



Aid and Self-Sufficiency: Case Study - Botswana

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1. Economic Context in Botswana

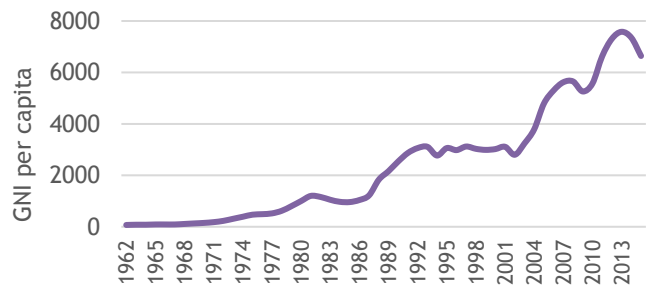
Botswana is an upper middle-income country with a population of 2.25 million and a GNI per capita of \$6,610 (World Bank, 2016a). A number of published sources cite Botswana as a case study in successful development, despite adverse initial conditions, including an arid climate, minimal investment in infrastructure during the colonial period, and high levels of poverty and inequality at independence (Fosu, 2013; Acemoglu & Robinson, 2012; Lewin, 2011; Acemoglu, Johnson, & Robinson, 2002). Since achieving independence in 1966, Botswana has transitioned from one of the poorest countries in Sub-Saharan Africa—with an agricultural economy and a GDP per capita of \$84 (World Bank, 2016a; World Bank, 2016b)—to one of the richest, with an average GDP growth rate of five percent per annum over the past ten years (Myers, 2016; World Bank, 2016c).

In 1967, life expectancy in Botswana was only 37 years, the country had twelve kilometers of paved roads (Lewin, 2011), and 132% of government expenditure was composed of ODA (World Bank, 2016b). Botswana’s improvements since then have been substantial: life expectancy is now 64 years (World Bank, 2016a), there are 6,116 kilometers of paved roads (MTC, 2011), and only 2.2% of general government consumption expenditure is composed of ODA (World Bank, 2016a). Botswana’s rating on the Human Development Index has also risen, from 0.585 in 1990 to 0.698 in 2015 (UNDP, 2016).

2. Performance along Measures of Self-Sufficiency in Botswana

Positive trends in Botswana’s growth and development are reflected in indicators of self-sufficiency. GNI per capita has maintained a steady, upward trend since the late 1960s, from only \$90 per capita in 1967 to a high of \$7,580 in 2013 (Figure 1). Increases in GNI per capita led to Botswana’s graduation from IDA concessional loan funding in 1974, with no reversal in eligibility since graduation (IDA, 2016). The recent decline in GNI has been attributed to fluctuations in diamond prices, electricity disruptions that affect manufacturing, and the negative impact of drought on agriculture (World Bank, 2016b; World Bank, 2017a; ANA, 2016).

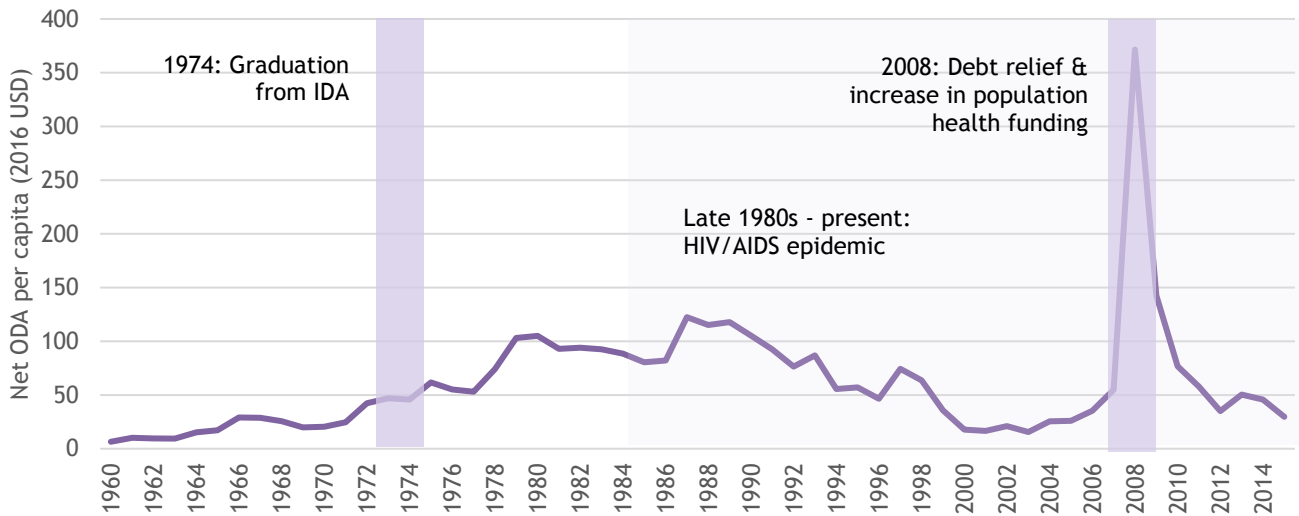
Figure 1. GNI per capita in 2016 USD, Botswana, 1962-2015



Source: World Bank Open Data, 2016

Net ODA began to increase in the early 1970s, from \$20 per capita in 1970 to \$122 in 1987 (Figure 2). Although Botswana graduated from eligibility for IDA concessional loans in 1974, it continued receiving ODA from other sources. Aid flows declined steadily throughout the 1990s, reaching a low of \$15 per capita in 2003. In 2008, Botswana received \$723 million in net ODA—over four times the largest previous flow of ODA. Flows began declining again in 2009, reaching less than \$30 per capita in 2015.

Figure 2. Net ODA per capita and exogenous shocks, Botswana, 1960-2014

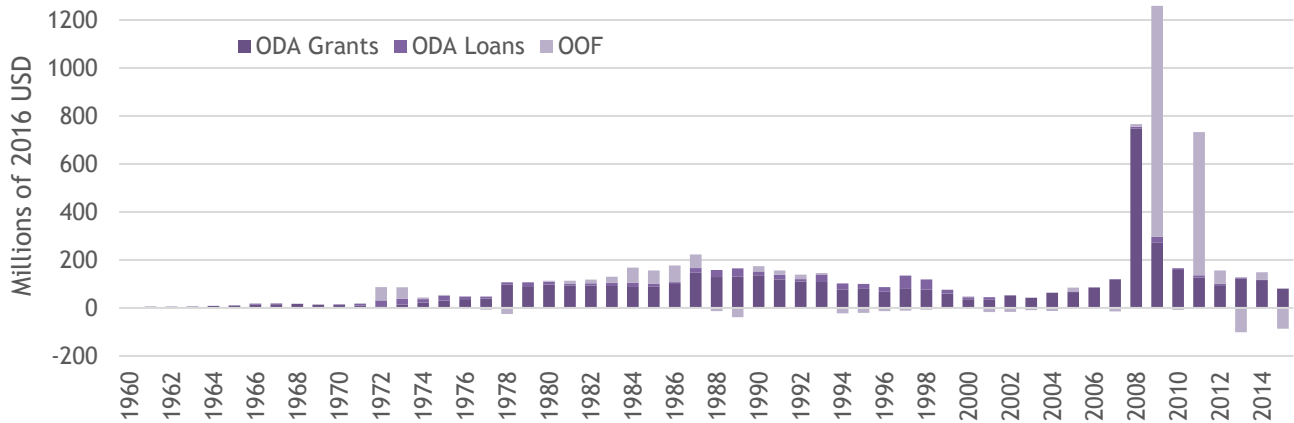


Sources: World Bank Open Data, 2016; USAID, 2017b; IDA, 2016; AHO, n.d.

Two factors contributed to the dramatic increase in ODA in 2008. First, the decision in 2004 of United States President George W. Bush’s administration to address HIV/AIDS in Sub-Saharan Africa (USAID, 2017b; Robinson, 2012) led to a large increase in funding from USAID, from \$43 million in 2006 to \$211 million in 2008 (USAID, 2017b). The vast majority (98%) of this ODA was for “Population and Reproductive Health,” primarily targeting HIV/AIDS (USAID, 2017b). HIV/AIDS is an ongoing epidemic in Botswana, which has the third highest HIV prevalence of any country worldwide (UNAIDS, 2015). Second, in 2008 Botswana received \$437.6 million in ODA from OECD countries for debt issues, including “extraordinary debt forgiveness and debt conversion” from Germany (OECD, 2010b). However, this increase in aid did not lead to a large reduction in Botswana’s debt as a percent of GNI, which is among the lowest 5 percent of countries worldwide (World Bank, 2017b). In March of 2017, the World Bank approved \$145.5 million in ODA to address chronic drought, a recent influx that is not yet reflected in *Figure 2* (World Bank, 2017a).

Since 1960, flows of ODA included loans, but primarily consisted of grants, including debt relief (*Figure 3*). Beyond ODA, Other Official Flows (OOFs)—an OECD category that includes grants for commercial purposes, bilateral transactions with a grant elements of less than 25%, and grants whose primary purpose is to facilitate exports (including export credits)—were low until the late 2000s and have been negative in recent years. A significant increase in OOFs followed the financial crisis in 2009, and Botswana received another spike in OOFs in 2011.

Figure 3. Net flows of development assistance to Botswana by type in millions of 2016 USD, 1960-2016

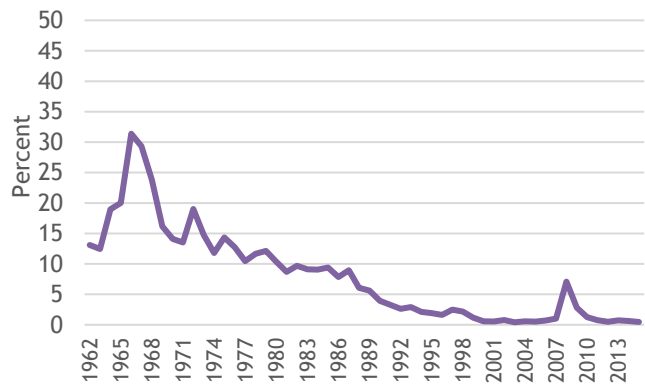


Source: OECD CRS, 2017; Note: OOF data begins in 1972

As shown in Figure 4, net ODA comprised 31.4% of GNI at independence in 1966, indicating heavy reliance on foreign aid as a source of revenue. With the exception of the temporary influx of aid in 2008, the percentage has fallen steeply over time and has remained at less than 1.0% since 2011. This decrease in the ODA/GNI ratio over time is the result of changes in both indicators—rising GNI and falling ODA per capita.

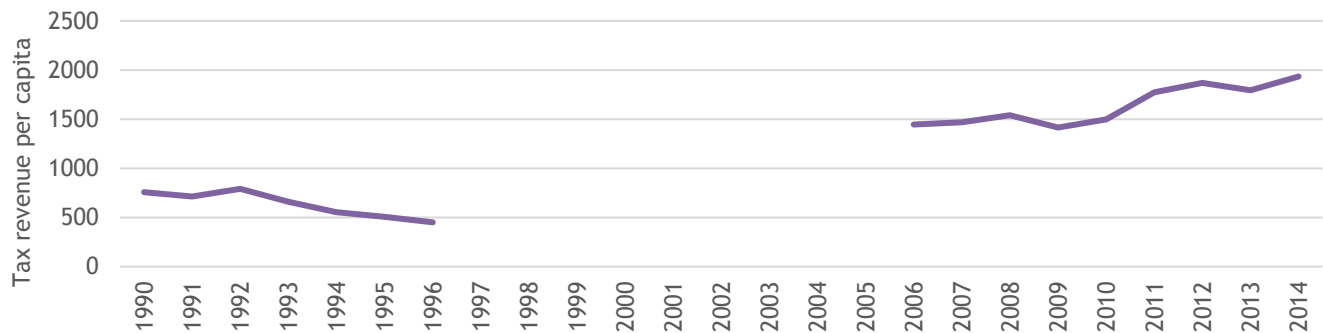
Data on tax revenue for Botswana are limited, with only the years 1990-1996 and 2006-2014 publicly available from The World Bank (Figure 5). Botswana collected \$4.2 billion in tax revenue in 2014, or 25.8% of GDP, an all-time high and a four-fold increase from the \$1.0 billion it collected in 1990.

Figure 4. Net ODA as percent of GNI, Botswana, 1962-2015



Source: World Bank Open Data, 2016

Figure 5. Tax revenue per capita in Botswana, 2016 USD, 1990 - 2014

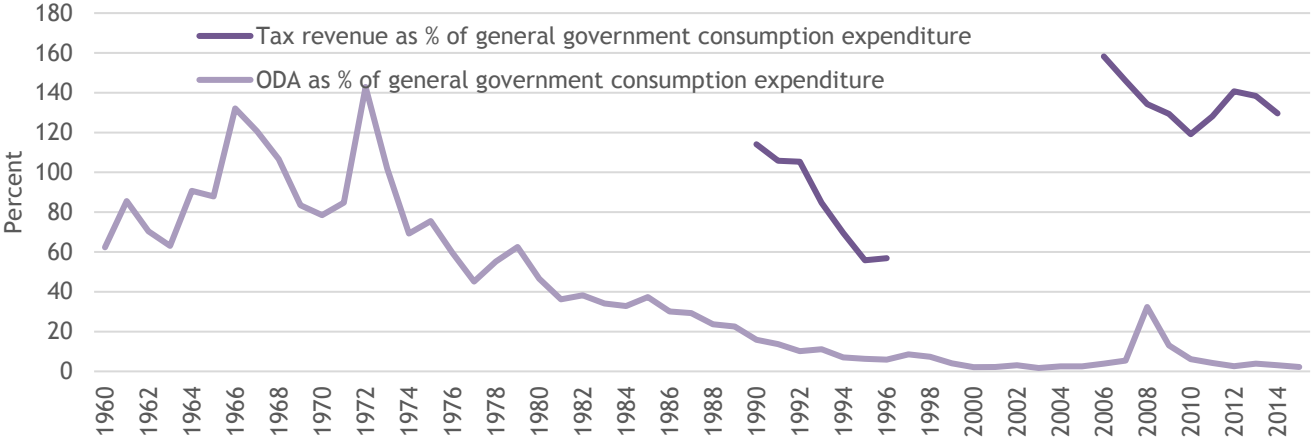


Source: World Bank Open Data, 2016

Revenue from the mining sector (40%) and tariffs from the South African Customs Union (27%) together currently comprise the majority of government revenue (World Bank, 2016b). Beginning in the late 1970s,

Botswana’s reliance on foreign aid as a percentage of general government consumption expenditure¹ decreased (Figure 6), with the ODA to general government consumption expenditure ratio falling from 62.5% in 1979 to only 1.7% in 2003. The ratio increased to 32.5% in 2008 following the surge in ODA for that year, but it has remained below 5.0% since 2011, falling to 2.2% in 2015. Tax revenue as a percentage of government consumption expenditure declined in the 1990s but increased again in the late 2000s, with a high of 158% in 2006. Although tax revenue in the 2000s was substantially higher than in the 1990s, it has returned to a downward trend in recent years.

Figure 6. Net ODA and tax revenue as percentages of general government consumption expenditure in Botswana, 1960-2015



Source: World Bank Open Data, 2016

Tax revenue was calculated using tax revenue as a percentage of GDP from the World Bank (in 2016 USD), and both tax revenue and total ODA were divided by general government consumption expenditure.

Botswana received a B rating on aid ownership—defined as its ability to effectively lead its own development strategies and coordinate development actors countrywide—from a Paris Declaration on Aid Effectiveness monitoring survey (OECD, 2011). The five-point criteria for this grade (with A as the highest score and E as the lowest) is tied to the existence of a country-wide development policy, the extent to which priorities are established, and whether or not policies are costed and linked to a budget. The National Development Plan 10 was Botswana’s seven-year (2009-2016) effort to implement its development strategy, which was linked with the Millennium Development Goals (MDGs) (*ibid.*). Botswana initiated its National Development Plan 11 in April 2017, which will continue through 2023 and focus on “inclusive growth for the realization of sustainable employment and poverty eradication” (Government of Botswana, 2017).

According to the World Bank’s Worldwide Governance Indicators (Kaufmann, Kraay, & Mastruzzi, 2010), Botswana also demonstrates effective governance and institutional capacity relative to other countries in the region and at similar income levels.² Botswana ranks higher than the average for Sub-Saharan African countries

¹ General government consumption expenditure includes “all government current expenditures for purchases of goods and services (including compensation of employees). It also includes most expenditures on national defense and security, but excludes government military expenditures that are a part of government capital formation” (World Bank, 2016d, n.p.). The World Bank reports general government consumption expenditure as a percentage of GDP. We have used World Bank GDP data (in 2016 USD) to calculate total expenditure in 2016 USD. Open Data, 2016a

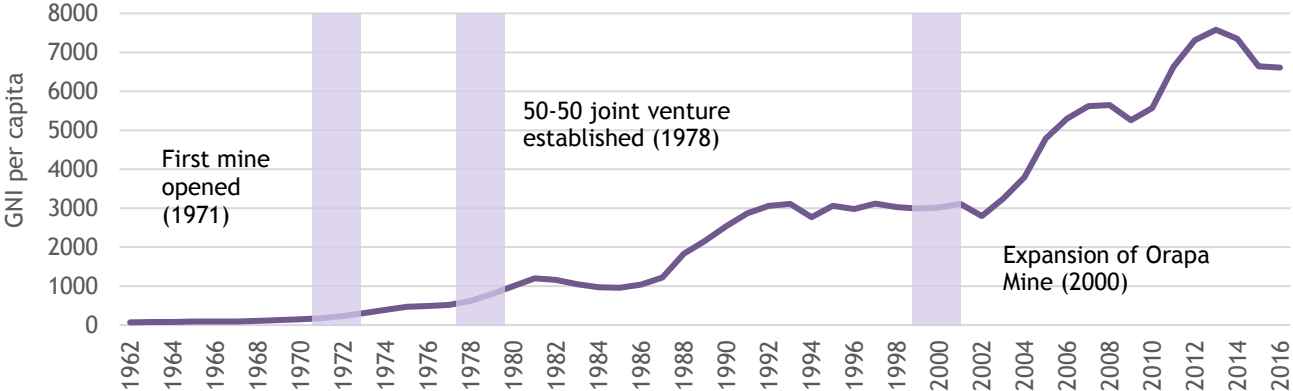
² There is no CPIA data for Botswana.

and high-middle income countries on all World Bank governance indicators including: voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption.

3. Drivers and Barriers to Self-Sufficiency in Botswana

Lewin (2011) identifies three major factors as driving Botswana’s high GDP growth and economic stability relative to the region. First, the acceleration of growth in the mining sector, which composes a high percentage of GDP, directly corresponds to GDP growth over time. The sector now contributes 40 to 50 percent of government revenue (World Bank, 2016b; Kamrany & Gray, 2014). Botswana’s economic success is largely attributed to the discovery of diamonds by the De Beers Corporation in 1967 (Nocera, 2008). Since the mid-1970s, Botswana’s economic growth has corresponded with growth in the mining sector (Lewin, 2011) that contributed 42.2% of GDP from 1985-1994 (ANRC, 2016). Large increases in GNI per capita generally correspond to expansions in diamond mining capacity (Diamond News, 2000) (Figure 7), as well as the early 2000s commodities boom that followed low and stagnant commodity prices in the 1990s (World Bank, 2009). In recent years, the proportion of GDP from mining has fallen to 22%, 81% of which is from diamonds (ANRC, 2016). In March of 2009, global diamond prices fell significantly, resulting in a negative GDP growth rate for the first time since 1969 (Fibaek, 2010). The pace of economic recovery in global markets, including reductions in demand for minerals and metals, falling commodity prices, and slowing economic growth in China, have all contributed to falling diamond revenue and a corresponding slowdown in GDP growth. As a result, economic diversification remains a major national priority (World Bank, 2016b; Yeomans, 2016).

Figure 7. GNI per capita in 2016 USD and expansions in diamond mining capacity by the De Beers Corporation, Botswana



Source: World Bank Open Data, 2016; Yeomans, 2016; Cann, 2008; Diamond News, 2000

The second factor Lewin identifies is that mining wealth has been well-managed, avoiding the natural resource “curses” of political and economic volatility and Dutch Disease (Lewin, 2011). Aspects of good governance reported in Botswana include preventing conflict and developing institutions of private property, including secure property rights and constraints on the executive branch of government (Lewin, 2011; Acemoglu, Johnson, & Robinson, 2002). Botswana has a parliamentary democracy, free and fair elections (Lewin, 2011), and, in 2012, was ranked the least corrupt of all African countries on the Transparency International Corruption Perceptions Index (CPI) (Transparency International, 2015; Kamrany & Gray, 2014).

In addition, the federal government has implemented economic policies to combat “Dutch disease,” or the decline in demand for exports that results from the real appreciation of domestic currency because of an influx of foreign currency (Lewin, 2011). These policies include fiscal saving, maintaining a surplus on the current account by encouraging exports, and investing heavily in infrastructure and human capital. The government of

Botswana also has only a partial share in the country's mineral wealth, limiting the incentive for opposition groups to fight for resource rents (*ibid.*).

Finally, an early agreement with De Beers to market diamonds as a 50-50 public-private partnership has contributed to continuous investment in public services (Yeomans, 2016). Investments in human capital include high educational expenditure as a percentage of GDP (9.6%) and per capita health expenditure of \$385, well above the \$94 average in Sub-Saharan Africa (World Bank, 2016a). Continuous investment in education and other social policies has contributed to Botswana's on-going stability (Lewin, 2011).

We did not identify any sources that directly specified the role of foreign aid in Botswana's transition toward greater self-sufficiency. Trends in ODA, GNI, and tax revenue suggest that the declining role for ODA in Botswana's public sector coincided with the expansion of the diamond industry. Since the late 1980s— with the exception of a large increase in 2008 for HIV/AIDS and debt relief and a recent World Bank commitment to address chronic drought—there has been an overall downward trend in ODA.

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