutch disease only affects establishing export industries. In addition, the government has become very big, accounting for more than half of non-mining GDP in 2003/2004, and is the third largest employer responsible for 20.7% of formal employment (Kim, 2007: 23-24; CsTO, 2009: 32). Government spending increased by 11% a year from 1976 to 1997 (Jefferis & Kelly, 1999: 212). As Figure 24 shows, government spending follows the incline of diamond revenue and perhaps does not suggest sound macroeconomic policy but rather simply revenue outpacing government's ability to spend. Harvey (1992: 342) suggests that diamond revenue increased so quickly that government was able to overspend and at the same time run up surpluses (see Figure 24). While, Martin (2008: 43) argues that by accumulating large foreign exchange reserves, expenditures grew at a slower pace than revenue, and these policies maintained low inflation rates and encouraged growth.

**Figure 24: Government Spending versus Diamond Revenue, 1973-1994**



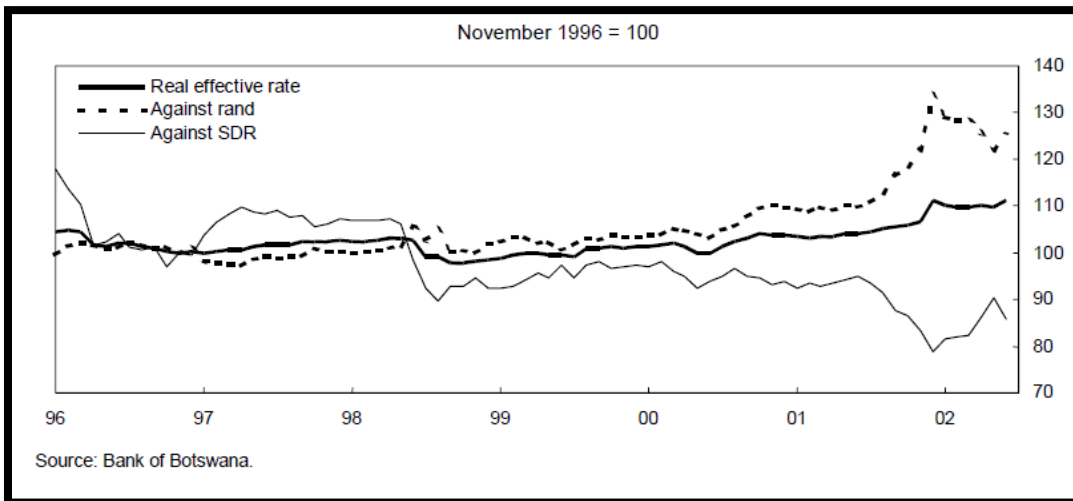
SOURCE: Gaolathe, 1997: 46; Samatar, 1999: 146

Initially, Dutch disease could not affect Botswana, as it was a member of the Rand Monetary Union. South Africa’s economy was large enough to absorb increased revenue (World Bank, 2007-a: 1-2). In 1976, they adopted their own currency, the Pula. Along with the currency the government established a central bank to manage foreign exchange earnings.

After introducing the currency, Botswana pegged the Pula to the Rand for the first 100 days; following this the Pula was pegged to the U.S. dollar (USD). The Rand was also pegged to the dollar, so the Pula was essentially pegged to the Rand. In 1980, the Pula partially dropped the USD and pegged to Special Drawing Rights (SDRs) and the Rand. Botswana maintained a stable real exchange rate with the Rand through 1984, because depreciation of the Rand against the USD represented an important counterforce to Pula appreciation to the USD (Poteete & Gramajo, 2005: 21). Botswana maintained the peg against SDRs and the Rand until 2005, when they adopted a crawling peg

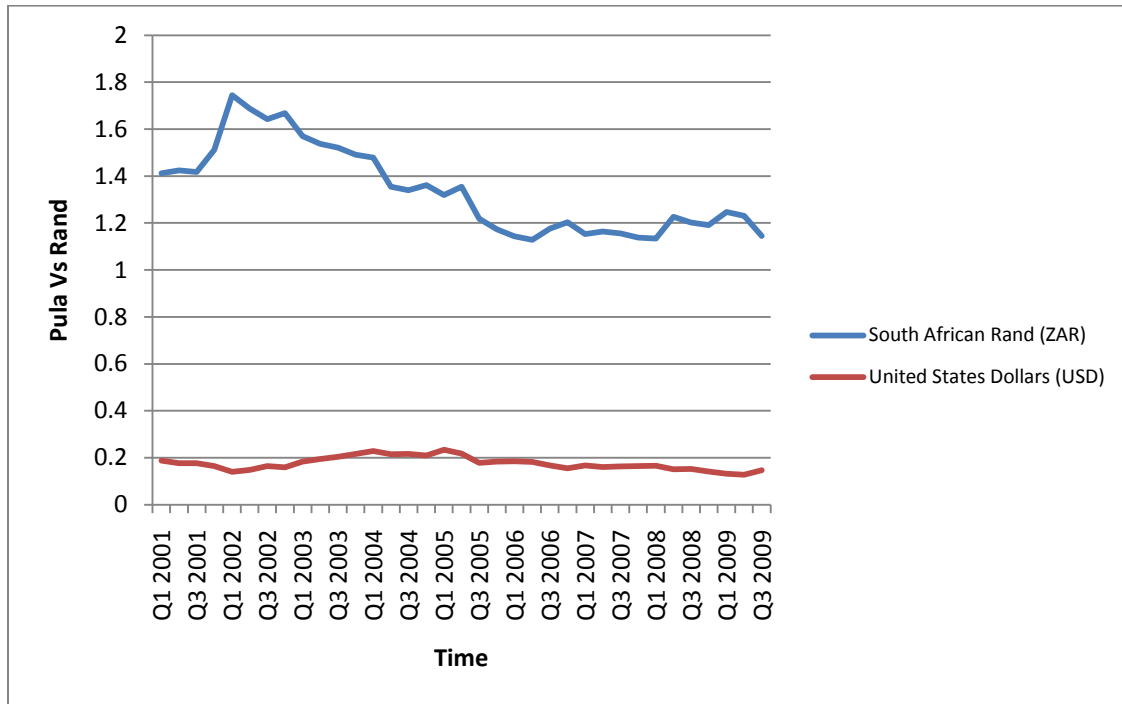
(Poteete & Gramajo, 2005: 20). Throughout the early 1990s authorities devalued the Pula, but by the late 1990s volatility increased and the government stopped making these periodic adjustments. The result was a strong appreciation to the Rand, while at the same time an equally dramatic depreciation to the USD. The country gained competitiveness in its main export market at the same time increasing purchasing power in the country's main import market (see Figure 25). After 2001, the Pula began to appreciate against export market currencies suggesting that perhaps Botswana could become a victim to Dutch disease after all. However, by 2004 the rates against the USD and Rand had returned to pre-2001 levels (See Figure 26).

**Figure 25: Botswana Real Exchange Rate 1996-2002**



SOURCE: Masalila & Motshidisi, 2003: 126

**Figure 26: Pula versus the ZAR and USD, 2001-09**



SOURCE: Bank of Botswana, 2009

Initial exchange rate policy was designed to assist the poor, by encouraging a strong Pula that made imported cereals more affordable. Botswana imports most of its inflation from South Africa; this was most pronounced during the 1980s when South African’s economy suffered stagflation. In response, Botswana revalued the Pula several times between 1979 and 1985 (Hermans, 1997: 209). The Rand depreciated against SDRs and provided Botswana with windfall gains (Harvey, 1997: 235). By the middle of the 1980s government policy shifted away from support for consumers. Instead authorities attempted to encourage the expansion of the industrial sector (Masalila & Motshidisi, 2003: 127). The Pula was devalued and real interest rates went negative (Gaolathe, 1997: 44). To further encourage investment in the industrial sector the Pula was devalued several more times in the early 1990s, despite increasing inflation (Gaolathe, 1997: 43).

The distribution of Botswana exports shifted dramatically in the early 1990s. This was due to the rapid depreciation of the Zimbabwe dollar against the Pula. From 1981 to 1990 Zimbabwe imported around two-thirds of Botswana manufactured exports. Most of this trade was in clothing and textiles, Botswana exports of these products declined by 37% in 1992 (Harvey, 1998: 233). In an effort to maintain competitiveness, Botswana attempted to devalue the currency, but the slide of the Zimbabwe dollar was so significant and the removal of cotton subsidies from Zimbabwe meant that competitiveness was essentially lost (Siwawa-Ndai, 1997: 347).

Botswana still faces significant economic challenges. Beyond previously mentioned problems with diversification, the country also lacks natural resources conducive to employment intensive industry, raising the unit cost of production. The cost of transport for landlocked countries is between 20-40% of production costs, while for developed countries transport costs are only 10% of production costs (Morgan, 2009). Attempts to expand regional trade have also failed since firms in Zambia, Tanzania, and Malawi have been inconsistent with payment (Mpbanga, 1997: 369).



## **CONCLUDING REMARKS**

Botswana's growth could not have occurred without diamonds. The revenue generated from diamonds created the perfect conditions for economic growth. However, economic growth was not guaranteed, as these resources could have just as easily led to the corruption and patronage seen in other diamond producing countries. The strong leadership of Seretse Khama was quite different than other post-independence leaders. His administration encouraged the development of a market economy, which was responsible for high economic growth rates. Modern institutions and specific policy choices were greatly impacted by traditional and colonial history. Periodic intervention by outside powers also affected tribal unity, and established the groundwork for a strong centralized future state. Similar to other states in the region, South African encroachment generated universal opposition that acted as a rallying point and contributed to established norms of cooperation. The relationship that Botswana had with their former colonial power is also important. The absence of militant nationalism and conflict with Britain allowed the maintenance of good relations that has benefited both parties. The country has also been assisted by circumstances of luck. The discovery of diamonds made it much easier to generate foreign exchange earnings and came at the perfect time in Botswana's history. These events contributed to the maintenance of stability and order, as the government was not forced to modify its development agenda. Individuals were encouraged to stay in the same position for long periods of time, creating a level of expertise within government. Democratic government greatly assisted with maintaining

social stability. Accountability found through democratic institutions in Botswana have allowed the government to react to the demands of citizens

Botswana is a great example for other natural resource dependent developing countries. The country began as a poor, rural, aid dependent country with little prospects for economic growth. More than 40 years later Botswana is an upper-middle income country, with a strong civil service, modern infrastructure and educated population. The country has a strong state with an impressive capacity to achieve development goals. However, significant problems remain as poverty and unemployment rates remain high and HIV/AIDS greatly impacts the country. Furthermore, the institutions of democracy are not fully developed, and it is unknown how the government will react when another political party is elected into power. The country has been able to grow through practical economic management in avoiding Dutch disease. The progress that Botswana has made is truly commendable, but the future is not clear, as the country must diversify its economy to maintain growth after the mines have expired. Diversification is the only way the economy will be sustainable in the long term because as Hillbom (2008: 211) points out, “it is development and not diamonds that lasts forever.”

# APPENDIX



Map 1: Map of Botswana (University of Texas Libraries, 1995)



**Map 2: Bechuanaland Protectorate and Crown Colony of Bechuanaland annexed to Cape Colony in 1895 (University of Texas Libraries, 1887)**

**Population of Botswana (in Thousands)**

Census Year	1946	1964	1971	1981	1991	2001
Male	147.5	264.5	272.5	443.1	634.4	778.9
Female	148.8	278.6	324.4	497.9	692.4	841.3
Non-Batswana	N/A	1.5	10.9	15.7	29.6	60.7
Total Resident	296.3	544.6	607.8	956.7	1,356.4	1,680.9
Growth Rate (%)	1.1	3.0	3.1	3.4	2.7	2.2

SOURCE: Leith, 2005: 12.

**Average Annually GDP Growth in different Economic Sectors**

Region/Economic Sector	Botswana	Sub-Saharan Africa
<b>GDP</b>		
1970-80	14.5	3.8
1980-93	9.6	1.6
1993-2005	6.2	3.9
<b>Agriculture</b>		
1970-80	8.3	1.7
1980-93	3.5	1.7
1993-2006	4.5	2.5
<b>Industry</b>		
1970-83	17.6	3.8
1980-93	9.2	0.9
1993-2006	5.0	7.4
<b>Manufacturing</b>		
1970-83	22.9	4.3
1980-93	8.6	0.9
1993-2006	6.0	1.6
<b>Services</b>		
1970-83	14.8	4.9
1980-1993	11.6	2.2
1993-2006	5.8	6.8*
*Data from 1990-2003		

SOURCE: Siwawa-Ndai, 1997: 344; World Bank, 2008; CStO, 2007; Siwawa-Ndai, 1997: 344; Kapunda, 2005: 4; Matsheka & Botlhomilwe, 2000: 42; Mbaye, 2002: 17; Velde & Cali, 2007: 12; FAO, 2009; Lawrence, 2005: 1124.

**Economic Openness of Various Countries**

Country/Year	Botswana	Canada	Mozambique	Namibia	South Africa	Zambia	Zimbabwe
1970	90.01	42.27	29.49	149.91	44.8	97.47	56.57
1971	93.53	41.39	29.49	150.21	43.97	85.02	59.25
1972	96.67	42.85	29.49	150.35	43.99	81	54.33
1973	99.68	45.45	29.49	149.83	45.76	79.54	55.17
1974	106.73	49.72	29.49	148.95	54.84	85.46	57.57
1975	104.16	47.29	29.49	150.22	53.79	79.42	60.21
1976	109.45	45.66	29.49	151.71	53.38	74	53.12
1977	117.38	46.9	29.49	151.02	50.17	68.78	53.14
1978	107.04	50.25	29.49	147.26	53.69	59.51	53.73
1979	114.36	53.73	29.49	144.55	55.61	66.92	56.71
1980	117.66	54.9	30.61	156.68	57.98	72.73	53.62
1981	129.13	53.73	29.65	159.17	55.87	64.82	57.73
1982	130.89	47.85	27.24	147.59	52.29	54.08	49.85
1983	132.25	47.89	21.32	128.83	42.45	48.33	45.76
1984	115.51	54.06	15.55	131.18	46.75	55.06	52.8
1985	117.11	54.69	9.94	122.45	51.12	58.21	44.22
1986	112.33	55.15	9.89	137.32	49.78	66.27	45.57
1987	119.68	52.81	32.46	124.59	46.08	75.15	45.3
1988	101.88	53.39	43.4	114.39	47.96	59.48	44.11
1989	105.42	51.87	43.16	119.98	45.45	56.99	45.06
1990	105.23	52.01	43.89	120.15	41.03	68.05	45.66
1991	103.88	51.35	53.22	121.89	38.1	52.11	51.05
1992	95.44	55.04	61.56	120.09	37.91	70.38	63.71
1993	84.52	60.96	57.72	106.15	38.97	59.74	63.17
1994	87.44	67.51	59.79	97.65	41.61	72.81	71.12
1995	88.51	72.2	64.95	102.78	44.97	75.94	78.7
1996	89.49	73.56	48	105.94	47.85	70.19	70.8
1997	93.87	77.96	42.15	103.97	48.06	65.43	77.35
1998	100.52	81.86	38.39	101.14	50.04	65.89	85.57
1999	92.98	83.72	47.89	101.08	47.79	63.47	91.11
2000	101.51	86.48	50.55	94.23	52.79	52.47	65.63
2001	96.02	82.27	51.04	96.59	55.91	56.64	34.14
2002	85.22	79.41	51.39	107.65	61.45	52.67	14.66
2003	78.57	72.89	51.06	89.22	52.29	48.52	4.83

SOURCE: Heston, Summers, & Aten, 2006.

**Motor Cars and Other Motor Vehicles Exported from Botswana in Pula**

Year/ Export Market	1998	1999	2000	2001
South Africa	580,887,448	383,430,011	75,075,654	64,054,973
Zimbabwe	1,929,579	1,402,676	2,194,939	3,261,847
Namibia	15,974,348	3,919,990	3,862,717	1,805,136
Zambia	780,433	918,466	971,496	638,791
Rest of the World	2,646,799	2,611,440	3,454,270	3,282,770
Total	611,218,607	392,282,584	85,559,075	73,043,517

SOURCE: BIDPA, 2005: 7-8.

**Botswana FDI Total Inflows**

Year	FDI Total Inflows (in millions)	Year	FDI Total Inflow (in millions)
1980	111.6	1994	-14.2
1981	88.4	1995	70.4
1982	21.1	1996	71.2
1983	23.8	1997	100.1
1984	62.2	1998	95.3
1985	53.6	1999	36.7
1986	70.4	2000	57.2
1987	113.6	2001	30.7
1988	39.9	2002	403.4
1989	42.2	2003	418.0
1990	95.9	2004	391.1
1991	-8.2	2005*	281
1992	-1.5	2006*	489
1993	-287.4	2007*	495
*UNCTAD, 2008			

SOURCE: UNCTAD, 2006; UNCTAD, 2008.

**Unemployment Rate in South Africa and Botswana**

Countries/ Years	Botswana	South Africa
1990	--	--
1991	13.9	--
1992	--	--
1993	--	--
1994	21.2	20
1995	--	16.9
1996	21.6	21
1997	--	22.9
1998	20.8	25.2
1999	--	23.3
2000	15.7	25.8
2001	18.6	29.7
2002	--	30.7
2003	--	28.4
2004	--	27.1
2005	17.5*	26.8

SOURCE: ILO, 2007: 62-63; \*CStO, 2008: 8.

**Annual Global Production of Major Diamond Exporting Countries (USD\$ in Millions)**

Country	2004	2005	2006	2007
Botswana	2,576.018	2,870.079	3,207.570	2,960.144
Russia	2,205.430	2,531.308	2,574.280	2,625.100
Canada	1,644.684	1,453.693	1,409.657	1,657.014
South Africa	1,075.761	1,319.087	1,361.816	1,417.331
Angola	788.138	1,089.170	1,132.514	1,271.955
Other	1,931.502	2,342.591	2,443.197	2,013.076
Total	10,221.535	11,605.931	12,129.036	12,106.550

SOURCE: Kimberly Process Certification Scheme, 2004; 2005; 2006; 2007)



**Industrial and Gem Quality Diamond Production in Botswana**

Type of Diamond/ Year	2003	2004	2005	2006	2007
Industrial	7,600	7,800	8,000	8,000	8,000
Gem Quality	22,800	23,300	23,900	24,000	25,000

SOURCE: Olso, 2009: 21.9

**Sources of Government Revenue, 1967-1986**

Revenue Source	1967-1976	1976-1986
Mineral Revenue	33	60
Customs Union	33	9
Non-mining Income Tax	15	6
Other Tax Revenue	3	1
Taxation (Total)	85	76
Bank of Botswana	-	23
Other Non-tax Revenue	15	1
Total	100	100

SOURCE: Harvey & Lewis, 1990: 195.

**Value of Diamond Exports in Million of Pula**

Year	Value of Diamond Exports	Government Budget Balance
1968/9	3	-8.4
1969/70	20	-7.5
1970/1	20	11.7
1971/2	30	-13.7
1972/3	32	-27
1973/4	32	-16.4
1974/5	37	-14.3
1975/6	46	-12.5
1976/7	75	-21
1977/8	186	-5
1978/9	236	10.6
1979/80	135	17
1980/1	243	-3
1981/2	464	-18
1982/3	616	-21
1983/4	1049	102
1984/5	1226	188.2
1985/6	2253	414.2
1986/7	1979	539.3
1987/8	2861	513
1988/9	1979	768.5
1989/90	2861	536.5
1990/1	2614	798
1991/2	2942	697.2
1992/3	3340.2	881.3
1993/4	3727.4	878.3
1995/6	5271.6	269.9

SOURCE: Samatar, 1999: 146.

**Botswana Diamond Production**

Year	MCTS	Puma (million)	USD (Million)	Total (CSO Sales-billion)	Botswana Share (%)	Share of GDP (%)	Mineral revenues/Total Govt. revenue (%)
1976	2.36	37	43	1.55	3	13.2	19
1977	2.69	47	56	2.07	3	15.0	20
1978	2.80	76	92	2.55	4	23.0	23
1979	4.39	184	226	2.59	9	31.1	31
1980	5.10	237	305	2.72	11	27.6	33
1981	4.96	136	163	1.47	11	22.4	24
1982	7.77	251	246	1.26	19	31.8	25
1983	10.73	462	421	1.60	26	33.5	34
1984	12.91	616	480	1.61	30	41.2	47
1985	12.64	1048	555	1.82	30	46.8	51
1986	13.09	1226	656	2.56	26	43.8	55
1987	13.21	2251	1342	3.07	44	44.9	57
1988	15.23	1966	1083	4.17	26	50.9	59
1989	15.25	2861	1422	4.09	35	44.3	58
1990	17.35	2614	1412	4.17	34	40.3	54
1991	16.51	2942	1465	3.93	37	37.3	46
1992	15.95	2899	1363	3.42	40	33.3	40
1993	14.73	3338	1378	4.37	32	35.4	42
1994	15.50	3727	1396	4.25	33	32.6	43

SOURCE: Jefferis, 1997: 303.

**Annual Government Grants from Britain to Bechuanaland**

Fiscal Year	Amount (in £ Sterling)
1956/57	140,000
1957/58	480,000
1958/59	560,000
1959/60	650,000
1960/61	750,000
1961/62	1,000,000
1962/63	1,680,000
1963/64	1,300,000
1964/65	6,000,000
1965/66	3,378,000
1966/67	8,564,000

SOURCE: Picard, 1987: 102.

**Government Revenues and Expenditures, 1954/5-1964/5 (Rand 000)**

Year	Ordinary Expenditure	Total Expenditure	CD & W*	Domestic Revenue	U.K. Grants	Total Revenue
1954/5	1,890	2,157	267	1,817	292	2,109
1955/6	2,187	2,556	369	1,940	367	2,307
1956/7	2,462	3,296	834	1,986	1,123	3,109
1957/8	3,267	4,172	935	1,935	1,839	3,774
1958/9	3,226	3,880	654	2,250	1,780	4,030
1959/60	3,826	4,375	549	2,474	1,869	4,343
1960/1	4,541	4,916	375	2,567	2,301	4,868
1961/2	5,763	6,657	895	3,284	3,146	6,430
1962/3	5,852	7,094	960	3,305	3,928	7,233
1963/4	6,590	7,684	972	3,398	4,197	7,595
1964/5	8,185	10,756	1,756	4,413	5,436	9,849
*Colonial Welfare and Development						

SOURCE: Samatar, 1999: 63.

**Performance of Non-Traditional Sector**

Year	Vegetable Products	Chemical Products	Food and Beverage Products	Vehicles & Other Related Products	Wood Products	Footwear Products	Textiles
1987	2.9	16.9	27.0	39.3	2.3	4.5	71.8
1988	3.7	16.7	9.5	51.7	2.2	7.5	74.9
1989	2.5	19.8	25.4	74.3	3.2	9.9	104.5
1990	12.1	18.5	34.6	60.0	2.5	19.4	155.5
1991	14.0	45.8	46.7	57.1	4.6	12.2	168.5
1992	13.4	72.9	47.8	70.9	5.4	14.7	102.0
1993	13.1	79.6	51.3	128.7	1.8	9.5	128.7
1994	14.4	63.0	62.2	406.7	1.5	8.4	234.3

SOURCE: Mpbanga, 1997: 383.

**Governance Research Indicator Country Snapshot 2002**

Criteria	Botswana	Lesotho	Namibia	South Africa	Swaziland	SSA	LIC	MIC	HIC
Voice and Accountability	0.75	0.53	0.66	0.75	0.28	0.42	0.38	0.57	0.82
Political Stability	0.78	0.57	0.69	0.52	0.64	0.45	0.40	0.59	0.82
Government Effectiveness	0.66	0.40	0.48	0.59	0.36	0.30	0.27	0.42	0.77
Quality of Regulation	0.72	0.44	0.59	0.66	0.50	0.38	0.34	0.51	0.85
Rule of Law	0.67	0.48	0.60	0.53	0.34	0.33	0.29	0.47	0.84
Control of Corruption	0.62	0.39	0.47	0.51	0.36	0.29	0.25	0.39	0.76

SOURCE: Atsushi, 2006: 9.

**Percentage of the Popular Vote Won by Party in National Assembly Elections (Taylor, 2003: 217)**

Party	1965	1969	1974	1979	1984	1989	1994	1999	2004*
BDP	80	68	77	75	68	65	55	54	52
BNF	--	14	12	13	20	27	37	25	26
BPP	14	12	6	8	7	4	4	--	2
BIP/IFP	5	6	4	4	3	2	4	--	--
BCP	--	--	--	--	--	--	--	11	16
BAM	--	--	--	--	--	--	--	5	3
Other	1	0	1	0	2	2	0	0	0
Rejected	--	--	--	--	--	--	--	5	--

SOURCE: Taylor, 2003: 217; \*EISA 2007.

**Share of Formal Employment by Industry, 1982-97 (%)**

Sector	1982	1993	1994	1995	1996	1997
Agriculture	4.2	2.7	2.3	1.9	1.9	1.9
Mining	7	3.3	3.4	3.7	3.6	3.5
Manufacturing	7.2	11.2	9.4	10	10	10.1
Electricity and Water	2.2	1.1	1.1	1.1	1.1	1.2
Construction	13.6	14.9	11.5	9.6	9.6	9.7
Commerce	16.6	18	19.8	19	19.5	19.4
Transport and Communication	3.7	4.5	3.9	3.9	3.8	3.8
Finance and Business	5.7	7.7	7.6	7.6	7.5	7.5
Commerce and Personnel Services	3.9	3.7	4.2	4.4	4.2	4.2
Education	1.6	1.1	1.3	1.6	1.7	1.6
Government	34.4	31.7	35.3	36.8	36.9	30.1

SOURCE: Siphambe, 2004: 358.

**Botswana Foreign Exchange Reserves in Millions of Dollars**

Year	Amount
1966	0
1977	0
1987	2,057.08
1989	2,841.11
1991	3,718.66
1992	3793.42
1993	4097.34
1994	4500.00
1995	4,696.00
1996	5,028.00
2001*	5,800.00
2002*	5,400.00
2003*	5,200.00
2004*	5,600.00
2005*	6,200.00
2006*	7,900.00
2007 (Forecast) *	9,200.00
2008 (Forecast) *	10,700.00
*Moody Global Sovereign, (2007: 9)	

SOURCE: Samatar, 1999: 4.

**Government Expenditures and Budget Balance 1974-1995 in Pula Million**

Fiscal Year	Total Spending and Net Lending	Budget Surplus	Development Expenditure (proportion of total spending and net lending (%))
1973/74	61.40	-13.40	49.3
1974/75	73.24	-5.48	44.8
1975/76	89.26	-2.20	39.0
1976/77	108.09	-20.73	34.8
1977/78	123.02	-5.44	36.1
1978/79	172.20	-5.69	46.0
1979/80	228.04	21.07	43.1
1980/81	308.36	-1.73	39.4
1981/82	341.36	-18.74	33.0
1982/83	414.76	-21.03	38.7
1983/84	460.12	102.93	30.6
1984/85	614.71	188.21	34.0
1985/86	719.18	414.70	34.4
1986/87	1008.21	539.32	40.1
1987/88	1312.01	513.02	42.5
1988/89	1787.52	768.50	44.6
1989/90	2214.69	536.46	37.4
1990/91	2942.69	798.02	37.0
1991/92	3372.20	697.23	32.6
1992/93	3770.95	881.30	32.0
1993/94	4481.16	878.30	34.8
1994/95	4276.84	195.65	32.2

SOURCE: Gaolathe, 1999: 46

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