

Digging for Diversification in Botswana

Sian Stephens

SUMMARY

Challenge	Leveraging private sector investment for economic diversification (Precept 10 of the Natural Resource Charter').
Country and period of focus	Botswana 1990-2009
Challenge in country	Maximizing the revenue from the country's diamond reserves, while diversifying the economy to minimize resource dependence.
Core decisions	The government entered in to a 50/50 public-private partnership with De Beers, forming Debswana.
Implications of decisions	The partnership with the diamond industry's dominant company has allowed the Botswanan government to maximize revenue and prioritize diversification.
Policy decisions, implementation and governance	<ul style="list-style-type: none"> • Entering 50/50 JV with De Beers • Leveraging the benefits of this partnership to develop local industries • A preferential procurement program for local industry implemented • Key value added activities relocated from Europe to Botswana • Development of downstream diamond industry in Botswana, including US \$83 million diamond sorting and sales office, funded by De Beers • The government's role has prioritized the improvement of human resources, infrastructure and diversification² • Development planning is done centrally, with little or no external influence. National development plans since 1966 have prioritized sustainable economic growth and diversification • Effective governance due to robust institutions, but a lack of transparency undermines legitimacy.
Did it work?	The industry and company are generally thought to be well run, and revenue from the company make a substantial contribution to the government revenue. Some other industrial sectors, including tourism, are growing. ³ However, despite efforts to diversify, the Botswanan economy remains highly dependent on the diamond industry, and industrialisation has been slower than anticipated. ⁴
Quantified losses	<ul style="list-style-type: none"> • Major contributions to the government revenue: expected to contribute BWP 15 billion/ US \$1.57 billion to the target revenue of BWP 50 billion/ US \$5.25 billion in the FY 2014-2015.⁵ • Due to local procurement prioritization 80 percent of the country's annual procurement budget is spent locally.⁶ • Beneficiation programs have created 3,000 new jobs in Botswana.
Lessons learned	<ul style="list-style-type: none"> • Investment in infrastructure and prioritizing local content may promote local industries. • In a public private partnership, both actors have roles to play in diversification. • Diversification must be planned for early and consistently and needs to be complimented with efforts to increase competitiveness.

ABOUT THE SERIES

This is one of a series of case studies that illustrates the principles of the Natural Resource Charter. The charter is a tool used by governments and societies seeking to better harness the opportunities created by extractive resources.

1 Natural Resource Charter <http://www.resourcegovernance.org/approach/natural-resource-charter>

2 Lesego Sekwati, *Economic Diversification: The Case of Botswana* (Revenue Watch Institute, 2012) http://www.resourcegovernance.org/sites/default/files/RWI_Econ_Diversification_Botswana.pdf

3 Sekwati (2012).

4 Sekwati (2012).

5 Mmegi Online (28 October 2014) <http://www.mmegi.bw/index.php?aid=46956>

6 J Suzman, "Diamonds, De Beers and defying the resources curse" *Mining Environmental Management*, (January/ February, 2010).

THE CHALLENGE

The discovery of one of the world's richest diamond deposits in Botswana in 1967 by De Beers, a year after the country gained independence from Britain, provided a challenge for the government. Namely, how to maximize revenue and leverage value from the diamond industry while avoiding resource dependency through the promotion of economic diversification (Precept 10 of the Natural Resource Charter).

THE RESPONSE

Recognizing the limits of their own capacity and the industrial dominance of DeBeers (the world's biggest diamond mining company at the time), the Botswanan government formed a joint venture company with DeBeers. Debswana was founded in 1969 with the government holding 15 percent of the shares and De Beers the remaining 85 percent. The government renegotiated its agreement in 1975 to secure a 50 percent of the share of diamond profits.⁷

This partnership provided the government with a flow of revenue, but did not, in itself, ensure economic sustainability through diversification. The government therefore prioritized sustainable economic growth and diversification in its national development plans, and implemented a number of government led-initiatives aimed at developing the private sector and increasing economic diversification. The proliferation of these early initiatives led to duplication of effort and poor monitoring and evaluation, which undermined the efficacy of the initiatives.⁸ A breakdown of these policies can be seen in Table 1.

Recognizing the limits of their own capacity and the industrial dominance of De Beers (the world's biggest diamond mining company at the time), the Botswanan government formed a joint venture company with DeBeers.

7 Richard Dale, *Botswana's Search for Autonomy in Southern Africa* (1995).

8 Sekwati (2012).

Policy	Objectives	Notes
1. Tourism Policy (1990)	Economic diversification Employment creation	<ul style="list-style-type: none"> • Policy currently under review Key issues <ul style="list-style-type: none"> • Harmonization of policy with other private sector development policies • Strengthening of institutional capacity • Diversification of product bases • Enhancing links with other sectors • Enhancing citizen participation
2. Privatisation Policy (2000)	Accelerating growth Increasing citizen participation	<ul style="list-style-type: none"> • Pace of privatization sluggish Key issues <ul style="list-style-type: none"> • Need to synthesize privatization policy with other private sector development policies • Need to develop effective time-bound performance evaluation mechanisms to ensure effective implementation • Strengthening of institutional capacity to improve implementation • Need to increase public awareness opportunities • Need to expedite adoption of citizen economic empowerment policy
3. National Policy on Agricultural Development (1991) Related Programs: The National Master Plan for Arable Agriculture and Dairy Development (NAMPAD) The Integrated Support for Arable Agriculture Development (ISPAAD)	Increase agricultural productivity Commercialize agriculture Diversify agricultural base	Key issues <ul style="list-style-type: none"> • Capacity of local farmers to engage in commercial agriculture remains a challenge • Technology uptake in agriculture is limited • Access to productive land is challenging • Improve institutional capacity to support the growth of the sector • Strengthen performance, monitoring and evaluation criteria

Table 1. Private sector development and economic diversification policy matrix.⁹

More recently the government has implemented policies to address the shortcomings of previous efforts. These include the Excellence Strategy (2009)¹⁰, the Economic Diversification Drive (EDD) (2011)¹¹ and the Human Resources Development Strategy (HRDS) (2009).¹² The latter aims to develop skills to support private sector development, including in the tourism sector which has been identified as a key sector for potential non-mining growth.¹³

Recent policies have also focused on local procurement. Through the Local Procurement Programme, aimed at enhancing the development of local entrepreneurs, up to 30 percent of the government's annual budget for purchases is reserved exclusively for local firms. However, the competitiveness of domestic companies is constrained by a shortage of well-trained workers and the high cost of borrowing among other factors.¹⁴

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9 Taken from: Segwatir (2012).

10 Government of Botswana, A Strategy for Economic Diversification and Sustainable Growth, (2009) <http://www.gov.bw/Global/Portal%20Team/BotswanaExcellenceStrategynovember08.pdf>

11 Government of Botswana, Economic Diversification Drive http://www.mti.gov.bw/webfm_send/231

12 Government of Botswana, Human Resources Development Strategy <http://www.bota.org.bw/sites/default/files/Final%20Macro%20Strategy%20doc.pdf>

13 Segwatir (2012). Government of Botswana, National Human Resource Development Strategy – 2009-2022, (Gaborone: Ministry of Education and Skills Development, Government Printers, 2009).

14 World Economic Forum Botswana Country Profile (2012) <http://www3.weforum.org/docs/GCR2011-12/CountryProfiles/Botswana.pdf>

The government also initiated efforts to promote more value creation in the mining sector. In 2006, it set up Diamond Trading Company Botswana, funded by De Beers, to sort, value, market and distribute diamonds.¹⁵ The company undertakes key sorting and grading activities that were previously performed in London, and also supports 15 new cutting and polishing factories in the country, which were also set up by De Beers.¹⁶ The beneficiation policy has so far yielded controversial results: costs of manufacturing diamonds in Botswana are twice to three times as high as in China and India.¹⁷ Hence it is doubtful whether the diamond cutting and polishing industry can remain sustainable after the main rough diamond deposits are exhausted in the 2030's.¹⁸

Botswana is considered by some to be a success story in terms of effective resource governance.¹⁹ This view is supported by the country's relatively steady economic growth, a run of peaceful elections since independence, consistent rating as the least corrupt country in Africa by Africa International, and in 2007 Botswana was ranked higher for political stability than all of the G8 countries by the World Bank Institute's Worldwide Governance Index.²⁰ Botswana's success is due in large part to the country's strong institutions, which were inherited from the colonial regime and maintained and strengthened due to the interests of the post-colonial elite.²¹ This, coupled with the significance of the country's diamond reserves in terms of rents and revenue, means that Botswana's successes are unlikely to be replicated wholesale in other contexts.

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Nonetheless, while Botswana is often touted as a success story, a lack of government transparency has been raised as an issue. It scored 47/100 in the Resource Governance Index²², and the regional media²³ and NGOs²⁴ have made allegations of cronyism and patronage between the Botswanan government and Debswana.

OUTCOMES

The diversification efforts of the Botswanan government and Debswana have had some success in creating more demand for domestic employment and businesses but challenges remain in making them globally competitive.

- Employment: 97 percent of Debswana's employees are local citizens.²⁵
- Procurement: Debswana's annual procurement budget averages in the region of US \$250 million, 80 percent of which is spent locally. At the time of independence there was close to no capacity to provide any services other than unskilled labour to the mines, and so this represents a significant leap in local capacity.
- The Diamond Trading Company and associated beneficiation industries have created 3,000 jobs in the country.²⁶

15 Segwatir (2012).

16 Suzman (2010).

17 Russell Shore, *Botswana: Making Beneficiation Work* (2013).

18 Roman Grynberg, Some like them rough: The future of Diamond Beneficiation in Botswana (European Centre for Development Policy Management, 2013).

19 Suzman (2010).

20 Suzman (2010).

21 D. Acemoglu, S. Johnson, and J. A. Robinson, *An African Success Story: Botswana*, (2001).

22 Botswana Overview, NRG http://www.resourcegovernance.org/countries/africa/botswana/overview

23 Yvonne Dithase, "Khama Inc: All the president's family, friends and close colleagues", *Mail & Guardian*, (2 November, 2012) http://mg.co.za/article/2012-11-02-00-khama-inc-all-the-presidents-family-friends-and-close-colleagues

24 "De Beers, Botswana and the Control of a Country", *Benchmarks* (2009) http://www.bench-marks.org.za/research/botswana_edit_fina_dww.pdf

25 Suzman (2010).

26 Suzman (2010).

Diamond mining and the joint venture with De Beers undoubtedly make a major contribution to government revenue: it is expected to contribute BWP 15 billion (US \$1.57 billion) to the target revenue of BWP 50 billion/ US \$5.25 billion in the fiscal year 2014-2015.²⁷

However, diamond reserves are only expected to last for another two decades²⁸, and as Figure 1 shows, it is still the largest sector of the economy.

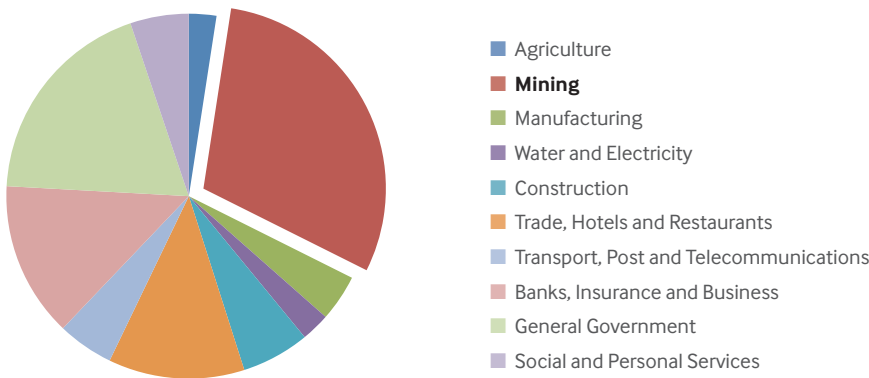


Figure 1. Sectoral distribution of GDP (%), 2009²⁹

Yet, as Figure 2 shows, the dominance of the mining industry in the country’s economy has declined from 48.9 percent in 1985 to 28.3 percent in 2009, showing a trend in the right direction.

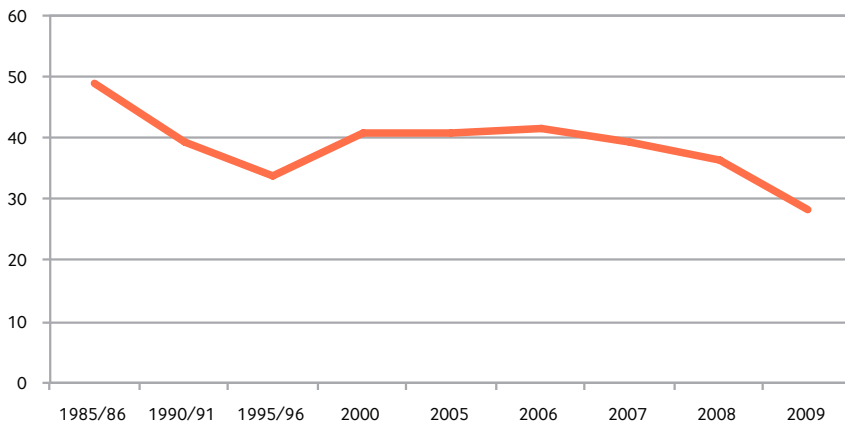


Figure 2. Contribution of mining sector to GDP (%), 1985 – 2009³⁰

27 “Debswana production jumps 14%”, Mmegi Online (28 October 2014) <http://www.mmegi.bw/index.php?aid=46956>

28 Suzman (2010).

29 Segwatir (2012) citing H. Siphanebe et al., *Economic Development of Botswana: Facets, Policies, Problems and Prospects* (2005), and Bank of Botswana, Annual Report, (2009).

30 Segwatir (2012) citing H. Siphanebe et al., *Economic Development of Botswana: Facets, Policies, Problems and Prospects* (2005) and Bank of Botswana, Annual Report (2009).

KEY LESSONS

The government of Botswana has pursued policies to support economic diversification away from mineral extraction. It has promoted local procurement by both the government and by Debswana. These policies have yielded some important successes, with new jobs created, granting local companies access to government procurement, and the creation of a domestic diamond polishing and cutting industry. However, challenges remain in terms of the competitiveness of these new economic activities. Further reforms will be needed to sustain the policies as the main diamond deposits and resulting revenues will start to decline rapidly sometime in the 2020s.³¹

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31 Naoko Kojo, Diamonds are Not Forever: Botswana Medium-Term Fiscal Sustainability (World Bank Policy Research Working Papers, 2010). https://www.researchgate.net/publication/228166311_Diamonds_are_Not_Forever_Botswana_Medium-Term_Fiscal_Sustainability