Botswana: An example of prudent economic policy and growth

The growth record

Botswana is one of a small group of countries in the contemporary era — virtually the only African country — that has sustained rapid economic growth over an extended period. Over the past three decades, Botswana’s real per capita income grew by more than 7 percent per annum, which is comparable to rates of growth achieved by countries like Korea and Thailand. Remarkably, this growth—facilitated by mineral wealth—led neither to isolated enclaves nor to profligate spending. Growth continued to be high as a result of structural change within the economy as the growth in the mining and government sectors slackened.

Botswana’s record in human development is equally impressive, with one important exception — HIV infection. Major emphasis has been placed on providing basic education and primary health care throughout the country. Primary school enrolment has gone from 66,100 in 1966 to 319,000 in 1995, representing an average compounded growth rate of 5.4 percent per annum. Further, in recent decades, the gender balance has consistently involved greater than 50 percent female enrollment. Meanwhile, secondary school and university enrolment, from a much lower base, both grew at double digit growth rates.

In health care, virtually all urban residents and nearly 83 percent of rural residents are within 15 km of a primary care facility. There has been a dramatic fall in infant mortality—from 100 per 1000 live births in 1971 to 45 in 1991. Life expectancy (before accounting for the impact of HIV/AIDS) has risen from 50 years at independence in 1966 to the upper 60s in the early 1990s. The exception to the success story has been the spread of HIV/AIDS as roughly one quarter of the sexually active population is HIV positive.

Conclusions from Botswana’s experience

Three points stand out.

First, Botswana’s record is indeed exceptional…

- The record of three decades of rapid economic growth has few parallels in modern economic history. What is also exceptional is the fact that the initiating source of the growth was mineral wealth, for even fewer countries have been able to transform mineral wealth into sustained
economic growth.

- The growth of real incomes has been spread throughout the economy. Although relative income inequality has not been reduced, it has not worsened and, with real per capita GDP growth rates averaging nearly 8 percent over the past three decades, the poor are better off than before.

- Economic growth has been accompanied by significant progress in human development. The population is now reasonably well-educated and, with the exception of HIV infection rates, is healthy.

- Growth of formal sector employment has kept pace with real GDP growth and has outstripped the growth in the population. As a result, unemployment rates are relatively low by Sub-Saharan Africa standards, although youth unemployment has recently emerged as a serious problem and there continues to be shortage of skilled labour.

*Second, the growth record is explained primarily by the economic policies which Botswana has pursued. In each of the major policy areas, growth-promoting policies have dominated…*

- Minerals policy established mutually profitable arrangements with foreign investors, and participation in one of the few successful international marketing arrangements.

- Trade policy kept the economy open to competition from imports, and maintained access to markets for some important non-mineral exports.

- Money and banking policies, while not always optimal, generally provided stability to the macroeconomy and to the financial sector.

- Exchange rate policy accorded stability to the tradable sector and avoided the peril of an overvalued currency commonly encountered following mineral discoveries.

- Fiscal policy, on the whole, has been disciplined. To a large extent this is attributable to the institution of the national development plans, which has kept government expenditure from growing as fast as government revenues over the long term. The resultant accumulation of substantial government savings and foreign exchange reserves has provided an important cushion to enable the country to ride out the current downturns in the diamond market, while the careful management of those reserves has generated a significant return to the nation.

- Labour market policies avoided both the extremes of an exorbitant real minimum wage and a bidding war for scarce talent. The government pursued a policy were wage and salary levels in the private and parastatal sectors should generally conform to those paid by the government to comparable grades of public employees.

- State-owned enterprises played an essential role in kick-starting the modern economy. Further, they did not become employers of first resort. Yet, with changing circumstances, and changing technologies, there is no fundamental justification for the dominant role of many. The objective of phasing out redundant institutions or transforming them into growth-promoting organisations remains one of the key policy challenges.
Third, there is no single explanation for Botswana’s remarkable policy performance...

- Botswana does not have one single silver (or diamond) bullet that explains its economic record. Rather, it was the whole range of policies which, working together, proved growth promoting.

- Minerals policy generated the rents which initiated the growth, but government’s long-term development planning was crucial in channelling funds into investments that promoted both growth and human development, and in maintaining a modicum of fiscal discipline.

- Given the fiscal discipline adopted, it was possible for the independent central bank to accumulate substantial foreign exchange reserves, and pursue a conservative monetary policy.

- This combination of fiscal and monetary discipline, in turn, made it possible for trade policy to keep the economy open, and exchange rate policy to encourage the emergence of non-traditional exports and import-competing production.

Not all the policies promoted human growth and development. The shortcomings of current labour market policies, the slow pace of reform of state-owned enterprises, and the large-size and unstable growth of Government are all serious. Furthermore, Botswana has to deal with poverty and youth unemployment, and the rapid increase in the prevalence of HIV/AIDS which may have a substantial implication for progress in developing its human capital and improving productivity.

However, Botswana’s ability to maintain one of the highest growth rates in the world and to transform itself from one of the poorest countries in the world with a per capita income of roughly US$80 in 1966 to a middle income country with a per capita of US$3600 in 1998 is truly remarkable.

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