Republic of Botswana

Public Expenditure and Financial Accountability

Public Financial Management Performance Assessment Report

Final Report

Client: European Commission Delegation Botswana
Specific Contract No: 2008/0504/Version 2

2AC, France

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February 2009

Financed by the European Commission

ACKNOWLEDGEMENTS

The Consultants that carried out this PEFA assessment wish to thank the Government of Botswana, especially the officials in the different PFM institutions who provided their time and much assistance; as well as the information necessary for assessing the indicators presented in this report. The interviewees were generous with their time and patient in carefully explaining the PFM systems and procedures under their responsibility. In particular the Consultants would like to thank the NAO for their assistance with arranging meetings and accompanying the Consultants on meetings with officials. The NAO's assistance on arranging the venue for the PEFA workshop at the beginning of the mission is much appreciated. The European Delegation in Botswana, who commissioned this assessment, also provided much appreciated support in particular through their presence and participation in many of the interviews carried out as part of the assessment.

The Government of Botswana, the European Delegation in Botswana and the PEFA Secretariat all carefully reviewed the draft report to reveal a number of typographical errors and inconsistencies, which have contributed to the preparation of a substantially improved final report.

Currency and Exchange Rates

Currency Unit – Pula (P)
Euro 1 = P 9.50
US$1 = P 6.55

Fiscal Year

April 1st to March 31st

PEFA Assessment Period

FY 2005/2006, FY 2006/2007, FY 2007/2008

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1 ABBREVIATIONS AND ACRONYMS

AccG	Accountant General
AG	Auditor-General
AGA	Autonomous Government Agencies
ALM	Assets and Liability Management (Division)
AO	Accounting Officer
BS	Budget Support
COFOG	Classifications of Functions of Government
CPI	Consumer Price Index
CS-DRMS	Commonwealth Secretariat-Debt Recording and Management System
EC	European Commission
FAA	Finance and Audit Act
FY	Fiscal Year
GABS	Government Accounting and Budgeting System
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GNI	Gross National Income
GPPP	Government Payroll, Passages and Pensions
HDI	Human Development Index
IA	Internal Audit
ICT	Information & Communication Technology
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
MDAs	Ministries Departments and Agencies
MFDP	Ministry of Finance and Development Planning
MLG	Ministry of Local Government
MTEF	Medium Term Expenditure Framework
NAO	National Authorising Officer
ODA	Official Development Assistance
PAC	Public Accounts Committee
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Finance Management
PFMA	Public Finance Management Act
PFM PMF	Public Finance Management Performance Management Framework
PI	Performance Indicator
PPP	Public Private Partnership
PU	Procurement Unit
SACU	Southern African Customs Union
SADC	Southern African Development Community
SBS	Sector Budget Support
SCM	Supply Chain Management
SNG	Sub National Government
SOE	State Owned Enterprise
TOR	Terms of Reference
TSA	Treasury Single Account
VAT	Value Added Tax

2 SUMMARY ASSESSMENT

This Public Expenditure and Financial Accountability (PEFA) assessment was initiated and sponsored by the European Commission. It has been undertaken with the formal agreement and active support of the Government of Botswana. The assessment adopts the widely accepted methodology of the Public Financial Management Performance Measurement Framework (PFM-PMF) issued by the PEFA multi-donor programme in June 2005. 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 as determined through direct interviews with Government officials and the reviews of official documents and reports. It is also based upon the use of corroborating evidence sought from a variety of independent sources where ever possible.

The purpose of the PFM Performance Report is to assess the current status of the public financial management system of the central government. It should serve to identify both areas of strength and weakness. This assessment is not designed to comment upon any aspects of specific fiscal or expenditure policy and has been careful not to do so. It has not taken into account considerations of capacity, except to the degree implicit in the capacity to successfully carry out the assessed PFM procedures. It is important also to underscore that the objective of the assessment has not been to evaluate and score the performance of institutions or any PFM offices or officials, but rather to assess the capacity of the PFM systems themselves to support sound fiscal policy and financial management[1].

The PEFA performance review for Botswana presents an assessment of the 31 high-level indicators of the PEFA Performance Measurement Framework. It is anticipated that such PEFA assessments shall be carried out on the central government every three to four years and in doing so will provide a clear and accessible basis for monitoring PFM reform progress over the long term. It is anticipated that the PEFA assessment shall support the on-going dialogue between the government and its development partners on aid delivery modalities and arrangements for support to PFM reform in Botswana. While this report, by design, neither articulates specific recommendations for PFM improvements nor details an action plan, it is anticipated that the results, which establish areas of both strength and weakness, shall assist the government in further defining its PFM reform priorities and subsequent reform activity sequencing and pacing schedule. Further, it should serve separately as a useful tool to cooperating partners for supporting dialogue in providing harmonised cooperating partner support to the Government's PFM reform efforts.

2.1 INTEGRATED ASSESSMENT OF PFM PERFORMANCE

In the following sections of the summary the performance of PFM systems, procedures and practices as measured through the PEFA assessment are described in terms of six critical

[1] In essence this assessment provides a measure of whether the main necessary conditions for delivering upon sound PFM practice has been met, rather than providing an insight into all of the sufficient conditions necessary to conclude that sound PFM is being carried out. For example while it assesses whether the PFM systems provide a sound framework for assessing fiscal risk arising from Public Enterprise activity, it makes no comment as to what authorities do or should do in response to the information provided by the fiscal risk assessment. Such responses may be purely political and a comment on such would be beyond the remit or competence of a PEFA assessment.

dimensions of PFM as defined within the PEFA methodology. These are credibility of the budget; comprehensiveness and transparency; policy based budgeting; predictability and control in budget execution; accounting, recording and reporting; and external scrutiny and oversight. While donor practices were also assessed, these are not treated under a separate section. Rather they are considered as part of the discussion by way of their impact on the country's PFM within each section on the six critical dimensions of PFM.

2.1.1 Credibility of the budget

When considered at the aggregate level, and restricted to an assessment of primary expenditure, Botswana presents a mixed picture with respect to the credibility of the budget. The robust revenues from mining royalties and taxes ensures revenue adequacy. However the lack of careful macro-economic considerations in the development of a multi-year revenue forecast frame appear to have resulted in revenue outturns that well exceeded revenue estimates for each of the years considered (2005/2006 to 2007/2008). Given the significant emphasis placed on the revenue forecast inputs provided by BURS and DEBSWANA, both with incentives to adopt conservative revenue projections, this may be a contributory factor the highly conservative revenue forecasts. This result though, still provides a sound starting point for achieving a credible budget; even if the consistent excess of revenue outturn over revenue estimate may limit opportunities for optimizing efficiency or achieving full effectiveness with respect to stated national strategic objectives.

The credible revenue forecasting along with a successful debt management strategy that has brought debt/GDP levels to 4% has provided the fiscal space to facilitate the specification of a meaningful fiscal framework to serve as an effective and realistic top-down budgetary discipline tool which in principle should allow Botswana to meet service delivery demands.

The aggregate expenditure out-turns has not matched the budget estimates very closely and reflects both difficulties with the development of budget estimates that are based upon sound and widely implemented procurement planning. There is not much consideration given to the absorptive capacity or detailed implementation programme schedules especially with respect to development expenditure. There are also particular challenges with respect to under spending as a consequence of capacity constraints with respect to procurement management. This has been exacerbated in the past year due to procurement reforms still being implemented but which have not fully taken hold.

There is a measure of fiscal discipline that is achieved through effective top-down discipline to the budgetary process coupled with effective cash and debt management and fair budget release predictability (see PI-16), as well as sound salary management (see PI-18). The story is more mixed with respect to the effectiveness of expenditure controls (see PI-4, PI-19, PI-20). At this time expenditure arrears accumulation is not monitored. Officials justify this by the cash accounting basis adopted by Botswana. However, the government accounting and budgeting system (GABS) employed for financial management and accounting does facilitate the monitoring of accounts payable, and so when aged should provide insight to the position on expenditure arrears. There is some indication that the level of expenditure arrears may not be insignificant given that there is a significant expenditure rush experienced at the close of the fiscal year, which even with fairly effective commitment controls can lead to the accrual of expenditure arrears. Such arrears can arise when goods and services are supplied in high volume just before the close of the fiscal year, not allowing the time for payments to be processed before the close of the year.

As stated earlier, for all the years considered in this assessment, actual revenue outturns have exceeded revenue estimates. It should be noted though, that such revenue excess has not led to significant expenditure over budget either at the aggregate or vote level (see PI-1 and PI-2). The evidence suggests that excess revenue over budget estimate has been channelled principally to investment funds. There has been a dramatic decline from 13.5% (2004/2005) of GDP to about

10.2% (2006/2007). The results show that actual expenditure has consistently been considerably lower than estimated (see PI-1).

When one considers the variance of expenditure outturn for budgetary votes up and above aggregate expenditure deviation from aggregate budget estimates there is evidence that there is not fully effective budget control. The high variances up and above the expenditure deviation at the aggregate level suggest a weak coupling between the budget formulation and preparation process, and in turn between budget estimate and implementation. While there are predictable budget releases and reasonably sound commitment controls, we note that there are frequent in-year budget adjustments (see PI-16). The PFM systems deliver predictable and well controlled virement procedures with well documented and suitably controlled procedures for in-year adjustments to budget allocations above the level of management of line ministries through a transparent use of supplementary budgets with parliamentary oversight. That the budgetary adjustments take place with clear guidelines and cannot be undertaken informally add to the credibility of the budget.

When it comes to extra-budgetary activity the government has been careful to address extra-budgetary activity by way of line ministry revenues, unbudgeted bail outs, unreported unconventional debt instruments to address losses in Public Enterprises (see PI-7(i)). However, two factors that can undermine the credibility of the budget are significant extra-budgetary activities, and the poor monitoring of fiscal risk, debt and contingent liabilities. The PFM systems do not fully effectively address fiscal risk vis-à-vis the consolidated fund that might emanate out of unforeseen expenditure burdens arising out of sub national government loans or public enterprise bail outs (see PI-9).

2.1.2 Comprehensiveness and transparency

The budget documentation is complete, comprehensible and comprehensive including the macroeconomic assumptions, the fiscal balance, the external debt profile and status, the financial assets, the historical budget outturns and some explanation on the impacts of new major revenue and expenditure policy initiatives. The government has adopted standards for the budget formulation and execution, based on economic and administrative classifications that can produce consistent documentation according to GFS/COFOG standards. The chart of accounts is consistent with the budget classifications.

All revenues generated directly by line ministries are transferred to the Consolidated Fund. All expenditure is made through a centralised payments system. This arrangement provides effective control over the extent of extra-budgetary expenditure by the line ministries that can be undertaken. The MFDP has the capacity to oversee revenue and expenditure transactions through daily bank reconciliations and to monitor the public entities plans and financial management. There are no unreported Public-Private Partnerships, nor unreported unconventional financing instruments for addressing losses of Public Enterprises (including any foreign exchange losses of the Bank of Botswana). All security agency funds are reported on in aggregate, even if details of expenditure remain undisclosed. The financial reports consolidation process includes a reconciliation process between sources of funds and applications which reasonably assures that there are no significant extra-budgetary funds outside cooperating partner funds.

A review of the mechanisms for the vertical and horizontal allocation of resources to Sub-national Government suggests a fully transparent and rule based system has not been fully evolved for the horizontal allocation or resources across local authorities. The budget allocation process provides reliable information on the allocations to be made to them well in time before the start of their detailed budgeting processes. The budget releases to sub-national government entities are timely and fully predictable. While fiscal reporting of provincial government is consolidated into the national financial reports, financial reporting of the Local Authorities is delayed and is still to be consolidated into annual reports consistent with central government fiscal reporting[2]. To that degree then, transparency in the fiscal relations between the central government and the sub-national government is obscured by the lack of regular and timely consolidation of financial reports of the local authorities.

There is some financial monitoring of Public Enterprise operations but not yet a fairly careful risk assessment using a comprehensive risk analysis framework. Not all Public Enterprises are submitting timely audited financial reports.

The culture of transparency with regards to budget documentation is fairly active and there is budgetary, tax revenue, procurement and audit information that is made available in a timely fashion on the Internet through government websites or through the government bookshop. Fiscal information is also made available through public and academic libraries. There is also information available on the amounts of resources received by the front line facilities such as primary schools and primary health care facilities.

2.1.3 Policy-based budgeting

Botswana bases its budget ceilings on an annual fiscal forecast. The budget process occurs within a pre-announced resource envelope and has strong bottom-up elements from the budget entities. Botswana adopts a dual budget process with both the recurrent and capital budget process coordinated by the Ministry of Finance and Development Planning.

The budget process does not encompass policy input by the cabinet at the beginning of the budget process. There is approval by the cabinet at the end of the budget cycle and timely approval of the budget by the parliament. There is consultation with parliament on some key issues during the budget preparation process. The budget process occurs in accordance with a definite budget calendar and is guided by clear and timely call circulars that facilitate budget preparation process by the budget holders. The line ministries have four to five weeks to prepare their budget bids.

The national vision, mission and development objectives have been articulated within the Government's National Development Plan 9 (NDP9). It is the national development strategic framework aiming to raise growth and reduce unemployment and poverty. The 10th National Development Plan is currently being developed for the period 2009/10 to 2015/16. The strategic plan is updated every three years through a mid-term review. The national plan is a consolidation of fully costed sector strategies which are developed within a fiscal frame that is consistent with macroeconomic forecasts.

There has been a consistent decline debt to GDP ratio over the last few years. This reflects the healthy financial situation that has generally prevailed, with the long standing policy that only borrowing with concessional terms be employed. At the present time there are no debt sustainability assessments being prepared by the MFDP however, the Bank of Botswana closely monitors and analyses the external debt including the external debt to GDP ratio, the budget balance and the source of financing. The low external debt to GDP ratio (currently at 4%) makes the calculus of debt sustainability straight forward and almost obvious.

Botswana adopts a dual budget process where the development budget and recurrent budgets are developed and reconciled separately. The ministries select projects based upon program priorities that are determined by the Sector Strategies. However, there is not specific attention paid to reconciling the budgets in an integrated fashion to ensure that for all development projects and programmes included in the budget, corresponding recurrent cost implications are considered. It

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[2] Having made all of the local authorities current in terms of producing timely audited financial statements, there are now efforts being made to consolidate the individual financial statements into a nationally consolidated perspective that is consistent with central government fiscal reporting.

is unclear whether the recurrent cost implications considered as part of the prepared strategies are consistently included in the budgets. This is especially so because in recent years, much of the debate around budget preparation has been capacity limitations to fully execute the development budget and to a lesser degree the recurrent budget. However, it would appear that in a few major cases recurrent cost implications are considered and are reflected in the budget.

2.1.4 Predictability and control in budget execution

Predictability in budget execution is premised upon revenue adequacy which in turn requires sound revenue administration. Many elements of revenue administration work reasonably well; this even with the newly formed Botswana Unified Revenue Service (BURS) still evolving and developing its management systems. These include clarity of taxpayer obligations and liabilities, some constraints on officer discretion in the application of penalty waivers and rates, the sustaining of tax awareness and educational programs, the selection basis, planning and implementation of tax audits.

Taxpayers are registered in a complete database system with direct linkages to other relevant government registration systems such as vehicle registration. The penalties for all areas of non compliance are set sufficiently high to be effective and are administered consistently. The reconciliation of collections and transfers to the consolidated fund do not yet include comprehensive, regular and timely reconciliations. Further, the transfers to the consolidated fund are not timely for all categories of tax collections. With respect to the stock and collection of tax arrears collection rates on tax arrears are high.

Cash management and debt management are well managed in the central government of Botswana and facilitate highly predictable budget releases. Botswana uses a centralised payments system out of the consolidated fund provides for daily bank balance consolidation except for the treasury accounts in some districts used to facilitate payments in the districts. Together they permit a balance consolidation on a monthly basis.

The effective management of debt and the government policy to reduce debt to 4% of GDP has ensured adequate fiscal space within which to operate budget releases and hence avoid the need for cash rationing or undermining the administration's capacity to disburse to the line ministries in accordance with demand. Debt management is enhanced by having the authority to incur loans being vested in a single authority - the Minister of Finance. Botswana has adopted a debt management policy that is prudent. Debt is monitored using the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) and regularly reconciled and reported on with respect to stock as well as debt service.

The central government employs a computerised system GABS for expenditure management, accounting and financial reporting. Budget release discipline is strong. There is commitment control system built into the GABS however some expenditure is still managed manually with commitment control being managed through a votes ledger. There are some concerns that in the cases of development expenditure commitment control is not fully effective. There remain some issues pertaining to procurement planning and reporting on commitments. There is a rush to spend unutilised funds at the close of the year. This may be part of the reason for working around procurement procedures close to the end of the fiscal year.

Payroll management is facilitated using a computerised payroll system, GPPP. This system directly links three databases: the establishment of posts, the personnel database which serve as control files, and the payroll database. Changes to these databases leave an audit trail and permit only selected access dependent upon function. The databases are encrypted. All civil servants are registered through GPPP that include appropriate fields to protect against duplication. There are effective controls with respect to the creation of new posts, that include budgetary controls, the hiring of new employees (controlled by the posts database), and the assignment of promotions, transfers, allowances and terminations. Further, through the use of verification procedures, exception reports and regular physical payroll audits, there is fair assurance of the integrity of the payroll management system.

While effective controls exist for each of the main steps of the expenditure cycle, procurement controls remain less than fully effective primarily due to capacity constraints. The legal regulatory requirements clearly establish open competition as the default method of procurement. There is clear regulation to curb the use of dilatory practice to justify the use of sole sourcing under emergency procedures.

At the present time internal audit is fully operational across most line ministries. A review of a sampling of annual audit work plans suggest that approximately 50% of staff time is applied to systems audit. The internal audit function includes audit review, the assurance of the quality of process, the preparation of annual audit plan, and the implementation and regular reporting on audits. Internal Audit adopts internal audit standards specified in internal audit manuals. Quality assurance exercises, to ensure compliance with the standards are carried out on a periodic basis.

Audits are carried out an annual basis for each Ministry. Each audit unit prepares an annual audit plan which is risk-based and based on specific needs revealed by the former audit review. A formal follow-up procedure is in place in Botswana internal audit. Action by management of internal management is fairly comprehensive across central government entities and generally there were prompt responses to internal audit findings in compliance with regulatory period (4 weeks) requirements, though this is not the case for all of line ministries. Internal Audit reports are disseminated to the MFDP but not to the Office of the Auditor General.

2.1.5 Accounting, recording and reporting

The MFDP operates a single consolidated fund account held with the Bank of Botswana. It also operates a number of Treasury Accounts to facilitate the collection of MDA revenues as well as facilitate payments in the district offices of the MDAs. This arrangement facilitates a reconciliation of the cash book on a monthly basis and takes place within 4 weeks of the close of the month. The GABS system provides an automated basis for assisting in the completion of the reconciliation process. The Accountant General prepares on a monthly basis a cash flow statement that aggregates the revenues, MDA requisitions and net borrowings, reconciled against changes in bank balances within 4 weeks of the end of the month. Typically reconciliation and clearance of suspense accounts and advances are done at the close of the year within one to two months of the close of the fiscal year.

The Local Authorities are responsible for primary schools and primary health care clinics respectively. The Ministry of Local Government publishes a Recurrent Budget report that includes both estimates and actual outturns for the Education Department and Health Clinics. There is a similar report published for capital expenditure in each district segregated in the same way. While there are no summary extracts pertaining to expenditure by primary health care clinics or primary schools, such summaries can be readily extracted from the budget documentation consolidated by the Ministry of Local Government.

The Accountant General publishes monthly on the government intranet, within 21 days of the close of the month, the individual and consolidated Monthly Expenditure Returns presented in a format consistent with budget documentation and segregated by vote and classified by current expenditure, transfers and subsidies, and capital expenditure. This format permits the direct comparison of revenue and expenditure to the original budget allocations which are included in the tables. The format of the Monthly Expenditure Returns reflects expenditure only at the time of payment and does not reflect commitments.

A consolidated central government financial statement is prepared annually that includes full information on revenues, expenditure and financial assets including revenue arrears. These annual statements however do not provide a full reporting on liabilities. They do not provide any information on expenditure arrears or accounts payable. The Accountant General makes all payments using the Consolidated Fund held with the Bank of Botswana and Treasury Accounts held with private commercial banks to facilitate financial transactions in the districts. The Accountant General prepares financial statements that are submitted to the Auditor General within 8 months of the close of the fiscal year.

2.1.6 External scrutiny and audit

The office of the Auditor-General (AG) generally meets the standards of independence set by INTOSAI for supreme audit institutions. These include the legal requirements with respect to the appointment and termination of the Auditor-General, the financing of the budget, the hiring of staff, the auditor's jurisdiction and the timing and extent of dissemination of audit reports. In practice not all central government entities are audited every year. It is estimated that 80% central government expenditure is audited annually. The audit covers revenue, expenditure as well as assets and liabilities. A variety of audits are performed, including systems audits, financial and compliance, procurement and some performance audits as well as payroll and recently Information Technology audits have been introduced. Public Enterprises are audited by private audit firms.

The audited financial statements are submitted to the legislature within 4 months of receipt from the MFDP. The audit reports are submitted within 13 months after the end of the fiscal year. Follow Up reports are due on a monthly basis indicating progress on the implementation of corrective measures. The Auditor General reports that while formal responses are made by Accounting Officers to audit findings; the corrective measures undertaken are neither carried out in a systematic or timely fashion across all MDAs.

Botswana is characterised by a democratic system and the parliamentary oversight of the government's budget processes also includes actual expenditure achievements and the quality of expenditure management. The parliamentary debates cover fiscal policies and the details of revenue and expenditure estimates. The annual budget legislative review is always completed before the close of the fiscal year. The process of budget review is subject to clear rules and a specific calendar and so permits the thorough review by committees and sub-committees to facilitate vigorous debate.

The Supplementary Budget Estimates presented by the Minister of Finance and voted by the parliament, is reviewed several times a year. The parliament has indicated that it will not review supplementary budgets till the last quarter or so, as a way to limit the number of supplementary budget proposals submitted. Clear rules exist with respect to in-year budget amendments by the executive with respect to item, programme and vote amendments. A review of expenditure anomalies as identified through external audit is done through a public accounts committee (PAC). There have been systematic though not timely follow up on PAC recommendations across all line ministries.

2.2 ASSESSMENT OF THE IMPACT OF PFM WEAKNESSES

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. While such fiscal discipline ensures that expenditures do not exceed revenues, the PFM systems are not fully capable of allocating resources in accordance with approved votes. The definite budget calendar that facilitates the meaningful bottom-up participation by line ministries and the achievement of predictable budget releases and effective payroll management all point to efficient delivery of services. However these positives are negatively impacted by procurement management challenges.

There are two main factors that colour the PFM of the central government in Botswana:

1. *The capacity constraints*: For several functions of public finance management including for procurement there are capacity constraints which raises questions both about sustainability as well as sufficient capacity to undertake significant reform.

2. *The implementation of computerised systems:* The central government has implemented computerised systems to manage both payroll as well as non-salary expenditure. This has had an important impact on ensuring fiscal discipline.

2.2.1 Aggregate Fiscal Discipline

With respect to aggregate fiscal discipline Botswana's well implemented debt strategy, and comprehensive transparent management of external debt; effective exclusion of unreported extra-budgetary transactions; credible if excessively conservative fiscal forecasts (revenue, net borrowing and debt service, and expenditure) that serves as the basis for top-down budgetary discipline; well managed budget releases and a comprehensive and mainly effective commitment control process all point to the ability to deliver strongly on aggregate fiscal discipline (see PI-1, PI-2, PI-3, PI-16, PI-17 and PI-20). However, there remain some concerns with respect to procurement management (see PI-19).

Strategic Allocation of Resources

Botswana has in place several important steps towards achieving a budgetary process that is capable of the strategic allocation of resources (PI-11 and PI-12). However, there are still a number of important steps that remain to be fully implemented including the adoption of a functional and programme based budget classification (PI-5); the stronger policy inputs at the start of the budget preparation cycle (PI-11); and the improvement of the development of fully costed inputs along with recurrent cost implications considered in the development of the budget. Although the development objectives do not rely heavily upon cooperating partner inputs, there are missed strategic opportunities that arise due to the lack of a close alignment of cooperating partner grants with the budget process, and an almost total absence of timely reporting on project and programme achievements being consolidated into the national consolidated financial reporting framework. The effectiveness of the central government's success in allocating resources strategically followed by disciplined budget releases in accordance with such strategic considerations benefits from the tracking resources received by front line service delivery units such as primary schools and primary health care facilities (see PI-23).

Efficient Service Delivery

Efficient cash management and revenue collection contributes to efficient service delivery. Further, efficient service delivery is achieved through effective monitoring of transfers to frontline service delivery units to guide policy and inform the effectiveness of the allocation of resources. There are areas that Botswana has had much success in contributing to efficient service delivery including sound payroll management, cash management and timely financial reporting. One factor that appears to have adversely affected the efficiency of service delivery has been some areas of concern of competition in procurement management (see PI-19).

2.3 Prospects for reform planning and implementation

Botswana has not adopted a comprehensive integrated approach centred on a single integrated strategy, with emphasis on sequencing and coordination. There have been important reforms undertaken recently including the implementation of the government accounting and budgeting system (GABS), improvements in the revenue administration, strengthening of external audit and the implementation of the new public procurement legal and regulatory framework.

The commitment to continuing improvements in PFM in Botswana has political championship at the very highest levels through the Minister of Finance. Implementation oversight and monitoring is the responsibility of the respective departmental heads. Coordination of the reform efforts is the responsibility of the Corporate Services Department within the MFDP. There has been no public sector reform strategy formally issued or approved by cabinet. . The Public Service Reform Coordinating Office resides in the Office of the President but does not include a specific Public Finance Management reform pillar.

By way of cooperating partner participation and support of PFM improvements, without a PFM reform strategy, this would require a broader dialogue within the budget formulation process of MFDP, the Parliament and the Office of the Auditor-General which would identify within their sector strategies and budgets reform improvement programmes and projects that could be flagged for support from cooperating partners.

Table 2.1 Overall summary of PFM Performance Scores

PFM Performance Indicator		Scoring Method	Dimension Ratings i.	ii.	iii.	iv.	Overall Rating
A. PFM-OUT-TURNS: Credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	C				**C**
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	C				**C**
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A				**A**
PI-4	Stock and monitoring of expenditure payment arrears	M1	NS	D			**<NS>**
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	C				**C**
PI-6	Comprehensiveness of information included in budget documentation	M1	A				**A**
PI-7	Extent of unreported government operations	M1	A	A			**A**
PI-8	Transparency of inter-governmental fiscal relations	M2	D	B	B		**C+**
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	D			**D+**
PI-10	Public access to key fiscal information	M1	B				**B**
C. BUDGET CYCLE							
C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	B	C	A		**B**
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	D	C	A	C	**C+**
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	B	C	B		**B**
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	A	A	D		**B**
PI-15	Effectiveness in collection of tax payments	M1	B	C	D		**D+**
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	D	A	C		**D+**
PI-17	Recording and management of cash balances, debt and guarantees	M2	C	C	C		**C**
PI-18	Effectiveness of payroll controls	M1	A	B	A	B	**B+**
PI-19	Competition, value for money and controls in procurement	M2	D	C	C		**D+**

PFM Performance Indicator		Scoring Method	Dimension Ratings i.	ii.	iii.	iv.	Overall Rating
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	B	A	C		**C+**
PI-21	Effectiveness of internal audit	M1	B	C	B		**C+**
C(iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	B	B			**B**
PI-23	Availability of information on resources received by service delivery units	M1	A				**A**
PI-24	Quality and timeliness of in-year budget reports	M1	C	A	A		**C+**
PI-25	Quality and timeliness of annual financial statements	M1	B	B	C		**C+**
C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	B	D	B		**D+**
PI-27	Legislative scrutiny of the annual budget law	M1	B	A	B	A	**B+**
PI-28	Legislative scrutiny of external audit reports	M1	C	A	A		**C+**
D. DONOR PRACTICES							
D-1	Predictability of Direct Budget Support	M1	A	D			**D+**
D-2	Financial info provided by donors for budgeting/reporting on proj./program aid	M1	C	D			**D+**
D-3	Proportion of aid that is managed by use of national procedures	M1	D				**D**

3 INTRODUCTION

3.1 Objective of the PFM-PR

The purpose of this Public Expenditure and Financial Accountability (PEFA) Assessment has been to assess the current status of the Government of Botwsana's Public Finance Management (PFM) systems based on the PEFA indicators; a set of 28 high level performance indicators that measure the Central Government's PFM systems plus 3 high level performance indicators that measure the performance of cooperating partners involved in the government's budgetary processes. This assessment is being carried out in order to set a baseline for the continued use and assessment of these indicators. The performance indicators, which are scored on a rating system from A to D is presented along with a narrative to provide a brief description of PFM processes and procedures adopted by the government, and also to support and explain the scorings. In addition to the performance indicators, the PFM performance report reviews the country context in which such PFM is carried out, the legal and regulatory framework, the institutional arrangements and an assessment of the PFM reforms being undertaken.

This evaluation is in keeping with the Strengthened Approach to supporting PFM reform[3]. It aims to achieve better public financial management systems in countries through effective engagement and support over PFM reforms – reducing the transaction costs of some practices and focusing on results. The three main objectives of the Strengthened Approach for Botswana are:

- *Adopting a country-led agenda for reform for Botswana* which is fully cognizant of its capacity constraints and being willing to accept second-best reform alternatives should that be the price to ensure Government leadership in the PFM reform process.
- *Promoting a coordinated program of cooperating partner support and alignment around Botswana's PFM reform agenda* through a dialogue between government and cooperating partners, and incorporates analytical and advisory work, technical assistance, funding support and training which are appropriately phased over a medium term time frame.
- *Monitoring Botswana's PFM reform results through a common information pool*; to serve as a common information pool on PFM performance in Botswana for government, cooperating partners and other stakeholders at country level. The report set out below and the baseline established will also serve as one element of the monitoring and evaluation (M&E) framework available for monitoring on a long term basis the outcomes of the PFM reform.

The immediate impetus for carrying out this PEFA Assessment is:

- To inform and assist the Government of Botswana lead in the preparation of a PFM reform strategy.
- To serve as a basis for information and monitoring so as to help the European Commission assess the eligibility of Botswana for budget support programmes, and to verify whether general or specific PFM conditions of the ongoing budget support programmes have been met. The EC Guidelines for Budgetary Support mandate a preliminary assessment of Public Financial Management to ascertain the feasibility of such an approach to development aid in the country.

[3] For more information on the Strengthened Approach to supporting PFM reforms see the Issues Paper No. 1 available on the PEFA Secretariat website at www.pefa.org.

In keeping with the "*Strengthened Approach*", and hence adopting a harmonised approach, it was agreed to conduct a full PFM assessment in accordance with the Performance Measurement Framework developed by the PEFA Secretariat.

It is important to emphasize that the purpose of this evaluation has not been to evaluate and score particular institutions or responsible individuals in the Government. The focus of the PFM Performance Measurement Framework both with respect to intent and execution is solely on the PFM systems. The results of the evaluation should serve, not only as a baseline for coming evaluations, but also as an important input in the process of steering the Government of Botswana's PFM reform efforts and should assist by way of guiding reform platform focus and activity sequencing.

3.2 Process of preparing the PFM-PR

This PEFA assessment was sponsored by the European Commission which prepared the terms of reference (TOR). The TOR was circulated to a number of development partners and to the government. Prior to the start of the mission a review of legal and regulatory as well as budgetary documentation was reviewed. A workshop on the PEFA methodology was carried out at the beginning of the workshop where thirty seven (37) government officials and cooperating partners participated.

There was excellent cooperation from Government officials in terms of making time available on short notice in spite of pressing work demands. Officials were fully engaging during meetings and any information requested was provided promptly. In particular a number of officials agreed to meet the Consultants together as a way of accommodating the tight interview schedule. The selection of cooperating partners was based upon the largest reported financial allocations within the budget. The EC, the Centre for Disease Control and the Embassy of the People's Republic of China were interviewed. Written information requests were made of the Chamber of Commerce.

The draft report was shared with the Government and its Development Partners for their comment and input. Copies were also to be sent to the PEFA Secretariat for review. A final workshop with government officials particularly those interviewed as well as cooperating partners was carried out after the revision of the current draft report in order to discuss and build consensus about the findings of the assessment.

3.3 Methodology

The PEFA evaluation was carried out between August and November 2008 with a field mission between August 20th and September 16th 2008. Meetings were arranged with the assistance of the NAO, MFDP and the EC Delegation. The PEFA assessment involved:

- Reviewing published PFM reports
- Assessing the requirements for further analysis and evaluation of PFM practice in Botswana, based upon:
    - Interviews with Government Officials, cooperating partners and private sector organisations;
    - Quantitative analysis of official financial and budgetary data;
    - Reviews and assessment of legal and regulatory documentation;

- Assessments of PFM procedures and systems; and
- The application of professional judgement.

An important consideration in developing these indicators is an appreciation of the quality, comprehensiveness and accuracy of data that is used to determine the indicators. The reliability of the indicators can only be as good as the accuracy of the financial data upon which they were calculated. The consultants therefore emphasised the completeness and quality of financial data in determining the PEFA indicator measures.

3.4 Scope of the assessment

The assessment of Botswana PFM covers the fiscal years 2005/2006, 2006/2007 and 2007/2008.

It focuses on all public expenditures of the central Government and the institutions responsible for such. Payments in Botswana are highly centralised with expenditure being managed since 2004 by the GABS system. In respect of analysis performed, the assessment segregates out primary expenditure and domestic revenues from grants (except for direct budgetary contributions) and loan revenues and grant and loan funded expenditure.

The structure of the rest of the evaluation report is as follows:

- Chapter 2 provides background information and the economic and fiscal context for the evaluation;
- Chapter 3 explains the scores for the 31 individual performance indicators;
- Chapter 4 describes the government's reform programme; and
- A series of appendices provides more detailed reference information, including the TOR for the evaluation (Annex 1); a summary of the PEFA scoring calibration (Annex 2); a list of the stakeholders visited by the team (Annex 3), and a list of the documentation reviewed (Annex 4). The list of attendees to the exit workshop is presented in Annex 5. The summary of comments to the draft PEFA report along with responses is presented in Annex 6 and the participants to the Final PEFA Workshop are presented in Annex 7.

4 COUNTRY BACKGROUND INFORMATION

4.1 DESCRIPTION OF COUNTRY ECONOMIC SITUATION

4.1.1 Country context

Botswana is a small open economy with a population of about 1.8 million. During the last years the population grew at a rate of 1.2% a year. It is a middle income country characterised by a relatively high standard of living. Since independence, Botswana has had one of the fastest per capita income growths in the world. The Gross National Income (GNI) per capita in 2006 was US$5,950 (World Development Indicators 2007) which is seven times higher then the Sub-Saharan Africa's GNI/capita of US$842. Although GNI/capita is one of the highest in Sub-Saharan Africa, income inequality remains high; being higher than in the neighbouring South Africa. Botswana's Giny Coefficient is estimated at 63[4]. Despite the impressive progress in raising the standard of living, the rate of poverty and unemployment in Botswana remains high. Unemployment officially was 17.5% in 2005/2006, but unofficial estimates place it closer to 40%.

Botswana's inflation rate has been relatively high during the last two decades reaching the double digit average of 11.3%. According to IMF data, inflation averaged 11.6% in 2006 and 7.0% in 2007. Botswana's inflation is in particular influenced by South Africa's inflation rate, but also exchange rate depreciations against the rand and monetary growth affect inflation. Despite recent inflationary tensions Botswana maintains political and macroeconomic stability.

Economic growth in Botswana has been robust and boasted high growth rates. According to OECD, economic growth averaged about 9% per year in the period 1967-2006. Real GDP growth was curbed down to 0.6% in 2005/06, but the growth rate recovered to 5.3% in 2006/07. For 2007/08, real GDP growth rate slowed down to 3.3 percent. Per capita GDP in 2007 amounted to US$ 6,742. The following table provides a summary of key economic indicators.

Table 4.1 Selected Economic Indicators

	2004	2005	2006	2007
Population[5] and unemployment				
Total population, millions	…	1.84	1.86	1.88
Annual population growth, %	…	1.1	1.2	1.2
Unemployment rate, %	23.8	21.5	17.6	…
National income and prices	Annual percentage change, unless otherwise indicated			
Real GDP[6]	9.2	-0.8	5.8	4.3
Mineral	18.1	-4.4	5.7	-4.3
Non-mineral	3.3	1.8	5.8	10.4
Nominal GDP, billions pula	49.6	57.1	66.5	74.3
Mineral	19.2	22.2	26.9	28.7

[4] This figure represents cash income only.
[5] Data from World Development Indicators database September 2008.
[6] Year beginning July 1st.

	2004	2005	2006	2007
Non-mineral	30.4	35.0	39.6	45.6
Consumer prices (average)	7.0	8.6	11.6	7.0
Consumer prices (end of period)	7.9	11.3	8.5	7.4
External sector	Percent of GDP, unless otherwise indicated			
Current account balance	2.9	14.4	19.3	20.4
Balance of payments	-0.6	13.2	16.6	17.2
External public debt[7]	4.3	4.1	3.5	2.7
External public debt (% of total exports)	9.5	8.1	6.9	5.1

Source: IMF, 2008 Article IV Consultation Staff Report, Country Report No. 08/58, February 2008.

Botswana's economy and fiscal position is highly dependant on the mining sector. Botswana's economy is characterised by a resource-intensive production in particular diamonds. Mining (particularly diamonds) is the main industry which contributes to the country's GDP with circa 42% of real GDP in 2006/07. According to some estimates, Botswana's diamond accounts for almost 26% of the world diamond production. Also the services sector which captures a large share of formal employment contributes significantly to GDP, around 50% of GDP. Tourism is an increasingly important industry and accounts for approximately 10% of GDP.

The overall balance of payments position has mostly remained in surplus over the past decade. The main exports are diamonds. Imports rose significantly in 2005 and 2004 against 2003, stimulated by buoyant domestic demand, while high global oil prices added to the import bill. Also the currency depreciation contributed significantly to the import bill. International reserves stand equivalent to 28 months imports of goods and services.

On the international arena, Botswana is a member of the New Partnership for Africa's Development (NEPAD); Southern Africa Development Community (SADC) and Southern Africa Customs Union (SACU) which shares a common tariff regime without any internal barriers; and shares revenue according to an agreed formula. According to the "Worldwide Governance Indicators 2007" of the World Bank, Botswana scores quite high regarding governance. This is corroborated by the "Transparency International" which rates Botswana on the 38th place globally and as the least corrupt country in Africa. In 2007, Botswana's sovereign credit ratings by the rating institutions Moody's Investor Services and Standard and Poor's remained unchanged at "A" for the seventh consecutive year.

In spite of the improved economic performance, Botswana's ratings may be constrained by a number of factors among which would be the high dependence on diamonds, a narrow economic base and the fiscal pressures of dealing with the HIV/AIDS epidemic. One of the main threats to the country's economic development is the high rate of HIV/Aids infection for age 18 months and above of about 17%, which is one of the highest in the world. It is anticipated that HIV/AIDS pandemic may have an impact on GDP growth, domestic savings and public finances in the coming decade.

4.1.2 Overall government reform program

The government's economic strategy is developed in the six-year National Development Plans (NDP). The 9th NDP, the medium term strategy, translates the "Long Term Vision for Botswana: Towards Prosperity for All (Vision 2016)", into the national development planning process. The Vision 2016 was adopted now more than 10 years ago, leaving only 9 years to fully achieve its aspirations. The 9th NDP 2003/04-2008/09 focuses on such areas as economic diversification, employment creation, HIV/AIDS prevention, poverty reduction while maintaining macroeconomic stability and fiscal discipline. Following the mid-term review of the 9th NDP a government commission, the Business Economic Advisory Council (BEAC), has

7 Medium- and long-term public and publicly guaranteed debt.

been created to focus on reform implementation and private sector and foreign direct investment expansion in areas outside mining.

The NDP is based on the Macroeconomic Outline and Policy Framework, and is the map for expenditure that is approved by the Economic Committee of Cabinet (ECC), setting priorities over the long term and proving the framework for budgetary planning year-on-year. According to the Finance and Audit Act, no expenditure can be incurred on any project prior to its inclusion in the NDP.

Botswana also has a National Strategy for Poverty Reduction (2003). The government recognises the need to ensure that the National Strategy for Poverty Reduction is fully integrated into the 10th NDP objectives, policies and programmes.

4.1.3 Rationale for PFM reforms

The historical large budgetary surpluses did not provide sufficient motivation for reform for a long time. The deteriorating budget situation and the challenges facing the achievement in the quality of the public service delivery has become an area of concern. The government has addressed these concerns through cost-recovery reforms and a drive towards increased privatisation. Further, the government has implemented a real-time integrated financial system countrywide. The Government Accounting and Budgeting System (GABS), which went live in September 2004 was rolled out to all ministries. The long-term trend is to decentralise functions. Personnel management has been decentralised to line ministries for several years, and other functions, such as accounting, followed as GABS was rolled out. To address the poor service delivery, the government introduced during the 9th NDP the Performance Management System (PMS). Also during the 9th NDP the government embarked on tax reviews almost on annual basis. In 2006 a number of changes to the tax system were introduced. The Budget Speech 2008 underscores that the process of reforming the tax system will be done on a gradual basis to ensure that the improvement of an enabling environment does not lead to loss of revenue to the detriment of other Government priority programmes. It also points to the priority of procurement reforms.

4.2 DESCRIPTION OF BUDGETARY OUTCOMES

4.2.1 Fiscal performance

Despite the high dependence on mineral revenues and three consecutive budget deficits during the period 2002-2004, the government managed to maintain a prudent public sector balance and sound fiscal policies and management. The prudent fiscal policies allowed for sound fiscal surpluses and a low debt burden by international standards. The fiscal balance improved significantly during the FY 2005/06 and achieved a surplus of 8.4% of GDP. This improvement is in particularly due to increased diamond prices and sales, devaluation of the national currency, pula, as well as constraints on the government's capital spending. Further in the FY 2006/07 the budget surplus was higher than anticipated. This substantial budget surplus outturn in 2006/07 was due to a combination of the slightly more than anticipated revenue earnings and significant under-spending of the total budget (development and recurrent budgets). The under-spending was mainly attributable to inadequate capacity in the implementing departments. The table below provides a summary of the central government's fiscal operations during the period of the PEFA assessment.

Table 4.2 Central government fiscal operations (percent of GDP)

	2004/05	2005/06	2006/07
Total revenue and grants	37.5	40.3	42.5
Tax revenue	21.0	21.7	24.8
Non tax revenue	15.7	18.4	17.0
Grants	0.7	0.2	0.7
Total expenditure and net lending	36.3	31.9	30.7
Current expenditure	28.8	25.6	24.9
Capital expenditure	8.2	6.8	6.2
Net lending	-0.6	-0.6	-0.4
Overall balance	1.2	8.4	11.8
Financing	-1.2	-8.4	-11.8
Domestic	-0.9	-8.1	-11.5
Foreign (net)	-0.3	-0.3	-0.4
GDP (fiscal year; millions of pula)	47,859.9	55,258.3	64,160.3
Public sector gross debt	13.5	11.6	10.2
Public sector net debt	-12.9	-12.0	-11.2

Source: IMF, 2008 Article IV Consultation Staff Report, Country Report No. 08/58, February 2008.

On the revenue side, traditionally a major part of the government revenue comes from taxes mainly from the mining industry (e.g. royalties, dividends and taxes) which contributes with about half to total revenue. Tax revenue have been increasing as percentage of GDP during the last three years. This highlights the improved tax enforcement and compliance and a more participatory fee policy. The Development grants account for only a small part of the total revenue representing about 0.7% of the GDP.

Despite the recent fiscal surpluses, the budget remains vulnerable to dependence on mineral revenues and exchange rates fluctuations. In addition to efforts to raise non-mineral revenues, the government takes measure to control public expenditure e.g. it introduced fiscal rules that limits annual expenditure to 40% of GDP, specifies a debt sustainability ratio and the ratio of recurrent to development expenditure.

During the last three years total expenditure and lending was decreasing as percentage of GDP. This reflects the government's difficulty to spend (including on development budget) due to capacity constraints. Economic development spending was cut by 10% in 2004/2005 as a result of recurring budget deficits and rising expenditure on healthcare services. Botswana has a Development Budget which is generally funded from the Domestic Development Fund and Cooperating partner funds (being loans and grants). Development spending began to increase again in 2006/2007 and was budgeted to increase by 27% in the 2007/2008 fiscal year.

4.2.2 Allocation of resources

The National Development Plan puts emphasis on HIV/AIDS prevention and education and vocational training to reduce high unemployment rates. This aspiration is reflected in the budget. Health care and education remain the two priorities representing a major and generally growing fraction of the total spending. The table below presents the actual expenditure by sectors.

Table 4.3 Actual expenditure by sectors8

	Millions of pula			As a % of total expenditure		
	2005/06	2006/07	2007/08*	2005/06	2006/07	2007/08*
General services incl. defence	5,268.0	5,754.1	7,353.1	29.9%	29.2%	27.9%
Social services	8,127.0	9,121.2	12,556.3	46.1%	46.2%	47.6%
Education	4,197.4	4,842.2	6,240.0	23.8%	24.5%	23.6%
Recurrent expenditure	3,801.0	4,391.1	5,110.0	21.4%	21.6%	22.2%

[8] Fiscal Year April 1st to March 31st.

	Millions of pula			As a % of total expenditure		
	2005/06	2006/07	2007/08*	2005/06	2006/07	2007/08*
Development expenditure	396.7	455.0	1,130.4	2.7%	2.2%	2.3%
Net lending	-0.3	-4.0	-0.4	0.0%	0.0%	0.0%
Health	2,056.4	2,226.6	3,328.8	11.7%	11.3%	12.6%
Recurrent expenditure	959.7	1,302.6	1,910.8	5.9%	5.4%	6.6%
Development expenditure	1,096.8	924.1	1,418.0	6.1%	6.2%	4.7%
Food & social welfare progr.	189.5	387.7	355.6	1.1%	2.0%	1.3%
Housing, urban & regional dev.	1,082.8	1,301.9	1,623.5	6.1%	6.6%	6.2%
Other comm/soc services	600.9	362.8	1,008.4	3.4%	1.8%	3.8%
Economic services	2,347.1	2,852.8	4,514.2	13.3%	14.5%	17.1%
Agriculture, forestry & fishing	791.8	721.2	771.0	4.5%	3.7%	2.9%
Mining	-134.7	-73.1	162.3	-0.8%	-0.4%	0.6%
Electricity & water supply	931.7	836.2	1,210.8	5.3%	4.2%	4.6%
Roads	324.5	644.5	859.6	1.8%	3.3%	3.3%
Others	433.8	724.0	1,510.5	2.5%	3.7%	5.7%
Transfers	1,889.8	2,009.5	1,967.6	10.7%	10.2%	7.5%
Total expenditure	17,631.9	19,737.6	26,391.2	100.0%	100.0%	100.0%

Source: Bank of Botswana, Annual Report 2007, Part C, Statistics. Note: (*) – Revised estimate.

As the table shows while expenditure on social services as percentage of total expenditure was increasing, the expenditure to general services (including defence) has decreased during the period considered. Although expenditure to economic services were overall increasing, expenditure on agriculture, forestry and fishing were decreasing steadily. This decrease was surpassed by the increase in expenditure on roads and other economic services.

Expenditure pressures are largely emanating from a higher social spending burden, particularly on education and health, mainly HIV/AIDS related. The HIV/AIDS pandemic continues to pose a significant fiscal burden on the government. As mentioned above, health and education expenditure remain the major part of the total expenditures. Expenditure to education sector is anticipated to slightly decrease in 2007/08 (according to revised estimate) to a level under the 2005/06 as share of total expenditure. This is mainly a result of the decrease in the recurrent expenditure. The share of recurrent expenditure was above 90% during 2005/06-2006/07, while it is expected to decrease to 81.9% in 2007/08. The development budget will increase from 9.4% to 18.1% of the total education expenditure. Health expenditure is anticipated to increase in 2007/08. The ratio of recurrent and development expenditure did not change significantly during the period considered; recurrent and development expenditure representing correspondingly slightly less than 60% and more than 40% of health expenditures.

Government wages and salaries account for a large portion of current government spending. Botswana's wage bill as a percentage of GDP and of total government expenditure is one of the highest in Sub-Saharan Africa, according to the IMF. During the years considered the wage bill as percentage of total expenditure decreased from 29.6% in 2004/05 to 25.3% in 2007/08. The 2008 Budget speech does not anticipate any further salary increases. The table below depicts the allocation of expenditure by economic classification.

Table 4.4 Actual expenditure by economic classification[9]

	Millions of pula			As a % of total expenditure		
	2005/06	2006/07	2007/08*	2005/06	2006/07	2007/08*
Current expenditure	14,155	15,955	18,732	80.3%	80.8%	71.0%
Personal emoluments	5,216	5,801	6,689	29.6%	29.4%	25.3%
Other charges	8,621	9,918	11,898	48.9%	50.2%	45.1%
Public debt interest	318	236	145	1.8%	1.2%	0.5%
FAP grants	0	0	0	0.0%	0.0%	0.0%
Development expenditure	3,783	4,055	7,720	21.5%	20.5%	29.3%
PDSF/RSF Loans	0	0	0	0.0%	0.0%	0.0%

[9] Fiscal Year April 1st to March 31st.

	Millions of pula			As a % of total expenditure		
	2005/06	2006/07	2007/08*	2005/06	2006/07	2007/08*
Repayment of Loans	-306	-272	-61	-1.7%	-1.4%	-0.2%
Total expenditure & net lending	17,632	19,738	26,391	100.0%	100.0%	100.0%

Source: Budget Speech 2008.
Note: (*) - estimate.

4.3 DESCRIPTION OF THE LEGAL AND INSTITUTIONAL FRAMEWORK FOR PFM

4.3.1 The legal framework for PFM

Botswana has a well-established and comprehensive legal framework governing its budget system. The legal framework is also supported by various other laws and regulations and clearly defines and establishes the roles and responsibilities of different stakeholders in the budget process. The legal framework for PFM in Botswana encompasses a range of laws and regulations that emanate out of the Constitution (1966, with amendments through 2006). The main PFM laws are the Finance and Audit Act (1970, with amendments through 2006), the Mining and Minerals Act, the Mineral Rights Tax Act, the Local Government Act, the Income Tax Act, the Value Added Tax Act, the Customs and Excise Act.

4.3.1.1 Constitution

The Botswana Constitution provides the basis for public financial management (Chapter VIII) while details are regulated by the Finance and Audit Act. It assigns clear roles and responsibilities to the different levels of government (central and sub-national) which are supported by the provisions of the Finance and Audit Act. The key areas pertaining to public finance management include:

- The administration of the Consolidated Fund to which all government revenues must be deposited (See Article 117);
- The authorization of expenditure (See Articles 119, 120)and direct charges to the Consolidated Fund including for the remuneration of the Auditor General;
- The direct charge to the Consolidated Fund for public debt service;
- The role, jurisdiction and independence of the Auditor General (See Article 124)

4.3.1.2 The Finance and Audit Act (FAA)

The FAA and its amendments detail the public finance management regulatory framework for government institutions, which include national departments and local authorities, and the entities under their ownership or control. The FAA, in concordance with the Constitution, addresses the Consolidated Fund, the budgetary process, expenditure controls, banking, internal audit, debt, reporting on public accounts and the duties of the Auditor General. The Finance and Audit Act (FAA) stipulates the procedures for management of public finances, i.e. budget execution and control mechanisms, the distinction between various operations, as well as internal and external control, circumstances under which a supplementary estimate is necessary. Financial instructions and procedures provide detailed rules for collection and expenditure of public funds. The FAA is anticipated to be reviewed in the near future.

The law authorises the Minister of Finance to borrow money on behalf of the government, however it does not explicitly state his to be the sole authority (see Article 10). It does however restrict officers to overdrawing any account to less than P 10,000 for a period less than 30 days. Further, it restricts the authority for the granting of Guarantees solely to the Minister of Finance (see Article 22). It also restricts the powers of accounting officers to move funds between budget heads except as prescribed in the Regulations (see Article 20).

The FAA describes the duties of the Auditor General and precludes such duties as pre-audit where his opinion would preclude the proper exercise of his function (see Articles 29 and 30). It also outlines the powers of the Auditor General (see Article 32). The FAA requires that the Accountant General prepare, sign and transmit the annual financial statements to the Auditor within eight months of the close of the fiscal year (See Article 34). The Auditor General must submit the audited financial statements to the Minister of Finance for onward transmission to parliament within 30 days of receipt.

The FAA accommodates the presentation of up to four supplementary budgets in a given fiscal year.

4.3.1.3 Procurement legislation

The Public Procurement and Asset Disposal Act (2002) adopts a decentralised approach with public entities made responsible for managing procurement with the role of oversight, regulation, monitoring and evaluation, inspection of the procurement record and capacity development being the responsibility of the Public Procurement and Asset Disposal Board. Under the current procurement legal and regulatory framework the responsibility for procurement is given to the Accounting Officer.

The legal and regulatory framework promotes value for money, open and effective competition; ethics and fair dealing, accountability and reporting, equity and the establishment and securing of the procurement record. The Public Procurement and Asset Disposal Act establishes the open domestic bidding method as the default procurement method.

The legal and regulatory framework for procurement includes a provision for the establishment of an administrative review board responsible for the resolution of complaints submitted regarding a procuring entities contravention of any legal provisions of the Public Procurement and Asset Disposal Act. Should there be unsatisfactory resolution the complainant has the right to refer the matter to the Independent Committee. While the regulations specify that the Board shall make part of the record of the procurement proceedings any decisions resolving complaints, it does not specifically require the Board to make public such decisions.

The regulations directly addresses emergency procurement (see Article 23) to exclude situations arising out of dilatory behaviour of the procuring entity and serves as an important check against the abuse of improperly justified sole source procurement. Further it addresses splitting of procurement requirements to curb the use of the method to bypass procurement threshold controls. The regulatory framework for procurement explicitly specifies procurement planning (see Article 7) as one element of the procurement process and makes the accounting officer responsible for its execution.

4.3.1.4 Other

There is no Freedom of Information Act in Botswana or any other law ensuring public access to information (including budget information). Access to public information is restricted. Media advocacy organisations are however lobbying for media law reform and the introduction of media freedom related regulations such as the Freedom of Information Act.

4.3.2 The institutional framework for PFM

4.3.2.1 Legislature

The Constitution vests the legislative power in the Parliament which consists of the National Assembly with 61 seats, 57 of which are elected and 4 of which are specially elected by the 57 elected members. The president is a member of the legislature but does not represent a specific constituency.

The National Assembly is responsible for passing laws, oversight of the executive and providing a forum where people's representatives can publicly debate issues of national concern. In some cases Bills may only be passed by the Parliament after reference to the *Ntlo ya Dikgosi*[10]. The Parliament has the prerogative to establish Committees that should oversee the activities of the executive. Among these are a number of committees dealing with fiscal oversight:

- *Public Accounts* Committee (PAC) – this committee examines the financial statements as well as audit reports on the statements of all government departments and constitutional institutions. It also examines the Auditor-General's reports, and other financial statements or reports referred to it. It may also initiate any investigation in its area of competence, and may perform other functions related to financial oversight or supervision.
- *Finance and Estimates Committee* – considers the budget in order to allow Parliament to have an input during the process of drafting the budget. It is also responsible for the in-year monitoring of expenditure and oversight of the implementation of corrective actions in response to the PAC resolutions.

The *Ntio ya Dikgosi* (see Articles 77 to 85) is made up of between 33 and 35 members (currently 35 members) selected from 12 Districts, with 5 members appointed by the President. Its function is to consider and debate any bill that has been referred to it and to make representations to the President.

4.3.2.2 Executive

The Government apparatus in Botswana is composed of 21 ministries and 28 local authorities. The President is both the chief of state and the head of government. The Cabinet of Ministers is appointed by the President. The executive is accountable for its actions and policies to the Parliament. In the exercise of his function, the President is not obliged to follow the advice tendered by any other person or authority.

The Cabinet is responsible for advising the President on Government policy. The Ministers are responsible for the business of Government. Permanent Secretaries, subject to the genera direction and control of the Minister, are responsible for the supervision of National Departments.

4.3.2.3 Judiciary

The legal system is based on Roman-Dutch law and local customary law. The court system comprises a High Court, a Court of Appeal and Magistrates' Courts (one in each district). The Judiciary of Botswana is an independent branch of government (see Chapter VI). Its independence is guaranteed by the Constitution. The Chief Justice is appointed by the President. The Botswana court structure consists of the Court of Appeal, High Courts, Magistrates Courts and other courts established by an Act of Parliament.

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[10] The Ntio ya Dikgosi is the House of Chiefs

4.3.2.4 Auditor-General

The office of the Auditor-General is the supreme audit institution in Botswana. It is an independent constitutional body, accountable to the National Assembly. The Auditor-General derives its independence, powers and mandate from the Constitution (Section 188) and the Finance and Audit Act (FAA). The Auditor-General is appointed by the President on the recommendation of the National Assembly and approval by the National Assembly with a supporting vote of at least 60% of the members of the Assembly (Section 193 and 194 of the Constitution) for a fixed, non-renewable term of between five and ten years (Section 189). The Auditor General vacates his or her office at the age of 60. He or she may be removed from office only for the inability to perform the function of his or her office as determined by a tribunal appointed by parliament, and passed by parliament. The Auditor-General is empowered to audit any and all government entities including security agencies. It must report on its activities and the performance of its functions to the Assembly at least once a year.

4.3.2.5 Audit Committees

While a number of Audit Committees have been set up, they are neither referenced within the legal and regulatory framework of Botswana, nor have they been implemented across all ministries. The responsibilities of the Audit Committees include ensuring that accounting officers have fully responded to the findings of internal audit, external audit and the PAC recommendations. It is also responsible for ensuring that the internal accounting controls are operating to ensure that financial records may be relied upon.

4.3.2.6 The Ministry of Finance and Development Planning (MFDP)

The functions of the National Treasury are detailed in the FAA. The Minister of Finance is accountable to the Cabinet and Parliament for ensuring compliance of the National Treasury with its responsibilities under the FAA. The Minister is empowered to delegate the day-to-day operations of the Treasury. The National Treasury is empowered to develop the overall macroeconomic and fiscal framework, co-ordinate intergovernmental fiscal relations and the budget preparation process, manage the implementation of a budget and promote and enforce revenue, manage the government's assets and liability. It also plays a financial oversight role over other organs of state in all spheres of government.

The *Budget Administration Division* is responsible for fiscal policy, expenditure planning and guiding the budget formulation process. It is responsible for policy relating to public service wage bargaining and critical infrastructure planning and budgeting. The budget process a dual budget approach with separate recurrent and development budget procedures managed by different departments within the Budget Administration Division.

The *Accountant General* is responsible for the accounting of the Consolidated Fund and the Development Fund, arranging banking services for national Government, developing and implementing accounting policies, and preparing consolidated financial statements.

The *Internal Audit* is made up by officers appointed by the Permanent Secretary. They are responsible to report to their respective Accounting Officers and to the Director of Internal Audit. However, the Act makes no reference to a requirement for the Director of Internal Audit to submit internal audit reports to the Auditor General.

4.3.2.7 Sub-national government

Sub-national government is administered by two city councils (Gaborone and Francistown), nine district councils (Central, Ghanzi, Kgalagadi, Kgatleng, Kweneng, Northeast, Northwest, Southeast, Southern) and five town councils (Francistown, Gaborone, Jwaneng, Lobatse, Selebi-Pikwe). District commissioners have executive authority and are appointed by the central government and assisted by elected and nominated district councillors and district development committees.

The *Ministry of Local Government* is responsible for coordinating fiscal relations between national and local government as well as promoting sound municipal financial planning, reporting and management.

4.3.2.8 Financial Systems

The Ministry of Finance and Development Planning is responsible for the development of financial management systems for the central and provincial governments. The *Department of Information Technology* (DIT) is responsible for hosting systems and managing the network services to the government. It also provides on-going user support to all of the financial management systems. The current system focuses on two main functional areas:

- Payroll and Human Resource Management at national and provincial levels (using Government Payroll, Passages and Pensions (GPPP) system software);
- Accounting (using GABS);

These systems have not yet been rolled out to all cost centres. A significant proportion of expenditure within some ministries, such as Health and Education are still managed manually.

Provincial government financial management systems are independent of the central government financial management system and are developed by the Ministry of Local Government. They also use different basis of accounting.

4.3.2.9 National Departments (ministries)

The PFMA establishes the Minister as the political head of the department, and the Director-General, the head civil servant and the accounting officer. The Minister is responsible for setting policies and is accountable for the achievement of departmental outcomes. This includes seeking legislature's approval and adoption of the department's budget vote. The Permanent Secretary of a national department is responsible for the management of the implementation of the budget and achievement of departmental outputs for which he is accountable to Parliament.

4.3.2.10 Public Enterprises

There are 32 public enterprise in Botswana of which 15 are commercial. These operate in such sectors as mining, finance, transport and energy. They include the National Development Bank, Botswana Power Company, Botswana Telecommunications Company, Botswana Development Corporation, Water Utilities Corporation, Air Botswana. A privatization master plan was prepared in 2005 which outlines the government's policy objectives for privatising a number of the commercial enterprises. Public Enterprises are required to submit to the MFDP annual reports and financial statements. The Auditor-General may investigate or audit any government business enterprise or public entity.

4.3.2.11 Public Procurement and Asset Disposal Board

The Public Procurement and Asset Disposal Board (PPADB) is established by an Act of Parliament as a parastatal authority, accounting to the Ministry of Finance and Development

Planning. The Board is responsible for the coordination and management of prudent procurement of works, supplies and services for Government, and the disposal of public assets.

4.3.2.12 The Botswana Unified Revenue Service

The Botswana Unified Revenue Service (BURS) was established under the BURS Act in 2006 as a separate public enterprise established to collect revenues. It is governed by a board of directors whose members are appointed by the Minister of Finance and Development Planning. It receives its funding by way of a subvention paid on a quarterly basis. BURS is responsible for the collection of all direct and indirect taxes.

4.3.2.13 Bank of Botswana

The Bank of Botswana (BAB) has operational independence which is constitutionally guaranteed. As part of its activities, the BOB performs international banking and international treasury services, acts as banker and funding agent of the government and facilitates the functioning of the domestic financial markets. Under the Bank of Botswana Act the BOB is the government's banker to and financial adviser and the fiscal agent; as well as fiscal adviser and banker to statutory corporations, local authorities and government controlled corporations. The BOB is empowered to receive moneys from government and disburse the same on behalf of the government. The Bank of Botswana publishes fiscal statistics and information in its Quarterly Bulletins and Annual Reports.

Table 4.5 Matrix of Institutional Responsibilities for PFM Functions

		Ministry of Finance															
								Treasury		Line Ministry							
PFM Function	Cabinet	FM	PSF	Budget Adm	PPADB	BURS	MoMEM	AG	IA	LM	PS	TC	DPSM	OAG	BoB	Parliament	Donors
Policy Elaboration and Planning																	
Policy/Budget Approvals	✓	✓								✓						✓	
Loan Approvals	Endorse	✓														✓	
Supplemental Budgets	✓	✓								✓	✓					✓	
National Development Plan (NDP)	✓	✓		✓						✓	✓						Consult
Sector Development Plans										✓	✓						Consult
Annual Corporate Plans										✓	✓						
Budget Formulation/Preparation																	
Budget Address		✓															
Macro-Fiscal Framework			✓	✓													IMF Program
Annual Budget Estimates		✓	✓	✓						✓	✓						
Revenue Administration/Collections																	
Tax Revenue						✓											
Mineral and Mining Royalties							✓										
Grants/Loans																	✓
Budget Execution																	
Debt Management				✓													
Financial Asset Management															✓		
Budget Allocation/Cash Management			✓	✓				✓									
Virement Control			✓								✓						
Establishment Control				✓									✓				
Personnel Rolls											✓		✓				
Payroll								✓			✓						
Procurement/Supply Chain			✓		✓						✓	✓					
Non-Salary Recurrent Expenditure								✓			✓						
Capital Expenditure								✓			✓						✓
Payments								✓			✓						
Financial Reporting								✓			✓						✓
Accounting								✓						✓			
Internal Audit			✓			✓			✓					✓			
External Scrutiny/ Budget Oversight																	
External Audit		✓												✓			
Budget Oversight	✓															✓	
Expenditure/Audit Oversight																✓	
PFM Reform																	
Reform Policy/Approval			✓														
Reform Coordination/Monitoring			✓										✓				
Reform Implementation			✓														

Abbreviations FM: Finance Minister, **PSF**: Permanent Secretary, Ministry of Finance and Development Planning, **PPADB**: Public Procurement and Disposal Board, **BURS**: Botswana Unified Revenue Service, **MoMEM:** Ministry of Mines, Energy and Mineral Resources, **AG**: Accountant General, **IA**: Internal Audit, **LM**: Line Minister, PS: Permanent Secretary to the Line Ministry, **TC**: Ministerial Tender Committee, **DPSM**: Department of Public Service Management, **OAG**: Office of the Auditor General, **BoB**: Bank of Botswana

4.3.3 The key features of the PFM system

The financial year for the central government and sub national government in Botswana is April 1st to March 31st. Botswana has a distributed payments and accounting system operated out of a consolidated fund account set up in the Bank of Botswana along with a number of district treasury accounts used for the collection of departmental revenues and the facilitation of expenditure payments. All payments are managed by the Accountant General out of the consolidated fund account and treasury accounts operated in the districts. The country coverage of revenue and expenditure bank accounts is facilitated through the use of commercial bank accounts. The personnel database systems are managed independently by each of the Departments and the payroll is operated by the Office of the Accountant General. .

The Government of Botswana adopts a cash accounting basis for the preparation of its accounts. The final accounts are prepared by the Accountant General and presented as a consolidated financial information report.

Payroll is managed using an oracle based system known as Government Payroll, Passages and Pensions (GPPP) system. Expenditure management and accounting is fully computerised and uses GABS system.

The Office of the Auditor-General is independent and has jurisdiction over all government entities including public enterprises. The Auditor-General has the requisite independence and jurisdiction to receive all documentation necessary to carry out his work and places no restrictions on the publication of his findings. The Accounting Officer is responsible and held accountable for implementing all recommendations emanating out of an audit and any PAC recommendations.

Botswana is a member of the customs union SACU. Members consolidate all customs revenues and share them on the basis of a formula; paying out custom revenue allocations quarterly. The net effect of the application of the customs revenue sharing formula is the substantial subsidies paid out to other SACU members by South Africa.

5 ASSESSMENT OF THE PFM SYSTEMS, PROCESSES AND INSTITUTIONS

5.1 BUDGET CREDIBILITY

5.1.1 PI-1 Aggregate expenditure out-turn compared to original approved budget

This PEFA assessment covers the fiscal years 2005/2006, 2006/2007 and 2007/2008; 2007/2008 being the most recent fiscal year for which final appropriations[11] accounts were available at the time of the assessment. The reporting formats of the budget documentation permit an identification of debt service elements. The cooperating partner funds are identified separately within the financial reporting documentation and so make it possible to identify and measure primary expenditure estimates as well as primary expenditure achievements. The original approved expenditure estimates presented in Table 3.1 were obtained from the promulgation notices of the Appropriations Acts for 2005, 2006 and 2007. The actual expenditures were obtained from the Consolidated Financial Information for 2005/2006, 2006/2007 and the draft financial statements for 2007/2008.

The Government of Botswana has adopted modified cash accounting for its central government accounts with the fiscal year being defined from April 1 to March 31. Outstanding commitments for goods, works and services (i.e. open purchase orders) not delivered by the end of the fiscal year are cancelled and payments are then completed for all outstanding bills (i.e. verified invoices). Any unspent funds at the close of the fiscal year are returned to the Treasury and are lost by the Ministry, Department or Agency (MDA). One consequence of this implementation of the end of year procedures is that a number of Departments tend towards increased expenditure rates in the last month as Departments seek to avoid having to return unspent funds to the Treasury. This pressure on spending may contribute to the accrual of expenditure arrears, as well as contribute to an increased incidence of direct procurement during the last month.

When an analysis of the actuals to budget estimates for recurrent expenditure is considered the matches are within 3% for all three years considered. However a comparison of development expenditures between actuals and original approved primary development expenditure shows a marked discrepancy varying between -10% and – 30% over the three fiscal years assessed. We note that in all three years reviewed the outturns were lower than budget estimates.

Table 5.1 Comparison of Budget Estimates against Actuals (Primary Expenditure, million Pula)

	2005/06	2006/07	2007/08
Primary Original Estimate	19,285	22,191	26,342
Primary Outturn	17,620	19,823	22,444
Aggregate Expenditure Deviation, million Pula	-1,665	2,368	-3,899
Aggregate Expenditure Deviation, %	-9%	-11%	-15%

[11] At the time of the field mission only draft final appropriations accounts were available for 2007/2008 and so these were employed in making the computations; however it is anticipated that by the time of completion of the final PEFA report audited final appropriations accounts will be available.

Source: Estimates of Expenditure for 2005/2006, 2006/2007, 2007/2008, 2008/2009 and Financial Statements for 2005/2006, 2006/2007 and the draft financial accounts for 2007/2008.

In all three budget years, revenues exceeded budget estimates (see indicator PI-3). The appropriate interpretations of the result of a comparison of primary expenditure estimates to actual primary expenditure are premised upon the availability of accurate financial data. There are many elements of the PEFA assessment that suggest such accuracy is achieved as suggested by the regular and timely reconciliation of bank accounts (see PI-22), the timely and comprehensive financial reporting (see PI-24, PI-25) and comprehensive external audit (see PI-26). In the three fiscal years reviewed there were no substantive major exogenous factors that significantly impacted on budget expenditure.

No.	Credibility of Budget	Score	Justification
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	Actual primary expenditure deviated from expenditure estimates by more than 10% in one of the three years considered. Deviations were --9%, --11% and -15% respectively.

5.1.2 PI-2 Composition of expenditure out-turn compared to original approved budget

To obtain a measure of how much the reallocations between budget votes have contributed to variance up and above the deviations in the overall levels of expenditure, an analysis of budget deviations between budget estimates and actual out-turns by budget head was performed for the years reviewed. The budget to expenditure deviations for each Budget Vote is presented in Table 3.2. An analysis shows that the average weighted deviations exceeded overall deviation in primary expenditure by over 10% points in one of the three years reviewed in this assessment. In two of the years the variances up and above the expenditure deviation at the aggregate level was only 2% with one year as high as 15%[12].

[12] It would appear that the relatively low score of 2% for 2006/2007 and 2007/2008 is more a reflection of a bias in the calculation method which underestimates the measure irrespective of variance in expenditure deviation where the expenditure data shows lower than estimates for all or almost all votes (see Table 3.3 which shows this to be the case in 2006/2007 and 2007/2008, though not for 2005/2006

Table 5.2 Comparison of Budgeted and Actual Expenditure (Pula)

	2005/2006		2006/2007		2007/2008	
	Estimates	Actuals	Estimates	Actuals	Estimates	Actuals
Ministry						
Parliament	*43,056,970*	*40,662,923*	*58,554,470*	*52,380,007*	*63,805,640*	*59,904,016*
State President	*2,046,354,720*	*2,853,337,759*	*3,375,076,640*	*2,767,297,130*	*4,279,379,410*	*3,481,983,558*
Finance and development planning	*579,830,770*	*464,676,102*	*725,219,880*	*521,949,596*	*799,814,420*	*663,622,510*
Labour and home affairs	*528,285,290*	*444,736,042*	*698,088,530*	*522,049,478*	*701,970,910*	*468,293,066*
Agriculture	*746,634,490*	*847,050,141*	*753,225,620*	*725,289,079*	*853,269,280*	*766,307,537*
Education	*4,676,067,600*	*3,835,504,851*	*5,051,609,850*	*4,521,256,008*	*5,702,547,620*	*5,280,065,776*
Trade and Industry	*167,781,290*	*148,317,018*	*218,087,110*	*211,241,378*	*383,192,640*	*358,976,959*
Local Gvt	*3,206,877,020*	*3,197,421,514*	*3,311,164,250*	*3,421,406,633*	*4,266,355,870*	*3,639,918,224*
Works and transport	*1,497,021,570*	*1,078,014,614*	*1,769,337,750*	*1,592,822,218*	*2,114,064,840*	*1,755,639,992*
Mineral energy and water affairs	*1,039,982,400*	*864,138,463*	*1,145,743,660*	*808,619,718*	*1,291,555,920*	*841,582,712*
Health	*1,947,518,290*	*1,492,967,455*	*1,971,220,780*	*1,834,263,870*	*2,135,054,820*	*1,799,995,529*
Justice	*83,835,700*	*74,373,034*	*104,351,030*	*90,982,277*	*115,247,520*	*104,704,555*
Attorneys general chambers	*42,640,440*	*44,777,983*	*55,112,900*	*50,565,469*	*72,396,120*	*70,085,044*
Auditor General	*15,778,520*	*14,720,023*	*27,640,410*	*22,413,520*	*30,100,230*	*28,737,207*
Foreign affair and international cooperation	*195,168,940*	*152,148,307*	*218,404,980*	*194,580,077*	*271,060,670*	*246,412,002*
Independant Electoral commission	*32,279,740*	*160,086,355*	*32,654,120*	*15,025,902*	*53,070,500*	*35,814,475*
Ombudsman	*5,541,000*	*51,626,881*	*5,419,390*	*5,108,012*	*6,290,410*	*5,554,763*
Land and Housing	*456,400,870*	*250,418,462*	*763,405,940*	*666,298,154*	*829,883,320*	*689,453,532*
Communications science and technology	*683,699,530*	*351,090,478*	*591,545,610*	*489,566,143*	*840,690,930*	*570,307,112*
Ministry of environment Wildlife and Tourism	*355,571,540*	*220,078,824*	*439,136,510*	*307,263,394*	*512,776,660*	*345,237,817*
Industrial Court	*4,586,330*	*4,230,592*	*9,916,080*	*6,292,325*	*95,699,850*	*139,260,896*
Pensions gratuities and compensations	*794,975,220*	*868,588,004*	*690,002,180*	*737,182,062*	*705,202,180*	*847,478,807*
Salaries and Allowances	*10,570,330*	*9,915,102*	*10,972,250*	*10,951,980*	*13,220,510*	*12,946,889*
Overseas services aid scheme	*50,000*	-	*50,000*	-	*50,000*	-
Miscellaneous	*124,886,870*	*151,395,000*	*165,452,210*	*248,095,330*	*205,452,210*	*231,243,159*
Totals	**19,285,395,440**	**17,620,275,927**	***22,191,392,150***	***19,822,899,760***	***26,342,152,480***	***22,443,526,137***

Source: Estimates of Expenditure for 2005/2006, 2006/2007, 2007/2008, 2008/2009 and Financial Statements for 2005/2006, 2006/2007 and the draft financial accounts for 2007/2008.

While the budget releases are very closely aligned with the vote and that the commitment control procedures are largely effective, difficulties with procurement and expenditure management and possibly budget estimates that do not properly take into account procurement planning or absorptive capacity have led to significant lower than estimates outturns especially with respect to the capital budget. It also seems to be a contributory factor to a high incidence of supplementary budgets observed with as many as three in the 2007/2008 fiscal year.

The results suggest that Botswana's PFM systems still face budgetary discipline as a challenge, and do not yet have in place the expenditure management systems in place to assure that outcomes are in line with budgetary intent. It should be noted that this result may be partially the result of weaknesses in expenditure control (see PI-20) arising out of a lack of focus on commitment reporting to facilitate improved expenditure management at the commitment level (see PI-24) and the absence of procurement planning across a number of MDAs.

Table 5.3 shows the results of the analysis of the expenditure variance by vote. It indicates that the variance in excess over total deviation exceeded 10% for one of the three years reviewed.

Table 5.3 Expenditure composition variance in excess of total expenditure deviation

	2005/06	2006/07	2007/08
Total Primary Expenditure Deviation	-9%	-11%	-15%
Total Primary Expenditure Variance	21%	13%	16%
Variance over Expenditure Deviation	12%	2%	2%

Source: Author's calculations derived from the data presented in Table 5.1

No.	Credibility of Budget	Score	Justification
PI-2	Composition of expenditure out-turn compared to original approved budget	C	Variance in primary expenditure composition exceeded overall expenditure deviation by 10% in no more than one of the years considered. Variance in expenditure composition exceeded overall deviation primary expenditure by 12%, 2% and 2% respectively.

5.1.3 PI-3 Aggregate revenue out-turn compared to original approved budget

The principal sources of domestic revenue are from mineral royalties, taxes on international trade and transactions, income tax, and taxes on domestic goods and consumption. Over the period of review mineral revenues decreased from 50% of government revenue in 2005/2006 to 40% in 2007/2008. Customs revenues increased from 17% to about 27%, non mineral income tax revenues were at approximately 15% and VAT approximately 9%.

A comparison of budgeted versus actual revenues demonstrates actuals exceeding revenue estimates in 2005/2006, 2006/2007 and 2007/2008 by up to 7%. It shows an increasing trend, albeit only slowly increasing, of outturns over estimates over the three years reviewed (see Table 3.4 below).

The Economic Policy Unit of the MFDP is responsible for the preparation of macroeconomic forecasts. At the present time the economic forecasting model is deemed inappropriate by officials and so at this time estimating annual revenues does not involve the direct consideration of macroeconomic factors. Revenue forecasts are prepared for consideration of the Revenue Committee with membership from the MFDP, the Botswana Unified Revenue Service (BURS), Debswana, the Bank of Botswana (BoB). It is headed by the PS MFDP. Only annual revenue projections are made for the purposes of the budget – even though six year fiscal forecasts for planning purposes are made in the preparation of the National Development Programmes.

In the three years under consideration the Botswana's revenue achievements has outperformed projections. There is a sense that both Debswana (the largest producer of Diamonds in Botswana) and BURS, both with incentives to underestimate revenue achievements[13], may unduly influence revenue forecast. A significant unforeseeable adjustment of customs revenue emanating from the arrangements of the Southern African Customs Union (SACU) occurred in 2006/2007; however there was no significant impact of expenditure over original approved estimates observed for that year.

All of that said, the robust revenue performance experienced in recent years has also been due the result of improving tax payer education (see PI-13) and tax collections (see PI-15). There was significant increase in customs revenues over the period reviewed because of rapid growth of expenditure on imports and excisable goods in the SACU members, largely fuelled by rising international commodity prices. Customs revenues is expected to stop rising or even fall as the world economy stops growing as rapidly as it has in recent quarters. In recent years the global movements in commodity prices coupled with improvements in tax collections have led to revenue outturns in excess of estimates.

For the most part the excess of revenues over budget estimates is applied to investment funds and some debt reduction which has shown a steady decline as a ratio of GDP over a number of years. Total debt at the end of 2007/2008 was 10% of GDP.

Table 5.4 Comparison of Budgeted and Actual Revenue Receipts (Domestic, Pula million)

	2005/06	2006/07	2007/08
Revenue Estimates	24,907	29,629	34,585
Revenue Outturns	26,098	31,386	37,170
Deviation, Pula million	1,191	1,757	2,585
Deviation, %	105%	106%	107%

Source: Budget documents for 2005/2006, 2006/2007 and 2007/2008; Actual Revenue for 2007/2008 was from draft financial statements.

No.	Credibility of Budget	Score	Justification
PI-3	Aggregate revenue out-turn compared to original approved budget	A	Domestic revenue collection exceeded 97% in all three of the last three budget years. The ratio of aggregate revenue out-turn to original approved budget were 105%, 106% and 107% respectively.

5.1.4 PI-4 Stock and monitoring of expenditure payment arrears

In Botswana, an unpaid bill outstanding for more than 30 days after verification of the invoice is deemed to be a payment in arrears. The relatively low levels of indebtedness and the effective commitment control mechanisms might suggest that the accrual of significant levels of arrears does not pose a significant risk to the accumulation of expenditure arrears. The GABS system at the present time does not report upon expenditure arrears and so it is not possible to determine whether the accrual of expenditure arrears in Botswana is significant. The rational for not

[13] Both institutions have their performance measured against their forecasts and so would have incentives to be conservative about their forecasts.

reporting on expenditure arrears, it is stated, arises out of Botswana having adopted the cash accounting basis for reporting. We note however, that revenue arrears are reported on.

However, there are number of observed occurrences that point to the possibility of significant expenditure arrears. Line ministry officials describe an end of year expenditure rush that leads to increased occurrences of by-passing procurement regulations during that period. While the GABS incorporates an effective commitment control, commitments made late in the year, may not permit the implementation of the full expenditure cycle prior to the close of the year. This could leave a significant number of expenditures left at the close of the fiscal year at the point where a verified claim has been made (goods, services or works received note) but not yet the payment. Unless such payments were addressed promptly as the priority in the following fiscal year, these may contribute to the accrual of arrears.

Officials report that in practice procurement planning is not carried out; which if more widely implemented as required in the procurement act and regulations, would mitigate the occurrence of an end of year expenditure rush. All purchase orders are initiated within the GABS system and controlled by the commitment ceilings[14]. The Monthly Expenditure Returns do not include information on committed expenditure[15] to facilitate effective forward expenditure planning.

No.	Credibility of Budget	Score	Justification
PI-4	Stock and monitoring of expenditure payment arrears	<NS>	
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	<NS>	There is no monitoring of arrears being undertaken so the arrears cannot be quantified. The presence of an end of year expenditure rush, may suggest that significant arrears are accumulated, this despite the implementation of an effective commitment control system.
(ii)	Availability of data for monitoring the stock payment arrears	D	No reliable data on expenditure arrears are available.

5.2 Comprehensiveness and transparency

5.2.1 PI-5 Classification of the budget

The Estimates of Expenditure is structured on the basis of administrative and economic, classifications. The revenue budget is classified into recurrent and capital revenues, with each segregated by tax versus non-tax revenue, and the tax revenue by tax type. Further, revenues are classified by own sources and external grants. This classification is used for formulation, execution and financial reporting of the budget. The economic and administrative classifications employed for the budget are used to produce documentation consistent with COFOG at the functional level. Budgetary reports include presentations using a functional classification. The chart of accounts for the Central Government budget is consistent with the budget classification and allows a financial reporting format consistent with the budget classification.

The Office of the Accountant General is responsible for evolving and maintaining the chart of accounts and for providing support to Ministries and Districts on the proper assignment of expenditure. The institutional arrangements of government reflect the administrative structure of the budget and so permit clear lines of accountability for delivering on the budget allocations.

[14] Actual budget ceilings are used to serve as commitment ceilings

[15] During the field mission, in response to the PEFA interviews the Office of the Accountant General modified the reporting format of the Monthly Expenditure Returns to include reporting on expenditure at the time of commitment.

No.	Comprehensiveness and transparency	Score	Justification
PI-5	Classification of the budget	C	The budget formulation and execution is based on economic and administrative classifications that can produce consistent documentation according to GFS/COFOG standards at the functional level.

5.2.2 PI-6 Comprehensiveness of information included in budget documentation

The budget documentation presented to parliament includes comprehensive information on the budgetary context, intent and recent financial achievements. The budget estimates are prepared and published in the budget documentation. The approved votes are gazetted and promulgated as appropriation acts of parliament. These are made available to Departments and are the basis for the preparation of budget implementation ceilings against which cash management is focused and expenditure is controlled.

Budget documentation consists of the following main components:

- The Budget Speech by the Minister of Finance which outlines new policy initiatives and since 2007/2008 has included the economic indicators assumed for the preparation of the budget.
- The Annual Economic Report separately in the fiscal years 2005/2006 and 2006/2007 but this was dropped for the fiscal year 2007/2008
- The Financial Statement, Tables and Estimates of the Consolidated and Development Funds Revenues
- Estimates of Expenditure from the Consolidated and Development Funds which contain the votes, the adjusted appropriation of the year previous to the budget along with the audited outturns for the previous year

The budget speech underscores the policy priorities for the respective budget year and contains the information pertaining to the overall macroeconomic framework within which the annual budget has been developed. The Estimates of Expenditure presents a breakdown by vote segregated further by economic classification of proposed expenditure. The table below summarises the availability of budget information.

Elements of budget documentation	Availability	Notes
Macro-economic assumptions, incl. at least estimates of aggregate growth, inflation and exchange rate	Yes	The estimates of GDP growth, inflation rates and exchange rate are included in the Annual Economic Report and Budget Speech
Fiscal deficit, defined according to GFS or other internationally recognised standard	Yes	Fiscal deficit defined according to GFS is presented in Budget Speech
Deficit financing, describing anticipated composition	NA	Not applicable. For the period reviewed a surplus budget was presented in each year
Debt stock, incl. details at least for the beginning of the current year	No	There is statement of outstanding public debt reported only for foreign debt.
Financial assets, incl. details at least for the beginning of the current year	No	No tables provide summaries of financial assets except for tax arrears.
Prior year's budget out-turn, presented in the same format as the budget proposal	Yes	Yes, prior year's budget (budget year -2) out-turn is included.
Current year's budget (revised budget or estimated out-turn), presented in the same format as the budget proposal	Yes	An estimate of the budget out turn is implicit in the reporting of 9 months of authorised expenditure
Summarised budget data for both revenue and expenditure according to the main heads of the classification used, incl. data for current and previous year	Yes	The budget includes summarised data according to the main heads of classification for both revenue and expenditure for the current and previous year
Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	Yes	The budget speech includes an explanation of the budget implications on new tax policy as well as due to shifts in some major expenditure programs.

No.	Comprehensiveness and transparency	Score	Justification
PI-6	Comprehensiveness of information included in budget documentation	A	Budget documentation fulfils 6 out of 8 applicable benchmarks and so rates an A. The Budget documents are comprehensive

5.2.3 PI-7 Extent of unreported government operations

One element of government operations which affects fiscal discipline and the efficient allocation of resources is reflected by unreported government expenditure. In general, given their nature, it is difficult to ascertain the full extent of unreported government operations, but every indication suggests that only very insubstantial, if any, unreported extra-budgetary expenditures.

The Government operates a single consolidated revenue fund account controlled by the Accountant General. All Departments' revenue estimates are reflected in the budget; funds are deposited in the Consolidated Revenue Fund and reported on within the budget. This makes unreported expenditure of directly managed Department accounts difficult and also unlikely.

While the Government subsidises a number of commercial public enterprises it addresses all subsidies through the budget. It also reports on guarantees. For instance where subsidies are unforeseen, the Government may issue guarantees which allow the cash strapped commercial public enterprises to raise short term funds in the financial markets until the supplementary budget or next fiscal year when the subsidy can be accommodated through a budget process. Officials state that promissory notes, repurchase agreements, sell-backs and other off balance sheet financial instruments are never used to finance subsidies. Consequently, all subsidies are (by the next fiscal year) reflected in the budget.

Intelligence and security activity funds are all reported in the budget even if all the details of expenditure are not disclosed. The Auditor-General reviews and reports on these expenditures. Further the amounts are a very insignificant proportion of the budget.

Finally the process of aggregating the financial ministry statements into the consolidated financial information includes the application of an aggregate reconciliation mechanism on the sources and uses of funds. This process would reveal any gaps if funds were being diverted to extra budgetary activity.

Not all cooperating partner grants are reflected in the budgetary documentation. However, the cooperating partner funded project expenditures represent significantly less than 1% of expenditure. For this reason, in spite of the significant proportions of unreported extra-budgetary cooperating partner expenditure, this sub-indicator is scored an A.

No.	Comprehensiveness and transparency	Score	Justification
PI-7	Extent of Unreported government Operations	A	
(i)	Level of unreported extra-budgetary expenditure	A	All revenues generated directly by the Departments are transferred to the Consolidated Revenue Fund. Intelligence and security agency budgets are reported on, if not in detail. There is no evidence of off balance sheet debt instruments being used to finance subsidies. The consolidation process of the Departmental final accounts includes an aggregate reconciliation process that would reveal any gaps in the sources and uses of funds. The level of unreported extra-budgetary expenditure remains insubstantial.
(ii)	Income/Expenditure information on cooperating partner-funded projects	A	Complete income/expenditure data of cooperating partner funded grant projects are not included in budgetary information. However, less than 1% of total expenditure is due to cooperating partner funded project expenditure.

5.2.4 PI-8 Transparency of inter-governmental fiscal relations

There are 28 Local Authorities in Botswana. The fiscal year for Local Authorities is April 1st to March 31st coincident with Central Government. The transfers to the Sub National Government are managed by the Ministry of Local Government (MLG). The development budget of the local authorities is addressed through a bidding process. There are no clear and transparent rules utilised to determine the approval of bid requests but factors, not published but taken into account by officials, include previous expenditure achievements, the history, geographical factors such as size and population. The recurrent expenditure is solely based upon the historical levels and is applied upon an incremental basis. Increases in recurrent budget may vary across local authorities.

Local Authorities are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals. The schedule permits them to make significant changes to their budget proposals prior to final submission to parliament. Typically in August the Ministry of Local Government provides tentative ceilings to the local authorities based upon a percentage increase over the previous year derived from the aggregate ceiling provided to the MLG by the MFDP. Local authorities present their budget proposals by October. Firm ceilings are provided by the Estimates Committee in November which allows for a month or so (exclusive of the Christmas period) to finalise their budgets.

Fiscal information both with respect to budget estimates as well as actual expenditures, consistent with central government fiscal reporting is collected and consolidated for all of the local authorities and presented within 12 months in district councils' budget statements. Of the 28 Local Authorities, 22 submitted financial statements for audit. The remaining six Local Authorities has submitted financial statements for up to the previous year.

No.	Comprehensiveness and transparency	Score	Justification
PI-8	Transparency of Inter-governmental fiscal relations (M2)	C+	
(i)	Transparent and objectivity in the horizontal allocation among SN government	D	There are no clear and transparent rules utilised to determine the approval of bid requests but factors, not published but taken into account by officials, include previous expenditure achievements, the history, geographical factors such as size and population. The recurrent expenditure is solely based upon the historical levels and is applied upon an incremental basis. Increases in recurrent budget may vary across local authorities.
(ii)	Timeliness of reliable information to SN government on their allocations	B	Local Authorities are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals. The schedule permits them to make significant changes to their budget proposals prior to final submission to parliament.
(iii)	Extent of consolidation of fiscal data for government according to sectoral categories	B	Fiscal information both with respect to budget estimates as well as actual expenditures, consistent with central government fiscal reporting is collected and consolidated for all of the local authorities and presented within 12 months in district councils' budget statements.

5.2.5 PI-9 Oversight of aggregate fiscal risk from other public sector entities

The fiscal oversight of public enterprises is carried out by the Department of Employment and Manpower Planning (DEMP) of the MFDP. There are 32 public enterprises, 15 of which are commercial entities. The DEMP receives financial reports from public enterprises and is responsible for assessing the risks to the Government arising from exposure to the Public Enterprises. At this time the assessment of risk is limited to debt to equity, profitability ratios and financial characteristics like turnover and assets. The Public Enterprise Evaluation and Privatization Agency (PPEPA) is responsible for monitoring public enterprises as part of their privatization efforts – however they have not put out monitoring reports on a regular basis.

At this time not all public enterprises submit annual audited financial statements. Neither is there any consolidation of financial reports submitted. For the fiscal years up until 2006/2007 a Macroeconomic Outlook report was prepared and submitted to parliament. This included a section that reviewed all of the major public enterprises. However with the consolidation of its contents to the budget speech, this component has been omitted. In the case of semi-autonomous agencies the oversight line ministries include their financial reports integrated within their own budgetary submittals to parliament.

The largest public enterprises include the National Development Bank, Botswana Power Company, Botswana Telecommunications Company, Botswana Development Corporation, the Water Utilities Corporation and Air Botswana. Non commercial public enterprises include Botswana Unified Revenue Services and the Bank of Botswana.

The Sub National Governments may enter into loan agreements directly and upon default could generate fiscal liabilities for central government. At the present time there is no comprehensive monitoring of the debt status of the sub national government entities even though reports on revenue and expenditure are provided.

No.	Comprehensiveness and transparency	Score	Justification
PI-9	Oversight of aggregate fiscal control	D+	
(i)	Extent of central government monitoring of AGAs/PEs	C	Most Public Enterprises submit financial statements to the central government however since the 2006/2007 no consolidated overview has been provided. Many of the public enterprises do not submit audited financial statements on a timely basis.
(ii)	Extent of central government monitoring of SN governments' fiscal position	D	At the present time there is no comprehensive monitoring of the debt status of the sub national government entities even though reports on revenue and expenditure are provided.

5.2.6 PI-10 Public access to key fiscal information

Transparency will depend on whether information on the budget and its execution by the government is easily accessible to the general public or at least the relevant interest groups. Such transparency requires that the Government make relevant information widely available in a timely fashion, and selects outlets that are readily accessible by a wide section of the population. While in principle there is a fair amount of fiscal information available, the Government of Botswana is not fully transparent in terms of making readily accessible to the public its financial and general government operations reports. The MFDP website does not include legal and regulatory documentation or financial reports. Neither does it employ newspapers to present budget disbursement data for different budget heads and programmes. All budget information is made available in the government book shop. Prices typically do not exceed 15 Pula.

The information available to public covers the entire budget cycle i.e. budget formulation and planning, budget execution, and external scrutiny and audit. Budget documents are made available to the public at the time they are tabled by the Minister of Finance in the Parliament. Parliamentary sessions on budget discussions are open to the public and are broadcasted on radio. The budget is also broadly discussed in the printed media.

In-year execution reports and audit reports are made available on the government intranet but are not made accessible to the public. The Bank of Botswana on occasion publishes on a quarterly basis quarterly expenditure returns. But this is not done on a routine basis. No such returns had been published for the 2008/2009 fiscal year as late as middle September 2008. Resolutions on audit report findings are also made available to the public.

With regards to public information on procurement, these are published on the Public Procurement and Asset Disposal Board website. However, only contracts above 5 million Pula (about 500,000 Euro) are published on the website – a threshold significantly higher than the 100,000 USD standard adopted by the PEFA Assessment. This is accessible via PPADP website.

Elements of information for public access	Availability and means
Annual budget documentation when submitted to the legislature	Yes - these are made available to the public through the government book shop and public libraries when it is submitted to the legislature. The annual budget documentation includes all elements mentioned in PI-6
In-year budget execution reports within one month of their completion	No – while monthly expenditure returns are prepared in a timely fashion these are at this time made available only the government's intranet and are not made available to the public. The Bank of Botswana reports quarterly expenditure returns but only in an ad hoc fashion. For example it had not published such returns for 2008/2009 by the middle of September 2008.
Year-end financial statements within 6 months of completed audit	Yes - these are made available immediately upon completion. Ministry information is made available within twelve months after the end of the year immediately on completion of the annual audit.
External audit reports within 6 months of completed audit	Yes - The Consolidated Financial Statement and the Audit Report are made available typically within 12 months after end of fiscal year and within 1 month of completed audit. Other audit reports are made available upon their completion.
Contract awards (app. USD 100,000 equivalent) published at least quarterly	No – while contract awards above 5 million Pula (500, 000 Euro) are published on the Public Procurement and Asset Disposal Board website contracts the contracts above about 100,000 USD are not included. Nevertheless, there is no overall list of awarded contracts but rather a listing of individual contracts. The information is published once the contract has been awarded.
Resources available to primary service unit at least annually	No - these are not made available to the public (see PI-23).

No.	Comprehensiveness and transparency	Score	Justification
PI-10	Public access to fiscal information	B	Three of the six listed elements of information are made available to the public access via the government book shops and other means.

5.3 Policy-based budgeting

5.3.1 PI-11 Orderliness and participation in the annual budget process

Botswana operates a dual budget process with separate procedures and timetables applied for the recurrent budget versus the development budget. A clear annual budget calendar exists that is generally adhered to and the calendar allows four to five weeks for Departments to complete their detailed estimates of revenue and expenditure. The specific schedule of the calendar has changed in the past year with the introduction of the GABS system which has provided opportunities for improved efficiency in the preparation of budgets.

The budget procedures are guided by budget circulars submitted in July which are comprehensive and for the most part described as clear and serve as useful preparation guidelines that are generally adhered to. These are issued to MDAs without approved ceilings. The budget estimates are approved by cabinet only after the MDAs have completed the budgets

In Botswana the budget is always presented four to six weeks prior to the end of the fiscal year. In each of the three years reviewed under this assessment, the budget was signed into law prior to the start of the fiscal year.

No.	Policy-based budgeting	Score	Justification
PI-11	Orderliness and participation in the annual budget process	B	
(i)	Existence of and adherence to a fixed budget calendar	B	A clear annual budget calendar exists that is generally adhered to and the calendar allows four to five weeks for Departments to complete their detailed estimates of revenue and expenditure.
(ii)	Guidance on the Preparation of budget submissions.	C	Comprehensive budget call circulars are issued both for the recurrent budget and development budget processes which are described as for the most part clear. These are issued to MDAs without approved ceilings. The budget estimates are approved by cabinet with only about a month left for the MDAs to complete the budgets
(iii)	Timely budget approval by the legislature.	A	In each of the three years reviewed under this assessment, the budget was signed into law prior to the start of the fiscal year.

5.3.2 PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

In developing its National Development Plans over a six year horizon, Botswana prepares a macroeconomic forecast and aggregate fiscal forecasts to define the envelope within which national development programmes are prioritised. This approach is also developed for the mid-term reviews. However, the budget process is developed within a single year forecast and does not employ a medium term fiscal framework. The forecast of revenues, prepared in September six months prior to the start of the fiscal year, relies upon inputs from BURS and DEBSWANA. The committee for macro-fiscal forecasts has not sat in two years. Botswana carries out Article IV Consultations regularly and the aggregate fiscal forecasts inform the revenue forecasts. The NDP guides expenditure levels. At the present time, then there are no multi-year fiscal forecasts prepared on a rolling basis with direct links to the annual budget ceilings set.

Borrowing policy has played a very important role with a declining debt to GDP ratio. This reflects the healthy financial situation that has generally prevailed, with the long standing policy that only borrowing with concessional terms be employed. At the present time there are no debt sustainability assessments being prepared by the MFDP however, the Bank of Botswana closely monitors and analyses the external debt including the external debt to GDP ratio, the budget balance and the source of financing. The low external debt to GDP ratio (currently at 4%) makes the calculus of debt sustainability straight forward and almost obvious.

All line ministries prepare fully costed (both investment cost as well as forward linked recurrent costs) sector strategies set over a six year horizon that are integrated into the National Development Plan (NDP10 is currently being prepared). These sector strategies are developed within a resource envelopes derived from forecast national fiscal aggregates derived from macroeconomic forecasts. These are updated about once every three years.

Botswana adopts a dual budget process where the development budget and recurrent budgets are developed and reconciled separately. The ministries select projects based upon program priorities that are determined by the Sector Strategies. However, there is not specific attention paid to reconciling the budgets in an integrated fashion to ensure that for all development projects and programmes included in the budget, corresponding recurrent cost implications are considered. It is unclear whether the recurrent cost implications considered as part of the prepared strategies are consistently included in the budgets. This is especially so because in recent years, much of the debate around budget preparation has been capacity limitations to fully execute the recurrent budget. However, it would appear that in a few major cases recurrent cost implications are considered and are reflected in the budget.

No.	Policy-based budgeting	Score	Justification
PI-12	Multi-year perspective in fiscal planning, expenditure Policy and budgeting	C+	
(i)	Multi-year fiscal forecast and functional allocations	D	No forward muti-year estimates of fiscal aggregates are prepared that are directly linked to the budget ceilings. These are set on the basis of single year considerations for the revenue estimates and guided by the National development plan for expenditures.
(ii)	Scope and frequency of debt sustainability Analysis	C	At the present time there are no debt sustainability assessments being prepared by the MFDP however, the Bank of Botswana closely monitors and analyses the external debt including the external debt to GDP ratio, the budget balance and the source of financing. The low external debt to GDP ratio (currently at 4%) makes the calculus of debt sustainability straight forward and almost obvious.
(iii)	Existence of costed sector strategies	A	Sector strategies exist for all Departments. These are developed within a broad fiscal frame. These are fully costed and include forward linked recurrent cost implications.
(iv)	Linkages between investment budgets and forward expenditure estimates	C	While there are links of the budget development to the sector strategies the recurrent cost implications are considered only in a few major cases.

5.4 PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

5.4.1 PI-13 Transparency of taxpayer obligations and liabilities

The Botswana Unified Revenue Service (BURS) was created in 2004 and incorporates all tax administration into a single entity. The principal acts governing BURS include the Customs and Excise Act, Income Tax Act, and Value Added Tax Act. Botswana is a member of the Southern Africa Customs Union (SACU). The member countries pay their customs proceeds to an account held with South African Reserve Bank and then on the basis of a formula are allocated and disbursed funds each quarter. The net effect of the formula is a subsidy by South Africa to other SACU members.

BURS seeks to ensure that taxpayers are properly educated about tax liabilities and obligations, supported to register and comply and only where that fails do they seek to take any necessary administrative enforcement measures. This, it would seem, has enabled BURS to perform well on revenue collection even as a new and developing organization. A large part of Botswana's revenue arises from royalties and contributions from mining and mineral resources. It accounts for 42% of total revenue. These revenues are managed by the Ministry of Minerals, and Mining, Energy and Water.

There is clear legislation and set procedures described for all of the major taxes. While there are some discretionary powers provided to BURS in the waiving of application of rates and waivers on penalties these in practice are fairly limited by policy and internal procedures. In the case of assessment penalties are set by the auditor in consultation with the managers. The rates to be applied are set by law to be between 50% and 100%. There is no discretion in the application of late payment interest rates. In the case of VAT penalties are automatically applied leaving very little room for discretion. There are limited discretionary powers with respect to the application and waiving of penalties and interest. In the case of determining customs duties the Customs Officers have very limited discretion in how duties are set and applied. The tariffs are clearly specified for different classes of goods, supported by publicly available manuals. Values are based upon a self declaration process based upon commercial invoices. The values are compared against a standard pricing database. The volumes and item specifications are verified on a sample physical inspection.

The complete set of tax and customs legislation is available on the Internet. There are also publications, forms and tools to educate and to assist on filing tax returns that provide practical information on tax liabilities and administrative procedures, including the procedures for administrative dispute resolutions. BURS has not been active in organising information campaigns however a communication strategy was developed in 2007 and a taxpayer education programme is currently being developed

Letters of assessment indicate that the tax payer has the right of appeal to all assessments made. Taxpayers may submit their objections to the commissioner. The Technical Division is responsible for reviewing objections. The administrative tax appeal is a two stage process: objection and alternative tax resolution. An objection can be submitted directly by a taxpayer to BURS. BURS has internal procedures to determine whether an objection can be immediately allowed (as in such cases as typing, calculation error, or an error in the application of the law) or if it is to be addressed through a full administrative appeal mechanism. If disallowed, the taxpayer may appeal to the Board of Adjudicators within the MFDP made up of members outside of government with the MFDP serving the secretariat function. In the case of customs any appeals are submitted to the Commissioner. In this case there is no independent review committee.

No.	Predictability and control in budget execution	Score	Justification
PI-13	Transparency of taxpayers obligations and liabilities	B	
(i)	Clarity and comprehensiveness of tax liabilities	B	There is clear legislation and set procedures described for all of the major taxes. While there are some discretionary powers provided to BURS in the waiving of application of rates and waivers on penalties these in practice are fairly limited by policy and internal procedures.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	C	The complete set of tax and customs legislation is available on the Internet. There are also publications, forms and tools to educate and to assist on filing tax returns that provide practical information on tax liabilities and administrative procedures, including the procedures for administrative dispute resolutions. BURS has not been active in organising information campaigns.
(iii)	Existence and functioning of a tax appeals mechanism	B	Taxpayers may submit their objections to the commissioner. The Technical Division is responsible for reviewing objections. The administrative tax appeal is a two stage process: objection and alternative tax resolution. An objection can be submitted directly by a taxpayer to BURS. If disallowed, the taxpayer may appeal to the Board of Adjudicators within the MFDP made up of members outside of government with the MFDP serving the secretariat function. In the case of customs any appeals are submitted to the Commissioner. In this case there is no independent review committee.

5.4.2 PI-14 Effectiveness of measures for taxpayer registration and tax assessment

Taxpayers are registered in a complete database system that are directly interlinked for the different tax types and also linked to other government registration systems. Through the use of a common tax identification number (TIN) for all of three main tax types; income tax, VAT and customs and excise the three main registry files are linked within a complete tax database system. VAT registration requires that the tax paying entity is first registered in the income tax database. There are direct linkages also to the registry of vehicles. The registry of companies is currently being computerised and it is anticipated that there shall be direct links of the tax registry database to the companies' registry database. Registration for a TIN requires the inclusion of bank details. Further, all government suppliers require VAT numbers and offsets are applied for suppliers owing on VAT payments.

In Botswana tax evasion, whether through fraudulent declarations or non-registration is a criminal offence with the associated penalties including fines and prison terms. Penalties for non payment are between 50% and 200%. In the case VAT, Income Tax and Customs steep late payment penalties are applied at a monthly compounded rate of 2% in the case of VAT and customs and 1.5% per month for income tax. This may be compared to the current prime lending rate of 17.5 % per annum. Records indicate that they are broadly and consistently applied.

BURS is currently developing a Risk and Intelligence Unit responsible for the selection of entities to be audited. It also has plans to strengthen and build capacity of its audit function. Customs adopts the ASYCUDA++ system to manage customs duties payments. It uses the profile selection module to identify high risk importers based upon the country of origin, the type of goods. Tax audits are undertaken on an ad hoc basis. At this time audit is not managed on the basis of annual work plans nor are there regular audit reports issued. Reports are currently mainly ad hoc.

No.	Predictability and control in budget execution	Score	Justification
PI-14	Effectiveness of measures for taxpayer registration system	B	
(i)	Controls in taxpayer registration system	B	Through the use of a common tax identification number (TIN) for all of three main tax types; income tax, VAT and customs and excise the three main registry files are linked within a complete tax database system. VAT registration requires that the tax paying entity is first registered in the income tax database. There are direct linkages also to the registry of vehicles.
(ii)	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	A	Penalties for non payment are between 50% and 200%. In the case VAT, Income Tax and Customs steep late payment penalties are applied at a monthly compounded rate of 2% in the case of VAT and customs and 1.5 % per month for income tax. This may be compared to the current prime lending rate of 17.5 % per annum. Records indicate that broadly and consistently applied.
(iii)	(iii) Planning and monitoring of tax audit and fraud investigation programs	D	Tax audits are undertaken on an ad hoc basis. At this time audit is not managed on the basis of annual work plans nor are there regular audit reports issued. Reports are currently mainly ad hoc independently by the Business Intelligence Units.

5.4.3 PI-15 Effectiveness in collection of tax payments

The level of tax arrears in Botswana is relatively low at less than 3% of the annual revenues. The average debt collection ratio in the last two fiscal years was just over 75%.

There are a number of factors that affect the stock of tax arrears that impact upon the scoring. First, officials report that a proportion of the debt stock is uncollectible old arrears and should be written off. Table 3.8 presents a summary of the revenue arrears and the calculated tax collection ratios for the last two fiscal years.

Table 5.5 Current Accumulated Debt Collection Ratio

	2006	2007
Income Tax		
Opening Balance	377,140,380	421,405,006
Tax charges	1,075,195,205	2,453,664,960
Tax collections	1,030,930,579	2,322,062,963
Closing Balance	421,405,006	553,007,003
VAT		
Opening Balance	298,417,250	227,758,602
Tax charges	165,420,974	155,735,630
Tax collections	236,079,621	113,142,566
Closing Balance	227,758,602	270,383,870
Customs	-	-
Mineral Royalties	-	-
Total Arrears	**649,163,608**	**823,390,873**
Total Revenues	26,098,158,583	31,385,761,605
Overall Ratio	2.5%	2.6%
Tax Collection ratio	**71%**	**81%**

Source: Calculations based on data from financial reports. Figures in P Million.

The transfer mechanism of revenue collected by BURS for income tax, VAT and arrears is generally efficient and transferred to the BURS remittance accounts on a daily basis for most collections even though collections in the districts are transferred on a weekly basis. In the case the Large Funds Account there is a standing order to transfer all funds collected to the consolidated fund on a daily basis[16]. However in the case of the VAT account transfers are made only on the basis of written instructions. In practice officials report that this occurs typically once a week. The upshot of this is that for the most part tax revenues are transferred to the treasury on a daily basis, with a significant proportion transferred on a weekly basis. It should be noted though there may be occasional transfers that occur on a less frequent basis.

At this time there are no mechanisms that reconcile tax assessments to collections. Internal reconciliation procedures between the cash books and the actual collections though addressed on a continuing basis, does not achieve comprehensive reconciliation until the end of the year. There is reconciliation performed between collections and transfers with appropriate consideration of revenue arrears.

The Ministry of Mining, Minerals, Energy and Water Resources (MMEWR) plays a key role in the collection of mining and mineral revenues by way of royalties, leases and dividends. It does not itself maintain a separate bank account but records all payments made to the Treasury. It records receipts from the big producers separately and uses the GABS for receipting payments made from small mining producers. These payments, typically made by way of cheque, are deposited in the Treasury Account on a batch basis which turns out typically to be each or very

[16] In the case of customs collections, under the SACU agreements, transfers are made to a special South African account, and then payments made on the basis of a sharing formula to the consolidated fund on a quarterly basis.

other day. The receipts are reconciled with the GABS entries and each week reconciled with the Treasury on payments received. On a monthly basis it reconciles all payments recorded against the Treasury monthly ledger statement.

On an annul basis, the company's book of accounts are reconciled with the payments received by the Government. In the last of the three years reviewed in the PEFA Assessment, the loss of auditors resulted in only a very small number of companies being audited. In previous years the percentage of companies audited was approximately 70%.

No.	Predictability and control in budget execution	Score	Justification
PI-15	Effectiveness in collection of tax payments (M1)	D+	
(i)	Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	B	The average debt collection ratio in the last two fiscal years was just over 75%.
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	C	For the most part tax revenues are transferred to the treasury on a daily basis, with a significant proportion transferred on a weekly basis. It should be noted though there are occasional transfers that occur on a less frequent basis.
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	D	At this time there are no mechanisms that reconcile tax assessments to collections. Internal reconciliation procedures between the cash books and the actual collections though addressed on a continuing basis, does not achieve comprehensive reconciliation until the end of the year.

5.4.4 PI-16 Predictability in the availability of funds for commitment of expenditures

The strict top-down discipline imposed on the budget by the fiscal framework, the disciplined debt management and cash management, coupled with the implementation of GABS across all Ministries has provided the basis for achieving substantial predictability with respect to budget releases and the commitment of expenditures. An annual general authorisation warrant (authority to incur expenditure) is issued by the Minister of Finance on the authority of and in accordance with the appropriations bill. At this time there are no annual pro forma cash flow statements submitted to the MFDP at the beginning of the fiscal year.

Botswana's budget operates under a reasonably broad fiscal space and so has been able to carry out its budget releases without cash constraints. The only constraints to the rate of expenditure are the budget ceilings which represent expenditure limits over twelve months. The Accountant General is responsible for making payments against the agreed payment schedules.

All receipts are made directly out of the Consolidated Fund held with the Bank of Botswana. There are no facilitation accounts. Ministries deposit all revenues in the consolidated fund and all payments are based upon a centralised system that is managed by the Accountant General. The Accountant General has daily access to the Consolidated Fund bank account balance and reconciles the balance with the cash book each day to facilitate its disbursements commitments.

Adjustments to budgetary allocations should be made by normal ex-ante virement procedures; or possibly by issuing a Supplementary Budget, once or so within the year; or alternatively it may occur by ex-post regularisation of unauthorised spending. In Botswana, the FAA permits up to four supplementary budget processes each year. In the fiscal year 2007/2008 three supplementary budget processes were undertaken. These are undertaken in a transparent way with clear procedures.

No.	Predictability and control in budget execution	Score	Justification
PI-16	Predictability in the availability of funds for commitment of expenditures (M1)	D+	
(i)	Extent to which cash flows are forecast and monitored	D	At this time there are no annual pro forma cash flow statements submitted to the MFDP at the beginning of the fiscal year.
(ii)	Reliability and horizon of periodic in-year information to Line Ministries on ceilings for expenditure commitment.	A	Departments are provided with annual schedules that reflect the ceilings.
(iii)	Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries	C	Significant in-year adjustments may be made as many as four times a year but are always done in a transparent way.

5.4.5 PI-17 Recording and management of cash balances, debt and guarantees

The MFDP has evolved a fiscal strategy over the past decade that has succeeded at lowering debt as a ratio to GDP. It has improved transparency of external debt arrangements with positive consequences regarding market risk perception and the subsequent gains with respect to the government's cost of money. External debt records are complete updated and reconciled on a monthly basis. Comprehensive management and reporting on debt stock and debt service are reported on an annual basis. However, while the extent of domestic debt is limited, no in year reporting is provided on the domestic debt portfolio. The internal debt is included in the statement of Public Debt (standard II) in the Annual Statement of Accounts and is audited by the Office of the Auditor General.

There is a single mechanism of accounts held with the Bank of Botswana for managing most revenues and expenditure. In addition there are a number of treasury accounts (representing a minor percentage of overall expenditure) held in Treasury accounts held with commercial banks in some districts to facilitate payments. Bank balance calculations and consolidations are carried out on a monthly basis.

The Minister of Finance is the sole authority for the contracting of loans and guarantees that bind the Consolidated Fund. However, at this time there are no set ceilings or fiscal targets against which loans and guarantees are made. The budget documentation does not include new borrowing (or net borrowing) budget targets.

No.	Predictability and control in budget execution	Score	Justification
PI-17	Recording and management of cash balances, debt and guarantees	C	
(i)	Quality of debt recording and reporting	C	External debt records are complete updated and reconciled on a monthly basis. Comprehensive management and reporting on debt stock and debt service are reported on an annual basis. However, while the extent of domestic debt is limited, no in year reporting is provided on the domestic debt portfolio. The internal debt is included in the statement of Public Debt (standard II) in the Annual Statement of Accounts and is audited by the Office of the Auditor General.
(ii)	Extent of consolidation of the Government's cash balances	C	There is a single mechanism of accounts held with the Bank of Botswana for managing most revenues and expenditure. In addition there are a number of treasury accounts (representing a minor percentage of overall expenditure) held in Treasury accounts held with commercial banks in some districts to facilitate payments. Bank balance calculations and consolidations are carried out on a monthly basis.

No.	Predictability and control in budget execution	Score	Justification
(iii)	Systems for contracting loans and issuance of guarantees	C	The central government's contracting of loans and issuance of guarantees requires the authorisation of the Minister of Finance. However, at this time there are no set ceilings or fiscal targets against which loans and guarantees are made. The budget documentation does not include new borrowing (or net borrowing) budget targets.

5.4.6 PI-18 Effectiveness of payroll controls

The Department of Public Service Management (DPSM) is the regulator for human resources. It develops human resources management policy, regulations, and norms. The Ministries are responsible for implementing the policies and enforcing the regulations. Any new posts established receive ministerial approval and must be reflected in the budget. Temporary posts are also subject to budgetary constraints. . The establishment is the basis for budget formulation and preparation process pertaining to wages and salaries. New employee recruitment requires Accounting Officer approval. Promotions can only be effected through the transfer of one post to another, thus introducing a degree of control over arbitrary promotions since such posts are reflected in a posts database that serves as a control over the personnel database.

An employee has to apply for a new post in order to get a promotion. Allowances are also attached to posts which serve as an effective control on. Terminations, especially vacations of post without notice, are effectively controlled by monthly supervisor signed verification sheets and the automatic stoppage of salary payments for any person absent from post for an extended day without appropriate notification. Strict links are in place between authorizations and control entries to the payroll management software. It directly links three databases: establishment of posts and personnel database that serve as control files, and the payroll database. All civil servants are registered through the Government Payroll, Passages and Pensions (GPPP) system that include appropriate fields to protect against duplication.

All payments are made directly to bank accounts. No cash payments are made to staff whether permanent or temporary. Each Ministry directly manages posts and personnel changes. Controls and procedures exist for all changes. Audit trails are built-in in the system. The database is encrypted and cannot be accessed directly outside the application. Personnel Officers have secured access to the database by password controls with three tiers of access recognised; data entry, supervisor and salary. Exception reports are issued each month and can be used to identify anomalies and any extreme changes from one pay period to the next.

Any changes and updates to the payroll management databases are done monthly, mostly within the next pay period but delays of up to three months are experienced. There is occasionally the need for retroactive adjustments, and where so do not extend beyond three pay periods. The Internal Audit Unit and the Auditor-General performs payroll audits to verify the correctness of the establishment for each ministry. These though are not done systematically or in a comprehensive way. In the last three years all ministries have had payroll audits performed. There is not much evidence of substantial numbers of ghosts or the existence of double dippers.

No.	Predictability and control in budget execution	Score	Justification
PI-18	Effectiveness of Payroll Controls	B+	
(i)	Degree of integration and reconciliation between personnel records and payroll data	A	Strict links are in place between authorizations and control entries to the payroll management software Government Payroll, Passages and Pensions (GPPP) system. It directly links three databases: establishment of posts and personnel database that serve as control files, and the payroll database. All civil servants are registered through GPPP that include appropriate fields to protect against duplication.

No.	Predictability and control in budget execution	Score	Justification
(ii)	Timeliness of changes to personnel records and the payroll	B	Payrolls are controlled monthly and changes are effected within the next month pay period. Any changes and updates to the payroll management databases are done monthly, mostly within the next pay period but delays of up to three months are experienced
(iii)	Internal controls of changes to personnel records and the payroll	A	Controls and procedures exist for all changes. Audit trails are built-in in the system. An employee has to apply for a new post in order to get a promotion. Allowances are also attached to posts which serve as an effective control on. Terminations, especially vacations of post without notice, are effectively controlled by monthly supervisor signed verification sheets and the automatic stoppage of salary payments for any person absent from post for an extended day without appropriate notification
(iv)	Existence of payroll audits to identify control weaknesses and /or ghost workers	B	Payroll audits are conducted routinely by the Internal Audit Unit and specific audits are performed by the Auditor-General. These though are not done systematically or in a comprehensive way. In the last three years all ministries have had payroll audits performed.

5.4.7 PI-19 Competition, value for money and controls in procurement

It was not possible to obtain Department wide data on the proportion of tenders above the open tender threshold which were carried out using the open tender method. The Public Procurement and Asset Disposal Board (PPADB) only maintains contract award data for procurement above 5 million Pula, well above the open tender method threshold currently at 20,000 Pula. The Ministerial Tender Committees are expected to maintain such data, however there is no systematic process for consolidating such data and a number of Line Ministries do not track such data. Consequently, at the present time there is insufficient data to determine the procurement method basis upon which contracts are awarded or therefore what proportion above the open tender method threshold use the open competition method.

The Public Procurement and Asset Disposal Act (see Part V, article 25) establishes open competition and cost effectiveness, fairness, equity, accountability and transparency as the core principles for public procurement. The Public Procurement and Asset Disposal Regulations, 2006 emanating out of it explicitly declares open domestic bidding to be the default method for use in public procurement (see Part V, Article 54). It encourages Open international bidding where optimal competition may be enhanced, value for money may be increased or the technical complexity of the bid specifications requires it. The regulations require that in the case of emergency procurement (see article 23) it be justified in writing to the Public Procurement and Asset Disposal Board (PPADB). Further, it defines emergency procurement to be permitted "*only for emergencies which could not have been foreseen by the Procuring Entity and which are not the result of delays by or within the Procuring Entity*". In spite of this regulatory protection which should protect against dilatory behaviour to justify emergency purchases, in practice this clause of the regulations is often ignored and purchases made using sole source or restricted tender are justified using emergency procurement arising from dilatory behaviour. This would suggest that a low percentage of contracts above the open tender threshold are awarded on an open competitive basis (see the previous paragraph).

The administrative complaint mechanism is a three-stage process. First a complaint may be lodged by the vendor to the Accounting Officer of the Procuring Entity. If not resolved satisfactorily, the complainant may submit a complaint in writing to the Secretary of the Board (PPADB). According to the procurement regulations (see article 78) the complainant has fourteen (14) days from the time of coming to the knowledge of the complaint. The Board has 14 days from the submission of the complaint to resolve it after which a dispute is declared which is then submitted to and external oversight body;, the Independent Complaints Review

Committee. The PPADB maintains within its files information on the submission of complaints, however these are not made available to the public. The complaints log is however not accessible to the public.

Public Private Partnerships are not expressly regulated by the Public Procurement and Asset Disposal Act. Nor is there a specific PPP Unit responsible for managing and monitoring the operation of Public Private Partnerships.

No.	Predictability and control in budget execution	Score	Justification
PI-19	Competition, value for money and controls in procurement (M2)	D+	
(i)	Evidence on the use of open competition for award of contracts that exceed the nationally established threshold for small purchases	D	At the present time there is insufficient data to determine the procurement method basis upon which contracts are awarded.
(ii)	Extent of justification for use of less competitive procurement methods	C	The Regulations clearly establish open competition as the default procurement method, with a requirement to justify less competitive methods when used. Such regulatory justification is weakened by the abuse of emergency procurement to justify less competitive procurement methods.
(iii)	Existence and operation of a procurement complaints mechanism	C	A complaints mechanism exits that is defined by regulation and is functional. The PPADB keeps a record of complaints and resolutions however its operation still remains very limited and does not yet provide for the timely resolution of complaints. Resolutions are not accessible to public scrutiny.

5.4.8 PI-20 Effectiveness of internal controls for non-salary expenditure

The budget execution is initiated by the issuance of a general warrant. The GABS accounting and budgeting system includes a commitment control function which is effective for controlling recurrent expenditure to the ceilings specified in the commitment controls. For expenditure carried out in the districts manual control procedures still exist. Commitment control is based upon the management of a votes ledger. Officials report that there are some concerns about the effectiveness of the commitment control on development expenditure items.

A request memo signed by the department head authorises procurement initiation. However while there is legal requirement for procurement plans to serve as a control and link to the budget in practice these are not widely employed. Other controls on the expenditure chain include: the issuance of a general purchase order for the control of the issuance of commitments, the issuance of goods and services received note, and payment vouchers. The integration of other expenditure procedures into the GABS has contributed to a streamlining of expenditure procedures and enhanced the effectiveness of controls. The expenditure management rules and procedures are clear and accessible through manuals and circulars. Interviews with a wide variety of officials left an impression that there was familiarity with the rules and procedures. The expenditure procedures have appropriate documented control procedures employing effective separation of authorities. Ministerial Tender Committees supported by technical specification and evaluation committees are responsible for bid announcement and vendor selection.

It should be noted that officials suggest some concern about the abuse of procurement rules to circumvent the use of competitive methods during the period prior to the close of the fiscal year when there is typically and expenditure spike and there is an attempt to accelerate expenditure processing. It should be noted that the legal and regulatory framework is clear about under what specific conditions sole source or restricted procurement methods can be justified based on emergencies. It precludes the use of dilatory behaviour to justify emergency procurement; however emergencies are sometimes justified on insufficient time.

No.	Predictability and control in budget execution	Score	Justification
PI-20	Effectiveness of internal controls for non-salary expenditure (M1)	C+	
(i)	Effectiveness of expenditure commitment controls	B	The accounting software (BAS) provides a sound basis for ensuring an effective commitment control. However, some expenditure managed manually may not be fully effective with respect to commitment control. Officials report that there are some concerns about the effectiveness of the commitment control on development expenditure items.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	A	Other internal controls are well covered Integration between the accounting and budgeting software well supports the application of rules and effective controls. Interviews with a wide variety of officials left an impression that there was familiarity with the rules and procedures.
(iii)	Degree of compliance with rules for processing and recording transactions	C	Although compliance to rules is generally considered high there are important concerns about the abuse of procurement rules to circumvent the use of competitive methods especially at the end of the year when there is a rush to spend to prevent funds being returned to the Treasury

5.4.9 PI-21 Effectiveness of internal audit

Internal control within a Department is the responsibility of the Accounting Officer. The Finance and Audit Act addresses the legal and institutional framework for internal audit. It calls for the establishment of an audit function in each line ministry with the overall management of internal audit residing within the Ministry of Finance and Development Planning (MFPD). The internal audit staffs are employees of the MFDP with administrative reporting responsibilities to the accounting officer of the line ministry, and a functional responsibility line to the MFPD. At the present time internal audit is fully operational across most line ministries. A review of a sampling of annual audit work plans suggest that approximately 50% of staff time is applied to systems audit. This estimate is broadly corroborated by internal audit officials interviewed in several line ministries.

The internal audit function includes audit review the assurance of the quality of process, the preparation of annual audit plan, and the implementation and regular reporting on audits. Internal Audit adopts internal audit standards specified in internal audit manuals. Quality assurance exercises, to ensure compliance with the standards are carried out on a periodic basis. The internal audit manual specifies that an external assessment should be conducted at least once every five years. There are approximately 70 internal auditors with about 30 of them who have professional certification. As part of a program of quality assurance, training is provided to internal auditors. Training is specified in annual plans and includes 20 days of annual training for each auditor.

Audits are carried out an annual basis for each Ministry. Each audit unit prepare an annual audit plan which is consolidated by the internal audit direction to harmonize the audit workload and to include the audit reviews relevant to an across the board approach. These audit plans are then submitted by Ministries to each Primary secretary for approval. Internal audit work covered more than 60% of the whole expenditures. The audit work plan is based on a risk-based and on specific needs revealed by the former audit review.

A formal follow-up procedure is in place in Botswana internal audit. Action by management of internal management is fairly comprehensive across central government entities and generally there were prompt responses to internal audit findings in compliance with regulatory period (4 weeks) requirements, though this is not the case for all of line ministries. Internal Audit officials report that corrective measures are taken by management on their findings in 85% of the cases. Where follow up is not prompt this is referred to the audit committee.

No.	Predictability and control in budget execution	Score	Justification
PI-21	Effectiveness of internal audit	C+	
(i)	Coverage and quality of the internal audit function	B	Internal audit, in accordance with the FAA, is operational across all line ministries. Internal audit with respect to staffing, quality assurance programmes and the implementation of an audit manual substantially meets professional standards.
(ii)	Frequency and distribution of reports	C	Reports are issued regularly and disseminated to the accounting officer and the MFDP, but is submitted to the Auditor General only upon request.
(iii)	Extent of management response to internal audit findings	B	There are clear standards set for the timeliness of accounting officer responses to internal audit findings. There is prompt action taken by a number of managers as demonstrated by a review of internal audit reports but this is not the case across all ministries.

5.5 ACCOUNTING, RECORDING AND REPORTING

5.5.1 PI-22 Timeliness and regularity of accounts reconciliation

The MFDP operates a sing consolidated fund account held with the Bank of Botswana. It also operates a number of Treasury Accounts to facilitate the collection of MDA revenues as well as facilitate payments in the district offices of the MDAs. This arrangement facilitates a reconciliation of the cash book on a monthly basis and takes place within 4 weeks of the close of the month. There are other central government accounts related to cooperating partner funded projects that remain outside this arrangement for which no regular bank reconciliations are carried out by the government or reported on by the projects.

The GABS system provides an automated basis for assisting in the completion of the reconciliation process. The Accountant General prepares on a monthly basis a cash flow statement that aggregates the revenues, MDA requisitions and net borrowings, reconciled against changes in bank balances within 4 weeks of the end of the month.

Typically reconciliation and clearance of suspense accounts and advances are done at the close of the year within one to two months of the close of the fiscal year. The main sources of advances booked to suspense are un-acquitted advances made to government officials for the purposes of foreign travel and for claims for vehicle accidents. Specific suspense accounts are reconciled and cleared each year, however the overall position may continue as new suspense accounts are created even as current ones are cleared. In a number of departments, un-acquitted advances pertaining to governmental officials are recovered directly from salary payments. As part of the year end closing procedures all suspense accounts are force closed at the end of each year to facilitate the issuance of the annual financial statements.

No.	Accounting, recording and reporting	Score	Justification
PI-22	Timeliness and regularity of accounts reconciliation (M2)	B	
(i)	Regularity of Bank reconciliations	B	All treasury managed bank accounts are reconciled to the cash book on a monthly basis within 30 days of the close of the month. There are other government accounts specifically cooperating partner funded project accounts which are not reconciled on a regular basis.
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	B	The reconciliation and clearance of suspense accounts is carried annually within one or two months of the close of the fiscal year.

5.5.2 PI-23 Availability of information on resources received by service delivery units

The Local Authorities are responsible for primary schools and primary health care clinics respectively. The Ministry of Local Government publishes a Recurrent Budget report that includes both estimates and actual outturns for the Education Department and Health Clinics. There is a similar report published for capital expenditure in each district segregated in the same way. While there are no summary extracts pertaining to expenditure by primary health care clinics or primary schools, such summaries can be readily extracted from the budget documentation consolidated by the Ministry of Local Government.

No.	Accounting, recording and reporting	Score	Justification
PI-23	Availability of information on resources received by service delivery units	A	Routine data collection provide information on resources received by primary schools and primary health care clinics respectively.

5.5.3 PI-24 Quality and timeliness of in-year budget reports

The Accountant General publishes monthly on the government intranet, within 21 days of the close of the month, the individual and consolidated Monthly Expenditure Returns presented in a format consistent with budget documentation and segregated by vote and classified by current expenditure, transfers and subsidies, and capital expenditure. This format permits the direct comparison of revenue and expenditure to the original budget allocations which are included in the tables.

The format of the Monthly Expenditure Returns reflects expenditure only at the time of payment and does not reflect commitments[17]. The General Ledger entries are reconciled each month and bank statements reconciled with the cash book monthly. There are no major concerns on data integrity or accuracy. As reported by the Accountant General, there are no material concerns regarding the accuracy of data given the fully integrated implementation of the GABS application.

No.	Accounting, recording and reporting	Score	Justification
PI-24	Quality and Timeliness of in-year budget reports	C+	
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C▲	Comparison to the main budget is available at the vote and main economic classifications reported for both the current period. Information includes all items of expenditure at the payment level but not at the

[17] As a direct consequence of the PEFA interviews, the Office of the Accountant General redesigned the format of the Monthly Expenditure Returns so as to include a column on expenditure at the time of commitment.

No.	Accounting, recording and reporting	Score	Justification
			commitment level.
(ii)	Timeliness of the issue of reports	A	Reports are prepared monthly and published on the government intranet within 21 days of the close of the month.
(iii)	Quality of information	A	A cash flow statement that reconciles revenue receipts with expenditure and net borrowings against bank balances is included in the consolidated statement. There are no material concerns regarding the accuracy of data given the regularity and comprehensiveness of reconciliation procedures and the fully integrated implementation of the GABS application.

5.5.4 PI-25 Quality and timeliness of annual financial statements

A consolidated central government financial statement is prepared annually that includes full information on revenues, expenditure and financial assets including revenue arrears. These annual statements however do not provide a full reporting on liabilities. They do not provide any information on expenditure arrears or accounts payable.

Under the cash accounting system the source document for accounting entries is the payment voucher coupled with the electronically generated cheque or other payment instruction. Entries are dated using the date on the payment instrument. The Accountant General makes all payments using the Consolidated Fund held with the Bank of Botswana and Treasury Accounts held with private commercial banks to facilitate financial transactions in the districts. .

The Accountant General prepares financial statements that are submitted to the Auditor General within 8 months of the close of the fiscal year. According to officials these deadlines were adhered to in the three years reviewed under this assessment. These statements are corroborated by the Auditor-General.

Financial Statements	2005/2006	2006/2007	2007/2008
Submitted to Auditor General	November	November	October

The financial statements adopt Generally Accepted Accounting Principles. At the present time no specific international accounting standards have been adopted however the financial statements are presented in a consistent format over time including some disclosure of accounting standards applied.

No.	Accounting, recording and reporting	Score	Justification
PI-25	Quality and timeliness of annual financial statements	C+	
(i)	Completeness of the financial statements	B	A consolidated government statement is prepared annually which includes all revenues, expenditures, and financial assets. Not all liabilities are reported on. Expenditure arrears are excluded.
(ii)	Timeliness of submission of the financial statements	B	Final government statements are submitted to the Auditor General within 8 months of the close of the fiscal year.
(iii)	Accounting standards used	C	At the present time no specific international accounting standards have been adopted however the financial statements are presented in a consistent format over time including some disclosure of accounting standards applied.

5.6 External scrutiny and audit

5.6.1 PI-26 Scope, nature and follow-up of external audit

The Auditor-General derives its independence, powers and mandate from the Constitution (Section 124) and the Finance and Audit Act. The Auditor General is appointed by the President and his term extends until age sixty. He or she can only be removed in the cases of mental impairment as determined by a parliamentary appointed tribunal or a criminal offence. The salary of the Auditor General is paid on the basis of a direct charge to the Consolidated Fund. Senior Auditors are appointed by the Department of Public Services Management as is the case for all civil servants; however for auditors below this level the Auditor General may make the appointments directly.

The Auditor-General must audit and report on the accounts, financial statements of national and local authorities and any other public institutions as well as institutions receiving funds from the Consolidated Funds and must submit audit reports to the parliament. In the case of the State Owned Enterprises (SoEs) they usually appoint private audit firms to serve as external auditors. The audit reports are tabled in the National Assembly. The audit reports are submitted to the Office of the Auditor General (OAG). Where the OAG audits an SoE, audit fees are charged.

The coverage of annual audits does not yet cover all entities of the central government (22 ministries and 110 Operational Departments) due to capacity constraints. A risk based approach to the selection of entities is employed and covers approximately 80% of total expenditure. The audit covers revenue, expenditure as well as assets and liabilities. A full range of audits are performed, including systems audits, financial and compliance, and performance audits as well as payroll and Information Technology audits. The standards applied are the International Organisation of Supreme Audit Institutions (INTOSAI). The recommended Audit Manual promulgated by AFROSAI-E has recently been adopted as the formal audit manual for the Office of the Auditor General. Some quality assurance is assured through the implementation of external quality review assessments carried out every two years. Internal quality review assessments are limited to financial audits at this time due to capacity constraints.

The audited financial statements are submitted to the legislature within 4 months of receipt from the MFDP. The audit reports are submitted within 13 months after the end of the fiscal year

	2005/2006	2006/2007
Financial Statements		
Submitted to Auditor General	November 2006	November 2007
Submitted to Parliament (Audited)	March 2007	March 2008
Audit Reports	April 2007	April 2007

Although follow up reports are due on a monthly basis indicating progress on the implementation of corrective measures, the Auditor-General reports that while formal responses are made by Accounting Officers to audit findings, the corrective measures undertaken are neither carried out in a systematic nor timely fashion across all MDAs. There are Audit Committees operational in most ministries but these institutions are not yet encoded into law. Follow up is considered weak and audit reports make reference repeatedly to the same audit findings from year to year.

No.	External scrutiny and audit	Score	Justification
PI-26	Scope, nature and follow-up of external audit	D+	
(i)	Scope/nature of audit performed (incl. adherence to	B	The majority of central government expenditure are audited annually (approximately 80%) covering revenues,

No.	External scrutiny and audit	Score	Justification
	auditing standards)		expenditure, assets and liabilities. A wide range of audits including some Information technology and performance audits are performed and generally adhere to auditing standards.
(ii)	Timeliness of submission of audit reports to the legislature	D	While the audited financial statements are submitted to the legislature within 4 months of receipt from the MFDP, the audit reports are not submitted to parliament till 13 months after the close of the fiscal year.
(iii)	Evidence of follow-up on audit recommendations	B	Although a formal response is made in timely manner, there is no systematic evidence of corrective measures taken by the MDAs.

5.6.2 PI-27 Legislative scrutiny of the annual budget law

The Constitution establishes a unicarmel Parliament which consists of the National Assembly with 61 seats, 57 of which are elected and 4 of which are specially elected by the 57 elected members. It also is made up of a house of chiefs *(Ntio ya Digos)* who are consulted on matters affecting or affected by customary law. All members of the cabinet are members of the house.

The National Assembly have a clear organisation and set of rules that are adhered to. The appropriations bill goes through 4 clear stages of review upon being tabled. These stages are (1) the presentation, (2) the debate, (3) the committee stage and (4) the vote. The National Assembly functions on the basis of a number of committees including the Finance and Estimates Committee, the Public Accounts Committee and the Legislation and Assurances Committee. The Committee of the Whole, which reviews the budget, includes the Speaker of the House as Chairman and debates and tables the amended bill for approval by the house. The National Assembly rules are comprehensive, detailed and publicly available. The annual parliamentary programme framework as well as the session and weekly agenda is publicly available. Debates are open to the public and are covered extensively by the print media and radio.

The legislative review covers the details of revenue and expenditure estimates as well as fiscal policies and aggregates for the budget year. The Legislation and Assurances Committee is responsible for the in-year monitoring of expenditure and oversight of the implementation of corrective actions in response to the resolutions of the Public Accounts Committee.

The budget review process begins in the first week of February upon the presentation of the budget speech by the Minister of Finance. In each of the years reviewed the budget was passed by parliament before the end of the fiscal year leaving six to seven weeks for parliamentary review.

Clear rules exist for in-year amendments to the budget without the ex-ante approval of the legislature defined in the FAA. These adjustments may be presented according to the Act four times a year. In 2007/2008 the supplementary budgets were presented three times. Parliamentary officials note that they are working with the executive to encourage fewer supplementary budget proposals to be submitted in the third quarter of the fiscal year. The rules for supplementary budget are well respected.

No.	External scrutiny and audit	Score	Justification
PI-27	Legislative Scrutiny of the Annual Budget Law	B+	
(i)	Scope of the legislature's scrutiny	B	The legislative review covers the details of revenue and expenditure estimates as well as fiscal policies and aggregates for the budget year.
(ii)	Extent to which the legislature's procedures are well-established and respected	A	The legislature's powers are enshrined in the Constitution and in the FAA. The House rules govern a number of Budget Committees whose requirements are adhered to. Rules are generally clear and accessible.
(iii)	Adequacy of time for the legislature to provide a response	B	The Legislature has approximately 6 to 7 weeks to review and debate the budget proposals.

No.	External scrutiny and audit	Score	Justification
	to budget proposals (time allowed in practice for all stages combined)		
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature.	A	Clear rules exist for in-year amendments without ex-ante approval. Excessive virements and expenditure over budget ceiling require the approval of the MFDP of an supplementary budget.

5.6.3 PI-28 Legislative scrutiny of external audit reports

Audit Reports are submitted to parliament in March or April. The Public Accounts Committee (PAC) meets to examine the Annual Reports in June or July. The review covers all ministries and their subsidiary agencies. The PAC is comprised of 6 to 10 members and is chaired by a member of the ruling party or the opposition.

The examination process is subject to specific rules and procedures which are well documented and segregate the scrutiny process into clearly identifiable steps. The scrutiny process starts with the review of the audit report and a classification of the reports according to the type of the audit opinion (adverse disclaimer qualified and other). All Accounting Officers are called in as part of the review process.

This review process is typically done within twelve months after the annual report submissions in April. Irrespective of the follow-up procedures applied to a given audit report, the PAC summons each Accounting Officer each year as part of the initial review process. The hearings are open to the public and media. The process is thorough and supported by preparation work sessions and briefs by the Auditor-General.

The PAC prepares a log of corrective actions and publishes a report annually that indicates clearly the corrective actions that have been carried out in response to their recommendations to the Executive. The report indicates that recommended corrective actions are systematically addressed across all Ministries.

No.	External scrutiny and audit	Score	Justification
PI-28	Legislative scrutiny of external audit reports (M1)	C+	
(i)	Timeliness of examination of audit reports by legislature (for reports received with the last three years)	C	A review of all departments' Annual Reports is done within twelve months from submission prior to the start of the formal in depth hearings.
(ii)	Extent of hearings on key findings undertaken by legislature	A	Public Hearings are conducted for the departments where serious concerns are identified e.g. adverse or qualified opinion. The hearings are thoroug. In addition to this process, PAC has rules to ensure that each department is summoned every year as part of the initial review.
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	A	Actions emanating out of the PAC hearings are always recommended to the Ministries and these are systematically followed up to ensure implementation.

5.7 DONOR PRACTICES

5.7.1 D-1 Predictability of Direct Budget Support

With Botswana having graduated to middle income status, the number of development partners has steadily decreased over time. The US (public and private partners) continues to provide substantial assistance mainly in the HIV/AIDS sector and the European Commission also provides significant grant aid in the education and training sector (the Commission is the only partner providing budget support). The UN has various smaller interventions across all sectors. Sweden still has a significant programme and China's assistance is increasing but still limited: it focuses mainly on scholarships and training, technical expertise (medical staff), small donations to schools and soft loans.

In the period considered, the EU was the only cooperating partner providing Budget Support (BS) to Botswana. The specific modality is Sector Budget Support (SBS) including support to education. The conditionalities and modalities of the budget support are outlined in a Financing Agreements that spell out the mechanisms for disbursement.

The disbursement of the BS is generally agreed based on yearly plans. The EC's budget support is communicated to the NAO in January of each year with revisions of disbursement forecasts made in July. A careful planning of the disbursements is compromised by the difficulty in the different Cooperating Partner Fiscal Year to the Botswana FY and the impact that has upon the timing of financial reports. Further, disbursement forecasts are generally not be available prior to the government submitting its proposals to the legislature. There is no evidence to unambiguously conclude that all BS forecasts were approved at least six weeks prior to the submittal of government budget.

Statement 5 of the annual statement of account presents the estimated revenue and the actual budget support grants received and posted in the accounts during the fiscal year. Actual estimates and disbursements are presented in the Table below.

Table 5.6 EC Budget Support for the period 2005/06 to 2007/08 (thousand Pula)

	2005/2006	2006/2007	2007/2008
Forecast	-	129,522,000	100,000
Actual	-	129,522,000	-
% disbursed		100%	0%
Weighted delay	-	-	-

Source: Financial Statement of Account 5 and EC documentation.

With respect to the timeliness of EC BS disbursements, the disbursements are not specified on a quarterly basis and so the requirements for actual disbursement delays (weighted) exceeding 50% are not met. The disbursements are planned on an annual basis and so the requirements of quarterly estimates that have been agreed prior to the start of the fiscal year are not met.

No.	Donor practices	Score	Justification
D-1	Predictability of direct budget support (BS)	D+	
(i)	Annual deviation of actual BS from the forecasts provided by the donor agencies at least 6 weeks prior to the government submitting its budget proposals to the legislature	A	In one of the three years considered the actual budget support outturn fell well below 15% of the forecast amounts. The forecasts are provided only at the time of signing the FA which does not necessarily occur at least 6 weeks prior to the submittal of the budget to the legislature.
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	D	The disbursement forecasts are not specified by quarter and so the requirements for actual disbursement delays (weighted) exceeding 50% are not met.

5.7.2 D-2 Financial information provided by donors for budgeting and reporting on project and program aid'

There are a variety of banking modalities that are available for the management of development partner funds. However, the Finance and Audit Act requires that government bank accounts have prior authorisation by the Minister of Finance.

Aid delivery modalities to Botswana can be classified as follows:

- *on-budget* funds channelled through the consolidated fund (budget support);
- *on-budget* funds agreed directly with departments or government agencies which are held in Treasury authorised bank accounts, either domestically or internationally and are included in the estimates of revenue and whose implementation is reported upon;
- *off-budget* funds, which contravene the Finance and Audit Act; and
- *in-kind* contributions.

Development partner funds channelled through NGOs for projects not implemented on behalf of departments are not and should not be included in the budget documents.

Although cooperating partner funds represent only a very small fraction of the budget expenditure at the aggregate level, their importance remains high with respect to specific areas of participation. Any lack of close coordination with budget estimation, execution and reporting directly affects the management of the budget and the efficiency of budgetary projects/programmes implementation.

Development partners provide budget estimates for disbursement of project aid in some cases (approximately 50%) before the start of the fiscal year but not in all cases. The budget estimates provided by development partners do not distinguish between pledges, multi year versus single year commitments, and available funding. In addition, in many cases cooperating partners base their projections on their own fiscal year rather than specifically taking into consideration the Botswana fiscal year. In very few cases do estimates take into account absorptive capacity of the implementing agency and procurement plans. On the other hand, the government provides cooperating partners no clear requirements and guidelines as to budget estimate submissions. The Botswana budgetary process follows a schedule of preparation (see PI-11) and so there should be an opportunity to align development partner project and programme budgets with that cycle.

Cooperating partners generally do not provide quarterly reports on the disbursements within two months of the end-of the quarter. The line ministries manage the implementation of Cooperating Partner funded programmes and projects in many cases. However, these do not represent total expenditure towards a given project or programme. Some expenditure is carried out directly by the development partner. Most development partner projects however do not provide any financial quarterly reports which include a specific breakdown consistent with the budget classification of Botswana. In some cases annual financial reports are provided. Reporting on other funds is generally ad-hoc and the compliance to the MFDP reporting requirements varies across cooperating partners. When provided they do not necessarily reflect the fiscal year nor take into account the national accounting standards.

No.	Donor practices	Score	Justification
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+	
(i)	Completeness and timeliness of budget estimates by donors	C	Development partners provide budget estimates for disbursement of project aid in some cases

No.	Donor practices	Score	Justification
	for project support		(approximately 50%) before the start of the fiscal year but not in all cases.
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project support	D	Cooperating partners generally do not provide quarterly reports on the disbursements within two months of the end-of the quarter. When provided they do not necessarily reflect the fiscal year nor take into account the national accounting standards.

5.7.3 D-3 Proportion of aid that is managed by use of national procedures

The PEFA assessment focused on the three main cooperating partners who have been active in Botswana during the last three years (European Commission, Chinese Government and Centre for Disease Control). The disbursements from these cooperating partners represent more than 80% of the total amount of the financial support to the development fund provided by the cooperating partners.

All the cooperating partner-financed activities, save for the EC sector budget support, operate outside the country's PFM system. Cooperating partner-financed activities adopt procedures that are different from the country's regular payments, procurement, financial reporting and external audit procedures. In each case the cooperating partner agency manages the procurement, contract management, and payments. The national procedures procurement are not used by the majority of cooperating partners.

No.	Donor practices	Score	Justification
D-3	Proportion of aid that is managed by use of national procedures	D	
(i)	Overall proportion of aid funds to central government that are managed through national procedures	D	Donor funds channelled through budget support represents the only funds that adopt the country systems. This represents considerably less than 50% of externally financed projects.

6 GOVERNMENT REFORM PROCESS

6.1 DESCRIPTION OF RECENT AND ON-GOING REFORMS

Botswana has not adopted a comprehensive integrated approach centred on a single integrated strategy, with emphasis on sequencing and coordination. There have been important reforms undertaken recently including the implementation of the government accounting and budgeting system (GABS), improvements in the revenue administration, strengthening of external audit and the implementation of the new public procurement legal and regulatory framework.

The Government of Botswana has embarked upon a number of PFM reforms. The reform agenda focuses upon:

- The revenue administration with respect to the improvement of revenue collections and promoting education, service and enforcement;
- The decentralization and modernization of the public procurement system;
- Strengthening the independence and the effectiveness of the office of the Auditor-General.
- Implementation of an integrated financial management system – the government accounting and budgeting system (GABS)

6.2 INSTITUTIONAL FACTORS SUPPORTING REFORM PLANNING AND IMPLEMENTATION

The commitment to continuing improvements in PFM in Botswana has political championship at the very highest levels through the Minister of Finance. Implementation oversight and monitoring is the responsibility of the respect departmental heads. Coordination of the reform efforts is the responsibility of the Corporate Services Department within the MFDP. There has been no public sector reform strategy formally issued or approved by cabinet. The Public Service Reform Coordinating Office resides in the Office of the President but does not include a specific Public Finance Management reform pillar. There is at this time no single agency or secretariat responsible for sequencing, managing or coordinating the PFM reforms

By way of cooperating partner participation and support of PFM improvements, without a PFM reform strategy, this would require a broader dialogue within the budget formulation process of MFDP, the Parliament and the Office of the Auditor-General which would identify within their sector strategies and budgets reform improvement programmes and projects that could be flagged for support from cooperating partners.

ANNEXES

ANNEX 1: TERMS OF REFERENCE: BOTSWANA PFM ASSESSMENT BASED ON THE PEFA METHODOLOGY

1. Introduction

Within the framework of the programming of the 10th EDF and the discussions on good governance, the Government of Botswana committed to the implementation of a Public Expenditure and Financial Accountability (PEFA) Assessment. The PEFA mission requires the services of a Team of two Experts with a 2 month input over a period of five months. It will be financed by the European Commission's HQ framework contract in collaboration with the PEFA secretariat in Washington.

2. Background

- In summary, Botswana has evolved from one of the ten least-developed countries at independence in 1966 to a middle-income country, characterised by sustained economic growth, anchored in good governance, peace, political stability and sound macroeconomic management. Fundamental human rights and freedoms are entrenched in the Constitution, respected in practice and enforced by the Courts. GDP stood at some 57 billion Pula in 2005/6 (€8.6 billion). Whilst minerals, principally diamonds, remain the dominant source of revenue, there has been growth in such sectors as financial services, tourism and manufacturing. The trade balance is structurally in large surplus. Remarkable achievements resulting from sustained public investments have been recorded in the delivery and outcomes of social services such as health care, access to safe water and education. In spite of the country's economic growth and the positive trends in poverty indicators, income disparities remain a major concern and its achievements are seriously threatened by one of the highest HIV/AIDS prevalence rates in the world. Income poverty affects 23.4% of the population, in particular people in remote and rural areas. Policy needs to address more specifically poverty alleviation, as the persistence of poverty poses a threat to the achievement of the country's strategic goals. There is a need to accelerate significantly the pace of economic reform, in particular to ensure effective implementation of policies promoting foreign direct investment and private sector development, and to improve productivity and competitiveness of human resources. Economic diversification and global competitiveness remain major challenges to sustain development growth.

- Botswana's public finance management (PFM) is based on the separation between legislative, executive and judicial powers and is characterised by a high level of predictability and transparency, with limited incidence of corruption. The country is 1st in Africa and 38th out of 179 worldwide for the 2007 Corruption Perception Index (CPI). The Finance and Audit Act (1970, amended in 1997) specifies budget execution and control mechanisms, the distinction between various operations, as well as internal and external control. Areas for improvement include reduction of the time lag in producing statistics, the development of a unified accounting period for all statistics, allowing the preparation of an integrated set of financial and economic data, improving the capacity of the various ministries for accurate accounting, financial monitoring and timely management (recoveries, etc.). Botswana is a member of the East and Southern Africa Anti-Money Laundering Group (ESAAMLG) and signatory to the corresponding Memorandum of Understanding which also addresses issues pertaining to the financing of terrorism. A specific and independent Financial Intelligence Unit is planned, to deal with money laundering matters.

Prudent macroeconomic policies have allowed budget surpluses in all but four years since 1982/83, and there is a strong commitment to keep budgets in balance or limited deficit. The 2006/07 budget revised estimates show a surplus of 4.39 billion Pula. Revenue and grants (P26.8 billion) are derived mostly from the mining sector (43%), Customs and Excise (28%), as well as Non-Mineral Income Tax (12%) and VAT (8%). Development expenditure (P5.6bn) were very close to the original estimates, as a result of the implementation of some of the NDP9 MTR recommendations for speeding up the implementation of development projects and boosting growth through increased development expenditure. The NDP9 MTR also recommended the adoption of the fiscal rule, setting the ceiling of total budget expenditure at 40% of GDP for sustainability, with spending less volatile than when linked to expected revenue, as well as a 70/30 ratio between recurrent and development budget by the end of NDP9. The Government has also adopted a "sustainability ratio" defined as the ratio of non-investment current spending (recurrent expenditures excluding health and education, which are considered as investment in human capital) to non-mineral revenue. This ratio illustrates the policy of the Government to channel diamond revenues into capital investments. The ratio was estimated at 0.68 for 2006/2007.

The budget system could be further improved in terms of both recurrent expenditure (which follows an incremental system) and development expenditure (need to justify project economically and socially). With a view to achieving the twin objectives of fiscal sustainability and stabilisation, the Government is committed to tightening the "fiscal rule" or discipline and to maintaining its revenue and grant at 40% of GDP (through efficient tax collection). To this end important steps have been undertaken with the introduction of the VAT (2002) and the creation of the Botswana Unified Revenue System (2004). Further fiscal reforms are planned as well as a cost sharing scheme. Expenditure in social sectors consistently represents a very significant proportion of the successive budgets (45.0-50%), in particular education (30%), confirming the country's commitment to social development. The evolution of external assistance to Botswana followed a downward trend over the last decade and represents less than 2% of Government revenues (0.07% of GDP).

Botswana is a member of the IMF since 30/6/1968 and has regular Article IV consultations. The 2006 Article IV consultation though acknowledging that Botswana's sound macroeconomic policies and good governance had contributed to sustained growth, emphasized the need to diversify the economy to tackle unemployment and poverty, and to adequately address the HIV/AIDS pandemic. The implementation of planned reforms in the areas of labour market, privatisation and investment is also crucial.

- PEFA is a partnership initiated in December 2001 by the European Commission and the World Bank, which was joined shortly after by the IMF, France, United Kingdom, Switzerland and Norway. It has the 3 following components:

i) An external diagnosis on public financial management;
ii) A country-led agenda;
iii) A coordinated programme of institutional support on the basis of the action plan prepared by the national authorities;

The three components are closely connected. It is important to note that in order to encourage partner country ownership of the reform process the external diagnosis does not include any recommendation or action plan.

The core of PEFA consists of the analysis of the indicators[18] which are referred to as "high level" because they cover the six essential dimensions to be analysed in an evaluation of public financial management. These dimensions are:

[18] There are three additional indicators looking at donor practices.

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;

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.

The PEFA evaluation is an *external* validation exercise which requires a *strong implication of the recipient country* and, ideally, should be repeated every 3 years. In this connection the PEFA report is not co- written with the partner country or that, for example, the score on the indicators be negotiated.

It is important to underline that there is *no automatic link between the scoring and eligibility to budget support*. As regards the criteria applied to public financial management, the Commission bases itself not only on changes in the performance of the PFM system, but also on the political will of the government to reform these systems, on the design of the reforms, and on their implementation. In other terms the conclusions drawn from the Public Financial Management – Performance Measurement Framework" (PFMPMF) constitute an important element, necessary but not sufficient to determine the eligibility of the partner country to budget support. It is recalled that, apart from public financial management, other criteria are taken into account: the macroeconomic situation, the existence of national policies (such as a poverty reduction strategy) and sectoral policies.

The decision to carry out this PEFA assessment results from the GoB's recent commitments to improve their good governance even further in the framework of the 10th European Development Fund (Country Strategy Paper, CSP and National Indicative Programme, NIP) based on which the programmable A envelope has been increased by 30%. In the same context, the Commission supports Botswana also in strengthening the Public Procurement and Asset Disposal Board (PPADB) and the Directorate on Corruption and Economic Crime (DCEC) in drafting an anti-corruption plan.

3. The rationale for carrying out a PEFA assessment

<u>In the short-term</u>, the PEFA assessment may be used as baseline data, and a basis for information and monitoring so as to: (i) facilitate and update the dialogue on PFM between Government and donors[19]; (ii) *<u>help</u>* donors assess the eligibility of a country for budget support programmes, or to verify whether general or specific PFM conditions of an ongoing budget support programme are met.

<u>In the medium-term</u>, the PEFA assessment may feed the reflection on: (i) the preparation or revision of a PFM reform strategy (and related action plan); (ii) the preparation or revision of a PFM capacity development programme, in coordination with the government.

[19] As mentioned in chapter 1, ODA to Botswana follows a downward trend; however, the Authorities encourage partners to remain in the country. The Commission and the US (public and private) are the main donors at present, but other organisations as the World Bank and the UN system (in particular UNICEF) have expressed their interest recently in a PEFA exercise.

4. Objective of the assessment mission

The objective of the assessment mission is i) to draft of a comprehensive[20] "Public Financial Management – Performance Report" (PFM-PR) prepared according to the PEFA methodology (see point 5 below), so as to provide an analysis of the overall performance of the PFM systems of Botswana as well as a baseline situation that permits the measuring over time of changes in performance; and ii) to build capacity in the Government and the EC Delegation in the area of PFM assessment and reforms.

5. Specific tasks in the preparation of the PFM-Performance Report

In order to meet the objective of the assessment mission the following tasks shall be carried out:

- Documentation. Before the mission in Botswana the experts will collect, in the European Commission's (lead donor) Headquarters (see below point 6), all basic documentation that they deem necessary for the mission's work on the spot. They will also let the Government know, through the Botswana National Authorising Officer and the Commission's Delegation in Gaborone, any need for additional information. The experts will specify the time-span they deem necessary between the date of reception of this basic documentation and the actual start of the mission on the spot, especially taking into account the organisation of the training/information workshop to be held upon arrival in Botswana (see below). The Delegation will particularly follow up this issue with the national authorities so as to minimize the risk of disrupting the mission which could be entailed by an important delay in providing this basic documentation.

- Information gathering and analysis: The Experts will spend four weeks in Botswana to continue collecting and analysing the required information, hold a training/information workshop, hold meetings with key stakeholders, and prepare an aide-mémoire which will be presented to key stakeholders at the end of the field mission.

- Training/information workshop.
  The mission on the spot will start with a 1 or 2 days information/training workshop gathering all the stakeholders and enabling the latter to understand the challenges and the modalities of the PEFA assessment and how it relates with PFM. This workshop will be run by the experts and its organisation and financing will be taken care of by the successful consortium. The pedagogical material used by the experts will be that worked out by the PEFA Secretariat and posted on its website. This workshop is expected to comprise: (i) a general session with all the stakeholders aiming at providing a general understanding of what PFM and a PEFA assessment is about; (ii) a technical session with the national authorities (government and external control body) to explain the indicators.
  The mission will end with a 3-4 day workshop including a training programme on PFM reforms and an analysis and discussion of the PEFA Report for Botswana which should lead to recommendations for addressing the indentified weaknesses (based in particular on the knowledge gained during the PFM reform training). The recommendations coming out of the discussions will be recorded by the Expert and forwarded to the Government.
  The Consortium will be responsible for the logistics of the workshop and will be assisted as far as possible by the Office of the National Authorising Officer and the EC Delegation.

[20] This PFM PR is composed of the detailed analysis of the 31 indicators of the « PFM Performance Measurement Framework » and of the performance report itself which summarises this analysis of the indicators and includes other elements relevant for the assessment.

- Work-plan: On arrival the experts will submit to the national authorities and the involved donors a work-plan describing the main steps of the mission, notably specifying the list of the interlocutors to meet, the tentatively scheduled meetings and the list of required information not yet collected and to be provided on the spot. The work-plan will also need to take into account the Delegation and Government staff who will be closely involved in the PEFA assessment (see below). This work-plan may foresee a mid-term meeting gathering all the stakeholders so as to report on the work's progress and possible difficulties faced. A final debriefing session presenting the aide-mémoire will be planned.

- Capacity Building: As far as possible the experts will work very closely with and will be accompanied in meetings by EC Delegation Staff and one designed official from the Government, in order to build capacity in the Government and Delegation for PFM assessment and reporting.

6. Methodology

- Document of reference: the experts, in close coordination with government services involved, will undertake the required analysis while rigorously following the structure, the methodology and the guidelines (annexes 1 § 2) of the document adopted by the PEFA Steering Committee and entitled " Public Financial Management – Performance Measurement Framework". This document can be found on the website www.pefa.org. (The original version of this document is in English).

- Differences in Methodology. If the particular situation of the country requires the addition of specific indicators and/or, for some indicators, to diverge from the prescribed methodology, this shall be duly justified by the experts and require the agreement, during the mission, of the Commission. In any case, only a very limited number of additional indicators would be acceptable. In this case, as well as for any possible proposed difference in methodology, the experts will ask for the written opinion of the PEFA Secretariat in Washington.

- Interpretation. Any question on the interpretation of the guidelines, which the experts cannot resolve with the available documentation, should be addressed to the PEFA Secretariat and/or to the Commission's Headquarters.

- Supporting information. In the report the experts will justify the scoring and describe, in an annex, for each indicator, the analytical work which has been carried out mentioning the sources of information and documentation used. Furthermore, for each indicator, the experts will mention the any possible difficulties encountered during the assessment, the approach used to overcome these difficulties, and, as appropriate, the additional investigative work judged necessary to complete the analysis carried out.

7. Stakeholders: donors and national authorities

- The European Commission: (i) has made the first contacts with the government and officially informed them of the timetable and TOR of the PEFA assessment; (ii) finances the PFM assessment and recruits the experts; (iii) is responsible with the government for the organisation and the follow-up of the mission[21]; (iv) checks the quality of the report in consultation with the other donors involved, the PEFA Secretariat,[22] and the government; (v) consolidates the comments of donors and the

[22] Should its advice be required.

PEFA Secretariat and sends them to the experts and the government; (vi) disseminates the draft and final report. The Commission will indicate the names of its officials who, in the HQs and on the spot, will be the contact point for the experts.

- The other donors involved: The Delegation with the government will inform the main donors remaining in Botswana of the exercise, TORs and planned timetable (e.g. World Bank, IMF, UN) and define the possible coordination modalities with them.

- The government: (i) will indicate the names of the officials (Ministry of Finance, Development and Planning, MFDP) who will be the interlocutors of the experts and of the donors during the assessment; (ii) will indicate whether a service of the administration will accompany the experts during the mission[23]; (iii) will comment the draft and final reports and send its comments to the experts and the Commission trough it's Delegation in Botswana. Care should be taken to involved high-level officials in the PEFA exercise.

- Other State structures: The Delegation with the MFDP (which is also the National Authorising Office for the European Development Fund, EDF) will specify the modalities for the involvement of other state structures with an interest in the PFM assessment before mission start. These include but are not limited to the Auditor General, the Public Accounts Committee of the Botswana National Assembly, The Botswana Unified Revenue Service (BURS) and the Public Procurement and Asset Disposal Board (PPADB), which is largely responsible for public procurement within Botswana.

8. Reporting

Reporting requirements are set out below:

- In view of the final session of debriefing at the end of the mission, the experts will provide the government and the Commission with an *aide mémoire* (10 pages maximum, excluding annexes), in 20 copies, indicating the main findings and reflections which will be developed in the draft report. This *aide mémoire* will be complemented by the detailed analysis of the 31 indicators of the PFM-PMF.
- Within one week after the end of the mission on the spot, the experts will send to the government and the Commission (HQ&Delegation) a draft PFM-Performance Report, in 10 copies, based on Annexes 1 and 2 of the above-mentioned PEFA document.
- The Government and other stakeholders will then have 8 weeks to consider the draft report and send their comments to the experts.
- Within 1 week after the reception of the comments, the experts will write the final report. The Final report will be discussed during a workshop and the experts will make a final revision according to possible comments from the workshop. The latter version will be sent in 20 copies to the government and the Commission. It will contain, in an annex, the observations of the government on the points where the latter disagrees with the findings of the experts.
- The report will be written in English.

9. Calendar (see annex 1)

- Global calendar of the team of experts:

[23] It is strongly recommended that the Team identifies with the Government of Botswana relevant Officials who would accompany them during the whole field mission in order to build capacity.

- Preparation phase: 8 days including one day briefing in the Commission HQs. The Experts will prepare the workshop and the schedule of meetings, and finalise the work plan for the study
- mission on the spot: maximum duration of 4 weeks. This will include the information/training workshop and an end-of-mission debriefing meeting presenting an aide-mémoire.
- Report drafting: 8 days of input over a period of 3 months. After the filed mission, the experts will have one week to finalise and submit the draft report. The Government will be given up to 2 months to consider the report and submit comments. The experts will then have one week to revise the report according to comments received.
- Training/workshop: one week field mission for the Team Leader only to give a training on PFM reform and organise discussions around the PEFA Report
- Final debriefing in EC HQ: one day for the Team Leader only just after the last filed mission. .

- The TOR include, for each week of work, a tentative table indicating the dates and key steps in preparing the PFM-PR (see annexe 1).

10. Composition and professional profile of the team

- The team will be composed of two experts.
- The team leader, international expert, will have at least 10 years of experience in public finance management, of which 7 years should be on analysis and/or audit of PFM in developing countries.
- The other expert, will have a least 5 years of experience in the area of PFM.
- The cumulated experience of the experts should ensure that the team is able to cover the analysis of the different areas of the PFM-Performance Report.
- The international experts will have an excellent command of English
- It would be an asset for one of the experts to have good prior knowledge of the specific budget and PFM situation in Botswana, or at least in Anglophone countries with similar PFM system.
- Experience in conducting PFM assessment using the PEFA methodology is indispensable (at least for the team leader).
- University degree in economics or related field is required
- The team must possess good organisational, communication and relational skills

ANNEX 2: PFM PERFORMANCE MEASUREMENT FRAMEWORK INDICATORS SUMMARY

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
A.	**PFM-OUT-TURNS: Credibility of the budget**		
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	Actual primary expenditure deviated from expenditure estimates by more than 10% in one of the three years considered. Deviations were --9%, --11% and -15% respectively.
PI-2	Composition of expenditure out-turn compared to original approved budget	C	Variance in primary expenditure composition exceeded overall expenditure deviation by 10% in no more than one of the years considered. Variance in expenditure composition exceeded overall deviation primary expenditure by 21%, 2% and 2% respectively.
PI-3	Aggregate revenue out-turn compared to original approved budget	A	Domestic revenue collection exceeded 97% in all three of the last three budget years. The ratio of aggregate revenue out-turn to original approved budget were 105%, 106% and 107% respectively.
PI-4	Stock and monitoring of expenditure payment arrears	<NS>	
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	<NS>	There is no monitoring of arrears being undertaken so the arrears cannot be quantified. The presence of an end of year expenditure rush, may suggest that significant arrears are accumulated, this despite the implementation of an effective commitment control system.
(ii)	Availability of data for monitoring the stock payment arrears	D	No reliable data on expenditure arrears are available.
B.	**KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency**		
PI-5	Classification of the budget	C	The budget formulation and execution is based on economic and administrative classifications that can produce consistent documentation according to GFS/COFOG standards at the functional level.
PI-6	Comprehensiveness of information included in budget documentation	B	Budget documentation fulfils 6 out of 9 benchmarks. The Budget documents are comprehensive.
PI-7	Extent of unreported government operations	A	

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
(i)	Level of unreported extra-budgetary expenditure	A	All revenues generated directly by the Departments are transferred to the Consolidated Revenue Fund. Intelligence and security agency budgets are reported on, if not in detail. There is no evidence of off balance sheet debt instruments being used to finance subsidies. The consolidation process of the Departmental final accounts includes an aggregate reconciliation process that would reveal any gaps in the sources and uses of funds. The level of unreported extra-budgetary expenditure remains insubstantial.
(ii)	Income/expenditure information on donor-funded projects	A	Complete income/expenditure data of donor funded grant projects are not included in budgetary information. However, less than 1% of total expenditure is due to donor funded project expenditure.
PI-8	Transparency of inter-governmental fiscal relations	C	
(i)	Transparent and objectivity in the horizontal allocation among SN government	D	There are no clear and transparent rules utilised to determine the approval of bid requests but factors, not published but taken into account by officials, include previous expenditure achievements, the history, geographical factors such as size and population. The recurrent expenditure is solely based upon the historical levels and is applied upon an incremental basis. Increases in recurrent budget may vary across local authorities.
(ii)	Timeliness of reliable information to SN government on their allocations	B	Local Authorities are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals. The schedule permits them to make significant changes to their budget proposals prior to final submission to parliament.
(iii)	Extent of consolidation of fiscal data for government according to sectoral categories	C	Fiscal information both with respect to budget estimates as well as actual expenditures, consistent with central government fiscal reporting is collected for all of the local authorities and presented within 12 months in district councils' budget statements.
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	D+	
(i)	Extent of central government monitoring of AGAs/PEs	C	Most Public Enterprises submit financial statements to the central government however since the 2006/2007 no consolidated overview has been provided. Many of the public enterprises do not submit audited financial statements on a timely basis.
(ii)	Extent of central government monitoring of SN governments' fiscal position	D	At the present time there is no comprehensive monitoring of the debt status of the sub national government entities even though reports on revenue and expenditure are provided.
PI-10	Public access to key fiscal information	B	Three of the six listed elements of information are made available to the public access via the government book shops and other means.
C.	**BUDGET CYCLE**		
C(i)	**Policy-Based Budgeting**		

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
PI-11	Orderliness and participation in the annual budget process	B	
(i)	Existence of and adherence to a fixed budget calendar	B	A clear annual budget calendar exists that is generally adhered to and the calendar allows four to five weeks for Departments to complete their detailed estimates of revenue and expenditure.
(ii)	Guidance on the Preparation of budget submissions.	C	Comprehensive budget call circulars are issued both for the recurrent budget and development budget processes which are described as for the most part clear. These are issued to MDAs without approved ceilings. The budget estimates are approved by cabinet only after the MDAs have completed the budgets
(iii)	Timely budget approval by the legislature	A	In each of the three years reviewed under this assessment, the budget was signed into law prior to the start of the fiscal year.
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	
(i)	Multi-year fiscal forecast and functional allocations	D	No forward muti-year estimates of fiscal aggregates are prepared that are directly linked to the budget ceilings. These are set on the basis of single year considerations for the revenue estimates and guided by the National development plan for expenditures.
(ii)	Scope and frequency of debt sustainability Analysis	C	At the present time there are no debt sustainability assessments being prepared by the MFDP however, the Bank of Botswana closely monitors and analyses the external debt including the external debt to GDP ratio, the budget balance and the source of financing. The low external debt to GDP ratio (currently at 4%) makes the calculus of debt sustainability straight forward and almost obvious.
(iii)	Existence of costed sector strategies	A	Sector strategies exist for all Departments. These are developed within a broad fiscal frame. These are fully costed and include forward linked recurrent cost implications.
(iv)	Linkages between investment budgets and forward expenditure estimates	C	While there are links of the budget development to the sector strategies the recurrent cost implications are considered only in a few major cases.
C(ii)	**Predictability and Control in Budget Execution**		
PI-13	Transparency of taxpayer obligations and liabilities	B	
(i)	Clarity and comprehensiveness of tax liabilities	B	There is clear legislation and set procedures described for all of the major taxes. While there are some discretionary powers provided to BURS in the waiving of application of rates and waivers on penalties these in practice are fairly limited by policy and internal procedures.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	C	The complete set of tax and customs legislation is available on the Internet. There are also publications, forms and tools to educate and to assist on filing tax returns that provide practical information on tax liabilities and administrative procedures, including the procedures for

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			administrative dispute resolutions. BURS has not been active in organising information campaigns.
(iii)	Existence and functioning of a tax appeals mechanism	B	Taxpayers may submit their objections to the commissioner. The Technical Division is responsible for reviewing objections. The administrative tax appeal is a two stage process: objection and alternative tax resolution. An objection can be submitted directly by a taxpayer to BURS. If disallowed, the taxpayer may appeal to the Board of Adjudicators within the MFDP made up of members outside of government with the MFDP serving the secretariat function. In the case of customs any appeals are submitted to the Commissioner. In this case there is no independent review committee.
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	
(i)	Controls in taxpayer registration system	A	Through the use of a common tax identification number (TIN) for all of three main tax types; income tax, VAT and customs and excise the three main registry files are linked within a complete tax database system. VAT registration requires that the tax paying entity is first registered in the income tax database. There are direct linkages also to the registry of vehicles.
(ii)	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	A	Penalties for non payment are between 50% and 200%. In the case VAT, Income Tax and Customs steep late payment penalties are applied at a monthly compounded rate of 2% in the case of VAT and customs and 1.5 % per month for income tax. This may be compared to the current prime lending rate of 17.5 % per annum. Records indicate that broadly and consistently applied..
(iii)	(iii) Planning and monitoring of tax audit and fraud investigation programs	D	Tax audits are undertaken on an ad hoc basis. At this time audit is not managed on the basis of annual work plans nor are there regular audit reports issued. Reports are currently mainly ad hoc independently by the Business Intelligence Units.
PI-15	Effectiveness in collection of tax payments	D+	
(i)	Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	B	The average debt collection ratio in the last two fiscal years was just over 75%.
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	C	For the most part tax revenues are transferred to the treasury on a daily basis, with a significant proportion transferred on a weekly basis. It should be noted though there are occasional transfers that occur on a less frequent basis.

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	D	At this time there are no mechanisms that reconcile tax assessments to collections. Internal reconciliation procedures between the cash books and the actual collections though addressed on a continuing basis, does not achieve comprehensive reconciliation until the end of the year.
PI-16	Predictability in the availability of funds for commitment of expenditures	D+	
(i)	Extent to which cash flows are forecast and monitored	D	At this time there are no annual pro forma cash flow statements submitted to the MFDP at the beginning of the fiscal year.
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	A	Departments are provided with annual schedules that reflect the ceilings.
(iii)	Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries	C	Significant in-year adjustments may be made as many as four times a year but are always done in a transparent way.
PI-17	Recording and management of cash balances, debt and guarantees	D+	
(i)	Quality of debt data recording and reporting	D	External debt records are complete updated and reconciled on a monthly basis. Comprehensive management and reporting on debt stock and debt service are reported on an annual basis. However, while the extent of domestic debt is limited, no reporting is provided on the domestic debt portfolio.
(ii)	Extent of consolidation of the Government's cash balances	C	There is a single mechanism of accounts held with the Bank of Botswana for managing most revenues and expenditure. In addition there are a number of treasury accounts (representing a minor percentage of overall expenditure) held in Treasury accounts held with commercial banks in some districts to facilitate payments. Bank balance calculations and consolidations are carried out on a monthly basis.
(iii)	Systems for contracting loans and issuance of guarantees	C	The central government's contracting of loans and issuance of guarantees requires the authorisation of the Minister of Finance. However, at this time there are no set ceilings or fiscal targets against which loans and guarantees are made. The budget documentation does not include new borrowing (or net borrowing) budget targets.
PI-18	Effectiveness of payroll controls	B+	
(i)	Degree of integration and reconciliation between personnel records and payroll data	A	Strict links are in place between authorizations and control entries to the payroll management software (GPPP). It directly links three databases: establishment of posts and personnel database that serve as control files, and the payroll database. All civil servants are registered through GPPP

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			that include appropriate fields to protect against duplication.
(ii)	Timeliness of changes to personnel records and the payroll	B	Payrolls are controlled monthly and changes are effected within the next month pay period. Any changes and updates to the payroll management databases are done monthly, mostly within the next pay period but delays of up to three months are experienced
(iii)	Internal controls of changes to personnel records and the payroll	A	Controls and procedures exist for all changes. Audit trails are built-in in the system. An employee has to apply for a new post in order to get a promotion. Allowances are also attached to posts which serve as an effective control on. Terminations, especially vacations of post without notice, are effectively controlled by monthly supervisor signed verification sheets and the automatic stoppage of salary payments for any person absent from post for an extended day without appropriate notification
(iv)	Existence of payroll audits to identify control weaknesses and /or ghost workers	B	Payroll audits are conducted routinely by the Internal Audit Unit and specific audits are performed by the Auditor-General. These though are not done systematically or in a comprehensive way. In the last three years all ministries have had payroll audits performed.
PI-19	Competition, value for money and controls in procurement	D+	
(i)	Evidence of the use of open competition for award of contracts that exceed the nationally established threshold for small purchases	D	At the present time there is insufficient data to determine the procurement method basis upon which contracts are awarded.
(ii)	Extent of justification for use of less competitive procurement methods	C	The Regulations clearly establish open competition as the default procurement method, with a requirement to justify less competitive methods when used. Such regulatory justification is weakened by the abuse of emergency procurement to justify less competitive procurement methods.
(iii)	Existence and operation of a procurement complaints mechanism	C	A complaints mechanism exits that is defined by regulation and is functional. The PPADB keeps a record of complaints and resolutions however its operation still remains very limited and does not yet provide for the timely resolution of complaints. Resolutions are not accessible to public scrutiny.
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	
(i)	Effectiveness of expenditure commitment controls	B	The accounting software (BAS) provides a sound basis for ensuring an effective commitment control. However, some expenditure managed manually may not be fully effective with respect to commitment control. Officials report that there are some concerns about the effectiveness of the commitment control on development expenditure items.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	A	Other internal controls are well covered Integration between the accounting and budgeting software well supports the application of rules and effective controls. Interviews with a wide variety of officials left an impression that there was familiarity with the rules and procedures.
(iii)	Degree of compliance with rules for processing and recording	C	Although compliance to rules is generally considered high there are important concerns about the

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
	transactions		abuse of procurement rules to circumvent the use of competitive methods especially at the end of the year when there is a rush to spend to prevent funds being returned to the Treasury
PI-21	Effectiveness of internal audit	C+	The Internal Audit Function and its supervision by Audit Committees cover all Departments. The Internal Audit Units apply the IIA standards. The Internal audit unit prepare annual works plans that include process/full expenditure chain and procurement audits, payroll, compliance and financial audits, forensic, systems including IT audits and performance audits. At least 50% of the audit time is deemed spent on system audits.
(i)	Coverage and quality of the internal audit function	B	Internal audit, in accordance with the FAA, is operational across all line ministries. Internal audit with respect to staffing, quality assurance programmes and the implementation of an audit manual substantially meets professional standards.
(ii)	Frequency and distribution of reports	C	Reports are issued regularly and disseminated to the accounting officer and the MFDP, but is submitted to the Auditor General only upon request.
(iii)	Extent of management response to internal audit findings	B	There are clear standards set for the timeliness of accounting officer responses to internal audit findings. There is prompt action taken by a number of managers as demonstrated by a review of internal audit reports but this is not the case across all ministries.
C(iii)	**Accounting, Recording and Reporting**		
PI-22	Timeliness and regularity of accounts reconciliation	B	
(i)	Regularity of Bank reconciliations	B	All treasury managed bank accounts are reconciled to the cash book on a monthly basis within 30 days of the close of the month. There are other government accounts specifically cooperating partner funded project accounts which are not reconciled on a regular basis.
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	B	The reconciliation and clearance of suspense accounts is carried annually within one or two months of the close of the fiscal year.
PI-23	Availability of information on resources received by service delivery units	A	Routine data collection provide information on resources received by primary schools and primary health care clinics respectively.
PI-24	Quality and timeliness of in-year budget reports	C+	
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C▲	Comparison to the main budget is available at the vote and main economic classifications reported for both the current period. Information includes all items of expenditure at the payment level but not at the commitment level.
(ii)	Timeliness of the issue of reports	A	Reports are prepared monthly and published on the government intranet within 21 days of the close of the month.
(iii)	Quality of information	A	A cash flow statement that reconciles revenue receipts with expenditure and net borrowings against

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			bank balances is included in the consolidated statement. There are no material concerns regarding the accuracy of data given the regularity and comprehensiveness of reconciliation procedures and the fully integrated implementation of the GABS application.
PI-25	Quality and timeliness of annual financial statements	C+	
(i)	Completeness of the financial statements	B	A consolidated government statement is prepared annually which includes all revenues, expenditures, and financial assets. Not all liabilities are reported on. Expenditure arrears are excluded.
(ii)	Timeliness of submission of the financial statements	B	Final government statements are submitted to the Auditor General within 8 months of the close of the fiscal year.
(iii)	Accounting standards used	C	At the present time no specific international accounting standards have been adopted however the financial statements are presented in a consistent format over time including some disclosure of accounting standards applied.
C(iv)	**External Scrutiny and Audit**		
PI-26	Scope, nature and follow-up of external audit	D+	
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	B	The majority of central government expenditure are audited annually (approximately 80%) covering revenues, expenditure, assets and liabilities. A wide range of audits including some Information technology and performance audits are performed and generally adhere to auditing standards.
(ii)	Timeliness of submission of audit reports to the legislature	D	While the audited financial statements are submitted to the legislature within 5 months of receipt from the MFDP, the audit reports are not submitted to parliament till 13 months after the close of the fiscal year.
(iii)	Evidence of follow-up on audit recommendations	B	Although a formal response is made in timely manner, there is no systematic evidence of corrective measures taken by the MDAs.
PI-27	Legislative scrutiny of the annual budget law	B+	
(i)	Scope of the legislature's scrutiny	B	The legislative review covers the details of revenue and expenditure estimates as well as fiscal policies and aggregates for the budget year.
(ii)	Extent to which the legislature's procedures are well-established and respected	A	The legislature's powers are enshrined in the Constitution and in the FAA. The House rules govern a number of Budget Committees whose requirements are adhered to. Rules are generally clear and accessible.
(iii)	Adequacy of time for the legislature to provide a response to budget proposals (time allowed in practice for all stages combined)	B	The Legislature has approximately 6 to 7 weeks to review and debate the budget proposals.

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	A	Clear rules exist for in-year amendments without ex-ante approval. Excessive virements and expenditure over budget ceiling require the approval of the MFDP of an supplementary budget.
PI-28	Legislative scrutiny of external audit reports	C+	
(i)	Timeliness of examination of audit reports by legislature (for reports received within the last three years)	C	A review of all departments' Annual Reports is done within twelve months from submission prior to the start of the formal in depth hearings.
(ii)	Extent of hearings on key findings undertaken by legislature	A	Public Hearings are conducted for the departments where serious concerns are identified e.g. adverse or qualified opinion. The hearings are thorough and are publicly accessible. In addition to this process, PAC has rules to ensure that each department is summoned every year as part of the initial review.
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	A	Actions emanating out of the PAC hearings are always recommended to the Ministries and these are systematically followed up to ensure implementation.
D.	**DONOR PRACTICES**		
D-1	Predictability of Direct Budget Support	D+	
(i)	Annual deviation of actual BS from the forecasts provided by the donor agencies at least 6 weeks prior to the government submitting its budget proposals to the legislature	A	In one of the three years considered the actual budget support outturn fell well below 15% of the forecast amounts. The forecasts are provided only at the time of signing the FA which does not necessarily occur at least 6 weeks prior to the submittal of the budget to the legislature.
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	D	The disbursement forecasts are not specified by quarter and so the requirements for actual disbursement delays (weighted) exceeding 50% are not met.
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+	
(i)	Completeness and timeliness of budget estimates by donors for project support	C	Development partners provide budget estimates for disbursement of project aid in some cases (approximately 50%) before the start of the fiscal year but not in all cases.
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project support	D	Donors generally do not provide quarterly reports on the disbursements within two months of the end-of the quarter. When provided they do not necessarily reflect the fiscal year nor take into account the national accounting standards.
D-3	Overall proportion of aid funds to central government that are managed through national procedures	D	Donor funds channelled through budget support represents the only funds that adopt the country systems. This represents considerably less than 50% of externally financed projects.

ANNEX 3: LIST OF STAKEHOLDERS INTERVIEWED

Name	Organisation	Position
Ministry of Finance and Development Planning		
Mr. S. Sekwakwa	Development and Budget	Secretary
Mr. Stephen Kebakile	Development and Budget	
S. K. John	Office of the Accountant General	Acting Accountant General
Emma Actress Peloetletse	Office of the Accountant General	Deputy Accountant General
Othusite Lebulestwe	Office of the Accountant General	Deputy Accountant General
Mrs. K Gopolang	Office of the Accountant General	Assistant Accountant
Boniface G. Mpetlhe	Macroeconomic Policy	Director
Boineelo M. Peter	Budget Administration	Director
Nellie W. Senegelo	Budget Administration	Deputy Secretary
Boitshoko Keabofe-Medupe	Tax Policy Unit	Principal Finance Administrator
Kathleen Molaodi	NAO	
Theresa Erin Francis	NAO	Technical Assistant
Mr. Patrick Shubo	Corporate Services	Deputy Director
Botswana Unified Revenue Service		
Kingsley Kgosidentsi	BURS	Director Finance
Kgomotso Mojafi	BURS	Manager Revenue
Sadikane Tlouetsile	BURS	Manager Expenditure
Tebogo Manare	BURS	Manager, Financial Accounting
Dimpho Sefeka	BURS	General Manager, Revenue
Kaone Molapo	BURS	General Manager, Compliance
B. M. Selebatso	BURS	Customs Manager
Obakeng Okgethile	BURS	Research and Planning Specialist
Agodirwe Molosiwa	BURS	Manager Revenue
Tebogo Monare	BURS	Manager, Financial Accounting
G. M. Mutsewabagale	BURS	General Manager (Tech.)
Segolo Lekau	BURS	Commissioner, Internal Revenue
Freddy Modise	BURS	Commissioner General
Ministry of Mines, Mineral Resources, Energy and Water		
Mr. M Jongman		
Mr. N. Mmolawa		Director of Mineral Affairs
Ministry of Works and Transport		
Mogomotoi Ramodisa		Planning Officer
T. A. Sirang		Planning Officer
M. Morupedi		Finance Officer
A. Mokgalagadi		Principal Accountant
D. Sebolao		Principal Accounts Officer
P. W. Lekau		Principal Internal Auditor
G. T. Molibole	Ministerial Tender Committee	Member
P. H. Lekau		

Name	Organisation	Position
Public Procurement and Asset Disposal Board		
Armando V. Lionjanga	PPADB	Executive Chairman
Dudu J. Boshwaen	PPADB	Legal Officer
Ishmael Joseph	PPADB	Executive Director, Services
Kgakgamalo Ken Ketshajwang	PPADB	Divisional Manager, Supplies
Batho Linchul	PPADB	Chief Accountant
Moffat R. Lubynda	PPADB	Board Secretary
John T. Finnigan	PPADB	Procurement Adviser
Bank of Botswana		
Mathew Wright	General Economic and Statistics Research Department	Deputy Director
Josephine S. Chiura	Banking	Manager
Dr. Matlhodi M. Serero	General Economic and Statistics Research Department	
- Alice KAGACHOLA		Principal Management Accountant
Office of the Auditor General		
Robby B. Sebopeng	Office of the Auditor General	Acting Auditor General
Ministry of Education		
- PHILIP MODISE		Principal Internal Auditor
- Gaohe LETSWELETSE		Senior Internal Auditor
- Selinkie POPO		Finance Officer
- Gloria SELET		Accountant
- Matilda BASINYI		Accounting Chief Finance Officer
- Boipelo T. PHIRI		Senior Planning Officer
- Tsholo MOTHLATLHEDI		Principal Accountant
- MOSIDI Bathambanye		Principal Supply Officer
- Boilchutso NAKEDI		Secretary Ministerial Tender committee
Ministry of Local Government		
- Mogamentsi MUTENGA		Planning Officer
- Olefile N.THIPE		Planning Officer
- Moses MHATENG		Payroll second Officer
- Halakangwa MBULAI		Director LG Service
- Michael NDEBELE		Chief Admin Officer
- Augustine MASILO		Chief Admin Officer
- Lebogang M. SECHABA		Chief Admin Officer
- Boitumelo GAOSIIWG		Principal Admin Officer
- Gaokaelwe RAPINYANA		Senior Accountant
- Fridah BAKILE		Chief Supply Officer
- Ponalo DITSHOTLO		Senior Finance Officer
- Ndapiwa MUNAANI		Finance Officer
- Mpho RAPALAI		Chief finance Officer
- Reletse MPHEKE		Principal Accountant
- Dingiswayo E. SIKUNYANE		Principal Finance Officer
Attorney General Services		
- Kelebogile DIKOLE		Director Chamber Management
- Iponeng MOLEBALWA		Acting Principal Officer
Internal Audit		

Name	Organisation	Position
- Dithlong KABOMO		Director of Internal Audit
- Tebogo TOMANGO		Chief Internal Auditor
- Olefile MOKATSE		Chief Internal Auditor
Government Accounting and Budgeting System Unit		
- M. MACHAPA		IT Officer GABS
- A. MOROKA		IT Officer GABS
- L. MACHAPA		IT Officer GABS
Donors		
Vincent Vire	European Commission	Programme Manager
Marc Thill	European Commission	Economic Adviser
Paul Malin	European Commission	Head of Delegation
Gert van der Linde	The World Bank	Senior Financial Management Specialist
- Gong HEPING	Embassy of the People's Republic of China	Economic and commercial counsellor
- Wang ZHU	Embassy of the People's Republic of China	Third Secretary
- Cecilia WANG XIAO	Embassy of the People's Republic of China	Attache
- Haylett REUBEN	Centre for Disease Control	Global Aids Program Consultants

ANNEX 4: LIST OF DOCUMENTS CONSULTED

6.2.1.1 Legislation, Regulations, Agreements

- Constitution of the Republic of Botswana
- Public Procurement and asset disposal regulation 2005;
- Public Procurement and asset disposal regulation 2006;
- Finances and audit act;
- Income tax regulation;
- Local government act;
- Mining and minerals regulations;
- Precious and semi-precious stones protection regulation;
- Unified local government services regulation;
- General loan stock;
- Mineral rights tax;
- Stocks bonds and treasury bills regulation;
- Value added tax regulation;
- Pension and provident funds regulations and rules;

6.2.1.2 Budget documents

- Budget speech 2006;
- Budget speech 2007;
- Budget speech 2008;
- Annual economic report published as supplement to the 2006 budget speech;
- Summary of recurrent revenue for the year ended 31st March 2008 (statement 2);
- Statements of recurrent expenditures for the year ended 31st March 2008 (statement 3);
- Details of recurrent revenue for the year ended 31st March 2008;
- Statement of development expenditures for the year ended 31st March 2008;
- Estimates of expenditures from the consolidated and development funds 2005/2006;
- Estimates of expenditures from the consolidated and development funds 2006/2007;
- Estimates of expenditures from the consolidated and development funds 2007/2008;
- Estimates of expenditures from the consolidated and development funds 2008/2009;

6.2.1.3 MFDP

- Financial statements tables and estimates of the consolidated and development funds revenues 2005/2006;
- Financial statements tables and estimates of the consolidated and development funds revenues 2006/2007;
- Financial statements tables and estimates of the consolidated and development funds revenues 2007/2008;
- Financial statements tables and estimates of the consolidated and development funds revenues 2008/2009;
- Annual statements of accounts for the financial year ended 31st March 2006;
- Annual statements of accounts for the financial year ended 31st March 2007;
- Annual statements of accounts for the financial year ended 31st March 2008;
- Statements of arrears of revenue as at 31st March 2008 (statement 19);

- Chart of accounts;
- Internal Audit Manual;
- Annual Audit Plan (Internal Audit Work Plan) for 2007/2008;
- Annual Audit Plan (Internal Audit Work Plan) for 2006/2007;
- Annual Audit Plan (Internal Audit Work Plan) for 2005/2006;

6.2.1.4 Botswana Unified Revenue Service

- SARS, Annual Report 2006/07
- SARS, Enforcement Risk and Anti-Corruption and Security Divisional Business Plan 2008/09, Version 1.4, July 2008
- SARS, Statistics on appeals cases and volume for 2007/08, internal report
- SARS, Update of the Strategic Plan 2007/08 - 2009/10, and reports on the targets of the modernisation programme over the next 18 - 24 months
- SARS, Delivering SARS' Modernisation Strategy, Realisation of Strategy through Execution

6.2.1.5 Auditor-General Office

- Report of the auditor general on the accounts of the Botswana government for the financial year ended 31st March 2006;
- Report of the auditor general on the accounts of the Botswana government for the financial year ended 31st March 2007;

6.2.1.6 Bank of Botswana

- Monetary Policy Statement 2008 (Bank of Botswana);
- Annual report 2007 (Bank of Botswana);
- Botswana Financial Statistics - June 2008 (Bank of Botswana);
- Botswana Financial Statistics – October 2007 (Bank of Botswana);

6.2.1.7 National Assembly

- Report of the public accounts committee of the Botswana National Assembly 44th Meeting) 2004/2005 Accounts;
- Report of the public accounts committee of the Botswana National Assembly 45th Meeting) 2005/2006 Accounts;

6.2.1.8 Other publications

- IMF Working Paper "Did Botswana escape from the resource curse?" WP 06/138;
- IMF Committee 17th meeting;
- IMF evaluation of the UK DFID Financed Technical Assistance GDDS Project for selected Anglophones Countries;
- IMF Botswana 2005 Art IV Consultation;
- IMF Botswana 2007 Art IV Consultation;
- IMF 2004 – Botswana – Report on the observance of standards and codes;
- EC System Extracts "Contract Card";
- EC System Extracts Standard Kanaladapter;
- Indicative timetable for implementation (Annexe E) of the financial agreement between EC and the Government of Botswana;

ANNEX 5: EXIT CONFERENCE ATTENDEES

Name	Position
Christopher M LEBEKWE	D Director Parliament
Theresa FRANCIS	TA to the NAO MFDP
DISELEKA	General manager rev BURS
Mogameti MUTENGWA	Planning officer MFDP
Phapelo MARCIATONI	CSO MFDP
Bongotlo MPOFU	Principal planning officer
S RABUTI	Senior planning officer
O.K. MEKATJE	Chief Internal Auditor
Tebogo TOMANGO	Chief Internal Auditor
James WARNER	Social Policy Advisor UNICEF
MPALE MUDANGA M africa	Planning Officer Ministry of Health
Manale GAIFITSE	Planning Officer Ministry of Health
Thatayone MAXHOO	Finance officer Ministry of Health
Emmanuel MUDARIKIRIE	Accountant Ministry of Health
Matlhodi SERERO	Principal economist Bank of Botswana
Margaret B. MABJENG	Principal economist MFDP
Gaone T LERSWELETSE	Senior internal auditor
Steinberg GABANAKEMO	Planning officer MOE
Bame MANATUOKO	Planning officer MFDP
Vincent VIRE	Programme Manager EC
Othusitse REBULETSWE	Accountant general office
SK JOHN	Acting Accountant General
E.A. PELOEHETSE	Assistant auditor general
J. MAKQWA	Ag DDP MFDP
S.M. MAKOSHA	Ag DEMP MFDP
P.O. SERAME	CE (m) MFDP
B.G. MPHETLHE	DMP MFDP
Thebenales THEBENALES	Snr Asst Clerk Parliament
Kadmo GOPALANG	Asst Acct General
Godiramang SEGOTSO	Controler of accounts MOH
Obakeng OKGETHILE	Planning research specialist BURS

ANNEX 6: COMMENTS AND RESPONSES ON THE DRAFT REPORT ON THE PEFA ASSESSMENT

OVERALL IMPRESSION

6.2.1.9 PEFA Secretariat

Comment 1.1
A well organized and neatly prepared report, which follows the PFM Performance Report outline and guidance quite closely. Some editing is probably still necessary.
Response 1.1
The text has been reviewed for errors of fact and typographical errors.

6.2.1.10 The Government of Botswana

Comment 1.2
The rationale and the facts/reports based on which the assessment has been made was extensively discussed and explained by the consultants with us during their stay here. We find that the report generally captures the assessment as conveyed to us during the de-briefing sessions
Response 1.2
The text has been reviewed for errors of fact and typographical errors.

Comment 1.3
Under general comments, I would suggest that the Country Background Information should have been at the beginning of the report. The Introduction, covering Scope of Assessment and states period under review is also slotted in the middle of the report instead of at the beginning
Response 1.3
The organization of the report strictly adheres to the PEFA manual as was required by the Terms of Reference

SUMMARY ASSESSMENT

6.2.1.11 PEFA Secretariat

Comment 2.1
The summary assessment is substantial and summarizes well the assessment across the six critical PFM dimensions. Section (ii) comprehensively explains the impact on the three budgetary outcomes. Nevertheless, the overall story does not come out very clearly.
The summary on prospects for reform (section iii) very sensibly notes the lack of a formal PFM reform strategy. The need for identifying critical relationships and sequences could is also usefully highlighted.

Response 2.1
The Summary Assessment has been reviewed and rewritten in parts to improve clarity.

SECTION 1 – INTRODUCTION

6.2.1.12 PEFA Secretariat

Comment 3.1
This section describes the general and overall objective of the report as being to assist the Government of Botswana in preparation of a PFM reform strategy and the EC in its budget support strategy. Process, methodology and scope of the assessment are well explained.
Response 3.1
No changes were made to this section.

SECTION 2 – COUNTRY BACKGROUND INFORMATION

6.2.1.13 PEFA Secretariat

Comment 4.1
The draft report provides comprehensive and relevant background information on budget outcomes and on social and economic indicators as well as on the country's reliance on diamonds, its narrow economic base as well as the fiscal pressure of dealing with the HIV/AIDA epidemic.
Response 4.1
Minor changes were made to this section.

6.2.1.14 The Government of Botswana

Comment 4.2
At paragraph 2.3.3 (page 35) it has been mentioned that "the Payroll is computerised and managed by using INFINIUM". Payroll does not have any linkage or interface with INFINIUN. Payroll is managed using an oracle based system known as Government Payroll, Passages and Pensions (GPPP) system
Response 4.2
The text has been revised to correct all references to INFINIUM.

Comment 4.3
Paragraph 2.3.2 also states that MFDP is responsible for development of financial management system for the central and provincial governments. Provincial government financial management systems are independent of the central government financial management system and are developed by the Ministry of Local Government. They also use different basis of accounting.
Response 4.3
The text has been revised to better characterise the financial management systems used by the sub national government.

6.2.1.15 PEFA Secretariat

Comment 5.1
This section follows very closely the proposed structure and content of the Performance Report and systematically indicates sources of information. We have nevertheless some observations on the need for additional evidence to support the scoring as well as on the correspondence between evidence provided and score given for some of the individual indicators, as highlighted in the table below:
Response 5.1
The specific responses are made in the following table.

6.2.1.16 The Government of Botswana

Comment 5.2
Paragraph 3.1.4 (page 42) refers to the possibility of significant expenditure arrears. The trend of expenditure would show that there is end of year rush. But the arrears carried forward to next financial year would not be substantial in percentage terms to the total procurement budget. As explained in page 9, expenditure arrears accumulation is not monitored centrally because we operate on cash basis of accounting. According to this principle, all unpaid GPOs as at 31st March every year stands cancelled. However for operational convenience the outstanding ones are carried forward to the next financial year as, commitments, instead of issuing new GPOs.
Response 5.2
Without the specific monitoring of such commitments carried forward it is impossible to ascertain whether or not these remain unpaid beyond the arrears time threshold. As regards the principle of adopting a cash accounting basis, we note that revenue arrears are closely monitored and reported upon given the important utility towards sound public finance management. The same rationale might be adopted for monitoring expenditure arrears.

	Comments on the rating	Response
PI-1	**PEFA Secretariat:** Correctly rated, based on sufficient evidence. A typo in the table “actual primary expenditure deviated from expenditure estimates by more than 10% in TWO of the three years considered”.	The correction has been made
	Changes made to the narrative and / or scoring: Changes made to the narrative; no changes made to the scoring.	
PI-2	**PEFA Secretariat:** The calculation gives 12.3% in 2005/06. This makes no difference to the C rating. The other year calculations are confirmed. The number of heads should be reduced to the 20 largest, with the smallest 5 consolidated into an Other head. This also makes no significant difference to the variance calculation.	The calculation error has been corrected.
	Changes made to the narrative and / or scoring: Changes made to Table 3.2. No changes to the narrative. No changes made to the scoring	
PI-3	**PEFA Secretariat:** Correctly rated, based on sufficient evidence	No changes made
	Changes made to the narrative and / or scoring: Changes made to the narrative; no changes made to the scoring.	
PI-4	**PEFA Secretariat:** No score for (i) and in total and D for (ii) are evidenced.	No changes made
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-5	**PEFA Secretariat:** B score seems evidenced instead of C since documentation at the functional level consistent with GFS/COFOG, can be produced. Not clear though how the functional classification of expenditure is achieved, and whether at main COFOG level, or sub-functional level.	A B score requires that budget execution be based upon functional classification. The functional classification is achieved through a bridging table and does not reflect actual budget execution. This is not yet the case for such expenditure features as commitment control. The rating remains a C.
	Changes made to the narrative and / or scoring: No changes made to the score; no changes have been made to the narrative.	
PI-6	**PEFA Secretariat:** Two items do not apply (deficit and deficit financing) as GoB runs a surplus. Only 1 item (financial assets) is omitted. Pro rata, this rates an A score.	The scorings has been changed to an A
	Changes made to the narrative and / or scoring: No changes made to the narrative; changes made to the scoring.	
PI-7	**PEFA Secretariat:** The text refers only to departmental revenues and off-balance sheet subsidies, There is no mention of extrabudgetary agencies and their level of	The text refers to commercial public enterprises as examples of extra-budgetary, security agencies and refers to the reconciliation process undertaken to reasonably assure that there

	Comments on the rating	Response
	expenditure. Have they been researched? Elsewhere there is mention of EBAs, of which PPADB is only one.	are not significant extra-budgetary expenditure. The text has been amended to improve clarity
	Changes made to the narrative and / or scoring: Changes made to the narrative; no changes made to the scoring.	
PI-8	**PEFA Secretariat:** Dims (i) and (ii) ratings evidenced. On dim (iii), there is no consolidation of LC financial statements, so rating is D, and overall rating D+.	The text states that there is a consolidation process. The score for dim(iii) should be B.
	Changes made to the narrative and / or scoring: Changes made to the narrative; changes made to the scoring.	
PI-9	**PEFA Secretariat:** Correctly rated, based on sufficient evidence	No changes made
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scorings.	
PI-10	**PEFA Secretariat:** Correctly rated, based on sufficient evidence	No changes made
	Changes made to the narrative and / or scoring: No changes made to the narrative. No changes have been made to the scoring.	
PI-11	**PEFA Secretariat:** Dims (i) & (iii) ratings evidenced. For dim (ii), the budget circular does not prescribe expenditure ceilings, so does not meet the requirements for C. Should be D, but this does not change the overall B rating for the indicator.	The text has been clarified to show that MDAs have a 2 to 4 weeks to amend their proposed budgets subject to the ceilings provided towards the end of the budget preparation cycle. The rating for dim(ii) remains a C.
	Changes made to the narrative and / or scoring: Changes made to the narrative; no changes made to the scoring.	
PI-12	**PEFA Secretariat:** Dimensions (iii) and (iv) are rated A and C respectively. It is odd that fully costed sector strategies (first year slice) are not fully budgeted. This needs explanation. Uncertain rating. (ii) The debt/GDP ratio is indeed very low, but nevertheless long term fiscal sustainability is an issue as diamond production declines and if prices decline. Perhaps the government has alluded to fiscal sustainability issues in its fiscal policy statements; if so, then perhaps this could suffice for a DSA if the issues and appropriate policy response have been highlighted rigorously. Besides, the team could usefully refer to the IMF Article IV report (2007), which contains a debt sustainability analysis.	It is important to separate clearly the planning processes from the budgeting processes. They are not the same. In the case of planning these are based upon fully costed estimates developed within a fiscal frame. However, while the budgeting processes is constrained to considerations of planned projects, the subjection to actual resources available and the careful consideration of forward linked recurrent costs are not properly addressed across all line ministries. The government has recognised this difficulty and has introduced a project budgeting and implementation support programme.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-13	**PEFA Secretariat:**	

	Comments on the rating	Response
	Correctly rated, based on sufficient evidence	No changes made
	Changes made to the narrative and / or scoring: No changes made in narrative; no changes in scores	
PI-14	**PEFA Secretariat:** Dim (i) should get an A only if the TIN database is linked with other (relevant) government databases. There are plans to do this. At present, it is doubtful that a vehicles database is of much use in enhancing registration of taxpayers.	The rating on Dim(i) has been changed to a B. This does not affect the overall scoring.
	Changes made to the narrative and / or scoring: No changes made to the narrative; changes made to the scoring shown in the box.	
PI-15	**PEFA Secretariat:** (i) Does the fact that there are no data for Customs and Mineral Royalties mean that there are no arrears or that there is no data? (ii) If the amount of revenues transferred less frequently than weekly is not significant, the score could be B. (iii) Dim (iii) is rated A, but there is no reconciliation of assessments and collections. Should be D. Text and Annex 2 give different ratings on all 3 dimensions.	There are not significant arrears in the case of Customs. In the case of Mineral Royalties while officials state that there are no arrears there were no reports provided to ascertain this. There are transfers made occasionally. It would appear that mineral revenues are also transferred less frequently – a substantial proportion of revenue. Has been rated a D. Corrections have been made to Annex 2
	Changes made to the narrative and / or scoring: No changes made to the narrative; Changes have been to Annex 2..	
PI-16	**PEFA Secretariat:** Correctly rated, based on sufficient evidence	No changes made
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-17	**PEFA Secretariat:** Dim (i) rated D, as domestic debt is not reported. Domestic debt is 'limited'. If it is included in the annual financial statements (and there is no reason to expect otherwise), all debt is reported and reconciled at least annually, and meets the requirements for C rating **Government of Botswana** The report states that domestic debt portfolio is not reported (please refer PI-17 (i) at page 58). The internal debt is included in the statement of Public Debt (standard II) in the Annual Statement of Accounts and is audited by the Office of the Auditor General. Similarly contingent Liabilities are also reported in Statement 17 and overall monitoring of the extent of liabilities is the responsibility of MFDP.	Domestic debt is included in the Public Debt (standard II) in the Annual Statement of Accounts and so qualifies for a C rating. Changes have been made to the narrative and the scoring. See response above.
	Changes made to the narrative and / or scoring:	

	Comments on the rating	Response
	No changes made to the narrative; no changes made to the scoring.	
PI-18	**PEFA Secretariat:** Correctly rated, based on sufficient evidence	No changes made
	Changes made to the narrative and / or scoring: The scoring and the text remain unchanged.	
PI-19	**PEFA Secretariat:** Correctly rated, based on sufficient evidence	No changes made
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-20	**PEFA Secretariat:** Correctly rated, based on sufficient evidence	No changes made
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-21	**PEFA Secretariat:** ii) C seems a bit harsh. The fact that audit reports are submitted to the SAI upon request is sufficient to score a B	Part of the rationale for submission of all Internal Audit reports is to make more effective the SAI audit work plans based upon a risk assessment. Waiting for requests undermines this advantage. Indeed the government itself has recognised this weakness and is taking steps to address that. Further, tThe PEFA manual is clear that a B requires that the reports be distributed to the audited entity, the ministry of finance and the SAI to score a B. The reports are not distributed to these entities.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-22	**PEFA Secretariat:** Dimension ratings of B,B are evidenced, but Annex 2 shows overall rating of A. Text correctly says B	Annex 2 has been corrected.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-23	**PEFA Secretariat:** It is not clear whether information is available on resources charged to SDUs or resources actually received, or whether info is available on each SDU or only in summary. Uncertain rating.	The resources actually received are reported upon.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-24	**PEFA Secretariat:** Correctly rated, based on sufficient evidence	No changes made
	Changes made to the narrative and / or scoring:	

	Comments on the rating	Response
	No changes made to the narrative; no changes made to the scoring.	
PI-25	**PEFA Secretariat:** Correctly rated, based on sufficient evidence	No changes made
	Changes made to the narrative and / or scoring: No change made to the narrative. No change has been made to the score.	
PI-26	**PEFA Secretariat:** Dim (ii) on timeliness rated D as transaction audits submitted only 13 months. However audit of accounts takes only 4/5 months. On an average basis, the audit phase of accountability takes 9 months, and rates a C.	The assessment rates a D. The PEFA report does not speak to averaging and the late audit reports has a negative impact on PFM performance as has been reported repeatedly by the PAC. These delays are significant and the PEFA manual clearly states a D where Audit Reports are submitted to the legislature more than 12 months from the end of the period covered.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-27	**PEFA Secretariat:** Correctly rated, based on sufficient evidence	No changes made
	Changes made to the narrative and / or scoring: No changes made in the main narrative. No changes made to the scoring. Tracking of progress amended.	
PI-28	**PEFA Secretariat:** Correctly rated, based on sufficient evidence	No changes made
	Changes made to the narrative and / or scoring: The omitted element in the table has been reinserted.	
D-1	**PEFA Secretariat:** Correctly rated, based on sufficient evidence	No changes made
	Changes made to the narrative and / or scoring: No changes made to the scoring. No changes made to the narrative.	
D-2	**PEFA Secretariat:** Correctly rated, based on sufficient evidence	No changes made
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
D-3	**PEFA Secretariat:** Correctly rated, based on sufficient evidence	No changes made
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	

Section 4 – Reform Efforts

6.2.1.17 PEFA Secretariat

Comment 6.1
This section gives a useful and concise description of all the recent PFM reform efforts in Botswana. These initiatives cover areas such as revenue administration, decentralization, procurement, the Auditor general and IFMIS. All these reforms appear to have been driven in isolation, and it is not clear as to whether there was a strategy in place to co-ordinate their sequencing or prioritization as they will have (if not already had) an impact on each other.
Response 6.1
No amendments have been made to this section

6.2.1.18 Cooperating Partners

PFM Performance Indicator		Draft Report	Final Report
A. PFM-OUT-TURNS: Credibility of the budget			
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	C
PI-2	Composition of expenditure out-turn compared to original approved budget	C	C
PI-3	Aggregate revenue out-turn compared to original approved budget	A	A
PI-4	Stock and monitoring of expenditure payment arrears	<NS>	<NS>
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget	C	C
PI-6	Comprehensiveness of information included in budget documentation	B	A
PI-7	Extent of unreported government operations	A	A
PI-8	Transparency of inter-governmental fiscal relations	C	C+
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D+	D+
PI-10	Public access to key fiscal information	B	B
C. BUDGET CYCLE			
C(i) Policy-Based Budgeting			
PI-11	Orderliness and participation in the annual budget process	B	B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	C+
C(ii) Predictability and Control in Budget Execution			
PI-13	Transparency of taxpayer obligations and liabilities	B	B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	B
PI-15	Effectiveness in collection of tax payments	D+	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	D+	D+
PI-17	Recording and management of cash balances, debt and guarantees	D+	C
PI-18	Effectiveness of payroll controls	B+	B+
PI-19	Competition, value for money and controls in procurement	D+	D+
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	C+
PI-21	Effectiveness of internal audit	C+	C+
C(iii) Accounting, Recording and Reporting			
PI-22	Timeliness and regularity of accounts reconciliation	B	B
PI-23	Availability of information on resources received by service delivery units	A	A
PI-24	Quality and timeliness of in-year budget reports	C+	C+
PI-25	Quality and timeliness of annual financial statements	C+	C+
C(iv) External Scrutiny and Audit			
PI-26	Scope, nature and follow-up of external audit	D+	D+
PI-27	Legislative scrutiny of the annual budget law	B+	B+
PI-28	Legislative scrutiny of external audit reports	C+	C+
D. DONOR PRACTICES			
D-1	Predictability of Direct Budget Support	D+	D+
D-2	Financial info provided by donors for budgeting/reporting on project/program aid	D+	D+
D-3	Proportion of aid that is managed by use of national procedures	D	D

ANNEX 7: ATTENDEES TO THE FINAL PEFA WORKSHOP

	Name	Organization
1	Pulane Letebele	Auditor General
2	S. Moroka	Office of the Accountant General
3	J. C. Makgolo	Office of the Accountant General
4	O. M. Mogotwe	MFDP, Development and Budget
5	R. B. Sebopeng	Auditor General
6	Matilda Basinyi	MFDP, Budget
7	D. K. Mpofu	MFDP, Budget
8	F. Mudarikirie	Public Debt
9	I. Molebalwa	MFDP, Budget
10	M. P. Kerekang	Central Statistics
11	S. Raboti	Macroeconomic Policy
12	B. R. Mpofu	Employment and Manpower
13	D. V. Kabomo	Internal Audit
14	B. M. Peter	MFDP, Budget
15	T. P. Kgasa	Employment and Manpower
16	K. Molaodi	MFDP, Development and Budget
17	C. K. Dekop	MFDP, Development and Budget
18	M. Thill	EC Delegation
19	M. B. Leehoko	PPADB
20	M. Mutengwa	MFDP, Development and Budget
21	S. Kebakile	MFDP, Development and Budget
22	Bontle Mbongwe	BURS
23	J. M. Kaunda	BIDPA
24	M. A. Mpale-Mudanga	Ministry of Health
25	Emmah Peloeelere	Office of the Accountant General
26	Matlhodi M. Serero	Bank of Botswana
27	M. B. Mabuteng	MFDP/NAO