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Development Strategies and Poverty Reduction In Botswana

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1.0 Introduction

At independence Botswana was one of the poorest countries in the world with an estimated GDP per capita of P118million (Harvey and Lewis, 1990). The country had many challenges at independence including high levels of unemployment, dependence on agriculture; low human capital development, no infrastructure and a challenge to generally develop the country from that low level of economic status. Apart from the colonial neglect, Botswana was exceptionally unlucky because of the persistence of drought, foot and mouth disease, and hostile neighbours in South Africa and Zimbabwe (then Rhodesia). It is against this background that Botswana's second President Masire made a point that: "When we asked for Independence, people thought we were either very brave or very foolish" (quoted in Harvey and Lewis, 1990: pg 6). Botswana was to be fortunate to discover large deposits of diamond just a few years after independence.

Unlike other countries in the region that experienced a "resource curse" from the discovery and exploitation of diamonds, Botswana was able to minimise the potential curse, at least for the meantime. This was achieved through consciously chosen development strategies that combined prudent macroeconomic management, use of strict planning that saw the country avoid the over expenditure during the boom, and a good political environment based on liberal democracy that allowed for elections every five years. While most countries in the region adopted socialist policies, Botswana voluntarily adopted liberal policies quite early in its development approach. The country's development strategy has been based on the philosophy of free enterprise and a market economy, and successive national development plans have always emphasised that the role of the government in the economy is that of a facilitator of economic growth and development rather than an active participant. The government had limited its role to providing infrastructure, training the labour force in essential skills, setting the legal, fiscal and monetary framework within which various economic sectors operate, and securing favourable international arrangements for domestic producers and consumers (Botswana Government, 1979). By contrast, for most African countries, liberalisation measures came about as conditions of Structural Adjustment Programmes (SAPs). Such measures, even though bringing recovery to the economy in terms of growth, have also resulted in increasing human suffering due to poverty, unemployment, etc (Mwanza, 1992; Chakaodza, 1993).

The Botswana government has placed a high priority on achieving high rates of economic growth through the application of sound macroeconomic policies and good governance.[1] These policies have been geared towards attracting both domestic and foreign direct investment, and at further promoting employment creation and poverty reduction. An important aspect of government policy has been to promote liberalization in resource and product markets. For instance, foreign exchange markets were completely liberalized, to remove foreign exchange restrictions. Moreover, sound monetary policies have been implemented to contain inflation. This has served as an anti-poverty initiative because inflation hurts the poor relatively more than the non-poor; the proportion of expenditure or spending in the income of the poor is normally higher than that of the non-poor. Botswana's fiscal policy strategy has also been complimentary to monetary policy in that the country did not expand its expenditure beyond sustainable levels despite the availability of resources from diamond revenues. Botswana followed a planning system that defined the fiscal rule for its expenditure. The national development planning ensured that all projects implemented had to be viable and there was political support to not allow any projects that were not viable. The country has since 2006 established an explicit fiscal rule that stipulates that government spending should not exceed 40 percent of GDP. Even though with some limitations, Botswana had institutions that are able to

[1] In general, together with political stability since independence, Botswana is perceived as having good macroeconomic environment and sound management of the economy (Harvey and Lewis, 1990).

effectively enforce agreed rules. Botswana's exchange rate policy was also aligned to its long term objectives in terms of not allowing for an overvalued currency due to the performance of diamond. For most countries that have had a booming commodity, that has been allowed to pass through into an appreciation of the exchange rate, which tended to slow down the growth of the non booming sectors of the economy leading to what is called the "Dutch Disease". Botswana has been able to effectively avoid the appreciation of its currency through sterilization of its surplus.

Botswana's strategy towards poverty was generally to increase growth through a number of initiatives that included programs that increase the participation of the private sector. The second set of programmes were meant to enhance productivity and employment creation in the rural areas. The third set were in term of social safety nets. The government of Botswana recognized much early in development that not all Batswana could benefit from employment and other productive endeavors. Like most countries Botswana did not attempt to put into place strategies for poverty reduction as it was assumed that growth will automatically trickle down to the poor and poverty will be taken care of. Experience of the last 4 decades has been rich with experience for the developing countries and in Africa. First of all growth was slower than was anticipated because of both external and internal factors. Among the internal factors were issues relating to failure of policy, political instability, and in the last decade, the advent of HIV/AIDS. Among the external factors were falling commodity prices, unfavorable trade relations, external debt etc. Botswana was not spared some of these unfortunate outcomes of the old development strategy with regard to poverty. While the performance of the economy has been impressive as shown by GDP, poverty is still quite high at about 30% in 2004, which was a decline from 47 percent from 1994. In 2003 Botswana adopted a National Poverty Reduction Strategy (NPRS). The development of Botswana's national poverty reduction strategy was a response to the high poverty over the years. The Government recognized the need to strategically think and implement ways that could reduce poverty and move the country to the ideals of Vision 2016, especially with regard to the pillar of "a prosperous, productive and innovative nation". There was recognition on part of Government that current poverty levels are quite high and yet the strategies to deal with it are not well articulated, targeted and coordinated. The NPRS is however still at its infancy of implementation and monitoring and evaluation of the targets are just been developed. Moreover, when the strategy was adopted the National development Plan 9 was already on its last phase and therefore poverty could not be mainstreamed into the plan. Work is in progress in terms of working out strategies to mainstream poverty into the national development planning process, especially with a view to implement the recommendations in the preparation of NDP 10. Therefore not much has changed currently in terms of poverty targeting in terms of implementation of the strategy.

This chapter looks Botswana's development strategies and policies and assesses the successes and or failures of such in terms of poverty reduction in Botswana. The first section looks at economic growth over time and changes in poverty in the same period. Given that a major way of reducing poverty in a sustainable way is through employment creation, we also analyze the trends in employment and unemployment and discuss the implications for poverty reduction. The next section looks at Botswana's macroeconomic environment, which provides a broader context of Botswana's poverty reduction strategies. We in particular look at monetary, fiscal, exchanges rate and FDI policies. Sections three and four analyse Botswana's labour market policies and trade policies respectively. We then briefly look at Botswana's poverty reduction strategies in historical context. These are briefly dealt with since they are covered in research reports 3 and 4. The last and concluding section provides an analysis of Botswana's poverty by linking it to growth. In particular the section will attempt to answer the question whether

Botswana's economic growth has been pro poor or not. The section also raises issues on challenges to poverty reduction in the future.

2.0 Economic Growth, Employment Growth and Poverty Changes

2.1 Output Growth

Poverty is highly linked to the performance of the economy in terms of both GDP and employment. In general a growing economy will lead to falling poverty provided income inequality does not worsen. The most comprehensive indicator of an economy's performance is that of national income or Gross Domestic Product. The distribution of GDP according to the sectors in which it originates throws considerable light on the economy's state of development, intersectoral relationships and its structure. An essential feature of rapid economic development is the relative decline in the importance of agriculture or mining in the economy as a source of income and the simultaneous expansion of income from other sectors, primarily manufacturing and ultimately services. This entails a process of economic diversification over a period of time; the relative contribution of various economic activities or sectors to GDP undergoes change along with structural shifts within each sector of the economy (Kuznets, 1966).

Over the past three decades, the Botswana economy has recorded impressive growth rates. Table 1 shows that gross domestic product (GDP) growth has averaged about 9.2 per cent per annum in real terms over most of the post-independence period, 1966 to 2005/06. However, much of this growth has been due to the sustained and rapid expansion of one sector – the mining sector – and of government, which has largely been financed by the proceeds of mineral revenues. Together, mining and government account for more than half of total value added (Table 2). As a result, the economy remains vulnerable to the rather fluctuating fortunes of the mineral sector, especially diamond mining.

Tables 1 and 2 show the level and the sectoral distribution of Botswana's gross domestic product (GDP) in real terms (1993/94 prices) for the period from 1966 to the financial year 2005/06. As revealed in Table 1, in 1966, the country's real GDP amounted to 908.6 million Pula (valued at 1993/94 prices). Of this total, agriculture accounted for about 43 per cent of total value added, while bank, insurance and other business services, the second largest sector, contributed about 20 per cent. None of the other major sectors of the economy accounted for as much as 10 per cent of total value added in 1966: the share of manufacturing was only 5.6 per cent, while that of construction and general government was 7.8 per cent and 9.8 per cent respectively. This shows that on the attainment of independence in 1966, the country's economy was predominantly agricultural (cattle rearing and beef production in particular), and had a particularly weak industrial base.

In the post-independence period, the value added in virtually all the sectors of the economy grew rapidly, as shown in Tables 1. This rapid growth of the economy was accompanied by important structural changes, the most significant of which was the dramatic decline in the relative size and contribution of the agricultural sector. By 1985/86, the contribution of agriculture to total value added was only 5.8 per cent, and this was to decline further to 4.1 per cent in 1995/96 and currently stands at just 1.8 per cent. A major factor in this structural shift in the economy moreover was the discovery of minerals, especially diamonds in the early 1970s. A diamond mine was opened in 1971 followed by a nickel-copper mine in 1973. More diamond mines have since become operational in the country, transforming Botswana into the world's largest exporter of diamonds. By 1985/86, real GDP has increased three-fold, and this impressive growth rate was maintained for the remaining part of the 1980s and the 1990s. Thus over the period 1974/75

to 2005/06, growth in the economy averaged 8.0 per cent in real times. The growth of non-mining over the same period, on the other hand, was 6.8 per cent. However, within the non-mining economy, it is obvious from Tables 1 and 2 that with the exception of agriculture, growth was spread fairly evenly across the other sectors, over the period 1975/76 to 2005/06 since their GDP shares remained more or less constant. Therefore while the wealth of the mining sector may have provided the impetus that allowed the economy to grow rather rapidly over the years, the resulting growth has *not* been broad-based, and in many senses *not* diversified.

Contrary to expectation of theory that as structural transformation takes place, the manufacturing share of output increases, Botswana's notable feature is the relatively low level of industrialization. This, as shown in Table 2, is reflected in the relatively small proportion of total value added originating from the manufacturing sector. In spite of the increased pace of modernization and diversification in recent years as occasioned by the multifarious government industrial policies, the share of manufacturing, which was 5.6 per cent in 1966 and 8.2 per cent in 1975/76 declined to 5.0 per cent in 1990/91 and further to about 3.4 per cent in 2005/06. Thus, this sector has certainly not matched the hopes and expectations of the people and government of Botswana that wanted to position it as a key to a successful diversification of the economy. Within the manufacturing sector itself, the extent of diversification has been very minimal. At the time of independence in 1966, the only significant manufacturing activity in Botswana was of meat and meat by-products (Bank of Botswana, 2000), mainly by the Botswana Meat Commission (BMC). The next major addition to manufacturing was the commencement of brewery activities in the 1970s, the Hyundai Motor plant in the mid-1990s (which has since folded up), and more recently textile and garment production.

In addition to manufacturing, the performance of the financial services sector (banks, insurance and business services), and the Trade, Hotels and Restaurants need to be highlighted. Table 2 shows that these two sectors have consistently witnessed a rising trend in their contribution to total value added since the early 1980s – a reflection of the widening and deepening of these sectors in response to the needs of the business sector. This development may also have been consequent upon the increasing household real incomes in the country, which similarly have continued to stimulate the demand for services from the two sectors.

Apart from increase in mineral production and the contribution of such to the development of the other sectors of the economy, the growth of the government sector has also played a very key and important role in this transformation of the Botswana economy. Even though the government sectors may be seen to have grown due to resources deriving from the mining sector, it has most significantly acted as a channel through which the wealth created by diamond mining has been reinvested in the economy. So in effect, over the period from 1966 to the present, the government has acted as the main link between the booming mining sector and the rest of the economy as a whole, a role that has spurred the rapid rate of overall development recorded during the period. As Tables 1 and 2 show, the direct contribution of the government sector to total value added has averaged about 16 per cent over the period from 1966. This is not a surprising development, since over the years the government has considerably expanded public services, especially in education, and thus also become an important source of wage employment in the country. In addition, it has undertaken numerous public investment and development programmes that were, however, often carried out by private sub-contractors and are therefore not included under the value added by general government (but rather in the respective sector, e.g. construction). Through public investment, especially in infrastructure, the government budget thus directly created demand in other sectors of the economy, such as construction. The overall result of this is that the government-induced demand has been very significant for the growth and development of the domestic economy.

Table 1: Sectoral distribution of Botswana's Gross Domestic Product, 1966 to 2005/06 (in 1993/94 prices, million Pula)

Economic Activity	1966	1975/76	1980/81	1985/86	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Primary Sector																				
Agriculture	388	431	385	322	481	492	488	467	459	490	453	480	443	405	445	433	441	454	404	389
Mining		365	1,333	2,819	3,957	3,946	3,766	3,956	3,899	4,076	4,305	5,537	5,874	6,620	7,753	7,489	8,285	8,308	9,812	9,385
Secondary Sector																				
Manufacturing	51	159	166	227	471	519	499	430	532	573	594	626	661	684	681	682	703	709	763	738
Water and Electricity	5	48	56	114	168	179	209	240	256	257	269	295	333	371	391	406	444	472	489	507
Construction	71	267	319	263	764	791	666	710	723	747	788	822	917	939	955	1,000	1,005	1,027	1,036	1,002
Tertiary Sector																				
Trade, Hotels & Restaurants	81	179	160	365	591	536	541	882	1,086	1,193	1,359	1,423	1,502	1,596	1,700	1,840	1,990	2,201	2,052	2,172
Transport & communications	39	24	58	143	324	365	390	407	436	438	456	498	579	596	605	625	631	610	606	716
Banks, Insurance & Business Serv.	183	97	183	371	885	920	1,049	1,144	1,232	1,352	1,368	1,501	1,636	1,707	1,795	1,922	1,973	2,015	2,115	2,151
General Government	89	305	466	738	1,355	1,556	1,621	1,707	1,762	1,855	2,009	2,196	2,333	2,474	2,641	2,861	3,267	3,434	3,591	3,736
Social and Personal Services		58	77	147	421	443	456	470	504	531	558	575	618	645	663	705	724	775	855	922
Total Value Added, Gross	908	1,933	3,203	5,510	9,417	9,748	9,687	10,414	10,889	11,511	12,160	13,952	14,898	16,038	17,629	17,963	19,465	20,005	21,722	21,718
Adjustment items		149	417	256	634	913	919	627	509	519	539	592	684	681	614	580	852	936	1,143	954
Total GDP at constant prices	909	2,083	3,584	5,708	10,010	10,634	10,612	11,041	11,398	12,029	12,699	14,544	15,582	16,719	18,242	18,544	20,316	20,941	22,866	22,672
Total GDP excluding Mining	909	1,718	2,251	2,889	6,053	6,688	6,846	7,085	7,498	7,953	8,394	9,007	9,707	10,098	10,489	11,054	12,031	12,633	13,054	13,287
GDP per capita (Pula)	1,683	2,862	3,917	5,175	7,584	7,858	7,658	7,781	7,844	8,073	8,314	9,290	9,710	10,165	10,812	10,807	11,674	11,894	12,868	12,673
GDP per capita, excl. mining (Pula)	1,683	2,360	2,460	2,619	4,586	4,942	4,940	4,993	5,160	5,337	5,495	5,753	6,049	6,140	6,217	6,442	6,913	7,175	7,346	7,427
Growth (%)		18.4	10.1	7.7	8.8	6.2	-0.2	4.0	3.2	5.5	5.6	14.5	7.1	7.3	9.1	1.7	9.6	3.1	9.2	-0.8
Growth, excl. Mining (%)		11.9	-0.8	12.4	8.5	10.5	2.4	3.5	5.8	6.1	5.5	7.3	7.8	4.0	3.9	5.4	8.8	5.0	3.3	1.8

Note: (a) Adjustment items include FISIM (financial intermediation services indirectly measured), taxes on Imports, taxes on products/production, and subsides on products/production. (b) The base year for constant prices has been changed from 1985/86 to 1993/94 by the Central Statistics Office. The re-basing makes the series 'non-additive' in some years prior to 1993/94, such that the estimate of total GDP does not equal the sum of its components. (c) Data for Note 1996/97, 1997/98 and 1998/99 are subject to change. (d) Botswana financial years are from 1 April to 31 March of the following calendar year.

Sources: (i) Bank of Botswana, GDP data-set as of January 2007. (ii) Ministry of Finance and Development Planning, National Development Plan (NDP) 9, 2003-04/2008-09.

Table 2: Sectoral distribution of Botswana's Gross Domestic Product, 1966 to 2005/06 (in % of total value added, based on 1993/94 prices)

Economic Activity	1966	1975/76	1980/81	1985/86	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Primary sector																				
Agriculture	42.7	22.3	12.0	5.8	5.1	5.1	5.0	4.5	4.2	4.3	3.7	3.4	3.0	2.5	2.5	2.4	2.3	2.3	1.9	1.8
Mining	0.0	18.9	41.6	51.2	42.0	40.5	38.9	38.0	35.8	35.4	35.4	39.7	39.4	41.3	44.0	41.7	42.6	41.5	45.2	43.2
Total, primary sector	42.7	41.2	53.7	57.0	47.1	45.5	43.9	42.5	40.0	39.7	39.1	43.1	42.4	43.8	46.5	44.1	44.8	43.8	47.0	45.0
Secondary sector																				
Manufacturing	5.6	8.2	5.2	4.1	5.0	5.3	5.2	4.1	4.9	5.0	4.9	4.5	4.4	4.3	3.9	3.8	3.6	3.5	3.5	3.4
Water and Electricity	0.6	2.5	1.8	2.1	1.8	1.8	2.2	2.3	2.4	2.2	2.2	2.1	2.2	2.3	2.2	2.3	2.3	2.4	2.3	2.3
Construction	7.8	13.8	10.0	4.8	8.1	8.1	6.9	6.8	6.6	6.5	6.5	5.9	6.2	5.9	5.4	5.6	5.2	5.1	4.8	4.6
Total, secondary sector	14.0	24.5	16.9	11.0	14.9	15.3	14.2	13.3	13.9	13.7	13.6	12.5	12.8	12.4	11.5	11.6	11.1	11.0	10.5	10.3
Tertiary Sector																				
Trade, Hotels & Restaurants	8.9	9.3	5.0	6.6	6.3	5.5	5.6	8.5	10.0	10.4	11.2	10.2	10.1	9.9	9.6	10.2	10.2	11.0	9.4	10.0
Transport & communications	4.3	1.2	1.8	2.6	3.4	3.7	4.0	3.9	4.0	3.8	3.8	3.6	3.9	3.7	3.4	3.5	3.2	3.0	2.8	3.3
Banks, Insurance & Bus. Serv.	20.2	5.0	5.7	6.7	9.4	9.4	10.8	11.0	11.3	11.7	11.2	10.8	11.0	10.6	10.2	10.7	10.1	10.1	9.7	9.9
General Government	9.8	15.8	14.5	13.4	14.4	16.0	16.7	16.4	16.2	16.1	16.5	15.7	15.7	15.4	15.0	15.9	16.8	17.2	16.5	17.2
Social and Personal Services	0.0	3.0	2.4	2.7	4.5	4.5	4.7	4.5	4.6	4.6	4.6	4.1	4.1	4.0	3.8	3.9	3.7	3.9	3.9	4.2
Total, tertiary sector	43.2	34.3	29.5	32.0	38.0	39.2	41.9	44.3	46.1	46.6	47.3	44.4	44.8	43.8	42.0	44.3	44.1	45.2	42.4	44.7
Total Value Added	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Value Added, excl. Mining	100.0	81.1	58.4	48.8	58.0	59.5	61.1	62.0	64.2	64.6	64.6	60.3	60.6	58.7	56.0	58.3	57.4	58.5	54.8	56.8

Note: (a) The base year for constant prices has been changed from 1985/86 to 1993/94 by the Central Statistics Office. The re-basing makes the series 'non-additive' in some years prior to 1993/94, such that the estimate of total GDP does not equal the sum of its components. (b) Data for Note 1996/97, 1997/98 and 1998/99 are subject to change. (c) Botswana financial years are from 1 April to 31 March of the following calendar year.

Sources: (i) Bank of Botswana, GDP data-set as of January 2007. (ii) Ministry of Finance and Development Planning, National Development Plan (NDP) 9, 2003-04/2008-09.

2.2 *Employment growth, distribution and unemployment*

At independence, a large number of Batswana, especially unskilled workers, were employed in the South African mines. As noted in the previous section, diamond mining propelled the economy quite significantly since the early 1970s, leading to a fundamental structural change of the economy. Despite the key role played by diamonds in terms of both contribution to exports and government revenue, this has not been matched by equally significant employment creation in the sector. This is largely because diamond mining is capital intensive and there was also absence of beneficiation from diamonds as no industries were set up to process the diamonds further before exporting them.

Table 3 shows the sectoral distribution of formal sector employment between 1980 and 2005 on the basis of enterprise surveys. The share of agriculture in total formal sector employment declined from 5.2 per cent in 1980 to 1.9 per cent in 2005. Currently, the mining sector has the largest share of output (about 35 per cent of GDP), but its contribution to employment has fallen from 8.6 per cent in 1980 to about 3.1 per cent in 2005. The small share of mining in employment reflects its capital-intensive nature, and, therefore, the limited opportunities for employment creation in this sector. The shares of manufacturing, commerce, finance and business services as well as education by non-government providers in total employment increased substantially between 1980 and 2005. The highest annual growth rates in employment over the period from 1980 to 2005 where achieved in education (7.6 per cent), manufacturing (6.4 per cent) and finance and business services (6.0 per cent). Other than agriculture, mining had the lowest annual growth rate in employment, at about 0.7 per cent, during the period from 1980 to 2005 – which contrasts with the above-average performance of the sector in terms of output growth.

In Table 4, we show estimates of sectoral employment elasticities, which try to measure how much employment creation is associated with output growth (i.e.,

the average percentage change in employment in a sector divided by the average percentage change in the sector's value added over the same period). Employment elasticities can be useful in identifying where initiatives can be focused to accelerate the growth of jobs and incomes: the higher the employment elasticity of a sector, the greater will be the proportionate increase in jobs that is prompted by increasing output in a sector. Looking at the total economy first, average annual output growth was 10.3 % in the first period, which was almost matched by an annual growth in employment of 9.1 per cent – giving rise to a high employment elasticity of 0.89. This performance, however, was not replicated in the second period: output growth slowed to 6.3 percent and employment creation declined even sharper to 2.2 per cent, resulting in a low employment elasticity of only 0.34. The decline in employment will imply that poverty reduction slows down if other measures like social safety nets were not intensified in the same period.

In terms of sector, while employment elasticities declined in each sector from the first to the second period, there remain large differences between the sectors with respect to the degree to which growth resulted in employment creation. For example, the mining sector was growing robustly at 8.9 and 7.8 per cent in the two periods, respectively, but at the same time recorded only minimal employment growth at 0.8 per cent and 0.1 per cent annually. The corresponding

elasticity figures of 0.09 and 0.01 are the lowest of all sectors in both periods. The mining sector was thus hardly creating jobs, even as it was growing substantially. What these elasticity figures indicate is that, as a whole, there is a lack of connection between the output growth in mining and employment growth in the sector.

By contrast, in the manufacturing sector, which recorded an annual output growth of 11.0 and 3.4 per cent in the two periods, employment was increasing by 14.3 and 3.0 per cent respectively. Thus, the sector was increasing employment by almost 1.3 per cent and 0.87 per cent for each per cent increase in output, respectively, indicating very high employment elasticities. This could be explained by the nature of industries in manufacturing that included textile that were highly labour intensive in nature. Other sectors with consistently relatively high employment elasticities included government (0.70 and 0.52), transport and communications (0.53 and 0.41) and hotels and restaurants (0.9 and 0.23), while social and personal services (0.53 and 0.04) and construction (1.3 and -0.07) did not repeat the employment-creation they achieved between 1980 and 1991 during 1991 to 2005. The water and electricity sector had relatively low employment elasticity, with each percentage increase in value added giving rise to a 0.25 per cent increase in employment during 1980-1991 and 0.10 during 1991 to 2005.

Therefore it follows logically that tackling Botswana's unemployment problem and therefore poverty could focus attention on removing the impediments to growth in those sectors with relatively high employment elasticities, especially manufacturing. Thus, manufacturing if properly supported to grow, would as per theory take a leading role in terms of contribution to employment. It follows that if manufacturing were much bigger as a proportion of output, it would lead to a significant increase in employment and therefore reduction in unemployment (for further reading on unemployment in Botswana refer to Siphambe, 2003b).

Given that employment was not growing significantly for most sectors, over time unemployment has generally been rising even though it has started to fall in the current period. Table 5 shows that the rate of unemployment in Botswana was recorded at about 14 per cent in 1991. The unemployment rate then rose to about 22 per cent in 1994 and remained almost stable at that level until 1996 (CSO, 1997). Unemployment, however, fell slightly to 21 per cent in 1998 (Table 5). Recent estimates from the 2005/06 Labour Force Survey reveal that unemployment has declined again from the 24.6 per cent estimated in 2002/03 to 17.3 per cent in 2005/06. Even though unemployment has fallen to the current estimate, the current level is quite high and a major challenge for the economy in general and for sustainable poverty reduction in particular.

In terms of distribution of unemployment by gender, the 2005/06 Labour Force Survey indicates that the majority of the unemployed, 55.5 percent were women. Despite a lower female labour force participating rate of 50 per cent (compared to 65 per cent for men), women had an unemployment rate of 19.9 per cent, while men had an unemployment rate of 15.3 per cent. Female youth (12-29) had an unemployment rate of 31.8 per cent, while that of males was 23.3 per cent. Unemployment is therefore concentrated among women and the youth. The youth are obviously unemployed because they have lower on-the-job-experience. Some of the issues could also be due to their late entry into the labour market compared to the older cohort (CSO,

2006). As would be shown later, women are also more likely to be poor, which correlates with them facing high unemployment rates.

Table 3: Number of paid employees in the formal sector by economic activity, 1980-2005 (selected years)[a]

	Number of Persons Employed [Percentage Share]						Annual Growth
Economic Activity	1980	1985	1990	1995	2000	2005	Rate (in %)†
Agriculture [b]	4,300	4,000	6,400	4,500	5,800	5,554	0.7 n/s
	[5.2]	[3.4]	[3.1]	[1.9]	[2.2]	[1.9]	
Mining and Quarrying [b]	7,200	7,300	8,100	8,100	7,900	9,270	0.7**
	[8.6]	[6.3]	[3.9]	[3.5]	[3.0]	[3.1]	
Manufacturing [b]	5,600	9,900	24,300	24,200	29,800	32,397	6.4**
	[6.7]	[8.5]	[11.6]	[10.4]	[11.2]	[10.8]	
Electricity and Water [b]	1,500	1,900	2,100	2,500	2,900	2,430	2.1**
	[1.8]	[1.6]	[1.0]	[1.1]	[1.1]	[0.8]	
Construction [b]	13,400	11,500	31,000	22,400	27,300	24,364	3.5**
	[16.1]	[9.8]	[14.8]	[9.6]	[10.3]	[8.2]	
Commerce [b]	10,400	18,300	38,300	45,500	47,600	55,979	5.9**
	[12.5]	[15.7]	[18.3]	[19.5]	[17.9]	[18.7]	
Transport and Communication [b]	3,400	5,700	8,500	8,700	9,900	12,608	4.5**
	[4.1]	[4.9]	[4.1]	[3.7]	[3.7]	[4.2]	
Finance and Business Services [b]	4,300	6,800	14,700	17,700	18,300	21,763	6.0**
	[5.2]	[5.8]	[7.0]	[7.6]	[6.9]	[7.3]	
Community and Personal Services [b]	2,400	3,900	8,200	9,800	4,300	5,137	1.3 n/s
	[2.9]	[3.3]	[3.9]	[4.2]	[1.6]	[1.7]	
Education [b]	1,300	1,900	2,100	3,800	6,200	7,850	7.6**
	[1.6]	[1.6]	[1.0]	[1.6]	[2.3]	[2.6]	
Government (local and central)	29,500	45,600	65,100	86,200	105,200	121,364	5.6**
	[35.4]	[39.0]	[31.1]	[36.9]	[39.7]	[40.6]	
Total	83,400	116,800	209,000	233,400	265,300	298,715	4.9**

Notes: (a) Based on surveys of formal sector employment. Estimates are from surveys carried out in August (1980 to 1984), March (1996, 2003 to 2005) and September (remaining years). They exclude working proprietors, unpaid family workers and own small businesses with less than 5 employees. (b) includes private sector and parastatal (excludes government). (c) Central Government figures exclude Botswana Defence Force (BDF); coverage improved in 1985 when approximately 2,800 government employees where included for the first time. †: based on regression estimates using annual data for the period 1980-2005. n.s.: statistically not different from zero. **: statistically significant at the 1%-level, * statistically significant at the 5%-level,.

Source: Central Statistics Office, Labour Statistics (various issues), Statistical Yearbook 2003 and CSO web-site.

Table 4: Sectoral employment elasticities, 1980 to 1991 and 1991 to 2005

	1980 to 1991			1991 to 2005		
	Annual Output Growth in %[b]	Annual Employment Growth in %[b]	Employment Elasticity[c]	Annual Output Growth in %[b]	Annual Employment Growth in %[b]	Employment Elasticity[c]
Agriculture	3.6	4.2	1.18	-1.3	1.0	-0.78
Mining	8.9	0.8	0.09	7.8	0.1	0.01
Manufacturing	11.0	14.3	1.30	3.4	3.0	0.87
Water and Electricity	12.8	3.2	0.25	7.3	0.7	0.10
Construction	12.0	9.5	0.79	3.2	-0.2	-0.07
Trade, Hotels & Restaurants	15.6	11.6	0.74	9.5	2.2	0.23
Transport & communications	17.9	9.6	0.53	4.5	1.9	0.41
Finance & Business Services	16.0	12.4	0.78	5.9	1.2	0.20
Social and Personal Services[a]	17.5	9.2	0.53	5.1	0.2	0.04
General Government	11.5	8.0	0.70	6.7	3.5	0.52
Total economy[d]	10.3	9.1	0.89	6.3	2.2	0.34

Note: (a) Includes education (private). (b) Calculated by applying the logarithmic growth function $\ln(Y_i) = c + \beta(\text{year}_i)$ respectively $\ln(E_i) = c + \beta(\text{year}_i)$ to the full period, where Y_i and E_i stand for Value added and Employment in year i. (c) Calculated as Annual Employment Growth over Annual Output Growth. (d) The data for the total economy refer to GDP, the remaining data refer to the value added in a sector.

Source: (1) For employment: Central Statistics Office, Labour Statistics (various issues), Statistical Yearbook 2003 and CSO web-site; (2) for output data: Bank of Botswana, GDP data-file January 2007.

Table 5: Trends in total labour force and unemployment, 1991 to 2006

Year	Unemployed	Employed[a]	Total Labour Force[a]	Unemployment Rate (%)
1991	61,300	379,900	441,200	13.9
1993/94	107,700	391,800	499,500	21.6
1995/96	94,500	345,400	439,900	21.5
1998	115,700	441,200	556,900	20.8
2000	90,700	483,400	574,200	15.8
2001	109,500	453,400	562,900	19.5
2002/03	144,500	462,400	606,800	23.8
2004	185,800	570,300	756,100	24.6
2005/06*	114,400	548,600	663,000	17.6

Note: (a) Includes employment in the informal and household sector. (b) Provisional figures; includes 38,000 children aged 7 to 17 as employed. All figures are rounded.

Source: Calculated from HIES, Census, MIS, BAIS and LFS, as published in CSO (2006: 8).

2.3 *Poverty and Income Distribution*

A frequently used measure of poverty is income or consumption. Development practitioners have however come to a consensus in terms of recognizing that poverty is much broader than just lack of income. The poor lack adequate food and shelter, education and health, and are often vulnerable to adverse events outside their control. They are often treated badly by the institutions of state and society and excluded from voice of power in those institutions (World Bank, 2001:15). What this illustrates is that poverty has many dimensions. It is now recognized that poverty encompasses not only the material deprivation (measured by income or consumption) but also low achievements in education and health or what is now known as capability poverty. There is also the third element of poverty, which is participation poverty, which is concerned with the poor people's inability to participate in decision making processes that affect their lives- the poor are usually voiceless and powerless. Due to the fact that income poverty is easy to measure, most poverty measurement is still however measured in terms of income. It also provides a good way to compare between countries and over time.

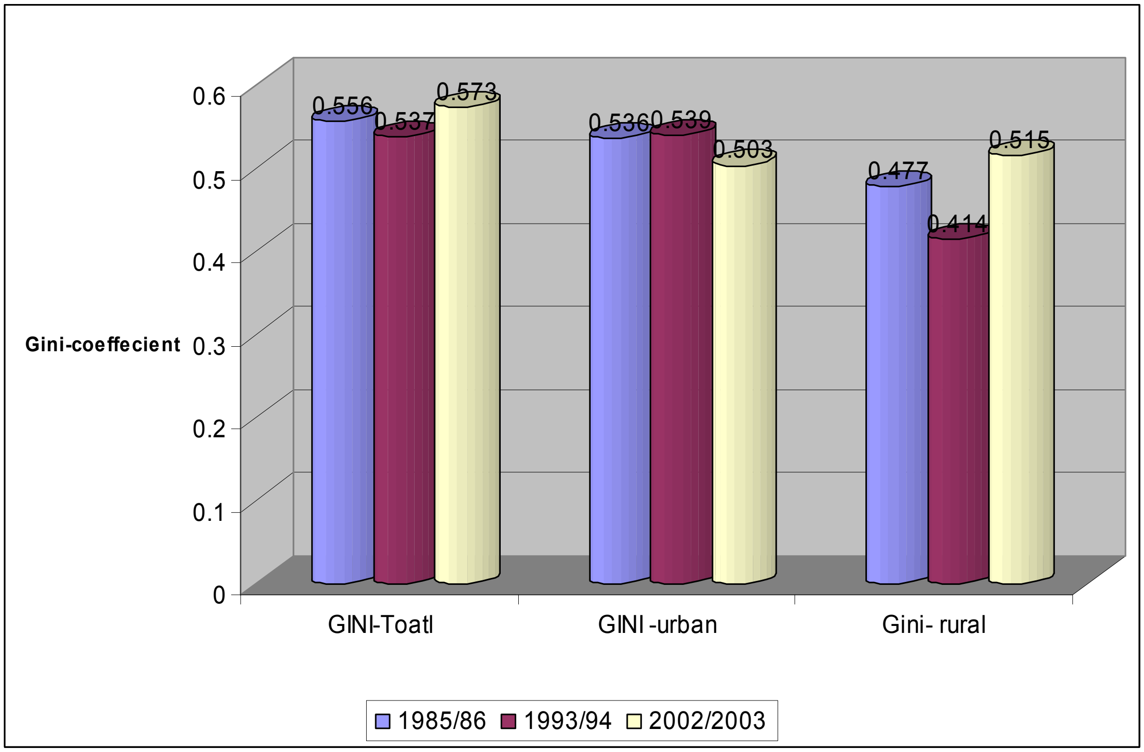
In terms of income poverty, poverty has generally been declining. Crude estimates of poverty before the first national Household Income and Expenditure Survey estimate it at more than sixty percent of the population. The Household Income and Expenditure Surveys in 1985/86 and 1993/94 show the overall poverty prevalence rate reduced from 59 to 47 percent between the two periods. The results also show that the percentage of the population classified as 'poor' fell marginally from 18 percent to 17 percent, while those categorised as 'very poor' fell from 41 percent to 30 percent. In terms of Income poverty analysis, the most comprehensive study in Botswana so far is still the Botswana Institute of Development Policy Analysis (BIDPA) study of 1997. Another study was commissioned in 2005, but its results so far are not yet made available publicly. The findings from the 1997 BIDPA study are that that 47 percent of Batswana or 38 percent of all households were living below the poverty threshold of P100 per person per month in 1993/94. Of these, 30 percent were classified as "very poor". Even though still high, the incidence of poverty had however declined compared to 1985/86. From the HIES 1993/94 data, however, poverty reductions were not uniform. The remote rural areas had the smallest fall in poverty levels between the periods. South West, Kgalagadi, Ghanzi, and the Western parts of Kweneng and Southern districts had the highest poverty rates in 1993/94 of 71 percent of its population classified as people living below the poverty datum line (PDL). But in general terms rural Botswana made more progress in poverty reduction than urban areas. This is an important progress given that 62 percent of the poor in 1993/94 were found in the rural villages. Another 14 percent and 24 percent were found in the urban areas and urban villages respectively. Poverty in Botswana as in most developing countries has a gender dimension as shown by the significantly less success of female-headed households in getting out of poverty than the male-headed households. Whereas the female-headed households experienced a decrease of 10 percentage points, the male-headed households reduced poverty by 14 percentage points (BIDPA, 1997). The worst forms of poverty are concentrated in the country's most remote areas, where a high degree of dependence on government welfare exists. Preliminary results released from the 2002/2003 HIES indicate poverty to have declined further to about 30 percent of the individuals living below the poverty datum line. Using the one Dollar per day however shows poverty to have increased from 19.9 percent people living below the one Dollar per day in 1993/94 to 23.4 percent in 2002/03. The results also show that more people lived below the one

Dollar per day in the rural areas for both periods (CSO, 2004). In terms of region, poverty declined for the cities/ towns between the periods, while it rose for urban villages and rural areas with the biggest increase being for rural areas[2]. Poverty is therefore still a more serious issue in the rural areas even though it is prevalent in the urban areas. These results are however consistent with unemployment distribution between regions. From the 2002/03 HIES data the highest unemployment rates are in the rural and urban villages and lowest for towns/cities (CSO, 2004). This also emanates from the process of unbalanced growth, where growth had an urban bias in terms of both policies and infrastructural development. An attempt in terms of policies of Botswana has always been to try and develop the rural areas. The results have however shown to be the opposite of the intentions.

Botswana has often had very high income inequalities which have not been changing significantly over time. Between 1985/86 and 1993/94 disposable income declined marginally from a gini-coefficient of 0.556 to 0.537. For the urban areas disposable income inequality was however increasing between the two periods. Between 1993/94 and 2002/03 disposable income inequality actually increased marginally as the gini-coefficient rose from 0.537 to 0.573 (CSO 1995, CSO 2004). Figure 1 summarizes the general pattern of income inequality between 1985 and 2003. The marginal rise in income inequality may partly explain the relatively smaller poverty reduction in the period 1993/94 to 2002/03 compared to the previous period. This may suggest that the growth experienced in the period 1993/94 to 2002/03 may not have been pro-poor. We discuss this issue further in the subsequent section of this chapter.

[2] In 1991, 19 of Botswana's villages started to be classified as urban villages. These were defined as villages with fewer than 25% of their workforce working in traditional agriculture. These are however different from the more established urban areas such as Gaborone, Francistown, etc. Examples of urban villages are Molepolole, Mahalapye, Serowe, etc.

Figure 1. Changes in income inequality: 1985-2003.



Source: CSO, 1995, 2004.

3.0 Botswana's Macroeconomic Environment and Poverty Reduction

Poverty reduction is generally influenced by the macroeconomic environment as well as the poverty reduction strategy policies of a country. With very high rates of inflation for instance, countries will find it difficult to reduce poverty, as inflation will undermine any efforts to increase real incomes of a majority of the population. Botswana has generally had very good macroeconomic policies that were very conducive for poverty reduction. In this section we discuss these various policies, ie. monetary policy, fiscal policy, trade policy, policies towards financial openness, and labour market policies. The policy environment was one of careful planning and caution. At independence, Botswana chose to have an active government role in the form of national development planning. The government of Botswana, from the onset had made clear its belief in the need to plan the social and economic development of the country (Republic of Botswana, 1968, p. 7). The rationale for planning as stated by the government in 1970 was that the country's available resources were few and the problems facing the country were so great that it was only by careful planning that these resources could be put to their most effective use. Decisions in the plan, according to the government, could affect the quality of life in Botswana for generations and therefore it was imperative that the right decisions were made in the allocation of resources for effective economic development. With the discovery and profitable exploitation of diamonds, this belief was strongly reinforced. But it was always made clear that in future the government should give way to the private sector, even though in reality this has not happened. For instance, the privatisation agenda – even though adopted in 2000 – has not been implemented. In the process of formulating these national policies, including the

National Development Plans and the “Vision 2016”, government has always followed a consultative process that involved every sector of the economy. It is part of the consultative nature of the policy formulation that has enhanced ownership to most of the policies by most stakeholders.

Given the dominance of diamonds in terms of output, government revenue and exports, it became obvious that the growth of the economy will have to be heavily state-led. The state took an active role in terms of formulating policies and programmes meant to encourage private sector led growth. Change to letting the market-led determination of prices in any sector was only made after careful assessment. In fact, it is only in the 1990s that there were regime changes in a number of policies including wage-setting, interest rates, etc. – and hence at a point in time when the private sector had grown to allow for some of these changes to take place. The important point is that Botswana carefully chose to have a state-led growth by investing the diamond revenue, and did not blindly follow orthodox policies as advocated by the IMF and the World Bank. Botswana only chose to liberalise some of its markets, and only when the government thought conditions did allow for such a change.

3.1 Monetary policy

At independence, Botswana was a member of the Rand Monetary Area and used the South African Rand as its currency until 1976 when it introduced its own currency, the Pula. It is then that Botswana began to have an independent monetary policy. As a long-term goal, the monetary authorities in Botswana use monetary policy as a strategy to promote economic growth and development by using it to control inflation to reasonable levels.[3] High and variable inflation distorts price signals and creates uncertainty about the future value of money (causing economic agents to hold their wealth in the form of physical assets, and not financial assets). The effect of these is a negative impact on saving and investment decisions, and hence economic growth. The control of inflation obviates the need to hold financial savings mainly in the form of physical assets as a hedge against inflation. In this case, savings become available to finance investment. In addition, by maintaining a low and stable inflation rate, monetary policy contributes to the promotion of domestic and external monetary and financial stability as well as maintaining people’s real incomes and therefore contributing to poverty reduction.

As part of its mandate in terms of conduct of monetary policy, the Bank of Botswana has used both financial and monetary policies to promote economic growth and development. Prior to financial liberalization in 1989, monetary authorities pursued a low interest rate policy in order to mop up excess liquidity by encouraging investment in the banking system and also to influence the supply of domestic credit in order to achieve faster economic growth (see Ablo and Hudson, 1983; Clarke, 1992; Hermans, 1996; and Moloi, 1996). In 1989, the monetary authorities started on the process of financial liberalization. The reform package was mainly implemented between 1989 and 1991 (Bank of Botswana Annual Report, 2001, Chakrabarty and Santi, 2004)). The package entailed the removal of controls on interest rates; licensing of additional commercial banks; the introduction of a financial instrument, the Bank of Botswana

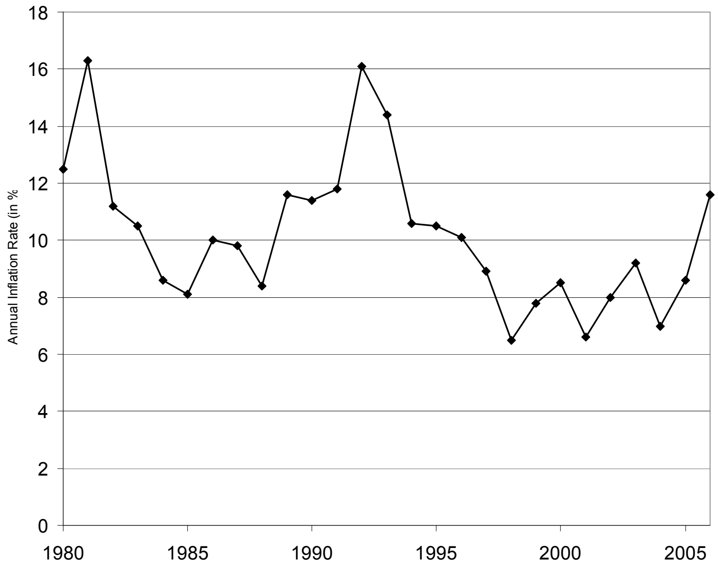
[3] For a developing country like Botswana, reasonable levels of inflation are between 3 and 7 per cent, as outlined in the Bank of Botswana Monetary Statements. Even though 3 per cent is provided as a lower bound, it is almost impossible to achieve it in a developing country without harming growth and employment extensively.

Certificate (BoBC) to conduct open market-type operations; and the removal of exchange controls. In addition, monetary authorities embarked on a strategy of increasing interest rates to levels that will achieve positive real interest rates.

The policy of positive real interest rates was adopted in order to achieve two goals: (i) to mobilise greater volumes of saving, particularly by the household sector, thereby reversing the negative effects of the low interest rate policy; and (ii) to encourage productive investment. In the process of mobilising savings, the financial sector promotes investment and hence, economic growth (Bank of Botswana Annual Report, 2001). Recently, the central bank has moved towards inflation targeting. The monetary policy framework sets out a target range for inflation. The monetary policy can generally be described as a tight monetary policy regime: For 2005, the target range was between 3 and 6 per cent. Due to the double-digit levels of inflation for most of 2006, the Bank of Botswana had to revise its medium term inflation target to between 4 and 7 per cent, while maintaining a long-term goal of 3 to 6 per cent – a target that has also been maintained for 2007.

It has been argued that Botswana's monetary policy has performed well in controlling inflation to around 10 per cent. For about a decade in the 1980s, the economy experienced an unparalleled boom. But in spite of this boom, policymakers managed to avoid chronic inflation (Setlhare, 2004). Annual inflation in Botswana has never exceeded 20 per cent since 1976. Figure 3 shows that inflation has in general been trending downward for most of the period from 1976 to 2001 (with a brief spike in the early 1990s), and was at single digit levels in the last part of the period. Due to the introduction of Value Added Tax in 2001 and a series of devaluations of the national currency to enhance competitiveness of the non-traditional exports, the inflation rate has been increasing since 2001. However, a comparison of the inflation performance of Botswana with that of other developing countries in general, as has been done in Cowan (1998) for the 1976-95 periods, shows that Botswana is better than a broad range of African countries. He finds that within SACU, Botswana has had one of the lowest average Consumer Price Index (CPI) inflation during 1976-85. Cowan (ibid.) also finds that Botswana has had the lowest average CPI inflation during 1986-95 and the lowest average inflation in the whole period. In addition, Botswana has had the most stable average CPI inflation, compared to the rest of the SACU countries (Setlhare, 2005). In the year 2007, inflation has generally been within the 4-7 percent target and indications are that it will continue in that direction unless there are some major policy changes. The monetary policy environment has generally been stable with very few surprises and regime switches, which is conducive for inflation stabilisation and therefore poverty reduction through maintaining general consumer incomes. It is interesting to note that employment and growth were disconnecting in the 1989/90 period, a period of monetary reform. It may be that the high interest rates after liberalization may have led to some fall in investment and therefore employment(For a thorough discussion of this observation refer to Siphambe, 2007b).

Figure 2: Annual inflation rate, 1976-2006



Source: Central Statistics Office, Statistical Yearbook 2003, Bank of Botswana, Financial Statistics March 2007.

3.2 Exchange rate policy

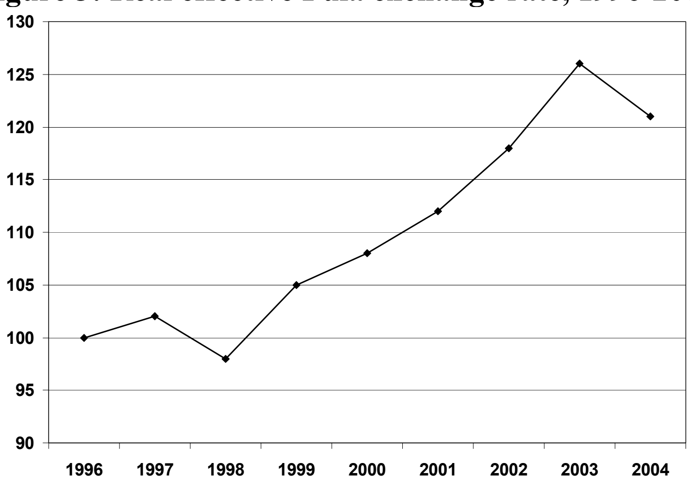
Unlike other countries that have allowed the exchange rate to appreciate and therefore leading to a "Dutch Disease", Botswana has generally kept the exchange rate at reasonable levels through a series of devaluation of its currency, the Pula. Botswana has maintained an active exchange rate management since the introduction of its currency in 1976. The main objective of the exchange rate policy in Botswana has been and continues to be to maintain and enhance international competitiveness of domestic producers by ensuring that the real exchange rate is not misaligned. The competitiveness of traded goods and in particular non-traditional exports is maintained through a stable real exchange rate against the Rand and other foreign currencies. Initially in 1976 the Pula was pegged to the United States dollar (US$) at the same rate as the Rand. This arrangement continued until 1979 when the South African authorities took the Rand off the US$ peg and changed to a system of managed floating. In June 1980 the Pula was pegged to a basket of currencies consisting of the Rand and Special Drawing Rights (SDR), with approximately equal initial weights.

Under the current Bank of Botswana Act, the responsibility for the exchange rate policy rests with the President of Botswana, on the recommendation of the Minister of Finance after consultation with the Bank. Thus, the exchange rate is determined by the government, but implemented and administered by the Bank of Botswana under a managed peg exchange rate system. For example, to help foster monetary and macroeconomic objectives in Botswana, the Bank of Botswana changes the exchange rate on recommendation. The Pula was devalued several times in the 1980s as a way of enhancing the competitiveness of the non-traditional exports. In 2005, the country introduced a crawling peg, which allows for automatic change of the exchange rate should there be a misalignment. Given that the economy has remained undiversified, and therefore with less employment creation capacity, it was deemed appropriate that the exchange rate should not be overvalued and therefore stifle the development of the potential sectors for economic diversification. Given that Botswana has a small domestic market

it was deemed important that the exchange rate should be outward looking in terms of being able to encourage exports of non-traditional merchandise.

Figure 3 shows the change in the real effective exchange rate over time. Since 1996, the Pula was generally appreciating to major currencies. While in general the nominal exchange rate against major currencies depreciated for most of the period from 1990 to 2004, the real exchange rate however appreciated mildly since the mid-1990s, before falling in 2004. This has made it very difficult for Botswana exporters to compete in foreign markets and for domestic producers to compete with imported goods and services. Government reacted by devaluating the currency by 12 per cent in May 2005 as a way of promoting the competitiveness of producers, especially of non-traditional exports. While Botswana has been successful in terms of avoiding an overvalued exchange rate that usually results from a booming sector such as diamond as has happened in other countries like Zambia during the copper boom, it is quite evident that there was some mild "Dutch Disease". That is quite evident from the lack of economic diversification and therefore the increase in unemployment over time, even though it has started to decline. It is also during this period that poverty reduction was smaller than the previous period.

Figure 3: Real effective Pula exchange rate, 1996-2004 (Index, 1996 = 100)



Source: Bank of Botswana, Annual Reports.

3.3 Fiscal policy

In compliment to other macroeconomic policies, fiscal policy in Botswana has been conducted pursuant to the country's two main underlying objectives of sustainable economic growth and the diversification of the economy. The current National Development Plan (NDP 9) adds another objective, viz., enhancing Botswana's competitiveness in global markets. Government's strategy has been to avoid overspending (using its large diamond export revenue), that is, expenditure in a manner that is not consistent with the capacity of the economy. Botswana's policy approach has been to accumulate foreign exchange reserves and government cash balances with the intention of using them in bad years. The defining idea behind fiscal policy has been to maintain a fairly constant growth in real expenditures from year to year, independent of what is happening to the real growth of the government's domestic revenue. This policy strategy means that the government can insulate the growth rate of real expenditures from the cyclical behaviour of its real domestic revenues.

For many developing countries, an increase in government revenues from the mineral sector has led to problems of unsustainable public expenditure, which have been termed the 'resource curse' (Auty, 1993). To avoid this pitfall, Botswana followed a planning system to define the fiscal rule for its expenditure. The national development planning ensured that all projects implemented had to be viable and there was political support to not allow any projects that were not viable. Since 2006, the country has established an explicit fiscal rule that stipulates that government spending should not exceed 40 per cent of GDP. As Botswana recognized that the booming diamond sector could not create employment directly, it became obvious that employment generation had to come from government through the creation of parastatals and also through programmes meant for private sector development. Several parastatals were established in the 1970s, some of which are now being discussed as possible candidates for privatization. In terms of the government expenditure, the general priority of government was to provide an enabling environment through provision of infrastructure and development of human capital through education and health. Indeed, the share of the budget going to the social sector was for most of the years more than 40 per cent; education alone has been absorbing more than 25 per cent of the budget for most of the years.

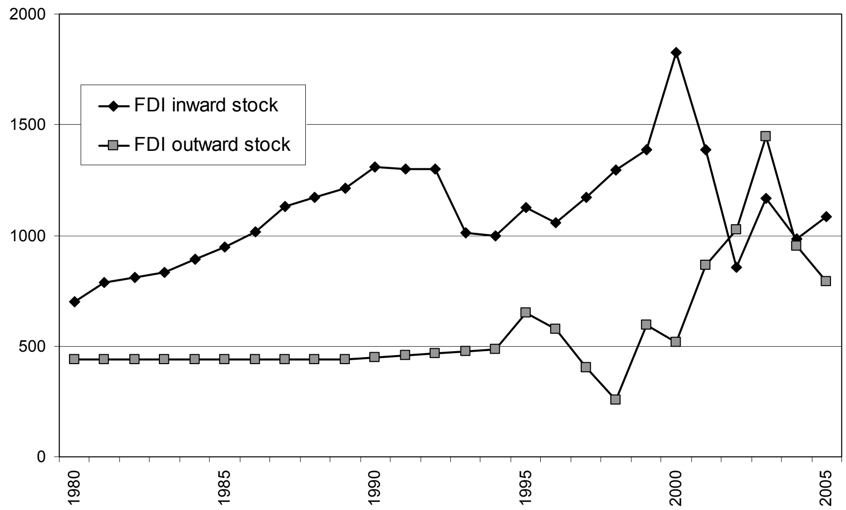
The other alternative was to provide funding for private sector development through programmes and policies. Examples of such cases were the Financial Assistance Policy, (FAP) which was a programme for subsidizing labour for firms engaged in production. Some programmes were geared towards enhancing productivity in the agricultural sector, and therefore indirectly create sustainable employment for Batswana. Examples here are the Arable Lands Development Programme (ALDEP) and the Accelerated Arable Rain-fed Programme (ARAP). Most of these programmes have had a limited success in terms of employment creation and, because there was little monitoring and evaluation, they were subject to fraud and abuse. The Financial Assistance Policy (FAP), for instance, was discontinued in 2001 and replaced by a new programme, Citizen Economic Development Agency (CEDA) upon the recommendation of its fourth evaluation (BIDPA, 2000). Unlike the previous schemes, CEDA is not a grant but a subsidized interest scheme that is accessible only to citizen entrepreneurs. The change in the spirit shown in CEDA is to instil a business practice and move away from the philosophy of handouts from government. CEDA's success in creating sustainable employment lies on its ability to transform the culture of handouts among other things and being able to address some of the weaknesses that were inherent in FAP.

3.4 Botswana's Foreign Direct Investment (FDI) policies

At independence, Botswana hardly had any location advantages for FDI, given its small, poor and mainly rural population. It therefore chose to be open to FDI in terms of policies. When most African countries increased state control in the 1960s and 1970s, Botswana chose to adopt a pro-market economy. Yet, government still had a very central position in terms of planning economic activities, but it had always been understood that in time government should give way to private sector driven economy and allow the market to take a central role. Rather than nationalize key industries, as was fashionable then, Botswana went into partnership with foreign investors for its diamond industry. The Debswana Mining Company was set up in 1969 as joint venture between the government of Botswana (which initially held 15 per cent in the company) and De Beers. In 1975, this was re-negotiated to a 50:50 partnership. This has not only allowed the country to

increase its shares in diamond revenues, but has also given the country an opportunity to have direct representation in the board of the Debswana. This has the advantage of strengthening the country's bargaining position when negotiating with Debswana because this gives government negotiators first hand information on how the country's diamond mines are run. Botswana is one of the few, if not the only developing country to have this kind of representation in a strong multinational like De Beers (Kempton and Du Preez, 1997). The position of Botswana was further strengthened when the government acquired a 15 per cent stake in De Beers in 2001, which gives it a representation on the board of the De Beers.

Figure 4: Botswana's FDI position, 1980 to 2005 (in US$ millions)



Source: UNCTAD WID Country Profile Botswana, 2006.

The cross-shareholdings between De Beers and the government of Botswana are also the major determinant in Botswana's overall FDI position: The high outward stock of FDI is a reflection of the government's stake in De Beers (see Figure 4). Likewise, mining still accounts for the largest share in inward FDI stocks, although the change in ownership structure has reduced mining's share in inward FDI stocks from around 80 per cent in 2000 to around 60 per cent in 2005 (see Table 6). The second largest with 29 per cent is Finance, which is dominated by foreign-owned banks (Barclays, Standard Chartered and Stanbic). By comparison, FDI in manufacturing only accounts for 3.2 per cent of overall inward stocks and amounted to only 141 million Pula (or 33 million US$). This is a disappointing outcome, given that Government had put in a lot of hope on this sector in terms of both policies and financial backup. Botswana's macroeconomic environment has generally been very conducive for FDI given its liberal foreign exchange policy. Even though the macroeconomic environment has been very conducive it became obvious that Botswana was not very competitive in terms of FDI. It is cheaper for manufacturing companies to locate in South Africa where the transport costs are lower and they have a larger domestic market.

In terms of volumes, FDI inflows into Botswana were actually negative in the first half of the 1990s (reflecting the divestiture of foreign-held equity) and run at an annual average of only 27 million US$ for the second half of the 1990s. However, they have since increased and exceeded 300 million US$ annually from 2002 onwards (see Table 7). UNCTAD's 2006 World

Investment Report lists Botswana among the countries with both a high FDI potential and a high FDI performance, and thus classifies it as a "front-runner" (UNCTAD 2006: 24). Inflows of this magnitude are also quite substantial in relation to the country's GDP, running at almost 5 per cent of GDP since 2002. Outward FDI flows (i.e. foreign direct investment by Botswana abroad) have been relatively minor over the past two decades, with a few exceptions such as in 2001 when, as detailed above, the government of Botswana acquired a 15 per cent stake in De Beers.

While domestic investment is not enough to create the needed quality jobs within the country, the low inflow of FDI into non-mining activities has made the problem of economic diversification and job creation more difficult. A number of policy reforms have been made including the creation of an institute, Botswana Export Development and Investment Authority (BEDIA), whose main mandate is to bring FDI into the country. So far, not a lot has been achieved by BEDIA, even though they have assisted some companies to locate in Botswana, especially those in textile, who are eager to take advantage of AGOA. Bringing FDI into the country remains a big challenge for the country (For further readings on FDI in Botswana refer to Siphambe, 2007a).

Table 6: Inward FDI Stocks by Industry, 2000 to 2005 (Pula million)

Industry	2000	2001	2002	2003	2004	2005	% in 2005
Mining	7,792	7,714	2,957	2,688	2,494	2,648	60,4
Manufacturing	343	274	185	295	151	141	3,2
Finance	619	729	731	873	931	1290	29,4
Retail and Wholesale Trade	773	651	609	826	239	92	2,1
Electricity, Gas and Water	0	0	9	37	39	0	0,0
Real Estate and Business Services	161	115	93	118	93	94	2,1
Transport, Storage and Communications	105	162	155	183	134	97	2,2
Construction	16	15	13	10	28	1	0,0
Hospitality	17	135	129	154	57	23	0,5
Other	0	1	1	1	38	1	0,0
Total	9,826	9,696	4,882	5,187	4,204	4,387	100,0

Note: Refers to the total amount (i.e., the stock) of FDI at the end of each year, not new investment (the flow) during the year. (ii) The last column refers to the percentage distribution of inward FDI stocks in 2005.

Source: Bank of Botswana Annual Report 2006, p. 97.

Table 7: Net Inward and Outward FDI Flows, 1975 to 2005 (in millions of US$)

	1980-84	1985-89	1990-94	1995-99	2000	2001	2002	2003	2004	2005
Net inward FDI flows	61	64	-43	27	57	31	403	418	391	346
Net outward FDI flows	0	0	9	3	2	380	43	206	-39	57

Note: (i) Five-year averages are simple, unweighted averages of the annual values. (ii) Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest in and control by a resident entity in one economy (foreign direct investor or parent enterprise) of an enterprise resident in a different economy. Inward flows refer to transactions by foreign entities with respect to FDI in Botswana, outward flows refer to transactions by Botswana entities abroad. All figures refer to net flows.

Source: UNCTAD, FDI/TNC database.

4.0 Botswana's Trade Policies and Poverty Reduction

Botswana's trade policy and trade structure over the years were influenced largely by her membership of the Southern African Customs Union (SACU) since 1910, as well as her participation in different bilateral and multilateral trading arrangements. Some of these are her membership in the Southern African Development Community (SADC); the Botswana-Zimbabwe Trade Agreement; ACP and the Cotonou (formerly Lomé) trade agreements with the European Union and more recently the United States' African Growth and Opportunity Act (US-AGOA) and the free trade agreement between the United States and SACU. However, it should be mentioned that even in light of these different arrangements, Botswana's trade policy over the years sought to achieve the broadest possible free and dependable access for Botswana's industrial products and services. The policy also aimed at improving Botswana's access to industrial raw materials through the reduction of tariffs on imported raw materials.

Most notable of all the trade arrangements in terms of the influence over Botswana trade policy is her membership of SACU. The SACU agreements provide for duty free trade with South Africa and other small economies in the region (Lesotho, Namibia and Swaziland), and a relatively high degree of protection against imports from the rest of the world. In recent years, SACU tariffs against the rest of the world have been progressively reduced, partly in response to membership in the World Trade Organization (WTO). This has increased competition from world imports in both Botswana and other SACU member countries. Additionally, the process of tariff reduction in the SACU area has been further reinforced by the free trade agreement between South Africa and the EU (the EU-SAFTA), under which barriers to imports into the SACU area from the EU are being progressively reduced. The SADC free trade agreement will also reduce barriers to imports into Botswana and the SACU area, as well as provide improved access for exports into the SADC market.

Botswana has enjoyed a healthy balance of payment position not found in most developing countries for most of the years with the foreign reserves with a balance of payment surplus for most of the diamond era, with the exception of 1982 when there was a temporary slump in the diamond market. The foreign exchange reserves have for most of the period been estimated to cover more than 30 months of imports of goods and services. Botswana's exports have however been dominated by minerals, especially diamonds. On the other hand the country is also very highly dependent on South Africa for most of its imports, which constitutes more than 80 per cent of her imports.

Botswana's exports have generally been rising since independence. The major export commodities are diamonds; copper-nickel; and meat and meat products. Meat and meat products were Botswana's main exports until the late 1960s, whereas Diamonds are currently the main export. Botswana started exporting diamonds and copper-nickel in the early 1970s. Vehicle exports which began as recently as 1993 have since collapsed due to the relocation of the vehicle assembly plant to neighbouring South Africa. As Table 8 shows, exports as a percentage of GDP rose from 40 per cent in 1974 reaching a peak of about 80 per cent of GDP in 1988 before starting to decline again to about 50 per cent of GDP. In terms of percentage share, the traditional exports of diamonds, beef and copper made up about 80 per cent or more of the total exports, while the non-traditional exports have generally been making up about 20 per cent of total exports. The picture is generally that of lack of diversification from the traditional exports, which are also not employment intensive. It is therefore quite obvious why unemployment has remained high despite the impressive growth. The country has over the years not been able to diversify despite all the policy efforts in the past, and that has remained the greatest challenge for both the country's development and employment creation and therefore poverty reduction efforts.

From an import side, Botswana is also highly dependent on international trade. Imports as a percentage of GDP have however been declining as a percentage of GDP showing that some import substitution did take place, even though marginal. Botswana's imports are predominantly vehicles and transport equipment; machinery and electrical equipment; food, beverages and tobacco; and metal and metal products. As mentioned in the earlier section, Botswana has had a favourable balance of trade, and an accumulation of reserves.

Strictly speaking, Botswana does not have a separate trade policy, apart from its participation in different trade agreements and being a member of a major regional trade union, SACU. The absence of an independent trade policy may partly be responsible for the failure to diversify the economy as South African goods had free access to the market stifling the development of local industries. In future, a strengthened negotiating regime will be required, as will a very progressive and consistent trade policy agenda. These will not only pave the way for the attainment of the target of Botswana's Vision 2016 – sustained growth and global competitiveness, but also ensure a more diversified and vibrant economy is entrenched. Furthermore it could be expected that with the potentials for an expanded market in the Southern African region as envisaged by the SADC trade protocol, as well as for an expanded African export market to be occasioned by the NEPAD trade initiatives, ample opportunities exist for Botswana exporters that are able to compete with other exporters in these markets.

Table 8: Percentage share of exports of principal commodities, 1980 to 2004

Year	Meat & Meat Products	Live Animals	Hides & Skin	Diamonds	Copper Nickel Matte	Textiles	Soda Ash	Vehicles & Parts	Other Goods
1980	7.2	0.03	0.8	60.6	20.8	4.0	0.0	0.0	6.6
1985	6.5	0.02	7.8	70.4	8.1	1.9	0.0	0.0	5.2
1990	3.2	0.01	0.6	78.7	8.2	3.4	0.0	0.0	5.9
1993	3.8	0.02	0.5	78.2	5.2	2.2	1.2	2.1	6.9
1994	3.7	0.05	0.6	74.9	5.2	3.6	0.7	6.1	5.3
1995	3.0	0.04	0.6	67.1	5.5	2.5	0.4	16.1	4.8
1996	2.5	0.02	0.4	70.4	5.5	2.4	0.9	14.1	4.0
1997	2.2	0.02	0.3	73.8	4.6	2.4	1.1	11.4	4.2
1998	3.4	0.03	0.4	69.5	5.0	3.5	1.1	11.1	6.0
1999	1.8	0.02	0.2	79.4	4.6	2.0	0.9	5.5	5.7
2000	1.9	0.01	0.3	82.3	6.0	1.8	0.7	2.0	5.1
2001	2.6	0.05	0.4	84.5	4.2	1.4	0.9	2.1	4.0
2002	1.6	0.01	0.2	85.8	3.4	1.3	0.6	2.5	4.6
2003	1.3	0.00	0.1	82.9	7.9	1.5	0.1	2.8	3.5
2004	0.3	0.00	0.1	80.0	8.8	3.1	0.0	3.6	4.2
2005	1.4	0.00	0.1	78.1	10.5	4.5	0.0	2.6	5.2

Source: Ministry of Finance and Development Planning (2005, 2006): Annual Economic Report, 2005, p. 35.

5.0 Botswana's Labour Market Policies and Poverty Reduction

An effective way of reducing poverty in a sustainable way is through creation of sustainable employment. Therefore understanding the labour market policies and nature of employment and unemployment is crucial to an analysis of poverty reduction. As noted in the section of growth and employment, Botswana has been characterized by a lack of economic diversification, high unemployment rates, which were making it difficult for the economy to reduce poverty. The second period, 1993/94 to 2002/2003 has in particular had significantly lower poverty reduction than the previous period even though growth continued to be impressive. This section looks at the possible impact of labour market and human resources development policies might have had on employment creation and poverty reduction.

A major element of Botswana's labour market policy framework has been the government's wage and incomes policy. It was intended to cover areas where the market forces determining prices, wages and incomes would not result in efficient and/or equitable results. Botswana's incomes policy was adopted in 1972 with a view to avoiding rapid wage escalation that could lead to growing income disparities and social discord. At that time, the incomes policy emphasised rural development and employment creation, which were viewed as key operational targets for achieving the national development goals and objectives. With most of the population living in rural areas and engaged in subsistence farming as their main livelihood, there was concern that the mineral developments underway and the urbanisation processes would lead to

manpower shortages, rapid wage escalation, widening income disparities, urban migration, growing urban unemployment and social tensions. Government was concerned that the emergence of such problems could thwart its strategies for economic and social development. The Government under the Incomes policy emphasised wage restraint which was considered important for promoting employment creation and enabling government's resources available for development are spread as widely as possible. At the same time, government recognized the need to protect workers and consumers from monopolistic exploitation. Thus, minimum wage regulations were introduced while parastatals' and private sector wages and salaries were kept aligned with government wages scales to forestall excessive wages and cost structures that could make the economy uncompetitive. Thus, the incomes policy was aimed at making the business climate attractive for investors, especially for investments in enterprises that could produce exportable goods and services.

Towards the end of the 1980s, government began to realize that the incomes policy was not serving its purpose given the changes in the economic environment, especially the growth of the private sector. It therefore commissioned a review of the 1972 Incomes Policy. The Revised Incomes Policy was adopted in 1990. Some of the main features of this policy are that the private sector was allowed to determine its wages guided by the need to become profitable. There was a recognition that the private sector had now grown and needed to be de-linked from the government pay structure to encourage its growth and competitiveness. The incomes policy, however, maintained minimum wages to protect unskilled workers from exploitation by private sector employers. The parastatal sector was and is still tied in terms of pay to the top and bottom pay of government, but unlike in the past it could determine its own pay structure in between the top and bottom of government pay.

The Revised National Policy on Incomes, Employment, Prices and Profits was reviewed again in 2003 with a view to aligning Botswana's incomes policy with best international practices, as well as with the country's Vision 2016 and other national policies. As a result of the review, parliament is still discussing the document, which has not become a public document yet. Some of the major proposals in the 2003 review are to introduce minimum wages for agricultural and domestic service workers who are currently not covered by the minimum wage legislation; the review also proposed to remove the tie to some parastatals in terms of being linked to government pay so that they can attract skilled personnel that can make them competitive globally (Tabengwa and Salkin, 2006).

The strategy of wage restraint actually worked for the early 1970s and some part of the 1980s but was certainly loosing relevance in the late 1980s as private sector firms found ways of undermining the policy to be able to attract skilled labour through offering generous fringe benefits. While the policy was to encourage the use of unskilled labour through low pay, firms were on the other hand looking for skilled labour, which was difficult to attract given the non-competitive wage. Just two years after the private sector was freed from the incomes policy, the share of factor payment of skilled labour rose for 36.6 per cent in 1985/86 to 41.7 per cent in 1992/93. That of unskilled labour fell marginally from 20.8 per cent to 20.3 per cent during the same period (Leith, 1997). It is quite possible that the relaxation in terms of the revised incomes policy was contributing to increasing income inequalities as has been witnessed in the current period. There were also a series of Salaries Review Commissions whose efforts were to

decompress the Government salary structure to attract the scarce skills to Government, whose results also led to increases in salaries disparities.
While Botswana has a surplus of especially unskilled labour, she on the other hand still has a shortage of skilled labour especially in certain skills, some of which are very crucial for economic diversification. This is despite the heavy investment in human capital over the last four decades, where education continued to take the lion's share of both the development and recurrent expenditure budgets. To meet most of these critical manpower shortages, the government had to rely on skilled workers from abroad, which was very expensive for the government.

As a result of these Government efforts, there has been a large increase in the number of graduates from all levels of schooling, some of whom are unable to find jobs in the labour market. There is even now an increasing graduate unemployment, which was estimated at about 3 per cent in 2001. But despite the abundance of now relatively skilled labour, nominal wages have not declined. Real wages should have declined though, given that for most years especially since 2000, wage increments have fallen short of inflation.

The training needs of the country were guided by a manpower plan, which was meant to match labour demand to supply of labour. What became clear as the economy developed is that the manpower plans were not able to guide the education sector adequately. It became clear that the country needed a human resource development strategy, which has just being developed and is being discussed for implementation especially in the next National Development Plan. The emphasis of the current proposed human resources strategy is to emphasise a series of continuous life cycle stages from early childhood development through formal education to skills training and employment all embraced under the concept of lifelong learning (Republic of Botswana, 2007). The Government is also in the process of developing an employment strategy to try and guide employment creation. All these efforts are geared towards producing the right skills for the economy, and making Batswana employment. With an increase in employment especially in high quality jobs, poverty is likely to be reduced in a sustainable way.

6.0 Evolution of Poverty Reduction Strategies

Like most developing countries, Botswana initially relied on reducing poverty through growth but with no concise strategy on poverty reduction (trickle down effect). There was however a clear understanding that the trickle down effect may not always reduce poverty as some Batswana could not benefit directly from direct employment. Botswana has just recently developed a Poverty reduction strategy for the country, which is being implemented partially since it was developed after NDP 9 was already at implementation stage. The Government is currently strategizing on mainstreaming the poverty reduction strategy into the national development planning process in preparation for the next national Development Plan, NDP 10. The need for developing a PRSP for Botswana was driven more by the need to strategically think and implement ways that could reduce poverty and move the country to the ideals of Vision 2016, especially with regard to the pillar of "a prosperous, productive and innovative nation". There was recognition on part of Government that current poverty levels are quite high and yet the strategies to deal with it are not well articulated, targeted and coordinated.

In the past, Botswana's attempt to reduce poverty has been based on three main areas of intervention. The first area is that of assisting entrepreneurs to enhance their productivity and therefore create employment opportunities and diversify the economy away from diamonds-direct productive support schemes. Amongst these policies were schemes such as Financial Assistance Policy (FAP), Small Micro and Medium Enterprises (SMMEs), and Citizen Entrepreneurial Development Agency (CEDA). The basic route through which these schemes were to reduce poverty was through employment creation and participation of citizen entrepreneurs in business ventures. Even though successful in creating employment to some extent, FAP and SMME faced numerous problems. Some of the problems mentioned in the FAP Evaluation report are; abuse of the scheme, lack of effective monitoring and evaluation, fraud, and the inability of some businesses to live beyond the subsidy era (BIDPA, 2000). As a result of these problems and other logistics problems, FAP and SMME were discontinued and in their place government put in CEDA in 2001. Unlike the previous schemes, CEDA is not a grant but a subsidized interest scheme that is accessible only to citizen entrepreneurs. The change in the spirit shown in CEDA is to instill a business practice and move away from the philosophy of handouts from Government. CEDA's success in creating sustainable employment and therefore poverty reduction lies on its ability to transform the culture of handouts among other things and being able to address some of the weaknesses that were inherent in FAP and SMME. There is already concern that CEDA does not cater for the poor because the requirements are stringent and the forms are too complicated. Those who hold that view argue that CEDA's success in poverty reduction will be very limited.

A second set of anti poverty policies relate to Government programmes geared towards employment creation in the rural areas. Some of the programmes are; Labour Based Public Works Programme (LG117), Labour Intensive Public Works Programme, Accelerated rain-fed Arable Programme (ARAP), the Remote Area Development Programme (RADP), and Arable Lands Development Programme (ALDEP). From different points of view, these programmes all aimed at either enhancing rural incomes through supporting productivities of key sectors and or creating employment for the rural dwellers. These programmes have also been assessed as being successful in reducing poverty in Botswana, albeit to a limited extent. Their success was also limited by the very same problems that were found with FAP and SMME. They were also subject to abuse, were not well monitored, and were not well targeted. They are also criticized for creating a dependency syndrome of Batswana on Government. There are examples of Batswana for instance, who tilled big acres of land without planting any crops under the ARAP programme. Payment of programme money was based on size of land tilled rather than output produced from the land ploughed.

A third group of policies developed by Government to alleviate poverty are the direct safety nets. The government of Botswana recognized much early in development that not all Batswana could benefit from employment and other productive endeavors. Examples of people who could not benefit are destitutes, orphans, disabled, etc. Government therefore came up with various safety nets as ways of fighting poverty directly. Examples of such programmes are the orphanage support programme, World War II Veteran allowance, Old age pension scheme and the Drought Relief Programme. Assessment of these programmes also shows that they have had a major contribution in preventing starvation. The programmes are highly critiqued for creating a culture of dependency on Government by Batswana. This is because most of these programmes are not

well targeted and are therefore subject to abuse and fraudulent use by those who are not meant for the programme. Almost all these programmes are not means tested.

7.0 Link Between Growth and Poverty

As indicated in the previous sections and articulated in the current National Poverty Reduction Strategy, Botswana's overall poverty reduction strategy has been anchored on broad based growth. Like most developing countries there is a recognition that while growth is a necessary pre-requite for poverty reduction, it is not sufficient to reduce poverty unless other initiatives are in place. If an economy is growing while inequality is also growing, it is quite possible that poverty may not be falling since the growth is accruing to a small section of the society. There is a consensus that for growth to significantly impact on poverty it should be pro-poor. Pro-poor growth has been defined differently by different scholars. A number of scholars define pro-poor growth as any growth that involves or benefits the poor as pro-poor. In terms of measurement, any decline in absolute poverty would therefore be classified as pro-poor. Later definitions include income inequality changes, noting the fact that the increase in income inequality as measured by gini-coefficient may limit the extent to which growth becomes pro-poor. Kakwani and Pernia(2000) define pro- poorness as growth that benefits the poor proportionally more than the non-poor. Under this definition, pro-poor growth occurs when growth reduces poverty and concurrently, inequality falls during the growth process.

Ignoring the changes in inequality, Botswana's growth may be classified as having been pro-poor in all the periods between 1985 and 2002. As indicated in the previous section, the headcount poverty estimates poverty to have declined from 59% in 1985 to 47% in 1993 and to a further 30% in 2002/03. Part of the decline is obviously due to the use of social safety nets. Seleka, et. al (2007) estimate that poverty goes up by about ten percentage points for the individuals when government transfer payments are removed from the household incomes. It should be noted however that the revenue to finance these social safety nets is mainly derived from the diamond revenues, which are a part of the growth. From that aspect it can therefore be concluded that growth in Botswana has been pro-poor in that it was accompanied by a significant reduction in poverty in all the periods.

When we also include the changes in inequality, the conclusion on pro poor growth is quite different. In crude terms, it can be concluded that given that income inequality was falling marginally between 1985 and 1994, growth in Botswana was during that period, pro-poor. However in the last period, 1994 to 2002/03, where the decline in absolute poverty was accompanied by an increasing income inequality, it can be concluded that the growth in this period is perhaps not pro-poor. Under this definition, pro-poor growth occurs when growth reduces poverty and concurrently, inequality falls during the growth process, which was not the case in the second period. A more rigorous measure of pro-poor growth is done by using measure called poverty equivalent growth rate (PEGR), which uses the headcount ratio, the poverty gap ratio, and the severity of poverty index (Kakwani and Pernia, 2000). It is not possible to do such an analysis for Botswana given that the poverty study done using 2002/03 HIES data is still not available for public use on thorough poverty assessment.

8.0 Conclusions

Botswana has experienced rapid economic growth and structural transformation that was being driven by the profitable exploitation of diamonds. The macroeconomic environment has also been conducive for economic growth and in line with current best practice. As a result of the economic growth, good economic management, and stable political environment, the country has made major strides in reducing absolute poverty from levels higher than fifty percent to the current level of about 30%. The current poverty level is however still quite high to achieve the goals of both Vision 2016(eradication of poverty) and Millennium development Goals (halving poverty by 2015). The economy has remained structurally undiversified with a heavy reliance on diamonds for output, revenue generation and export growth. As a result, unemployment has remained very high even though it is currently declining. It is no doubt that the high unemployment rate has made poverty reduction very difficult as most poor people resorted to working in the low productive informal sector, which has over the years been growing significantly[3].

Major efforts are however being made to tackle poverty in terms of policies and programmes. Some of these are the implementation of the National Poverty Reduction Strategy adopted in 2003. The Government is currently in the process of working out strategies to mainstream the poverty reduction strategy into national development planning with a view to implementing those strategies in the coming National Development Plan (NDP 10). Part of the programme involves making the programmes and policies pro-poor. The social safety nets were also reviewed in 2006 with a view to improve their effectiveness and targeting. There are still major challenges in terms of poverty reduction which have to do with how to reduce unemployment given the structure of the economy; dealing with the HIV/AIDS pandemic, which is costly not only in terms of loss to human resources but also in terms of the lost economic output from the money being used to deal with the scourge. There are also challenges in terms of improving the productivity of labour in some of the economic sectors that have a major bearing in terms of poverty reduction, especially the agricultural sector whose output has been declining over the years and yet it employs a significant number of Batswana. It has also not been an easy task to industrialize as manufacturing has been very small even though a lot of resources were thrown into the sector.

[3] An informal sector study is being conducted, whose results will be very informative in terms of the growth of this sector.

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