MACRO-ECONOMIC MANAGEMENT AND BUREAUCRACY:
THE CASE OF BOTSWANA
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THE CASE OF BOTSWANA

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1. INTRODUCTION

Macro-economic theory is largely the province of economists and so is the academic analysis of practical aspects of policy-making. Economists in such analyses, however, tend to confine their efforts to that part of the policy-making process where a decision is already taken. The focus then becomes the problems of implementation and its effects. What is the effect of budgetary restraint, devaluation, or increased commercial bank reserve requirements etc., for a given country in a given situation?

Such questions may safely and soundly be analyzed within the realm of economics and helpful answers may emerge. But what about the choice of policy action itself? The economic cause-effect-analysis does not provide much insight into a situation where both the desired effect and the appropriate measures are fairly clear but the "appropriate" decision not taken. Economists have kept out of this area of analysis by referring to "politics" or "political reasons".

Although, in practical work it may be helpful indeed necessary to divide between economics and politics, this distinction in academic analysis may disguise important features of economic policy-making.

To take the analysis a step further it is necessary to examine the policy-making machinery itself, its sociological and political features, its history and how it interacts with its economic, social and political surroundings. This article, using Botswana as an example, is an attempt to do so and thereby investigate the nature of "political" boundaries for macro-economic management.

Among the several unique economic features of Botswana as a developing country, the one on which we shall focus below is its relative abundance of foreign exchange reserves co-existing with a low level of rural development. It is hoped that extending the analysis beyond the orthodox "economistic" one will give greater insight into the reasons for this situation and perhaps provide pointers for the future course of development in Botswana.
Section 2 below outlines Botswana's history of growth after independence and then points out some notable features of the interplay between economic structure and economic policy-making. The following two sub-chapters describe the extent of financial resources at governments disposal and the extent of rural poverty. In the last sub-chapter it is concluded that the economic performance in the eighties could be a replication of the seventies and that the question "could more be achieved?" is equally relevant for the two decades.

Section 3 provides a partial answer to this by examining various obstacles to development; the lack of trained manpower, technology, market constraints and various uncertainties which would justify a high level of exchange reserves. Finally, section 4 brings in the political and bureaucratic factors of the policy-making machinery. Roughly, the model proposed is one in which the political elite, with little or no real influence from the grass roots, defines its policy in a very broad way thereby leaving wide policy areas open to the bureaucrats. Finally, the article focuses on the key locus of macro policy decisions, the Ministry of Finance and Development Planning (MFDP) and in particular the role of expatriates and the influence of the international community.
2. ECONOMIC FEATURES

2.1. Growth History

Botswana is one of the mini-economies of Africa. Land-locked in the central southern Africa, its large arid area is populated by about 800,000 people. From its independence in 1966, the country has had a remarkable history of economic growth.

A constant-price GDP growth rate of 11-12% from 1965 to 1977/78\(^1\) is exceptional for any developing country. Even after allowing for a considerable nominal "statistical growth"\(^2\) and taking into account the low base that growth started from, the record remains impressive. An investigation of the structure of growth - sectorally and over time - makes a more differentiated picture emerge.

Three different periods are easily distinguishable. This is illustrated in table 1. The economic situation at the beginning of the first period, starting at Independence, is described as follows: "Botswana is now experiencing the most calamitous drought in living memory. Its end is not in sight. No one yet knows how many cattle have died, but it is reliably estimated that the national herd has been reduced by over one third and that the losses in some areas have exceeded 50 per cent. More particularly, a whole year's crop of calves has been lost and it is calculated that it will need some five years for full recovery to take place."\(^3\)

With this as a starting point, and with the restoration to normal rainfall in the 1966/67 season, GDP grew at the spectacular average rate of 10.6% during the period 1965 to 1968/69, mainly due to the restoration of agricultural production, in particular in the livestock sector. The large contribution of the government sector was mainly based on the inflow of British aid. In this period, Britain became increasingly convinced that without substantial aid in the short run Botswana would be a drain on the UK budget in the long run.\(^4\)
The next period, 1968/69 - 1973/74 was also characterised by adequate rainfall and consequent growth in agriculture, including livestock. Only during this period agricultural production was restored to "normal" pre-drought levels. The more spectacular development was, however, started in early 1967 when Baman- gwato Concessions Limited announced a proven deposit of 33 mill. tons of copper-nickel at Selebi Pilkwe and De Beers discovered a diamond deposit at Orapa. Neither copper-nickel matte, nor diamonds were actually produced before 1974 and 1971 respectively, but the necessary investments in mining plants and infrastructure had a great impact on the economy.

Table 1. Changes in GDP 1965-1977

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Per cent annual real increase in GDP</td>
<td>10.6</td>
<td>22.0</td>
<td>-</td>
</tr>
<tr>
<td>Total increase in GDP (P.mill.,(current prices)1)</td>
<td>18.3</td>
<td>146.3</td>
<td>135.7</td>
</tr>
<tr>
<td>Of this:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>&quot;</td>
<td>12.1</td>
<td>46.0</td>
</tr>
<tr>
<td>Mining and related sectors2)&quot;</td>
<td>&quot;</td>
<td>-</td>
<td>37.9</td>
</tr>
<tr>
<td>Government</td>
<td>&quot;</td>
<td>5.8</td>
<td>8.7</td>
</tr>
<tr>
<td>All other sectors&quot;</td>
<td>0.4</td>
<td>53.7</td>
<td>66.5</td>
</tr>
</tbody>
</table>

1) The national currency, the Pula, was introduced in 1976. Before that, Botswana used Rand, the South African currency. 1 P. = US$ 1.27.

2) "Related" comprises the two ISIC sectors Water and Electricity and Building and Construction.

The background for a growth rate in real terms of 22% during this second period is rather easy to see; in an economy with GDP of P. 51.2 mill. in 1968/69, expenditure on the two major mining projects totalled about P. 180 mill. of which nearly all was spent in the period 1968/69 to 1973/74.
The jump in GDP contribution shown in table 1 for "All other sectors" from the first to the second period is largely apparent. Firstly, in the Botswana National Accounts 1973/74 it is pointed out that the GDP estimate for the Trade sector contains a great deal of "statistical" growth as more firms became included in the establishment register. Secondly, the national accounts treatment of the revenue sharing within the Southern Africa Customs Union Agreement (SACUA) led to a great jump in trade sector value added at market prices when the agreement was renegotiated in 1969. If these two factors were taken into account the "other sectors" contribution, relative to total increase in GDP, would be of the same order of magnitude as in the preceding period.

The third period, from 1973/74 to 1977/78 represents in Botswana's economic growth history a zero-growth plateau, the reasons for which are indicative of the type of growth in the earlier periods. Most prominent factors causing zero-growth are the levelling off after the "mining boom" and the exhaustion of the growth potential which had been created by favourable climate after the drought years. The latter factor is perhaps exaggerated by the fact that the starting year of the period was a bumper crop year.

The contribution of mining in this period was mostly based on increased diamond production, the cooper-nickel mine giving a negative GDP contribution. The growth contribution of the government sector was financed by customs revenue, diamond revenue and international aid funds. As the leading sectors' growth slackened, the "normal growth" of other sectors became more prominent as a contribution. A small amount of "statistical growth" might still be affecting numbers.

2.2. Economic Structure and Government Revenue

Development since independence has raised GDP per capita levels from a world low of US$ 86 in 1965 to a level of US$ 547,0 in 1977/78. The latter is well above the African average and comparable with e.g. Nigeria.
Table 2 illustrates the sectoral composition of the GDP. Compared to the average of other African developing countries, Botswana appears, in spite of a minuscule manufacturing sector to have a quite diversified industrial structure. The GDP share of agriculture is relatively small and the share of other industries (excluding manufacturing) is virtually of the same order as in developed market economies.

Table 2. Industrial origin of GDP at market prices. (P million)

<table>
<thead>
<tr>
<th>Industrial Sector</th>
<th>1977/78</th>
<th>% of total GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, hunting, fishing</td>
<td>66,8</td>
<td>20,0</td>
</tr>
<tr>
<td>Mining, quarrying, prospecting</td>
<td>49,5</td>
<td>14,9</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>21,9</td>
<td>6,6</td>
</tr>
<tr>
<td>Water, electricity</td>
<td>10,5</td>
<td>3,2</td>
</tr>
<tr>
<td>Building, construction</td>
<td>18,3</td>
<td>5,5</td>
</tr>
<tr>
<td>Wholesale, retail trade, restaurants, hotels</td>
<td>71,3</td>
<td>21,4</td>
</tr>
<tr>
<td>Transport, storage, communication</td>
<td>7,3</td>
<td>2,2</td>
</tr>
<tr>
<td>Banking, insurance, real estate, ownership of dwellings and business service</td>
<td>28,6</td>
<td>8,6</td>
</tr>
<tr>
<td>General Government</td>
<td>51,8</td>
<td>15,5</td>
</tr>
<tr>
<td>Household, social and Community Services</td>
<td>14,4</td>
<td>4,3</td>
</tr>
<tr>
<td>Dummy sector + indirect taxes not allocated</td>
<td>-7,2</td>
<td>-2,2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>333,2</td>
<td>100,-</td>
</tr>
</tbody>
</table>


The picture emerging from table 2 is however quite misleading with respect to diversification of the economy. Actually, the generation of GDP is heavily centered on two firms; a diamond mine and an abattoir. The mine, run by De Beers Botswana Mining Company, constitutes virtually the whole product of the sector "Mining, quarrying and prospecting". The copper-nickel mine, although catering for a large share of export, has only indirect effects on GDP. The abattoir constitutes a large part of what appears as the "Manufacturing" sector. The operation of the plant and the meat export channels are vital to the agricultural sector of which 73% of gross output is based on animal husbandry.
The small economy, the large commodity exporting sector and the negligible manufacturing base makes Botswana an extremely open economy. Based on 1977/78 figures, its imports would equal 80% of GDP, its exports 51%. 70-80% of total imports came from South Africa, exports are mostly destined for Europe (EC) and the US.

The economic base of the Government, and therefore generation of GDP in the "general government" sector, are dependent on surpluses from the diamond mine and revenues from SACUA. In the budget estimate for 1979/80 these accounted for respectively 25.1% and 41.5% of total Revenues and Grants. Third in importance were grants from other governments, 12.6%. These three items thus provided nearly 80% of total Revenues and Grants. The items have been the "backbone of the budget" in the seventies and thus of major concern to a government interested in its own economic base and creation of financial resources for development.

Attempts to increase these revenue items, however, implicitly involves certain choices with significant effects for overall development policies. This can be seen by explaining the mechanisms by which particularly SACUA and diamond revenue are linked to the rest of the economy; The SACUA revenues will grow roughly in proportion to the size of total imports into Botswana. Economic growth of a type which encourages large imports of investment goods will therefore boost revenue more than a less capital intensive type of growth. From a government revenue point of view a diamond mine is a perfect choice of investment. In addition to imports the profits created are likely to be high, and also the Government of Botswana skillfully has negotiated what seems like a very good deal for the mine, roughly 3/4 of total mine profits going to the state. The high profits materializing as "hard" foreign exchange allows further imports which will serve as a basis for new, revenue-creating imports etc. The start and perpetuation of this circular flow of events was inherent in the structure of the economy but perhaps also in part open to choice. The point to be stressed here is that it involves a bias toward a "large-capital investment" type of development strategy. Thus, the large foreign financed
mineral investments early in the seventies partly paid for its own accompanying infrastructure investment by the increase in imports and therefore in SACUA revenues. The economics of building up infrastructure are made quite favourable by the nature of the SACUA agreement.

The growth of the third most important revenue item, grants, is much more linked to political and administrative factors; most observers commend Botswana for the frugal way in which money have been spent and the sensible way most economic issues have been handled so that growth opportunities available were not lost.\textsuperscript{13} This together with a relatively well-run, efficient and incorrupt administration, the unostentatious lifestyle of the elite, the rapid growth itself, Botswana's geopolitical situation and perhaps the mineral potential had a favourable effect on the international community's view of the country. The keen interest among donors has resulted in a level of Official Development Assistance (ODA) five times as high as the average for Africa.\textsuperscript{14}

Two other implications of the way in which government revenue is generated should also be pointed out; The first one is based on the assumption that governments to a certain extent are biased in their sectoral interests towards sectors which generate revenue. This would mean that governments' attention would be drawn to imports, diamonds and foreign donors. To the extent this occurs, sectors providing jobs and incomes for the majority of the population would have less attention. Thus one could argue that the country's economic structure, partly created by deliberate policies, in part influences future economic policies.

The second implication follows from the degree to which revenue collection is detached from the part of the economy that matters to most people. It has been easy to raise revenue without increasing normal personal and company taxation. Once the SACUA diamond and donor agreements had been made, the revenue flow became almost totally unrelated to the economy apart from the two fastest growing magnitudes; imports and diamond production. In this way it has been unproblematic, politi-
cally, for government to increase its appropriation of GDP from 13.7% in 1968/69, the year before the start of the mineral boom, to 38.1% in 1977/78. Thus, a concentration of income on government hands has taken place and therefore puts a large part of the redistribution task in a very concrete way on to government with its limited distributive capacity. These interlinked structural and policy features contribute to explain the present monetary and balance of payment situation.

2.3 Exchange Reserves and Liquidity

As Botswana until 1976 was part of the South African monetary system, data on Balance of Payments are scanty and uncertain. What seems fairly clear though is that like most developing countries, Botswana has been a net capital importer every year since its independence. However, as far as can be inferred from official statistics, the country has for the major part of its independent period unlike other developing countries built up its foreign exchange reserves far in excess of the increase in imports. By the end of 1979, foreign exchange reserves stood at P. 211 mill., which is equal to about 8 months imports. This can be compared to an average level of less than 2 months for other non oil-exporting countries in Africa. A local currency counterpart to these funds were government bank deposits at P. 83.7 mill. This was just about enough to cover 6 months of total government expenditure in the financial year 1978/79. The private sector economy was also awash with liquidity. From the end of 1975 to the end of 1979, deposits from the private sector into commercial banks and Bank of Botswana nearly quadrupled (from P. 47.1 mill. to P. 181.1 mill.), whereas loans and advances from the same banks to the public increased by 12% annually (from 55.5 to 86.1) which meant a fall in real terms.

In 1978 and 1979, commercial banks were reported to be reluctant to take more deposits from large scale depositors, and some rationing of permission to deposit money were actually undertaken.
The potential of foreign exchange and domestic liquidity can be illustrated in a general way by comparing financial assets held by government and the private modern sector to the real assets in the same sectors. If government and private investors transformed P. 100 mill. of their bank deposits into fixed assets, it would mean a 20% addition to the present stock of such assets. Put this simply, the proposal is highly theoretical with drastic consequences on the real economy. The point is, however, that from a monetary point of view, a P. 100 mill. drawdown of bank deposits is perfectly feasible. Bankers, government and other depositors would just have to draw on their Bank of Botswana deposits which could easily accommodate P. 100 mill.

The balance of payments outcome of such an exercise would depend on the type of investment undertaken and the propensities to import and to consume. Using propensities in the vicinity of unity as indicated in the four latest years of National Accounts and assuming that all "new" production went for domestic use and not for export, would imply an import increase of not far from P. 100 mill., which without additional foreign borrowing would reduce exchange reserves from their present levels of 8 months worth of imports to 4 1/2. Reserve levels would however still be high compared to most developing countries.

This theoretical proposition poses two questions: a) How could a conversion of P. 100 mill. from financial assets into real assets be done and b) who would it benefit? Michael Lipton, in his thorough analysis of Employment and Labour use in Botswana, contributes to an answer to both these questions. A "broad front" employment programme with a rural focus could, still using the P. 100 mill. figure as an example, provide about 33,000 employment opportunities in small scale industry and agriculture. This would absorb almost three years of natural increase in the labour force. Even if results fall short of Lipton's rather sanguine estimate, the impact would be considerable in an economy with about 60,000 cash earning jobs.
2.4. Incomes and Living Standards

It is arguable whether Botswana's degree of success from a macro economic and government finance point of view is equalled by the improvement in economic welfare for the average Botswana. Progress has been made e.g. in formal sector employment which grew at an average rate of 7% annually from 1968 to 1977.24) The percentage growth figure seems respectable indeed, but due to the low base level it means, translated into absolute numbers, the creation of only about 4,000 additional jobs a year. This is a mere 1/3 of the annual increase in the labour force.25) Also, and somewhat typical for the type of growth experienced; from 1967/68 to 1977/78 GDP at constant prices increased by an estimated 12% annually.26)

In the rural areas where about 80% of the population make their living, the traditional agro-pastoral production system, supplemented by incomes of labour migration to South Africa, exists much like before independence.27) The changes after independence mainly consist of the improved infrastructure, particularly a well spread health service, schools, including school feeding, administratively built buildings and roads.

There is no doubt, in the minds of many observers that poverty is widespread and serious, and that inequalities, if anything, are increasing.28) The Rural Income Distribution Survey (RIDS) 1974/75 indicates that in an international comparison the Botswana rural income distribution would come out among the skewest. The Survey also finds that "about 45% of the rural households had incomes below the rural poverty datum line." Egner and Klausen, in their more recent report, dated February 1980, point out that "the amount and the distribution of Botswana's real per capita incomes have changed little since 1975."

The "rural problem" is also officially recognized. Botswana's fourth National Development Plan (NDP IV) states that "rural life is now less attractive than ever before."
Similar statements could be true for several if not most developing countries. What makes Botswana peculiar is that widespread and deep poverty seems to exist side by side with large amounts of financial resources under government control and, judging by all official statements, a government commitment to "rural development and the creation of employment opportunities in the rural areas." 29)

2.5. The Course of Development in the Eighties

A major economic event in the next decade will be another giant diamond development nearly replicating the situation in the early 70-ies. Up to 1982/83, P. 300 mill., or nine tenths of the GDP in 1977/78, will be invested in a diamond extraction plant and infrastructure at Jwaneng. This mine is planned to more than double present diamond production. Given no negative surprise in the development of diamond prices, this and other diamond development would roughly double the GDP growth rate which otherwise would have been expected over the next plan period 1979/80 - 1984/85, and nearly triple the growth rate in government revenues over the same period. 30)

The potential for increasing productive assets by using the financial and foreign exchange cushions, will, judging by NDP V estimates not decrease during the new plan period. On the contrary, in 1984/85, the end of the NDP V period, foreign exchange reserves are planned to reach about 16 months of imports. 31) Government and "larger private institutions" are expected to have high levels of savings during the period 32), and the main problem in the banking and monetary sectors will probably be excess liquidity. A simple calculation based on Plan figures seems to reveal that although the country's fixed assets might be tripled over the period, there would still, financially, be room by the end of the Plan period for further increase perhaps by 1/3, assuming that the mining and government sector investment in the period are financed from abroad as planned. 33)

The solid financial and balance of payments position expected in the future is emphasized if one investigates the effects of
an accidental disappearance of the major sources of government revenues and foreign exchange. Again, using NDP V figures a simple calculation indicates that any of the major items like meat exports, nickel-copper exports, "other" exports, customs revenues, migrant workers incomes or grants from abroad could disappear without creating really serious balance of payments trouble. The exception to this is diamond export which, if only halved would make the situation serious indeed. On the government budget side the disappearance of customs revenues would hamper the implementation of NDP V.

To many observers the scenario for the eighties poses no problem, at least not on the macro level. Botswana stands out as the wonderboy of growth during the seventies. And, to top it all up, at the threshold of the eighties the country has a minimal debt burden and a solid foreign exchange position. Formal cash employment has increased more than the average for developing countries and urban as well as rural areas have been benefitting from a considerable expansion of social infrastructure, all done in a sober and cost-conscious way. The proper way ahead is indicated in the NDP V with its emphasis on employment and rural development.

Those observers who raise criticism usually point to the income distribution and the extent of rural poverty. However, all that RDID and other studies have pointed out is the present status. A fairer comparison with other countries would have to be dynamic, taking into consideration not only the obstacles to equality inherent in the initial socio-economic structures of the various countries but also the time period allowed for improvement. Whether Botswana's achievements in these areas would then compare unfavourably seems more uncertain.

In spite of many positive features which can be pointed out one may still ask whether not more could be achieved? Since present Plans indicate almost a replication of past performance, such a question is equally appropriate for the past seventies and the future eighties.
3. DEVELOPMENT OBSTACLES

Applying, for a moment, the growth reasoning familiar to development economics of the fifties, makes Botswana's situation look rather paradoxical. At the end of a period with vigorous growth a zero growth rate period occurs but is not caused by constraints in any of the two independent variables of the macro production function, labour and capital. There is considerable unemployment and no finance, balance of payments or supply constraint preventing a considerable increase in the country's productive capital.

One line of analysis suited to deal with this "paradox" builds on the concept of "absorptive capacity". As defined by Adler (1964) this is "indicated by the amount of investment or the rate of gross domestic investment expressed as a proportion of GNP, that can be made at an acceptable rate of return with the supply of co-operant factors considered as given."[37]

Expanding the above definition for the present purpose, some types of non-investment uses of funds are considered. Also, since the below analysis focusses on funds under government control, the "rate of return" will be considered equivalent to the one used for government projects. Finally Adler's division between "co-operant factors" (knowledge, skills, institutions, management) and "other considerations" like uncertainty is not adhered to. Various factors are simply listed below under the heading "development obstacles".

Adler, in his theoretical analysis, was concerned with growth. The importance of various obstacles will depend on what kind of growth Botswana needs and wants. For example, growing by developing the country's infrastructure will encounter fewer and different problems than will a strategy of productive growth in the rural areas. If, in addition, great emphasis is put on reaching specified target groups, further problems or obstacles arise. Thus, at least in the medium term, the choice of development style itself implies partly a choice of obstacles. The question of whether or not Botswana has chosen the "right" form of growth could also be discussed in this perspec-
tive. In the following, that set of problems are avoided by assuming, on basis of the main lines in the three latest Development Plans, that the focal point of Botswana's strategy is the creation of employment in sustainable productive activities.

3.1. The Time Factor

Discussing the constraints on Botswana's absorptive capacity in a static perspective would be misleading. One needs to take into account the time allowed for adjustment to a new situation of abundant resources from the initial position of utmost scarcity. Could it simply be that the present situation is temporary, created by a sudden jump in availability of finance and an implementation or conversion capacity which could not be adjusted upwards as quickly? It is hard to judge by how much implementation capacity, given the style of development planned for, could be stepped up in the course of a few years. What one however can say in support of an "adjustment" argument is that probably no other country had such a rapid growth in the seventies. In addition, as pointed out under 2.2. above, a large part of the incomes which were generated accrued to government.

On the other hand, looking at the various periods described above, it is clear that the pile-up of government balances was considerable also in the period 1973/74 to 1977/78 when the GDP growth was zero. Also, for the future, the NDP V seems to indicate no break with the accumulation trend. It seems reasonable to conclude that the present insufficient level of absorptive capacity in relation to available resources is not a short term transitional situation, but one which might prevail in the longer run. A closer look at the determinants of "absorptive capacity" in the static sense is therefore warranted.

3.2. Trained Manpower

One obvious restriction on development strongly felt in Botswana today is the lack of trained manpower. The starting point, at independence merely 14 years ago was probably manpower-
wise the least satisfactory of any developing country. About 30% of the entire civil service was manned by expatriates, the percentage being close to 100% in the upper echelons.\textsuperscript{39} Even though these proportions have since been reduced, the absolute number of expatriates in the service is \textfrac{1}{3} higher than at independence,\textsuperscript{40} and Botswana probably still has a world record in expatriate technical assistance workers per capita. On this background it is not difficult to understand that there is a general political resistance to solving the manpower problem by "importing" additional expatriates.

On the specific level, however, when e.g. a project is held up "pending recruitment of an expatriate project manager" a strong sentiment for solving the problem by import of skilled manpower is often evident in parts of the administration and the National Assembly. Although practical problems in relation to project implementation may lead to somewhat more manpower imports than planned on the macro level, the political limits could not conceivably accommodate an increase that would bring about a proper balance between financial and manpower resources. Potential manpower demand in the public sector is indicated by the real growth in government recurrent budgets which probably was \textfrac{13.7}{100} from 1972/73 to 1977/78.\textsuperscript{41} The growth in central government skilled employment over the same period was about \textfrac{10.5}{100} p.a.

Even if one allows for increase in productivity, the present number of central government expatriate employees, (about 900) would have to more than double to restore the 1972 manpower/expenditure balance.\textsuperscript{42} The impression of present imbalance is strengthened if one considers the capacity problems of the administration said to exist in 1972.\textsuperscript{43} In addition, for the future, the rural development profile stressed by the NDP V is likely to be much more demanding on government manpower than the present one which emphasize infrastructural development.

Much has been done to remove this bottleneck by expanding the education system. The sector is presently the most important in the government budget, and Botswana is among the three or four countries in the world which spend the greatest pro-
portion of GDP on education.\textsuperscript{44}

The recognition of manpower as a major constraint has also led to the introduction of a government manpower budget in the NDP V. This is meant to ensure that scarce manpower resources are allocated to priority fields, to keep manpower imports under control and serve as a basis for forecasting future needs for local and foreign manpower.

3.3. Technology

The lack of manpower can be seen as one side of the technology and know-how-constraint. Another side of the same constraint is the technology imports through foreign participation in industry. It would seem that Botswana, with a capacity to mobilize domestic funds would have a good position and indeed no ideological barriers\textsuperscript{45} to create jobs and economic activity by cooperation with foreign firms. A main reason why any sizeable joint venture of foreign investment other than in diamonds has not taken place lately, is the political and military situation in Southern Africa. At least one concrete industrial/mining project has been dropped by the investor partly due to perceived high political and military risks in the area.\textsuperscript{46} Particularly in the case of large fixed investment and products needing rail or road transportation out of the country such risks outweigh almost any size of return to capital. The reasons for the glaring exception of diamond investment are easy to find; the transportability of the products, the extreme rentability of diamond projects, the need to preserve a monopoly and the regional interests of De Beers, the mineral company undertaking the venture. With the liberation of Zimbabwe, the situation might improve, but the region still abounds with unsolved problems related to its political instability and geo-political importance.

3.4. Markets

The size of Botswana's domestic market is not adequate for a significant competitive modern-sector production. Productive development has to rely on increasing productivity in the tra-
ditional, rural sectors and on modern sector exports. Even if Botswana emphasised mainly the former, its financial resources, it seems, would be adequate to leave room for vigorous export promotion. In theory, Botswana could consider the whole SACUA market as its home market. The customs agreement also allows a certain amount of protection of industries in Botswana, Lesotho and Swaziland. It is a fact, however, that these apparent opportunities have not been used extensively. This might be, as some writers suggest, because the South African government controls the operation of the agreement and in various devious ways prevents the smaller states from utilizing the theoretical opportunities. More important than this in an industrial development context is, however, the general nature of economic relationships between the dominating force; South Africa and the three small peripheral countries. This relationship would have existed even without a customs union. In addition, all experience points in the direction that a customs area, consisting of members with so widely different economic strengths, will tend to favour the stronger part. This mechanism of polarization of industries in the stronger partner state was explicitly recognized in the SACUA negotiations in the late sixties and led to the inclusion in the agreement of some financial compensation for the three weaker members.

Outside the Southern African area the two main market possibilities are the industrialized countries and other developing countries, perhaps particularly African. In the medium term, Botswana’s only possible export niches of any importance in the developed parts of the world are the present, beef and minerals. The other possibility, trade between developing countries, although much talked about and aimed for in the long term will probably be of negligible importance at least in this decade.

3.5. Uncertainty

The political and military situation in the region, is one facet of uncertainty. Another is the fragility of the Botswana economy itself; Firstly, the precarious ecology of the
semi-arid area with its recurring droughts affects both arable agriculture, which provides most of the staple food supplies and the livestock sector, which brings important export revenues. Secondly, for the livestock sector, the prevalence and outbursts of foot and mouth disease threaten to halt meat exports. Thirdly, the mere size of the most important establishments in relation to the rest of the economy; A “spanner in the works” of either the major diamond plants, copper nickel mine or the abattoir would have a strong impact on the overall economy. Fourthly, on top of all these comes of course the price uncertainty which is familiar to all commodity exporters. Diamond prices, it could be argued, have been among those raw material prices which over the last decade have shown the most stable upward trend. But the big prices leaps in the later years are widely interpreted to be the result of a more speculative market character, which may cause cracks in the virtual monopoly maintained by De Beers. Meat export prices depend only partly on world market developments. Botswana sells meat in the EBC market at a price supported by the Community as part of the "Common Agricultural Policy" (CAP). The uncertainty here is whether or not Botswana will be allowed to sell at CAP conditions, and what its market quota will be. This is a decision over which Botswana has little influence. Uncertainty will influence a whole range of decisions related to the overall economic management. For instance, if one regards foreign exchange reserves as a cushion against unforeseen short term balance of payments crises, it seems clear that the greater the uncertainty about the future, the greater the cushion should be. The main counter-vailing consideration is domestic development opportunities forgone by keeping resources as liquid foreign assets instead of productive assets.

Various theories that have been developed to estimate "optimum levels" of reserves provide some insight, but the more realistic theories are finally dependent on variables open to social and political choice, like the degree of risk aversion. It is quite clear that Botswana, taking into account its many sources of uncertainty, from an economic policy point of view should have a rather large foreign exchange "cushion". The question is, how large a cushion is justified? There is
of course no fully objective answer to this. It is interesting, however, to calculate "backwards" to see what risk behaviour would justify the present levels of foreign exchange. It seems quite clear, e.g. using the crude approach of "months of imports covered" and a comparison with other countries that the portion of foreign exchange reserves left to be explained by a high degree of risk averting attitude is substantial. Considering also the possibility of cushioning a balance of Payments shock by short term borrowing, compounds this impression. Botswana's creditworthiness, thanks to her rapid economic development, favourable debt record and future growth prospects implies less difficulties than most other developing countries in securing balance of payment support by borrowing.

3.6. The Rate of Return

The "acceptable rate of return" is a major parameter in quantifying "absorptive capacities". In determining this rate, however, risks and uncertainty are important considerations. In Botswana, the calculation of "internal rates of interest" is suggested in the "Planning Officers Manual" as a guideline to project selection. The measure is not used for all projects in a mechanical manner but is a fairly important criteria for some of the larger infrastructure projects. The minimum acceptable rate of return thus plays quite an important role in overall economic management. A high minimum rate would indicate a cautious, conservative attitude to project spending, a low rate would reflect a more "spendthrift" attitude.

As in the case of the level of foreign exchange reserves, the theory gives different guidelines to deciding the minimum rate acceptable. All approaches suggested are finally dependent on social or political choices; One method suggested is a comparison with the country's rate of interest on its foreign assets. Botswana's foreign assets largely consist of its foreign reserves on which the average annual net return has been 6-8%. Considering a domestic inflation of 10-15% and a world inflation rate of perhaps 8%, this will amount to a negative real return. Guidelines like the international rates of return on industrial projects indicates a somewhat higher rate but still below the double digit level. Another
signpost suggested; Rates of return used for public projects for some OECD countries seem typically to range from 4 to 10.\textsuperscript{52) The minimum acceptable rate of return to be used in Botswana, although the use of internal interest rates is recommended for project planning has never been decreed or officially stated. Assuming, as seems reasonable on basis of the above, that the real rate should be in the area of 0-5% and confronting it with a general impression of internal rates of return calculated for larger projects lately which would be in the vicinity of 10%, leaves one with a strong impression that the minimum acceptable rate in actual use promotes a further pile-up of these foreing assets rather than the use of funds for development purposes.
4. POLITICS AND BUREAUCRACY

The macro-economic "paradox" stated at the beginning of the above section may be partly explained by various "development obstacles". An identification and analysis of such obstacles is a valuable exercise per se. But an examination of problems connected to the removal of such obstacles necessitates a study of social and political factors.

None of the obstacles mentioned above are objective in the sense that they are isolated from the political sphere; the manpower constraint rests on a political decision about the level of manpower imports. Foreign firms' willingness to participate in ventures in Botswana can be affected by government action. How to handle an uncertainty depends, in the final analysis, on the risk attitudes of the ones making decisions. Therefore, an analysis of the factors creating the present economic situation will have to focus on the decision making process of economic policy.

The exposition below sees this process as taking place at two levels; the political and the bureaucratic, and discusses built-in biases and constraints at each level as well as the various ways in which the two levels are affecting each other and are influenced by external factors.

4.1. The Political Elite

The tremendous economic changes since Botswana's independence has by no means been matched by political change. The country is now, as in 1966 a multi-party democracy with one party, Botswana Democratic Party (BDP) in overwhelming majority (28 out of 31 elected members of the National Assembly).

The electoral support on which the power of BDP, and thus the power of the state partly rests has its origins from colonial times. BDP was formed with a strong support by the British who in Seretse Khama saw a person with a major "ascribed" popular support from the Bamangwato and with political skill and realism. Such properties were certainly required to master the balancing act of demonstrating the greatest possible degree of independence without provoking South Africa to an extent which would endanger the same independence. The British judgement
turned out to be good. In addition, later developments have tended to corroborate the strength of the government in the following ways;

Above all, the change in the weather cycle that took place at independence led to restoration of "normal" rural living conditions, which after a six years' drought must have been felt as a marked improvement for the broad population groups in the rural areas. Obvious to most, the BDP did not play any role in changing the weather, but it became a major part of the "better times", starting with BDP-rule and thus played a political role.

The economic potential of the government was strongly increased by three interrelated factors, the renegotiation of SACUA, diamond revenues and the temporary mining and infrastructure boom. As pointed out earlier, this all resulted in large financial resources on government's hand. Also a fourth factor, the increase in both numbers of migrant labour and their wages, has probably been important by preventing pressures and political problems in connection with unemployment. As a government power base or potential for mustering popular support these latter factors are probably at present more important than the initial British blessing of BDP and the traditional support for Khama. It is important to note that apart from the climatological one, all these cornerstones of government power depend on South Africa; the SACUA agreement only exists as long as the government of South Africa wants; De Beers is a South African based company; Permission for workers to be employed in South African mines must be given by the R.S.A. government.

The potential South African leverage is one factor defining the limits of government policies. Any major policy change, particularly of a radical nature which would endanger the tenuous relationship with South Africa is likely to be avoided as it would at the same time endanger the base on which government and maybe even nationhood itself stands. Therefore, to urge the Botswana Government to sever its economic links with South Africa without devising an alternative economic base is really to suggest political suicide and hardly in touch with economic and political realities. Yet, it is hard to ima-
gine real broad based development without drastic changes in dependency.

This awareness of the political elite that the South African "support" is fragile gives a good foothold for risk-averting policies and can e.g. be seen as a condition for the noted "revenue - capital imports - revenue" cycle during the seventies; the political basis would be stronger and more independent from South Africa the bigger the financial cushion were. Under the turbulent political conditions in the area one could never be sure of what would happen next year. Such circumstances clearly favoured an accumulation mentality.

Another major contribution to government finance and thereby support from Independence up to the present has come from donors. While donors were supposed to be, and in many ways were, a countervailing power to that of South Africa, they probably contributed to the emphasis on infrastructure. Clearly, infrastructure projects are efficient "money soakers" in a country with a weak implementation capacity, and visible structures are easily saleable to the donor country's public as the result of "our aid".

A perhaps influential factor on the elite attitudes to economic policy making relates to the social psychology make-up of the Botswana. The population has for many years inhabited a desert-like country where calamities like droughts, foot-and-mouth-disease and rinderpests came and went. Whatever resources the peasant could accumulate to meet the next drought were out of necessity accumulated. Also, in the same vein, the living style was hardly one of extravagancies, even among those with many cattle. One still sees traces of both tendencies in the economic behaviour of Botswana, high and low, and in the way the country's economy is managed.\(^3\)

The rule of British colonial servicemen before and immediately after independence helped further an economic management style which was focussed on public finance to the point of equating "the economy" with "the budget". For good political reasons it also had to be a conservative budget management since a main British consideration was to keep the costs of ruling Botswana as small as possible. In terms of economic policy, balancing the recurrent budget became a main focus of
the administration. Traditions, biases and preoccupations formed in this period as well as some of the civil servants from then, presently play their part in forming the outlook of economic policy and policy-making.

4.2. Democratic Controls

If it is true that a potential for further economic development exists in the form of unutilized financial resources, why does not, in a democratic state, popular pressures more than counterbalance the tendencies to financial conservatism inherent in the upper political echelons?

Part of the answer to this question lies in Botswana's lack of popular institutions and organizations central to democratic processes. Within the formal party political system, the role of the opposition is somewhat illusory. The ruling party BDP has never had less than 25 of the 32 elected members in the National Assembly. The BDP backbenchers have probably, over time, raised much more criticism of government than opposition. Cabinet however hardly ever fails to get its way in the National Assembly. Outside this system, the lack of organizations with a political clout is striking. The only newspaper and the radio station are run by a department of the Office of the President, the cooperative movement and trade unions are in an embryonic stage, there are virtually no other non-government based organizations with national political scope and coverage.

Also, the concentration of economic resources in the hands of the state makes it easier for government to undertake short-term popularity boosting measures in connection with elections, rather than bend to eventual pressures for the creations of more jobs and general improvements or rural living standards.

Democracy is relatively new to the population of Botswana. The poorer rural people have not yet been able to fully realize the potentials for participation on a national level. Even casual observation of the four elections under Khama gives the strong impression that people were not primarily inclined to vote for the parliamentary candidate whose view of "what the
country needs" was nearest to their own. For an overwhelming majority it was as important for their choice that the candidate supported Khama. 57) At the local level, politicians (District Councillors) very often see their task as serving the district bureaucracy and bringing its views forth in their village rather than to function as the political masters of the bureaucracy and further the views and aims of their own constituents.

Last, but not least, there is a problem of formulation. Whereas a felt need for a new school-building, a road or other infrastructure can easily be made into a concrete and specified claim on resources, a need for "more jobs" hardly ever can be made more tangible than the wish itself. Also, infrastructure needs are often expressed by a specific locality and thus makes it easier to put pressures on the local MP, or the other way around, the MP "grinds his own axe" in his constituency by taking up the idea of e.g. a road with his constituents thus gaining something to push in the Assembly. Job-creation, on the other hand, is not regarded as a matter that government can do anything with if not formulated in terms of a specific public sector project or merely looked at as the manpower requirement for an infrastructure project.

The important exception to the picture described above is the policy leverage of cattle-owners. The power of cattle-owners is naturally based on the great national importance of the cattle-industry. Equally, or more important, is however the status acquired by ownership of a large herd and that the traditional elite, strongly represented among today's elite were and are big cattle owners. The large cattle-owners' views, therefore, tend to be overrepresented in the upper political echelons.

4.3. Bureaucracy

As pointed out above, grass-root influence in economic policy making is minimal. Certain features of Botswana's socio-economic and external political situation makes any government which wants to stay in power observe a set of limits for acceptable policies. The two main borderlines are to avoid
critically endangering the relationship with South Africa and to refrain from promoting interests which are seen as directly in competition with those of the cattle industry.

Within these limits there exists an area of decision-making for the bureaucracy and bureaucratic politics. The formal political system, and the elite, seldom interferes in this area, but leaves it to the bureaucracy and political elite. Even superficial observation shows contacts and social links bordering on camaraderie. The elite also takes a social links bordering on camaraderie. The elite also takes a definite interest in and supports plans and implementation. It is, however, the bureaucracy which is usually expected to perceive problems, come up with ideas, take initiatives and gain administrative and political support for those initiatives. There is, however, an absence of political sifting of ideas and initiatives which makes the initiator or "perceiver" critically important for the direction of policies within the fixed limits.

The historical roots of today's situation was pointed out already at the beginning of the seventies by Gunderson (1971). According to his study, the support given by the colonial administration to the present ruling party, BDP, set the scene for a symbiotic relationship where the largely European civil service provided expertise and organizational talents and the politicians mobilized support at the polls. The study, although confirmed later, was made about ten years ago and might not give a precise expression of today's realities. However, the insignificant changes in political structure which have taken place since then would indicate that the basic idea still holds true, perhaps with the exception that the civil service is now less European-influenced.

Accepting the idea that a major role in generating economic policies rests with bureaucracy, it becomes important to inquire into main determinants of bureaucratic views. One analytical approach to this would be to focus on the economic base for bureaucratic power. In the light of the above analysis, a main conclusion of such a macro oriented angle certainly would bring out the concurrence of the bureaucratic and the elite or state economic base. This is an important conclusion in itself, but would hardly give any more detailed insights into economic policy making than those already pointed out.
A more fruitful model for shedding some light on the origin of economic policies within the administration is related to generative analysis and considers the strategies and actions of various groups and individuals within the bureaucratic system. Concentrating on the parts of the administration with the heaviest influence on economic policy making we shall in the following sections investigate how these various influences work on one dimension of economic policy; the balance between "financial conservatism" and its opposite "expansionism".

4.4. Ministerial Role-play

The Ministry of Finance and Development Planning (MFDP) is an important location of major economic policy decisions. The policy making parts of the MFDP are the Division of Economic Affairs (DEA) and the Division of Financial Affairs (DFA). DEA has 25 professional officers of different ranks. Most planning officers are responsible for the affairs of a certain ministry. In addition, there is a 4-5 man "macro unit" with general responsibilities. DEA's main function is the preparation and the monitoring of implementation of National Development Plans. DFA has 19 professional officers. Its main policy function is the annual budget preparation.

Implementation of plans, running projects etc. are the responsibilities of the other ministries. This function and the contact with the central planning apparatus have been strengthened since the early 70-ies by the introduction in each ministry of planning units staffed by planning officers who professionally are responsible to the Director Economic Affairs (head of DEA).

In addition to MFDP, the Bank of Botswana (BOB) has an important role as advisor to the government on balance of payments and monetary matters. The part of the BOB most engaged in overall policy work is the Research Department, reporting directly to the Governor and consisting of 2-3 professionals. Contact with the MFDP is secured through a Working Committee with members from the relevant parts of MFDP, BOB and the Central Statistical Office (CSO).
The "sector-enthusiasm" of other ministries and the overall financial responsibility of MFDP creates as in most other countries the basic role-play of the "budget game". The ministries are fighting to increase their budget allocation, partly between themselves but with a common front against MFDP to increase the overall budget ceiling. One of the tactics of this game is overplay, MFDP stressing the desperate shortage of finance and ministries the desperate need for increased resources to their own fields. As in most games, the strongest and cleverest side wins.

This being the setting, our question is, what perceptions, preconditions and influences determine, in Botswana, the balancing point between uninhibited development spending and financial conservatism?

Development administration in Botswana was from the beginning influenced by strong colonial links to Britain. This affected both the administrative style and, more importantly, the procedure for deciding the size of the budget.

There was a direct support from Britain to the recurrent budget and the development projects were all financed by the British. The extent of these transfers were decided well in advance of the start of the budget year. MFDP in its work of enforcing the overall budget constraint had a clearcut answer to the question of "how much money there is". It was not meaningful to argue for sectoral needs with that ministry - the British had decided, the total allocation and programmes had to be accommodated within this given limit.

This situation, the final and definitive word on the budget size coming from MFDP, was no doubt very convenient for the ministry playing its role. When government revenues shot up in the early seventies, MFDP managed to retain much of its strong position vis a vis the other ministries. Firstly, the other ministries were used to take MFDP's word as final. Secondly, the political status of the minister of Finance and Development Planning was high, also because he held the position of Vice President. Thirdly, the potential for budgetary expansion was made less glaring by establishing two funds, the Revenue Stabilization Fund and the Public Debt Service Fund in January 1973. The laudable aims of these funds were
to stabilize revenues and secure the repayment of public debt at the same time as funds could be lent to domestic, mostly parastatal, borrowers. A new claim on government financial resources was thereby established. However, up to the present, half the money appropriated to these funds has been accumulating as idle financial resources. Fourthly, project planning was largely centralized under the MFDP and could therefore be kept under MFDP control. Fifthly, one should mention that the not inconsiderable "power-of-projecting-revenues" was held by the MFDP. That "pruning" of revenue estimates was undertaken, is clearly revealed by comparing estimates with real outcome. From 1972/73 up to now, those revenue-items that were not known beforehand and thus had to be projected have consistently been underestimated by an amount ranging from 7% to 46% of the estimate.

The MFDP power of more or less unilaterally taking budgetary decisions is likely to have waned in the end of the last decade. This has to do particularly with the proliferation of planning expertise into other ministries (Ministerial planning units). In addition, years of observation by other ministries of MFDP revenue forecast "pruning" practices, has eroded their belief in MFDP's infallibility and their willingness to subject themselves to MFDP orders.

Still however, MFDP is the master of the budget game. It has professional control of planning officers and a strong spokesman in cabinet. The degree of MFDP powers can be illustrated by the fact that it to a certain extent also controls expenditures of departments within ministries. The great increase in macro economic complexity caused by the introduction of the Fula also lends itself easily to a back-up argument for financial restraint. Here BOS plays a key supporting role.

4.5. The Macro Managers

Given the strength of the MFDP in the "budget game", influences on decision-making in this ministry is critical. The policy active parts of MFDP, mainly the top level civil servants, advisors and DPA/DEA can be looked at as a social system.
Individuals within the system are products of their own backgrounds, they pursue individual and group aims and are subjected to various perceived constraints, individually and as a group. Their proximity to the macro-decision level vary. Generally the more senior officers are the ones which are closest. Planning officers and finance officers in less senior positions tend to be more occupied with concrete project analysis and have a closer relation with the operating ministries and therefore tend to be more influenced by sectoral views. However, they have to regard as given the budgetary and balance of payments limits fixed on higher levels. Also, senior civil servants obviously influence their views of the degree of financial conservatism to be exercised. Thus a quite small group of relatively senior civil servants of the MFDP exercise a major influence on macro policies.

A significant feature of this group is the large, although decreasing proportion of expatriates. Looking at the whole of DEA/DPA, in 1972 22 (67%) of the 33 officials were expatriates. In 1978, the percentage of expatriates had declined to 52%. During the last few years, however, director level positions have been localized. Presently, the fraction of expatriates is still particularly high in the DEA.

Expatriates do not see their career opportunities in the long run within Botswana. Idealism, loyalty and identification with Botswana's declared political and economic aims hardly outweigh the fact that expatriates typically have a two to four year horizon and want to leave with a good testimony from the circles which are important in a career aspect. The most basic instinct in this situation would be at least not to do anything that will look like a failure. It seems self-evident that this, applied to the balance between financial conservatism and aggressive, experimentative development policies will tip the scales heavily to the former. An unexpected shortage of finance or a critical shortage of foreign exchange will show up clearly in the short run and be interpreted as mismanagement or "trying to live beyond one's means". Opportunities forgone in agricultural or industrial development will only show up in the very long run if at all.
Attitudes like these, although hardly as clearly thought or felt as in the above description, are clearly important in determining what is perceived by the administration as a "problem". For instance, the administration is not likely to deploy an abundance for foreign exchange reserves as a problem and thus force a clear political decision on it. Officials are more likely to spend time justifying "professionally" the very high level of reserves. This is clearly the impression one gets from a glance at plans, budget speeches and BOB reports where the reserve level issue is discussed.65)

The consistent underestimate of revenues was mentioned earlier. It is perhaps characteristically not seen by the financial conservatives of the MFDP as a problem but as one convenient way of retaining a small "hidden" reserve for the unexpected. Official revenue estimates are produced by a mixture of MFDP estimates and an administrative process based on information from the revenue-earning units. When estimates rise through the system from the individual originator, through units and departments to the ministerial level, allowances for small hidden reserves are deducted on each step and consequently accumulate into what may amount to a quite serious underestimate.

The recurrent expenditure side, on the other hand, shows actual outcome exceeding estimates every year (except 1975/76) by significant amounts66) indicating the capacities of ministries to spend more than budgeted. For the development budget, a comparison of real expenditure and estimates is not relevant, since expenditure estimated usually contain several projects for which no funding is available. The impression here is, however, that an implementation constraint exists rather than a funding constraint. Admittedly, the possibilities of waste in recurrent spending are increased by loosening the reins but it seems to carry too little weight with MFDP that some types of recurrent expenditure are highly developmental and may be regarded as an investment. As underspending on the development budget occurs and money rapidly loses its value, a reasonable option to think of is to improve the quality of e.g. school-, health- and transport services.
The senior expatriates, who are also closest to the decision making level, are often influenced by earlier experience. Most such experience has been gathered in countries where the budgetary and balance of payments situation was quite the opposite of Botswana's. One should not wonder that there is a strong bias not to overspend and create budgetary and balance of payments "problems:.. The experience of Zambia is often, with some justification, taken as an example of a direction in which the situation could easily turn.

All these tendencies work counter to the ideal feelings among expatriate civil servants that "development" is of overwhelming importance. MFDP officials also clearly see themselves as supporters of "development", but they see many more limitations than other ministerial staff. Although there are notable exceptions, also in MFDP, the most ardent "developers" are to be found in other ministries. There their "ideology" better coincide with the ministerial role play.

The fraction of local professionals in MFDP and BOB is still small. The top positions\(^{67}\) are localized, but that did not happen long ago. Expatriate influence is heavy, both in day to day work and because locals are products of the same educational system as the expatriates. It is therefore difficult to draw any clear line between local and expatriate attitudes with regard to development or financial conservatism. The impression, however, is that locals would be much more willing to try and use financial resources domestically, this showing perhaps their longer term horizon.

Part of the reason why DFA from time to time has argued a more expansionary line on budget matters than DEA might be connected to the fact that expatriates play a greater role in the latter than in the former. The positions taken by the two departments during the seventies were quite frequently the opposites of what one would normally find in ministries of finance and planning; the planning arm pushing expansion and the finance arm keeping the financial reins tight.
4.5 External Influences

The political vacuum in which the administration works is also in various ways filled by a continuous influence from outside the country. Sources of external influence are mainly various consultants, bilateral donors and multilateral organizations. All these groups also have a smaller or greater extent of direct political influence. Below however we shall focus on their inroads into the administration.

Most consultants are brought in on specific projects and sector problems and tend to be sector enthusiasts, providing the expansionists with arguments for their various causes. Some consultants are however given broader terms of reference, they tend to work for longer periods and thus get a better contact with the administration. This type of consultant would be likely to have the same biases as other expatriates in the administration, for the similar reasons.

Bilateral donors get in touch with the administration mainly via their resident representation. Donor programming and other matters pertaining to development assistance are handled by the MFDPA. The major donors can politically be described as a "Scandinavian type" social democrats and are highly development oriented. It is likely that these influence the administration in an expansionist direction. In their contacts with the administration, bilateral donors are however largely engaged on the project or programme level. They would see it as inappropriate to discuss with the administration such highly "political" macro issues as the size of the budget and the level of foreign exchange reserves. If they are mentioned at all, such matters are left to be addressed by donors "at the political level" in annual country reports as messages to the formal political system. For reasons explained earlier, such messages do not seem to have any effect on the real decision-making processes.

Among multilateral organizations IMF and IBRD interact in a major way with the administration. IBRD mostly works on the project level, but also from time to time takes an overall look at the economy. This usually amounts to little more than reviewing the last Plan and adding the now commonplace comments on the skewness of the income-distribution and the
rural-urban gap.

IMF has a direct responsibility for macro issues. The annual "Article 14 mission" is supposed to provide the IMF with information on the broad state of the economy and, in turn, produce some feed-back on policies to Botswana. IMF generally adopts a short term perspective on monetary and external sector problems which in itself leads to a cautious or conservative inclination in budgeting and balance of payments matters. Furthermore a typical "article 14 mission" consists of people accustomed to a problem of financial and foreign exchange reserve scarcity rather than the opposite. They therefore see themselves as promoters of prudence in financial and monetary matters. The local administrators, not few of whom include the IMF in their career plans, are therefore more likely to receive a "pat on the shoulder" for burgeoning foreign exchange reserves and government liquid balances than to be told that this could also be seen as a problem.

5. CONCLUSIONS

The examination of macro magnitudes in section 2 gives a fairly certain conclusion; Botswana's reserves of foreign exchange imply an unused potential for development. Also, government is in control over a large share of these resources via its bank balances. Therefore if criticism is to be made, there is some justification for directing it towards the state.

Whether or what criticisms are justified cannot be answered as clearly. On one hand, such factors as the rapid generation of government revenue, the manpower constraint in spending it, technology and market constraints but perhaps in particular all the uncertainties that affect Botswana and make a risk averting attitude rational would seem to explain the need for large reserves. On the other hand, the realization that all such factors in one way or another have political determinants leads us into a discussion of what one could call political development constraints. Such considerations would if we were hunting for culprits, lead us into the essentially moral, ideological discussion of the legitimacy of political
constraint.

What the analysis of politics and bureaucracy seems to point to, however, is that the political elite has left a wide area of decision-making to bureaucracy and that the make up of a rather small group of civil servants has given macro-management a rather financially conservative bias. The decisions taken on this level has been considered in the rest of the bureaucratic system as a given rather than as a chosen constraint.

Why is there such a striking difference between Botswana and other African non-oil developing countries concerning the accumulation of financial resources? One answer is that diamonds take the place of oil in the economy. The fact that accumulation tendencies started at a time when diamond revenues were quite modest also necessitates other explanations. They can hardly be found in the obstacles mentioned under section 2 as these exist in many if not most developing countries. The analysis of social and political factors perhaps gives a better clue; the bureaucratic bias towards financial conservatism, corroborated by the prevalence of expatriates and external influences has been given free play to a greater extent than in other countries.

One objective of the above analysis has been to try and extend the economic analysis into the political sphere. The problem of how, in concrete terms, Botswana should use its financial potential for further development has been sidestepped as it can best be solved by people, politicians, bureaucrats and researchers in Botswana. The above mentioned study by M. Lipton has pointed out one way, but certainly not the only. More studies, policy thinking and formation is needed. A study like the present can only point out the importance of turning the whole government machinery to the task of development, considering the relative abundance of finance as a potential, as a problem and not as "a good thing”.

The above analysis has taken its empirical material from the "Khama period" and projects that there are some economic features of this period which may well be replicated in the eighties. On the political and social side, however, things are likely to change. Most of the changes some of which may
already be seen or may be forecasted with a high degree of
certainty, seem to be tipping the balance between "financial
conservatism" and "expansionism" in the direction of the
latter; the fact that the present minister of finance is no
longer vice president makes MFDP less strong in the cabinet
context. The relative political weights of the former minis-
ter of finance (who is now president) and the present is
also likely to lessen the weight of MFDP argument. It is also
likely that a greater political or democratic awareness aris-
es among people in Botswana. The relative amount of expatri-
ates in the administration will certainly go further down
during the eighties. Hopefully the uncertainties in the
Southern African area will be reduced by the liberation of
Zimbabwe and later Namibia. Increasing liberation struggle in
in South Africa and the emergence of Botswana geographically
as a vanguard frontline state may add new uncertainties and
new arguments for financial restraint but will at the same
time necessitate increased strategic and military expenditure.
All this, taken together with a partial lifting of the man-
power and administrative constraint will almost certainly
mean that the projection of foreign exchange reserves equi-
valent to 16 months of imports by the end of the next plan
period will not hold. By the end of the decade Botswana's
balance of payments problem may even be the opposite of what
it is at present.
NOTES

1) The national accounting year in Botswana starts in July and ends in June the following calendar year. The earliest accounts were, however, based on calendar years. The fiscal year starts in April and ends in March the following calendar year. Thus eg 1977/78 in a fiscal context means the year from April-77 to March-78. In a national accounts context it means the period from July-77 to June-78.

2) Apparent growth in statistical series not reflecting growth of the magnitude being measured. Some reasons for such growth are mentioned on p. 2 below.


5) The separate GDP contributions of the mines are not discernible from National Accounts but figures from BCL annual reports indicate gross operating surpluses largely in the negative.

6) Source: National Accounts of Botswana 77/78, (Preliminary) Table VI. Exchange rates from International Financial Statistics (IMF).

7) World Bank Atlas and the sources mentioned in note 6). This comparison refers to GNP Nigeria US$ 560 Botswana P458 x 1.207 $ = US$ 553.


9) Effects mostly via demand created by the wages of about 3000 workers being the economic core of the mining town Selebi-Phikwe (20 000 inhabitants).


12) Although, according to the agreement with a lagged response.

13) See e.g. Colclough and McCarthy 1980.


16) Lately though, the size of net capital imports has decreased; the balance on current account was for the years 1976, 1977, 1978 + P 0.4 mill., + P 21.6 mill. and - P 35.8 mill. respectively. The 1977 figure is due to a conversion of loans into grants of P 35 mill. which was accounted for in that year with a book-keeping entry debiting the capital account and crediting the current account by the same amount. Predictions are that 1979 will be a surplus year whereas deficits will later occur until Jwaneng comes on stream.

17) The build up of foreign exchange reserves:

<table>
<thead>
<tr>
<th>Year</th>
<th>1976</th>
<th>1977</th>
<th>1978</th>
<th>1979</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Total reserves (mill. $)</td>
<td>65.1</td>
<td>82.8</td>
<td>134.5</td>
<td>210.7</td>
</tr>
<tr>
<td>b. Merchandise imports</td>
<td>159.3</td>
<td>181.4</td>
<td>239.6</td>
<td>307.1</td>
</tr>
<tr>
<td>( \frac{a \times 12}{b} )</td>
<td>4.9</td>
<td>5.5</td>
<td>6.8</td>
<td>8.2</td>
</tr>
</tbody>
</table>

Imports are given in units of account of the SACUA, equal to Rand. Note that import figures include duties, certain sales taxes and excises. Source, Statistical Bulletin, Dec. 1979.

Before the introduction of the national currency, the foreign exchange reserves available to Botswana is somewhat unclear because the country in principle could draw on the reserves of the South African Reserve Bank. One may approximate the reserves Botswana would have had if it had its own currency prior to 1976 with commercial bank deposits abroad and Rands in circulation. Using commercial bank statistics only available from 1972 and inferring growth of money in circulation on basis of growth and monetization of the country it is reasonable to conclude that "reserves" may have grown at an annual percentage roughly twice that of imports.

18) See page 46

19) 

20) An estimate of this is obtained from "Foreign Investment in Botswana", OK Ystgaard, Oslo 1980. Table 1 p. 3. Based on book values. Government and modern private sectors add up to P 528. 3 mill. (mid-1977).

21) Figures on BoB and commercial bank deposits in 1979 are given under notes 18 and 19 below.
<table>
<thead>
<tr>
<th>Year</th>
<th>Loans and advances</th>
<th>Total deposits</th>
<th>Commercial deposit bank</th>
<th>Deposits as at end of</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>6.5</td>
<td>7.0</td>
<td>9.5</td>
<td>1972</td>
</tr>
<tr>
<td>1973</td>
<td>7.2</td>
<td>7.1</td>
<td>7.2</td>
<td>1973</td>
</tr>
<tr>
<td>1974</td>
<td>7.2</td>
<td>6.9</td>
<td>6.4</td>
<td>1974</td>
</tr>
<tr>
<td>1975</td>
<td>5.9</td>
<td>6.0</td>
<td>5.5</td>
<td>1975</td>
</tr>
<tr>
<td>1976</td>
<td>4.0</td>
<td>4.0</td>
<td>2.5</td>
<td>1976</td>
</tr>
<tr>
<td>1977</td>
<td>2.7</td>
<td>2.7</td>
<td>1.1</td>
<td>1977</td>
</tr>
</tbody>
</table>

Source: Statistics Canada, Bulletin Dec. 1979

The budget year in Botswana runs from April 1 to March. Expenditure figures are given under the years in which the budget year ends.

<table>
<thead>
<tr>
<th>Year</th>
<th>Development expenditure</th>
<th>Total deposits</th>
<th>Deposits as at end of</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>6.3</td>
<td>12.5</td>
<td>13.1</td>
</tr>
<tr>
<td>1973</td>
<td>4.3</td>
<td>20.7</td>
<td>22.2</td>
</tr>
<tr>
<td>1974</td>
<td>7.1</td>
<td>32.7</td>
<td>34.5</td>
</tr>
<tr>
<td>1975</td>
<td>5.5</td>
<td>65.2</td>
<td>75.7</td>
</tr>
<tr>
<td>1976</td>
<td>6.9</td>
<td>66.8</td>
<td>78.5</td>
</tr>
<tr>
<td>1977</td>
<td>9.4</td>
<td>96.6</td>
<td>108.7</td>
</tr>
</tbody>
</table>
22) The above reasoning may be made explicit in the following model

\[ Y = C + I + A - B \]

\[ C = aY \]

\[ B = bY \]

I and A exogenous

Where \( Y = "GNP \quad C = \text{consumption} \quad A = \text{exports} \)

\( B = \text{imports} \quad a, b \text{ constants.} \)

The effect on the Balance of payments would then be:

\[ \Delta(B-A) = \frac{b}{1+b-a} (\Delta I + \Delta A) - \Delta A \]

Inserting the coefficient values \( b = 0.85, a = 0.95 \) as estimated from the latest national accounts figures, assuming no export increase, \( \Delta A = 0 \) and given \( \Delta I = \text{P} 100 \) mill., the resultant effect on the balance of payments (\( \Delta(B-A) \)) is an increased deficit of \( \text{P} 94 \) mill.

23) Employment and Labour use in Botswana, M. Lipton, 1978, Gaborone, estimates that "a work opportunity" costs \( \text{P} 3000 \) in agriculture and industry.


The Distribution of Wages and Employment in Botswana. R.E.B. Lucas, Boston University 1979 (mimeo).


30) The size of investment; see table 8,7 in NDP V. Diamond production 1978 2,3 mill. carats. This is supposed, presumably by 1980 to reach 4,5 mill. carats. Expected output at Juweng is 6 mill. carats in the mid-eighties. As no major non-diamond development is envisaged in the plan, an approximation to "no development of diamonds" is taken to be (referring to table A1 of the NDP V) a value added for diamonds in 1984/85 at 79/80 level. Using this instead of the figure of P 430,7 mill. in the table would reduce the GDP growth rate from 10.1% p.a. to 5% p.a. A similar approach to government revenues gives an increase of 2.9% p.a. instead of the present 8.9%. Table 2.17 NDP V.

31) NDP V table A.11.

32) NDP V Section on Monetary Policy.

33) The crude reasoning behind this argument may be detailed as follows: mid-77 assets value is P 528 written off by 5% p.a. This gives P 350 mill. at the end of 1984/85. To this is added (arbitrarily) investment in 1977/78 and 1978/79 with P 300 mill. written off value by the end of 1984/85. The total gross fixed capital formation during the plan period (ex. agriculture) as given in table A.6 in NDP V inflated by 10% annually and written off by 5% p.a. gives P 1594 mill. Using table A.11 in NDP V and a rate of inflation of 10% the 1984/85 merchandise import and foreign exchange reserves are respectively P 1017 mill. and P 1446 mill. A size of reserves equal to 4 months merchandise imports would be P 339 mill. The difference between this "reasonable" level of foreign exchange reserves and the one planned (P 1107 mill.) would be roughly one half of the book value of real assets as at the end of 1984/85 (P 2244 mill.).

34) Botswana is one of the few countries in the world receiving most of its customs revenues in, although not fully convertible, foreign currency (i.e. SA Rands). The character of the Southern African Customs Agreement also works to secure Botswana a not inconsiderable net foreign exchange gain.

35) Using NDP figures at constant 79/80 prices, (tables A.10, 2.17) total revenues (foreign exchange or government) over the plan period would be (P mill.):

Diamond exports 1678
Meat exports 304
Nickel Copper exports 538.4
"Other" exports 248.8
Customs revenues 540.3
Migrant workers incomes 125 own "guesstimate" based on ROB statistics from 1976-1978
Grants from abroad 250
These figures could be compared to a planned level of foreign exchange reserves of P 898.3 mill. or 15.9 months of imports by the end of the period whereas a more reasonable level would be P 226 mill., 4 months of imports.

36) It is likely (Table A.12 in NDP V) that P 60 mill. will "pile up" as government balances over the plan period. Neither disappearance of meat exports, nickel-copper exports. "Other" exports nor migrant workers incomes would amount to that much revenue. In the case of customs revenues a serious situation could arise but in the case of withdrawal from the Southern Africa Customs Union Agreement (SACUA), imposition of national tariffs and taxes would go a long way towards making up the shortfall. In this case as in the case of disappearance of grants there would probably be no difficulty for Botswana in borrowing, probably on concessional terms, to implement the NDP V programme.


38) See table 1 and note 18 above.

39) Colclough and McCarthy op.cit. Table 8.2. Of a total of 2175 employed in Central Govt. 1964, 683 were expatriates.


41) Actual expenditure 1972/73 P. 28,6 mill, 1977/78 P. 96,4 mill gives an annual increase of 27.5%. The below estimate of price increases gives 12.1%, meaning a real price increase of 13.7%.

The present series of BoB statistics is based on March 1974 = 100. Up to March 1978 this gives a total factor of 1.583. March 1973 to March 1974 is "guessed" at 1.12 on basis of information in Statistical Abstract 1974. Total price increase over the period is then 1,773 which works out at 12.1% annual average.

42) To keep up with increasing budgets, the number of skilled government employees should at least increase by 12.7% annually, see note 41 above (1% allowance for increase in productivity is probably more than what took place in reality). Using 12.7% would give 9,800 central government skilled expatriates in 1978 would have to be 2000 instead of 900, see note 40 above. Data source: Employment Survey August 1978.

43) Manpower and Employment in Botswana, Government Printer Gaborone 1973. This publication mentions the current manpower shortage and on p. 192 "the vacancy rate even in early 1973 represented a real shortage of skilled personnel, which was causing the Civil Service operating extremely inefficiently".
44) UN Statistical Yearbook 1978, table 210. Of the countries included only 4: Cuba, French Guiana, Grenada, Neth. Antilles in 75-76 spent a higher percentage of their GDP on education.

45) See e.g. NDP V, the section on "Generating resources for Development."

46) On the reason for the non-implementation of the major soda-brine refinery at Sua Pan, NDP V states: "This was related to the unwillingness of some mining companies to undertake exploration and investment in the region as a whole because of their uncertainty over political factors affecting Botswana's neighbours. Another important factor was the structure of the world salt market, the most important potential product of the Sua Pan brines".


48) Although, as was demonstrated in note 23, not devastating.

49) The De Beers group is the largest diamond mining establishment in the world. Through the "Central Selling Organization" it also probably sells 80-90% of the world's marketed diamond production.


51) See for instance FT Hill: "Profits and Rates of Return", OECD, 1979. In tables 6.2 and 6.4 rates of operating surplus to capital stock vary between 32% and 38%. Even in the highest, extraordinary case taxation which will reduce the rate of return to Botswana (but not to the country in question) and inflation will certainly bring the level of real return down in the order of 10%.


53) Internationally compared, Botswana is said to have a very high level of private bank deposits.

54) Botswana Democratic Party, the ruling party. The opposition parties are: Botswana National front (BNF), Botswana Independence Party (BIP), Botswana Peoples Party (BPP).

55) Quite often a BDP parliamentary caucus includes members of the opposition.

56) Prior to the 1974 elections e.g. a Salaries Commision awarded substantial increases in civil servants salaries particularly on the lower rungs of the wage ladder.
Equally important was the Accelerated Rural Development Programme which consisted of a major infrastructure build up with the main target that projects should be visible on the ground by 30th September 1974. On this project that actually carried on into 1975/76 altogether P 21 mill. was spent. According to Chambers: Botswana's Accelerated Rural Development Programme 1973. Experience and Lessons, Government Printer Gaborone, Feb. 1977.

57) In Botswana all parliamentary candidates have to declare in advance their preference for President. The President is then elected by the National Assembly.


61) Professional officers  a)  b)  
mid-1972   mid-1978
Total   Local   Total   Local
DEA    22   5    25   10
DFA    10   6    19   11
a) Counting all civil servants down to the rank of exec. officer.
b) PS., Secretariat and consultants included under DEA.

62) From the start up to March 1978 accumulated appropriations and interests of these funds had reached P 45.8 mill. of which P 28.6 mill. had been invested, the balance P 17.2 mill. being part of government bank deposits. The budgetary plans for 1978/79 and 1979/80 will, if they are implemented increase this balance with P 27.1 mill., this bringing the fraction of unspent balance up from 38% to 50%. The P 27.1 mill. is made up of appropriations of P 26.4 mill. payback of interest and principal P 16.6 mill. minus investment of funds P 15.9 mill.


<table>
<thead>
<tr>
<th></th>
<th>72/73</th>
<th>73/74</th>
<th>74/75</th>
<th>75/76</th>
<th>76/77</th>
<th>77/78</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimates</td>
<td>23.5</td>
<td>36.8</td>
<td>58.1</td>
<td>73.3</td>
<td>68.0</td>
<td>94.7</td>
</tr>
<tr>
<td>Actuals</td>
<td>28.6</td>
<td>42.4</td>
<td>63.3</td>
<td>79.5</td>
<td>71.5</td>
<td>100.5</td>
</tr>
<tr>
<td>Under-estimate</td>
<td>5.1</td>
<td>5.6</td>
<td>5.2</td>
<td>6.2</td>
<td>3.5</td>
<td>5.9</td>
</tr>
<tr>
<td>% of estimate</td>
<td>21.7</td>
<td>15.2</td>
<td>9.0</td>
<td>8.5</td>
<td>5.1</td>
<td>6.2</td>
</tr>
</tbody>
</table>
As a major revenue item; customs revenues is decided upon far in advance. Therefore it will always be entered into the estimates with the correct figure. The per cent underestimate for other items would then be:

\[
\begin{array}{cccccccc}
72/73 & 73/74 & 74/75 & 75/76 & 76/77 & 77/78 \\
46.4 & 35.5 & 18.8 & 12.7 & 6.7 & 10.4
\end{array}
\]

Source: Financial Statements etc. 1979/80, NDP V, table 2.13.

64) NDP IV and NDP V recurrent expenditure ceilings were given by department, not by ministry.

65) In both NDP IV and NDP V reference is made to the point that reserves a) are adequate and b) will be higher in future. In NDP V where a reserve level equivalent to 16 months of import had been forecasted there is the quite typical statement "The level of foreign exchange reserves may appear high but it should be remembered that Botswana's economy is peculiarly fragile". Both plans seem to draw heavily on "possible disruptions of forecasts" and developments beyond the plan period. A mention in NDP V on "the possibility of raising more local loan finance for major projects" is the nearest any official document comes to see the foreign exchange abundance as a positive possibility.

Budget speeches since 1977 so far have all made reference to foreign exchange reserves. In 1977 reserves are referred to as "satisfactory" but the next sentence says: "However, we should not feel complacent on this score. It is only prudent that we should maintain a relatively high level of foreign exchange reserves when we are surrounded by countries which are in a state of unrest." In 1978 there is no reference to the level of reserves, but the large profit made on such reserves is praised. In 1979 the level attained is called a "minimum desirable quantity" the need to have "more foreign exchange reserves than many developing countries" is stressed.

In the 1976 Bank of Botswana report, more than half of the text under the item: "Adequacy of Reserves" is devoted to the reasons why Botswana must have exceptionally large reserves. In the 1977 report it is said that the "level of foreign exchange reserves may appear slightly on the high side" but this is only as a prelude to repeating most of the arguments on the vulnerability of the economy.
66) Actual recurrent expenditure\(^1\) compared to estimates

\[
\begin{array}{cccccccc}
& 72/73 & 73/74 & 74/75 & 75/76 & 76/77 & 77/78 \\
Actual expenditure & 25.7 & 31.3 & 38.5 & 49.5 & 76.3 & 75.8 \\
Estimate & 22.6 & 28.9 & 34.5 & 51.2 & 60.6 & 70.7 \\
Difference & 3.1 & 2.4 & 4.0 & -1.7 & 13.0 & 5.1 \\
\end{array}
\]

\(^1\) Excl. Treasury bill issue and transfers from current revenue to the development budget.

67) With the exception of the Governor of the Bank of Botswana.