



Avoiding the Resource Curse: What Can We Learn from the Case of Botswana?

by Transparency International

Introduction

Since its independence from Britain in 1966, Botswana has become one of the success stories of developing countries. It went from being one of the twenty-five poorest countries in the world to becoming an upper-middle income economy in 1998, and reached a per capita GDP of 9,200 US\$ in 2004. The impressive 13.9% (average, per annum) of GDP growth during the first years after independence are now down to 3.5% (real growth rate, 2004 est.), but Botswana's economy still remains one of the fastest growing in Africa. The diamond industry represents one third of the country's GDP and account for up to 70-80% of its exports.

Botswana is an almost unique example of a country which has been highly dependent on aid but which, by managing it well and integrating it into national strategic priorities, including focus on the sound management of its mineral resources, has consistently over almost 30 years been one of the fastest growing developing nations. It now requires little aid.

Its natural resource revenues have been carefully accounted for and the new-found wealth has been sensibly used. The UK government's "Commission for Africa" this year allocated an annex to its report devoted specifically to the Botswana success.

Considerable emphasis has been placed on the development of a private sector, in addition to public services, as a means of raising employment and reducing extreme poverty. Considerable challenges still lie ahead, however, with unemployment officially around 24%, but probably around 40% in reality, and over 45% below the poverty line. This, combined with Botswana's recent reluctance to join new international good governance initiatives like the EITI or the United Nations Conventions against Corruption are a sources of concerns.

The reasons for Botswana's success, early leads

Some commentators link Botswana's good performance with the early establishment of strong governance structures that pre-date the discovery of diamonds. Unlike many other African countries, Botswana discovered its main natural resources after post-colonial institutions had been established. The fight for freedom was not marred by the fight for rent and those who led the country to independence did not do so to seize the reins of a rich nation. The first diamond mine was indeed discovered in 1967 by De Beers, one year after accession to independence. Unfortunately, this lucky course of events is quite specific to Botswana and cannot be replicated elsewhere

More lessons can be drawn from Botswana's economic policies directly after independence. According to Hill and Mokgethi¹, the two main objectives that guided Botswana's economic policies were to avoid external debt and stabilise growth on the one hand, and to encourage economic diversification on the other.

Thus, Botswana avoided two of the usual pitfalls that threaten countries benefiting from a resource boom: over-reliance on one source of revenue (which weakens the country when the prices on the international market drops, as well as encourage rent-seeking) and excessive public expenditures (that leads to inflation and the damaging appreciation of the local currency, while usually promoting "lazy accounting" on behalf of the government).

The surpluses gained during the better years were used to finance public expenditures when the revenues would go down and also to accumulate international reserves and reduce inflationary pressures. The relative stability of the currency protected the competitiveness of other tradable goods and encouraged economic diversification².

But would it have been possible for Botswana to implement efficiently these sound economic policies if it had not been for its relatively strong National Integrity System?

¹ Hill, C., and N. Mokgethi. 1989. "Botswana: Macroeconomics Management of Commodity Booms, 1975-86." *Successful Development in Africa*, Economic Development Institute of The World Bank.

² Sarraf, M., and Jiwajji, M. 2001. "Beating the Resource Curse, the Case of Botswana". *Environment department papers, paper n°83*, The World Bank.

Botswana's National Integrity System

Botswana is consistently given high marks for governance and the integrity of its public institutions. This status is reflected, for example, in it having the highest score for African countries in Transparency International's Corruption Perceptions Index. With a score of 6.0 in the 2004 CPI index, Botswana is the country perceived to be the least corrupt on the African continent, ranking well above some European countries, such as Italy or Greece.

To explain such a positive image (and relatively positive results), one needs to look at the country's National Integrity System (NIS), a concept developed by Transparency International (TI). The NIS is the sum total of the laws, institutions and practices in a country that maintain accountability and integrity of public, private and civil society organisations. The development of effective anti-corruption reform programmes is, to a great extent, dependent on a thorough understanding of the NIS of a particular country. Understanding the NIS of any country forms the basis of developing anti-corruption reform programmes. Over the years, the NIS concept has come to be closely associated with the institutions and practices that form an anti-corruption system. These include: the legislature, executive, judiciary, independent anti-corruption agencies, media, private sector, etc.³

To date, Transparency International has published 54 NIS Studies around the world. Botswana was reviewed in 2001 and several elements of the NIS are seen to have contributed to the development of the country's relatively strong good governance.

1. Democratic Accountability

Democracy is fully practiced in Botswana. The country operates a written constitution to which all organs of government are subjected. Elections are held on a regular basis. The Government is accountable to the people. Executive actions are subject to review. Citizens can sue the government in the courts as a means of redress.

³ This holistic, systematic approach to anti-corruption is central to both the TI Source Book and the TI Anti-Corruption Handbook. See Transparency International's website for more information: <http://www.transparency.org>

2. Judicial System

The independence of the judiciary is not only guaranteed by the Constitution, but is also truly practiced. The Courts have established a precedent that they will review executive actions in the case of suspected abuse of power.

The Courts have not been wanting when it comes to the prosecution of corruption. Because of their independence, the judiciary has not shirked its responsibility in convicting and sentencing accused persons for corrupt practices. Nevertheless, there have been instances where the delay in the trial of cases has affected the conviction rate of cases brought by the Directorate on Corruption and Economic Crime.

3. Ombudsman

The Office of the Ombudsman, since its inception in 1995, has had a serious impact on the lives of ordinary Batswana (the People of Botswana). Its reports have exposed instances of injustice in the public service and have made recommendations for remedying them. Unfortunately, the Ombudsman, under the current set up, does not have sufficient independence and autonomy to discharge his functions effectively. There is a need to amend the Act to create this crucial independence and autonomy.

4. Free media

The country has nine newspapers, one of which is state-owned. All others (weekly publications) are privately owned and enjoy very good freedom of expression. To date, no cases have been brought where a journalist has been physically assaulted in the discharge of his duties. The media has been active in exposing and fighting corruption and abuse in government and has thus helped reduce impunity and secrecy.

Overall, Botswana has a very well established democratic process that ensures regular elections every five years to choose a President and a National Assembly. The country operates a written Constitution that recognises separation of powers between the executive, the legislature and the judiciary. The rule of law operates fully in the country. The independence of the judiciary is

assured. Citizens are free to initiate actions before the courts and even institute legal action against members of the executive. The right political and legal environment therefore exists to fight corruption, as there is transparency at various levels of government.

This very brief overview of Botswana's National Integrity System illustrates how a good mixture of efficient public institutions combined with democratic principles and a free and active civil society (media, etc.) have helped to protect the country from the greed and mismanagement that is inflicting many African nations.

Botswana's weaknesses

There are nevertheless some aspects in which Botswana is found lacking. For example, the Directorate on Corruption and Economic Crime has been established since 1994 to combat the growing trend in corruption and enjoys a good reputation (especially when compared to other, similar, institutions in Africa). In theory, the Directorate seems to be independent and therefore free to investigate any case of corruption. However, in practice, its independence is limited by the fact that it is under the Office of the President and reports directly to the President. Henceforth, it should become autonomous and report directly to Parliament. Furthermore, there should be provision for security of tenure for the Director so that he/she cannot be removed through the normal public service regulations. It appears the Directorate has investigated and prosecuted only cases of modest dimensions and has avoided tackling some cases of high-level grand corruption.

It is disappointing that Botswana has to date failed to sign the United Nations Convention against Corruption and the African Union Convention on Preventing and Combating Corruption. These two major international instruments offer African countries the opportunity to adapt their anti-corruption arsenals to the highest international standards and, in the case of the Africa Union Convention, to install the necessary mechanisms that would permit and facilitate legal mutual assistance and collaboration in the fight against corruption between African nations. It is critical that these conventions are signed and ratified without further delay.

A Closer Look at the Extractive Industry

1. Diamonds

Botswana is the world's second largest diamond producer after Australia, and the largest in terms of "gem quality" diamonds. From the point of view of avoiding corruption – so often associated with natural resource wealth – Botswana has been very fortunate in the nature of its diamond industry. Whereas in other parts of the continent, alluvial diamonds are capable of exploitation by a widely dispersed artisanal industry, the concentration of diamonds into major mines requiring large-scale capital investment makes the process of extraction considerably easier to control. This in itself, however, would not guarantee a non-corrupt industry. It has taken determination and administrative skill to establish control systems which give a fair assurance of business probity and sound management of revenues.

When, around the beginning of the new millennium, international concern developed around the issue of "conflict diamonds", Botswana became an active participant in the development of the Kimberley process, by which around 60 countries certify the origin of rough diamonds to reduce the risk of funding conflict. The country continues to support and implement the process and also conducts peer reviews of its effectiveness.

2. The Extractive Industry Transparency Initiative (EITI)

It was therefore disappointing to many that, in June 2003, Botswana declined to endorse the Extractive Industries Transparency Initiative (EITI) which calls for the open publication of national revenues acquired from an extractive industry.

In his speech to the high-level EITI conference in London that year, the Hon. Minister of Minerals Energy and Water Resources, Mr Mokgothu, stated that "...even though we are true and sincere believers [in transparency] we do not necessarily reveal everything about ourselves that anybody cares to ask." He continued: "We subscribe to the concept, but believe that its application in specific situations needs to be tempered by commercial and political prudence. ... in a competitive market place, it is usually not sensible to publish all your commercial secrets for the use and benefit of your competitors. ... Total transparency would therefore be far more

revealing of commercially sensitive information for us than it would be for others. Furthermore, certain other national receipts and corporate payments are governed by confidential agreements between government and private sector commercial partners - and I do believe that we have achieved greater national benefits from these agreements by our willingness to keep certain aspects of them confidential."

After the country's non-signature of the two major international anti-corruption instruments mentioned previously, this easily criticised position is another step towards the "good governance isolationism" that seems to have overtaken Botswana. While other nations are upgrading their anti-corruption arsenals and adopting new tools to promote transparency, Botswana seems to refuse to reform and might end up with a timeworn governance structure that is not up to the standards of the new millennium.

Could Botswana go further in its fight against corruption? Yes!

1. Reforming the Directorate on Corruption and Economic Crime

While the DCEC is making major progress in the fight against corruption, especially through its educational policy, it has not succeeded in the zero tolerance approach to solving the problem. There are a number of factors militating against success in the fight against corruption. For example, it lacks the necessary personnel to carry out its mandate; delays in prosecuting cases are also experienced within the courts (which seriously affect the outcome of cases investigated by the Directorate); the Directorate's independence is compromised by the fact that it reports directly to the President and not to Parliament; Parliament is not acting on the Directorate's recommendations; and both the Executive and National Assembly have shown very little commitment to the declaration of assets. All these points should be addressed and the Directorate's independence should be further strengthened.

2. Endorsing and implementing the EITI

This innovative approach to promoting transparency in the extractive industries would be an excellent occasion for Botswana to modernize its approach to good governance and responsible accounting in the management of its revenues from diamonds and other mineral resources.

3. Enabling the development and participation of civil society

Development of a more vibrant civil society capable of constructive engagement with government on major public policy issues would ensure that the population is able to fully exercise its oversight role.

4. Signing, ratification and implementation of the UN Convention against Corruption and of the AU Convention on Preventing and Combating Corruption

Conclusion

While Botswana needs to address its governance structures and adapt them to the new challenges ahead, the country is a source of inspiration for other developing nations that would like to address the issue of the “resource curse”.

The main lessons to be learned from the Botswana case are the importance of maintaining a strict control of public expenditures and of guaranteeing the diversification of national industries. Using the high revenues from the extractive industry to constitute a reserve of foreign currencies and spacing out major expenditures is crucial to achieving these objectives. Endorsement and implementation of the EITI would be an important further step towards ensuring that these reserves are properly accounted for into the future.

To ensure that the government will be encouraged to implement these policies, it is important that the country’s institutions be independent and strong and combined with a high-level of democratic accountability. Botswana was lucky enough to develop these institutions before the discovery of its natural resources, but other countries, where the exploitation of natural resources has already started, should vie to develop and strengthen the necessary institutions to prevent the development of (or combat existing) mismanagement, rent-seeking and embezzlement.

Since some countries lack the political will or structures to conduct these reforms, it is up to the international community and to local civil society (NGOs, media, etc.) to push the issue, to help develop a new global culture of national integrity, and to combat impunity.

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