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# Managing good fortune

## *Macroeconomic management and the role of aid in Botswana*

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A report submitted to the Royal Norwegian Ministry of Foreign Affairs  
by the Chr. Michelsens Institute  
Development Studies and Humans Rights

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## Foreword

The idea to this project came from Vice president and Minister of Finance, Festus Mogae, during his visit to Chr. Michelsen Institute. He suggested that as Botswana was graduating to an upper middle income country, and donors were scaling back their development assistance, it would be a good idea to evaluate how development assistance has contributed to Botswana's development.

A preliminary study «Botswana – a development success: Did aid work?» was undertaken by Lise Rakner, Chr. Michelsen Institute. The present study is a continuation of this first, preliminary study. Chr. Michelsen Institute has been responsible for the study, in close cooperation with

Botswana Institute for Development Policy Analysis (BIDPA). BIDPA has provided the research team with office space, library services and its senior staff has supported the research team with advise and comments. Special thanks to Jan Isaksen and Charles Harvey for useful comments and suggestions.

The research team would also like to thank the participants in a workshop at BIDPA in December 1997 where the draft report was presented. Special thanks to the chairmen of the three sessions, Jan Isaksen, and dr. Keith Jefferis. Finally, thanks to dr. Clark Leith for written comments on the draft report.



## Executive summary

### **HISTORICAL BACKGROUND**

Botswana, or Bechuanaland at the time, was a British protectorate during the period 1885–1965. It was governed by the British protectorate administration located in South Africa through indirect rule. This meant that the traditional political systems of Bechuanaland was incorporated into the protectorate administration. However the power and privileges of the chiefs was largely undermined by the British. The Commissioner had the right to approve, dismiss or suspend chiefs. The executive and legislative powers were removed from the traditional political system and the British introduced tribal councils which the chiefs were mandated to consult. It is argued that this indirect rule system was the foundation for the present local government.

The institution through which the traditional system influenced the protectorate was a Native Advisory Council (NAC, established in 1919). It advised the Resident Commissioner on legislation and policies. In 1950 it was merged with the European Advisory Council, a body set up in order to further the interests of European settlers, to the Joint Advisory Council (JAC). Finally a Legislative Council was established in 1961. NAC became the precursor for the present House of Chiefs.

It is argued that the Indirect Rule was a low cost approach to governing a protectorate which was seen as unpromising and which was expected to be incorporated into the Republic of South Africa early in the 20th century. Further, it is argued that the modernisation of the traditional system started during the protectorate period and continued after independence has been necessary in order to establish a plural democracy and a free enterprise economic system. Finally, it is argued that the protectorate administrative system constituted the foundation on which the independent nation's political institutions were built.

The basic services offered by the protectorate administration was financed partly by grants and partly by local taxes, mainly poll taxes. The latter was collected by the chiefs who was allowed to retain 10 percent. In addition, a native fund into which surcharges was paid was established in order to supplement the financing of education, health and the control of cattle diseases. By the outbreak of the second World War, local taxes accounted for about 60 percent of protectorate revenue.

Development expenditure was almost non-existent until the 1930s. From that period of time a number of projects aiming at improving the conditions for the cattle industry were undertaken. The projects were concentrated on drilling for underground water and building bridges. Also the recurrent expenditure by the protectorate administration was largely directed towards the cattle industry. Thus, education and health were largely left to the traditional system and the missionaries.

Botswana was a founding member of the Southern African Customs Union (SACU) established in 1910 and the Rand Monetary Area (RMA). It is argued that more revenue could have arisen from these two sources if fully utilised.

Development plans have their root in the protectorate period as well. The first ten-year plan was prepared for the period 1946–56, but was never implemented mainly due to lack of funding. In subsequent years, three more modest five-year development plans were prepared, and all of them were largely implemented. All three five-year plans focused on the cattle industry.

### **THE DEVELOPMENT PLANNING SYSTEM**

Botswana's development planning system was designed in order to make the best use of the scarce resources under the government's control, not to intervene in private sector decision making and resource allocation. A second major objective was to attract foreign aid.

The protectorate administration took a minimalist approach to the role of the state and was merely concerned with law and order and to some extent infrastructure. The first few years after independence was characterised by the search for development strategy. The need for and the realism and feasibility of development planning was at times hotly debated within the new government administration.

Shortly before independence (in 1965) the Economic Planning Unit (EPU) was set up in the ministry of finance. It was manned by two economists, and their first task was to draw up the Transitional Plan. This unit and the president were advocates for development planning and saw the role of government as crucial for creating a conducive environment for economic development. The financial



unit in the ministry of finance on the other hand, argued that Botswana did not have the resources for ambitious development plans and preferred a continuation of a more modest role for the government.

Frictions between the EPU and the finance divisions were many and resulted in the splitting of the ministry of finance in 1967 when the EPU formed the basis for a new ministry of development planning. The first development plan (NDP 1968–73) was prepared by this ministry. However, it soon became evident that co-ordination problems outweighed the benefits of having one ministry preparing the development plans and thus the development budget and another ministry preparing the recurrent budget. The two ministries were therefore merged into the Ministry of Finance and Development Planning in 1970.

Important characteristics of the Botswana system which emerged during these years were, first, the prominence of economics in the development debate and strategy. Second, there was frequent and effective communication between economists in the administration and politicians. The Economic Committee of Cabinet was created as one important forum for such communication. In addition the National Economic Advisory Council was set up in order to ensure exchange of information with the private sector.

A precondition for the preparation of realistic development plans was the availability of recent and reliable statistics. For this purpose the Central Statistics Office was created under the auspices of EPU.

One important motivation for carefully prepared development plans was to attract foreign funding. It was realised that the resource constraint would render Botswana poverty-stricken for the foreseeable future in the absence of substantial foreign inflows and that demonstrating an ability to make effective use of foreign funds would substantially improve the prospects for receiving such funding. It is pointed out that the statement of clear objectives, a capacity to implement the plans and to incorporate foreign and locally funded projects in the same development plans and strategies have been instrumental in the development of the country. Furthermore it is pointed out that successive development plans have stuck to the same objectives, but these objectives have become clearer and the operationalisation of the objectives more sophisticated as a result of learning and development of better information systems.

A Transitional Plan covering the period 1968–71 was prepared by the EPU. The first development plan was a five-year plan covering the period 1968–73 and was prepared by the Ministry of Planning. Subsequent plans (NDP2–NDP8) have been prepared by MFDP. District planning was introduced as part of the national planning process in 1977. Prior to this point in time, planning had been a highly centralised process, although rural development featured prominently in the plans. Of particular relevance was the Accelerated Rural Development Programme (ARDP). The integration of district planning into the national planning process was envisaged to promote decentralisation and a bottom up approach to planning. It is, however, argued that the planning process is still a very centralised process where the districts have only limited real influence.

From NDP5 (1979–85) the development plans have a six year time horizon and a mid-term review was introduced in order to update the plan.

The MFDP is responsible for the development plans and the negotiations with donors. It has four divisions and the one responsible for the development plans and aid co-ordination is the Division for Economic Affairs. During preparation of the plans MFDP consults with the line ministries. Each ministry has got a planning unit which co-ordinates planning. The unit is staffed by planning officer(s) which MFDP sends on secondment to the line ministries. Thus, the MFDP is a very powerful ministry. The minister of MFDP is always the vice president and the heads of the four divisions are all of permanent secretary rank, and rank above the permanent secretaries of other ministries.

The preparation of the development plans takes the following steps:

1. Preparation of a keynote paper by MFDP;
2. Preparation of sectoral keynote papers by the line ministries;
3. The national district development conference involves stakeholders from the private sector and the NGOs in addition to local authorities and the central government;
4. Preparation of the macroeconomic outline by the MFDP;
5. Meeting of the Economic Committee of Cabinet determines the allocation of resources between ministries and organisations;
6. Approval by the Parliament.



Important features of the system is that projects can only be incorporated into the plan if they can be classified under one of the headings in the plan. Furthermore, no project, donor funded or otherwise, can be undertaken unless it is included in the plan.

The effectiveness of the planning system is evaluated against four criteria:

- a) Effectiveness in the delivery of infrastructure, which is found to be highly satisfactory.
- b) Achievement of the government's four main planning objectives. The four objectives are rapid economic growth, social justice, economic independence and sustained development. It is found that the system has delivered economic growth and economic independence from donors, but much is left to be desired on the social justice objective.
- c) The quality of life criteria. Related to the social justice criterion, quality of life is found to lag behind the general economic development. About half the population is still living below the poverty line and the Baswara and women are particularly vulnerable.
- d) The process or institutional effectiveness criteria. On this account it is found that the central government institutions are strong, but the consultative process with local authorities, NGOs and other stakeholders is rather ineffective.

Other criticisms of the planning system found to be valid are the perceptions of slippages in implementation capacity. Further, government expenditure has grown very rapidly and in the process probably crowded out the private sector. This appears to be particularly the case in the market for skilled labour. Finally it is argued that there has been too much emphasis on quantity and too little on quality. Thus, the quality of social services such as education and health could have been better.

### **DEVELOPMENT PLANNING AND AID MANAGEMENT**

The relative effectiveness in Botswana compared to other recipients of aid is attributed to the integration of aid into the planning process of the country. This has ensured that projects are implemented only when they are part of the government's development strategy. Furthermore it has enhanced ownership of the projects.

Only the MFDP has the responsibility to negotiate for development aid. Also only the MFDP can identify a

donor for a specific project. The MFDP is found to have developed an effective system of matching donors with projects, taking into account the nature of the project and the procedures and priorities of each donor. Thus, co-ordination of aid has been undertaken by the Botswana authorities, not by the donor community. Botswana has never been a round table country, and has thus had the opportunity to choose to negotiate with donors individually rather than facing a unified donor community.

At independence, the manpower situation in Botswana was precarious. Only 27.5 percent of the professional and administrative officers in the civil service were Batswana. Technical assistance and expatriate workers therefore became crucial to the country's development. However, as opposed to most other developing countries, expatriate staff was employed in line positions, mainly at middle level management and professional positions. By localising the most senior positions first, it was ensured that policy decisions were taken by Batswana.

Creating positions for particular projects was avoided as far as possible. Thus, a project was rather postponed or not undertaken at all if manpower shortages prevented the effective implementation of the project.

Expatriate staff was incorporated into the Botswana manpower planning system which in turn was part and parcel of the development planning process. Qualifications were put above the objective of localisation when posts were filled.

MFDP was the ministry with the largest need for professional workers. In the most skill-intensive units up to 85 percent of the professional staff was expatriate ten years after independence. It has also been the ministry which has been slowest to localise. It has, however, provided local professional staff to other ministries.

One important success factor in the utilisation of development aid for development has been the quality of political leadership in Botswana. They have been open to advise from expatriate staff funded by donors, but they have also been capable of critically assessing the advise and take the policy decisions themselves. The personal integrity and qualifications of the first president, sir Seretse Khama is especially emphasised.

Another and related success factor is the division of labour and good communication between the bureaucracy and politicians. The latter has taken policy decision on the



basis of rigorous and well understood and communicated analysis from the latter, while the bureaucracy has been allowed to implement the policy without much intervention from politicians in their day to day work.

### **GOOD FORTUNE AND DEVELOPMENT AID**

Botswana has had the good fortune of having substantial mineral wealth under its soil. This fact calls for special considerations as to how this wealth should be invested in order to maximise the returns over a very long time horizon. Three possible strategies are sketched: i) Invest the mineral rent in productive assets as long as their returns are at least as good as alternative investment on financial assets abroad. ii) Diversification of the economy through temporary promotion of tradable sectors. iii) Investing in white elephant projects. It is argued that Botswana has chosen a combination of the first and second strategy, but protection or subsidising tradable sectors were largely constrained by Botswana's membership in SACU. About 40 percent of the accumulated mineral rents have been invested in foreign assets.

From the first development plan, mineral-led growth was envisaged for Botswana. A strategy fairly similar to other mineral-rich countries at the time was embarked on. Botswana invested, advised and financed by donors and multinational mineral companies, in a huge copper-nickel mining project, the Shashe Project. Also in common with other countries pursuing this strategy, the project turned into a financial disaster when copper and other commodity prices collapsed in the 1970s. The difference between Botswana and the rest was, however, first that Botswana handled the crisis better and did not embark on a nationalisation strategy. Second, Botswana had the fortune of having one of the largest diamond mines coming on stream at the time, so the country could afford subsidising the Shashe project, which it has done up to the present.

The planning system in Botswana is firmly established within the early tradition of development thinking. The state was assigned an important role as facilitator and regulator, but also through direct intervention in productive activities. Botswana's strategy was one of a mixed economy with commercial activities largely left to the private sector. This notwithstanding, the government did intervene to a substantial extent in resource allocation. Thus, through its manpower planning system, the scarcest productive resource in the economy was by law allocated by the government with a strong bias towards the public sector. The government also played an important role in

credit allocation through government credit and development institutions.

The planning system was very project-oriented, and still is. It was a strategy to ensure that no development aid was foregone due to lack of properly prepared projects. This led to some extent to «overplanning» and the percent of budgeted expenditure which was actually spent was quite low during the first development plans, but improved in subsequent years. As a consequence, the linkage between the stated objectives and priorities in the plans and actually implemented projects was weakened. Furthermore the expenditure-maximising approach to some extent created a bias towards large-scale projects.

Because of Botswana's substantial mineral wealth, technical assistance was probably the most important aspect of development aid. Such assistance took the form of both expatriate experts working in the civil service and external consultants undertaking studies and providing policy advice. We show that the policy advice has to a large extent followed the changing fashions of development thinking without much regard to Botswana's very special situation as a country with substantial financial surpluses. In the 1960s and also into the early 1970s, both donors and the Botswana government were advocating strategies in line with the development thinking at the time. It focused on large-scale investment, particularly in infrastructure. This strategy was supposed to lift the country out of a poverty-trap while donors filled the foreign exchange gap (the two-gap theory of growth). However, while the Botswana government continued to pursue this strategy, donors shifted the emphasis towards industrialisation and later the social dimensions of development and a market oriented economic policy.

We argue that Botswana has followed its own strategy and when donor advice contradicted this strategy, largely ignored external advice. Examples are the decision not to embark on an import-substituting industrialisation strategy, a decision that was also influenced by SACU membership, the decision not to scale back significantly investments in infrastructure, and finally the decision to introduce its own currency and establish a fully fledged central bank was taken in spite of advice to the contrary by the IMF. By and large the Botswana government was less inclined to intervene in the economy than donor advice suggested until quite recently. With the benefit of hindsight we argue that Botswana's approach has served the country better than the more inward-looking policy advocated by foreign donors. However, the substantial



resources to Botswana's disposal could have been much more efficiently used if the special situation of a small, mineral-rich country had been taken more into consideration.

Botswana has had substantial surpluses on its current account on the balance of payment for a long period of time. In the smaller OPEC oil-exporting countries a similar situation has led to export of capital from time to time as the local economy could not absorb the oil rent while reserves were more than sufficient. Botswana has experienced much the same situation with more than sufficient reserves while the situation with a surplus on the current account continued. However, as a recipient of aid, it is difficult to be seen as an exporter of capital and the surpluses have continued to pile up as reserves. Optimal investment of the mineral wealth and the role of financial and technical aid in this context have been largely absent from policy analysis provided by donors. Thus, there are indications that because financial surpluses are very uncommon among aid recipients in combination with a relatively strong donor orientation in Botswana, one of the country's most important challenges, how to invest the mineral wealth optimally, have been under-researched.

### **MACROECONOMIC MANAGEMENT THROUGH FISCAL, MONETARY AND INDUSTRIAL POLICY**

Botswana had very little macroeconomic policy discretion at independence. Monetary policy and trade policy were determined in Pretoria, and government revenue was determined by donors, SACU and the diamond market. Botswana did, however manage to improve its revenue position both within the SACU and in relation to De Beers, the diamond mining and marketing cartel which dominates the world market for diamonds.

During the first decade of independence, macroeconomic management was limited to expenditure planning and the situation soon became one of maximising the expenditure flows under the self-imposed condition that expenditure was reasonably effective. The history of macroeconomic management has been one of gaining an increasing degree of discretion by adding new policy measures and administrative procedures under the command of the Government.

Monetary and exchange rate policy were introduced with the Pula and the establishment of Bank of Botswana in

1975–76. This meant that overnight most of Botswana's imports went from being denominated in the local currency, the Rand to a foreign currency, still the Rand.

Bank of Botswana has developed into an institution capable of exercising monetary and exchange rate policy in an effective way and it has established a rigorous policy analysis department. From the early 1990s the BoB has become an important institution for economic policy debate and it has consistently criticised government's expansionary fiscal policy and its lending to private and parastatal companies at sub-market interest rates, thereby undermining the development of a sound and diversified financial sector.

This government lending policy reflects a problem of excess liquidity arising from accumulated surpluses on the government accounts and the current account on the balance of payments in a regime with foreign exchange controls. For almost two decades Bank of Botswana became a depositor taker of last resort as a consequence.

At present Botswana commands all the usual macroeconomic policy measures, except trade policy.

Sound macroeconomic policy is a prerequisite for sustained growth and we have shown that this has to a large extent been achieved and institutionalised in Botswana. In particular, the division of labour between Bank of Botswana and MFDP is likely to facilitate a continued sound policy even in the face of more popular pressure towards increased spending and a less tight fiscal policy. However, the soundness of the macroeconomic policy in terms of government savings has occurred more *ex post* than *ex ante*. Thus, if *planned* expenditure and revenue had been realised, the government would have been a net borrower. A systematic underestimation of revenue and an overestimation of expenditure, the latter mainly on the development expenditure side, have been interpreted as cautiousness on the part of the Government. However, an alternative interpretation is a lack of focus and inefficiency in the Government. It appears that efficiency has become an increasing concern, particularly after the boom in the late 1980s. «Right-sizing» the government has as a consequence been introduced as an issue in the NDP 8.

Industrial policy measures have largely been limited by SACU membership. SACU as a whole (South Africa, that is) has led an inward-looking industrial policy with quite heavily protected industries. However, within the SACU area there has been little scope for additional protection



against competition from South Africa. South African efficiency levels, which in most cases are far below world market standards, have therefore been the benchmark towards which Botswana industries are measured on the regional market. This setting has on the one hand prevented Botswana from embarking on the inward-looking industrial policy which has turned out to be an obstacle to development in sub-Saharan Africa and Latin America in the past. But on the other hand, Botswana is part of a customs union which has pursued precisely this inward-looking policy, and has thus not had access to diversified and cheap intermediate inputs for its industrial development, neither has it felt the pressure from world market competition.

Industrial policy has by and large been market-oriented and non-interventionist. The industrial policy measures introduced have had the main objective of creating employment, preferably in rural areas. Thus, industrial policy has been more related to social and income distribution policies than to growth and industrial development strategies, although the two are not necessarily mutually exclusive.

The most important industrial policy programme is the Financial Assistance Programme (FAP) introduced in 1982. It provides subsidies related to employment of unskilled labour over a five year period. It has been subject to three evaluations and a World Bank study also assesses the FAP. All evaluations recommended that FAP be continued in spite of findings that only 25 percent of the jobs created were new jobs which were sustained beyond the five year subsidy period. The World Bank was more critical and suggested that the FAP promoted labour-intensive industries for which Botswana has probably not comparative advantage and had been likely to foster a class of rent-seekers rather than entrepreneurs.

The market orientation of Botswana's macro and industrial policy needs to be qualified by the fact that it was, and still is, difficult to draw a clear distinction between the private and public sectors in Botswana. Most of the financial resources available in the country accrued to the Government as the recipient of aid and mineral rent. As a result, the Government has played an important role in credit allocation. Moreover, the only significant industrial enterprise in Botswana at independence, the Botswana Meat Commission, was, and still is, a parastatal, and it is the only offtake for the cattle sector. The dominance of the state has continued up to the present. As stated in the NDP 1985-91, Government has participated in all the

major economic ventures that have occurred since independence in one way or another.

Government has until recently allocated all local skilled manpower with a bias towards the public sector. Thus, the Government has largely controlled the most important means of production, human and financial capital, and the private sector frequently complains that there is little space for it.

The role of aid at the operational level of macroeconomic management has been three-fold. First, technical assistance has contributed to the quality of the team responsible for macroeconomic management. Second, financial flows have affected the macroeconomic environment to be managed and from the mid 1980s contributed to an excess liquidity problem. Third, we somewhat speculatively suggest that donor orientation has frustrated the development of a capital market integrated with the global or at least the regional capital market as it was anticipated that donors would hardly support a capital-exporting country.

#### **MACROECONOMIC PERFORMANCE IN A COMPARATIVE PERSPECTIVE**

Macroeconomic management needs to be evaluated also on the basis of to what extent it has delivered. Furthermore, performance needs to be evaluated against the background of the resources and constraints facing the economy. Botswana is very rich in natural resources. Moreover, its major exports have been managed by a highly successful cartel which has ensured relatively stable world market prices and a steady stream of profits. In this regard the resource situation is similar to some of the smaller oil-exporting countries.

Botswana's membership in SACU has largely constrained its macro-economic policy, particularly during the first decade when Botswana was also a member of the Rand Monetary Area. The constraints facing Botswana are therefore similar to those facing the other smaller members of SACU. We have therefore assessed Botswana's growth performance compared to one small oil-exporting country, Oman, and the other smaller SACU members.

The most important determinants of growth are human capital accumulation and investment in physical capital, although the latter appears to be more driven by growth than an independent source of growth. The productivity of these inputs to the production process is in turn deter-



mined by government policy and the quality of government. We find that Botswana has performed below average on human capital accumulation, about average on the quality of government, the size of government is above average and local investment is about average while foreign direct investment is slightly below average. Thus, only a small part of actual growth in Botswana can be explained by the factors usually found to drive growth. In fact, if growth were determined by the factors mentioned above alone, Botswana's growth rate would have been about average for Africa after 1975. We therefore tentatively suggest that the exceptionally high growth rate most likely can be ascribed to an unusually long-lived mineral boom.

### **CHALLENGES FOR THE FUTURE AND LESSONS FROM THE BOTSWANA EXPERIENCE**

The acid test of the Botswana planning system is, yet to come. Hitherto, the cornerstones of Botswana's economic development have been i) A high rate of mineral- and government-led growth. ii) The country has had privileged access to the South African market, and received significant, albeit declining, transfers from the SACU common customs pool. iii) Botswana has been an island of stability, democracy and liberal economic policy in a conflict-ridden and inward-looking region. iv) As such it has attracted a lot of sympathy and transfers from donors. On all these four accounts substantial changes are taking place during the 1990s as a consequence of developments on the world's political and economical scenes.

The mineral sector has still potential for growth in Botswana. New investments have, however, less impact on the economy as a whole than they used to, both because the economy is much larger and because new investments are likely to be smaller. An additional uncertainty related to the diamond market is the sustainability of the CSO cartel. It is one of the oldest cartels in the world, and cartels do not last forever, probably not even a diamond cartel.

The privileged access to the South African market is being eroded by changes in the southern African region. Barriers to trade and investment are coming down and the difference between SACU and SADC conditions in trading with South Africa are narrowing. Besides, SACU is being renegotiated and most likely the outcome will further reduce the difference.

Along the same line of reasoning Botswana's position as an island of stability, democracy and liberal economic policy is being eroded by stabilisation and liberalisation elsewhere in the region. This is of course a welcome development which will lead to higher growth and welfare in the entire region. Nevertheless Botswana's attractiveness will be even more dependent on its own merits than before.

Finally, as a result of Botswana's relative prosperity, donors are leaving the country in favour of more needy recipients. Thus, during a short period of time, all four cornerstones in Botswana's development in general and Government's resource base in particular are being rocked. Growth and prosperity in future are therefore critically dependent on Botswana's ability to transform itself.

Botswana is a very special case as a recipient of development aid. First, it has had the good fortune to have one of the world's largest and most profitable deposit of diamonds under its soil, and has therefore been able to finance development expenditure from its own resources. Second, the country has to a great extent been integrated with the South African economy. These two special features make it difficult to draw lessons for other developing countries and donors. There are nevertheless one important lesson to be drawn:

From Botswana's experience it appears that institutions matter more than financial resources. We realise that building institutions requires resources, but nevertheless there is a wide dispersion of the quality of institutions within the same income group. Botswana has developed the institutions necessary to handle development aid in a reasonably efficient manner. Most importantly, development aid has been an integrated part of the overall macroeconomic planning framework. Therefore, Botswana has been able to stick to its development strategy and obtain its objectives step by step. Furthermore, as opposed to poorer recipients of development aid, it has had the resources to maintain investments and sustain reforms. Our study therefore concludes with a paradox:

Was development aid reasonably efficient in Botswana because Botswana did not really need it? Or put differently: Are the reasons for underdevelopment and poverty and the reasons for development aid not being effective the same? If the answer to these questions is the affirmative, then there is indeed a need to rethink development policy on the part of both donors and recipients of aid.



First, the recent emphasis on institution building appears to be fruitful. However, the exact nature of the interaction between macroeconomic policy and the institutional framework is not very well understood at present. There-

fore, an open-minded and exploratory dialog between donors and recipients is imperative in order to avoid institution building becoming yet another short-lived fashion in development thinking.



# 1 Introduction

## BACKGROUND

Botswana is seen as an outstanding success-story in sub-Saharan Africa. Three decades after independence, the country has developed from one of the poorest countries in the world to a middle-income country. Donors, which have been present in the country during most of this period, are on their way out with a sense of completed task. This does not mean that the donors take the credit for the achievements. It simply means that Botswana has grown out of the group of countries eligible for development assistance, which is indeed an unusual reason for the exodus of donors. Nevertheless, it is time for reflection and analysis of how Botswana got where it is today, and how donors have contributed now as they are about to leave. Possibly some lessons can be drawn which may be useful for other developing countries as well as donors.

An outstanding success-story in sub-Saharan Africa has naturally attracted a lot of attention in the form of studies and research work. A literature search on internationally published material on Botswana since the mid 1980s produced close to 300 titles. Recent contributions are Dahlgren et al. (1993) and Carlsson, Somolekae and Van de Walle (1997). However, previous studies of aid to Botswana have mainly analysed the impact of aid from one particular donor or aid to one particular sector, or project. Such a partial approach has proven difficult because aid has been integrated into the Botswana planning system. Distinguishing one donor from the other or one sector from another is therefore prone with methodological as well as conceptual problems. The key to understanding the impact of aid is to understand how aid has facilitated and complemented the local structures, and perhaps worked as a catalyst for the evolution of such structures. Furthermore, when aid is integrated into the system, a holistic approach is called for. The study thus aims at analysing how development aid has interacted with other development factors in Botswana.

Our study focuses on macroeconomic management which we see as a dynamic process undertaken at three levels: the planning- and strategy level, the operational level and the administrative level. At the planning level, objectives are formulated, strategies are laid out and resources are allocated accordingly. At the operational level, macroeconomic management involves administering a host of policy measures, that is, choosing which measures to use and the appropriate dose. This in turn involves continuous

analysis of the effect of the policy measures undertaken, and continuous monitoring of developments in exogenous variables which may call for adjustments. Finally, at the administrative level it involves developing a planning system, ways and means of implementing the plans and a set of policy analysis tools. Given this framework, donors have contributed with financial and technical assistance to help fill gaps.

We focus on how these three levels in the macroeconomic management process interact to form the outcome which has been so much praised in the literature. In particular, we focus on how development assistance, both financial and technical, has been integrated in the planning process at all three levels. While the planning- and strategy level has attracted much attention in the literature, the operational level has been subject to less attention, and the administrative level has been almost ignored. The inside of the planning process on the administrative level, and how it interacts with the two other levels, are, however, one of the keys to understanding the Botswana success story. After all, most countries in sub-Saharan Africa have received significant flows of development aid and most do have development plans. However, in most countries in the region, development plans have remained paper tigers.

Previous studies have mainly looked at financial aid, while this study shifts the emphasis to technical assistance. It may be argued that all forms of aid is financial in the end of the day, since goods and services, including technical assistance can be purchased in the market. However, while Botswana became independent from financial aid in the early 1980s, it still faced a shortage of skills. Thus, it appears that technical assistance was not something that could be bought off the shelf once the financial resources were secured. We argue that technical assistance has had the greatest impact on Botswana, and therefore emphasise the interaction between donors and the recipient in this respect.

Previous evaluations and studies of aid have primarily been occupied with the *performance* of the system, or rather, parts of the system. When the performance is satisfactory, there has been little need to look into the system itself. This study, in contrast, aims at understanding how the performance came about and therefore analyses how the planning system has evolved and how it



works. Since this system constitutes the core of Botswana's success story, it is very important to document its origins and the details of its functioning. Without such documentation, it is not possible to fully understand Botswana's economic history and it is not possible to draw lessons from its experience. An objective of this study is to provide such documentation.

The planning system needs to be understood in the context of the constraints under which it has operated and the quality and quantity of resources at its disposal. Botswana has indeed performed well on a number of development indicators. Growth in income per capita is perhaps the most impressive and the most publicised. However, it is also clear that Botswana has had substantial resources at its disposal. Therefore, we assess the sources and determinants of its growth and development performance applying a systematic analysis based on the backdrop of growth theory. In doing so, we narrow another gap in the literature, as Botswana's growth performance is usually seen in comparison to sub-Saharan Africa, which has been the slowest growing area in the world over the last two decades. To summarise, our study analyses the workings of the Botswana planning system and its performance against the background of the resources Botswana had to its disposal, the interaction with donors, and finally the impact of other external factors, notably the SACU agreement and the diamond market.

Our approach to studying macroeconomic performance in Botswana touches upon questions within the realm of several academic disciplines, and calls for a multidisciplinary study. Institutions and management processes are analysed by means of the approach and methodology of public administration, macroeconomic strategies and performance are analysed by means of the approach and methodology of economics, and the story we tell has its roots and origins in Botswana's history, an aspect which is brought into the study by means of the methods and approach of historians. By integrating these three approaches into a common framework, we hope to provide a broad and holistic understanding of macroeconomic management.

The combination of a high rate of economic growth and substantial aid flows found in Botswana is very rare, and it would be interesting to know whether this is the exception that confirms the rule, or whether there are lessons to be learned for other donors and recipients. This is the issue addressed from all the three academic disciplines mentioned above. Therefore, let us present the macroeco-

nomie performance and the magnitude of aid flows as the common background for the chapters to follow in the study.

### **MACRO-ECONOMIC PERFORMANCE**

The very reason for all the attention Botswana has received is its sustained and exceptionally high growth rate. Figure 1.1 shows Botswana's growth performance compared to the average for lower middle-income countries and compared to Sub-Saharan Africa during the period 1965–1995.

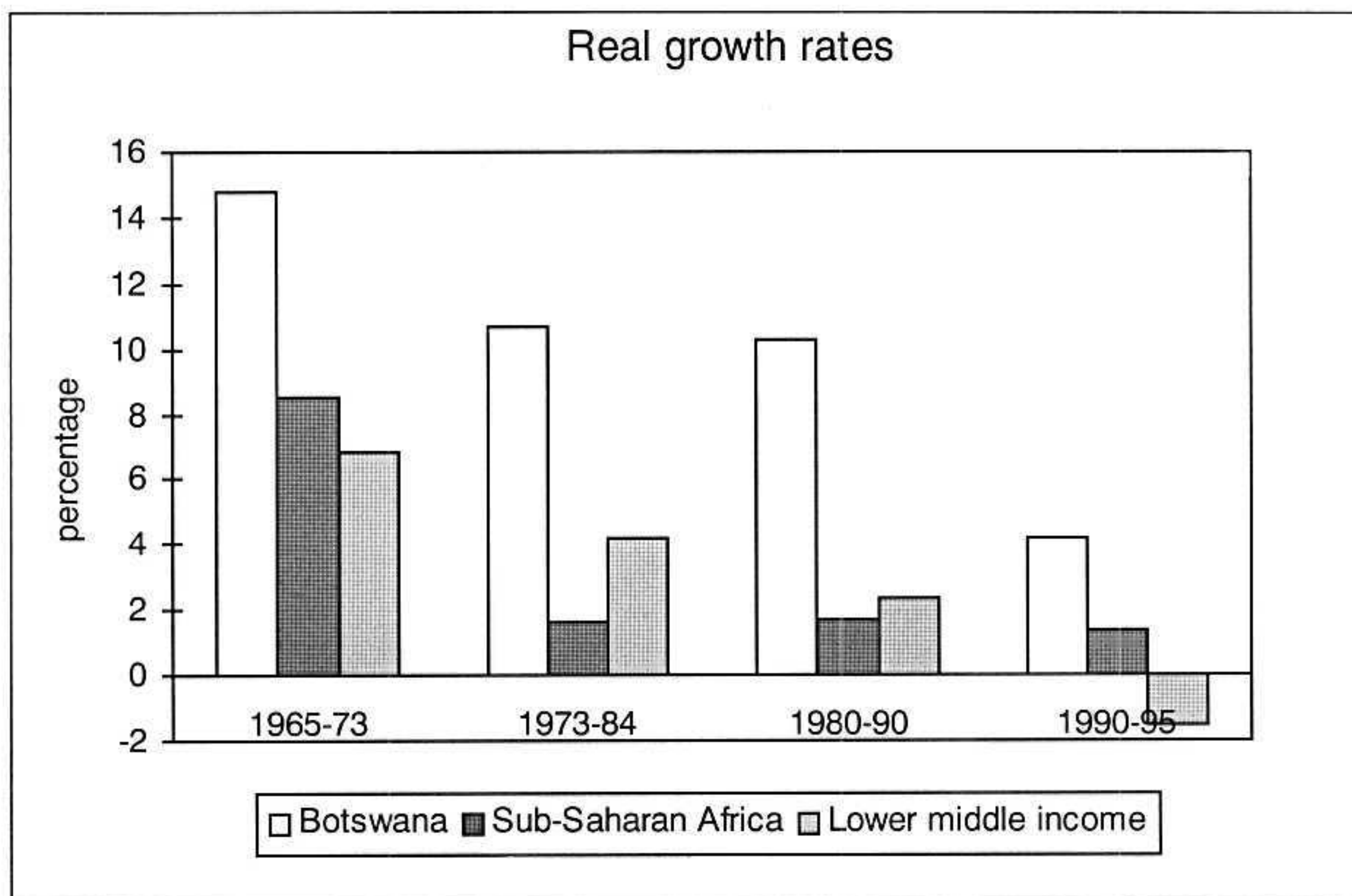
Clearly, Botswana outperforms both sub-Saharan Africa and the average for lower-middle income countries, a group to which Botswana has belonged since the early 1980s. Note, however, that during the period between the points in time when most of the former colonies gained independence and the oil crisis in 1973, sub-Saharan Africa enjoyed growth rates comparable to the newly industrialised economies in Asia today. It should also be noted that the exceptionally dismal performance of lower middle income countries during the 1990s is entirely explained by the depression in the former Soviet Union and Eastern Europe.

Botswana enjoyed an exceptionally high growth rate during the first 25 years of independence. The accumulated effect of this growth performance has taken Botswana from an income level among the lowest in the world to the third highest level of income per capita in the SADC region today, behind Mauritius and South Africa. But growth performance has recently converged towards the average for middle-income countries, excluding the former Soviet Union. This makes it all the more important to identify the sources of growth and the environment conducive to growth as mineral and government-led growth is about to run out of steam, and the country will have to rely on the «usual» sources of growth. The realities behind figure 1.1 call for the question whether Botswana's performance was merely an exceptionally long-lived commodity boom, albeit a well-managed one.

Botswana scores above average on several other macroeconomic indicators as well. Its external debt is very small and the terms reasonable, such that the debt service ratio has stood at below 5 percent during most of the 1990s (World Development Report 1997). Furthermore, Botswana's current account on the balance of payment has shown a surplus every year from 1983 to 1996 (Bank



Figure 1.1



Source: World Development Report, various issues

of Botswana 1995, Budget Speech 1997), and surpluses have accumulated into a stock of international reserves more than 5 times as high as the economic super-power in the region, South Africa (IMF 1997). Finally, the Government budget has recorded a surplus every year between 1982/83 and 1996/97 (Bank of Botswana, various issues, Budget Speech 1977), which in turn has led to the Government having no domestic debt and the accumulation of a substantial stock of financial assets.

Botswana has had its fair share of critical literature. The criticism relates mostly to performance on the social indicators of development. The climbing up the UNDP's human development index has not been quite as fast as the pace up the ranking according to income per capita. Botswana finds itself 30 places below its ranking according to GDP per capita on the human development index

(UNDP 1997). Looking at some of the components of the human development index, Botswana ranges by far above sub-Saharan Africa, as should be expected considering its income level. Note, however that on health indicators Botswana performed better than the average for sub-Saharan Africa even before independence. Compared to the average for middle-income countries, the performance is better on health indicators and it lags behind on educational indicators as can be seen from table 1.1.<sup>1</sup>

### DEVELOPMENT ASSISTANCE

Botswana has received large amounts of development aid, both in the form of financial transfers and in the form of technical assistance. It has actually at times received one of the largest amounts of external transfers per capita in the world. This coincided with being one of the fastest growing countries in the world and having a surplus both on the current account of the balance of payments and surpluses on the government budget. Figure 1.2 shows grants as a share of Government revenue, while figure 1.3 shows total loans and grants received by Botswana.

<sup>1</sup> The upper middle income countries have a lower average on most of the social indicators than the lower middle income countries because the former Soviet Union and large parts of Eastern Europe are classified as lower middle income and have a high score on social indices.

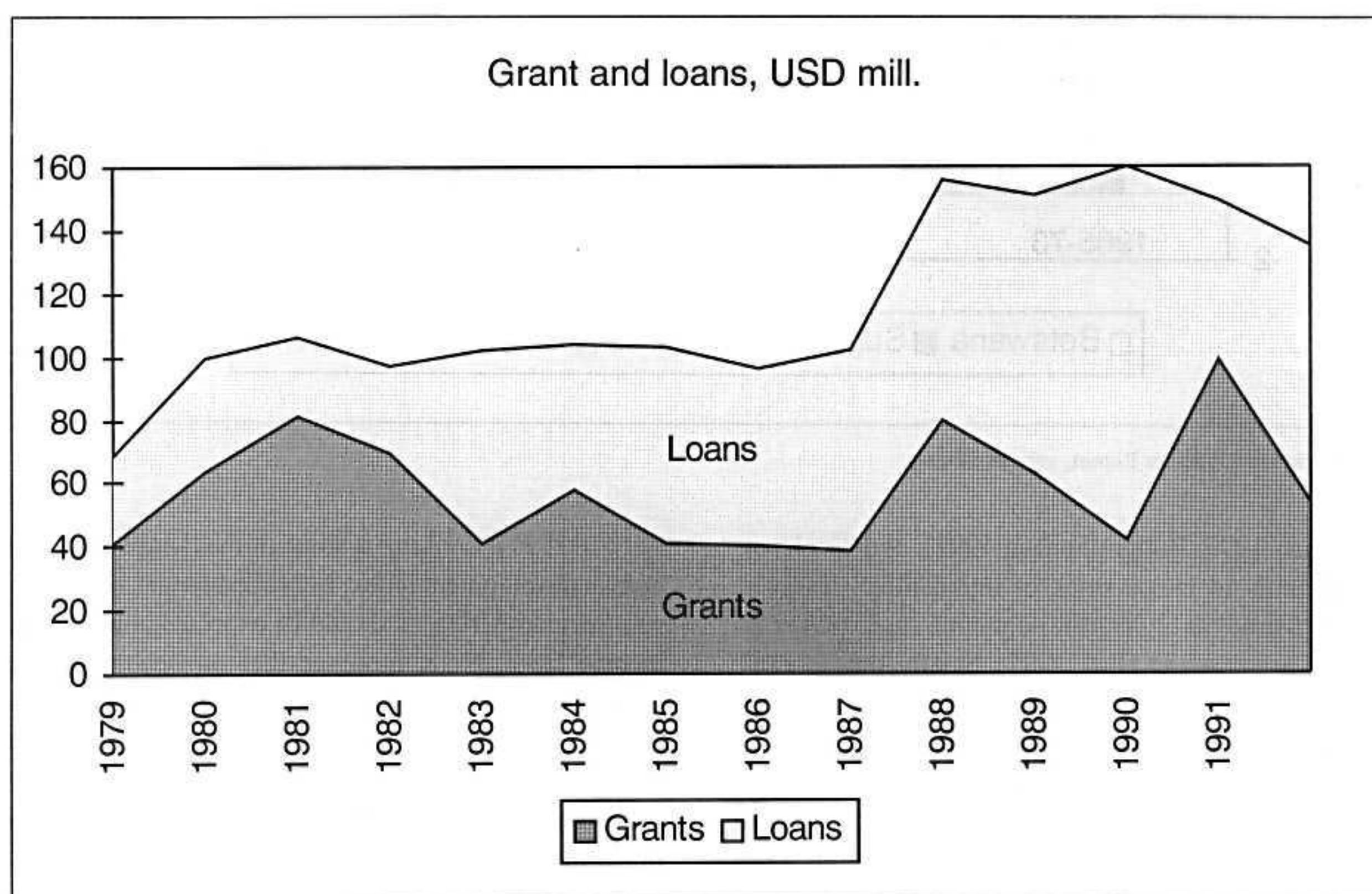


**Table 1.1 Social indicators**

	Botswana		Sub-Saharan Africa		Middle income countr.	
	1965	1993	1965	1993	1965	1993
Infant mortality	108	34	168	92	115	40
Secondary school female	3	55	4	23	20	63
male		49		na		65
Tertiary education	na	3	0	na	4	23

Source: World Bank 1986, 1996

Infant mortality is given as per 1000 live births, secondary and tertiary educational are enrolment ratio of age group.

**Figure 1.2**

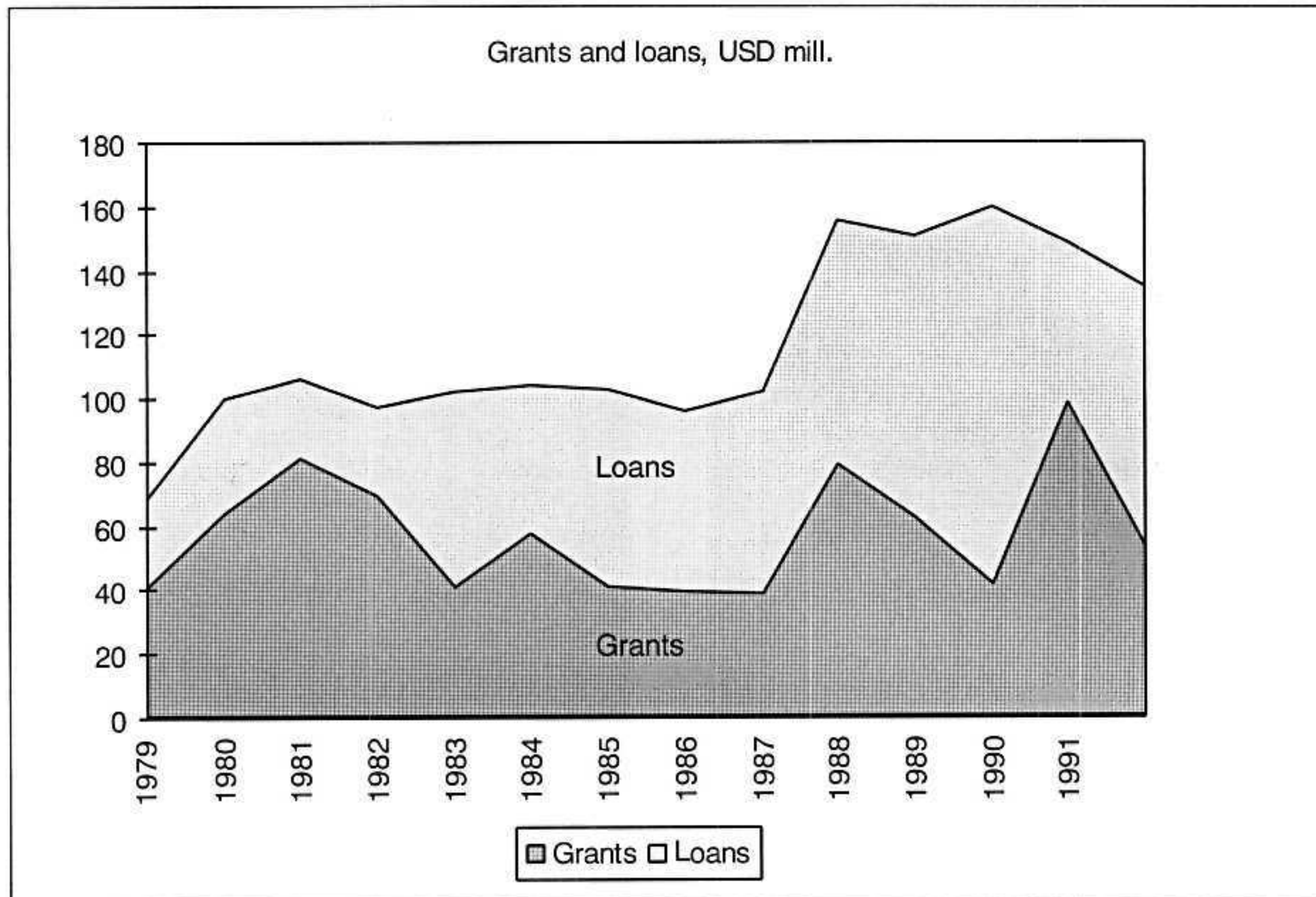
Source: Bank of Botswana

Note the dip in grant flows around 1970. This was a period when grants-in-aid from Britain were scaled back and terminated, and other donors providing grants had not yet come on board. Clearly, the relative importance of

financial aid flows has declined steadily, and constitute a marginal share of total revenue today. As will be shown in this study, the declining trend is also seen in the amount of technical assistance.



Figure 1.3



Source: World Bank

### OUTLINE OF THE STUDY

Chapter 2 looks at the preconditions for successful economic development in Botswana from a historical point of view. It is found that Botswana was a largely neglected area by the British colonial power, partly because Botswana was perceived to be of little economic relevance, and partly because it was believed that the territory would be incorporated into the Republic of South Africa. At independence, institutions and even a capital had to be built from scratch. Nevertheless, the origins of the present planning system are traced back to the colonial era. Colonial institutions have been further developed and to some extent amalgamated with traditional institutions to form the multi-party democracy found in Botswana today.

Chapters 3 and 4 analyse the nature and evolution of the planning system from a public administration point of view. Both chapters thus focus on the administrative level of macroeconomic management, given the objectives and strategies. In chapter 3 it is first argued that planning in Botswana concentrates on *public expenditure* and project management without too much interference with the pri-

vate sector. Further, the planning system is found to be highly competent, and it has been institutionalised. It is emphasised that pragmatic politicians have left the day to day running of the planning system to professional planners while politicians have concentrated on setting the policy objectives and development strategies and taking decisions at the policy level of development planning. Furthermore, merit and skills have taken precedence over localisation as employment and promotion criteria in the planning system. Finally, good communication between planners and politicians has ensured informed policy formulation and decision making. This notwithstanding, the planning system is found to be highly centralised, the implementation capacity is lagging somewhat behind, and the system is better geared towards channelling funds to large investment projects than to implement development programmes.

The integration of aid into the planning system is analysed in more detail in chapter 4. The extent of technical assistance is quantified, but because of the integration of technical assistance into the system, its exact impact has been



difficult to assess. Thus, again the division of labour and good communication between politicians and the bureaucracy, whether the latter was manned by local or expatriate staff, is emphasised. Furthermore, it is argued that Botswana's first president played an invaluable role in establishing an accountable government and a relatively competent bureaucracy. The chapter concludes by discussing some of the challenges ahead and notes that recent developments have put the system under strain.

Chapters 5, 6 and 7 analyse the management of good fortune and the role of aid at the planning and strategy as well as the operational level from an economics point of view. Chapter 5 emphasises the good fortune element of Botswana's development. It is argued that Botswana chose very much the same development strategy as the rest of sub-Saharan Africa, but survived the commodity market collapse in the 1970s due to its vast diamond resources. The chapter goes on to raise the question whether good advice from donors contributed to the relatively good performance of the country. It is argued that the advice Botswana received was not very different from what other aid recipients received, in spite of a very different economic and political setting. Botswana did, however, not listen very much to external advice, but followed its own development strategy assisted by donor-funded expatriates who appear to have identified themselves more with Botswana than with the funding agencies. The development strategy have been linear with very little changes and adjustments. In the past this is found to have been a strength, but in the present situation it may well be a liability as mineral-and government led growth is about to run out of steam.

Chapter 6 focuses on the operational level, and analyses macroeconomic management as a process of gaining more discretion, particularly in relation to the South African domination of the region. It is concluded that Botswana has developed and institutionalised a modern approach to macroeconomic management, particularly as far as the use of monetary and fiscal policy is concerned. It is further argued that the government has by and large led an non-interventionist industrial policy. However, we suggest that the huge resources accruing to government combined with a relatively restrictive control on international capital flows, the latter to some extent motivated by the urge to attract donor funds, has left the government as the major player in the economy as an owner of productive assets, employer and source of credit.

Chapter 7 assesses growth performance in the Botswana economy in a comparative perspective. It is found that the mineral sector and government expenditure have been the engines of growth in the economy. Botswana has, however, performed about average, or even below average compared to its SACU partners and another comparable, natural resource-led economy, Oman, on other sources of growth. Thus, human capital accumulation has been below average, local investment about average, foreign investment below average, the quality of government about average and the crowding out effect of government has been larger than average. As the growth in mineral revenue levels off, growth will be determined by these other sources. If performance is not improved significantly on these accounts, growth is likely to slow down even more than what has been the case during the mid 1990s.

Chapter 8 concludes and draws some lessons for other aid recipients and donors.

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## 2 Politico – economic development during the protectorate period

*Dr. Gilbert Sekgoma*

### **INTRODUCTION**

Botswana, formerly the Bechuanaland Protectorate (1885–1965) in the heart of Southern Africa was, together with Lesotho and Swaziland, a protected British territory for eighty years. This chapter discusses the impact of the advent of British protection of the country on the Tswana political system. The chapter also describes the evolution of the protectorate administrative structure and its efforts towards the economic development of the country.

### **POLITICAL CHANGES WROUGHT BY THE DECLARATION OF A PROTECTORATE STATUS**

A number of scholars have described and analyzed in some detail the nature, structure, functions and privileges of the hitherto independent Tswana political systems during the pre-protectorate period (Tlou and Campbell 1988, Schapera 1994). Those cogent descriptions and analyses will not be repeated here. It should suffice to note that the Tswana states before the declaration of a protectorate status over their respective states by the United Kingdom, were independent of each other, and that their chiefs or kings were vested with legislative, executive and judicial powers (Schapera 1994). This gave the Tswana chiefs the requisite political authority to influence the direction and tempo of their respective political economies.

The declaration of protection over the country and the logical imposition of a protectorate administrative machinery, however, spelt doom for the once independent Tswana states, and also effectively wiped out the chiefs' executive and legislative powers, as well as eroded to a very great extent the judicial powers of the Tswana chiefs (Bechuanaland Protectorate Government 1890). This was the predictable fate of most African political institutions in all colonial situations. In Botswana, the process of creating a protectorate state and reforming the traditional and customary powers and privileges of chieftainship was set in motion through a centralist approach (Molokomme 1991). Reflective of this approach was the utilization of

imperial and colonial legal instruments to create the essential infrastructure of the colonial state and effect the desired reforms on the traditional political structures.

The first of these measures which seriously wrought fundamental changes on the Tswana political systems was brought about by the passage of the Foreign Jurisdiction Act in 1890 (Johnson 1983), by the British parliament. As a result of the coming into effect of that Act, Botswana, although technically a foreign territory, was henceforth regarded and treated by the United Kingdom in the same way as a conquered territory. Thus, by a stroke of the pen, the hitherto independent Tswana states actually lost their political independence to Great Britain and all that went with it.<sup>2</sup>

This point was effectively and precisely underscored in section one of the Foreign Jurisdiction Act which declared:

It is and shall be lawful for her Majesty's the Queen to hold, exercise and enjoy any jurisdiction which Her Majesty now has or may at any time hereafter have within a foreign country in the same and as amply a manner as if Her Majesty had acquired that jurisdiction by cessation or conquest of territory.

Under the authority thus acquired, the imperial government enacted another piece of legislation, an Order in Council of 1891. That Order in Council gave the British High Commissioner in South Africa the legal mandate to govern the whole territory, to enact legislation for the country, to appoint officers for the territory on behalf of Her Majesty's government and to intervene in the internal affairs of the ethnic chiefdoms in the name of public peace and good governance. In governing the territory, the High Commissioner was, however, to have due regard for the ethnic laws and customs «except so far as the same may be incompatible with the due exercise of Her Majesty's power (Her Majesty's Government 1891). In other words, where there were conflicts between the High Commissioner's proclamations or acts and Tswana laws and customs, the former took precedence, reflecting a clear indication indeed of where political power then resided. These developments consolidated the process of creating a colonial state to rule Botswana, and to which

<sup>2</sup> Ibid



the Tswana states lost their erstwhile independence and to which they were henceforth subordinated. Those centralist initiatives paved the way for the implementation of Indirect Rule, a system of rulership which was anchored on the use of traditional political systems, which nevertheless further weakened the remaining powers of chieftainship in relation to the colonial state. On a more positive note, the imperial initiatives also laid the foundation of what was later to become the Botswana nation state, comprising a plurality of ethnic groups with a diversity of rich cultures.

Firmly entrenched in power, the High Commissioner in consultation with the imperial government caused the establishment of a machinery to rule Botswana.<sup>3</sup>

The result was the creation of the office of Resident Commissioner and ancillary offices, and the establishment of a treasury department (all based first in Vryburg and later moved to Mafikeng, South Africa) and the subsequent appointment of officers to those respective offices. A small military force which later became the police force was formed in the 1890s, to provide the essential security and to maintain law and order. Measures were also taken in 1912 to create a high court and appoint a judge. Although this was effected, the person appointed operated on a part-time basis until in 1939 when a permanent judge was appointed for the three high commission territories – of Bechuanaland, Swaziland and Basotoland. The said officer was based in Basotoland and thus he kept circulating amongst the three protectorates (Colclough and McCarthy 1980). A prosecution services department was also created in the 1890s. It later became the law office, and in 1956 it was renamed the attorney-generals chambers, the predecessor of the current one.

Additional offices, to facilitate the governing and development of the territory were also created. For instance, the medical, educational, veterinary and agricultural services as well as the public works and geological departments were established in the 1920s. Those departments were headed by directors, who were expected to initiate policies affecting their respective domains and they also acted as the Resident Commissioner's officials in the governing of the protectorate.

The Resident Commissioner in consultation with the British High Commissioner to South Africa also caused the creation of offices of Resident Magistrates and the ap-

pointment of the respective officers, stationed in most Tswana reserves as demarcated in 1899.<sup>4</sup>

The Resident Magistrates who in the 1930s assumed the title of District Commissioners (DCs) were to be link persons between the colonial administration and the various ethnic groups led by their respective chiefs. The District Commissioners were to pass the directives from the Resident Commissioner to the people through chiefs in the tribal Kgotla, and also transmit to the Resident Commissioner or High Commissioner the concerns of the local people as conceived by the chiefs. The DCs were also referred to in other situations as friends and advisors of chiefs in the governance of local people through the policy of indirect Rule.<sup>5</sup>

What exactly was this animal called «indirect rule?» This was a system of ruling the colonial or protectorate people through their traditional political systems (Crowder 1976). In the case of Botswana, the system simply recommended itself to the British on two counts. Firstly, the British did not want to spend money on the administration of the protectorate, and neither were they prepared to develop its economy. Secondly, the local political systems were well developed and had the strong support from the various ethnic groups and had the capacity as well as legitimacy to rule. As a result, the British simply removed the executive and legislative powers of traditional institutions, but utilized them as relatively cheaper tools in the administration of the protectorate. Thus, the cooperative chiefs were left in power and they reported to the High Commissioner through the DC's and the Resident Commissioner. They were expected to carry out the directives from the High Commissioner and or Resident Commissioner.

The establishment and appointment of personnel to that administrative system completed the machinery for governing the protectorate. What is of interest to note is that with the exception of the police force, most departments were very thinly manned, reflecting a clear indication that the imperial government had a very minimal socio-economic development agenda, or even none at all, for Botswana. As indicated, some departments were even filled on a part time basis. For instance, the three high commission territories were made to share a single officer – as was the case with respect to the high court judge. In this case, the three protectorates shared a single judge till the time of independence.<sup>6</sup>

<sup>3</sup> Ibid

<sup>4</sup> Ibid

<sup>5</sup> Ibid

<sup>6</sup> B Otlhogile (1997) Interview



Firmly entrenched in power, the colonial administration was at least in theory expected to perform two closely related functions. Firstly, it was expected to create favourable conditions for the extraction of raw materials by mercantile firms and/or mining companies, leading to accumulation of capital by the metropolitan or international investors. Secondly, it was to provide as a necessary condition for the first function, a framework of stable political order and effective control over the colonial society (Gana 1981). In the case of Botswana, the first function was not enthusiastically undertaken. The argument often proffered was that the country as a protectorate, was technically a foreign territory and that the United Kingdom's obligations were limited only to the defence of the country from external aggression and maintenance of internal law and order. In addition, the Union Act of 1910 provided for the eventual incorporation of the BLS states into South Africa. To this extent, the economic reorganization and general development of the protectorate was not considered as the primary responsibility of the colonial administration. The feeling was that there was no need to develop a foreign territory which was later to be passed to the Union of South Africa. As a result, relatively little attention was given to the economic progress of the people throughout the early days of the protectorate period (Colglough and McCarthy 1980).

The critical and underlying impetus to the above policy approach was that the British were not interested in spending money on the administration and development of Botswana. As a result, the policy of indirect rule was chosen to achieve that objective. In the process, the imperial government avoided putting in place an elaborate administrative structure. The skeletal structure thus established performed what was felt fell within the scope of a protectorate administration. In the process, the economy of the country and improvements in the standard of living of the people were accorded less attention, except where the revenue interest of the administration was concerned.

As regard the second function, some measures were put in place to ensure the security of the territory. A small military force was put in place prior to the declaration of protectorate status. That military force was later turned into a civilian police force to ensure that law and order were maintained in the country. A high court was also established to hear cases of wrong-doings, and a prosecution services department which later became the at-

torney-generals chambers was created to take wrongdoers to court. The chiefs kgotla continued to hear relatively minor cases of common crimes, customary law and others. That infrastructure ensured that the country was protected from external aggression and that law and order were maintained.

### **ECONOMIC DEVELOPMENT BEFORE WORLD WAR II**

For many years after the declaration of a protectorate status, no organized measures were undertaken by the colonial administration to develop the country's economy. No plans were made by the colonial administration to take stock of the structure of the protectorate economy, or to determine the needs of the economy and how those needs could be resolved. Neither were measures of generating revenue internally through a more efficient tax administration system considered. Measures were not taken to develop local production for local markets.

Instead, colonial economic policy with respect to Botswana would appear to have been coloured to a very great extent by the protectorate status and the way it was interpreted as defining the United Kingdom's obligation to Botswana. Finally, the fact that territory was poised for transfer to the Union of South Africa limited the United Kingdom's commitment to its development. As a consequence, the development of the country's economy in terms of both social and economic infrastructure and the general improvement in the living standard of the people assumed a very low priority in the colonial administration's agenda at least in the first forty years of protection.<sup>7</sup> During that period, the administration demonstrated serious concern only in ensuring that Botswana paid for their protection.<sup>8</sup> As a result, the administration through its central treasury department continuously imposed a variety of poll-taxes on the local people. The first such poll-tax came into effect in 1899. It was collected from the local people in each reserve through the assistance of chiefs. In return for that service, the chiefs were paid 10 percent of the revenue collected in their respective reserves. The problem, however, was that cash income was not easily available to most local people, except those with cattle which they could sell and pay the poll tax. At the time the first poll tax came into effect, there were virtually no employment opportunities in the protectorate from which people could have earned some income. The result was that revenue collected was not enough to pay for the administration of the protectorate. Consequently, the imperial government had to provide budgetary grants to the

<sup>7</sup> Ibid

<sup>8</sup> Ibid



colonial administration during the period 1899 to 1911.<sup>9</sup> The need for tax revenue also forced the administration to grant South African mining houses the right to recruit labour for the mines in the territory. This arrangement made it possible for local people to earn cash and pay the requisite tax. In quest for further revenue, the colonial administration introduced another tax in 1919, the so called «native-tax» which was to be paid by local people.<sup>10</sup> This was in the form of a surcharge of three shillings on each pound sterling of the Hut Tax collected.<sup>11</sup> The revenue thus raised was paid into a «Native Fund» which was to be spent on the development of African education, medical development, the eradication of cattle diseases and any other activities which would benefit the local people.<sup>12</sup>

Later the native tax, then at the rate of five shillings per year, was combined with the hut tax in 1932 and was paid by every male at the age of eighteen years and above. After the combination of the two taxes, the new tax was collected by tribal treasuries from which they received a portion of the revenue collected, for use on development projects in the reserves. Thus during the period 1899 to 1965, those were the main taxes paid by the local people. There was, however an additional graded tax introduced in 1949 to be paid by the local people, but because of the way it was structured, it involved a relatively small number of people.<sup>13</sup> The taxes introduced by the colonial administration during the early years of protection contributed significantly to government revenue. For instance, before the outbreak of the Second World War (1939 – 1945), the tax paid by local people accounted for almost 60 percent of the total government revenues.<sup>14</sup> After the war, there was a decline in the significance of African tax revenue to the general government revenue, because a larger portion of tax revenue was credited to the tribal treasuries for development purposes.

As regards the undertaking of development activities by the colonial administration, very little efforts were directed to this end. As pointed out, the first forty years of protection boast of nothing on that front. It was only from the 1930s that development projects were undertaken. The projects were concentrated in two areas: the drilling of boreholes in search of underground water resources and construction of road bridges to improve communications. The construction of roads and bridges were exe-

cuted through the Public Work Department (PWD), while cattle disease controls or disease eradications were undertaken by the veterinary services department. All those projects were clearly aimed at improving the cattle industry, then the only leading sector in the country's economy. By 1937, about £71, 440 (pounds sterling) were budgeted for the construction of bridges. In 1935 a grant of £25,300 was made available for water development, and another one of £114,00 was provided in 1937. By 1938, a number of boreholes had been sunk and a good number of them had yielded good water (Steenkamp 1991, Thapelo 1997). Therefore, the result of the water development project was quite impressive. Commenting on this development, Steenkamp (1991) observed that;

The one government drill operating in 1934 was joined, four years later, by seven others. From 1935 to 1937, twenty seven engine heads were installed, one windmill, one ram, and twenty two animal gear pumps. In this period, one major dam (350 million gallons) and nine smaller ones were built. An additional £12,000 was used to clear water ways and channel water from the Okavango Delta to areas in the South. The aim of these water projects was, first to meet domestic needs and second, to open new grazing areas. In 1938, it was estimated that new supplies had eased overstocking by opening up new grazing areas for 70,000 cattle. (p 301)

The campaigns against cattle diseases, in particular rinderpest, in the 1930s also produced good results. Continued efforts and expenditures towards the eradication of livestock diseases through regular vaccinations went a long way in keeping those diseases in check, and in the process the animals recovered and the stock increased immensely since then. In effect expenditures on the control of cattle diseases benefited a lot more people who owned cattle than the borehole scheme. Colclough and McCarthy (1980) commented on the positive net effects of those expenditures through the veterinary services department thus:

This emphasis upon veterinary expenditure for the purpose of disease control was probably the single most important benefit of the colonial period. By contrast, arable agriculture, education, health and physical infrastructure remained almost completely neglected by the central administration. What progress was made in developing these facilities was a result of expenditure made by the tribal treasuries which raised their money from local taxes, or in the health and education sectors, by the missionary societies (p 31).

<sup>9</sup> Ibid

<sup>10</sup> Ibid

<sup>11</sup> Ibid

<sup>12</sup> Ibid

<sup>13</sup> Ibid

<sup>14</sup> Ibid



The only other scourge to the cattle industry, as well as the people were the persistent droughts resulting from inclement weather conditions. The boreholes scheme was partly meant to address that problem, but it was insufficient to prevent the deterioration of pastures on account of poor or absence of rainfall.

On the social front, the colonial administration adopted a very passive approach. The development of educational and medical facilities were left to the missionaries and tribal authorities. The administration found comfort in providing some financial subventions to the native treasuries from the taxes paid by the local people. However, the amounts credited to those treasuries were often too infinitesimal to enable them to undertake projects such as construction of primary schools and health centres. As a result, until the outbreak of the Second World War, almost nothing had been done by the tribal authorities with the assistance of the colonial administration. Whatever school and health facilities which existed in the country during that period were a result of largely missionary initiatives and to some extent local people's creativity.<sup>15</sup> The situation changed somewhat during the post World War II, when more revenues were credited to tribal treasuries, and even the central government itself indicated some concern for developing the local people.

Although the failure of the colonial administration to develop Botswana during the early years of protection was explained away by the imperial government in the very narrow sense of falling beyond the scope of Britain's mandate with respect to the country, it would appear that lack of sources of government revenue and the fact that the high commission territories were supposed to be incorporated into the Union of South Africa solidified that position. The country was also often perceived as barren and sparsely populated and possibly with no potential for strategic or economic minerals. Consequently, no concerted efforts were directed towards the prospection of minerals during the early years of protection.

Botswana was made a member of the Southern African Customs Union (SACU) from 1910. The financial benefits to the country from SACU remained marginal in government revenue. The country was also a member of the Rand Monetary Area (RMA), but did not have a share in the South African Reserve Bank's profits. As Botswana's share of total SACU imports increased, there

were some opportunities for raising revenue which were not explored by the administration. Additional revenue from SACU and RMA would have enabled the government to undertake some meaningful social and economic projects. Without that ingenuity, the colonial administration was left with only two options for generating revenue, that of taxes levied on local people, and grants and possibly loans from the imperial government. Resources from those sources were often insufficient, and thus limited the scope of the government developmental efforts.

Following the establishment of the protectorate administration, the government created the Native Advisory Council (NAC), in 1919 (Colclough and McCarthy 1980). The purpose of that institution was to provide the chiefs with an opportunity to be involved in the formulation of policies, particularly those affecting ethnic interests, customs and laws. In 1928, the NAC became a consultative forum in which legislation was discussed, and the chiefs got the chance to advise the Resident Commissioner on their concerns as regards any new legislation. However, the Resident Commissioner was not legally bound to accept the chiefs' advices.

The formation of the NAC was later followed by the establishment of the European Advisory Council (EAC) in 1921.<sup>16</sup> This organ, like its counterpart, the NAC was meant to advise the Resident Commissioner on matters affecting the European population, which at that time numbered about 1,700 people. The EAC had six members, while the NAC provided space for all the big chiefs to represent the interests of their people. In terms of impact, the EAC would appear to have had better influence on the government. As a result, the government provided more resources for the education of European children, while almost nothing was provided for African children. In addition, better credit conditions from banks and business opportunities were worked out for the European community, while Africans had to fight it out on their own. Furthermore, relatively better facilities such as water and electricity were provided in European settlements, while very little was done in most villages. In other words, the impact of the two councils served to polarize society further along racial lines – a situation analogous to the South African one. Be that as it may, the EAC definitely had more than its proportionate influence over the affairs of the country. In contrast, the relative weakness and vulnerability of the NAC became more apparent

<sup>15</sup> Ibid

<sup>16</sup> Ibid



when the Rey administration decided to reform further the political and judicial powers and roles of the institution of chieftainship. Those reforms and their implication will be discussed later in this chapter.

In the post-war period when it had become clear that the empire was to be decolonised, the NAC and EAC were brought together to form the Joint Advising Council (JAC) in 1950.<sup>17</sup> It played the role of advising the RC on matters affecting both Africans and Europeans in the country. This body remained in operation until the introduction of the independence constitution. By 1961 when the Legislative Council was introduced (Stedman 1993), the JAC assumed an advisory role to the Legislative Council. At independence in 1966, the independence constitution provided for a parliament with the main body being the National Assembly, and a lower house, being the House of Chiefs.

These developments indicated in very clear terms that the NAC and EAC which later joined to form the JAC were the precursors of the current House of Chiefs. It is also quite evident that the Legislative Council, though a late-comer on the protectorate political scene, was vested with more power and clout to be the logical beneficiary of the all powerful law-making body in post-colonial Botswana – the National Assembly. The relationship between the two organs has not changed much from the protectorate period. What actually changed was the withdrawal of Europeans from the old house at independence, so that they could participate in national politics as ordinary citizens, and thus, the new house appropriately assumed the name of House of Chiefs, whose role has been advisory to the National Assembly on matters affecting customary laws and customs. Once again, the Executive Council, and from 1961, the legislative Council, was not constitutionally bound to accept the advice of the House of Chiefs. Instead, it can choose to do so at its own preference, and if the political costs of doing so are perceived to be of little consequence or of no consequence at all.

The relative weakness of the House of Chiefs in relation to the National Assembly mirrors a long history of political asymmetry between the colonial administration and the institution of chieftainship. That unequal relationship dates back to the days of the declaration of a protectorate status over the Tswana and the subsequent establishment of a protectorate administration, vested with all the executive, legislative and judicial powers. Through that proc-

ess, the institution of chieftainship lost all its former powers and privileges, and as a result, it was reduced to a very junior partner in the process of governing the country. It has already been indicated that the NAC was relatively weak in relation to the executive, and that it had less clout and influence on the administration than the EAC. A clear case in which the weakness of the institution of chieftainship was exposed was when the Rey administration decided to restructure, streamline and regulate further the political and judicial powers of the institution of chieftainship. The administration did this through the introduction of two proclamations, despite the strong advices and criticisms from the members of the NAC – the chiefs. The said proclamations – notably, Native Administration Proclamation no 74 of 1934 and Native Tribunal Proclamation no. 75 of 1934 reformed further and in effect reduced the political and judicial powers of chiefs, as well as eroded their customary privileges. For instance, Proclamation No. 74 provided for the recognition, approval, dismissal and suspension of the chiefs from office by the High Commissioner. It also vested on the High Commissioner, the power to refuse to recognize and approve newly appointed chiefs, despite the traditional support which those chiefs might command from their people. This, the High Commissioner could do as long he considered it to be in the best interest of public order and good government. The proclamation also provided for the statutory control over the rule of chiefs, and the establishment of «tribal councils» comprising elected members for each tribal area under a chief, and made it mandatory for chiefs to consult and work closely with those councils in administering their respective reserves. The obvious net-effect of this proclamation was seriously to erode the erstwhile independence and powers of chiefs in that thereafter the chiefs would not be able to run the affairs of their communities as they saw fit, but would have to be subjected to the advices of the tribal councils.

The Native Tribunal Proclamation No. 75 restructured, rationalized and regulated, at least from the colonial administration's point of view, the judicial powers of the chiefs, sub-chiefs and headmen. Whilst prior to the advent of British Protection and until the introduction of the Proclamation, the various Tswana chiefs had almost unlimited judicial powers over all cases, the said Proclamation re-confirmed the situation established by the 1891 Order in Council, which had removed the powers to try cases of murder, rape and those involving Europeans, as well as other serious cases from the chiefs» kgotla, and vested them on the Resident Magistrate – later the District Commissioner (DCs) and high court. The Proclamation

<sup>17</sup> Ibid



also provided for the normalisation of the tribal court system and jurisdiction by delineating «Senior Tribunal» from junior «tribunals». The impact of the reforms brought about by this proclamation, just like Proclamation No. 74 was negative as far as the chiefs were concerned (Bechuanaland Protectorate Government 1943). As pointed out, the Tswana chiefs had objected to the introduction of those Proclamations, but those objections fell on deaf ears. When the Proclamations became law, two of the chiefs, Tshekedi Khama, regent of Bangwato and Bathoen II of Ngwaketse instituted a legal suit against the colonial administration and High Commissioner (HC). The chiefs lost the case on the ground that the administration had unfettered powers to legislate for the public good and good government of the territory. Following that conclusion, the two proclamations of 1934, though perceived as «bad laws» by the chiefs, found a place in the law books of the country, and the chiefs from thereon were subjected to the security of tribal councils in their respective administrations and virtually relegated to dealing with relatively minor cases and those involving customary laws and customs. Those reforms were desirable as far as the protectorate administration was concerned. The intentions of the Rey administration was to modernize what was felt were outmoded traditional and almost autocratic institutions, and thus make them more amenable to modern forms of administration (Proclamation no. 74 1934). Through such reformations, it was also believed that the application of the doctrine of «Indirect Rule» would work better.

The streamlining of the chiefs powers as established by the Proclamations of 1934, was however, ameliorated by proclamation No. 34 of 1943. This Proclamation sought to restore the relative powers of chiefs within their respective chiefdoms by removing tribal councils from the chiefs» Kgotla. The Proclamation also introduced a new concept in tribal administration – that of Native Authority. Thus, Proclamation No. 32, in addition to replacing the restraint on chiefs by native council, also made provision for the appointment of the chiefs by the High Commissioner, to the position of native authority within their respective areas. The new structure established by the Proclamations of 1943 was more acceptable to the chiefs than that set in place by the proclamation of 1934.

All these proclamations have had a lasting impact on the administrative structures responsible for rural development. The reforms wrought by the proclamations created

the basis of the current local government system, while the streamlining of the chiefs political and judicial powers laid the foundation of the current position of the institution of chieftainship in relation to the post-colonial central government. This situation was reconfirmed by the Chieftainship Act of 1965 which came into effect about six months before the attainment of political independence. Therefore, on the eve of independence in 1966, the institution of chieftainship had already lost a lot of its former glory and power in relation to the colonial administration and subsequently to the post-colonial administration.

Critical to the reform process of the institution of chieftainship, originally begun by the colonial administration and later pursued by the independent government of Botswana, has been the concern to modernize the institution and make it adaptable to the protectorate situation, and the commitment of the post colonial government to establish a democratic form of government, functional institutions, the rule of law and a free enterprise economic system (Saunders 1983). The successful implementation of these principles requires observance of rules formulated in rational enactments, an impartial judicial system which decides cases in accordance with formal rules and abstract principles, an administrative system that is tightly structured and manned by professionals and a free and open non-discriminatory economic system in which every citizen as well as foreigners can participate, equally protected by rational laws.<sup>18</sup>

These basic requirements for the establishment of a modern, plural, democratic state and a free enterprise economic system could not be achieved easily through the traditional form of Tswana state without radical reformation. Chieftainship by the end of colonial rule still had serious capacity bottlenecks resulting from traditional adherence to heredity rather than merit in accession to the throne, and to laws which, though legitimated by their origin in traditions and practices, were unmodified, unwritten and differed from one group to the next, and were absolutely inaccessible and unknown to potential international investors. Moreover, the administrative structure of chieftainship was patrimonial in nature, staffed largely by family members of the patron-the chief, and only a few outsiders were appointed through the patron-client relationship. Furthermore, the decision making process and allocation of resources under chieftainship were based largely on the discretion of the patron and a coterie of royals rather than by bureaucratic and functional procedures. Consequently, from the time of independence, the

<sup>18</sup> Ibid



post-colonial state, like its predecessor has continued to reform the institution of chieftainships with a view to achieving its objectives of establishing and nurturing a plural and democratic process in the country and introducing all the essential values of modernity, such as equality, freedom of speech and association and meritocracy as the guiding pillars for selection to whatever position.

### **BACKGROUND TO THE DEVELOPMENT PLANNING IN BRITISH COLONIES**

By the time the Second World War ended, Britain's economy was under considerable constraints. During the war, it suffered serious economic losses. Its balance of payments was in a big deficit, and its production of goods and services was seriously disorganized by the requirements of the war (Gardener 1956). To solve this economic crisis, the Attlee Labour government decided to undertake two related measures. Firstly, to secure a loan on soft terms from the United States government. Secondly to mobilize and utilize colonial resources in the reconstruction of its war torn economy.<sup>19</sup>

The concern of this section of the report is with the second measure.

To facilitate the development of colonial resources, a third Colonial Development and Welfare Act (CD and W Act) was passed in 1945.<sup>20</sup> This Act provided a total capital expenditure of £120 million for colonial development over a ten-year period. Colonial development in this context implied both improving people's living standards and promoting cash-crop production for export to Britain and to the dollar area in order to help reduce Britain's dollar deficit.

The passage of the C.D.A and W Act was later followed by a general dispatch from the Colonial Office (C.O) to the colonial governors and high commissioners, requesting them to prepare long term development plans in accord with the spirit of the Act.<sup>45</sup> Those plans were to be financed partly by resources provided under the C.D.A and W. Act, respective colonial resources and loans which could be secured by colonial administrations. The process of economic development planning in most former British African colonies and protectorates of which

Botswana was a part, was a post-war development, and was a result of British initiative.<sup>21</sup>

Development planning in the colonies and the execution of plans could have been undertaken before the war. The public sector capital expenditure in some colonies during colonial period constituted the bulk of investment expenditure, and therefore forecast of such spending could have been made fairly easily. The planning of the mobilization of resources in the form of higher taxes or forced savings, or a more efficient tax administration would appear to have been possible (Gardener 1956), yet colonial economic planning before the war was vague and hesitant, and a remarkable contrast to the post-war situation. Until 1946, development planning in Botswana was done on an ad hoc basis, mainly as a response to crisis situations such as cattle diseases, water crisis, lack of beef markets and so on. The objectives were never clearly defined, in itself a major shortcoming to the success of any economic policy.

The British imperial government introduced the practice of development planning in the colonies partly because of experiences gained in early forms of economic planning in the West Indies, and more importantly, because of lessons gained from wartime planning. Those two experiences had proved to have the potential for advancing economic progress. Thus, in introducing economic development planning, it was hoped that it would facilitate economic progress in the colonial empire, and would serve as a guide for public sector investment for funds provided by the C.A. and W Act of 1945.<sup>22</sup> The purpose of the funds thus provided was the improvement of living standards of the colonial people and expansion of cash crops needed, mainly by urban economy. To this extent, the British economic self interest largely influenced the introduction of development planning in the colonies.

Be that as it may, the colonial administration in Botswana responded to the call for a plan, by preparing the first ten-year plan 1946 – 1956 for submission to the colonial office.<sup>23</sup> The main objective of the plan was in accord with the spirit of the C.D. and W Act of 1945, and was couched in general, normative and somewhat ambiguous terms. The plan envisaged to improve the country's economy through investment in the livestock industry, water development, increased production of maize for both local

<sup>19</sup> Ibid

<sup>20</sup> CMD 7613 G. H. Hall to the colonial governors 12 June 1945.

<sup>21</sup> For a conceptual definition of «development planning» see Albert Waterson (1969) pp. 20–21 and Arthur Hazlewood (ed) (1970) p.6

<sup>22</sup> Cmd 6713, Circular attached in G.H. Hall to Governors, 12 June 1945.

<sup>23</sup> Botswana national Archives (BNA) BNB 105 Bechuanaland Protectorate – Development Plan 1946–1956 (1946)



consumption and export, groundnuts, sunflower and cotton (mainly by white farmers), expanding primary school and health facilities, construction of bridges along most of the main roads, and eradication of tsetsefly or its control in the north-west part of the country.

The projects in the plan were to be financed mainly by grants from the C.D and W. fund, and locally generated resources. Unfortunately, those colonial ten-year plans were never implemented. In 1947, the British economy was hit by a serious recession which made it impossible for the imperial government to raise the money promised through the C.D and W Act of 1945. As a result, a major shift in policy took place. A new directive which was sent to the colonies emphasized that they should prepare medium term plans, lasting for five years. The emphasis in those plans was to be on increasing output of cash crops and mobilization of financial resources internally from which each colony or protectorate could finance most of its own development projects.<sup>24</sup> This new policy position was a serious blow to the potential economic development process in Botswana. The country had an extremely narrow tax-base, which was already over-taxed. This fact notwithstanding, the colonial administration prepared the first-medium-term plan covering the period 1949 – 1954.<sup>25</sup> The main objective of the plan was the same as the earlier one. In effect, the only difference between the two plans was that the medium term one had fewer projects on account of uncertainty about raising most of the money for project implementation. Therefore the main projects on developing the livestock industry, through water development and introduction of good quality bulls and disease controls found space in the new plan. On the arable side, increased output of maize, groundnuts, sunflower, sorghum and cotton were identified for encouragement and efforts were to be made to find markets for those crops.

Other projects included in the plan were once again bridges on the main trunk roads in order to improve communications. The control of tsetsefly in the north-west region of the country was scaled down and included in the plan. Improvement of educational and health facilities was also mentioned, but these were to be undertaken by local authorities. The central government would only increase the amount of funds to be credited to the tribal authorities.

The total cost estimates of implementing the capital projects in the plan was put at £5 million. The medium term plan, like the 1946 had some limitations. Firstly, the plan was somewhat vague in its objects and instruments variables. It would also appear that concern for revenue generation from the sale of both beef and maize as well as groundnuts and sunflower also had a role in the preparation of plan. Secondly, neither the 1946 nor the 1949 plan gave any consideration to the critical factor of local resource mobilization, i.e through increasing company taxes, individual taxes, provident funds and local non-inflationary borrowing. Thirdly, none of the two plans considered the potential of revenue form the common customs pool, that is, whether there was any possibility of renegotiating the terms of the 1910 SACU agreement with a view to making it more equitable, and thus raise more revenue for the BLS members.

As regards the implementation of the projects in the plan, the CDC came in and showed interest in both cattle and arable farming. The result was the demarcation of farms in the area west of Nata and allocation of arable farming land in the Pandamatenga area. The CDC farming activities also covered the Ghanzi area.

The local people were helped with the extension service to improve their arable activities, while the veterinary services department increased its vaccination campaigns against cattle diseases, such as foot and mouth, botulism, anthrax and others. The commercial farmers got assistance from the government to import better bulls from South Africa. The administration also continued with the surveying and drilling of boreholes in good pasture areas.<sup>26</sup> Those boreholes were sold or rented to big cattle owners.

The P.W.D was also kept busy during the plan period. Although, the roads were not tarred, the department did its best by putting up bridges across most rivers and streams. However, not everything was accomplished. The problems of both insufficient financial resources and lack of trained people delayed implementation of some the projects.

By the end of the plan period in 1954, the British government sent Sir Alexander Symon to the BLS states with a mandate to make a detailed survey of the development

<sup>24</sup> BNA, BNB 106. (1947), Lord Moyne to the Colonial Governors, 5 June.

<sup>25</sup> BNA, BNB 106. (1947), Bechuana Protectorate, Development Plan.

<sup>26</sup> Ibid



needs of the territories (Symon 1954). His finance report in respect of Botswana, recommended that the country should embark on another five-year plan covering the period 1955 – 1960. He also recommended that the country should be given a grant-in-aid in the amount of £1,050,000, another grant from C.D and W fund of £2,538,000 and an Exchequer loan in the amount of £414,500.<sup>27</sup> The Symon report on Botswana was accepted by the Secretary of State subject to the availability of the requisite funds. However, the Secretary of State requested the administration in Botswana to prepare a comprehensive medium – term plan of development within the framework of the Symon report. Such a plan was prepared and sent to the Secretary in December, 1955. The plan was approved in April, 1956, but the Secretary revised downwards the funds expected from the imperial government.

As for the projects in the plan, they were almost similar as those in the 1949 one. Without much financial assistance from Britain and given a limited local revenue base, nothing much could be done. However, increases in the funds made available to tribal treasuries enabled them to build more primary schools. Some chiefs actually taxed their people to build secondary schools. This was the case in the Ngwato reserve, Kwena reserve and Ngwaketse reserve. The administration, later took over the running of those schools.

Otherwise the real major activities were those of the C.D.C in its cattle and arable farming activities, as well as the export of beef to South Africa. Unfortunately both schemes floundered. The cattle project west of Nata failed because the pastures in the area had serious deficiencies in nutrients and thus the animals became more susceptible to disease such as botulism. There was also the problem of foot and mouth disease in the area. As a result, most of the animals which were taken there perished. The arable sector at Pamdamatenga also met the same fate. Although the soils were good, there were often problem of water logging as a result of the flatness of the area. In addition, there were also problems of pests which destroyed the crops. The area has been famous for either too many birds, rats, locusts, elephants and other pests which destroyed crops. Furthermore, the crops which were harvested did not find markets, as neighbouring countries were producing the same type of crops. As a result of

these problems, the CDC was forced to abandon the two project.<sup>28</sup> The only CDC projects which remained was the export of both livestock and beef to South Africa. Exports were however, affected in 1957 and 1958 by South African import restrictions as a result of the outbreak of foot and mouth diseases in Botswana.

Otherwise, the 1955 – 1960 plan was implemented, still with emphasis on expanding the cattle population through the development of water resources. The geological department was also encouraged to undertake more explorations of economic minerals. In effect the Symon report had pointed out that minerals offered possibly the only hope for generating resources for the country's development. Some small deposits of manganese and asbestos were found and were being worked at Kgakgwe near Kanye and in the Bamalete reserve. There was hope that some day something big would be discovered.

By the end of the plan period, the total cattle herd had increased from about one million to 1,300,000 in 1960. No major minerals had, however, been discovered, but prospection was continued. As pointed out, the CDC cattle and arable projects had failed. Through the initiation of the local authorities a few secondary schools were built. More bridges had been constructed, thus improving the communications system, however rudimentary. The number of primary schools had been increased, but these were only in the major villages. As a result enrolment also increased.

The third development plan, 1960 – 1964 became operational in the first half of 1960. It emphasized the importance devoting available funds to the extension, improvement and consolidation or completion of the major projects already at hand, rather than to embark on new projects involving additional manpower and further burdens on an over-taxed budget.<sup>29</sup> As a result of that concern, no new projects were introduced. The administration thus continued with the execution of uncompleted projects which were in the earlier plan. The plan also encouraged large mining companies to apply for prospecting rights in the country. Despite that encouragement, the plan did not express optimism about the possibility of large scale operations to result from prospecting as there were no indications of any rich mineral deposits in the country, with the exception of the large coal deposits near Palapye.

<sup>27</sup> Ibid

<sup>28</sup> BNA, BNB, 450 (1950) Bechuanaland protectorate, Development Plan 1950–64

<sup>29</sup> Ibid



However, those deposits could not be developed because of the absence of local markets.

The total amount required for implementing the plan during the period 1960 – 64 was estimated at £3 million. This amount was to be divided amongst the following projects; veterinary services and agricultural projects, electricity supply, geological surveys, water development, improvements of health and expansion of educational facilities. However, given limited resources, only a very minimalist development agenda was pursued. The plan was, however, implemented during the period when the country was under the grip of the longest drought cycles, 1960 – 1965. That drought led to the loss of almost a third of the total national cattle herd (Colclough and McCarthy 1980, Tlou and Campbell 1988). In addition, many people had depended on famine relief as a result of that natural disaster. To this extent, the gains which were made during the implementation of earlier plans with respect to livestock and arable agriculture were to some extent reversed.

It is important to note that the result of past plan implementations were not easily visible, with the exception of borehole drilling and campaigns against cattle diseases. The issue here was that the administration always cut its suit in accordance with the material available. Thus, each sectoral department was expected to be extremely prudent in its project choice and design. This high degree of frugality was also impressed upon the tribal authorities. In the end, a minimalist programme was adopted for every plan period. The fundamental problem which influenced the level of small grants given to the country was the narrow interpretation of Britain's obligation to the territory. This was compounded further, by the lack of economic resources in the country. As a result, by the beginning of the mid 1960s, the country was still undeveloped in terms of social and economic infrastructure, and there were still no industries to provide employment for the local people.

Following the end of the plan period, the British government sent another economic survey mission, to come and assess the structure of the economy and recommend proposals for development. That economic survey mission was led by Chandler Morse and its report – the Overseas Development Economic Survey Mission (O.D.M) was published in 1965 (ODM 1965). After surveying the economy, the mission recommended the development of

both underground and surface water resources for both livestock and possible irrigation. It emphasized the importance of self sufficiency in the local production of food and increased output of cash crops, such as cotton. It also recommended the improvements of transport facilities and the expansion of the education system to increase the output of matriculants. The report also noted the discovery of mineral resources, such as copper and soda ash, and emphasized the creation of a favourable climate which would attract private investors into the country.<sup>30</sup> The report also recommended the establishment of a national development bank which would extend loans to farmers, cooperatives and other enterprises. It finally made cost estimates for the development of each sector over a five year period.

The said proposals of the O.D.M. report were discussed with the administration and later with the self government of Botswana. Some aspects of the report were accepted and formed the basic data for the preparation of Transitional Plan for Social and Economic Development, 1968 – 69. The need to continue with planning and effective project implementation was underscored in the plan's foreword thus;

Botswana's need for sound planning is great. Our country is beyond doubt one of the poorest nations in Africa. There are unique development problems ..... In these circumstances, direction and impetus must be given to the economy. Domestic resources must be husbanded and used to the greatest advantage in promoting economic growth..... Planning by itself is not enough ..... but implementation of the plan is even more important.

That statement laid the foundation and ethos of the independent government towards national development plans and their implementation in Botswana.

## **CONCLUSION**

This chapter has demonstrated how the protectorate status was declared in Botswana. The implications of that development on the powers of the Tswana chiefs was clearly highlighted. Further reforms of the institution of chieftainship have also been discussed. It has been argued that loss of power by the chiefs has never been reversed. The colonial administration saw itself as modernizing and adapting the institution to changed circumstances, while later, the post-colonial government continued to reform the institution of chieftainship for reasons of creating a plural democratic society with functional institutions.

<sup>30</sup> Ibid



It has been maintained that the colonial government was able to create its functional departments, such as the treasury, education, law office medical and public works, veterinary and agricultural department based in Mafikeng, South Africa, and the geological surveys department – (the only one based in Lobatse). It has also been shown that those departments were headed by directors who became the critical cabinet members of the Resident Commissioner. Although those departments did not expand much on account of limitation of resources, they nevertheless formed the base upon which later post-colonial ministries were established. For instance, the central treasury became the ministry of finance and development planning, while the departments of health, education, veterinary and agriculture also became ministries. The law office or attorney generals chambers became an important department in the president's office. The high court – remained the same, except that a permanent chief justice for Botswana was appointed. The tribal treasuries became the core of today's district councils and a new ministry to coordinate the developments of the rural areas that the local government and lands was formed. To this extent, the colonial administrative structures were not abandoned at independence. Instead, they were adapted and developed to suit the new situation. The whole process of institutional adaptation and development was indeed Burkean in approach. The result was a new administrative structure, which was already familiar with its mandate but had to execute its expanded responsibilities under new management.

It has also been maintained that as a result of a narrow interpretation of the concept «protectorate» as well as the idea that the BLS were to be handed over to the RSA at least until 1948, the colonial administration and indeed the imperial government did not consider developing the territory as an important part of their mandate. As a result, the early years of protection were a period of absolute neglect of the country as far as economic and social development were concerned. The administration began to engage itself in limited economic activities from the 1930s. This was due mainly to the outbreak of rinderpest cattle disease which threatened to wipe out the national cattle herd- then the only important economic resource. In addition, the concern with livestock led the government to undertake water development for both domestic and livestock. These activities became the most important areas of public expenditures throughout the protectorate period. These items have also featured as important projects in post-war colonial development plans.

Arguments have also been advanced to the effect that development planning in Botswana was a post-war initiative. The context of colonial development planning has also been provided. Emphasis has been placed on the insufficiency of financial resources and lack of interest in developing the country as critical limiting factors to the undertaking of major infrastructure developments. As a result, colonial plans have tended to be composed of small projects which could be implemented with available resources. This approach, which itself became the genesis of Botswana's economic pragmatism is a feature which has characterized the country's development. By the time of independence, the country had experimented with at least three development plans, covering a period of fifteen years, indeed an experience which could not be thrown away. The tradition of development planning has therefore been maintained and developed to the highest level of sophistication.

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### 3 The nature and evolution of Botswana's development planning system: achievements and challenges ahead

*Dr. Gloria Somolekae*

#### INTRODUCTION

A recurring theme throughout much of the literature on Botswana is that the country is a success story in Africa, and that compared to many countries on the continent, Botswana is exceptional in a number of respects.<sup>31</sup> Its economic achievements, political and social stability throughout its post-independence period, have all attracted a lot of attention and comment from scholars and policymakers alike.

These achievements have been attributed to a number of factors. They include; the quality of political leadership, prudent macro-economic management, luck, as demonstrated by the discovery of large diamond deposits, a small population, quality of public management, aid, and an efficient and relatively less politicised civil service.

As we noted in the introductory chapter, much of Botswana's performance is undoubtedly due to good fortune. However, it is also a fact that other countries in Africa and elsewhere have had good fortune, but still failed to make the most out of it as Botswana has done. What this certainly means is that the focus of discussion should shift towards the utilisation of the fortunes. In response to this «luck» argument, the Vice President Mr F. Mogae had this to say in 1996<sup>32</sup>

Indeed while it is recognised that Botswana's development record reflects good luck, to a substantial degree, we are also proud of the reputation that has been established for good management» on the part of government.....Although the national endowment has for the past 15 years or so been the main element in the good luck» factor, it nevertheless is recognised by those who are well acquainted with our country that we have striven with good effect to minimise adverse consequences of the mineral led syndrome.

It is this angle of good management on the part of government that this chapter pursues. The chapter focuses on the

role of planning in the management of Botswana's good fortunes since independence. It is a fact that «development planning is the foundation of Botswana's development management machinery and the basis of its aid management». (Maipose, Somolekae and Johnston 1997). However although the role of planning is recognised in Botswana's public management system, and in her success in particular, very few studies have focused on it specifically.<sup>33</sup> This chapter is therefore aimed at tracing the origins, evolution and nature of Botswana's planning system since independence. It provides a description of how this system has worked and examines its achievements and failures.

#### What is Planning?

Planning has been defined in widely divergent ways and its practice has differed from one country to another. Despite this diversity in definitions and practices, planning has «certain common attributes. These include looking ahead, making choices, and where possible, arranging that future actions for attaining objectives follow fixed paths or where this is impossible, arise from such action (Waterson 1969).

The practice of planning became quite prevalent in Africa in the 1950s and 1960s for a number of reasons. Many countries planned because they believed that it would enable them to obtain foreign aid (see Vernon 1966), or as Dubnick (1980) noted, planning was regarded as «an integral part of the exercise of sovereignty in most African States.

Due to experiences with planning in many parts of Africa, and in Eastern Europe in particular, planning has come to be associated with state control. A defining feature of these societies has been the extent to which the state, (and therefore, political criteria), has become central in the allocation of resources, while economic criteria have

<sup>31</sup> Botswana has also had her fair share of highly critical literature though. See for example Good (1992, 1994).

<sup>32</sup> Vice President Hon. F. Mogae's address to the international conference on Southern Africa and East Asia, in Gaborone in 1996.

<sup>33</sup> We are of course aware of the existed of some very informative studies such as for example, Maipose, Somolekae and Johnston (1996; 1997), Molutsi (1993) Gasper, (1987), Cownie (1983), Raphaeli et.al. (1984), Noppen (1988) just to name a few.



played a smaller role. This central role of the state has translated into the formulation economically irrational planning and the failure to take into account the limits of such state intervention. The current economic crisis in many parts of Africa, and the debt problem in particular are partly the result of this over-extension of the state in development.

This chapter argues that due to Botswana's situation at independence, i.e. the country being extremely poor, and having a weak database and limited economic instruments, the kind of planning adopted had to be practical, taking those constraints into account. The pattern of planning which developed in Botswana has taken the following forms:

«– There was an emphasis on fiscal discipline, the expansion of the revenue base and securing value for money.

– Planning was overwhelmingly concerned with the government budget.

– The ability to obtain aid was crucial and the development plan constructed around a «shopping list» of projects for which finance was sought.» (MFDP 1986 1–4).

Planning in the Botswana context has therefore not been done in order to impose controls over private sector production. Instead, the emphasis has been on «making the best possible use of scarce resources under government's control within a mixed economy.» (MFDP 1986 1–1) Although the private sector has not always been happy with government policies, Botswana has been clear that the private sector has a role in development, and it was not considered an enemy by the state.

### **CREATING AN INSTITUTIONAL MACHINERY FOR PLANNING**

It is evident from the introductory chapter that the challenges for the new government in terms of development were enormous. There was a lot to be done, but the resources required were not readily available. Resources here refer to both financial, manpower and institutional. The newly independent Botswana had inherited a modest administrative machinery which had not been geared to development. It's primary function had been maintenance of law and order. The reader ought to remember that the Bechuanaland Protectorate had been administered from Mafikeng in South Africa, hence among the challenges facing the new government was the creation of a capital in

Gaborone. The protectorate government had done a poor job in terms of manpower development. The shortage of skills at independence was acute, and so was the need for finance. The country was almost totally reliant on outside assistance, even for recurrent expenses.

The lack of an institutional machinery for development, coupled with the scarcity of skilled personnel and severe financial constraints obviously meant that prospects for development did not look good. Actually most of the present first generation Botswana Democratic Party (BDP) leadership often refer to this period, emphasising that when they agitated for independence, some people thought they were either mad or stupid. But this leadership did not share this pessimism. They had a strong conviction that they could change the country's situation for the better. And as it turned out, they did.

In line with this optimism and the desire to develop the country, it was decided early that planning was indispensable for Botswana to develop. The first president of Botswana Sir Seretse Khama summed up the situation as follows:

«Botswana's need for planning is great. Our country is beyond doubt one of the poorest in Africa. There are unique problems; the lack of independent access to the sea, the presence of powerful neighbours whose racial policies differ greatly from those of Botswana ..... my government is aware, too, that planning by itself is not enough .... that efficient implementation of the plan is even more important and pledges itself to this task ..... the transitional Plan sets out in much detail what has to be done (Republic of Botswana 1966).

Consistent with the above, an Economic Planning Unit (EPU) had been set up in the Ministry of Finance in 1965. It was manned by two economists. The first responsibility of this unit was to draw up the Transitional Plan.

One theme which the development administration literature always highlights is that following independence, there is a need to not only come up with new structures relevant for development, but that old ones have to be reoriented in order to assume their new responsibilities more effectively (see for example Mutahaba 1989). The kinds of clashes that soon engulfed the planning unit and the finance division confirm the need for such reorientation when power shifts from a non-developmentally focused regime to one which is pro-development. Despite the fact that there was now a new order, and that development was no longer an incidental matter for government, the then head of finance was not persuaded of the



need to plan. Having been a finance man in the old regime, his primary role had been to restrict capital expenditure, and to keep it at a bare minimum.

The EPU people on the other hand identified projects which they believed the new government would have to implement as and when the resources became available. It appears that the finance people on the other hand thought things should have been done the other way around- that money should be secured first before projects could be identified. Clear from this episode was a clash between the short-sighted financial view, and the planning long-term view which emphasised setting priorities even when there was no money available.

One might say that given Botswana's resource endowment then, and particularly her total reliance on external resources, the finance people had cause to reason the way they did. After all prospects for sustained development looked bleak as it was evident that no secure financial resources could be obtained, at least in the short term.

As it turned out, the development advocates won. Despite the lack of data for planning, the Transitional Plan was drawn. The commitment of the leadership and the specific role of authorities such as Sir Ketumile Masire gave the position of the planners even greater impetus. This plan laid down priorities for the new government. These were the creation of a sound institutional machinery for planning and implementation of projects, and generating enough revenue domestically for financing the government's recurrent budget.

The drawing up of this plan despite the lack of data and other necessary resources, amid the disagreements too, served a number of purposes. First, priorities of the new government were set quite early so that there would be no ambiguity as to what was required. It also provided a shopping list which could be made available to donors in soliciting for funds. As we shall note later in the next chapter on planning and aid management, this earlier approach formed the basis of a key principle in Botswana's aid management system which has since proven to be one of the biggest strengths of the country's aid management system. It is a well accepted fact today that one of the reasons why aid has been quite effective in Botswana is that it has always been clear what the priorities are. Botswana has been good at setting out these priorities and defending them before donors, even if it meant refusing aid.

The Transitional Plan showed the commitment of the new government towards planning. Someone who has followed Africa's experiences with planning closely, witnessing all the disappointments and failures may find it suspect that simply because a government drew up a plan, it should be taken as indicative of commitment. After all, in the 1960s it was fashionable to plan in the developing world and Africa in particular. Our response here would be that what distinguishes Botswana even then from the rest, was not only its approach to planning but the reasons why it was decided to plan, and the commitment by the leadership to ensure that plans were effectively implemented. As we argue later, this commitment was demonstrated by the country's policy of planning for aid resources through the same machinery that was used to plan for the country's own resources. As Carlsson, Somolekae and Van de Walle (1997) show, this is not typical in Africa. In addition, it was not unheard of in some parts of Africa for planning to be the exclusive preserve of planners, particularly foreign experts, while politicians would go about their normal business. In Botswana both the political leadership and planners worked together from the start to ensure that plans were formulated and implemented.

One of the problems that had worried the EPU when the Transitional plan was drawn up was the lack of statistical data for planning. This is precisely why shortly after the EPU was established, a Central Statistics Office was created. Its primary function was to generate data necessary for planning. It was therefore responsible to the EPU.

The Economic Committee of Cabinet was immediately created. Its role was to co-ordinate the formulation of economic policy. The Economic Committee of Cabinet is made up of permanent secretaries and their ministers. The whole idea is to ensure that politicians and experts keep each other informed about what policies need to be implemented, reviewed and why. It is in this forum where frequently both sides sit and deliberate on various policy matters. A key advantage of this arrangement is that the political leadership is kept in the picture as to what is going on. They learn in the process, the technocrats and other bureaucrats also learn something including lessons about what constraints and worries the political leadership might be having. As Steven Lewis Jr. (1993) has argued, «... a good portion of the economic wasteland that constitutes the African scene of the past decade can be accounted for by failures of economic analysts (foreign and domestic) to communicate effectively with political leaders» (p.16). As we note later, the significance and effective-



ness of a forum such as the Economic Committee of Cabinet in Botswana is evidenced by the extent to which politicians and technocrats have worked together to ensure that sound public management is a reality. Botswana realised very early that this partnership was indispensable for the development of the country.

In addition to setting up the Economic Committee of Cabinet, a National Economic Advisory Council was appointed in order to ensure that the non-governmental sector would not be left out of the process of planning.

Continued friction between the Finance and Planning Units threatened to undermine the process of planning. In order to ensure that this did not happen, the two were separated and each made into a ministry in 1967. They had to liaise, particularly when the Development Planning ministry was preparing the annual development estimates. Other responsibilities of this ministry included the negotiation of foreign grants and loans. The 1968 – 1973 Development Plan was prepared by this ministry.

It soon became evident that separating the two was not a good idea. Lack of co-ordination proved to be a problem. The lack of co-ordination can result in a number of problems for any system; including confusion, delays, duplication of effort, and a waste of scarce resources. The country was too poor in the 1960s, and could not afford any of these problems. The leadership knew this quite well, and moved to rectify the situation.

There are other problems usually associated with the creation of two separate institutions for finance and development. Many times, plans remain paper tigers and overspending becomes generally unavoidable as those who have to come up with projects have no responsibility for securing finances, and ensuring that they are efficiently utilised.

Botswana did not wait to learn from these possible experiences. Lucky enough for the system perhaps, the head of finance left and the two were merged to create the present Ministry of Finance and Development Planning in 1970.

The first plan to be drawn up by this structure covered the period 1970/71 to 1972/73. One similarity between this plan and those before it was its continued emphasis on the need for industrial development (particularly mining) as well as attraction of foreign aid.

During this plan period, the Shashe Complex Project was

implemented (see chapter 5). In addition, the concerted appeals made to the donor community for assistance were continued with the hope (as that plan indicated) that «presentation of a carefully prepared development plan will encourage aid agencies to provide finance for it. (NDP 3 1970 p148). As we note later, the enormous response from the donor community showed that these pleas were received with sympathy by donors. Dr. P. Molutsi (1993) has observed, that «The message was fairly simple. Botswana was a young poverty-stricken nation, but one whose political success could contribute to racial harmony and peaceful transformation in Southern Africa. By the mid-1970s, this democratic ideology and the country's geographical situation had begun to pay dividends. Nordic countries, the United States, Canada and West Germany responded with multi-faceted assistance. The assistance involved grants and low-interest loans, volunteers, and bilateral technical assistance personnel» (p.52).

Cownie (1983) has identified three qualitative differences between the Third National Development Plan and its predecessors. The first is that by now, «Central Statistics Office was beginning to publish macro-economic data which facilitated the construction of effective plans. Secondly, due to the re-negotiation of the Southern African Customs Union, Botswana anticipated that it would no longer need British grants-in-aid to balance its recurrent budget within the plan period. Thirdly, coverage of the planning and administrative structure was much more thorough.»

An even more important aspect of the third National Development Plan was that it took on the challenge of rural development with even more determination. President Khama noted that, «the greatest challenge ahead of us is undoubtedly that of rural development» (MFDP 1970, Foreword). By 1972, the Government had published a policy paper, «Rural Development in Botswana» which provided a strategy for developing the rural areas.

By the time NDP4 (1973/74 – 1975/76) was published, one could clearly notice a marked improvement in information and statistics provided in the plan. The plan objectives articulated the economic achievements and resource availability at the time. The National Development objectives articulated by this plan were stated as follows: (i) rapid economic growth; (ii) social justice; (iii) economic independence; and (iv) sustained development. Social justice and rapid economic growth were to be achieved through the development of mining while sustained development and economic independence were to



be achieved through investing mineral revenues in rural areas. The Government felt that it was in a position to do something about rural development at this stage. This culminated into programmes such as the Accelerated Rural Development Programme (ARDP) of 1973/74, TGLP, ALDEP and others. These programmes have been quite important despite the fact that generally rural development in Botswana has not been that successful.

The above National Development objectives have always provided direction in subsequent plans. The plan which covered the period 1976 – 1978/79 and subsequent ones shared a key feature of containing much more clearly established objectives, detail in facts and figures on the state of Botswana economy and society.

### **District Development Plans**

The year 1977 marked a turning point in Botswana's Planning System in that from this year, District Development Plans became part of the National Planning Process. In 1976, Sir Seretse Khama issued a mandate for what he called «planning with the people.» In the speech he gave when opening the District Development Conference, he stated: «We should not lose sight of the fact that the target of our efforts is the people» (1976 p3–4). Districts were called upon to prepare District Plans and to base these on consultation with the people. The link between consultation and planning was supposed to be maintained.

Before 1976, the country had only had limited experience with district planning, and consultation in particular. The country's experience with district planning can be traced to the years 1973 – 78, and the launching and implementation of the Accelerated Rural Development Program in 1973. The 1973 – 78 National Development Plan was the third National Plan to be prepared in Botswana. This plan, and the two before it, were prepared at the national level and districts were not at all involved in discussions leading to this plan. During the same period, there were very limited discussion (if any) between ministries about the different sectors and how they had to be developed. Following the preparation of the 1973/78 (i.e. NDP3), «the District councils and District Development Committees were required to prepare district development programmes: These were to form part of NDP III, and covered the main statutory responsibilities devolved to District Councils» (Noppen 1982 p34).

Whatever development programmes were prepared by District Councils were to depend on the monies allocated

to them. It is important also to note that «District Councils had no influence on the development programmes that other ministries proposed to implement in the districts. Neither the absolute amount allocated nor the distribution over the councils areas of responsibility was determined or influenced by the District Councils themselves» (Noppen 1982 p34).

It is obvious then, that local governments (district councils in particular), were restricted in addressing the needs of those living within their areas of jurisdiction. Despite these, district development plans were prepared during NDP 3 and formed part three of this plan.

It seems like the earlier experiences with district planning was not so encouraging. This is because NDP 4 was purely a National Plan. During this period (1976 – 1981) district planning process was dropped, and the MFDP at least circulated some key note papers to the districts for comments. It is doubtful whether any inputs from the districts actually enriched or informed the national planning exercise.

Despite these initial problems, Noppen (1982) argues that this period offered some important lessons. As he put it; «the District Development Plans prepared as part of NDP III provided both plan writing experience as well as recognition of the possibility that integrated development plans could also be made at the district level. The experience with the Accelerated Rural Development Programme showed that there was capacity at the district level to implement physical construction programmes and this earned the district councils the respect of both central government officials as well as people living in the districts» (p.37).

The first time a concerted effort was made to link planning at district level with consultation was during preparation of the 1977–82 District Development Plans. Some efforts were made to set up a system of «bottom-up-planning.» Unfortunately, this system has not worked out as envisaged partly due to the fact that the so called district and village institutions such as villages development committees, land boards, and others have been quite weak and ineffective. Despite these limitations, district development planning, (coordinated by the Ministry of local Government Lands and Housing) has continued. It is supposed to link together all the district level institutions. According to Gasper (1987), «The main claims made for this system are not so much as a machinery for participation from below district level, but more as a



system of coordination from district and sub-district level upwards» (pp.15–16).

National Development Plan 5 (1979–85) was the first plan in Botswana to be a six-year plan. It was not rolled over like previous plans. Since this plan, a system of mid-term review of the plan has been put in place. So, rather than rolling over plans, it was preferred that a review be made, and the necessary adjustments carried out.

By the time NDP6, 7 and 8 were adopted, the socio-economic and political landscape in Botswana had been significantly altered. NDP6 was ushered in around the time when Government was no longer expecting any new major revenue generating mineral developments. The economic outlook looked good although it was expected that «there would be a marked reduction in the growth rate of the GDP, to about 4.8 percent per annum.....» (NDP6 p. xiii). Government was aware that this could still be subject to fluctuations and market uncertainties.

NDP7 covered the years 1991–1997. These years were expected to be, and have in fact turned out to be, years of substantial change, regionally and internationally. At the regional level, South Africa has a black government which has been democratically elected. At the international level, USSR no longer exists and the countries which emerged from the collapse of the USSR are in transition towards market economies. The same transition process is well under way in Eastern Europe. There is hope in Southern Africa that a new dawn is on the horizon – a new dawn of democracy and much more accountable governments. These changes have been accompanied by even more changes in the aid scene. As we note later, aid is now on its way out of Botswana. Within Botswana, the opposition Botswana National Front won a third of the Parliament seats in 1994. A young but vibrant private press has emerged and civil society has been growing over time. These challenges are very important for the planning process, we return to this issue at the end of this chapter.

As the plan states, «the rapid growth of mineral revenues that has supported social and economic development in the past is not expected to be as strong during NDP7.» (p.xxxi). Greater diversification of the economy is recognised as essential if the achievements Botswana has made so far are to be sustained.

NDP8 has recently been passed by the Botswana Government. This plan covers the period 1997/98–2002/03. It focuses more on «sustainability of achievements made so far and stressed the role of natural resources in providing for present and future generations» (NDP8 p 29). A key challenge during NDP8 will be the changing local political scene, and the international trends towards globalisation. These invariably pose a significant challenge to the state and in particular, its planning process.

### **INSTITUTIONAL ASPECTS FOR PLANNING**

The primary responsibility for planning in Botswana rests with the Ministry of Finance and Development Planning. This does not mean that this ministry plans on behalf of the entire government. As the Planning Officer's Manual clearly states «Planning is far too important to be left to planning officers in the MFDP alone.» (p.1–5). The final authority for the plan rests with parliament, while cabinet is the authority which acts on behalf of government. The role of this ministry is best summarised as follows:

«.....although MFDP has part of the responsibility for co-ordinating the formulation and monitoring the implementation of development strategies, MFDP's authority derives from cabinet's and ultimately the National Assembly's adoption of agreed National Strategies.» (Planning Officer's Manual, 1986 p1- 4).

Each ministry has got a planning unit which co-ordinates planning within it. The unit is staffed by planning officer (s) which MFDP sends on secondment to the line ministries.

This does not mean that such a unit plans for all departments within the particular line ministry. The departmental heads within each line ministry are the ones responsible for identifying needs within that ministry and allocating whatever resources are available. The planning officer's manual states categorically that «Although planning officers specialise in planning, their job is not to dictate what a ministry does but to provide a service; they advise on economic policy matters and monitor implementation (including expenditure); their planning is done with ministries and departments and not for them. They also advise on the formulation of projects and programmes, assist with controlling development expenditure.» (p 1.13).

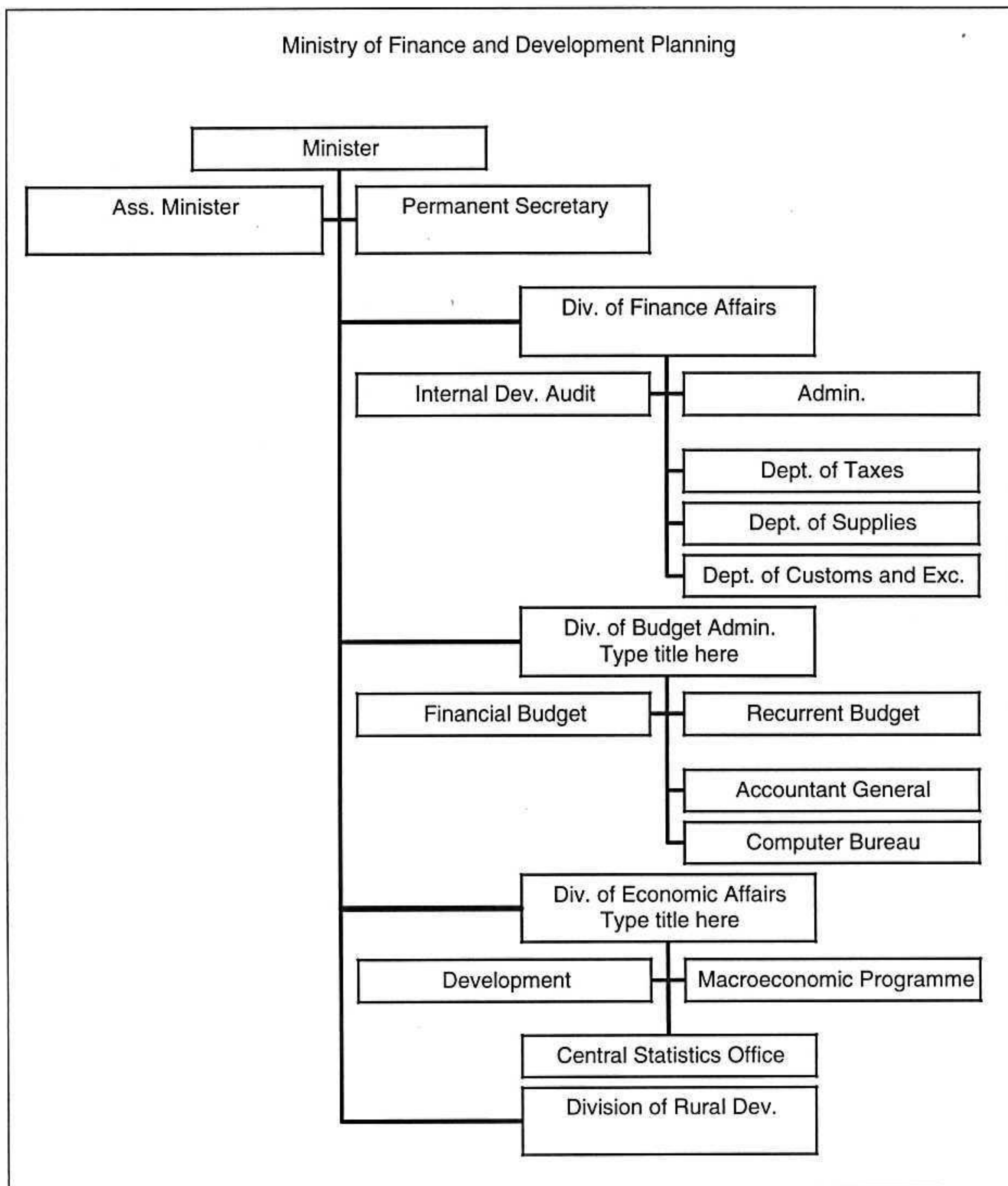
Figure 3.1 below provides an organisational chart of the MFDP. As the diagram shows, this ministry has four



divisions, namely; Budget Administration, Division of Economic Affairs, Financial Affairs, and the Rural Development Division.

Within the ministry, the Division with a direct responsibility for planning and aid co-ordination is the Division of Economic Affairs. Its responsibilities include the following:

Figure 3.1





- Identification, planning and appraisal of projects in consultation with relevant ministries;
- Identifying sources of finance and submitting projects to the source of finance identified;
- Negotiating financing agreements.

Responding to any donor queries on projects (if necessary) is another responsibility of the MFDP. The implementing ministry is consulted, which may then respond directly to the donor (with a copy to MFDP); Signing project financing agreements, receiving notification of approval of funds, issuing finance warrants to the implementing ministry to enable expenditure to begin; and Reviewing and forwarding to donors progress reports prepared by the implementing ministry» (Maipose, Somolekae & Johnston, 1996, p. 53).

It is very important to note that this ministry has considerable administrative and political weight. Apart from having the vice president of the country as its head, the heads of the four divisions mentioned above are of permanent secretary rank within the entire government structure. The permanent secretary in that ministry ranks above the rest of the permanent secretaries in other ministries. It is easy therefore to appreciate why the ministry has so much power. Given its various tasks, the power and authority that this ministry wields is necessary for effective execution of its tasks. In addition, the Ministry has managed (to some extent) to attract and retain some of the best brains in the country. They also conduct themselves in a highly professional manner. The quality and rigour of Botswana's National Development Plan is a reflection of the high standards of performance by these professionals.

### **BOTSWANA'S APPROACH TO PLANNING**

As we noted at the opening of this chapter, many countries, particularly in Africa, do plan. However, the major distinguishing features of their systems are why they plan in the first place, the extent of their commitment to the planning process and the outcomes of such plans. From the onset, the Botswana government was clear as to why it wanted to plan, and what it thought it could get from planning. Botswana's approach to planning is clearly outlined in NDP 6;

«Government is committed to careful planning to ensure that finance, manpower and national resources are used effectively and in accordance with national priorities. The progress that has been made since independence is the outcome of carefully planned govern-

ment actions. However, the government's commitment to planning is not intended to stifle private initiative but to create favourable conditions in which the private sector can contribute to national development.

The government's role in the economy is a broad one. It provides the basic economic infrastructure of the country and it has participated in all the major economic ventures that have occurred since independence. Government's own activities together with those of the parastatal corporations account for well over a quarter of Gross Domestic Product. The government takes most of the responsibility for educating and training the labour force that the economy requires and is itself the largest single employer. The government also sets the legal, fiscal and monetary framework within which the sectors operate, and is responsible for securing favourable international economic arrangements for domestic producers and consumers.

The government is conscious that the resources at its disposal are finite and that the country is vulnerable to external factors and events which it does not control. Plans therefore have to recognise legitimate non-government claims on resources and be flexible enough to adapt to changing circumstances. Planning must also be based on realistic assessment of Government's power to influence events; there would be no point in setting targets for variables that are not within government's control, or in imposing controls whose costs (in administrative resources or disruption to the economy) outweighed the benefits» (NDP 6 paragraph 2.2 – 3.4).

The above approach has continuously and consistently guided the practice of planning in Botswana over the years. Thus, still articulating the same ideas, NDP 7 states that effective planning must therefore perform the following functions;

«– ensure that the direction and composition of development is consistent with national objectives.  
– development at national, district and community levels; create favourable conditions for the expansion, diversification, and dispersion of productive activities in the private sector that promote national objectives;

– identify changes in development opportunities and constraints and to modify plans accordingly; and

bring to the attention of decision-makers in a timely fashion any need for policy changes.» (NDP 7; para. 4.4)

The same ideas have continued to guide the planning process into the current NDP8. (para. 4.3 – 4.10).

Two very important elements of this strategy have obviously been very important in guiding the process of plan-



ning in Botswana. First, government realised and accepted that it could not do everything, as resources were scarce and the government and the country poor. Actually there was realisation from the onset that there are limits to governmental intervention. Hence government has consistently avoided to do everything: Where possible, private sector initiatives have been encouraged and nurtured. We are not implying here that the private sector in Botswana is well developed nor that it has no problems with government. We have to acknowledge that unlike many governments in sub-Saharan Africa, the Botswana government has always thought that the private sector has a role, and even tried to create room for it in the development process. Second, it is also interesting that from that early stage, the Botswana government already realised and accepted the fact that formulating plans should never be allowed to be an end in itself. Government showed the determination and foresight to get plans implemented. It is no accident then that from that early stage, government made the decision to combine finance and development planning. These actions are also indicative of the fact that there was conviction from the very beginning to plan effectively.

#### **How the system is supposed to work**

Preparation of the development plan in Botswana commences in the following stages:

##### *1. Preparation of the Key Note Paper*

The Ministry of Finance and Development Planning sets the ball rolling by preparing a keynote paper. This paper serves two main purposes. First, it identifies the theme of the next development plan, and also provides a picture of the resource position.

##### *2. Sectoral Keynote Papers (SKIPs)*

Sectoral key note papers are then prepared by all the relevant line ministries. At this stage, local authorities also be busy consulting with their constituents on whatever projects they consider to be important for inclusion in the next plan. Apart from local authorities, other interested parties are supposed to be busy preparing their own inputs into the plan as local authorities and line ministries are busy doing the same.

##### *3. The National District Development Conference (NDDC)*

A national District Development Conference is then called to discuss all the sectoral papers and any other relevant inputs from other interested parties. The NDDC is supposed to bring together representatives of all local authorities, NGOs, the private sector and line ministries. The focus of the NDDC is the various KSIPs. Following this conference, the MFDP is expected to consolidate all resolutions and recommendations into what is called a Major Issues Paper which is then presented to the Economic Committee of cabinet for discussion. This committee is expected to make final resolutions on the issues from the NDDC. It is important to note here the role of the consultative machinery in Botswana's planning process. According to NDP 8:

«

The private sector, farmers, traders, industrialists, professional and other association, trade unions, employers academics and non-governmental organisation (NGOs) are all part of the consultation process. Bodies such as the Rural Development Council (DRC), the National Employment Manpower and Income Council (NEMIC) and the Regulations Review Committee (RRC) draw membership from various stockholders and provide an important input into the planning process» (p.4.12).

The machinery for consultation is indeed elaborate, how well it functions is a matter we shall come back to later.

##### *4. The Macro Economic Outline*

Following the above, a macro economic forecast outline is then prepared by the MFDP. The outline presents the economic environment for the next plan. These ceilings are meant to assist individual ministries in drafting their sectoral chapters. In addition, this same outline provides a preliminary version of the macro economic chapter for the next plan.

##### *5. Economic Committee of Cabinet*

The above process is followed by a meeting of the Economic Committee of Cabinet which makes a final ruling on how resources will be allocated between the different ministries and organisations. By the time the next budget sits, the draft plan would have been considered by cabinet before finally being submitted to parliament for approval.



### 6. Parliament Discusses and adopts the Plan

The final body to approve the plan is parliament. Plan approval takes place during the June/July sitting of parliament a year before the particular plan is due to start. Following this last stage, the MFDP is supposed to finally complete editing and layout and have the document ready for publication in August of the first year to which the plan applies.

### Flexible plans, budgets and project planning

Although the system of planning we just described may appear rigid, (particularly because of the notion that unless a project is in the plan, it cannot be implemented), there are mechanisms built into the system to allow for flexibility and adjustments. Only parliament has the authority to add new projects to the plan.

An important feature of Botswana's system is that budgeting and planning are not done in isolation from one another. The following principles of the system are worth noting:

- a) Unless they come under some project heading/description already provided for in the plan, development expenditures can not be authorised.
- b) Such expenditures must not exceed the expenditure ceiling provided for the plan period. These ceilings are not absolutely rigid. They can be adjusted, as and when necessary.
- c) Each year, development expenditure estimates are prepared. These must, as a matter of principle, look five years ahead.
- d) As part of the annual estimation process, projects can be updated and adjusted on the basis of the Annual Project review process. In addition parliament can through the annual supplementary estimates update projects as and when necessary.

As Gasper (1987) has concluded; «the plan constraints the annual development budget, but can be updated simultaneous with it. It also constraints the project approval process but does not pre-empt it, for that process can respond to new information. This system of ordered flexibility is a sophisticated interpretation of the possibilities of planning in an environment marked by extreme unpredictability» (p. 14).

### HOW EFFECTIVE HAS THE SYSTEM BEEN?

Given the importance of planning to Botswana's development efforts, a question about the effectiveness of Botswana's planning process can be accurately interpreted as an enquiry into whether or not Botswana managed to develop as a result of the planning model and policies delivered through it. On a general note, there is no doubt that there is a fair degree of consensus that the model has delivered much of the development envisaged when it was developed.

A careful examination of the literature shows that there are four main ways in which the effectiveness of Botswana's planning system can be, and in fact, has been evaluated. For analytical purposes, we categorised these approaches into four.

- a) Effectiveness in the delivery of infrastructure.
- b) Achievement of the government's four main planning objectives
- c) The quality of life criteria and
- d) The process or institutional effectiveness criteria.

### Effectiveness in the Delivery of Infrastructure.

A very important objective of the government in the earlier years of independence, and shortly after the minerals were discovered, was to invest mineral revenues in the development of infrastructure. There is ample evidence to show that indeed these infrastructural developments have occurred. (See for example Harvey and Lewis 1990, Lewis 1993, Colclough and McCathy 1980, Hope Sr. 1996, Hermans 1996 and Appendix 2). There is no doubt that it is because of the success of this model that a country which was one of the poorest in 1966 ranks third in Africa today in terms of many development indicators: (e.g. teacher pupil ratio, percentage of eligible school-age population receiving primary education, percentage of population with access to primary health care, and many more). Botswana managed in the three decades of its independence to invest the mineral wealth in infrastructure development. The planning model was central in identifying projects as well as ensuring that they are carried out.

### Achievement of the four planning objectives

The four planning objectives which have guided planning efforts in Botswana since independence are rapid economic growth, social justice, economic independence and sustained development.



Botswana's rapid and sustained rate of economic growth has been well acknowledged. Not many countries in Africa can boast of such rapid economic growth during most of their post-colonial existence. Equally true is the fact that economic independence has been achieved. While at independence the country relied on grants in aid for support, its economy today (though dominated by diamonds) is one of the strongest in Africa. Aid is on its way out of Botswana primarily because donors feel they have accomplished their mission. Government efforts to diversify the economy are continuing, and according to NDP8, there is basis for optimism. Because of the health of the economy, and the approach to planning adopted over a long period, there is no doubt that the achievements made so far are most likely going to be sustained.

The criticism there is of Botswana is related to the objective of social justice. Researchers such as Kenneth Good (1992, 1994), have been very critical about the social justice component of Botswana's development efforts as they have impacted on the Basarwa. Actually, Good's style of writing may leave one wondering at times as to whether the Botswana he is describing is the one with which many are familiar. Apart from the Basarwa issue, the general unequal distribution of income in Botswana has led to quite intense criticism of government policies. The extent of inequality indicates that the goal of social justice has remained elusive.

### **The quality of life criteria**

Development as a concept has always been controversial. One would have thought that after Dudley Seers (1969) provided the watershed definition which has become the universally agreed yardstick, the concept would be less and less controversial. Unfortunately, its meaning has continued to evolve and in the process the yardsticks of measurement of a country's development have also changed.

As a result of the above, Botswana's development efforts when evaluated according to the quality of life criteria become less and less satisfactory.

Dudley Seers (1969) recommended that questions about a country's inequality, poverty and employment be asked if we want to know whether that country has developed. Much of the critical literature on Botswana, though realising and acknowledging the progress made, is understandably critical of the poverty situation of groups such as the Basarwa and women. The level of unemployment

has also been a concern. For example, Fidzani (1997) notes that the phenomenal economic growth that Botswana has achieved since independence has co-existed with high inequalities that are coupled with claims of a significant proportion (45 percent) of the population subsisting below the poverty datum line.... (p 83). In the same note, the Botswana society symposium on Quality of Life in Botswana held in Gaborone in 1996 concluded that although Botswana had made significant efforts to reduce poverty over the past 30 years, nearly half of the population was still living in poverty. The alleviation, and ultimate eradication of poverty, therefore, must become a greater priority if all Botswana citizens are to enjoy the benefits of development, and a significant improvement in the quality of life. (Botswana Society 1996 p 403). This symposium conclusion captures the sentiment of many critiques of the country's development efforts.

As a result of government's concern about the general state of poverty in Botswana, the government's think tank (the Botswana Institute of Development Policy Analysis-BIDPA) conducted a comprehensive study on poverty in Botswana in 1996. Government is still studying the results of this study with a view to coming up with more effective measures of dealing with the problem.

As we noted above, the meaning of development has continued to evolve since Dudley Seer's ground breaking definition. Tsie (1997) recently summed up this new approach as follows: «.....development entails a process of sustained increase in the production of goods and services accompanied by the democratisation of social and political life; progressive reduction of poverty, unemployment, class and gender inequalities; and the provision of social services such as education, health housing and clean water by the state without undermining the capacity of society to meet the needs of future generations. (p 6). It is true then that Botswana's development performance has been and continues to be assessed on the basis of a dynamic criteria with several aspects going beyond the economic growth criteria. Gender activists and women's NGOs in particular have been unhappy about the gender inequalities, and political marginalisation of women (see the women's manifesto, 1994). The general feeling is that in a country that has made so much progress, the women folk should be better off than they are today, and that their leadership in positions of power is presently unsatisfactory.»

Notwithstanding the achievements alluded to above in terms of the infrastructural developments, there are seri-



ous questions about whether such infrastructure has resulted in an improvement in the quality of life of the people. As one cynically put it; «what is the advantage of having a clinic without a doctor, or any major equipment? Why should we be content that we have a school system that can absorb as many pupils as possible, only to throw them into the streets where they can not find jobs or anything to do?» these are major questions which demand comprehensive and lasting solutions. The question is whether the system in its present form is equipped to effectively address them.

### **The Process or Institutional Criteria**

To evaluate the effectiveness of Botswana's planning system on the basis of any of the above three criteria, is basically to assess the impact of the outputs of the planning system in terms of its policies and their implementation. Equally important though is the quality of processes leading to these outcomes, and the extent to which planning institutions and processes operate as planned. This is because «the success of national planning depends not only upon its ability to achieve the articulated goals more successfully than would unplanned activity; it also depends upon the ability to formulate these goals in such a way that they express the aspirations of the people through whose efforts the plan is carried out» (Griffin Enos 1970).

Officially, planning in Botswana is a fairly decentralised process starting from as low as the village level, feeding district plans up to the national planning system. In addition, the formal structures such as the Village Development Committees, Kgotlas and others are not the only ones which should enrich the planning outputs. Non-governmental organisations also have a role to play.

The critical question is, to what extent have these different structures intended or expected to provide inputs into the planning process been effective? Here again one finds quite critical literature. Researchers such as Noppen (1982) or Vengroff (1977) Molutsi and Holm (1991) for example, have cast doubt on the effectiveness of these local institutions. Noppen has specifically described the VDCs and other village institutions as weak and ineffective. Vengroff noted on the other hand that only half of VDCs were operational at all. The myth of interministerial committees in promoting consultation and co-ordination was also dismissed by the Sharma, et. al. (1988) team appointed to review how effective these structures were. In addition, Somolokae (1994) also found that the Regu-

lations Review Committee hardly met and was quite ineffective.

Critiques argue therefore that the system is really quite centralised and that many of these structures lack the capacity to aggregate and articulate the interests of their members into the system. An interesting development, which is also somewhat of a challenge is the proliferation of NGOs and community based organisations (CBOs) in the country. Even if government was willing (some say) how would it be possible to involve them into the planning process? The Botswana Council for Non-Governmental Organisations is still new and trying to find its feet within the NGO community. All these factors limit the effectiveness of the consultative process which should actually be enriching the planning process.

The exception here of course is BOCCIM and the women's NGOs. These two, particularly BOCCIM enjoy far greater influence in policy than many NGOs in this country. The reasons for this include the large resources it has commanded over the years, which mean that it has developed capacity over time to develop and articulate well researched and constructive policy papers on issues affecting the private sector. Many NGOs simply lack this capacity (see Molusi Somolekae and Holm 1996). As a result, planning in Botswana has been quite centralized. The National Planning System dominates the process. This is even more of a problem because the democratic system has not been effective in promoting dialogue between political representatives such as members of parliament, and the electorate.

### **WEAKNESS OF BOTSWANA'S PLANNING SYSTEM**

While there is no question about the usefulness of Botswana's planning system, particularly when judged by the impressive achievements the country has gained, there are also concerns that the model may be under stress. There are a few areas which have emerged as problematic.

(a) There are concerns about the capacity of the system to effectively implement the projects it has formulated. The mid-term review of NDP7 clearly brought this issue into even sharper focus.

(b) One former TA stated that we never were really successful in reigning over the expansion of the state sector / budget. This expansion must have delayed the emergence and growth of a strong private sector. Thus Hermans



(1996) has urged that the expectation that massive public investment in social and physical infrastructure would lead to broad based, citizen-driven, sustainable economic growth has not been fulfilled. Quite to the contrary; citizen-owned businesses are failing at an unprecedented rate; property speculators have burnt their fingers; loans are not being serviced; debts mount. (p 9)

(c) It has also been argued that the system never paid sufficient attention to quality of its outputs. No where is this more evident than in the quality of social services, particularly education and health. A careful reading of the 1993 Report of the National Commission on Education indicates the extent and magnitude of the problem.

(d) The practice of manpower planning had shortcomings. It pre-assigned manpower from university to sectors in government. Critiques argue that this practice starved the private sector of highly trained manpower and encouraged a culture and practice of automatic hiring by government. Some of my respondents argued that although they could not immediately provide the evidence, this practice must have somewhat led to the lowering of standards in the public sector. An unquestionable consequence of this practice is that even today when it is clear that government can no longer afford to continue with the policy, there are still expectations that it has to provide the employment to graduates.

(e) Botswana's use of technical assistance is generally acclaimed as having been quite effective. Given the fact that many of the key posts, particularly in such a key ministry such as MFDP remained in expatriate hands for many years, it is clear that government has never been in a rush to localise but to get the work done. This is said to be commendable and having been necessary. However, many of our Botswana respondents argued that in the process government may have gone overboard. Briefly put, it is felt that government did not do enough to push the localisation programme because it knew that it could either fall back on technical assistance, or purchase expatriates skills in the open international markets. Whether or not this perception is valid, is another matter.

(f) According to one leading local researcher, (Dr. P. Molutsi 1993), international influences in Botswana have not been entirely positive. One such influence has been that the state has become stronger and civil society weaker and underdeveloped. The thesis of a strong state and weak civil society has been used by Molutsi to explain the

peculiarity of Botswana's democracy and the implications of this phenomenon for its future development.

At face value an observer might dismiss this argument citing the massive achievements made as evidence that a strong state is necessary and effective in delivering development. However, pro democracy forces would also argue on the other hand that such unbalanced development leads to a concentration of power, in a polity and that where power is concentrated, its abuse becomes inevitable. The recent cases of corruption and mismanagement in the Botswana state would constitute evidence of this abuse.

(g) One observer has noted that of late, the system has allowed an erosion in the value of civil service salaries. This he noted, whenever allowed to happen, leads to the following situations;

- (i) Corruption sets in;
- (ii) good people leave the public sector to join other sectors and
- (iii) ethics and standards decline.

(h) It has been argued that the system is starting to show cracks in the sense that unlike before, there is more political interference creeping in than during the earlier years. This problem can be expected to intensify as the ruling party loses its dominance within parliament.

(i) The system has also been criticised for its focus on project planning as opposed to programme planning. Some people even wonder whether it will be possible for this system to adjust to new demands and plan for programmes as opposed to projects.

Despite the above shortcomings, there is consensus that the Botswana system has strengths which set it apart from most in the region, some of these strengths include the following:

- The integration of aid into the overall planning process.
- Maintenance of the link between planning and budgeting.
- Strong discipline and commitment to the plan such that until something is in the plan, it will not be approved.
- Clear and strong sector policies.

All these strengths have resulted in a development success story which many have showered with praise.



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## 4 Development Planning and Aid Management

*Dr. Gloria Somolekae*

### INTRODUCTION

One area where Botswana's performance has been increasingly commended is in the area of aid and its management. In fact part of Botswana's development success has been attributed to aid. Unlike in many sub-Saharan African countries where aid did not produce good results, Botswana managed to get a lot from aid. This chapter tries to explain why this has been possible, and how it was done. The chapter argues that the way Botswana has managed aid has been the key reason for her success with aid.

We acknowledge though, that nowhere can development aid be a prime development mover. Aid basically adds to, builds on, gives fuel to and tinkers with what is already there at any point in time. Almost four decades of international aid experience has taught the lesson that this may take many directions, some even backwards. The most relevant question about Botswana is why aid has been so effective when in so many African countries, the opposite has been the case?

This raises the following questions: in the case of Botswana, should we take it that the right mix of aid and other factors was present? Was aid to Botswana really necessary or was it just a redundant exercise? As has already been observed, was aid a «bit of condiment to an already tasty recipe in the sense that whatever Botswana has achieved so far would still have been achieved anyway, albeit at a much slower pace than has been the case? It has been suggested before that aid enabled Botswana to reach the level of development it has reached today much faster than would otherwise have been the case if there was no aid.<sup>34</sup> Is this true and what are the implications of this statement?

We argue in this chapter that what has distinguished Botswana from so many aid recipients is her management of aid, both financial and technical assistance. As others (e.g. Maipose, Somolekae and Johnson (1996), and Stephens

(1981)) have observed, integrating aid into the national planning system has been very effective for Botswana. We conclude the chapter with a section that tries to provide explanations as to why the country appears to have done many things differently from others in Africa, more especially designing and operating a system of planning that has been effective.

Botswana has successfully managed to integrate planning for aid into the national planning process. Put differently, the country has no separate planning system for aid, and for nationally funded projects. Aid has been fully and successfully integrated into the national planning process. In addition, Botswana has succeeded in demonstrating that aid can work, and that it can make a difference to a country's development. Analysts agree that it offers a refreshing contrast to many failures that have come to characterise the African scene since the mid 1960s up to the 1990s. Somolekae, Maipose and Johnson (1996) and Stevens (1981) provide detailed analysis of why the country has succeeded where so many have not. The central factor behind this success is noted to be Botswana's ability to integrate aid fully into the national planning system.

This has brought several advantages to Botswana. First because what is finally provided to donors for funding has been nationally identified priorities, the country has avoided the typical problems associated with lack of ownership of project by the recipient. Secondly, through the various procedures designed to ensure efficient and effective use of aid, Botswana has through accomplishing this objective, managed to establish a good reputation with donors. Although aid is currently on its way out of Botswana, the country has for many years been very popular with donors to the extent that at one point, Botswana received the highest per capita aid on the African continent. It is important therefore to note the following key features of Botswana's aid management system.

a) The management of aid, and dealing with donors is an integral part of the national planning process. As the then Director (Dev. Programme) of Economic Affairs noted concerning issues of budgeting and planning on one hand and procedures for dealing with donors on the other. «aid management and your dealings with donors can not be put

<sup>34</sup> The author's interview with Prof. Anthony Hopkin in 1996. He informed this writer that the late Peter Sephuma had stated this during an interview.



into a separate compartment from planning and management of your own resources» (Tumelo 1991 p 155).

b) No project will be accepted and implemented if it is not included in the National Development Plan as accepted by parliament. Although a new project can be included (but with supplementary estimates for the development budget), only parliament actually has the authority to add new projects to the plan. In the event that this occurs under the circumstances stated above, these amendments to the plan would not have to wait for the National Development Plan which may be years away. It is important here to underline the significance of this requirement, which is to maintain the discipline and ensure that no substantial departure from the national priorities as outlined in the main plan does take place.

c) No separate procedures and standards are applied to aid funded and nationally funded projects. All projects are subjected to the same standards of scrutiny. Unless the respective line ministry adheres to the already stipulated standards and guidelines for proper analysis and presentation, their project will not be adopted. This requirement is meant to ensure that all projects will be thoroughly analysed and scrutinised before government commits itself to taking them on board.

Planners are quick to explain why this is necessary. They state that aid is not necessarily free and that there may be costs to the recipient country not immediately obvious. In addition, it is clear that the Government of Botswana has always been conscious of the fact that donors finally leave one day and that they have to be directly and solely responsible for the projects. The rigorous analysis is meant to ensure that only the projects government wants are started.

d) Only one ministry (MFDP) has the responsibility to negotiate for and secure aid for the country. No other minister can unless acting on behalf of the MFDP sign a contract with a donor. This is meant to ensure that there is control and that unnecessary waste, duplication, and unstructured aid use is not allowed. Several mechanisms for ensuring aid co-ordination by this ministry have been put in place. First, although respective line ministries are free to come up with ideas on possible projects, all such projects have to pass through the scrutiny and evaluation process of the MFDP.

Secondly, only the MFDP can identify a donor for a specific project. The country has managed to develop an

effective system of matching projects with donors (see Stevens, 1981). It is in the MFDP where this ability within the Botswana Government can be found. As a senior official has put it;

«...it is the Ministry of Finance and Development Planning which has responsibility for identifying donors. Channelling projects to donors through us not only ensures that there is control over what aid Botswana is requesting; there is also practical benefit that we have the expertise, the knowledge of donor characteristics and preferences, that enables us to judge which donor is the most suitable one to approach for a particular project. There is no doubt that you must know the donors well if you are to maximise the benefits of aid.» (p.159).

Accumulation of this knowledge and experience for dealing with donors is only made possible by the career structure obtaining within the MFDP. The policy has always been to attract people and retain them. Hence in Botswana, planning officers have seen aid workers come and go but the local offers have been in post for many years, some even for more than two decades.

e) Unlike many countries in sub-Saharan Africa, Botswana has never been a Round Table Country. Botswana has always preferred to negotiate with donors individually. According to Maipose, Somolekae and Johnston (1996) «Senior officials of the Botswana Government have found it beneficial to negotiate with donors individually, taking advantage of different donor approaches, conditions and attitudes to giving aid, rather than facing them as a group with a unified front. In their view, the conventional strategy of meeting donors as a group has a political pay off to donors and circumvents recipients negotiation strength.

The second and larger point is that the government feels it does not need donor-led co-ordination since it already co-ordinates donor efforts as part of its overall planning. Such large donor meetings were seen as inefficient and unnecessary, producing few useful agreements (Maipose et. al. 1996).

The result of this approach to aid has been quite effective aid use accompanied by high regard and respect for the country by donors. Some Botswana officials have wondered whether the current donor exodus is meant to punish success. One can also argue on the other hand that such action shows that donors have a sense of accomplishment. They feel they have done their part and that it is time to move on.



### THE ROLE OF TECHNICAL ASSISTANCE

The reason for providing technical assistance as part of the aid package came out of the recognition that there was a skills gap which if not filled could seriously undermine development efforts.

This was the reality of the immediate post independence period which both donors and aid recipients were aware of. Technical assistance provided the natural way out of this problem, but it had to be a short-term remedy designed to assist while the country was developing its own manpower resources. Many donors attached technical assistance to their aid packages in order to ensure that projects were implemented. In the process, skills are supposed to be passed on to locals from experts, as projects are on-going.

Over three decades of utilising technical assistance, many countries still find themselves facing almost the same problems (if not worse) as they faced shortly following independence. Skills have not necessarily been transferred to recipient countries and local capacity building and creation of a sustainable institutional machinery remain an illusive goal. Research even suggests that technical assistants may have had a negative effect on institutional development because they tended to create or enlarge institutions that are not sustainable (Berg 1993). The attitude of host country personnel to expatriate personnel was generally unfavourable on many counts. Host country officials acknowledge the effectiveness of most technical assistants in producing outputs, but most often felt that there were far too many of them and that they

were imposed on the host country by the donors as a requirement for obtaining project assistance (Berg 1993). Quite often also, local counterparts were never identified, or simply not available in time for any learning to take place before the technical experts period of stay would end. Even worse, sometimes the skills transfer never happened because the expert counterpart relationship simply broke down. These problems, and others not covered here have led many to wonder as to how effective this form of assistance has been.

Botswana offers a sharp and refreshing contrast to the negative picture usually associated with technical assistance. Actually, it is generally acknowledged that use of technical assistance in Botswana has been quite effective (see for example Van de Walle and Johnson (1996) and World Bank (1984)). The question is: why is Botswana's use of technical assistance rated positively and what did she do differently from other countries?

#### Botswana's manpower situation in 1966

The opening section of this report outlined how much Botswana suffered neglect during British rule. One area in which this neglect was quite pronounced was in the area of manpower training and human resource development. Table 4.1 below sums up the manpower situation at independence by showing the numbers of Batswana and non-Batswana in the Botswana Civil Service at independence. The percentage of locals at both professional and executive positions was very low. In a country where there were 22 university graduates at independence, this is not surprising!

**Table 4.1 Batswana and Non-Batswana in the Civil Service in 1965 (Numbers of officers in post)**

Post	Batswana	Non-Batswana
Professional & Administrative	24	160
Technical & Executive	251	550
Agricultural Officers	0	15

Source: Harvey and Lewis (1990) p.21

It is important to note that due to the rapid developments that followed independence, particularly the discovery of mineral deposits, the number of non-citizen employees rose from 2800 in 1967/68 to 5,500 in 1985 (Granberg and Parkinson 1988). As we shall note later, expatriates and technical assistance personnel came to play a key role in Botswana's development.

Faced with the above facts at independence, the new leadership was quick to recognise the shortage of skilled local resources as a potentially serious constraint to development. It committed itself quite early to use expatriates and technical assistance personnel wherever it deemed necessary within the entire government machinery. Thus an approach to technical assistance use emerged with the following features:



- a) Identify TA in terms of development and manpower requirements for the economy as a whole or for specific sectors rather than on a project-by-project basis.
- b) Use of expatriates in line rather than in advisory positions and deploy them mainly in middle level management for professional and technical assignment.
- c) Push for early localisation of top management positions in order to ensure that key decision-making in economic management is transferred to Botswana citizens as soon as possible. For other positions, localisation was designed to proceed gradually and systematically, replacing expatriates only when locals have acquired the qualifications and experience necessary to do the job (World Bank 1984).

There are a number of reasons why the government decided on this strategy and upheld it to date. Because of the acute manpower shortage, government decided that it would be a waste of manpower to have two people (i.e. the TA and local) do the same job. Many key officials interviewed indicated that this would result in a waste of human resources, and was a luxury that the newly independent Botswana could not afford.

Perhaps one of the biggest strengths of this strategy is the fact that government has consistently refused to create local posts to fulfil implementation requirements for a particular project. Projects must be carried out by the available staff, if sufficient staff are unavailable, the project will not be approved (Maipose, Somolekae and Johnson 1966). This was made possible by the fact that technical assistance, like other forms of aid has been fully integrated into the national manpower planning system.

Like with other forms of aid, the procurement and co-ordination of Technical Assistance is the responsibility of the MFDP. Its day to day administration is the responsibility of the DPSM which is the government organ responsible for manpower planning and development. DPSM recruits expatriates and oversees the localisation of jobs within the public sector. Thus, the country's needs and priorities with regard to TA are assessed through the national planning and budgetary process. Manpower budgeting takes place as part and parcel of the National Development Planning exercise. Manpower ceilings for different ministries are set almost the same way in which expenditure ceilings for individual ministries are set. This process is also accompanied by projections of manpower growth rates for the various departments. In this way, the

system is able to identify skill gaps for the planning period. The result is that expatriates or technical assistance personnel needs are planned for in advance and efforts made to secure their services.

This system ensures that Botswana maintains control of what it needs and goes for that. The typical aid situation where recipients find themselves burdened with large numbers of people they did not request, is avoided. The authors discussions with some of the former TAs revealed that when a country plans in advance for its manpower needs, and allows TAs to fill in line positions as opposed to simply being advisors, a lot is gained by both recipients and TA. The TA does not have to sit there idle while months pass by because he has been imposed on the recipient. Like with financial aid Botswana has avoided a TA package which did not fall in line with its plans and needs. In addition, Botswana has rejected TA where it was thought not to serve its purposes.

This should not be misconstrued to mean that TA within Botswana has been without problems. Problems have arisen when donors ask for counterpart positions, or insist that aid funded experts act as «Advisors rather than occupy line positions» (Maipose, Somolekae and Johnson 1996). This is because the recruitment of citizens or counterparts have been a problem for Botswana and some donors felt that Botswana was not trying hard enough. But government «feared that an uncoordinated approach to filling counterpart positions can lead to the employment of unqualified people for the sake of meeting demand, undermine government priorities in manpower planning and lead to new development projects that outstrip the economy's capacity to sustain the recurrent costs generated (ibid p 1). As a result, the GOB has maintained that its manpower resources, like financial resources would be best utilised if fully integrated into its own planning system. It has stuck religiously to this principle to date and reaped a number of benefits.

#### **Use of TA and expatriates in the MFDP**

From our discussion of how planning is done in Botswana, it is obvious that the MFDP is the pillar of this system. Securing the right manpower with skills has always been a problem for this ministry and the country as a whole. The leadership decided very early in the development of the planning system that they would seek technical assistance from donors as part of the broader objective of creating the necessary capacity to plan. Government took a deliberate policy that effective planning as



opposed to localisation for the sake of localisation would be its goal. As a result, this ministry has been the slowest to localise.

What this means is that TA and use of expatriates has been relied upon by the government. Table 4.2 below provides the manpower situation in the ministry just over a decade after independence. As the table indicates, expatriates have been extensively used in the key divisions directly responsible for planning. Note that for the budget administration unit for example, there were only 4 locals as opposed to 16 expatriates in 1977.

Ten years later (in 1987/88), the situation had not been substantially altered. All key posts in the Budget Administration division i.e, Principal Finance Officers (3 posts), Finance Officers (7 posts), were all held by expatriates.

In the Division of Economic Affairs, the employment Co-ordinator was an expatriate, both posts of Principal Economists (20) and Senior Economists (2 posts) were all held by expatriates. Within the planning unit, the two principal economist, and all 10 senior economists were expatriates. The co-ordinator of the Rural Development Unit was also an expatriate. Within the audit department too the post of chief internal auditor, and the senior auditor were all expatriates.

**Table 4.2**

The manpower situation in MFDP 1977

Division/Department	Expatriates	Locals	Establishment
1. Division of Financial Affairs .....	3	6	10
2. Budget Administration Unit .....	16	3	23 <sup>1</sup>
3. Division of economic Affairs .....	11	10	21
4. Accountant generals Department .....	6	99 (92) <sup>2</sup>	110 (96) <sup>2</sup>
5. Department of Taxes .....	13	51	95
6. Department of Supplies .....	3	25	30
7. Central Statistics Office 3 .....	8	58	68

Notes:

<sup>1</sup> Discrepancies are a result of the fact that we have left out information on the number of vacancies for the division.

<sup>2</sup> Note that the first figure indicates posts at policy advisory level while the figure in brackets excludes the policy advisory level posts.

<sup>3</sup> Other departments such as customs and exercise and computer bureau have been omitted.

Source: Localization Report, 1977

The situation had improved slightly in 1993/94. Within the budget administration unit, the chief financial administrator and all finance officers posts (5) were held by expatriates. The department of economic affairs had 2 economists still on contract and one was fairly senior at the level of chief economist.

Slow progress had been made in the accountant general office's. His deputy was an expatriate, there were seven senior principal accountants and 4 principal accountants who were expatriates: Taxes had 2 expatriate principal inspectors, and four senior inspectors.

The latest 1996 figures suggest that finally, the localisation process has been almost completed. While the chief finance administrator and the four finance officers in the budget administration division were expatriates, the division of economic affairs is almost fully localised, with

only one expatriate who was a chief economist. Localisation has been much slower in the budget, audit and taxes divisions. The remaining few expatriates within MFDP remain in these departments. As we note in the concluding section, the slow pace of localisation has sometimes attracted criticisms from those outside this ministry, particularly in the opposition circles. Authorities have remained consistent though, insisting that posts will remain in expatriate hands for as long as suitable locals are still not found. The result of this policy have been positive as the country has managed to maintain a highly efficient, and professional institution whose outputs – i.e. National Development Plans have been quite impressive documents.

Division of economic affairs which is the part of the MFDP directly dealing with aid issues had more or less the same proportion of locals and expatriates. Consistent



with the government policy of localising the top posts faster and leaving middle level posts filled by expatriates, the post of director for economic affairs was localised in 1978. The post of Accountant General had been localised in 1977 but his deputy was an expatriate. The other 5 posts of senior principal accountant were held by expatriates. Only one was held by a local.

The reason for localising senior post first while leaving middle level jobs in expatriate hands was done to ensure that policy level posts was held by locals. The government valued the technical expertise and advice from expatriates and technical advisors, but always wanted to ensure that the final decisions; and those which had policy significance would be made by Batswana. One former TA informed the author that as an outsider he always knew throughout his service at the MFDP that he was there to render advice and do technical work, but that in the final analysis it was the Batswana themselves who made the decisions. This means that effectively, posts may have been filled by outsiders, but it did not automatically mean that they took all the key decisions.

#### **HOW DID THE INTEGRATED PLANNING SYSTEM EMERGE AND EVOLVE?**

An analyst, commenting on the emergence and evolution of Botswana's planning system observed recently that most, if not all countries have, at least in theory planning/management systems, which are not totally different from Botswana's. Some countries, like the Scandinavians, do regularly prepare economic plans linked in to budget and project cycles in an orderly process. On the African continent, however, that kind of situation is less common (Isaksen 1997). Rightly then, it is important to ask why Botswana is different from many African countries when it comes to public management. Why is it that something which other African countries tried but with modest or no successes seems to have worked in Botswana? This is the focus of this section.

A survey of the literature, and interviews with several people show that there is no single explanation for this situation. The following reasons, however, stand out;

#### **Historical Factors (Reality at Independence)**

Some observers believe that the situation in which Botswana found itself at independence left the country with no choice but to adopt the kind of public management strategy it did, and to ensure that it worked. As we noted

elsewhere in this report, the country was very poor at independence, and completely reliant on aid from Britain to balance its budget. At that time, it appeared as if prospects for sustained economic growth were remote. In a situation such as this one (many believe), Botswana had no choice but to put together a management strategy that would work to ensure the following;

1. that British aid was fully and adequately planned for, utilised, and accounted for;
2. to attract more aid.

Simply put, the country had to show something for the money received from Britain, otherwise there was the fear that the British would not give anything.

#### **The Quality of Political Leadership**

A factor that many believe accounts for Botswana's sound public management system is the quality of political leadership. Commentators on Botswana point to the existence of a first generation of political leaders who took over from the protectorate administration. These individuals, (Sir Seretse Khama included), are described as foresighted, pragmatic, and accountable. This political leadership shows a lot of foresight through a number of ways.

First, they realised from the onset, the fact that planning as a process requires skills which they themselves did not have, but were prepared to secure. The reader must recall that the number of university graduates was so negligible (some put it at 22 at independence), some say there were six university graduates at independence who were Botswana. What the leadership is rightly credited for is realising that they could not run the country with so few skilled people, and then making a policy decision to get these skills wherever they could be found.

Thus, three sources of skills have been relied upon by Botswana. First, government appealed to donors to provide technical assistance. Donors responded to this request generously to the extent that at one point 10 percent of Botswana's public officers were foreigners, and in some departments the figure was as high as 40 percent.

In addition, government appealed for skilled personnel from a number of organisations including international NGOs such as Danish Volunteer Service, Dutch Volunteer Service (SNV), Skills Share, United Nations Volunteer Service, etc. During the earlier days of Botswana's



independence, the teaching field absorbed most of these volunteers. They have since included many more fields such as land surveying, laboratory technicians, road technicians, etc.

The third route through which Botswana recruited the much needed personnel was through purchasing such skills through the international skills markets. Expatriates have been considered as a worthy investment by the Botswana authorities. It is this kind of openness and pragmatism which many find commendable. The authorities never pretended that they had options which in fact they did not. This is considered by some observers to indicate qualities of modesty and pragmatism.

A critical question is why the leadership felt so comfortable with getting skills from outside as and when they felt necessary. It is interesting to note here that the earlier leadership believed that work must get done and done effectively if the productivity of the entire country is to be promoted and sustained. Thus, Seretse Khama for example stated in no uncertain terms in his address of the Botswana Civil Service in 1967;

«It is common knowledge that some local civil servants are dissatisfied with the rate at which my government is localising the service in spite of the fact that we have, in my opinion carried out localisation faster than we had hoped. After all we had been quite unequivocal about the fact we would never sacrifice efficiency on the altar of localisation.»

Thus, despite all the need and pressures for localisation, the leadership demonstrated the resolve to implement a system designed to «proceed gradually and systematically, replacing expatriates only when locals have acquired the qualifications and experience necessary to do the job» (Raphael et. al. 1984).

As we noted above, the leadership insisted on a policy to acquire skills from wherever they could be found around the world, and (as stated in the section on technical assistance) deploy them in the most optimal manner available. Some of these skills had to come from Britain, America, etc. It should be remembered that the racial tensions in the 1960s were such that many African countries felt they did not need what could rightly be seen as another influx of foreigners, particularly whites. One of my respondents put it this way: «You see in Botswana, it is obvious that the leadership did not have a chip on the shoulder.» This lack of a chip on the shoulder is partly due to the fact that the settler community within Botswana was quite mini-

mal to arouse any form of bitterness from the indigenous people. Only pockets of this country such as Ghanzi and North East had this experience, but the rest of the country was without it. This is what also must have influenced Botswana's policy towards technical assistance already described. It is interesting to note that racial tensions and a violent struggle for independence are more likely to colour a people's perception of foreigners, particularly those belonging to a race which they believe was responsible for their racial segregation and exploitation.

It is one thing to acquire skills and another to put them to good use. A big problem with technical assistance in African is that it is hardly effectively utilised. In Botswana, this was avoided. A commendable thing about Botswana's style of public management was that politicians left the process of planning to planners. There was no attempt on the part of politicians to «interfere» in the day to day matters which are technically speaking, the domain of planners.

Thus, it has been possible for technical people to do their work without the bother of those above to interfere and twist things for political expediency. This is more evident from the fact that the political leadership in Botswana has shown the determination and discipline to stick to the agreed upon priorities. This appears to be not typical in Africa. As one respondent rightly put it, in Botswana, «the plan is law.» This should not be misconstrued to mean that once adopted nothing else can be added in the plan. Whatever can be later added will have to be put through a procedure of going through parliament again in order to incorporate that change. Many agree that this is rare in Africa.

The recent announcement by sir Ketumile Masire that he will retire early next year has further underlined that the country has been blessed with having leaders of good stature.

### **The Role of Sir Seretse Khama**

In the previous section, we have discussed the role of the first generation of leaders as a collective. We need to highlight the role of Seretse Khama himself as an individual. Systems are not built by individuals, but as one of my respondents stated, in small systems such as Botswana individuals matter. There are several things about Seretse which many people believe were crucial in shaping Botswana's system of governance. These are (i) his style of leadership (ii) his integrity and natural authority (iii) his



determination to build a truly multi-racial society. Let us look at each;

#### *Determination to Build a Truly Multi-Racial Democracy*

At the time when Botswana attained independence, it was surrounded by minority regimes in which racial discrimination was entrenched in laws and other institutions of the state. Racism and racial tensions in South Africa, Namibia, and the then Rhodesia were a reality which Seretse Khama had to confront, both in terms of economic and other resources (mind you Botswana did not even have an army then). He decided that his contribution will be in the form of simply setting an example to the rest of these racist regimes that it is possible to build a truly democratic state in which blacks and whites could co-exist. He was married to a white woman, and had experienced the pain of being in a marriage that would cause so much controversy simply because of the colour of their skins. He was prepared to demonstrate that this did not have to be.

This resulted in him being very determined to pursue this goal. Patrick Molutsi (1993) observes that «the choice of a multi-racial, multi-party democracy in the context of a racially troubled Southern Africa of the 1960s was viewed with considerable sympathy by the international community. Botswana's leaders took advantage of the geographical situation of their country to project theirs as a democratic experiment on the doorsteps of apartheid. The message was simple. Botswana was a young, poverty-stricken nation, but one whose political success could contribute to racial harmony and peaceful transformation in Southern Africa» (p 52). He goes further to observe that: «By the mid 1970s this democratic ideology and the country's geo-political situation had begun to pay dividends. Nordic countries, the United States, Canada, and West Germany responded with multifaceted assistance. (p 52). Such assistance included low-interest loans, volunteers and skilled manpower.

#### *The Quality of Seretse's Leadership*

Seretse was a pragmatic leader who believed that he has to be guided by realities of his situation and the objectives of building a prosperous country. This pragmatism was evident in a number of his actions;

- a) The tendency to accept that despite the existing racial tensions in the region, he needed skills even if they could be provided by whites. This goes to show that the man was practical.

- b) The country maintained a working relationship with South Africa, and traded with it. This decision was unpopular particularly with some more radical countries at the time. But he knew, and always emphasised that it would in fact be suicidal to cut links with South Africa. Thus he recognised the limits of his power.

While socialism and the socialist approach to development was the only approach which powerful leaders of the time such as Nyerere and Kaunda believed in and pursued, Seretse embarked on a capitalist path to development. This is striking particularly because he and his country were really in the minority here, and also that he was actually a good friend of Nyerere and Kaunda, and held them in high regard. Some of my respondents stated that to them, Seretse was an «enlightened conservative.» Some described him as having been economically literate. They claim that this is what differentiated him from leaders such as Nyerere and Kaunda. Irrespective of how he was described, it is clear that he had a unique quality of recognising the constraints his country faced, and the courage to remain different and unique in the region, despite what others would think. He must have been a strong person indeed.

It has also been alleged that fear of South Africa might have made him shy away from socialism. The argument here is that if Botswana had followed the socialist path, this would have an antagonised South Africa, and Seretse's regime would have been destabilised. Our conviction is that whether one calls this «fear» or what, this realisation that suicidal policies would disadvantage his nation is what we feel constitutes the biggest credit to the man.

#### *Seretse's National Authority and Integrity*

There is a school of thought that since the late Sir Seretse Khama was a chief by birth, many people still recognised him as such and respected him for that. Thus, it is alleged, his people respected him for that and were more willing to obey him and be guided by him.

This kind of reason may have some truth to it, but it does not help us understand why some chiefs never get their followers to obey their rules. What is clear is that Seretse had more than just the circumstance of accident of birth. We would therefore agree with those who claim that he was a very charismatic leader and that is where he derived most of his authority.



In addition, he was noted to be someone with a lot of integrity and did not condone corruption. This means that he himself was held in high regard by his followers. Therefore, it was very difficult for those below him to deviate from the path he set. As one of my respondents stated, «this leadership thing is contagious. If you have a leader who is not perceived as corrupt, then it is usually hard for those below him to be corrupt.» This means that Seretse had both the authority and power to put a sound system in place, and to ensure that it worked. He had tremendous integrity, and was seen as exemplary in behaviour. One may also add that he had a high level of education. Useful in itself, it also meant he was not scared of appointing well educated people under him, and could make good use of them.

### **The Role of the Bureaucracy**

The existence of a strong efficient and «neutral» civil service is a precondition for successful development. It should be remembered that a civil service has two primary tasks in development. The first is policy implementation. The second is advising the political leadership in matters that concern technical issues which normally would be outside the competence of the political leadership. Simply put, the civil service provides rational components into the policy making process. For the civil service to do this effectively, two conditions must exist.

First, it has to have the skills, the expertise and experience necessary for identifying and appraising the various policy alternatives. It must also have political bosses who are willing to take this advice, even if they don't follow it all the time, but they should be willing and prepared to consider it before coming up with whatever policy decisions. This means that as Aberbach, Putnam and Rockman (1981) have observed, both politicians and bureaucrats have a role to play into the policy process, each bringing something that they only have. For example, politicians bring legitimacy to the process while civil servants bring expertise and information (see also Somolekae 1993).

This means that for sound policies to be formulated, communication between these two groups should be effective. Unfortunately, in many parts of Africa, this communication has not existed for a long time, or could not be sustained.

It has also been noted that «politicians and economists are susceptible to a vast and dangerous misunderstanding; politicians are left to make fundamental choices without knowing their likely consequences, and economists are likely to give advice without knowing the constraints, potential payoffs, and options facing politicians. In order for this interaction and communication to take place effectively, a great many conditions need to be satisfied. At the most elementary level, political leaders must understand a few basic concepts; scarcity, choice, the likely existing alternatives . . .» (Lewis 1993 pp 17 – 18). Economists too should understand the constraints facing politicians and the interests of their constituent groups.

The available evidence shows that all the conditions we are describing here existed in Botswana. Politicians and economists have communicated effectively, and the civil service has acted in the best professional way possible. The politicians in Botswana have been content to leave policy-making at least on a day-to-day basis, to the bureaucracy (See Picard 1980). This means that the tendency to meddle in what appears to be administrative matters has not been common in Botswana. This is also how it has been possible for Botswana, to stick to the plan, and to utilise technical assistance effectively.

One might say that the conditions of Botswana were different. That politicians as client of economists had the luxury to listen because their constraints were different. That unlike some of the neighbouring countries, when independence came, there were no groups of agitated citizens pushing the political leadership for projects and programmes. Also that because of the windfall from minerals, and the fact that virtually every kilometre of tarred road, or a school addressed a real need, the system kept everyone content, and the tendency for politicians to be pushed by any agitated voters has been less. Simply put, the political climate in Botswana was different, and much more calm for many years following independence than Botswana politicians never felt they had to respond to the typical pressures that one would find politicians facing in situations where there was settler colonialism.

This would indeed be partly true but it would not address the real issue of whether it follows that politicians who adopted populist policies elsewhere in Africa, or rushed policy making and neglected advice met the needs of their constituents. Actually Africa is littered with examples of regimes which have shown lack of a willingness to address the needs of their people and to listen.



### **The Good Relationship between the President and his Vice**

There has been a good relationship between the ministers of Finance and Presidents in Botswana. This has been good for the Ministry of Finance as an institution. This was partly because Masire is an ex-minister of finance and was a close friend of Sir Seretse Khama when Sir Seretse Khama was president. The current Vice President F. Mogae has also enjoyed the same cordial relationship with the president. This kind of relationship should never be taken for granted because it is not typical.

### **CONCLUDING REMARKS**

There are a number of changes in the external environment of this system which have posed new challenges to it, and therefore naturally, which dictate that it adapts or risks collapse. These are (a) trends in donor support, (which has declined over the years), (b) the declining share of mineral revenues in the economy; (c) alteration of the political scene, and (d) the advent of civil society. These changes (which are all discussed below), dictate that the system adapts accordingly if it is to survive.

#### **Trends in Donor Support**

Aid is on its way out of Botswana. In fact while the country was almost totally dependent on aid at independence, today, aid finances less than 15% of the budget. Several bilateral missions are either closing, or will close at the end of 1998. USAID took the lead last year, (1996), and NORAD will close its office at the end of 1997 while SIDA will close at the end of 1998. The primary reason for this exodus is that Botswana does not need aid anymore, it has literally worked itself out of the possible recipient category, a factor which leads some to even argue that donors are punishing success. The biggest challenge for Botswana is to sustain the developments achieved through aid resources. Given the way Botswana successfully integrated aid into its national planning process, it is quite likely that the country will be successful in sustaining those projects. This will be a function of national resource capabilities and not aid availability. This is because in Botswana, as we noted earlier, a project is only taken aboard if it fits into government policy framework (see Maipose, Somolekae and Johnston 1996). If it does not, government has shown the willingness to leave it out, even if that was done at the risk of losing the possible aid promised. The policy (as we noted earlier) was maintained because of the realisation that no aid is free and the

conviction that once a project is taken on board, government has to be able to continue with it even after the donors have left. As the country approaches a new era of not only falling aid resources, but of aid drought, it seems poised to sustain already achieved developments.

#### **The Declining Share of Mineral Revenues**

Botswana's ability to do the above will be dependent on the situation with mineral revenues. Currently, mineral revenue constitutes a key component in the entire government revenue. If it declines too much (before the economy is sufficiently diversified to provide viable alternative sources of revenues), government capacity to sustain the achievements made so far will be put at risk. With the expansion of the Orapa mine, diamond revenue is expected to rise by 30 percent. This means that the government revenue situation still looks good.

#### **Alteration of The Political Scene**

The Botswana Democratic Party (BDP) has enjoyed political dominance since independence. This has meant that as a de facto one party in parliament, it has not received much challenge in terms of passing policies and sticking to them. Since 1994 however, the Botswana National Front has won 33 percent of all the seats in parliament, and made significant inroads even in constituencies which they lost. This has not only upset BDP politicians, it has also served to keep them on their toes, and to frighten them. Thus some now believe that the discipline and rationality that the system has so far displayed can not be assured in future. As their political survival becomes more and more uncertain or harder, politicians will concentrate more on their immediate political survival than doing the right things. A discussion with some of the planners shows that there are already signs of this happening. However, many argue though that the system is already in place, that a solid foundation (in terms of management) is already laid and that only marginal departure from the norm can be expected as traditions are hard to break. Only time will tell here.

#### **Growth of The Civil Society Sector**

NGO's are increasingly becoming important in Botswana's political scene. They are also demanding more voice, and becoming more aggressive in pushing their demands. The system must show or demonstrate readiness to accommodate them and work with them. The current situation is that there is no effective forum where they can



be consulted. As they develop more organisational capacity in particular, government must show readiness to accommodate them. This is one challenge the system must face.

There is no doubt that Botswana's development record has been impressive, and that both aid and planning have contributed to this success. However, one can also argue that the new development challenges of more jobs, poverty alleviation, redressing income imbalance will prove demanding. Whether or not the current model will effectively address these challenges remain to be seen.

## APPENDIX 1

A study of this nature had to be descriptive and detailed, but also analytical. The descriptive component focuses on describing how the planning system is structured, and how it works in practice. We also describe how the budgeting and planning systems interact, as well as how aid has been integrated into the planning system. The processes, norms and procedures associated with the planning system, are also discussed where necessary.

Due to the needs we just identified, it has been imperative that we adopt a purely qualitative approach to information gathering. The data has therefore been obtained from the following sources:

### a) *Published and Unpublished Sources*

The actual fieldwork was preceded by an extensive literature search, not only to identify gaps in information, but also to enable us to make an assessment of how the issues which are of paramount interest to this study (such as aid and planning) are treated. The other purpose was of course to identify gaps and to highlight further research needs.

### b) *Archival Research*

Past research, official memoranda, minutes and other important archival information was utilized in an attempt to understand as much as possible the chronology of events, and the facts surrounding them.

### c) *Interviews with Key Informants*

A number of individuals were interviewed. The first category of interviewees are the former planners or advisors

who actually had a hand in shaping the system. Some of these respondents were found locally, while others are resident and working overseas, in the United Kingdom and the United States of America. We had to follow them abroad. The current local planners were much easier to locate as the majority are based in Gaborone. The third category of respondents was the locals who have not worked directly in any official planning capacity, but who have either been associated with Government through consultancy work or academic research. Where possible, we held discussions with people who have never been directly associated with the planning system but who nevertheless could comment on its outputs.

### *Problems Of The Study*

An important problem associated with this study was a logistical one. Many former planners and advisors have proceeded to work in the development field but outside Botswana. Many are at the World Bank or IMF or other developmentally oriented organizations such as ODA in the UK. The reality of development work unfortunately is that people travel. Hence, some of the key informants we had hoped to interview could not be interviewed.

Secondly, when this study was first conceived, it was intended that a list of all former experts within the Botswana Government machinery would be compiled. Specifically, we had hoped to get numbers per ministry of all former technical advisors, expatriates and volunteers. This would have been very critical in helping us assess the extent to which technical assistance, and use of expatriates and volunteers was important in Botswana's public management system.

Unfortunately, it has been very difficult to locate such information. The chief institution responsible for manpower planning in government (DPSM), indicated that it would be hard to get hold of such information since one would have to dig into people's personal files. They could not even guarantee that if such an attempt was made, all the necessary information would be obtained. Fortunately, we managed to secure data on all the posts which have been filled by expatriates since independence. Even though it is not specific enough about who among such personnel was a technical advisor, or an expatriate recruited directly from the international manpower markets, it indeed provides some part of the answer to the question on the extent which the system has been reliant on non-Botswana manpower.



**APPENDIX 2:****Summary of Botswana's Achievements as Outlined in Quil Herman's Address to 1995 BOCCIM Annual General Meeting**

He wrote:

«The magnitude of Botswana's accomplishment during this period should not be underrated. In 1966, Botswana was one of the least developed countries in the world. Today, Botswana ranks among the top three or four African countries (including South Africa) in terms of almost every index of development.

*In Education*

Botswana has one of the lowest pupil/teacher ratios in Africa; Education expenditures represent a higher percentage of GDP than in almost any other African country; More than 100 percent of the eligible school-age population receive primary education, a goal few other African countries have achieved; The percentage of children who complete primary school, at 87 percent, is the highest in Africa; Our secondary school enrolment ratio, at 46 percent, is also tops in Africa; And the tertiary education enrolment ratio, at 3 percent, is among the highest on the African continent (although, tragically, science graduates represent the lowest proportion of total university graduates among all the African countries surveyed); Botswana has achieved the highest level of adult literacy in Africa.

*In Health*

The percentage of the total population with access to primary health care is the highest in Africa; The ratio of people per doctor, at 6 960, is among the lowest; So is the ratio of people to qualified nurses; Maternal mortality is the second lowest in Africa; Only two African countries record a lower incidence of infant mortality than Botswana.

In terms of the UNDP's **human development index**, Botswana ranked no. 104 in the entire world in 1994. Among countries on the African continent, only South Africa and Tunisia are listed higher than Botswana.

With regard to **physical infrastructure and services**, Botswana's area relative to its population placed it at a comparative disadvantage. Nevertheless, we now have more kilometres of tarred road per capita than any other country, whereas in 1966 we had the fewest. Botswana

ranks high in Africa in terms of public access to post offices, police stations and telephone services. We are rapidly rising through the African ranks in terms of rural electrification and access to potable water supplies. Notwithstanding criticisms to the contrary, the outreach of the banking system is among the most extensive in Africa.

Needless to say, Botswana's **financial** performance has been outstanding. Although the level of household savings is nothing to brag about, Botswana's record on fiscal issues, its low debt-service ratio and its extraordinary high level of foreign exchange reserves places it in a class of its own among African countries. According to the most recent World Bank Atlas, Botswana's **gross national product** is about US\$2 800 per capita, the second highest on the African continent (after Gabon which has a smaller population and lots of oil). Per capita income was probably less than \$50 at the time of independence! If official statistics are to be believed, average per capita income in Botswana is now higher than in South Africa, Brazil, Chile, Thailand, Malaysia and Russia!

I could cite many other examples of what has been achieved. Admittedly, there have been some weak areas. Science training has been seriously neglected; Botswana scores badly on most environmental indices; it spends less on medical services, as a percentage of GDP, than many other poorer African countries; and more on defence and security services. Its performance on population issues is poor. At the present rate of growth, Botswana's population will double in less than 25 years. We have nothing to boast about in terms of income distribution either.

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## 5 Good fortune and development aid

*Hildegunn Kyvik Nordås*

### **INTRODUCTION**

This chapter analyses how Botswana's good fortune of having substantial mineral wealth under its soil has been managed, and how development assistance has contributed to policies and achievements. Our focus is on macroeconomic management, including fiscal, monetary and trade policy. In addition, we discuss industrial policy at some length, although this is usually not considered as part of the macroeconomic management setting. We include industrial policy for two reasons. First, Botswana's discretion as far as trade policy is concerned is highly restricted by the SACU agreement. Therefore, industrial policy measures to some extent substitute for trade policy measures. Second, the dismal growth and development performance of sub-Saharan Africa and Latin America can to a large extent be traced back to trade- and industrial policy, and it is therefore of particular interest to assess to what extent and how Botswana differed from the rest of sub-Saharan Africa on this account.

Botswana became financially independent from development aid after 6 years, so the study concentrates on the impact of technical assistance. This has taken two forms in Botswana. First, there are external consultants funded by donors and commissioned jointly by the donor and the Botswana Government to do specific studies and on the basis of the findings come up with policy recommendations. Second, there are donor-funded expatriates working in line positions in the Botswana civil service. Both forms of technical assistance can increasingly be considered as tied aid. The market for technical assistance was not well developed in the early days of independence, and it was probably not something that could be purchased off the shelf once the financial resources were available. However, markets for such services developed rapidly during the 1980s. The Botswana Government then had the financial means to employ the expatriates they needed from the open market, and occasionally did so. From the mid 1980s therefore, Botswana was independent from donors both as far as financial flows and technical assistance are concerned. Assessing macroeconomic management and performance from then onwards to date should therefore concentrate on the benefits and costs of maintaining the donor relationship and the extent to which Botswana pur-

sued its own objectives and utilised aid as a complement to its own resources in order to obtain its objectives.

The advice and impact of external consultants is relatively easy to follow as their recommendations can be traced in the National Development Plans (NDPs), budget speeches and practical policy. The second group, however, worked in line positions in the Botswana public service, and their loyalty was to their Botswana employers, not to their funders. This comes out very clearly in the interviews reported in chapters 3 and 4 of this study. The expatriates were an integrated part of the Botswana civil service, and it is not easy to identify their influence on policy choices. Their sheer number and senior positions do, however suggest that they must have had a substantial influence on the quality of the civil service and how well the decision makers were briefed.

Turning to the management of good fortunes of mineral wealth, several strategies are open to the government. The most prudent and sustainable is to invest the mineral rent in productive assets as long as the return to such assets is at least as good as the world rate of interest which could be earned on financial assets. When this criterion is not fulfilled, additional mineral revenue should be invested in real or financial assets abroad. The practical implication of this criterion is, however, not as straight forward as it looks. Some investments, such as infrastructure and education, yield a reasonable return after a long time lag, and the rate at which future benefits are discounted becomes crucial.

A second strategy is to aim at «balanced» growth where mineral rents are invested in manufacturing industries which may not fulfill the return criterion above, but which are presumed to be viable after a learning and catching up period. This strategy requires some kind of temporary protection, otherwise the manufacturing companies established would not be able to operate in a competitive environment. Such protection is referred to as infant industry protection, and most international trade agreements involving developing countries permit it. However, very few countries have been successful in pursuing an import substitution industrial policy. Heavily protected and/or subsidised manufacturing enterprises have rather



become a drain on government resources and undermined development efforts in both Latin America and Africa for the better part of their history since the 1970s.

A third possibility is to go on a spending spree, wasting the mineral wealth on white elephant projects, and even worse, letting them accumulate in the Swiss bank accounts of the ruling elite.

Botswana has chosen a combination of investing the mineral rent in financial assets abroad and promoting balanced growth, the latter through its industrial policy. Auty (1996) has estimated the proportion of the mineral rents absorbed in the economy to approximately 60 percent and the proportion invested in foreign, mainly financial assets to 40 percent. We argue that the balance between the two strategies presented above is largely restricted by the SACU agreement, and that donors would probably enthusiastically have supported a larger dose of the infant industry strategy in the absence of SACU.<sup>35</sup> Capital export is probably not compatible with being eligible for development aid and may have restricted the amount invested abroad. Finally, government savings appear to have occurred more by accident than as a result of conscious planning. Hence, both NDP 1985–91 and NDP 1991–97 planned for government deficits during most of the period.

This chapter focuses on the interaction between the Botswana Government, the major donors and other external factors in a dynamic development process. Our concern is the management of good fortune, and how technical assistance has contributed in the process. We therefore start by presenting the good fortune aspect of Botswana's development in section 2. Second, we scrutinise the content of technical assistance and the context in which it was given in section 3. We find it useful to hold the advice given by the donor agencies against the development theory and development thinking that prevailed at the time the advice was given. We show that Botswana by and large has received the same kind of advice as other developing countries with a prominent presence of devel-

opment agencies, and that the advice in the main followed the current development thinking.

### **GOOD FORTUNE**

Botswana is a mineral-rich, sparsely populated country. The most important mineral from an income and export earnings point of view is diamonds. It is mined by Debswana, a joint venture between a multinational company, De Beers, and the Botswana Government. De Beers originates in South Africa, has one of its main offices in Switzerland and its marketing organisation in London. The latter is the Central Selling Organisation (CSO), which has managed to establish and maintain to date a worldwide cartel on diamond sales.<sup>36</sup> This market structure has provided a relatively stable world market price and orderly conditions from the producer countries' point of view. Botswana has as a consequence never experienced a sharp and sustained decline in income and export revenue from its major export commodity. This stands in sharp contrast to the experience of a range of other developing countries dependent on one or a few primary commodities for export earnings. In neighboring Zambia, for example, a sharp fall in copper prices wrecked havoc with its development efforts, while poor management of the crisis probably prevented a recovery.

At independence, the perceived development prospect for Botswana was one of mineral-led growth based on copper and nickel. Indications of rich deposits were apparent before independence, and rapid, mineral-led development was the strategy laid out already in the Transitional Plan and elaborated in the NDPs for 1968–73, 1970–75 and 1973–78. However, none of these Plans took diamond mining into account.<sup>37</sup> Rapid growth was nevertheless forecast on the basis of planned investment in mining and the necessary infrastructure to extract and market the minerals, and of course from mining itself.

Establishing the mining economy was seen as a major investment which would kick-start the economy and ensure financial independence. The investment was presented as one mega-project entitled the Shashe Project, and involved investment in infrastructure including a power

<sup>35</sup> The same donors supported such a strategy elsewhere in Africa in the 1960s and 1970s, and a host of studies and consultant reports financed by donors urge the Government to pursue a more aggressive policy in terms of exploiting the infant industry clause in the SACU agreement. See chapter 6 for further discussion.

<sup>36</sup> Its market share is about 70 percent, but it is currently threatened by Russian and Canadian producers who may market their diamonds independently.

<sup>37</sup> The reason given was that the prospects for diamond mining were not easily predictable at that stage. The Kimberlite pipe was, however, discovered in 1967 and the Orapa diamond mine came on stream before copper-nickel mining. Jones (1977), somewhat speculatively, suggests that diamond mining was excluded in order not to prejudice Botswana's aid prospects.



station, water supply, telecommunications and the building of four townships from scratch on the part of the Government.<sup>38</sup> In addition, a coal mine was developed by Anglo American at Moropule in order to provide feedstock for the power plant and the smelter. The pre-investment feasibility survey was financed by UNDP and undertaken by a British consultancy firm (NDP 1970–75) while the World Bank was the implementing agency and provided a large share of total financing. Other lenders were the Canadian development agency and the United States aid agency. Canadian aid was tied to the purchase of equipment for the power plant from Canada. This turned out to be twice as expensive as if the equipment had been bought on the open market, but according to the Permanent Secretary, Ministry of Mineral Resources and Water Affairs, M. C. Tibone, the alternative would have been to purchase power from South Africa (Tibone 1983). This would have been much cheaper, but it was considered politically infeasible.<sup>39</sup> The copper-nickel mining investments were undertaken by Bamangwato Concessions Ltd. (BCL) and financed by the shareholders together with local and foreign banks through a relatively complex scheme. The value added chain from the mine to the market was also a rather intricate one (NDP 1973–78, Lewis 1981b).<sup>40</sup>

The Shashe Project was a large investment in any comparison, but compared to the total Botswana economy at the time, it was enormous. In the NDP 1968–73 the costs born by the Government were estimated at R 35.9 mill, while the mining company's investment was estimated at R 86.5 mill. In the NDP 1973–78 the estimate for the Government part of the project had risen to R 56.6 mill., while private investment estimates were in the range of R 120 mill. In comparison, gross domestic product (GDP) in 1973/74 when mining was supposed to have commenced, was R 192 mill.

The project turned out to be a substantial disappointment. Indeed, Lewis and Mokgethi (1983) characterise it as a financial disaster. It suffered from technical and financial difficulties from the start. To quote the permanent secretary, Mr. Tibone: «It seems strange that two major multinational mining houses, AAC and Amax in conjunction

with a third major equipment manufacturer, Outokumpu Oy (..) could build a smelter that did not work, but they did.» (Tibone 1983 p 243). The total costs turned out to be close to R 400 mill., including cumulative operating losses (Lewis 1981b), more than 200 percent of GDP in the final year of its implementation. This was due to cost overruns and technical problems on the part of the mining companies involved. BCL did not make sufficient profits from the project to service the loans and capital investments made by the company, let alone paying taxes and dividends. Financing had to be restructured first in 1978 (negotiations started in 1976) and later already in 1979 (Lewis 1981b, Tibone 1983). The latter restructuring was presented to the Government more or less as an ultimatum by the mining companies, as they did not expect to see any returns on their investment, and had to some extent lost interest in the project (Tibone 1983). Shareholders and the Government have had to bail the company out on several occasions later (NDP 1985–91, NDP 1991–97), so these were not just teething problems. Finally, the Shashe Project has been subsidised through loans obtained from donors on concessionary terms by the Government and on-lent to BCL (NDP 1991–97).

It is of course a highly speculative exercise to assess the counterfactual event that the Shashe Project really became the foundation on which the new economy was built, as envisaged by the first Development Plans. It is, however, clear that after the construction boom and the boost in SACU revenue on imports related to the Shashe Project, the economy would inevitably have experienced a major setback. Most of the losses were born by foreign companies (Lewis 1981b), but it can hardly be argued that the project did not affect the Botswana economy, or that it had a positive impact, as is often seen in the literature.<sup>41</sup> This completely disregards the opportunity cost of the vast resources employed in the project, and the fact that the largest capital investment during the first decade of independence did not produce any returns on the capital.<sup>42</sup> Opportunity costs include, apart from the financial resources, human resources and subsequent outlays related to the fact that the investments were irreversible. Thus,

<sup>38</sup> Originally the Shashe project also included a diamond mine and the Sua Pan soda ash project, but the diamond mine was eventually developed by De Beers with water supply from Okavango and the Sua Pan project was postponed.

<sup>39</sup> The cost of locally produced electricity was estimated to be 60 percent higher than power imported from South Africa at the time the decision was made (McCarthy 1983).

<sup>40</sup> BCL was owned 15 percent by the Botswana Government and 85 percent by Botswana RST, which in turn was owned 30 percent by Anglo American Corporation, 30 percent by AMAX and the rest held by the general public. It was originally formed as an exploration company by the RST and entered an agreement to explore the Ngwato tribal lands in 1959 (Tibone 1983).

<sup>41</sup> See for example Lewis (1981b), NDP 1985–91 and NDP 1991–97.

<sup>42</sup> It is recognised in the NDP 1985–91 that the Selebi Phikwe mine will probably never pay any dividend to its shareholders, including the Government.



Selebi Phikwe, the location of the Shashe Project, has continued to draw resources from Government through the Selebi-Phikwe Regional Development Project (SPRDP). This project is not directly linked to the first investment, but it is nevertheless motivated by the urge to maintain economic activity in this area in order to utilise the infrastructure and other investments already made there. The SPRDP performed below expectations and Cowan (1997) finds that it has been a net drain on the economy under realistic assumptions. The project was terminated in 1996.

A recovery to growth rates anywhere near those envisaged in the first Development Plans would have required a major shift in strategy after the Shashe Project had failed to deliver if Botswana had been less fortunate. A rethink was, however, not necessary because, meanwhile, De Beers invested in both infrastructure and mining at Orapa.<sup>43</sup> Diamond production came on stream at a modest output level in 1971, and then expanded rapidly and earned the country both export earnings, government revenue and income sufficient to sustain a double digit growth rate for nearly three decades. This is the luck element in Botswana's development. Success did, however, not follow automatically. A relatively beneficial new agreement with De Beers and sound management were additional conditions for the rapid growth which eventually materialised.

To summarise this section, the story of the Shashe Project sounds all too familiar in the context of development in sub-Saharan Africa and parts of Latin America. Huge projects in comparison with the total size of the economy were undertaken through joint efforts by donors, the government and multinationals. As the projects failed, they became a drain on the economy, and the governments' ability to handle a crisis and rethink the development strategy was put to test. In Botswana, in contrast, the ability to handle a crisis was not put to test at this stage. Instead the country had the good fortune to be given a second chance through the development of diamond mining. How this second chance was utilised is the subject of the rest of this chapter.

<sup>43</sup> Government invested in a road and a telephone line to Orapa, funded by loans from De Beers. Total initial investment for Orapa was estimated at R 23 mill. by De Beers and R 2,75 mill. on the part of the Government (NDP 1970–75).

### **GOOD ADVICE?**

Botswana was in many ways special regarding the relationship between donors and the local administration. There had been no liberation war, and the former colonial power had relatively good relations with the country during the transitional years.<sup>44</sup> There were also relatively few donors involved in Botswana, and those who were present seem to have complemented each other, both as far as preferences and expertise are concerned and as a result of Botswana's co-ordination of donor funded activities (Stevens 1981). Technical assistance was largely provided on a long term basis and donor-funded expatriates had a long-term relationship with the Botswana administration, at least during the first years after independence. In the case of British technical assistance, it was often a continuation of pre-independence relationships.

Botswana was a tiny economy in terms of population and gross domestic product (GDP). In fact, it was no larger than a large-scale company in the industrialised world at independence. The country's GDP was about R 28 mill., and only about 29 000 persons were in salaried employment. In addition, about 22 700 Botswana were employed in South African mines (NDP 1968–73). Finally, the economic activities were heavily concentrated in agriculture and mining, and three companies, Botswana Meat Commission (a parastatal), BCL and Debswana plus the Government itself, have contributed to the lion's share of GDP during the entire economic history of Botswana to date.

Successful planning depends crucially on timely and sufficient information. Given Botswana's small size and relatively transparent industrial structure, its economy satisfied this information criterion, even as income rose to a middle income level. The Botswana economy thus lent itself more easily to planning than most other economies.

Turning from the context in which advice was given to the content of the advice, it appears that the content has been very much in line with the development thinking prevalent at the time the advice was given. Stevens (1981) pointed out that donor agencies operating in Botswana had priorities which tended to follow the current fashion of development thinking. We will argue that this was indeed the case also during the period from 1980 to present.

<sup>44</sup> See chapter 2 in this study and Colclough (1983) for a discussion.



Development theory and the development strategies derived from it have undergone an evolution from the 1950s to present. During the early years it was widely believed that conventional economics did not apply to developing countries, which is why the new field of development economics emerged. The problems facing developing countries were perceived as of a structural nature and the economic agents were unlikely to respond to marginal changes in prices or other incentives. The state was therefore assigned an important role, not only as a facilitator and regulator, but through careful planning and direct intervention and participation in commercial activities. Over time, the perception has changed and development economics has converged towards mainstream economics and is today seen more or less as an applied field of mainstream economics. As a consequence of this, the market has played an increasing role in development theory, while structural problems calling for state intervention have been downplayed. Anne Krueger (1997) describes this evolution as a learning process where both academics and policy makers have learnt from experience. We will show that this learning process is reflected in the advice received by the Botswana Government. Moreover, we will show that more specific issues high on the agenda in the general development debate featured prominently in consultancy reports prepared for the Botswana Government.

### **The Planning system**

Botswana's planning system is firmly established within the early tradition of development thinking. The need for planning is stated in the development strategy chapter in all the NDPs to present.<sup>45</sup> It is emphasised that since resources are very limited, careful planning in order to utilise the small resources there were in an efficient way was imperative. As opposed to many other countries in Africa, planning in Botswana was largely confined to the public sector, while commercial activities were left to the private sector. Nevertheless, the government did impose an elaborate framework of regulations which was largely seen as an impediment to private sector growth and employment creation (Lipton 1978). Moreover, the government dominated the allocation of productive resources through its manpower planning and credit allocation, the latter through Botswana Development Corporation (BDC), the National Development Bank (NBD), the Rev-

enue Stabilising Fund (RSF) and the Public Debt Service Fund (PDSF). Scarcity of skilled manpower was, and still is seen as the major constraint to development in Botswana, and Government has until recently been in charge of allocating this scarce resource with a bias towards its own need for manpower (see chapter 7).

The Government had the strategy always to have a list of projects on the drawing board or in the pipeline to make sure that no development aid was foregone because of lack of properly planned projects, and to make sure that donor funded projects were consistent with Botswana's development strategy. However, this approach led to «overplanning» and every project that was considered desirable was included in the Plan (Midterm Review of NDP V). As a result only 57 percent of the target in the Transitional Plan was actually spent while the figure had improved to 74 percent in the NDP 1968–73 (NDP 1973–78). The linkage between projects, objectives and the sectoral and macro framework was consequently weaker than it appeared from the Plans (World Bank 1985). Furthermore, it was noted that the percentage of number of projects actually implemented was significantly smaller than the percentage of allocated resources spent, indicating a bias towards large-scale projects or a slippage in quality, or both.<sup>46</sup>

Sophisticated planning models and refined techniques for project evaluation were developed in the applied field of development economics. Both tools were vigorously adopted in Botswana. From the NDP 1979–85 onwards, a macroeconomic model was introduced as a planning tool. This facilitated a shift in emphasis from project management towards macroeconomic management. Furthermore, the model could demonstrate and quantify the consequences of too rapid expansion of public expenditure, a feature which facilitated economic discipline and a more long-term approach to planning. Nevertheless, the shift in emphasis was more prominent in the written chapters of the Development Plans than in the planning process. Project management has featured prominently in development planning to date, perhaps more so than what is desirable. Thus, NDP 1985–91 states with some resentment that a «project» is not necessarily the appropriate solution to every problem the public sector faces.

The persistent project approach to macroeconomic management can be explained by three factors. First, there

<sup>45</sup> The heading «The need to plan» was replaced by «The role of planning» in NDP 1991–97, downplaying planning somewhat in a plan that emphasises the role of the market.

<sup>46</sup> The World Bank (1975) was concerned with slippages.



was a lack of discretion over other macroeconomic policy instruments (see chapter 6). Second, a large share of the development budget was funded by donors who funded *projects*. Third, well-functioning routines and procedures for project management had been established, and there was no urgency for change. To illustrate the two last points, Government was very much concerned with building a reputation as a country which was able to make efficient use of aid flows. It was anticipated that future flows depended on a record of good performance (NDP 1968–73, NDP 1970–75, Budget Speech, various issues). The Government therefore went to great length in ensuring efficient implementation and even asked for technical assistance when local capacity was seen as insufficient (Jones 1977). The implementation rate became high, and donors became convinced that they could safely ignore some of their own procedures and conditions in order to streamline the planning and implementation process and further enhance efficiency. It was also the case that donors and projects were matched such that the particular procedures of a donor were consistent with the requirement of an efficient execution of the project (Stevens 1981).

The planning system was largely geared towards channeling donor funding and mineral rents to development projects and maintain a high rate of expenditure flow, provided that expenditure was reasonably productive. It served both the country and the donors well as long as there were no binding financial resource constraints. However, in a more mature mineral-rich economy, financial resources tend to become scarce and raising funds for government expenditure becomes an issue. Inevitably efficient resource allocation again takes the center stage in policy formation, but this time in a more complex economy. At this stage a changing role of government towards concentrating on providing a general regulatory framework without unnecessary distortions and a sound macroeconomic policy is often seen in market-oriented, middle-income countries. Within such a framework few, if any, other modern, middle- to high-income countries have 5–6 year plans beyond documents stating the long-term objectives of economic policy, and sketching scenarios for future developments. This reflects a rapidly changing global economy which requires greater flexibility, a changing role of the government, and the fact that incumbent governments usually have a shorter time horizon as they are more frequently voted out of office. This shift is about to take place in Botswana as well, calling for a reappraisal of the planning system.

### **The development theory backdrop**

#### *Economic policy*

In the 1950s and 1960s two-gap theories of growth laid the foundation for development thinking. It was stated that poverty persists because of an (exogenous) gap between savings and the level of desirable or potentially profitable investment in the economy. It may also be the case that even when there are sufficient savings to finance investment, local savings can not be put into productive use because of a shortage of foreign exchange which in turn is needed in order to purchase machinery and equipment. When this latter gap is binding, development aid could fill it and push the economy out of a depressed, low-income state into a sustained development path. This theory motivated the establishment of donor agencies in the 1950s and 1960s. Moreover, it still features prominently in the development literature and lies behind major donors' estimations of transfers needed in spite of convincing evidence that the two-gap models are internally inconsistent and in spite of empirical evidence refuting them (Barro and Sala-i-Martin 1995).

Statistical analysis shows a close correlation between investment in physical capital and economic growth. This has most of the time been interpreted as a causality relationship running from investment to growth. The policy implication of this, together with the two-gap theory, is obviously to promote investment, preferably in industrial and infrastructural projects. Development aid was therefore almost exclusively linked to investment projects in the first three decades after World War II. The government was the recipient of such funding, and therefore the major investor in the economy.

In Botswana, the planning system was tailor-made for project-based expenditure. It also very much reflected the two-gap/investment led growth theory. It was explicitly stated in the Transitional Plan and the first three NDPs that the first priority was rapid growth and national financial self-sufficiency. This could only be achieved through large-scale investment in infrastructure and mining. Until the Government was able to finance its recurrent expenditure from local resources, other expenditure that satisfied social or short-term political needs had to wait.

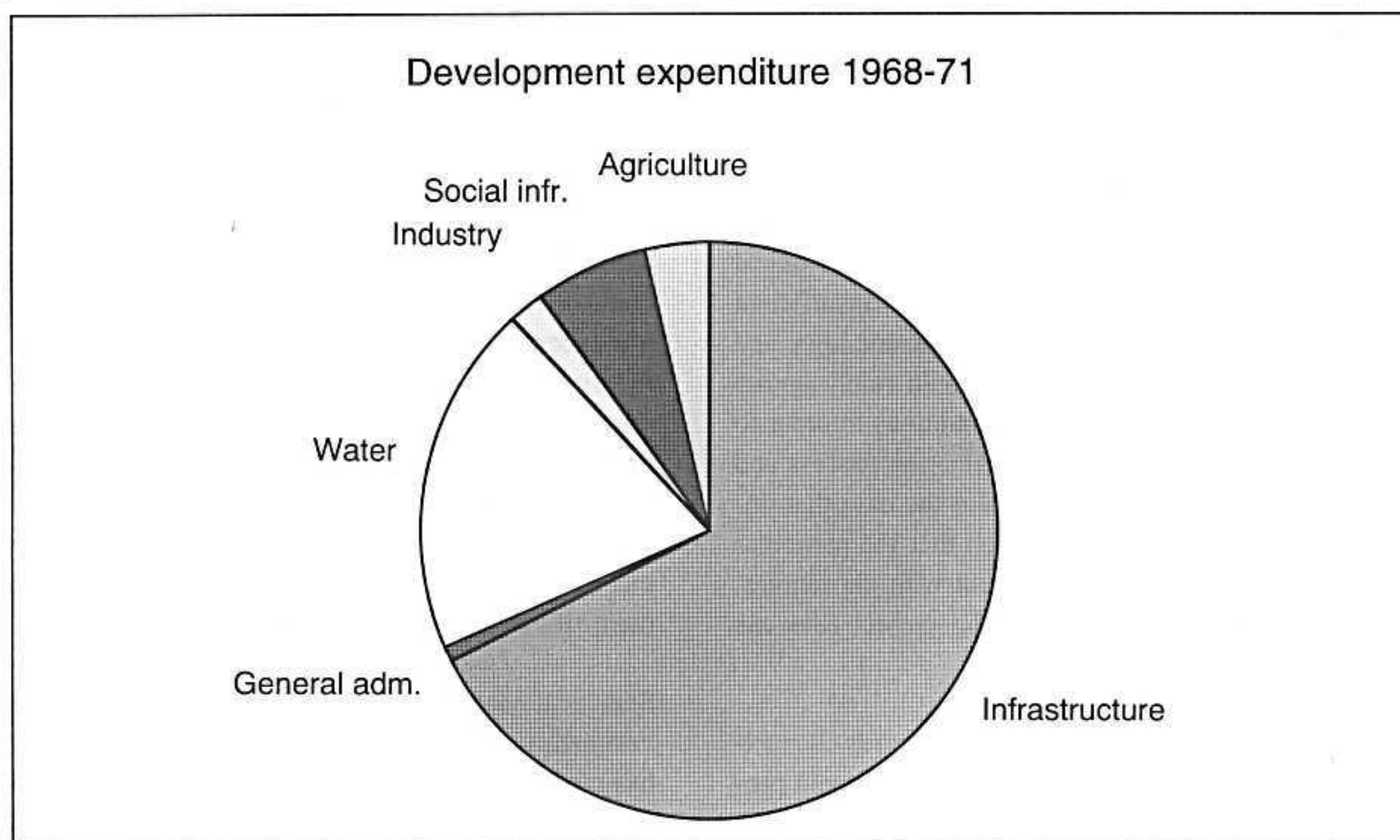
Figure 5.1 shows the allocation of planned development expenditure among sectors during the three first years of NDP 1968–73. More than two thirds of expenditure go to physical infrastructure, excluding water resources, which



add another 20 percentage points. Of this in turn, more than 85 percent was allocated to the Shashe Project (or 66 percent when spending on water resources is included both in the nominator and denominator). The first Plan

thus aimed at closing the savings-investment and the foreign exchange gap simultaneously in order to lift the economy out of the poverty trap.

Figure 5.1



Industrialisation was seen as the key to development in the 1960s and 1970s. The strategy for industrialisation envisaged by leading development economists and major development finance institutions was import substitution combined with infant industry protection. This was so widely accepted that developing countries even got automatic special treatment under the General Agreement on Trade and Tariffs (GATT).<sup>47</sup> The infant industry argument and advice to the effect of implementing such a strategy are found in the most central documents produced by technical assistance to the Botswana government. However, before 1969 Botswana was prevented from infant industry protection policies because of its SACU membership.

After SACU was renegotiated in 1969, a limited opportunity for infant industry protection was established.<sup>48</sup> Do-

nor-funded consultants and researchers consistently urged the government to pursue a more aggressive policy in order to take advantage of this opportunity (Lipton 1978, Lewis 1981a).<sup>49</sup> This view is also reflected in the Report of the Presidential Commission on Economic Opportunities (1982), hereafter referred to as the Presidential Commission 1982, albeit it cautioned against the danger of creating monopolies through industrial policy measures. This caution was highly valid since protection would apply to a *firm* rather than an *industry* because of Botswana's small market size. The caution appears to have carried a lot of weight and the infant industry clause has only been used twice in Botswana.<sup>50</sup>

<sup>47</sup> See Krueger (1997) for a recent and interesting discussion.

<sup>48</sup> The inclusion of infant industry protection was one of the main motivations for renegotiating the SACU agreement, besides getting a better deal as far as the revenue sharing scheme was concerned.

<sup>49</sup> The SACU agreement allowed for protection for a period of maximum 8 years. In addition industries could claim to be protected through the erection of SACU tariffs if the product in question could supply at least 60 percent of the SACU demand. In Botswana the Sua Pan soda ash project satisfied this criterion.

<sup>50</sup> In addition the Sua Pan soda ash project was granted protection within SACU. See Harvey (1981) for a case study of infant industry protection.



The Botswana Government seems to have had a somewhat ambiguous attitude to industrial policy. On the one hand it was the prime mover in negotiating the infant industry clause in the SACU agreement. On the other hand, it made very little use of this opportunity. In fact, the Government mainly confined itself to suggesting some industries suitable for import substitution, without actually protecting them. It has also seen access to the entire SACU market as an asset and often a necessary condition for attracting investment, given the small size of the local market. Protection might have frustrated the trading relations with SACU partners as well as other neighbouring countries. Since the latter attitude has been the prevalent one throughout Botswana's history as an independent country, and since the infant industry theory was the prevalent one in the late 1960s and 1970s, we somewhat speculatively suggest that external advice probably influenced the incorporating of the infant industry clause in the SACU agreement more than it affected the decision not to embark on an infant industry industrialisation path. It has finally been suggested that donors were motivated by their policy of isolating South Africa on this matter.

During the 1980s the infant industry theory was partly replaced by and partly extended by strategic trade theory. The idea was that gains from trade emanate from exploiting economies of scale and from externalities related to some key (strategic) industries which were singled out for government support. Strategic trade theory mostly influenced the trade- and industrial policy of developed and some newly industrialised countries, but a more active role for government in supporting higher value added industries was also advocated in developing countries, although not in sub-Saharan Africa to any significant extent. It did not gain much influence in donor advice to Botswana either. Rather, industrial policy was seen as a vehicle for creating jobs for unskilled workers, preferably in rural areas, and the degree of labour intensity rather than strategic importance was the suggested criterion for support. Nevertheless, as the number of new, viable manufacturing enterprises fell short of expectations, advisers urged the Government to take a more active role in identifying projects for promotion, to some extent reflecting the strategic trade theory or «picking winners» as it was popularly called. Also the Presidential Commission 1982 took

up the idea by suggesting that the extent of linkages to the rest of the economy should be considered when promoting an industry. It should, however, be noted that the Presidential Commission 1982 was by and large non-interventionist in its approach.

A more active role of the Government was somewhat half-heartedly introduced in the NDPs of the 1980s (NDP 1979–85, NDP 1985–91). The Government stated that it would take a more active role in identifying projects through the BDC, but it seems like it has been reluctant to do so. Instead, it has preferred more general measures with the objective of attracting foreign investment and providing a conducive investment climate for local entrepreneurs which it regards to be in short supply (NDP 1985–91, NDP 1991–97). This notwithstanding, there were policy measures provided on a case by case basis such as negotiable tax holidays for foreign investors and the large-scale industry scheme under the Financial Assistance Programme (FAP), discussed in chapter 6. They were not targeted towards a particular industry though, and do not fall under the strategic trade («picking winners») theory. The case by case approach to large-scale investment can probably to some extent be explained by the small size of the economy. There were few large-scale projects altogether, and quite often only one in a particular industry. In this situation a case by case approach was probably not too distortive.

Returning to the donors, their emphasis shifted from growth and industrialisation to market reforms and the social dimensions of development during the 1980s. This followed after the previous strategies had proved less than successful while a few South-East Asian economies embarked on a sustained and exceptionally rapid growth path pursuing an export-oriented and more market-based strategy.<sup>51</sup> As a result, the market gained increasing prominence in both development theory and policy making, and the convergence of development economics and general economics gained momentum. Planning was downplayed and resource allocation was left to the market to a greater extent. In the realm of trade policy, liberalisation of both trade and international capital flows was advocated.

The Bretton Woods institutions are seen as the prime exponents of this shift in emphasis. They do, however, reflect their member countries' views and policies, and there was in fact a growing consensus among donors and a broad range of developing countries alike on the merits of market-oriented reforms. Even the Scandinavian development agencies fell into line with the World Bank, pur-

<sup>51</sup> They did, however pick winners to some extent, but Westphal et. al (1981) for example have shown that the success of the newly industrialised countries were more in spite of than because of picking winners.



suing market reforms combined with increased emphasis on the social sectors. In other words, development thinking in the second half of the 1980s and the 1990s envisaged a more clear division of labour between the state and the market, where the former should roll back from commercial activities and intervention in the economy and concentrate resources on education, health and basic physical and economic infrastructure. In line with this, the World Bank urged the Government to increase its spending on education (World Bank 1985).

This change in emphasis coincided in time with a perceived shift from a situation of large budget surpluses to a situation with budget deficits in Botswana. Both NDP 1985–91 and NDP 1991–97 predicted such a shift. The crossover point has, however, yet to materialise. Nevertheless, the Government saw it as a realistic possibility that there would be a budget deficit. Alternatives to Government savings had to be mobilised and made available for private investors in this situation. Moreover, even if the surplus situation continued, a stronger emphasis on the market was crucially dependent on finding a way of channeling Government savings into viable and sustainable private investments. Thus, whatever the financial position of the Government, a key factor for continued growth and development in Botswana was the establishment of a more sophisticated financial sector. The prospects for a deficit in near future gave the matter a sense of urgency.

The Government sought the advice of the World Bank on the financial sector policy. A joint study by Bank of Botswana, the Ministry of Finance and Development Planning (MFDP) and the World Bank was presented in 1989, and laid the foundation for the financial sector policy outlined in NDP 1991–97. The strategy also involved changes in monetary policy, notably positive real interest rates and the termination of the practice that Government undermined commercial banks' lending with its own lending at below market rates. In spite of the policy statements in NDP 1991–97, and in spite of advice to the contrary, repeated in a new study commissioned by the MFDP and undertaken by the World Bank (1993), the Government continued to lend to parastatals at negative real interest rates until 1994.

Botswana has always led a market-oriented and relatively liberal economic policy. Reforms have been undertaken

at the country's own pace and when perceived as needed. As neighbouring countries have gone through a rapid, largely donor-driven liberalisation process, Botswana's independent and conservative attitude has left it in a position as a regional laggard as far as foreign exchange and capital controls are concerned. Thus, while pursuing its own development strategy and not listening too much to external advice if it did not fit in with this strategy gave Botswana the reputation as the market-friendly and liberal exception in sub-Saharan Africa in the past, the same strategy is about to render it as a laggard in the late 1990s.

#### *Social policy*

Social policy is outside the scope of this study, but it became a focal point of donor support during the 1980s. We will therefore briefly discuss the social dimension of macroeconomic management in the context of the evolution of development thinking: While leaving industrial and commercial development to the market, development thinking increasingly focused on the social dimensions of development. It was realised that growth did not necessarily trickle down to the poor and that additional measures were necessary in order to improve living conditions among the poor. Thus, poverty alleviation, usually by means of rural development strategies became central in the development policies of donors and recipients alike. A more holistic programme approach is more appropriate for social development, and programme aid replaced project aid to an increasing extent, particularly in the poorest developing countries as bilateral as well as multilateral donors shifted emphasis towards poverty alleviation.

Botswana was at the time not among the poorest countries and it was not eligible for programme aid from the multilateral donors. Instead, rural development programmes were designed in co-operation with bilateral donors, particularly the Scandinavian countries. The Scandinavians were considered suitable for such programmes because of their emphasis on poverty alleviation and because of their flexibility in terms of conditions attached to the grants and loans. This development should facilitate the shift in emphasis from project management to macroeconomic management as well, but as discussed above, there seems to be persistent inertia related to this transformation. However, financial aid constituted a small share of total revenue at the time and programme aid relatively small share of this in turn. Whether the programmes were effective and contributed to poverty alleviation is another issue not addressed here.<sup>52</sup>

<sup>52</sup> See BIDPA (1997) for a discussion.



*Advice and Botswana's special situation*

From the previous section we can conclude that Botswana has, by and large received the same kind of policy advice as most other developing countries in which donors from the «western» world played a role. However, the Botswana economy is very different from the average developing country. In particular, few, if any countries outside OPEC experienced such windfall gains from resource rents as did Botswana. At least with the benefit of hindsight one would expect that the advice received addressed the special problems facing the Botswana economy. Let us therefore assess some of the central issues discussed above in this perspective.

*Growth and investment*

Let us start with the investment-led growth issue. At present, state-of-the-art growth theory supported by empirical evidence (Abramovitz 1993, Maddison 1996) suggest that a well-functioning infrastructure is a precondition for economic development and sustained growth. Moreover, they found that during the early phase of development, the average return to capital is relatively low due to large-scale investments which are not fully utilised for a long period of time. We therefore conclude that the development strategy of prioritising infrastructure at independence was «right.» It was also supported by donors.

If the history of the presently developed countries is anything to go by, we can further argue that donors and leading development scholars probably lost patience with, and abandoned this strategy prematurely. Europe and the USA experienced declining average productivity of capital for decades during their industrialisation process (Maddison 1996), suggesting that a high or even reasonable return to infrastructure investment in the least developed countries can not be expected. Nevertheless, such investments appear to be the «launch pad» of a modern and growing economy, and will pay off in the very long run if the infrastructure can be maintained.<sup>53</sup>

<sup>53</sup> It is worth noticing that large-scale infrastructure investment was undertaken by private companies in the USA. They went bankrupt one after the other, particularly the railway companies. The losses were born by the creditors and investors while new capital came in and operations continued. In contrast, in developing countries the state borrowed money for such investments. It can not go bankrupt and is often bogged down in debt partly as a result of large-scale investment in infrastructure early in the development process.

McCarthy (1983) argued that the main reason why infrastructure had gained such prominence in Botswana's development strategy, particularly as far as road building is concerned, was that this was the only way of absorbing surplus financial resources, not that the status of the infrastructure was precarious. He argued that transport infrastructure was not as bad as commonly thought and hardly a barrier to development. If he is right, investment in infrastructure could have been more balanced with a larger share going to serviced land and telecommunications. Scarcity of such infrastructure is well documented and has continued to constitute a bottleneck in the development of the Botswana economy. With this reservation, the Botswana Government was probably right in largely ignoring advice to the effect of substantially reduce the share of development expenditure going to physical infrastructure.<sup>54</sup>

*The infant industry argument*

Let us now turn to the infant industry issue. It has not been particularly successful anywhere, but special caution should be taken in Botswana for at least three reasons. First, the market is very small. Infant industry protection would therefore apply to firms rather than industries, which would run the danger of creating monopolies and new distortions. Second, SACU was already a highly protected area, particularly for labour-intensive consumer goods industries. Competition from South Africa can therefore hardly be seen as fierce if compared to the world market (Nordås 1996a). Third, late industrialisation is a general feature of mineral-rich countries, and forcing it prematurely is unlikely to yield net gains (Chenery et al. 1986, Nordås 1996b). While the first consideration was taken into account in donor advice (World Bank 1975, Lewis 1981a), the two others were largely ignored. In fact, fierce competition from South Africa was repeatedly raised by donors as an argument in favour of protection. Again, we can conclude that Botswana was probably right to ignore the advice and not introduce infant industry protection.

*The Dutch disease*

Mineral-dependent countries are prone to macroeconomic problems referred to as the Dutch disease. Dutch disease

<sup>54</sup> Notice that infrastructure has been subject to a renaissance in development thinking in the 1990s. Notice also that donors agreed to fund the infrastructure projects although they suggested that a lesser share of expenditure should go to infrastructure.



models treat mineral or oil deposits as an external transfer or as a gift in terms of foreign exchange. This has inspired studies of development aid, which is truly an external transfer, applying the Dutch disease theoretical framework (Van Wijnbergen 1985). Botswana thus had at least two sources from which it could have contracted the disease. The symptoms of the disease are an appreciation of the exchange rate and consequently a change in relative prices in favour of non-tradable goods and services. The disease itself is a redistribution of domestic factors of production towards non-tradable sectors. When the mineral sector levels off or during busts in commodity markets, the pains from the Dutch disease are felt in terms of acute and severe internal and external imbalances.

There is no clear trend of real appreciation of the Pula, neither is there a clear trend of changes in relative prices. Nevertheless the disease itself is clearly seen in the economy: Unit labour cost is far above the productivity of labour when both input and output are measured in international prices at the going exchange rate (World Bank 1993). As a consequence, the industrial structure is dominated by mining and services. In particular, the size of the public sector could probably not have been sustained in the absence of mineral rents to finance it.

Botswana has thus escaped the most visible symptoms of the disease, but not the disease itself. To understand how this is possible, we need to look at Botswana's international relations. At the time when the mining sector was established in Botswana, the country was an integrated part of the RMA, which must have absorbed a large part of the initial shock. Botswana's economy is still to a large extent integrated with the other SACU economies. Therefore, relative prices are strongly influenced by relative prices in South Africa, which is also a mineral-dependent economy with a largely uncompetitive, albeit much more diversified manufacturing sector than Botswana.

Although we argue that Botswana has contracted the Dutch disease, it does not *suffer* from it, at least not yet. The reasons are, first, that the mineral sector together with the public sector have been and still are the engines of growth in the economy. Second, Botswana has not experienced any serious busts in the diamond market, yet. However, acute internal and external imbalances were exactly what happened during the brief and short-lived crisis in

the diamond market in 1981.<sup>55</sup> Thus, to the extent that the Dutch disease is really a problem, Botswana has got it.

Expatriate advisors and donors did raise the concern of a looming Dutch disease problem, and cautioned against too rapid real wage increases (World Bank 1975, Lewis, 1981a). Nevertheless, donors continued to pour financial resources into the economy long after domestic income had started to pile up as reserves, clearly adding to the potential Dutch disease problem. It is, however, a common view among donors that Botswana has avoided the Dutch disease (see for example Harvey 1992), which is probably why the problem has only rarely been an issue in donor policy analysis and advice. The same applies to the issue of a the transformation of mineral wealth into productive assets.

We should, however remember that Holland is considered the most successful country in the European Union today both in terms of growth and employment, indicating that the so-called Dutch disease has attracted much more attention than it deserves.<sup>56</sup> Particularly, as a global economy emerges, resources become more mobile between sectors, and a wide range of service-industries has become both tradable and traded. In fact, more than a quarter of total world trade is trade in services, and the share is increasing. This development has been made possible through technological progress and trade liberalisation. Thus, a large service sector, and a correspondingly small manufacturing sector is not necessarily a problem if the service sector is efficient. The key issue is therefore efficient resource allocation and improving productivity, not industrial structure per se.

The challenge for Botswana is to invest mineral wealth in high-yielding assets in accordance with the country's comparative advantage in order to sustain a relatively high income level. This requires a careful balancing by the Government who receives the mineral rent in the first instance. The abundance of financial resources may generate dependency on government hand-outs and «incentives» rather than setting the stage for a dynamic economy which creates sustainable job opportunities for the majority of the population. Government expenditure schemes therefore need to be carefully designed in order to avoid or minimise this problem.<sup>57</sup>

<sup>55</sup> Mhozya (1992) finds that the Dutch disease theory is the most appropriate theoretical framework for estimating an econometric model for Botswana.

<sup>56</sup> Van Wijnbergen (1984) who first raised the Dutch disease issue, shortly after wrote another paper raising the question whether the Dutch disease is a disease after all.

<sup>57</sup> See Wright (1997) for a further discussion of the dominant role of the government.



Another question related to the Dutch disease complex is whether labour-intensive industries should be promoted in a small, mineral-rich developing country. Evidence from other small countries with windfall mineral rents suggests that shortage of labour and idle capital in the form of financial assets is commonly observed. In Botswana both financial assets and labour were idle, while the relative endowments of capital and labour suggest that Botswana does not have a comparative advantage for labour-intensive industries. Furthermore, Harvey (1992) suggests that there were signs of a shortage of unskilled labour in the late 1980s. The small size of the Botswana labour-force and the relatively large share of it employed in well-paid government and mining jobs therefore point in the direction that labour-intensive industries never had much room to develop, particularly when labour-intensive manufacturing is subject to at least moderate scale economies.

In order to develop an industrial base capable of sustaining the income level attained from mineral-led growth, moderately capital-intensive and skill-intensive industries need to be established. Small, mineral-rich countries are thus likely to leapfrog the labour-intensive industrialisation stage (Auty 1995, Nordås 1996b). Crucial conditions for this to be possible in a market economy are investment in human capital and infrastructure. Except for two World Bank studies (1989, 1993), donors have not envisaged such a development path for Botswana. Instead, they have feared that a well-educated, unemployed and disgruntled new generation would cause social problems and political instability. In spite of their concerns, donors have financially supported both infrastructure and higher education in Botswana, but have at the same time advised the Government to reduce the share of expenditure on infrastructure and post-primary education.

### **Summary and conclusions**

Botswana was financially independent on donors from the mid 1970s and has never had a debt servicing problem. It could therefore take or ignore external advice as it saw in its best interest. In this chapter we have seen examples of Botswana ignoring advice, adapting advice to its own circumstances and also actively seeking advice before important decisions were made. What seems to be clear from the discussion, is that the Botswana Government by and large has followed a steady course during its entire history as an independent nation. New policy orientations and new priorities have been a result of having obtained previous objectives rather than a change in strat-

egy. Donor advice from outside has been more responsive to changes in development thinking and has changed over time. Donor-funded expatriates seem to have been in a position between the Government and the donors. They appear to have played an important role in assisting the Government in evaluating and adopting external advice and current development thinking to local conditions. It was, however, ultimately the Botswana Government who set the priorities and the strategies. When asked about his role and contribution to Botswana's macroeconomic performance, one long-standing expatriate responded; «well, I was in Zambia too!»

We find that Botswana has received very much the same advice as other sub-Saharan countries, without much regard to Botswana's unique features. Development aid addresses almost per definition economic and social *problems*. Donors have therefore focused on the typical sub-Saharan African problems in Botswana rather than the emerging market *opportunities* related to fast growing middle income countries. Furthermore, donor orientation on the part of the Botswana Government to some extent requires that the country does not present itself as too successful. Such a donor orientation is clearly seen in the NDPs. As late as in the NDP 1991–97, the Government goes to some length in explaining that the country is not as rich as GDP per capita suggests, because a large share of GDP is really not production but sales of assets. This is of course correct, but the motivation for the exercise appears to be to point out that Botswana should still be eligible for grants.

Botswana has had substantial surpluses on its current account on the balance of payment for a long period of time. In the smaller OPEC oil-exporting countries a similar situation has led to export of capital from time to time as the local economy could not absorb the oil rent while reserves were more than sufficient. Botswana has experienced much the same situation with more than sufficient reserves while the situation with a surplus on the current account continued. However, as a recipient of aid, it is difficult to be seen as an exporter of capital (see chapter 6) and the surpluses have continued to pile up as reserves, while optimal investment of the mineral wealth and the role of financial and technical aid in this context have been largely absent from policy analysis provided by donors. Thus, there are indications that because financial surpluses are very uncommon among aid recipients in combination with a relatively strong donor orientation in Botswana, one of the country's most important challenges, how to invest the mineral wealth optimally, have been



underresearched. Furthermore we argue that donor orientation beyond the early 1980s may have influenced the perception of Botswana as a poverty-stricken sub-Saharan African country rather than an emerging market. However, a shift towards the emerging market approach seems to be in the making in the NDP 8 and the new industrial policy paper, a shift that will probably lead to a stronger focus on Botswana's opportunities in the future.

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## 6 Macroeconomic management through fiscal, monetary and industrial policy

*Hildegunn Kyvik Nordås*

### **INTRODUCTION**

We turn to macroeconomic management in some more detail in this chapter, and start by a brief history showing how a situation with very little macroeconomic policy discretion at independence has changed towards a situation where Botswana commands all the usual macroeconomic policy measures, except trade policy. This development has taken place through building the institutional framework for macroeconomic management and negotiations with customs union partners, multinational companies and donors. An extensive literature already exists on some aspects of these issues. Where that is the case, our presentation is brief, and readers are referred to Harvey and Lewis (1990), which gives a comprehensive overview of the development of the Botswana economy.

We continue with an analysis of Botswana's industrial policy. As pointed out in chapter 5, the industrial policy measures were largely limited by SACU membership. SACU as a whole (South Africa, that is) has led an inward-looking industrial policy with quite heavily protected industries. However, within the SACU area there has been little scope for additional protection against competition from South Africa. South African efficiency levels, which in most cases are far below world market standards, have therefore been the benchmark towards which Botswana industries are measured on the regional market. This setting has on the one hand prevented Botswana from embarking on the inward-looking industrial policy which has turned out to be an obstacle to development in sub-Saharan Africa and Latin America in the past. But on the other hand, Botswana is part of a customs union which has pursued precisely this inward-looking policy, and has thus not had access to diversified and cheap intermediate inputs for its industrial development, neither has it felt the pressure from world market competition.

### **THE HISTORICAL DEVELOPMENT OF MACROECONOMIC MANAGEMENT**

The history of macroeconomic management has been one of gaining an increasing degree of discretion by adding new policy measures and administrative procedures under

the command of the Government. This drive for discretion manifested itself from the very start when the Ministry of Finance put aside the British development programme presented in *The Development of the Bechuanaland Economy* (ODM 1965) and developed its own Transitional Plan for Social and Economic Development in 1966. Furthermore, doing away with grants-in-aid as soon as possible was stated as an objective already in the Transitional Plan as well as in the first NDP. It should, however be noted that this was a common objective between Britain and Botswana, as Britain clearly stated that it would not provide grants-in-aid for long (Colclough and McCarthy 1980).

At independence about half of the recurrent budget for the Bechuanaland protectorate was financed by grants-in-aid from Britain (ODM 1965). During the period 1966–73, grants in aid still contributed a significant, but declining share of Government revenue, and in 1972/73 Botswana was financially self-sufficient as far as the recurrent budget was concerned. During this period the Botswana Government had very little room to maneuver as far as macroeconomic management was concerned. Monetary, credit and trade policy were determined by the RMA and SACU authorities which were totally dominated by South Africa. The Government did not even control the fiscal policy since revenue was largely determined externally. The largest source, development aid, was controlled by the donors, although Botswana could influence the flows through showing a determination to spend the resources to the benefit of development. The second largest source of revenue, customs revenue, was determined by the SACU tariff structure and revenue sharing arrangements. Botswana did play a decisive role in the renegotiations of the new SACU agreement which came into force in 1969, and improved the position of the smaller member states substantially. However, after this new and higher level of income was established, customs revenue was still a largely exogenous source of income to the Government.<sup>58</sup> Even the revenue sources the Government did control, domestic income- and corporate taxes, had to be designed in a way that made investment in Botswana attractive

<sup>58</sup> See also Lewis and Mokgethi (1983).



bearing in mind that the RMA and SACU were an integrated market both for outputs and inputs in the production process. Income and corporate taxes were therefore designed with a close eye on the South African tax system (NDP 1968–73).

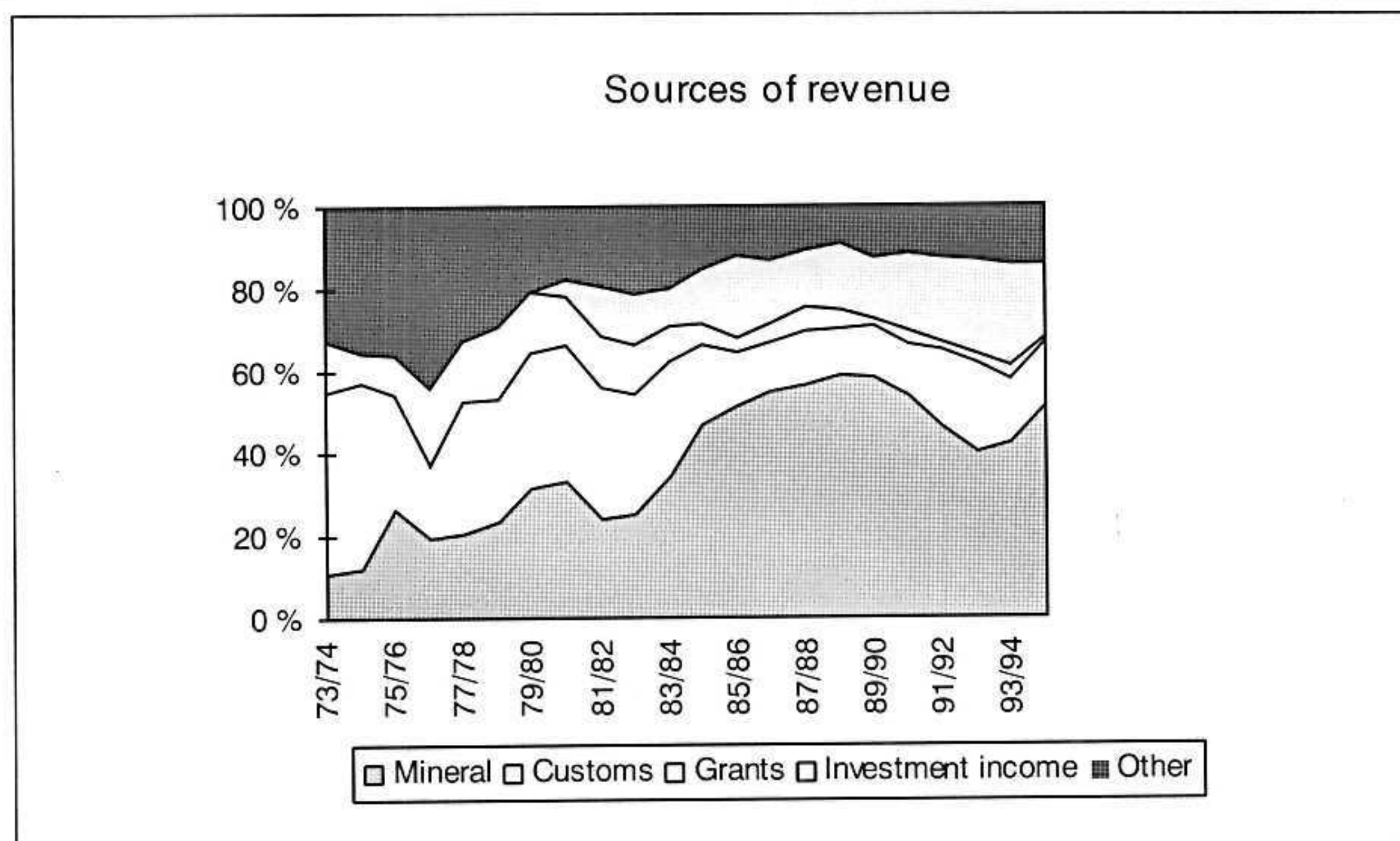
Mineral rents constituted a high share of government revenue, and this source of revenue fluctuates substantially over time. In order to smooth the expenditure- and cash flows, a Public Debt Service Fund (PDSF) and a Revenue Stabilisation Fund (RSF) were established in 1973, a practice quite common in mineral-rich countries (Auty 1996). In Botswana, substantial financial surpluses accumulated in these two funds, and they became the largest single source of lending in the Botswana economy during the 1980s. Lending was mostly on soft terms to the parastatals, and is further discussed below.

In 1976 Botswana introduced its own currency and central bank, which added monetary and exchange rate policy to the policy measures under Government command. From 1982/83 the overall budget went into surplus. From

then onwards, macroeconomic management was only restricted by the SACU agreement. Figure 6.1 shows the composition of Government revenue from independence to present, while figure 6.2 shows the overall balance on the Government accounts.

Notice from this figure that development aid was not replaced by «ordinary» tax revenue as Botswana became financially independent and started to accumulate surpluses. Rather, one source of extraordinary income has replaced the other as the most significant revenue source. First, SACU revenue had a transfer element which was meant to compensate for the disadvantages of the SACU membership.<sup>59</sup> Second, SACU revenue was overtaken by mineral rents as the most important source of Government revenue. Finally, mineral rents have been saved and transformed to financial assets which yield investment income. This is now the second largest source of income. «Ordinary» revenue («other» and customs revenue) constituted only about a quarter of total revenue in the final year in this figure.

Figure 6.1



Source: Bank of Botswana

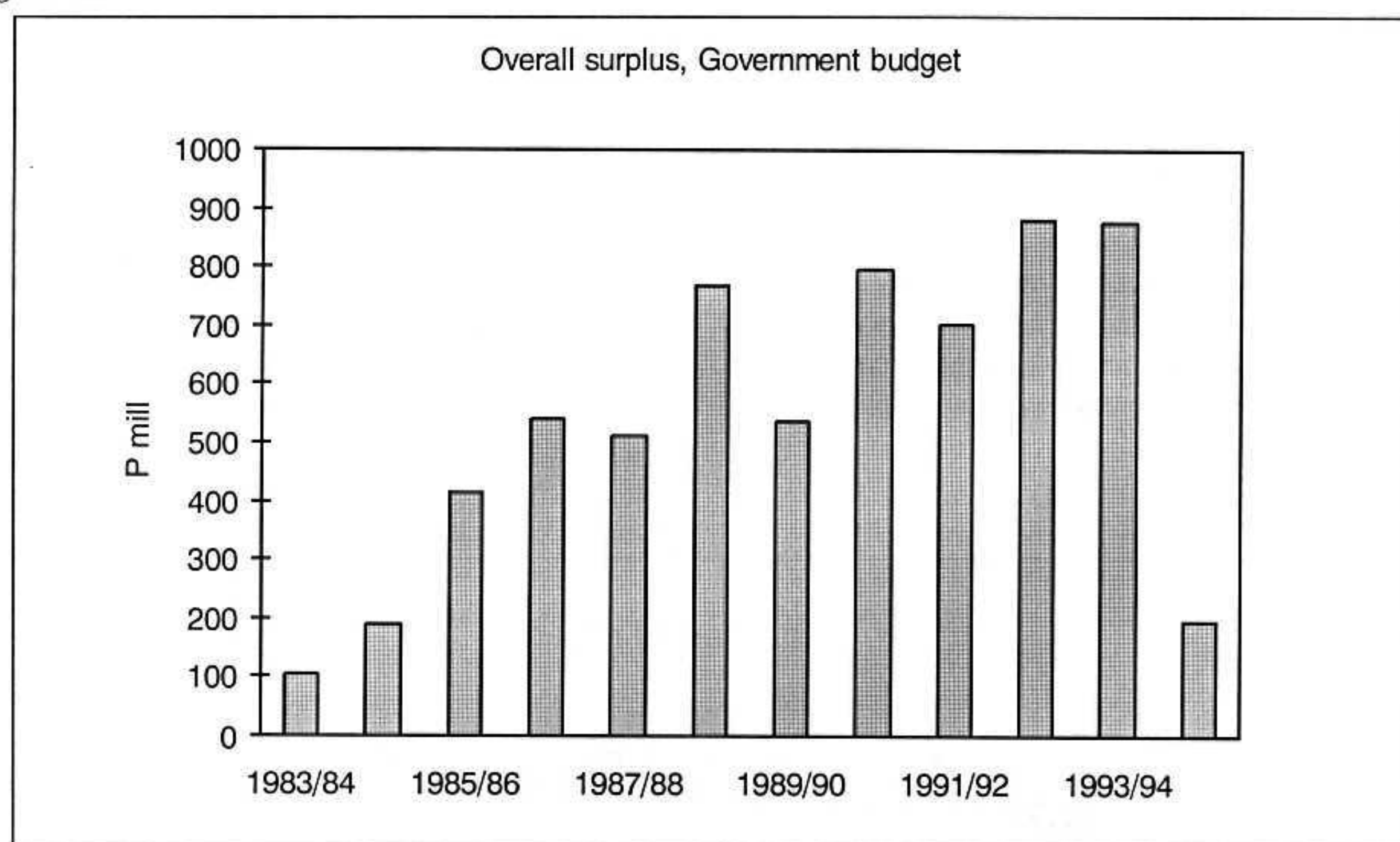
<sup>59</sup> The transfer element has declined over time and had probably ceased by the early 1990s (Clark Leith 1992).



The fact that the Government had relatively limited command over macroeconomic measures meant that the burden on the macroeconomic management team was less than usual in a newly independent country, for better and for worse. Actually, making optimal use of a largely externally determined flow of revenue and transfers was the only policy measure available during the first decade after independence. Moreover, this policy was exercised under a relatively tight monetary policy and a relatively

open trade regime, at least within SACU. Thus, the macroeconomic setting was conducive to a disciplined macroeconomic policy, with or without donor influence, during the first decade after independence. It can also be argued that this setting provided the opportunity to gain proficiency in administering one macroeconomic policy measure before taking on another, albeit at a cost in terms of economic self-determination.

Figure 6.2



### Fiscal policy

During the period of grants-in-aid, fiscal policy was limited to expenditure planning within a largely exogenously given total budget frame. British recurrent budget support was terminated in 1972, and from the fiscal year 1973/74 the recurrent budget was entirely financed by domestic revenue sources. This did, however, not change the approach to planning and the resource allocation among sectors much. Comparing the NDP 1970–75 and the NDP 1973–78 reveals that the major objectives were the same in both Plans, and a shift in sector allocation of resources emerged more as a result of the completion of the Shashe Project, than a shift in priorities.

The approach to planning and macroeconomic management continued to be focused on investing in and running

as many projects as capacity permitted, seeking donor funding for the projects. The more or less exogenous sources of revenue were sufficient to finance the recurrent implications of the development expenditure, and little was done to mobilise own resources for development spending.

### *The 1981 mini-recession*

The first external shock of any significance facing the Botswana economy after independence came in 1981. In retrospect it is difficult to see this period as the mini-recession it is referred to in the literature. The economy was rather at the brink of overheating at the time, with inflation rising from 8.7 percent in March 1979 to a peak of 18.5 percent in May 1981. Real GDP increased by 9.5



percent from 1979/80 to 1980/81, and slowed down to 7.5 percent from 1980/81 to 1981/82, which is nowhere near a recession.<sup>60</sup> However, the overheating in the domestic economy coincided with a world-wide recession following the second oil-price shock, causing a sharp fall in sales of diamonds. For Botswana, this meant that export earnings from diamonds dropped from P 237 mill in 1980 to P 145 mill. in 1981. During the same period, imports increased unabated, from P 537 mill to P 668 mill, causing a trade deficit of P 231 mill. and a negative overall balance for the first time since 1975, to the tune of P 61 mill. Furthermore, Government revenue fell short of the estimates in the budget, and the Government saw itself heading for a substantial fiscal deficit and exhaustion of the foreign exchange reserves.

Having observed the devastating effects of copper-price slumps in neighbouring countries, Government took swift action. The first step was to freeze wages and salaries in the public as well as the private sector. Second, it was decided to cut expenditure by 20 percent compared to expenditures approved in the 1981/82 budget, with immediate effect. In addition to these fiscal measures, the Pula was devalued by 10 percent and interest rates were raised substantially in several steps during 1981 and 1982. Finally, Bank of Botswana imposed a ceiling on credit expansion. There was, however no panic, and no reversal of previous liberalisation efforts. For example, the deficit on the balance of payments did not induce reintroduction of foreign exchange controls on the current account.

However, the whole exercise turned out to be a «fire-brigade exercise.» The Jwaneng diamond mine came on stream in 1982. At the same time Botswana was again allowed to sell a quota of its current production to the CSO such that diamond export revenue bounced back, restoring the balance of payment surplus in 1982. The government balance went into surplus in 1983/84. Thus, even though the expected crisis did not materialise, the exercise was a useful test of the efficiency of macroeconomic policy measures, as the entire arsenal was put into use in order to stabilise the economy. Furthermore, con-

tractive fiscal and monetary policies would probably have been called for even in the absence of an external shock in order to cool down the overheating economy.

#### *The 1987–89 boom and the aftermath*

The 1980s were a decade of great optimism, new riches and buoyant growth in the world economy. This created a boom in the diamond market. As a result, the Botswana economy experienced windfall gains during the period 1986–90. This time the windfall put financial discipline under substantial pressure. Government expenditure grew at a nominal rate of 40, 30 and 36 percent during the three fiscal years 1986/87, 1987/88 and 1988/89 respectively. As can be seen from figure 6.3, the expansion in public expenditure came mainly from development expenditure.<sup>61</sup> Figure 6.4 shows the impact of this fiscal policy.<sup>62</sup> Clearly, the policy was highly expansionary during 1986/87. This in turn triggered accelerating growth in the period to follow, as should be expected. Fiscal policy turned contractive as the overall growth rate peaked.

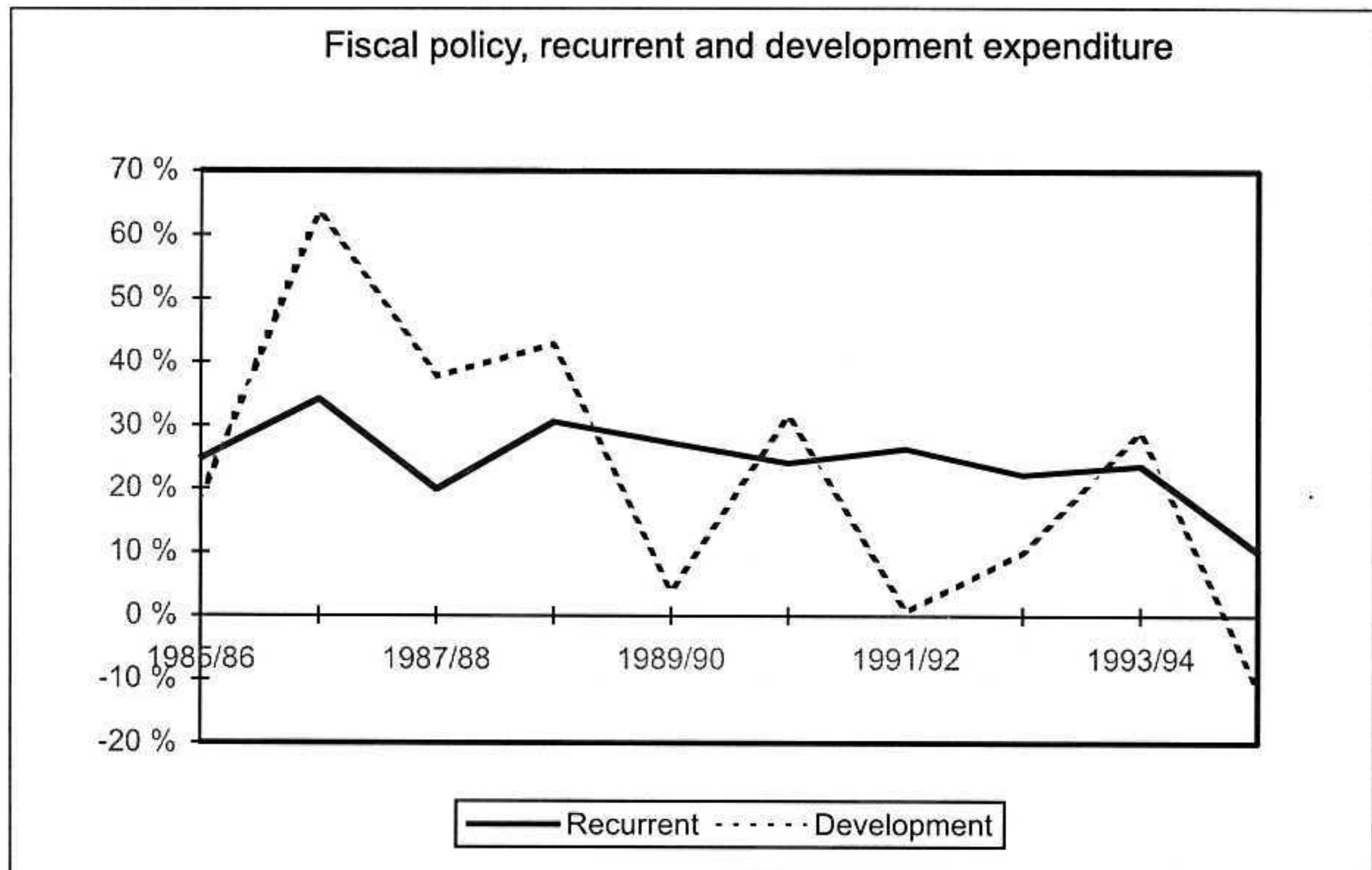
<sup>60</sup> National accounts have been revised since this event. Growth rates referred to here are calculated from GDP at constant 1985/86 factor prices as reported in Statistical Bulletin, September 1993.

<sup>61</sup> The figure shows nominal changes in expenditure.

<sup>62</sup> When government expenditure grows faster than GDP, we consider the fiscal policy to be expansionary. Public expenditure is deflated by the GDP deflator here.



Figure 6.3



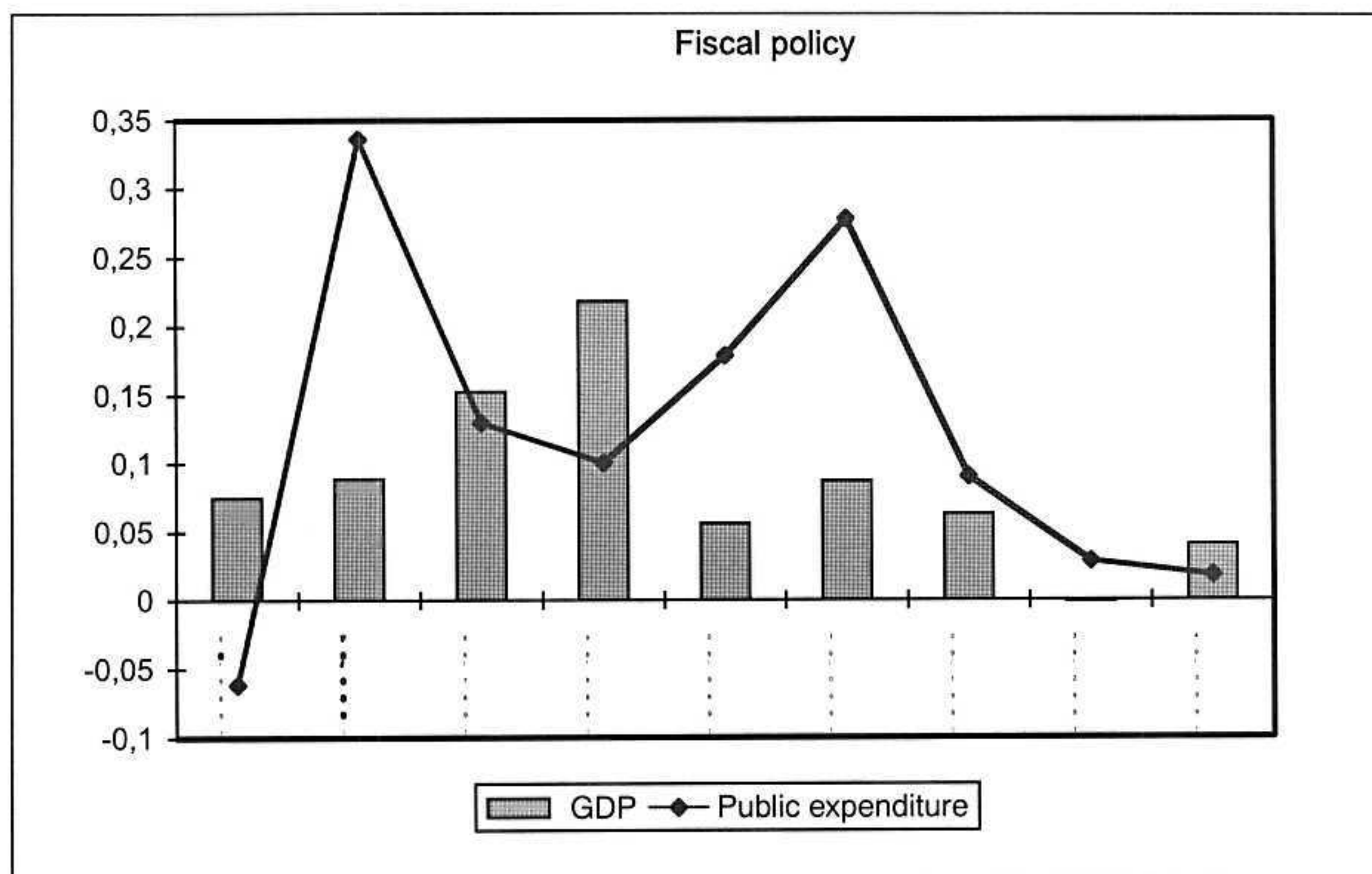
Source: Bureau of Statistics

A new episode of expansionary fiscal policy occurred in the period 1989–92, this time largely from the recurrent side. Both recurrent implications of the construction boom during 1986–88 and significant increases in personal emoluments contributed to the expansion (Bank of

Botswana 1992). This time, however, the expansionary fiscal policy did not have the same impact on the overall economy. To explain why, we need to look at monetary policy.



Figure 6.4



Source: Bureau of Statistics

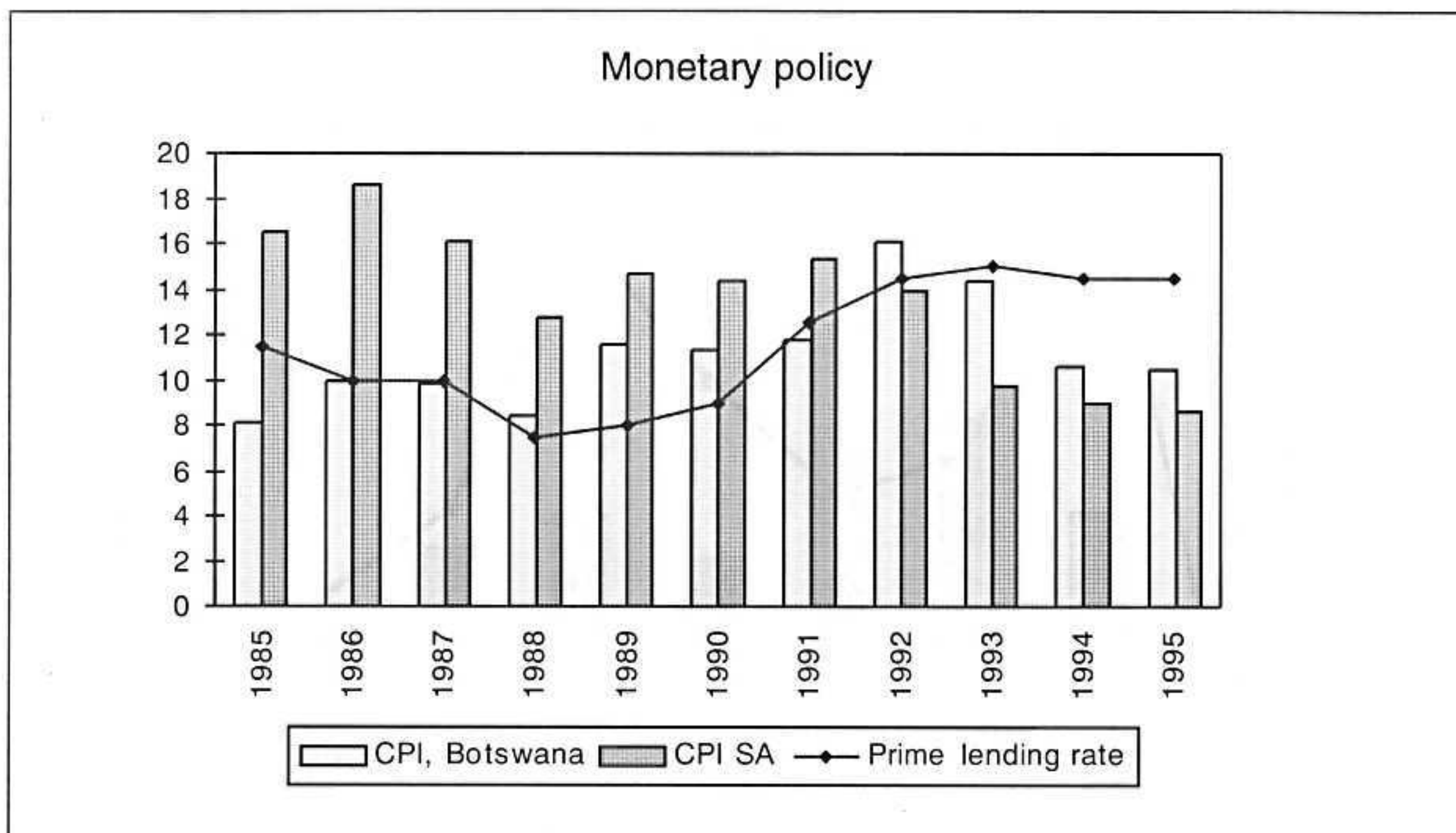
Persistent excess liquidity in the banking sector induced a package of measures to stimulate credit expansion in 1986. The package contained ceilings on lending rates which in effect reduced prime rates to a level slightly below the inflation rate. In addition, foreign exchange regulations were relaxed such that foreign owned companies operating in Botswana were allowed to borrow from local banks. Finally, as excess liquidity persisted, the minimum interest rate on deposits was reduced in 1988. These stimulating measures amounted to an expansionary monetary policy, as can be seen from figure 6.5. In contrast, monetary policy turned contractive during the period 1990–94, dampening the effect of the expansionary fiscal policy. The reason why Bank of Botswana accommodated to the 1987–89 boom was probably that inflation seemed to be under control. It was lower than the rate prevailing in South Africa, mainly because a bumper harvest kept food prices under control, and the Pula ap-

preciated towards the Rand. Inflation did, however, accelerate during 1990 and 91, triggering the tightening of monetary policy.

During the 1987–89 boom and the aftermath, a pattern of fiscal and monetary policy found in most mature economies was established in Botswana: Government is more inclined to spend and give ground to popular pressure, while the central bank punishes excesses by tightening monetary policy. An example of this is the NDP 1991–97 where the Government plan for a widening budget deficit during the first five years of the Plan and a slight narrowing of the deficit in 1996/97, while the Bank of Botswana was rather strongly opposed to this strategy. In the event it turned out that the budget surplus was maintained yet another time due to unplanned, but not entirely unexpected diamond revenue. Let us now turn to the process that led to Bank of Botswana taking up this role.



Figure 6.5



Source: Bank of Botswana and IMF

### Monetary and exchange rate policy

#### *The introduction of the Pula*

At independence Botswana was part of the Rand Monetary Area (RMA), which implied that it had no monetary and exchange rate policy of its own. This together with the fact that a large share of goods consumed in Botswana was imported from South Africa implied that the rate of inflation was seen largely as an exogenous variable in Botswana. The ills of inflation are, however, mentioned as an area of concern in every budget speech since the early 1970s.

The relative size of the Botswana market compared to the South African was so small that developments in Botswana could only have a marginal impact on prices, interest rates and exchange rates within the RMA.<sup>63</sup> The fact that a tight monetary policy in South Africa had an equally contractive effect on Botswana credit conditions was a concern as early as in the Report of the Ministry of Overseas Development Economic Survey Mission in 1965. Nevertheless, withdrawal from the RMA was not

<sup>63</sup> Today, however, Botswana's foreign reserves (excluding gold) are 5.4 times larger than South Africa's (IMF 1997), and large fluctuations in Botswana's foreign trade do affect the exchange rate of the Rand!

regarded as a viable policy option before independence (Hermans 1996).

The issue was first raised in the Transitional Plan for Social and Economic Development in 1966, where the Government stated that it wanted to negotiate a more favorable arrangement, without specifying what that might be. Nevertheless, in the NDP 1970–75, RMA was mentioned as a great advantage to the country as the Rand was recognised internationally as a stable, hard currency subject to low level of inflationary erosion. The Ministry of Finance and Development Planning undertook preparatory research in 1971 and 1972. Based on the findings of this venture, negotiations were sought together with Lesotho and Swaziland. The negotiations started in 1973. The issues raised were the following (Hermans 1996):

- i. consultation on matters of monetary policy
- ii. coordination in the application of South African exchange controls
- iii. right of access to the foreign exchange reserves
- iv. sharing of the profits made by the Reserve Bank of South Africa
- v. access to South Africa's money and capital markets.

The negotiations stalled on the profit sharing issue. The problems were the fact that the Reserve Bank is privately



owned and that a significant part of its foreign reserves was gold, which earned no income. The Reserve Bank nevertheless started to consult Botswana, Lesotho and Swaziland (BLS) on some monetary policy matters out of its own initiative (Hermans 1996).

In Botswana a Monetary Preparatory Commission was appointed by the president in 1973. The Commission's task was to consider Botswana's options. It presented its findings in Government paper no. 1 of 1975, entitled *A Monetary System for Botswana*. The paper presents the options available to Botswana and evaluates them on the background of the following considerations: First, the paper discusses which functions the central bank should have, and concludes that control over domestic credit is imperative in order to make sure that domestic savings are channeled into domestic productive investments. Second, financial and manpower considerations are discussed. The latter are seen as a major constraint, but it is nevertheless concluded that Botswana should introduce a fully fledged central bank from the outset, and count on the International Monetary Fund (IMF) and other central banks to provide capable and experienced advisers and operational managers until suitable citizen employees could be trained. Another important concern was that the amount of trade settled in foreign currency would increase dramatically as trade with South Africa would be settled in foreign currency as a consequence of the introduction of the new currency. This was, however, seen as «minor inconveniences» for traders and not allowed to overshadow the gains from having the flexibility and discretion to carry out an independent exchange rate policy. On balance it was concluded that Botswana's substantial and rapidly increasing financial resources could not be efficiently utilised in Botswana within the RMA.<sup>64</sup>

However, this conclusion was based on beliefs. No quantitative analysis was undertaken (at least none was presented or referred to in the paper), beyond an estimate of the amount of money circulating in Botswana. Neither is there any analysis of what might be an optimal currency area. Further, the appropriate timing of introducing the

Pula was not discussed. The Pula was, in fact, introduced at a very turbulent time in the world foreign exchange markets, shortly after the break down of the Bretton Woods system. The Bank of Botswana was established in July 1 1975, and the Pula was introduced August 23, 1976. Finally, the decision to introduce the Pula was taken in spite of advice to the contrary from the IMF.

Developments in the Bank of Botswana can be followed through its annual reports. The first report (1976) concentrated on explaining the workings of the new monetary system. Later reports recorded and analysed development in national output, prices, external trade, interest rates and the exchange rate. A presentation and analysis of the monetary survey was first included in the 1982 report. Up to 1987 the reports concentrated on *reporting* and to an increasing extent analysing the economic indicators and government policies. From 1987 onwards, Bank of Botswana provides policy suggestions and concerns on its own initiative. The Bank was particularly concerned with Government practices on lending. Government was, in fact, the largest lender in the economy, lending money on long-term contracts to the parastatals at rates well below the prime rates of the commercial banks. In Bank of Botswana's view, this undermined the development of an efficient and more sophisticated financial system in the country. As will be elaborated below, we would add that relative abundance of financial resources and low country risk, could have laid the foundation for a competitive financial sector, an opportunity foregone through the policies described and disapproved of by the Bank of Botswana.<sup>65</sup>

The Bank of Botswana did, however, not caution against the apparently overheating economy in 1987, although it was somewhat more concerned in 1988. Even then, Bank of Botswana was on balance supportive of the expansionary fiscal policy undertaken by the Government, and underpinned the boom by its own expansionary monetary policy. In 1989, the first mild criticism of fiscal policy appeared in the Bank of Botswana reports, as it found the growing disparities between budget estimates on expenditure and actual expenditure «disturbing».

The first outright criticism of fiscal policy is found in the 1990 report, after the unsustainability of fiscal policy in the late 1980s had become apparent. The bank pointed out that the expansionary fiscal policy had to come to a halt

<sup>64</sup> Domestic credit grew by between 22 and 83 percent annually in nominal terms during the period 1973–76, indicating that local savings were invested locally, even before Pula day (Bank of Botswana 1976). There was, however a net outflow of funds to South Africa. It turned out that a large amount of local savings could not find profitable investments locally, and ended up as excess liquidity in the banking system, to the extent that the Bank of Botswana acted as a deposit taker of last resort for more than a decade after it was established.

<sup>65</sup> See also Ablo and Hudson (1983) and World Bank (1989).



and that the major adjustments had to be taken on the expenditure side. This was stating the obvious, but the Bank went on to criticise the composition of government expenditure, finding that too much was spent on non-productive services. In particular, the Bank picked on one of the donors' pet objectives, decentralisation, as an area that urgently needed to be reconsidered. Moreover, the Bank found government regulation to have a negative impact on economic growth. Hence, Bank of Botswana's advice to Government in the 1990 annual report was to redefine its priorities and improve efficiency in priority areas while curbing expenditure and leave an increasing share of the nation's resources for private sector expansion. Subsequent reports contain the macroeconomic analysis and policy advice to the Government usually found in relatively mature market economies. In addition, Bank of Botswana has established a research department with a substantial capacity for rigorous analysis of current issues in the Botswana economy.

#### *The savings investment balance*

A persistent feature of the Botswana economy ever since the Pula was introduced has been excess liquidity. It occurred as a result of three factors: First, the country had experienced a substantial net inflow of foreign exchange in the form of mineral rents and development aid. Second, these inflows had accrued to the Government which had saved them. Third, the financial markets were thin and underdeveloped and therefore unable to channel Government savings into private investment locally or abroad, the latter also because of foreign exchange controls.

With such an abundance of financial resources, the interest rate should be expected to be low and access to credit easy. This has indeed been the case. Moreover, short-term credit for consumer expenditure has been more easily available than long-term financing of investment. Since the mid 1980s, a credit-driven consumer culture has developed (Reinke 1997), and Botswana finds itself in the unusual situation that Government is a net saver while households are net borrowers from the banking system. Moreover, credit is often obtained at subsidised interest rates from employers (Reinke 1997). At the same time, the only assets which yield a reasonable return to on household savings are cattle and property. Again these assets are subsidised, this time by Government.

Several attempts have been made to mop up the excess liquidity in order to avoid the excessive credit expansion just described. An attempt was made to issue bonds, but this policy came to a halt after a couple of years. The Bank of Botswana then tried to use call accounts, but failed to absorb the liquidity as the real call rate was negative (Kone 1997). The excess liquidity problem was aggravated by the Government which borrowed from abroad in spite of running a surplus on its overall balance. Further, the Government encouraged the parastatals to borrow abroad through sharing the exchange rate risks.

A more promising financial market development as far as mopping up excess liquidity is concerned is the issuing of Bank of Botswana Certificates (BoBC). The BoBCs were introduced in 1991, and yield a positive real interest rate. The market has increased substantially since its inception, and Bank of Botswana has been able to at least partly sterilise inflows of foreign assets (Kone 1997). Although BoBCs have contributed to the development of a money market in Botswana, the capital market is still underdeveloped.

A well-functioning capital market is necessary in order to mobilise savings from households and private business and channel such savings into productive investments. Several authors have pointed out that Government lending through the PDSF and RSF at sub-market rates has frustrated the development of a bond market in Botswana (Motsomi 1997). Further, it is clear that an easing or removal of foreign exchange controls would reduce excess liquidity and enhance efficiency in the capital market. Apparently the Government did not have confidence that the private sector would be able to handle the risks and pitfalls of investing abroad. In addition, the possible capital outflows following such liberalisation was seen as potentially creating a «psychological effect» on aid donors (Ablo and Hudson 1983).

When the mineral boom finally levels off, the household savings and expenditure behaviour is unsustainable and definitely not compatible with a relatively high growth rate.<sup>66</sup> Thus, as mineral rents decline as a share of total national income, private savings will increasingly have to finance both government and private investment. The development of a well-functioning and diversified capital market, preferably integrated with the global, or at least the regional capital market, is imperative for this change to take place.

<sup>66</sup> Provided that the economy has not reached a steady state growth path in the neoclassical sense. The savings rate does not affect growth in that case.



### Industrial policy

Before discussing the industrial policy of Botswana, we would like to raise three fundamental questions which are decisive for the approach to industrial policy:

1. Is one industrial structure preferable to another?
2. What are the obstacles and constraints to the development of the most desirable industrial structure?
3. What kind of conditions will foster competitive and viable enterprises?

Early development theory saw industrialisation as the key to development, while agriculture was seen as a supplier of surplus labour, and services were more or less ignored. The answer to the first question was therefore, yes, industry in general and manufacturing in particular, should have a prominent position in the economy. The reason why was that manufacturing was seen as the most technologically progressive sector which provided well-paid jobs and produced goods for which demand was growing rapidly.

The obstacles to industrialisation in poor countries are fairly obvious. Lack of infrastructure and the availability of specialised inputs needed for a manufacturing enterprise to operate efficiently are the most pressing problems. Remoteness from the major markets is also a concern. However, the obstacles can be compensated for by first introducing the kind of industries that are the least intensive users of a sophisticated infrastructure and which produce largely for the local market. In addition, scarcity of some inputs (for example infrastructure and capital) can be compensated by abundance of other inputs (for example labour and in some cases raw materials). This usually happens as a result of individuals' decisions to work, save and invest. When it does not, it is a sound economic principle that government interventions should be motivated either by identified distortions which prevent the market from working properly or by policy objectives, such as a more equal income distribution, which can not be attained through market forces. Furthermore when constraints or policy objectives have been identified, the policy measures should, as far as possible, be directly aimed at the distortions, and not create new ones.

The third question is more difficult to answer. Is an «enabling environment» an environment where obstacles are minimised and the establishment and operation of business made as easy as possible? Or does an «enabling environment» entail challenges, fierce competition and

pressure towards continuous improvements? This third question becomes crucial when an industrial policy is to be designed once it has been decided that there is a need for an industrial policy.

Statements on industrial policy in Botswana have been somewhat ambiguous. On the one hand it was stated quite strongly in the Transitional Plan that it was a Government responsibility to promote industry. The National Development Bank (NDB) was introduced already at independence, while Botswana Development Corporation (BDC) was established in 1970 and started operations in 1972. These two institutions became the key instruments in Botswana's industrial policy during the 1970s, and BDC has played a prominent role to the present. On the other hand, Botswana did not have an industrial policy in the conventional sense before the 1980s apart from these two institutions. This was because the Botswana Government saw general economic development as a prerequisite for industrialisation. In particular, it saw the existence of infrastructure and a minimum level of skills as a precondition for industrialisation, and concentrated its efforts on establishing these preconditions during the first decade of independence (NDP 1968–73, NDP 1970–75, NDP 1973–78). Industrialisation is just briefly mentioned under the heading «Private Enterprise» in the development strategy chapters of these three NDPs. Moreover, in the early days the Government did not perceive industrialisation as a problem area which needed attention. In NDP 1968–73 it is simply stated that:

«To date little industrial development has occurred, but if adequate supplies of water and power can be made available near the line of rail, there is little reason why the Botswana manufacturers should not compete in the rich southern and central African markets, to which they have uniquely privileged access.» (p 8).

Indeed, so what made the Botswana Government embark on an industrial policy in the 1980s? A key to answering that question is to look, first, at what were the objectives of the industrial policy introduced, and next, how Botswana answered the second question above; e.g. what did it see as the obstacles to industrialisation.

Let us start with the objectives. Interestingly, the objectives are not those found in the development and growth literature as to why industrialisation is a vehicle for growth and development. Rather, industrial policy was seen as an instrument to create employment, particularly in rural areas, raising skill levels and increasing value added accruing to Botswana (Republic of Botswana



1984). It was even stated that support for rural industries would be based on social rather than narrowly commercial criteria (NDP 1979–85). This approach appears to be prominent also in the Financial Assistance Policy (FAP) introduced in 1982. In a sense, therefore, Botswana's industrial policy was part and parcel of its redistribution and social policy.

Turning to the obstacles and constraints, they are spelled out in NDP 1979–85, NDP 1985–91 and NDP 1991–97.<sup>67</sup> The constraints are presented together with the policy measures suggested in the plans in table 6.1 below.<sup>68</sup> The NDPs reflect the notion that an industrial policy measure should be motivated by and directed towards overcoming an obstacle. The constraints in the table are therefore assigned a number which in turn appears behind the policy measure designed to alleviate the constraint:

**Table 6.1**

Plan	Constraints/obstacles	Policy measures
NDP 1979–85	1. A small market 2. Remote and landlocked 3. Much more developed neighbours 4. Lack of skilled and managerial manpower 5. Lack of infrastructure 6. High cost of utilities 7. Lack of local capital market 8. Lack of strong raw materials base	Subsidised credit through NDB (7) Exclusive licenses (3) Infant industry licenses (3) Equity participation through BDC (7) Technical assistance and training through BEDU (4) Local preference scheme (1) FAP (7) Rural industrial programme
NDP 1985–91	Points 1, 2, 4, 7, while 5 has been modified to 5a Weak infrastructure 9. High degree of import dependence 10. Predominance of a single country for supply of imports 11. Export trade dominated by the diamond and cattle industries 12. Unawareness of export opportunities in the manufacturing sector	The measures from the previous plan period retained. In addition: Several advisory services (4, 11) The Selebi-Phikwe Regional Development Programme (11).
NDP 1991–97	Points 1, 2 and 7, 13. Low labour productivity 14. Shortage of serviced land 15. Excessive regulations 16. Unawareness of investment opportunities.	Using the existing institutions and policy measures for information, diversification and export promotion

Several of the obstacles and constraints identified reflect geography and the fact that Botswana is a mineral-rich middle-income country, rather than specific problems related to industrialisation. Accordingly these are addressed by general policy measures not usually counted among industrial policy measures. Among these are continued investment in infrastructure and education (obstacles 4, 5

and 14), negotiating trade, investment and taxation agreements with trading partners (obstacle 1 and 15), and continue to conduct a sound macroeconomic policy.

Some of the obstacles mentioned are side-effects of Government policies in other areas. Examples of this are excessive regulation and shortage of serviced land. Lack of skills is to some extent a side-effect of Government manpower planning and the extensive subsidies to the cattle sector (Peat 1983). Finally, some of the obstacles identified are not generally seen as constraints to industrialisation. It is for example difficult to see how a high degree of import dependence should frustrate industrialisation, or why lack of a strong raw materials base

<sup>67</sup> Previous Plans also present obstacles to industrialisation, but in a less systematic way.

<sup>68</sup> FAP was actually not introduced in the NDP 1979–85, in spite of the fact that it became the most important industrial policy measure and was introduced in 1982.



should pose a problem. It is even highly questionable whether there is, or has ever been, shortage of raw materials. No policy measures are directed towards these constraints, though.

The most prominent industrial policy measure was and still is the Financial Assistance Policy (FAP). It is a rather innovative scheme aiming at employment creation through bridging the gap between labour cost and labour productivity. Initially only manufacturing firms were eligible, but the scheme has more recently been extended to some service industries with linkages to manufacturing. It should be noted that FAP was designed to address the unemployment problem directly, although in a second-best environment. The first best solution would be to remove the distortions which created the discrepancy between productivity and wages, first and foremost the minimum wage.<sup>69</sup> FAP was introduced in 1982, and consists of two separate schemes, one for medium- and large-scale enterprises and one for small enterprises.<sup>70</sup> The former scheme applies to citizen and foreign firms alike, while the latter applies to citizens only. Both schemes provide grants related to the employment of unskilled labour for new establishments or extensions of existing firms in Botswana. In addition to these grants, there is a package of other incentives designed in order to stimulate the establishment of labour-intensive manufacturing enterprises, preferably in rural areas. Subsidies are further differentiated according to location of the firm and gender, and are given over a five-year period.

The ideas on which the FAP is built can be traced back to the Lipton report on Employment and Labour Use in Botswana, completed in 1978 (Peat 1997).<sup>71</sup> Michael Lipton, a British economics professor, was commissioned by the MFDP and funded by the Commission of the European Communities European Development Fund to study employment opportunities in Botswana. Lipton's recommendations strongly emphasised the importance of labour-intensive technologies in every sector of the economy, and some of his recommendations were rather rad-

ical.<sup>72</sup> It should, however, be noted that the reason why Lipton was assigned to undertake this study in the first place was that there was a concern about unemployment in the Government and among donors alike, and there was a will to do something about it. Furthermore, the design of the FAP was rather different from Lipton's suggestions. FAP was, in fact designed by a Subsidies Policy Working Group within the Botswana civil service, including prominent expatriates.

FAP was a new scheme, not tried before in Botswana or elsewhere, and frequent evaluations were undertaken in order to assess its performance. The first evaluation after 18 months was scheduled already at the inception of FAP, the second followed in 1988 and a third was implemented in 1995. In addition, a study of poverty and poverty alleviation undertaken by BIDPA (1997) assessed the FAP. All three evaluation teams included external donor-funded consultants, and all three recommended that the FAP be continued with some amendments, particularly to the medium- and large scale scheme. The BIDPA study (1997) arrived at the same conclusion. The recommendation to retain the FAP was arrived at in spite of the finding that only a small share of the initial jobs created represented net new jobs which survived more than five years (25 percent according to the third evaluation). Apparently, the Government was not completely reassured, and was somewhat concerned about the rapid growth of subsidies under the scheme. The FAP was therefore included in the World Bank's study of Opportunities for Industrial Development (1993). Finally, a fourth evaluation is scheduled for 1999 (NDP 8).

A list of constraints to industrialisation and job creation is presented in the FAP document as well as in the evaluation documents. They largely correspond to the ones listed in table 6.1. Only one constraint is related to the cost of labour. On the basis of the efficiency criterion that policy measures should be directed directly at distortions, the World Bank (1985, 1993) concluded that the FAP is not the appropriate policy for employment creation. Con-

<sup>69</sup> Recall from chapter 5 that these are the problems of the Dutch disease.

<sup>70</sup> FAP was not mentioned in the NDP 1979–85, in spite of the fact that it became the most important industrial policy measure in Botswana during this period. This underscores our point in chapter 5 that the planning system is mostly geared towards channeling exogenously determined revenue into Government investment projects and put less emphasis in macroeconomic management and development programmes.

<sup>71</sup> Lipton suggested that an Employment Policy Unit be established in the Ministry of Industry and Commerce. This advice was taken, and Peat became the first head of the Unit.

<sup>72</sup> He suggested that all regulations of economic activities should be scrapped for three years, and those which turned out to have had important positive effects could be reinstated. He also suggested that Botswana Meat Commission should not use the modern, capital-intensive technology it had adopted, at least not in future investments.



sequently it recommended that most of the FAP measures be scrapped in the 1993 report.<sup>73</sup>

The merits of FAP are thus somewhat controversial. While the three evaluations on balance find the benefits to outweigh the costs of the programme, particularly when the social dimensions are taken into account, the World Bank (1993) and Auty (1996) argue that Botswana does not have a comparative advantage for labour-intensive industries or technologies. The World Bank also points out that technology in most industries comes as a package with little scope for choosing a labour-intensive technology. Therefore, it is argued, FAP either supports investment in industries for which Botswana does not have a comparative advantage, or it encourages inefficient over-employment in businesses that are not particularly labour intensive. This view is supported by observations that firms tend to close down or mechanise once the labour subsidy expires (Siwawa-Ndai 1997). Finally, the World Bank (1993) argued that FAP along with other investment and employment incentive schemes had fostered a class of rent-seekers rather than entrepreneurs. This conclusion is supported by Behrman (1986) who found that in some cases the FAP yielded substantial profits to its recipients and he also documented cases where it would be profitable for FAP-recipients to hire labour even when its marginal return was negative. The development of labour productivity during the period 1982–94, presented in figure 6.6 indicates that incentive schemes may have been too generous.

The Government has to date chosen to retain the programme, although the growth in expenditure on the scheme has been halted and some measures taking care of the World Bank's as well as the evaluation reports' concerns have been implemented and more are planned

(NDP8). Notably a sales augmentation grant incompatible with GATT rules was eliminated before Botswana signed up to GATT.

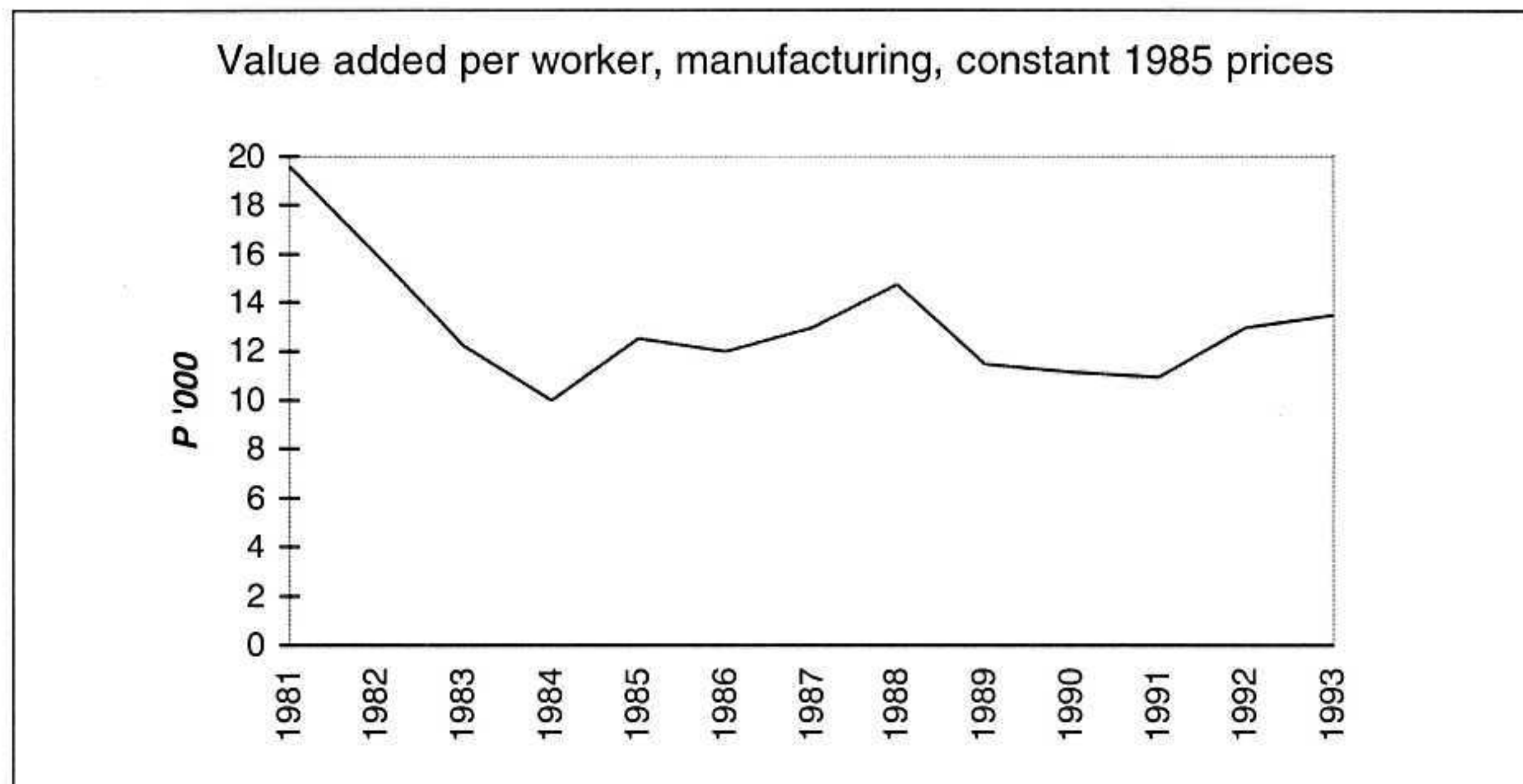
To conclude this section, it appears that industrial policy was seen more as a vehicle for employment creation and income redistribution than an engine of growth, particularly during the 1980s. There is not necessarily a conflict between the two objectives, but in the Botswana case a strong bias towards labour-intensive technologies and industries probably worked against the country's comparative advantage, and may have delayed the transformation from a mineral- and government-led economy to a skill-driven development.<sup>74</sup> Whether the labour-intensive schemes have contributed to human capital accumulation and entrepreneurship which in due course will constitute an engine of growth remains to be seen. Finally, we conclude that Botswana's answer to the the third question of what constitute an «enabling environment» for industrial development appears to be as few obstacles as possible.

<sup>73</sup> The 1985 report gave the FAP the benefit of doubt as a temporary measure.

<sup>74</sup> As pointed out by Auty (1996) and chapter 7 in this study, human capital accumulation is probably the only source of growth which can avoid stagnation during the transition from mineral-led growth.



Figure 6.6



Source: Calculated from National Accounts data from Bureau of Statistics

### Summary and conclusions

Sound macroeconomic policy is a prerequisite for sustained growth and we have shown that this has to a large extent been achieved and institutionalised in Botswana. In particular, the division of labour between Bank of Botswana and MFDP is likely to facilitate a continued sound policy even in the face of more popular pressure towards increased spending and a less tight fiscal policy. However, the soundness of the macroeconomic policy in terms of government savings has occurred more *ex post* than *ex ante*. Thus, if *planned* expenditure and revenue had been realised, the government would have been a net borrower. A systematic underestimation of revenue and an overestimation of expenditure, the latter mainly on the development expenditure side, have been interpreted as cautiousness on the part of the Government. However, as it is only possible to fool some of the people some of the time, an alternative interpretation is a lack of focus and inefficiency in the Government. It appears that efficiency has become an increasing concern, particularly after the boom in the late 1980s. «Right-sizing» the government has as a consequence been introduced as an issue in the NDP 8.

Industrial policy has by and large been market-oriented and non-interventionist. However, the market orientation needs to be qualified by the fact that it was, and still is,

difficult to draw a clear distinction between the private and public sectors in Botswana. The commercial private sector was by and large limited to the cattle sector at independence, while most of the financial resources available in the country accrued to the Government as the recipient of aid and mineral rent. As a result, the Government has played an important role in credit allocation. Moreover, the only significant industrial enterprise in Botswana at independence, the Botswana Meat Commission, was, and still is, a parastatal, and it is the only offtake for the cattle sector. The dominance of the state has continued up to the present. As stated in the NDP 1985–91, Government has participated in all the major economic ventures that have occurred since independence. As will be further discussed in chapter 8, the Government has also until recently allocated all local skilled manpower with a bias towards the public sector. Thus, the Government has largely controlled the most important means of production, human and financial capital, and the private sector frequently complains that there is little space for it.

On the basis of this and the previous chapters in this study, the role of aid at the operational level of macroeconomic management has been three-fold. First, technical assistance has contributed to the quality of the team responsible for macroeconomic management. Second, fi-



nancial flows have affected the macroeconomic environment to be managed and from the mid 1980s contributed to the excess liquidity problem. Third, we somewhat speculatively suggest that donor orientation has frustrated the development of a capital market integrated with the global or at least the regional capital market as it was anticipated that donors would hardly support a capital-exporting country.

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## 7 Macroeconomic performance in a comparative perspective

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### **INTRODUCTION**

Macroeconomic management, no matter how skillful, has to deliver on the objectives it is steering towards if it is to be seen as a success. The overruling objective of macroeconomic management in Botswana has been rapid economic growth, so we concentrate on growth performance and its determinants in this chapter. Botswana's growth performance is outstanding in any comparison. However, Botswana's resource endowment and macroeconomic framework are as exceptional as its performance. Therefore, macroeconomic performance should be assessed on the background of the particular circumstances facing Botswana rather than holding it against the performance of sub-Saharan Africa, which is usually the benchmark against which Botswana is evaluated.

The first special feature of the Botswana economy which we need to take into account is the predominance of the mineral sector. Since diamonds were discovered in Botswana in 1967, the mineral sector has expanded and come to dominate the economy completely. What distinguishes the diamond market from most other commodity markets, is the fact that diamonds are marketed through a cartel which has been effective in keeping the supply in check, thus maintaining a high degree of price stability. This implies restrictions on production, notably production quotas, and periods of stockpiling. Nevertheless, the cartel has kept the diamond sector profitable, even during busts in the business cycle. Furthermore, unlike most other commodities, diamonds are largely seen as an investment object, and both sellers and buyers prefer a high price. Therefore, unlike most commodity exporting countries in Africa, Botswana has never faced a serious balance of payment crisis in spite of the fact that diamonds constitute around 80 percent of total export earnings on average, and imports constitute about 40 percent of total domestic expenditure at present.<sup>75</sup> Finally, it is worth noticing that the two other major mining projects in Botswana, copper-nickel in Selebi-Phikwe and soda ash at Sua Pan, have had great difficulties in breaking even, and have thus not contributed much to national income.

One of the few major commodities which has sustained a real price sufficiently high to yield substantial resource rents since the early 1970s is oil. Therefore, the most relevant comparison to Botswana is small, oil-exporting countries which entered the post World War II era at a low level of income and thus built their modern economies by means of resource rent. Oman is the most interesting comparison because its oil production came on stream at about the same time as diamond production started in Botswana, and the country was as poor in terms of human capital and infrastructure as Botswana at that time. Both countries have small populations and are located close to large and powerful neighbours. Both developed a mineral sector by means of joint ventures with multinational companies during the 1970s, after which the mineral sector provided the lion's share of both export earnings and government revenue. Finally, both countries had an insignificant industrial sector and its population had nearly no schooling at the point in time when the mineral sector came to dominate the economy. However, it should be noted that Oman's oil export earnings have been about three times as high as Botswana's diamond export earnings.

The second special circumstance is Botswana's membership in the SACU. SACU goes beyond a customs union regarding the degree of economic integration among the member states, as factor markets were highly integrated within the limits of apartheid laws. In addition, the four members formed a common monetary area, the RMA. These countries have therefore faced much the same exogenous economic factors: as small members of a customs union relatively open to internal movements of capital and labour, they are constrained by South African macroeconomic policy. During the first few years after independence they also largely received the same kind of grants-in-aid from Britain.

### **DETERMINANTS OF GROWTH**

Recent empirical and theoretical research on economic growth have identified the following major sources of economic growth: First there is accumulation of productive assets such as human and physical capital. Human capital accumulation is found to be the main engine of growth while accumulation of physical capital is found to

<sup>75</sup> The import share of total expenditure has declined over time as import substituting industries have been established.



be essential but plays a subsidiary role. Lucas (1993) inferred this based on an extended neoclassical growth model, while Barro and Sala-i-Martin's (1995) empirical research concluded that the causation runs from growth to investment in physical capital, not the other way around, a result supported by several other studies (Levine and Renelt 1992, Mankiv, Romer and Weil 1992). Second, there is an array of variables which affect the productivity of the assets directly employed in production. The most important of these variables are found to be the initial level of income per capita, the initial level of human capital, government policy and, finally, developments in terms of trade. A low initial income level provides the opportunity to catch up with richer countries through a process of adopting existing technologies and institutions, while a relatively high level of human capital is found to speed up the catching up process. The variables related to government policy found to affect productivity are political stability, the share of total GDP spent on education by government, the share of GDP consumed by government

(net of recurrent expenditure on education), and the extent of market distortions as measured by the black market premium on foreign exchange. The two first variables enter the regression with a positive coefficient, while the last two enter the regression with a negative coefficient.

### EVIDENCE FROM INTERNATIONAL COMPARISONS

An interesting starting point of our analysis of Botswana's growth performance is the figures presented in table 7.1 below. It is taken from Barro and Sala-i-Martin (1995) and shows the actual growth in GDP per capita as compared to a fitted value during the period 1965 – 1990. Barro and Sala-i-Martin estimated fitted values for the highest growth quintile in the Summers-Heston data set during the period 1965–90.<sup>76</sup> Note that Botswana's SACU partner, Lesotho is also in the upper quintile sample, while Oman should have been, but is omitted from the sample due to lack of data before 1970.

**Table 7.1 Growth in GDP per capita, actuals and fitted values**

Country	Growth rate 1965–85	Fitted value	Growth rate 1965–75	Fitted value	Growth rate 1975–85	Fitted value	Growth rate 1985–90	Fitted value
Botswana	6.8	2.8	8.5	4.6	5.1	0.9	5.5	1.3
Lesotho	4.4	4.4	6.2	5.6	2.5	3.2	1.3	3.7

The fitted values are estimated on the basis of parameter values derived from a regression on a panel of about 90 countries, where the variables included are the ones cited above. This table can be interpreted as follows: If Botswana's performance was determined by the variables included in the regression only, growth would have been much slower. In fact, capital accumulation, catching up effects, terms of trade developments and government policies covered by the regression would have generated a growth rate not much higher than the rest of sub-Saharan Africa, particularly during the period after 1975. In order to assess Botswana's macroeconomic performance, it is therefore important to identify what accounts for the unexplained gap in table 7.1.

Our next source of international comparison is Hall and Jones (1996). They attempted to explain differences in income levels among countries emphasising the quality of government. A quality index containing measures of law and order, the quality of bureaucracy, corruption, risk of expropriation, and government repudiation of contracts was constructed. The benchmark the sample was measured against, was the US whose index value was set to unity. Values below unity indicate a lower quality than the US. Results for Botswana, its SACU partners and Oman is presented in table 7.2.

**Table 7.2 Quality index, Government (1988)**

Country	
Botswana .....	0.713
South Africa .....	0.740
Namibia .....	0.485
Swaziland .....	0.641
Lesotho .....	0.660
Oman .....	0.633

<sup>76</sup> The Summers and Heston data set is the result of a project which estimated a data-set for key macroeconomic variables for 165 countries in the world, using the same methodology for all countries such that the figures are comparable for all the included variables.



Botswana is second only to South Africa in this sample. Hall and Jones (1996) then ran a regression in order to explore how much of the actual income level could be explained by quality of government (in addition to a number of other factors). Finally they plotted the countries' performance against the regression line. Botswana is placed close to the regression line. The study thus indicates that the quality of the Botswana Government is reasonably good, but not significantly better than what one could have expected from a middle-income country.

To summarise the findings from this section, there has been a widening gap between actual growth performance and explained growth performance during the period 1966 to 1990 in Botswana.<sup>77</sup> A reasonable hypothesis is that mineral revenue narrows the gap substantially. If that is the case, the growth performance of Botswana can be seen as an unusually long-lived commodity boom, and to a less extent growth in the real sense of the concept. As mineral revenue levels off, it is explained growth that matters the most. Therefore it is worth the while to assess the performance of each of the key determinants of growth in a comparative perspective in order to identify weaknesses and obstacles to growth in future.

### Human capital

The accumulation of human capital is emphasised in this paper for two reasons. First, recent developments in growth theory has identified human capital as the most important engine of sustainable growth. Second, shortage of human capital has always been stated as the major constraint on development and the capacity of the Government to implement its development plans. Sound macroeconomic management therefore demands attention and priority to measures aimed at easing this constraint. We start by comparing human capital stocks and the accumulation thereof to the five countries chosen, and continue to analyse government management of human resources in Botswana.

From empirical work it turns out that primary education is insignificant as an independent determinant of growth, while secondary and tertiary education are highly significant for growth. Of course, close to universal primary education is a necessary precondition for accumulation of secondary and tertiary level human capital, and therefore a precondition for embarking on a sustainable growth path. Tables 7.3 to 7.5 show the development of stocks of human capital in Botswana compared to its SACU partners.

**Table 7.3 Average number of years of secondary education, total population**

Country	1960	1965	1970	1975	1980	1985
Botswana .....	0.09	0.09	0.11	0.14	0.18	0.26
South Africa .....	0.85	0.88	1.04	0.94	0.86	0.88
Namibia .....						
Swaziland .....	0.15	0.13	0.13	0.31	0.20	0.32
Lesotho .....	0.05	0.06	0.07	0.17	0.18	0.24
Oman .....						

Source: Barro and Lee, 1993

**Table 7.4 Average number of years of higher education, total population**

Country	1960	1965	1970	1975	1980	1985
Botswana .....	0.01	0.01	0.01	0.02	0.02	0.02
South Africa .....	0	0.05	0.13	0.11	0.05	0.08
Namibia .....						
Swaziland .....	0.02	0.01	0.01	0.01	0.03	0.05
Lesotho .....	0	0	0.01	0	0.01	0.02
Oman .....						

Source: Barro and Lee, 1993

<sup>77</sup> The gap has probably narrowed during the 1990s.



**Table 7.5 Average number of years of total education, total population**

Country	1960	1965	1970	1975	1980	1985
Botswana .....	1.27	1.32	1.34	1.83	2.29	3.70
South Africa .....	4.06	4.10	4.47	4.53	4.61	4.95
Namibia .....						
Swaziland .....	1.66	1.59	1.81	3.02	3.02	3.77
Lesotho .....	2.48	2.71	2.81	2.96	3.27	3.51
Oman .....						

Source: Barro and Lee, 1993

These tables show that Botswana started out at independence in a somewhat better position than Lesotho regarding education above the primary level. Both Botswana and Lesotho were way behind South Africa, while Swaziland was somewhat better endowed with human capital than the two other small SACU members. However, looking at total education, Botswana was the poorest SACU country at independence, mainly because of inferior primary education. Since independence, the SACU members' stock of human capital has converged. The entire

SACU is, however, behind the average for middle-income countries.

Tables 7.6 and 7.7 relate to flows or accumulation of human capital represented by school enrollment ratios. The ratios show the number of pupils enrolled as a percentage of the total population in the relevant age-group. Ratios above 100 mean that pupils outside the relevant age group are also admitted in schools.

**Table 7.6 Primary school enrollment ratio**

Country	1965	1970	1975	1980	1985	1990
Botswana .....	65	65	72	98	110	117
South Africa .....	90	99				
Namibia .....						119
Swaziland .....	74	87	99	103	107	108
Lesotho .....	94	87	105	103	113	107
Oman .....	na	3	44	60	89	99

Source: World Bank, 1995

**Table 7.7 Secondary school enrollment ratio**

Country	1965	1970	1975	1980	1985	1990
Botswana .....	3	7	16	21	31	43
South Africa .....	15	18				
Namibia .....						41
Swaziland .....	8	18	32	38	42	47
Lesotho .....	4	7	13	18	23	26
Oman .....			1	14	33	51

Source: World Bank, 1995

Table 7.6 clearly shows that by 1980 all SACU countries had established a universal primary education, as is the case with most middle-income countries. Stock variables for Oman are not available, but its rate of increase in accumulation has been formidable. Universal primary school was built up from scratch in twenty years, and a secondary school enrollment rate outperforming all the SACU countries was achieved in 15 years. From these tables we can conclude that Botswana's stock of human capital has reached the SACU average, after a period of

faster than average accumulation. Note however, that the convergence within SACU reflects catching up on the part of the smaller member countries against a pedestrian pace in South Africa.

We have so far discussed the output of investment in education. Let us now take a look at inputs. Table 7.8 shows the share of GDP spent on education, while table 7.9 shows the number of pupils per teacher in primary education.



**Table 7.8 Percentage of GDP spent on education**

Country	1965	1970	1975	1980	1985	1990
Botswana .....			8.5	7	6.8	7.6
South Africa .....					6	6.5
Namibia .....				1.6		8.6
Swaziland .....			3.7	6.1	5.9	6.0
Lesotho .....			4.5	5.1		3.7
Oman .....			1.6	2.1	4.0	3.5

Source: World Bank, 1995, UNESCO various issues

**Table 7.9 Pupils/teacher ratio in primary education**

Country	1965	1970	1975	1980	1985	1990
Botswana .....			33	32	32	32
South Africa .....						27
Namibia .....						32
Swaziland .....			38	34	34	33
Lesotho .....			53	48	55	55
Oman .....			27	23	27	28

Note: Namibia is for 1992. Source: UNESCO, various issues

Botswana spends the largest proportion of GDP on education in the 1990s, except for Namibia. Does this mean that Botswana has a higher quality of education, or does it mean that Botswana has a less cost-effective educational system? One indication of quality is the pupils/teacher ratio in primary education. Here Botswana's performance is second only to South Africa in SACU, but Swaziland and Namibia are catching up. Finally, Oman had the lowest pupil/teacher ratio until 1990 when it was overtaken by South Africa.

Note that the difference in expenditure is much larger than the difference in pupils/teacher ratio should indicate, particularly in the 1970s. This can probably be explained by two factors: First, the Botswana Government gave a high priority to secondary and tertiary education, which is much more expensive than primary education. Furthermore, Colclough and McCarthy (1980) suggested that although enrollment rates in primary education have reached universal levels, the quality of education on this level had hardly improved. Second, donors, particularly the UK and Sweden, were heavily involved in the education sector. During the first two decades after independence, Sweden was the major donor to the educational sector, and Swedish grants financed 75 percent of all investments in primary schools in rural areas and 66 percent of total investment in primary schools during the period 1973/74 – 1981/82 (Dahlgren et. al. 1994). Education and human resources have been the largest or second largest receiving sector for development aid during the entire period

since independence, which have contributed to the relatively high costs through the employment of expatriate teachers and through tied aid to the sector.

Nothing conclusive can be said about the quality and cost-effectiveness of education in Botswana from these figures alone. But thirty years of severe skill shortages and about average performance in a SACU comparison in spite of significantly higher than average expenditure on education, suggest that there is room for improvement.

#### *Manpower planning and income policy*

We now turn to incentives for individuals to educate. Government influences these incentives mainly through its income and manpower planning policy, but also through its industrial policy. An incomes policy aiming at reducing the rural-urban income gap and narrowing wage differentials in the formal sector was adopted in 1972. The measures taken implied that Government controlled wage determination in the public as well as the private sector. In addition the allocation of skilled labour was a Government responsibility. This resulted in a situation where the Government was a monopsonistic employer of all Botswana professional labour (Presidential Commission on Economic Opportunities 1982). This was reinforced by the regulation that the private sector was not allowed to attract skilled and professional labour by setting salaries above the levels paid by Government. At the same time, government set minimum wages that applied



to the private sector as well: National Policies on Incomes, Prices and Profits introduced in 1972, states that «employers and employees in the non-government sector are expected to await the outcome of Government's Salaries Review, and then to maintain rates of pay at a level that, job for job, strictly does not exceed the Government's rates.» (Budget speech 1976, p 11). This policy prevailed until 1990, when wages and salaries in the private sector were untied to civil service levels (Government Paper No.1 1990).<sup>78</sup>

The incomes and employment policies did indeed compress the wage differentials in the formal sector, to the extent that the Government Commission on Economic Opportunities in 1982 recommended a decompression of incomes at the upper level in order to improve incentives.<sup>79</sup> Minimum wages, to the extent that they are binding, usually contribute to slow employment creation and an unemployment problem, and thus undermine the intended income distribution effect.

The most likely impact of Botswana's income policy is as follows:

- A minimum wage, probably substantially above the market clearing wage, reduces the employment level and creates unemployment for unskilled labour. This is because the minimum wage by far exceeds the productivity level of those not employed in the formal sector, such that employing an additional worker at the going wage rate would incur a loss for the employer.<sup>80</sup>
- If we presuppose that primary education is a precondition for access to formal sector employment, this conclusion is in line with Psacharopoulos (1994) finding that the private return to primary and secondary education in Botswana is much higher than the social return.<sup>81</sup> The difference represents the premium of formal sector employment compared to the productivity level gained from primary and secondary education.
- At the other end of the wage and skill ladder, an effective maximum wage creates a scarcity of skilled

and professional labour. Note that the perceived scarcity is larger with maximum wages than it would have been in a competitive market for such labour, since demand for skilled labour is higher with maximum wages than it would have been otherwise.

- Psacharopoulos (1994) found that private return to higher education was higher than social return to higher education (38 and 15 percent respectively). These findings suggest that at least in 1983, there were still reasonable incentives to take higher education. However, the relatively low social return to higher education indicates that professional workers are either inefficiently allocated in the economy, or that the scarcity of such labour is somewhat exaggerated, or both. Skilled labour was in fact allocated to the public sector by default until recently.

Manpower planning combined with the income and wages policy have contributed to a relatively high quality of the civil service and moderate income inequality among those employed in the formal sector, but the side-effects are unemployment and scarcity of skilled manpower in the private sector. Finally, since skilled and unskilled labour are complementary in the production process, the priority of the public sector in manpower allocation may have further contributed to unemployment if the ratio unskilled to skilled workers is higher in the private sector (see also Peat (1983) for a discussion).

### **INVESTMENT IN PHYSICAL CAPITAL**

While accumulation of human capital is the most important engine of growth, accumulation of physical capital is essential for growth, but seems to be more driven by growth than the other way around. Botswana has had the highest rate of growth during the 1970s in our sample of countries, while Oman had the highest rate of growth during the 1980s. If the growth-drives-investment-theorem holds, Botswana should therefore have the largest capital accumulation rate for most of the period in question. Figure 7.1 shows the moving 5-year average investment to GDP ratio for the SACU countries and Oman.

<sup>78</sup> This step to some extent formalised a development that already was apparent in the economy as an increasing discrepancy between public and private sector wages had emerged.

<sup>79</sup> The recommendation was to lower the starting salaries and lengthen the period of time before the top salary in each category is reached.

<sup>80</sup> A World Bank study (1993) suggests that the minimum wages indeed are in excess of the wage level comparable with the persistent productivity level.

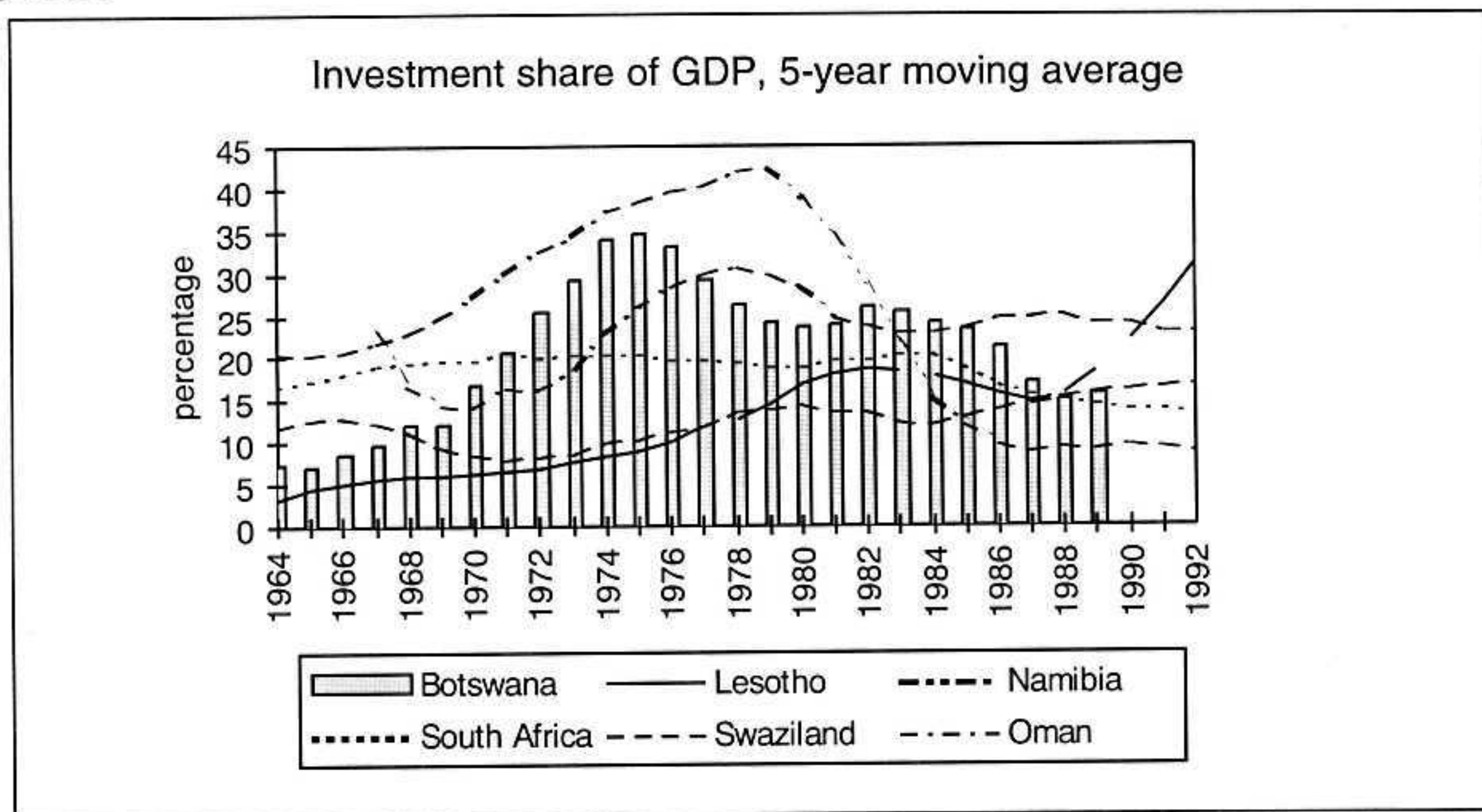
<sup>81</sup> Private return to primary education was found to be 99 percent and private return to secondary education was found to be 76 percent. Social return to primary education was estimated at 42 percent and 41 percent to secondary education.



The figure includes non-residential investment, excluding foreign direct investment, at 1985 constant international

prices. Figure 7.2 shows the accumulated stock of inward foreign direct investment in 1995.

Figure 7.1

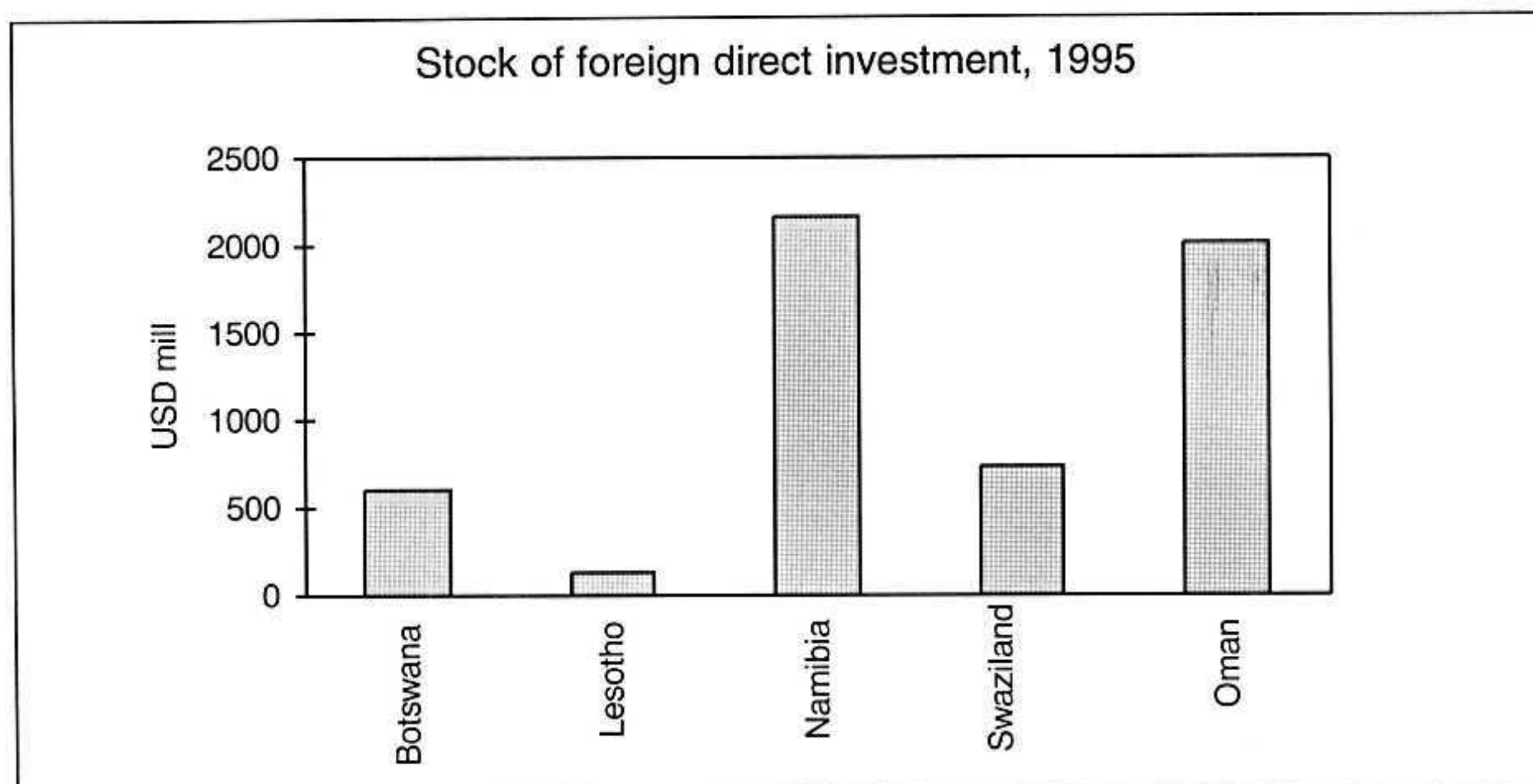


Source: Penn World Tables

Botswana's investment share is about average for the sample after the boom in the 1970s, while the stock of foreign direct investment is slightly below average for the

sample. It is probably reason for concern that such buoyant growth rates have not attracted more local investment.

Figure 7.2



Source: UNCTAD 1996



### Government consumption

Government consumption net of education enters the growth regression with a negative coefficient. This variable is presented in table 7.10. All the countries included in the table have a relatively high government share of GDP, but Botswana together with Namibia clearly came

out on top in recent years. Moreover, the share in Botswana was still rising. Thus, while government consumption in the other SACU countries, and to some extent Oman, has levelled off, government expenditure kept growing unabated in Botswana to a point where it is more likely to have crowded out the private sector than to provide a conducive environment for the private sector.

**Table 7.10 Government consumption as share of GDP**

	1965	1970	1975	1980	1985	1990
Botswana	26.6	21.7	23.8	24.3	31.8	37.8
Lesotho	7.4	10.3	13.9	16.1	26.3	25.7
Namibia	16.2	16.9	16.2	25.1	35.9	28.7
South Africa	17.2	16.7	17.9	20.3	22.9	23.7
Swaziland	28.2	24.0	23.3	25.3	22.3	24.7
Oman	na	8.7	27.8	23.7	25.8	

Source: Penn World Tables

### SUMMARY AND CONCLUSIONS

Botswana set out at independence with a very ambitious development programme and the first-priority objective of high growth and financial independence in the shortest possible time. On both accounts the objective was achieved during the first decade of independence, in close cooperation with donors and multinational corporations. Neither objective was obtained once and for all, however. As the external environment changes and as the resource base on which the first spurt in growth was based levels off, the objectives have to be obtained again and again, and the measures must be adjusted to new circumstances.

In the presence of mineral-rents, the dynamics of a fast-growing emerging market have not been seen in Botswana. The virtuous circle of growth which creates markets for new investments which in turn create demand for labour and skills, providing incentives for investing in human capital, driving further growth and so on, has not been observed to the extent seen in newly industrialised countries with similar growth rates. Increases in income in Botswana can be seen more as discrete shifts in income levels following large investments in mineral projects and the multiplier effects of mineral rent rather than genuine growth in the narrow sense of the concept.

Given the mineral wealth and the decision to exploit it, this could hardly have been avoided. The crucial question is whether Botswana has invested its mineral wealth in assets which can sustain a continued healthy growth. In

other words, has the «launch-pad» for sustained growth been built? This chapter has shown that Botswana has developed a sufficiently high quality of government and a reasonable stock of infrastructure. However, the pace of human and physical capital accumulation and the economic space for utilising the assets in a dynamic growth process is probably not yet in place. We tentatively suggest that the mining sector and the Government still occupies too much of the economic space to leave room for the transition towards growth in the real sense of the concept to gain momentum.

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## 8 Challenges for the future and lessons from the Botswana experience

Bechuanaland was a largely neglected British protectorate before independence in 1966. As a consequence, Botswana had very little financial resources and skilled personnel for development at independence. Nevertheless, the newly elected president and his government was confident that the country would actually manage to develop and create a reasonably good standard of living for its citizens. British grants-in-aid helped to bridge the initial resource gap, and shortly after independence international aid agencies responded positively to Botswana's appeal for assistance. Renegotiations of the SACU agreement a few years later was also instrumental in augmenting the resources available to Botswana. But what really made the big difference as far as resources are concerned, was the establishment and expansion of the diamond mining industry in the country.

Managing the good fortune of mineral rent is however a task full of pitfalls and temptations. Botswana has avoided the excesses of some of the mineral-rich countries on the African continent, and has in spite of considerable financial resources maintained a close relationship with donor countries. The study has found that planning and the planning system, which has been built up and developed with increasing sophistication, have been one of the major explanatory factors behind the success both as far as the achievements on growth and development are concerned and as far as the effectiveness of aid is concerned. The planning system actually provided an interface between donors and the Botswana Government which has served both parties well: Botswana obtained inexpensive funding together with technical assistance during implementation of projects, more general policy advice, and donor-funded expatriates who were employed in line positions in the ministries. This gave the Government the opportunity to take policy decisions on the basis of comprehensive and rigorous analysis while at the same time being fully in charge. This resulted in a bureaucracy characterised by reasonably good quality such that donors accepted a full integration of their projects into the planning system with little duplication or parallel administration.

Botswana earned a reputation for efficient aid management, which attracted more aid than what was necessary from a strictly financial point of view from the mid 1980s. It has been equally important that Botswana has had the resources to maintain the donor-funded investment pro-

jects throughout their expected life-span, largely due to mineral-led growth. We have, however, also found documentation to the effect that tied aid in several cases increased the cost of projects, and that a prominent presence of donors led to delays of projects and to costs being higher than what could have been expected from the quality of the output.

We have shown that the institutions and economic infrastructure for sound macroeconomic management are in place, although the planning system may need modernising and the financial sector reform under implementation is overdue. Further, we have argued that development assistance has contributed to this achievement, and that its contribution has been significant because of the integration into the Botswana planning and policy making process. We do, however, believe that the close relationship with donors and the prevalent donor-orientation beyond the point when significant reserves had been accumulated, may have influenced the perceptions and aspirations of the country both inside and outside Botswana. In particular, we believe that this relationship has contributed to the perception of Botswana as a poor, labour-abundant, capital-poor country and that policy measures have been designed accordingly, for too long. Finally we have argued that the Government has to a significant extent crowded out the private sector through its credit- and financial markets policy and through its manpower planning. The recent shift in emphasis towards a dynamic transition seen in the most recent NDP is promising, provided that sufficient economic space is left for the transition to gain momentum.

The acid test of the Botswana planning system is, however, yet to come. Hitherto, the cornerstones of Botswana's economic development have been i) A high rate of mineral- and government-led growth. ii) The country has had privileged access to the South African market, and received significant, albeit declining, transfers from the SACU common customs pool. iii) Botswana has been an island of stability, democracy and liberal economic policy in a conflict-ridden and inward-looking region. iv) As such it has attracted a lot of sympathy and transfers from donors. On all these four accounts substantial changes are taking place during the 1990s as a consequence of developments on the world's political and economical scenes.

The mineral sector has still potential for growth in Bot-



swana. New investments have, however, less impact on the economy as a whole than they used to, both because the economy is much larger and because new investments are likely to be smaller. An additional uncertainty related to the diamond market is the sustainability of the CSO cartel. It is one of the oldest cartels in the world, and cartels do not last forever, probably not even a diamond cartel. CSO is being challenged from both Russia and Canada during the 1990s, but it is in everybody, including the consumers' interest to maintain high prices. Therefore, the diamond cartel might survive in one way or another. Nevertheless, Botswana's major source of wealth and income is surrounded by much more uncertainty than Botswana has been used to in the past.

The privileged access to the South African market is being eroded by changes in the southern African region. Barriers to trade and investment are coming down and the difference between SACU and SADC conditions in trading with South Africa are narrowing. Besides, SACU is being renegotiated and most likely the outcome will further reduce the difference. Finally, new bilateral trade agreements involving South Africa are being negotiated. As a consequence, Botswana is facing a more competitive environment and possibly a gradual reduction in SACU customs revenue as the customs duties are coming down. More important is, however, the possibility of a SADC free trade area overlapping SACU. In that case non-SACU SADC countries would have equal access to the SACU market without having to pay the SACU tariffs on imported inputs from overseas. This would render Botswana in an unfavourable position.

Along the same line of reasoning Botswana's position as an island of stability, democracy and liberal economic policy is being eroded by stabilisation and liberalisation elsewhere in the region. This is of course a welcome development which will lead to higher growth and welfare in the entire region. Nevertheless Botswana's attractiveness will be even more dependent on its own merits than before.

Botswana's comparative stability relative to the region is not only eroded by events outside Botswana, however. Since the mid 1980s, and particularly following the 1994 elections, it has become clear that the ruling BDP is gradually losing ground to the opposition BNF. The BNF won a third of the seats in the parliament previously held by the BDP during the elections, and the BDP is said to have a problem of factions which is threatening to undermine its chances of holding on to power during the next

elections. Non-governmental organisations and the private press have increasingly made their presence felt on the local political scene. Much as it is true that these are signs that the democratic system is developing and becoming more dynamic, recent developments suggest more uncertainty for the future.

Finally, as a result of Botswana's relative prosperity, donors are leaving the country in favour of more needy recipients. Thus, during a short period of time, all four cornerstones in Botswana's development in general and Government's resource base in particular are being rocked. Growth and prosperity in future are therefore critically dependent on Botswana's ability to transform itself. We conclude this study by some thoughts and questions on this issue:

Our study has documented that the planning system has developed to a quite sophisticated level. The development has, however, been linear. The Plans revolve around *projects*, and are still almost entirely *expenditure* plans. They have proven reasonably effective in channeling more or less exogenous income flows to productive use, but how well is the system prepared to handle a more «normal» situation with hard budget constraints and the need to raise funds from sources more used to Government hand-outs than paying taxes? The situation is indeed recognised and the action suggested in NDP 8 is to «right-size» the Government. More attention to the revenue side and an efficient tax system is probably called for as well.

### Lessons from the Botswana experience

The study has shown that Botswana is a very special case as a recipient of development aid. First, it has had the good fortune to have one of the world's largest and most profitable deposit of diamonds under its soil, and has therefore been able to finance development expenditure from its own resources. Second, the country has to a great extent been integrated with the South African economy which in turn has been a pariah in the global community for the better part of Botswana's history as an independent nation. One important reason for donor support to Botswana has therefore been to compensate the country for the adverse effects of sanctions against South Africa. These two special features make it difficult to draw lessons for other developing countries and donors. There are nevertheless one important lesson to be drawn:

From Botswana's experience it appears that institutions matter more than financial resources. We realise that



building institutions requires resources, but nevertheless there is a wide dispersion of the quality of institutions within the same income group. Thus, the Botswana experience supports Mancur Olson's (1996) statement that the only «plausible explanation for the great differences in the wealth of nations are due to differences in the quality of their institutions and economic policies» (p 19). Botswana has developed the institutions necessary to handle development aid in a reasonably efficient manner. Most importantly, development aid has been an integrated part of the overall macroeconomic planning framework. Therefore, Botswana has been able to stick to its development strategy and obtain its objectives step by step. Furthermore, as opposed to poorer recipients of development aid, it has had the resources to maintain investments and sustain reforms. Our study therefore concludes with a paradox:

Was development aid reasonably efficient in Botswana because Botswana did not really need it? Or put differently: Are the reasons for underdevelopment and poverty and the reasons for development aid not being effective the same? If the answer to these questions is the affirmative, then there is indeed a need to rethink development policy on the part of both donors and recipients of aid. First, the recent emphasis on institution building appears to be fruitful. However, the exact nature of the interaction

between macroeconomic policy and the institutional framework is not very well understood at present. Therefore, an open-minded and exploratory dialog between donors and recipients is imperative in order to avoid institution building becoming yet another short-lived fashion in development thinking.

Second, there is probably a need for more emphasis on the future recurrent and institutional implications of donor-funded development expenditure and donor-supported reforms. In the absence of resource rent it takes time to develop a resource base sufficient to finance the maintenance of modern infrastructure and institutions. Therefore, a long-term commitment is necessary once the decision to support such developments is taken. The Botswana experience has also shown that aid dependency easily develops even when aid is not needed from a financial point of view. In order to avoid this, a long term commitment should also include a credible plan for gradual reduction and the phasing out of development aid.

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