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## IS BOTSWANA'S GROWTH SUSTAINABLE?

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### Structure of Presentation

- What is sustainable economic growth?
  - ▣ Concepts and definitions
  - ▣ Secrets of success
- Sustainability issues in Botswana
  - ▣ Economic growth & diversification
  - ▣ Poverty & inclusive growth
  - ▣ Resources and the environment

## What is Sustainable Growth?

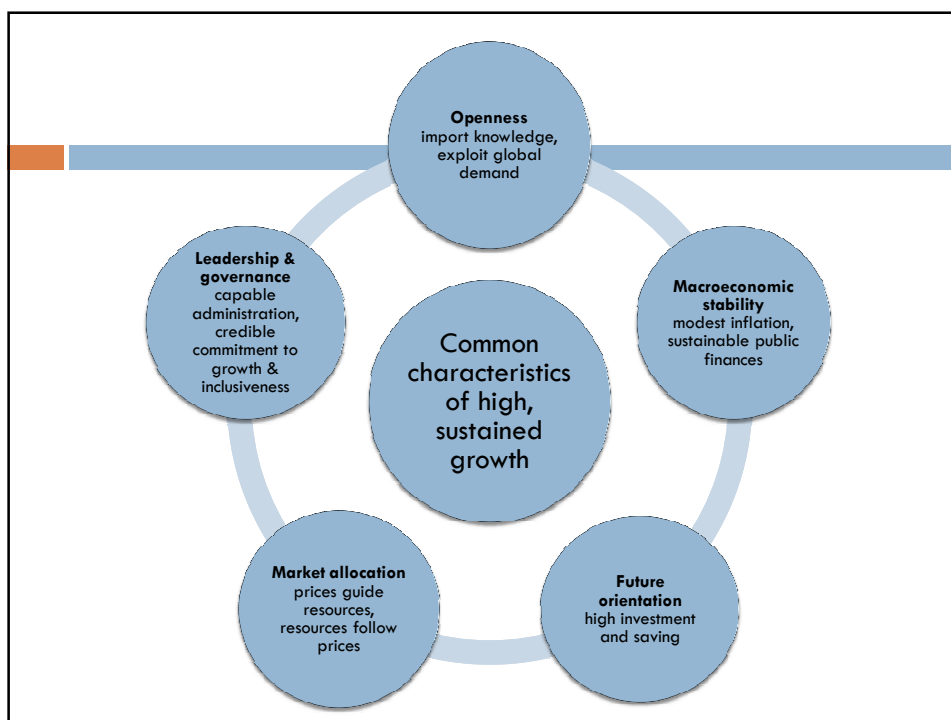
- “Old” Definition:
  - ▣ Economic growth that continues at a high rate, without cycles of boom and recession
  - ▣ Focuses only on economic (GDP) growth
- “New” definition
  - ▣ Continuing economic growth, at a high rate, leading to:
    - ▣ improving the quality of life of the population
    - ▣ alleviating poverty
    - ▣ preserving or improving the natural resource base
  - ▣ Encompasses inclusive, equitable development, and environmental sustainability, along with rising GDP per capita

## World Bank Commission on Growth and Development (CGD)

- 2008 Report: Strategies for Sustained Growth and Inclusive Development
- Identified 13 countries achieving “high, sustained growth” – defined as 7% a year for 25 years
- Botswana the only African country included
- Others: Brazil, China, Hong Kong, Indonesia, Japan, S. Korea, Malaysia, Malta, Oman, Singapore, Taiwan, Thailand

## CGD: Secrets of Success

- **Outward orientation**
  - ▣ Export-led growth
  - ▣ Openness to FDI
  - ▣ Receptive to foreign ideas, technology, know-how
- **High savings and investment**
- **Effective markets & regulatory institutions**
- **Macroeconomic stability**
- **Leadership and Effective Government**
  - ▣ Capable, credible and committed
  - ▣ Patience, long planning horizon, commitment to inclusive development
  - ▣ Strong technocratic teams
  - ▣ Policy continuity and consistency



## CGD: Barriers to Success

- Four factors found to affect growth negatively:
  - ▣ Africa
  - ▣ Small states
  - ▣ Resource-rich
  - ▣ Middle-income countries
- Botswana falls into all of these categories
- Indicating the challenges of sustainable growth going forward.

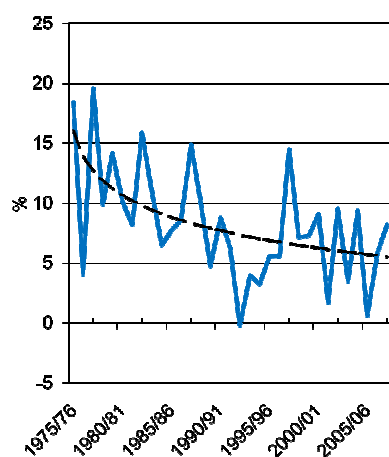
## Botswana: Sustainable Growth Issues

## Key “Sustainable Growth” Issues in Botswana

- Economic Growth
  - ▣ Move beyond diamond-led growth
  - ▣ Export-led diversification
- Poverty & inclusiveness
  - ▣ Reducing high levels of poverty & inequality
  - ▣ Bringing all groups into the modern economy
- Resource & environmental issues
  - ▣ Mineral production
  - ▣ Water, power, climate change

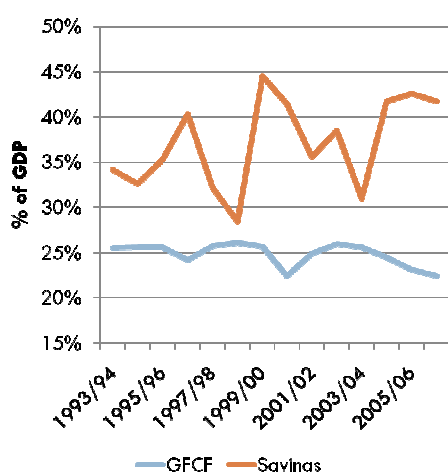
## Economic Growth

## Long Term GDP Growth



- Economic growth has been on a long-term downward trend
- Recent trend growth around 6%
- More sustainable than higher, earlier growth rates
- But dependence upon mining & government remains a problem, given anticipated decline in mineral revenues

## Growth Drivers – Investment & Savings



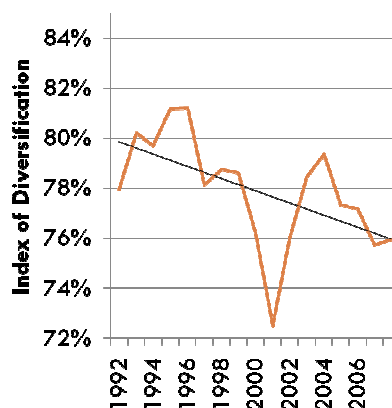
- Investment is the basis for future growth
- Declining rate of investment (% GDP) does not augur well for future growth
- Not due to shortage of savings, which remain very high (unlike most of SSA)
- Investment rate needs to increase
- Reinforces need to improve investment climate, encourage FDI

## Diversification – a mixed picture

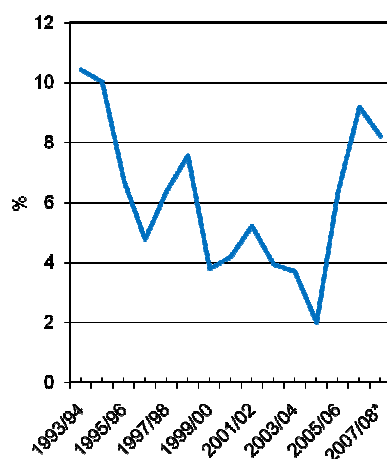
### Objectives:

- ▣ reduce long-term dependence upon diamond mining & government
- ▣ enhance growth of non-mining private sector
- ▣ development of export-oriented goods and services

### Diversification of GDP



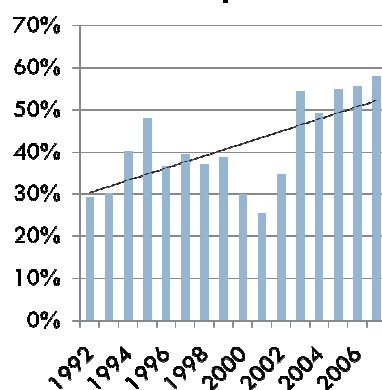
## Slow growth in the non-mining private sector



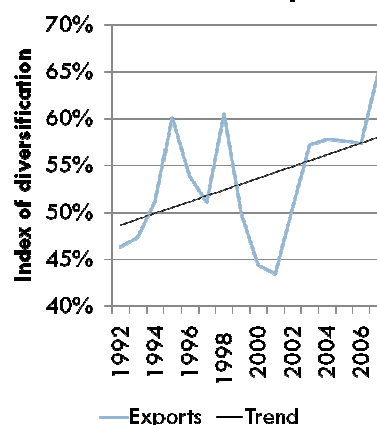
- ▣ Growth on a downward trend, though recent recovery
- ▣ Slower than overall GDP growth, hence diversification limited
- ▣ Remains dependent upon government spending

## The bright side of diversification: exports

**Non-diamond exports as % of imports**



**Diversification of Exports**

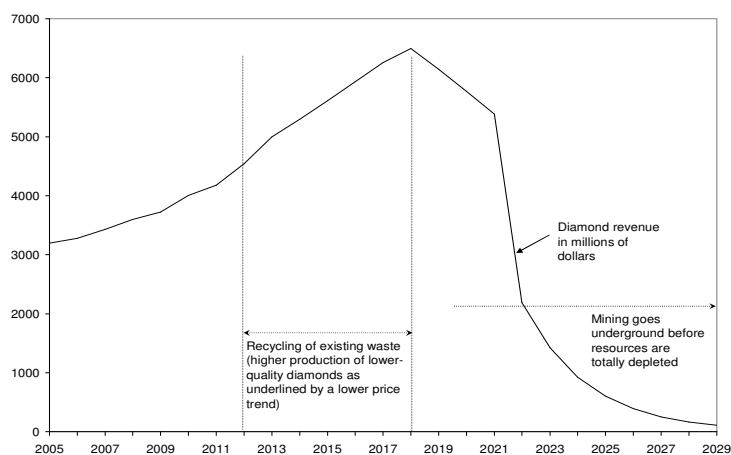


## Growth & Openness

- Sustainable growth in Botswana must be export-led
- Mining is export – oriented, internationally competitive and diversifying
- Non-mining less so:
  - Heavily dependent upon govt
  - Limited export base
- FDI is more export oriented
  - Need to attract more FDI
  - Need to increase export focus of locally-owned firms
- Potential in services exports
  - But trade in services less covered by trade agreements than trade in goods
  - Trade negotiations important
- Remember: openness involves both imports and exports
- Competitiveness and productivity issues still need to be addressed



## Fiscal Sustainability - Long-term Mineral Revenues

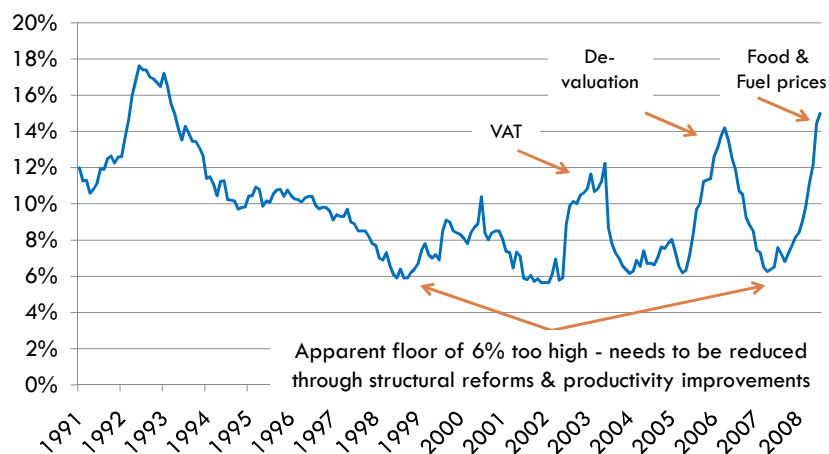


Source: IMF (based on Govt. data)

## Long-term fiscal sustainability

- Fiscal Rule (NDP9)
  - Expenditure targeted at 40% of GDP
  - Spending matched to average revenues
  - No savings/surpluses (or deficits) planned over a budget cycle
  - Revenues at 40% of GDP reflect high profitability of diamond mining, and high tax rate applied
- Long-term prospects
  - Revenues at 25-30% of GDP
  - Declining diamond mining profits and production
  - Lower profits and tax take on new mining ventures and other economic activities
  - Government spending will have to be cut, relative to the size of the economy

## Sustainable low inflation ... not yet achieved



## Long-term growth issues & challenges

- Build on successes of mining sector and extend to the rest of the economy
- Strengthen capacity for exports of internationally competitive goods and services
- Improve productivity in public and private sectors
- Gradually reduce size of, and dependence on government
- Sustain record of policy consistency with long-term outlook

## Poverty & Inclusiveness

### Poverty Trends

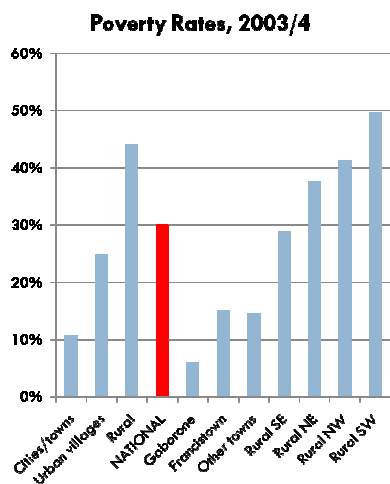
#### □ Positive

- Poverty rates declining steadily
- Low urban poverty
- Public services:
  - Education
  - Health
  - Water
- Social safety nets

#### □ Negative

- Poverty high for a middle income country
- Persistent pockets of poverty:
  - Rural areas
  - Elderly
  - Large families
  - Less well educated
  - Those without formal employment

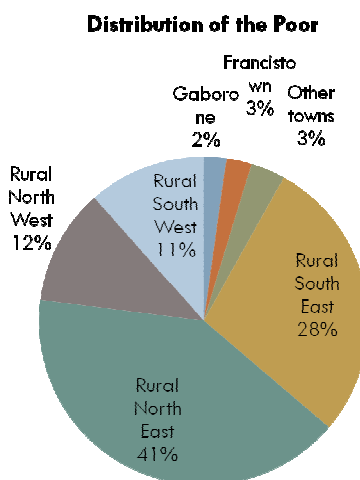
## Poverty Rates by Region



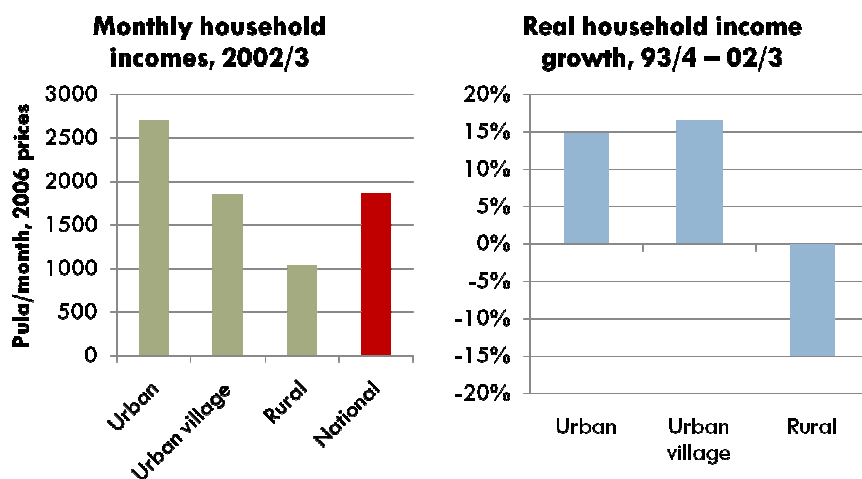
- Contrast between urban and rural poverty rates
- Poverty rate higher in more remote western regions

## Where do the poor live?

- Only 8% of the poor are in urban areas
- High poverty rates in western Botswana, but very low population
- Majority of poor (69%) in rural NE and SE

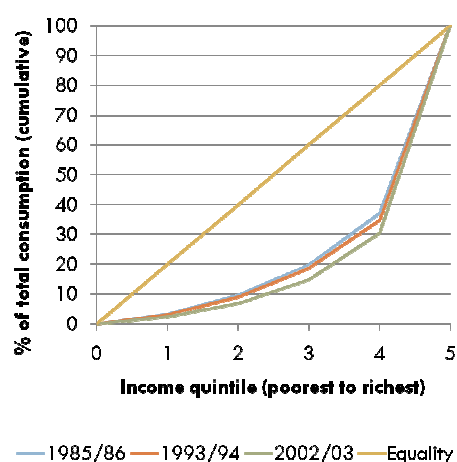


## Average (median) incomes by settlement type



Source: HIES 1993/94 & 2002/03

## Inequality – Lorenz Curve



- Botswana highly unequal – richest 20% have 69% of total consumption
- Inequality has been getting worse
- Makes the task of poverty reduction more difficult
- Man inequality is between urban & rural areas

## Causes of Poverty

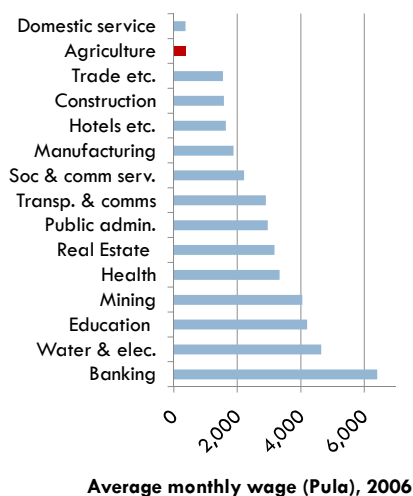
### Causes

- ▣ Lack of (formal sector) jobs
- ▣ Lack of human capital
- ▣ Inadequate social safety nets
- ▣ Reliance on agriculture

### Remedies

- ▣ Growth-enhancing policies
- ▣ Job creation
- ▣ Investment in health, education and training
- ▣ Improve social safety nets
- ▣ Agricultural support schemes

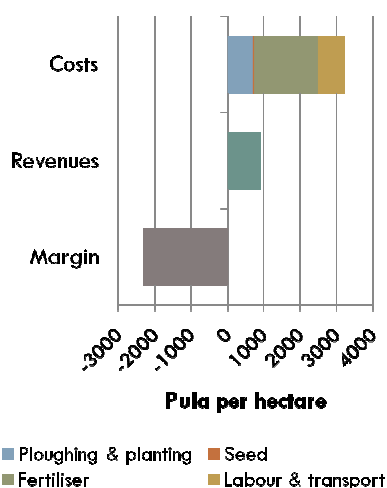
## Is agriculture a poverty trap?



### Focus on agriculture

- ▣ A very low wage/low income activity
- ▣ Are we pushing people into uneconomic activities with perpetual dependence on govt subsidies?
- ▣ If yes, then:
  - ▣ creating a poverty trap
  - ▣ unsustainable in long-term

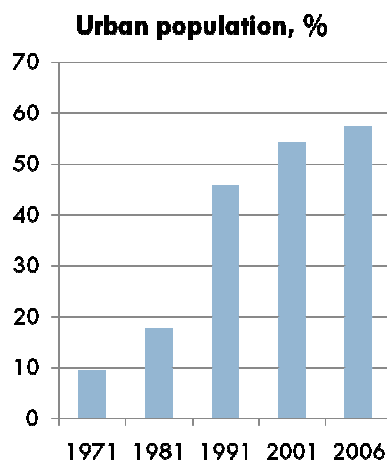
## Little benefit for farmers from subsidies (ISPAAD)



- Approximate costs and revenues for small-scale (<5ha) rainfed maize production
- Revenues cover only 27% of costs
- With 77% govt subsidy of costs, 5ha farmer makes P700 a year – while govt pays P12300
- Assumes 60% increase in productivity from current levels

## Poor are in rural areas ...but should they stay there?

- Majority of Batswana are now urban
- Agriculture occupies only 14% of labour force (2006 BDS)
- Limited economic potential in rural areas
- Long-term urbanisation will continue



## Re-think of poverty alleviation strategies?

- Rural areas are a drain on national resources – consuming more than they produce
- Current agricultural and rural development / settlement policies may not be sustainable
- Focus in rural areas should be on long-term sustainable activities (tourism, cattle, indigenous/veld products)
- Sustainable, commercially viable agriculture should be encouraged – but will employ few people
- Acknowledge that many agricultural policies (e.g. ALDEP, ISPAAD) are disguised social policies – and are inefficient both economically and socially
- Poverty alleviation will come primarily from urban job creation

## Resource & Environmental Issues



## Sustainable Use of Mineral Resources

- Minerals
  - ▣ Resource curse avoided
  - ▣ Mineral revenues invested - in human, physical and financial capital, not consumed - in line with international best practice
  - ▣ Maintains and improves capital base of economy

## Sustainable Use of Mineral Resources

- Downsides of mineral revenues:
  - ▣ Has led to excessively large government, with “soft” budget constraint
  - ▣ Has led to inefficiency and avoidance of tough resource allocation decisions/choices
  - ▣ Savings into mineral fund has been passive (leftover funds) not an active decision before other spending
- No substantive policy change needed, except:
  - Accumulate more financial assets, given anticipated decline of mineral revenues
  - Need to ensure that public investments are productive

## Environmental Sustainability Issues

- Physical environment:
  - vulnerable to degradation (overgrazing, bush encroachment);
  - arid, with generally poor quality soils
  - inefficient land use
- Water:
  - shortages and stress
  - limited recycling
- Power
  - shortages
  - reliance on coal-fired power
  - limited use of renewable energy
- Impact of global warming and climate change

## Water Stress

- Very limited water supplies
- Global warming to worsen the situation
- Supplies far from demand – expensive infrastructure needed
- Reliance on groundwater to supplement surface water
- Groundwater “mining” (offtake > replenishment) – non-renewable, unsustainable
- Price < long-run costs, esp. for boreholes
- Prices need to rise:
  - to reflect long-run costs
  - to encourage more efficient use, water harvesting, conservation & recycling

## Power Supplies – Global Issues

- Concern about global warming – greenhouse gases
- Pressure for moves towards renewable / sustainable/low-carbon energy sources
- Pressure for prices to reflect true cost of CO<sup>2</sup> emissions:
  - ▣ Carbon taxes
  - ▣ Permits to pollute (cap and trade)
  - ▣ Tougher successor to Kyoto Protocol

## Power Supplies - Botswana

- Current power shortage likely to intensify – with adverse economic effects
- Additional short-term supplies from fossil fuels (coal, gas) – driven by economics
- Contributes to greenhouse gas – global public good (or cost)
- Longer-term economics may look quite different, with taxation of polluters
- Need for consideration of long-term sustainable solutions – most obviously solar power
- Power prices must rise considerably:
  - ▣ To pay for expensive new capacity
  - ▣ To encourage energy efficiency and appropriate resource allocation

## Conclusions

### Is Botswana's growth sustainable?

- Historically, growth has been sustained, and sustainable in the context of a resource-driven economy
- New sustainability challenges in the context of:
  - ▣ reduced dependence on diamonds
  - ▣ growing income from medium -> high
  - ▣ overcoming small size/Africa constraints
- Range of changes needed

## Reforms to support sustainable growth

- Continued diversification essential (including diversification within mining sector)
- Deeper engagement in international trade for non-mining goods and services (both imports *and* exports)
- Achieve international standards of productivity and competitiveness
- Build sustainable public finances (smaller and more efficient government, reduced expenditure)
- Re-think of poverty alleviation strategies
- Appropriate resource pricing and developing long-term sustainable sources & uses of water and power

Thank You