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The Success Story of Botswana

A Model of Economic Transformation

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Executive Summary:

Botswana, a landlocked country in Southern Africa, has undergone a remarkable transformation, evolving from one of the world's poorest nations at its independence in 1966 to a thriving and rapidly growing economy. This success can be attributed to a combination of factors, including prudent economic management, effective resource utilization, good governance, the incorporation of pre-colonial institutions, and the country's ability to navigate challenges and embrace reforms. This comprehensive article will delve deeper into the historical overview of Botswana's economy, its current state, and the key factors that have contributed to its exceptional success.

Botswana's economic evolution began with an agricultural economy, limited infrastructure, and high poverty rates post-independence. The pivotal discovery of substantial diamond reserves transformed its trajectory, with transparent management through the Debswana diamond mining company ensuring sustainable growth. Effective policies, coupled with abundant natural resources, led to significant progress by reducing extreme poverty rates and quadrupling per capita income over four decades.

However, facing pre-existing challenges and declining diamond revenues worsened by the COVID-19 pandemic, Botswana's economic transformation encountered hurdles. Inadequate fiscal adjustments, coupled with sluggish reforms, led to declining foreign exchange reserves and hindered progress toward an export-oriented economy outlined in the National Development Plan 11 and Vision 2036. Limited job creation and climate change impacts further strained the journey.

Leveraging diamond revenues for education and infrastructure investment, Botswana has magnified human capital and productivity, showcasing its innovative prowess. Despite COVID-19 and diamond revenue fluctuations, the nation persists in sustainable development. By prioritizing resilient fiscal measures, swift reforms, and sustainable strategies, Botswana paves the way toward a thriving export-oriented economy. Through fortified foundations, innovation, and climate resilience, the nation secures equitable prosperity and transformation.

Introduction and Historical Overview:

Botswana's economic journey began with limited infrastructure, high poverty rates, and a predominantly agricultural economy at the time of its independence. However, the discovery of extensive diamond reserves marked a turning point, providing a valuable resource base for economic development. Unlike many resource-rich countries that succumbed to the "resource curse," Botswana effectively managed its diamond revenue through a transparent and accountable system. The government established the Debswana diamond mining company as a joint venture with De Beers, ensuring a fair share of profits and promoting sustainable development. Thanks to its vast natural resources and a track record of very strong policies and policy frameworks, the country has made remarkable progress in its economic and social development in the 2000s. Over the past 40 years, extreme poverty rates have fallen by about 40 percentage points to 16 percent. Per capita income has quadrupled. And enrollment in secondary education has increased from 20 percent to over 80 percent.

When the COVID-19 pandemic hit, the Botswana economy was already facing significant structural challenges and declining buffers. However, the continued decline in diamond revenues (part of the 2016–2020 price decline) and recent Southern African Customs Union (SACU) transfers have exposed the country's external and financial position to external shocks. Amid slowing growth, job creation remained paltry compared to the many young and well-educated entrants to the labor market. Moreover, climate change, accompanied by severe droughts, has frequently occurred in recent years, particularly affecting rural populations and hampering government efforts to reduce poverty and inequality.



Current State of the Economy:

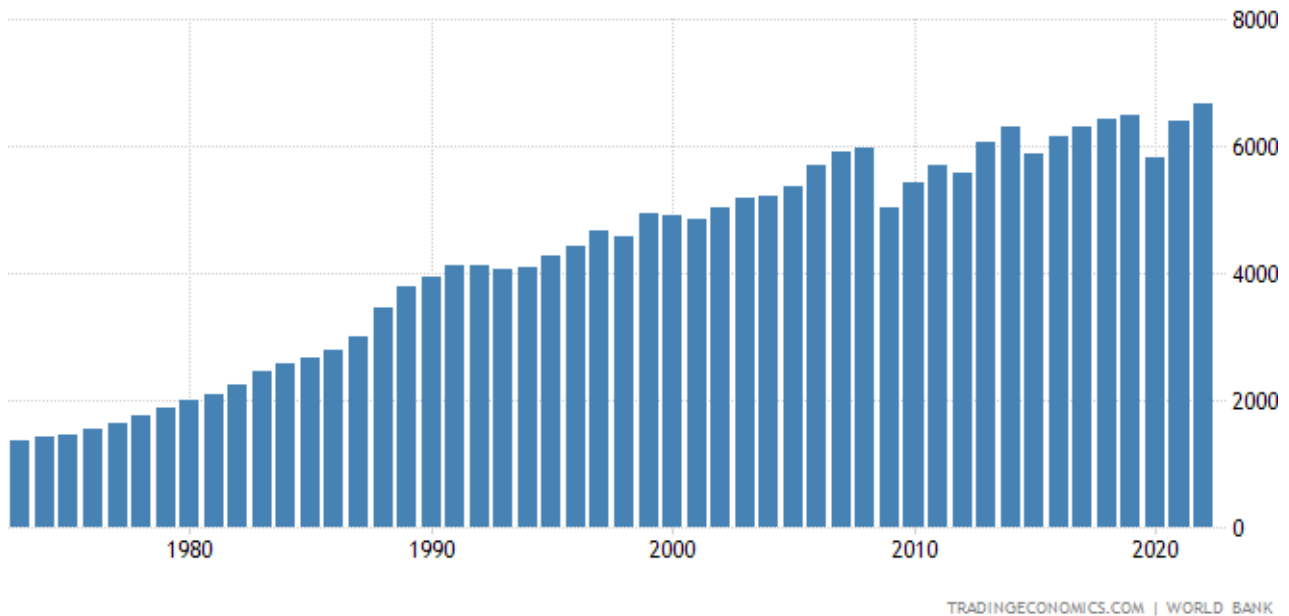
While Botswana has achieved remarkable success, it continues to face challenges and has set its sights on further development. The economy remains heavily reliant on diamond mining, exposing it to global market fluctuations. To address this vulnerability, the government has made efforts to diversify the economy by promoting sectors such as tourism, agriculture, and manufacturing. Additionally, Botswana has prioritized infrastructure development, aiming to improve connectivity and create an enabling environment for business growth and investment.



The Gross Domestic Product (GDP) in Botswana was worth 20.35 billion US dollars in 2022, according to official data from the World Bank. The GDP value of Botswana represents 0.01 percent of the world economy.

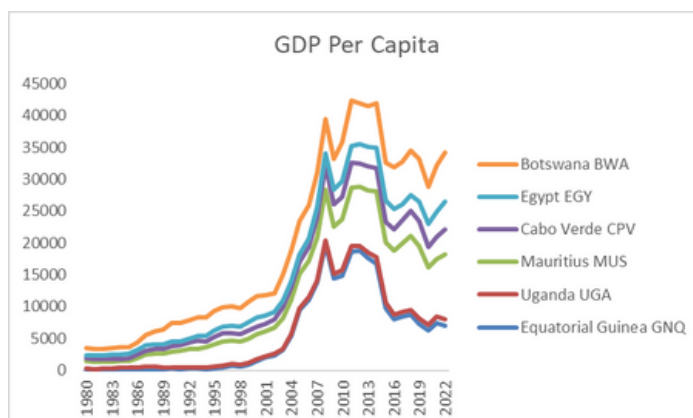
Botswana's economy exhibited impressive growth, with GDP expanding by 11.9% and a consistent average GDP Per Capita growth of 4.69%. This resurgence in 2022 stemmed from a resurgent diamond market, consumption-boosting government policies, and a successful vaccination campaign that reached over 67% of the population. Effective macroeconomic management and strong diamond demand facilitated a robust rebound to pre-pandemic output, with a growth rate of 11.4% in 2021. However, challenges like high inflation, unemployment, and inequality persist. The government remains steadfast in its commitment to economic reforms, poverty reduction, and enhancing social development.

Botswana is a small country in southern Africa that has achieved remarkable economic growth over the past four decades. According to the World Bank, Botswana's cumulative average growth rate for GDP per capita across a forty-two-year period 1980 – 2022 was 4.69%, making it one of the fastest-growing countries in the world.



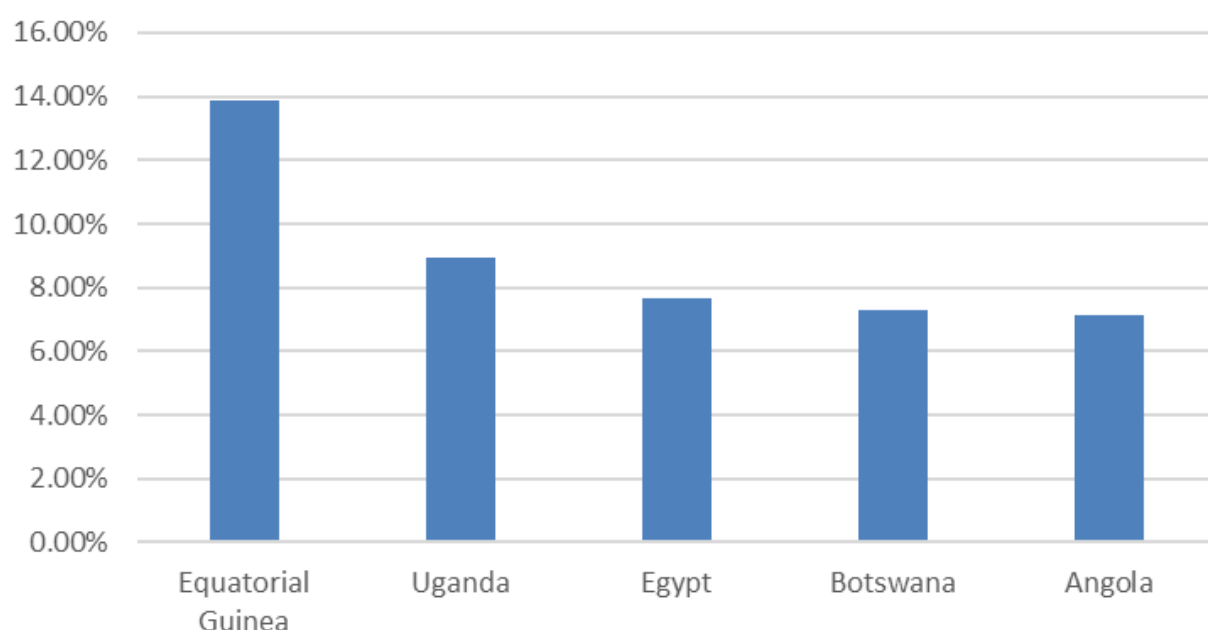
Boasting an outstanding record of per capita growth, Botswana outpaced any country in the world over a 42-year period. This achievement is largely attributed to the country's prudent economic policies, effective resource management, and a commitment to diversification.

Notably, the sustained growth has been fueled by many factors including exports of their natural resources, sound macroeconomic policies, and investment in education and infrastructure.



Diamonds are an important source of income for Botswana, and the government has used these incomes to invest in education and infrastructure, contributing to improving the country's human capital and productivity.

CAGR of GDP 1980 - 2022



However, it is important to note that Botswana's per capita growth rate has slowed in recent years, but it is still one of the highest in Africa. According to the World Bank, Botswana's per capita income grew at an average rate of 3.7% per year between 2010 and 2020. This is significantly slower than the 7.3% average growth rate that Botswana experienced between 1980 and 2010.



Source: Data are as of April 2023 and are from domestic authorities; figures for 2022 are estimates and figures for 2023 and 2024 are projections by the African Economic Outlook team. The fiscal years start in the named April and conclude the end of March in the following year.

There are a number of factors that have contributed to the slowdown in Botswana's economic growth. These include the decline in diamond prices, the global economic slowdown, and the COVID-19 pandemic. However, the country's strong economic fundamentals and sound macroeconomic policies should help it to weather these challenges and continue to grow in the years to come. If Botswana can successfully address these challenges, it is well-positioned to continue its economic growth and become a middle-income country by 2030.

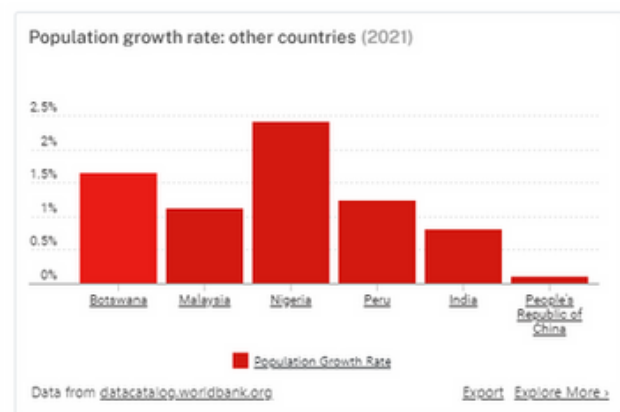
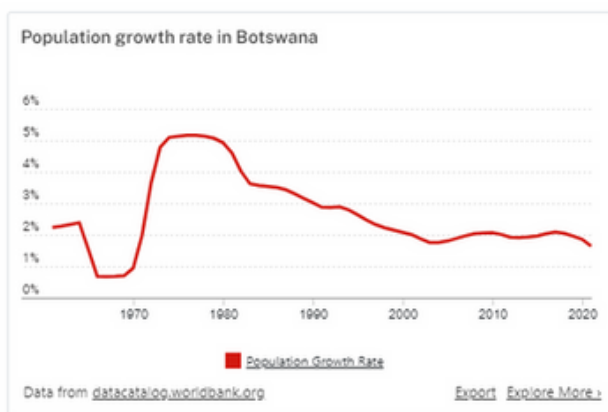
The government has kept inflation low and budget deficits under control, creating a stable environment for business investment and growth. Inflation remains well below the Bank of Botswana's 3 to 6 percent objective. Inflation fell to 1.9 percent in 2020, from 2.8 percent in 2019, as lower import prices, especially oil prices, more than offset higher prices for domestically produced goods and services. The rise in domestic prices reflects the effects of increases in food prices, electricity tariffs and domestic wages.

Key drivers of GDP and GDP Per Capita

Population Size

The current population of Botswana as of July 26, 2023, is estimated to be 2,678,364 [4]. Botswana's population density is relatively low at 5 people per square kilometer (12 people per square mile)[4].

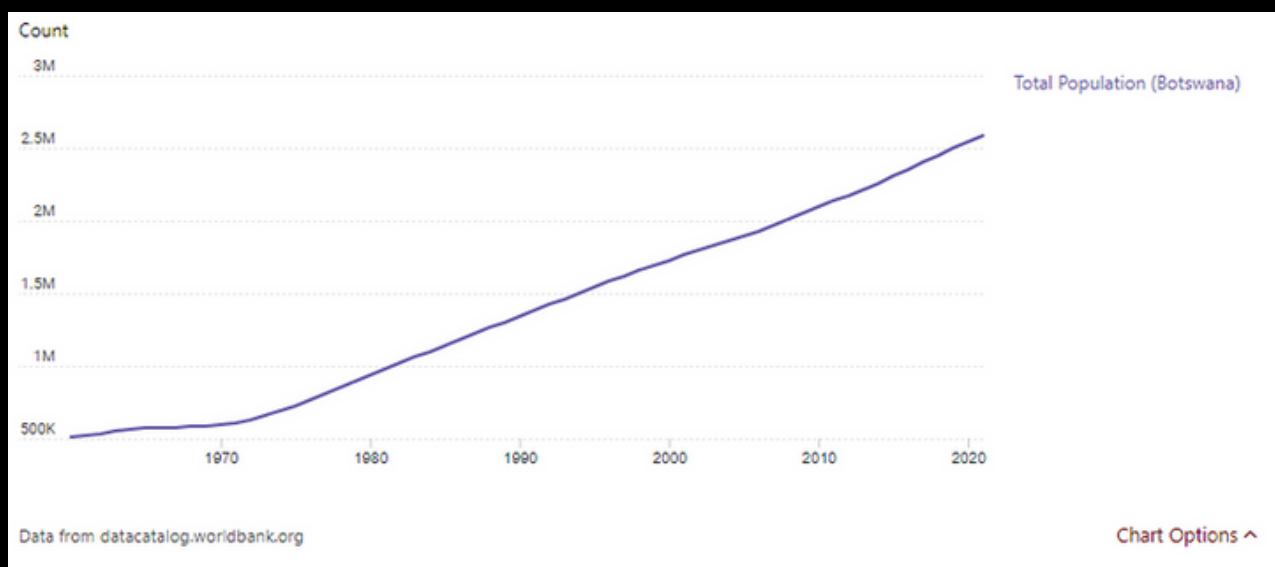
This shows that their GDP per capita is strongly influenced by their population size which is relatively small. As of 2023, Botswana ranks 144th in the list of countries (and dependencies) by population.



With a total land area of 566,730 square kilometers (218,816 square miles), the country maintains a sparsely populated landscape. Although Botswana's population growth has experienced fluctuations over the years it still witnessed an annual population growth rate exceeding 2% until the 2000s.

It is noteworthy that a significant proportion of Botswana's population resides in urban areas. Approximately 69.1% of the population is classified as urban, with 1,848,155 people living in urban settings in 2023. One of the major urban centers in Botswana is Gaborone, the capital and largest city, where around 10% of the population resides.

Botswana has a relatively young population, with a median age of 23.8 years. This youthful demographic profile can have various implications for the country's economy, social development, and workforce. Looking ahead, Botswana's population is projected to continue growing. According to another source, the country's current population of 2,678,410 is projected to exceed 3 million by the year 2040. The population composition of Botswana is diverse, with the majority of the population being indigenous Tswana. Additionally, there are minority ethnic groups like the Kalanga and the San. As Botswana continues to develop, managing population growth and ensuring sustainable development will remain essential factors for the nation's future.



Demographic Trends and Population Dynamics

Botswana is witnessing interesting demographic changes that shed light on its population growth rate and its impact on the overall population size.

- 1. Declining Birth Rate:** Botswana has been experiencing a decline in its birth rate due to various factors, including the improved accessibility of family planning services and increased awareness about family size and reproductive health. As families choose to have fewer children, the birth rate decreases, leading to a slower pace of population growth.
- 2. Improvements in Life Expectancy:** Over the years, Botswana has made significant strides in healthcare, nutrition, and living standards. These advancements have led to an increase in life

expectancy, resulting in older generations living longer. Consequently, there is a slower replacement of older individuals with newer ones, leading to a deceleration in population growth.

3. Economic Development and Urbanization: The country's economic progress and urbanization have also played a role in shaping demographic trends. As Botswana develops economically and urban centers expand, individuals tend to opt for smaller family sizes due to changing lifestyle preferences, increased education and career opportunities, and the costs associated with raising children in urban areas.

4. Net Migration: In addition to natural increase (births minus deaths), Botswana experiences net migration, with people immigrating to and emigrating from the country. If more people leave the country than those entering, it contributes to a declining population growth rate, even with a positive natural increase.

5. Demographic Transition: Botswana is undergoing a demographic transition, a gradual shift from high birth and death rates. During this transitional

phase, the population growth rate may temporarily decrease before stabilizing at a lower level [2].

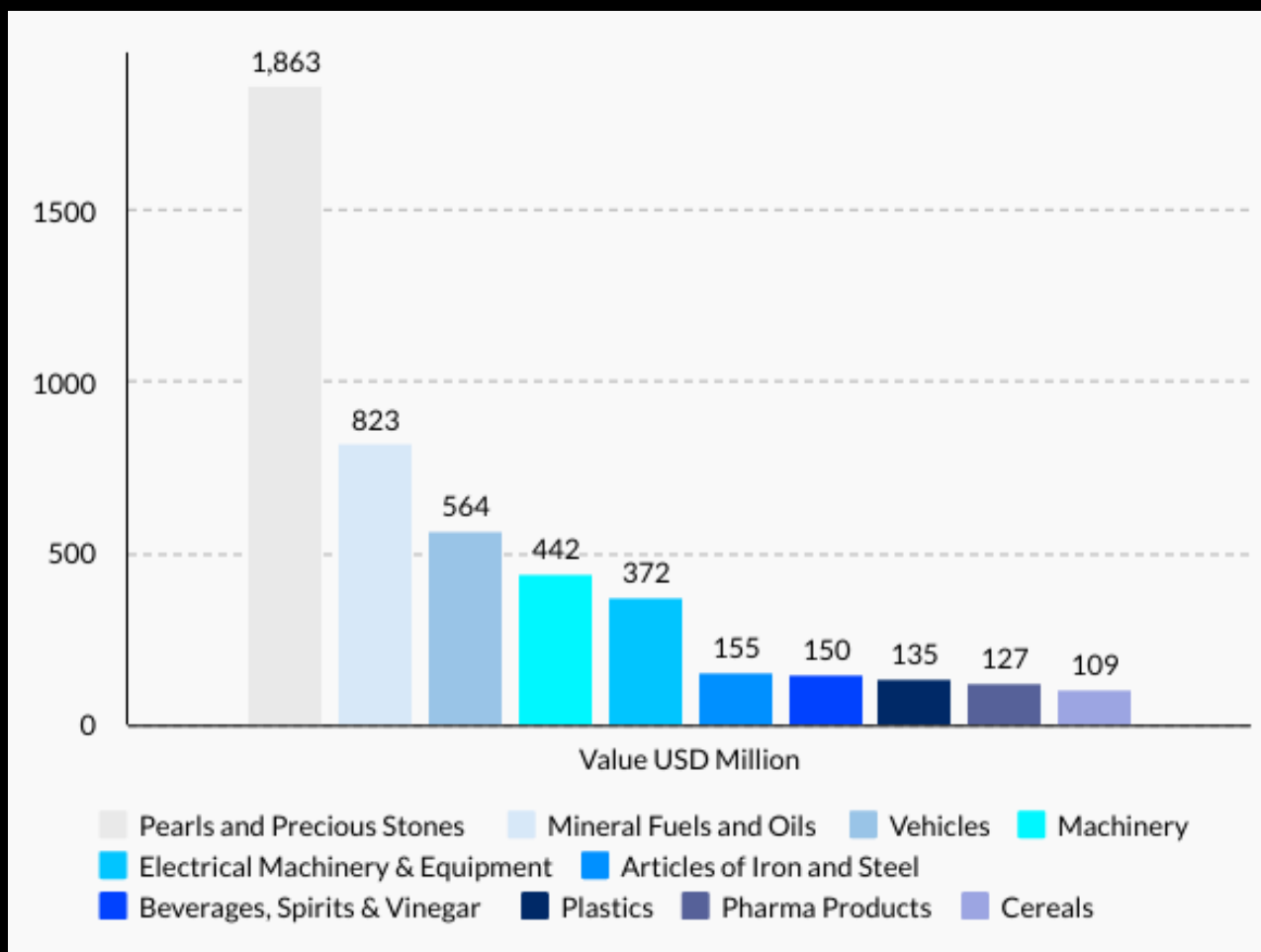
While the population of Botswana is indeed increasing, the population growth rate indicates a significant shift in demographic dynamics. As the country progresses economically and socially, understanding and addressing these trends will be crucial for shaping a sustainable and prosperous future for Botswana and its citizens.

Export, Import and Natural Resources

Botswana's exports are dominated by diamonds, which account for over 80% of total export revenue. Other important exports include copper ore, beef, and soda ash. In recent years, Botswana has been diversifying its export base, and other products such as textiles, pharmaceuticals, and information technology services are becoming increasingly important. The value of Botswana's exports has grown significantly over the past 40 years. In 1980, exports totaled just \$1.1 billion.

By 2022, exports had grown to \$7.6 billion, an increase of over 600%. This growth has been driven by the increase in diamond production, as well as the diversification of the export base. Major exports include diamonds (more than 60% of total exports), copper and nickel, beef and textiles. Botswana's main export partners are the United Kingdom (56% of total exports), South Africa, Israel and Belgium.

Botswana's imports are dominated by fuel, food, machinery, and chemicals. The country is also a major importer of vehicles. In recent years, Botswana has been trying to reduce its reliance on imported fuel by developing its own renewable energy sources. The value of Botswana's imports has also grown significantly over the past 40 years. In 1980, imports totaled just \$0.9 billion. By 2022, imports had grown to \$6.2 billion, an increase of over 600%. This growth has been driven by the country's economic growth, as well as the increase in demand for imported goods. Botswana import data shows list of Botswana's top 10 imports in 2019 were Pearls and Precious Stones (28.41%), Mineral Fuels and Oils (12.55%), Vehicles (8.61%), Machinery (6.74%), Electrical Machinery and equipment (5.69%), Articles of Iron and Steel (2.38%), Beverages, Spirits & Vinegar (2.3%), Plastics (2.06%), Pharma Products (1.95%) and Cereals (1.67%)



The symbiotic relationship between Botswana's export and import trends and its economic growth is evident through significant export value growth driven by diamond production expansion and export base diversification, as well as substantial import value increase due to heightened economic activity and amplified foreign goods demand. The pivotal diamond industry has propelled economic advancement, enhancing living standards, yet challenges such as depleting natural resources and intensified global diamond market competition persist. Analyzing Botswana's diamond production data from 2004 to 2021 reveals an average value of \$3,131.83 million, spanning from \$1,436.45 million in 2009 to a zenith of \$4,656.69 million in 2021. In comparison, the global average for 2021, encompassing 57 countries, stands at \$245.42 million, underscoring Botswana's significant global position.

Capital Investments: Foreign Direct investment (FDI) and Venture capital investments

Botswana has been a recipient of FDI for many years. In the 1980s, FDI was primarily focused on the mining sector, but in recent years it has diversified to include other sectors such as tourism, manufacturing, and financial services. According to the UNCTAD, the total stock of FDI in Botswana was \$4.82 billion in 2018. The largest source of FDI to Botswana is South Africa, followed by Luxembourg and the United Kingdom.

Venture capital investments in Botswana have been relatively small in comparison to FDI. However, there has been some interest in venture capital in recent years, as the country has become a more attractive destination for investment. In 2019, the Botswana Investment and Trade Centre (BITC) launched a venture capital fund to support early-stage businesses in the country. The fund, which is called the BITC Venture Capital Fund, has a target size of \$20 million.

Challenges:

Botswana faces a number of challenges in attracting FDI and venture capital investments. These challenges include:

- The small size of the domestic market
- The lack of a skilled workforce
- The high cost of doing business

Opportunities:

Despite these challenges, Botswana has a number of opportunities to attract FDI and venture capital investments. These opportunities include:

- The country's strong economic growth
- The government's commitment to attracting investment
- The country's strategic location

With a long history of attracting FDI and venture capital investments, the country's economic growth, strategic location, and government policies have all contributed to this success. However, the country faces a number of challenges in attracting investment, and it will need to address these challenges in order to continue to attract investment in the future.

Foundations of Botswana's Development: Historical, Institutional, and Resource Dynamics:

Resource Allocation for Social Advancements in Botswana:

Botswana is often cited as a successful example of how a resource-rich country can manage its resources effectively to offset debt and achieve economic growth. Some key factors that have contributed to Botswana's ability to exploit resources:

1. **Resource Management and Fiscal Discipline:** Botswana, rich in diamonds and other resources, embraced responsible management. A Diamond Trading Company and contracts with reputable global firms secured fair prices and stability. The government prioritized fiscal discipline, sidestepping excessive borrowing and carefully managing its budget to avert debt unsustainability.

2. Establishment of a Sovereign Wealth Fund: Botswana established the Pula Fund in 1994 to manage the revenues generated from its mineral resources, particularly diamonds. The fund acts as a savings mechanism, setting aside a portion of the revenues to invest in various assets for future generations. This helps stabilize the economy and reduces reliance on volatile resource revenues.

3. Diversification and Infrastructural development: Botswana strategically embraces diversification by investing in sectors like tourism, agriculture, and services to reduce reliance on diamonds and enhance economic resilience. Simultaneously, substantial investments in infrastructure and human capital have attracted foreign investments, generated jobs, and fostered sustainable economic growth.

4. Good Governance and Low Corruption: The country has been relatively successful in maintaining good governance and low levels of corruption. Transparent and accountable institutions are crucial in ensuring that resource revenues are used efficiently for the benefit of the entire population.

Combining these factors, Botswana has been able to utilize its resources effectively, manage its debt levels, and achieve sustained economic growth over the years. It serves as a valuable example of how resource-rich countries can avoid the "resource curse" and leverage their resources for long-term prosperity. However, it's essential to recognize that every country's situation is unique, and success depends on a combination of factors, including leadership, governance, and global economic conditions.

Institutional Influence on Botswana's Achievements and Challenges:

Botswana's success as a country can be attributed to several good institutions that have played a crucial role in its economic growth and development. These institutions have contributed to the country's ability to effectively manage its resources, promote good governance, and achieve remarkable economic success compared to many other African nations. However, Botswana also faces challenges, like inequality, high unemployment, and fiscal pressures, which require continued efforts for sustainable growth.

Stable Political Environment and Inclusive Policies: Botswana's success story is shaped by a stable political landscape and inclusive policies. The government's commitment to the comprehensive well-being of its citizens is evident through programs targeting education, healthcare, rural development, and poverty reduction. Bolstered by a steadfast multi-party democratic system since independence in 1966, the nation's political stability serves as a magnet for both domestic and foreign investments. This stable foundation facilitates strategic planning and ensures the effective execution of policies.

Resource Management, Strong Institutions, and Cultural Continuity: Responsible resource management underscores Botswana's achievements, particularly in diamond wealth. The establishment of the Pula Fund in 1994 exemplifies the country's prudent approach, ensuring revenues benefit the economy even in lean times. Strong and transparent institutions further drive Botswana's progress. A commitment to good governance is palpable through independent judiciaries, robust regulatory bodies, and transparent public administration. The nation's success is also rooted in its ability to seamlessly integrate traditional and modern institutions, influenced by cultural continuity and colonial legacy.

Incorporation of Pre-Colonial Institutions:

An intriguing aspect of Botswana's governance structure is the incorporation of pre-colonial institutions into the modern system. Traditional councils, representing customary law and community governance, play a significant role in decision-making processes. The incorporation of these institutions has fostered social cohesion, cultural preservation, and community participation, contributing to Botswana's success story.

Pre-colonial institutions in Botswana, particularly those of the Tswana culture, managed to survive and were incorporated into the post-colonial governance structure through a combination of historical factors and deliberate efforts by both the British colonial administration and the post-independence government of Botswana. The survival and incorporation of pre-colonial institutions played a vital role in shaping Botswana's political landscape and contributed to the country's stability and success.

Below are some key factors that explain how pre-colonial institutions survived and were integrated into the modern governance system:

Colonial Legacy, Cultural Continuity, and Legal Recognition: The colonial administration's "indirect rule" principle in Botswana preserved local autonomy, allowing pre-colonial institutions to coexist with the colonial structure. Resilient Tswana institutions like tribal chiefs resolved conflicts even during the colonial era, seamlessly integrating into the post-colonial system. After independence, Botswana's dedication to recognition continued as traditional leaders received legal acknowledgment, formalizing their roles. The Constitution solidified this integration, acknowledging customary law alongside common law, maintaining pre-colonial heritage. A dual legal system harmonizes both laws, enabling these institutions to govern locally and resolve conflicts, enhancing community unity.

The survival and incorporation of pre-colonial institutions in Botswana were influenced by historical continuity, colonial policies, and the deliberate efforts of the post-independence government. The recognition of these institutions and their integration into the modern governance structure has contributed to the country's political stability and successful development. It has also allowed for a blending of traditional values and practices with modern principles of governance, creating a unique and resilient political landscape in Botswana.

Conclusion

Botswana's success story serves as an inspiration for other developing nations seeking sustainable economic growth and development. The country's achievements can be attributed to a combination of factors, including prudent economic management, effective resource utilization, good governance, the incorporation of pre-colonial institutions, and a commitment to social investments. While challenges and vulnerabilities remain, Botswana's focus on economic diversification, infrastructure development, and human capital investment positions it well for future growth and continued prosperity. Through its impressive journey, Botswana demonstrates the transformative power of strategic planning, good governance, and the effective management of resources in achieving remarkable economic progress.

References

- [[1] ([World Bank](#))]
- [[2] ([African Development Bank](#))]
- [[3] ([International Monetary Fund](#))]
- [[4] ([Worldometer](#))]
- [[5] ([World Population Review](#))]

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