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SOVEREIGN WEALTH FUNDS AND FISCAL GOVERNANCE IN AFRICA: INSIGHTS FROM BOTSWANA'S MODEL

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Abstract. This study investigates the institutional and governance frameworks necessary for operationalising effective sovereign wealth funds (SWFs) in resource-rich African economies, using Botswana's Pula Fund as a benchmark. Grounded in the Permanent Income Hypothesis and employing qualitative methods such as documentary analysis and elite interviews, the research highlights critical success factors for SWFs in the African context. Key findings reveal that Botswana's Pula Fund, integrated with the Sustainable Budget Index (SBI) and robust governance structures, has enabled fiscal discipline, transparency, and long-term wealth preservation, contrasting sharply with failed regional attempts in Angola and Zimbabwe marked by elite capture and mismanagement. The paper underscores the importance of phased SWF deployment (stabilisation→development→savings), legislative safeguards to ensure political independence, and ring-fenced fund objectives. It also emphasises the role of institutional coherence, meritocratic human capital management, and transparent decision-making processes in mitigating governance pitfalls. Challenges such as declining Pula Fund assets, ambiguous withdrawal protocols, and political pressures illustrate the fragility of even successful models, offering lessons for other African nations. This study contributes practical policy insights for African policymakers seeking to transform resource wealth into sustainable development. Recommendations include adopting gradual SWF establishment, enhancing parliamentary oversight, and professionalising fund management to avoid the "resource curse." The findings advocate for context-specific fiscal rules and governance innovations tailored to Africa's institutional realities, reinforcing the nexus between natural resource governance, fiscal sustainability, and inclusive growth.

Keywords: Sovereign wealth funds; natural resource governance; fiscal policy

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1. Introduction

The management of natural resource wealth remains one of Africa's most pressing governance challenges. While sovereign wealth funds (SWFs) have emerged as potential solutions to harness resource revenues for sustainable development, their effectiveness across the continent has been strikingly uneven. This study interrogates this disparity through a focused examination of Botswana's Pula Fund, a relatively successful model contrasted with failed experiments in Angola and Zimbabwe. The research emerges from an urgent policy dilemma: why do some African nations successfully convert mineral wealth into development while others succumb to the resource curse? Existing literature provides partial answers. The Permanent Income Hypothesis and Hartwick-Solow rule offer theoretical foundations, suggesting that resource revenues should be transformed into sustainable investments (Lange & Wright, 2004). Norway's Government Pension Fund Global exemplifies this approach, but its direct applicability to African contexts is limited by institutional capacity gaps (Ekeli & Sy, 2011).

Comparative studies reveal Botswana's success stems from its integrated fiscal framework, particularly the Sustainable Budget Index that links mineral revenues to disciplined expenditure (IMF, 2024). In stark contrast, Angola's FSDEA became a vehicle for elite enrichment (Byee, 2013), while Zimbabwe's legislated SWF never materialised amid systemic governance failures (Matambo, 2021).

This study makes three distinctive contributions to the governance and development discourse. First, it moves beyond theoretical prescriptions to analyse the operational realities of SWF management in Africa's unique institutional environments. Second, it identifies the specific governance mechanisms, including fiscal rules, parliamentary oversight, and meritocratic staffing, that differentiate successful from failed SWFs. Third, it develops policy recommendations grounded in Botswana's adaptable model rather than importing idealised frameworks from advanced economies. The research addresses three critical questions: What governance architecture explains Botswana's relative success with the Pula Fund? How does the integration of fiscal rules like the SBI prevent the mismanagement seen elsewhere? What practical lessons can other resource-rich African states derive to avoid elite capture and ensure intergenerational equity? By answering these questions, the study aims to strengthen the policy toolkit for managing resource wealth in ways that promote inclusive development and good governance, central concerns of the African governance and development agenda. The analysis proceeds through qualitative examination of Botswana's institutional framework compared to regional counterparts, drawing on documentary evidence and elite interviews. This approach allows for a nuanced understanding of how formal rules interact with political realities in African resource governance. The findings seek to inform both academic debates and policymaking processes across the continent. The paper proceeds with a literature review examining optimal fiscal frameworks for resource-rich economies, followed by methodology, findings, conclusion and policy recommendations.

2. Theoretical framework and literature review

2.1 Fiscal framework suitable for resource-rich developing economies

The management of natural resource revenues presents both opportunities and challenges for developing economies. At the core of this discourse lies the fundamental question of how to transform finite natural capital into sustainable development outcomes (Qobo & Soko; Asiegbu et al., 2024; Botlhale, 2024). The Hartwick-Solow rule, derived from the Permanent Income Hypothesis, provides a theoretical foundation by advocating for the reinvestment of resource rents into other productive forms of capital (Lange & Wright 2004). This approach aims to maintain a nation's aggregate wealth across generations, suggesting that equivalent investments in physical infrastructure, human capital, and financial assets should offset the depletion of natural assets. However, the direct application of this theoretical framework encounters significant practical constraints in developing country contexts. As Affuso et al. (2022) demonstrate, many resource-rich developing nations face acute capital shortages and pressing development needs that necessitate immediate expenditure. These structural realities create an inherent tension between the ideal of intergenerational equity and the practical demands of poverty alleviation and infrastructure development. Baunsgaard et al. (2012) further complicate this picture by highlighting the absorptive capacity constraints that limit many developing economies' ability to effectively deploy large resource revenues. Literature offers nuanced modifications to address these implementation challenges. Collier, Van der Ploeg and Venables (2008) and Collier (2012) (both cited by the AfDB, 2016) propose a phased approach that balances immediate needs with long-term sustainability. Their framework suggests allocating a portion of early-stage resource revenues to critical consumption and human capital investments, while gradually increasing the savings rate as resource production matures. This perspective acknowledges the developmental imperatives of poorer nations while maintaining the principle of intergenerational equity. Ekeli and Sy (2011) introduce an important temporal dimension to this discussion by differentiating between economies with short-duration and long-duration resource revenues. For nations with temporary resource booms, such as Ghana's oil reserves, literature emphasises rapid domestic investment to facilitate economic transformation before resource depletion (Gylfason, 2011). In contrast, countries with longer resource horizons, such as Botswana's diamond wealth, can adopt more balanced strategies combining domestic investment with sovereign wealth accumulation (Kojo, 2010; Kassouri & Altintas, 2021).

Academic consensus suggests that successful fiscal frameworks must account for three critical variables: the expected duration of resource revenues, the economy's absorptive capacity, and the quality of governance institutions. As Sharma and Strauss (2013) demonstrate, the optimal savings-investment-consumption mix varies significantly across contexts, requiring tailored policy solutions rather than rigid theoretical prescriptions. Literature establishes the foundation for examining how specific institutional arrangements, such as Botswana's SBI, attempt to reconcile these complex trade-offs in practice. This synthesis reveals several key insights for African policymakers. First, fiscal rules must be flexible enough to accommodate different stages of resource production and economic development. Second, the effectiveness of any framework depends fundamentally on the strength of governance institutions. Finally, literature underscores the importance of viewing SWFs not as standalone solutions, but as components of broader fiscal management systems that address both stabilisation and development objectives (Nguyen & Nguyen, 2021).

2.2. Special fiscal rules and institutions that ensure fiscal sustainability

Literature establishes that fiscal sustainability in resource-rich developing economies requires an integrated institutional framework combining three key elements: (1) clearly defined fiscal rules, (2) independent fiscal advisory councils, and (3) properly structured commodity-based SWFs (Dixon et al, 2022). Crucially, these components function interdependently. SWFs cannot achieve their objectives in isolation but rather depend on complementary fiscal rules to constrain expenditure volatility and/or fiscal councils to provide objective oversight. This tripartite framework creates the necessary checks and balances to prevent resource windfalls from undermining long-term fiscal stability.

2.2.1 Fiscal rules

Fiscal rules constitute institutional mechanisms designed to enforce long-term fiscal discipline across government administrations. As defined by Ray, Velasquez and Islam (2015), these rules represent formal or informal commitments that establish binding multi-year constraints on aggregate public expenditure to maintain fiscal sustainability. Literature broadly categorises fiscal rules into two distinct types: numerical rules that impose quantitative limits on fiscal aggregates, and procedural rules that govern the decision-making processes surrounding fiscal policy (Sharma & Strauss, 2013). Contemporary scholarship identifies four principal categories of fiscal rules applicable to resource-endowed developing economies: (1) budget balance rules, (2) debt rules, (3) expenditure rules, and (4) revenue rules (Bauer, 2014:4). The selection and implementation of these fiscal rules are necessarily context-dependent, requiring careful consideration of a nation's specific developmental requirements, institutional capabilities, and vulnerability to exogenous economic shocks (Sharma & Strauss 2013:9).

2.2.2 Fiscal advisory councils

Fiscal advisory councils (FACs), alternatively termed independent fiscal institutions or parliamentary budget offices, constitute critical governance mechanisms in resource-dependent economies. As formally defined by the IMF (2013), these publicly-funded autonomous entities serve to mitigate governmental revenue projection biases through rigorous evaluation of fiscal forecasts. Their mandate extends to monitoring compliance with established fiscal rules and assessing the sustainability of natural resource revenue management practices (Zigman & Jergovic, 2017). The institutionalisation of FACs in resource-rich developing nations such as Chile, Ghana, and East Timor reflects their dual function as both technical oversight bodies and mechanisms for enhancing democratic accountability (Sharma & Strauss, 2013). By subjecting fiscal policy to independent scrutiny and facilitating public debate through media engagement, these institutions raise the political costs of fiscal indiscipline while constraining excessive expenditure tendencies (IMF, 2013). However, the effectiveness of FACs remains contingent upon two critical factors: first, the existence of genuine political commitment to fiscal discipline (Hagemann, 2011), and second, institutional safeguards against regulatory capture (Sharma & Strauss, 2013). When either condition is absent, FACs risk becoming either ignored by policymakers or co-opted to serve elite interests at the expense of broader societal welfare. This vulnerability highlights the fundamental paradox of fiscal governance institutions: while designed to constrain political discretion, their efficacy ultimately depends on the very political will they seek to regulate (Bortolloitti et al., 2023).

2.2.3 Commodity-based SWFs

SWFs are state-owned investment vehicles that invest in the global financial markets for the benefit of the sovereign sponsor (Matambo, 2021). In the African context, there are primarily three types of SWFs, i.e. commodity-based SWFs (the focus of this study), strategic investment funds and vanity funds. Commodity-based SWFs are used to manage resource rents across the commodity cycle, strategic investment funds act as holding companies for state-owned enterprises and vanity funds invest in ongoing government (Trudelle, 2024). Table 1 below profiles SWFs in Africa.

Table 1. List of SWFs in Africa

SWF sponsor	**Name of SWF**	**SWF Type**	**Year Est.**	**Value US$ billion**
Angola	Fundo Soberano de Angola	Commodity	2012	2.17
Botswana	Pula Fund	Commodity	1994	4.52
Democratic Republic of Congo	Fonds de stabilisation des Recettes Budgetairs	Commodity	2005	0.02
Egypt	Amlak	vanity.	2015	2
Ethopia	Ethopian Investment Holdings	Strategic Investment		46
Equatorial Guinea	Fund for future generations	Commodity	2002	0.165
Gabon	Fonds Gabonais d'Investissements Strategiques	Commodity	1998	1.89
Ghana	i. Ghana Heritage Fund ii. Ghana Stabilisation Fund	commodity	2011	1.236
Libya	Libya Investment Authority	Commodity	2006	68
Mauritius	Mauritius Investment Corporation	Strategic Investment	2023	1.18
Morrocco	Fonds Morocain de Développment Touristique	Commodity	2011	1.84
Mozambique	Fundo Soberano de Moçambique	Commodity	2023	0.1588
Namibia	Welwitschia Fund	Commodity	2022	0.026
Nigeria	Nigeria Sovereign Investment Authority	Commodity	2011	2.1
Rwanda	Agarico Development Fund	Vanity	2012	0.25
São Tomé and Principe	Permanent Fund for future generations	Commodity	2004	Not known.
Senegal	Fonds Souverain d'Investissements Stratégiques	Vanity	2012	0.051
South Sudan	Oil revenue stabilisation fund	Commodity	2008	Not known
Uganda	Public Investment Fund	Commodity	2015	0.067
Zimbabwe	Mutapa Investment Fund	Strategic Investment	2023	16

Source: Researcher's compilation from SWF websites

Commodity-based SWFs are the most common type of SWF on the African continent. These funds serve a tripartite macroeconomic purpose: first, as intertemporal stabilisers that smooth fiscal revenues across commodity price cycles (booms and busts), second, as financiers of domestic development and third, as instruments for intergenerational wealth preservation (Dixon & Monk, 2011a). Dixon and Monk (2011a) propose a sequential SWF deployment framework, termed the "SWF cascade," which advocates for a phased implementation approach tailored to the developmental stage of resource-rich economies. Their model posits that developing nations, particularly in Africa, should establish three distinct but complementary funds in progressive stages: (1) stabilisation funds, (2) development funds, and (3) intergenerational savings funds. The framework emphasises initial prioritisation of stabilisation funds to mitigate the macroeconomic volatility inherent in commodity-dependent economies (Dixon & Monk, 2011a). These funds serve as fiscal buffers against commodity price fluctuations, enabling more predictable budget planning during periods of revenue instability. Following the achievement of sufficient stabilisation reserves, the model recommends transitioning to development-focused funds that channel resources into critical infrastructure and human capital investments. Only after addressing immediate stabilisation concerns and achieving key developmental milestones does the framework contemplate establishing intergenerational savings vehicles. This sequential approach reflects fundamental differences in economic priorities between developed and developing contexts. While mature economies like Norway possess the institutional capacity and economic surplus to justify long-term savings instruments, most African nations face more pressing developmental imperatives. The model explicitly cautions against premature adoption of savings-oriented funds in capital-constrained environments where unmet social needs remain acute. Figure 2 systematically illustrates this phased deployment logic, demonstrating how fund objectives should evolve in tandem with a nation's economic development trajectory (Dixon & Monk, 2011a:8).

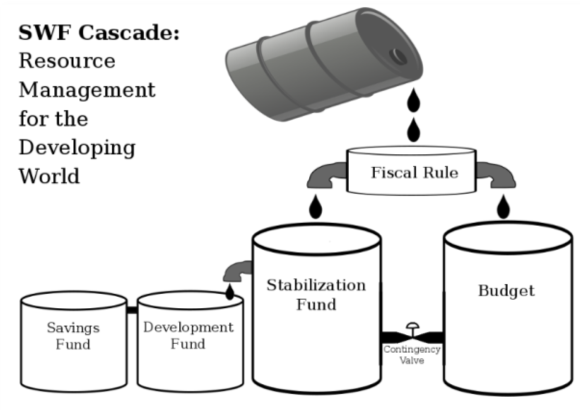

Figure 1. SWFs in Africa: A policy framework
Source: Dixon and Monk (2011a:8).

The framework's theoretical contribution lies in its recognition that SWF structures must be contingent upon a country's specific institutional capacity and developmental requirements rather than adopting a one-size-fits-all approach.

2.3 Sovereign wealth fund governance

The governance of SWFs constitutes a critical determinant of their effectiveness as instruments for natural resource revenue management and sustainable development. Following the OECD's (2015:17) formal definition, SWF governance encompasses the organisational structures, operational processes, and institutional practices that regulate relationships between key stakeholders, including fund sponsors, governing boards, management teams, and external asset managers, while establishing parameters for investment decision-making. Empirical evidence suggests that optimal fund design and robust governance frameworks represent necessary preconditions for SWFs to fulfil their potential as development tools (Dixon & Monk, 2011a). Building on this foundation, Clark and Urwin (2008) identify four cardinal principles of effective SWF governance: (1) institutional coherence, (2) human capital quality ("people"), (3) decision-making processes, and (4) political insulation. These elements collectively form an institutional matrix that either enables or constrains fund performance. Academic consensus underscores that variations in SWF outcomes, whether successful capital preservation or problematic mismanagement, fundamentally stem from differences in governance quality and institutional architecture (Bauer, 2014). The subsequent analysis systematically examines each governance dimension, drawing on comparative case studies and established best practices to elucidate the institutional prerequisites for effective SWF operation. This examination proves particularly salient for resource-dependent economies, where governance weaknesses frequently undermine the transformative potential of natural resource wealth.

Institutional coherence

The principle of institutional coherence constitutes a foundational element in SWF governance, encompassing three critical dimensions: (1) the fund's explicit mandate and objectives, (2) its integration with national fiscal frameworks, and (3) the consequent implications for governance structures and investment strategies (Clark & Urwin, 2008:9). This tripartite conception of coherence manifests differently across SWF typologies, reflecting varying policy objectives and operational requirements. The Chilean Economic and Stabilisation Fund (ESSF) exemplifies optimal institutional coherence for stabilisation vehicles, demonstrating precise alignment between its mandate (commodity price cycle smoothing) and Chile's structural budget rule (Santiso, 2012:82). Such funds typically reside within central bank or treasury institutional structures, leveraging existing macroeconomic expertise to manage short-term liquidity requirements (Dixon, 2016). Their investment portfolios reflect this stabilisation function, concentrating on highly liquid, low-risk sovereign bonds that ensure rapid deployability during economic shocks (Triki & Faye, 2011:6). Norway's GPFG illustrates the enhanced governance requirements of savings-oriented funds. While sharing institutional proximity with stabilisation vehicles, these funds demand distinct portfolio architectures to accommodate their long-term horizons and higher risk tolerances (Hove, 2016). The Norwegian solution, i.e. delegating management to the professionally staffed Norges Bank Investment Management (NBIM) while maintaining treasury oversight, demonstrates the sophisticated governance needed to balance independence with accountability (Santiso, 2012). This model addresses the OECD's (2018) emphasis on specialised capabilities for managing complex asset allocations across generations. Kazakhstan's Samruk-Kazyna underscores the unique governance challenges of development-focused SWFs. Unlike stabilisation funds that can leverage existing fiscal institutions, development funds require purpose-built architectures combining: (1) direct investment expertise, (2) project evaluation capabilities, (3) performance monitoring systems (Santiso, 2008). These requirements often exceed the human capital capacities of both government agencies (due to skill gaps) and the private sector (due to recruitment challenges) in developing economies (Dixon, 2016). This typological analysis reveals an institutional coherence continuum: from the relatively straightforward stabilisation models embedded in fiscal institutions, through the technically demanding but conceptually clear savings funds, to the complex institutional innovations required for effective development funds. The governance intensity escalates with the sophistication of the fund's objectives, creating distinct implementation challenges for resource-rich developing economies.

People

The effectiveness of SWFs as financial institutions fundamentally depends on their ability to cultivate high-quality human capital capable of competing in global financial markets. This imperative creates unique governance challenges at the intersection of public sector accountability and private sector efficiency. As Dixon and Monk (2014) demonstrate, SWFs must develop specialised human resource strategies to attract, retain, and incentivise professionals with the technical competencies required to manage complex investment portfolios. The recruitment paradigm for SWFs necessitates strict adherence to meritocratic principles, with empirical evidence showing that funds prioritising technical expertise over political connections demonstrate superior long-term performance (Dixon, 2016). New Zealand's Superannuation Fund exemplifies this approach through its institutionalised merit-based selection processes, which explicitly mandate objective assessment criteria to ensure both fairness and technical rigour in personnel decisions (New Zealand Superannuation Fund, 2019). The human capital challenge stems from SWFs' hybrid institutional nature as public entities operating in competitive financial markets (Clark & Monk, 2012). This creates what might be termed a "compensation paradox". At the same time, subject to public sector oversight and often facing political constraints on remuneration, SWFs must simultaneously compete with private financial institutions for scarce investment talent. Leading funds have addressed this challenge through innovative organisational adaptations, including compensation restructuring that approximates private sector benchmarks while maintaining public accountability. The Qatar Investment Authority's recruitment of Ugo Arzani, formerly of Merrill Lynch, and Abu Dhabi Investment Authority's appointment of John McCarthy from Deutsche Bank (Clarke, 2013) illustrate how elite funds strategically target professionals with proven private sector experience, often creating customised compensation packages to attract such talent.

These cases reveal an emerging best practice framework for SWF human capital management, characterised by three key elements: rigorous merit-based selection processes, competitive but accountable compensation structures, and strategic recruitment targeting specific technical competencies. However, as Dixon and Monk (2011a) caution, implementing such approaches requires careful navigation of political economy constraints, particularly in developing country contexts where public sector wage structures may be inflexible. The resulting "professionalisation paradox", maintaining public oversight while achieving private sector efficiency, represents a central governance challenge for SWFs worldwide. Successful resolution of this paradox appears correlated with fund performance, suggesting that human capital quality serves as a key differentiator between successful and underperforming sovereign investors. These insights hold particular relevance for emerging SWFs in developing economies seeking to build technical capacity while maintaining fiduciary responsibility and public legitimacy.

Process

The effectiveness of SWFs as institutional investors hinges critically on the sophistication of their decision-making architectures and risk management capabilities. As Clark and Monk (2012:12) emphasise, the quality of investment outcomes in such financial institutions is fundamentally determined by how decision processes are "framed, routinised, and implemented" within their organisational structures. This requires establishing robust governance mechanisms that ensure both transparency and accountability in investment operations (Dixon & Monk, 2011b). Norway’s GPFG exemplifies this principle through its rigorous reporting regime, where Norges Bank Investment Management (NBIM) provides quarterly and annual disclosures to the Ministry of Finance, which subsequently submits comprehensive reports to the Storting (Norwegian Parliament) (Asian Development Bank 2016). This multi-tiered accountability framework serves as a governance benchmark for SWFs globally. A critical dimension of effective SWF management involves the precise alignment between investment strategies and institutional risk tolerance. The catastrophic experience of the Libyan Investment Authority (LIA) under the Gaddafi regime illustrates the consequences of misalignment, where the fund's venture into complex derivatives and private equity investments without adequate technical capacity resulted in catastrophic losses exceeding 98% of value (Saigol & O'Murchu, 2011). This case, demonstrates how governance failures can transform SWFs from wealth preservation vehicles into instruments of value destruction, particularly when political considerations override prudent investment principles. The establishment of clearly articulated investment beliefs constitutes another pillar of sound SWF governance. As Dixon and Monk (2011b) contend, such beliefs form the philosophical foundation guiding asset allocation and risk-taking behaviour. Norway's GPFG operationalises this through its strategic plan (NBIM, 2020), which explicitly defines three core asset classes (equities, fixed income, and real assets) while maintaining strict geographic diversification rules to mitigate domestic economic overheating risks. This disciplined approach contrasts sharply with the ad hoc decision-making observed in poorly governed funds, highlighting how institutionalised investment philosophies contribute to long-term performance sustainability. These case comparisons reveal a spectrum of governance quality in SWF operations, where best practice funds demonstrate (1) formalised decision-making hierarchies, (2) risk-aware investment frameworks, (3) explicitly articulated investment beliefs, (4) multi-stakeholder accountability mechanisms. The empirical evidence suggests that deviations from these governance standards, particularly when combined with political interference, significantly impair SWF performance and undermine their intended economic stabilisation and wealth preservation functions. This analysis contributes to the broader discourse on public institutional investors by identifying specific governance attributes that differentiate successful from unsuccessful sovereign investment vehicles.

Politics

SWFs inherently embody a fundamental tension between their political genesis and operational requirements for financial autonomy. While these institutions emerge from political decisions regarding national resource allocation, their effective management necessitates substantial insulation from direct political interference in investment decisions (Clark & Monk, 2012). This creates what might be termed the "sovereign investor's dilemma", the challenge of maintaining appropriate political oversight while preserving the professional independence required for optimal financial performance. Literature establishes a clear normative framework for addressing this dilemma. Dixon and Monk (2011a) articulate a principle of institutional separation whereby political actors should limit their involvement to establishing the fund's strategic mandate and exercising performance oversight, while delegating all investment decisions to professional managers. This distinction proves critical because, as Dixon (2016) demonstrates through comparative analysis, political interference frequently manifests in economically suboptimal investments that prioritise political objectives over financial returns. The case of the Libyan Investment Authority (LIA) under the Gaddafi regime provides a particularly stark illustration of this dynamic. As documented by Saigol and O'Murchu (2011), the LIA's US$300 million investment in Palladyne International Asset Management - directed through personal networks connected to the ruling family - lost 17% of its value within twelve months, exemplifying how politically motivated investment decisions can systematically undermine portfolio performance. The composition and selection of SWF governance bodies represent a critical institutional mechanism for maintaining this balance between accountability and independence. Dixon and Monk (2011b) emphasise the necessity of establishing rigorous, competency-based appointment processes that prioritise financial expertise over political considerations. Australia's Future Fund Act (2006) provides an exemplary institutional model in this regard, with Section 38(3) establishing strict professional qualifications for board members that include: (1) substantial experience in financial asset management, (2) demonstrated investment expertise, and (3) proven corporate governance capabilities. This legislative framework creates what might be conceptualised as a "technocratic firewall" that safeguards the fund's investment decisions from partisan political influence while maintaining appropriate channels for democratic accountability. The comparative evidence suggests that successful SWF governance systems typically institutionalise three key principles: (1) a clear functional separation between political oversight and investment operations, (2) meritocratic appointment processes for both board members and senior management, and (3) transparent mechanisms for performance evaluation and accountability. These governance structures help reconcile the inherent tension between SWFs' public ownership and their need for operational independence in financial markets, while mitigating the risks of political capture and value-destructive investments. The contrasting outcomes between well-governed funds like Australia's Future Fund and politically compromised vehicles like the Gaddafi-era LIA underscore the critical importance of these institutional design choices for long-term SWF performance and sustainability.

3. Methodology

This study employed a qualitative research methodology grounded in the interpretivist paradigm. Data was collected using documentary analysis augumented by elite interviews. Documents such as government policy documents, legislative texts, central bank publications, and reports from international organisations such as the IMF and World Bank were analysed. These were selected through purposive sampling. To complement and enrich the documentary findings, the study incorporated elite interviews with six participants. Referral sampling was used to select the research participants. The interviews followed a structured protocol examining the design and governance effectiveness of the Pula Fund. All interviews were recorded, transcribed verbatim, anonymised to ensure confidentiality, and subjected to rigorous thematic analysis.

4. Data presentation and analysis

4.1 Botswana’s natural resource revenue management framework

Botswana has emerged as a paradigmatic case of successful natural resource governance among resource-dependent developing economies, distinguished by its prudent and institutionally robust framework for managing mineral revenues (Kojo, 2010). The country's exemplary performance stems from a carefully designed natural resource revenue management system that systematically aligns fiscal policy with long-term development objectives. At its core, this framework rests on two mutually reinforcing institutional pillars: (1) macroeconomic stabilisation to mitigate the volatility inherent in commodity markets, and (2) strategic prioritisation of development expenditure to transform finite mineral wealth into sustainable growth drivers (OECD, 2019). These pillars are operationalised through two key mechanisms that have become hallmarks of Botswana's governance approach. First, the Pula Fund serves as both a stabilisation vehicle to smooth fiscal revenues across commodity cycles and a savings instrument to preserve wealth for future generations. Second, the SBI functions as a non-statutory fiscal rule that guides expenditure decisions by maintaining discipline between recurrent spending and non-mineral revenues (AfDB, 2016). Together, these institutions embody what scholars have identified as Botswana's distinctive capacity to avoid the "resource curse" through forward-looking institutional innovation (Leith, 2005).

The effectiveness of this framework becomes particularly evident when contrasted with the experiences of other resource-rich developing nations. While many commodity-dependent economies struggle with fiscal profligacy during boom periods and painful austerity during busts, Botswana's institutional architecture has enabled remarkable macroeconomic stability despite diamond price fluctuations. Similarly, where other nations have squandered resource windfalls on unproductive expenditures, Botswana has consistently channelled mineral revenues into strategic investments in physical infrastructure, human capital, and economic diversification. The following analysis examines the key components of this framework in detail, focusing on how the interplay between the Pula Fund and the SBI has fostered Botswana's exceptional economic performance. This examination not only illuminates the specific mechanisms of Botswana's success but also offers broader insights into the institutional prerequisites for sustainable resource management in developing country contexts. The case demonstrates how carefully designed fiscal rules combined with sovereign wealth instruments can help overcome the governance challenges that frequently undermine resource-rich developing economies.

Sustainable Budget Index (SBI)

Botswana's fiscal framework is theoretically anchored in the Hartwick-Solow rule, which posits that sustainable development in resource-rich economies requires reinvesting resource rents into productive capital to offset the depletion of natural assets. This principle informs Botswana's distinctive approach to managing mineral revenues, which emphasises the conversion of finite diamond wealth into long-term investments in physical infrastructure, human capital, and financial assets (IMF, 2020). The government's fiscal strategy deliberately constrains the use of resource revenues for recurrent expenditures, thereby mitigating the risk of Dutch Disease while preserving intergenerational equity. This theoretical foundation is institutionalised through Botswana's SBI. This non-statutory fiscal rule operationalises fiscal discipline via a transparent metric: the ratio of recurrent expenditure (excluding health and education, which are classified as developmental spending) to non-mineral revenue (Barbier, 2005). By tethering recurrent budget outlays to sustainable non-resource income streams, the SBI functions as a self-imposed fiscal anchor that prevents excessive consumption of resource windfalls (Kojo, 2010). The exclusion of health and education expenditures from the recurrent spending calculation reflects Botswana's policy prioritisation of human capital development as a form of intergenerational wealth preservation (Leith, 2005; Andreasson, 2010).

The SBI serves as a critical fiscal management tool, with its numerical threshold providing clear policy signals. An SBI exceeding 1 indicates the unsustainable financing of recurrent expenditures through resource revenues, while values below 1 demonstrate compliance with Botswana's fiscal sustainability framework (Meija & Castel, 2012). As several interviewees emphasised, including a former senior official at the Bank of Botswana, "*The SBI's strength lies in its simplicity. It creates a bright line that even non-economists in Parliament can understand and monitor*". This institutional clarity, combined with strong political commitment across successive administrations, enabled Botswana to maintain an SBI below 1 for 30 of 32 years between 1983/84 and 2014/15, with only temporary deviations during 2000/01 and 2004/05 (AfDB, 2016).

The developmental outcomes of this fiscal discipline have been transformative. As one interviewee from the Ministry of Finance noted, "*The SBI forced us to think strategically about every pula from mineral revenues. We couldn't just spend it on government salaries or subsidies*". This discipline facilitated massive investments in national infrastructure, with Botswana's paved road network expanding from just 5 km at independence to over 32,500 km by 2024 (Statistics Botswana, 2024). Human capital indicators show equally dramatic improvements, with literacy rates soaring from 25% to 90% between 1966 and 2020 (UNESCO, 2020), while GDP per capita grew nearly 100-fold (IMF, 2024). These achievements, as Andreasson (2010) documents, reflect the consistent channelling of diamond revenues into productive investments rather than consumption.

However, the post-2014 period has seen growing challenges to the SBI framework. Multiple interviewees cited three key pressure points (1) rising public sector wage bills consuming larger shares of non-mineral revenues, (2) declining and volatile SACU transfers reducing the denominator in the SBI calculation and (3) extraordinary expenditures related to COVID-19 response (IMF, 2020). These pressures have exposed structural limitations in the SBI framework. As the AfDB (2016) notes, while the SBI effectively controls aggregate expenditure levels, it provides no guidance on the quality or composition of investments. One independent economist interviewed remarked, "*We built roads and schools, but not always where most needed, and sometimes without proper maintenance planning*".

In response, Botswana has proposed reforms to strengthen its fiscal framework, including: (1) a new 60/40 rule for resource revenue allocation between investments and savings, (2) enhanced project appraisal systems and (3) stronger parliamentary oversight mechanisms (IMF 2020). Yet as Collier's work (cited in AfDB, 2016) suggests, these technical fixes must be balanced with political realities. The same interviewees who praised Botswana's past discipline expressed concerns about maintaining it amid growing social demands and declining resource revenues. This tension highlights the broader challenge facing resource-dependent economies: how to sustain intergenerational equity principles when the fiscal space becomes more constrained. The case of Botswana ultimately suggests that while rules like the SBI provide essential fiscal anchors, their long-term effectiveness depends on complementary governance structures that ensure both disciplined implementation and adaptive refinement as economic circumstances evolve. As the country's experience shows, even the most well-designed fiscal rules require ongoing political commitment and institutional reinforcement to maintain their effectiveness across changing economic and political cycles.

Pula Fund

Botswana's Pula Fund, symbolically named after the Setswana word for "rain" to reflect its role as a fiscal buffer, represents a critical component of the nation's natural resource management architecture. The fund currently holds approximately 70% of Botswana's international reserves, comprising two distinct components: (1) the Government Investment Account, which accumulates fiscal surpluses, and (2) the Bank of Botswana's excess foreign reserves beyond immediate liquidity requirements (Kojo 2010; Revenue Watch Institute, 2013). As of December 2023, the Fund's assets amounted to 20% of GDP, invested primarily in global equities and fixed-income securities (IMF, 2024:42). However, interviews with current and former central bank officials reveal growing concerns about the fund's dual stabilisation-savings mandate. One senior economist at the Bank of Botswana noted: "*The lack of clear operational guidelines for drawdowns has created tension between the fund's short-term stabilisation role and its long-term intergenerational wealth preservation objective. This tension has intensified amid declining diamond revenues, with the fund's assets decreasing from 45% of GDP in 2008 to the current 20%".*

Recent reform proposals seek to address these challenges through two key measures. First, a new fiscal rule will mandate direct transfers of mineral revenues to a reconstituted SWF (IMF African Department, 2024). Treasury has proposed legislation that aims to clarify withdrawal protocols and enhance parliamentary oversight (Mguni, 2024). However, concerns persist about the fund's governance. Media investigations and confidential interviews with fund suggest irregular withdrawals, including an alleged monthly P5 million disbursements to intelligence services (The Patriot on Sunday, 2019) and unspecified stabilisation drawdowns lacking transparent reporting (Botswana Gazette, 18 April 2024). As one former treasury official cautioned: "*Without proper safeguards, even the best-designed funds can become vulnerable to off-budget appropriations*". These issues highlight the delicate balance Botswana must strike between maintaining fiscal flexibility and ensuring the Pula Fund's long-term integrity as a savings vehicle. The Fund's evolution reflects broader challenges facing resource-dependent economies: how to maintain fiscal discipline amid revenue volatility while preventing the erosion of hard-won institutional safeguards. Botswana's ongoing reforms will test whether middle-income countries can adapt sovereign wealth frameworks to changing economic realities without compromising their original governance principles.

4.2 Governance architecture of the Pula Fund

Institutional coherence

The Pula Fund's institutional design reflects a governance model that strategically combines elements of Chile's Economic and Social Stabilization Fund (ESSF) framework with Botswana specific adaptations. Like its Chilean counterpart, the Pula Fund was conceived as a complementary institution to Botswana's SBI, providing both stabilisation capacity during commodity price volatility and intergenerational savings functions (IMF, 2024:42). However, as several interviewees emphasised, the fund's unique dual mandate has created ongoing governance challenges. The stabilisation component remains institutionally embedded within the Bank of Botswana, leveraging the central bank's macroeconomic expertise. As one fund official explained: "*Having the stabilisation function under the Bank ensures rapid response capability during crises, but requires careful firewalls to prevent monetary policy conflicts*". This arrangement aligns with international best practices for stabilisation funds, which typically reside within central banks or finance ministries (Dixon, 2016).

Conversely, the savings component operates under a more complex governance structure. While formally overseen by the Bank's board, day-to-day management involves collaboration with external asset managers. As the IMF (2024) notes, this hybrid approach attempts to balance public oversight with private-sector investment expertise. However, multiple interviewees expressed concerns about this model's effectiveness. One senior investment advisor to the Fund stated: "*The current structure creates ambiguity - are we maximising risk-adjusted returns or serving political-economic objectives*?" These tensions reflect a broader governance dilemma identified in the literature. As Clark and Monk (2012) demonstrate, successful savings funds typically require specialised asset management structures that combine three elements: (1) operational independence from short-term political pressures, (2) professional investment teams with global market expertise, (3) clear accountability mechanisms to ultimate beneficiaries. Botswana's partial outsourcing model, while innovative, appears to fall between these institutional paradigms. As one former minister of finance acknowledged: "*We've avoided the pitfalls of full political control seen in some African SWFs, but haven't fully embraced the arm's-length model of Norway's GPFG*". The ongoing reforms referenced in previous sections suggest Botswana's policymakers recognise these institutional gaps. The proposed legislative changes and potential creation of a dedicated asset management entity (IMF African Department, 2024) indicate movement toward the professionalised governance structures that scholars identify as critical for long-term SWF success (Bauer, 2014). However, as the interview data reveals, the political economy of such institutional transitions remains complex, particularly in resource-dependent middle-income economies facing fiscal pressures.

People

The Pula Fund's human resource architecture represents a deliberate institutional innovation designed to overcome Botswana's domestic skills constraints in sovereign wealth management. Recognising the specialised expertise required for global portfolio management, the Bank of Botswana has implemented a hybrid recruitment model that combines international headhunting with local oversight (Chigumira et al., 2013:76). This approach addresses what one fund official described as "*the fundamental paradox of SWF staffing in developing economies, the need for world-class asset management capabilities in contexts without deep financial markets*". The fund's talent acquisition process involves three distinctive elements. First, through its partnership with a London-based executive search firm, the fund accesses a global talent pool of investment professionals. As one board member explained: "*We benchmark candidates against top-tier asset managers, not just regional standards*". This international recruitment strategy helps mitigate the brain drain challenges common in African financial sectors. Second, fund managers operate under strict output-focused agreements that tie compensation to predefined benchmarks. Interview data reveals these contracts incorporate relative performance metrics against relevant indices, risk-adjusted return targets and portfolio diversification requirements. Third, the semi-annual review process goes beyond simple performance measurement. As one former manager noted: "*Assessments evaluate investment philosophy consistency, risk management adherence, and contribution to team knowledge-sharing*". Underperforming managers face contract termination, with turnover rates averaging 15-20% annually according to internal documents.

This governance model reflects emerging best practices in SWF human capital management identified by Dixon and Monk (2014), particularly for resource-rich developing countries. However, interviews with current and former staff reveal two ongoing challenges. First, the tension between global compensation standards and Botswana's public sector pay scales. One portfolio manager recruited from a major investment bank commented: "*The performance bonuses help, but total compensation still lags the private sector by 30-40%*". Second, the difficulty of building local capacity. While the international recruitment strategy ensures immediate expertise, several interviewees emphasised the need for more systematic skills transfer programs. As one board member acknowledged: "*We're still developing the next generation of Batswana investment professionals who can eventually take over these roles*". The Pula Fund's experience offers important lessons for other African SWFs seeking to balance technical competence with institutional development. Its hybrid model demonstrates how developing country funds can access global talent markets while maintaining national oversight. However, the long-term sustainability of this approach depends on parallel efforts to build domestic human capital in financial management.

Process

The Pula Fund's asset allocation framework reflects its dual mandate, with investment decisions carefully calibrated to balance short-term stabilisation needs with long-term wealth preservation objectives (World Bank 2018). A Bank of Botswana official highlighted that: “*The fund maintains a globally diversified portfolio comprising fixed income securities (60-65%) and equities (35-40%), aligning with SWF risk-return profiles*.” This strategic asset allocation is implemented through a rigorous risk management framework overseen by the Bank of Botswana's specialised risk office, which conducts continuous portfolio stress testing and ensures compliance with board-approved risk parameters (Chigumira et al., 2016).

However, interviews with current and former fund officials reveal significant operational challenges. First, multiple sources confirmed unusual opacity surrounding withdrawal decisions. As one Bank of Botswana official noted: "*Even within the Bank, comprehensive information on stabilisation drawdowns is restricted to a small circle of executives*". This aligns with media reports documenting limited parliamentary oversight of Fund operations (Botswana Gazette, April 2019). Second, the fund's hybrid design has created persistent governance tensions. A former board member explained: "*Without legal firewalls, stabilisation needs consistently override savings objectives during fiscal crises*". Resultantly, a fund official laments that “*The fund’s portfolio has dwindled by an average of 1.8% annually since 2015*.” Treasury’s recent legislative proposal (Mguni, 2024) responds to what one IMF official termed "*the classic stabilisation-savings dilemma*". The proposed reforms aim to (1) legally separate stabilisation and savings pools, (2) establish clear withdrawal protocols, (3) enhance parliamentary reporting requirements. The Pula Fund's ongoing evolution underscores the complex trade-offs facing commodity-dependent nations seeking to address short-term macroeconomic stability and long-term intergenerational equity simultaneously. Its reform process offers a critical case study in institutional adaptation, with implications for fiscal policy design across sub-Saharan Africa's resource economies.

Politics

The Pula Fund's formal governance structure embodies political insulation and accountability mechanisms. As the World Bank (2018) notes, Botswana's legal framework establishes a relatively robust separation between political oversight and investment decision-making. The Fund operates under a three-tier governance model. First, Parliament and the Minister of Finance set broad policy objectives through national development plans and enabling legislation (Revenue Watch Institute, 2013). Second, the Bank of Botswana's board, comprising the Governor, a Finance Ministry representative, and seven independent directors, approves investment policies and monitors performance (Chigumira et al., 2016). Third, an investment committee chaired by the Governor of the Bank of Botswana implements strategy through external managers, with back-office support from central bank departments. This structure has generally succeeded in minimising direct political interference in investment decisions. As one independent board member noted: "*Our investment committee meetings focus strictly on risk-adjusted returns, not political considerations*". The accountability framework includes (1) regular performance reporting to the Minister and Parliament (World Bank, 2018), (2) provision for special audits by the Auditor General and (3) independent external valuation of assets (Revenue Watch Institute, 2013). However, interviews reveal significant operational challenges beneath this formal governance veneer. A former senior fund manager explained: "*The rules for stabilisation drawdowns remain unwritten. Decisions emerge from closed-door meetings between the Governor and Finance Minister*." While technically independent, several interviewees noted that the President appoints all non-executive directors without legislative confirmation. One civil society representative argued this creates "*subtle but real pressure to align with executive priorities*." This pressure is particularly visible during periods of fiscal stress. As one IMF official observed: "*Botswana's governance framework works well in calm waters but shows strain during storms*." Ongoing reform efforts, including proposed legislative amendments (Mguni, 2024), present an opportunity to address these gaps while preserving the fund's core governance strengths. Their success will depend on translating formal accountability mechanisms into daily practice, a challenge familiar to many natural resource-funded institutions across the Global South.

Conclusion and policy recommendations

Little is known and understood about SWF design and governance in Africa. Thus, many African SWFs are poorly designed and poorly attuned to their sponsors' macroeconomic objectives. Botswana's experience provides both a model and a cautionary lesson. It proves African nations can successfully harness resource wealth when governance systems combine technical rigour with political legitimacy. However, it also reminds us that such systems require constant nurturing and adaptation. As Africa pursues Agenda 2063's development aspirations, this study underscores that sustainable resource management demands more than just financial mechanisms - it requires governance architectures that are simultaneously technically sound, politically astute, and authentically African in their conception. The path to transforming natural resource wealth into lasting development lies not in imported models, but in institutional innovations that resonate with local realities while meeting global standards of accountability and transparency. This delicate balance between technical excellence and contextual relevance represents the next frontier in Africa's governance evolution. The policy implications are clear: African states must prioritise phased SWF development pathways aligned with institutional capacity, legislate strict firewalls between political actors and fund management, and establish independent fiscal oversight bodies.

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