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Development Strategies and Poverty Reduction In Botswana

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1.0 Introduction

At independence Botswana was one of the poorest countries in the world with an estimated GDP per capita of P118million (Harvey and Lewis, 1990). The country had many challenges at independence including high levels of unemployment, dependence on agriculture; low human capital development, no infrastructure and a challenge to generally develop the country from that low level of economic status. Apart from the colonial neglect, Botswana was exceptionally unlucky because of the persistence of drought, foot and mouth disease, and hostile neighbours in South Africa and Zimbabwe (then Rhodesia). It is against this background that Botswana's second President Masire made a point that: "When we asked for Independence, people thought we were either very brave or very foolish" (quoted in Harvey and Lewis, 1990: pg 6). Botswana was to be fortunate to discover large deposits of diamond just a few years after independence.

Unlike other countries in the region that experienced a "resource curse" from the discovery and exploitation of diamonds, Botswana was able to minimise the potential curse, at least for the meantime. This was achieved through consciously chosen development strategies that combined prudent macroeconomic management, use of strict planning that saw the country avoid the over expenditure during the boom, and a good political environment based on liberal democracy that allowed for elections every five years. While most countries in the region adopted socialist policies, Botswana voluntarily adopted liberal policies quite early in its development approach. The country's development strategy has been based on the philosophy of free enterprise and a market economy, and successive national development plans have always emphasised that the role of the government in the economy is that of a facilitator of economic growth and development rather than an active participant. The government had limited its role to providing infrastructure, training the labour force in essential skills, setting the legal, fiscal and monetary framework within which various economic sectors operate, and securing favourable international arrangements for domestic producers and consumers (Botswana Government, 1979). By contrast, for most African countries, liberalisation measures came about as conditions of Structural Adjustment Programmes (SAPs). Such measures, even though bringing recovery to the economy in terms of growth, have also resulted in increasing human suffering due to poverty, unemployment, etc (Mwanza, 1992; Chakaodza, 1993).

The Botswana government has placed a high priority on achieving high rates of economic growth through the application of sound macroeconomic policies and good governance.¹ These policies have been geared towards attracting both domestic and foreign direct investment, and at further promoting employment creation and poverty reduction. An important aspect of government policy has been to promote liberalization in resource and product markets. For instance, foreign exchange markets were completely liberalized, to remove foreign exchange restrictions. Moreover, sound monetary policies have been implemented to contain inflation. This has served as an anti-poverty initiative because inflation hurts the poor relatively more than the non-poor; the proportion of expenditure or spending in the income of the poor is normally higher than that of the non-poor. Botswana's fiscal policy strategy has also been complimentary to monetary policy in that the country did not expand its expenditure beyond sustainable levels despite the availability of resources from diamond revenues. Botswana followed a planning system that defined the fiscal rule for its expenditure. The national development planning ensured that all projects implemented had to be viable and there was political support to not allow any projects that were not viable. The country has since 2006 established an explicit fiscal rule that stipulates that government spending should not exceed 40 percent of GDP. Even though with some limitations, Botswana had institutions that are able to

¹ In general, together with political stability since independence, Botswana is perceived as having good macroeconomic environment and sound management of the economy (Harvey and Lewis, 1990).

effectively enforce agreed rules. Botswana's exchange rate policy was also aligned to its long term objectives in terms of not allowing for an overvalued currency due to the performance of diamond. For most countries that have had a booming commodity, that has been allowed to pass through into an appreciation of the exchange rate, which tended to slow down the growth of the non booming sectors of the economy leading to what is called the "Dutch Disease". Botswana has been able to effectively avoid the appreciation of its currency through sterilization of its surplus.

Botswana's strategy towards poverty was generally to increase growth through a number of initiatives that included programs that increase the participation of the private sector. The second set of programmes were meant to enhance productivity and employment creation in the rural areas. The third set were in term of social safety nets. The government of Botswana recognized much early in development that not all Batswana could benefit from employment and other productive endeavors. Like most countries Botswana did not attempt to put into place strategies for poverty reduction as it was assumed that growth will automatically trickle down to the poor and poverty will be taken care of. Experience of the last 4 decades has been rich with experience for the developing countries and in Africa. First of all growth was slower than was anticipated because of both external and internal factors. Among the internal factors were issues relating to failure of policy, political instability, and in the last decade, the advent of HIV/AIDS. Among the external factors were falling commodity prices, unfavorable trade relations, external debt etc. Botswana was not spared some of these unfortunate outcomes of the old development strategy with regard to poverty. While the performance of the economy has been impressive as shown by GDP, poverty is still quite high at about 30% in 2004, which was a decline from 47 percent from 1994. In 2003 Botswana adopted a National Poverty Reduction Strategy (NPRS). The development of Botswana's national poverty reduction strategy was a response to the high poverty over the years. The Government recognized the need to strategically think and implement ways that could reduce poverty and move the country to the ideals of Vision 2016, especially with regard to the pillar of "a prosperous, productive and innovative nation". There was recognition on part of Government that current poverty levels are quite high and yet the strategies to deal with it are not well articulated, targeted and coordinated. The NPRS is however still at its infancy of implementation and monitoring and evaluation of the targets are just been developed. Moreover, when the strategy was adopted the National development Plan 9 was already on its last phase and therefore poverty could not be mainstreamed into the plan. Work is in progress in terms of working out strategies to mainstream poverty into the national development planning process, especially with a view to implement the recommendations in the preparation of NDP 10. Therefore not much has changed currently in terms of poverty targeting in terms of implementation of the strategy.

This chapter looks Botswana's development strategies and policies and assesses the successes and or failures of such in terms of poverty reduction in Botswana. The first section looks at economic growth over time and changes in poverty in the same period. Given that a major way of reducing poverty in a sustainable way is through employment creation, we also analyze the trends in employment and unemployment and discuss the implications for poverty reduction. The next section looks at Botswana's macroeconomic environment, which provides a broader context of Botswana's poverty reduction strategies. We in particular look at monetary, fiscal, exchanges rate and FDI policies. Sections three and four analyse Botswana's labour market policies and trade policies respectively. We then briefly look at Botswana's poverty reduction strategies in historical context. These are briefly dealt with since they are covered in research reports 3 and 4. The last and concluding section provides an analysis of Botswana's poverty by linking it to growth. In particular the section will attempt to answer the question whether

Botswana's economic growth has been pro poor or not. The section also raises issues on challenges to poverty reduction in the future.

2.0 Economic Growth, Employment Growth and Poverty Changes

2.1 *Output Growth*

Poverty is highly linked to the performance of the economy in terms of both GDP and employment. In general a growing economy will lead to falling poverty provided income inequality does not worsen. The most comprehensive indicator of an economy's performance is that of national income or Gross Domestic Product. The distribution of GDP according to the sectors in which it originates throws considerable light on the economy's state of development, intersectoral relationships and its structure. An essential feature of rapid economic development is the relative decline in the importance of agriculture or mining in the economy as a source of income and the simultaneous expansion of income from other sectors, primarily manufacturing and ultimately services. This entails a process of economic diversification over a period of time; the relative contribution of various economic activities or sectors to GDP undergoes change along with structural shifts within each sector of the economy (Kuznets, 1966).

Over the past three decades, the Botswana economy has recorded impressive growth rates. Table 1 shows that gross domestic product (GDP) growth has averaged about 9.2 per cent per annum in real terms over most of the post-independence period, 1966 to 2005/06. However, much of this growth has been due to the sustained and rapid expansion of one sector – the mining sector – and of government, which has largely been financed by the proceeds of mineral revenues. Together, mining and government account for more than half of total value added (Table 2). As a result, the economy remains vulnerable to the rather fluctuating fortunes of the mineral sector, especially diamond mining.

Tables 1 and 2 show the level and the sectoral distribution of Botswana's gross domestic product (GDP) in real terms (1993/94 prices) for the period from 1966 to the financial year 2005/06. As revealed in Table 1, in 1966, the country's real GDP amounted to 908.6 million Pula (valued at 1993/94 prices). Of this total, agriculture accounted for about 43 per cent of total value added, while bank, insurance and other business services, the second largest sector, contributed about 20 per cent. None of the other major sectors of the economy accounted for as much as 10 per cent of total value added in 1966: the share of manufacturing was only 5.6 per cent, while that of construction and general government was 7.8 per cent and 9.8 per cent respectively. This shows that on the attainment of independence in 1966, the country's economy was predominantly agricultural (cattle rearing and beef production in particular), and had a particularly weak industrial base.

In the post-independence period, the value added in virtually all the sectors of the economy grew rapidly, as shown in Tables 1. This rapid growth of the economy was accompanied by important structural changes, the most significant of which was the dramatic decline in the relative size and contribution of the agricultural sector. By 1985/86, the contribution of agriculture to total value added was only 5.8 per cent, and this was to decline further to 4.1 per cent in 1995/96 and currently stands at just 1.8 per cent. A major factor in this structural shift in the economy moreover was the discovery of minerals, especially diamonds in the early 1970s. A diamond mine was opened in 1971 followed by a nickel-copper mine in 1973. More diamond mines have since become operational in the country, transforming Botswana into the world's largest exporter of diamonds. By 1985/86, real GDP has increased three-fold, and this impressive growth rate was maintained for the remaining part of the 1980s and the 1990s. Thus over the period 1974/75

to 2005/06, growth in the economy averaged 8.0 per cent in real times. The growth of non-mining over the same period, on the other hand, was 6.8 per cent. However, within the non-mining economy, it is obvious from Tables 1 and 2 that with the exception of agriculture, growth was spread fairly evenly across the other sectors, over the period 1975/76 to 2005/06 since their GDP shares remained more or less constant. Therefore while the wealth of the mining sector may have provided the impetus that allowed the economy to grow rather rapidly over the years, the resulting growth has *not* been broad-based, and in many senses *not* diversified.

Contrary to expectation of theory that as structural transformation takes place, the manufacturing share of output increases, Botswana's notable feature is the relatively low level of industrialization. This, as shown in Table 2, is reflected in the relatively small proportion of total value added originating from the manufacturing sector. In spite of the increased pace of modernization and diversification in recent years as occasioned by the multifarious government industrial policies, the share of manufacturing, which was 5.6 per cent in 1966 and 8.2 per cent in 1975/76 declined to 5.0 per cent in 1990/91 and further to about 3.4 per cent in 2005/06. Thus, this sector has certainly not matched the hopes and expectations of the people and government of Botswana that wanted to position it as a key to a successful diversification of the economy. Within the manufacturing sector itself, the extent of diversification has been very minimal. At the time of independence in 1966, the only significant manufacturing activity in Botswana was of meat and meat by-products (Bank of Botswana, 2000), mainly by the Botswana Meat Commission (BMC). The next major addition to manufacturing was the commencement of brewery activities in the 1970s, the Hyundai Motor plant in the mid-1990s (which has since folded up), and more recently textile and garment production.

In addition to manufacturing, the performance of the financial services sector (banks, insurance and business services), and the Trade, Hotels and Restaurants need to be highlighted. Table 2 shows that these two sectors have consistently witnessed a rising trend in their contribution to total value added since the early 1980s – a reflection of the widening and deepening of these sectors in response to the needs of the business sector. This development may also have been consequent upon the increasing household real incomes in the country, which similarly have continued to stimulate the demand for services from the two sectors.

Apart from increase in mineral production and the contribution of such to the development of the other sectors of the economy, the growth of the government sector has also played a very key and important role in this transformation of the Botswana economy. Even though the government sectors may be seen to have grown due to resources deriving from the mining sector, it has most significantly acted as a channel through which the wealth created by diamond mining has been reinvested in the economy. So in effect, over the period from 1966 to the present, the government has acted as the main link between the booming mining sector and the rest of the economy as a whole, a role that has spurred the rapid rate of overall development recorded during the period. As Tables 1 and 2 show, the direct contribution of the government sector to total value added has averaged about 16 per cent over the period from 1966. This is not a surprising development, since over the years the government has considerably expanded public services, especially in education, and thus also become an important source of wage employment in the country. In addition, it has undertaken numerous public investment and development programmes that were, however, often carried out by private sub-contractors and are therefore not included under the value added by general government (but rather in the respective sector, e.g. construction). Through public investment, especially in infrastructure, the government budget thus directly created demand in other sectors of the economy, such as construction. The overall result of this is that the government-induced demand has been very significant for the growth and development of the domestic economy.

Table 1: Sectoral distribution of Botswana's Gross Domestic Product, 1966 to 2005/06 (in 1993/94 prices, million Pula)

Economic Activity	1966	1975/7 6	1980/8 1	1985/8 6	1990/9 1	1991/9 2	1992/9 3	1993/9 4	1994/9 5	1995/9 6	1996/9 7	1997/9 8	1998/9 9	1999/0 0	2000/0 1	2001/0 2	2002/0 3	2003/0 4	2004/0 5	2005/0 6
Primary Sector																				
Agriculture	388	431	385	322	481	492	488	467	459	490	453	480	443	405	445	433	441	454	404	389
Mining		365	1,333	2,819	3,957	3,946	3,766	3,956	3,899	4,076	4,305	5,537	5,874	6,620	7,753	7,489	8,285	8,308	9,812	9,385
Secondary Sector																				
Manufacturing	51	159	166	227	471	519	499	430	532	573	594	626	661	684	681	682	703	709	763	738
Water and Electricity	5	48	56	114	168	179	209	240	256	257	269	295	333	371	391	406	444	472	489	507
Construction	71	267	319	263	764	791	666	710	723	747	788	822	917	939	955	1,000	1,005	1,027	1,036	1,002
Tertiary Sector																				
Trade, Hotels & Restaurants	81	179	160	365	591	536	541	882	1,086	1,193	1,359	1,423	1,502	1,596	1,700	1,840	1,990	2,201	2,052	2,172
Transport & communications	39	24	58	143	324	365	390	407	436	438	456	498	579	596	605	625	631	610	606	716
Banks, Insurance & Business Serv.	183	97	183	371	885	920	1,049	1,144	1,232	1,352	1,368	1,501	1,636	1,707	1,795	1,922	1,973	2,015	2,115	2,151
General Government	89	305	466	738	1,355	1,556	1,621	1,707	1,762	1,855	2,009	2,196	2,333	2,474	2,641	2,861	3,267	3,434	3,591	3,736
Social and Personal Services		58	77	147	421	443	456	470	504	531	558	575	618	645	663	705	724	775	855	922
Total Value Added, Gross	908	1,933	3,203	5,510	9,417	9,748	9,687	10,414	10,889	11,511	12,160	13,952	14,898	16,038	17,629	17,963	19,465	20,005	21,722	21,718
Adjustment items		149	417	256	634	913	919	627	509	519	539	592	684	681	614	580	852	936	1,143	954
Total GDP at constant prices	909	2,083	3,584	5,708	10,010	10,634	10,612	11,041	11,398	12,029	12,699	14,544	15,582	16,719	18,242	18,544	20,316	20,941	22,866	22,672
Total GDP excluding Mining	909	1,718	2,251	2,889	6,053	6,688	6,846	7,085	7,498	7,953	8,394	9,007	9,707	10,098	10,489	11,054	12,031	12,633	13,054	13,287
GDP per capita (Pula)	1,683	2,862	3,917	5,175	7,584	7,858	7,658	7,781	7,844	8,073	8,314	9,290	9,710	10,165	10,812	10,807	11,674	11,894	12,868	12,673
GDP per capita, excl. mining (Pula)	1,683	2,360	2,460	2,619	4,586	4,942	4,940	4,993	5,160	5,337	5,495	5,753	6,049	6,140	6,217	6,442	6,913	7,175	7,346	7,427
Growth (%)		18.4	10.1	7.7	8.8	6.2	-0.2	4.0	3.2	5.5	5.6	14.5	7.1	7.3	9.1	1.7	9.6	3.1	9.2	-0.8
Growth, excl. Mining (%)		11.9	-0.8	12.4	8.5	10.5	2.4	3.5	5.8	6.1	5.5	7.3	7.8	4.0	3.9	5.4	8.8	5.0	3.3	1.8

Note: (a) Adjustment items include FISIM (financial intermediation services indirectly measured), taxes on Imports, taxes on products/production, and subsidies on products/production. (b) The base year for constant prices has been changed from 1985/86 to 1993/94 by the Central Statistics Office. The re-basing makes the series 'non-additive' in some years prior to 1993/94, such that the estimate of total GDP does not equal the sum of its components. (c) Data for Note 1996/97, 1997/98 and 1998/99 are subject to change. (d) Botswana financial years are from 1 April to 31 March of the following calendar year.

Sources: (i) Bank of Botswana, GDP data-set as of January 2007. (ii) Ministry of Finance and Development Planning, National Development Plan (NDP) 9, 2003-04/2008-09.

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Botswana's Gross Domestic Product, 1966 to 2005/06 (in % of total value added, based on 1993/94 prices)

1985/8	1990/9	1991/9	1992/9	1993/9	1994/9	1995/9	1996/9	1997/9	1998/9	1999/0	2000/0	2001/0	2002/0	2003/0	2004/0	2005/0	
81	6	1	2	3	4	5	6	7	8	9	0	1	2	3	4	5	6
5.8	5.1	5.1	5.0	4.5	4.2	4.3	3.7	3.4	3.0	2.5	2.5	2.4	2.3	2.3	1.9	1.8	
51.2	42.0	40.5	38.9	38.0	35.8	35.4	35.4	39.7	39.4	41.3	44.0	41.7	42.6	41.5	45.2	43.2	
57.0	47.1	45.5	43.9	42.5	40.0	39.7	39.1	43.1	42.4	43.8	46.5	44.1	44.8	43.8	47.0	45.0	
4.1	5.0	5.3	5.2	4.1	4.9	5.0	4.9	4.5	4.4	4.3	3.9	3.8	3.6	3.5	3.5	3.4	
2.1	1.8	1.8	2.2	2.3	2.4	2.2	2.2	2.1	2.2	2.3	2.2	2.3	2.3	2.4	2.3	2.3	
4.8	8.1	8.1	6.9	6.8	6.6	6.5	6.5	5.9	6.2	5.9	5.4	5.6	5.2	5.1	4.8	4.6	
11.0	14.9	15.3	14.2	13.3	13.9	13.7	13.6	12.5	12.8	12.4	11.5	11.6	11.1	11.0	10.5	10.3	
6.6	6.3	5.5	5.6	8.5	10.0	10.4	11.2	10.2	10.1	9.9	9.6	10.2	10.2	11.0	9.4	10.0	
2.6	3.4	3.7	4.0	3.9	4.0	3.8	3.8	3.6	3.9	3.7	3.4	3.5	3.2	3.0	2.8	3.3	
6.7	9.4	9.4	10.8	11.0	11.3	11.7	11.2	10.8	11.0	10.6	10.2	10.7	10.1	10.1	9.7	9.9	
13.4	14.4	16.0	16.7	16.4	16.2	16.1	16.5	15.7	15.7	15.4	15.0	15.9	16.8	17.2	16.5	17.2	
2.7	4.5	4.5	4.7	4.5	4.6	4.6	4.6	4.1	4.1	4.0	3.8	3.9	3.7	3.9	3.9	4.2	
32.0	38.0	39.2	41.9	44.3	46.1	46.6	47.3	44.4	44.8	43.8	42.0	44.3	44.1	45.2	42.4	44.7	
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
48.8	58.0	59.5	61.1	62.0	64.2	64.6	64.6	60.3	60.6	58.7	56.0	58.3	57.4	58.5	54.8	56.8	

anged from 1985/86 to 1993/94 by the Central Statistics Office. The re-basing makes the series 'non-additive' in some years prior to 1993/94, such of its components. (b) Data for Note 1996/97, 1997/98 and 1998/99 are subject to change. (c) Botswana financial years are from 1 April to 31 March

uary 2007. (ii) Ministry of Finance and Development Planning, National Development Plan (NDP) 9, 2003-04/2008-09.