THE EFFECTS OF THE GLOBAL FINANCIAL CRISIS OF 2007- 2008 ON PUBLIC SECTOR PROJECTS IN BOTSWANA DURING 2008-2010

By:

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DECLARATION

I, Ms Thabiso Mbongwe, student number: 22577378 declare that name of dissertation is my own original work.

I acknowledge the assistance of my supervisor, Professor Collins Miruka and the editorial assistance of Ms R Nicola.

All the sources/references I have used for the purpose of this study have been acknowledged and a list of all references compiled.

SIGNATURE: TMbongwe DATE: 17/04/15

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ABSTRACT

This dissertation focuses on the effects of the global financial crisis of 2007-2008 on public sector development projects in Botswana during the period 2008-2010. A documentary research strategy was used to execute this study. Data was collected and analysed in relation to the sectors of importance, which were agriculture, extractive industries, transport and communications, hotels and restaurants amongst others. Expectation was that as the financial crisis was felt globally, the economy of Botswana would not be exceptional. However, in assessing the effects of the financial crisis under the different public and private sectors, it showed that not all effects were felt at the same time. For example, the main economic sector in Botswana, mining, which falls under the ambit of extractive industries, was more affected than other, non-mining, sectors. The government, however, employed effective strategies to counter this situation. It eased monetary policy so as to ensure price stability and to keep inflation rates within the desired range of between 3-6%. Another strategy was that government stimulated domestic demand through an expansionary fiscal policy. In executing such strategies, the government wanted to ensure a stable fiscal and monetary environment which was sustainable and in line with comparators in the region.

With the effects of the crisis on public and private sectors, felt at different levels and at different times, the country however weathered to the crisis and was able to move forward in the post-crisis period.

Though, challenges of high inflation rate amongst others still remain, this had existed prior the years of crisis. Post crisis, as from 2001 until 2013, Botswana inflation rate averaged 8.3% reaching an all-time high of 15.1% in August of 2009. Keeping this rate within the desirable ranges is still a challenge.

With the non-mining sector performing well despite the recession, government has recommended diversification of this sector together with the private sector to become the alternative engines of growth for the economy.

Results suggest that the economy was significantly affected by the crisis and it is my recommendation that the diversification strategies be employed.

Keywords used: Financial crisis, Economic indicators, Public sector, Diversification.

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LIST OF ACRONYMNS

AfDB-African Development Bank

BEDIA-Botswana Export Development and Investment Authority

BIFM-Botswana Insurance Fund Management

BOBC-Bank of Botswana Certificate

EU-European Union

FMD- Foot and Mouth Disease

GDP-Gross Domestic Product

ICT-Information Communication Technology

IIP-International Investor Principle

IMF-International Monetary Fund

MDG-Millennium Development Goal

MEWT- Ministry of Environment, Wildlife and Tourism

MMWER-Ministry of Minerals, Water Energy Resources

NDP- National Development Goals

USD-United States Dollar

USA-United States of America.

CHAPTER 1: INTRODUCTION TO DISSERTATION

1.1 INTRODUCTION

This research was conducted with the main emphasis on the effects of the global financial crisis of 2007-2008 on Botswana's economy during the years 2008-2010. A financial crisis is defined as the result of years of global economic change, policy errors and misjudgements (Botswana Review, 2011). Botswana, as a developing country, felt the impact at the time of the crisis. According to Bank of Botswana reports the country's real growth rates showed a decline of 6.4% from the year 2007, to 5.9% in 2008 and -3.7% recorded in 2009. It is pertinent to note that, prior to the financial crisis, Botswana had achieved impressive economic performance over the past three decades due to a number of factors. These include prudent macroeconomic management, consistent policies, political stability and good governance. The country had maintained a high economic growth rate, resulting in the accumulation of substantial foreign reserves, the development of human resources and very low foreign debt. Botswana had opportunities to access international markets through bilateral and multilateral agreements such as 'The Cotonou Partnership Agreement of 2000' that offered Botswana access to the European market (BEDIA 2007).

According to the World Bank Annual Report of 2009, the world is said to have dealt with its greatest financial and economic challenge since World War II during that period (2009:12). The financial turmoil that began in 2007 erupted into a full blown financial crisis in September 2008, spawned rising unemployment that reached double digits in many countries and continued to rise for some time. The effects are still being felt. Virtually no country, including Botswana, escaped the impact of the widening crisis, the effects of which were felt through 2011. Many challenges remain and much uncertainty continues to cloud the outlook as profitability returns to many of the firms that were at the heart of the crisis. The financial crisis led to the freezing up of credit markets, sharp reversal of capital flows, and precipitous equity market and exchange rate declines (Global Economic Prospects 2010:1).

The global economy, which grew by 1.9% in 2008, was expected to decline by 2.9% during 2009, far deeper than the 1.7% decrease the World Bank projected in April 2009. This was the first time that global output has shrunk in more than 60 years. The growth in developing countries was forecast to slow by more than 4 percentage points, to just 1.2% in 2009 (World Bank Annual Report Review 2009:12).

According to the Global Economic Prospects Report of 2009, the global financial crisis endangered the achievements of the Millennium Development Goals (MDGs). Targets that would have been difficult to reach even before the crisis became implausible in some of the world's most vulnerable regions. Passing through the crisis, does seem to have caused negative impact on productivity and the future path of economic growth of Botswana. Botswana as an open economy, integrated into global commerce, has had a share of these negative impacts.

1.2 BACKGROUND

This research was undertaken during the year 2011 and continued into 2013. It investigated the effects of the global financial crisis on Botswana's economy during the years 2008-2010. The main emphasis of this research was on Botswana's public sector, particularly in agriculture, extractive industries, transport and communications and hotels and restaurants.

Ministry of Agriculture

The Ministry of Agriculture generally aims to attain national food security and global competitiveness in agricultural products. It works to improve agricultural productivity through technology development and transfer, diversification and commercialisation, in order to promote food security in partnership with their stakeholders (Agrinews, 2010).

Ministry Of Environment, Wildlife and Tourism (MEWT)

The mandate of the Department of Tourism is to promote Sustainable Tourism Development, thereby facilitating commercial exploitation of tourism resources to the advantage of national economic development. The Department focuses on development and implementation of policies, strategies and programmes to ensure sustainable tourism development (Department of Tourism, 2013).

Ministry of Minerals, Energy and Water Resources (Extractive Industries)

The ministry that spends the most money is the Ministry of Minerals, Energy and Water Resources. This ministry (MMEWR) coordinates development and operational activities in the energy, water and minerals sector. In partnership with stakeholders, it provides reliable, adequate and good quality water and energy services, and efficient administrative services for mineral exploitation. This is achieved by a motivated workforce, developing and implementing equitable, cost-effective and environmentally sustainable policies, programmes, and legislation. Improving the quality of life to ensure prosperity for the people of Botswana is its ultimate aim (Ministry of Minerals, Energy and Water Resources 2013).

Ministry of Transport and Communications

The Ministry of Transport and Communications was formed to drive the development and utilisation of Information Communication Technology (ICT) and integrated transport services. The Ministry achieves this goal by formulating relevant ICT and Transport policies as well as coordinating their implementation through national, regional and global collaborative efforts that harness local resources, talent and innovation (Ministry of Transport and Communication 2013).

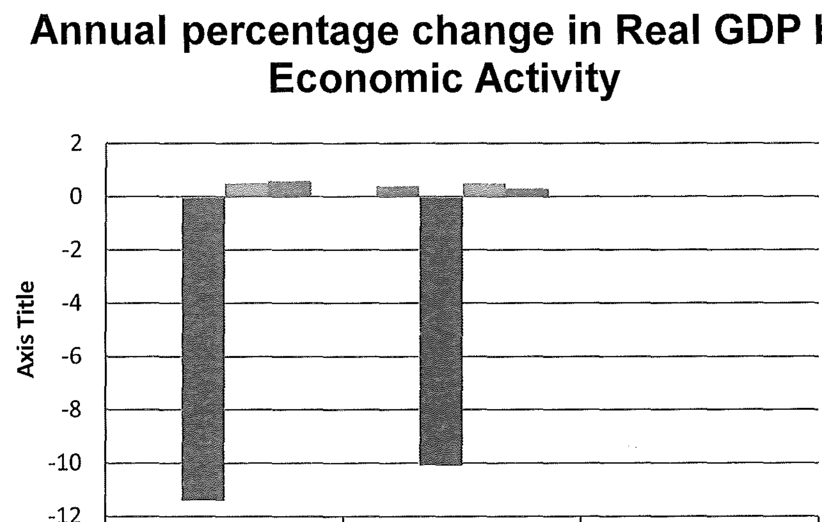
The above mentioned ministries all have specific programmes and projects to fulfil. However, over the years 2008-2010 under review, the government experienced budget shortage. This is further emphasised by the Bank of Botswana report of 2010, which shows that government spending contracted by 2.2% in that period due to the effects of the global financial crisis. Therefore, in creating viable and vibrant ministries that are modernised and streamlined to be efficient in service delivery, it was important that research be undertaken to evaluate the effects of the financial crisis on public sector developments projects during the years 2008-2010.

1.3 PROBLEM STATEMENT

Low levels of national output over the years due to the financial crisis of 2008-2010 led to a cut in government spending, and causing a reduction in the number of projects to be carried out. The effect of this financial crisis on the public sector economy has never been examined; this study evaluates the effects of the financial crisis during 2008-2010 on public sector projects in Botswana.

The following graph shows the national output for the country during the time of the financial crisis:

Figure 1.1 Depicts the level of output by economic activity by the sectors.



	% points contribution to Growth in real GDP-2008	% points contribution to Growth in real GDP-2009	
Agriculture	0	0.4	
Extracive industries	-11.4	-10.1	
Transport and communication	0.5	0.5	
Hotel and resturants	0.6	0.3	

Source: Statistics Botswana 2009

1.4 PURPOSE OF THE STUDY

The goal of this study is to understand the effects of the global financial crisis of 2008 on public sector projects in Botswana.

1. 5 AIMS AND OBJECTIVES

For a variety of reasons, there was a decrease in the number of projects undertaken in the past few financial years despite the measures government has come up with to mitigate the effects of the financial crisis. If we are to assess the effects of the financial crisis, it will be important first to know what the situation was with regard to the economic outlook at the time and how this affected the Botswana's economy. It investigates how this research could contribute to possible solutions. This research will aim to determine the impact of the financial crises in public sector developments projects in Botswana by unearthing problems associated with the causes and effects of financial crises and identify some possible solutions to the problem for Botswana.

1.5.1 Specific research objectives

The following specific objectives will be pursued:

- To find out if the global financial crisis had an effect on Botswana's economy.
- To find out how Botswana can best guard itself against a similar financial crisis in the future.
- To propose possible solutions that might help mitigate the effects of the crisis.

1.5.2 Research questions

- What is the effect of the global financial crisis on Botswana's economy?
- How can Botswana guard itself against a similar financial crisis in the future?
- What are the possible solutions to help mitigate the effects of the crisis?

1.6 SIGNIFICANCE OF THE STUDY

With cuts in government spending, there is lack of information regarding the effects of the financial crisis on the public sector. The aim of research will be to find information, give an overview of the effects of financial crisis on the public sector and make positive suggestions. This research also focused on macroeconomic variables that determine economic growth. Review of documents pertained to years 2008-2010 mainly. As this research continued into the year 2013, the researcher was able to add more recent sources in order to show the way the economy developed after the crisis.

1.7 LIMITATIONS OF THE STUDY

Research is a systematic way of collecting, analysing and interpreting data in order to increase our understanding of a phenomenon about which we are interested or concerned Leedy and Ormord (2005:2). Therefore, because of the vast development projects that Botswana carries out, the focus was only on the implementation of development projects particularly in relation to sectors of agriculture, extractive industries, transport and communications and hotels and restaurants.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

In Chapter One, the general introduction and background to the research was discussed, including the problem statement, research justification, research aim and objectives, research questions, scope and limitations. This chapter provides the theoretical background for the study. The review of literature cites research that was carried out elsewhere and discussed in the different journals, reviews and books in relation to impacts of the global financial crisis. This gives us the foundation for economic indicators used in the analysis and discussion.

This chapter will give brief details in this order: Section 2.2 contains a brief background to the global financial crisis. Section 2.3 provides a history of the financial crisis. Section 2.4 examines the causes of the financial crisis and Section 2.5 concludes the chapter.

Figure 2.1 Shows the path of literature review of the dissertation

2.2 BRIEF BACKGROUND TO THE GLOBAL FINANCIAL CRISIS

According to Jones (2008) the world economy was beset by more macroeconomic uncertainty than at any time in the last 25 years during the financial crisis that started in the summer of 2007 and intensified in September 2008. It led to international financial giants such as Bear-Stearns, Lehman Brothers, Merrill-Lynch, AIG and Fannie Mae disappearing or being rescued through large government bailouts. The global financial crisis of 2007-2008 is likely to go down in history as the worst recession since the Great Depression in the 1930s (Helleiner 2011:67).

More than any other financial meltdown in the post war period, the crisis affected major financial centres across the entire world (Reinhart & Rogoff 2009). It also generated a collapse of international trade more severe than any since the 1930s, and a broader economic downturn that involved all regions of the globe (Helleiner 2011:67).

The impact of the crisis on developing countries was universal. The most severely affected were the middle-income countries, especially in Central and Eastern Europe and the Commonwealth of Independent States. According to the IMF World Economic Outlook Database October (2009) a sharp decline in growth was experienced during 2009 across the world. This was driven by the combination of the credit crunch and domestic imbalances such as large current account deficits and housing bubbles (the two being not unrelated)(Verick and Islam 2010:22).

With these forecasts, the emerging market and developing countries, which include Botswana, were expected to evolve at a moderate pace after a sharp decline in growth that was experienced in the year 2009 (IMF World Economic Outlook Database October 2009).

The financial crisis had a profound effect, much more than that anticipated by many. Governments were dwarfed by the magnitude of the financial crisis which had almost catastrophic triple effects not only on public administration institutions but also on private-sector organisations such as banks and motor industries which were left worse off (The impact of the global financial crisis on Botswana, 2008).

However, in the case of Botswana, the Bank of Botswana responded with an easing of monetary and fiscal policy that in turn had its own effects on activity, financial and trade flows of the country.

According to Samuelson (2009), each financial crisis, has a resemblance to other crises and passes through similar phases. Nevertheless, each crisis also has its own distinctive characteristics. Three features distinguished the economic crisis: Firstly, the origins of the crisis were in the United States. The fact is that the United States led the way into the crisis. Secondly, if the leading economy in the world, whose currency and financial institutions are at the foundation of the global financial system, stops performing efficiently, it should not be surprising that the resulting crisis is global. Thirdly, it is quite common for a crisis to begin in the financial sector, spread to the real economy, cycle back to cause the financial sector to deteriorate, and in so doing further aggravate the conditions in the real economy(Truman 2009:2).

According to Samuelson (2009), the economic and financial situation was more complicated. During the greater part of 2008, global growth appeared to be holding up in general, and inflation, mainly in commodity prices, was still rising. Policymakers were slow in learning that they were dealing with two severe crises on a global scale i.e., in the financial system and in the real economy. Statistical evidence regarding dual crises in the traditional industrial countries on average points towards financial downturns leading to downturns in the economy. Improvements in the real economy lead the financial upturns, except for equity prices, which generally are contemporaneous (Truman 2009:3).

Verick and Islam (2010) describe factors behind the global financial crisis as those of rates, risk, regulations and global imbalances. The vast majority of academics, officials and investors ignored the signals and rather made profuse claims about a new era. There was general euphoria about the conditions in the global economy, with many commentators claiming that 'this time is different' (Verick and Islam 2010:12).

As argued by the researchers, there are, however, many similarities between the US sub-prime crisis and previous banking crises such as the massive surge in housing and equity prices, the growing current account deficit and rising level of (private) debt. Botswana, as an export oriented country, experienced the contagion effect. Botswana's outstanding external debt level was still low and sustainable, despite its rise following the global economic and financial crisis. Following its sharp rise from 8.4% of GDP in 2008 to 23.3% in 2009, it was estimated to decline to 20.4% in 2011 and furthermore to 12.3% of GDP by 2015, in line with the ongoing fiscal consolidation measures that focused on completion of ongoing infrastructure projects and limited expenditure on high return projects (African Economic Outlook 2013:1).

Notwithstanding the above, researchers also argued that, the exposure of lenders and investors was complicated by the unprecedented level of securitisation of mortgages (through collateral debt obligations), which created considerable uncertainty in financial markets as the crisis unfolded. This, in turn, resulted in a sudden reversal of risk perceptions (from risk seeking to risk aversion) (Verick and Islam 2010:12). Such risk aversion would also affect countries such as Botswana.

Taye (2010:7) states that the crisis could be attributed to three imbalances, namely:

a) **Current account imbalances**

Taye asserts that the Asian financial crisis of 1997 was caused by the gaping current account deficits of emerging countries mostly financed by capital inflows that gushed out as quickly as they pushed in. At the time of his writing, the export surplus and excess savings in other parts of the world, most, notably the Asian countries, supported the consumption habits of the US household and government.

b) **Wealth and income imbalance**

The so called 'saving glut': This describes a situation in which desired savings exceed desired investments or less consumption in the emerging economies, while the converse is true in the developed countries is also cited as a contributing factor. The view may be because there are not many profitable investment opportunities or the bond markets are not well developed (Taye 2010:7).

c) **Imbalance between finance and the real economy**

This is cited as one of the most serious imbalances that have taken place. The volume of financial investment dwarfed the value of productive investment worldwide as indicated by the ratio of global financial assets to annual world output which became three times larger (1:3).In addition the basic composition of the financial sector had also dramatically changed. The traditional idea of M1, M2, and M3 as the core liquidity is no longer valid, given the financial innovations that have resulted in an explosion of other forms of liquidity like derivatives that have truly escalated leverage (Taye 2010:9).

Therefore both the financial meltdown and economic downturn, albeit big, suggested that it was a reaction to the excesses observed in the market rather than a collapse of the system. This was therefore important to address the research aim of the effects of such financial and economic downturn on Botswana's economy.

As the World Bank Chief Economist for Africa S. Devarajan (Taye 2010:10) noted: the way the crisis would have an adverse impact on African economies as recession in developed economies spread would include:

- A slowdown in private capital flows would negatively affect economies that relied on the capital flows to finance much needed investment, particularly infrastructure investment.
- Commodity dependent economies would be exposed to considerable external shocks which stem from the price boom and bust in international commodity markets. As commodity prices fell, these would favour importers at the expense of exporters.
- Tourist revenues would likely decline substantially as recession in developed countries deepened as those countries tended to be the biggest source of such flows.

Therefore, with the World Bank having downgraded the growth prospects of Africa from 7.9%- to -0.1% for 2008 and 6.9% to -1.1% for 2009 (Taye 2010:11) a middle income country like Botswana, which has exposure to the rest of the world, would face problems of a financial crisis as well, in addition to the secondary or recession related economic effects.

2.2.1 Definition of a financial crisis

The standard definition of a financial crisis is when an economy experiences negative GDP growth for at least two successive quarters (Bank of Botswana Annual Report 2008:69) or it can be defined as a situation in which the value of financial institutions or assets drops rapidly. Financial crisis is a situation in which the value of financial institutions or assets drops rapidly. A financial crisis is often associated with a panic or a run on the banks, in which investors sell off assets or withdraw money from savings accounts with the expectation that the value of those assets will drop if they remain at a financial institution. A financial crisis can come as a result of institutions or assets being overvalued, and can be exacerbated by investor behaviour. A rapid string of sell offs can further result in lower asset prices or more savings withdrawals. If left unchecked, the crisis can cause the economy to go into a recession or depression (Reed 2013:1).

According to Zavala (2001) (as cited by Nurul, 2009:14); financial crises are divided into two major parts: currency crises and banking crises. He defined banking crises as crises that occur when a financial system becomes illiquid or insolvent. They mainly constitute bank runs, closures, mergers, takeovers, or large-scale assistant by the government to a group of banks or banking systems, should the crisis turn out to be systematic.

Mishkin defines a financial crisis as, 'a disruption to financial markets in which adverse selection and moral hazard problems become much worse, so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities' (Mishkin 2003:96).

Not all financial crises have the same characteristics, i.e. financial crises do not recur in an identical manner, both because institutional compositions differ across countries and over time, and because individuals learn to some limited extent from such problems. According to Davis (2003:5), they can differ in the manner in which they affect the economy and also in their causes.

2.2.2 Crisis in different eras

A comparison of the recent crisis with other crises has been addressed by different authors. Financial crises occurred in four eras, namely the Gold standard era (1870-1914), the interwar years (1919-39), the Bretton Woods Period (1945-1971) and the recent period (2007-2010) (Allen and Gale 2007).

As both emerging and developed countries have become more prone to crises in recent years there have been repeated comparisons between past crises such as the Mexican Crisis, the Asian Crisis and the Financial crisis of 2007-2008 which also started in the USA.

2.2.2.1 Crisis definition

In order to discuss the history of the current crisis it is important to clarify of the anatomy and classification of the crises. According to Sausmatez (2007), 'crisis' can be broken down into three stages:

1. **Initial pre-crisis period**

This stage may differ in length depending on the crisis. The nature of the crisis itself is usually brief.

2. **Post crisis Period**

This period may last for a considerable time.

3. **Pre-crisis Period**

The pre-crisis stage may be either very long or so short as to be virtually non-existent. It can be described as a warning of an approaching crisis, or as indicators and the identification thereof. Its length is important as it offers advance warning of the crisis, allowing time for evasive action.

It is pertinent to note that much literature and research has since the 1960s mainly focused on the unfolding of crisis but has not looked much into recovery after the crisis. This research evaluates the effects of the crisis on public sector projects in Botswana as the timeframe is the period of 2008-2010 in the post crisis period.

2.3 THE HISTORY OF THE CURRENT FINANCIAL CRISIS

2.3.1 Financial crisis of 2007-2008

The recent financial crisis was in large part caused by high risk loans the US banks provided to people with poor credit history in order to purchases homes prior to 2007. Nevertheless, between 2004 and 2006, US interest rates rose from 1% to 5.35% while house prices fell, thereby triggering a slowdown of the housing market. With homeowners not being able to afford the large mortgages they had taken before buying houses, many banks and investors suffered losses. After that, would not take on any risks, freezing the credit market. From the beginning of 2008, banks faced severe problems as the governments tried to keep them and investors in business through the provision of large loans in exchange for shares in the banks (Sinai 2009).

September 15 2008 marked the collapse of Lehman Brothers, a major investment bank. It was the first of many banks in the US and Europe banks to file for bankruptcy. With this, a lack of confidence in the credit market led to a decline in economic growth and from the second half of 2008 many countries all over the world entered a recession. This crisis started in the developed countries and caused a decline in revenues. The developed countries needed money to stabilise their own economies and had no extra funds left to provide loans to and invest in developing countries. The decline in loans and investments is a reason amongst others why developing countries which included Botswana (which were highly dependent on loans and development assistance) were hit hard by the financial crisis. The costs of existing loans became higher due to the decline in exchange rates (Buysse 2010).

Botswana was supported by a loan through the African Development Bank amounting to US$1.5 billion. This was aimed at supporting countries affected by the financial crisis (AfDB 2009:1)

Notwithstanding the above, (Botlhale 2013) (as cited by Sunday Standard 2013:1) states that not only was the financial crisis felt by the economy but national household debt has reached crisis levels. Bank of Botswana statistics show that 70% of loans were taken from the commercial banks in 2012 and were unsecured in nature. This translates that the high levels of household debt had far reaching effects which ultimately would affect the economy and create a national crisis.

Despite this, (Diamond and Dvbvig (1983)), point out that markets can have multiple equilibria. This arises when possibility of speculative attacks blurs the distinction between liquidity and solvency. As a result, there may not be any single unique 'equilibrium' for debt yields hence multiple equilibria. It is therefore, also important to note that an illiquid credit institution could be viable if depositors had confidence in the value of its short-term obligations, but would fail if the depositors coordinated instead in an attempt to withdraw their funds. Another claim is that otherwise successful economies have been victims of greedy market operators, usually foreign to successful economies. Usually the view is said to be popular with government ministers in the afflicted countries. The opposing view is that such crisis is home grown and the global capital market is simply performing a needed role in disciplining imprudent government policies. The roots of the financial crisis are not only to be found in the financial sector as most articles state (Obstfeld 1998:189).

2.4 UNDERSTANDING THE CAUSES AND EFFECTS OF THE CRISIS

According to the Final Crisis Inquiry Commission Report (2011), it states that while the vulnerabilities that created the potential for the crisis were years in the making, the collapse of the housing bubble, fuelled by low interest rates, easy and available credit, scant regulation, and toxic mortgages caused the spark that ignited a string of events, which led to a full blown crisis in the autumn of 2008 (Final Crisis Inquiry Commission Report 2011:17).

Stijn (2010) states that the more sophisticated features of financial intermediaries and instruments, increased interconnectedness, both nationally and internationally, among financial markets, as well as the prominent role of household indebtedness all played a critical role in the severity and breadth of the crisis, especially in respect to its transmission and the complicated policy responses. The apparent cause/or the actual trigger was the lax provision of credit in the US property market. This caused a boom in the market for privately owned homes. Therefore as house and property prices rose, so did the value of collateral security, which in turn led to increased consumption and employment and a cumulative process was set in motion. Additionally, with interest rate for loans which were low and due at later dates, risks for the banks were also reduced by bundling loans together amongst others. As a result of inflation, the interest rates therefore increased, leading to the burst and the market for houses was then saturated and the monetary policy became more restrictive. The burst this therefore led to massive shortages in oil, raw materials and food accelerating inflation (Aiginger 2009:2).

Gamble (2007) states that the financial and economic crises that erupted in the US sub-prime mortgage market in August 2007 spread rapidly to other markets and countries. His stand is that this spread contradicts the idea that markets are able to move back to equilibrium after a shock if they are left to their own devices. This theory therefore assumes that policy intervention cannot be neutral because they are a sign of either a given set of preferences, interests and ideological stances—those of policy-makers or of those who influence them. Any policy intervention, the theory goes, therefore distorts the functioning of markets.

Gamble (2007:69) mentions how the discourse of globalisation and Neo-liberalism was popularised and reinvented 'both as a form of political economy and as a political ideology', until it became a hegemonic and a largely unchallenged ideology. The neo-liberal view dominated and allowed the crisis to occur. Without such a shift, the 2008 financial crisis cannot be a key turning point and therefore a crisis of capitalism. Whatever the present crisis will turn out to be, one thing is sure: any future narrative will have to take into account the degree of interconnectedness of the world economy and the much larger role for the state which has emerged. The problem, therefore, is not just national but international, and thus requires international responses and solutions (Gamble 2007:69).

With repeated comparisons between the current global crisis and other crises, the most frequent one is the comparison with the Great Depression of 1929, which also started in the US. The consequences for the real economy are compared with those of World War II, and the work that the G-20 countries embarked on in November 2008 is compared with the process that led to the Bretton Woods accords of 1944. The importance of Bretton Woods system was to govern monetary relations among independent nation states. It was a system of monetary management.

Mason (2009) provides a good discussion of the decisions taken during the preceding decade, ostensibly the 'age of greed', which led to the current economic recession. He cites a number of causes including excessive deregulation, creative accounting, the evolution of financial derivatives (particularly mortgage-backed securities), and commodities speculators and disorientated monetary policy caused by rising prices and slowing economic growth.

Mason lays blame for the failure of banks and other financial institutions at the feet of neo-liberalism and those who practised it.

According to Sinai (2009) the U.S entered this crisis without an adequate set of tools to contain the risk of broader damage to the economy. Without the adequate tools of containment, the decisions to curb the risk, governments responded to defend their financial stability which has proven to be unorganised. In addition to this, the unmatched objectives and powers made some governments reluctant to act and caused others to beyond their designated mandates leading to inadequate funding arrangements .To this effect, there was a shift in containment policies onto central banks' balance sheets.

The report on financial inquiry commission states that the changes in the past three decades preceding 2011 have been remarkable. The financial markets have become increasingly globalised. Technology has transformed the efficiency, speed, and complexity of financial instruments and transactions. There is broader access to and lower costs of financing than ever before (Final Crisis Inquiry Commission Report 2011:18).

In general, the entire world has been affected – the severity and impact depends on how vulnerable and exposed the respective economies have been with the US economy. The key contributor to the slow-down in other economies was the fall in oil & gas prices. Banks had cut back their lending to individuals and businesses, a result of lack of confidence on their own assets built over the last two to three years. This reaction then cascaded into the business environment, creating an atmosphere of panic and mistrust. The American Government has reacted with some corrective measures; pumping liquidity into the banking system, establishing a task force to review the situation periodically and introducing end user friendly payment plans in the real estate sector.

2.4.1 Indicators of the crisis

Indicators for crises have been a major challenge for countries worldwide. Pauchant and Mitrof (1992) state that only action beforehand is only possible if the approaching crises have been detected earlier. This therefore translates that the pre-crisis period should take a longer time so as to enable the identification of the crises and even indicators to also have been monitored over a period of time. However, the research of Nicolette does not state the necessary indicators that could be looked at. She states that only during the pre-crisis period, warning signs may be present, but may not be recognised as indicators of a particular crisis. In the case of Malaysia for example, in 1997, post the Asian financial crisis, there were also outbreaks of Japanese encephalitis, Coxsackie virus, South-east Asian haze.

However, according to (Babecký et al. 2012) the recent crisis revealed that various financial indicators, such as liquidity and leverage ratios, might carry useful information regarding future costly events. Nevertheless, data series needed to compute such indicators are only available for some countries and limited time periods. For example, the ratios of regulatory capital to risk weighted assets, credit to households, and the deposit-loan ratio for households are examples of variables that are not easily available. The authors state that in addition to such data series if available indicators such as the total tax burden and several global variables, could be used (Babecký 2012:8).

The International Monetary Fund (1998) during the Asian crisis identified indicators of crisis as those variables that were considered to consistently provide information about vulnerability to a currency crisis—in the sense that they correctly signalled crisis a significant number of times and did not sound frequent false alarms, and also provided signals early enough for countermeasures to be taken. These variables were the real exchange rate, credit growth, and the M2-to-reserves ratio. Together they could provide some useful information about the risks of a possible crisis. If these variables have been consistently above their average levels during normal times, then a country would have seemed potentially vulnerable to a crisis in the event of a rise in world interest rates or some other disturbance that adversely affected investor confidence (International Monetary Fund 1998:94).

Stijn (2010) considers three indicators: the duration of the recession (if a decline in GDP happened), the severity of income loss following the crisis and the change in average growth rate in the crisis years compared to the pre-crisis period (changes in average growth comparing 2003-2007 to 2008-2009). However, a monetary policy indicator that is frequently used is domestic credit as a percentage of gross domestic product (GDP). Another indicator is that of the level of exports. A declining level may considered as an indication of loss of competitiveness of a country. This may be due to the overvalued currency. Short term debt/reserves ratio is also a measure of vulnerability of the economy to speculative attacks. Moreover, the lending interest rate adjusted for inflation as measured by the GDP deflator can also be an indicator. And last, but not least, it is important to have an indicator that shows the net flows in the reporting economy which is the foreign direct investment (Feridun2005:63).

The indicators of recession, amongst others, are the GDP (Gross Domestic Product), level of exports, short term debt ratio, interest rates, and income and foreign direct investment. This will further inform the researcher in the data analysis section in context of Botswana.

2.4.2 Measures against the crisis

'Today's governments need to be increasingly prepared to weather systematic financial crises appropriately' (U.S Secretary Geithmer 2009).

According to (Gruenewald, 2010) this calls for good governance towards efficient crisis containment. With efficient crisis containment, the appropriate governance arrangements will diverge in many ways from existing administrative settings. That is containment taken either during the initial and post crisis periods.

It is pertinent to note that, in a recent study, (Gelpern 2009) identifies financial crisis containment as a separate category of policy measures in addition to and as opposed to crisis prevention/resolution and financial regulation, which he says, aims to 'stop the spread of untold economic damage akin to containing a fire or infectious disease'. Furthermore, a similar approach by (Laeven and Valencia 2008:7) seeks to describe financial containment as immediate reactions aimed at restoring public confidence to minimise the repercussions on the real sector of the loss of confidence by depositors and other investors in the financial system. The aim for a containment policy sought to limit the damage caused by financial crises which unfold or have already materialised and posing a threat to the system at large.

Nonetheless, different governments tend to respond differently in situations of systematic crisis and in many ways as to other emergency scenarios.

In the present case study, in addition to the easing of its monetary and fiscal policies by the Bank of Botswana, the Ministry of Finance and Development Planning (MFDP) also used a computer-programmed, cost-benefit analysis to evaluate projects. Therefore, the central banks were mandated to ensure financial stability so that they could be important partners in developing the containment strategy.

Sinai (2009:8) reported that quantitative estimates indicated that a fiscal stimulus composed of large increases in federal government outlays and reductions in taxes was needed to lift an extremely depressed and weak U.S economy but warned that the side effects of such actions might later produce significant negative feedback effects. One finding was that the bigger the stimulus, the fewer the additional net gains, with larger stimulus programs raising inflation, long term interest rates, and the Dollar to diminish the effects of the stimulus.

Taking this into account, Joseph Stigliz (2004:8) argues that the thrust of interventions should be to stabilise capital flows, for it is the instability of such flows which generate high costs and which limit their benefits. Therefore, countries need to have made direct interventions aimed to stabilise the flow of capital and not mediated through the banking system. Moreover, (Kawai etal 2005) states that in order to prevent crises, there is a need to avoid large account deficits which are financed through short term, unhedged private capital inflows. Countries need to aggressively regulate and supervise financial systems so as to ensure that the banks manage risks prudently. Having a resilient and robust financial sector is central to avoiding crises.

Measures against crises are important to ensure that more serious economic and social crises are prevented. With the different suggested measures, this will further inform the research and build on to the available measures that were in place to guard against the recession.

2.4.3 Background of Botswana's economy

According to (BIFM Economic Review 2008:3) Botswana is highly trade dependent, integrated into the regional and world economies, and the reduction in global trade and economic growth had a negative impact on the demand for Botswana's exports. Although exports became more diversified in recent years, this did not enable the country to escape the impact of the widespread downturn in global demand.

Botswana has maintained one of the world's highest economic growth rates since independence in 1966. However, economic growth was negative in 2009, with the industrial sector shrinking by 30%, after the global crisis reduced demand for Botswana's diamonds. Although the economy recovered in 2010 to a degree, GDP growth again slowed in 2011. Through fiscal discipline and sound management, Botswana transformed itself from one of the poorest countries in the world to a middle-income country with a per capita GDP of $16,800 in 2012. Two major investment services rank Botswana as the best credit risk in Africa. Diamond mining has fuelled much of the expansion and currently accounts for more than one-third of GDP, 70-80% of export earnings, and about half of the government's revenues (The U.S Central Intelligence Agency, 2013).

Botswana's heavy reliance on a single luxury export was a critical factor in the sharp economic contraction of 2009. Tourism, financial services, subsistence farming, and cattle raising are other key sectors. An expected levelling off in diamond production within the next two decades overshadows long-term prospects. A major international diamond company signed a 10-year deal with Botswana in 2012 to move its rough stone sorting and trading division from London to Gaborone by the end of 2013. The move will support Botswana's downstream diamond industry. (The impact of the global financial and economic crisis on Botswana, 2008). This move adds value to the industry and means that there will be more support for creation of jobs downstream in sorting and polishing.

With respect to developments in the domestic economy, Botswana did not escape the effects of the global crisis in 2008 up to the 1st quarter of 2009. The partial global economic recovery in 2009-2010 led to a rebound of economic activity especially when there was no diamond production which falls under extractive industries. As a result of the economic upturn, Mohohlo (2009) stated that diamond production had resumed in response to a steady revival of overseas demand for rough diamonds.

The Bank of Botswana also lent support to the domestic economic recovery by easing its monetary policy as will be discussed in the following section (Speech by Linah Mohohlo, Bank of Botswana Governor 2009).

2.4.4 Effects of the crisis on Botswana's economy

The effects of recessions tend to be adverse for all sectors and sections of society. According to the Skoufias (2003:1089) economic crises can affect household welfare through a variety of channels. The slowdown in economic activity usually translates to, amongst other effects, a decrease in demand for labour services, a decrease in the probability of finding new employment, an increase in the unemployment rate and a decrease in the level of earnings of individuals already employed, changes in relative prices or the removal of price subsidies for staple foods such as rice or wheat. Devaluation in the local currency, for example, is likely to affect the relative prices of tradable commodities. Another impact can be cutbacks in the level of public transfers and also changes in the value of and returns to assets. In addition, there is the impact of declining stock prices, world trade and output of manufacturing on the total economic output and the labour market.

A combination of all these is likely in turn to lead to reduced government expenditure. The IMF predicted a global decline of 3.0% in 2009, down from 5% in 2007(IMF 2008) and this global decline was experienced in Botswana. The United Nations baseline forecasts for world growth projects were a decline from 2.5% in 2008 to 1% in 2009. Hatch (2004) states that government employment surged during the 2001 recession, only to fall victim to prolonged budget shortfalls afterwards. In her comparison with the 1990s recession and aftermath, she further states that the 2001 recession itself had less of an effect on government employment, but the post recessionary period was more difficult (Hatch 2004:38).

According to the Bank of Botswana Report (2010), following the slowdown in the global economy that commenced in late 2008, there was an adverse impact on government revenue that led to the government budget incurring significant deficits. Furthermore, the envisaged balancing of the budget was going to continue to depend on successful prioritisation and streamlining of expenditure to ensure efficient use of resources. The budget outturn in 2009/10 was at an overall deficit of P9.5 billion compared to the previous estimate of P13.5 billion. The improved outturn was attributed to both greater–than–expected increase in revenue and budget under spending.

The report also mentioned that there had been a rapid expansion of the development budget which had almost doubled in 2007/08 and 2008/09. Furthermore, inflation rate had fallen in 2007 on average lower at 7.1% compared to 11.6% in 2006.These were mainly due to the increases in prices of cost of fuel, food prices as well as the rising world food prices for staple foods(Bank of Botswana 2010:71).

After the slowdown experienced in late 2008, there were some optimistic signs as the rates of inflation also fell hence this encouraged the government of Botswana to now prioritise in terms of projects and ensuring efficient utilisation of the available resources.

Internationally, Churchard (2009:7) stated that the recession-hit job market would continue to shrink for at least the next three months with the impact spreading to the public sector for the first according to research from CIPD (Chartered Institute of Personnel and Development). According to his prediction, job cuts would become a regular occurrence in light of the reduced government spending. But, as the global financial crisis showed, in many countries workers were willing to accept wage cuts to safeguard their jobs. This follows the experience in Japan, where wage cuts have been commonplace in a deflationary environment. In the past, the belief in a long-run trade off between inflation and unemployment contributed to poor monetary policy and distracted policy-makers from implementing sound labour market policies.

The literature has shown that the financial crisis did indeed occur and was due to the lax provision of credit in the US property market. With the impacts of the financial crisis felt worldwide, a variety of impacts were felt by the economies. This research on the effects the financial crisis on development projects will be better informed by the literature reviewed and will assist with the measures that can be used by the government to guard against the crisis.

As, Skoufias (2003) has noted, the recession impacts on all sectors of the economy, and the public sector is not exceptional. Gamble asserts that, the 2008 financial crisis would be a good candidate as it contains 'major moments both of danger and of transformation, involving not just economic, but political restructuring, and not just within states but between states' (Gamble 2009:6). It is global and multi-faceted—a crisis of the banking system, of regulation, of the hegemonic role of the US—and presents many political challenges. Considering these different aspects, coupled with the rise of new economic powers and the underlying shift in the dynamics of the global economic order, Gamble sees the current crisis repeating the features of past crises.

2.4.5 Botswana's financial market and policy

As the global financial crisis unravelled, governments across the globe increasingly recognised the severity of the downturn and the urgency to intervene in order to avoid a catastrophic collapse of the financial markets and real economy (Verick and Islam 2010:12). The global economic recession and financial turmoil adversely affected the overall balance of payments in Botswana due to, in the main, a sharp fall in diamond exports, slowdown in other inflows and an increase in external payments. As a result, the foreign exchange reserves declined by 7.1% from USD 9.8 billion in 2007 to USD 9.1 billion by year-end 2008, which is equivalent to twenty-three months of imports of goods and services. Despite the international financial crisis, the domestic banking system expanded with a new entrant; it remained stable, sound and profitable, a development which continued to promote competition in both product and service delivery. Similarly, the non-bank financial sector continued to grow. Hence the supervisory surveillance of banks was strengthened, with a view to guarding against the adverse impact of the unfolding international financial and economic crisis (Bank of Botswana 2008:15).

In 2008, the Bank of Botswana adopted a rolling three-year monetary policy framework, setting the medium-term inflation objective. The setting of a yearly inflation objective was discontinued. With effect from 2008, monetary policy action was guided by the medium-term inflation forecast, which is revised on a regular basis, taking into account a broad range of inflation determinants, including credit growth. Based on the new monetary policy framework, the 2008 Monetary Policy Statement announced a 3.6% medium-term inflation objective, a range that was reaffirmed following a review at mid-year. During the first half of 2008 the year inflation rose rapidly to a peak of over 15%, the highest in fourteen years, due to a number of factors, including the rise in prices of food and fuel prices, as well as higher domestic demand. In an effort to restrain the second-round inflationary effects of the supply shocks and restrain spending while encouraging saving, the bank rate was increased by 50 basis points each in May and June to 15.5% (Bank of Botswana 2008:15).

Inflation in Botswana began to subside by mid-year 2008 due to a progressive fall in fuel prices and continued weakening of the global economy, resulting in an improvement in the inflation outlook. These developments prompted a reduction in the Bank Rate to 15% in December.

Internationally, with many economies already in recession, the world economy faced a protracted period of low growth at that time. Any recovery was not expected until 2010 at the earliest, and the prospects of this were heavily dependent on policy responses in the major economies being effective in terms of both supporting demand and restoring confidence and the proper functioning of the banking system

According to Kershoff (2009:5), the financial crisis was transmitted to the economy mainly through the financial markets, tightening of bank lending standards and trade linkages. As Highfill (2008) notes, global governmental responses were perhaps the best signal of the scale of the crisis—the September $700 billion bailout package in the U.S.; the October packages, 50 billion pounds in the U.K., 500 billion Euros in Germany, 360 billion Euros in France; and November's four trillion Yuan package in China are among the notable funds released to bail out their respective markets. This of course does not include the many bailout packages by much smaller countries and the nationalisation measures taken by some countries like Iceland, among others (Highfill 2008:1).

For this research, I collected data on the effects of the crisis in the context of Botswana. National output is measured by economic indicators such as: output, investment, employment etc. Therefore, the focus was on the key indicators of global trends and are as follows:

2.4.6 Status of economic indicators during crisis period in Botswana

- **GROSS DOMESTIC PRODUCT**

The global financial crisis and the consequent economic recession in developed economies contributed to the economic slowdown in Botswana. This is clearly visible from the trend of GDP growth as shown in Table 2.1. The GDP growth rate recorded a 3.3% decline for year 2008/09 from a 5.0% (during 2007/08 financial year) growth rate. The deceleration of growth of the financial year 2008-09 was spread across all sectors, the mining sector being the worst affected by the global financial crisis. Due to various measures taken by Bank of Botswana and the Government, monetary as well as fiscal, over a span of a year, the economy posted a remarkable recovery, not only in terms of overall growth but more importantly in terms of its broad-based character.

In the second quarter of 2009-10, the economy grew by 3.3% (estimates by Central Statistical Office of Botswana). NDP 10 states that in the 42 years up to 2007/2008, the country's real growth of GDP averaged 8.7% per year. The government's expenditure strategy largely avoided making the non-mining sectors of the economy uncompetitive and unprofitable. However, it is important to note that there was a reversal of economic growth which was hoped will be temporary, in the final year of 2008/09, as a consequence of global economic crisis (National Development Plan10).

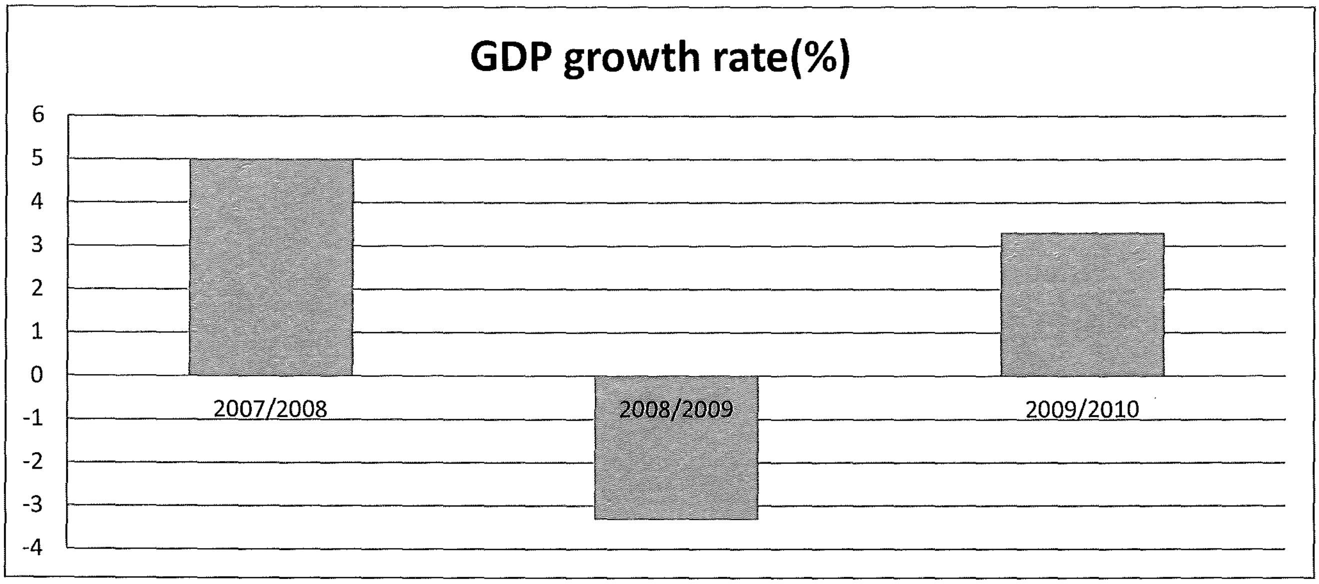
Table 2.1 Below depicts the GDP growth for the country during years of financial crisis

Financial Years	GDP projected growth	GDP actual growth
2007/2008	+5.0	+5.0
2008/2009	+5.4	-3.3
2009/2010	+5.5	+3.3

Source: NDP 9(2003-2009) and Central Statistics office 2010

The GDP growth was estimated to have averaged 4.4% for five years (from 2005/06 up to 2009/10). However from the table above, the average for the years was lower, at 3.3% dragged down by a decrease in 2008/09 because of the effect of the financial crisis.

Figure 2.2 The GDP growth for the years under review



Source: NDP 9(2003-2009) and Central Statistics office 2010

Figure 2.2 above shows that there was a decline from a recorded 5.5% growth during the 2007/08 period, to a -3.3% during the 2008/09 financial year wherein this was exacerbated by the effects of the financial crisis. Despite the deficit, the following financial year of 2009/10 showed a significant growth to 3.3%.

- **INFLATION**

The rate of inflation is one of the indicators of the success or otherwise of macroeconomic policy. Its main advantage is that statistics are available sooner than other indicators. According to Bank of Botswana (2008), the Bank's objective for inflation was that it should be in the range of 3 to 6%, since February 2002. Table 2.2 shows the inflation rates recorded for years under review as follows;

Table 2.2 Shows the inflation rate (%)

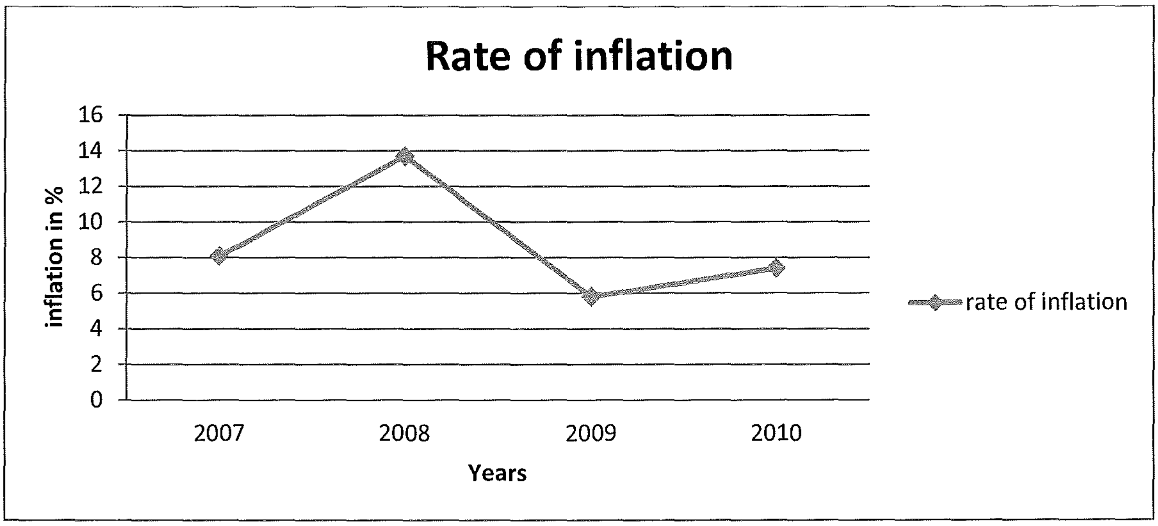
Year	**2007**	**2008**	**2009**	**2010**
Rate of inflation	**8.1**	**13.7**	**5.8**	**7.4**

Source: Bank of Botswana (2010)

From the above table it is clear that at the time of recession in 2008, high rates of inflation were recorded. This was much higher than the bank's set objective of between 3 to 6%. This translate that at time of recession there were increased costs in terms of prices, loans became costlier and government had to cut spending and working costs in order for projects to survive and even cut or defer other projects, as will be seen in the subsequent paragraphs.

The above data is also graphically presented below to further show the inflation trend.

Figure 2.3 shows the rate of inflation



Source: Statistics Botswana (2010)

According to the Bank of Botswana's report, the inflation rate was at 8.1% in April 2007. Table 2.2 above shows that inflation rose rapidly in 2008. It peaked above 13.7%, but fell rapidly in the first half of 2009, reaching 5.8%. From August 2010, inflation started to increase, reaching 7.4%. The increase in inflation rates was attributed to the increase in prices of imports as they are internationally determined and out of the country's control. Therefore, the Bank of Botswana raised its interest rates marginally in 2008 in order to avoid unnecessary damage to the domestic economy. Interest rates were lowered in the first half of 2009 as in the subsequent discussion.

- **REAL INTEREST RATES**

According to the Bank of Botswana Annual Report of 2010, there was a variation in the last six years in the real cost of borrowing as represented by the commercial bank's prime lending rate adjusted for inflation. This happened when the rate of inflation fluctuated over a relatively short period, and the Bank of Botswana did not react by changing nominal interest rates, or at least not until after a significant lag.

Table 2.3 Shows the real prime lending rate from 2006 up to 2008 (Percentages);

End of Year	2006	2007	2008	2009	2010
Prime lending rate	16.5	16.0	16.5	11.5	11
Inflation rate	8.5	8.1	13.7	5.8	7.4
Real Prime lending Rate	7.4	7.3	2.5	5.4	3.4

Source: Bank of Botswana (2010)

Prior to the change in the Bank Rate in December 2009, real interest rates declined due to the increase in inflation. The real interest rate for 14-day Bank of Botswana Certificates (BoBCs) decreased from 1.35 in December 2009 to –0.8% at the end of 2010, while for 3-month BoBCs, it fell from 2.3% to –0.2%. At the time of the crisis, Botswana felt the effects as the real prime rate decreased by 2 percentage points, from 5.39% at the end of 2009 to 3.35% in 2010. Frequent nominal interest rate changes are disruptive for private sector borrowers. Therefore, a balance had to be struck between preventing the real cost of borrowing from becoming too high or too low, and avoiding frequent nominal interest rate changes.

Furthermore, the decrease in real prime rate was experienced together with a high level of the real cost of borrowing at the time. This might have also had a negative impact on the growth of GDP. Though there is no ideal real cost of borrowing, a real prime lending rate above (about) 5% was said to dampen private sector growth, particularly as many borrowers paid more than this. Against this, as the real cost of borrowing approaches zero or turns negative, there is a risk of encouraging the wrong sort of investment. One example is speculation in assets such as land and housing, which was apparent in the US economy.

High nominal interest rates are damaging to investment, even if the real rate appears low because of inflation. A producer may borrow at about 16.5%, relying on inflation to reduce the real cost of borrowing to 2.5% because inflation was 13.7% percent (as at the end of 2008). This is risky. The producer's costs will almost certainly go up with inflation, as they include a wide range of goods and services. Risks borne by producers are less if the inflation rate is lower (Bank of Botswana 2010:21).

- **BALANCE OF PAYMENTS**

The overall balance of payments was much stronger during the financial years 2006/2007 up to 2009/2010 wherein they decreased as a result of the closure of the large diamond mines which fell under the ambit of extractive industries. Production was closed in the first quarter of 2009 and was only partly resumed in the second quarter. Although, government was able to maintain its expenditure levels, in order to sustain the level of output, income and employment in the rest of the economy, foreign exchange reserves fell sharply in 2009, by approximately P2 billion a month in the six months to June 2009 (National Development Plan 10). This was due to production only being partly resumed after diamond mines were closed.

Table 2.4 Shows the overall balance of payments and foreign exchange reserves during crisis period in (Pula Billions).

End of year calendar	2006	2007	2008	2009
Overall balance :Forecast	1.1	0.5	0.0	-0.1
Overall balance :actual	10.3	10.7	7.5	……..
Forex reserves: forecast	48.0	49.8	51.1	52.3
Forex Reserves : Actual	48.0	58.5	68.6	55.1
Forex reserves in US $:forecast	7.0	7.1	7.1	7.1
Forex reserves in US $:actual	8.0	9.8	9.1	8.2

Source: Bank of Botswana (2009).

Table 2.4 above shows that there was an increase in the foreign exchange reserves noted to the end of 2008 in terms of the US dollar. An increase in the value of the Pula in this case against the US dollar did not directly affect the US dollars held in foreign exchange reserves. However, the extractive industries sector continued to experience a large decrease in its receipts from commodity exports particularly the diamonds. Hence, the reserves have provided the opportunity to adjust in a more planned way than would have been possible with the lower reserves for the years under review.

Economic performance during (NDP 9 2003-2009) points to the fact that, the economy performed worse than expected, with real GDP growth averaging 4.6% in the first five years but falling by 3.3% in the final year. This translates into actual GDP growth of 3.3% per annum compared to a target of 5.5% per annum projected at the beginning of NDP 9. As a result of this slow economic growth, progress towards meeting the country's development plans was delayed. (National Development Plan 9:34).

- **INVESTMENT**

Investment through the International Investment Position (IIP) records the stock of Botswana's holdings of foreign financial assets and liabilities. In 2008, during the time of crisis, preliminary estimates show that Botswana's foreign assets increased from P89.4 billion at the end of 2007 to P98 billion. Of this, the largest portion was foreign exchange reserves, which accounted for 70% of the total. Portfolio investment abroad declined by 13.3% from P20.9 billion to P18.1 billion, while direct investment abroad rose marginally to P8 billion. Total foreign liabilities showed a decline of 8.7% from P14.9 billion in 2007 to P13.6 billion at the end of 2008, due to falls in both direct and 'other' investment. There was a substantial decrease in portfolio investment to P1.3 billion in 2008 due to reclassification of some figures between direct and portfolio investment. Overall, the net international investment position showed an increase of 13.4 percent from P74.5 billion in 2007 to P84.5 billion in 2008.

Revised estimates of 2009 showed that foreign financial assets held by Botswana declined during 2009 by 12.4% from P96.8 billion in 2008 to P84.8 billion. This was largely explained by the fall in foreign exchange reserves by P10.7 billion (Bank of Botswana 2010:81-82).

Direct investment abroad also fell, by P1.4 billion, because of smaller equity holdings, while 'other investment' decreased by P1.2 billion, due to reduced holdings of foreign currency and deposits. Based on preliminary estimates for 2010, Botswana's total foreign assets fell further in 2010, by P6.3 billion to P78.5 billion, as the increase in direct and portfolio investment was more than offset by the further fall of P7.1 billion in the foreign exchange reserves.

Foreign liabilities (i.e., foreign-owned assets in Botswana or foreign liabilities of Botswana residents) are estimated to have increased by 81.9% in 2009 (from P11.6 billion in 2008 to P25.7 billion) due to growth in both direct investment and other investment in Botswana. Direct investment increased by 41% to P9.4 billion, mainly due to growth in other capital, which includes loans between affiliated enterprises and retained earnings. Portfolio investment in Botswana also rose from P286 million to P413 million, due to an increase in equity holdings. Most important was a substantial increase in 'other investment', which rose from P4.7 billion to P12.6 billion. This was mainly due to foreign borrowing by the Government, which increased from P3 billion in 2008 to P10.6 billion in 2009. For 2010, total foreign liabilities are estimated at P25.1 billion, a decline of P0.6 billion compared to 2009, mainly because lower estimates for the stock of direct investment offset additional external borrowing. Overall, the net IIP for 2010 indicates a decline to P53.4 billion, from P59.1 billion in 2009 (Bank of Botswana 2010:81-82).

In addition, Botswana as a country of just over two million people and a Gross Domestic Product (GDP) of USD 14.4 million (2011), is one of Africa's most stable nations and boasts the continent's longest continuous multiparty democracy. It is relatively free of corruption and has a good human rights record. Investor confidence has remained high during the Global Financial Crisis, as evidenced by the fact that the fastest growing sectors in 2011 were Construction, General Government & Trade and Hotels & Restaurants, which grew in real terms by over 10% (BITC 2012). In addition, Botswana has concluded and signed numerous bilateral and regional trade agreements with countries such as Zimbabwe, Namibia and South Africa. Some of these provide duty free and quota free market access like SACU FTA, while some accord preferential market access to Botswana's goods and services e.g. SADC and AGOA (Sunday Standard 2013:1).

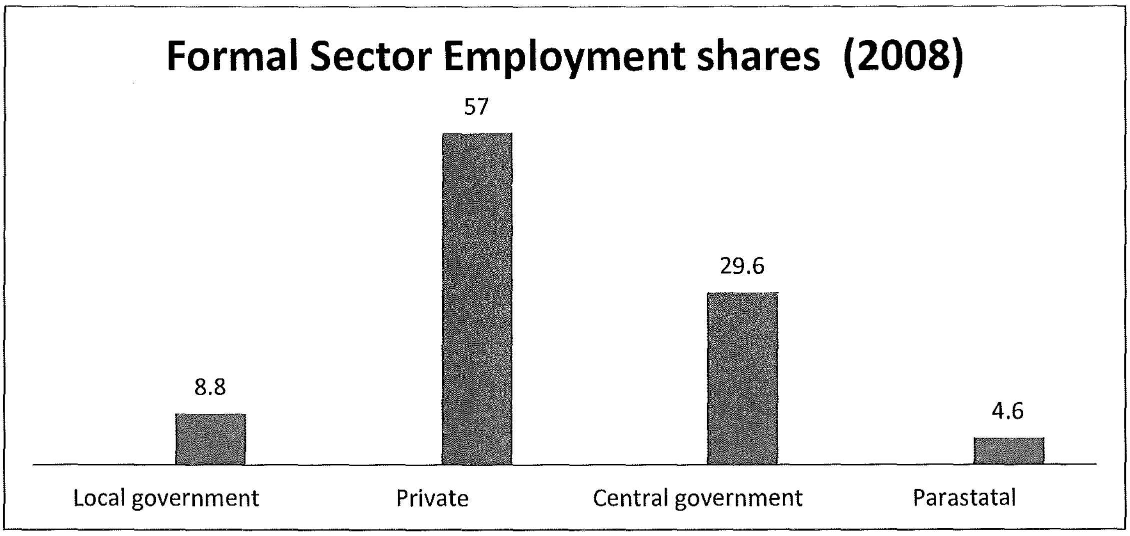
- **EMPLOYMENT**

According to Statistics Botswana(2008),employed persons refers to those who did some work in the reference period either for payment in cash or in kind (paid employees) or who were in self-employment for profit or family gain as well as persons temporarily absent from these activities but definitely going to return to them (e.g. on leave or sick). Some work is defined as one hour or more in seven days. It should be noted that any economic work took precedence over all other activities. The employment statistics analysis was based on those who were aged 12 years and over. Unemployed persons were those individuals who were not only available for work but had taken active steps to find work in the last 30 days. These are normally referred to as actively seeking work.

Estimates for March 2008 indicate that formal sector employment grew by 2.2% compared to the same period in 2007, bringing the total number employed (excluding small businesses

with less than five employees) in the formal sector by the government, private sector and parastatals to 309 000. Figure 2.4 shows the distribution of employment across government, parastatals and the private sector as at the end of March 2008. The private sector comprised almost 60% of the workforce in formal employment, while the rest were nearly all employed in government. Of the increase of 6 600 jobs, 61% were in either local or central government, reflecting intensified efforts by government to fill vacancies.
Private sector employment increased by 3 000, principally in manufacturing, wholesale and retail trade, education, and financial services. Overall, growth in private sector employment was sluggish, at 1.7%, although the estimates might have understated the extent of employment creation given that, with the exception of financial services where employment grew by 8.3%, the growth rates for the equivalent sectors in the GDP estimates were considerably higher (Statistics Botswana 2008).The following table depicts the formal sector shares during 2008.

Figure 2.4 Shows distribution of employment



Source: Central Statistics Office (2008)

The 2009 Formal Employment Statistics Brief estimated a 3% increase in formal sector employment from 308 617 in March 2008 to 317 827 in March 2009. However, between

September 2008 and March 2009, when the recession deepened, employment increased by about 1% from 315 791 to 317 827. In terms of the broad sectors, as from March 2008 to March 2009, the private sector was the largest employer with over 179 000 employees followed by Central Government (96 167), Local Government (28 162) and the parastatal sectors (14 497).The private sector registered an increase in employment of 3 132 employees from 175 868 to about 179 000, while Central Government had an increase of 4 712 employees, Local Government (1 148), and parastatals (217) during the same period.

Notwithstanding this achievement, the impact of the global recession in the Botswana labour market was evidenced by, among others, the loss of employment through retrenchments. As of March 2009, employment in mining and quarrying, had declined from 11 673 to 10 592 employees, representing a decrease of 9.3% percent. Manufacturing also recorded a small decline of half a percentage point, from 35 888 to 35 704 employees (Botswana Budget Speech 2010:6).

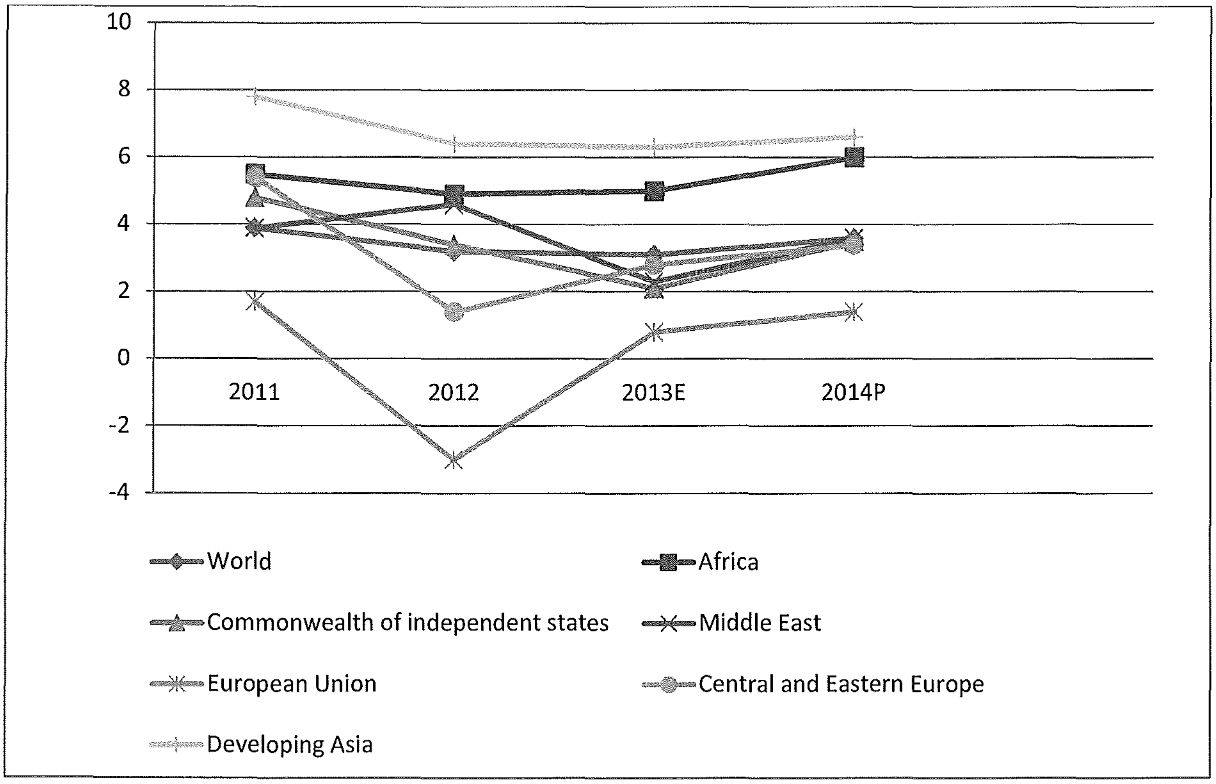
The Textile Industry, which at that time employed a sizable number of Batswana, was severely hit by the economic recession. In response, the Special Support Programme to the Textile and Clothing Industry was put in place. As of August 2011, 4286 citizen employee jobs and 153 companies across the country were saved by the programme through subsidies amounting to P 22.6 million. Beneficiary companies include 12 large scale, 14 medium scale, 73 small scale and 54 micro enterprises. The Programme ended in December 2011 (Botswana state of nation address 2011:5).

However, the crisis, has developed from the above status as according to the International Monetary Fund (IMF), estimates during year 2012 to 2013 show that global growth increased only slightly from an annualised rate of 2½% in the second half of 2012 to 2¾% in the first quarter of 2013 and will increase very slightly in the next two years. For example, the economies of Germany and France grew faster than expected in the second quarter of 2012 pulling the euro zone out of a 1-1/2 year-long recession (World Economic Outlook 2013:1).

Turning to forecasts, growth in the United States is projected to rise from 1¾% in 2013 to 2¾% in 2014. In Japan, growth will average 2% in 2013, moderating to about 1¼% in 2014. The euro area will remain in recession in 2013, with activity contracting by over ½%. At 5% in

2013 and about 5½% in 2014, growth in emerging market and developing economies is now expected to evolve at a more moderate pace, some ¼ percentage points slower than in the April 2013. Global growth will recover from slightly above 3% in 2013 to 3¾% in 2014, some ¼% weaker for both years than the April 2013 projections (World Economic Outlook Update 2013:1).

Figure 2.5 Economic growth across the world, real GDP growth (annual % change)



Source: IMF World Economic Outlook Database October 2013

Figure 2.5 above also shows the world economic growth after the past years of the crisis. The years 2012-2014 show the estimates and projections of economic growth across the world. The world economy has changed dramatically since September, 2011. European growth has slowed sharply and many economies in the region are now in or close to recession. In the Middle East unrest has spread, however confidence and financial conditions have already improved and external demand from other regions will likely strengthen.

2.5 CONCLUSION

The literature reviewed confirms that the financial crisis that began in 2007 was more global than any other period of financial turmoil in the past six decades. The extent and harshness of the crisis reflected the union of several factors, some of which were common to previous crises.

Corporations globally were affected directly through higher financing costs, as well as indirectly, through the impact of the turmoil on their customers as shown in their order books. Exports were under pressure due to the decline in world trade, and the risk of more job losses in some industries, wage pressures and the costs of production remained high for a time.

This global financial crisis affected many countries, including Botswana. Due to the slowdown in economic activity, Botswana experienced pressure. This was shown by a decline in factors such as foreign financial assets. Gross Domestic Product in Botswana was negative in 2009, after the global crisis reduced demand for diamonds. The slowdown had an adverse effect on government revenue, leading to cuts in government budgets.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter presents the research methodology employed by the dissertation. The documentary research method translates into a practical research strategy by analysing the effects of the crisis on specific government sectors of Botswana. This involved collecting documentary evidence, textual analysis and the synthesis of these within the context of Botswana economy.

In order to research the topic of this dissertation, documentary evidence was collected from various books, conferences and panel discussions, blogs and newspaper articles, websites of central banks and various regulatory bodies, in order to understand the global financial crisis of 2007-2008 .

This research study has a number of inter-related objectives set within the context of that financial crisis:

1. To find out if the global financial crisis had an effect on Botswana.
2. To find out how Botswana can best guard itself against a similar financial crisis in the future.
3. To propose possible solutions that might help mitigate the effects of the crisis.

This research focused mainly on the objective of finding out the effects the global financial crisis had on Botswana. Objective 1 furthers the research through collection and analysis of secondary data. Documentary evidence was collected and analysed on how the crisis affected on country's public sector projects and provide an opportunity to further explore objectives 2 and 3 in the context of Botswana. Furthermore an overall literature review about the financial crisis was done to further gain understanding of the effects on public sector projects and to be better placed to contribute to measures that could be used to guard against the financial crisis for Botswana economy. Documentary research was used to analyse these objectives.

3.2 RESEARCH STRATEGY

According to (Ghuari & Grinhaung 2005:115), when a researcher has little control over events and when the focus is on a current phenomenon in a real life context and further to answering 'how' or 'why' questions, case study is the preferred approach. Descombe (2000) also states that when focusing on one or few research units with the purpose of achieving in depth information, the preferable approach is case study. Therefore, the researcher adopted a case study approach with the main emphasis on specific sectors of the economy of Botswana. This was done in order to gain deeper insights into how the economic recession has affected the workings of Botswana's economy through its main sectors: agriculture, extractive industries, transport and communication, and hotels and restaurants. Although generalisations are rendered difficult through a case study approach, there are clear benefits to be achieved. As Bell (1993:8) has noted, 'the strength of the case method is that it allows the researcher to concentrate on specific instances and situations to identify interactive processes at work'. The investigation covered the period of three financial years (2007/08, 2008/09, 2009/10). The objective is to understand what financial crisis is, and how it has affected public sector projects in Botswana.

3.3 POPULATION AND SAMPLING

The population for this study was defined as the public sector that carries out projects during the sampling timeframe. The research sampled all the sectors of importance as it helped answer how the financial crisis affected Botswana's public sector projects. This methodology was chosen in order to ensure that all the key and necessary information regarding the effects of financial crisis and the country's public sector projects were analysed.

3.4 DOCUMENTARY RESEARCH

A broad definition of a document is a 'written text'. A document 'must be studied as a socially situated product'(Scott 1990:34). It is defined as 'any written material other than a record that was not prepared specifically in response to some requests from the investigator'. Silverman (1993) has provided a classification of documents as i) files, ii) statistical records, iii) records of official proceedings and iv) images. Records are defined as 'any written statement prepared by an individual or an agency for the purpose of attesting to an event or providing an accounting' (Ahmed 2009:1).

Doing documentary research is much more than 'recording facts'. It is a reflexive process in which we confront what researcher calls the 'moral underpinnings of social inquiry'. 'Documents do not stand alone' but need to be situated within a theoretical frame of reference in order that the content is understood. Documents are an important source of information, and such sources of data might be used in various ways in social research. Many researchers have stated that document researches include official memos and reports, census publications, government statements and minutes, diaries and countless other written, visual and pictorial sources in different forms and so on(Ahmed 2009:2). In a similar view, Denscombe (1998: 163) suggests that 'government publications and official statistics would seem to be an attractive proposition for the social researcher.'

As a researcher documentary research approach was used wherein evidence was objectively located in the various documents that already existed and which were important and relevant for the study. The researcher used this data which may also be termed as secondary data rather than collecting own primary data. The evidence that existed was located and evaluated, and analysed in order to establish the facts and after drawing up conclusions on the study.

3.5 DATA SOURCES

Documentary research involves collection of evidence from various data sources. The researcher for this study used among others the following documents:

- **Bank of Botswana Annual Reports**

  These are more reliable as Bank of Botswana is mandated to contribute to the sound economic and financial well-being of the country. Each year, the Annual Reports feature a different theme topic that provides in-depth analysis to issues of current relevance to the development of the Botswana economy. The annual reports from

- **Botswana Institute of Development and Public Analysis Articles**
  This is a centre which provides policy research, analysis, advice and capacity building to various Government Ministries and other Departments, Non-governmental Organisations and the members of public in general;

- **Botswana Export Development and Investment Authority (BEDIA)**
  This is the focal point for investment and export promotion activities in Botswana. BEDIAs role is in the diversification and industrialization of the economy. As part of its mandate, it provides a medium for exchange and sharing of statistics and information on Botswana. Such information was important for the research as it helped understand the investment background of Botswana;

- **And various Books, Journals and Articles on Financial Crisis.**
  These various literatures provided the researcher with general insight of the subject under study.

The above mentioned data sources were used to locate economic variables (economic indicators) such as gross domestic product, inflation, real interest rates and so on. These variables provided measurements for evaluating the health of Botswana's economy. Economic indicators are released daily, weekly, monthly and/or quarterly or yearly. The researcher chose yearly data as it related to the timeframe of the years under review and they are explained as follows;

3.5.1 GROSS DOMESTIC PRODUCT (GDP)

The real GDP is the market value of all goods and services produced in a nation during a specific time period. Real GDP measures a society's wealth by indicating how fast profits may grow and the expected return on capital. It is labelled 'real' because each year's data is adjusted to account for changes in year-to-year prices (AALL Journal 2003:14). Bank of Botswana, Statistics Botswana and NDP9 and 10 reports were used to locate such data. This data together with other related indicators is used to adjust the monetary policy.

3.5.2 INFLATION

The rate of inflation is one of the indicators of the success or otherwise of macroeconomic policy. Its main advantage is that statistics are available sooner than other indicators. This indicator is derived from the Consumer Price Index as it is a best indicator statistic of inflation. Bank of Botswana, Statistics Botswana and NDP9 and 10 reports were used to locate such data.

3.5.3 REAL INTEREST RATES

According to the Bank of Botswana Annual Report of 2010, there has been a variation in the last six years in the real cost of borrowing as represented by the commercial banks' prime lending rate adjusted for inflation. The researcher used this data as it covered the years under review. Bank of Botswana, Statistics Botswana and NDP9 and 10 reports were used to locate such data.

3.5.4 BALANCE OF PAYMENTS

This indicator aided the researcher on how government was able to maintain its expenditure levels to be able to sustain its level of output, income and employment in the rest of the economy. As a result, foreign exchange reserves fell sharply in 2009, by approximately P2 billion a month in the six months to June 2009(National Development Plan 10).

3.5.5 INVESTMENT

Investment is one indicator which tries to show whether Botswana has assets in foreign countries and its ability to increase them. According to the Bank of Botswana (2008), International Investment Position (IIP), records the stock of foreign assets and liabilities available in a country. Bank of Botswana and BEDIA were used to source such data.

3.5.1 EMPLOYMENT

Statistics Botswana (2008), defines employed people as those who did some work in the reference period either for payment in cash or in kind (paid employees) or who were in self-employment for profit or family gain, as well as persons temporarily absent from these activities, but definitely going to return to them (e.g. on leave or sick). It provides comprehensive data on national employment, unemployment and wages and earnings data across all industries. This indicator is important because it indicates the well-being of the economy and labour force.

3.6 DATA ANALYSIS

Data analysis is a process that helps researchers to get meaning out of the collected data or the message relayed by the data (Leedy and Ormord 2005).This study used secondary sources, and is qualitative in nature. Qualitative analysis was important to this thesis as it gave attention to meaning and interaction between the researcher and the data. The data thus obtained was an essential part of the dissertation topic. These were located not only for background purposes but also to assist in supporting and substantiating the information for the research.

The dissertation looked at the development of the different sectors in Botswana during the financial crisis, together with and in line with the literature reviewed. In order to understand the causes and effects of the crisis, we needed to understand the past events that moulded the current crisis which is the history of the financial crisis, and indicators for the crisis and measures against the crisis and its impacts.

In addition, the current account balances of the country gave important insights into the global macroeconomics before the crisis. This dissertation therefore identified some of the factors that have been perceived by many as the root cause of the financial debacle of 2007-2008. The dissertation looked into these factors one by one and tried to find if the general perception of these factors makes sense financially in relation to the economy of Botswana.

3.7 CONCLUSION

The researcher employed documentary research on the study and the different variables and their importance to the study were highlighted. This method located evidence from books, conferences and panel discussions, blogs and newspaper articles, websites of central banks and various regulatory bodies. This was done in order to understand the effects of the crisis on Botswana economy.

CHAPTER 4: RESEARCH FINDINGS AND ANALYSIS

4.1 INTRODUCTION

This chapter provides a presentation and analysis of the research findings, focusing in particular on the effect of financial crisis on public sector projects with reference to specific sectors, as well as the measures taken against the crisis. The research findings drew on the documentary evidence that was collected and collated.

The last global financial crisis of 2007-2008 had a considerable effect on the Botswana government's budgets and the available funding for development projects. Botswana, not being exceptional, and relying mainly on its extractive industries, was heavily impacted by the low sale of commodities such as diamonds, nickel, and copper in which the country is the world's leading producer. Botswana's developments in the mining sector since 1955 had been dominated by the diamond sub-sector with major projects to increase production in [1]Orapa and [2]Jwaneng.

These were but a few of the challenges facing the domestic economy during the crisis period. The country was faced with problems of poverty, unemployment, budget deficits and inflation issues amongst others, forcing it to resort to international financial institutions and even dipping into its foreign reserves to keep the economy afloat.

Botswana, as a developing country in the southern part of Africa, experienced the effects of the financial crisis on labour intensive aspects of its economy as well. According to the Botswana Institute of Development for Policy Analysis (BIDPA 2007), the importance and potential of the services sector is underlined by its significant contribution to employment (61% of total employment and 75% of female employment at that time). When these were affected, the results were felt widely. The largest Private and Parastatal employers included construction and commerce, which were also among the most labour intensive services in the

[1] Orapa-The largest Diamond mine in Botswana
[2] Jwaneng-The second largest mine in Botswana

economy. Before the crisis, the contribution of commerce to total employment had been steadily growing 2003-2006 (BIDPA 2007:2).

The following research objectives will depict how the global financial crisis affected Botswana:

1. To find out if the global financial crisis had an effect on Botswana's economy.
2. To find out how Botswana can best guard itself against a similar financial crisis in the future.
3. To propose possible solutions that might help mitigate the effects of the crisis.

1. To find out if the global financial crisis had an effect on Botswana's economy

In Chapter 2, the literature review, I outlined the way different authors identified the causes of the financial crisis: primarily, but not only, from the contagion effect that came from the U.S sub-prime area. As previously mentioned, international phenomena such as excessive deregulation, creative accounting and the evolution of financial derivatives, particularly mortgage-backed securities, also had their effect (Mason, 2009). Botswana, as an export oriented country and highly dependent on the US markets for investments, went into a crisis due to the contagion effect it experienced.

With evidence that the global financial crisis had an effect on Botswana's economy, the major research objective was addressed. However, it is important to give a brief outline of the country's sources of financing for development expenditure. I will then elaborate further on how the different sectors performed during the financial crisis, public and private, mining and non-mining. The following table is a summary of sources of financing development expenditure by Botswana from 2006 to 2011.

Table 4.1 Summary of sources of financing development expenditure 2006/07 to 2010/2011(in Billions)

Description	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
External grants	363,150,000 0	195,632,192.	222,789, 000	127,619,384	164,742,154
External loans	145,000,000 .00	167,599,885. 00	279,000, 000.00	6,882,360,1 41.00	1,634,274,0 00.
Domestic development fund	3,546,897,4 46.00	6,184,586,07 7.00	6,956,58 0,064.00	5,995,786,6 09.00	11,512,647, 846.
Total	4,055,047,4 46.00	6,547,818,15 4.00	11,458,3 69,064.0 0	13,005,766, 134.00	13,311,664, 000.00

Source: Ministry of finance and development planning (MFDP) (2011).

Table 4.1 above, shows the effect of the crisis on Botswana's economy. Botswana, as a developing country, was able to continue to acquire both external loans and grants to finance development expenditure. It could notably be seen that during 2006/07 the domestic development fund was P3 546 897 446 billion and this increased to 6 184 586 077 during 2007/08 which is a 57% increase. However, a 51% increase was recorded for the year 2008/09 using 2006/07 as a baseline. The domestic development fund during years 2008/09 dropped by 6% as compared to the previous year. This was mainly due to the financial crisis, which limited government spending and ultimately curtailed development projects. With the global financial crisis during the years under review, the government then sourced external funds as an additional resource in order to meet local priorities and to run new and innovative projects. Table 4.1 above shows that government external grants and loans increased during 2008/09 as compared to 2007/08, while loans showed an increase during the subsequent years, grants decreased.

Despite being a diamond dependent economy, Botswana withstood the financial crisis that rolled through the world in 2008/09 through its non-mining sector. When the mining sector contracted by 2.1% during the global financial crisis, the non-mining sector compensated for the loss of growth by growing at 9.7%, with the net effect of overall growth of 3.9%. 'If the non-mining sector had not grown by that much, the whole economy would have contracted,' says the draft report of the National Development Plan 10 Mid-term Review 2012. Even better news is that the non-mining private sector is projected to increase its contribution to GDP from 55% in 2011/12 to 63.7% in 2015/16 (NDP 10 Mid-term Review 2012:13).

With dependency on the diamond sector during the NDP 9, a Mid-term Review to assess the performance of all sectors was done. According to the Mid-term review, the non-mining sector also helped shore up the economy during periods outside of the crisis. 'During the first three years (of NDP 10 2009-2016), the non-mining sector, on average, grew at 6.6% while the mining sector only averaged 4.4% growth (NDP 10 2009-2016).

Government (which includes all institutional units principally engaged in the redistribution of national income and wealth) on the other hand achieved only 0.8% growth. The main drivers of the government sector's growth during this period were transport and communications, agriculture, trade, hotels and restaurants, and the manufacturing sector, which recorded growth rates above 5%. The report says that although the construction sector contracted by 3.8% during the crisis period, it performed well thereafter.

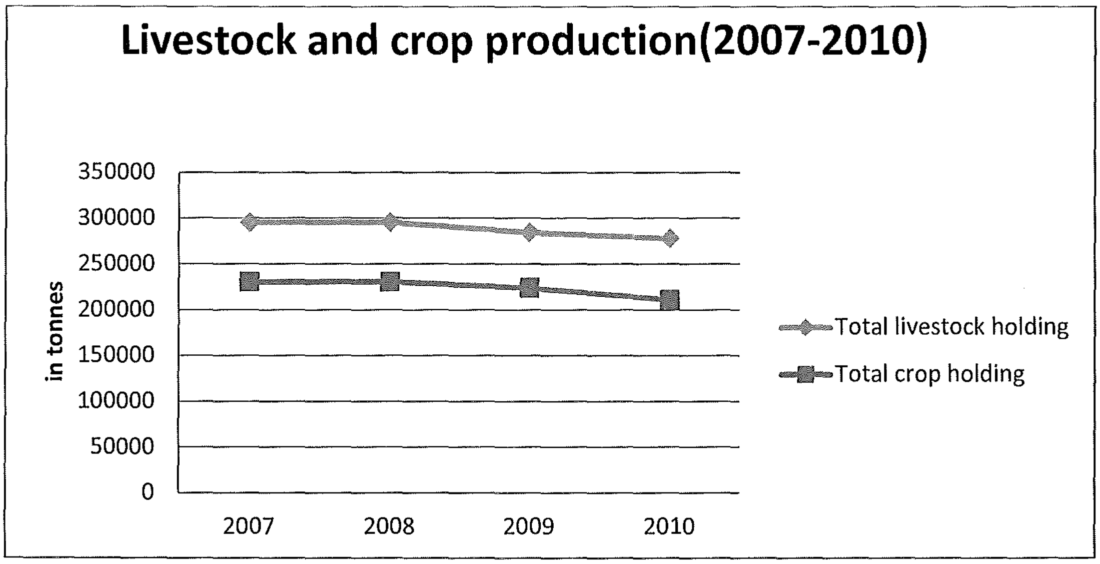
The effects of the global financial crisis are shown in the changes in expenditure by the various sectors of Botswana's economy which carry out the projects, namely agriculture, extractive industries, transport and communications and hotels and restaurants.

- **AGRICULTURE**

The Agriculture Sector in Botswana, as in many countries, plays an important role in providing food, income, employment and investment opportunities for the majority of people, particularly the rural community. Many Batswana derive their livelihood from agriculture and agricultural related activities. Any positive improvement in productivity within this sector will inevitably enhance economic growth and alleviate poverty (Statistics Botswana, National

Accounts 2009). The following figure shows the livestock and crop production trend during the year under review.

Figure 4.1 shows livestock and crop production between 2007 and 2010.



Source: Statistics Botswana (2010)

During the financial crisis, the sector, through the livestock industry, continued to be affected by persistent outbreaks of disease. This was not caused directly by the financial conditions, but could have exacerbated the effects. In particular, outbreaks of Foot and Mouth Disease (FMD) as seen in from Figure 4.1 above. Furthermore, in relation to the exports of meat and meat products and hides and skins, the figures remained stagnant (at 2%) during the period under review. It is important to note that the effects of the crisis were not as strong as in the extractive industries, to be elaborated.

The Botswana state of nation address (2011) highlighted that the successful completion of the new FMD laboratory in 2010 would enable the Botswana Vaccine Institute to increase its FMD vaccines production capacity. That would greatly assist in removing technical barriers to trade and make it possible for beef from non-EU or vaccinated areas to be eligible for export to the EU. This move, which was coupled with the re-opening of the Maun abattoir in July

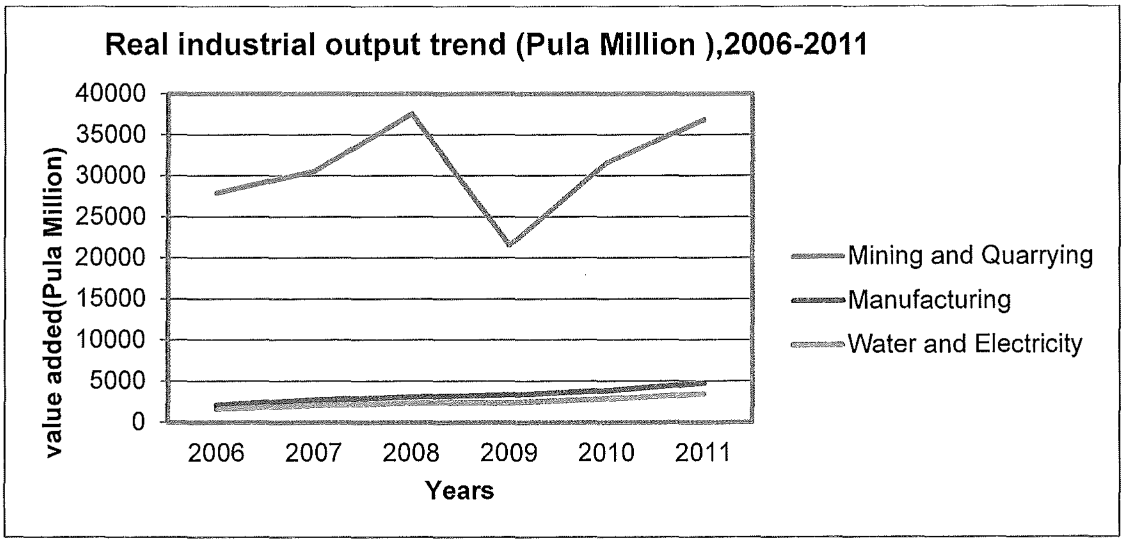
2010, further resulted in increased throughput at two abattoirs to a total of 250 000 cattle annually by 2011(Botswana state of nation Address 2011:3).

- **EXTRACTIVE INDUSTRIES**

The Industrial Sector is comprised of Mining and Quarrying, Manufacturing, Water and Electricity. These were affected by the financial crisis. The five consecutive yearly increase of industrial production had been recorded since 2006, when P31664.8 Million was attained. There were further increases in 2007 when value added was P35348.1million. The following years, however, there was a decline in industrial production up to 2009; value added by the sectors was at P27290.2 million. The sector recovered from the recession in 2010 and registered moderate growth in 2010 and 2011(Figure 4.3 refers).

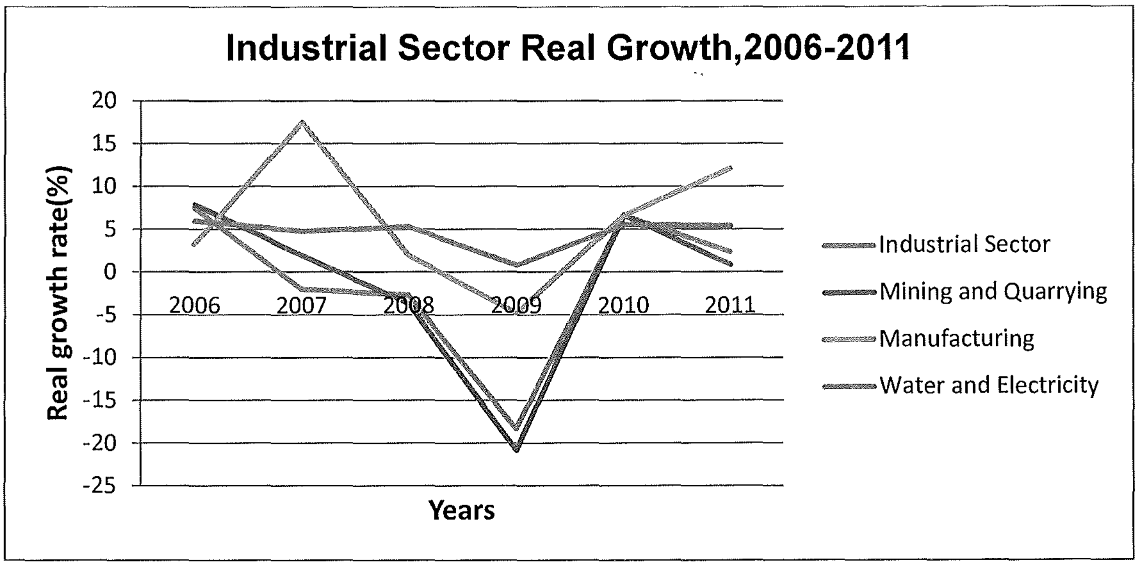
The total value added in real terms for the Sector was to be P9, 686.4 million in 2011, having increased by 2.4% from P9, 462.4 million registered in 2010. However, the effects of the earlier financial crisis caused a slump in the sector between 2007 and 2009. The major drag on the sector's growth came from a substantial slow-down in Mining and Quarrying in 2007, which developed into a contraction of 0.2% in real value added in 2007 after having peaked at 7.5% in 2006. The slide in real value added for the sector continued into 2008 and 2009 with negative year-on-year growth of 2.7% and 18.3% respectively (Figures 4.2 and 4.3 refer).

Figure 4.2 Real industrial output trend (Pula Million), 2006-2011



Source: Statistics Botswana, National Accounts (2011)

Figure 4.3 Shows the industrial sector growth for years 2006-2011



Source: Statistics Botswana, National Accounts (2011)

Figure 4.3 shows that Mining & Quarrying, led by diamonds, recovered from the 2007 to 2009 recession and registered a positive year-on-year real growth of 6.7% in 2010 by recording real value added of P7, 865.0 million from P7, 369.1 million recorded in 2009. However, the sector was to slow again in 2011 as the post crisis effects were still apparent and registered a year-on-year growth of 0.9 percent by recording real value added of P7, 936.0 million from the P7, 865.0 million of 2010.

Manufacturing showed a slowed growth in 2008 and recorded a moderate growth of only 2.0%. A decline was experienced in 2009 with a negative real growth of 4.8%. The industry recovered in 2010 and registered a growth of 6.6%. This growth continued to 2011 where it reached 12.1 percent showing signs of recovery from the crisis.

Water and Electricity were also to accelerate in 2010 and 2011 by attaining growth of 5.5% and 5.4% respectively after having decelerated in 2009 and registered growth of 0.8%.

The mining sector was the most significant contributor to the country's GDP in 2003-2007. The growth is reflected in the National Development Plan showing the following:

Table 4.2 GDP growth for the Mining Sector

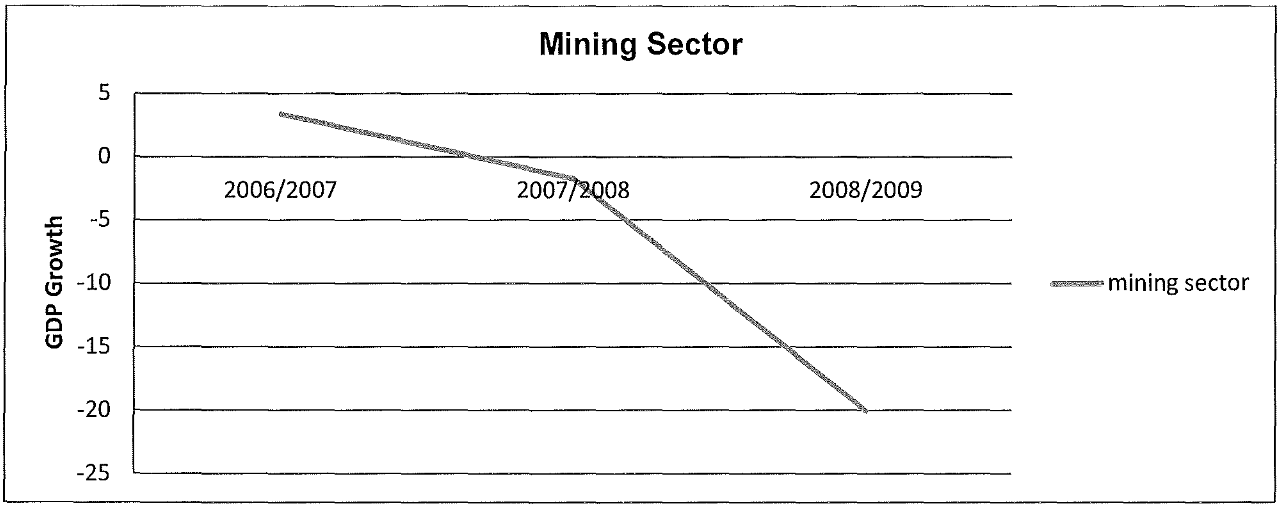
Years ending March	2006/07	2007/2008	2008/2009
Mining	+3.4	-1.7	-20.0

Source: Central Statistics Office (2009)

Table 4.2 above shows that, the mining sector contribution to the Gross Domestic Product decreased during the years of financial crisis. In 2006/07, a positive growth of 3.4 was recorded, followed by a decline to -1.7 for year 2007/08 and a further decline to -20.0 for year 2008/09. A graphical representation of the above is also depicted as follows:

Figure 4.4 below shows the decline of the mining sector during the years of crisis.

Figure 4.4 Decline of the mining sector during the years of crisis



Source: National Development Plan 9 (2003-2009)

Growth of the contribution of mining to GDP, which was approximately 40% of GDP in 'normal' years, fluctuated quite sharply. Average annual growth over the years under review was 3.2%, but mining GDP fell sharply in the final year of 2008/2009 with the major diamond mines closed down in the last quarter of 2008/09. This meant that the government economy grew slowly (National Development Plan 10:37). GDP, as an indicator of crisis, was indeed affected by the crisis as discussed and depicted in the above analysis. The extractive industries' original development budget was P965, 725, 145. However, a revision of the budget was made to P1, 228,165,967 representing a 34% increase from the original budget. This increase in budget was due to a bailout package that was meant to insulate the economy against the effects of the global economic recession. As at end of February 2010, the Ministry had spent P962, 642,020, 104% of the original budget allocation and 78% of the revised 2009/10 budget allocation (MMWER Committee Supply Speech 2011).

Annexure A shows how projects lost their status during the years reviewed. There was non-completion of almost half of the projects during the years under review and those completed experienced cost overruns. The capacity of project implementation was a challenge to the ministry. Concerning development projects that fall under the ambit of extractive industries: as seen in Annexure A, some projects were not done due to the budgetary constraints.

Projects such as Mosetse and lower Notwane dams amongst others were deferred to NDP 11 as government cut its spending due to the effects of the crisis.

The mineral sector faced significant challenges because of the depressed markets. In an effort to enhance the responsiveness of the mineral policy to the global recession, the government of Botswana then conducted a strategic review and the BCL mine was restructured in order to prolong its life. Due to the global recession, the four diamond mines suspended production during the first quarter of 2009 to preserve cash and reduce inventory buildup. In addition, as Annexure A, shows, a one million pula requirement in order to purchase a fleet for the mines. For other projects which had not yet started, a further P9,000,000 was requested during 2010/11 to complete them. The ministry chose to borrow an extra P464, 357,480 from the consolidated fund in order to finish up ongoing projects.

Out of the 54 projects the ministry had planned, only 28, representing 52%, were implemented, while 26 projects, representing 48%, could not be carried out due to a cut in government spending. Projects were halted or deferred until strong signs of economic recovery were noticed (MMWER Committee supply speech,2011).

In addition to the above, a review post crisis, (by the Botswana state of nation address 2011:3), stated that the largest contributor to Botswana's turnaround was recovery in the mining sector, especially in the global demand for diamonds, which registered a positive growth of 23.7% in the second quarter of 2011. The non-mining sector also grew by a respectable 7.4% during the same period. Sub-sectors contributing to this positive trend notably included agriculture (15.7%), construction and trade (15.4%), hotels and restaurants (9%).

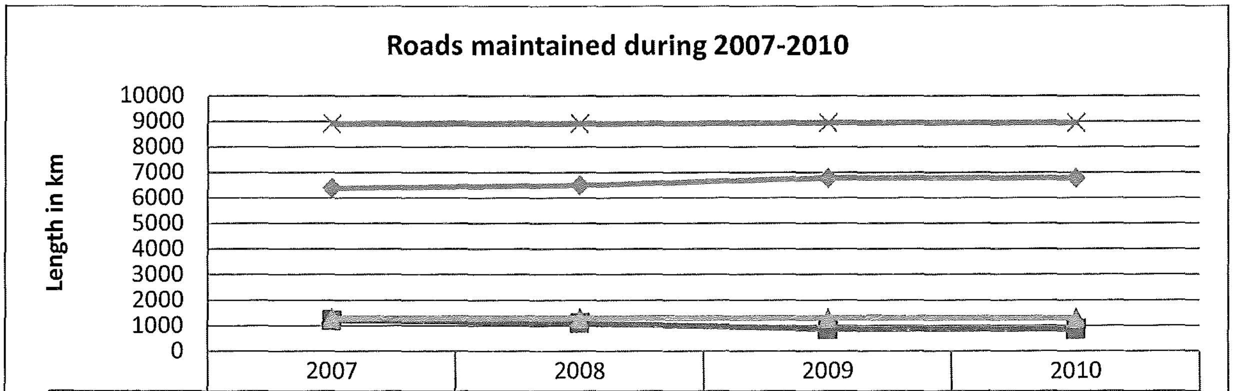
However, the Mid-term Review report (2012) warned that there was still a serious policy challenge within the non-mining sector that needed to be tackled. The sector was dependent on government spending which, in turn, is dependent on the mining sector. To get around this problem, the report proposed 'a much more robust diversification strategy. The report said that a sectoral comparison of the real growth rates for the remaining part of NDP 10 reveals that Government Sector GDP will actually decrease by 6.4 percent during the period between 2012/13 and 2013/14 and by a lesser amount in 2014/15 only to recover by 2% in 2015/16.

- **TRANSPORT AND COMMUNICATION**

Government recognised that efficient public works, transport and communications services were essential to achieve the socio-economic development objectives enshrined in Vision 2016(National Development Plan 9 2003-2009: 138). Transport and communications are the driving force behind any modern economy. As Botswana aspires to be an international financial services centre in the Southern African sub-region, appropriate investments have to be made in the transport and communications infrastructure to facilitate movement of goods, persons, services and information within and beyond the borders of Botswana
During the time of crisis, communications, transport infrastructure, services, and information on demand, played a vital role on both the social and economic development of the country (Ministry of Transport and Communications 2013).

As a land-locked country, Botswana's physical infrastructure is integral to its regional and international competitiveness. Productivity in virtually every sector of the economy is affected by the quality and performance of the country's transport, energy and water supplies. The national road network is maintained by Local Authorities and those in custody of the Central Government through the Department of Roads. The number of roads maintained during the financial crisis period is depicted as follows;

Figure 4.5 Shows the roads maintained during years 2007-2010



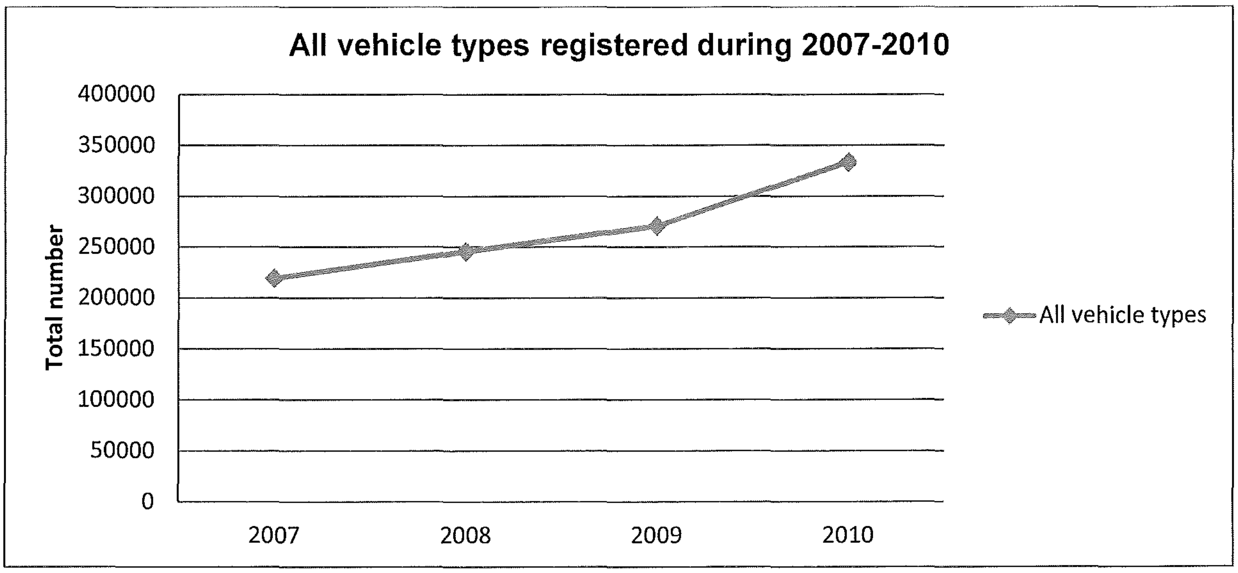
	2007	2008	2009	2010
Bitumen	6396	6506	6780	6780
Gravel	1221	1111	867	867
Sand	1299	1299	1299	1299
Total	8916	8916	8946	8946

Source: Department of roads (2010)

Figure 4.5 above, shows that the total number of roads maintained grew slowly during the years under review. The sector also recorded an increase in the number of vehicles registered despite the financial crisis. Registration of private motor vehicles grew gradually over the quarters of 2010. This was due to the availability of non-secure loans from the private banks for households.

The following figure shows the number of vehicles registered between 2007 and 2010. There was a marked increment from 2009.

Figure 4.6 Shows the number of vehicles registered during 2007-2010



Source: Department of Road Transport and Safety (2010)

In addition to road maintenance for the years under review, the country also faced an electricity crisis. Botswana has up to 2013 also relied on abundant and inexpensive electricity supplies from South Africa. South Africa's own power-shortage-problems led to a reassessment of its own needs, and to announce that it could no longer provide power exports to Botswana and would slowly reduce and finally stop all exports by 2013. As a result, Botswana needed to urgently build its own electricity supply platform. Botswana operating under one electricity platform had capacity of 3 million tonnes per year and produced 80 megawatts. With expansion of its electricity platforms from 1 to 3 million tonnes of coal per year it will meet the increased demand. When completed, the platform will pump supply of over 820 megawatts (Sunday standard 2011).

- **HOTELS AND RESTAURANTS**

Tourism is an increasingly important industry in Botswana, accounting for approximately 11% of GDP, and has grown at an annual rate of 14% in the past 8 years (2003-2011). Tourism is one of the core sectors in Botswana. In a recent study, Kolawole (2012) maintained that 'due to interdependence of nations in the transaction of economic and political goods, developing nations have become vulnerable to external shocks or trade distortions of any kind'. The growth of economy was consistently increasing until the financial crisis of the year 2008 started.

From the macroeconomic point of view, Mbaiwa (2003) maintains that tourism in the Okavango, one of the world's unique ecosystems, the Okavango Delta, has led to an increase in Gross Domestic Product (GDP) and expansion of the tourism sector has also made the sector the second largest generator of government revenue after diamonds.

In Botswana, the growth of tourist arrivals has averaged 10.1% per annum for a decade (Tourism Statistics, 2010). Prior to the crisis, the growth rate was 21.7% in 2007 and 21.0% in 2008. Although there was no significant difference between arrivals in 2008 (2,100,918) and in 2009 (2,103,019), the growth rate of arrivals was marginal for the year 2009 (0.1%) (Kolawole 2012:10).

At time of the financial crisis, the sector was adversely affected. Hotel reservations had dropped, with occupancy rates expected to decline by 35-40%. Similarly, travel and tour operators expected their business/turnover to drop by 35% which all dropped to between 31-32%. With existing income/expenditure linkages between the tourism sector and other industries, including households, a decline in tourism revenue also adversely affected food security, purchasing power and potential for expansion (Botswana background note 2011).

Conclusion

The effects of the crisis were strongly felt in the mining sector as it was also stated in the NDP 10 Mid-term Review. The loss felt through the mining sector was compensated through the non-mining sector which grew at 9.7%, with the net effect of overall growth of 3.9%. If the non-mining sector had not grown by that much, the whole economy would have contracted even further.

2. To find out how Botswana can best guard itself against a similar financial crisis in the future.

Governments during the year under review responded with an easing of monetary and fiscal policy that in turn affected activity and financial and trade flows. The downturn in activity caused unemployment to rise sharply and, with it, a political response to protect domestic industries through various combinations of domestic subsidies and border protection.

The Bank of Botswana has over the years formulated and implemented monetary policy relatively well, and ensured that the banking and payment systems functioned properly and were stable in order to achieve low and sustainable and predictable levels of inflation over the medium term. By influencing interest rates and liquidity in the banking system, there would eventually be an impact on aggregate spending and inflation, which is critical for monetary stability. However, the increase in inflation is not entirely in the country's control as prices of commodity products are internationally determined.

The Bank of Botswana Annual Report (2008) discussed the three monetary regimes which are, monetary targeting, exchange rate targeting and inflation targeting. Botswana as an exporting country preferred exchange rate targeting because it helped bring down inflation. The fixed exchange rate regime also helped it reduce transaction costs and uncertainty, ensuring stable prices for traded goods.

During times of financial crisis, the country's monetary policy therefore focused on achieved price stability on a sustained basis. Although the global crises had a significant impact on Botswana through contraction in GDP and reduced government revenues, the country's financial sector was largely insulated from the fallout from the crisis and thus there was no liquidity crunch in Botswana. However, in order to strengthen oversight and gain a broader view and analysis of developments, the Bank of Botswana established a division to oversee financial stability issues (Bank of Botswana 2008:12).

Furthermore, with the country mostly dependent on diamond exports, it is imperative as highlighted in the mid-term review of October 2012, to ensure that the non-mining sector, which is dependent of government spending, be diversified to become the alternative engine of growth for the economy.

3. To propose possible solutions that might help mitigate the effects of the crisis.

African countries have taken several steps to mitigate the impact of the financial crisis on their economies, including interest rate reductions, recapitalisation of financial institutions, increasing liquidity to banks and firms, fiscal stimulus packages, trade policy changes, and regulatory reforms (Cobbinah and Okpalaobieri 2009:7).

The measures adopted differed from country to country, depending on available fiscal space as well as the degree of vulnerability to the crisis. For example, in Botswana, the Central Bank reduced interest rates by 50 basis points in December 2008. This was followed by a percentage point reduction on 27 February 2009 and oil-exporting countries in the region had more fiscal space to conduct counter-cyclical policies because they accumulated huge foreign reserves during the 2008 oil price hikes. In the non-oil economies, however, the ability to adopt counter-cyclical policies was severely limited and so the use of fiscal stimulus measures was not widespread in these economies (Cobbinah and Okpalaobieri 2009:7).

In addition to the above measures, some countries have set up task forces or committees to monitor the financial crisis and advise the Government on how to respond. The different sectors faced challenges during recession because of their restrictive policies and outdated acts in addressing plans. The sectors did not implement all planned projects and some were not completed according to their original scope and design due to uncertainty of funds availability. This was mostly attributed to the directive of cutting expenditure during the recession. This also impacted on meeting the demands set.

Even though the share of tax revenue in GDP continued its upward trend from 2007-2009, Botswana was still addressing large budget shortfalls by historical standards as they considered budgets for the upcoming years. The upward trend in the share of tax revenue was attributed largely to the efforts of the Botswana Unified Revenue Service in tax collection and to a reduction in tax arrears (African Economic Outlook 2008:156).

In ensuring diversification in the agricultural sector, the Agricultural Hub was established to encourage and support greater commercialisation and sustainable diversification of the sector, as well as improve food security (Investment opportunities in Hubs to spearhead economic diversification 2013:1). Among its key projects was the second phase of the National Agricultural Master Plan for Arable Agriculture and Diary Development (or NAMPAADD). During the initial phases of this programme, in 2005, four production and training farms were established, one for rain-fed farming, two for horticulture production and one for dairy farming. These farms were used for training in 2007 in various aspects of commercial agricultural production, resulting in technology transfer to participating farmers.

4.2 CONCLUSION

The global financial crisis was caused by debt accumulation in several countries, a period of low real interest rates and easy access to credit amongst others. The global financial industry responded by raising capital and reducing leverage. The Botswana public sector provided liquidity support to other sectors. However, looking further ahead, a wide-range of reforms is under way aimed at increasing market and institutional resilience.

In this chapter, the researcher set out to investigate the effects of the global financial economic crisis of 2008-2010. Botswana's economy was indeed affected by this crisis in numerous ways as discussed. I have discussed the impact on the mining (extractive) sector and the non-mining sectors. Certain structures and policies within the economy protected it from the worst effects of the crisis and there are optimistic signs of recovery.

In the next chapter I sum up the methods and results of this research. In addition, I comment on the way the Botswana government is finding its own methods of recovering from the crisis and building up a stable economy.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

This chapter attempts to draw conclusions and give recommendations based on the results obtained in the previous chapters. The study investigated the effects of the financial crisis on Botswana's economy in the period 2008-2010. The macroeconomic background was presented and literature regarding the effects of financial crisis was also explained in the study.

The third research objective of this study has already dealt with some of the recommendations proposed. This study took place several years after the crisis, in the post-crisis stage (Sausmatez (2007). From the perspective of the current year, 2013, this researcher can say that the steps taken by Botswana in light of the crisis, and even before it, are encouraging the growth of a stable economy. Challenges such as unemployment and inflation remain to be tackled. Diversification and a greater inclusion of the private sector appear to be key.

From the literature reviewed, it is clear that the origins of the crisis were mainly in the United States of America though Europe was also involved as observed. The financial crisis affected trade outcomes wherein its effects were felt by the Botswana government and also its private sector, which comprises mainly of banks. In determining the effects of the financial crisis, different economic factors were taken into consideration. However, it can be concluded that the most important indicators of the performance of the economy were the gross domestic product and the rate of inflation. Botswana recorded negative growth rates and high rates of inflation during the crisis. With successive years of negative growth experienced by the economy of Botswana it was a warning sign for a crisis for the country. However, in response to the crisis, the government employed measures such as the easing of its monetary policy and the use of expansionary fiscal policy.

Analysis of the different sectors of the economy showed that all sectors were affected by the crisis and particularly the extractive industries. Botswana is an economy dependent on its diamond exports through the extractive industries sector. This sector in turn supports other sectors. For the years reviewed, it showed that the sector was affected by the financial crisis, causing projects to be postponed or halted, experiencing greater project costs and time overruns, and, during the first quarter of 2009, the closure of some mines which fell under the ambit of the extractive industries sector. This imperilled the achievement of Botswanas National Development Plans. A cost benefit analysis approach was employed in order to prioritise projects in accordance with the plans. Therefore, in order for government to maintain its expenditure, it cut its spending.

Although the extractive industry was affected by the crisis, other non-mining sectors, mainly the Tourism Sector (as previously discussed) compensated for the loss felt through the extractive industries. This led to net overall growth. In addressing this challenge and to avoid dependence on the extractive industry sector initiatives, the private sector helped to diversify the economy. It led economic diversification, expenditure prioritisation and revenue collection as well as the 'Buy Local' programmes. A major example of the effects of the crisis was felt in the textile industry wherein the government had to provide support so as to avoid severe consequences, which could have resulted in job losses. Therefore, the crisis challenges were addressed with initiatives as mentioned.

A recap of the performance of the economy after the crisis and implementation of the above mentioned initiatives shows that the economy has evolved at moderate rates after the sharp decline it experienced in.The years 2008 to 2010. It is recommended that the government of Botswana should continue to generate growth by promoting the private sector. It should assist and support the non-mining sector as an alternative engine of growth for the economy and opportunities beyond borders should be sought for marketing the country as a destination for investment and tourism.

Economic diversification needs to be emphasised as it will lead to less dependence on the mining industry. Its acceleration will increase employment, investment opportunities and the level of skilled manpower, further reducing poverty.
Amongst other major challenges confronting the government are the national unemployment rate of 17.5% and a poverty rate higher than 20% recorded in 2012, combined with high

income inequality (Statistics Botswana, 2013). As part of the country's National Development Plan (NDP-10), the government is addressing these challenges through a number of initiatives including the adoption of a new National Economic Diversification Strategy, which focuses on private-sector-led economic diversification.

On the fiscal front, the global financial crisis interrupted the government's record of budget surpluses. Therefore, to ensure fiscal sustainability, the government undertook consolidation measures focusing on both expenditure prioritisation and revenue collection.

With regard to monetary policy, the Bank of Botswana's policy objective was focused on achieving price stability, defined by restricting inflation within a 3-6% range, in line with its comparators in the region. Nonetheless, the economy continued to confront inflationary pressures that have been prevalent since 2007. From 2001 until 2013, Botswana inflation rate averaged 8.3% reaching an all-time high of 15.1% in August of 2008 (Investment guide 2013).

Although Botswana has a stable and predictable political environment, underpinned by strong macroeconomic fundamentals, firms are not as competitive and productivity is lower than in other middle-income countries. South Africa is the industrial giant in the region and immediate competitor to Botswana. It is more competitive with its highly skilled labour force, large economy and domestic market, its cheaper utilities and transportation costs. For these reasons, certain impediments to investment and competitiveness in Botswana need to be addressed.

Furthermore, with the country mostly dependent on diamond exports, it is imperative as highlighted in the mid-term review of October 2012, to ensure that the non-mining sector, which is dependent of government spending together with the private sector, be diversified to become the alternative engines of growth for the economy.

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Annexure A.

STATUS OF DEVELOPMENT PROJECTS BY MINISTRY OF MINERALS, ENERGY AND WATER RESOURCES

TOTAL ESTIMATED COST: P (CURRENT PRICES, P'000)

Summary of Cost Estimates

PROJECTS	TOTAL	Remarks
1. MMEWR Computerization	**4,750**	**Not yet started**
2. MMEWR fleet expansion	1,000	**Completed at a cost of P 962, 300.**
3. Underground Storm Water	**200**	**Complete at cost of P659, 861.**
4. Water Quality Monitoring study	**8,000**	**Ongoing**
5. MMEWR restructuring	**300**	**Complete at a cost of P262 ,000**
6. DAM expert	**1100**	**Ongoing**
7. Pipeline Expert	**100**	**Ongoing**
8. Mmamabula Expert	**5000**	**Ongoing**
9. Strategic Review of the Mineral Industry in Botswana	**20,000**	**Complete at a cost of P22, 389,790**

10. Consultancies on Botswana Mineral Sector	**45,000**	**Not yet Started**
11. National Geotechnical investigations	**49,200**	**Not yet started**
12. Sysmicity studies of Botswana	**5,000**	**Not yet started**
13. Mineral dressing equipment	**3,181**	**Completed at a cost of P4,318,986**
14. GS HQ building-Phase II	**87,600**	**Ongoing**
15. NPV	**15,000**	**Completed at a cost of P12,000,000**
16. Rural electrification	**300,000**	**Completed at a cost of P144,361,213**
Establishment of energy and water regulator	**6,000**	**Ongoing**
17. Review of tariff structure	**3,000**	**Ongoing**
18. Renewable energy based rural electrification	**25,000**	**Not yet started**
19. Solar thermal generation plant	**4,600**	**Not yet started**
20. Solar water heating sytems	**5,000**	**Not yet started**

21. Energy audit of industries	1,500	Not yet started
22. Development of energy efficiency strategy	3,000	Not yet Started
23. Demand side management measures	15,000	Not yet started
24. Construction of Coal Deposits(Kang,Gantsi,Tsabong and Kasane)	15,000	Completed at a cost of P5,895,516
25. Government strategic oil storage depots(Tshele hills ,Palapye and Francistown)	398,000	Not yet started
26. Strategic fuel stocks	152,000	Not yet started
27. Cross –border fuel pipeline	5,000	Not yet Started
28. Coal to liquid fuel technology	2,000	Not yet started
29. Biofuel production	20,000	Not yet Started
30. Coal bed methane and coal gasification technologies	4,000	Not yet started
31. Biogas Plants	6,000	Not yet started
32. Identification and assessment of industrial mineral resources	10,700	Completed at a cost of P1,061,076.
33. Identification and assessment of minerals potential of mafic, ultramafic and granitic complexes.	40,000	Not yet started
34. Airborne magnetic survey	8,000	Ongoing
35. Construction of Core sheds	8,000	Completed at a cost of P249,675
36. Coal road map	16,000	Ongoing

37. Dikgathong Dam	**1,255,661**	**Ongoing**
38. Lotsane Dam	**560,000**	**Ongoing**
39. Thune Dam	**600,000**	**Ongoing**
40. Mosetse demand cluster connection to Ntimbale dam	**100,000**	**Not yet started**
41. Notwane Dam	**1,500**	**Not yet started**
42. Cross border pipeline	**10,000**	**Not yet started**
43. National emergency water project	**200,000**	**Ongoing**
44. Channel Deeweder	**10,000**	**Not yet started**
45. Water conservation and demand mangement	**2,493**	**Not yet started**
46. NSC II	**3,000,000**	**Ongoing**
47. Water sector restructuring	**6,000**	**Ongoing**
48. Water supply and development(Major villages)	**P2,056,714**	**Design stage**
49. Old and abandoned mines workings	**20,000**	**Ongoing**
50. Mine audits	**2,000**	**Ongoing**
51. Morupule B	**2,300,000**	**Ongoing**
52. Emergency power generation	**150,000**	**Ongoing**
53. Water quality and supply efficiency	**56,000**	**Not yet started**
54. Establish rough and polished diamond trading facility	**50,000**	**Not yet started.**