A CLOSER LOOK AT BOTSWANA'S DEVELOPMENT: THE ROLE OF INSTITUTIONS

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ABSTRACT:

This article examines the history of Botswana's post-independence economic growth. It explores the conditions that led Botswana's political elites to pursue growth-promoting policies. This article will utilize an analytical framework based on current literature concerning two key areas of political economy: 1) the resource curse; and 2) the link between institutions and growth. It discusses the origins of Botswana's institutions, and then analyzes the interaction of the institutions and interests within the development policy process that took place after independence. This article argues that the Batswana institutional arrangements in place at independence were favourable to political elites and their interests. They pursued growth-promoting policies, such as providing public goods and ensuring macroeconomic stability, not only because these policies were popular for the constituencies of the Botswana Democratic Party (BDP), but also because they brought direct benefits to the elites. This article stresses the importance of institutions in providing an environment conducive to good policies, and in constraining opportunistic behaviour. However, the role of human agency in determining the kind of policies that are ultimately adopted is also discussed. In the case of Botswana, the leadership of Seretse Khama — the country's first president — proved decisive. This article then assesses the ambiguous consequences of four decades of diamond-driven growth. It concludes by discussing a number of policy implications that arise from the analysis and providing suggestions for future research.

INTRODUCTION

Although most countries in the world enjoyed economic growth after 1960, development in most sub-Saharan African countries has been disappointing since their independence. Observing that in sub-Saharan Africa GDP per capita is now less than what is was around 1970, two economists gave one of their recent paper a conspicuous title: "The Economic Tragedy of the XXth Century: Growth in Africa" (Sala-i-Martin and Artadi 2003). While unmet economic expectations have characterized the fate of most of this continent, Botswana has followed a different path from the rest of sub-Saharan Africa. Indeed, this African country achieved the world's highest rate of economic growth between 1966 and 1999 (Leith 2005, 5). According to the World Bank World Development Indicators (WDI), while in 1966 Botswana had a GDP per capita of only US $283,[1] in 2006 it had become an upper-middle-income country. Botswana's remarkable economic growth has been fuelled by its vast mineral resources, very especially diamonds. The country's accomplishments are unique, if only because they seem to run contrary to the resource curse thesis: resource abundance might have harmful effects on societies, such as slow growth, rent-seeking or conflict.

Following pioneering work by Auty (1993), Sachs and Warner (1995) undertook a large-sample study and found a negative relation between natural resource abundance and growth. Following this influential initial contribution, a substantial amount of research has been done on the various dimensions of the resource curse, e.g. economic (Gylfason 2001; Sachs and Warner 1995, 2001; Sala-i-Martin and Subramanian 2003; Sarraf and Jiwangi 2001), political (Le Billon 2005; Robinson, Torvik and Verdier 2006; Ross 1999) and conflict (Collier and Hoeffler 1998, 2005; Fearon 2005; Humphreys 2005; Le Billon 2001, 2005; Ross 2004). In parallel, an important body of research has emphasized the prominent role of institutions in economic growth (Acemoglu et al. 2001, 2003; Easterly and Levine 2003; Knack 2003; North 1991; Olson 2000), and another has shown the role of institutions with respect to the resource curse (Robinson et al. 2006; Acemoglu et al. 2003; Melhum et al. 2006a,b).

This article will utilize an analytical framework based on current literature concerning two key areas of political economy: 1) the resource curse; and 2) the link between institutions and growth. It will discuss the origins of Botswana's institutions, and then analyze the interaction of institutions and interests within the development policy process which took place after independence. The main research question refers to the initial conditions that allowed Botswana to develop after independence: *why have Batswana*[2] *political elites pursued growth-promoting policies*? This article argues that the institutional arrangement in place in Botswana at independence, favourable to political elites and their interests, was determinant. Growth-promoting strategies, such as providing public goods (education, infrastructure) and ensuring macroeconomic stability were chosen not only because these policies were popular for the constituencies of the Botswana Democratic Party (BDP), but also because they brought direct benefits to the elites. This article recognizes the role of human agency in the initial strengthening of the state — the decisive leadership of Botswana's first president, Seretse Khama. The secondary research question of this paper relates to the effects of Botswana's diamond-driven growth on the structure of the country's economy: *how has diamond-driven growth affected the economic structure of present-day Botswana*? It is argued that the (over)-reliance on diamonds has created adverse economic structural problems such as persistent income inequality, an excessively large government, and lack of economic diversification.

This article is divided in four parts. First, I provide a theoretical framework that outlines different dimensions of the resource curse and discusses the role of institutions both in respect of growth and the resource curse. The second section provides a background of Botswana, and of the country's pre-independence institutions. Third, this article analyses the interaction of institutions and interests in the development policy process that took place after independence. Fourth, by examining the current developmental situation in Botswana, I provide an assessment of the consequences of four decades of diamond-driven growth on the socio-economic structure of the country. Finally, I discuss the policy implications of this research and provide suggestions for future research.

ANALYTICAL FRAMEWORK

The Conflict Dimension of the Resource Curse

The alleged link between natural resources and the occurrence of conflict has been notably publicized by Paul Collier and Anke Hoeffler. They suggested that countries dependent on primary commodities[3] suffer a higher risk of experiencing political violence in part because the availability of resources rents would increase the financial feasibility of rebellion (Collier and Hoeffler 1998, 2005; Collier 2007). Past conflicts of this typology include the purportedly diamond-driven conflicts in the Democratic Republic of Congo and Sierra Leone, which came to the attention of the public, journalists and pundits alike. Natural resources abundance has also been linked to poor economic growth and governance, two factors generally associated with a greater likelihood of conflict (Collier and Hoeffler 2005, Collier 2007; Le Billon 2005; Ross 1999). The presence of resources rents could also increase the value of controlling the state, hence producing civil wars. The level of dependence, conflictuality and lootability of a resource also affects the vulnerability of a country to the risk of conflict (Le Billon 2001, 581). For instance whether diamonds are kimberlitic (requiring technology and capital to extract, thus making them easier to control) or alluvial (relatively more lootable) will affect both the likelihood and pattern of conflict. Furthermore, natural resources may lead to conflict via grievances such as inequality, forced migration (associated with resource exploitation) and unfair distribution (Humphreys 2005, 511). Another mechanism connecting natural resources and conflict is the "sparse network mechanism": Resource-dependent economies may develop weaker linkages between citizens and a less robust civil society, increasing the risk of conflict (Humphreys 2005, 513). It is nonetheless important to stress that several aspects of the relationship between natural resources and conflict still remain poorly understood and controversial (Ross 2004) and that different patterns of violence can be linked to resources.

The causality itself of the link between natural resources and conflict has been recently challenged. Notably, Brunnschweiler and Bulte (2008) found that "civil war creates dependence on primary sector exports, but the reverse is not true, and resource abundance is associated with a reduced probability of the onset of war" (2008, 1). Moreover, the robustness of Collier's initial results has been challenged (Fearon 2005; Humphreys 2005), and the empirical evidence linking resource curse and conflict is not convincing (Ross 2004). Nonetheless, this body of research had helped generate various new research agendas that examine in-depth the relations between resources and violence, for instance by looking at the geographies and spatiality of resource wars (Le Billon 2001, 2008), and at resource ownership (Jones Luong and Weithal 2006). In the meantime, interesting policy suggestions have emerged, such as the need to regulate extractive operations to improve transparency and reduce the risk of conflict over resource rents (Humphreys 2005; Collier and Hoeffler 2005). Finally, Humphreys (2005) stresses the need to tackle the ways in which natural resources revenues induce grievances, such as unequal distribution of resource rents. Since natural resources may generate conflict through their impact on economic growth, this article now turns to the economic dimension of the resource curse.

The Economic Dimension of the Resource Curse

The observation that resource-poor countries often outperform resource-rich countries in economic growth led Sachs and Warner (1995) to examine the negative association between natural resource abundance and economic growth. In their view, the consequences of the resource curse are purely economic and correspond to what is called the 'Dutch disease'. A resource boom (in the form of either a terms-of-trade improvement or a resource discovery) has two main effects. The first effect is an appreciation of the real exchange rate, which in turn reduces the international competiveness of the manufacturing and agricultural sectors. The second is the tendency to draw capital and labour away from non-boom sectors (such as manufacturing), making them less competitive (Ross 1999; Sarraf and Jiwanji 2001). As Sachs and Warner explain:

> When natural resources are abundant, tradable production is concentrated in natural resources rather than manufacturing, and capital and labor that otherwise might be employed in manufacturing are

> pulled into the non-traded goods sector. As a corollary, when an economy experiences a resource boom (either a terms-of-trade improvement or a resource discovery), the manufacturing sector tends to shrink and the non-traded goods sector tends to expand (1995, 6).

A comparative advantage in resources may therefore result in lower rates of total factor productivity, hence limiting long-term growth (Sachs and Warner 1995). Other economic impacts linked to the resource curse include declining terms of trade[4] (Ross 1999, 302), revenue shocks engendered by the instability of international commodity markets (Ross 1999, 303), fiscal mismanagement aggravated by price volatility of primary commodities (Le Billon 2005, 17), and failure to diversify the economy due to the poor productive linkages between the resource sector and the rest of the economy (Le Billon 2005, 19). Resource-rich states may also under-invest in education, consequently limiting their long-term economic growth prospects (Gylfason 2001). Finally, Sarraf and Jiwanji (2001, 4) argue that mineral rents were commonly used for the protection of the manufacturing (non-boom tradable) sector through subsidies and protectionist strategies that often proved inefficient and unsustainable. Recognizing the role of political actors in the making of economic decisions, this article now examines the political dimension of the resource curse.

The Political Dimension of the Resource Curse

Among the important mechanisms underlying the relationship between natural resource abundance and economic growth is the behaviour of political elites. The abundance of natural resources can lead to increased rates of corruption and rent-seeking behaviour by the ruling elites (Le Billon 2005, 22). Indeed, the streams of wealth associated with resource exploitation create strong incentives for those in power to maximize their short-term well-being by capturing resource rents. Politicians may then use those rents to buy votes through inefficient income redistribution (Melhum et al. 2006, 3-4), as opposed to engaging in bargaining with their population. In the same spirit, Robinson, Torvik and Verdier (2006) have examined the political incentives that resource booms generate for elites and how they affect national income allocation and development. They assume that policy failures are in fact “rational political strategies as politicians respond to the incentives induced by resource rents” (Robinson et al. 2006, 448). Accordingly, they find that the interaction between resource income and institutional quality determines the overall impact of resource booms on the economy, the efficiency in the rest of the economy and the degree of clientelism in the public sector (Robinson et al. 2006). In the same vein, instead of establishing coherent economic policies that maximize long-term social welfare, resource-rich governments may engage in clientelist practices in order to manage political constituency demands (Le Billon 2005, 18). This kind of state behaviour may then lead to slower growth and increased social tensions.

As discussed above, the effects of a resource curse are transmitted through political, conflict and economic channels. Le Billon (2005) effectively summarizes what the resource curse is:

> In the absence of strong institutions and a diversified economy, large resource rents are likely to result in poor economic performance and governance failure that contrast against the high expectations of populations associated with a resource bonanza. Resource dependence tends to lead to a particular kind of political rule, shaping powerful but often narrow coalitions that dampen political accountability. In their quest for power, rulers often capture and redistribute resource rents at the expense of statecraft and democracy, putting their discretionary power and fluctuating rents at the core

> of a political order resting on clientelism [potentially leading to] conflicts and violence surrounding resource exploitation projects (Le Billon 2005, 27).

In short, the abundance of natural resources may have significant adverse consequences for societies. It seems to lower the time horizon of the elites, who face diminished incentives to care about the long-term and to make 'deals' with their populations. As institutions shape the context in which political behaviour takes place, the next subsection examines in depth the links between both institutions and growth, and institutions and the resource curse thesis.

Institutions, Growth, and the Resource Curse

Institutions are "the humanly devised constraints that structure political, economic and social interaction [such as] constitutions, laws and property rights" (North 1991, 97). Long-term economic prosperity depends on the absence of economic predation and on having well-defined and enforced property rights — one of the central rules of the game (Olson 2000). However, Sachs and Warner (1995, 2001) claim that institutions are not decisive for the resource curse. Such a view has been challenged by numerous subsequent researchers.

First, institutions have been shown to be a more powerful explanation of cross-country variations in income per capita than measures of geographical endowments or trade and macro-economic policies (Acemoglu et al. 2001; Easterly and Levine 2003). According to Acemoglu et al. (2001, 1395), institutions created by European colonizers continued after independence; post-independence regimes tended to be similar to pre-independence regimes. According to this endowment theory, "differences in endowments shaped initial institutions and these initial institutions have had long-lasting repercussions on private property rights protection and other institutions" (Easterly and Levine 2003, 9). Accordingly, the quality of a country's institutions determines its level of income per capita. Easterly and Levine (2003) utilize an institutions index taking into account: 1) voice and accountability; 2) political stability and absence of violence; 3) government effectiveness; 4) regulatory burden; 5) rule of law; and 6) freedom from graft.[5] They found that, "policies do not explain cross-country differences in GDP per capita once one controls for the impact of [geographic] endowments on institutions and on economic development" (Easterly and Levine, 35). In short, according to these findings institutional quality is determinant for a country's long-term economic growth.

Second, Mehlum, Moene and Torvik (2006a) argue that the main reason for diverging growth experiences of resource-rich countries lies in differences in the quality of institutions. They focus on the critical role of institutions for economic development and assert that "the variance of growth performance among resource rich countries is primarily due to how resource rents are distributed via the institutional arrangements" (Mehlum et al. 2006a, 2). Correspondingly, the quality of institutions explains whether a country avoids the resource curse or not (Melhum et al. 2006a, 16; Acemoglu et al. 2003). Robinson et al. (2006) also find that the overall impact of resource abundance depends on the institutions, a result that confirms the findings of Sala-i-Martin and Subramanian (2003) for whom "natural resources appear to have a strong, robust, and negative effect on growth by impairing institutional quality." Low quality institutions may be conducive to bad policy choices since they provide an environment that allows inefficient, politically-motivated redistribution policies to take place. High-quality institutions constrain decision-makers and render rent-seeking or clientelist policies infeasible or costly (Robinson et al. 2006, 465).

While acknowledging the role of institutions and their influence on economic growth, Glaeser et al. (2004) argue that they only have a second order effect on economic outcomes, and that the first order effect derives from human and social capital. These factors shape both institutional and productive capacities of a country (Glaeser et al. 2004, 27). In this view, institutions do matter, but policies pursued by decision-makers are the key determinants of economic growth. This contradicts the findings, made by Easterly and Levine (2003), that policies affect cross-country differences in per capita income through institutions. Large-sample studies obviously miss the particular interaction taking place at the micro level, hence the need for case studies to explain growth puzzles of apparent outliers, such as Botswana (Rodrik 2003, 3).

In light of this literature review, the analysis will now focus on Botswana's post-independence development. This article recognizes the important role of institutions in providing the environment in which political behaviour takes place and economic policies are chosen. The next section provides a discussion of the origins of Botswana's institutions.

THE ORIGINS OF BOTSWANA'S INSTITUTIONS

General Background to Botswana

Botswana is a landlocked country located in Southern Africa with a low-density population of about 1.8 million. Botswana has a subtropical climate, and only four percent of its land can be cultivated. More than 80 percent of the land surface of the country is occupied by the Kalahari Desert, which makes it suitable for seasonal grazing and thus raising beef cattle (Acemoglu et al. 2003, 93; Leith 2005). Botswana became a British protectorate in 1885 and became independent in 1966. Upon independence, it was one of the poorest countries in the world. Botswana had only 12 kilometres of paved road, 100 graduates from secondary school and 22 from university (Acemoglu et al. 2003, 80). It was a largely rural, cattle-based society. It is noteworthy to mention that diamonds were discovered in the country in 1967, *after* independence. Kimberlitic diamonds now account for about 75 percent of Botswana's export revenue, 45 percent of government revenue, and 35 percent (approximately US $3 billion) of the country's GDP (EIU 2007).

The Origins of Botswana's Institutions

Botswana's modern political institutions evolved from both the traditional (pre-colonial) Tswana culture, and the British influence introduced during the Protectorate years (Robinson and Parsons 2006). In the Tswana tribes, there was an implicit bargain between the chief and his people. He was accountable to them and faced constraints on his rule; they had the ability to express their disapproval of the way he was conducting his leadership. The political system provided consultation between the chief and his people through a public forum, the *kgotla* (Du Toit 1995, 21). Most tribal (public) affairs were discussed there. The chief was responsible for looking after the provision of public goods, such as law and order, defence against raiders, and public works (Leith 2005, 20). Land was collectively owned by the tribe, but cattle were predominantly owned by chiefs and other elites. As Leith (2005, 22) contends, "Since the principal private asset was cattle, owners of large cattle herds were the effective economic elite [and] they had a clear interest in maintaining property rights." Finally, a habit of consultation and compromise was embedded in the relation between the chief and his people, but also between different groups and members in Tswana tribes.

From the early nineteenth century onwards, Tswana tribes had to struggle to protect their lands. Aggressive pressure by black neighbours first, and white colonialists later (especially the

Boers[6] from the south), had dispersed the Tswana tribes over what is now Botswana (Du Toit 1995, 20-21). Land was abundant and the main asset (cattle) of the Tswana tribes mobile. As a result, they had the opportunity to move instead of fighting over a specific territory. The result was "a dispersion of geographically separated groups, with a common language and institutions, reflecting a common heritage" (Leith 2005, 19). Moreover, the important variance of the climate and the persistent threat of aggression from both black and white expansionism reinforced the need for cooperation among Tswana tribes. Since no single Tswana state was strong enough to dominate the others, "intertribal cooperation and disputes had to be negotiated rather than dictated by a dominant individual tribe" (Leith 2005, 20-21).

Tswana chiefs began to interact with British traders early in the nineteenth century, exchanging ivory for valuable goods such as guns (Acemoglu et al. 2003, 95). Interests in the region increased significantly after the discovery of gold and, in the face of aggression from the Boers, Tswana chiefs sought British protection (Du Toit 1995, 21-22). The British refused to intervene until the Berlin Conference in 1884 that launched the 'scramble for Africa' and Germany's explicit desire to extend its influence in the region: "[s]uddenly Botswana occupied an important strategic position blocking German South West Africa on one side and the Boer states on the other" (Acemoglu et al. 2003, 95). In 1885, most of the territory of contemporary Botswana was established as the Bechuanaland Protectorate and not, importantly, as a Crown colony. That allowed for the continuation of Tswana political institutions.

The colonial arrangement suited both parties. Tswana chiefs gained protection from external aggression, at the cost of only minimal loss of their power to govern. The British secured control over a strategic territory linking South Africa to the future Rhodesia, providing a road to the interior of the continent.[7] As some authors contend, "the Tswana tribes were amalgamated into the British Empire mostly because of the strategic location of their territory, not because the territory was thought to be particularly valuable or attractive in itself (Acemoglu et al. 2003, 95). Botswana, unlike Kenya or Rhodesia, did not have rich agricultural lands, and the mobility of cattle made it difficult for the colonial power to engage in taxation (Leith 2005, 23). As a result, colonialism in Botswana was very light. Although the British had the intention to eventually incorporate the Bechuanaland Protectorate into South Africa, they kept delaying the union, notably in the face of well-organized opposition by the Tswana tribes. The British, however, introduced a few measures that affected the economy, such as the introduction of a 'hut tax' that incited Batswana to join the labour market in South Africa (Du Toit 1995, 27).

Although non-Tswana tribes were also part of the Protectorate, they gradually became subject to the authority of Tswana chiefs who were governing specific tribal territories (Leith 2005, 24). The Tswana sought to integrate (and assimilate) other groups in their institutional structure (Acemoglu et al. 2003, 94). This led to the cultural dominance of the Tswana tribes, and to the diffusion of their norms and rules. Admittedly, Botswana was lucky to avoid the divide-and-rule strategies that Belgium, France and Britain pursued elsewhere to secure their control over new colonial territories.[8] British colonialism in Botswana was limited, which allowed pre-colonial institutions to endure.

To sum up, Botswana's institutions at the time at independence displayed a number of significant features. First, Batswana political elites faced constraints on their rule and were accountable to their people. Second, a tradition of public participation, and consultation was embedded in the policy process. Also, Tswana tribes had achieved a form of integrative and relatively peaceful cultural dominance over non-Tswana tribes, and, consequently, the Botswana polity was mostly a homogenous one. These structural factors were to have great influence in post-independence political decisions regarding the country's development. The analysis now turns to Botswana's post-independence development.

Economic Development in Post-Independence Botswana

Botswana became an independent country in 1966. In the second half of the 1950s, the British had begun contemplating new political arrangements for the Protectorate. With the wave of independence taking place in Africa after 1960, discussion in respect to new constitutional arrangements took place. Local political parties had emerged in the early sixties, and the Botswana Democratic Party (BDP) was founded in 1962 by Seretse Khama and others. Seretse Khama, who would be Botswana's president from 1966 to 1980, was the hereditary leader of the largest Tswana polity. He was also married to a white Englishwoman and had received his education in Britain; therefore, he was sympathetic to Western ideas (Leith 2005). The BDP overwhelmingly won the pre-independence elections of 1965 and has remained in office by obtaining a comfortable majority every subsequent election. Botswana has been a multi-party democracy since its independence, albeit with no political alternation.

The Interests of the Elites

At the time of independence, most of the people of Botswana were rural dwellers engaged in agriculture. As mentioned above, cattle were the main private asset. As Leith explains:

> While the distribution of cattle ownership was highly skewed, there was no significant alternative form of income or wealth that might have become the focus of an intersectoral political contest, and even the non cattle-owning residents of the rural areas had an indirect interest in the health of the cattle sector. Further, since cattle and beef were the principal exports, the joint economic interest of all those involved in the cattle lay in maintaining Botswana's external competitiveness (2005, 55).

In the absence of any other significant sector to develop, the early development plans were focused on the rural sector. Building infrastructure and developing the rural economy, such as the promotion of cattle ranching, was entirely in the interests of the BDP elites (Acemoglu et al. 2003, 101). Indeed, as one scholar argues, "initially the interests were mostly homogenous and were based on cattle, thereby creating an overwhelming encompassing interest" (Leith 2005, 121). This gave them a strong incentive to respect private property and to promote coherent state national institutions (Robinson and Parsons 2006, 135). The politico-economic elite, "a well-defined coalition of interests formed among the bureaucracy, the ruling party, and the commercial sectors of the society" (Du Toit 1995, 35), made use of the policy process to guide economic development. Their interests were decisive in determining the development path followed after independence, which focused on the provision of public goods and investment in infrastructure, health, and education in rural sectors. Governmental investment in both physical and human capital had initially high rates of return and promoted economic growth. Such policies responded to the expectations of the broad base of BDP constituencies. It also directly led to the enriching of the elites by increasing ranching income (Acemoglu et al. 2003, 104).

Relations between De Beers and the Government

The discovery of vast diamond resources at the end of the 1960s obviously modified Botswana's income prospects. It also generated substantial rents for the government. The passing in 1967—*before* the discovery of diamonds—of the Mines and Minerals Act granted the government subsoil mineral rights (Leith 2005). However, developing the mineral sector required significant investment. The government had to persuade foreign investors to sink considerable funds into the search for and development of mineral deposits. As Leith contends, "foreign investors in mineral projects bear a significant risk: The host government may engage in time inconsistent policies — agree to favourable terms today, but once the investment is sunk, renege and capture most of the returns [for instance by nationalizing without compensating]" (Leith 2005, 113).

One of the solutions to this problem was for the Batswana government to acquire 50 percent equity in Debswana, a joint venture company owned in partnership with De Beers. This had the effect of lowering the discount rate for Botswana and De Beers, thus raising the present value of the future benefit stream from this mutually advantageous arrangement (Leith 2005). Dunning (2005) has argued that Botswana's rare bargaining power in its relationship with De Beers, which allowed the country to obtain a large share (more than 50 percent) of the revenue from its diamond production, is one factor that stabilized the flow of revenue from diamonds (Dunning 2005, 461). The second factor is that the world market for diamonds is mostly controlled by De Beers. Acting as a quasi-monopoly has allowed De Beers to stabilize diamond prices, notably through its marketing cartel, the Central Selling Office, which allows the company to raise the amount it pays producers far above their production costs (Dunning 2005). The successful arrangement between the government of Botswana and De Beers has delivered massive and continuing revenues to the state. Those revenues have consequently driven the country's economic development (Maipose 2003).

Botswana's Institutions

Nevertheless, the relative stability of diamond prices did not ensure Botswana would avoid the detrimental effects of resource abundance. Prices and income were not that stable. As Leith mentions, "Botswana has been hit by serious shocks in the form of substantial year-to-year output fluctuation in major sectors, particularly agriculture and mining, and international terms of trade instability" (2005, 103). Many resource-exporting countries have experienced export booms followed by dramatic increases in government spending, resulting in a slowdown in the growth of other sectors of the economy and poor macroeconomic stability (Sarraf and Jiwanji 2001, 10). The government of Botswana created shocks absorbers to protect the economy and congruously chose to keep expenditures growing at a slower pace than revenues (Leith 2005). It also took into account the absorptive capacity of the economy. To avoid immoderate increases in spending during boom periods, the government accumulated significant foreign exchange reserves, which further helped to manage the nominal exchange rate and avoid real appreciation of the local currency (Sarraf and Jiwanji 2001). The government controlled fiscal expenditure through the use of National Development Plans (NDP) that determined domestic spending and investment in advance and ensured a legislative control over public expenditure. The NDP process and the concomitant financial controls on public expenditure are important institutional arrangements that have allowed the government to stabilize the growth of public spending and to limit inflation (Leith 2005, 108; Maipose 2003). Further macroeconomic stability — such as managing the exchange rate, absorbing excess liquidity through the money market, and managing international reserves — was ensured by the central Bank of Botswana, an institution created a decade after independence (Leith 2005, 108).

Importantly, Acemoglu et al. (2003), argue that diamonds contributed to the consolidation of Batswana institutions of private property rights by "increase[ing] the opportunity cost of undermining the good institutional path" (Acemoglu et al. 2003, 106). Also, the responsible behaviour of the government with respect to its relationship with De Beers contributed to making its commitment to respect property rights more credible for all economic actors (Leith 2005, 114). According to one Batswana scholar, "relatively well-institutionalised private property values, […] rule-based governance and independent Judiciary" explain the good management that has taken place, and contributed to encouraging the sustained inflow of foreign direct investment from the 1970s onwards (Maipose 2003).

Batswana elites have operated in an institutional setting that ensures they would retain their political power by pursing sound policies. They were themselves the main beneficiaries of the country's development. Furthermore, the institutional context of a multiparty democratic system of government (Maipose 2003) placed restrictions on the opportunity to use diamond revenues to engage in ineffective rent-seeking or abusive clientelism. This is consistent with the arguments of Mehlum et al. (2006a,b) and Robinson et al. (2006) on the critical role of institutions with respect to avoiding the resource curse.

Seretse Khama's Leadership

While institutions in Botswana have definitely provided an environment conducive for growth-promoting policies, it is important to acknowledge the role of luck or agency in Botswana's initial success. Khama's strong leadership and early decisions led to the critical strengthening of the Batswana state and its institutions, and prove decisive in establishing the authority of the state. First and most important, Khama's far-sightedness in the passing in 1967 of the Mines and Minerals Act vested the government of Botswana with subsoil mineral rights. Before this legislation, the rights were accrued to the tribes (Acemoglu et al. 2003, 99-100). As Leith (2005, 60-61) explains, Khama chose to direct mineral wealth to national purposes instead of favouring his home tribe. Had he not put forward this policy, conflicts around diamond revenue-sharing might have arisen.[9] As Humphreys asserts: "The degree to which natural resources have adverse effects depends on *prior* levels of state strength" (Humphreys 2005, 527). Arguably, Khama's decisive leadership on this issue significantly contributed to diminished risks of early conflict over diamond wealth.

Furthermore, Du Toit (1995) cites several other key decisions by Khama that led to the strengthening of the Batswana state: "the separation of state personnel from politics; the transfer of land allocation from the chiefs to the state; the incorporation of customary courts into the state legal system; the ongoing presence of significant expatriate personnel in the public service; and the co-optation of potentially chiefly challengers" (DuToit 1995, cited in Leith 2005, 39). Hence, while Botswana's institutions were favourable to growth-promoting policies, those institutions were not purely exogenous (or the continuity of pre-independence institutions); they were also, to a certain extent, the result of human agency. In the words of Pierre du Toit, "the way [Khama] used [his] position to build a broad coalition of interests *within* the state to pursue the construction of a specific *kind* of state has been another of the crucial factors in the strength of the state and the stability of democracy in Botswana" (1995, 36).

In sum, this section has analyzed the interaction of the institutions and interests within the development policy process which took place after independence. The government pursued growth-promoting policies such as providing public goods and ensuring macroeconomic stability. Those policies were not only popular for the BDP's constituencies, but they also brought direct benefits to the elites. The favourable institutional context prevailing at independence was subsequently reinforced through the leadership of Seretse Khama. It is important to emphasize that Botswana's institutions thus provided an environment that was conducive to good policies and put constraints on opportunistic and inefficient behaviour. In order to deepen our analysis, the article will now provide a brief assessment of how nearly four decades of diamond-fuelled growth has affected the economic structure of today's Botswana. Consistent with the evolution of the thinking about development, the emphasis will be on whether economic growth has seen concomitant human development or not.

FOUR DECADES OF DIAMOND-DRIVEN GROWTH: A BRIEF ASSESSMENT

Botswana's Achievements

Botswana's accomplishments are numerous, and at first glance they look unblemished. As mentioned above, the country has sustained impressive rates of economic growth over an even more remarkably long period of time. As a result, Botswana has now reached an upper-middle-income status (Good 2005). The government proudly provides almost free education; adult literacy has increased from 34 percent in 1981 to 81 percent in 2006 (EIU 2007). Female students represent the majority of students at primary, secondary and university levels. Botswana's infrastructure level has tremendously improved since independence: The country now has a well-developed road network linking all major population centers; the telecommunications system is fully digital and efficient; and Gaborone is now a small but modern capital. It is noteworthy to mention that Botswana is constantly given high marks for the quality and integrity of its public institutions. The country noticeably has the highest score for African countries in Transparency International's Corruption Index (Transparency International 2005), and it has signed onto the Kimberley Process.[10] Moreover, it ranks between the 65th percentile and the 93rd percentile in the Worldwide Governance Indicators[11] (Kaufman et al. 2008).

The government has continuously promoted the diversification of the economy. Although the manufacturing sector still represents only 5 percent of the economy (Leith 2005), financial and business services now account for more than 10 percent of GDP (EIU 2007). The government has recently promoted the service sector, particularly the development of a downstream diamond industry. Nonetheless, Botswana's economy has been built on the diamond mining industry. Mining still contributes for 35 percent of GDP and provides the government with between 45 percent (EIU 2007) and 65 percent (Good 2005) of its revenues. It is noteworthy to mention that the diamond industry in Botswana will undertake a major expansion in the coming years (Holm 2007).

A Distorted and Uneven Development

Nevertheless, for all the money diamonds have brought to the government, Botswana's success story ought to be balanced against its many development failures, as decades of strong and sustained economic growth have brought only limited structural socio-economic transformation (Good 2005; Hillbom 2008; Holm 2007; Maipose 2003). In the words of a Batswana scholar, "Botswana is a mono-economy, heavily dependent on one mineral, diamonds, that is indirectly linked to other sectors of the economy through direct contribution to export earning and strong fiscal linkages" (Maipose 2003). Diamonds do not provide the country with a lot of jobs as Debswana, the corporation (jointly owned by the government and the multinational De Beers) that runs all diamond mining operations in Botswana, employs only about 6,500 people—just two percent of the country's workforce (Holm 2007). It is important to mention that even after decades of rapid and sustained GDP growth, high unemployment persists, as large numbers of workers, including those with university degrees, cannot find jobs. Additionally, youth unemployment has reached significant proportions (Good 2005; Hillbom 2008; Holm 2007; Leith 2005, 92). Unemployment estimates vary, but some claim that up to 40 percent of the working age population remains unemployed (Holm 2007; Good 2005). Correspondingly, income inequality has widened since independence, and much of Botswana's population has not benefited from the overall growth in the economy (Sarraf and Jiwanji 2001, 15; Hillbom 2008). In fact, the Gini coefficient has been estimated at 0.54 in 1986; 0.61 in 1993; and 0.6 in 2006 (WDI 2008; UNDP 2006). Such numbers imply that Botswana has one of the world's highest levels of income inequality (Hillbom 2008, 206). It is also important to mention that behind the façade of these figures lays the relative exclusion of some disadvantaged groups. The Basarwa/San minority has been notoriously marginalized and has long suffered from entrenched structural poverty. As Good deplores:

> The San/Basarwa are exceptional in their cumulative condition of landlessness, impoverishment and their officially ascribed 'underethnic' or underclass status of 'nomads'. Although they are the indigenous people of the land and region and culturally and contiguously associated with other Remote minorities, they face discrimination that is uniquely deep, ongoing and visceral (2005, 38).

Inequality and exclusion are consistent with the view that direct benefits of diamond revenues have been mainly restricted to a fortunate minority, the overlap of interests from the wealthy, the political leaders and the bureaucracy that supports the status quo (Hillbom 2008). The absence of sizeable social movements or contesting political parties (Good 2005; Hillbom 2008) implies that change and equity seems unlikely to take place.

In fact, Botswana's diamonds have created a society that is, to a great degree, dependent on the government. Holm contends that:

> Citizens initiatives without government support are almost non-existent […] the economic paternalism of the ruling elite has thus meant that government has created and effectively enforced a highly rigid set of rules, providing a major impediment to private entrepreneurial activity and the emergence of economic development in other sectors of the economy (2007).

Diamond wealth has over time stimulated the rapid and sustained increase of government employment. The government sector now accounts for about 40 percent of GDP and 45 percent of the country's workforce, if state-owned companies are included (Leith 2005; Holm 2007). The government has created new ministries to promote economic diversification, but as Maipose contends, "state created institutions to carry out the newly acquired mandates appear to have ended up enlarging further what is already a large public sector" (2003). In the meantime, the marginal productivity of those new government jobs is low, which contributes to the "crowding out of private formal-sector employment via the rapid growth of government wages and salaries" (Leith 2005, 91). Botswana's need to empower indigenous private entrepreneurs, diversify the economy, and turn wealth into jobs remains a significant challenge (Maipose 2003). Although Botswana is renowned for its good governance, cases of corruption are apparently on the rise (Transparency International 2005; Good 2005). The BDP has also been criticized for being elitist and unaccountable to citizens (Leith 2005). Good asserts that "elite corruption and an avoidance of executive accountability were evident in Botswana in the 1990s, and non-accountability remains a continuing tendency in military and security affairs, human rights and the San/Basarwa"(2005, 33). Finally, the country has been reluctant to engage in reforms (such as adopting new anti-corruption tools and promoting better transparency), and has refused to sign the United Nations Convention against Corruption and the Extractive Industries Transparency Initiative (EITI)[12] (Transparency International 2005).

The incentives structure underlying the elites' behaviour has therefore significantly changed since the post-independence years. Vested interests now shape governmental decision-making and favor the status-quo (Good 2005; Hillbom 2008). In fact, as Leith contends, "institutions, once created, tend to take on a life of their own, to develop constituencies of their own, and, thus, to persist even after they have evolved from being growth-promoting into being growth-retarding" (2005, 97). The capture of the Botswana state by specific interests seem to have gradually led to clientelist practices and policies, increased tensions due to the disenfranchisement of the poor in the country, and the (over) expansion of the bureaucracy.

Diamonds have been said to have significantly contributed to Botswana's laudable achievement. However, as one author contends, "when the 'miracle' is closely examined, as from the ground up, diamonds are seen as an affliction, inhibiting industrialisation and the class formation which normally accompanies it, restricting democracy to a formalistic electoral shell, and strengthening elitism, discrimination and inequalities" (Good 2005, 45). Indeed, Botswana shows signs of a distorted development: Massive unemployment; an overgrown government; complacent elites; one of world's highest levels of income inequality; an obeying civil society; and reluctance to engage in governance reforms.

Lastly, it is important to mention that Botswana has been greatly affected by the HIV/AIDS epidemic. According to the Joint UN Programme on HIV/AIDS, the prevalence of HIV/AIDS at the end of 2003 among Batswana aged 15-49 was estimated at 37.3 percent (EIU 2007). As a result, life expectancy at birth as dropped from 65 years in 1992 to 35 years in 2005 (WDI 2008). Though the government has created various structures at different levels to cope with the epidemic, and while the quality of healthcare (including almost universal access to ARVs) is better than in most other afflicted Sub-Saharan countries, the consequences for the country's socio-economic development are disastrous (UNDP 2006). In part as a consequence of the HIV/AIDS crisis—but also because of the failure to raise standards of living, as discussed above—Botswana experienced a huge drop in its Human Development Index (HDI) from 95th to 126th between 1992 and 2002 (Good 2005, 35). Such a decline in the UNDP's standard means of measuring well-being seldom happens during a period of strong economic growth, adding weight to the view that Botswana's growth has not been a panacea.

POLICY IMPLICATIONS AND CONSIDERATIONS FOR FUTURE RESEARCH

Numerous implications can be derived from this analysis of the adverse consequences of diamond-driven growth in Botswana. First, in order to diminish the risks of civil tensions, the government should find ways to tackle income inequality, improve the distribution of wealth, and better include the San minority. Recent research emphasizes that both vertical (between rich and poor) and horizontal (across regions of country) inequality can be harmful: "High levels of vertical inequality may retard development, can reduce the poverty-alleviating powers of economic growth" (Easterly 2002, cited in Ross 2007, 237); horizontal inequality increases the likelihood of violent conflict (Steward and Brown 2007, 223). Botswana's high level of unemployment, especially among youth, is clearly a threat to social stability. Second, developing a more vibrant and independent civil society could force the elites to be more accountable to the people. A strong civil society would also ensure that the disadvantaged have a voice in the policy process. Third, the government should undertake anti-corruption initiatives and improve transparency. For instance, it should sign the United Nations Convention against Corruption, endorse and implement the EITI, and strengthen its own anti-corruption body. Finally, the government should consider ways to distribute rents from diamond wealth automatically and directly to the citizens (Sala-i-Martin and Subramanian 2003, cited in van der Ploeg 2006, 46-47; Ross 2007). This initiative could diminish the level of corruption and rent-seeking (Sala-i-Martin and Subramanian 2003), although it could prove difficult to manage.

Several considerations arise from the analysis this article has provided with respect to future research. First, the nature and implications of the unique integration between De Beers and the government has not been discussed in depth in this paper. Further research regarding this issue is needed in order to better comprehend the effects this peculiar relationship implies for Botswana's development. Second, in view of Botswana persistently high Gini coefficient more research is needed in order to investigate the impact of mineral booms on the vertical distribution of income (Ross 2007). Third, more research is required regarding the means to better distribute diamond wealth. Humphreys (2005) stressed the need to tackle the ways in which natural resources revenues induce grievances, such as unequal distribution of resource rents. It is also important to better understand the linkages (or lack thereof) between Botswana's mineral sector and the rest of the economy, and between people working in the mineral sector and the rest of the labour force. Fourth, future research on Botswana should investigate the dynamic under which the interests of the elite have changed — and the implications for the governance of the country. Finally, looking at the role and influence of South Africa on Botswana would certainly provide insights.

CONCLUSION

This article has examined the conditions that led Botswana to sustain its spectacular post-independence growth. It has utilized an analytical framework based on current literature concerning two key areas of political economy: 1) the resource curse; and 2) the link between institutions and growth. I have discussed the origins of Botswana's institutions, and then analyzed the interactions within the development policy process that took place after independence. This article has emphasized the importance of institutions in providing an environment conducive to good policies and in constraining opportunistic behaviour, but has also acknowledged the role of Seretse Khama (the country's first president) in the strengthening of the state institutions that were prevailing at independence. I have then briefly assessed the consequences of four decades of diamond-driven growth on the country's socio-economic structure. Despite remarkable achievements, behind the façade lay several development failures: large income inequality; exclusion; significant and persistent unemployment; increasing elitism and clientelism; over-expansion of the public sector; failure to diversify the economy; lack of public accountability; and ultimately a stagnant Human Development Index. The Botswana's case thus provides a unique example for those interested in development studies. It indeed allows for an appreciation of the causes underlying a rare African growth 'success story'. Meanwhile, the Botswana case is also that of the gradual capture of the state by a fortunate minority interested in the status-quo, and in the end it demonstrates the many difficulties associated with transforming mineral wealth into comprehensive development. Finally, this paper has discussed several policy implications that arose from the analysis, and provided suggestions for future research.

NOTES

[1] In constant 2000 US $.
[2] Botswana's people are called Batswana. See Leith (2005).
[3] The term "primary commodities" includes both agricultural products and natural resources (Humphreys 2005).
[4] The decline of terms of trade for natural resources argument was relevant in the 1980s and 1990s, when prices were tumbling (See Ross 1999). However, in part with the rapid economic development of China and India, demand for primary commodities has soared in recent years. Accordingly, there are reasons to doubt that the argument of declining terms of trade still holds today.
[5] This institutions index has been set up by Governance Matters: Worldwide Governance Indicators (WGI) Project at the World Bank. See Kaufman et al. 2008
[6] The Boers were white farmers of Dutch descent that after British domination of South Africa in the early nineteenth century moved north to found their own republics.
[7] Rhodesia refers to the geographical area now occupied by today's Zimbabwe and Zambia. It was named after Cecil Rhodes, a British businessman that exploited Southern Africa's resources through its British South Africa Company.
[8] For instance, one may think of the contemporary dire consequences of the "construction" by Belgium of Tutsi cultural superiority over Hutu at the time of the colonization of the Great Lakes of Africa.
[9] Leith (2005), Good (2005) and duToit (1995) discuss potential sources of conflict.
[10] The Kimberley Process is "a joint governments, industry and civil society initiative to stem the flow of conflict diamonds." See Kimberley Process, "Background" http://www.kimberleyprocess.com/background/index_en.html/ (accessed March 30, 2008).
[11] The WGI are the following: 1) Voice and accountability; 2) Political stability; 3) Government effectiveness; 4) Regulatory Quality; 5) Rule of law; and 6) Control of corruption. See Kaufman et al. (2008).
[12] "The Extractive Industries Transparency Initiative (EITI) aims to strengthen governance by improving transparency and accountability in the extractives sector." See EITI 2008, *Summary*, http://eitransparency.org/eiti/summary (accessed April 1, 2008).

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