## Case Study 15

# African Success Story at Risk: Botswana

Botswana is a landlocked country in sub-Saharan Africa with high population growth and a high incidence of disease. Yet it has attained one of the highest average per capita growth rates in the world since obtaining its independence from Britain in 1966.

Botswana shows that mineral wealth can be a benefit in a country that has the appropriate political development in place. Botswana has experienced by far the highest rate of growth in sub-Saharan Africa: 8.4% per year over the 1965–1990 period and a still-high 6.0% in 1990–2005. It is one of 13 countries identified by the Spence Commission as having ever experienced a 25-year period averaging at least 7% growth—and the only one in Africa. According to the United Nations Development Programme, Botswana's per capita income increased ninefold from 1970 to 2010. Since its independence, Botswana has gone from being among the poorest countries in the world to one with a greater purchasing power parity (PPP) per capita income than Thailand or Brazil and similar to that of Malaysia and Mexico.

Botswana has higher income per person than bordering country South Africa. And by sharp contrast, its neighboring country to the east, Zimbabwe, has a GNI of just $640; rather than growing, the economy of Zimbabwe has been shrinking.

What explains Botswana's remarkable success? This is a case in which the benefits of direct foreign investment for spurring growth are very clear. Moreover, success has been based on both favorable geography (huge diamond deposits) and favorable institutions (relatively effective protection of private property, rule of law, checks and balances, and good incentives for government to play a constructive role). Effective governance matters; as noted by the Commission on Growth and Development (Spence Commission) (page 71), "Botswana has a tradition of long-term planning guided by a vision for the future direction of the economy." When all these elements are present, conditions for development are particularly auspicious.

Botswana's diamond wealth is vast, and hence the experience of Botswana shows that the "curse of natural resources" does not haunt all countries equally. Although diamonds have been a dictator's best friend in countries such as the Democratic Republic of Congo (DRC) and Sierra Leone, in Botswana diamond exports have been consistent with democracy and broad-based development. Jeffrey Herbst, a leading expert on African comparative political development, also notes that Botswana is one of the few African countries with a geography that is suitable for consolidating the power of the nation-state. The population is concentrated in the eastern part of the country, where Gaborone, the capital city, is located. In contrast, such countries as Nigeria and the DRC have widely dispersed centers of population.

Botswana is a multiparty democracy, although it has been dominated by one particular party, the Botswana Democratic Party. Elections have been held every five years since 1965. There is a free press, and there are no political prisoners. Botswana accomplished these impressive economic and political results while surrounded by white minority regimes (in South Africa, Zimbabwe, and Namibia) for the first half of its history—and even as nearby civil wars have spilled over into its territory and a steady stream of refugees has threatened to upset the social order.

Botswana has some geographic disadvantages that in other countries can act as a barrier to growth and development. It is a landlocked country with no access to seaports, a characteristic that is statistically associated with slow growth. It has generally poor conditions for agriculture. Only about 4% of the land can be easily cultivated. Most of the country is Kalahari Desert land, suitable only for summer grazing (almost all the rainfall takes place during the summer months). The five-year drought of the mid-1980s was very harsh by any standard, and other serious droughts have stricken the country with some regularity. The climate is tropical, and tropical countries have generally fared much more poorly in income levels and growth than temperate-zone countries. Botswana also shows that high population growth need not always forestall rapid growth in income per capita. Thus, Botswana demonstrates that geography is not destiny and that good institutions can take advantage of opportunities of geography (natural resources, in particular) that are squandered or even make matters worse in countries with poor institutions. And it suggests that good institutions can overcome the constraints imposed by geography. Daron Acemoglu, Simon Johnson, and James Robinson attribute Botswana's success in large measure to favorable institutions, particularly protection of property rights.

Successful development requires both private and public goods. There is a need to prevent the government from doing harm, such as engaging in parasitic or predatory behavior, and at the same time to encourage the state to act in support of broad-based economic development, including provision of public goods needed for economic development. For this, minimal requirements are a cohesive society that is able to avoid substantial strife such as civil wars and a government that is both responsive and responsible to society.

As noted earlier, Botswana has been a well-functioning multiparty democracy. Although the Botswana Democratic Party has never lost national power, there is evidence that it responds to electoral threats by delivering improved government services. Government has played a constructive role in the economy by providing infrastructure, extension (information and training) services, and subsidized veterinary services and other support for the development of the cattle industry; these initiatives have been broad-based rather than earmarked for favored clientele. Government has also constructively managed relationships with mining interests, encouraging exploration by foreign companies and demanding and getting a share of profits without driving investors away. For example, favorable contracts were achieved with the De Beers diamond cartel that resulted in fully half of diamond profits going to the state in tax revenue. The government, in turn, managed these resources constructively, smoothing government services from good to bad periods and investing heavily in education. How a country spends its wealth matters, whether that wealth is large or small. Botswana has attained essentially universal primary education, a rare achievement in Africa, and more than half of children enroll in secondary education, twice the average elsewhere in sub-Saharan Africa.

From 1982 to 1987, Botswana suffered a brutal drought that severely affected poor rural peoples. In many countries, their plight might have been ignored until significant starvation began to catch the attention of the world. But Botswana built on its social security system and provided relief to the rural poor through a three-pronged system of maintaining food availability, as detailed by Jean Dreze and Amartya Sen: (1) a guarantee of public employment for cash wages that could be spent on available food, (2) direct food distribution to selected groups, and (3) programs to increase agricultural productivity and restore food availability. Botswana's free press and democratic system seem to be major factors in this response.

On other human development indicators, such as infant mortality and health professionals per capita, Botswana also scores well. However, Botswana ranked only 98th out of the 159 countries listed on the 2010 Human Development Index, 38 points lower than its GDP rank would predict; in other words, Botswana's human development is significantly lower than predicted by its level of real per capita income. Botswana has been affected in these rankings due to mortality from AIDS; the nation has the second-highest HIV infection rate in the world. But in other fields, its human development performance in the context of sub-Saharan Africa is extremely favorable; despite the AIDS epidemic, only two countries in this region rate higher than Botswana on the 2010 HDI. But clear progress is being made; between 2001 and 2011, the rate of new HIV infections dropped by 71% in Botswana—one of the greatest improvements in the world in this period.

The deeper question is why Botswana has been able to create and sustain better institutions. Acemoglu, Johnson, and Robinson surveyed Botswana's institutional history and suggest that the juxtaposition or interaction of five factors have been important.

1. Botswana possessed precolonial tribal institutions that encouraged broad-based participation and placed constraints on political elites. Commoners were allowed to make suggestions and criticize chiefs.
2. British colonialization had a limited effect on these precolonial institutions because of the peripheral nature of Botswana to the British Empire.
3. Upon independence, the most important rural interests, chiefs and cattle owners, were politically powerful, and it was in their economic interests to enforce property rights.
4. The revenues from diamonds generated enough rents for the main political actors, increasing the opportunity cost of, and thereby discouraging, further rent seeking.
5. Political leaders made sensible decisions. These included turning over diamond mining rights from tribal (Bangwato) to national control (this transition was initiated in a statesmanlike way by the postindependence leader Seretse Khama, who was himself a member of the Bangwato tribe). Reduction of the powers of the tribal chiefs was another such decision. Each reduced the chances of internecine conflicts that have plagued so many other African countries. It might be said that in Botswana, although elites enjoyed a good share of the diamond eggs, they did not kill the goose that laid them, and they faced real constraints on their ability to take a larger share.

So unfavorable features of geography need not be destiny, natural resources need not be a curse, and good institutions can underpin dramatically superior economic performance.

With a clear, natural-resource-based comparative advantage and the requisite minimally supporting institutions, Botswana successfully struck a deal with foreign investors that was good for the national interest while avoiding serious corruption. As a result, the neoclassical approach—expanded and updated with emphasis on required human capital, the need for good institutions, support for exports, farsighted government policy and shared growth—appears to do a good job of explaining this country's success.

But perhaps the most important question of all is left unsettled. What can countries without the favorable starting economic institutions and factors favoring development of good-quality state institutions do to get better institutions? Officials in other African countries who are seeking to reform their polities can work toward emulating some of the best features of governance in Botswana and publicize government and private-sector failures as well as relative success in neighboring countries. Societies as a whole can find themselves in poverty traps, in which government behavior itself is part of the vicious circle of underdevelopment. The presence of a positive regional role model is of great importance in spreading successful development, as illustrated by the case of Japan in East Asia. One blemish on Botswana's development record is that the minority Khoikhoi, also known as Bushmen, fare worse than the majority Botswana.

Despite its successes, Botswana may be facing its gravest crisis since independence. It now has a relatively high level of income inequality, comparable to that of Latin America, as well as chronically high urban unemployment. But by far the worst problem is HIV/AIDS. According to UN reports, the HIV prevalence rate is as high as 24% of the adult population aged 15 to 99—and a stunning 33% among pregnant women. Fortunately, the HIV prevalence rate among those aged 15 and below is less than 2%, a promising sign *if* new infections can be stopped with lifestyle changes and safe-sex practices. But the United Nations reports that "60% of the youth have no access to youth-friendly reproductive health services." Without AIDS, it is estimated that life expectancy in Botswana would be over 70 today. But as a result of the AIDS epidemic, life expectancy at birth in Botswana was just 55 years in 2010. The United Nations estimates that nearly 20% of children in Botswana have lost a parent. Erika Reynolds found that one-third of the workforce is currently infected, which is apparently having a negative effect on productivity. Still, in the last few years, Botswana has had a much more decisive response to AIDS. About 6% of government spending is allocated to HIV/AIDS programs, including free retroviral treatment for all citizens, and life expectancies are now rising.

It is reasonable to ask, if Botswana has such good institutions and government quality, how has the country allowed itself to reach the point at which so much of its prime-age population is HIV-positive? The failure of government to respond as decisively as in Uganda (see Box 8.8 in Chapter 8), despite the epidemic's later arrival in Botswana, may be viewed as a reflection of inconsistent government quality or of cultural characteristics. The test now is whether government quality and social development can halt the spread of HIV to the next generation. Botswana at least responded to the challenge better than its neighbor, South Africa. The last few years have been more encouraging. There is hope that the epidemic is abating somewhat. If it does subside, Botswana can again shine as a beacon of hope for broader development in Africa. ■

### Sources


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## Concepts for Review

Central bank
Commercialization
Currency board
Currency substitution
Development banks
Direct taxes
Financial liberalization
Financial repression
Group lending scheme
Indirect taxes
Informal finance
Microfinance
Monetary policy
Money supply
Organized money market
Privatization
Rationing
Rotating savings and credit association (ROSCA)
State-owned enterprises (SOEs)
Transparency (financial)
Unorganized money market
Value added tax (VAT)