PD-AAY-937
39924

PROJECT COMPLETION REPORT

PROGRAM GRANT (633-0202)

BACKGROUND INFORMATION

In 1978, the Government of Botswana was facing serious financial constraints sufficient to reduce significantly the country's development expenditures. Economically, a general slowdown in the economy of the Republic of South Africa resulted in reduced investment in Botswana which significantly hindered the growth of revenues. During this period, Botswana was experiencing a greater number of border incursions from Rhodesia 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 forced the GOB to divert scarce human and financial resources to create an Army. In addition, between 1976 and 1978, Botswana had an influx of 24,677 refugees which represented a sizable and unproductive drain on an economy not well equipped to handle them.

In response to the above situation, AID on June 26, 1978, provided the GOB with a Program Grant of $9.0 million of Security Supporting Assistance Funds in order to continue the pace of the development effort. This money was used to purchase needed foreign commodities while the GOB was required to deposit in a special account $9.0 million in local currency (P7,444,169)*. The local currency in turn was used to partially fund ten discrete development projects selected by the Ministry of Finance and Development Planning which would not have been funded in a timely manner or not funded at all if the Grant were not made.

The Problem

In Botswana's National Development Plan IV (NDP IV) for 1976-1980, the GOB anticipated a fast pace for development expenditures. For the Development budget, revenues over the four-year period were expected to be P380 million in constant 1976 prices. Recurrent expenditures and debt servicing for the same period were anticipated at P282 million providing a recurrent budget surplus of P98M. Of the P213 million to be spent on development projects during the period, at least P54 million would be financed by the recurrent budget surplus, the rest from donor assistance. An additional estimated P32 million would be made available to parastatals on a loan basis. The remainder of the P98 million was categorized as a contingency.

This development pace was anticipated prior to the increased security needs and the economic slowdown of the Botswana economy. Over the first four years of NDP IV, the recurrent budget surplus was expected to reach P98 million. The four yearly budgets, however, show an actual recurrent budget surplus of P81 million or about P17 million below NDP IV estimates.

*P1 = $1.2090

TABLE 1

GOB RECURRENT BUDGET SURPLUS, 1976 - 1979

(MILLIONS OF PULA IN 1976/77 PRICES)

	1976/77		1977/78		1978/79		1979/80		TOTAL	
	NDP IV	Yearly Budget	NDP IV	Yearly Budget	NDP IV	Yearly Budget	NDP IV	Yearly Budget	NDP IV	Yearly Budget
mestic venue	71.5	70.9	94.0	90.6	106.9	106.4	107.3	125.3	379.7	393.0
rrent * penditures	61.1	64.8	65.9	66.9	73.1	86.7	82.0	93.7	282.1	312.1
rrent dget rplus	10.4	6.1	28.1	23.7	33.8	19.7	25.3	31.4	97.6	80.9

The recurrent budget surplus is divided among the development fund for domestically financed development projects, the public debt service fund to finance loans to parastatals and a revenue stabilization fund. The reduced recurrent budget surplus, therefore, supports the Program Grants rationale that the GOB would have diminished capacity to maintain the developmental momentum from domestic revenues. The less then anticipated surplus placed a serious constraint on the GOB to provide funds sufficient for development. In addition, foreign exchange was needed to import critical commodities. The GOB was therefore faced with the problem of using funds from the development budget to buy the needed foreign exchange.

1. Summary of Services Performed

The purpose of the USAID Grant was to allow the GOB to maintain its developmental efforts by eliminating the need to cancel or postpone high priority projects. The Grant provided resources to cover shortfalls in foreign exchange so the GOB could generate sufficient local currency for developmental efforts rather than spend developmental money for foreign exchange. From a financial viewpoint, a squeeze on the availability of domestic resources for development did appear to have occured, therefore deeming the Program Grant appropriate in helping to maintain Botswana's developmental momentum at a crucial time.

The recurrent expenditure estimate of P282 million in NDP IV did not include the unforeseen increase in security expenditures. The actual recurrent budget expenditure for the planning period was P336 million, an increase of P54 million. Of the P54 million increase, approximately one-third was attributed to unforeseen security expenditures. Most of the rest was attributed to OPEC oil price increases and a large increase in governmental salaries. This unexpected increase in expenditures affected significantly the amount of domestic funds available for development.

* includes debt servicing

The core development budget and the interplan budget were planned in NDP IV to amount to P213 million during the first four years. This included only P8.9 million for security. Of the P213 million total, P54 million were to be financed from domestic sources. Actual domestic source funds made available were P61 million or P7 million above the planned estimate. However, a large portion of development funds were appropriated for unforeseen security requirements. When these funds were factored out from the development budget, a total of P44 million was provided for development from domestic sources. Moreover, P9 million was appropriated for the Botswana Power Corporation (BPC). Thus, of the P54 million to be provided for NDP IV projects from domestic sources, only P35 million was provided in the 1976-80 period.

Actual donor funds in 1976-80 period were insufficient to keep development expenditures at NDP IV expectations. Development spending, excluding unanticipated security expenditures, fell P23 million below NDP IV targets. It is in this context that the AID Program Grant was deemed necessary to allow Botswana's developmental pace to continue.

In 1978, the GOB indicated that it was faced with the possibility of postponing or cancelling development capital investments due to the diversion and consequent lack of domestic investment funds. Projects which the GOB feared it might find necessary to cancel or postpone included 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 translated into such activities as hospital improvements, animal disease control, rural infrastructural development and transportation improvements.

In order to offset the unfavorable developments that were emerging at the time, AID offered $9.0 million in non-project grant assistance. This grant provided resources to assist Botswana in carrying forward its admirable economic development policies in the sectors of education, health, agriculture, transport and rural development. The grant generated local currency to partially fund ten discrete GOB development projects throughout the country. Some of these projects have now terminated while others are ongoing. The P7,444,169 was used as follows:

1.	Botswana Agricultural Marketing Board (Parastatal)	P1,066,000
2.	Improvements to Animal Disease Control (MOA)	123,358
3.	Veterinary Cordon Fence (MOA)	1,118,068
4.	Kasane Physical Development (MLGL)	246,036
5.	Gaborone to Molepolole (MWC)	728,240
6.	Kanye to Lobatse Road (MWC)	807,998
7.	Improvements to Francistown Airport (MWC)	2,518,088
8.	National Health Institute (MOH)	409,589
9.	Jubilee Hospital (MOH)	180,018
10.	Lobatse Mental Hospital (MOH)	246,774
	TOTAL	P7,444,169

II. Status of Completion of Project Elements

The dollar grant by AID was fully expended by the GOB within a few weeks of signing the Agreement, and the P7,444,169 was deposited in a special account. It was anticipated that this local currency would be fully expended within 36 months of signing the Agreement (June 16, 1978 - June 26, 1981). Actual performance indicates that P4.9 million were actually expended by December 1979; P6,595,869 by August 1980 and by June 25, 1981, the full P7,444,169 had been expended on the ten development projects selected by the GOB.

III. Summary of Project Accomplishments

A 1979 evaluation of the Program Grant concluded that it could not be proved nor disproved that the Grant was an effective mechanism for alleviating the financial crisis facing the country in 1978. Over the planning period 1976-1980, domestic resources grew slightly faster than planned but recurrent expenditures increased even faster, resulting in a recurrent budget of P17 million lower than anticipated in NDP IV. (Table I). Even with heavily increased donor funding (including the Program Grant) in 1978-80, the four year development budget fell short by approximately P8 million. From a financial perspective, the Program Grant seemed justified.

IV. Lessons Learned

This Program Grant quickly provided funds required to assist Botswana in overcoming very pressing financial constraints. It is unlikely that $9.0 million could have been provided as quickly and could have been used as flexibly by the GOB if an alternate mode of assistance (Project Grant or Sector Grant) had been utilized by AID.

Nevertehless, the funds were used to finance some activities which did not closely conform to AID's long-term country assistance plan for Botswana.

The Zimbabwe Program Grant of FY 1980 and 1981 shows that AID can be involved in the selection of activities that are to be financed under Program Grants without significantly slowing up the provision of funds. Had such a process been utilized in Botswana, AID might have been more effective in the contribution made by the Program Grant to project financing in Botswana. As it is, USAID/Botswana has not encouraged publicity concerning AID's role in financing certain activities under the Program Grant.

ANNEX A

PERIOD 1ST APRIL 1978 TO 25TH JUNE, 1981

A.I.D. PROJECT NO. 633-0202

GRANT AGREEMENT OF 26TH JUNE, 1978

FOR U.S. $9,000,000

PROGRAM TITLE	PROJECT NO.	PROGRAM'S ESTIMATED COST	DISBURSEMENT AGAINST THE U.S. GRANT
		P	P
MINISTRY OF AGRICULTURE			
i) Botswana Agricultural Marketing Board	AG01	1,389,350	1,066,000
ii) Improvements to Disease Control	AH12	1,124,520	123,358
iii) Veterinary Cordon Fence	AH04	2,000,000	1,118,068
MINISTRY OF LOCAL GOVERNMENT AND LANDS			
iv) Kasane Physical Development	LG50	300,000	246,036
MINISTRY OF WORKS AND COMMUNICATIONS			
v) Gaborone - Molepolole Road	RD08	3,800,000	728,240
vi) Kanye - Lobatse Road	RD07	5,901,000	807,998
vii) Aerodrome Improvements, Francistown	AV03	2,900,000	2,518,088
MINISTRY OF HEALTH			
viii) National Health Institute	MD16	3,785,000	409,589
ix) Jubilee Hospital, Francistown	MD01	485,670	180,018
x) Lobatse Mental Hospital	MD08	1,520,230	246,774
TOTAL		P23,205,770	P7,444,169

ANNEX B

FINANCIAL SUMMARY

A. US Dollars	Date	Amount
Obligated	6/26/78	$9.0
GOB Expenditure FX	8/8/78	$9.0 (P7,444,169)

B. GOB Generated Local Currency		
GOB Expenditure as of	12/79	P4.9
" "	8/80	P6.6
GOB Total Expenditures as of	6/81	P7.44