

**MANAGEMENT OF MINERAL REVENUES:
THE BOTSWANA EXPERIENCE**

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The views expressed in this chapter are solely those of the author and do not necessarily reflect the position of the Botswana Government.

1. INTRODUCTION

- 1.1 This paper is a follow up to the article by the same author entitled “Managing Mineral Revenues in Botswana” that was published by UNCTAD in 1999 in Development Policies in Natural Resource Economies edited by Jorg Mayer, Brian Chambers and Ayisha Farooq.
- 1.2 Among others, the 1999 paper had concluded that the higher the economic rent, and the longer the reserves are expected to last, the less the pressure for the country to adopt viable and sustainable policies for the use of revenues. A higher world market share of the natural resource also tended to make the producer country complacent. The paper advocated for a long term strategy that is designed to withstand short-term market disruptions without causing macroeconomic instability. A viable development strategy for economies dependent on revenues from depletable natural resources should encompass economic diversification and development of alternative revenue sources.
- 1.3 Substantial national revenues from a single source typically impact on domestic prices, the real exchange rate, the macro economic situation in general and other sectors of the economy. Nations have to make difficult choices between investment and consumption. The policy stance, particularly where the revenues derive from depletable natural resources and accrue directly to Government, offer enormous challenges to policy makers, development practitioners and academics. The development experience of natural resource countries has been diverse and varied, with many countries seemingly unable to manage such revenues in a sustainable manner and succumbing to pressures to embark on over-expansionary fiscal programmes. It is such policy failures that have given rise to the often referred to “resource curse”.
- 1.4 What is the situation in Botswana? How has Botswana performed? Could Botswana have done better? What were the choices facing the country?

2. BACKGROUND

- 2.1 Botswana has 3 major mineral resources, namely diamonds, copper/nickel and soda ash all of which contribute significantly to GDP and exports. Diamonds, with dwarf all others, contribute significantly to Government Revenue. In 1998/99, mining contributed 32.5% of GDP, 74.0% of exports and 55.6% of Government revenue (See Tables 1 – 3).

- 2.2 All the mining ventures are operated as private companies, although Government has significant shareholding. With respect to the Debswana Mining Company, it is owned on 50:50 basis between Botswana Government and De Beers Centenary AG of Switzerland. Ownership of BCL, the copper/nickel mine, is approximately 33% each by Government of Botswana and Anglo American Corporation with the balance held by members of the public. Botswana Ash, the soda ash mining company, is owned 50:50 between the Government of Botswana and a group of private companies including Anglo American Corporation, De Beers, African Explosives and Chemicals Industries (PTY) Ltd. And three South African banks.
- 2.3 All major mining ventures in Botswana have always been run as private companies in which Government has significant shareholding. This is different from many countries that operate establishments concerned with major natural resources as public enterprises, a choice often motivated by apparent nationalist sentiment that reasoned that major national assets could not be left in the hands of the private sector. In the case of Botswana, Government has had an arms length approach in the day to day operations of the mining companies. Government influence has been exercised through appropriate representation in the Boards of Directors for general policy guidance and also through mineral legislation and regulation by the Department of Mines and other Government agencies with supervisory authority. This has worked fairly well. The fact that countries such as Zambia have recently privatised major mines perhaps vindicates Botswana's stance. Private ownership of exhaustible natural resources need not be inimical to national economic development.
- 2.4 More than 95% of Government mineral revenues are derived from diamonds. To all intents and purposes therefore, diamond revenues constitute the totality of mineral revenues. For this reason, this paper focuses on diamond revenues.
- 2.5 Most of the value of Botswana diamonds is derived from gem diamonds as opposed to industrial diamonds. Gem diamonds account for approximately 20% of production and 80% of value. Every gem diamond is a unique luxury good. The cost of diamond production relative to value is low and consequently economic rents are high. Botswana's total production is marketed through the Central Selling Organisation (CSO), the marketing arm of De Beers. In fact, by value, Botswana's diamond production contributes the largest proportion of total CSO sales. Estimates vary, but usually CSO is said to control between 65 - 75% of global sales. This makes Botswana a very significant player in the world diamond market. However, because of the peculiarities of diamonds and the special marketing arrangements, the experience of diamonds is not

necessarily applicable to other natural resources that are freely traded in international commodity markets.

- 2.6 Diamond mining in Botswana started in the early 1970s and Botswana became a significant world producer after 1982 following the opening of the Jwaneng Diamond Mine. The Agreement governing the revenue distribution between Government and De Beers is confidential. Some analysts have estimated that the Botswana Government takes about 75% of the profits from diamond mining through taxes, royalties and dividends. Debswana Mining Company also holds a 5% shareholding in De Beers parent companies since 1987. The Sales Marketing Agreements, typically for a 5 year period, and Mining Agreements for 25 years, provide a stable framework for both the investor and Government. Also Government of Botswana has now formulated a tax legislation for other mining ventures that has a transparent variable tax rate regime as an additional measure of assurance to investors in large mineral projects.
- 2.7 Botswana's development strategy has been guided by 6-year National Development Plans (NDPs) with the current one, NDP 8, running from 1997 to 2003. Returns from mining have been used to develop physical and social infrastructure such as roads, water supplies, power supplies, telecommunications, health facilities, schools and human capital. The theme of NDP 8 is Sustainable Economic Diversification, reflecting Botswana Government's concern with dependence on depletable mineral resources. Given a population size of 1.6 million people, viable economic diversification has to be export oriented. It is somewhat ironic that during NDP 8, Government actually embarked on a major expansion of one of the diamond mines, namely the Orapa Mine, to double its annual output. This raised combined annual production from all three diamond mines from 19 million carats to 25 million carats, a 32% increase, in the year 2000.

3. ISSUES FACING GOVERNMENTS WITH LARGE MINERAL REVENUES

- 3.1 Countries with large mineral revenues that accrue to government, typically in the form of direct and indirect income taxes, export taxes, fees, dividends and royalties, are faced with difficult economic policy and management issues. The concern is to manage such revenues in a way that does not destabilise the macroeconomy and leave the country vulnerable to shocks or unable to maintain standards of living once the natural resources have ended their useful economic lives. When large sums of money, in foreign exchange, are transferred into the domestic economy, do you let the value of the domestic currency appreciate? After all, more foreign exchange available should make foreign exchange cheaper. This is not a simple choice, because the possible impact of domestic currency appreciation on other sectors of the economy has to be

assessed, especially the export and import-competing tradable goods sectors. Unrestrained currency appreciation could seriously harm the competitiveness of both the export sector and those domestic industries that compete with imports.

- 3.2 Second, there is also the issue of wages. Does the country let the mineral sector pay higher wages than the rest of the economy since it generates those revenues? If this is allowed, together with currency appreciation, it could have the effect of raising wages and costs in other sectors of the economy and thus negatively impacting on their viability. In development literature, this is referred to as “the Dutch Disease”. In order to avoid this, there is need to moderate currency appreciation, increases in wages and inflationary effects. Resort to protectionist measures, ostensibly to protect the unviable import competing sectors, is not a viable long term strategy. This often leads to high effective rates of protection of the domestic industries to the detriment of long term international competitiveness. In this era of the World Trade Organisation and liberalisation of international trade, it is not difficult to see why open trade policies would be advocated. For smaller economies, with correspondingly small domestic markets, inward looking development strategies can seriously inhibit long-term sustainable development.
- 3.3 The appropriate mix of investment and current consumption is another consideration in the management of large mineral revenues. The best strategy is one that is in-keeping with long term sustainable economic development. Mineral revenues should be used to develop the productive base of the economy, in other words converting natural mineral assets into other kinds of long-term assets such as viable technologies, physical and social infrastructure, as well as human capital. Investment projects require feasibility studies and detailed technical investigations to ascertain viability. In poor developing countries, pressures to finance current consumption to address poverty are immense. Development of prestige projects, which are highly conspicuous, give a false sense of developmental success. But it is such projects that sometimes soothe the egos of political leaders. Whilst supplying the poor with consumption goods and basic necessities using such revenues can temporarily alleviate the plight of the poor, this is not a long term solution to poverty. Some analysts argue that using such revenues for social safety nets for those who cannot be productively employed is justified.
- 3.4 How does a country manage large mineral revenues in such a way as to avoid “Boom and Bust” cycles? Some analysts advocate for the establishment of a separate Fund to manage revenues and isolate them from the general revenue pool. Others argue that the mechanism for channeling the revenues is far less important than the use to which the revenues are put. First, lumpy mineral revenues should

be used with a long term perspective that takes into account cyclical market fluctuations in order to create stable macroeconomic conditions.

The building of revenue reserves, whether as budgetary surpluses or specific Funds, and possible concomitant build-up of foreign exchange reserves is an essential element of the strategy. Revenues should be used in a manner consistent with the absorptive capacity of the economy so as to avoid macroeconomic instability and imbalance such as inflationary surges and large chronic budgetary deficits.

- 3.5 Some development analysts have argued that Governments should invest some of the large mineral revenues abroad so as not to cause overheating in the domestic economy. This was the strategy adopted by many OPEC countries during the oil boom of the early 1980s. The two strategies are not mutually exclusive and can be employed in a complementary manner.
- 3.6 Excessive external borrowing to finance large prestige projects was the downfall of some mineral revenue based economies. They contracted external loans predicated on ever increasing revenues and as soon as the export markets experienced down turns, servicing of external debt became a problem. The economic repercussions were exacerbated by cut backs in the budget, imposition of import controls, rationing of foreign exchange and general reluctance to devalue the domestic currency in response to reduced inflow of foreign exchange.
- 3.7 Some philosophical questions have also been raised about inter-generational equity. This is based on the position that the present generation has no right to extract all the mineral resources and preclude their use by future generations. The author believes that if the present generation uses the revenues to build productive capital, it is for the benefit of future generations too. In any case, unless one is clearly a pessimist, future generations, armed with more sophisticated and productive technologies, partly developed with the intellectual capital of preceding generations, should be able to discover many other minerals and engage in more productive activities that the present generation does not even know about!
- 3.8 Does it make any difference if government directly owns the mineral operations? Privatisation could offer benefits, especially where public ownership reduces the operational autonomy of the operations. Private investors will seek to maximize returns and could re-invest proceeds in other profitable enterprises. In the case of governments, it could be difficult to withstand pressures for use of the revenues in consumption and financing low-yielding investments that dissipate the revenues. Even if the private sector used some of the revenues for private consumption,

they are more likely than government to adjust their consumption patterns quicker in the face of price fluctuations. This is not so easy with public consumption which is both an economic, as well as a political decision.

4. MINING IN THE BOTSWANA ECONOMY

- 4.1 Mining has been the largest sector in GDP since the early 1980s. In the period between 1995/96 and 1998/99, Mining contribution to GDP has ranged between 32.5% and 35.4%. The second largest sector, namely General Government was almost half of this ranging between 15.4% and 16.3%. In the years 1996/97 and 1998/99, GDP excluding Mining grew more rapidly than aggregate GDP whereas in the years 1995/96 and 1996/97, GDP excluding Mining grew less rapidly than aggregate GDP (See Table 1). Sustained higher growth of non-mining GDP relative to mining GDP indicates economic diversification. However, from these figures, not much can be concluded, except that in some years there has been positive signs of economic diversification.
- 4.2 In 1999, Mining directly employed 8 700 people, accounting for 3.4% of total formal sector employment. If indirect employment as well as employment in non-mining activities are taken into account, more people were employed. However, mining does not directly employ a significant proportion of people compared to its contribution to GDP because mining in Botswana is highly capital intensive. Mineral exploration and exploitation have attracted substantial foreign direct investment compared to other sectors of the economy.
- 4.3 Mining in Botswana also does not have strong linkages with other sectors of the economy. All output is exported and many major inputs imported. Because of the Sales Marketing Agreement, under which all diamond output is sold through the Central Selling Organisation, there is little downstream processing of the locally mined diamonds within the country. In fact, the few diamond cutting operations that exist actually procure their supplies from the international market. These have been generally unprofitable. Although often the criticism is made that the Sales Marketing Agreement has contributed to the lack of development of downstream processing activities, that criticism ignores the fact that the main impediment to success has been the stiff competition from well established and efficient diamond cutting centres of the world. However, the Debswana Mining Company has sought to compensate for the lack of linkages with the rest of the economy by its active involvement in community projects, especially those dealing with the environment. The company has also invested directly in projects within the country e.g., large scale commercial agriculture. It has also played a key role in

human resources development. In addition, it recently started a venture capital company called Peo Holdings to assist upcoming Batswana entrepreneurs with financial capital.

- 4.4 Perhaps the biggest contribution of Mining, especially diamonds, to the economy of Botswana is revenues to Government. These revenues have in turn enabled Government to develop infrastructure, human resources and build up foreign exchange reserves.
- 4.5 In 1995, Mineral Revenues amounted to P2 591.4 million out of total revenues of P5 427.3 million, accounting for 47.7% of total revenues. In 2000, Mineral Revenues are budgeted at P6 287.6 million out of total revenues of P11 725.5 million, accounting for 53.6% of the total revenues. The next 2 largest revenue items are Customs Union revenue at P2 248.9 million or 19.2% followed by Other Property Income (comprising mainly Earnings on Foreign Exchange Reserves) at P891.1 million or 7.6% of total revenues. In 1995, foreign exchange reserves amounted to P25 billion, but have now increased to P29 billion. The foreign exchange reserves have exceeded 24 months of import cover of goods and services for several years. Government's three main revenue sources therefore account for 80.4% of total revenues. In 1995, they accounted for 82.6% of total revenues (See Table 3). Government's over-dependence on Mineral Revenues has not abated.
- 4.6 It is important to point out the inter-relationship between Mineral Revenues, Customs Union revenue, Earnings on Foreign Exchange Reserves and even direct personal taxes of Mining employees and taxes and income earned by operations financed mainly through Mineral Revenues. Mineral Revenues make it possible for Government to finance its state enterprises and various forms of assistance to Batswana entrepreneurs, who may in turn import capital equipment and inputs from outside the Common Customs Union which may be liable for customs duties. Similarly, foreign exchange reserves have accumulated largely because of substantial Mineral Revenues. Had Mineral Revenues been lower, everything else being equal, Customs Union revenue, Earnings on Foreign Exchange Reserves and even other income would also have been lower. Therefore, if second and higher order economic effects of Mineral Revenues are taken into account, the significance of Mineral Revenues is much higher than its direct contribution to total Government Revenues suggests. The same applies to Mining contribution to GDP.
- 4.7 The substantial Mineral Revenues have enabled Government to finance its expenditure programme. In 1995, Government Expenditure and Net Lending amounted to P5 194.5 million and in 2000, it will reach P11

730.3 million, meaning that it more than doubled in 5 years, an average annual increase of 17.7%. In 1995, recurrent expenditure amounted to P3 509.6 million, accounting for 67.6% of the total Government Expenditure and Net Lending. In 2000, it amounts to P8 355.9 million or 71.2% of the total, an average annual growth of 18.9%. Development Expenditure increased from P1 072.0 billion in 1995, accounting for 32.2% of total Government Expenditure and Net Lending, and in 2000, it is projected to amount to P3 434 billion, accounting for 29.2% of the total Government Expenditure and Net Lending (See Table 3). This is an average growth of 26.2% per annum. This indicates an inclination towards Consumption.

- 4.8 Another indicator of Government's performance in utilizing Mineral Revenues for developmental purposes is the Budget Sustainability Ratio. This is the ratio of non-investment related expenditure to non-mineral revenue. From the recurrent expenditure, a certain proportion of health and education expenditure is subtracted in recognition of such expenditure representing investment in human capital. A value greater than 1 indicates that Government is using Mineral Revenues to finance consumption. In 1995, this ratio was 0.84 and is projected to reach 0.98 in 2000, 1.05 in 2001 and 1.08 in 2002. A value of 1.08 means that Government is financing 8% of its non-investment related expenditure through sources other than non-mineral revenue. If the apparent rising trend of this ratio is not halted, and Government increasingly utilises Mineral Revenues to finance non-investment expenditure, this would lead to dissipation of Mineral Revenues. This is not sustainable over the long term.

5. IMPACT OF MINERAL REVENUES AND ECONOMIC POLICY

- 5.1 Some of the effects of Mineral Revenues on Consumption and Investment can be deduced from the General Government share of GDP, national savings and commercial bank credit. The share of General Government in GDP has remained relatively stable. It accounted for 15.4% in 1995/96 and 16.3% in 1998/99. (See Table 1). This is a fairly high proportion of public consumption by international standards. Government also has disproportionately large shares in national savings and investment on account of Mineral Revenues.
- 5.2 Bank loans and advances expanded rapidly from P1 795 million in 1997 to P3 947 million in 1999 with growth rates of 51% in 1998 and 45% in 1999. The share of household credit in total commercial bank credit rose from 47% in 1998 to 50% in 1999 compared to a share of 32% in 1991. The share of credit to business has been declining. The rapid increase in household credit expansion was mostly in response to the substantial rise in public sector salaries in 1998. This has contributed to inflationary

pressures. The growing share of credit to the households, with a higher propensity to consume, is worrisome. If this continues, it will compromise investment and consequently economic growth and sustainable economic development.

- 5.3 In 1995, average monthly cash earnings in the private and parastatal sector were P618, P877 in Local Government and P1 068 in Central Government. By 1998, the latest year for which figures are available, average earning for these sectors had risen to P1 067, P1 190 and P1 566, respectively. Public Sector earnings have been consistently higher than Private Sector earnings. This was further compounded by Government's decision in 2000 to increase Minimum Wages in Government to P600, compared to average Minimum Wages of P205 in the Private Sector.
- 5.4 The National Policy on Incomes, Employment, Prices and Profits, first introduced in 1972 and revised in 1990, which aims at, among other things, preventing the widening of the gap between rural and urban incomes as well as preventing excessive competition for scarce skills from worsening the uneven income distribution in formal employment, has been the main instrument used to regulate incomes. The Incomes Policy, as it is known, has thus served in the past to prevent Mining Wages from rising excessively compared to other sectors. Public sector enterprises and private sector working in close collaboration with Government have tended to have wages that are not vastly different from those in Government. For this reason, average monthly cash earnings for Mining amounted to P1 170 in 1995 and rose to P1 950 in 1998 compared to total average earnings of P1 004 in 1995 and P1 430 in 1998. However, there are some who view the Incomes Policy as an unnecessary interference with market forces and the latest revision to the Policy stopped the application of the Policy to the private sector in recognition of the more developed state of the economy.
- 5.5 Botswana has been a member of the Southern African Customs Union (SACU) with Lesotho, Namibia, Swaziland and South Africa since 1910. Nearly 80% of Botswana's imports are sourced from South Africa and a significant proportion of non-traditional exports go to the same market. Exchange Rate Policy has been managed with a view to maintaining competitiveness viz-a-viz South African producers and maintaining a stable link between the value of the South African Rand and the Botswana Pula. A close link between the Pula and the South African Rand is also conducive to a stable macroeconomic environment in which the exchange rate, which has major influence on costs, revenues and profits, does not fluctuate too widely. As a consequence, the Pula has not appreciated excessively viz-a-viz the Rand in order to maintain competitiveness of Botswana's exports in the Southern African

market as well as to enable local producers to be able to compete with imports from South Africa. The value of the Pula has therefore remained much lower than the large diamond revenues would have suggested.

The present Exchange Rate Policy is questioned by those who want to import from hard currency areas. They sometimes argue that Botswana does not have much prospect of promoting non-diamond exports. If one accepts that argument, it means that Botswana has no prospect of long term sustainable economic development.

- 5.6 SACU provisions have also been important in governing industrial protection. Infant industry protection for the smaller members of SACU is permitted for a maximum period of 8 years and protection in the entire SACU market is conditional upon being able to satisfy at least 60% of the market. Whilst redistributing Customs Union revenues, SACU has also been deliberately used to promote industrial development in South Africa. This notwithstanding, SACU has also provided checks against excessive industrial protection in the smaller member countries. The SACU Agreement, which has been the main instrument of international trade policy, has not been perfect and has been under re-negotiation for the last 5 years.
- 5.7 Whilst the returns from diamonds might have contributed to higher national wages in other sectors of the economy such as manufacturing, agriculture and services, the influence Government has in major private companies, such as in mining, has served to moderate this influence. With respect to agriculture, which is not subject to Minimum Wages, there is a shortage of labour in spite of a national unemployment rate estimated at 19.6%. Government does not control prices of agricultural products. However, the higher wages in mining, manufacturing and even Government has attracted able-bodied people away from agriculture than would otherwise have been the case. Higher inflation due to higher Government expenditure has probably also had an adverse impact on terms of trade and agricultural development.
- 5.8 The most severe hindrance to agricultural development has been adverse climatic conditions, mainly frequent droughts, erratic rainfall and poor soils. This has been exacerbated by poor management. Government has extended large subsidies to agriculture because many Botswana are engaged in the sector. Mineral Revenues have allowed a larger scale of agricultural subsidies than would otherwise have been possible. The terms of trade losses are probably more than compensated for by the subsidies provided. The scale of agricultural subsidies has given rise to concerns about their targeting, economic efficiency, disincentive effects, environmental impact and long term sustainability.

- 5.9 All in all, it would appear that although Botswana has been afflicted by elements of the “Dutch Disease” phenomenon, it has been reasonably managed and contained, and unchecked pervasive effects on the economy have largely been avoided.
- 5.10 Regarding quality of investment, particularly by Government, the Mid-Term Review of the eighth National Development Plan states that “About 81% of the original Total Estimated Cost of the NDP 8 development programme of P11.8 billion was used up within the first half of the Plan, while, in terms of physical outputs delivered, progress achieved has not been as dramatic”. Many projects have experienced significant cost overruns and delays in implementation, an indication of inadequate project planning and management. The quality of completed projects has also not been satisfactory. A number of parastatal investments have failed causing Government to undertake capital restructuring and inject significant equity into the parastatals. Some fairly large Government subsidized private sector investments have been spectacular failures. Increased Government expenditures has therefore not brought corresponding returns.
- 5.11 Except for the Financial Assistance Policy (FAP) under which Government provides subsidies for manufacturing, small scale mining and tourism ventures based on employment levels for a maximum period of 5 years, Government does not have targeted rates of return for its investments. The establishment of benchmarks for rates of return for Government investments can assist in selecting high value investments and monitoring performance. This is not enough in itself, and would have to be complemented by high proficiency in project identification, appraisal, management and evaluation. It is important to identify implementation problems as early as possible and implement remedial action where there is a likelihood of success. However, good project management is also one that recognizes that due to changed underlying assumptions such as market prices, competition, or business environment, a project may no longer be viable. In this case, it is best to cut losses at the earliest possible opportunity.
- 5.12 In recent years, the Government of Botswana has intensified its campaign to attract foreign investment into the country. At the same time Government has lowered taxes with the corporate tax for manufacturing at 15%, abolished foreign exchange controls and created a conducive policy environment for private investment. If Government succeeds in attracting viable foreign investment that is not dependent on large subsidies from the Government, the imbalance between public and private investment could be addressed. This should lead to better returns to aggregate investment and contribute to sustainable economic diversification and development. However, it is important to focus the

campaign for attracting private foreign investment in countries and products that can utilize available skills and resources within the country. It is partly for this reason that tourism and services are receiving increasing emphasis.

6 DEVELOPMENT CHALLENGES FOR BOTSWANA

- 6.1 It is important that conclusions drawn in this paper are placed within the context of development challenges facing the country. After all, the extent to which mineral revenues can have optimal development impact on the country is a function of their relevance to identified development challenges.
- 6.2 According to the Mid-Term Review of the eighth National Development Plan, the most critical development challenges are HIV/AIDS, Unemployment, Poverty, Economic Diversification, Public Sector Reform, Fiscal Discipline, Citizen Economic Empowerment, Environmental Conservation and Recurrent and Maintenance Costs. These concerns are at the heart of sustainable development.
- 6.3 Fiscal discipline and making sufficient provision for long term recurrent and maintenance costs for the infrastructure that has been developed over the years is directly related to increasing returns to investment.
- 6.4 The question of Botswana Government's response to the HIV/AIDS pandemic deserves serious attention. Botswana is one of the countries worst affected by the pandemic with 17% of the total population estimated to be infected. Expenditure on HIV/AIDS, therefore, has the potential to have a major impact on the national budget. What effect expenditure on HIV/AIDS will have on the budgetary sustainability is not yet clear. Is Government justified in strictly adhering to financing non-investment related expenditure from non-mineral revenue even in the face of such a pandemic with devastating social consequences and human misery? Is this defensible socially, politically and even on humanitarian grounds? It is difficult, however, to see how such large HIV/AIDS expenditures can be financed without resort to utilizing Mineral Revenues. This is the dilemma for Botswana.
- 6.5 The international diamond market is facing a direct risk because of the so called "Conflict Diamonds" or "Dirty Diamonds". This emanates from the campaign by the international community to isolate diamonds from countries in which diamond proceeds are apparently used to finance civil wars. At most, such diamonds account for only 4% of world output. The idea is that diamonds from such countries should not be bought as the money accruing from them will be used to finance civil conflict resulting in loss of human lives, human tragedy as well as political and social

instability. This campaign is very quickly gaining momentum. Some of the suggestions to deal with this, include branding or certificating diamonds so as to isolate and exclude those being offered for sale illegally by rebel regimes. Obviously, this will come at some cost to the producer countries.

- 6.6 But perhaps even more important, it is not clear what the possible impact of this campaign will be on world demand for diamonds. Could, for example, customers who are steadfastly in support of the campaign choose to stay away from diamonds rather than risk buying diamonds from the isolated countries? For now nobody seems to have an answer and the affected producer countries are cooperating with the international community in informing world public opinion in the hope that adverse effects will be minimal. Today it is “Conflict Diamonds” and what shall be next, “Drug Diamonds”? “Death Diamonds” linked to bad environmental policies and management? This shows how vulnerable the Botswana economy is to international events over which it has no control. This is a very worrying development, particularly given the ferocity and apparent success of some of the international campaigners on a wide variety of issues. The campaign against mink coats, luxury goods in the same way as diamonds, was successful in the recent past.
- 6.7 There is a growing perception by part of the elite, political parties, academics and development practitioners within the country that Botswana’s economic management has been overly cautious and ultra-conservative, and has failed to effectively utilize the accumulated savings to fight poverty, unemployment and other development problems. The country is considered rich. The reduction of foreign development assistance to Botswana on the same grounds has lent some credence to this view point. Botswana should be wary of creating a welfare state financed by diamond revenues and avoid yielding to “rent-seeking” Botswana entrepreneurs. If a more expansionary fiscal programme results in the financing of more marginal investments with lower economic returns, this could crowd out viable private investment, jeopardize sustainable development and create conditions for “Boom and Bust” Cycles.

7 CONCLUSION

- 7.1 Mineral Revenues, particularly diamonds, have had the most profound impact on Botswana’s economic development. GDP per capita increased from P8 050 in 1995/96 to P9 005 in 1998/99 (See Table 1). The country has made commendable progress in improving most social indicators such as life expectancy at birth, Infant Mortality, Literacy, Access to Education, Access to Clean Water and Sanitation, Access to Health, although many are now being reversed by the impact of

- HIV/AIDS. In addition, there has also been significant expansion of physical infrastructure such as roads, bridges, telecommunications, energy and institutional development. Without doubt, Botswana would not have made such progress without Mineral Revenues.
- 7.2 It is important to bear in mind that Government expenditure is not simply an economic issue, but also a political one. Botswana's political landscape has been dominated by one political party, which has ruled the country for the 34 years of its independence. It is therefore quite possible that when competition for political power intensifies, Government expenditure can be used to woo the electorate. This would be not unique to Botswana. But it would be tragic if such expenditure were to seriously deviate from the established norms and practices of sound economic management. Botswana remains vulnerable to dependence on diamonds, drought and other natural disasters, as well as international events.
 - 7.3 Notwithstanding the sayings that "Diamonds are Forever", and "Diamonds are a Girl's Best Friend", diamonds are a finite resource about which there can be no absolute certainty regarding their future. For the time being, Botswana has to make the best use of its diamond income.
 - 7.4 Botswana should spare no effort in improving project implementation and selecting projects with high economic returns. Remaining bottlenecks impeding private sector development should be speedily removed.
 - 7.5 Botswana should have a well developed and aggressive Human Resources Development Strategy focusing on professional and technical skills, especially Information Technology. Unless these needs are addressed, they will seriously undermine development of high technology industries. Without IT skills and infrastructure, the country cannot go far in this era of digital technology. The people are the country's greatest assets investment in human resources development and technology will make the country better placed for more innovative and productive additional engines of economic growth that are a sine qua non for sustainable economic diversification.
 - 7.6 Regional cooperation is particularly crucial for small economies with limited domestic markets. Botswana has to exploit to the full opportunities offered by regional cooperation within the Southern African Development Community (SADC). Similarly, full advantage should be taken of international arrangements offering preferential market access such as the ACP/EU Partnership Agreement and Africa Growth and Opportunity Act of the U.S.A.

- 7.7 Mineral Revenues should continue to be used for building the productive capital of the economy. More concerted efforts should be made to diversify the economy and revenue sources, e.g. introduce greater cost recovery and user fees. Public sector reforms, including privatization and contracting out of non-essential services, should be considered in order to focus Government on its core activities and ease the burden on the fiscus.

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