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**BOTSWANA'S RURAL SECTOR GRANT SHOWS PROGRESS  
ON MAJOR OBJECTIVES, BUT ITS FINANCIAL  
AND ADMINISTRATIVE AFFAIRS NEED IMPROVEMENT**

**USAID/Botswana  
Audit Report No. 3-633-85-6**

**December 14, 1984**

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TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
BACKGROUND	1
OBJECTIVES, SCOPE AND METHODOLOGY	3
AUDIT FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS	4
The RSG Project Has Shown Progress Towards Major Goals, But May Require A Long Implementation Period	4
The RSG Project Needs A Full Time GOB Implementation Coordinator	6
USAID/Botswana's Information System Needs Improvement in Three Areas	8
Currency Devaluations Continue To Distort Planned Dollar Disbursements	10
APPENDIX A - List of Report Recommendations	
APPENDIX B - List of Report Recipients	

## EXECUTIVE SUMMARY

The Rural Sector Grant (RSG) project, No. 633-0077, is designed to address a serious problem caused by the scarcity of opportunities for rural productive employment in Botswana. Its overall purpose is to assist the Government of Botswana (GOB) in the development and implementation of strategies to provide the rural population with increased access to productive employment opportunities. Over its life, the project will cost about \$17.3 million; AID will finance about \$9.3 million and the GOB will finance \$8.0 million. As of August 31, 1984, obligations were \$5.3 million and disbursements \$2.6 million. The GOB was making the required financial and logistical contributions.

The purposes of the audit were to (a) evaluate how well the project was progressing towards meeting stated goals and objectives; (b) ensure that AID-provided resources were being used as planned and in conformance with applicable laws, regulations and the grant agreement; and (c) ensure that the project was being implemented in the most efficient and effective manner.

The type of items and inputs financed under the project included such things as fences, donkeys, horses, chickens, mules, harnesses, garden tools and seeds, tractors, vehicles, construction of buildings and offices, water studies, consultancies, several contracts, topping of salaries under an Operational Expert (OPEX) arrangement, training courses and seminars (ranging from how to make a fence to land planning).

The RSG project has made progress towards meeting some of its major objectives. For example, 155 small agriculture production projects have helped more than 15,000 rural persons. Small business enterprises, such as shoe-making, have been developed.

Several planning problems in Phase I hampered the implementation of activities such as horticulture, forestry and wildlife. These problems included environmental considerations, viability and locations of subactivities, and the lack of GOB policies.

In addition to planning problems, the project has also had its share of implementation problems which in turn caused shortfalls in achieving output targets. These problems included a serious shortage of trained GOB personnel, late

arrival of technical advisors, poor utilization of an advisor, lack of organization and weak management systems in the implementing ministries, competing priorities of the GOB, and very cumbersome administrative and financial procedures. Unforeseen events, such as the severe 3 year drought, also adversely affected reaching project achievements.

Several areas found during our audit in need of management's attention are:

- (a) Completion of project implementation may require longer than currently anticipated. Not all the causes are within the control of USAID or the project. USAID/Botswana adopted our recommendation that they establish a review process to monitor expenditure rates so that excess funds can be periodically reprogrammed or deobligated (Pages 4 and 5).
- (b) USAID/Botswana and the GOB have an agreement whereby one "Communal Areas Coordinator" manages and coordinates the RSG project and other non-AID funded activities. This arrangement is not working and we recommend that it be changed. Otherwise the planned goals may not be achieved (Pages 6 to 8).
- (c) USAID/Botswana's information system to monitor project goals, expenditure of funds and GOB contributions needs to be modified. Some areas are not yielding necessary or accurate information to help monitor the project. We recommend a modification of the present system to improve the efficiency of project monitoring (Pages 8 to 10).
- (d) The GOB has devalued its currency (the Pula) by 77% over a 5 year period. This has significantly distorted budgeted dollars needed for local currency costs which has resulted in unplanned accumulations of dollars in the project. USAID/Botswana adopted our recommendation that the new system, used for construction funds, be expanded to keep track of all funds so they can be reprogrammed in a systematic manner (Pages 10 and 11).

During the audit, we discussed our findings with USAID/Botswana personnel. Also, we sent a draft report to USAID/Botswana for their written comments. Their views expressed during the exit conference and in response to the draft report were duly considered, and where pertinent, have been included in this report.

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## BACKGROUND

Botswana is one of the larger African countries with a land area of 232,000 square miles (about the size of Texas). The country is sparsely populated with about 80 percent of its population (estimated at 870,000) living in the eastern corridor. The remainder of the people are widely dispersed throughout the country.

The Government of Botswana (GOB) places high priority on the development of the economic potential of the more remote regions of the country. The country enjoyed rapid and relatively steady economic growth during the 1970's, due primarily to expansion in the mining sector (diamonds, copper, nickel, and coal) and favorable export prices for livestock. As a result, the Gross Domestic Product<sup>1/</sup> (GDP) per capita increased from \$87 to \$926 between 1965 and 1983. However, because mining generated few employment opportunities (only 5,500 people had these types of jobs) and ownership of cattle was heavily concentrated on only 5% of the population, only a small proportion of the inhabitants was benefiting from this growth. Thus, the central problem in creating development in Botswana was dealing with the scarcity of opportunities for rural productive employment.

Faced with this problem, the GOB and USAID/Botswana designed and agreed to implement the RSG project. The initial grant agreement was signed on June 17, 1980. Under its terms, a total of \$3.8 million was made available for the first phase of the project. This phase would take about five years. The overall purpose is to assist the GOB in the development and implementation of strategies to provide the rural population with increased access to productive employment opportunities. Within this broad context, the RSG project has three sub-purposes which are designed to (a) improve land use planning and management, (b) increase small scale arable production and the income of rural households, and (c) increase non-farm employment opportunities in rural areas.

The type of subprojects during the first phase included activities of the Five Year National Plan of Botswana. These subprojects were divided into 3 groups as follows:

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<sup>1/</sup> GDP is the total value of productive activity within the national borders. GDP differs from gross national product (GNP) which excludes the value of new factor payments (interest, profits, and salary remittances) to nonresidents.

Group I "Land Use Planning and Management" subprojects included (a) implementation of integrated district-level land use plans, (b) strengthening of land institutions responsible for communal areas, (c) water point surveys and use of them in communal areas, and (d) studies to assist districts in preparing plans for Communal First Development Areas.

Group II "On Farm Production and Income" subprojects included (a) the Arable Lands Development Program pilot activities designed to increase the productivity of small farmers, (b) small production-oriented activities, (c) horticultural development at cooperative-owned estates, and (d) rural afforestation including woodlots for commercial production and conservation, and government nurseries.

Group III "Non-Farm Employment Opportunities" included (a) promotion of small rural industries, and (b) identification and development of wildlife utilization schemes.

The common characteristic of all subprojects is that they either have a direct impact on production and income at the district level, or they address broader constraints that must be overcome before production-increasing interventions can be undertaken.

The first phase has been partially completed and phase II was initiated on August 19, 1983. The program has been revised and certain sub-activities were phased out. The emphasis has now been changed to expand training to include district administrators and to add prospects for employment.

The project, over its life, will cost about \$17.3 million. USAID/Botswana will finance about \$9.3 million and the GOB will finance \$8.0 million. As of August 31, 1984, USAID/Botswana had obligated \$5.3 million and disbursed \$2.6 million. The GOB was providing the required counterpart funds.

OBJECTIVES, SCOPE AND METHODOLOGY

This is the first audit of the project. The objectives of the audit were to (a) evaluate how well the project was progressing towards meeting stated goals and objectives; (b) ensure that AID-provided resources were being used as planned and in conformance with applicable laws, agency regulations and the grant agreement; and (c) ensure that the project was being implemented in an efficient and effective manner. Except as noted in this report we found no other problems in these areas that are significant enough to report on. Audit work was performed in Botswana during September 1984 and covered the period from inception to August 31, 1984.

Our audit included a review of documents at both the Regional Economic Development Services Office (REDSO) in Nairobi, and USAID/Botswana. We interviewed cognizant GOB and USAID/Botswana officials. Our on-site review included financial records, contracts, progress reports, evaluation reports, and related correspondence. We made field visits to selected subproject areas.

Our audit was made in accordance with the Comptroller General's standards for audit of governmental programs, and accordingly included such tests of the program, records, and internal control procedures as we considered necessary in the circumstances.

Several independent evaluation teams have reviewed the project over the past four years. The most recent evaluation report was dated July 1984. From a technical view, the different studies, particularly the July report, were thorough and comprehensive. Therefore, after corroborating some of the conclusions, to the extent deemed necessary, we used these studies to reduce our field-work. Also, at the time of our audit, USAID/Botswana had made available to the GOB the recent (July 1984) evaluation report which contained a series of recommendations relating to both active and nonactive activities. A GOB coordinating committee (known as the Reference Group) met and discussed the recommendations. Dialogue was taking place to implement the recommendations or find alternative solutions. For this reason, this information is not detailed in this report.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The RSG Project Has Shown Progress Towards Major Goals, But May Require A Long Implementation Period.

Although progress has been achieved, our review showed that project implementation, based on rates of disbursements, may take a long time. Not all of the causes are within the control of USAID or the project. However, slow progress will affect fund commitments and the duration of the project.

There have been positive project achievements and many lessons were learned from the first phase. During our field visits, we saw drift fences, horticulture estates, forestry projects, woodlot activities, and some application of skills improved through training. For example, a cobbler, in Pilane, produces good quality shoes and exports them to South Africa. Similarly, food produced in one of the horticulture estates of Mothupudukwane is marketed at hospitals and secondary schools of Mochudi. Many aspects of the project are reaching and are benefiting the poorest of the poor. To illustrate, more than 15,000 persons have been helped by over 155 small agriculture production projects.

Several planning problems hampered the implementation of activities such as in horticulture, forestry and wildlife. These problems related to environmental considerations, viability and location of subprojects, and the lack of GOB policies. In addition, the project has had its share of implementation problems which in turn caused shortfalls in achieving output targets. These problems included (a) late arrival of technical advisors, (b) poor utilization of an advisor, (c) a serious shortage of trained personnel, (d) a 3 year drought, (e) lack of organization and weak management systems in the implementing ministries, (f) competing priorities of the GOB, and (g) very cumbersome administrative and financial procedures.

Although hampered by problems, the project did get off to a good start and achievements are noteworthy. However, the history of disbursements indicates that the project completion date might have to be extended beyond the 1988 Project Assistance Completion Date (PACD). For instance, disbursements for the past 5 years were as follows:

<u>Fiscal Year</u>	<u>Disbursements</u>	<u>Percent</u>
1980	\$ 18,987	.7
1981	535,783	20.0
1982	360,373	13.5
1983	941,438	35.2
1984 (As of August)	820,585	30.6
Total	<u>\$2,677,166</u>	<u>100.0</u>

The AID grant will eventually fund a total \$9.3 million. Of this amount, \$7.8 million have been committed. The remaining \$1.5 million will be earmarked in the near future. The above table indicates that disbursements have averaged about \$881,012 for the past two years. If the funds are disbursed at this rate it will take about 8 years to disburse the balance of funds. In other words, the PACD would need to be extended by 4 years, from 1988 to 1992.

Several factors contributing to this are: (a) devaluation of the Botswana currency called Pula (see pages 10 and 11), (b) a cumbersome GOB financial system, (c) restructuring and redesign of the project, (d) misconceived role and incomplete participation of the Communal Areas Coordinator (see next section), (e) other priorities of the GOB, and (f) some leveling of demand for project funds to finance numerous small activities. The causes are complex and some--such as the currency devaluation, cumbersome GOB financial system and competing priorities--are beyond the control of USAID/Botswana.

#### Conclusions and Recommendation

The project has shown progress towards major goals, but its completion may require longer than currently anticipated. At the current rates of disbursement, the balance of project funds will require nearly 8 more years. The reasons for delays in spending are not easily resolved. However, some action must be taken to step up spending, or to make these funds available for some other purpose.

In our draft audit report, we included a recommendation for USAID/Botswana to schedule periodic reviews to evaluate expenditure rates of the project so that potentially excess funds can be reprogrammed or deobligated. USAID/Botswana implemented our recommendation. Therefore, we have deleted it from the report.

The RSG Project Needs a Full Time GOB Implementation Coordinator

At the time of our audit, USAID/Botswana and the GOB has an agreement whereby one Communal Areas Coordinator (CAC), recruited as a GOB employee, manages and coordinates the RSG project and other non-AID funded activities. This arrangement is not working well and has resulted in some confusion of perceived duties and responsibilities of the CAC. As a result, insufficient attention has been given to the complex RSG project. Unless this is changed, the planned goals will take even longer to meet.

From project inception, USAID/Botswana and the GOB have had a contractual arrangement to share one highly qualified U.S. technician to coordinate RSG project activities. The technician was also to assist the GOB in the development of other communal activities. The job descriptions of the former and current CAC, according to the respective contracts, are virtually the same. Position responsibilities include coordination of the work of various existing institutions at the national and district levels which are directly responsible for communal area development; providing advice to institutions on procedures and management systems; improving communication links between institutions; and reporting regularly on the progress and direction of communal area development.

Specifically the CAC is to attend meetings at the different governmental levels, coordinate plans, assist in the implementation, manage different activities, and train GOB personnel.

At the beginning, the arrangement was in the form of a Personal Services Contract between USAID/Botswana and an individual contractor. The original contractor worked very closely with USAID/Botswana. The current CAC is still shared by USAID/Botswana and the GOB, except that the contracting arrangement is different. The CAC is now employed under an Operational Expert (OPEX) agreement as a contractor of the GOB Ministry of Finance (MOF). Although his entire salary and benefits were still funded by the RSG project, the contractor reports directly to the MOF, not to USAID/Botswana.

The most recent evaluation report, dated July 1984, recognized that there were problems with project management coordination. The evaluation found that there was considerable disagreement between AID and the GOB on the extent to which the CAC should be involved in resolving implementation problems which the line ministries might be experiencing. The report recommended that AID and the GOB reach agreement in this respect.

We found the same problem. There are differences in expected and actual managerial style, in the degree and methods of coordination, in the method of problem solving, in relations, and in the degree of responsibilities for the RSG project. For instance, one GOB representative told us that the duties of the CAC were much broader than only the RSG project. On the other hand, USAID/Botswana felt that the CAC should devote more time to the RSG project and be more involved in actual problem solving.

The current agreement whereby the CAC manages the RSG project and coordinates other activities not funded by USAID/Botswana is not working well. Several effects of this are: (a) implementation bottlenecks have been frequently left unattended usually due to the pressure of other GOB business, (b) the GOB has not monitored the activities as effectively as possible, and, (c) at the initial stages of the project, the project memorandums were prepared only in conjunction with the annual visits of the evaluation team. The effect has also been a slow down in project implementation because other GOB activities have taken priority.

The GOB is aware of the problem and there have been preliminary discussion with USAID/Botswana on two possible alternatives. According to USAID/Botswana, the GOB has recognized the need to revise and accelerate implementation plans. One alternative is for USAID/Botswana to allocate project funds to hire another person whose responsibility would be to handle non-RSG project issues of the Rural Development Unit (RDU) thereby freeing the present CAC to address RSG project issues. The second alternative is to hire a new person to manage the RSG project. USAID/Botswana officials prefer keeping the current CAC. The USAID is concerned that it could take 4-6 months to recruit and contract another coordinator plus several months for the person to become familiar with such a complex project. This would leave a void in the project for a period of 6-8 months. USAID would rather create another position for the MOF using RSG project funds.

#### Conclusion and Recommendation

Over \$2.6 million of A.I.D. funds have already been invested in this complex project. Since the current CAC now has the background and philosophy of the project, we support USAID/Botswana's position that the present CAC continue with the RSG project and that another person be hired for the MOF.

In response to the draft report, USAID/Botswana informed us that the GOB has an organizational problem which makes it difficult to add another person to manage the RSG project

alone. The GOB offered an alternative solution to resolve the problem. As proposed the GOB would (a) revise quarterly time phased implementation plan for Phase I and II, using the format contained in the amended project paper; (b) submit information on the projected disbursement schedule, broken down by major Phase I and II sub-components; and (c) submit a clear, written definition of the role of the CAC with respect to the RSG project, including specific duties of an ongoing nature and those discrete tasks considered necessary to expedite project implementation. We believe the alternative is reasonable and have revised our recommendation accordingly.

RECOMMENDATION NO. 1

USAID/Botswana obtain from the GOB, within six weeks of issuance of this report, (a) an acceptable plan revising quarterly implementation and disbursement schedules, and (b) a clear definition of the role of the CAC with respect to the RSG project.

USAID/Botswana's Information System Needs Improvement In Three Areas

USAID/Botswana's information system to monitor project goals, expenditure of funds and GOB contributions needs some modification. While the present system is a good beginning, there are areas which are not yielding needed information. Changes in the information system will improve project implementation.

The complexity of the RSG project dictates that USAID/Botswana establish a sound management system. The last evaluation recommended that "AID, RDU and the implementing ministries need to reach an agreement on what constitutes a sound management system for the RSG project, and how it should be used to assure an acceptable level of project performance." Although project officials have taken steps to improve their management system, further improvements are needed.

The project manager and CAC have modified the method of monitoring the project by revising the reporting requirements. The system requires the line ministries to compile and report the status of their various assigned projects quarterly. Our review of this schedule and discussions with these two officials showed that several of the end of project goals stated in the project agreement are not specifically included in this reporting schedule. Thus, the project officer can not

easily determine the status of some of the end of project objectives. For instance, training of 11,000 indigenous entrepreneurs and creating 2,112 new small-scale businesses along with the creation of 4,488 new jobs, as a spin-off from the businesses, were quantified objectives of the project. The current information system does not provide this information.

Our analysis of the project financial statements also shows weaknesses. We found that:

- (a) The system used by the GOB to implement the project and disburse funds is both cumbersome and complex. Information reports on actual expenditures are very slow and they are frequently behind by at least three months. This provides a distorted picture of the project pipeline versus actual project progress.
- (b) USAID/Botswana maintains an official and an unofficial financial information systems. The official system, maintained by the Controller's office, does not provide the project manager with the necessary details to effectively monitor the project. This is the reason for the unofficial system. Our comparison showed certain differences between the official accounting system and the unofficial project monitoring system. These differences were reconciled by USAID/Botswana before the issuance of this report. We also found errors in the official accounting records. For example, at least three entries were posted in local currency rather than U.S. Dollars.
- (c) Internal controls surrounding GOB controlled local currency expenditures needs improvement. The GOB submits summary computer runs which reflect expenditures made by the several ministries. USAID/Botswana accepts the computer runs at face value without testing the supporting documentation. There is a need, therefore, to test the integrity of information submitted by the GOB.
- (d) There was also a need to accumulate information on GOB contributions. At our request, the GOB provided several computer runs showing information on expenditures from the different sources. It showed that the GOB provided its contribution for the period 1980 to 1983. Nevertheless, the USAID was not monitoring GOB contribution to insure that it was being provided.

### Conclusion and Recommendations

Information on project progress has been incomplete and imprecise. USAID/Botswana needs to improve the project monitoring system as it relates to project goals, the financial affairs of the project, and GOB's project contributions. Also, the USAID/Controller should assure himself that expenditures claimed by the GOB are adequately supported and are valid project disbursements.

#### RECOMMENDATION NO. 2

USAID/Botswana, in conjunction with the GOB, modify its present project information system to better monitor program goals, financial management, and GOB contributions.

#### RECOMMENDATION NO. 3

USAID/Botswana establish a procedure to review, on a test basis, supporting documents for expense reimbursement vouchers submitted by the GOB.

### Currency Devaluations Continue to Distort Planned Dollar Disbursements

Since inception of the RSG project, the GOB has devalued its currency (the Pula) by 77%. These currency devaluations have significantly distorted dollar budget estimates as they relate to local currency needs. As a result, there have been unplanned accumulations of dollars in the project. USAID/Botswana has already reprogrammed some of these funds. But, our analysis showed that additional accumulations will probably need to be reprogrammed. Therefore, USAID/Botswana needs to expand its current procedures to keep track of such accumulations.

At the time the RSG project was planned, the conversion rate for the Pula was P.79 = \$1.00. Plans were to disburse the initial grant of \$3.8 million at this rate. However, these plans did not hold because of the GOB devaluation. At the time of our audit, the rate of exchange was P1.40 = \$1.00. The Pula has been devalued 77 percent resulting in unplanned accumulations of dollars which need to be reprogrammed. For example, the slowdown in project disbursement resulted partly from the currency devaluation. As a result, only \$2.6 million (of \$3.8 million) has been needed. The remaining \$1.2 million represents, to some extent, accumulations due to currency devaluations.

Our sample of USAID/Botswana plans showed that the accumulation problem will probably continue. For example:

- (a) Project Implementation Letter (PIL) #44, dated June 6, 1984, approved the construction of four houses. A total budget of P103,161 was approved at P1.10 per dollar (maximum of \$93,700). Assuming that the funds are disbursed at P1.30 per dollar, the accumulation, in need of reprogramming, would amount to \$14,345.
- (b) PIL #45, dated July 13, 1984, earmarked P525,000 for the Productive Employment Development Fund. The assumption was that the Pula disbursements would be at par with the dollar. If disbursements average P1.30 per dollar, \$121,154 will have to be reprogrammed.
- (c) PIL #48 approved construction of three additional houses at Maun, Ramotswa and Kanye. The budget is P89,922 at P1.17 per dollar. If disbursement is at P1.30, \$7,229 will have to be reprogrammed.

#### Conclusion and Recommendation

The continued Pula devaluation has created a situation where less dollars are needed to finance local currency costs. As a result, the project is now overfunded.

In our draft report, we included a recommendation for USAID/Botswana to expand its current monitoring procedure to identify, project-wide, excess dollars resulting from currency devaluations so they can be deobligated or reprogrammed.

USAID/Botswana took immediate action and designed a system to identify excess dollars resulting from the devaluation so that funds can be reprogrammed or deobligated. For this reason, we have not included a recommendation in this report.

List of Report Recommendations

	<u>Page</u>
<u>RECOMMENDATION NO. 1</u>	8
USAID/Botswana obtain from the GOB, within six weeks of issuance of this report, (a) an acceptable plan revising quarterly implementation and disbursement schedules, and (b) a clear definition of the role of the CAC with respect to the RSG project.	
<u>RECOMMENDATION NO. 2</u>	10
USAID/Botswana, in conjunction with the GOB, modify its present project information system to better monitor program goals, financial management, and GOB contributions.	
<u>RECOMMENDATION NO. 3</u>	10
USAID/Botswana establish a procedure to review, on a test basis, supporting documents for expense reimbursement vouchers submitted by the GOB.	

List of Report Recipients

	<u>No. of Copies</u>
<u>Field Offices</u>	
USAID/Bostwana	5
REDSO/ESA	2
<u>AID/Washington</u>	
AA/M	1
AA/AFR	5
AA/PPC	1
LEG	1
GC	1
AA/XA	1
AFR/EA	2
M/SER/CM	2
M/FM/ASD	2
PPC/E	1
PPC/E/DIU	4
<u>Inspector General</u>	
IG	1
AIG/A	1
AIG/II	1
IG/EMS	15
RIG/A/C	1
RIG/A/D	1
RIG/A/K	1
RIG/A/M	1
RIG/A/T	1
RIG/A/W	1
RIG/II/N	1