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# A quest to run the government by black ink in Botswana in 2012 and beyond

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**Abstract**

Botswana, like the rest of primary product-dependent economies, saw her revenues declining in mid 2008 due to the onset of the global financial and economic crises. Due to reduced revenues, the economy has posted budget deficits since the 2008/09 financial year. The fiscal challenges forced the government to undertake a Public Expenditure and Financial Accountability (PEFA) Performance assessment in 2009 to ensure fiscal prudence. After the assessment, the government introduced a Public Finance Management Reform programme that begot a Budget Strategy Paper that advised the preparation of the 2011/12 Budget Speech and budget. In addition, when the Finance Minister read the 2011/12 Budget Speech, he announced that the government intended to adopt a black ink in 2012 and beyond, that is, balance the budget in 2012 and post surpluses afterward. Is this objective deliverable? Yes, however, running the government by black ink will largely demand political leadership, a sturdy resolve to resist populist spending and speeding up of expenditure reforms.

**Keywords:** Budget deficit, budget reform, black ink, Botswana.

## 1. Introduction

As a result of the British government's deliberate decision to minimally invest in then Bechuanaland Protectorate, she was one of the poorest countries in the world upon attaining independence on September 30, 1966 (Tsie, 1998; Edge, 1998). Thus, until the discovery and exploitation of minerals in the 1970s, particularly diamonds, the country was dependent of grants from the British government. Contrary to popular belief, mining activity did not begin with the discovery of the first diamond deposit in 1967, neither is the mining activity confined to the diamonds sector. Thus, mineral exploration and mining have a long history in Botswana (Cobbe, 1979). Hence, the first discovery of gold was made in Francistown in 1866 and exploitation commenced in 1869. However, the discovery of a kimberlitic pipe in Orapa in 1967 marked the beginning of the diamond mining industry in Botswana (Jefferis, 1998). The mineral industry has been and continues to form the backbone of Botswana's economy, for example, between 1966 and 1995, the country's per capita gross domestic product increased from P1, 682 to P7, 863 (US$2, 850) in 1993/94 constant process (Department of Mines, 2008). The *Diamonds for Development Policy* has made it possible to transform Botswana into what it is today. In this regard, when then president, Festus Mogae, embarked on a '*Diamonds for Development Tour*' in the USA in December 2006, he said:

The basic tenet of our development philosophy has been to optimise the benefits of revenues from natural resources by re-investing them into developing further productive capacity of the economy such as education and training, health, infrastructure and others (Mmegi, 2006, p. 1).

Much as there were efforts to diversify to diversify the economy away from diamonds in the 1980s, outcomes did not match intentions. As a result of the divergence between intentions and outcomes, the economy has been largely dependent on the diamond sector. The dependence on the diamond sector, as demonstrated by the onset of the global financial and economic crises in mid 2008, proved to be problematic. As the demand for diamonds fell, revenues plummeted. This resulted in budget deficits since the beginning of the 2008/09 fiscal year. Three years down the line, the government has resolved to adopt a blank ink; that is, balance the budget in 2012 and post surpluses afterward. These objectives are to be delivered through a Public Finance Management Reform programme. Thus, this paper seeks to answer the question; is it possible to run the government by blank ink in 2012 and beyond? Since this is an unexplored subject, this is an exploratory contribution to the literature.

Having laid the background, the paper discusses the following: budget deficits during the global economic downturn, public finance management reforms, 2011/12 Budget Strategy Paper and 2011/12 Budget Speech and budget, IMF Article IV consultations and declining Southern African Customs Union revenues and makes recommendations.

## 2. Diamonds are [not] forever

'Diamonds are forever' is a well-known cliché that refers to their durability but not their role as a permanent rainmaker as the Botswana case clearly demonstrates. Since their discovery in 1967 and subsequent exploitation in 1972, diamonds have been the backbone of the economy (see Basdevant, 2008) and have transformed the country from a low to a middle income economy. In this regard, Botswana graduated from the list of 24 least developed countries in 1992, between independence in 1966 and 2005, real Gross Domestic Product (GDP) grew on average by more than 7% per annum, GDP per capita in 2005 was over US$4 000 and the national budget has grown from under US$3 million to US$4 billion in 2006 (Mmegi, 2006). Thus, her development indicators have grown over time and, to illustrate, between 1980 and 2007, Botswana's Human Development Index rose by 0.94 per cent annually from 0.539 to 0.694 (UNDP, 2009).

Largely as a result of an undeclared policy of fiscal conservatism, Botswana was able to plough back revenues from the mining sector into the economy and, at the same time, saved a portion in external reserves. In regard to the latter, she held substantial amounts of cash reserves until she was forced to dissave beginning in the 2009/10 financial year. As a result, the amount of reserves has gone down (ROB, 2010a); e.g., on November 2010, they stood at P54.9 billion, a decrease of 5.2 percent from P57.9 billion as at December 2009 (Matambo, 2011). Overall, except on a few instances, the economy was able to post budget surpluses until the onset of the global financial and economic crises in mid 2008. As the erstwhile good revenue situation changed for the worse, the government was forced to make tough financing choices. Thus, a deliberate decision was taken to finance the revenue shortfalls through borrowing, both internally and externally, and dissaving from cash reserves. Thus, these interventions marked a break from fiscal conservatism.

In this regard, the effects of the global financial and economic crises were acutely felt during the preparation of the 2009/10 budget. To illustrate, when then Minister of Finance and Development Planning, the late Baledzi Gaolathe, read the 2009/10 Budget Speech to the National Assembly on 2 February 2009, he requested the House to approve a budget that was not in balance. He justified the P13.4 billion budget deficit saying;

Mr. Speaker, while under normal conditions a deficit of that magnitude would not be prudent, at the same time, we must recognise that in the extraordinary circumstances such as these, a fiscal stimulus to boost growth and employment in the economy is appropriate. This is in line with Government policy of balancing its budget over the medium term and accumulating surpluses during good years to assist during lean times. It is clear that in these circumstances we must be prepared to run a deficit to help stabilise the domestic economy, while recognising there must be a limit (Gaolathe, 2009, p. 30).

The revenue situation did not markedly improve during the 2010/11 and 2011/12 financial years and, as a result, then Minister of Finance and Development Planning, Kenneth Matambo, presented unbalanced budget proposals to the National Assembly on February 8, 2010 and February 7, 2011 respectively. The budget proposals were as follows. During the 2010/11 financial year, Matambo proposed a total expenditure of P39.194 billion against total revenues and grants of P27.077 billion and, thus, this translated into a budget deficit of P12.118 billion (Matambo, 2010). In regard to the 2011/12 financial year, Matambo proposed a total expenditure of P41.03 billion against total revenues and grants of P34.1 billion and, thus, this translated into a budget deficit of P6.93 billion (ibid, 2011). It is notable that the government reduced the budget deficit from P12.118 billion in 2010 to P6.93 billion in 2011. Underscoring this achievement, when Matambo read the 2011/12 Budget Speech, he stated that "we are demonstrating that Government has the discipline to limit its expenditure and therefore the budget deficits (ibid, p. 19)." At the same time, he stated that the government was committed to doing more with less and, notably, living within its means.

Notably, early this year, the government took a deliberate decision to eliminate the budget deficit. On the whole, it was reasoned that continued budget deficits were not sustainable in the long run due to their negative macroeconomic effects. Importantly, the resolution was a result of a Public Finance Management Reform programme, a result of the 2009 Public Expenditure and Financial Accountability (PEFA) Performance assessment which called for serious spending cuts (see ROB, 2009; Benza, 2010).

## 3. Public Finance Management Reform

As the global economic downturn deepened in 2009, sufficiently exemplified by declining revenues, Botswana was forced to re-look at its public expenditure patterns. Thus, it undertook a Public Expenditure and Financial Accountability (PEFA) Performance assessment in 2009. To provide context, the assessment is done every three-four years to assess the current status of the public financial management system of the central government (ROB, 2009). In addition, the resultant report identifies strengths and weaknesses. The 2009 Public Expenditure and Financial Accountability (PEFA) Performance assessment was initiated and sponsored by the European Commission. The assessment was premised on a Public Financial Management Performance Measurement Framework (PFM-PMF) that was issued by the PEFA multi-donor programme in June 2005. Thus, the "approach is based upon a careful consideration of the demonstrated observable Public Financial Management (PFM) systems, procedures and practices in Botswana at the time of the assessment (ibid, p. 5)." In terms of data collection, the survey used methodological triangulation; that is, (i) personal interviews with government officials; and (ii) review of official documents and reports.

The assessment was conducted on 31 high-level indicators as per the PEFA Performance Measurement Framework and these indicators are further grouped into six critical areas. These are: (1) credibility of the budget; (2) comprehensiveness and transparency; (3) policy-based budgeting; (4) predictability and control in budget execution; (5) accounting, recording and reporting; and (6) external scrutiny and oversight. The summary findings are next presented:

1. *The credibility of the budget* - the budget is realistic and implemented as intended;

2. *Comprehensiveness and transparency* - the budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public;

3. *Policy-based budgeting* - the budget is prepared with due regard to government policy;

4. *Predictability and control in budget execution* - the budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds;

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5. *Accountancy, recording, and reporting* – adequate records and information are produced, maintained, and disseminated to meet decision-making control, management and reporting purposes;

6. *External scrutiny and audit* – arrangements for scrutiny of public finances and follow up by the executive are operating (ibid, p. 67).

The overall assessment report was that "when viewed from the perspective of the three main objectives of a sound PFM system, namely aggregate fiscal discipline, strategic allocation of resources and the efficient delivery of services; Botswana scores well with respect to aggregate fiscal discipline (ibid, p. 12)." In a related vein, the report pointed out some challenges, particularly, capacity constraints. Thus, it mentioned that there were procurement challenges that had serious implications for the sustainability and sufficient capacity to undertake significant public finance management reforms. Also very importantly, the report noted that, at the time, Botswana did not have a Public Finance Management programme in place but, nonetheless, pointed out that there were reforms such as the Government Accounting and Budgeting System (GABS), improvements in the revenue administration, strengthening of external audit etc.

The assessment report was given to the government which it, in turn, shared with some stakeholders such as the World Bank. In this regard, when presenting a Public Expenditure and Financial Accountability (PEFA) Performance assessment report to the World Bank on 24 August 2010, the Ministry of Finance and Development Planning Permanent Secretary, Solomon Sekwakwa, prefaced his presentation with the observation that changed fiscal challenges meant that it was imperative to revise public expenditure to attune it to changing times. He put it concretely when he said, "in view of the challenges that we faced during the recession it has now become widely perceived that we need to have a look at the way we allocate funds for national development (Ramokopelwa, 2010, p. 1)." In addition, Sekwakwa stated that the Finance Ministry welcomed the report and that it would study it and, afterward, effect modifications into the current expenditure system. Confirmedly, Ruth Kajia, World Bank Director for Botswana, Swaziland, Namibia, South Africa and Lesotho, cautioned that tough fiscal situations necessitated reform in public expenditure. The same sentiments were echoed by Zeinab Partow, a World Bank economist, who stated that "the country has been spending an average 3% of the country's GDP on social and safety nets" and that "the bottom issues such as self-sustenance have not been addressed (ibid)."

In a demonstration of political support from the Ministry responsible for finance, then Assistant Minister of Finance and Development Planning, Charles Tibone, shared the PEFA Performance assessment report with more stakeholders in Gaborone. Thus, when he shared it with them in mid September 2010, he stated that the formulation and implementation of Public Financial Management Reform programme was nigh and that "it will strengthen and improve planning, budgeting and the reporting of public finance (The Botswana Gazette, 2010, p. 2)."

Following the adoption of the Public Expenditure and Financial Accountability (PEFA) Performance assessment report in 2010, the government inaugurated a Public Finance Management Reform (PFMR) programme in readiness for the preparation of the 2011/2012 Budget Speech and budget whose preparations started in September 2010. In this regard, the PFM Reform agenda will transform Botswana's public finance management systems in order to attain long-term sustainable development (MFDP, 2011). Thus, given reduced fiscal circumstances, the government of Botswana has no option but be committed to adopting a well coordinated and sequenced PFM reform programme (ibid). In order to ensure relevance, the reform programme will be continually reviewed and re-aligned with new and emerging conditions. Since the reform programme does not exist in a theoretical vacuum, it must, of necessity, be linked to other instruments such as the National Development Plan 10 [NDP 10] (2010/11-2015/16; see MFDP, 2010a) and Vision 2016 (a national blueprint to be delivered in 2016; see Botswana Vision 2016 Council, 2011). The reform programme is meant to run through the implementation period of both instruments and, therefore, see to the delivery of both the National Development Plan 10 and Vision 2016 in 2016. In addition, the PFM reform programme begot a Budget Strategy Paper that advised the formulation of both the 2011/12 Budget Speech and budget. The Budget Strategy Paper, 2011/12 Budget Speech and budget are next discussed.

## 4. 2011/12 Budget Strategy Paper, Budget Speech and Budget

It is very notable that both the Budget Speech and budget were prepared under new and different conditions; they were premised on a Budget Strategy Paper (BSP), a first in the budget history of Botswana. Thus, the BSP guided the preparation of the 2011/12 budget and is an important component of the Government's approach for improving the preparation of the national budget and the management of public finances (MFDP, 2010b). Importantly, the BSP document was made available to key stakeholders to enhance transparency and accountability and was also discussed in October and November 2010 when the Finance Ministry held budget *pitsos* (public opinion-gathering fora). During the *pitsos*, the BSP guided discussions with stakeholders on key priorities and issues to be considered for the 2011/12 budget. Thus, it was hoped that the BSP would favourably circumstance the stakeholders to understand the macro-fiscal situation and the government's strategy to achieve sustainable, efficient and effective public spending (ibid).

Amongst other things, the BSP has the following four critical components:

(1) *Fiscal Strategy and Budget Priorities*; the strategic thrust of development policy for NDP 10, as has been the case with past plans, is to accelerate diversification of the economy.

(2) *Restoring Fiscal Balance;* in view of the limited resources at our disposal, Government's strategy must focus on our core objectives.

(3) *Improving Service Delivery*; doing more with less; as it is inevitable to reduce public spending significantly, while at the same time addressing the major development challenges and improving service delivery, the only option is to do more with less.

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(4) *Implications for the 2011/12 Public Expenditure and Indicative Budget Ceilings*; it is critical to note that maintaining the total expenditure at current levels would be unsustainable. In view of the revenue situation, the laid out strategy for the 2011/12 budget and beyond; the expenditure should focus on prioritised value-adding expenses and improved means of revenue collection (ibid, p. 5-8).

As it is deducible from the above, the BSP provided guidance to stakeholders during the *pitso* deliberations in 2010. To provide context, until October 2010, budget preparation in Botswana was largely the preserve of the Executive branch of the government, particularly, the Finance Ministry. Due to dissatisfaction borne out of limited budgetary participation, the government elected to introduce budget reforms. To effectuate this, in mid October 2010, the Minister of Finance and Development Planning, Kenneth Matambo, told a press briefing that his Ministry intended to hold a budget *pitso* in late October and November (see GabzFM, 2011, a; b). Thus, a budget *pitso* enables stakeholders to make an input into budget preparation (they first did so in 2010 and again on 5 July and 4 August 2011).

4(1) 2011/12 Budget Speech and Budget

The Public Finance Management Reform (PFMR) programme, through a Budget Strategy Paper, advised the preparation of the 2011/12 Budget Speech and budget. Notably, for the first time in 44 years (Botswana got her independence in 1966), both the Budget Speech and budget were premised on a Budget Strategy Paper, a component of the PFMR programme. In this connection, when Matambo presented the Budget Speech on 7 February 2011, he stated that the Budget Strategy Paper was one of the components of the new PFMR programme that was being undertaken by the government. He, thus, stated that the reforms aimed to enhance the management and efficiency of public spending and ultimately providing better services to the public (Matambo, 2011). Importantly, he confirmed that both the 2011/12 Budget Speech and budget were premised on the 2010/11 Budget Strategy Paper as instanced thusly;

Madam Speaker, the preparation of the 2011/12 budget took a new approach with the process being guided by a Budget Strategy Paper prepared by my Ministry. This Paper was shared with stakeholders in October and November last year.... Their suggestions and advice were taken into consideration during the preparation of the 2011/12 budget and the Budget Speech itself (Matambo 2011, p. 1).

Thus, critical components of the Budget Strategy Paper; being: Fiscal Strategy and Budget Priorities, Restoring Fiscal Balance; Improving Service Delivery and Implications for the 2011/12 Public Expenditure and Indicative Budget Ceilings, advised the preparation of both the 2011/12 Budget Speech and budget. Notably, when presenting the 2011/12 Budget Speech, Matambo announced that the government intended to balance the budget in 2012 and post surpluses afterwards. He, thus, said, “we are committed to doing more with less and proving that we can live within our means” and that, “each …Ministry must continue to demonstrate that its spending plans are the best use of public funds provided in the recurrent and development budgets (ibid, p. 19).” Thus, he sounded the death knell for budget deficits; is this so?

## 5. IMF Article IV Consultations (2009-2011)

In addition to the government's decision to bring about fiscal prudence, some external, and equally disinterested, bodies, for example the International Monetary Fund (IMF), have also sounded the alarm on unproductive expenditure. That is, they have advised the government to re-evaluate its expenditure patterns to engender fiscal prudence. In this regard, IMF Article IV Consultations discussions from 2009 and 2011 are discussed. Importantly, they carry the same counsel; cut unproductive expenditure. To provide context, the IMF consults annually with member governments to assess their economic health and forestall future financial problems (Botlhale, 2011a). These contacts are known as Article IV Consultations and the resulting reports are discussed at the IMF's Executive Board. Notably, these IMF reports are very informational for they give one a sense of the economic health and direction of the economy.

In 2009, the IMF conducted Article IV Consultations discussions with the Botswana government from 6 to May 15, 2009 and the report was finalised on July 2. The IMF mission met with then Minister of Finance and Development Planning, the late Baledzi Gaolathe, the Bank of Botswana Governor, Linah Mohohlo, other senior government officials, the donor community and representatives of the private sector and civil society (IMF, 2009). Overall, the mission concluded that there was sound macroeconomic management, underpinned by strong institutions and good governance and that Botswana had sustained a strong macroeconomic performance in recent years (ibid). On the basis of then on-going global economic crisis, the mission observed that the economy would shrink and projected large fiscal and external deficits. At the same time, and based on rapid growth in spending in years preceding 2009, the mission worried about the pattern of expenditure and advised that it be reduced to sustainable levels.

On 27 July 2010, the Executive Board of the IMF concluded the 2010 Article IV consultation with the Botswana government (IMF, 2010). The mission noted that the economy was rebounding after having been badly affected by the global financial crisis. In this regard, it observed that the economy was able to weather the fiscal storm due to past prudent macroeconomic management and that "this facilitated a timely easing of fiscal and monetary policies, which helped cushion the impact on growth of the crisis and the subsequent collapse in demand for diamonds (ibid, paragraph 2)." Importantly, the report stated that on account of reduced diamond revenues, some cost containment interventions, particularly lowered public spending, were needed to help the economic recovery and restore fiscal balance. At the same time, it noted that prospects of raising non-mineral taxes were low given the small size of the private sector, hence, necessitating a scaling down of public expenditures. While cognisant of the government's intention to restore fiscal prudence by balancing the budget in 2012 and posting surpluses afterward, the mission stated that "the budget for 2010/11 makes a good start on this process of adjustment" and that "plans to balance the budget by 2012/13 and register modest surpluses thereafter are ambitious but warranted (ibid, paragraph 3)."

With regard to 2011, an IMF mission led by Lamin Leigh visited Gaborone during May 18-31 to conduct the 2011 Article IV Consultation discussions with the government of

Botswana (IMF, 2011). Thus, the mission, amongst other things, focused on reviewing recent economic developments and prospects and policies to ensure continued macroeconomic stability and growth (Botlhale, 2011a). In executing its task, it met with Finance Minister, Kenneth Matambo, Bank of Botswana's (BOB) Governor, Linah Mohohlo, Matambo's Permanent Secretary, Solomon Sekwakwa, and some senior government officials. The mission lauded the government of Botswana for its good macroeconomic policies. In this regard, Leigh, the mission head, stated that "thanks in large part to good policies supported by a rebound in diamond exports, the Botswana economy is now back onto a strong growth trajectory (IMF, 2011, paragraph 3)." However, Leigh noted that inflation, largely attributed to high international commodity prices, was problematic and also fell outside the Bank of Botswana's (BOB) medium-term objective of a 3 per cent to 6 percent inflation rate band. Nonetheless, he lauded the BOB's neutral policy stance with respect to interest rates.

On the downside, however, Leigh faulted unproductive public expenditure patterns as thusly expressed;

Botswana faces the daunting challenge of reducing the relative size of the government in the economy. The government's overall expenditure envelope (as a share of GDP) is very high by international standards, thus warranting a thorough assessment of pockets of unproductive spending and ways to increase efficiencies. Moreover, fiscal consolidation is critical given the likely plateau of diamond revenues in the next few years and the need to rebuild the Pula Fund for the benefit of future generations IMF, 2011, paragraph 3).

Furthermore, the mission stated that it supported ongoing government initiatives to improve public financial management, prioritisation in government spending, deliberate emphasis on maintenance and refurbishment of existing infrastructure projects rather than starting new projects and efforts to put a brake on budget appropriations for transfer payments, goods and services and the wage bill. In regard to the wage bill, it noted that it was excessive as a proportion of the Gross Domestic Product (GDP) and that it unfavorably compared with comparable countries. In this regard, it said, "the mission's view is that wage policy should be prudent and any nominal adjustment made in FY2011/12 would need to be financed by either over performance in revenues or expenditure savings generated elsewhere in the budget…(ibid)." Thus, as a way forward, the mission recommended that the government should consider reducing the size of the public wage bill as a share of GDP because it is very high relative to comparable countries and that it is not sustainable. Thus, a reduction of the wage bill would also require efforts to make the public service leaner (that is, retrenchments) and more efficient.

It is deducible from the 2009, 2010 and 2011 IMF Article IV Consultations reports that while the IMF is enthused by the government of Botswana's efforts to steer the economy away from the effects of the global economic downturn, it is, contrarily, unimpressed by its failure to rein in public expenditure. Thus, there is a recurring theme in all these reports; reduce expenditure, including rationalising the public sector wage bill. The most important question is; 'is the government listening?' In this regard, the government has steadfastly 'defied' the IMF in regard to reducing the size of the public sector workforce, even when the recession was at its height in 2009. To exemplify, when officially opening the 11th Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) National Business Conference in Francistown on 27 September 2010, President Ian Khama stated that then ongoing global economic downturn negatively affected the economy as instanced by exports such as diamonds, copper/nickel and tourism performing badly (ROB, 2010). As a solution, he stated that the IMF had advised the government to reduce the wage bill, but stated that the government had resolved that salary cuts and layoffs will be a last resort to cut spending. In this connection, he stated that he pinned his hopes on the Botswana Excellence Strategy (see ROB, 2008) to diversify the economy away from diamonds. Thus, it remains to be seen how the suspended public sector strike, which started on 18 April 2011 over stalled salary negotiations (see OP, 2011; YaronaFM, 2011; Baputaki 2011a), will affect Khama's position on salary cuts and layoffs as the last resort to restore fiscal balance.

**6. SACU Dwindling Revenues**

As it is adequately deducible from the 2011/12 Budget Speech and IMF Article IV Consultation reports from 2009 to 2011, the case for restoring fiscal balance cannot be oversold. Added to this problem is the revenue threat from the Southern African Customs Union (SACU). To provide context, SACU's genesis is traceable to 1889 Customs Union Convention signed by then British colony of the Cape of Good Hope and the Orange Free State Boer republic (Ettinger, 1974). In the subsequent, in 1893, then British High Commission territories; being: Bechuanaland, Basutoland and Swaziland, joined the Union with unfavourable rights (Maasdorp, 1989). The formation of the Union of South Africa in 1910 vitiated all previous customs union agreements and, thus, this led to the birth of a new customs union that was negotiated in June 1910 that is the precursor to the present day SACU that is comprised by South Africa, Botswana, Lesotho, Swaziland and Namibia (Walters, 1989). Ever since 1910, the SACU agreement has been re-negotiated twice: 1969 and 2002 [the latter was ratified by the SACU Heads of States] (Kirk & Stern, 2003). Operationally, SACU, South Africa specifically, collects duties on local production and customs duties on members' imports from outside the SACU region and disproportionately distributes the revenue to members using a revenue-sharing formula (SACU, 2007; 2011). The SACU revenue provides a lifeline that ensures the survival of member states, particularly, Swaziland and Lesotho (for the latter case, see Public Eye, 2011).

The collection of SACU revenue is pro-cyclical as the global 2008-2011 global economic downturn has sufficiently demonstrated. Since the onset of the global economic downturn in 2008, SACU's revenues have declined, thus, threatening the economies of its members, particularly, Lesotho and Swaziland and Botswana to a significant degree (Bosch, 2010; Ruppel, 2010; Mongardini *et al*., 2011). In this regard, "while revenues escalated dramatically, and unsustainably, in the run-up to the financial crisis, they have dropped just as sharply since (IRIN, 2010, paragraph 12)." To contextualise in the case of Botswana, during the 2007/8 fiscal year, SACU revenue accounted for 25 percent of the public income (Sunday Standard Reporter, 2009) but revenues fell in 2009 (BOPA, 2009; Mosinyi, 2009), right through 2011 (see Mmegi, 2011; Mosikare, 2011). Thus, the effects of the global economic downturn, plus declining SACU revenues and the expected plateauing of diamond revenues in about 2025, unquestionably bolster the case for fiscal prudence in Botswana.

## 7. Running the government by black ink

Debt financing is one of the most serious macroeconomic problems that governments in both developed and developing economies have to contend with (e.g., see The Telegraph, 2011 on US debt negotiations and Osakwe & Verick, 2007 on Sub-Saharan Africa’s debt financing issues). This problem became more intractable during the 2008-2010 global economic downturn. For resource-dependent economies such as Botswana, debt financing was forced on them. However, the government Botswana meant this to be a stop gap measure; i.e., to tidy the economy over until the economic downturn was over. As it is, the economy started showing signs of recovery in late 2009 though still faced with challenges (Malema, 2010). In this regard, when President Khama addressed members of the diplomatic corps on 15 August 2010, he told them that Botswana was emerging from the effects of the global recession although there remained some challenges. Thus, to put this in proper context, when the Finance Minister, Kenneth Matambo, read the 2011/12 Budget Speech to the National Assembly, he announced that the economy grew by about 10.7 percent in real terms over four quarters ending September 2010, largely as a result of the global economic recovery (Matambo, 2011). Furthermore, the Finance Ministry forecasts that the economy will grow in real terms by 6.8 percent and 7.1 percent in 2011 and 2012 respectively if the mining sector grows by at least 15 percent and 6.2 percent respectively over the same period (ibid). Thus, these forecasts should enable the country to balance the budget in 2012.

With these forecasts, the die has been cast for the government is committed to balance the budget. To illustrate, when Matambo delivered the 2011/12 Budget Speech, he said, “I wish to re-emphasise that the total deficit approved by Parliament for the entire NDP [National Development Plan] 10 must not be exceeded (ibid, p. 19).” Is this objective deliverable?

Largely, it is deliverable because there is political commitment to the ideal of fiscal prudence (i.e., running the government by black ink as opposed to red ink [deficits]). In this connection, the government is wedded to the belief that long-term budget deficits are detrimental to the economy, particularly, in terms of government debt and crowding out (government using up financial resources that, otherwise, should be used by the private sector). This position has been articulated by the first office as instanced by President Khama saying;

Falling revenues, largely resulting from the downturn have... created a situation where over the past three years Government has had to spend more money than it received. This is not sustainable. In the long-term, our country cannot survive; much less prosper, by spending beyond its means. In hard times nations... must instead make careful choices about their spending priorities (WP, 2011, paragraph 3).

Connectedly, between April 18 and June 13, 2011, labour unions, under the umbrella body Botswana Federation of Public Employees Organisations [BOFEPUSO]), embarked on a strike over stalled wage negotiations (see Bakwena, 2011; OP, 2011; YaronaFM, 2011; Baputaki, 2011a). The government’s position on salary increases remained the same; the economy could not afford it. To illustrate, when President Khama addressed the High Level

Consultative Council on 19 May 2011, he stated that the economy could not afford a salary increment (Khunwane, 2011). The same sentiments were expressed by the Director of the Directorate of Public Service Management, Festina Bakwena (Bakwena, 2011). Thus, the government offered BOFEPUSO a 5 per cent salary increment, conditional on the improvement of the economy in August 2011 (ibid). The latter refused the offer and on May 18, the government made another offer of an unconditional 3 per cent salary increment effective September 2011 which BOFEPUSO rejected (Baputaki, 2011b). Amongst others, BOFEPUSO demanded the non-implementation of ‘no work no pay’ policy and unconditional reinstatement of all dismissed workers to be part of the negotiation package to end the strike (ibid). The government refused these demands and, thus, wage negotiations were suspended on May 20 (Molale, 2011).

At least, judging by the government’s stance on its wage negotiations with BOFEPUSO, it is apparent that the former is resolute that there should be moves to restore fiscal balance in 2012 and, resources permitting, to post surpluses in 2013 and beyond. However, the foregoing resolve is not a guarantee that the government will ensure that there is a balanced budget in 2012. Primarily, and as stated by Minister Matambo, this objective is realisable if the revenue situation improves, particularly, the sale of diamonds. Unfortunately, this is one critical factor that Botswana cannot control. Thus, it depends on the interplay of market forces to guarantee a stable flow of revenue, mainly, from the mining sector. On the other hand, it is on the expenditure side that she has some leverage. As stated by some disinterested observers, among them the IMF, World Bank, Botlhale (2010b) and Public Accounts Committee (ROB, 2011), there are pockets of unproductive expenditures. Thus, these need to be eliminated to ensure fiscal prudence in 2012 and beyond. Some examples are given.

*Public Wage Bill*; judged by world standards, Botswana has a very high public sector wage bill and, confirmedly, the IMF stated in the 2011 Article IV Consultation report that “the government would need to reduce the size of the wage bill as a share of GDP as this remains rather high relative to comparator countries and is not sustainable (IMF, 2011, paragraph 4).” Tellingly, during the 2011/12 financial year, the wage bill stands at P12 billion (out of a recurrent budget of P30.35 billion, this nearly constitutes 50 per cent of the total) compared to a development budget of P10.77 billion (see Khunwane, 2011; Matambo, 2011). Thus, the recurrent/development budgets ratio is unfavourable because the recurrent budget outweighs the development budget by a scale of 3. To reverse this trend so as to ensure productive public investment, the recurrent budget must be trimmed, particularly, the wage bill. In addition, the privatisation of some government activities and/or outsourcing needs to be speeded up.

*Cost Recovery*; within the Ministry of Finance and Development Planning, there is a Cost Recovery Unit (CRU) that was established in January 2003. Its mandate is to assist Ministries in the collection of user fees or cost recovery charges (MFDP, 2009). In this regard, cost recovery has been effected in a number of areas, for example, school fees. To illustrate, beginning in 2005, annual school fees are P300 and P450 at junior and secondary senior secondary schools respectively and, notably, these constitute one tenth of the cost of education. Apparently, some opposition parties are against cost recovery measures arguing that many Batswana cannot afford such fees. To illustrate, on 29 September 2007, members of the opposition Botswana National Front (BNF), held a demonstration in Kanye to protest the introduction of school fees (Legodimo, 2007). Undoubtedly, the cost of providing services, including education and health, is high and, therefore, those who benefit from same should pay their proportionate share. As it is, what passes for cost recovery in Botswana is actually *cost-sharing*. Thus, there is a need to revise the existing cost recovery regime to appropriately cost public services such as education and health.

*Subsidies*; the government operates an array of subsidies, particularly, in the agricultural sector. Specific examples are programmes such as the Integrated Support Programme for Arable Agricultural Development [ISPAAD] (provides cluster fencing, provision of potable water etc), Young Farmers' Fund, Livestock Management and Infrastructure Development (LIMID), National Master Plan for Agriculture and Dairy Development [NAMPAADD]. Largely, there is no empirical evidence to support the effectiveness of these programmes. Simply put, there is no demonstrated link between input, output, outcome and impact since there are no baselines upon which to compare the deliverables against. Therefore, there is a need to subject these programmes to research to make an informed assessment about their effectiveness. This is important because some, e.g., ISPAAD, are recycled versions of failed programmes such as the Arable Land Development Programme. Importantly, there is a need to tightly monitor them to prevent leakages to undeserving persons (some people front their relatives to access subsidies).

*Privatisation*; after passing the Privatisation Policy for Botswana in 2000 (ROB, 2000), the government laid the groundwork for the commencement of privatisation. The project commenced during the 2007/08 fiscal period, albeit with the failed privatisation of Air Botswana in June 2007. Subsequent to the failed privatisation of Air Botswana, the government approved the privatisation of Botswana Telecommunications Corporation by committing to sell up to 49 percent of its shares to Batswana through an Initial Public Offering [IPO] (Matambo, 2011). In addition, the government has already undertaken to privatise the National Development Bank (Letsebe, 2011) and the Finance Ministry is currently working on a privatisation strategy for Cabinet's consideration and approval during the first quarter of 2011. As much as one would laud these initiatives, the pace of privatisation is extremely slow, thus, it needs to be speeded up so that the government divests from loss-making State-Owned Enterprises (SOEs). To illustrate, during the 2009/10 financial year, the following SOEs recorded losses: Botswana Power Corporation (P133.6 million), Botswana Meat Commission (P92.5 million) and Air Botswana [P45 million] (Matambo, 2011). Thus, the case to trim excess fat by way of divesture cannot be oversold.

To end, in addition to the recommended proposed public expenditure-cutting measures, there is a need to graft the Public Finance Management Reform programme on existing public sector reforms. In this connection, since 1992, the government has introduced an array of reforms, particularly, Work Improvement Teams (1992) and Performance-Based Management Systems (1999) [e.g., see Mothusi, 2008]. Thus, synergies must be developed between the Public Finance Management Reform programme and existing public sector reforms to engender fiscal prudence.

## 8. **Conclusion**

To borrow a leaf from a chapter by Buchanan *et al*. (1986), *government by red ink*, it is a virtue to run government by black ink (budget surpluses) since persistent budget deficits lead to serious problems such as depressed investments, inflation and reduced international competitiveness (Thurow, 1985). However, some budget deficits are forced upon governments by external factors such as the just-ended global financial and economic crises. Short of exhuming the ghost of John Maynard Keynes (1936) and eschewing anti-statism that is favoured by the both the IMF and World Bank and Washington Consensus, countries introduced stimulus packages. Botswana, due to force of circumstances, engaged in deficit spending which was financed through preferential borrowing and a draw down on foreign reserves. Thus, since 2009, the government has been run by red ink (budget deficits) but a deliberate decision was taken to change the red for black ink in 2012. While this objective can be realised on two fronts; revenue enhancement and expenditure management, the government can ably leverage the latter. In this regard, there is sufficient evidence that demonstrates that there are some spending inefficiencies that justify the call for introspection (Botlhale, 2010b). Notably, for these interventions to succeed, there is a need for political leadership. As demonstrated by announcements during the reading of the 2011/12 Budget Speech to balance the budget in 2012 and the government's refusal to grant a 16 per cent public salary increase that would have sunk the economy deeper into a deficit, there is a political commitment to rein in public spending. In addition, with correct expenditure cuts and rationalisation, the Holy Grail of running government by black ink is realisable.

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