

Diversification and Poverty Eradication in Botswana

Stephen M. Kapunda

Department of Economics
University of Botswana
email: kapunda@mopipi.ub.bw

Abstract

This paper aims at examining critically the link between economic diversification and poverty eradication processes and the implied assumptions. It first examines the link theoretically before testing it against Botswana's actual experience. It has been shown theoretically and empirically that the country is still very far from the vision's goal of diversifying the economy and eradicating absolute poverty by 2016. The article concludes by spelling out policy recommendations for further diversification and poverty alleviation.

1. Introduction

Botswana's vision on economic diversification and poverty eradication is clearly stated in the Long Term Vision 2016. The vision underscores the need for new engines of economic growth to supplement the diamond sector, the manufacturing sector, as well as financial and transport services being diverse sectors (Republic of Botswana (RB) 1997: 74).

On the poverty front the vision states:

By the year 2016, Botswana will have eradicated absolute poverty, so that no part of the country will have people living with incomes below the appropriate poverty datum line (PDL).

Furthermore, Botswana will have a more equitable income distribution that ensures the participation of as many people as possible in its economic success (RB, 1997: 8).

The challenging problem, however, is to implement the vision and ensure that economic diversification goes hand in hand with poverty alleviation. This paper aims at examining critically the linkage between diversification and poverty eradication processes and the implied assumptions, thereby suggesting ways to implement the relevant sections of the vision.

The paper is arranged as follows: after the introductory remarks section 2 examines the theoretical link between economic diversification and poverty alleviation. The experience of Botswana is presented in section 3 where diversification trends and income distribution and poverty trends are discussed. The constraints in implementing the vision with reference to diversification and poverty alleviation are also outlined. conclusion and policy recommendations are provided in section 4.

2. The Theoretical Link Between Economic Diversification And Poverty Reduction

Before we examine the link between the two concepts, a definitional approach is in order.

Economic diversification may be generally defined as distribution of investment into different sectors of the economy so as to minimise the risk of over-dependence on one or very few sectors. In the case of Botswana it may be redefined as shifting investment towards the non-mining sectors to avoid risk and uncertainty. Due to the on-going

privatisation and globalisation in general, the role of the private sector in the diversification process should be taken into account.

On the poverty reduction front, despite various definitions of poverty, the concept is widely considered with reference to low income and private consumption. For instance, poverty may be defined as a state of long-term deprivation of well-being where an individual's or household's standard of living is below a minimum acceptable level of income and consumption of basic goods and services (Kapunda 1998: 84). The basic necessities normally include sufficient quantities of food, clothing, shelter, health and education. Measuring poverty reduction becomes more challenging when non-income aspects such as vulnerability, access to clean water and sanitation services and gender equality are considered.

From the afore-stated definitions and comments it follows that economic diversification may at least theoretically enhance poverty reduction in several ways such as the ones explained hereunder:

(a) Pro-poor Sustainable Economic Growth Theory As risk and uncertainty arising from over dependence on one or very few sectors is minimized a sustainable growth rate is assumed. Furthermore, as the economy grows it is assumed that the government concerned will be committed to the policy of equitable income distribution and poverty alleviation throughout the diversification process (pro-poor growth assumption). The 'trickle-down' effect is hereby assumed to be realised throughout the growth process (Jentsch 2000: 4).

The afore-explained view may seem to be discreting the conversional economic theory underlined by Simon Kuznets in the 1950s that there was a historical tendency for income inequality to increase in the early stages of growth. Nevertheless, some countries especially the East Asian Tigers (Hong Kong, Singapore, South Korea and Taiwan) managed to maintain economic growth simultaneously with improved income distribution and poverty alleviation as the economy was diversified (Sentsho 2001: 7).

(b) Pro-poor Employment Creation Theory Related to the pro-poor growth theory is what we may term *pro-poor employment creation theory* i.e. theory on employment creation favourable to the poor.

It has been suggested by the World Bank (1990) that in case the benefits of growth fail to 'trickle-down', the growth has to be labour intensive in character, thereby generating strong demand for labour. Our position is that even if growth succeeds, employment creation relevant to the poor should be emphasized in less developed countries (LDCs) where the majority of the poor live. As diverse sectors increase, employment will inevitably be promoted. The assumption here is that most of the projects should be labour intensive, interlinked and favourable to the poor.

From the afore-presented argument, innovative small and medium industrialisation should initially be enhanced in rural areas where the majority of the people live. In general the agricultural sector should be innovative in making use of modern techniques, especially in semi-arid and marginal areas. Additional assumptions include high productivity, profitability, sustainability and capability of contributing significantly to food security and poverty alleviation. Furthermore, rural asset inheritance rights and land rights are assumed to be favourable to the poor including women. Other rural sub-sectors such as tourism are also assumed to be essentially pro-poor in terms of employment and income generation.

(c) Assumption of Diversification and Disaster Preparedness As an economy grows and diversifies, its ability to counter the effect of natural disasters such as drought, floods, and outbreaks of cattle diseases is assumed also to increase. The economy is able to establish well-planned systems, which may need substantial funds to counter the effects of disasters.

(d) Pro-poor Revenue Assumption As an economy diversifies, the government concerned may collect enough taxes and other forms of revenue from various sectors - private sectors, mining and non-mining sectors. The revenue obtained is assumed to be essentially pro-poor, i.e. the government is assumed to use the revenue prudently to improve the welfare of the poor. It is expected to increase the share that goes to aspects which benefit all people including the poor such as universal and vocation-oriented education, primary health and basic infrastructure.

(e) Other Pro-poor Assumptions As the economy grows and diversification takes place, the governments and possibly NGOs are assumed to be able to provide other pro-poor services and schemes and safety nets, i.e. special government schemes targeted at the poor who are unable to enter the labour market. It is also assumed that the governments can contribute significantly towards social security, unemployment benefits, pension schemes and similar schemes

3. Botswana's Experience

3.1 Introduction Hitherto, the theoretical framework and assumptions based on the linkage between economic diversification and poverty reduction have been presented. This section examines the Botswana experience using statistical evidence.

3.2 Economic Diversification Trends Botswana's vision maintains that by 2016 Botswana will have diversified its economy, with mining, industry, manufacturing, services and tourism all making a sustainable contribution (RB: 6). However, the diversification is still not satisfactory as illustrated hereunder:

Although the contribution of the mining sector to GDP has been declining from over 50 percent when the diversification industrial development strategy was adopted in 1984/85 to only 37 percent in 2000/01, one should not quickly conclude that significant diversification has been achieved.

Firstly, the manufacturing sector, which is expected to play the central role in the diversification process, is still contributing only about 4 percent to GDP compared to 10 percent in Sub-Saharan Africa. Furthermore, its contribution to total employment is only 11 percent. Even the industrial sector, defined broadly to include manufacturing, public utilities and construction, contributes only 12 percent, 23 percent and 13 percent to GDP, total employment and exports respectively.

Secondly, the contribution to GDP of the agricultural sector has dwindled from about 40 percent at independence in 1966 to only 3 percent in 2001, compared to an average of about 30 percent in Sub-Saharan Africa.

Thirdly, even the contribution to GDP of the key service-oriented sectors - tourism and financial sectors - is still about 10 percent of GDP each.

However, the aforementioned conclusions should not be allowed to hide the generally positive industrial trends. For instance, manufacturing contribution to total employment increased from 8.5 percent to 11.4 percent in 2001. Its contribution to GDP increased from 3.2 percent to 4.1 percent during the period. Note also that

manufacturing output, which comprised mainly meat and meat products, at independence, was diversified to 14 percent, 35 percent other consumer goods, and 51 percent intermediate and capital goods sector, especially metal products (32 percent) by 1996 (Kapunda 2002). These trends are in line with Kuznets and Hoffmann's development expectations. Nevertheless, further endeavours to improve on the positive trend are required.

3.3 Income Distribution And Poverty Alleviation Trends Due to limited reliable and comprehensive statistics on income distribution and poverty alleviation in Botswana, the two Household Income and Expenditure Surveys: HIES 1985/86 and HIES 1993/94, and the BIDPA (1997) study will be our references. According to the two surveys, income inequality decreased only marginally between 1985/86 and 1993/94, with the Gini Coefficient falling slightly from 0.556 to 0.537.

Regarding poverty alleviation, the BIDPA study shows that the proportion of poor persons fell from 59 percent to 47 percent between 1985/86 and 1993/94, while the proportion of poor households fell from 49 percent to 38 percent. In 1993/94, 50 percent of female-headed households were living in poverty compared to 44 percent of male-headed households. In the same year 62 percent of poor were living in rural areas, 24 percent in urban villages and 14 percent in urban areas. This commendable achievement is magnified by somewhat qualitative benefits in form of infrastructure development, provision of housing plots, universal provision of education and primary health services which were not considered in the measurement of income poverty.

As Harvey et al (2000: 63) clarify, both primary and secondary education enrollments as a percentage of the relevant age groups have been increasing, between 1970 and 1995 rising from 7 percent to 57 percent for secondary, and from 65 percent to 115 percent for primary education. The adult literacy rate also increased (doubled). On the health front, life expectancy at birth rose from 50 years in 1970 to 68 years in 1995, while the infant mortality rate declined from 95 percent to 56 percent.

However, despite unavailability of recent reliable comprehensive data there are some aspects which tend to reverse the positive trend on income distribution and poverty alleviation. They include the tendency of falling life expectancy (e.g. to 41.9 years in 1999) and the declining Human Development Index (HDI) from 0.621 in 1995 to 0.577 in 1999 (UNDP 2001). This negative trend is highly due to HIV/ AIDS. This trend has also a negative impact on diversification: since "a healthier nation is a prerequisite to the process of sustainable economic diversification" (RB 2002: 16).

Furthermore, the recent privatisation policy is likely to lead to loss of jobs with a possibility of increasing poverty in the short run. As Harvey et al (2000: 64) caution, although the present poverty situation has little to do with globalisation, liberalisation of trade, capital flows and finance, while leading to more growth, will also lead to increases in income poverty, unless government comes up with good safety net policies to circumvent the negative effects of globalisation.

In summary this study concurs with the official evaluation that despite high economic growth and per capita income, the country is still far from the vision 2016's goal of eradicating poverty by the year 2016 (RB, 2000:6).

3.4 Constraints On Diversification and Poverty Reduction Process Given the conclusion reached in the previous sub-section, the immediate question is: Why such

inadequate progress in both diversification and poverty alleviation? The basic constraints related to the structure of the economy are:

- (a) Limited linkage between the dominant economic activity (mining) and other sectors.
- (b) Slow progress in the productive sectors which are rich in backward and forward linkages especially the manufacturing and agricultural sectors. The latter is also faced by highly adverse climatic conditions.

Regarding poverty reduction, which is the ultimate goal of the vision 2016, some of the constraints may be outlined as follows:

- (i) Inadequate labour-intensive formal economic activities. This is related to what the BIDPA (1997) study identified as the main cause of poverty in the formal sector, exacerbated by low wages and lack of alternative income-generating options.
- (ii) Limited capacity to generate and disseminate technological innovation in the rural areas. Other related constraints include poor farmers' technology adoption; lack of adequate innovation of making use of modern techniques; and limited ability to handle semi-arid and marginal conditions, and natural disasters such as drought and floods.
- (iii) Problems facing the small and medium enterprises such as inadequate capital and lack of entrepreneurial skills.
- (iv) Problems related to implementing universal education and health programmes and objectives, especially those related to AIDS/ HIV.
- (v) Limited access by the poor, especially women, to land and other rural assets and credit services.
- (vi) Low stakeholder participation.

3.5 Conclusion and Policy Recommendations

It has been theoretically and statistically shown that despite high economic growth and per capita income, Botswana is still very far from the vision's goal of diversifying and eradicating absolute poverty by the year 2016. In order to move on to a higher level of economic diversification and poverty alleviation, the following policy recommendations are in order in the case of Botswana and possibly elsewhere.

Firstly, there is a great need to develop more productive sectors, especially industry and agriculture, by improving on employment opportunities, linkage activities, productivity and profitability.

In the case of the industrial sector, selective support is suggested as was the case with the East Asian Tigers. In the short-run, emphasis should be on small and medium enterprises, labour intensive projects and those rich in interlinkages. In the long run, a shift towards a policy of 'industrial targeting' involving identifying and implementing (sub) sectors with potential for future growth such as capital good sectors, microelectronics and laser technology. Initially government should support projects which are labour intensive and those rich in backward and forward linkages and those which lead in quality goods production. The support may involve incentives such as subsidized loans for citizens and tax exemptions to all in order to encourage both citizens and foreign investors.

Regarding the agricultural sector, which is closer to the majority of the poor, the following aspects should be enhanced.

- (a) Rural industrialisation: The current policy on small, medium and micro-

enterprises (SMMEs) should be implemented more seriously. Inter-linkages among SMMEs and with large industries should be promoted. Given the SMMEs constraints, especially inadequate capital, the government should continue to support the SMMEs till they become capable of facing competition with minimum constraints and problems. The support may involve incentives such as subsidized loans, especially to citizens, and tax exemptions to all in order to encourage both citizens and foreign investors.

- (b) Effective irrigation schemes and other appropriate technology: This is recommended especially in the case of handling semi-arid and marginal land conditions and highly adverse climatic impacts of drought and floods. Technical farmers' education should also be cheaply available in order to improve technology adoption and applicability.
- (c) Review of rural asset inheritance rights and land rights: This should be done periodically in favour of the poor and vulnerable, including women.
- (d) Pro-poor rural related sectors development: This should include tourism. The sectors should be pro-poor in terms of employment and income generation.

The second set of recommendations focuses on increases in both primary and secondary incomes.

Primary incomes refer to returns and assets of the poor. Since the main productive asset of the poor is their labour, increasing their functional education, skills and employment activities and wages is likely to lead to increased primary incomes.

Increasing investment in human capital through availing the poor, especially the vulnerable, the youth, women and the disabled, sufficient and relevant qualities of education, health, nutrition and food security. Education is important to the poor as it has been shown empirically to increase the rate of return (Siphambe 2000:291). Special attention should be paid to reviewing and implementing effectively health programmes and objectives, especially those relevant to fighting HIV/AIDS - a problem which exacerbates the poverty status of the poor.

Secondly, incomes include empowering the poor to expand their economic and social participation and supplementing their resources with adequate and relevant transfers. This may take the form of direct support to increase incomes at community level and transfers in the form of soft loans and grants.

Thirdly, the government should ensure provision of adequate pro-poor services and schemes such as credit services and safety nets. Social security, unemployment benefits, pension schemes, and similar schemes should be revisited periodically.

Fourthly, all stakeholders should participate adequately in economic diversification and poverty alleviation.

Finally, with the advent of privatisation and globalisation in general the government should come up with good safety net policies to counter the negative effects on economic diversification and poverty alleviation.

References

- Botswana Institute of Development Policy Analysis (BIDPA), (1997), *Study of Poverty and Poverty Alleviation in Botswana*, Gaborone.
- Central Statistics Office (CSO), (2001), *Statistical Bulletin*, Vol.26(1), 39-50.
- Harvey, C., Siphambe, H., and Segosebe, E., (2000), 'Globalisation and Sustainable Human Development: Progress and Challenges for Botswana', UNCTAD/ UNDP *Occasional Paper*, UNCTAD/ UNDP.
- Hoffmann, W., (1958), *The Growth of Industrial Economies*. Manchester Press, Manchester.
- Jentsch, G., (2000), 'Can Economic Growth Reduce Poverty.' *Development and Co-operation Bulletin*. Vol.4, 4-5.
- Kapunda, S. M., (2002), 'The Role of the Industrial Sector in Economic Diversification in Africa: The Case of Botswana,' mimeo, Gaborone.
- Kapunda S. M., (1998), 'Poverty Alleviation and Food Security in Tanzania: An Environmental Perspective', in Ahmed, A.G.M., and Mlay, W., (eds) *Environment and Sustainable Development in Eastern and Southern Africa*, 83-91. Macmillan Press Ltd, London.
- Kuznets, S., (1996), *Economic Growth and Structure*, Addison-Wesley, London.
- Republic of Botswana, (2002), *Budget Speech*, Government Printer, Gaborone.
- Republic of Botswana, (2000), *Mid-Term Review of NDP8*, Government Printer, Gaborone.
- Republic of Botswana, (1997), *Long Term Vision for Botswana*, Government Printer, Gaborone.
- Sentsho, J., (2001), 'Economic Diversification: What else?' *Barclays Bank of Botswana Economic Review*, June, 7-8.
- Siphambe, H. K., (2000), 'Rates of Return to Education In Botswana' *Economics of Education Review*, No.19, 291-300.
- UNDP (2001), *Human Development Report 2001*, New York, UNDP
- World Bank (1990), *World Development Report 1990: Poverty*, Oxford University Press, Oxford.