

Botswana's Development Experience

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It gives me great pleasure to return to my Alma Mater, the Institute of Development Studies at the University of Sussex, an institution from which I graduated in 1970. My studies at the Institute of Development Studies, and subsequent interactions in the course of my work with faculty members and other alumni, have contributed to my professional growth as a development practitioner. I recall interacting with Professors Richard Jolly and Reginald Green in many fora discussing international development issues. Professors Charles Harvey and Michael Faber have worked as economic advisers in Botswana at various times.

I am also delighted that the Institute of Development Studies has gained world wide recognition as a fountain of objective balanced knowledge and analysis about economic development. Faculty members of the Institute of Development Studies have, in addition to teaching, contributed to development literature, and have been practically engaged as policy advisers and line staff in many countries, international organizations, and policy think tanks. I am happy to continue to tap on the wisdom and intellect of my Alma Mater in the ever changing discourse of the development paradigm. But I also do so for selfish reasons - in Shakespeare's Merchant of Venice, Graciano was said to be reputed wise just because he kept the company of wise men. I suppose nowadays one would have to keep the company of wise women too, which I dare say would be quite agreeable. Keeping your distinguished company will make me be seen to be wise!

In my delivery, I will outline Botswana's economic and political situation at independence, highlight developments since then, speak to the factors responsible for the transition and also outline the challenges Botswana faces for the future.

For the benefit of those of you who may not be familiar with my country, Botswana is a landlocked, semi-arid country of some 582 000 square kilometres in size, which is about the size of Kenya or France, or Texas and hosts a population of just under 2 million people. It shares borders with Zimbabwe, South Africa, Namibia and Zambia. The country attained self-governance in 1965 and Independence in September 1966 after 80 years as a British Protectorate. In 1966, the total population was estimated at just under 600 000. From independence, Botswana has been a non-racial multi-party democracy operating within the framework of a democratic Constitution, which enshrines freedom of speech, of association, and of worship, and affords all citizens equal rights.

The Colonial Inheritance

Chairperson, at the time of Independence in September 1966, Botswana was one of the least developed and poorest nations in the world, with a per capita income estimated at between US\$70 and US\$90. The majority of the population was dependent on subsistence agriculture with beef production as the mainstay of the economy, amidst a series of recurring prolonged droughts. There were 29 000 people in salaried employment and 30 500 migrant workers, of

which 18 000 were employed in South African mines. Remittances of migrant labour were about 17% of total exports. The literacy rate was low and access to health, sanitation, water, telephone, electricity, public transportation and other services was negligible. There was virtually no infrastructure, apart from Cecil Rhodes' railway line completed in 1897. There was less than 10 km of tarmaced road in the entire country. Availability of skilled and professional personnel was no better, with the country having less than 50 university graduates. The institutional machinery to run the operations of Government was weak. Almost everything had to be started from scratch.

Prospects for rapid development were bleak given the fact that for all her capital budget and even a major portion of the recurrent budget, Botswana depended on British foreign aid. This posed a major developmental challenge for the newly independent Botswana. At the time there was a lot of scepticism on the wisdom of this territory seeking self-government and independence.

Political Environment

In Botswana everyone is free to air their opinions, no matter how different, something deeply embedded in our cultural heritage. Post-independence leaders built on this heritage. Botswana prides herself in that to this day, the country has never had a single interruption to democratic rule or a political prisoner! The opposition conducts its business freely and without hindrance. Typical of opposition parties, they are kept out of power increasingly by their own fragmentation.

Botswana has had nine multi-party elections since 1965 and the Botswana Democratic Party, the party that I lead, has been returned to power on all occasions. Although independent election observers have always pronounced the elections free and fair, some critics consider uninterrupted rule by one party as detracting from a true democracy.

I must say, I am quite happy that my party has earned the enduring trust of the electorate to be returned to power with comfortable majorities, at each General Election. But even then, we have not been complacent. Indeed, the very existence of the opposition has kept Government on its toes. Over time, we have introduced changes to our constitution to solidify and adapt our multi-party democracy to suit changing circumstances. Some of the changes include a two-term (10 years) presidential term limit, extending the franchise to 18 year olds and removing discrimination against women, establishing an Independent Electoral Commission and others.

Botswana's stable democratic process has been further evidenced by the peaceful and smooth transition of power between the first President Sir Seretse Khama and his successor Sir Ketumile Masire in 1980 following the demise of Sir Seretse Khama. I succeeded Sir Ketumile Masire in 1998 upon his retirement and he continues to live freely in Botswana as the first surviving former Head of State.

Indicators of Progress

Chairperson, I will illustrate briefly what Botswana has achieved. Between independence in 1966 and 1999 real GDP grew on average by 9.2% and per capita GDP by 7%. GDP per capita is now over US\$3 500. The national budget has grown from under US\$3 million to US\$3 billion in 2004. Exports have grown from about US\$2 million to US\$2 billion in 2002

and imports from US\$3 million to US\$2 billion. Formal sector employment has risen from 29 000 people to 296 387 in 2004.

In addition, life expectancy at birth rose from 48 years in 1966 to 65.3 years in 1991 before declining to 55.7 years in 2001, largely as a result of the HIV/AIDS pandemic. The Infant Mortality Rate has declined from 100 per 1000 live births in 1971 to 55 in 2001. Primary School enrolment rose from 66 100 in 1966 to 327 600 in 2000, representing an average compound growth of 4.8% per annum. Tarmacked roads have gone up from less than 10 kilometres in 1966 to over 10 000 kilometres in 2003. Access to health, education, transport, telecommunication and other services has increased.

The structure of the Botswana economy has also changed significantly since independence. Agriculture accounted for 40% of GDP in 1966 and now accounts for less than 3% of GDP. Mining at just over 33%, is now the largest contributor to GDP. The Botswana economy is very open with Exports plus Imports constituting 79% of GDP. At independence exports primarily consisted of beef, but diamonds exports accounted for over 80% of total exports in 2003. Mineral revenues accounted for 45% of total Government revenue in 2004.

Because of progress made, Botswana graduated from the list of 24 least developed countries in 1992. Furthermore, Botswana introduced appropriate macroeconomic and sectoral policies and also established institutions to service a modern day economy, such as the Stock Exchange in 1994. Exchange controls were totally eliminated in 1999, a year after my accession to power.

As a further attestation of the progress Botswana has made, Standard and Poor's and Moody's Investors Service have assigned Botswana better than investment grade sovereign credit ratings since 2001. Although some development experts attribute Botswana's relative success to the exploitation of diamond deposits in the late 1970s and the early 1980s, this is only part of the story.

I must say I do not agree with the characterization of Botswana's development experience as a miracle - somehow suggesting some divine intervention or inexplicable reason for what was achieved. Natural resources, no matter how lucrative, cannot develop a country without political stability, sound economic management and prudent financial husbandry.

What explains Botswana's Success?

In my view, many factors were responsible for Botswana's success. These include the political leadership at the time of independence. The leadership was genuinely committed to development and was responsive to the needs of the people through an inclusive political process. There was national cohesion around the development agenda. In a way, the priorities were pre-determined as skilled human resources, physical infrastructure, such as roads and telecommunications; social infrastructure, such as water, health and education; and appropriate institutional infrastructure were almost non-existent.

Development Planning

Botswana developed an elaborate system of planning and produced five-year National Development Plans to articulate Government policies and development priorities. These Plans are enshrined in the law and approved by Parliament. As a result, a development

project cannot be implemented if it is not in the Plan, and any periodic modifications, which have to be fully justified, also have to be approved by Parliament. Botswana was consistent in her application of free market principles and practices and pro-growth policies and strategies in minerals, land, agricultural and social development.

The Plans, coupled with transparency, accountability and commitment to abide by the Plans, helped Government to access significant levels of Official Development Assistance and technical assistance. In fact, in the early 1980s, Botswana was one of the largest aid recipients on a per capita basis among the developing countries. The generous technical assistance we received, including from the Institute of Development Studies, enabled us to make effective use, not only of the capital assistance at our disposal, but also and above all, of our own financial resources when they became available as a result of mining activities.

Economic Management

Botswana also pursued pragmatic economic policies in the light of her geo-political situation. Although Botswana disagreed fundamentally with the racist policies of the then Apartheid South Africa, South West Africa and Rhodesia, trade and business relations were maintained. Botswana continued to be a member of the Southern African Customs Union and the Rand Monetary Area, in spite of several military attacks on and other punitive measures against us for our support of the liberation movements, which were dubbed terrorist organisations. Regarding the Rand Monetary Area, membership continued until 1976 when the then recently established Bank of Botswana issued the Pula, enabling the country to pursue independent monetary and exchange rate policies.

Because of Botswana's open market economic system, as well as limited domestic market, trade and exchange rate policies were, and continue to be, critical policies in order to promote the international competitiveness of our goods and services. For this reason, Botswana has been a member of the Southern African Customs Union, Southern African Development Community and the European Union/African, Caribbean and Pacific Group of countries under the Lome Convention, now the Cotonou Agreement. Under the Cotonou Agreement, Botswana beef enters the European Union market with a 90% rebate of the EU import levy.

The exchange rate policy has been managed to keep the value of the Pula, our currency, competitive with those of major trading partners. Of course, trade and exchange rate policies were pursued consistent with interest rate, monetary and fiscal policies.

It is a well documented fact that the exploitation of diamonds beginning in 1971, with a further significant mine coming into operation in 1982, changed the economic landscape of Botswana. Botswana is now the world's largest producer of gem diamonds by value, accounting for about 30% of world output. In 2004, the diamond output was 31 million carats valued at over US\$2 billion.

Diamond mining is done in partnership with De Beers Mining Company and Government earns revenue through taxation, dividends and royalties. Diamond revenues now constitute about 45% of total Government revenues. Revenues derived from diamonds have contributed significantly to Botswana's economic development because of appropriate political and economic policy environment as well as institutional framework.

Diamond revenues have been invested in the development of human capital, social and physical infrastructure. For many years, especially when the value of the US dollar (the currency in which diamonds are traded) was high, Government accumulated substantial cash balances and foreign exchange reserves.

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. Botswana is also a country largely dependent on food imports and with weak manufacturing capacity and at the same time currently hard hit by HIV and AIDS. Our policy has also sought to manage Government demand in the economy so as not to crowd out the private sector or cause inflationary pressures as well as to keep a judicious balance between capital expenditure and future recurrent expenditure.

Because of relative openness in economic policy making, National Development Planning formulation and priority setting and the constitutionally entrenched role of the Auditor General, the Attorney General, the Directorate on Corruption and Economic Crime and the independent Judiciary, corruption has been kept in check. A democratic political dispensation, with a free but abusive press and vibrant civil society is also a good check against corruption.

Another important aspect of Botswana's development strategy has been to avoid the accumulation of excessive debt, both internal and external. Throughout the post-independence period, our debt service ratio has been kept below 5% of exports of goods and services. External borrowing was undertaken after careful assessment of projects to be financed as well as realistic assessment of ability to pay back. In addition, Botswana took advantage of concessionary international finance and resisted borrowing at high costs from private capital markets and multilateral development institutions.

Areas of limited Success

Botswana has had limited success in a number of areas. Attempts to industrialise have not been totally successful. Import substitution proved difficult because of the limited domestic market, among others. Extension of time limited subsidies to promote industrialisation, through the Financial Assistance Policy, attracted foot-loose enterprises. Although manufacturing has grown, its contribution to GDP has remained at about 5% on account of GDP growing rapidly because of diamonds.

In the mid-1980s Government expenditure grew excessively causing the economy to overheat, especially in the construction sector. The cost of construction increased as a consequence. This was further exacerbated by negative real interest rates at the time. But we have learned from that experience. Real interest rates have been kept positive, and in spite of revenue fluctuations due to cross exchange rate movements, the ratio of Government expenditure to GDP has been relatively stable at around 45%.

Government has promoted growth across the economy, especially agriculture, through targeted subsidies. Some of the subsidy programmes generated little, if any, additional output and led to over-dependence on Government.

Botswana is often criticized for high levels of income inequality and rates of poverty. According to most recent data, the number of people living under the Poverty Datum Line decreased from 47% in 1993/94 to 30.3% in 2002/03. Government provision of health, education, school feeding, etc., has helped mitigate the effects of poverty.

In the last two years, the Government budget has come under stress because of the depreciation of the US dollar against the Pula as well as the South African Rand in which our customs union revenues are denominated. Diversification of the economy as well as Government revenue base has to be pursued with more vigour.

Challenges for the future

Whilst Botswana has made appreciable progress in economic development, many challenges remain. These include sustained improvement in living standards. Our national Vision 2016 is targeting a real GDP growth of 8% per annum up to year 2016. This can be achieved through economic diversification, especially into services such as tourism and international financial services, to reduce dependence on diamonds. Furthermore, concerted efforts are necessary for poverty eradication, sustainable environmental management, employment creation, macroeconomic stability, as well as sustaining high levels of transparency, accountability and good governance. Botswana also has to optimise opportunities arising from globalization. In this regard, the realization of objectives underpinning the New Partnership for Africa's Development (NEPAD) should assist the integration of our economy into the global economy as well as intra-African cooperation.

And as you may know, one of the greatest single challenges the nation of Botswana faces is the HIV/AIDS pandemic. Preliminary survey results, released in December 2004, indicate that 17.1% of the total population over 18 months of age is estimated to be infected with the HIV virus. A worrying statistic is that the population aged 15-49 years is hardest hit with an infection rate of 34.4%.

In 2004, Government spent about US\$130 million in direct costs on HIV/AIDS prevention, treatment, mitigation, support and care programmes. About 30 600 people are on Anti Retroviral Therapy in public health facilities and 7 000 in private facilities out of an estimated 110 000 most in need of immediate care. Other programmes include Capacity Building (infrastructure and human resources), Prevention of Mother to Child Transmission, Orphan Care, Routine HIV Testing, Community Based Home Care and extensive Information, Education and Communication campaign.

Although the various programmes are generously financed by multinational companies, multilateral agencies and some donor countries, the Government of Botswana shoulders a substantial part of the burden. The good progress we are making would have been even better had it not been for the effects of stigma, discrimination and other inhibitions. Unless the costs of treatment and drugs further come down significantly, it will be difficult to sustain the costs of the various programmes without compromising sustainable development.

Needless to say, HIV/AIDS is reversing some of the achievements we had made. And high levels of mortality and morbidity have an adverse effect on labour productivity. This has accentuated the shortages of skilled and professional human resources. This is particularly so for health personnel which is causing a severe strain to our health facilities.

The fabric of our society and culture is being tested to the limit by the care for the sick and infected as well as the increasing number of orphans and the effect this has on rates of savings. Registered orphans in 2004 numbered 47 925. The fight against HIV/AIDS is central to poverty reduction, employment creation as well as sustained improvements in living standards.

I would like to believe that institutions such as the Institute for Development Studies can find a way of contributing to our efforts to overcome the HIV and AIDS pandemic. This is truly a human tragedy that requires the undivided attention of all of humanity.

As I already pointed out earlier, Botswana is susceptible to severe and frequent droughts. At the present time, the capital, Gaborone, is under water restrictions because the dam that feeds it is about 25% full, enough supply for just 7 or so months. Finding reliable water sources for agricultural development and human consumption is a major development challenge for Botswana.

Conclusion

I wish to conclude by observing that economic management in a given country has to respond to the particular circumstances on the ground. Good policies, strategies and management cannot simply be transplanted from one economic regime to another. Without appropriate policies, the exploitation of valuable natural resources is no guarantee for success. In my view, key prerequisites for success include the following:

(i) the need for national priorities and well defined and agreed co-coordinated development processes right from the grassroots levels;

(ii) inclusiveness in the development process i.e., development policies must not favour particular individuals or sectors at the expense of the rest of society. All must share in the fruits of development.

(iii) Government must recognise the important role of other development stakeholders and establish fora for regular consultations; and

(iv) there is need to develop trust among key stakeholders, by acknowledging mistakes and taking corrective action on key matters.

Disagreements must be well managed so that they do not degenerate into irreconcilable differences over protracted periods of time.

Botswana's development experience may not be perfect, but many independent development analysts have concluded, that the lives of the vast majority of Botswana have been significantly improved by Government policies and programmes.

The Botswana economy has been transformed from a backwater economy to a progressive and forward looking economy in just over three and a half decades. But I say this, fully cognisant of the fact that many challenges lie ahead.