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# DEVELOPMENT POLICY AND ECONOMIC PERFORMANCE IN BOTSWANA: LESSONS FOR THE TRANSITION ECONOMIES IN SUB-SAHARAN AFRICA

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**Abstract:** Botswana is exceptional, both within Africa and among less developed countries, as a whole, when comparison is made of macroeconomic performance, development management, and good governance. The country has developed an international reputation as a nation that stands out among developing countries, and in Africa in particular, for its generally successful development policy and economic performance. In this paper, the discussion and analysis is centred on the nature of Botswana's development policy and economic success and the lessons that can be derived for the transition economies of sub-Saharan Africa. © 1998 John Wiley & Sons, Ltd.

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## 1 INTRODUCTION

In whichever way measured, or determined, Botswana is one of Africa's star performers. The country has been a success story of sound development policy and impressive economic performance during the past two decades, despite being one of the poorest countries in the world when it achieved independence in 1966.

What is the nature of Botswana's economic success? What lessons can the transition economies of sub-Saharan Africa learn from that success? This paper discusses and analyzes those two sets of issues.

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## 2 DEVELOPMENT POLICY AND ECONOMIC PERFORMANCE IN BOTSWANA

Development policy and performance in Botswana has attracted considerable attention in recent years from the international community. Botswana is a success story of similar ranking to that found in the East Asian countries. Not surprisingly, the political and policy context of Botswana's development performance are similar, in many respects, to that of the East Asian tigers. The country, therefore, remains as an exceptional state in sub-Saharan Africa. It practices prudent economic management; it is a tolerant democracy with a penchant for good governance; it maintains an apolitical and generally effective bureaucracy; it boasts an environment that is conducive to private investment and promotes market-oriented sustainable development; and it engenders macroeconomic stability through, among other things, efficient management of foreign exchange resources and incentives to potential producers of foreign exchange.

Botswana has been transformed into the richest economy in Southern Africa (excluding South Africa) and is now classified as an upper middle-income country. For much of the post-independence period, Botswana was one of the fastest growing economies in the world, in sharp contrast to the economic stagnation and deterioration of most of Africa, and due, in large part, to the country's emergence as the world's second largest producer of diamonds, after the Russian Federation. Botswana has therefore been able to move from a pre-independence poverty-stricken economy, dependent primarily on the cattle industry and subsistence agriculture, to rapid growth with substantial increases in export earnings and government revenues (Hope, 1997a). However, it must also be pointed out here that, prior to the discovery of diamonds, the cattle industry and agriculture were predominantly owned and controlled by citizens and that both set the pattern of the capitalist development thrust and made the country an exception to the African pattern whereby state intervention and control became the framework of development policy (Tordoff, 1997; Tsie, 1997; 1996).

Except for 1993, when there was an economic downturn and negative growth, the economy of Botswana has been growing positively during the post-independence period. Real GDP, a measure of the output of the country, increased, on average, by 9.3 per cent annually between 1975–76 and 1994–95, while real GDP per capita increased by almost 6 per cent per year, on average, during the same period. Provisional estimates for 1995–96 indicate a robust real GDP growth of 7 per cent and a per capita real GDP growth of 4.3 per cent (Republic of Botswana, 1997). The primary source of growth is the mining sector. The mining sector now accounts for more than one-third of GDP while the agricultural sector accounts for less than 4 per cent.

Botswana has a very open economy. The country's outstanding export performance changed its large structural trade deficit in the 1960s to a visible trade surplus by the mid-1980s. With a surplus on the current account, in most years, combined with inflows of aid finance, the balance of payments has been in surplus since 1982. This favourable balance of payments position of Botswana is reflected in the country's substantial reserves of foreign currency which stood at US\$4.9 billion in 1996 and provided for some 38 months of import cover for goods and services. In the short-to-medium term, it is quite obvious that Botswana would not face a foreign exchange

constraint and that state of affairs has also enabled the country to maintain an increasingly liberal exchange control regime. For example, exchange control restrictions on current account transactions have been eliminated; commercial banks are permitted to open foreign currency accounts for both residents and non-residents; and pension funds and related institutions are allowed to invest up to 70 per cent of their assets outside of Botswana (Bank of Botswana, 1997).

Botswana's import pattern reflects both its close proximity to South Africa and its membership in the Southern African Customs Union (SACU) which permits duty-free imports from the more industrialized South Africa. The SACU was originally established in 1910 creating a customs union which now includes Botswana, Lesotho, Namibia, South Africa, and Swaziland. The SACU is regarded as one of the more operational and properly functioning customs unions in Africa (Hope, 1997a).

Currently, approximately 78 per cent of Botswana's imports originate from the SACU area while only about 7 per cent comes from other African countries, primarily Zimbabwe. Another 8 per cent of imports come from Europe, and the balance from the Rest of the World. During 1996 the major categories of imports were food, beverages and tobacco which accounted for 17 per cent of total imports, machinery and electrical equipment which accounted for 16 per cent, and vehicles and transport equipment which accounted for 13 per cent. With respect to exports, Europe is Botswana's largest market with a 74 per cent share (of which the United Kingdom gets 46 per cent) and the SACU area gets 21 per cent. The major categories of exports in 1996 were diamonds which made up 69 per cent of the total, vehicles and parts which accounted for 17 per cent, and other mining which accounted for 5 per cent.

Since most consumption expenditure in Botswana is on goods and services which have to be imported, it is arguable that the country's rate of inflation would be considerably influenced by that of South Africa because of the high proportion of traded goods, consumed in Botswana, which are imported from South Africa (Bank of Botswana, 1997). In 1996, the average annual rate of inflation declined to 10.1 per cent compared with 10.6 and 10.5 per cent in 1994 and 1995, respectively. The inflation rates in Botswana and South Africa had converged at around 10 per cent in the first six months of 1995 but have since diverged with lower rates prevailing in South Africa. The inflation differential between South Africa and Botswana at the end of 1996 was 0.7 per cent in South Africa's favour.

The increase in the production and export of diamonds has given a tremendous boost to government revenues in Botswana. The government of Botswana collects between 75 and 80 per cent of the profits of the diamond industry through a combination of royalty payments, profits tax, withholding tax on remitted dividends, and dividends received by virtue of its 50 per cent shareholding in the diamond mining company Debswana. The two other important sources of government revenues are Bank of Botswana earnings and the country's entitlement from the customs, excise, and sales duty revenue pool of the SACU. Domestic taxes contribute only a relatively small proportion of government revenue. Mineral revenue accounts for 40 to 50 per cent of total government revenue and grants, Bank of Botswana profits for approximately 20 per cent, and the SACU pool earnings for approximately 16 per cent.

As a consequence of good economic performance, the government of Botswana has also been able to increase its expenditures in all areas of social and economic infrastructure as well as services (Hope, 1997a). Government total expenditures increased from US\$344 million in 1984–85 to US\$1.4 billion in 1995–96. Since 1983 the

government of Botswana has been running a budget surplus through its prudent fiscal policy which is designed to ensure that expenditures are consistent with development priorities and limits, rather than reaching too far too fast and risking the country becoming a victim of 'Dutch Disease' (Harvey and Lewis, 1990; Jefferis, 1997; Norberg and Blomstrom, 1993).

Despite Botswana's considerable economic progress during the past three decades, there are not enough jobs for those seeking employment and, consequently, unemployment has become of some concern in the country (Hope, 1996a). After declining steadily from 1984 onwards, the unemployment rate began to increase in 1991 and stood at 21 per cent in 1994. In 1994, the female unemployment rate was 23 per cent compared with 20 per cent for males (Republic of Botswana, 1997).

Considerable unemployment has occurred in Botswana despite some remarkable growth in both formal and informal sector employment opportunities during the post-independence period. Formal sector employment grew from 116,800 in 1985 to 228,900 in 1991. This represented an average annual growth rate of 12.5 per cent. By 1991, 49 per cent of the labour force was employed in the formal sector. However, in 1992, formal sector employment declined to 224,800 reflecting a negative growth of 1.8 per cent for the first time since 1972. This resulted from a downturn in economic activity which led, in turn, to widespread retrenchments, particularly in the construction and textile sectors.

Between September 1991 and March 1993, private sector employment declined from 144,600 to 131,800, a decrease of approximately 8.8 per cent. However, over that same period, the total growth in employment in the public sector, in absolute terms, was almost enough to compensate for this. By the end of 1993 onwards formal sector employment growth was restored and over the four years from March 1991 to March 1995, total employment in the formal sector grew by 5.2 per cent, indicating an average annual growth rate of 1.3 per cent. Preliminary estimates indicate a 1.7 per cent growth in formal sector employment between March 1995 and March 1996 (Bank of Botswana, 1997).

Unemployment in Botswana tends to be high among the 15–24 age group (which accounted for 52 per cent of the total unemployed in 1994) and higher for females than for males. Overall, the female unemployment rate has tended to exceed that of males. However, over time the gap has been narrowing. Between 1981 and 1994 the ratio of female to male unemployment rates fell from 1.5 to 1.1.

When compared with men, women, who are employed, have a much lower representation in the formal sector and a greater representation in the informal sector. Women make up approximately 36 per cent of formal sector employees and 75 per cent of informal sector employees. However, data on the informal sector is scarce and where they exist they should be treated with caution since there is no proper recording of statistics in this sector. Nonetheless, there are significant indications that informal sector employment in Botswana has increased during the past decade (Hope, 1996a; Republic of Botswana, 1997). However, it should also be pointed out that the high overall rates of unemployment in Botswana are primarily the result of high urban youth unemployment rates which, in turn, have resulted from a lack of educational attainment of the many school leavers (mostly aged 15–19) who therefore find themselves unable to be absorbed into the formal job market (Republic of Botswana, 1995).

Despite Botswana's impressive macroeconomic performance there is also growing concern with respect to poverty and inequality in the distribution of income and

wealth between and within the urban and rural areas. More than half of the rural population, and a considerable proportion of the urban population, have incomes which are inadequate to meet basic needs.

The most recent data estimate the number of households living in poverty to be 43 per cent. The estimates for rural and urban areas are 55 and 30 per cent, respectively. In terms of the distribution of disposable income, the 1993–94 Household Income and Expenditure Survey (HIES) indicates that the poorest 40 per cent of households earned 11.6 per cent of the total national income; the next 40 per cent earned 29.1 per cent of the national income; and the richest 20 per cent earned 59.3 per cent of the total income. The corresponding figures from the 1985–86 survey were 10.7 per cent, 27.8 per cent, and 61.5 per cent, respectively, for the three categories. The Gini coefficient in 1993–94 was 0.537 compared with 0.556 in the 1985–86 HIES and indicates that income is unevenly distributed in Botswana (Republic of Botswana, 1995).

According to the 1993–94 HIES, the average monthly median disposable cash income (the sum of all cash incomes less taxes and cash transfers out of the household) in the urban areas was US\$278 and was more than 3.5 times that for the rural areas which was US\$72. For total disposable income (the sum of disposable cash income and income in kind net of goods transferred out of the household), the average monthly median was US\$292 for the urban areas compared to US\$157 for the rural areas. At the national level 63 per cent of the households have incomes equal to or less than US\$271 per month. In addition to the rural–urban comparisons there are also some significant differences related to gender. The average male-headed household has a monthly income that is a little more than two times that of female-headed households both at the national level and in the urban areas.

Poverty in Botswana can also be explained by the grossly-skewed distribution of wealth and the lack of potential for income generation. Poverty persists in Botswana for a number of reasons, primary among which is the fact that 32 per cent of households have no family member in formal sector employment. Further, 57 per cent of all households do not own cattle, which is the principal agricultural asset in the country, and 78 per cent of the households own no more than 10 cattle. In addition, there is a direct correlation between the household head's education and disposable income. Poverty restricts the development of human, social, and economic potential. In Botswana, the core of poverty lies in the rural areas. Rural poverty, in turn, is the major factor influencing urban poverty. Rural poverty leads to migration to the urban areas which, in turn, leads to higher rates of urban unemployment.

One of the issues related to poverty in Botswana that is not discussed much in the literature is the feminization of poverty. The number of female-headed households increased slightly from 45 per cent in 1981 to 46 per cent in 1994. Forty-eight per cent of rural households are female-headed compared with 36 per cent in urban towns. Female-headed households also have larger household sizes than males, across all strata, and the urban unemployment rate in 1994 was 22 per cent for females compared with 14 per cent for males (Republic of Botswana, 1995).

However, although it is necessary to point out the poverty and unemployment dilemma in the context of Botswana's outstanding economic performance, it is also necessary that the analysis be considered in a broader comparative context for it to be fully understood. No country, however wealthy, is immune to pockets of poverty. In the United States, for example, which has 4 per cent of the world's population and

20 per cent of the world's wealth, 19 per cent of the population were considered to be poor during the period 1989–94 (UNDP, 1997a). The incidence of poverty therefore has to be considered in relationship to other relevant socio-economic indices (Nteta *et al.*, 1997). In that regard, a much more useful comparative index of socio-economic development is the human development index (HDI) developed by the United Nations Development Programme. The HDI is a composite index of income (real GDP per capita), health (life expectancy), and education (adult literacy and combined primary, secondary, and tertiary enrolment). Using the HDI for 1994 (the most recent), Botswana was ranked 97 out of 175 countries. In sub-Saharan Africa, Botswana was only surpassed by South Africa, Mauritius, and Seychelles (UNDP, 1997a).

### 3 LESSONS FOR THE TRANSITION ECONOMIES IN SUB-SAHARAN AFRICA

Development policy, and the resultant successful economic performance, in Botswana have been driven by a tradition of political and economic liberalization which, in turn, have unlocked the country's vast potential for prosperous sustainable development. The lessons, therefore, for the transition economies in sub-Saharan Africa are quite clear. Just as Botswana has been able to turn itself around from a poverty-stricken nation into a dynamic centre of growth, political stability, and prosperity, without becoming a victim of Dutch Disease (Hope, 1996a; Aron, 1996), the other sub-Saharan Africa countries need to face their own challenge of political and economic liberalization, employing their abundant resources, to realize sustainable development and economic progress.

The concept of transitional economies refers to economies that are in transition from a planned/state dominated framework to a market-oriented framework. This transition includes liberalization and decentralization of the economy as well as democratization of the state. It therefore involves a complex process of institutional, structural, and behavioural change (de Melo *et al.*, 1996).

The concept of transitional economies emerged with the collapse of party and state domination of the economy and society of the former Soviet Union and other countries of Eastern Europe. Since that time, the need for, and the process of, transition has taken hold in other parts of the world including Africa. Many sub-Saharan Africa countries have embarked on the process of dismantling central planning while increasing their reliance on market forces for regulating their economies. However, that process has not been comprehensive and there remain several persistent problems to be tackled which can be informed from the development policy experience of Botswana.

In recent times a consensus has emerged in the development policy community about the causes of Africa's economic crisis and the need for the transition process to take hold. Despite some views to the contrary, the overwhelming point of view is that the crisis is the inevitable outcome primarily of the failure of post-independence development policy formulation and implementation in the majority of the sub-Saharan Africa countries.

A brief summary of that consensus would suggest that domestic policies for economic development created a basis for stagnation and decline. Post-independence development policy was formulated through a statist ideological framework which

was then implemented by experimentation. Moreover, some, if not all, of the countries had to contend with an adverse international economic environment. In the statist ideological framework, state planning became paramount and markets and choices were deliberately undermined. To maintain this system the patrimonial state emerged through a pervasive patrimonialization of power and authority structures by the political leadership (Hope, 1997a; Grindle, 1996; Hope and Kayira, 1996; Ndulu *et al.*, 1996; Hope, 1996b; Berthélemy, 1995).

Essentially, as Aron (1996) so aptly and comprehensively argues, the type of African economy that emerged in the early decades after independence was influenced by various types of socialist theories; by an emphasis on Keynesian economics; by infant-industry protection and terms of trade arguments for growth; by government administered price controls and increasingly regulated labour, commodity, and financial markets; by increasing the share of the public sector in the economy through, among other things, appropriation and nationalization of private enterprises and financial institutions, as well as the creation of public monopolies for the marketing of agricultural products; by administratively allocating foreign exchange and credit (which primarily benefited the public enterprises and the political elite); and by a restrictive trade policy and an inward-looking import-substitution growth strategy. All of these anti-market interventionist policies rapidly over-extended the sub-Saharan Africa governments and gave birth to the region's economic crisis.

The first lesson of experience for the transition economies in sub-Saharan Africa relates to the importance of good governance and the acceptance and encouragement of positive civil society. By good governance we mean the existence of political accountability; bureaucratic transparency; the exercise of legitimate power; freedom of association and participation; freedom of information and expression; sound fiscal management and public financial accountability; respect for the rule of law; a predictable legal framework encompassing an independent and credible justice system; respect for human rights; an active legislature; enhanced opportunities for the development of pluralistic forces, including civil society, and capacity building.

Civil society can be regarded as a countervailing mechanism to state power while simultaneously engaging the state. It can be defined as 'the realm of organized social life that is voluntary, self-generating, (largely) self-supporting, autonomous from the state, and bound by a legal order or set of shared rules' (Diamond, 1994). It is an intermediary entity which stands between the private arena and the state. It includes formal and informal associations whose interests may be economic, cultural, informational and educational, professional, developmental, intellectual, or civic (Diamond, 1994).

Countries that have deficient basic governance will not be able to undergo sustained economic growth. Likewise, good governance can only be consolidated when there exists a vibrant, dynamic, and pluralistic civil society. In Botswana, the fundamental pursuit of good governance has provided a favourable climate for the development of its civil society. That favourable climate has been found to include the formation of groups by interested members of the public and not at the request of a regime leader seeking support, as is the case in authoritarian African states; general freedom of assembly; a mass media free to report group activities; legitimately elected group leaders free of outside interference; and the complete independence of groups and their leaders to determine policy free from the influence of their financial supporters (Holm *et al.*, 1996).

Good governance and civil society in sub-Saharan Africa are currently weak, fragile, and need to be strengthened to boost the transition process in those countries. Botswana's experience generates several guiding principles that can be taken into account in that endeavour.

The second lesson, and one related to the first, is the need to control corruption and rent-seeking activities. To begin with, good governance, as defined above, checks corruption and incompetence. Widespread corruption, as practised in Africa, is a symptom that the state is functioning poorly. Ineffective states can retard and misdirect economic growth (Hope, 1997a; Rose-Ackerman, 1997). Widespread corruption is of special concern in sub-Saharan Africa because graft and poverty tend to go hand in hand, and particularly so where civil society is weak and good governance is lacking. Corruption restricts investment and employment opportunities and also undermines programs designed specifically to assist the poor. Moreover, the poor are harmed by systemic corruption because they are unable to compete with those willing to pay bribes (UNDP, 1997b).

Corruption in sub-Saharan Africa is a pervasive and endemic pattern of behaviour that is incongruent with good governance, economic freedom, and competition — all three of which are significant elements of market-oriented economies. The control of corruption, as is currently emphasized by donor agencies and other aid partners, is a fundamental condition for the sustainable transition to a market-oriented economy.

The key lesson to be derived from Botswana, in the attempt to remove the pervasive stench of corruption in sub-Saharan Africa, is that corruption has to be made a high-risk activity — a high risk that kleptocrats and other perpetrators will be caught and severely punished. To that end, in 1994 the government of Botswana passed into law the Corruption and Economic Crime Bill which, among other things, established a Directorate on Corruption and Economic Crime (DCEC) as an independent anti-corruption agency. This law came into effect, it should be pointed out, not to deal with rampant corruption (there is no such problem in Botswana) but to respond to the emergence of bureaucratic corruption in the context of good governance and sound economic management. Botswana has not been plagued by the systemic corruption so prevalent elsewhere in Africa. Private individuals do not need to bribe government officials to facilitate routine business activities and public servants are paid a sufficient enough salary so they do not need to solicit or accept bribes to survive. This lack of systemic corruption, coupled with macroeconomic and political stability, have, in turn, earned Botswana the confidence of foreign investors. Botswana has the lowest 'political risk' factor of any nation in sub-Saharan Africa while, in overall riskiness for investors, the country is ranked fifty-fifth in the world, just behind South Africa which is ranked forty-ninth (UNDP, 1997b).

The DCEC is responsible for the investigation of alleged and suspected offences of corruption and offences against the fiscal laws of Botswana. It will assist any law enforcement agency of the government in the investigation of offences involving dishonesty or cheating of the public revenue and it will assist the Attorney General in the prosecution of the offenders, including those instigating and abetting in such offences.

In addition, the DCEC will examine the practices and procedures of public bodies, where necessary, in order to facilitate the discovery of corrupt practices and to secure the revision of methods of work or any procedures that are deemed to be conducive to corrupt practices; will instruct, advise, and assist any person requesting ways in which

corrupt practices may be eliminated; will educate the public against the evils of corruption; and will enlist and foster public support in combating corruption. From the start of operations in 1994 to the first quarter of 1996, the DCEC had recovered approximately US\$2.5 million from fines, forfeitures, seizures, and the recovery of taxes (Hope, 1997a).

The Botswana experience suggests that an independent anti-corruption agency can play a major role in the efforts to control corruption in sub-Saharan Africa. The establishment of meaningfully focused independent anti-corruption agencies can provide a very effective means of promoting integrity in public officials, building up a public service ethic, promoting probity in government, and protection of state income and expenditure, while at the same time offering the means for public redress (Doig, 1995; Hope, 1997a).

Another lesson is the importance of institutional development and capacity building. When institutions are weak, then there is limited implementation capacity. In such an environment, economic development also remains elusive. Sustainable development requires relatively stable rules of the game for regulating economic and political interactions. The lack of institutional capacity in sub-Saharan Africa translates into inability to regulate property rights, enforce contracts, maintain law and order, and control official acts of corruption and abuses of power, among other things (Grindle, 1996).

However, institutional change can be a complicated and lengthy process. Institutions typically change incrementally rather than in discontinuous fashion. Informal cultural constraints embodied in customs and traditions tend to be much more impervious to deliberate policies (North, 1990). Consequently, the relative success of institutional change would be a function of the environmental factors which the political leadership have been instrumental in setting in place.

In Africa, there is a degree of disconnect between the formal and informal institutions which largely explains problems in capacity building and institutional performance. As a result, economic and political achievements are generally not fully institutionalized with the required enforcement and incentive mechanisms to make them sustainable and they are therefore prone to reversal with changes of regime and leadership (Dia, 1996).

Nonetheless, institutional development and capacity building are central to African development. Capacity is the combination of human resources and institutions that permits countries to achieve their development goals. 'It engenders self-reliance that comes with the ability of people to make choices and take actions to achieve the objectives they set themselves. This entails the ability to identify and analyze problems, formulate solutions and implement them' (World Bank, 1996). Central to capacity are an effective bureaucratic machinery, skilled and committed leaders and officials, and ample financial resources. There are four dimensions of capacity. These are regulatory, administrative, technical, and extractive (Ndulu *et al.*, 1996). Regulatory capacity involves the ability of the state to establish and enforce the rules that guide, or regulate, societal behaviour so as to eliminate mismanagement, inefficiency, pervasive corruption of the public sector, and political instability. Administrative capacity involves the routine ability to manage the personnel and resources of the state and to ensure accountability and efficiency in service delivery. It is a critical capacity because it affects the ability of private economic agents to achieve their goals, the availability of a well-trained and healthy workforce, and the satisfaction of basic

societal needs (Grindle, 1996). Technical capacity includes the expertise and knowledge required to make and implement technical decisions as well as the policy tools and instruments necessary to implement those decisions effectively. Extractive capacity is the ability of the state to raise the revenues it needs to pay for the expenses of implementing its policies and goals.

Capacity is now widely recognized as the missing link in Africa's development thrust. Lacking capacity, neither government nor the private sector can adequately perform the tasks that make an economy function. The need for capacity exists in virtually all sectors and areas of African economies. Consequently, capacity building is important because, among other things, it generates the capability for those countries to develop indigenous and self-reliant development policies.

Moreover, the relevant skills would be developed without which sub-Saharan Africa would be unable to transform its agriculture, effectively link its industrialization and its natural resource base, and become scientifically and technologically advanced. In addition, a skills base would emerge for establishing linkages and complementarities among the production sectors, serving as an effective domestic catalyst for growth and socio-economic development, and following strategies that are most appropriate to the region's needs and realities (Hope, 1997a; Mbaku, 1997).

In Botswana, capacity building is vigorously pursued through national policies geared at human resource development and institutional change where necessary. National training and localization policies have been developed and are being methodically implemented and the necessary institutions have been created while institutional reform is an on-going process. Among the institutions the government recently created in 1993 and 1995, respectively, are the Botswana National Productivity Centre (BNPC) and the Botswana Institute for Development Policy Analysis (BIDPA). The former's mission is to work with both the public and private sectors in promoting productivity as a long-term strategy for the creation of employment opportunities, international competitiveness, and improvements in living standards, while the latter is an autonomous research institute which is charged with responsibility in the areas of development policy analysis for maintaining sound development management.

These two institutions, along with the University of Botswana, the Institute of Development Management (IDM), and the Botswana Institute of Administration of Commerce (BIAC) are the primary institutions tasked with capacity building in Botswana. In addition, institutional reforms, such as the use of work improvement teams (WITS) in the civil service, are frequently implemented to boost institutional performance and improve macro-economic management. These robust and successful approaches to capacity building in Botswana can be easily imitated in the rest of sub-Saharan Africa as local initiatives for building capacity rather than depending on the donor community.

Yet another lesson is the need to control and manage external debt within the national capacity to service such debt. The external debt and debt-servicing obligations of sub-Saharan Africa continue to pose a major threat to the sustainable development of the region. The total external debt of sub-Saharan Africa was estimated at US\$223.3 billion in 1995. As a ratio, this was equivalent to 270 per cent of exports and 74 per cent of GDP. Of the World Bank's list of '36 severely indebted low-income countries', 28 are African. Botswana, in contrast, has an external debt of US\$0.7 billion which is equivalent to 32 per cent of exports and 17 per cent of GNP.

The share of multilateral debt in the long-term outstanding debt of sub-Saharan Africa has risen from 13 per cent in 1980 to 24 per cent in 1990 and 31 per cent in 1995. The capacity of these countries to service their debt has therefore not improved despite major efforts at both scaling down their debt burden and reduction in the volume of arrears within the framework of existing debt re-organization and forgiveness measures. The debt service arrears of the sub-Saharan Africa countries represented more than 27 per cent of their debt stock in 1995 while in 1990 they were only 11 per cent. The debt situation of sub-Saharan Africa has, therefore, left the majority of those countries in a debt trap with substantial resources being siphoned away from supporting the transitional reform process.

The need to control and manage external borrowing is therefore an obvious one. Debt ceilings should be observed and further debt relief should be provided to those countries making serious efforts to control expenditures and solve their debt overhang problem. In this regard, the World Bank and IMF have agreed to provide debt relief to highly indebted poor countries (HIPC) undertaking serious economic reforms. As part of the package, the Paris Club of bilateral creditors will forgive up to 80 per cent of the debt owed by eligible countries. In April 1997, Uganda was designated as the first sub-Saharan Africa country to benefit from the initiative.

Despite such initiatives, the challenge of external debt management will remain an urgent one for many sub-Saharan Africa countries. Consequently, as argued by Brigish (1995), and as practiced in Botswana (Maipose *et al.*, 1996), sub-Saharan Africa countries need to master five interrelated functions if their debt management is to be put on sound economic footing. These functions are policy, regulatory, operational, accounting, and statistical.

The policy function involves the co-ordination among all agencies responsible for formulating borrowing policies and debt strategies including clear and firm guidelines about the limits and responsibility for conducting the borrowing as well as the sustainability of the borrowing program over time. The regulatory function involves the establishment and implementation of firm regulations that govern borrowing including the reporting requirements covering loan receipts and repayments as well as the guarantee provisions where required. The operational function pertains to the choice made by governments with respect to either passive or active debt management. Passive debt management entails the registration of all loan activities and placing their implications into balance of payments calculations, while active debt management requires choices on market penetration and participation, instruments, currencies, and maturities to manage risk (Brigish, 1995).

The final two functions are primarily concerned with the capturing, storing, and generating of relevant debt data. The accounting function seeks to provide an appropriate accounting framework for defining debt and organizing it into categories that reflect the diversity of instruments, sources of capital, creditors, and so on. The statistical function is concerned with the storage and retrieval of debt data to produce timely and comprehensive reports for effective debt management and analysis (Brigish, 1995).

The penultimate lesson to be discussed is the importance of and requirement for higher rates of savings and investment. The achievement of sustainable development, particularly so in the context of free markets, requires high levels of domestic savings and private investment as amply demonstrated in the East Asian countries. In Botswana, both gross domestic savings and gross domestic investment, respectively,

exceeded that for all of Africa when measured as a percentage of GDP. By 1995, Botswana's gross domestic savings was equal to its gross domestic investment of 25 per cent of GDP (Hope, 1997b).

However, in sub-Saharan Africa, savings and investment have been both low and declining. There, the savings to GDP ratio fell from 26.8 per cent in 1980 to 16.3 per cent in 1995 while investment declined from 23.3 per cent of GDP to less than 17 per cent during the same period. Historically, in sub-Saharan Africa, private savings have been low and foreign investment has been concentrated in natural resource industries, such as mining and oil, rather than in manufacturing. With low domestic savings, private investment has also been low. However, in the context of the transition to market economies, sub-Saharan Africa countries must move rapidly in the implementation of strategies to mobilize domestic savings and private investment and, particularly foreign direct investment, in the case of the latter.

Perhaps, one of the primary factors contributing to weak domestic savings and investment in sub-Saharan Africa is the inadequacy of the financial system. Indeed, it has been more positively stated that the deterioration in savings and investment ratios in Africa is clearly associated with a stagnant or declining performance of the formal financial sector as measured by the standard indicators of financial deepening such as the ratio of money and quasi-money to GDP, the ratio of deposit money to the money supply (M2), and the ratio of the banking system's claim on the private sector in relation to national income (Rwegasira, 1995).

In Botswana, there has been considerable financial liberalization since 1989. New financial institutions and instruments have emerged; there exists a growth-oriented stock market (The Botswana Stock Exchange); there has been a strengthening of market mechanisms; there has been some innovation in the provision of banking services; and there has been extensive liberalization of exchange controls (Bank of Botswana, 1997). In addition, government plans are at an advanced stage to make Botswana a viable and leading financial centre for the Southern African region.

On the other hand, the sub-Saharan Africa countries continue to suffer from the financial repression they incurred when, in the immediate period following independence, they moved to establish government control over their financial systems by replacing currency boards with the central banks and nationalizing the colonial commercial banks. These moves are primarily fuelled by an ideologically inspired distrust of market-oriented financial systems which led to the belief that private financial systems were subject to concentration of wealth and power (Cole and Duesenberry, 1994).

To effect government intervention, interest rate controls, for example, were consciously used as a method of credit allocation. These low or highly negative interest rates, in turn, drove savings into non-financial assets and led to the crowding out of the private sector in favour of the public sector. Consequently, since the post-independence period, the systems of financial and monetary management used in most sub-Saharan Africa countries have been associated with serious economic imbalances as reflected in high rates of inflation, capital flight, currency black markets, external debts that cannot be serviced, large public sector deficits, and bankrupt financial institutions (Hope, 1997a; Cole and Duesenberry, 1994).

However, financial liberalization and developed financial markets are absolute necessities for a sustainable transition to a market-oriented economy. Developed financial markets enable all individuals, no matter how limited their means, to share

in the increased wealth provided by competitive private enterprise. At the same time, savings may increase, at any level of income, if the financial markets afforded greater opportunities for individuals to increase their future income by saving in the present. Moreover, foreign investor confidence is likely to be enhanced and the resilience of the economies and their financial systems, to external and internal shocks, will be increased.

Unfortunately, many of the countries in sub-Saharan Africa have not yet come to appreciate the role of the financial sector in economic development. Understandably, the depth and size of a country's financial system, as well as the extent to which it finances private activity rather than the government, are good predictors of future economic growth (GCA, 1997). However, it is also possible to agree with Cole and Slade (1997) that efficient financial markets and well-managed financial institutions, accompanied by competent monetary policy managers, cannot be achieved in a brief period especially in countries, such as those found in sub-Saharan Africa, with unstable political systems and limited human capital and physical infrastructure.

The final lesson pertains to the development and implementation of outward-looking economic diversification strategies. In Botswana, export promotion and economic diversification form the cornerstone of the government's development agenda. During the past decade, Botswana has been engaged in an aggressive strategy to move away from its economic dependence on diamonds. That strategy has borne fruit with an increase in the manufactured exports of such companies as Hyundai and Owens-Corning, for example, which have boosted the export share of non-mining products.

In the mid-1950s sub-Saharan Africa accounted for 3.1 per cent of global exports. However, by 1990 this share had fallen to 1.2 per cent. A major and extensive loss of Africa's international competitiveness played a key role in its decline in world trade. If sub-Saharan Africa had merely retained its 1962–64 OECD market shares its exports now would be 75 per cent (US\$11 billion) higher (Ng and Yeats, 1996). Trade restrictions and domestic policy interventions created a bias against tradeables, especially exports in the region. Import barriers in sub-Saharan Africa are far higher than in those developing countries that achieved the highest export growth rates, and appear to be biased against potential export products. Consequently, if sub-Saharan Africa is to reverse its unfavourable export trends, the region must embrace trade liberalization in order to enhance its international competitiveness as well as to permit its exporters to capitalize on opportunities in foreign markets (Ng and Yeats, 1996; Hope, 1997a).

One of the key trends in the market-oriented economies is the movement towards regional trading blocs. The European Union is expanding, the North American Free Trade Agreement (NAFTA) is being successfully implemented, and there are moves to establish a Pacific-countries trading bloc that will also include North and South American states. It is therefore in this type of global environment that African countries have to decide how they are to compete in the world economy.

However, sub-Saharan Africa countries do not appear to be pursuing regional co-operation and integration with the same vigour and commitment seen in the rest of the world despite the fact that there have been more regional integration and co-operation agreements consummated in Africa than on any other continent. Nonetheless, with the notable exception of the Southern African Customs Union (SACU), whose membership includes Botswana, these agreements have yielded disappointing

results. They have not led to increased trade within the region, or between the countries of the region and the rest of the world and, except for the CFA franc-zone monetary union, they have had little success in actually integrating the economies of the member states (McCarthy, 1996). Instead, there are several regional integration and co-operation institutions with overlapping memberships, sometimes conflicting mandates and regulations, or duplicate organs.

The governments of sub-Saharan Africa therefore need to rationalize and streamline their regional integration and co-operation agreements and provide the new relevant inputs to eliminate the design, structural, and implementation weaknesses that currently plague such agreements. The quest for growth and economic prosperity demands nothing less.

#### 4 CONCLUSION

The prospects for sustainable growth and development in sub-Saharan Africa are much better now than at any other time since the crisis of the 1980s. Many of the countries have signalled their intent to pursue the transition from statism to market-oriented development. This work has amply demonstrated, although it does not claim to be exhaustive, the pattern of development policy and economic performance in Botswana and the lessons that can be derived therefrom for the rest of sub-Saharan Africa. It is the derived view here that many of the policy elements and political economy factors that proved successful in Botswana appear to be applicable as the model to be followed in other sub-Saharan Africa countries.

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