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

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1.0 INTRODUCTION AND PAPER OUTLINE

Introduction

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

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

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

Growth and Poverty Dynamics in Policy Regime Episodes

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

The overall growth record of independent Botswana can be captured in one sentence. Initially based on agriculture and heavily dependent on foreign aid, the rapid economic growth and general development in Botswana have been driven by the mining sector, particularly the diamond industry, and have been strategically led/influenced and managed by the state and decreasingly complemented by foreign aid within the overall institutional context of a liberal market economy and multi-party democratic system of government. Acknowledging the importance of policy choices, the Botswana state has been strategically interventionist, demonstrated by the practice of producing medium-term public sector National Development Plans, consistently using annual budgets as the main instruments for translating plans into action since independence in 1966. Being a resource-based economy, with Government as one of the main share-holder owning 50 percent of the diamonds industry – the bulk of the revenue from depletable resource exports accrue to the Government, thereby making public spending and saving strategies a key component of overall economic growth, especially if fiscal and monetary policy measures are appropriately balanced and sequenced (Collier 2007). The resource-based Botswana economy has largely avoided the known adverse long term effects of Dutch disease and volatility – mainly on account of relatively well institutionalized good state management. Botswana, according to Paul Collier (1997:13) has impressively strong checks and balances, notably rules for public spending, and all public spending projects have to pass a dual hurdle of honesty and efficiency with honesty maintained by rules of competitive tendering and efficiency enforced by careful technical scrutiny of the rate of return on each proposed project.

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

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

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

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

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

1. PRAGMATIC DEVELOPMETAL STATE & GOVERNANCE ORIENTATION

Botswana's approach to development as well as governance orientation is basically pragmatic – avoiding ideological dogma, and this has influenced the country's conception of the poverty problem and operational policies and strategies for poverty alleviation within the overall national development strategy, underpinned and integrated into the country's National Development Plans, highly institutionalized at least since 1970. For an individual or a household unit, poverty is usually viewed as pronounced material deprivation in wellbeing associated with income or consumption. The Botswana