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CLASSIFICATION:

AID 120-1 (8-66)

DEPARTMENT OF STATE  
AGENCY FOR  
INTERNATIONAL DEVELOPMENT

1. PAAD NO. AFR 78-2  
2. COUNTRY Botswana  
3. CATEGORY Program Grant (Cash)  
4. DATE March 24, 1978

PAAD

PROGRAM ASSISTANCE  
APPROVAL DOCUMENT

5. TO: Goler T. Butcher, AA/AFR

6. OYB CHANGE NO.  
6. OYB INCREASE  
None  
TO BE TAKEN FROM:

FROM: John W. Keckring, AFR/DR

9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 9,000,000

10. APPROPRIATION - ALLOTMENT SSA 856-61-690-00-50-81

11. TYPE FUNDING  LOAN  GRANT  
12. LOCAL CURRENCY ARRANGEMENT  INFORMAL  FORMAL  NONE  
13. ESTIMATED DELIVERY PERIOD 6/15/78- 6/15/79  
14. TRANSACTION ELIGIBILITY DATE 6/15/78

15. COMMODITIES FINANCED  
NONE

16. PERMITTED SOURCE  
U.S. only:  
Limited F.W.:  
Free World:  
Cash: \$9,000,000

17. ESTIMATED SOURCE  
U.S.:  
Industrialized Countries:  
Local: \$9,000,000  
Other:

18. SUMMARY DESCRIPTION

Since independence in 1966, Botswana's economy has grown rapidly, and the GOB has demonstrated a strong desire to translate this growth into economic development, particularly to benefit the poor majority. In addition, Botswana has developed itself on democratic principles, with a non-racial society and full human rights for its citizens.

Recent political events in the southern Africa area beyond Botswana's control, however, now threaten to destroy the GOB's development program by forcing the reallocation of scarce resources from development to security concerns. Prior to April 1977, Botswana did not have an army; border incursions by Rhodesian forces and attempts by guerilla elements of various freedom movements to use Botswana as a base for operations have forced the GOB to divert scarce human and financial resources to the creation of an army. In addition, refugees from both Zimbabwe and the Republic of South Africa have fled to Botswana--a daily average of over 5,600 are resident in Botswana.

19. CLEARANCES  
REG/DP: CWard 6/15/78  
REG/GC: EDragon 6/14/78  
AFR/SA: THE Quimby 6/12/78  
DAA/AFR: WHNorth 6/16/78  
PPC/DPRE: EBHogan 6/15/78  
FM/C: MDStafford 6/16/78

20. ACTION  
 APPROVED  DISAPPROVED  
G. T. Butcher 6/16/78  
AUTHORIZED SIGNATURE DATE  
Assistant Administrator for Africa  
TITLE

CLASSIFICATION:

Economically, the deteriorating security situation has combined with the general slowdown in the economy of the Republic of South Africa (and the world) to reduce investment in Botswana and cause a slowdown in the growth rate of revenues. Also, as a landlocked country, Botswana is dependent on the Rhodesian-owned railroad for the majority of its imports and exports and may be faced, for security-related reasons, with the expense of purchasing and running this railway in the near future. Botswana has a fragile ecology, which is barely adequate, at best, to support its small population, despite the country's large physical size. The recent significant increase in the number of refugees entering Botswana from Rhodesia could have a significant impact on the country's demographic profile. Finally, Botswana is now suffering from an outbreak of hoof and mouth disease, which has curtailed beef exports severely, and crop production is anticipated to be below average due to poor weather.

Botswana's National Development Plan for the 1976-1981 period places considerable emphasis on areas within the purview of A.I.D.'s congressional mandate. In agriculture, for example, the plan emphasizes the importance of further improving both income distribution and economic growth through increases in agriculture production. These increases in production will be achieved through programs designed to improve livestock management, arable agriculture, crop diversification, agriculture extension, and manpower development. In education, emphasis is being placed on increasing the accessibility of primary education so that it is available to all Botswana's citizens while gearing post primary education to the manpower needs of an expanding Botswana economy. In health, emphasis will be placed on expanding the availability of health services in rural areas so that no Botswana should need to travel more than 30 kilometers to reach a clinic.

The purpose of this A.I.D. grant is to provide Botswana with the resources required to enable economic development activities to continue despite the competing claims of other unanticipated and security-related needs. To obtain the A.I.D. grant, the GOB agrees to expend within 36 months local currency from a special account equivalent to the A.I.D. grant for development activities contained in GOB development plans and budgets. Projects in the sectors of agriculture, health, education and other basic human needs, low income housing, rural development and transport will be considered eligible. Reports on these expenditures will be made to A.I.D. semi-annually beginning 6 months after the signing of a Program Grant Agreement.

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR  
FOR AFRICA

FROM: AFR/DR, <sup>JW Koehring</sup>~~John W. Koehring~~

Problem: Your approval is required on the attached Program Assistance Approval Document (PAAD) to authorize a \$9 million program grant to Botswana.

Discussion: The proposed nonproject assistance program grant is designed to assist the Government of Botswana in overcoming a series of adverse political and economic factors which are impacting upon the GOB's programmed expenditures for development.

Politically, Botswana is being directly affected by movement to majority rule in Zimbabwe (Rhodesia); border incursions from Rhodesia have forced Botswana to create a defense force to protect the integrity of its borders. This and other related security expenditures, in turn, put serious strains on the GOB's budgets for the remainder of the fourth national development plan, which can be met, for the most part, only by reducing the level of funds available for economic development. Similarly, the political events occurring in Zimbabwe (Rhodesia) and the Republic of South Africa have resulted in a massive and continuing incursion of refugees into Botswana. The average daily number of these refugees resident in Botswana is on the order of 5,600, and they represent a sizable and unproductive drain on an economy which is not well equipped to handle them. Finally, Botswana is faced with the possibility of a loss of its traditional routes for transporting its imports and exports. This is of immediate concern because the railroad within her borders, which is Botswana's lifeline for exports and imports, is owned and run by Rhodesian Railways. The possible need to purchase this railroad and to maintain its operation on relatively short notice poses the prospect of further serious drain on Botswana's limited human and financial resources.

Economically, Botswana is threatened with a decreased demand for its migrant workers (nearly half of its full-time work force in the wage-earning economy) by the Republic of South Africa (RSA) due to slackening growth in the RSA's economy and increasing RSA

preference for workers from the "homelands". Should these workers return to Botswana in massive numbers over a short period, the situation would result in economic dislocations (and, perhaps, political dislocations as well) in the economy of significant proportions, and in a loss of revenue due to lowered income tax revenue. Other adverse economic factors include the decrease in foreign investment due to political turmoil and the general uncertainty and risk of doing business in southern Africa, the attractive investment incentives offered by the new "homelands" of the RSA, the effect of the high cost of petroleum products to a land-locked country, and the loss of revenue due to the recent outbreak of hoof and mouth disease, which has paralyzed the livestock industry in the northern part of Botswana.

To help Botswana overcome these adverse factors and maintain a momentum in the level of economic activity directed toward the development effort, it will be necessary for Botswana to receive increased levels of flexible economic assistance. Accordingly, OSARAC has submitted a proposal for a \$9,000,000 program grant. One-half of the grant will be deposited in an account owned by the Government of Botswana in a U.S. bank within 30 days of the signing of the grant agreement. The balance of this grant will be desposited in the GOB's account after the initial deposit has been drawn down.

Thus, the purpose of this grant is to provide the GOB with resources required to enable economic development activities to continue despite the competing drains of other unanticipated and security-related needs. The GOB agrees to expend within 36 months, local currency from a special account equivalent to the A.I.D. grant. These funds will be used for development activities listed in the GOB's development plans and annual budgets. Activities in the sectors of agriculture, health, education and transport will be considered eligible. Reports on these expenditures will be made to A.I.D. semi-annually beginning 6 months after the signing of the Program Grant Agreement.

The project committee reviewed and recommended approval of this nonproject assistance on April 20, 1978. Mr. Haven North discussed the proposed grant with the Deputy Administrator in December 1977, during their visit to Botswana. The Congress was notified of this nonproject assistance activity on May 31, 1978 and the 15 day waiting period expired on June 15, 1978. The responsible officer in the field will be Mr. Robert Friedline and the AID/W backstop officer will be Douglas T. Kline, AFR/DR/SA.

**Recommendation:** That you approve a negative determination by signing the attached Initial Environmental Examination (IEE) and that you sign the attached Program Assistance Approval Document (PAAD).

**Attachments:**

1. IEE
2. PAAD

**Clearances:**

AFR/SA:LPompa LP (10)

AFR/SA:THEQuimby THEQ

GC/AFR:EDragon ED

PPC/DPRE:EBHogan EB

DAA/AFR:WHNorth WH

AFR/DR/SA:JPGuedet:bks:06/09/78:X23698

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### ANNEXES

Annex A:	Information Provided by the GOB: Budgetary Effects of Increased Security, Defence and Refugee Costs to Botswana
Annex B:	Grant Agreement (Draft)
Annex C:	Statutory Checklist
Annex D:	General Economic and Financial Data on Botswana
Annex E:	Initial Environmental Examination

## I. SUMMARY AND RECOMMENDATION

### A. Recommendation and Implementation Plan

Authorization of a program grant of nine million dollars (\$9,000,000) is recommended. This grant will be obligated upon the signing of a grant agreement with the Government of the Republic of Botswana (GOB). The grant agreement will provide for disbursement to an account owned by the Government of Botswana in a U.S. Bank after satisfaction of the conditions precedent to disbursement.\* The grant agreement will require the GOB to make local currency (Pula) deposits in a special account of the GOB treasury in an amount equivalent to disbursements under the grant. Funds from this special account shall be disbursed to liquidate recurrent and/or capital expenditures made by the GOB for development programs cited in the GOB's Fourth Five Year National Development Plan (NDP IV) and budgeted in the GOB's budgets for fiscal years 1978/79 and/or 1979/80. To be eligible for disbursement, development program expenditures must be in the following sectors: agriculture, health, education and other basic human needs, low income housing, transport and rural development. Disbursements will be made in accordance with procedures deemed appropriate by the GOB. Reports of the amounts deposited and disbursed from the special account and the programs funded will be submitted to A.I.D. at six monthly intervals beginning six months from the date of signature of the grant agreement. Disbursements from the special account shall have been completed within thirty-six (36) months after the date of signature of the grant agreement.

### B. Summary Justification

Botswana is now facing another in a series of difficult challenges to which she has been subjected in her short history as an independent nation. At independence in 1966, Botswana was a poor and underdeveloped nation and suffering the effects of one of the worst droughts in the history of the area. Eleven years later, the Botswana are enjoying an improved, if modest, standard of living.

Given the low economic base from which it began, Botswana has achieved a high rate of economic growth since independence. Production is expanding faster than population and the quality of life is improving, i.e. growth is being converted into development.

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\*Disbursements will be made using AID's Letter of Commitment procedures.

The "dividends" of growth have benefitted the poor majority not only in the form of more development programs, but also in terms of a gradual shift in the government's recurrent expenditure structure. Since 1973/74, recurrent expenditures on social services have risen at an annual rate of 60 percent reflecting rising direct government involvement in the provision of education and health services. As a percent of total recurrent expenditures, outlays for social services have risen from 16 percent in 1971/72 to 27 percent in 1977/78.

Although Botswana appears to be in an ideal situation for maintaining its excellent growth and development rates, exogenous political and economic factors beyond Botswana's control are beginning to undercut the basis for the country's economic growth rate. Botswana is considered by the IBRD to be a middle income country (with per capita income averaging \$600 per year). These factors enumerated in the Project Document are severe enough, over the short-term, to threaten the country's impressive economic progress. Politically, Botswana is being directly affected by the movement to majority rule in Zimbabwe; border incursions by forces from Southern Rhodesia have forced Botswana to create a small National Defense Force to protect the integrity of its borders (see Annex A). These and other related security expenditures, in turn, are having a serious impact on the GOB's budgets for the remainder of NDP IV, which can now be met only through significant reduction in the level of funds available for economic development. In cases where joint development programs must be cancelled due to the lack of government contribution (usually about 20 percent), there is a disproportionate and adverse "multiplier effect" in terms of foregone development opportunities.

The political events occurring in Southern Rhodesia and the Republic of South Africa have resulted in a sudden and dramatic increase in the number of refugees entering Botswana. The average daily number of refugees resident in Botswana is now nearly 5,600, and they represent a sizable and unproductive drain on an economy which is not well equipped for handling them. It is estimated that total unplanned expenditures arising from unforeseen security-related needs will approach \$55-60 million over the next 3-4 years.

Botswana is faced with the possibility of a loss of her traditional routes for transporting her imports and exports. This is of immediate concern because the railroad within her borders, which is Botswana's lifeline for exports and imports, is owned and run by the Rhodesian Railway. The need to purchase this railroad and to maintain its operation, perhaps on relatively short notice, poses the prospect of yet another serious drain on Botswana's limited human and financial resources.

Economically, Botswana is threatened with a decreased demand for its migrant workers (nearly half of its full-time work force in the wage-earning economy) by the Republic of South Africa (RSA) due to slackening growth in the RSA's economy and increasing RSA preference for workers from the "homelands". Should these workers return to Botswana in massive numbers over a short period, the situation would result in economic dislocations (and, perhaps, political dislocations as well) of significant proportions, as well as lowered income tax revenue.

Other adverse economic factors include the decrease in foreign investment due to political turmoil and the general uncertainty and risk of doing business in Southern Africa, the attractive investment incentives offered by the new "homelands" of the RSA, the effect of the high cost of petroleum products to a land-locked country, and the loss of revenue due to the recent outbreak of hoof and mouth disease, which has paralyzed the livestock industry in the northern part of Botswana.

By assisting the Government of Botswana in dealing with the adverse series of factors enumerated above in order to maintain a level of economic development consistent with the needs and expectation of its citizens, it is essential that Botswana receive substantial increases in flexible economic assistance. The United Nations Farah Commission Report of 1977 mentioned that general program assistance to match the diversion of funds from normal development was a method to assist Botswana to carry out development activities.

## II. ECONOMIC DEVELOPMENT IN BOTSWANA

### A. Development Institution

Much of Botswana's success in achieving its rate of economic development is due to the efficient manner in which it has organized itself for this task institutionally. Recognizing its planning talent limitations and the need for careful scrutiny and discipline in the use of its limited resources, the GOB placed the heart of its development planning organization in the Ministry of Finance and Development Planning, where it would have access to top echelon decision makers--the Ministry is headed by the Vice President. Under the leadership of the Director of Economic Affairs, a relatively large planning cadre is charged with the preparation of a five-year plan, which is revised every three years to keep it current. In addition, this central planning staff is responsible for monitoring and certain operational aspects of implementing the "plan", although prime imple-

mentation responsibility resides with planning officers located in the responsible technical ministries who have close working relationships with the central planning staff. The Central Planning Staff also directs the coordination of external assistance and is the source and spokesman for the GOB on development decisions. It is a powerful and efficient force in Botswana's development effort.

### B. Development Objectives

The GOB's Five Year Plan outlines policy goals, sector priorities, and specific projects to be undertaken during the Plan period. Thus, the Plan has more than rhetorical value; it is a document of considerable importance in day to day decision making on program and project selection and budgetary resource allocation. The most recent GOB Five Year Plan (NDP IV), for the period 1978-81, was published in May 1977. The GOB's development objectives flow from four national principles. These are: Democracy, Development, Self Reliance and Unity and they give rise to the four main planning objectives:

- rapid economic growth,
- social justice,
- economic independence, and
- sustained development.

The GOB also recognizes that these objectives may sometimes conflict; for instance, the fastest conceivable rate of economic growth would be incompatible with any of the other objectives. Such conflicts are dealt with in the Plan by carefully spelling out government priorities and, wherever possible, adopting quantified targets, which reflect those priorities and enable the balance between competing objectives to be continually monitored.

In essence, the GOB development strategy is based on exploiting the country's dominant economic resources (minerals and livestock), which directly benefit only a small proportion of the population, in order to finance additional economic and social programs directed toward the establishment of a more broadly based and diversified economy which will provide benefits to the entire population.

### C. Financing the Development Plan

Although financial projections in the Botswana Development Plan show a significant domestic contribution to the development budget, the economy (and thus the financial projections) is subject to a series of factors which make the plan highly vulnerable to external economic/political factors. Botswana depends almost exclusively on

three exports for its foreign exchange earnings--diamonds, copper/nickel matte, and beef. Both copper/nickel matte and meat exports depend on the continuing operation of the railway and are vulnerable to any disruption of rail services. Additionally, earnings from beef exports depend on the continuation of the EEC quota and the arrangements for rebating the beef levy. If the beef levy rebate is not continued, Botswana's foreign exchange earnings could fall by nearly 15%. Both continuation of the quota and the rebate and continued access to the railroad are essential to Botswana's planned development.

To finance the development plan, two major domestic funds have been created which are financed by the current surplus--the Domestic Development Fund and the Public Debt Service Fund. The former fund is used to finance development projects, the latter is used to provide finance for the parastatal sector. Of the projected current surplus of \$149 million for the plan period, \$47 million has been earmarked for the Public Debt Service Fund for onlending to parastatal organizations. \$92 million has been earmarked for the Domestic Development Fund to be used to finance development projects in the plan.

Table I, drawn from the development plan, shows the projected recurrent revenues and expenditures over the plan period and the projected current surplus.

TABLE I

BUDGET PROJECTIONS - 1976/77 TO 1980/81  
(million dollars - 1976 prices)

	<u>76/77</u>	<u>77/78</u>	<u>78/79</u>	<u>79/80</u>	<u>80/81</u>	<u>Total</u>
Recurrent revenue	83.0	109.0	124.0	125.0	140.0	580.2
Recurrent expenditure <u>a/</u>	71.0	76.4	84.8	95.1	103.6	430.8
Current surplus	12.0	32.6	39.2	29.9	36.4	149.4

a/ Including debt servicing for active loans.

The projected development budget for the plan period, showing the method of financing the development plan, is given in Table II.

TABLE II

FINANCE FOR THE DEVELOPMENT BUDGET  
(million dollars - 1976 prices)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>Total</u>
Core development programme	52.2	61.5	63.8	58.0	54.5	290
Interplan projects	-	-	-	11.6	17.4	29
Total expenditure	52.2	61.5	63.8	69.6	71.9	319
<u>Financed by:</u>						
Domestic Development Fund	9.3	13.9	16.2	23.2	29.0	91.6
Donor funds approved or under negotiation	42.9	47.6	44.1	25.5	15.1	175.2
Total funds available	52.2	61.5	60.3	48.7	44.1	266.8
Funds to be negotiated	-	-	3.5	20.9	27.8	52.2

The costs of projects with a high priority, for which no external source of funding is available, are met from the Domestic Development Fund.\* The Domestic Development Fund also meets the local cost contribution to projects being partly funded from abroad.

There are three features of Table II which should be noted. First, almost all of the donor funding in the first three years of the plan has been approved or is under negotiation. To the extent that these projects involve local cost contributions or only include part of the cost of a project, the availability of the foreign funding depends on the ability of the Domestic Development Fund to meet the local costs. The magnitude of this consideration can be judged from the external financing has been negotiated, the local contribution amounts to some \$4.3 million. Some \$40 million, or about 22% of the finance for projects for the first three years of the plan period, are expected to be provided from domestic resources. Well over half of the domestic resources available for development is projected to be available only in the last two years of the plan period.

The projections in Table II do not include any of the costs of dealing with the situation that has emerged as a result of the deteriorating security situation. Both the projects of revenue and of recurrent costs assume the continuation of trends that were observed before the critical situation with Southern Rhodesia developed.

However, there is already some evidence of falling private investment and reductions in tourism receipts. Even foreign funded development projects in the border area are being disrupted or delayed by the security situation. In other words, not only will it be necessary to undertake projects and programs which were not envisaged when the plan was drawn up and for which no funding provided, the amount of domestic resources available for development projects, depending as it does on the current surplus, is being significantly reduced by the present situation.

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\*The methods used by the Government of Botswana in preparing the development plan should be noted. Projects for inclusion in the plan are divided into those which the Government is determined to proceed with--called a core program--and those which will be proceeded with if funding becomes available--called the supplementary program. The information in Table II covers only the core development program with a small allowance for interplan projects. The core projects for the first three years are given, but flexibility is provided by allowing for interplan projects to be approved for implementation in the final two years of the plan period. These may be projects which are insufficiently studied at the time the plan was prepared, new urgent projects which emerge during the plan period, or projects which, although forming part of the supplementary plan, are found to have a higher priority than was envisaged when the plan was prepared.

The diversion of resources to security needs will be at the expense of the contributions which the Domestic Development Fund (financed by current surpluses) was expected to make to the development budget. It is difficult to identify at this time all of the programs and projects which will suffer from the diversion. For this reason, AID is proposing a general program grant (as recommended by the Farah Commission) as the most appropriate method to assist Botswana with the extraordinary series of exogenous factors impacting on Botswana's economic development.

### III. POLITICAL AND ECONOMIC DISRUPTIONS AND THE REQUIREMENTS FOR PROGRAM ASSISTANCE

#### A. Political and Economic Disruptions

Over its short history as an independent nation, Botswana has developed economically at a modest rate. The rate of growth of the economy in real terms is estimated to have averaged 15-20 percent over the past decade. In current prices, GDP rose from a level of P45 million in 1966/67 to an estimated P253 million in 1975/76. Botswana's growth has been substantially limited to the modern sector, primarily mining and large-scale livestock operations. The share of agriculture in GDP declined from 44% in 1967/68 to 26% in 1975/76, as the role of mining, wholesale and retail trade, electricity and water, and construction increased in importance. Although Botswana's GNP per capita is in the neighborhood of \$600, the distribution of income within the country is still highly skewed and the people of Botswana are still essentially quite poor. Any decline in the rate of growth in the economy and the process of translating growth into development carries with it the threat of arresting any improvement in the government's services to and opportunities for the poor majority.

Although the long-term future of Botswana is promising with the world's potentially second richest diamond mine opening at Jaweng in the early 1980's and with revenues from the Customs Union increasing substantially in 1979/80 as the result of a new import surcharge, the short-run pace of development in Botswana is likely to be threatened by the following series of exogenous factors:

- (1) The need to create a National Security Force in response to Rhodesian incursions across Botswana's northern frontier.

The security situation along Botswana's northern border with Rhodesia has deteriorated markedly over the past several years. The increased level of

guerilla activity along the border has made it increasingly difficult for Batswanans to carry out normal activities due to increased threats of property destruction, kidnapping, detention and death. Residents along this border have requested additional police protection in order to continuing living in the area.\*

Botswana has no army and only a skeleton police force. In 1976, the approved establishment for the police was only 1,800 which included clerks, drivers and messengers. In drawing up the National Development Plan, the deterioration in Botswana's security situation was not envisaged. Thus, the plan contemplated a modest expansion of the police force (by 84) and provision was made for a modest \$1.5 million increase on capital account for stations and equipment and a \$.9 million increase in recurrent costs.

As a first step towards providing protection for the lives and property of its citizens, the Government of Botswana has justifiably decided to expand the police force. The total cost of expansion over four years will amount to \$32.1 million. Of this, some \$2.4 million was included in the National Development Plan. Thus, unplanned and unbudgeted security needs will require that \$29.7 million be diverted from other activities to deal with Botswana's security situation.

(b) Massive and continuing heavy flow of refugees into Botswana from Rhodesia.

Since independence, the Government of Botswana has maintained an open-door policy of providing refuge to persons fleeing neighboring countries. Thus, in the past 12 years, Botswana has extended assistance as a

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\*The Farah Commission report includes statistics which substantiate claims of a deteriorating security situation. During the period from 1966 to 1969 inclusive, only three incidents were reported, all involving territorial violations. From 1970 to 1975, 16 incidents were reported. By 1976, however, the tempo of incidents had increased sharply. Altogether 33 incidents were reported, of which 26 involved guerilla forces entering Botswana. The Commission report details 19 incidents involving kidnapping, detention or death, six cases involving destruction or damage to barns, stores and houses.

country of first asylum, for a regular flow of refugees from South Africa, Namibia, and Southern Rhodesia. Despite this open-door policy, Botswana had virtually no problem with a massive influx of refugees until 1975 when internal political problems in Rhodesia marked a significant change. During the period from January 1975 to February 1977 alone, 12,072 refugees entered Botswana. Of these 1,146 were from South Africa and 10,131 were from Southern Rhodesia. Current indications are that this massive influx of refugees will continue.

The Farah Commission concluded, during its March 1977 visit, that the strain being inflicted on Botswana as a result of the open-door refugee policy is very serious in relation to the size of the country and its resources. Increased provision will have to be made for the security of the refugees and for various forms of support, including food, accommodation, medical care, administration and management. Transit accommodations are needed for those proceeding elsewhere, and the provision of places in educational and training institutions, already stretched by local demand, are required for those wishing to remain in Botswana or unable to proceed elsewhere. In addition to direct short-term outlays for security, support, and services, the increased number of refugees entering Botswana will have an impact on the country's already serious unemployment situation. As the National Development Plan makes clear, "Botswana already finds it impossible to provide jobs in the formal sector for all its labour force entrants. The refugee situation compounds this problem".

Furthermore, the influx of large numbers of refugees into small communities and towns like Gaborone, Francistown, and Lobatse can only lead to social problems unless adequate accommodation and other facilities are provided. The Farah Commission estimates that it will cost the Government of Botswana a minimum of \$250,000 annually to provide transport and supervise the present number of refugees. These costs will of course be much higher if the influx of refugees continues to increase. In addition to those recurrent costs, the Commission estimates that about \$1 million will be required to fund emergency projects to expand care facilities for refugees.

(c) The diversion of normal development expenditures for other emergency projects identified by the Farah Commission totaling \$26 million.

(d) Less attractive environment for foreign investment in Botswana due to political turmoil and the general uncertainty in southern Africa, and from extremely attractive investment incentives offered by the newly "independent" homelands of Transkei and Bophuthatswana.

(e) Recent outbreak of hoof and mouth disease in northern Botswana, probably accassioned by decreased health control in neighboring Angola and Rhodesia.

The outbreak of hoof and mouth disease in Botswana has led to a temporary halt in meat exports to the European Common Market and the temporary closure of Botswana's major abattoir at Lobatse. As meat products account for about one third of Botswana's export earnings or \$55-60 million annually, this has had a severe impact on the country's balance of payments position as well as on the incomes of the majority of the population. To safeguard the important livestock industry of Botswana, it will be necessary to carry out a veterinary control program. The veterinary control program will consist of: a hoof and mouth disease vaccination campaign; the construction of two veterinary cordon fences and watering points for livestock and villages, and the construction of access roads and airstrips to allow the fences and watering points to be constructed, maintained, and patrolled. The veterinary control program will cost some \$5.0 million on capital account and will involve recurrent annual expenditures of \$0.38 million.

(f) The extraordinary hike in POL costs due to OPEC. Since 1973, Botswana's POL import bill more than tripled from \$7.4 million to about \$23.0 million.

(g) A decreased demand in the RSA for Botswana migrant workers due to slackened growth in the RSA economy (caused in part by increasing international pressure against foreign investments in the RSA) and to increasing RSA preference for workers from the "homelands". Net migrants' remittances total \$18-20 million annually and represent major offsetting receipts against the country's trade deficits.

(h) The continuing dependence on external assistance to bridge the trade deficit. While exports have increased over the past several years, fluctuations in earnings attributable to movements in mineral prices and a steady rise in imports have reflected themselves in trade deficits varying in amounts in each year. The deficit is bridged by net earnings from invisibles, mainly workers remittances, and by transfer payments attributable to donor grants. (See balance of payments data, page

B. Economic and Financial Effects on the Botswana Economy

It is extremely difficult to separate out the effects of each of these factors on the downturn in Botswana's economic growth. Also, the downturn is partially structural in nature given Botswana's heavy reliance on characteristically lumpy mining investments to generate economic growth (both directly through high-value mining output and indirectly through the increased Customs Union receipts that accompany heavy investment in new mining ventures).

However, the gross effects of these factors on public sector revenues and expenditures can be approximated, with expenditures effects the most significant. GOB revenues have continued to grow in a respectable manner. Recurrent revenue increased from P12.4 million in 1970/71 to P42.3 million in 1973/74 and reaching roughly P70 million in 1976/77. Paralleling the changing structure of production, sources of revenues other than Customs Union receipts increased in importance. Income tax receipts and mineral royalties and dividends exceeded Customs Union receipts for the first time in 1975/76 and 1976/77. However, the rate of growth of Customs Union revenues has slowed, reflecting a reduction in the growth rate of imports into the Botswana economy. Income tax receipts in 1978/79 are expected to be relatively stagnant due to the depressed state of activity in sectors other than mining since 1976/77. Income tax revenues will be further decreased by over \$1.5 million due to the hoof and mouth outbreak which has led to the closure of the BMC abattoir (a major taxpayer) and lower incomes for livestock producers. As Botswana migrant labor in RSA decreases, remittances (technically transfers) are diminishing--a portion of which are taxed.

Meanwhile the GOB has had to substantially increase expenditures for security related purposes. The initial capital costs of creating a National Defence Force are conservatively estimated at \$11.25 million in 1977/78 and 1978/79, and recurrent expenditures will total \$8.2 million for the same period--an extraordinary burden on the estimated total budgets of P129 million in 1977/78 and P149 million in 1978/79. However, there is a real concern that Botswana's security requirements may exceed these budgeted amounts significantly. Unplan-

ned expenditures for the needs of over 5,600 refugees have been reduced because of donor humanitarian assistance, but are still substantial-- easily \$1.0 million in 1978/79. The increased costs of POL have obviously increased recurrent expenditures (no estimates available of impact). Finally, the outbreak of hoof and mouth disease has required major unplanned GOB expenditures for cattle inspection, vaccination and the emergency construction of cordon fences to prevent spread of the disease.

In sum, due to the several exogenous factors noted above, GOB revenues have grown more slowly than expected and unplanned security related GOB expenditures have increased enormously for a small economy. Donor assistance has increased slightly during this period, but not sufficiently to alleviate the need for a major reorientation in GOB budget allocations.

The GOB has indicated that it has had to postpone or cancel development capital investments in 1977/78 having a life of project costs of approximately P8.8 million due to the diversion and consequent lack of domestic investment funds to either finance initial investment or to match donor financing, as required. To the extent that GOB development expenditures are of a matching funds nature (donors on average require about 20 percent host country contributions to joint development programs), the adverse impact of diverting funds from development to security related activities is sharply magnified. That is, with a "leverage effect" of 5 to 1, \$10 million in funds diverted could potentially reduce development program funding by as much as \$50 million. Therefore, there is a real possibility that the GOB could view and value this proposed program grant not as \$9 million but as a multiple thereof.

Projects which the GOB fears it might find necessary to cancel or postpone due to the diversion of investment funds include those in the Ministries of Agriculture (P1.8 million); Mineral Resources (P1.2 million), Finance and Development Planning (P1.9 million), and Health (P3 million). In terms of the quality of life, these investments translate into such activities as horticultural development, agricultural staff housing, rural afforestation, wildlife conservation, utilization of solar energy, hospital improvements, medical equipment, communicable disease control and rural health centers. In addition to these cutbacks, the GOB also implemented a 3 percent reduction in budgeted recurrent cost expenditures on an across-the-board basis midway during 1977/78. Further, it is expected that the annual and cumulative total of these military, security and refugee related expenditures are likely to increase in the near future and be linked to increased tensions in the political situation in the southern Africa region. These cuts in both the development (or capital) budget and the recurrent budget will affect the growth of the public sector and, hence, the productive capacity of the economy in general to the detriment of improved government services and

other benefits for those 80 percent in the traditional sector of the Botswana economy and the degree to which Botswana can carry forward attempts to diversify its economic base. The cumulative effect on the economy is much higher than the budget figures noted above indicate when the potential multiplier effects of these investments foregone are considered. Also, these cuts in the GOB development program come at a time when employment opportunities are in ever-increasing demand for Botswana who can no longer find work in the RSA mines and for refugees.

C. A.I.D. Response

There are few opportunities available to the USG to help offset the unfavorable developments that have merged to plague Botswana over the past few years, i.e., to slow the rate of growth of economy and dim development prospects. Non-project grant assistance to offset the growth dampening effects of current defense and refugee expenditures offers one direct and immediate opportunity. It not only demonstrates our concern for the GOB's ability to meet the extraordinary strains on its development process, it recognizes the GOB's proven ability to utilize donor resources wisely and efficiently and provides an affirmative response to the recommendations of the UN Farah Commission, which recommended program rather than project assistance to meet Botswana's short-term needs.

Again, we stress that the extraordinary circumstances now affecting Botswana's economy call for an extraordinary A.I.D. response to meet the immediate needs of a country whose economic policies and political freedoms are impressive. This A.I.D. program grant of nine million dollars (\$9,000,000) will provide resources which will assist Botswana in carrying forward its admirable economic development policies in the sectors of education, health, agriculture, transport and rural development.

IV. PROPOSED U.S. ASSISTANCE

A. U.S. Inputs

Botswana's uninterrupted development will decline if external financial assistance is not forthcoming to replenish development funds now being diverted to finance pressing security requirements. The GOB's inadequate availabilities of domestic financial resources, along with a sizable financial outlay for security measures, a large government services budget and increasing development expenditures, are creating budgetary problems which the GOB can resolve only at the expense of cutting development activities. Although domestic generated revenues have been increasing in recent years, recurrent and development ex-

penditures also have continued to grow. Further, world wide inflation has eroded the purchasing power of Botswana's modest domestic balances and foreign exchange reserves. In addition, Botswana is particularly vulnerable to the precarious external political events in the countries which surround it. These problems could quickly and seriously undermine the very basis of the economy at any time by preventing the continued flow of major exports. Program Grant support is essential for the GOB to continue the provision of the level of governmental services and development effort necessary for political and economic stability. In order to maintain this development momentum, A.I.D. proposes to provide nine million dollars (\$9,000,000) to the GOB in U.S. FY 78.

B. Implementation Procedures

Because of the comparative deterioration in the recent economic and fiscal position of Botswana and the high probability of further deterioration requiring immediate fiscal assistance, it is appropriate that this proposed program grant be implemented expeditiously, with the minimum of administrative procedures required for prudent management. Therefore, the grant should be disbursed in two equal installments and be an untied transfer of funds totaling nine million dollars (\$9,000,000). The first installment should be deposited in a GOB-owned account in a U.S. bank designated by the GOB, within 30 days after satisfaction of the conditions precedent to disbursement.\*

To assure that funds equivalent to the amount of the U.S. grant are expended by the GOB for the development purposes authorized by the grant, the GOB will establish a special GOB-owned account and, within a period of twelve months, deposit in it funds equivalent to the portion of the U.S. grant drawn-down. Further, and within thirty-six months, these funds shall be expended for the development expenses authorized by the U.S. grant, and these expenditures shall be confirmed by semi-annual reports by the GOB on the status of the special account. The first report will be due within 6 months of the signing of the grant agreement.

The authorized development purposes of the U.S. grant shall be for GOB development project expenditures, both recurrent and capital, and as contained in the budgets of GOB fiscal years 1978/79 and/or 1979/80, in the following sectors: agriculture, health, education and other basic human needs, low income housing, transport, and rural development.

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\*Disbursements will be made using AID's Letter of Commitment Procedures.

INFORMATION PROVIDED BY THE G.O.B.BUDGETARY EFFECTS OF INCREASED SECURITY,  
DEFENCE AND REFUGEE COSTS TO BOTSWANA.

Botswana has long suffered from a deteriorating security situation. The first border incidents occurred more than ten years ago, but in 1976 the number of incidents increased dramatically and this was continued in 1977. Associated with the security situation there has been an inflow of refugees from the white minority-ruled states around Botswana. Even before the Farah Mission, Botswana had to divert funds to cater for the refugees and to improve national security.

Since the Farah Mission, (March 1977) the number of refugees from Zimbabwe has increased to a daily average of over 4500, a level almost seven times higher than at the time of the Mission. The number of refugees from the Republic of South Africa has also increased. Furthermore, the decision has been taken to establish the Botswana Defence Force, a proper military force which Botswana had never had nor needed before. The eventual strength of this force is presently planned to be about one thousand.

Table I shows a summary of expenditure on security, defence and refugees in fiscal years 1977/78 and 1978/79. (The 1977/78 figures are based on 7 months actual expenditure, the 1978/79 on budgeted expenditure). There was also a not insignificant amount spent in 1976/77, including P170 000 on defence development.

The total cost to the Government Budget in 1977/78 will be approximately P7.9 million and in 1978/79 it will increase to about P10.3 million (in current prices). This places an extra burden on an already strained total budget. As can be seen from Table III (bottom line) the favourable position of a build-up in Government balances for 1976/77, and earlier years, changes to a small forecasted drawdown in 1977/78 and to a big drop in 1978/79. Even if balances are at present at a healthy level, a situation like this cannot be sustained into the eighties.

As the defence and refugee costs have to be absorbed by the budget, a diversion of funds from other activities to defence and refugee items has to take place. Accounts figures are not yet available, but this diversion can readily be seen by comparing the distribution by function of the development budget in NDP IV with the same functional distribution of the Project Review of September 1977.

In the NDP IV the plan was to spend on the functional category Defence and Justice in the fiscal years 1977/78 and 1978/79 3.6% and 3.2% respectively of the total development budget. By the September 1977 Project Review, only 15 months

later, the situation had forced Botswana to increase these proportions to 8.8% and 6.8% respectively. Table II (a) shows the planned phasing of defence development expenditure in mid-1976 when the NDP IV was being drawn up and that at September 1977. Table II (b) shows actual and proposed defence development expenditure in 1977/78.

The fact that all defence expenditure has to be financed from domestic funds is significant. Since most foreign donors require a local contribution, a shortage of domestic funds means a potential loss of donor funds. The average local contribution to assisted projects being about 20%, the implication is that in 1977/78, P7.9 million of domestic finance would be "worth" almost P40 million totally.

There are also effects upon Botswana's development programme which are not revealed by budgetary figures. First, the construction programme of the Buildings Department is dominated by work on defence construction.

By mid-1978, construction for the BDF will be greater than all the other construction work by Government. This defence work takes priority over other work and the effect is to delay the implementation of almost all development projects which include construction, and especially those in the north of the country. A second significant effect of defence and refugee activities is on the pool of skilled manpower in Botswana. This being one of Botswana's scarcest resources, its diversion to what are essentially non-development activities is a potentially serious retardation of the nation's development.

GRANT AGREEMENT  
BETWEEN THE GOVERNMENT OF THE REPUBLIC OF BOTSWANA  
AND THE UNITED STATES OF AMERICA

By this Agreement made and entered into on the            day  
of                    the Government of the Republic of Botswana  
(hereinafter referred to as the "Government") and the  
United States of America, acting through the Agency  
for International Development (hereinafter referred to  
as "A.I.D.") hereby agree as follows:

SECTION 1. The Grant. For the purpose of assisting the  
Government to maintain its economic development despite  
the critical period of political unrest and economic  
disruptions in Southern Africa

A.I.D. hereby grants to the Govern-  
ment, pursuant to the Foreign Assistance Act of 1961,  
as amended, nine million United States Dollars (\$9,000,000).

SECTION 2. Conditions Precedent to Disbursement. Prior  
to                    disbursement under the Grant, or to the  
issuance by A.I.D. of documentation pursuant to which  
disbursement will be made, the Government will, except as  
the Parties may otherwise agree in writing, furnish to  
A.I.D., in form and substance satisfactory to A.I.D.:

A. An opinion satisfactory to A.I.D. from the Government's  
Attorney General, or of other counsel satisfactory  
to A.I.D. that this Agreement has been duly authorized,  
or ratified by, and executed on behalf of the Government

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and constitutes a valid and legally binding obligation of Government in accordance with its terms; and

B. The name or names of the person or persons holding or acting in the Government's Office of Permanent Secretary in the Ministry of Finance and Development Planning and a specimen signature of each person specified.

**SECTION 3. Notification of Satisfaction of Conditions Precedent.** When A.I.D. has determined that the conditions precedent specified in Section 2 have been met, A.I.D. will promptly notify the Government.

**SECTION 4. Terminal Date for Conditions Precedent.**

If the conditions specified in Section 2 have not been met within ninety (90) days from the date this Agreement is made and entered into, or such later date as A.I.D. may agree to in writing,

A.I.D., at its option, may terminate this Agreement by written notice to the Government.

**SECTION 5. Disbursement.** Disbursement of the Funds made available under this Grant will be made in two installations of four million five hundred thousand United States Dollars (\$4,500,000); the first installment will be made pursuant to a request by the Government and only after satisfaction of the conditions precedent to disbursement under Section 2. The second

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installment may be made only after exhaustion of the funds from the first installment. The request for both the first and second installation of funds will be submitted to the A.I.D. Operations Officer on AID Form 1030-2 (Financing Request) through the American Embassy in Botswana. In accordance with the requests, A.I.D. will deposit the funds into the account of the Government at a bank located in the United States to be named by the Government. The Government agrees that any interest earned on the funds deposited under this Grant will be remitted to the United States.

SECTION 6. Terminal Date for Disbursement. The terminal date for requesting disbursement of funds will be one year from the date of execution of this Agreement, except as A.I.D. may otherwise agree in writing.

SECTION 7. Special Account for Development Activities.

A. For the purpose of financing the local currency costs of developmental activities, the Government agrees to deposit within one year from the date of execution of the Agreement in a special account the local currency equivalent of the U.S. dollar disbursement made under this Agreement. The highest rate of exchange, which is not unlawful in the Republic of Botswana on the date of the dollar disbursement shall be used in determining the amount of such deposit.

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B. Activities to be financed under the special account shall be related to development projects in the sectors of: agriculture, health, education and other basic human needs, low income housing, rural development and transport. The activities proposed by the Government for use of the funds from the special account, as described above, shall be designed and carried out by the Government in accordance with procedures determined to be appropriate by the Government except that all of the funds required for this account shall be expended within thirty-six months from the date of execution of this Agreement.

C. Disbursement from the special account for specific activities may be made by the Government in accordance with procedures determined to be appropriate by the Government.

D. The Government will provide to A.I.D., beginning six months after the signing of this Grant Agreement and continuing at six month intervals until such time as all of the required funds of the special activities have been expended, financial reports, certified as correct by the Ministry of Finance, as follows:

- (1) A report showing cumulative deposits to  
and disbursements from the special account;  
and

(2) A report showing, for each project, the budgeted amount, disbursements for each project during the period and cumulative disbursements.

E. The Government will, at mutually agreed upon times, provide A.I.D. with the opportunity to observe project undertakings.

SECTION 8. Taxation. This Agreement and the amount to be granted hereunder shall be free from any taxation or fees imposed under any laws in effect within the Republic of Botswana.

SECTION 9. Use of Funds. The Government agrees that the funds provided hereunder shall not be used to finance military, guerilla, or para-military requirements of any kind including the procurement of commodities or services for those purposes.

SECTION 10. Reports. The Government agrees that financial records relating to the funds granted by A.I.D. under this Agreement through the special account shall be kept in accordance with generally accepted accounting principles and that such information and records relating to the Grant as A.I.D. may reasonably request will be furnished to A.I.D.

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SECTION 11. Communications and Language. Any notice, request, document or other communication submitted by either party to the other under this Agreement will be in writing or by telegram, cable or radiogram, and will be deemed duly given or sent when delivered to such party at the following addresses:

To the Government

Mail Address:

Permanent Secretary,  
Ministry of Finance and Development Planning,  
Private Bag 008,  
Gaborone, Botswana.

Alternate Address for Cables:

Finance  
Government of the Republic of Botswana,  
Gaborone, Botswana.

To A.I.D.

Mail Address:

A.I.D. Operations Officer,  
P.O. Box 90,  
Gaborone, Botswana.

Alternate Address for Cables:

A.I.D.  
c/o Embassy of the United States,  
Gaborone, Botswana.

All such communications will be in English, unless the parties hereto otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The English language version of this Grant Agreement shall be controlling for purposes of interpretation.

SECTION 12. Representatives. For all purposes relevant to this Agreement, the Government will be represented by the individual holding or acting in the Office of Permanent Secretary in the Ministry of Finance and

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Development Planning and A.I.D. will be represented by the individual holding or acting in the Office of Regional Development Officer, Office of Southern Africa Regional Activities Co-ordination, each of whom, by written notice, may designate additional representative for all purposes other than revising project details. The names of the representatives of the Government, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized each instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

In witness whereof the Governments of the Republic of Botswana and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

Government of the Republic  
of Botswana

By:

Title:

United States of America

By:

Title:

STATUTORY CHECKLIST

6C(1) - COUNTRY CHECKLIST

Listed below are, first, statutory criteria applicable generally to FAA funds, and then criteria applicable to individual fund sources: Security Supporting Assistance funds.

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in consistent pattern of gross violations of internationally recognized human rights?
  - a) The project is designed to help the rural poor by providing funds for development activities in the sectors of: agriculture, health, education and other basic human needs, low income housing, rural development and transport.
  - b) No such determination
  
2. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

No such determination has been made.
  
3. FAA Sec. 62C(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?

No.

4. FAA Sec. 620(b) If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement? Yes.
5. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government? No.
6. FAA Sec. 620(e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No.
7. FAA Sec. 620(f); App. Sec. 108 Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia or Laos? No.
8. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance or (b) the planning of such subversion or aggression? No.

9. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?  
Security and protection measures appear to be adequate and reasonable.
10. FAA Sec. 620(1). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?  
No such denial has been considered.
11. FAA Sec. 620(o): Fishermen's Protective Act, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters,  
No such actions
- a. has any deduction required by Fishermen's Protective Act been made?
- b. has complete denial of assistance been considered by AID Administrator?
12. FAA Sec. 620(a); App. Sec. 504  
a) Is the Government of the recipient country in default on interest or principal of any AID loan to the country? No.  
b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds, unless debt was earlier disputed, or appropriate steps taken to cure default? No.

13. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be co-ordinated with the Bureau for Program and Policy Co-ordination, Regional Co-ordinators and Military Assistance Staff (PPC/RC).)
- Until 1977 Botswana had no army, only a police force. In 1977 a small army was just being organized. For 1977, police and internal security expenditures represented 3.8% of G.O.B. budget expenditures or about 1% of G.D.P. Less than 1% of foreign exchange resources are spent on military equipment. No money has been spent on sophisticated weapons systems.
14. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?
- No, not applicable.
15. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?
- There is no indication of any arrears.
16. FAA Sec. 620(A). Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?
- We have no knowledge of any such action.
17. FAA Sec. 666. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA?
- No.

18. FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.?
- We have no knowledge of any such delivery or receipt.
19. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate?
- We are not aware of any case.

## B. FUNDING CRITERIA FOR COUNTRY.

### 2. Security Supporting Assistance Country Criteria.

- a) FAA Sec. 502B. Has the country engaged in a consistent pattern of gross violation of internationally recognized human rights? Is program in accordance with policy of this Section?
- No.
- Yes.
- b) FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organisation, or body eligible to receive assistance?
- Yes.
- c) FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?
- No Grant Commodities will be sold and thus no sale proceeds will be generated.

## 6C(2) - PROJECT CHECKLIST

Listed below are, first, statutory criteria applicable generally to projects with FAA funds, and then project criteria applicable to Security Supporting Assistance funds:

### A. GENERAL CRITERIA FOR PROJECT.

#### 1. App. Unnumbered; FAA Sec. 653 (b).

- a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project;
- a) This project will be reported to the Congress through a special notification.

b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure plus 10%)?

b) Yes.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100 000, will there be (a) engineering, financial and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a) Yes.

(b) Yes.

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No legislative action required of the recipient country.

4. FAA Sec. 611(b); App. Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per Memorandum of the President dated Sept. 5, 1973 (replaces Memorandum of May 15, 1962; see Fed. Register, Vol. 38, No. 174, Part III, Sept. 10, 1973)?

This is not a water or water-related land resource construction project.

5. FAA Sec. 611(e). If project is capital assistance (e.g. construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

This is a program assistance project, not a capital assistance project. Therefore no certification is required.

6. FAA Sec. 209, 619. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. If assis-

No.

tance is for newly independent country, is it furnished through multi-lateral organizations or plans to the maximum extent appropriate?

7. FAA Sec. 601(a); (and Sec. 201(f) for development loans

Information and conclusions whether project will encourage efforts of the country to:

- (a) increase the flow of international trade;
- (b) foster private initiative and competition;
- (c) encourage development and use of cooperatives, credit unions, and savings and loan associations;
- (d) discourage monopolistic practices;
- (e) improve technical efficiency of industry, agriculture and commerce;
- and (f) strengthen free labor unions.

The project is designed to enable the G.O.B. to carry out development projects, which should allow for an increased private sector role in Botswana's economy.

8. FAA Sec. 601(b).

Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The project will fund G.O.B. development projects, which will make Botswana better able to absorb external investment.

9. FAA Sec. 612(b); Sec. 636(h).

Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.

The G.O.B. will arrange all financing for the activities funded by this grant except the grant-funded amount.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?

Not an excess foreign currency country.

3. PROJECT CRITERIA SOLELY FOR SECURITY SUPPORTING ASSISTANCE

FAA Sec. 531. How will this assistance support/promote economic or political stability?

The project will enable the G.O.B. to carry out development projects which might otherwise be delayed or cancelled due to priority security requirements which would have utilized available domestic resources.

The Standard Item Checklist has been reviewed for this paper.

**Table I: BOTSWANA GOVERNMENT SECURITY, DEFENCE AND REFUGEES  
EXPENDITURE**

P'000		
Item	1977/78	1978/79
Botswana Defence Force	6 500	8 000
Botswana Police Force	32	36
Education for refugees	-	100
Food Administration	11.5	13
Diversion of manpower	27.5	32
Transport and supervision of refugees	1 400	2 010
Emergency improvements to Jubilee Hospital	-	150
	7 971	10 341

**Table II: DEFENCE DEVELOPMENT EXPENDITURE**

(a) Planned Phasing (Current Prices)

P'000

	77/78	78/79	79/80	80/81	81/82
At Mid-1976	440	605	550.4		
At Sept. 1977	3'915	5 445	4 416	1 664	290

(b) Expenditure 1977/78

Item	Funds warranted	Expenditure to 31/10/77
BDF Cap Gaborone	248 000	191 512
Radio Equipment	350 000	364 789
BDF Camp Francistown	1 191 200	
Temporary H.Q.	7 560	2 474
Aircraft	1 362 459	1 234 596
Vehicles	1 030 000	220 730
Consultants fur	100 000	-
Compensation	7 000	-
Hangar	269 200	-
BDF Camp S-Phikwe	622	454
	5 066 041	2 238 715

Table III

	76/77	77/78	78/79	79/80
<b>Revenue and Grants</b>	88.0	119.6	129.7	167.9
Customs & Excise	15.4	37.7	47.5	68.4
Mineral Revenues	17.2	24.8	27.9	42.0
Other Income Tax	14.8	17.3	18.6	19.5
Other Revenue	24.0	22.3	21.3	22.0
Grants Negotiated	16.6	17.5	14.4	16.0
<b>Expenditure and Net Lending</b>	108.9	131.6	164.3	186.9
Personal Emoluments	31.8	35.1	46.3	50.9
Other Charges	29.6	38.7	45.0	50.0
Public Debt Interest	3.40	3.96	4.69	6.0
Development Expenditure	37.6	49.9	60.0	70.0
PDSF/RSF Loans	7.8	9.9	10.1	12.0
Less Repayment of Loans	-2.1	-4.0	-1.8	-2.0
<b>Overall Deficit</b>	-20.1	-12.0	34.6	-19.0
External Loans Negotiated	12.1	10.6	19.5	18.0
Less Amortisations	-2.9	-4.6	-2.18	-3.2
IMF Transaction	-	-0.4	-0.5	-0.6
Internal Loans	10.8			-
Other Financing	2.8			
Change In Cash Balances (Increase -)	- 2.8	+3.3	+17.8	+2.3

Table No. IV BOTSWANA - Basic Data

Area, population, and GDP  
per capita

Area	581,730 square kilometers
Population (June 1977 estimate)	731,000
Population growth	2.6 per cent per annum
GDP per capita (1975/76)	SDR 360

Relations with the Fund  
(as of December 30, 1977)

Quota	SDR 5 million (proposed new quota SDR 9 million)
Representative rate	The representative rate of the pula is based on the pula's middle rate against the U.S. dollar, P 1 = US\$1.2075 = SDR 1.0389 (since April 30, 1977)
Net cumulative SDR allocation	SDR 1.57 million
Fund holdings of pula	SDR 3.75 million (75.1 per cent of quota)

	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>
<u>Gross domestic product (July-June)</u>	<u>(In millions of pula)</u>			
GDP at current prices	198.4	205.7	253.4	...
GDP at constant 1974/75 prices	228.0	205.7	225.0	...

Prices (annual change between  
ends of periods)

(In per cent)

Consumer prices	13.1	11.0	13.8	13.3
	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>

Central government budget  
(April-March)

(In millions of pula)

Revenue and grants	67.0	87.1	87.9	118.8
of which: Customs Union receipts	(30.4)	(24.6)	(15.4)	(37.8)
Expenditure and net lending	72.5	89.2	107.2	125.4
of which: Current expenditure	36.4	48.1	63.7	74.9
Capital expenditure	26.1	30.1	32.9	44.0
Overall surplus or deficit (-)	-5.5	-2.2	-19.3	-6.6
External financing	18.1	15.4	9.6	10.6
Domestic financing	-12.6	-13.2	9.7	-4.0

Table No. IV      BOTSWANA - Basic Data (continued)

	<u>1975</u>	<u>1976</u>	<u>1977</u>
<u>Money and credit</u> (end-March)			
	<u>(In millions of pula)</u>		
Foreign assets (net)	24.5	26.4	60.2
Claims on Government (net)	-22.4	-39.8	-35.1
Claims on private sector	39.7	67.8	68.1
Currency	...	...	11.4
Demand deposits	22.2	19.7	31.0
Quasi-money	23.0	34.9	45.9
	<u>1975</u>	<u>1976</u>	<u>1977</u>
			Provisional estimate
<u>Balance of payments</u>	<u>(In millions of SDRs)</u>		
Exports, f.o.b.	118.1	147.4	176.1
Imports, c.i.f.	180.0	185.3	215.0
Trade balance	-61.9	-37.9	-38.9
Service (net)	6.8	3.0	8.2
Transfers (net)	18.0	36.9	68.6
Current account balance	-37.1	2.0	37.9
Long-term capital	61.9	11.0	-24.6
Short-term capital	2.2	4.0	-4.1
Overall balance	27.0	17.0	9.2
<u>Gross official foreign reserves</u> (end-March)	...	...	60.0

INITIAL ENVIRONMENTAL EXAMINATION

Project Location : Botswana  
Project Title : Botswana Program Grant  
Funding : FY 1978 - \$9 million  
Life of Project : Terminal date for requesting disbursement  
authorization 12 months from date of grant  
agreement.  
IEE Prepared by : J. Paul Guedet, Project Officer/AFR/DR/SDP



Date: May 12, 1978

Environmental Action Recommended: Negative Determination

Concurrence:

AFR/DR/SDP:DDibble



Administrator Decision:

Approved:



Disapproved:

Date:

6/16/78

I. Examination of Nature, Scope and Magnitude of Environmental Impacts

A. Description of the Project

The project proposes to provide a program grant of \$9 million to the Government of Botswana from Security Supporting Assistance funds, Southern Africa Special Requirements Funds. The purpose of the grant is to provide Botswana with the resources requested to enable economic development activities to continue despite the competing claims of other unanticipated and security-related needs. This will provide foreign exchange to help the GOB overcome a serious, but temporary, budgetary problem.

B. Identification and Evaluation of Environmental Impact

Guidelines for preparing IEEs stipulate that some A.I.D. projects due to their very general nature will have little or no impact on the environment and therefore usually do not require the preparation of an environmental assessment or an Environmental Impact Statement. Program grants and other grants where third party actions are unknown, nonspecific or lacking significance in terms of environmental impact would fall within this category.

II. Recommendation for Environmental Action

Therefore, for the reasons stated above, a negative determination is recommended.