Political Risk Analysis: Botswana

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# Introduction to a Political Risk Analysis of Botswana

Botswana, often called the “African Miracle,” is perceived as such because of its exemplary political system, based on an adherence to liberal democratic principles, and its economy, which brought it from one of the poorest countries in Africa to one the World Bank classifies as an “upper middle-income” developing country (Dunning 460). Those factors have contributed to its stability and prosperity since its independence from British rule in 1966 (State.gov 2010). And while this description of Botswana is accurate, it is important to note the potentiality of political, economic and social risks that may render these facts misleading. The political variables analysed below are as follows: political culture within civil society and within the government, quality of political leadership, predictability of domestic political action, and predictability of foreign policy. Economic variables include growth, prospects for diversification, availability of resources, and import dependency. Social variables are inequality, education, and health. Each variable has then been rated on a 1 to 10 scale – one being of lowest risk, and 10 being of highest risk – and weighted according to an informed judgment on the factors contributing to political risk. All of these will be combined to create a final figure that will indicate the political risk factor for a prospective investor in Botswana for a period of 15 years.

# Political Variable Analysis

The political culture of Botswana must be divided into two parts: that of the government and that of the people. The government of Botswana is a “functioning electoral democracy,” however it is one “marked by illiberal authoritarianism and presidentialism characterized by elitist top-down structures” (Good & Taylor 2008). The president, elected indirectly by parliament, holds supreme (and increasing) executive power (Holm 1987). The nature of the political elite is complex, as its members possess the majority of the country’s wealth. This implies little division exists between politics and economics; therefore the interests of the two coincide and are thus carried out in favour of politicians (Good & Taylor 2008). This could pose a threat to the stability of the governments if those politicians’ interests clash. Evidence of this has recently shown itself in the deliberate unification of opposition parties to counter the Botswana Democratic Party (the ruling party since independence) (Country Report 2007). The 2004 elections showed these attempts to be weak and ineffective, but it should be noted that the attempt was even made.

The political culture of the citizens, however, is of a different nature, with limited threats to the country’s stability. It is defined by a history of adhering to traditional and communal values, which accounts for the low participation in national politics (Good & Taylor 2008). This apathy reveals itself in the fact that “only a very small number of politically active interest groups have developed outside of, possibly, the trade union area. The main economic interest group – cattle owners – does not have any sort of organized voice” (Holm 1987). Botswana’s class structure comprises a massive lower class, a small middle class, and an even smaller elite (Good & Taylor 2008). The threat of revolt or political instability due to lower class unrest is unlikely. That is not to overshadow the rise of union unrest. While notably beneficial to private investors, whom Botswana seeks to attract, the country’s policy history shows that business takes precedence over the people (Keorapetse 2010). Until the passing of the Trade Disputes Act and the Public Service Act, union action was thwarted by the government. Some, however, are asking whether these Acts, which allow unions to organize “lawful action” and give them immunity to liability, will change the political nature of Botswana (Keorapetse 2010). Trade unions are becoming a “hallmark of [Botswana’s] political economy,” for they “comment on political issues and grace oppositional political parties’ fora” (Keorapetse 2010). This is certainly a recent countertrend to the political apathy seen in civil society before. And, while not yet a major threat, it could develop as such.

Though Botswana is, as noted by Transparency International and the African Governance Report of 2009, one of (if not) the least corrupt states in Africa (State.gov 2010, AGR II 2009), this must be contextualized. Elections in Botswana are reported to be fair and regular (AGR II 2009). Presidents of Botswana have increasingly sought more and more executive power, and President Khama is no exception (Grill, 2008). There is a potential risk of corruption in the long run if the BDP and its president in power formulate policy to suppress what seems to be an increasing opposition (perhaps led by trade unions demanding political rights). As noted, the “BDP ruling elite was never anti-colonist or African nationalist. They were wealthy men with a personal stake in the economy” (Good & Taylor 2008). Currently, the government does a commendable job of distributing resource wealth and providing needed infrastructure. But elitist-made, and thus capital-centred, policies will inevitably conflict with the people’s demands – as is occurring. Since independence, elitists have faced little to no opposition from society (Dunning 2005); therefore there is no precedent for how government would respond.

While domestically Botswana’s governmental system is relatively predictable, its foreign policy is not. The president of Botswana holds all executive power, and therefore decisions are not based on a systematic approach; the president often makes single-handed decisions to act in ways that upset the Botswana-South African relationship, namely regarding Botswana’s relationship with Zimbabwe’s President Mugabe (Van Allen). The potential for foreign intervention in Botswana, as well as economic embargoes and sanctions, cannot be ruled out – a danger to foreign corporations within the nation.

# Economic Variable Analysis

On the surface Botswana’s economy looks stable and promising. Inflation rates are also fairly stable, as well as the value of the Pula. At one point, Botswana was the fastest growing economy in the world, and with its current growth at a stable rate, it is often labelled one of Africa’s few success stories. Despite these facts, there are several major drawbacks that must be taken into account. (Republic of Botswana 2009, Siphambe 2006, Hanson 2008).

Where this growth comes from, though, opens the door to the biggest downfall of Botswana’s economy: its dependency on diamonds. Botswana produces 22 percent of the world’s diamonds, a commodity that represents roughly one third of its GDP. This revenue is generated by Debswana, a joint venture between De Beers and the government (Hanson 2008, Tessa 2010, Economist 2010). The diamond industry itself is not diversified in Botswana and the rough diamonds are sold for as low as 10 percent of what they are worth after processing. In other words, the rough diamonds are extracted and exported “without secondary and tertiary value-added businesses” (Good 2005:31). The government is actively trying to change this though, and many international diamond-cutting companies have now set up in Botswana (Economist 2010). In addition to this, diamonds are a depleting resource and cannot sustain Botswana’s economy indefinitely. Some studies estimate Botswana’s diamond resources to be depleted in roughly 25 years, others by the year 2030 (Economist 2010, Hanson 2008, Good 2005:30).

In spite of the fact that the revenue received from diamonds has not gone to bad use (substantial amounts have been used for social causes, such as health and education, as well as infrastructure), it has not been used to diversify its economy or even the diamond industry (Good 2005:28-9). Contrariwise, since diamond discovery, the economy has moved quite away from agriculture, using diamond revenue to import its food needs. Agriculture constitutes a measly 3 percent of Botswana’s total GDP (Economist 2010). It is an area of focus for the government, which is looking to decrease its dependency on food imports from South Africa and transform this sector of its economy from one in which around half of its population are subsistence farmers. Even if it manages to increase agricultural productivity, its landlocked position and relatively small population means it will always be reliant on imports to some extent. Unfortunately, 90 percent of Foreign Direct Investment is going back into mining, which is understandable in a country with a highly limited domestic market (Good 2005:27-8, Hanson 2008).

Another area in which Botswana seeks to diversify its economy is in tourism. This still needs to grow substantially before it is able to take some weight off diamond reliance and saw a significant decrease during the recent recession. Nevertheless the industry does show potential (Tessa 2010, Hanson 2008, Good 2005:30, Economist 2008). The country also holds prospects of being an effective financial hub and has already started this through pension reform. Factors such as its liberal foreign exchange regime and low taxes are conducive to the growth of this (Economist 2008).

# Social Variable Analysis

Contributing greatly to Botswana’s success is the creation of an infrastructure at the time of its independence. This infrastructure has been the target and the result of developmental policies, to which mining revenues were directed at. The problem, low rural employment and development, is due to the lack of a diversified economy. (Sharma & Mhlauli 1994: 101-102; Acemoglu, Johnson, and Robinson 2001: 2)

Moreover, harsher labour policies keep mine-workers and wage earners as migrant labour, preventing them from formally organising themselves into factions that could challenge employers to reduce the problem of inequality (Thomson 2000: 92-96). Botswana’s employment regulations are relatively flexible, and the non-salary cost of employing a worker is very low. Employers are not even required to make pension, health insurance and unemployment insurance contributions ([Heritage Foundation 2010](http://www.heritage.org/Index/%20Country/Botswana)). Thus, the demands of modern capital are met and labour costs are minimised. But Botswana’s Gini coefficient remains in the 0.56-0.6 category of the 2009 African Governance Report II (AGR II).

To amend this, the government has doubled spending on social programmes between 1997 and 2005 to ensure its public services are 76 percent accessible, reliable and generally affordable. In addition, 55 percent of experts in the AGR II report said the government was responsive to the needs of the people (African Governance Report 2009).

The Botswana workforce is young – according to the 2001 population census, nearly 68 percent of the population is under 30. Thus, in 2006, some 20 percent of its budget was allocated to the ministry of education producing an adult literacy rate of 82.9 (HDI - 2009). The government takes responsibility for the education of the labour force since it is its greatest employer and has built a number of educational facilities since independence. (Sharma & Mhlauli 1994: 104, 109). Botswana

is graduating skilled workers faster than it can employ them. University graduates want white-collar jobs, but the economy hasn’t diversified quickly enough to generate them. ([Hanson 2008](http://www.cfr.org/publication/%2015108/botswana.html))

Botswana maintains an expensive healthcare system with a number of (AGR II). This sector has, however, not been able to address the HIV/AIDS epidemic that plagues the Batswana nor the low life expectancy of 53.4 years (Acemoglu, Johnson, and Robinson 2001: 2; HDI - 2009). It has the second highest adult prevalence of HIV/AIDS in the world, with 25 to 30 percent of the adult population infected (Hanson 2008). The 17 percent of budgetary allocation is clearly not being to combat the epidemic with ARVs and education policies (HDI - 2009).

Botswana’s 2009 human development index was 0.694, after a steady 94% increase since 1980. It is currently ranked 125th out of 182 countries.

# Conclusion

The political risk variables are divided into four assessment topics, which have been assigned a percentage weight and a rating based on their significance as risk factors. (1) Political culture within civil society and within the government holds a 5 percent weight, because of limited political participation, and a rating of 3 because little threat exists from the majority lower class, but middle class trade unions are finding a political voice. (2) Quality of political leadership holds a 20 percent weight, because of the high amount of power vested in the president, and a rating of 4 because although often illiberal, Khama’s decisions are stabilizing and there is virtually no corruption involved; some issues, however, in which he undermines the rule of law are likely to spark both political resistance as well as civil unrest. (3) Predictability of domestic political action holds a 10 percent weight, because of policy importance to an investor, and a rating of 2 because of historic political stability and transparency. (4) Predictability of foreign policy holds a 10 percent weight, for the same reason as domestic, but with a rating of 5 because foreign policy is dictated by Botswana’s realist values and thus lacks in predictability, especially since one man makes the decisions. Four economic variables and three social variables have been weighted and rated according to their risk possibility. (5) Growth is given a 3, as it is stable and shouldn’t slow down before 2025 based on the current predictions on how long diamonds should last. (6) Diversification is given a 6, as it is at a fairly high risk, but there is an urgency to start this process. (7) Availability of resources is rated a 7, as the risk will grow in future due to the steady depletion of diamonds. (8) Import dependency is rated a 7, as even though commercial agriculture might increase, Botswana’s small population and landlocked position will never free it completely from its dependence on imports. Due to the lack of political tension between upper and lower classes, (9) inequality will not prove to be a source of conflict and is therefore rated a 3; it is weighted at 5 percent because there is no history of class upheaval in Botswana. Because education affects the workforce, (10) education is given a weight of 10 percent. Furthermore, it is rated a 5 because educational policies are creating a workforce with expanding capabilities but without opportunities. Because a lack of health can be costly to a corporation, (11) health has been weighted at 5 percent and has been rated at 7 because of the significance of HIV/AIDS in Botswana.

# Policy Recommendations

In summary, the individual factors can be consolidated as follows:

**PRF Assigned rating Assigned weight**

(1) 3 5%

(2) 4 20%

(3) 2 10%

(4) 5 10%

(5) 3 10%

(6) 6 10%

(7) 7 10%

(8) 7 5%

(9) 3 5%

(10) 5 10%

(11) 7 5%

**Total PRF = 4.6**

This political risk factor is medium as it lies in the middle of available ranges of scores (Calvert, 2002). Our recommendation for investment in Botswana is therefore one that emphasizes caution and deliberate consideration. For short-term investments, Botswana remains what it is described as in the average school textbook: politically stable, economically prosperous and socially secure. For any investments involving a long-term of capital in the country, however, certain precautions and conditions must be fulfilled. With both political and economic predictability and stability due to decline over roughly the next ten to fifteen years, any investment that falls within this or a longer time frame should be questioned thoroughly with regard to, firstly, its necessity; secondly, its sector of interest; and thirdly, its political content. As we hope to have shown, the Botswana political actors will continue to gain influence on a national level, and political revolt that could lead to a discontinuity of BDP rule cannot be excluded. Any long-term investment that might seem unfavourable to the above described future politicians, therefore, needs to be cautiously evaluated and only implemented if found unproblematic.