

# Policy Impacts on Africa's Extractive Sector: Botswana, Diamond Dependence, and Diversification in the Post-Diamond Period

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Article abstract

This paper investigates the topic of sustainable natural resource governance, and policy and politics thereof, in the context of Botswana. The authors endeavour to provide a preliminary justification for why Botswana, as a country of investigation, is a potential role model and a site of deep study for researchers of contemporary sustainable resource governance. This paper argues that the rest of Africa can learn from the Government of Botswana's policies regarding multinational corporations operating in the mining sector, particularly in terms of attracting investment, but, too, Botswana could learn much from others in terms of economic diversification and linkage promotion.

# *Policy Impacts on Africa's Extractive Sector: Botswana, Diamond Dependence, and Diversification in the Post-Diamond Period*

*By Hany Besada<sup>i</sup> and Ben O'Bright<sup>ii</sup>*

## *Abstract*

This paper investigates the topic of sustainable natural resource governance, and policy and politics thereof, in the context of Botswana. The authors endeavour to provide a preliminary justification for why Botswana, as a country of investigation, is a potential role model and a site of deep study for researchers of contemporary sustainable resource governance. This paper argues that the rest of Africa can learn from the Government of Botswana's policies regarding multinational corporations operating in the mining sector, particularly in terms of attracting investment, but, too, Botswana could learn much from others in terms of economic diversification and linkage promotion.

*Keywords:* Botswana; natural resources; sustainability; governance; diamonds

## *Résumé*

Cet article examine la question de la gouvernance durable des ressources naturelles, ainsi que la politique et les politiques publiques en la matière au Botswana. Les auteurs proposent une justification préliminaire pour expliquer pourquoi le pays à l'étude serait un modèle potentiel et un site d'analyses approfondies pour les chercheurs sur la question de la gouvernance contemporaine des ressources durables. Cet article soutient que le reste de l'Afrique peut apprendre des politiques du gouvernement du Botswana concernant les sociétés multinationales opérant dans le secteur minier, en particulier en termes d'attraction des investissements, mais que le Botswana pourrait aussi apprendre beaucoup des autres en termes de diversification économique et de promotion des alliances.

*Mots-Clés :* Botswana; ressources naturelles; durabilité; gouvernance; diamants

## Introduction

Since gaining independence from Britain in 1966, Botswana has become an upper middle-income country due largely to mineral-led economic growth within a transparent economic, fiscal, and social policy framework and low levels of corruption. The world's largest producer of diamonds in terms of value, its overarching narrative is that of a success story, with an average 7 per cent growth rate over the past 30 years. Yet the country is "a development paradox" given that its economic engine is mining, "a sector which ostensibly encourages economies to underperform" (Dougherty, 2011, p. 9). A small, landlocked country in southern Africa, Botswana has a population of approximately two million people (10 per cent of whom live in the capital and largest city, Gaborone) and 70 per cent of its territory is made up of the arid Kalahari Desert. Minerals and foreign investment have yielded considerable macroeconomic benefits, with rapid growth, rising living standards, extensive investment in social and economic infrastructure, and healthy fiscal and balance of payments positions, but the country has a relatively high inequality index. Rapid growth has led to GDP per capita of US\$17,000, among the highest in Africa, but this indicator masks persistent income disparities due to the nature of the nation's economy. While the country has high development indices relative to other countries in sub-Saharan Africa, there is much poverty, with more than 250,000 people considered poor, and considerable unemployment given the country's size and scale, and no unemployment insurance (CIA, 2015).

Botswana has invested in and jointly managed the mining sector through 50/50 joint ventures between the state and foreign mining firms, something very few countries have done. While large, foreign companies still dominate the mining sector, the country earns more from mining than its neighbours, but far short of what it could theoretically generate. In the coming years, the mining sector is expected to grow at an average rate of 3.7 per cent based on growth in diamond and coal production, reaching a value of US\$6.13 billion in 2017 (KPMG, 2014, p. 21). However, according to *African Economic Outlook*, the sector faces elevated risks emanating from continued depressing market conditions, especially the potential slowdown of emerging economies. Only the expansion in diamond cutting and polishing activities and the commissioning of a steel manufacturing plant can support mining growth prospects in the medium term (Honde & Abraha, 2015). The Government of Botswana has focused on the export of diamonds, which has allowed the country to maintain one of the world's highest economic growth rates for decades since independence, when its early openness attracted foreign aid and investment for an export-oriented productive infrastructure. Diamond mining has fuelled much of the growth and currently accounts for more than one-third of the country's GDP of US\$36 billion, 70–80 per cent of export earnings, and about one-third

of the government's revenue. But the country's long-term economic prospects are unclear, with an estimated GDP growth rate of 4.4 per cent in 2014 and diamond production expected to level off in a decade or so. Given its dependence on a single luxury export, the country saw a sharp economic contraction in 2009 in line with reduced demand for diamonds following the 2008–09 global financial crisis, its industrial sector shrunk by 30 per cent (CIA, 2015). It can be argued that Botswana has already entered "the post-diamond period," as projections indicate that diamond resources could be depleted by 2029, which would lead to a sharp fall in fiscal revenue (Basdevant, 2008, pp. 4–5).<sup>1</sup> Besides diamonds, other important minerals in Botswana include copper, nickel, and coal (KPMG, 2014). Prospecting for gold, uranium, and even oil has returned positive results. Tourism, financial services, subsistence farming, and livestock are the country's other key economic sectors (CIA, 2015).

Today, Botswana is one of the most stable countries on the African continent, having successfully managed its natural resource abundance to create sustained economic growth and relatively effective state institutions, although inequalities and marginalization of some communities still exist. In Botswana, diamonds have been a particularly lucrative source of revenue for the central government and have assisted the country in achieving decades of sustained economic growth, making it one of the wealthiest and most stable states on the continent. Vast diamond reserves and other precious minerals have long been pillars of wealth for Botswana, driving the country's impressive growth rate for decades. While the country has employed strong government intervention in its economic development, until recently there has been no hostility towards private sector involvement; rather, foreign private sector actors have continued to be important players in Botswana's mining sector.

Schoneveld and Zoomers (2015, p. 106) argue that Botswana has been one of the few countries in sub-Saharan Africa that has lessened, though not completely eliminated, the risks associated with large resource endowments, primarily thanks to accountable and transparency political systems, strong anti-corruption measures, and effective human development reinvestment schemes. The country ranks high, both regionally and globally, in terms of government effectiveness, voice and accountability, quality of regulations, and control of corruption, which all have a direct bearing on natural resource management. The country's good, stable, and progressive institutions, notably in matters

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<sup>1</sup> Interview with the United Nations Development Programme officials, August 3, 2015. For a comprehensive study on the depletion of Botswana's diamonds and consequences, see Grynberg, Sengwaketse, and Motswapong (2015).

of private property, have helped attract and retain private sector investment over the past decades, particularly in the extractive sector.

Botswana is one of the world's largest exporters of natural resources amongst more than 160 countries for which data is available. Botswana has taken measures to diversify its economic base from a reliance on diamonds. However, strong growth in the long run may not be sustainable if the private sector does not play an enabling role to promote forward and backward linkages in the economy and the diversification necessary to bridge the income gap and alleviate poverty. Moreover, government plans to diversify its economy away from a reliance on natural resource exports have, until quite recently, been unsuccessful. Extensive and specified foreign investment in the natural resource sector has constrained government, preventing it from benefiting from backward and forward linkages and labour market externalities.

This paper investigates the topic of sustainable natural resource governance and policy and politics thereof in the context of Botswana. Broadly speaking, the paper contributes to new knowledge on sustainable resource governance. Particularly, the authors argue that Botswana as a principal country of investigation is a potential role model, and a site of deep study for researchers of contemporary sustainable resource governance. This is especially when consideration is taken of non-traditional, external investment and international relations sources (i.e., countries). To inform this argument, semi-structured interviews were conducted in July and August 2015 with individuals attached to the Mining Engineering Department-University of Botswana, Ministry of Mines, United Nations Development Program, Business Botswana, Botswana Confederation of Commerce and Manpower, Mosienyane and Partners International, Premier Discovery (a locally owned and operated mining firm), Botswana Ministry of Mines, Botswana Institute for Development Policy Analysis (BIDPA), and Botswana Chamber of Mines. All interviews were conducted in confidentiality, and the names of interviewees are withheld by mutual agreement.

This paper, first, continues the investigation into the existing fiscal and legislative regimes in the country, providing necessary contextualization by examining the ability of these institutions to facilitate or inhibit economic diversification, linkage promotion, and the sustainable management of emerging state partners. Second, the authors build from this discussion to investigate Botswana's approach to economic diversification, the leveraging of existing resource wealth to provide long-term support for other sectors, and especially the challenges and pitfalls it has thus far faced. Third, the work continues by emphasizing Botswana's experience with linkage promotion and its capacity to promote economic diversification. Fourth, the paper concludes with a brief exploration of regional

value chains and the challenge of burgeoning interaction and influence by non-traditional, resource-hungry state partners. Collectively, these four sections work to frame whether Botswana is truly a regional model for sustainable, progressive, diversified, and inclusive resource governance.

## **1. Botswana's "Natural" State of Affairs – Policy and Fiscal Regimes**

As noted above, Botswana is often argued to be a model success story for the African continent due to its natural resource governance and long-term, sustainable growth. But, by what means has this occurred and what challenges does the country continue to face? The United Nations Development Programme (UNDP) and United Nations Environmental Programme (UNEP) confirm that diamond mining has been and continues to be the largest contributor to Botswana's GDP output and government revenue, averaging roughly 80% of total export value between 1992 and 2012. Apart from this, Botswana has natural stocks of copper, nickel, soda ash, salt, coal, and precious metals such as gold (Natural Resource Governance Institute, 2015). The Government of Botswana believes that coal might be a possible alternative to diamonds when the latter's reserves are depleted, for the country is host to an estimated 208 billion tons of coal and 11 identified coalfields, although only 23% of those deposits have been deemed economically viable for extraction (Harvey, 2015, p. 2). The challenge with coal, however, is the availability of export markets, particularly amidst trends in international politics regarding agreements on reducing climate change impacts, and recent announcements by China of plans to limit coal imports (Harvey, 2015, p. 3). Harvey also suggests that Botswana might be home to rich deposits of iron ore, which could fuel a domestic steel industry, supplying critical infrastructure materials for the continued development of the South African Development Community (SADC) region, but geological evidence from sampling and drilling has not yet produced enough conclusive data to attract direct foreign investment (Harvey, 2015, p. 3).

Corrigan (2014, p. 18) argues that two main factors determine whether a country will suffer from the so-called "Resource Curse": an abundance of natural resources within its borders, itself a natural phenomenon outside state control; and the quality of its oversight institutions. She argues that the success of Botswana's institutions, both policy and fiscal and in the same vein as those in Norway, have prompted academics and researchers to revisit the threshold of institutional effectiveness, maturity, and number for achieving meaningful resource sustainability (Corrigan, 2014, p. 18). The government has a solid trend of leadership and is credited with prudent management of natural resources. The Ministry of Minerals, Energy, and Water Resources (MMEWR), which house the

Department of Mines, oversees the operations and development of the extractive sectors.<sup>2</sup> Mining operations are administered under the Mines and Minerals Act of 1999, which allows the government to acquire a minority stake (generally 15 per cent) in mining projects as a partner, and to seek participation in mining projects through representation on company boards.<sup>3</sup> Furthermore, Botswana has relatively low levels of corruption.<sup>4</sup> Botswana's governance scores are also very high according to the Ibrahim Index of African Governance, although the index reports a broad trend of deterioration in the country since 2011.<sup>5</sup> Government is credited with achieving a good track record when it comes to transparency, accountability, rule of law, and security of tenure (a constitutional guarantee that those holding elected office may not be removed for their term, except in specific circumstances).<sup>6</sup> Land tenure in the country is respected thanks to good governance and cultural structures based on the strong, pre-colonial legacy of tribal political systems, such as the kgotla system, a participatory democracy mechanism for traditional conflict resolution mostly used in villages (Motlhabane, 2015, p. 7).

Paralleling the country's political and policymaking institutions, Botswana's fiscal regime appears to maximize the capture of resource rents while promoting foreign direct investment (FDI). However, the government is revising and updating various pieces of mining legislation. Venables (2016, p. 167) suggests that Botswana's ability, amidst De Beers' veritable monopoly over the diamond sector, began right at the beginning of their relationship. Recognizing the sectoral and material power of the company, Botswana opted to forgo traditional license auctions and instead negotiated diamond extraction rights directly. In addition, Collier (2017, p. 222) notes that Botswana took the interesting step of advocating and solidifying national ownership of diamond reserves prior to their discovery and subsequent extraction. The intention, Collier claims, was to remove self-interested motivations of regional clans to contest national-level legitimacy in resource control, and to create a supportive foundational national identity. Indeed, government revenues from taxes have consistently increased since financial year 2010/11. Non-mineral income taxes and mineral royalties and dividends have grown since 2010, benefiting from effective measures to limit illicit financial flows and reduce tax avoidance.<sup>7</sup> Despite limited diversification and overreliance on mineral revenues, the

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<sup>2</sup> For relevant mining legislation, see <http://www.mines.gov.bw>

<sup>3</sup> The Act regulates the issuance of exploration and mining licenses and tries to reach a balance between mining activity and environmental impact.

<sup>4</sup> See <https://www.transparency.org/country/#BWA>

<http://www.resourcegovernance.org/our-work/country/botswana>

<sup>5</sup> See [http://static.moibrahimfoundation.org/u/2015/10/02201308/04\\_Botswana.pdf](http://static.moibrahimfoundation.org/u/2015/10/02201308/04_Botswana.pdf)

<sup>6</sup> Interview with Mining Engineering Department-University of Botswana professor, 5 August 2015.

<sup>7</sup> See <http://www.gov.bw/Global/AMFDP/Budgetspeech/2015/2015BudgetinBrief.pdf>

overall tax system is efficient at the present time, although its long-term sustainability may be questioned.

Botswana follows a progressive taxation regime that excludes any amount of gross income of a capital nature. Key taxation features include:

- Income accruing from different businesses is deemed to accrue from one business, except for capital gains and income from farming and mining.
- Farming, mining, and prospecting income/losses and capital gains/losses are treated separately.
- Assessed losses from business can be carried forward for no more than five years, except for farming, mining and prospecting losses, which can be carried forward indefinitely.
- Capital losses can be carried forward for one year only.
- Special provisions apply to International Financial Services Centre companies and approved manufacturing and mining businesses.
- Mining capital allowances are granted up to 100 per cent of any mining capital expenditure.

Notably, the budget proposals for 2013–14 amended the Income Tax Act—changes included increased transparency and exchange of information between Botswana and other tax jurisdictions, and a provision that the 10 per cent withholding tax on bank and building society interest in excess of the exempt 7,800 pula (approximately \$1000.00 CAD) payable to resident individuals shall be the final tax—and Value Added Tax Act, where the definition of capital goods was expanded to include mining capital expenditures.

Corporate income tax rates differ for resident and non-resident companies. For resident companies, taxable mining income (excluding diamonds) is 22–55 per cent. Other rates, such as approved manufacturing taxable income and accredited innovation hub business taxable income, are as low as 15 per cent. Non-resident companies must pay a standard tax rate of 30 per cent. A value-added tax is imposed broadly on an end-user basis at a rate of 12 per cent on standard-rated supplies. Since the Amendment Act of 1998, profits from diamond mining for both resident and non-resident companies are taxed according to the following formula: Annual tax rate = 70 per cent – (1500/X) per cent, where X is the profitability ratio given by taxable income as a percentage of gross income (KPMG, 2014, pp. 14–16). According to this formula, corporate tax rates increase with a company's profitability (Korinek, 2013).

The mining sector provides approximately half of all government revenues (Jefferis, 2009, p. 63), and fiscal discipline and sound management have enabled Botswana to become a



middle-income country (CIA, 2015). The amendments in the Income Tax Act should help reduce tax avoidance. The corporate income tax rate for non-resident companies is standard for sub-Saharan African countries, allowing the government to be competitive in other respects. Rather than retaining a fixed percentage of sales, the government gains royalties (10 per cent for precious stones, 5 per cent for precious metals, and 3 per cent for other minerals or mining products) and taxes through profit-sharing agreements with and holding equity in specific companies, such as De Beers and Anglo American. This has allowed the state to retain a significant portion of the wealth generated by the diamond industry, as well as hold significant shares of profitable ventures and fewer shares of less profitable ventures without deterring new investors (Leith, 2005). Notably, Botswana's diamond deposits occur in narrow "pipes" that can only be extracted in specific locations, which are inexpensively and effectively monitored to ensure government royalties match production (Dougherty, 2011, p. 10). Furthermore, a "fair, flexible" agreement between the government and De Beers gives the government broad regulatory and monitoring powers (Dougherty, 2011, p. 24). The national fiscal regime is relatively simple, without an additional profits tax on special mining licenses or reduction of the withholding tax on expatriated dividends, but rather a gradual increase of the tax for investors domiciled in tax havens. The government allows for 100 per cent repatriation of profits and there are no exchange controls. Notably, there is no practice of permitting the retention of resource rights against the payment of retention fees (KPMG, 2014, pp. 10–11). Botswana has not signed the Extractive Industries Transparency Initiative (EITI) because the government asserts that it employs a superior model that other resource-rich African countries should follow.<sup>8</sup>

Keith Jefferis (2009, p. 88) posits that Botswana's policy towards dealing with investors in extractive industries is "generally considered to be amongst the best in the world." The open and transparent mineral licensing and taxation regime facilitates private investment by encouraging investors not through low taxes, but rather with an appropriate tax rate—low for marginal mines and high for established and profitable operations—that yields a fair rate of return for investors yet enables the government to secure revenue for the country's benefit. Over the years, surpluses have been amassed and used to create foreign reserve funds, currently totalling 10 billion pula, for future generations. Importantly, under current fiscal rules, debt may not be accumulated. Olivier Basdevant (2008, p. 12) argues that "Botswana's diamond reserves cannot generate enough permanent revenue to sustain high expenditures. Investment in infrastructure and human capital, which is critical for diversification and growth, could be financed with debt, which would reduce the magnitude of the short-term fiscal adjustment." However, the government has

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<sup>8</sup> Interview with Botswana Confederation of Commerce, Industry, and Manpower officials, 31 July 2015.

specified that all mining companies should pay a 1 per cent tax, called a training levy, to train prospective employees. The tax goes into a private fund run by the government due to transparency issues.<sup>9</sup>

Two additional developments should be cited as defining Botswana's legislative and policy context. First, the government has set up a mining investment company, the Minerals Development Company of Botswana, to take up the government's considerable interest in the mining sector. It supports the government's strategy in the mining sector and facilitates mergers and acquisitions. Second, Botswana, like Norway, has established an active sovereign wealth fund, aptly named the Pula Fund. The Fund is not beholden to current resource revenue levels and allows the country to reinvest additional revenues abroad when they do not immediately meet existing government spending and investment criteria (Venables, 2016, p. 171). Fund activities are supported by a powerful and professional Ministry of Finance and Development that controls and prioritizes government spending, as well as aids in the maintenance of fiscal responsibility (Venables, 2016, p. 173).

## **2. Diversification of the Economy**

While strong political, legal, and economic institutions are an essential ingredient of Botswana's position as an African success story and model for best practices in sustainable resource management, establishing and acting on a normative change away from single-resource reliance is equally important. Without meaningful action from institutions, systems, and structures based on defined, concrete objectives, they might exist without purpose. Diversifying Botswana's economy away from its dependence on diamonds is a core part of the government's mineral policy, but unfortunately key discussions are centred on diversification to other minerals rather than other sectors of the economy. Still, buying equity in mining operations is a way to employ local workers and strengthen local ownership and management.<sup>10</sup> There is limited labour unrest in the country and labour unions engage in little industrial action, which could either translate to better business confidence in the country or be a potential indicator of poorly managed and organized labour organizations. To bring down the unemployment rate, around 18 per cent (CIA, 2015), economic diversification away from mining, which is not a labour-intensive sector, is crucial going forward. Jefferis (2009, pp. 88–89) demonstrates that the mining sector's three main weaknesses are the relatively small direct employment impact, the lack of downstream processing and value-added activities, and the lack of locally owned firms in the sector. He argues that government policy should focus on

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<sup>9</sup> Ibid.

<sup>10</sup> Interview with Mining Engineering Department-University of Botswana professor, 5 August 2015.

value addition based on Botswana's mineral resources, the development of competitive local supply chains for the mines, and joint ventures between local and foreign investors to support the emergence of local entrepreneurs in the sector, with the government's right to hold equity in mining projects possibly being used as the basis for such participation. According to former cabinet minister David Magang, full employment is possible in the country, but can only be achieved through support for small and medium-sized enterprises (SMEs) (Tabane, 2015).

Efforts to diversify Botswana's economy include many interwoven strategies. The Business and Economic Advisory Council (BEAC) was established in 2005 and the Economic Diversification Drive (EDD) was introduced in 2010 (see Motlhabane, 2015).<sup>11</sup> The BEAC recommended creating an enabling environment that stimulates economic openness, promotes local and foreign investment, and encourages a conducive mindset in the population through citizen economic empowerment initiatives that support self-reliant entrepreneurs and producers of goods and services. Policy coherence within the government and private sector and dynamic institutional and regulatory adjustments are crucial to creating such an enabling environment. More specifically, the BEAC recommended deregulating, commercializing, and rebuilding the livestock sector by improving the Botswana Meat Commission's operational and marketing efficiency, and by investing in high-value crops and agro-industry projects, promoting medium-cost, high-volume tourist destinations, and creating free zones to attract FDI and new business activities in information technology and communications, biotechnology, and specialized medical fields through tax, land, and labour incentives. To complement the free zones, the BEAC recommended that transport, innovation, and diamond hubs should be established, involving pockets of diversified sectors attracting local and international investors and enabling business linkages, and developing areas of excellence through a management training school, institutions with practical training, public health management specializing in HIV/AIDS, and regional centres for training in hospitality and sustainable development. Such efforts have been underway since 2006.

The EDD is a five-year "master plan" for product and market diversification within the mineral, agricultural, service, and manufacturing sectors, and includes short-term government support and protection to eventually establish a market-determined private sector with little government intervention. The strategy has the following thematic priority areas, with the first two the core and the rest providing support: (a) sectoral

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<sup>11</sup> Other initiatives, such as the business-to-business exposition Global Expo Botswana, which promotes economic diversification through export-oriented FDI and domestic expansion, exist to promote international trade and investment.

development and business linkages; (b) export development and promotion; (c) investment and finance; (d) quality control, standards, and production; (e) technological development, innovation, and transfer; (f) research and development; and (g) entrepreneurship development. With such objectives as developing globally competitive sectors and making the country an investment destination, deliverables would include more sources of economic growth, diversified sources of fiscal revenue and export earnings, industrialization, entrepreneurship development, and employment creation. The EDD outlines roles and responsibilities for all stakeholders and implementation, monitoring, and evaluation strategies, but implementation and results have been negligible due to low political will, a worsening business environment tied to bureaucratic red tape, skills shortages, and the mindset of the population, which includes poor work ethic, unreliability, low productivity, and lack of entrepreneurship. Notably, the government's dominance in the economy (it generates the most revenues and investments in the country and is both the main shareholder of diamond revenues and the biggest employer) has stifled the role of the private sector, while cultivating a wealthy government class and a poor, dependent citizenry (Motlhabane, 2015, pp. 11–17).

According to the minister of Mines, the government has “failed” to promote diversification over the years and the country continues to face skills shortages, such as in the field of mining engineering.<sup>12</sup> Botswanan citizens hold managerial positions at mines through Debswana,<sup>13</sup> but foreigners are needed for technical expertise. The country's education system is geared toward white-collar work, not to fill demands in the mining sector, although a bachelor degree in mining engineering was recently introduced at the University of Botswana, with the final year done at a university in the United States. In terms of education and training initiatives, the government's inter-ministerial Minerals Policy Committee is working to leverage the country's mineral wealth by promoting skills transfer and adequate employment opportunities for the country's youth, who make up the bulk of the population. In the mining sector, the government finances most of the training at mining companies (not a common occurrence in developing countries). Each mining company has a localization plan to ensure locals are trained and employed, but implementation has been slow.<sup>14</sup> For every 100 people trained by mining companies, an additional 10 are trained outside the mining sector as part of Corporate Social Responsibility (CSR) policy. The Botswana Qualification

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<sup>12</sup> Interview with Ministry of Mines officials, 7 August 2015.

<sup>13</sup> Debswana is the world's leading diamond producer by value. It is joint venture between the Government of Botswana and South African diamond company, De Beers which each holding a 50% stake in the company.

<sup>14</sup> Interview with Mining Engineering Department-University of Botswana professor, 5 August 2015.

Authority provides leadership in quality control and standards, which are required in the transfer of expertise and knowledge through training at mining companies. It receives government support to improve local skills through financing and capacity building, particularly with regard to mining sector technology. However, there are no specialized training facilities in Botswana catering to the mining sector and there are no laws regulating length of training at mining companies, which tend to train locals for only a short period of time.<sup>15</sup>

### **3. Linkages Promotion**

This paper argues that an additional pillar and justification for Botswana's position as a leading case for successful resource governance and management is its success with linkage promotion, normally understood as the creation of value through the procurement of operationally required goods and services upstream, or the further processing of a natural resource downstream. Following independence, the government prudently invested income from early investments by international aid agencies and returns on FDI in further productive capacity and basic supporting infrastructure, such as electricity, telecommunications, and water distribution systems, schools, health clinics, and housing throughout the country, with a view to foster other economic sectors. Ten years after independence, capital stock in the diamond industry was larger than the government's capital stock; by 2000, the government's capital stock was more than five times larger than that of the diamond industry. Diamond mining spurred indirect growth through government revenue reinvested in non-traditional export crops and the livestock industry, with exports mostly going to neighbouring South Africa (Dougherty 2011, p. 10). Botswana has pursued a political agenda of unity, equity, industrial diversity, and social and infrastructure investments. Since independence, the government, which has often been made up of political and economic elites, has mitigated potential adverse economic and social impacts on ethnically diverse tribes by fostering Botswana nationalism and development that equally serves diverse constituents (Dougherty, 2011, p. 12). Development outcomes in areas such as health and education have been mixed. For example, one quarter of the population has HIV/AIDS, one of the highest rates in the world, which suggests that resources that could be used for economic development are being diverted to health-care services, although over 80 per cent of rural residents have access to healthcare facilities. Regarding education, revenue from diamond mining has been instrumental in the significant increase in educational provision in the country. Primary school enrolment has grown at 4.8 per cent annually on average and over 50 per cent of students are female. Still, qualitative gaps persist (Dougherty, 2011, p. 9).

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<sup>15</sup> Interview with Ministry of Mines officials, 7 August 2015.

Botswana's infrastructure remains underdeveloped relative to South Africa, which has engaged in massive infrastructure construction for gold mining and exporting.

Various entities boost local content and linkages promotion in both the upstream and downstream sectors. Associated with the Botswana Investment and Trade Centre, Business Botswana is an advocacy organization that lobbies for private sector economic interests. For example, it is working to reduce the number of days it takes to open a business. The National Doing Business Committee reforms structures to speed up and streamline business processes. Registering a company is very fast (approximately five days) and easy, but closing a business is lengthy and bureaucratic. Notably, Botswanan citizens' companies do not pay certain taxes (depending on the sector and percentage of local ownership). The Citizen Entrepreneurial Development Agency was created to promote local entrepreneurship, SMEs, and joint ventures.<sup>16</sup> Citizens come with their own funds and receive training through the agency. The Local Enterprise Authority, established by the Small Business Act of 2004, mentors SMEs by offering technical advice on running a business. Interestingly, if project bidding takes place, the government will award a project to a citizen over a foreign company if the projected costs in the bids are within 15 per cent of each other. Such preferential treatment has been offered since 2000 and has worked well to provide projects to citizens who might not otherwise have qualified. However, that extra allowance in the bid is not to be left with the Botswanan company as profit. The local entrepreneur must return it to the government in the form of skills development, training, and development.<sup>17</sup>

Local content in the mining sector is very much at a nascent stage. The government seeks to create secondary industries around the diamond industry that support mining companies. To date, it has focused on supporting consumables to be used as spares within the mining sector, such as nuts, bolts, and chemicals. As it stands, however, few local entrepreneurs have the ability to act as local suppliers. Regarding the upstream sector, here understood as exploration activities, the current mining law does not promote or necessitate local indigenization or joint ventures.<sup>18</sup> With regard to precious metals, junior companies usually engage in prospecting, leaving actual mining and refining to larger mining companies. Despite exploration activities across the country, companies have not kept up with their local training requirements, as stipulated in CSR policies.<sup>19</sup> Furthermore, mining law does not require foreign entities to partner with local firms,

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<sup>16</sup> For more information, see <http://www.ceda.co.bw>

<sup>17</sup> Interview with Botswana Confederation of Commerce, Industry and Manpower officials, 31 July 2015.

<sup>18</sup> Interview with Ministry of Mines officials, 7 August 2015.

<sup>19</sup> Interview with Botswana Confederation of Commerce, Industry and Manpower officials, 31 July 2015.

unlike some other neighbouring countries where it has helped greatly when required. The experiences and policies of these countries could be instructive. Notably, a public-private partnership policy is currently in place, but the government has been slow in promoting and implementing it.<sup>20</sup> The downstream sector in the diamond industry—referring to cutting and polishing, jewellery manufacturing, and support services—is also at a nascent stage because it is hard to achieve commercial viability due to competitive pressures on operating margins. Access to finance remains a major impediment in developing and expanding local entrepreneurship in the mining sector. For instance, promoters of value addition are confronted with large overheads, which results in lower profit margins detrimental to business.<sup>21</sup> Moreover, low global market prices for polished diamonds make it difficult for Botswana to promote polished diamond exports when polished diamonds fetch the same price as raw diamonds. Interestingly, high-quality synthetic gems, particularly from small producers in China, pose a challenge to industrial diamonds and, therefore, Botswana's economy by creating uncertainty about the direction of gem prices, which depend, in part, on technological proficiency, low costs, and the market's acceptance of synthetic diamonds (see Grynberg, Sengwaketse, & Motswapong, 2014). According to changes in comparative advantages and global market prices, however, mineral-processing ventures could hold greater potential.

Procurement is a major area of action that deserves special attention, particularly with regard to alternative energy resources. It has been estimated that total procurement per year by mining companies is worth 30 billion pula, or roughly CAD 4 billion. The government is pursuing a project, led by the minister of Trade and Industry and minister of Mines and formed by procurement managers from all the mining companies, to promote local manufacturing and service delivery. The project involves looking at the purchasing requirements of mining companies and engaging SMEs through funding and mentorship to boost local procurement and supply necessary equipment and food to mining companies. Quality and pricing are important in promoting local procurement of mining technology. If Botswanan bids are successful, skills transfer through project implementation is possible. Notably, there is a government tender for technology that would supply energy for specific mines, as the high cost of diesel recently led to the closure of a mine. Solar power may one day become a viable option. The government is also looking for mechanisms that would allow for investors to sell excess energy capacity to the national grid, which could then be sold to villages. Moreover, the government has the option to bring in a partner involved in the mining sector to set up a manufacturing base or encourage mining companies to invest in building a smelting plant in Botswana.

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<sup>20</sup> Interview with Botswana Confederation of Commerce, Industry and Manpower officials, 31 July 2015.

<sup>21</sup> Interview with Mining Engineering Department-University of Botswana professor, 5 August 2015.

However, it has been argued that it is not necessary to build a smelting plant in the country because it does not make sense given the relatively small market, high production costs, high energy costs, and low water reserves. It might make more sense for the smelting plant to be based in another country in the region, catering to the region's industrial and manufacturing needs and employing workers from neighbouring countries as part of a regional value chain.<sup>22</sup>

#### **4. Regional Value Chains and the Challenge of New Partners**

Botswana should be well regarded by external observers and policymakers for its contribution to regional value chains or the coordination of production through multiple sites and suppliers, albeit not without the challenge of new “partners.” Botswana is a member of the 54-country African Union and complementary 15-country SADC, which means that there are economic cooperation and integration schemes in place that Botswana can choose to implement. The African Union's Africa Mining Vision, a long-term continental project to secure broader benefits for all who provide support for domestic reforms, is the most important for regional natural resource governance going forward, with the African Minerals Development Centre's Country Mining Visions a particularly useful implementation tool (African Union, 2009). For other economic sectors, the African Union's Accelerated Industrial Development of Africa initiative deserves attention, especially because it features numerous regional actions, such as the development of regional financial and capital markets, and promotes cross-cutting industrial components of other strategies, such as those of the New Partnership for Africa's Development (African Union, 2011). Notably, the SADC recently launched *SADC Industrialization Strategy and Roadmap 2015–2063* (SADC, 2015), which focuses on technological and economic transformation and features regional integration as a pillar. Interestingly, the Government of Botswana receives more revenue from the Southern African Customs Union than diamonds.<sup>23</sup> Removing trade barriers, such as different product standards and tariff regimes, is required for promoting regional and local value chains.<sup>24</sup>

Regarding approaches to boost regional value chains, especially with regard to processing diamonds, copper, and nickel, and supporting locally owned firms in value addition, the best place to start is the BEAC-recommended transport, innovation, and diamond hubs (Motlhabane, 2015, p. 11). For instance, Gaborone's Diamond Technology Park is a key part of the government's vision for establishing the downstream sector for

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<sup>22</sup> Interview with Premier Discovery officials, 4 August 2015.

<sup>23</sup> Interview with the United Nations Development Programme officials, 3 August 2015.

<sup>24</sup> Interview with Botswana Confederation of Commerce, Industry and Manpower officials, 31 July 2015.



the diamond industry, serving as a supply chain cluster that creates opportunities for SMEs.<sup>25</sup> Such hubs can act as sites for synergies and cost reductions in tandem with multinational corporations establishing regional headquarters in Botswana, as some mining companies have done. According to the Botswana Confederation of Commerce, Industry, and Manpower, beneficiation initiatives should revolve around economic centres, with the idea being that there should be hubs in each region of Africa according to an abundance of critical resources, such as human capital, energy, and water.<sup>26</sup>

An example is the relatively strong partnership and trade relationship that Botswana had, until recently, enjoyed with China, growing out of the latter's construction boom in the 1980s (Ndlovu, 2014). Botswana trade with China accounted for USD 147 million as of 2007, thanks to that nation's emergence as one of the world's largest consumers of luxury goods and precious metals, including diamonds (Chen, 2009, p. 4). Indeed, in 2011, China was Botswana's third largest import supplier and the 12<sup>th</sup> largest destination for exports from the latter, although both have largely been dominated by raw materials and intermediate goods (Sekakela, 2014, p. v). China has since invested in Botswana's infrastructure construction, airport, transport lines, electrical systems, textiles, and wholesale and retail industries. Chen (2009, p. 5) reported that in 2009 there were as many as 36 Chinese state-owned enterprises and private firms operating in Botswana, although few directly in the country's mining and minerals sector. Leading academics and public officials have endeavoured to describe the relationship as one of unity, enduring friendship, and economic and cultural cooperation (Kebonang, 2013; Ndlovu, 2014).

Tensions have been rising between the two countries of late, with a growing number of commentators and Botswanan public figures expressing displeasure at what they describe as "shoddy workmanship" from Chinese companies, while others, including politician Mothaleemang Moalosi, arguing that this relationship has killed the local supplier and contractor market (Ndlovu, 2014). Indeed, the Chinese embassy in Gaborone was closed by Beijing in 2016 after Botswana took a public position condemning China's position on the South China Sea<sup>27</sup> (Poverty Environment Initiative, 2016). If these tensions continue to mount, Botswana will be looking for additional partners to help fill the technical, financial, and materials void left by China, especially if it seeks to develop emerging economic sectors via support from external partners.

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<sup>25</sup> For more information, including a list of tenants, see <http://www.diamondtechnologypark.com>

<sup>26</sup> Interview with Botswana Confederation of Commerce, Industry and Manpower officials, 31 July 2015.

<sup>27</sup> China has both island and maritime claims with Brunei, Taiwan, Malaysia, Brunei, Vietnam, Indonesia and the Philippines.

## Conclusion

Minerals have been a boon for Botswana and this paper has argued that the rest of Africa can learn from the government's policies governing multinational corporations operating in the mining sector, particularly in terms of attracting investment. But Botswana could learn much from others in terms of economic diversification and linkage promotion. Indeed, Botswana must face the challenges of emerging influence from external actors, especially those who have an interest in its natural resource endowments, lessons that might be garnered from its regional neighbours.

But in certain ways the mining sector has impeded progress. The country continues to experience relatively high unemployment, a continued dependence on the diamond industry in the midst of dwindling reserves and global prices, and, in many cases, a lack of local content. According to Motlhabane (2015, p. 16), "Ineffective policies and strategies, lack of due diligence and corruption, a restrictive business environment and inadequate skills development have held Botswana back." Arguably, Botswana is underperforming due to government policy incoherence, insularity, and disregard for best practices employed elsewhere in the world (like the EITI), all of which restrict job creation and subsequently do not create a favourable business environment for diversification (see Magang, 2015). Revenue from diamond mining might be making the government complacent. There are government officials who want to maintain the status quo, including the lack of beneficiation and local content in the mining sector because they benefit from deals with mining companies.<sup>28</sup> This reduces the necessary will and proactivity of leadership to engage in economic diversification. However, this is not an impossible challenge for the country, as modest growth from non-mining activities has been reported in recent years (Honde & Abraha, 2015). Nevertheless, political economic efforts still focus on diversification in the form of other mining rather than other economic sectors. That the country is not ready yet to fully engage in genuine diversification explains the limited success reported to date.

Diamond beneficiation and economic diversification are critical over the medium to long term for economic and market stability. Regarding economic diversification, the government should cultivate an enabling environment for FDI in labour- and technology-intensive sectors and must consider extractive agreements as a complement to such an industrial mix (see Dougherty, 2011). Incorporating new incentives into the fiscal regime could achieve this goal. A careful, gradual approach is needed to diversify away from

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<sup>28</sup> Interview with Premier Discovery officials, 4 August 2015.

reliance on diamonds for employment and job retention.<sup>29</sup> Local communities have yet to reap the full benefits of mining investments, and so partnerships between investors and locals could be improved. This, in particular, must change if Botswana is to emerge as a best practices model for other countries, both in its immediate region and elsewhere on the continent.

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<sup>29</sup> Interview with Botswana Confederation of Commerce, Industry and Manpower officials, 31 July 2015

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