



Group Members & Student Numbers:

Assa Babissagana (46833),
Boon Chin Look (22726821),
Daniela Groza (2275239),
Fatima Contreiras (21719475)

Lecture: Professor Declan Curran

Module: Developmental Economics ECO1014

Assignment: ECO1014 Group Assignment [30%]

Total Word Count: 2196

Date Submitted: 13/11/2024

How Mineral Wealth has impacted the economic development of Botswana

Botswana's transformation from one of the world's poorest countries at independence to a thriving economy is one of Africa's greatest success stories. This is largely due to its effective management of mineral resources. These include their reserves of copper, nickel, sodium carbonate, potash, salt, coal, iron, silver and more prominently known, their diamonds. The diamond business in Botswana, has helped the country rise to become one of the world's top exporters of diamonds. While diamonds have generated significant wealth for Botswana, they have also created a complex dependency on mineral resources. This dependency makes Botswana's economy vulnerable to fluctuations in global demand. Facing risks like competition from synthetic diamonds and demand volatility, Botswana is strategically diversifying beyond mineral resources to promote sustainable growth in tourism, agriculture, and manufacturing. This report will explore Botswana's economic structure, historical development, and the role of mineral wealth in advancing its socio-economic goals. It further examines the government's efforts to mitigate economic vulnerabilities, address unemployment, and foster a future of balanced, inclusive growth.

Through analysis of Botswana, we see it is one of the most developed countries in sub-Saharan Africa, mainly due to its vast mineral resources. Moreover, it is recognized as one of the world's largest diamond exporters. Their diamond exports account for over 87% of the nation's export revenues and nearly 30% of its GDP. This dependence on diamonds poses risks, especially with the rise of synthetic diamonds. Moreover, this rise in synthetic diamonds could potentially reduce demands for diamonds over the coming two decades. Alongside its diamond reserves, Botswana also holds mineral deposits of copper, nickel, sodium carbonate, potash, salt, coal, iron and silver, though these resources are less exploited (Exama, 2018).

In addition to mining, a significant proportion of Botswana's population relies on agriculture, mainly in rural areas. Although this sector contributes only 2% to GDP, livestock represents about 4% of this. Due to its high dependence on minerals, Botswana is actively seeking to diversify its economy to promote stable growth (Ministry of Economy, Finance and Industry, 2024). For instance, the tourism sector, currently contributing to 10% of GDP, continues to expand (International Trade Administration, 2024).

Moreover, to support these diversification efforts, the government is implementing initiatives to encourage entrepreneurship and attract foreign investment. Significant investments are also being directed toward education, healthcare, and infrastructure, including advancements in transport, telecommunications, and energy (World Bank Group, 2024). Despite these strategies, Botswana's unemployment rate remains a concern. In 2022, 25% of the population was unemployed, with youth unemployment over 35%. This is mostly due to a discrepancy between the workforce's skills and employers' demands (Exama, 2018).

Looking at Botswana's history, since their independence, Botswana has transformed from one of the world's poorest nations into a middle-income success story. Socially, politically, and economically, Botswana transitioned from a low-income to a middle-income nation. This is largely due to their mineral wealth. From the 1970s onwards, diamonds mainly fuelled Botswana's economic growth and development (Matshediso, 2005). Unlike most African colonies which were initially sought for economic exploitation, Botswana's early value to Britain was mainly strategic, as the existence of Botswana mineral wealth was unknown at that time.

This strategic interest was revolved by maintaining Botswana as a buffer state. This was to prevent conflicts between British colonies in South Africa and those of Germany and Portugal. Essentially, Botswana served as a neutral zone to avoid territorial disputes and maintain regional stability (Beaulier and Subrick, 2006).

Before the discovery of diamonds, Botswana's economy relied heavily on cattle exports. However, this changed with the discovery of diamonds in the late 1960s. In the late 1960s, the economic system changed rapidly with this boom in minerals and diamonds became the main economic sector, especially in rural areas. From the exploitation of these deposits, Botswana was able to contribute massively to the development of their urban settlements which aided their transition to a middle-income country later. Geological surveys conducted post-independence identified diamonds alongside the existence of silver, gold, lead, zinc, antimony, tungsten, chromium, iron, soda ash manganese, copper, nickel, coal, soda ash and salt (Gwebu, 2012). This set the stage for Botswana's rise as one of Africa's most stable and economically free nations today, with GDP per capita on par with emerging economies like Brazil and Turkey (Harvard International Review, 2024).

According to the International Monetary Fund (2024), Botswana's reliance on diamonds carries risks, such as market volatility and dependence on global demand, highlighting the need for economic diversification. Despite this, the country recorded a high GDP per capita in 2023, reaching 3,283 million U.S. dollars which was followed by Russia who scored 3606.4 million U.S. dollars worldwide (Jaganmohan, 2024). Even so, Botswana's projected growth is expected to slow to 1% in 2024 due to reduced diamond production, partially offset by ongoing construction projects and the aforementioned diversification challenges. Nevertheless, with strategic government initiatives, Botswana is positioned for significant growth in the coming years (International Monetary Fund, 2023).

Following Botswana's journey from one of the world's least developed nations to a middle-prudent management, Botswana leveraged mineral revenues for long-term growth. Moreover, to save surplus revenues and protect the economy from external shocks, the government implemented macroeconomic policies, including the establishment of the Pula Fund, a sovereign wealth fund, to shield the economy from external shocks (Acemoglu, Johnson and Robinson, 2003). Additionally, adoption of the Sustainable Budget Index which requires the reinvestment of mineral revenues to offset resource depletion, has contributed to sustainable development. This closely follows Hartwick's Rule which requires that a nation invest all rent earned from exhaustible resources currently extracted (Lange and Wright, 2004). Since independence, Botswana has achieved one of the fastest economic growth rates in the world, averaging 9%. One of the most important factors to consider is Botswana's ability to manage its resources in a wise and efficient manner, which will result in long-term growth and stability.

In order to reduce poverty and improve the quality of life for Botswana's citizens, the government has successfully reinvested diamond revenues. As a result of these investments in social services, such as education and healthcare, literacy rates and life expectancy have increased (World Bank Group, 2015). A survey conducted in the mid-1990s indicated that 47% of the population was still living in poverty, and despite increases in per capita income, there is still a need to address these disparities (Lange and Wright, 2004). To reduce poverty, Botswana relies heavily on reinvesting mineral rents into human capital and social activities. Besides using diamond revenues to fund social services, Botswana has implemented a multi-

sector approach to poverty reduction, guided by the National Strategy for Poverty Reduction (NSPR) since 2003. Through programs like CEDA and LEA, as well as cost-effective social safety nets, this strategy emphasises broad-based economic participation, entrepreneurship support, and social safety protections. Although these efforts have helped reduce poverty rates both in rural and urban areas, challenges remain in tackling inequality, particularly in rural areas and among women-headed households (Magombeyi and Odhiambo, 2017).

As well as this, revenue generated from diamond mining has been used to fund infrastructure projects that have enhanced the country's economic capacity and improved the lives of its citizens. Economic diversification and integration into the global economy have been made possible by major investments in roads, telecommunications, and electricity. Despite this, not all public investments have been productive, and there is evidence that some have even resulted in depletion of other forms of natural capital, such as overinvestments in water supply infrastructure (Lange and Wright, 2004). It is clear from this that better allocation of mineral revenues is necessary to sustain economic growth.

It is also important to note that the government has created opportunities for citizens to participate actively in the management and operation of the mining industry, as well as providing training and development opportunities that support long-term economic growth. A significant portion of Botswana's diamond revenues goes toward funding universal primary education and heavily subsidising secondary and tertiary education. Consequently, the country has one of the most educated workforces in Africa (Good, 2008).

Additionally, to support youth development and counteract unemployment, several initiatives were introduced to young people with valuable skills, work experience, and opportunities for community engagement. Some include, The Tirelo Sechaba national service program which allows youth to gain hands-on experience and essential skills through structured service placements. This is complemented by the National Internship Program, which provides work assignments to graduates to improve their employability and facilitate their entry into the workforce. Furthermore, Back-to-School Programmes encourage youth to re-engage with academic and vocational training to improve their skills and qualifications. Together, these programs aim to strengthen the employability and the population's work readiness (Mogomotsi and Madigele, 2017).

Building on Botswana currently and throughout history, their economy was driven by its mineral wealth, especially around diamonds and other minerals like copper, coal bed methane and manganese (World Bank, 2024). According to the (African Economic Outlook, 2024), reports show a slowdown in the diamond trade because of drought conditions and poor global demand. In 2023, Botswana's economic growth slowed down by 3.3%, mostly because of a drop in the market for diamonds.

In response Botswana's government focused on fiscal expansion to boost growth and employment through market development. Furthermore, to lessen poverty and inequality, they also lowered trade and regulatory barriers. Through these operations they hope to stabilise growth to between 3.5-4.0% from 2024 to 2026. However, the uncertainties surrounding the worldwide diamond market limit this to an extent.

Despite these challenges, Botswana's inflation rate has remained within the Bank of Botswana's target range of 3-6%, averaging at 5.2%, but is still a significant decline from

12.2% in 2022 (World Bank, 2024). However, in 2024, growth is anticipated to increase to 4.0% as diamond sales rebound. Moreover, the 2023 De Beers diamond sales deal, which increased Botswana's control of diamond production from 25% to 50%, is expected to generate new jobs across the industry's value chain, helping to reduce high unemployment rates. Moreover, this would further include youth unemployment, which reached 34.4% in the third quarter of 2023 (African Economic Outlook, 2024).

Considering the future of Botswana, they aim to transition from an upper-middle-income country to a high-income country by 2036 under its Vision 2036 plan. Additionally, the government is concentrating on economic diversification to support sustainable economic development to lessen dependency on diamonds as a growth assistance. This includes investing in sectors such as tourism, manufacturing, and services using revenues derived from diamonds. Moreover, continued dependence on mining exposes Botswana to external shocks, such as geopolitical and climate-related risks (International Monetary Fund, 2022). Even so, while Botswana's long-term outlook still relies on its mineral wealth, the country's steady diversification and targeted reforms are creating a more balanced economy. This is reflected by the growing proportion of non-mineral sectors, which now account for more than three-quarters (76.2%) of GDP, setting up Botswana for long-term, steady growth (African Economic Outlook, 2024).

Given continuous efforts to stabilise Botswana's economy, the question of whether Botswana can effectively manage the difficulties of economic diversification arises. Key strategies to this include sustainable development of diversification and enhancement of small and medium enterprises' access to finance. The Economic Reform and Transformation Plan (ERTP) aims to diversify the economy, improve support for SMEs, and foster long-term sustainability to lessen Botswana's reliance on diamond exports (International Monetary Fund, 2022). Additionally, this plan has aided Botswana's economic recovery post COVID-19, as a need for economic diversification was especially highlighted by the COVID-19 pandemic. When global demand for diamonds plummeted due to the pandemic, Botswana's economy suffered significantly. Key sectors like mining, trade, hotels, and restaurants experienced substantial declines, leading to an overall economic contraction (Botswana Socio-Economic Impact Analysis of COVID-19, 2020). From this, we see that currently, Botswana's government's strategic approaches aim to support inclusive growth across several industries and help the nation resist external shocks (International Monetary Fund, 2022). Theoretically, Botswana's future is promising, as they are making their economy to be less vulnerable to fluctuating global prices of diamonds. This development supports long-term development and growth for its citizens.

To conclude, Botswana's transformation from one of the world's poorest nations to a thriving middle-income economy highlights the country's careful management of its mineral wealth, especially diamonds. While diamonds have driven much of Botswana's economic success, the volatility of global markets and the rise of synthetic alternatives underline the need for diversification and close management of their mineral wealth. Recognizing these risks, the government has invested strategically in sectors such as tourism, manufacturing, and services and has implemented several initiatives like Vision 2036 and the Economic Reform and Transformation Plan (ERTP) to achieve sustainable growth. These efforts aim to reduce poverty and unemployment, improve infrastructure, and broaden economic participation, positioning Botswana to transition to a high-income economy and enhance resilience against

external shocks. If sustained, these initiatives could secure long-term prosperity, making Botswana an inspiring model of how resource-rich nations can leverage mineral wealth to foster inclusive, balanced growth. Through this analysis of Botswana, we see that geopolitically the country is potentially heading towards a bright future and stands as one of Africa's greatest success stories, with likely more to come. Moreover, Botswana serves as an inspiration for other countries striving toward brighter futures.

Bibliography:

1. Acemoglu, D., Johnson, S. and Robinson, J.A. (2003) 'Chapter 4. An African Success Story: Botswana', in D. Rodrik (ed.) *Analytic Narratives on Economic Growth*. Princeton: Princeton University Press, pp. 80–120. Available at: <https://doi.org/doi:10.1515/9781400845897-006>.
2. African Economic Outlook, A.D. (2024) *Botswana Economic Outlook, African Development Bank Group*. African Development Bank Group. Available at: <https://www.afdb.org/en/countries/southern-africa/botswana/botswana-economic-outlook> (Accessed: 29 October 2024).
3. Beaulier, S.A. and Subrick, J.R. (2006) 'The Political Foundations of Development: The Case of Botswana', *Constitutional Political Economy*, 17(2), pp. 103–115. Available at: <https://doi.org/10.1007/s10602-006-0002-x>.
4. Botswana Socio-Economic Impact Analysis of COVID-19. (2020). *Socio-Economic Impact Analysis of COVID-19 in Botswana: Analysis Brief No. 1*. 06 May.
5. Exama, V. (2018) *Le Botswana et les diamants : une économie qui brille sur la scène internationale, Perspective Monde*. Available at: <https://perspective.usherbrooke.ca/bilan/servlet/BMAnalyse/2550> (Accessed: 29 October 2024).
6. Good, K. (2008) 'Diamonds dispossession & democracy: In botswana', *Diamonds Dispossession and Democracy: In Botswana*, pp. 1–166.
7. Gwebu, T. (2012) 'Botswana's mining path to urbanisation and poverty alleviation', *Journal of Contemporary African Studies*, 30. Available at: <https://doi.org/10.1080/02589001.2012.724868>.
8. Harvard International Review, H.I.R. (2024) *Botswana: The Pragmatic Path to Prosperity*, Harvard International Review. Available at: <https://hir.harvard.edu/botswana-prosperity/> (Accessed: 7 November 2024).
9. International Monetary Fund (2022) *IMF Executive Board Concludes 2022 Article IV Consultation with Botswana, IMF*. Available at: <https://www.imf.org/en/News/Articles/2022/07/26/pr22275-imf-executive-board-concludes-2022-article-iv-consultation-with-botswana> (Accessed: 29 October 2024).
10. International Monetary Fund, M. and C.M.D. (2023) 'Botswana: Financial System Stability Assessment', *IMF Staff Country Reports*, 2023(336). Available at: <https://doi.org/10.5089/9798400255311.002.A001>.
11. International Monetary Fund (2024) *IMF Executive Board Concludes 2024 Article IV Consultation with Botswana, IMF*. Available at: <https://www.imf.org/en/News/Articles/2024/09/09/pr-24321-botswana-imf-executive-board-concludes-2024-article-iv-consultation> (Accessed: 7 November 2024).
12. International Trade Administration (2024) *Botswana - Travel and Tourism*. Available at: <https://www.trade.gov/country-commercial-guides/botswana-travel-and-tourism> (Accessed: 29 October 2024).
13. Jaganmohan, M. (2024) *Diamond production value worldwide by country 2023*, Statista. Available at: <https://www.statista.com/statistics/348179/global-diamond-production-by-country-and-market-value/> (Accessed: 29 October 2024).
14. Lange, G.-M. and Wright, M. (2004) 'Sustainable development in mineral economies: The example of Botswana', *Environment and Development Economics*, 9, pp. 485–505. Available at: <https://doi.org/10.1017/S1355770X04001469>.

15. Magombeyi, M. and Odhiambo, N. (2017) 'Poverty dynamics in Botswana: Policies, trends and challenges', *Cogent Social Sciences*, 3. Available at: <https://doi.org/10.1080/23311886.2017.1329246>.
16. Matshediso, I.B. (2005) 'A review of mineral development and investment policies of Botswana', *Resources Policy*, 30, pp. 203–207. Available at: <https://doi.org/10.1016/j.resourpol.2005.08.006>.
17. Ministry of Economy, Finance and Industry (2024) <https://www.tresor.economie.gouv.fr/Pays/BW/fiche-pays#:~:text=Le%20Botswana%20est%20une%20petite,t%C3%AAt%20de%207%20250%20USD>). Available at: <https://www.tresor.economie.gouv.fr/Pays/BW/fiche-pays#:~:text=Le%20Botswana%20est%20une%20petite,t%C3%AAt%20de%207%20250%20USD>). (Accessed: 29 October 2024).
18. Mogomotsi, G.E.J. and Madigele, P.K. (2017) 'A cursory discussion of policy alternatives for addressing youth unemployment in Botswana', *Cogent Social Sciences*. Edited by J.M. Chamberlain, 3(1), p. 1356619. Available at: <https://doi.org/10.1080/23311886.2017.1356619>.
19. World Bank (2024) *Macro Poverty Outlook for Botswana : April 2024*, World Bank. Available at: <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099209504052420451/IDU141113c5919fff14d8019c75139de-c4481fd0> (Accessed: 29 October 2024).
20. World Bank Group (2015) *Open Knowledge Repository*. Available at: <http://hdl.handle.net/10986/23577> (Accessed: 29 October 2024).
21. World Bank Group (2024) *Overview*, World Bank. Available at: <https://www.worldbank.org/en/country/botswana/overview> (Accessed: 29 October 2024).