



Economic Diversification: The Case of Botswana

Lesego Sekwati

Section 1. Introduction

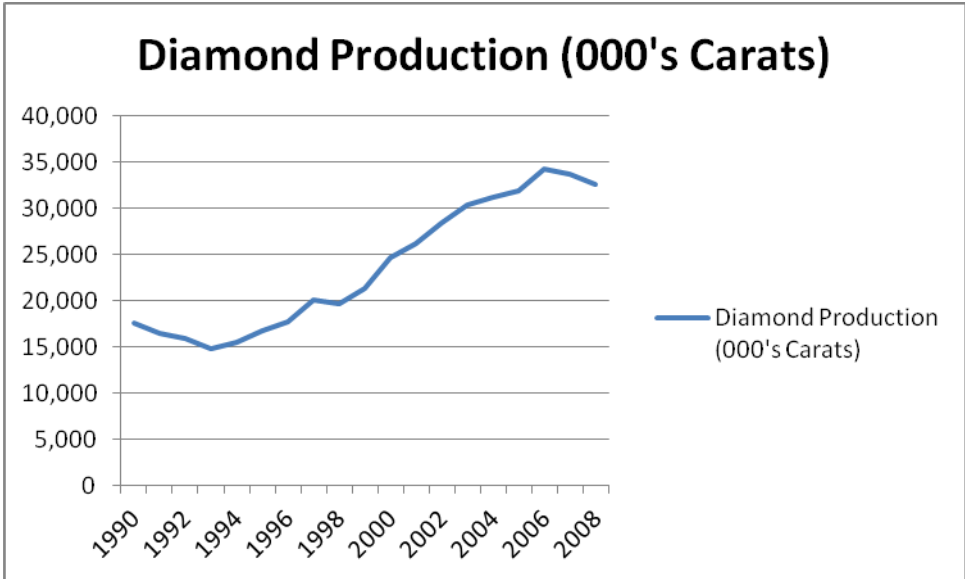
Over the past few decades, Botswana has been considered among the best performing economies in the world and hailed as a beacon of success in economic management compared with most African states. Driven in large part by diamond revenue expenditures, the economy moved from being one of the poorest at independence (1966) to middle-income status by the mid-1990s. During this period, the economy grew at an average positive growth rate of more than 8 percent per annum and per capita income of more than \$6,000 (current market prices) as of end of 2009 (Bank of Botswana 2009). To a large extent Botswana has also thus far been able to avoid the so-called “Dutch disease” or “resource curse” suffered by so many other mineral-rich economies, owing largely to its expenditure strategy.¹

These macroeconomic indicators, however, conceal structural weaknesses and the vulnerability of the economy. The economy is heavily dependent on the diamond-mining sector, which accounts for almost a third of GDP. During 2006-2007, the mining sector accounted for 75 percent of national export earnings, 42 percent of GDP and 48 percent of government revenues, mainly in the form of taxes and dividends from mining (Republic of Botswana 2008b). Between 2003 and 2007, Botswana consistently produced 30 million to 34 million carats, and it remains the world’s leading producer of gem-quality diamonds (see Figure 1 below). In 2008, Botswana launched Diamond Trading Co. Botswana to sort, value, market and distribute aggregate diamonds in Botswana. Through this additional activity, it was expected that diamonds worth \$550 million would be polished locally, thereby creating more than 3,000 jobs. Botswana also produces coal, soda ash, copper-nickel matte and gold.

The diamond-mining sector, which itself follows movements in world demand for the luxurious primary export commodity, however exposes the economy to vagaries of the world market. This risk has been somewhat underlined by the recent global recession, which resulted in an unprecedented loss of national income for the country. As a consequence of the recession, global demand for luxury goods such as diamonds plunged, and so did export earnings and government revenues (Republic of Botswana 2010). During the 2008/2009 financial year, the mineral revenues—royalties, dividends, annual lease charges and sundries—collected were about 32 percent lower compared with 2007/2008 receipts (Republic of Botswana 2008a). Official estimates also show that real GDP declined by 4.6 percent through the four quarters of 2009 owing to the decline in real value added by the mining industry, which recorded a decline of 31.4 percent during the same period.

¹ “Dutch disease” denotes an economy that features “the coexistence within the traded goods sector of progressing and declining, or booming and lagging, sub-sectors.” [Corden and Neary, 1982, p. 825](#)).

Figure 1: Diamond Mining Production (1990-2008)



Source: Republic of Botswana, *Botswana Mineral Investment Promotion*, (2008b).

It is important to note that in recent years the government has been trying to promote value addition and beneficiation within the diamond mining industry by facilitating downstream activities, including manufacturing diamond jewelry and retailing. To this end, Diamond Trading Co. Botswana (DTCB) has been established to support the creation and growth of a secondary diamond industry in the country. The sale of rough diamonds from DTCB, sourced from the aggregated mix, is made available locally to 16 cutting and polishing companies that have been licensed by the Ministry of Minerals, Energy and Water Resources. Of the \$5.08 billion DTCB global sales in 2010, \$482 million was sold through DTCB (See www.debeersgroup.com). It is also envisaged that the expansion of diamond activities by DTCB will provide impetus to growth of secondary business sectors such as banking, security, information technology, etc.

Notwithstanding considerable government efforts over the years (both horizontal and vertical policies), little has been achieved in terms of economy-wide and export diversification. Section 2 of this analysis discusses in detail changes in the structure of the economy akin to policies and strategies adopted by government in pursuit of these objectives. What is apparent from the available data, however, is that most of the policies adopted over the years have had little impact in terms of perceived structural changes in the economy and the elusive diversification of the economy. Policy research to explain this “growth paradox”—when economy-wide policies are not having a desired impact at the micro level—seems imperative if meaningful diversification is to be achieved.

Table 1: Botswana – Selected Economic Indicators

	2005	2006	2007	2008	2009*
National Income and Prices	(Annual percentage change, unless otherwise indicated)				
Real GDP	1.6	5.1	4.4	2.9	-10.3
Mineral	1.9	7.9	-2.0	-3.7	-36.7
Nonmineral	1.4	3.2	9.0	7.2	4.9
Consumer prices (average)	8.6	11.6	7.1	12.6	8.7
Consumer prices (end of period)	11.3	8.5	8.1	13.7	7.0
Nominal GDP (billions of pula)	52.4	65.7	75.7	91.2	80.1
Diamond production (millions of carats)	31.8	34.3	33.6	32.6	20.0
(Percent of GDP, unless otherwise indicated)					
Central Government Finance					
Total revenue and grants	39.9	40.2	36.0	34.2	32.2
Total expenditure and net lending	8.3	11.2	4.8	-5.2	-11.1
Overall balance (deficit -)	-20.5	-14.8	-16.8	-28.6	-28.3
Nonmineral primary balance (percent of nonmineral GDP)					
External Sector					
Current account balance	15.2	17.2	14.3	7.0	-8.2
Balance of payments	13.4	15.6	14.1	8.2	0.9

External public debt	4.2	3.3	2.5	2.3	11.7
External public debt in percent of total exports	8.1	6.9	5.3	5.3	33.2
	(In millions of U.S. dollars, unless otherwise indicated)				
Gross official reserves (end of period)	6,278	7,954	9,743	9,125	9,220
	21.7	21.3	20.7	20.8	17.0
In months of imports of goods and services	60.6	70.4	79.0	67.8	86.8
In percent of GDP					

Source: Botswana Country IV Staff Report, IMF 2010

* = projected

Section 2. The Economy of Botswana: an Overview

2.1 *Historical Pattern of Economic Change*

Botswana has been hailed as a beacon of success and model African state both politically and economically. Formerly a British protectorate, Botswana attained self-government status in 1965 and became independent on September 30, 1966. At independence, Botswana was coming to the end of a severe drought cycle that had lasted for more than five years. The social and economic outlook was discouraging (Dahl 1981). Under these bleak economic conditions, expectations regarding economic expansion were not excessive. Thus the combination of more abundant resources available for development than originally envisaged, extremely cautious government spending behaviors, and supposed good economic policies supported by good institutions may explain some of the development success in later years. Acemoglu, Johnson and Robinson argue that Botswana's good economic policies and success reflect its institutions.² These institutions, they argued, protected property rights of the actual and potential investors, provided political stability, and ensured that political elites were constrained by the political system and the participation of broad sector of the society.

Five critical factors are associated with the good institutions in their analysis. First, Botswana possessed precolonial tribal institutions that encouraged broad-based participation and placed

² See Daron Acemoglu, Simon Johnson, and James A. Robinson, "An African Success Story: Botswana," MIT Department of Economics Working Paper 01-37 for a more detailed discussion of the factors that contributed to Botswana's success.

constraints on political leaders during the precolonial period. Second, British colonization had a limited effect on the precolonial institutions because of the peripheral nature of Botswana to the British Empire. Third, upon independence, the most important rural interests, chiefs and cattle owners were politically powerful, and it was in their economic interest to enforce property rights. Fourth, the revenue from diamonds generated enough rents for the main political actors, increasing the opportunity cost of, and discouraging further rent seeking. And finally, the post-independence political leaders, in particular Sir Seretse Khama and Sir Ketumile Masire, undertook deliberate decisions to create a strong central state. One of the most crucial decisions undertaken by Sir Seretse Khama was the passing of the Mines and Minerals Act in 1967, which conferred subsoil mineral rights to the national government from the tribes. Unlike leaders in most African countries at the time, these leaders also crucially resisted indigenizing the bureaucracy until suitably qualified citizens were available; so expatriate workers were kept, and international advisers and consultants were also used. This added to the strength of the institutions at the time.

Botswana's development experience has also been associated with strong adherence to national development planning and budgeting principles, with little or no external influence in the planning process. This has ensured central planning in the pursuit of national development objectives. This process ensures that to the extent possible, only projects approved through the national planning process are financed through the national budgeting process. The development plans are based on a six-year planning cycle, with a midterm review every three years. Worth noting is that the thrust of all the national development plans since 1966 has been achieving sustainable economic growth and diversification.

At independence, farming, especially cattle, was the most important economic activity. Acemoglu, Johnson and Robinson note that in the absence of any other sector to develop, early plans focused on the development of this sector; also developing the sector was in the interests of the ruling Botswana Democratic Party and political elites. When the drought cycle came to an end, cattle farming started to expand, and so the economy started to move out of its extremely depressed state. The Lobatse abattoir was thus nationalized soon after independence, and two more were built in Maun and Francistown respectively. The government also founded the Botswana Meat Commission (BMC), a traditional type of marketing board that is a monopsony purchaser of cattle from farmers. Other deliberate strategies to develop the sector included heavy subsidies of veterinary services, and distribution of vaccines and extension services. Equally important was the negotiation of access to the prosperous European Economic Community (EEC) market, gaining prices far better than world prices. The fact that the political elites had major interests in the main export sector at the time ensured that the exchange rate was not overvalued. The interests of the political elites therefore largely influenced much of developmental policy at the time.

The relocation of the capital from Mafikeng in South Africa to Gaborone provided further impetus as more government spending now took place in Botswana. Demand injections from the central government between 1966 and 1968 led to an increase in government employment and contribution to the value added. These two factors provided the much-needed boost to the economy, although only slow progress was expected. Three major events that were to significantly influence the direction of the economy took place in the late 1960s, changing the economic landscape in a profound way. First, De Beers announced its rich diamond discovery at Orapa. Second, Bamangwato Concession Ltd. (an Anglo-American and Amax subsidiary) decided to develop the Selibi and Phikwe copper-nickel deposits. And third, re-negotiations of the 1910 Customs Union agreement with South Africa were successfully concluded, securing a greater share of revenues for Botswana. These three events led to a phenomenal increase in government revenues and of exports (which increased by almost 700 percent from 1969 to 1975). The upswing was further strengthened by an unprecedented strong export demand for Botswana beef (Dahl 1981). The BMC throughput of cattle increased from 127,000 during the calendar year 1970 to a peak of 209,000 during 1974, while the effective price more than doubled.

From late 1969 onward therefore, the economy entered an expansion phase. As a consequence, Botswana was able to balance its recurrent expenditure by the mid-1970s. In 1975, the government crucially renegotiated the original mining agreement with De Beers for a 50 percent share of diamond profits. By the mid-1980s government revenues exceeded total government expenditure and consequently there were budget surpluses in subsequent years.

2.2 Structure of the Economy

This section provides an overview of the structure of GDP growth over the years. The objective is to show the changes that have taken place with regard to the major economic activities that have driven the development process. This would also show whether the share of mining as a source of income has declined over time, with a simultaneous increase in the contribution of non-mining sectors such as manufacturing, services, etc.

Tables 2 and 3 below show the sectoral distribution of GDP for selected years in Botswana. Table 2 shows that GDP in 1966 was estimated at 387.6 million pula, of which more than 40 percent was contributed by agriculture, with cattle rearing and beef production being the main economic activities. The second largest contributor was the services sector, including banks, insurance and business services. Subsequent to the discovery of minerals in the 1970s, significant structural changes took place in the economy, with the share of agriculture declining rapidly, while the share of mining increased rapidly in the years that followed. The share of

agriculture declined from 42.7 percent in 1966 to 20.7 percent in 1975/76. By 1995/96, the share of agriculture had declined to 4.1 percent and 1.8 percent by 2005. The share of mining on the other hand, driven in large by diamonds, increased from 17.5 percent in 1975/76 to 33.9 percent in 1995/96, and 40.7 percent by 2005 (see Table 3). It is important to note, however, that tourism (trade, hotels and restaurants) as well as financial services (banks, insurance and business services) have been increasing in importance over time, in response to the needs of the business sector. Each of these sectors has consistently averaged close to 10 percent contribution to GDP over the past five years. Figure 2 below shows the annual percentage change in GDP by economic activity over the past decade. The data shows that over the past decade, while the growth of the mining sector has been on a decline, the nontrade sector—especially finance—has been growing at a moderate pace. In fact, financial services have been growing at a faster rate than the mining sector in recent years. The growth of other nonmining sectors during this decade has been somewhat erratic. Owing to its dependence on the government sector (and indirectly on mining revenues), the construction sector’s performance has also been slow during this period.

Table 2: Sectoral Distribution of GDP (Million of Pula, 1993/94 Constant Prices)

	1966	1975/76	1985/86	1990/91	1995/96	2000	2005	2006	2007	2008	2009
Agriculture	387.6	431.1	318.9	480.6	489.9	451.1	401.2	397.4	432.8	434.3	547.5
Mining	-	365.3	2,790.8	3,956.8	4,076.3	7,119.0	9,134.2	9,854.8	9,661.7	9,308.7	6,787.5
Manufacturing	51.4	159.2	224.9	471.4	572.8	658.2	490.5	519.8	544.9	574.1	578.9
Water and Electricity	5.2	48.4	113.1	168.4	256.9	387.7	490.5	519.8	544.9	574.1	578.9
Construction	71.2	267.1	260.7	764.4	746.5	908.0	1,009.4	1,032.9	1,183.0	1,208.7	1,366.8
Trade, Hotels and Restaurants	81.4	179.0	361.6	591.2	1,192.7	1,635.9	2,051.7	2,245.1	2,487.7	2,641.9	2,728.1
Transport, Post and Telecommunications	39.4	23.5	141.5	323.5	437.7	594.3	720.7	794.8	881.8	1,011.0	1,132.1
Banks, Insurance and Business	183.0	97.5	367.4	884.5	1,351.5	1,735.0	2,238.5	2,404.6	2,606.3	2,996.6	3,112.1
General Government	89.2	305.0	730.5	1,355.0	1,854.9	2,570.7	3,740.0	3,693.4	3,847.6	4,146.6	4,299.6
Social and Personal Services	-	57.8	145.4	421.1	788.5	674.1	902.9	921.4	973.8	1,040.1	1,165.8
GDP at Constant Market Prices	908.6	2083.5	5708.1	10,009.8	12,029.5	17,401.2	22,462.9	23,613.2	24,748.2	25,520.8	23,989.8
GDP per Capita	1,682.5	2,861.9	5,175.0	7,584.0	8,073.0	10,601.5	12,973.6	13,530.1	14,084.3	14,425.4	13,468.1

Real GDP Growth Rate	-	18.4	7.7	8.3	5.5	5.9	1.6	5.1	4.4	3.1	-6.0
GDP Excluding Mining	908.6	1,718.1	2,917.3	6,053.0	7,953.2	10,282.1	13,328.7	13,758.4	15,086.5	16,212.1	17,202.4

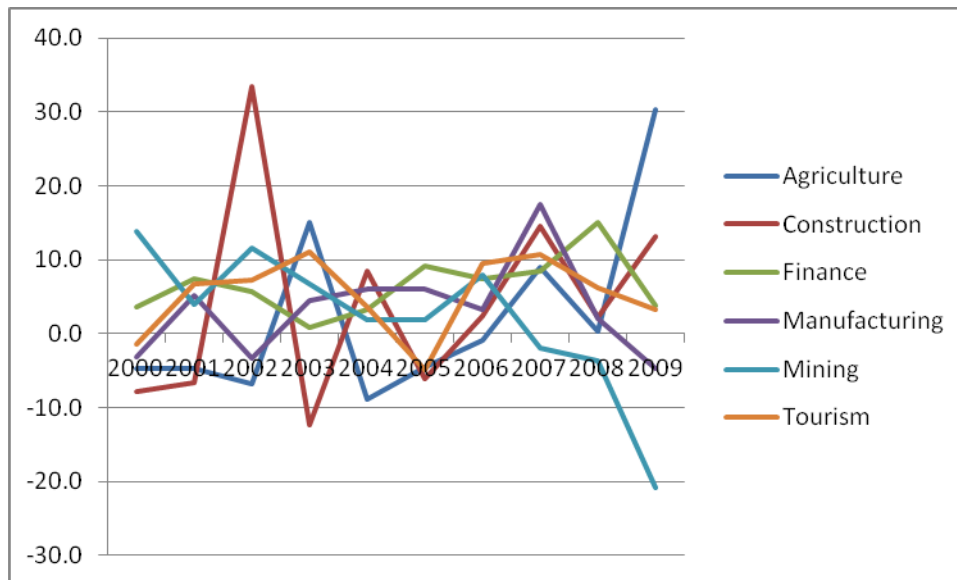
Sources: H. Siphambe et al., *Economic Development of Botswana: Facets, Policies, Problems and Prospects* (2005); Bank of Botswana, *Annual Report* (2009).

Table 3: Sectoral Distribution of GDP (Percentages)

	1966	1975/76	1985/86	1990/91	1995/96	2000	2005	2006	2007	2008	2009
Agriculture	42.7	20.7	5.6	4.8	4.1	2.6	1.8	1.7	1.8	1.7	2.3
Mining	-	17.5	48.9	39.5	33.9	40.9	40.7	41.7	39.2	36.5	28.3
Manufacturing	5.7	7.6	3.9	4.7	4.8	3.8	3.5	3.4	3.9	3.8	3.9
Water and Electricity	0.6	2.3	2.0	1.7	2.1	2.2	2.2	2.2	2.2	2.2	2.4
Construction	7.8	12.8	4.6	7.6	6.2	5.2	4.5	4.4	4.8	4.7	5.7
Trade, Hotels and Restaurants	9.0	8.6	6.3	5.9	9.9	9.4	9.1	9.5	10.1	10.4	11.4
Transport, Post and Telecommunications	4.3	1.1	2.5	3.2	3.6	3.4	3.2	3.4	3.6	4.0	4.7
Banks, Insurance and Business	20.1	4.7	6.4	8.8	11.2	10.0	10.0	10.2	10.6	11.7	13.0
General Government	9.8	14.6	12.8	13.5	15.4	14.8	16.6	15.6	15.6	16.2	17.9
Social and Personal Services	-	2.8	2.5	4.2	6.6	3.9	4.0	3.9	3.9	4.1	4.9

Sources: H. Siphambe et al., *Economic Development of Botswana: Facets, Policies, Problems and Prospects* (2005); Bank of Botswana, *Annual Report* (2009).

Figure 2: Annual Percentage Change in GDP by Economic Activity (Measured Using 1993/94 Constant Prices)



Source: Bank of Botswana, *Annual Report* (2010).

One more peculiar feature of Botswana's economy is the low level of industrialization despite government efforts to encouraging the same. Over the years the manufacturing sector has received preferential treatment from the government, both in terms of targeted policy and financial support, but the sector has consistently failed to perform to expectations (see Tables 2 and 3). Industrialization has been pursued in the context of the Industrial Development Policy, designed to engage in targeted entrepreneurial development incentives and support mechanisms to promote industrial growth. The industrial sector (narrowly defined) continues to struggle to make a significant impact in terms of contribution to GDP as well as employment.³ The growth of the sector in recent years also continues to be erratic (see Figure 2). Although the sector has recorded some positive growth in some years over the past decade, the rate at which the sector is growing is not encouraging. With respect to diversification, the industrial sector (narrowly defined) has diversified from only meat and meat products at independence to include other consumer goods, intermediate as well as capital goods. These products include dairy, beverages, bakery, textiles, tanning and leather, chemicals, rubber, wood, metal and other manufactured goods. Over the same period, however, the industrial sector (broadly defined) has generally shown positive trends. Kapunda and Akinkugbe (2005) argue that the growth of the industrial sector (broadly defined) between 1996/97 and 2002/03 (6.5 percent) was actually higher than that of the mining sector (5.2 percent) over the same period.

³ The narrow definition of the industrial sector in this case refers to only manufacturing, as opposed to the broad definition that includes manufacturing and supporting sectors such as construction, public utilities, etc.

Several factors that limit the growth of the manufacturing sector in Botswana have been well documented in the past (see, for example, Mpabanga 1997), and they continue to do so today. These include limited availability of domestic financing capital; absence of a critical mass of citizen entrepreneurs with business acumen; limited input base; inadequate skilled personnel, infrastructure and supporting services; and a small domestic market. Botswana has a small population, estimated at about 1.8 million in 2008. This acts as a disadvantage to manufacturers because it limits the size of their most immediate market. Through a series of bilateral and multilateral trade agreements, to which Botswana is a signatory, including the Southern African Customs Union (SACU) and the Southern African Development Community (SADC), the regional market is seen as a potential area of expansion with regard to the manufacturing sector. The 2010-2011 global competitiveness report also noted a poor work ethic; inadequately educated workforce; inefficient government bureaucracy; access to financing; inadequate supply of infrastructure; and restrictive labor regulations as the most problematic factors of doing business in Botswana (World Economic Forum 2010), in that order. In recent years, the number of unemployed graduates has grown. This reflects a mismatch between the skills required to support the growth of industry and those produced by tertiary institutions in the country. According to the 2005/06 Labour Force Survey, of the 17.5 percent unemployed labor force recorded during the survey, 16.6 percent of this fraction had certificates, 7.7 percent had diplomas, and 5.5 percent had degrees. The envisaged Human Resource Development Council and the recently established Labour Market Observatory are expected to address some of these mismatches.

Despite having important forward and backward links crucial for industrialization, the agriculture sector remains weak and underdeveloped. In recent years, the government has undertaken some initiatives (including the National Master Plan for Arable Agriculture and Dairy Development and the Integrated Support for Arable Agricultural Development within the framework of the Agricultural Development Policy) to improve agricultural productivity with little success, although output has increased marginally in the past two years. The sector continues to be plagued by its dependence on rainfall.

It is important to note that Botswana is generally covered by geologically old, highly leached, poorly structured and infertile soils with limited vegetation cover. In addition, the climate is arid, and semiarid with a mono-modal rainfall regime. The mean rainfall is approximately 475 millimeters per annum, and cyclical droughts—every five to 10 years—are common occurrences as well. These conditions fairly indicate that the country is not well-endowed with natural physical characteristics for agriculture. It is estimated that only about 5 percent of the total area is considered suitable for arable agriculture and only about 1 percent is under cultivation yearly (SADC 2008). Rain-fed agriculture is possible for only one season, but it is considered risky as a

result of unreliable rainfall and poor soils. Surface water for irrigation is also scarce, while groundwater resources are limited and expensive to exploit for irrigation. These conditions have more than contributed to the poor performance of the agricultural sector.

Tourism is one other key sector that has been identified as a conduit for economic diversification. Estimates show a 32 percent increase in total arrivals between 1998 and 1999, and 22 percent between 1999 and 2000 (Republic of Botswana 2003). The data also shows a 49 percent increase in revenue between 1998 and 2000. The sector contributes about 10 percent to GDP, with generally positive trends over the past decade. However challenges still remain with regard to diversifying the product base, as well as increasing citizen participation in the sector.

In terms of exports, the export mix remains highly concentrated and dominated by diamond exports. Table 4 below shows the country's principal export commodities over the past decade. Table 5 shows export concentration index (ECI) for selected SADC countries, including Botswana, between 1995 and 2006, while Table 6 shows the diversification index for the same countries from 2004 through 2008. Table 7 shows the global competitiveness index for the same countries from 2004 through 2008. The data shows that between 1995 and 2006, the ECI for Botswana has remained consistently high, reflecting the very high reliance on diamond export revenues. In 2006, Botswana had one of the highest ECI in Africa (second highest in the SADC after Angola). Tables 6 and 7 also show the same trend.

Table 4: Exports – Principal Merchandise

	Diamonds	Copper/Nickel	Beef	Soda Ash	Textiles	Vehicles
1998	6,060.6	307.3	312.8	166.1	302.7	966.1
1999	9,812.8	405.2	270.4	196.7	248.5	666.8
2000	11,397.5	551.6	278.2	207.7	243.7	270.2
2001	11,259.2	409.7	427.2	208	193	298.7
2002	12,473.6	482.4	279.4	268	183.3	407.8
2003	11,707.3	694.6	260.2	229.6	226.7	442.8
2004	13,133.1	757.5	284	250.8	560.8	556.1
2005	16,981.7	2,301	309.9	332.1	1117	569.7
2006	19,712.6	3,822.8	363.2	462.7	916.7	183.6
2007	20,483.1	5,521.7	592.3	473.5	2,787.5	218.7
2008	21,455.8	5,119.3	530.3	505.1	1,819.3	413.6

Source: Bank of Botswana, *Annual Report* (2010).

Table 5: Export Concentration Index (ECI) in Selected SADC Countries

Country	ECI in 1995	ECI in 2006
Angola	0.90	0.95
Botswana	0.74	0.73
Zambia	0.83	0.68
Malawi	0.66	0.60
Zimbabwe	0.25	0.22
South Africa	0.27	0.16

Source: UNCTAD (2008).

Table 6: Diversification Index in Selected SADC Countries

Country	2004	2005	2006	2007	2008	2004-2008
Angola	1.1	1.1	1.1	1.1	1.1	105.6
Botswana	1.4	1.4	1.8	2.7	4.0	-4.2
Zambia	4.1	3.5	2.2	2.5	3.0	12.4
Malawi	3.8	2.9	3.0	3.8	3.6	-3.9
Zimbabwe	13.7	15.9	16.1	11.0	13.7	4.0
South Africa	52.1	49.4	46.8	45.5	40.7	21.3

Source: African Economic Outlook (2010).

Table 7: Annual Export Growth and Competitiveness Indicator for Selected SADC Countries

Country	Annual Export Growth (Sectoral) 2004-2008	Competitiveness Indicator
Angola	24.1	63.8
Botswana	-16.8	-13.9
Zambia	12.4	19.9
Malawi	-3.9	-1.1
Zimbabwe	2.4	-16.2
South Africa	9.3	-5.8

Source: African Economic Outlook (2010).

Section 3. Economic Diversification in Botswana

Despite numerous diversification initiatives, the economy of Botswana remains substantially dependent on diamond revenues. This section provides an overview of policies, strategies and institutions the government has established over the years to promote economic diversification. Because of the nature of the economy, the key focus of diversification efforts has been fostering the private sector as a strategic partner. Legwaila (2002) argues that since the private sector is very weak, the state has taken the task of nurturing the market with the hope of strengthening the partnership as the private sector develops.

Development economics has long held that industrialization is an essential component of development and growth in that it provides greater potential for long-term income growth compared with resource-based economies (Siwawa-Ndai 1997). Economic diversification strategies in several countries have thus emphasized promoting industrialization, and so has Botswana. For several years the manufacturing sector was earmarked as the principal sector through which the twin goals of economic diversification and employment creation were to be achieved. In 1974, along with the national development plans (NDPs), the government

introduced the Industrial Policy (IP) to create a framework for the development of the Industrial Development Policy (IDP) of 1984 (Conteh 2008). The basic thrust of the 1984 IDP was to diversify the economy through import substitution that the government thought was appropriate for the then closed economies of Southern Africa (Republic of Botswana 1998a). This position informed the subsequent NDPs as well.

Owing to the growing intensity of international competition spurred by globalization, however, Botswana had to revise its strategy of industrialization. The focus was thus shifted from import substitution to promoting export-based industries, based to the extent possible on local natural resources, but integrated with foreign markets.

As part of the strategy, the government adopted several complimentary policies and programs to promote industrialization through private sector development. The Financial Assistance Policy (FAP) in particular is generally regarded as the most significant government policy for supporting enterprise development in the 1980s. This was introduced in 1982 and consisted of a capital grant to assist the start-up or extension of manufacturing, tourism and agricultural projects. However, the policy was terminated in 2000 as a result of abuse, over-investment in machinery rarely used, and poor monitoring, among other things, after the Botswana Institute for Development Policy Analysis evaluated the policy (Republic of Botswana 1998b).⁴ In 2001, the government established the Citizen Entrepreneurial Development Agency (CEDA) to undertake a similar role as the FAP, albeit different in nature and operation. CEDA provides loans at subsidized interest rates to viable citizen businesses as opposed to outright grants. The objective is to encourage responsible borrowing and promote sustainability of the enterprises and the fund. In addition to financial support, CEDA also provides technical support to citizen-owned enterprises. During 2009, the agency received 791 applications worth 621.2 million pulas for funding (representing a 55 percent increase in applications by value and 39 percent by number from the previous year). The agency approved 292, worth 189.6 million pulas.⁵ (Of those, 51 percent were in services, 28 percent agriculture, 10 percent retail, 8 percent manufacturing and 5 percent property.

⁴ The Botswana Institute for Development Policy Analysis is a nongovernmental research organization established by deed of trust. The two key areas of its mandate are development policy analysis and capacity building. Go to www.bidpa.bw for more information.

⁵ <http://www.ceda.co.bw/publication.php>

The Local Procurement Programme, introduced in 1997, is another initiative aimed at enhancing the development of local entrepreneurs. Up to 30 percent of the government's annual budget for supplies is reserved exclusively for local manufacturing enterprises under the program. Capacity constraints and poorly made products from most of the local firms remain a concern for most procuring entities. The policy on Small, Medium and Micro Enterprises (SMMEs) was adopted in 1998 in recognition of the numerous problems SMMEs faced in Botswana. The policy aims to foster citizen entrepreneurship; encourage the development of a competitive, sustainable SMME sector; and promote the development of vertical integration and horizontal links among SMMEs and primary industries (Republic of Botswana 1998c). Table 8 below presents a matrix of other policies the government has adopted over the years to promote private sector development/economic diversification.

Table 8: Private Sector Development/Economic Diversification Policy Matrix

Policy	Objectives	Notes
1. Tourism Policy (1990)	<ul style="list-style-type: none"> • Economic diversification • Employment creation 	<ul style="list-style-type: none"> • Policy currently under review • <u>Key issues</u> • Harmonization of policy with other private sector development policies • Strengthening of institutional capacity • Diversification of product bases • Enhancing links with other sectors • Enhancing citizen participation
2. Privatization Policy (2000)	<ul style="list-style-type: none"> • Accelerating growth • Increasing citizen participation 	<ul style="list-style-type: none"> • Pace of privatization sluggish • <u>Key issues</u> • Need to synthesize privatization policy with other private sector development policies • Need to develop effective time-bound performance evaluation mechanisms to ensure effective implementation • Strengthening of institutional capacity to improve implementation • Need to increase public awareness of opportunities • Need to expedite adoption of citizen economic empowerment

		policy
3. National Policy on Agricultural Development (1991) <u>Related Programs</u> <ul style="list-style-type: none"> • NAMPAAD⁶ • ISPAAD⁷ 	<ul style="list-style-type: none"> • Increase agricultural productivity • Commercialize agriculture • Diversify agricultural base 	<ul style="list-style-type: none"> • <u>Key issues</u> • Capacity of local farmers to engage in commercial agriculture remains a challenge. • Technology uptake in agriculture is limited. • Access to productive land remains challenging. • Improve institutional capacity to support the growth of the sector. • Strengthen performance, monitoring and evaluation criteria.

Despite these numerous initiatives, the economy remains substantially dependent on revenues generated by diamonds. The impressive growth rates recorded by the economy over the years have also not translated into a significant broadening of the economic base, based to a large extent on a strong private sector. The private sector also remains highly dependent on general public expenditures through government contracts and on consumption expenditures by civil servants (Republic of Botswana 2009). The pertinent question that arises then is that given the policies, strategies and programs adopted and implemented by the government over the years, why has so little been achieved? Is it a case of ill-conceived policies in the past? Misdirected policies and incentives? What about the complimentary policies (e.g., long-term skills development to support industry)? Was enough attention paid to these? What is the missing link between the policies and/or strategies and the actual results achieved? Is the problem with the institutions/implementing agencies responsible?

It has become increasingly evident that all these questions bear some truth as can be observed from the limited success of the policies and strategies in question. Furthermore, the proliferation of the policies and strategies over the years has not made implementation and monitoring easy. One critical factor in pushing the economic diversification agenda involves political commitment. To the extent that the government has made efforts to create an enabling environment to support private sector development, some positives can be shown. However, there are critical areas that have lagged behind, specifically government support for innovation, research and development, and the response time to private sector development challenges.

⁶ NAMPAAD is the National Master Plan for Arable Agriculture and Dairy Development.

⁷ ISPAAD is the Integrated Support for Arable Agricultural Development.

One notable area is labor regulations (see also World Economic Forum 2010). This is one of the issues that continue to be rated highly among most problematic areas of doing business in Botswana, yet the government is very slow in addressing these problems. A review of the budget allocations for the past five years also shows little emphasis on research and development to support the growth of industry. Literature has shown that countries that have been successful in diversifying their economies have done so by devoting sizable amounts of resources to research and development. There is little collaboration among government agencies and the existing research institutions.

In recent years, the government has realized that perhaps it is important to reexamine the policies. Of note are the Excellence Strategy and the recent Economic Diversification Drive (EDD) that seek to address some of the shortcomings of the past policies and accelerate economic diversification. The Excellence Strategy recognizes that some well-intended past policies have fallen short of achieving objectives, which makes it imperative to address the prevailing structural deficiencies with a high degree of realism and creativity. The strategy identifies creating an enabling framework; mindset change, openness and empowerment; policy and institutional matters; instruments in support of diversification initiatives; and projects to drive diversification as key to achieving sustainable growth and diversification.

Creating an enabling environment involves ensuring political stability, internal security and shaping a strong education system that reflects the changing needs of the economy. A critical complimentary policy in this regard is the Human Resources Development Strategy (HRDS), which aims to develop skills to support private sector development. The strategy represents the collective national thinking (government, private sector and civil society) on the issues facing the development of Botswana's human resource capacity and capabilities (Republic of Botswana 2009). The tourism sector has also been identified as key in the strategy. In this regard, the strategy aims to create a medium cost, higher volume lodging market segment, as well as opening up and developing additional or currently underutilized concessions.

Other key initiatives include:

- Establishing Botswana as an air, road and rail transport and logistics hub for Southern and Central Africa
- Establishing Botswana as an innovation hub, intended to foster the development of a high-technology sector
- Introducing free trade zones to provide attractive incentives (tax, labor, land, telecommunications), but only for highly specific, strictly circumscribed ventures
- Enhancing banking and other financial services

- Building mining diversification around Botswana's coal and gas energy base

In line with the Excellence Strategy, the government is in the process of developing an Economic Diversification Drive (EDD) Master Action Plan, which is expected to enhance performance monitoring of the activities envisaged using the balanced scorecard approach. The EDD Master Action Plan is also expected to wean private sector from government support and protection. The EDD has two components: the short-term strategy and the medium- to long-term strategy. The short-term one aims to use administrative interventions (including government local procurement and government preference margins) to promote targeted domestic production. The long-term strategy is to develop a vibrant, globally competitive private sector to drive growth and diversification. Consultations with the relevant stakeholders are currently ongoing to develop the action plan. The concept recognizes the importance of placing emphasis on sectoral development; export development; entrepreneurial development; research and development, including technology transfer; investment and finance; and quality control and standards in achieving the objective of economic diversification.

Established in 1970, the Botswana Development Corp. (BDC) is considered the hub of industrial development in Botswana (Conteh 2008). It was created as a development finance institution to fund the establishment of commercially viable businesses and projects for the development and diversification of the economy (Republic of Botswana 2005). BDC also assists start-ups that are high risk but have strategic development potential. Its partnership with the private sector is project-specific, such that the two parties agree on a certain percentage of shareholding and take responsibility for running their businesses. Part of the operational strategy of BDC involves investing in property including hotels, offices, factory shells, etc.

Established in 1997, the Botswana Export Development and Investment Authority (BEDIA) is another key institution set up to drive economic diversification. It was set up to promote the establishment of manufacturing enterprises and joint ventures between local and foreign investors. In addition, BEDIA constructs factory shells for occupation by start-up manufacturing enterprises and identifies market outlets for goods manufactured in Botswana. The Local Enterprise Authority (LEA) was established under the Small Business Act of 2004 to promote and facilitate entrepreneurship and enterprise development among the SMMEs in Botswana.

Botswana has seen a proliferation of institutions (including the Botswana National Productivity Centre, Public Enterprises Evaluation and Privatization Agency, Botswana Bureau of Standards, Citizen Entrepreneurial Development Agency, etc.), all of which were established with good intentions. A high degree of duplication of effort has also been evident among some of these.

This has certainly contributed to difficulties in implementation, monitoring and accountability in the past. In recent years, the government has started a rationalization program in which public enterprises with similar mandates are being merged to reduce duplication and to increase the efficiency of implementation. Through the Excellence Strategy, the government has recently established the National Strategy Office (NSO), under the Office of the President, to coordinate and oversee implementation of all economic diversification initiatives with the support of the Ministry of Trade and Industry. This is also expected to improve implementation, monitoring and accountability.

Section 4. Conclusion

After several years of implementing different policies, strategies and programs for economic diversification, the depth and spatial distribution of private sector activities in Botswana remain narrow and shallow (Conteh 2008). The economy remains heavily dependent on mining, with a private sector heavily dependent on public expenditures. This is despite the favorable macroeconomic environment and positive rates of growth recorded by the economy over the years. Although further research into why policies adopted by the government have not been very effective in diversifying the economy may be necessary, one or two reasons relating to the policies themselves, as well as the institutions established to drive the agenda, can be noted. For a long time, there was no comprehensive policy on economic diversification to guide and shape strategies and programs to achieve diversification. The proliferation of fragmented, piecemeal policies also made implementation difficult. In addition, the policies rarely included clearly defined performance indicators and monitoring mechanisms, which also had an impact on performance evaluation and monitoring. The policies, strategies and programs also lacked clearly defined timeframes within which policy actions were to be implemented. The increase in the number of institutions established to drive the agenda also made implementation, monitoring and accountability difficult.

There are indications that the government has recognized and acknowledged these problems. This is evident from the recent rationalization of public institutions with similar mandates to reduce duplication and improve efficiency of implementation. The Excellence Strategy recently adopted also suggests that the government is making efforts to respond to the challenges. This provides the basic framework within which diversification is to be pursued. In line with the Excellence Strategy, the government is in the process of developing the EDD Master Action Plan that recognizes the importance of adopting a sectoral approach in promoting private sector development. It also recognizes the importance of promoting production links among the different sectors of the economy to ensure sustainability of growth of the private sector.

Research and development are also identified as key in the EDD initiative. Efficiency in implementation and monitoring will be key in the success of these new initiatives.

In addition to these horizontal policy issues, it is important for the government to address other challenges faced by the private sector in Botswana. These include the high cost of utilities, cost of borrowing, land access, work permits for foreign professionals, and most importantly poor work ethic and skills development to support private sector growth (refer to World Economic Forum 2010 for more details).

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