# The capabilities of ministries of finance and planning to coordinate capital and recurrent expenditure

Country case study

**Botswana**

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**Acknowledgments**

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# Contents

# Context setting

## Question one

How integrated or separate is the management of capital expenditure and recurrent expenditure in the legal, institutional and presentational dimensions (the capital expenditure context frame)? To what degree are expenditure management responsibilities decentralised?

**Discussion**

**Botswana's Ministry of Finance and Development Planning (MoFDP) places the functions of planning and budgeting under one institution, but the functions of capital and recurrent budgeting remain distinct.** The MoFDP was formed in 1970 when the former Ministry of Finance and Ministry of Development Planning were merged. Different functional divisions were responsible for capital and recurrent budgeting and expenditure (with the Secretary for Economic and Finance Policy responsible for development programmes) until 2005, when these functions were brought together during a ministry reorganisation to form the Development and Budget Division, which is headed by a secretary. According to its mission statement, the Development and Budget Division focuses on the coordination of both budgetary processes and the implementation of development projects and programmes.[1] However, within the division, capital and recurrent budgets are managed separately under the Development Programmes and Budget Administration units respectively.

**The recurrent and capital budget preparation processes take place separately, especially at the planning and formulation stage of the cycle.** During June and July, the Budget Administration Unit works with ministries, departments and agencies (MDAs) to develop technical assessments of work, which are used to develop baseline projections from which recurrent budget ceilings for MDAs are drawn up. The Development Programmes Unit carries out a separate process for development projects at the thematic working group (TWG) level.[2] Separate budget circulars, or "guidelines", are produced for MDAs (for recurrent budgets) and TWGs (for development) in August.[3]Finance officers reprioritise recurrent expenditures, with proposals and comments on budget ceilings ready for submission in October. TWGs, on the other hand, formulate development expenditure proposals for the Project and Budget Review Committee in October. The Project and Budget Review Committee is made up of representatives from the MoFDP and the MDAs under the TWGs. It assesses and approves new and ongoing development projects, and is chaired by the Development and Budget Division Secretary. The TWGs are responsible for splitting development expenditure ceilings among the relevant ministries. In November, the Estimates Committee considers both recurrent and development estimates together, along with project reviews.[4]From this point on, the budgeting process for capital and recurrent expenditure is the same. According to MoFDP staff, the ministry aimed to integrate the capital and recurrent budgeting at an earlier stage in the budget process by assimilating technical assessments for the 2017/18 budget process, with one exercise being carried out by staff in both the Development Programmes Unit and the Budget Administration Unit.

1 MoFDP website, June 2016: http://www.finance.gov.bw/index.php?Itemid=141&option=com_content&view=article&id=112&catid=16.

2 Thematic working groups (TWGs) were introduced in NDP 10 to create cross-sectoral working groups to coordinate the design and delivery of development projects. There were originally eight, but there are now four. A TWG coordinator sits under the Office of the President, alongside the National Strategy Office. The current TWGs are economy and employment; governance, safety and security; social improvement; and sustainable environment.

3 Both capital and recurrent budget ceilings are reviewed by the MoFDP's Estimates Committee before being sent to the Cabinet for approval and to MDAs or TWGs. See Schedule for 2015/16 Budget Preparation (http://www.finance.gov.bw/index.php?option=com_content&view=article&id=21&catid=14&Itemid=249)

4 See Schedule for 2015/16 Budget Preparation (http://www.finance.gov.bw/index.php?option=com_content&view=article&id=21&catid=14&Itemid=249).

**The government of Botswana recognises the consolidated fund and development fund as distinct, which separates resources allocated for capital and recurrent expenditure.** According to the 2015/16 Estimates of Expenditure, the development fund "includes any monies appropriated by law from the consolidated fund to finance, among others, various government development expenditures. The fund also includes monies received from proceeds of loans raised by the government for purposes of expenditure on development and any other government projects, and reimbursements of expenditures for any project".[5] Section 36 of the Public Finance Management (PFM) Act (2013) states that the development fund does not form part of the consolidated fund, but should be "kept in a separate account with the Accountant General".[6]

The recurrent and development budgets are presented separately in the appropriation bills and the estimates book. In the Estimates of Expenditure from the consolidated and development funds, recurrent estimates are recorded by ministry and department, then by category (salaries, travel, maintenance and running costs). Development fund estimates are recorded in an annex both in aggregate by ministry, but also at project level, along with the original total estimated cost from the National Development Plan (NDP), the revised total estimated cost, cumulative expenditure, current-year expenditure, the estimated expenditure for the next two financial years, the balance of the total estimated cost and the source of funds (domestic or development fund). In Botswana, the term "development budget" is not a public-sector capital expenditure budget, not only because some development expenditures are funded by external funders, but also because some activities could be classified as recurrent expenditures, for example, some maintenance costs.

The Estimates also include a summary of each of the development projects under the current NDP, with a project description and an explanation of any revision to the scope and costs as laid out in the original profile of the project in the NDP. A table is also included with the estimated capital and recurrent costs of the project for the entire NDP period.

Presentation of capital and recurrent expenditures also differs in the chart of accounts. Recurrent expenditure is reported under segments that show the budget organisation, account and cost centre, whereas development expenditures are reported only under cost centres, which are aggregated into projects. Furthermore, the cost centre codes for recurrent and development expenditure are different – this means it is not possible to link maintenance and manpower recurrent costs (in the recurrent budget) to development projects (in the development budget), indicating a high level of separation in the presentation and monitoring of capital and recurrent expenditures.

**Although the PFM system in Botswana is decentralised, it uses a system of seconded staff cadres from the MoFDP to manage and monitor processes at MDA level.** According to the PFM Act, the Minister of Finance is responsible for the control and management of the consolidated, development and other public funds, and the direction of financial matters.[7]Accounting for revenue and expenditure within each organisation of government is the responsibility of the Accounting Officer,[8] who in practice is permanent secretary of the ministry in question. A distinguishing feature of the PFM system in Botswana is the existence of MoFDP staff cadres who are seconded into line ministries. These cadres include planning officers, finance officers, and staff from the Accountant General and Internal Audit units. Planning and finance officers report functionally to the accounting, supporting budgeting, expenditure management (finance officers) and planning (planning officers) line ministries. But within the MoFDP, planning officers are accountable to the Director of Development Programmes and finance officers to the Director of Budget Administration.

The resulting system is one in which responsibility for PFM is decentralised, with centralised support to MDAs through the planning and finance officers cadre system. Ultimately, this depends on who is responsible for managing expenditure at a ministerial level, which can vary between ministries. In ministries where the planning and finance officers hold more responsibility, the system becomes more "deconcentrated" rather than decentralised. In recent years, a new role has emerged within MDAs – the finance manager, an employee solely for a line ministry. Interviews with planning and finance officers have indicated that the finance manager's role is undefined, and in some ministries, the position does not exist. It was originally introduced by the Ministry of Education and Skills Development to expand the role of the finance officer in controlling the budget. The position of finance manager would seem to indicate a shift towards greater control of PFM at a decentralised, ministerial level.

5 2015/16 Estimates of Expenditure from the consolidated and development funds, p.iii.
6 PFM Act (2013) Part II, Section 36(1).
7 PFM Act (2013) Part II, Section 4(1).
8 PFM Act (2013), Part II, Section 6(1).

# Research findings

## Question two

What do the results of public financial management suggest about the integration of capital and recurrent expenditure?

### Part A: Under-integration

| Key evidence | Discusion |
|---|---|
| a. **Research shows that mechanisms to incorporate recurrent costs of capital projects in budget submissions are not always uniformly applied.**<br>• The NDP and revised project profiles in the annual Estimates all record recurrent costs for development projects under the development fund for the entire NDP period.<br>• Project memoranda are produced by ministries and include details of spending, links to national and sectoral policies, breakdowns of capital costs for project components, and detailed technical descriptions. Outputs and activities are clearly defined with start dates, end dates and costs. Also included is a table of estimated recurrent costs for the project for the first five years after completion, including categories for utilities, maintenance, operations, and interest and loan repayments. Project memoranda are used to request funding from the MoFDP after the Project and Budget Review Committee has approved the project or project update into the NDP. While these documents require detailed breakdowns of recurrent costs, the project memorandum looked at by the research team did not include estimated future recurrent costs to be considered in the budget submission.<br>• Members of the Ministry of Local Government and the Ministry of Education and Skills Development suggested that the future recurrent costs of development projects are not always taken into account in budget submissions. These costs are accounted for only when a project is completed and planning officers flag them with finance officers in the ministry. This means there are no checks in place to ascertain whether the total future recurrent costs of a project fall within the budget ceilings of the ministry under which it is implemented.<br>• Accounting for the recurrent costs of capital projects managed by donors can be more complicated, because the recurrent costing is left up to the implementing agency in government that will manage the asset once it is complete. Donor documentation can be inconsistent, and does not always include the information required in project memoranda for domestically funded projects, which can make the inclusion of recurrent costs even more difficult. | The evidence suggests that capital and recurrent expenditures are not entirely integrated due to the dual budgeting system. There are mechanisms in place to link the recurrent implications of development projects, but these are not always effective, and interviews with budget directors indicated an appetite to combine the processes. **Capital expenditure trade-offs are based on the policy objectives laid out in the NDP, but it is not clear whether this is done in a way that integrates recurrent costs.** This is partly due to the fact that while there are some efforts to integrate recurrent costs through budget and project documentation, **recurrent cost estimates are not always reliable or realistic**, and in some cases, are not reported at all.<br><br>The **mechanisms in place to ensure integration are insufficient**, with reliance placed on the communication between planning officers and finance officers in line ministries to support the transition into the recurrent budget requirements at a project's close. No specific processes to ensure that this happened smoothly were identified. Separate processes for budget preparation (until quite late in the process) compound the dual budget presentation, which discourages integration. |

| Key evidence | Discusion |
|---|---|
| b. Mechanisms to estimate the recurrent costs of capital projects are limited to rules of thumb, without clear evidence that they are followed. There is also a variety of practices across ministries.<br>• The research team analysed the recurrent and capital costs estimated for the Botswana College of Agriculture project under the development fund, from NDP 10, using the Estimates of Expenditure and updates provided for the years 2009/10 to 2015/16. Recurrent cost estimates were entered for some years over the NDP period, but not all, and estimates were revised each year. However, there did not appear to be a trend in the revision of these recurrent estimates. Revisions to capital estimates were clearly explained by the project's change of scope.<br>• Development Programmes Unit staff identified a rule for estimating recurrent costs when developing the NDP: 3-5 percent of the total capital cost of the project is used as the recurrent cost, unless it is a labour-heavy project. To prevent complications caused by the level of manpower required, the NDP 11, which is currently being prepared, breaks down the manpower budget as a separate category of a development project, alongside capital and recurrent costs. The percentage also depends on the complexity of the project and its location. A scan of the recurrent costs recorded for projects in the NDP indicated little to no compliance with the 3-5 percent rule.<br>c. There is clear evidence that national policy objectives drive capital expenditure.<br>• In one interview, the NDP was referred to as the "bedrock" of the MoFDP, and forms the basis of the planning and budget process each year. NDPs cover a six-year period and are prioritised through an extensive participatory consulting process. The NDP drives decisions around capital expenditure. In fact, MoFDP staff indicated that projects beyond the scope of the NDP are usually rejected by the Project and Budget Review Committee.<br>• Historically, projects within the NDP were considered strategic priorities, but could be rejected when put forward as capital expenditure for the annual budget on the basis of changed priorities or insufficient project pre-assessment. In other words, the annual budget process served to reprioritise the priorities laid out in the NDP. According to Budget Administration Unit staff, this is no longer the case; all projects in the NDP should be implemented. Projects are likely to be deferred out of the NDP period only as a result of lack of funding.<br>• The World Bank's 2010 Public Expenditure Review for Botswana highlighted a tendency to implement projects of national importance that were beyond the scope of the NDP.[9] It is not clear from interviews whether this practice has changed.<br>• The project memoranda template requires ministries to explicitly link a project to Botswana's national development vision, Vision 2016, named policies, and priority NDP programmes.<br>• The 2013 Public Expenditure and Financial Accountability Assessment Report under indicator PI-12(iii) (existence of sectoral strategies with multi-year costing of recurrent expenditure and investment expenditure) found that some ministries have sector strategies that have been developed in line with the NDP. However, these are not costed and do not contain expenditure estimates, with some ministries stating that sector plans were not used to guide investment decisions.[10] It should be noted, however, that the Public Expenditure and Financial Accountability Assessment Report takes a narrow view of the NDP, and that the plan in fact draws on sector strategies to guide spending decisions. | An assessment of five projects from NDP 10[11] (focusing on health, education and water supply) shows considerable changes between the original and revised total estimated costs reported in 2016 (for 2014/15). The smallest percentage deviation was 10 percent for the Village Water Supply and Sewerage project. Others saw changes (up or down) of over 50 percent.<br>A review of updated project summaries in Estimates for the interim years suggests these changes are due to changes in both capital and recurrent expenditure. This supports interview discussions suggesting that capital projects have a tendency to expand considerably in scope beyond the initial objectives laid out in the NDP, but also provides further evidence that the recurrent costing mechanisms are unable to provide reliable estimates.<br><br>Interviews with senior staff in the MoFDP indicated that there are reform priorities in the area of integration: The first priority is to improve the quality of recurrent costing across the lifecycle of capital projects by improving costing guidelines in the manuals for finance officers and planning officers, and by scheduling technical assistance under the PFM reform programme at the beginning of 2017 to support the costing process. The second reform priority is the integration of the recurrent and capital budgeting processes, initially by integrating the technical assessments with MDAs at the beginning of the budget cycle. Nevertheless, there is a recognition that the integration process should be done through the NDP cycle rather than just the budget cycle. This means waiting for NDP 12 in six or seven years' time.<br><br>Capital and recurrent expenditure are not integrated sufficiently under Botswana's PFM system, despite the processes, procedures and systems in place to promote integration within the parameters of a dual budget system. Yet it was clear from interviews that institutional commitment to implementing a programme-budgeting approach is strong. This will be a central element to PFM reform in the future, with the expectation of removing the focus on individual projects and providing a broader perspective on the integration of capital and recurrent expenditure. The MoFDP hopes to implement a programme approach with NDP 12. |

9 Botswana Public Expenditure Review, August 2010, World Bank, p.77.

10 Public Expenditure and Financial Accountability Assessment, Republic of Botswana, August 2013, p.68.

11 These projects, all included in NDP 10, were: 9221 Secondary Schools, 9259 Primary Schools, 9262 Primary Health Facilities, 9267 Village Water Supply and Sewerage, and 9335 Improvements to Health Facilities. The methodology for analysis involved comparing the original total estimated costs in NDP 10, with the revised total estimated costs reported in the updated thumbnail sketches for the project in the annexes to the Annual Statement of Accounts 2014/15.

| Key evidence | Discusion |
|---|---|
| d. Existing service delivery assets are underused and not always adequately maintained.<br>• According to the 2010 Public Expenditure Review, new capital spending is crowding out spending to maintain existing infrastructure.[12]<br>• Budget Administration Unit staff said this is still the case, emphasising that a drive in recent years to implement new projects has meant that little attention has been given to maintenance-focused recurrent costs. This has resulted in a backlog of maintenance needs. | |

## Part B: Over-integration

| Key evidence | Discusion |
|---|---|
| a. There are considerable discrepancies between estimates and actual capital spent.<br>An assessment of the five previously mentioned NDP 10 projects (focusing on health, education and water supply) show significant deviations from the 2014/15 estimates of expenditure, as reported in the Annual Statement of Accounts. The project to build and repair secondary schools spent 675 percent more than the original allocation of 850 million Botswana pula (BWP). Other projects indicated that little or no funds had been spent. Due to the style of presentation of data in the Annual Statement of Accounts, it is not possible to separate capital from recurrent expenditure, so it is unclear whether the capital or the recurrent side drives the fluctuations.<br>b. There are mechanisms that can separate capital expenditure out of MDA baselines.<br>Capital and recurrent expenditures are devised separately for MDA baselines, for the recurrent and development budgets. Recurrent budget ceilings are provided at the MDA level and capital at the TWG level, resulting in a clear separation of the two.<br>c There was no specific identification of "white elephant" projects, but "a substantial decline on the returns to investment"[13] was identified in the 2010 Public Expenditure Review. This is not related to over-integration of capital and recurrent expenditures, but to an overemphasis on a capital-led budget.<br>d. Delays in project design and implementation are commonplace.<br>• Insufficient implementation of the development budget was identified as a key concern for Botswana in the 2010 Public Expenditure Review (p. xiii).<br>• The Development Programmes Unit monitors physical and financial progress of projects, and identifies delays caused by underfunding, when the project has to go back to the MoFDP for additional funding.<br>• Interviews also revealed delays in the implementation of projects in the NDP due to insufficient funding. These have been deferred since the financial crisis in 2008/09 and are on a prioritised list, ready to be implemented when funding becomes available. | With the dual budgeting system in Botswana, "over-integration" of capital and recurrent expenditure is not a concern.<br><br>Due to the dual nature of the budgeting system, there are budget processes that treat capital expenditure appropriately as a once-off investment. This includes the Project and Budget Review Committee's process whereby new and ongoing projects are assessed before being approved as part of the annual budget. In addition, while the recurrent costing exercise has been identified as an area for reform, the process for generating capital costs is clear.[14]<br><br>Large capital projects do sometimes undergo economic feasibility studies or cost-benefit analyses, but this takes place only **after** a project has been approved and included in the NDP.[15] No threshold is specified for the definition of a "large" project.<br><br>Control of capital expenditure seems sporadic, with significant discrepancies (overspending and underspending) between estimates and actual expenditure. However, this is not due to the over-integration of capital and recurrent expenditures, but related to the ability and incentives to estimate accurate recurrent costs and prevent large changes in the scope of development projects.<br><br>Over-integration is significant in the placement of some recurrent expenditures, such as including maintenance expenditures for some projects as costs in the development budget rather than capturing them in the recurrent budget. |

12 Botswana Public Expenditure Review, August 2010, World Bank, p.xi.
13 Botswana Public Expenditure Review, August 2010, World Bank, p.77.
14 Capital costs for development projects are calculated by a team of quantity surveyors in the Department of Building and Engineering Services within the Ministry of Information, Science and Technology. These estimates are passed on to the line ministries for inclusion in the project design brief to generate the total estimated cost.
15 In principle, this is not a problem until the presence of a project in the NDP means it will, or must, go ahead. Interviews indicated this is not the case.

## Question three

What evidence is there of the Ministry of Finance's coordinative capabilities, and what contribution can be made to the integration outcomes observed?

**Discussion**

*See Annex for a diagram of the recurrent and development budget processes.*

**The need for coordination**

The dual budget process in Botswana shows a strong need for coordination. The yellow arrows in Appendix 1 identify the areas in the process where better coo rdination will achieve optimal integration. These are discussed in more detail below:

a. Defining projects under the NDP. The NDP plays a significant role in the planning and budgeting process. Some MoFDP staff members identified the NDP process as the starting point for better integration of capital and recurrent expenditures. When MDAs submit their proposed programmes and projects, which includes project costs and summaries, the quality of costing is fairly poor – some projects do not contain any recurrent cost information. This process would be strengthened if the MoFDP demanded a higher standard of strategic costing (for capital and recurrent expenditures) for the entirety of a project's lifecycle and provided guidance to support that work at the MDA level. This would create a multiple-source dependency, making it a well-costed project that draws on several different resources to produce reliable cost data.
b. Technical assessments. Technical assessments are carried out at the beginning of the budget process and serve as a review of projects in the previous year. The Development Programmes Unit leads this activity, with the TWGs focusing on expenditures under the development budget. The Budget Administration Unit works with MDAs to assess recurrent expenditure in the past year. The current process results in poor information-sharing among MoFDP members who are responsible for capital and recurrent expenditures. Combining the two separate assessments and reviewing progress on both budgets simultaneously would strengthen internal coordination in the MoFDP and encourage a better understanding of the implications for the recurrent budget due to changes in development projects. The recurrent and development budget processes rely on information about their implementation in the previous year (a shared resource dependency). More effective coordination by the MoFDP at this point in the budget cycle could ensure that the recurrent implications of development projects are taken into account in the next budget year.
c. The Project and Budget Review Committee. This committee ensures that sufficient emphasis is placed on controlling and monitoring the development projects (capital expenditures) that are included in the annual budget by taking expected physical and financial outcomes into consideration. It also prioritises development projects according to the development budget's ceilings for expenditure. However, making decisions about prioritising capital expenditure requires access to realistic, accurate estimates of recurrent costs to ensure they are affordable in the future. The current process does not place sufficient emphasis on the assessment of recurrent expenditure, which is used by the Project and Budget Review Committee but is frequently missing from project documentation (including project memoranda). A separate consultation process runs concurrently between finance officers of the line ministries and the MoFDP to ensure that recurrent budget submissions by MDAs fall within the approved recurrent ceilings provided in the budget guidelines. This is a situation where the committee's activities and the consultations create a single resource (the budget estimates). There is also a dependency on the information used in the two processes: the recurrent consultations require information about the capital priorities the committee discusses. Greater coordination of the two processes will ensure improved accounting of the recurrent costs of development projects.

**Legal and organisational structures do not promote the goal of integration effectively.**

Based on interviews with staff members in the MoFDP, the Ministry of Local Government and the Ministry of Education and Skills Development, it is evident that there is a reform mind-set in the ministry, which is seeking to create a more unitary budget process. The development and recurrent budget units were placed in the same division within the MoFDP with the specific intention of improving integration. Senior officials identified a slow but steady move to a programme-based budget, which will necessitate a movement away from a dual budget. For the line ministries, planning officers and finance officers play a key role in the integration of recurrent and capital expenditures, coordinating at ministry level to share information on projects and programmes. MoFDP and line ministry staff indicated that integration is understood to be important, but that the mechanisms and processes for enabling integration are unclear.

According to the 2010 Public Expenditure Review, the importance of the link between the two budgets has been widely recognised in Botswana, but the ability to integrate them effectively and ensure adequate and accurate recurrent expenditure estimates has been a challenge for decades.[16]

16 Botswana Public Expenditure Review, August 2010, World Bank, p.22.

**The predominant mechanism to manage the dependencies between capital and recurrent expenditure are the planning and finance officers in the line ministries.**

About 60 officers from each cadre are based in line ministries to advise and support accounting officers in planning and budgeting. Ministries can have between two and six officers from each cadre seconded to them from the MoFDP. The planning officer is responsible for coordinating the development and implementation of the NDP within a specified MDA, consult on planning, appraise project memoranda, and monitor projects. Finance officers prepare the recurrent ministry budget, administer funds, check payments and carry out financial monitoring, for example, by compiling reports for the Public Accounts Committee. Detailed guidance for each of these roles is laid out in a planning officer manual and finance officer manual. Coordination of capital and recurrent expenditures is expected to take place during the work of the planning and finance officers, even though there are no formal processes in place. For example, when a project is reaching completion, the planning officer must inform the finance officer to start accounting for the recurrent operational costs in the future budget. Planning officers also attend TWG meetings, from the initial assessments through to Estimate Committee and Project and Budget Review Committee meetings. They coordinate with planning officers from other ministries to account for development projects their ministry is responsible for.

The Project and Budget Review Committee is another mechanism for managing the dependencies between capital and recurrent expenditure. In theory, this should be done by viewing the related recurrent costs of capital expenditures as one of the considerations for prioritising which development projects should be included in the annual budget. Due to the poor quality of recurrent cost information in project documentation, this mechanism does not work as effectively as it could. Furthermore, MoFDP staff involved in the Project and Budget Review Committee discussed the small number of projects that are rejected through the process, suggesting that the appraisal and prioritisation mechanism is not working to its full extent.

**Signals of successful or unsuccessful integration are in part attributable to coordination attempts by the MoFDP.**

While mechanisms such as the planning and finance officer cadres and the Project and Budget Review Committee are in place to support integration, they are not functioning effectively. This is partly because of capacity constraints within the MoFDP (see question 4), but also due to capacity constraints in line ministries. A high level of coordination is expected between finance officers and planning officers in MDAs to coordinate the integration of capital and recurrent expenditures, but outdated guidance in the manuals for planning officers and finance officers, and limited awareness of the other officer's role on both sides, limits the success of such an approach. While the responsibility for poor recurrent costing for development projects in the NDP lies to an extent with MDAs, better strategic guidance on costing is needed, which, if provided by central government, has the potential to improve the quality of and enable better decision-making about capital expenditure later in the planning cycle. Botswana's most significant contributor to poor integration between capital and recurrent expenditure is the dual budgeting system.

## Question four

Which factors – internal or external, technical, or political/institutional incentive factors – determine the Finance Ministry's ability to coordinate the integration of capital and recurrent expenditure?

### Part A: The MoFDP's analytical, regulatory and delivery capabilities both enable and limit its coordinative capabilities.

| Key evidence | Discusion |
| --- | --- |
| The MoFDP's analytical capability has traditionally been very strong, and it was known for its high-quality programming of public investment and assessment of projects.[17] In some ways, this continues to be the case, considering the MoFDP's central role in consulting with MDAs and TWGs on budget submissions and lists of development programmes to fit them under ceilings. Yet the analytical strength of the ministry seems to have waned, as shown by the fact that so few projects are rejected through the Project and Budget Review Committee despite weak data in project documentation. This means the MoFDP has a limited ability to make informed decisions about resource allocation and prioritising capital expenditures. | The analytical and delivery capabilities of the MoFDP support its ability to coordinate by providing guidance and consulting services to MDAs and TWGs in the programming of recurrent and capital expenditures during the budget formulation process. Yet there are also weaknesses in both of these capabilities, which hamper the integration of capital and recurrent expenditure. The ministry's weakened analytical capability, which is partly due to low capacity and limited resources in the MoFDP, prevents it from making resource prioritisation decisions that are central to ensuring that recurrent costs of capital expenditures are affordable and feasible in prevailing financial conditions. |

17 Botswana Public Expenditure Review, August 2010, World Bank, p.xiii.

| Key evidence | Discussion |
| --- | --- |
| Poor quality or non-existent cost information is partly the reason for a decline in the **regulatory capability** of the MoFDP to control and demand better information from MDAs in order to inform decision-making. Another notable feature of regulatory capability relates to the amount of contact that planning officers and finance officers have with the MoFDP in comparison to the time spent in the ministries to which they are seconded. Historically, ministries had only one or two planning officers and finance officers, who met with MoFDP managers once a week. Today, there are about 60 of each cadre, yet contact with the MoFDP is more limited (finance officers meet the Secretary of Development and Budget once a month and planning officers meet fortnightly with the Secretary of Development Programmes). The reduced contact time between seconded staff and their superiors in the MoFDP has weakened the regulatory link and the extent to which finance officers and planning officers feel empowered to regulate the behaviour of their ministries.<br><br>The MoFDP's **delivery capabilities** are focused on providing guidelines and information to MDAs to support their work in the budget process, through the provision of budget circulars, for example. But some core guidance materials are not up to date – examples include a delay in updating the financial regulations (to support the PFM Act), and the planning officer and finance officer manuals, which have not been fully rewritten since the late 1980s. Without up-to-date information on PFM processes, it is difficult for the MoFDP to coordinate players around processes that are intended to support the integration of capital and recurrent expenditure. | **In terms of delivery capabilities, the guidance material required to steer and inform MDAs through the budget process are not sufficiently up to date to aid coordination.**<br><br>**Regulatory capabilities also appear to have deteriorated**, which limits the MoFDP's ability to hold authority over MDAs and control the quality of mechanisms such as costing, which in turn has implications on the quality of information that is used to coordinate capital and recurrent expenditures. |

## Part B: Internal capacity, especially in relation to human resources, detracts from the coordinative capabilities of the MoFDP.

| Key evidence | Discussion |
| --- | --- |
| a. **The capacity and capability of ministry staff to attend to and follow up on coordinative mechanisms is low, which in turn reduces the functionality of these mechanisms.**<br>• The first stage of project appraisal (prior to the Project and Budget Review Committee) is carried out by a group of economists under the Director of Development Programmes. There are only four staff members in this group, and they are required to appraise the projects of about five MDAs each within a limited timeframe.<br>• The large number of planning officers and finance officers seconded to line ministries makes it difficult for their managers within the MoFDP to monitor their work and ensure that they are effectively facilitating integration of capital and recurrent expenditure. This is exacerbated by the limited contact between MoFDP officials and planning officers and finance officers.<br>• The skills and experience of planning officers and finance officers are varied, ranging from new graduates to staff with up to 10 years' experience. All of them have completed or will be doing a master's degree in economics (planning officers) or finance or accounting (finance officers). This qualification provides them with the necessary skills to carry out the relevant analysis required to assess projects. Yet the Public Expenditure Review and interviews conducted show that very few projects have full feasibility studies or cost-benefit analyses, even though staff members have the technical capacity to carry them out.<br>• Senior officials in the MoFDP indicated that planning officers and finance officers have limited understanding of each other's roles, which hinders their ability to coordinate and ensure that recurrent costs of capital expenditures are taken into account. | **There are clear capacity constraints in terms of sufficient time and staffing to enable smooth implementation of coordination mechanisms.** This is partly due to the number of staff available to carry out core appraisal mechanisms within the MoFDP, but more significantly in the capacity of the planning officer and finance officer cadres. Lack of contact time with staff working centrally in the MoFDP limits their ability to coordinate. The relevance of guidance materials is another factor The manuals for planning officers and finance officers are being rewritten, and the MoFDP recognises the centrality of its role in the coordination process. The combination of these factors should improve the capability of planning officers and finance officers to integrate capital and recurrent expenditures at ministry level. |

| Key evidence | Discussion |
|---|---|
| b. A series of information systems capture information that has the potential to support better integration of capital and recurrent expenditures by the MoFDP and MDAs.<br>• An integrated financial management information system was introduced in Botswana in 2004: the Government Account and Budgeting System. It provides a monthly review of revenue and expenditure (capital and recurrent) for each ministry, and has been rolled out to MDAs across the country.<br>• The Development Projects Monitoring System stores information on development projects. It is not yet fully operational, but includes cost information, including aspects of recurrent costs such as manpower. Appraisal documents can be automatically generated from the system, but it remains separate from the Government Account and Budgeting System, with the intention to integrate them in future as the Development Projects Monitoring System is updated. | **The information systems in place have the potential to support improved integration of capital and recurrent expenditures and budgeting.** The Development Projects Monitoring System is a separate project-monitoring system that does not link to the Government Account and Budgeting System and hinders linking data from each system. The widespread implementation of the Government Account and Budgeting System across different levels of government would significantly contribute to the ability of the MoFDP to coordinate, enabling it to receive and provide data more easily. Nonetheless, the quality of information provided is also important (see question 4, point 4). |

## Part C: Institutional rearrangements were made in 1970 and 2005 to improve the integration of planning and budgeting, andthe recurrent and development budgets. However, these restructuring efforts have had limited impact on the MoFDP's coordinative capability.

| Key evidence | Discussion |
|---|---|
| • Merging the planning and budgeting ministries into the MoFDP in 1970 and placing the Development Budget Unit under the same functional division in 2005 were done with the intention to integrate capital and recurrent expenditures.<br>• There is no written mandate for the MoFDP to coordinate the integration of capital and recurrent budgets, but senior officials showed a strong commitment to it.<br>• The internal operations for integration are governed by out-of-date rules and guidance. The financial regulations and other material (including the manuals for planning officers and finance officers) required to implement the most recent PFM Act and guide the work of MoFDP staff are being updated now. This means there is a gap in the rules of internal operations that support the work of the ministry and can therefore limit the capability of staff to implement coordinative mechanisms.<br>• In terms of political power, there is a long tradition in Botswana of the Minister of Finance also being Vice President. Historically, this has given the MoFDP strong political authority and the ability to influence and regulate ministries. This power has waned in recent years. | **Institutional arrangements have been refined over the years for easier coordination of capital and recurrent expenditures, but this has not improved the level of integration.** MoFDP staff cited programme-budgeting reforms as mechanisms for linking the recurrent and development budgets, but with an emphasis on this happening within a timeframe and manner that suits government priorities.<br><br>Reforms at an intermediate level to update guidance material and financial regulations to support coordination could support the integration process for the moment.<br><br>With less political influence over the MDAs, the MoFDP's ability to assert authority to enable coordination remains limited. |

## Part D: The most significant constraint on coordinative mechanisms is the lack of accurate, realistic information for recurrent costs.

| Key evidence | Discussion |
|---|---|
| • The Ministry of Local Government indicated that calculating recurrent costs for certain assets was simple and that they could rely on the costs allocated to similar projects, such as primary schools.<br>• Although there is a 3-5 percent rule for calculating the recurrent costs of capital projects, this is not sufficiently accurate to provide realistic costing throughout the lifecycle of a project. The issue of maintenance costs as a sub-category of recurrent costs is particularly challenging.<br>• MoFDP staff identified both low capacity and reluctance as contributing to the poor quality of recurrent costs provided for development projects.<br>• While planning officers and finance officers are responsible for coordinating and organising cost information, it is the responsibility of project managers within MDAs to provide it initially. | Due to their role in providing cost estimates, the skills capacity of line ministries has the potential to significantly detract from the coordinative function of the MoFDP in the integration of capital and recurrent expenditures. Poor cost information limits the ability of MoFDP staff to realistically assess projects and make decisions about fitting them into both capital and recurrent ceilings for the annual budget. |

| Key evidence | Discussion |
| --- | --- |
| • MDAs can both support and detract from the coordinative capabilities of planning officers and finance officers. These officers have varying levels of access to the permanent secretaries (accounting officers) in the ministries. For example, Ministry of Local Government planning officers are seen as chief advisers to the permanent secretary, but the amount of contact with and level of influence they have on senior staff in the ministries can affect the extent of their power in the ministry. | The amount of access planning officers and finance officers have to senior staff in line ministries determines their ability to bring together and sequence different players and information to plan and implement both development and recurrent budgets at ministry level. |

### Part E: The historical benefit of a dual budgeting system has reduced incentives for political players to focus on integrating capital and recurrent expenditures.

| Key evidence | Discussion |
| --- | --- |
| • The dual budget has been acknowledged as a key factor to success in Botswana's development after independence in a context where infrastructure (both physical and social) needed to be built rapidly.<br>• The separate development budget served as a valuable interface for aid donors during the 1970s and 1980s to channel their grants and concessionary loans.<br>• The 2010 Public Expenditure Review emphasises the high level of confidence the political leadership placed in the planning and budgeting system by ensuring that diamond wealth was protected and channelled to develop infrastructure.[18]<br>• During the four decades of Botswana's growth, the country's small government entrenched the success of a dual budgeting system that was simple to understand and use in a low-capacity context, and could support rapid expansion of capital due to political support for the capital budget. | A rapid rise in population, the expansion of government, and a decrease in available resources means the inherited culture of developing plans and budgets based on need clashes with the reality of a resource-constrained context.<br><br>The government has faced lower revenues since the 2008/09 financial crisis, and less revenue from diamonds will tighten resources even more. This clashes with a culture that is needs-driven, and the experience of the Ministry of Finance and line ministries, which have not needed to make trade-offs between different projects and types of expenditure. The 2010 Public Expenditure Review emphasises that incentives are low for budget actors to review the efficiency of projects because it was not necessary to prove their benefit over that of others.[19]<br><br>In an environment with plenty of resources, the need to understand the recurrent implications of capital expenditures is not as significant. This inherited culture in Botswana plays a significant role in challenging the ability of the MoFDP to coordinate the integration of the two budgets. |

18 Botswana Public Expenditure Review, August 2010, World Bank, p.xi.
19 Botswana Public Expenditure Review, August 2010, World Bank, p.xii.

# Conclusion and lessons learnt

## Question five

How has the Ministry of Finance adjusted factors within its control to boost its ability to coordinate capital and recurrent expenditures under different circumstances? What are the lessons? What policy advice can be derived from the study?

### Discussion

**Institutional restructuring has been a key mechanism used by the MoFDP in the past to coordinate capital and recurrent budgeting processes, by bringing staff responsible for recurrent and development budgets into the same unit. But it has not delivered improved coordination outcomes.** Increasing the interface between staff responsible for planning and budgeting, and recurrent and capital expenditures, and building formal organisational structures that enable this have been at the centre of reforms in the MoFDP since the 1970s. The introduction of TWGs with NDP 10 was carried out to improve coordination on development projects requiring inputs across several MDAs. The intention was also to improve coordination between capital and recurrent expenditures in the development budget. This has paved the way for greater coordination between those in the MoFDP, and between planning officers in different MDAs (for the TWGs). Despite organisational structures, which enable greater coordination, the case study has shown that capital and recurrent expenditures still remain poorly integrated in Botswana.

**While a dual budgeting system endures, it will remain difficult for Botswana to coordinate the integration of capital and recurrent expenditures.** The links between the development and recurrent budgets are difficult to identify. This stems from a poor definition of the development budget in which some recurrent items are recorded rather than in the recurrent budget. This is why it is difficult to accurately assess and fully monitor the recurrent cost implications of capital projects.[20] As explained earlier, the benefits of a dual budget system are clear when the context demands a significant increase in physical and social capital, and significant resources are available. In such a situation, the ability to make trade-offs and prioritise capital expenditures partly in relation to their recurrent implications is not necessary. However, as Botswana moves into a situation that is more constrained by the availability of resources, it is no longer possible for the development budget to deliver all the projects put forward by MDAs, and the link between the two budgets becomes more important.

**Planning officers and finance officers are defining features of Botswana's PFM system, and the structure of the cadre system has historically enabled the coordinative capabilities of the MoFDP.** Placed at the centre of PFM processes within MDAs to "steward" their expenditure planning and budgeting activities, planning officers and finance officers have historically been one of the strongest coordination tools for the MoFDP to engage with MDAs. Although the manuals that guide the work of these officers require updating, their roles are strongly defined and they have the requisite capability to lead the integration of capital and recurrent expenditures. However, the interview process for the case study suggested that the functionality of planning officers and finance officers as a coordination mechanism has slipped with the expansion of government over the past 30 to 40 years. The number of staff within each cadre has expanded considerably, making it difficult for the MoFDP and the MDAs to engage in a meaningful and well-coordinated way. Finance officers meet with the Director for Development and Budget only once a month, and planning officers with the Director of Development Programmes every fortnight. In the past, these meetings served as a coordination mechanism that enabled the exchange of information between the MoFDP and MDAs, and between planning officers and finance officers from different MDAs. As the size of government has expanded, the personal relationships and contact time needed to maintain coordination has weakened

20 Botswana Public Expenditure Review, August 2010, World Bank, p.xii.

and become unmanageable. The cadre system is effective, but the realities in the current context have reduced its functionality. However, reform plans in the MoFDP to update the manuals for these officers are likely to boost the performance of the cadres.

**The weakened capacity of MDAs to provide realistic recurrent costs for capital expenditures and the low capacity of the MoFDP to properly appraise projects undermines the coordinative capability of the ministry to effectively integrate recurrent and capital expenditures.** A review of project documentation and initial drafts of NDP 11 showed that recurrent costs of capital expenditures are often unaccounted for or change without any justification or discernible trend. This affects the ability of the MoFDP (already weakened by limited staff and considerable time constraints) to effectively appraise and analyse documentation, and contribute to well-informed decisions in processes such as the Project and Budget Review Committee because information is incomplete or unreliable. MoFDP staff emphasised improving costing through a series of reforms, including technical assistance, and additions to the finance officer and planning officer manuals. Staff members also recognise that costing should be reformed at the earliest stages of the planning process, during the formulation of projects in the NDP, in order to have an influence further down the line. There is a movement away from the project summaries in the NDP towards a presentation that focuses on goals, objectives and key performance indicators, due to the introduction of the Public Investment Programme recommended in the 2010 PFM Reform Plan. MoFDP stakeholders have highlighted this as a way to support a strengthened costing process and prevent projects being inflated. However, this is inconsistent with an approach that sees the solution to integration challenges in the establishment of a budget based on comprehensive programmes.

**The MoFDP is committed to implementing reforms that will shift the focus of the budget towards a programme-budgeting approach. This is expected to improve the ability to coordinate recurrent and capital expenditures, but will remove the focus on individual projects.** Culturally, the emphasis is on incremental change to PFM processes, which is led from within the MoFDP, and to ensure links through the entire planning process. This means reform will be slow but deliberate, and waiting until the development of either NDP 12 or 13 in six or 12 years' time to allow for full integration.

# Annex

## Annex to the reporting matrix

Map of activities and information flows in Botswana's recurrent and capital expenditure budgeting process, with key dependencies identified.