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Diamond exports from Botswana and Sierra Leone: The role of institutions in mitigating the impact of commodity dependence on human development

Background document to the Commodities and Development Report 2017

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INTRODUCTION

According to the Prebisch and Singer hypothesis, real commodity price trends decline over time and consequently, those countries that are dependent on commodities will experience a slower development than those who add value to these raw materials through manufactured goods. This statement has been the cornerstone of policy recommendations leading to policy strategies such as the import substituting industrialization. However, the recent commodity boom between 2003 and 2011 has challenged this famous hypothesis but not for long since declining trends are still prevalent in most of commodity markets. This paper is concerned with one very special commodity, namely diamonds to analyse what happens when countries heavily depend on commodities but do not add value to them in order to diversify away from primary commodities.

What makes diamonds special is that a few years ago they have taken the central stage of international commodity news. It was the time of the famous "conflict diamonds" in Sierra Leone, Liberia, Angola and a few other countries. Now that the media attention on conflict diamonds has subsided, it is time to analyze without passion the contribution of diamonds to economic growth and human development in two countries that heavily depend on them without adding much value to them: Botswana and Sierra Leone.

Indeed, both Botswana and Sierra Leone are dependent on commodities and do not add much value to the raw materials they export. In Botswana 86 per cent of export revenues in 2014 were attributed to diamonds whereas in Sierra Leone, commodities represented 97 per cent of total merchandise exports of which 12 per cent were from diamonds (UNCTAD, 2016). While Botswana is considered to have succeeded in using its revenues derived from diamonds to develop its economy and reduce poverty, Sierra Leone has experienced very low levels of economic and human development in the context of a long civil war. For example, using a poverty line of $1.90 per day in purchasing power parity (ppp), the poverty headcount ratio in Botswana dropped from 29.8 per cent in 2002 to 18.2 per cent in 2009. In Sierra Leone, it went from 58.5 per cent in 2003 to 52.3 per cent in 2011 (World Bank, 2016).

This paper aims to compare these two case examples in order to dissect whether prices alone can explain the relative success of Botswana *vis-à-vis* Sierra Leone and highlight the importance of policies and diamond characteristics. This paper will address the following questions: Are prices the major factor in the differential contribution of diamond revenues to economic growth, poverty reduction and development in these two countries? What are the other factors that enhance or hamper diamond contribution to economic growth and development in these countries?

Botswana and Sierra Leone are the two main exporters of diamonds in Africa. Sierra Leone began exporting diamonds in the 1930's and Botswana followed in the 1970's. Almost all of the diamonds produced by Botswana and Sierra Leone are exported. The African continent alone provides about 65 per cent of the global diamonds, and with the Russian Federation, Botswana is one the biggest producers of diamonds in the world. Botswana diamonds are exploited through a joint venture between a South African company (De Beers) and a

national company called Debswana Diamond Company Ltd, however the ownership of the exploiting company in Sierra Leone has been changing. Sierra Leone Selection Trust (SLST) started production in 1935 and was nationalized and renamed the National Diamond Mining Company (NDMC) in 1971 (Davies, 2002; Maconachie and Binns, 2007). The NDMC finally collapsed in the 1980s and its assets were sold to a private company named Precious Metals Mining Company (PMMC) in 1984. In the 1990s, amid the civil war in Sierra Leone, diamond mining leases were granted to the so-called "juniors" which included Rex Diamond based in Belgium, AmCan Minerals and DiamondWorks based in Canada. Rex Diamond holds a mining lease in Sierra Leone until 2019, while AmCan Minerals and DiamondWorks experienced heavy losses and had to leave Sierra Leone.

The following section (section 1) will dwell on the implied assumption of the famous Prebisch-Singer Hypothesis explaining why it is difficult to apply this hypothesis to diamond market. This section also shows figures for a short period in line with the peculiarities of this market. After identifying the specificities of the diamond market in section 1, section 2 put forward differences in policies and structures that have transformed Botswana from a poor country to an upper-middle-income country. From the differences, the last section (section 3) suggests some lessons learned and the way forward for Botswana and Sierra Leone as well as other countries.

1. THE MAIN PREMISE OF THE PREBISCH-SINGER HYPOTHESIS

The implied assumption in the Prebisch-Singer hypothesis is that with declining export prices, developing countries will not be able to import the equivalent amount of what they exported and therefore they will not have enough financial resources to invest in the development of their productive capacities as well as their social development as required by the development process. This whole idea is built around the orthodox economic logic. According to this orthodox economic logic applied to diamond market, high export values per carat provide incentives to increase exports. In turn, high exports contribute to the expansion of the GDP and therefore to economic growth, poverty reduction or even human development.

In the light of the above-mentioned logic, the evolution of the share of diamonds in total merchandise exports in tandem with export values per carat is really puzzling. One would assume, as in classical economics, that the higher the export value per carat the higher the economic growth rate, but in the diamond market it does not work as such. For example, in Sierra Leone the export value per carat reached a peak in 1999, but production of diamonds was the lowest that year and economic growth was even negative. In Botswana, export value per carat and share of diamonds in total merchandise exports reached both its peak in 2011 but production did not hit its highest level in the series. Overall, despite higher export values per carat in Sierra Leone, Botswana has always produced higher quantities of diamonds as can be seen in Table 1. Data in this table were provided by the Kimberly Process.

It should be noted that unlike the Kimberly Process Certification Scheme (KPCS), diamond producers, dealers and manufacturers rarely make price catalogues available to various stakeholders including researchers. As a

result, accurate data on prices for rough and polished diamonds are very difficult to obtain. That is the very reason why the Kimberly Process remains one of the most reliable sources in terms of prices.

Table. 1 Production and export value of industrial diamonds in Botswana and Sierra Leone

	Production (thousand carats)		*Export value ($ per carat)*	
Year	*Botswana*	*Sierra Leone*	*Botswana*	*Sierra Leone*
1999	21 348	5	91	487
2000	24 635	42	74	32
2001	26 190	117	60	51
2002	28 368	205	70	84
2003	30 412	260	74	114
2004	31 036	692	89	183
2005	31 890	668	98	212
2006	34 293	603	97	208
2007	33 639	603	91	235
2008	32 276	371	110	266
2009	17 734	400	93	196
2010	22 018	438	121	242
2011	22 904	357	218	347
2012	20 554	541	171	302
2013	23 187	609	174	296
2014	24 668	620	188	357
2015	20 778	500	217	308
2016	20501	549	178	289

Sources: UNCTADstat, UN data and the Kimberly Process online data (accessed on 14 September 2017).

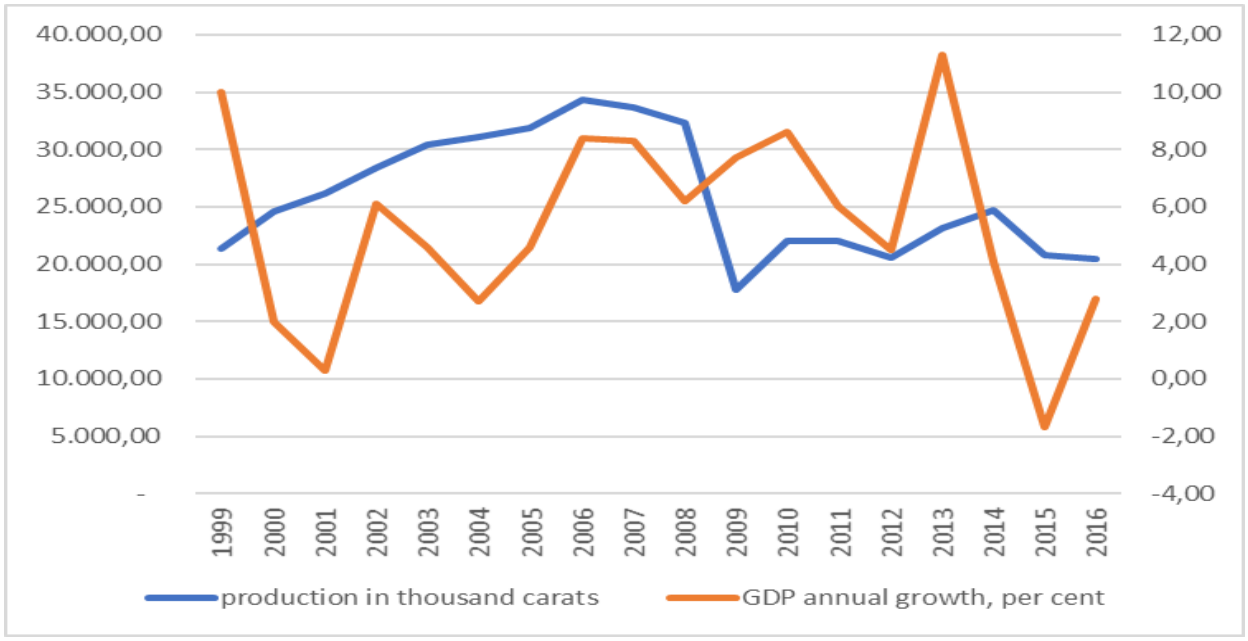
Many arguments have been put forward to explain these puzzling facts of why the diamond market does not follow supply and demand logic both in Botswana and Sierra Leone. First, diamonds have symbolic underlying values beyond their economic utility. According to the World Diamond Council, diamonds encompass deep emotional meaning, they are considered precious and they symbolize eternity. Second, diamonds from Sierra Leone are called alluvial diamonds and they are spatially dispersed in sand, gravel and clay. Moreover, the presence of many informal artisanal miners without coordination and effective supervision may have led to suboptimal production with greater illicit mining in Sierra Leone. In contrast, Davies and Dessy (2012) contend that Botswana, with its kimberlite deposits (i.e. found deep in the earth which are spatially concentrated) offers little opportunity for illicit mining and therefore better production and revenue opportunities[1]. Third, Botswana has been enjoying political and macroeconomic stability which is conducive to steady extraction of higher volume of their diamonds. These observations lead to the conclusion that the quantity of diamonds produced and exported from Botswana are higher than those in Sierra Leone despite higher export values in the latter as shown in the above table.

[1] It should be noted that Sierra Leone has started exploiting kimberlite deposits in 2003 which may have boosted its diamonds in total merchandise exports from 2004 to 2007.

If diamonds in general contain symbolic underlying value, why is it that diamonds from Sierra Leone have higher export value per carat than those in Botswana as shown in Table 1 except for the year 2000? Diamonds from Sierra Leone are known for being of higher quality, bigger size and better purity as well as of brighter colour (Robitaille, 2004). The same author cautions that the classification is not always reliable since in countries such as Sierra Leone the large majority of diamonds exported are not recorded in the official statistics which may bias the ranking. Indeed, in the same paper, Robitaille (2004) confirmed the caveat by explaining that diamonds from Sierra Leone are of higher quality but in one of his annexes he presented a classification in which Botswana was ranked before Sierra Leone. According to Davies, possible explanations for the discrepancies in classification are: (i) if the classification uses official exports, the quality of Sierra Leone diamonds would appear low because of the smuggling of high quality gem diamonds; (ii). Diamonds are of two types – gemstones and industrial. Industrial diamonds are not high quality and are used for making tools. Gems are used for jewelry. If classifications compare only gems, Sierra Leone diamonds are generally of higher quality. If they combine gems and industrial, this conclusion might not hold depending on the proportion of gem to industrial diamonds each country produces.

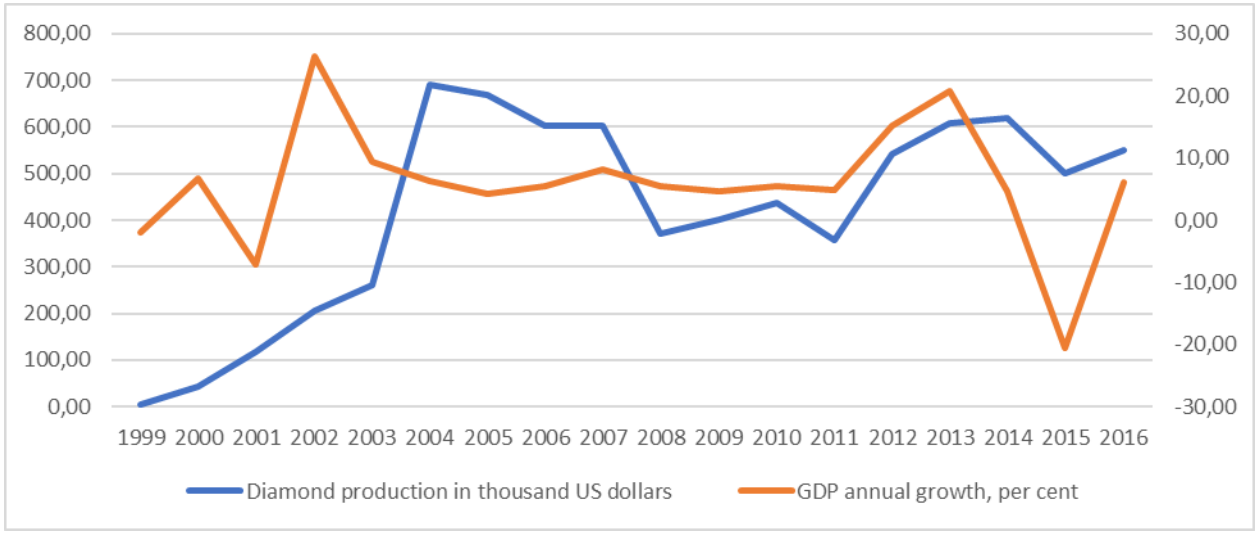
At this juncture, it is worth reviewing the different types of diamonds and their market shares. As mentioned earlier, diamonds can be divided into two main categories: gemstone and industrial. In 2010 for example, gemstones represented more than 50 per cent of the volume of diamonds extracted but they account for more than 95 per cent of the total exported value of diamonds (Bain and Company, 2011). It should be noted that profitability of diamond companies depends on a number of factors such as the average price per carat of the rough diamond, the average grade of the piece and the minimum size of the processed diamonds. According to the same report by Bain and Company, the major places where these diamonds are exchanged include Antwerp in Belgium where about 40 per cent of industrial diamonds and 50 per cent of gemstones pass through.

Figure 1. GDP growth and production of diamonds in Botswana



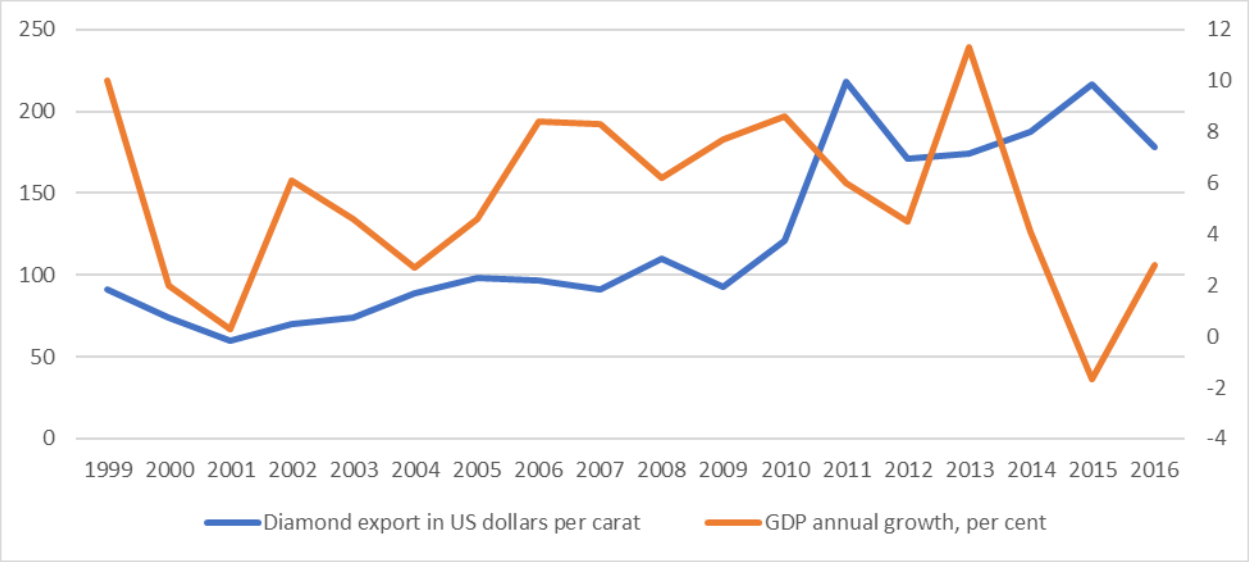
Source: https://kimberleyprocessstatistics.org/public_statistics and WDI

Figure 2. GDP growth and production of diamonds in Sierra Leone



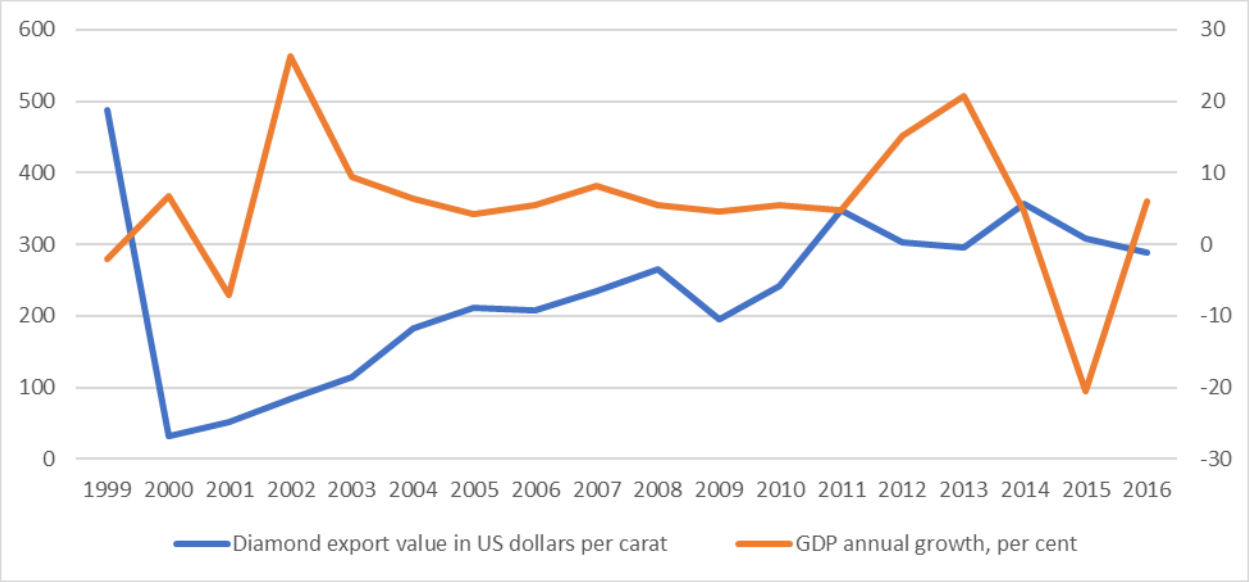
Source: https://kimberleyprocessstatistics.org/public_statistics and WDI

Figure 3. GDP growth and diamond export values in Botswana



Source: https://kimberleyprocessstatistics.org/public_statistics and UN data

Figure 4. GDP growth and diamond export values in Sierra Leone



Source: https://kimberleyprocessstatistics.org/public_statistics and WDI

In Botswana and Sierra Leone the diamond sector is a key exporting sector. This implies that the diamond sector is the major source of foreign exchange earnings, employment and tax collection. For example, in Botswana, De Beers claims that its direct contribution to employment is about 8000 people in 2014, but when considering indirect contribution, the total number of jobs created is 34160 in that same year compared to a population of 2.2 million people (almost 3 per cent of the total labour force). As for government revenues, they amounted to US

$ 2.2 billion only for the year 2014.[2] As of 12 October 2015, foreign reserves were estimated at US$ 8.3 billion.[3] These facts show that diamonds positively contribute to economic growth measured through GDP and other human development measures in these two countries.

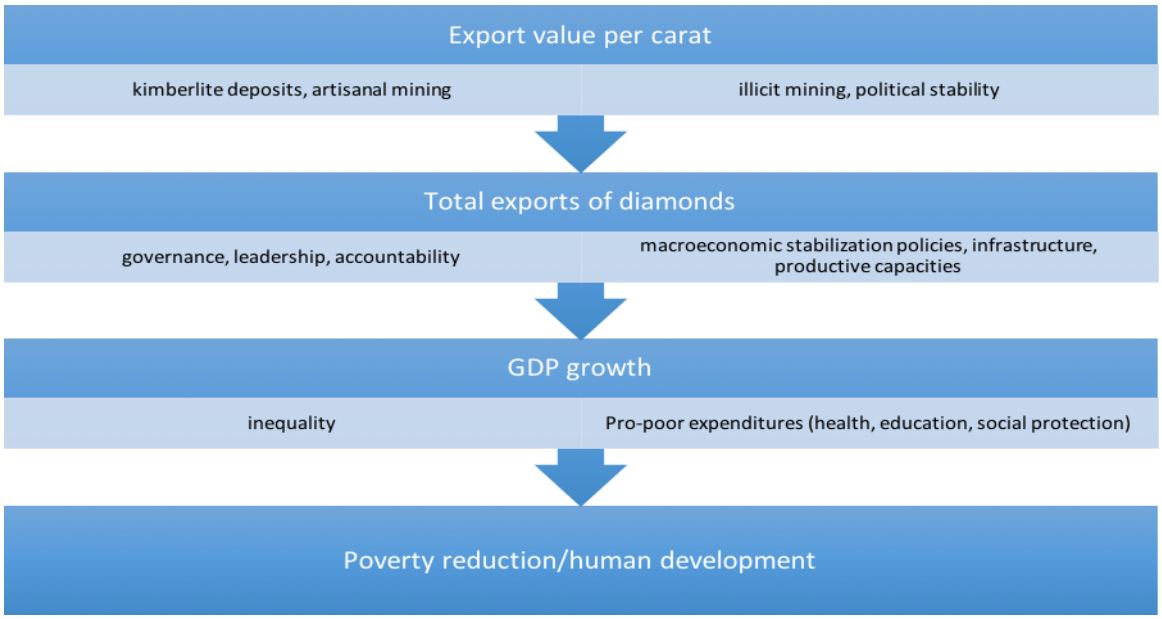
One of the most obvious contributions of diamonds to economic growth is foreign exchange earnings for the exporting countries. In the countries selected, this contribution differs according to the share of the national governments in the capital of exporting companies. In Botswana for example, foreign exchange earnings accrued equally for the government and De Beers. In Sierra Leone, the picture is quite different and less profitable since the government does not possess assets in the mining companies such as Rex Diamond. On the other hand, the number of mainly informal jobs generated by the diamond sector is estimated to be around one million people in Sierra Leone compared to a population of 6.3 million people (almost 50 per cent of the total labour force is employed in the diamond-related informal sector). This is higher than the 34 160 jobs created by De Beers in Botswana, but NGOs regularly complained about the working conditions and the very low salaries prevailing in the diamond sector in Sierra Leone (Partnership Africa Canada and Global Witness, 2004). Finally, for the tax collection, Botswana has a comparative advantage since its solid institutions allow the country to collect tax at various stages including direct (e.g. royalties) and indirect taxes (e.g. Value Added Taxes).

Since one of the observations made earlier is that diamonds are the main source of foreign earnings, employment and tax collection, it can be derived that the higher the export value the higher the contribution of diamonds to GDP growth. This relationship is not automatic because beyond diamond export revenues, other factors such as governance and other related issues could either enhance or hamper contribution of diamonds to GDP growth. Clearly there is more than export values and foreign exchange earnings to affect the desired contribution of the diamond sector in the economic growth and the development of each of the two countries.

In summary, higher export values per carat or foreign exchange earnings alone do not lead to higher exports nor to higher GDP growth. This is surprising since the computation of GDP includes exports and mechanically higher exports boost the GDP and by the same token increase GDP growth. There are reasons to think that governance issues, such as political stability, transparent tax collection system and sound management of diamond revenues, lead to higher outcomes of exports, GDP growth and human development. The relationships between exports, GDP and poverty reduction or human development are much more complex than expected with a number of circumstances that could hamper or enhance the contribution of diamonds in each stage as shown in chart 1 below.

[2] De Beers 2015 " Turning Finite Resources into Enduring Opportunity: The economic contribution to Botswana of the Partnership between the Government of the Republic of Botswana and De Beers".
3 Bloomberg Business issue of 5 November 2015. Article by Michael Cohen titled "Diamonds Aren't Forever for Botswana as Mining Boom Fades Away".

Chart 1: Realistic interpretation of relationships between export value per carat, total exports, GDP and poverty reduction



2. THE MISSING ELEMENTS IN THE PREBISCH-SINGER HYPOTHESIS: STRUCTURAL ECONOMIC AND POLITICAL DIFERRENCES

The main conclusion that is sometimes drawn from the Prebisch and Singer hypothesis is that developing countries must add value to their raw materials. This conclusion does not take into account a number of structural, economic and political circumstances. Moreover, it gives too much focus on prices. For example, up until 2008, Botswana did not need to add any value to its rough diamonds and yet in about three decades it became an upper-middle-income country according to the World Bank. This means that economic growth is affected by more than the price of commodities.

This section analyses the difference in institutional settings and policy choices (social, economic and environmental) between Botswana and Sierra Leone. Before dwelling on the differences, a striking fact is a similar feature shared by Botswana and Sierra Leone, which is fluctuation. Major variables such as shares of diamonds in total merchandise exports have been fluctuating in both countries. For example, in 1974/5, mining made up only 8 per cent of GDP in Botswana (Hillbom, 2011). Since then the contribution of mining to GDP, of which diamonds made up a large proportion, went up to 53 per cent in 1988/1989 (Pegg, 2010; Hillbom, 2011; Honde and Abraha, 2015), and in 2014, the total contribution of diamonds to Botswana's GDP is 27 per cent (De Beers, 2015).[4] The same kind of fluctuations take place in Sierra as it can be seen in the graphs above.

The way these two countries have been responding to these fluctuations also indicate the differences in their institutional settings. In Botswana, three funds were put in place with the objectives of stabilization, debt

[4] According to Statistics Botswana, diamonds represent 82.5 per cent of the Index of Mining Production in 2013

servicing and local development since 1973. The first one is called "the Stabilization Fund" with the primary objective of mitigating the fluctuations in the revenues from diamonds and accumulating assets during boom periods. The second Fund is the Public Debt Service Fund (PDSF) with the primary objective of debt servicing; some of its secondary objectives include loan provision to public enterprises. The third Fund is the Domestic Development Fund (DDF) with the primary objective of funding development projects. As of October 2015, its foreign reserves amounted to US$ 8.3 billion. According to Bloomberg Business, President Khama of Botswana has announced that these foreign reserves will be used to fund the provision of services to 37 000 plots of land and build new houses, classrooms and roads.

In Sierra Leone, no institution is set up to smooth fluctuations. The mechanisms established are only geared towards providing support to local development and accountability. This first mechanism is the so-called Diamond Area Community Development Fund (DACDF) and was established in 2001. It aims at returning only 0.75 per cent of diamond export duties to the producing areas for funding their development projects (Maconachie and Binns, 2007; Kawamoto, 2012). According to these two authors, despite some positive results such as better job opportunities in producing areas, and a remarkable difference in terms of infrastructure provision between areas with DACDF and those without, there were some issues of lack of accountability within the DACDF and funds hijacked by local chiefs in the producing areas. Taking into account these shortcomings, the DACDF has introduced new operational procedures and guidelines in 2008 with the view of improving local participation to the management of the Fund and better accountability mechanisms (Kawamoto, 2012).

In addition to the above mentioned national mechanism, Sierra Leone subscribed to the UN supported initiative of the Kimberley Process Certification Scheme (KPCS) in 2003. This scheme aims at preventing diamonds funds support conflicts as they did in Sierra Leone between 1991 and 2001, the so-called "conflict diamonds". According to experts such as Davies, the KPCS helped Sierra Leone in its post-conflict era even though the scheme's primary objective is to avoid buying weapons for war using diamond revenue. Other experts from the civil society found that the scheme did not stop diamond smuggling suggesting that the proportion of illegal diamonds could go up to 50 per cent or even more (Maconachie and Binns, 2007).[5] Maconachie and Binns mentioned that the KPCS, despite being well designed, is difficult to implement and does not provide mechanisms to address poverty and poor working conditions in Sierra Leone. This situation is most probably due to the fact that due to a large number of artisanal diamond miners who are unregulated. Unofficial estimates suggest that there were about 120,000 of them in 2005 who were unskilled labourers working with basic tools such as shovels and sieves (Partnership Africa Canada and Global Witness, 2004). In its annual review in 2005, Partnership Africa Canada and the Network Movement for Justice and Development described four pay systems for artisanal miners including the casino system, pay per win system, the daily wage and the pile system. The common element of these pay systems is a very low and somehow random remuneration of one or two dollars a day on average (Partnership Africa Canada and Network Movement for Justice and Development, 2005). It is

[5] Maconachie and Binns (2007) especially mentioned two NGOs called "Partnership Africa Canada" and "the Network Movement for Justice and Development" in their report published in 2006.

therefore believed that most, if not all, artisanal diamond miners in Sierra Leone are part of the 52 per cent of poor people in the country in 2011.

In 2007, Sierra Leone joined the Extractive Industries Transparency Initiative (EITI) with an aim to enhance its transparency, accountability and provide the required stability for macroeconomic planning. Political and economic stability are crucial to realize the necessary planning for investment expenditures and poverty reduction. For example, stability has allowed Botswana to reduce extreme poverty from 30 per cent to 18 per cent between 2003 and 2009 according to the World Development Indicators (WDI). After joining the EITI, it seems as if transparency and accountability have yielded some results but this has not translated into a significant reduction of poverty in Sierra Leone compared to Botswana since poverty was still high at 52 per cent in 2011 in Sierra Leone according to the same WDI. In fact, EITI encountered a number of implementation problems including the institutional capacity and effective participation of the civil society especially in the monitoring and evaluation phases (Maconachie, 2008). Moreover, the EITI has one major shortcoming not really related to Sierra Leone itself: it has no mandatory system for impartial monitoring to ensure that the initiative to avoid funding wars with diamond revenue has been achieved (Ma, 2011).

Overall, the recipe for better development outcomes in Botswana is that the country invested significant diamond revenues into education, health, roads and basic infrastructure while in Sierra Leone so little (only 0.75 per cent of diamond export duties) served the same purpose as they did in Botswana (Pegg, 2010; Honde and Abraha, 2015; Davies, 2000, 2002; Maconachie and Binns, 2007). Moreover, Botswana has a longer democratic record with political stability and non-violent settlements of electoral disputes. This political environment has led political leaders to win the vote of the countrymen through social and economic realizations such as building schools, roads, hospitals and health centers.

Indeed, one defining characteristic of Botswana which is distinctive of Sierra Leone is stability. Political and economic stability has led the country to have sound macroeconomic policies and provided bedrock for good management of revenues gained from natural resources. One of the famous outcomes of this stability is the possibility to have a self-disciplinary rule for the use of revenues from natural resources which use mineral revenues to finance "investment expenditures" (Iimi, 2006). These investment expenditures are defined as development expenditure (infrastructure) and recurrent spending on health and education. For example, in 2005, Botswana invested about 26 per cent of the total government expenditures on education while Sierra Leone spent only 15 per cent; in 2007 Botswana stood at 26 per cent while Sierra Leone spent about 20 per cent of its total government expenditures on education. Botswana spent 3 per cent of its GDP on health while Sierra Leone spent only 1.7 per cent of its GDP on health in 2013. However, some observers argue that Botswana could have done better than just providing the minimal conditions for economic growth (Hillbom, 2011). Other observers point out that the country is at a critical juncture because diamond revenues are declining and Botswana needs to seek new sources of economic growth that are not dependent on exhaustible natural resources (Harvey, 2015).

Accountability, transparency and political stability have their limitations despite significant expenditures on education, health and infrastructure. Botswana is still struggling with diversification. Due to their small domestic market, landlocked location and ensuing high international transportation costs, diversification of the

economy is difficult to achieve in Botswana. Hillbom (2011) is convinced that Botswana did not provide adequate incentives to the private sector to engage in economic diversification which may have significantly contributed to poverty reduction in the country. Sierra Leone experienced even greater challenges.

Botswana is trying to move up the diamond value chain with the establishment of a cutting and polishing industry with 21 firms in September 2013, which is supposed to increase job opportunities and help reduce poverty (Pegg, 2010; Honde and Abraha, 2015). According to De Beers, it is expected that cutting and polishing activities will further decrease extreme poverty especially through the provision of more than 1000 jobs during the operational phase scheduled from 2017 to 2029.

In Sierra Leone, diamonds are believed to have been a main catalyst for a long and bloody war from 1991 to 2001 which claimed the lives of many thousands of people. After this prolonged civil war, due to a number of grievances including chaotic management of diamond revenues, a number of mechanisms have been put in place to improve the redistribution of these revenues (Davies and Dessy, 2012; Kawamoto, 2012). These reforms have been successfully implemented leading to GDP growth rates until the outbreak of the Ebola epidemic in 2015 which damaged the efforts made thus far.

In summary, this paper has attempted to show that Botswana benefited more from a better governance environment than higher export prices, and has wisely used its fiscal policy discipline as a tool for economic growth and human development. Otherwise, it is difficult to understand why the same commodity has played different roles in different institutional settings, i.e. being the center of conflicts and war until the 2000s in Sierra Leone while contributing significantly to economic growth and poverty reduction in Botswana. In fact, some observers even argue that they became a source of predation because of their intrinsic characteristics, such as their high value, practical size, easy tradability and indestructibility (Olsson, 2007). Yet these exact same characteristics with lower prices turned out to be growth enhancing in Botswana where diamonds are hailed for their positive contribution to economic growth and development (Hillbom, 2011; Olsson, 2007; Iimi, 2006; Pegg, 2010; Kyngdon-McKay, 2014; Harvey, 2015).

3. SOME LESSONS LEARNED AND MOVING FORWARD

Facts and analysis of institutional settings as well as policy choices will allow us to better understand why Botswana is considered as a success and Sierra Leone as a less successful case in terms of management of diamond revenues. Some elements have been already identified in the literature such as the fact that Botswana invested diamond revenues into education, health, roads and basic infrastructure (Pegg, 2010). Moreover, the country has enjoyed macroeconomic stability thanks to a fiscal rule that imposes a limit of 40 per cent to the percentage of expenditure to the GDP and the implementation of timely countercyclical policies which have made Botswana one of the top African countries in terms of governance and transparency (Honde and Abraha, 2015). Despite the reforms implemented in Sierra Leone, the country is facing a difficult future because of the Ebola epidemic (Zayid, 2015). The first lesson to be learned from the experience of these two countries is that negative impacts of commodity dependence are not inevitable. Sierra Leone has experienced negative impacts

of commodity dependence, but Botswana has mitigated the effect of the high dependence on diamonds as a commodity. The second lesson is that the management of diamond revenues is critical to the survival of the whole economy. When there is weak governance or mismanagement of revenues it can lead to the disruption of the whole institutional system as was the case in Sierra Leone. The third lesson is that institutions can help regain stability once the system is disrupted but that is a second-best solution as we have seen in the case in Sierra Leone where DACDF, KPCS and EITI have been implemented without significant impact on poverty reduction.

In addition, some observers argue that Botswana is considered as a success story because diamond revenue management was initially part of the political process. The first leaders of the country, namely Seretse Khama and Ketumile Masire, had the hard choice of taking the traditional rights from land where minerals are abundant and give them to the central government (Hazleton, 2002). According to Hazleton this constitutes a major milestone in the positive contribution of the diamonds to the development of Botswana because the central government guarantees a fair redistribution among different tribes of the country. Another visionary decision made by Botswana leaders is the design of the taxation regime. This decision was reinforced by the direct participation of the Botswana government with the firm that exploited diamonds. These two strategies, taxation regime and direct participation, helped the country to collect a total of 39 per cent of taxes from the mining sector to realize pro-poor investment such as education, health and infrastructures. On top of that, there is the self-disciplinary rule of the use of natural resources which imposes the use of mineral revenues to finance specific expenditures (Iimi, 2006).

Other authors, such as Hillbom, concur with the above line of argument and argued that what facilitated the correct and visionary decisions of Botswana's early leaders is that they were associated with the colonial authorities in the design of economic policies and strategies to develop their country. Instead of an abrupt change in ruling after independence, Botswana experienced what Hillbom called "institutional continuity" (Hillbom, 2014). In contrast, Sierra Leone has had a chaotic political process made up of weak institutions, corruption and civil war (Davies, 2000). It should be noted here that this original weakness of institutions has been remedied by various reforms undertaken such as the civil service reform programme. The aim of this programme is to increase the capacity and restore efficiency in public services (Zayid, 2015). Other reforms mentioned by the same source include a management and functional review of fourteen ministries and the strengthening of the coordination role that rests with the office of the president of Sierra Leone. There is a strand of literature that also highlights the fact that there is a breakdown of local governance due to lack of accountability and misuse of funds hijacked by local chiefs of the producing areas within the DACDF which have been reported frequently by civil society organizations as mentioned by Maconachie and Binns (2007) as well as Kawamoto (2012).

It should be also noted that one of the Botswana's Achilles heel is its very high inequality compared to Sierra Leone. Due to pre-colonial and colonial redistribution policies perpetuated after independence, inequality in Botswana has been exacerbated. The Gini coefficient has increased from 54 per cent in 1985 to 60 per cent in 2009 according to the WDI in Botswana while it has decreased from 40 per cent in 2003 to 34 per cent in 2011 in Sierra Leone. In the same vein, some dissonant voices are airing the fact that Botswana may have just been

luckier than its counterpart Sierra Leone. This school of thought argues that Botswana relies on the fortunate combination of four elements which are missing in Sierra Leone (Maipose, 2008). These elements are: (i) a significant inflow of foreign aid; (ii) its abundant natural resources, especially diamonds; (iii) its partnership with one of the giants in the diamond market, and (iv) a small and homogenous population. Indeed, the country is small in terms of population and this could have been an advantage in its management compared to Sierra Leone. This indicates a multi-causal explanation of Botswana's success whereby the interactions between the four elements are difficult to disentangle.

Another Achilles heel for Botswana reinforces the "good luck" argument which despite having one of the highest prevalence of HIV, the country has managed to move from a low-income country status to an upper-middle-income country in about three decades. By way of comparison, Botswana registered a HIV/AIDS prevalence of more than 25 per cent from 2010 to 2014 but in Sierra Leone HIV/AIDS prevalence is below 2 per cent for the same period.

CONCLUSION

Despite dissonant voices about the success of Botswana, the country has made great efforts to manage its resources to the benefit of its people. Botswana has innovated in terms of the political process that leads to decision making regarding the use of revenues derived from diamonds. The parliament of Botswana oversees the approval of new investment projects contained in the National Plan of Development for five or six years and this plan is updated every three years. In addition, the parliament has decided to include in the investment projects recurrent expenditures on education, vocational training and health services. This political innovation combined with the political stability is considered to have led to the virtuous circle of development in the country. Now it is time for value addition according to President Festus Mogae, as the cutting and polishing industry will create 3000 jobs in Botswana. The country is exploring tourism and financial services as possible ways for diversification of the economy. The question is why did it take so long to engage in value addition or in economic diversification?

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