Trends in economic growth and poverty reduction in Botswana: A corruption control perspective

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Abstract

This article examined the trends in economic growth and poverty in relation to corruption indices in Botswana relative to other SADC countries. Using Botswana cross-country data, the study has shown that there is a negative correlation between economic growth and corruption, but a positive correlation between poverty and corruption. It has also shown that Botswana has consistently been the least corrupt in Africa and, over time, economic growth has been impressive while poverty levels have remained relatively low. We suggest that other countries in Africa can learn from Botswana. They can control inflation through effective anti-corruption institutions and improve governance and adopt a judicious use of resources as Botswana has done. Emulating Botswana could help these African countries to enhance economic growth and reduce poverty.

Keywords: economic growth, corruption, inflation, governance, poverty reduction.

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Introduction

In theory, economic growth and poverty reduction depend on good governance. Bad governance and corruption are often assumed to have negative impact on the growth and poverty reduction. According to Bardhan (1997:1327) corruption has adverse effects not just on static efficiency but also on investment and growth. Bribery reduces incentives to invest as those who are against it will not invest. This can have adverse effects on the economic growth of a country. Similarly, when public resources meant for building productivity-enhancing infrastructure are diverted to politicians' private consumption economic growth is stifled.

Chetwynd *et al* (2003:3) concur that corruption has direct consequences on economic growth and governance which, in turn, impact on poverty levels. Chetwynd *et al* (2003) continue to elaborate that economic theory and empirical evidence both demonstrate that there is a direct link between corruption and lack of economic growth. Corruption impedes economic growth by discouraging foreign and domestic investment, dampening entrepreneurship, lowering the quality of public infrastructure, decreasing tax revenue, and distorting the composition of public expenditure. In addition to limiting economic growth, corruption also exacerbates poverty and income inequality.

Kapunda (2010) opines that corruption has a direct, as well as indirect negative impact on the poor. The direct impact of corruption may be measured in terms of an increase in the cost of public services to the poor, especially health, education and water. The indirect impact may be gauged through, for example, diverting public resources away from social services and limiting growth and poverty alleviation in some areas of the economy.

Good governance and corruption control enhance macroeconomic, financial and political stability, leading to economic growth, which in turn helps reduce poverty. The positive correlation between growth and poverty alleviation stems from two assumptions. First, the 'trickle-down effect' is assumed to be realized through the growth process. Secondly, as the economy grows, it is assumed that the Government concerned will be committed to the policy of equitable income distribution and poverty alleviation. Government revenue arising from the growth of the economy is expected to be used judiciously to improve the welfare of the poor and enhance further growth. The objective of this article, therefore, is to examine trends in economic growth and poverty in

relation to corruption indices in Botswana relative to other SADC countries. Correlations between economic growth and corruption perception index (CPI) and between poverty and CPI are estimated.

The rest of the article is structured as follows: the section below provides an overview of economic growth, poverty reduction and corruption control in Botswana. It is followed by the section on the methodology, including the theoretical/conceptual framework, which is then followed by a section on data analysis and interpretation. The article concludes by providing policy recommendations and lessons that can be learned by other African countries.

An overview of economic growth, poverty reduction and corruption control in Botswana

Botswana has experienced spectacular economic growth since gaining independence in 1966. The real growth rate for GDP was, on average, about 15 percent for the first 20 years after independence. Over a longer period (1966-2007/08) the average GDP growth was about 9 percent per annum. Many scholars attribute the good growth to good governance, including corruption controls and appropriate policies based on the judicious use of mineral and livestock revenue, pro-growth fiscal policy, and a strong capacity of the Botswana Government to implement coherent national policies through various five year National Development Plans – NDP- (see, for instance, Kapunda and Botlhole 2009; Siphambe 2007; Pillai, 2006). Although Botswana's recent growth rates have declined to an average of about 5 percent between 2000 and 2008, this is still higher than the growth rates of many other African countries.

Botswana has also implemented several strategies to reduce poverty. Examples include direct productive schemes aimed at assisting entrepreneurs to grow their businesses, create employment and diversify the economy away from diamonds. It has come up with anti-poverty policies and Government programmes targeting rural areas and provided direct social support such as allowances for destitute persons, orphans affected by HIV and AIDS as well as an all-inclusive old age pension scheme. Botswana is one of the six African countries that have progressive non-contributory old age schemes. The others are South Africa, Mauritius, Senegal, Namibia and recently Lesotho (Kapunda 2009a: 177). Botswana has labour intensive programmes such as *Ipelegeng* and Backyard Gardening (see a critical assessment of these policies in Malema, this volume). As a result the poverty rate

has declined significantly from 59 percent in 1985/86 to 47 percent in 1993/94 and decreased further to 30 percent in 2002/03 (Kapunda and Botlhole 2009: 69). Botswana, like any other country in Africa, is expected to have halved absolute poverty by 2015 as per the Millennium Development Goals (MDGs).

The significant achievement of Botswana in terms of economic growth and poverty reduction is attributed to significant corruption control measures. Botswana has been ranked the least corrupt country in Africa. The 2010 Transparency International Corruption Perceptions Index (CPI) gave Botswana an index of 5.8. Also, in 2008 Botswana was ranked by both Transparency International and Mo Ibrahim Foundation as one of the SADC countries with the highest governance index (74.0). Corruption was relatively unknown in Botswana politics until the early 1990s. However, with time it became visible. In 1994 the Directorate of Corruption and Economic Crime (DCEC) was established to control the levels of corruption in the country. This created new offences of corruption, including being in control of disproportionate assets or maintaining an unexplained high standard of living. The DCEC has special powers to investigate, arrest, search and seize.

On the corruption prevention aspect, many seminars have been held for both private and public sector participants and a number of corruption prevention assignments have been completed with significant recommendations made to reduce opportunities for corruption. The establishment of the DCEC has already had a significant impact in Botswana with the majority of the citizens being aware of the existence of the organization and its role. The Government realizes the need for continuing vigilance and the necessity to provide proper resources to the directorate. The DCEC is credited world-wide for its effective implementation of anti-corruption strategies (DCEC, 2008).

Methodology

Conceptual framework

This study is based on the theoretical framework that economic growth and poverty reduction depend on good governance, including the control of corruption. There are various definitions of corruption. For example, Bardhan (1997:1321) views corruption in an economic sense as the use of public office for private gains. Similarly, Transparency International (2009) defines corruption as the abuse of entrusted power for private gain. Hanson (2009) regards indicators of good governance

as the control of corruption, voice and accountability, political stability, Government effectiveness, regulatory quality, and the rule of law. Akokpari (2005) states that good governance is a system of administration which is democratic, efficient and development oriented, and that it remains elusive and fluid in Africa. However, the use of the phrase 'good governance' by the World Bank and other credit-giving agencies suggests that it transcends the political realm to include, more broadly, judicious use of resources, corruption control, promotion of the private sphere as developing and nurturing formal and informal relations between the Government on the one hand and civil society and the international community on the other (see also World Bank- 1992; Maundeni *et al,* 2007).

In theory, poverty reduction is a function of good governance, including corruption control, growth of national income, among other factors.

This study focuses on testing the following hypotheses:
(i)   Economic growth and corruption are negatively correlated
(ii)   Poverty and corruption are positively correlated

Data analysis

This study uses data from international sources, especially the African Development Bank, UNDP, World Bank and Transparency International. Other sources include statistical offices, central banks, Government documents and other literature.

Empirical evidence and interpretations

Corruption Perception Indices (CPI)

According to the Transparency International corruption perception indices Botswana is ranked as the least corrupt member of SADC as shown in Table 1.

Table 1: Corruption Perception Indices (CPI) for SADC countries

Country	1999	2002	2003	2004	2005	2006	2007	2008
Angola	-	1.7	1.8	2.0	2.0	2.2	1.9	2.2
Botswana	**6.1**	**6.4**	**5.7**	**6.0**	**5.9**	**5.6**	**5.4**	**5.8**
DRC	-	-	-	2.0	2.1	2.0	1.9	1.8
Lesotho	-	-	-	-	3.4	3.2	3.3	3.2

Malawi	4.1	2.9	2.8	2.8	2.8	2.7	2.7	2.8
Mauritius	4.9	4.5	4.4	4.1	4.2	5.1	4.7	5.5
Mozambique	3.5	-	2.7	2.8	2.8	2.8	2.8	2.6
Namibia	5.3	5.7	4.7	4.1	4.3	4.1	4.5	4.5
Seychelles	-	-	-	4.4	4.0	3.6	4.5	4.8
South Africa	5.0	4.8	4.4	4.6	4.5	4.6	5.1	4.9
Swaziland	-	-	-	2.7	2.7	2.5	3.3	3.6
Tanzania	1.9	2.7	2.5	2.8	2.9	2.9	3.2	3.0
Zambia	3.5	2.6	2.5	2.6	2.6	2.6	2.6	2.8
Zimbabwe	4.1	2.7	2.3	2.3	2.6	2.4	2.1	1.8
SADC	**4.3**	**3.8**	**3.4**	**3.4**	**3.3**	**3.3**	**3.4**	**3.5**

Sources: Transparency International 2008, Oosthuizen (2006)
Notes: (1) The range is 0 (highly corrupt) and 10 (highly clean)
            (2) – data not available

However, corruption in Botswana seems to be increasing slightly while that of Tanzania and other few SADC countries is decreasing over time (see Table 1). Corruption in SADC is showing a general upward trend.

Economic growth, poverty and corruption

As hypothesized in the methodology section, there is a negative relationship between economic growth and corruption as economic growth is hampered by corruption. Conversely, poverty and corruption are positively related. Although reliable data for poverty are hard to obtain across countries, the year 2004 tends to have the most reliable data for SADC countries. Thus Table 2 is used to estimate and compare the relationships among corruption, economic growth and poverty.

Table 2: Real GDP growth rates, Human Development Indices (HDI) and poverty ratios[2] for SADC countries, 2004

Country	Real GSP Growth (%)	HDI	PLB US$1/day[1]
Angola	12.2	0.44	-
Botswana	5.4	0.58	23.5
DRC	5.7	0.39	-
Lesotho	4.4	0.49	36.4
Malawi	3.6	0.40	41.7
Mauritius	4.1	0.80	-
Mozambique	7.3	0.39	37.9

Namibia	4.4	0.60	34.9
South Africa	3.7	0.67	10.7
Swaziland	2.1	0.52	-
Tanzania	5.7	0.43	20.0
Zambia	4.6	0.39	63.7
Zimbabwe	-4.3	0.50	56.1
SADC	4.5	0.51	36.1

Sources: Compiled and calculated by authors using African Development Bank Report, 2007, UNDP and Bank of Botswana data

Notes: [1] poverty ratio, PLB U$1/day = population living below US$1 a day

[2] Countries with no data (-), or provisional data for economic growth, HDI, poverty ratio and CPI are excluded in correlation calculations.

According to the table, Lesotho and Zimbabwe are excluded for all variables. For economic growth Angola, DRC and Mozambique are excluded. Others with missing data are also excluded in the case of certain variables.

As estimated by using cross-country data, there is a weak negative correlation coefficient (-0.3) between real economic growth and corruption. But there is strong positive correlation (0.7) between poverty and corruption, whether poverty is estimated by HDI or population living below US$1 a day. In fact, using the Botswana data alone, corruption and poverty are positively related as supported by the fall of corruption between 1999 and 2002 when the poverty rate based on national poverty line fell from 40 percent to 30 percent in the same period. This is also depicted in the case of Tanzania where poverty ratio decreased from about 36 percent in 1999 to about 32 percent in 2008 and corruption decreased in the same period (Table 1, also Kapunda 2009b, Kapunda and Botlhole 2009). In general, the findings support the theoretical propositions stated in the introduction and methodology sections.

Conclusion

This study has examined the trends in economic growth and poverty in relation to corruption indices in Botswana relative to other SADC countries. It has specifically shown that Botswana has consistently been the least corrupt country in SADC and, over time, economic growth has been impressive and poverty levels have been relatively low. Other countries can take learn from Botswana in terms of economic

performance, anti-corruption institutions, good governance and judicious use of resources.

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