

INFRASTRUCTURE FINANCING IN BOTSWANA

ENGAGEMENT WITH MULTILATERAL DEVELOPMENT BANKS AND
RECOMMENDATIONS FOR IMPROVING LENDING PROCESSES

Kedibonye Sekakela



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GEGAFRICA
GLOBAL ECONOMIC GOVERNANCE

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ABSTRACT

The paper explores Botswana's experience with multilateral development banks (MDBs) in financing infrastructure to identify key challenges and alternative financial mechanisms available to Botswana that may hinder greater lending by MDBs. It also profiles successes in lending by MDBs in Botswana. It uses a mixed methodological approach, comprising desktop research and interviews with relevant stakeholders engaging with MDBs. MDBs lending operations in Botswana, with special focus on AfDB, offer and deliver competitive financial terms, technical assistance/ expertise, useful advice and insightful influence over development. Increasing onward lending from the bank to the local development finance institutions also plays a critical role on the development of private sector and employment creation in Botswana. To improve lending operations in both Botswana and in other middle-income countries (MICs) on the continent, AfDB together with other MDBs – including new entrants such as the New Development Bank – should consider improving or streamlining their processes and reducing response times. They should also further align their financial and procurement processes with country systems – especially in countries with robust accounting, auditing and procurement systems – and practice flexibility and adaptability to constantly changing conditions in MICs. Effective cooperation between MICs and MDBs is also critical for achievement of development results in MICs. Alternative funding choices for infrastructure exist in Botswana, though the uptake is still low due to varied reasons.

AUTHOR

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LIST OF ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BADEA	Arab Bank for Economic Development in Africa
CSP	country strategy paper
DFI	development finance institution
EIB	European Investment Bank
FDI	foreign direct investment
IDEV	independent development evaluation
IFI	international financial institution
LoC	lines of credit
M&E	monitoring and evaluation
MDB	multilateral development bank
MIC	middle-income country
NDB	New Development Bank
NDFI	national development finance institution
NDP	National Development Plan
NIB	Nordic Investment Bank
ODA	official development assistance
OFID	Organization of the Petroleum Exporting Countries Special Fund
PPP	public–private partnership
SMEs	small and medium enterprises



INTRODUCTION

The economic infrastructure required for a country's water, electricity and transport sectors are crucial drivers of its economic activities. Developing this infrastructure, however, remains a challenge in Botswana¹ in spite of its middle-income country (MIC) status and impressive economic growth, good governance, and prudent macroeconomic and fiscal management. The country faces challenges that include meeting the high costs required for developing infrastructural services and connecting its transportation system to regional and international markets. Immutable factors shaping this high cost include Botswana's climate and geography.² The regional energy crisis that occurred in 2010 also amplified the infrastructural challenges in the country, resulting particularly in an insufficient supply of electricity to households and businesses.

Following the 2008/09 financial crisis, Botswana has had challenges in financing pressing infrastructure needs through public finances. This can be attributed to

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- 1 Botswana, Ministry of Finance and Development Planning, Budget Speech, 2016, p. 5, http://www.bankofbotswana.bw/assets/uploaded/2016%20Budget%20Speech_2.pdf, accessed 17 November 2016.
 - 2 Grynberg R & K Sekakela, 'Water Pricing and Policy in Botswana'. Gaborone: BIDPA (Botswana Institute for Development & Policy Analysis) Working Paper, 2012.

the country's declining diamond revenue, resulting from the plummeting global commodity prices and slowing global economy. The government has since increased its external financing sources in a bid to close the existing infrastructure financing gap and help realise its longstanding aim to transform the economy from a commodity-dependent to a private-led economy.

This paper explores Botswana's experience with multilateral development banks (MDBs) in financing infrastructure. It identifies key challenges and alternative financing options for Botswana that may hinder greater lending by MDBs. It also profiles successes in lending by MDBs in Botswana. The paper aims to inform both traditional MDBs – such as the World Bank and the African Development Bank or AfDB – and emerging MDBs – such as the New Development Bank or NDB – on how to better meet the needs of MICs, which in turn should improve their development impact on the continent.

The study uses a mixed methodological approach comprising desktop research and quantitative analysis; and interviews conducted in August to September 2016 with relevant stakeholders engaging with MDBs. Key stakeholders interviewed are Botswana government officials from the Ministry of Finance and Development Planning, national development finance institutions (NDFIs), think tanks and representatives from the private sector.

The rest of the paper comprises four sections. The first provides an overview of Botswana's infrastructure landscape by profiling government-prioritised sectors over the past 10 years. It also discusses the country's general borrowing patterns, and profiles overall trends in infrastructure finance. The second section explores Botswana's experience with key MDBs, noting challenges and successes in lending with a particular focus on the AfDB. The third examines financial alternatives available to Botswana, which may hinder greater lending from the AfDB to Botswana. The final section provides conclusions and recommendations.

OVERVIEW OF BOTSWANA'S INFRASTRUCTURE LANDSCAPE

GOVERNMENT DEVELOPMENT PRIORITIES

Botswana's National Development Plans (NDPs) outline short to medium-term government strategies for the country's overall development. The plans profile programmes and projects to achieve such strategies and provide estimates of government revenue and expenditure. Botswana's NDPs usually run for 6 years and direct the limited resources towards the most productive and effective projects. The NDP 9³, which ran from 2003/04–08/09, prioritised the health sector, mainly to

3 Botswana, 'National Development Plan 9', 2003, https://sarpn.org/documents/d0001172/Botswana_NDP9_chapter4.pdf, accessed on 26 February 2018.

finance programmes aimed at combating HIV/AIDS, which was one of the greatest challenges facing the nation at the time. Given the pressing infrastructure needs in the country, the government prioritised financing infrastructure projects for the NDP 10⁴, which ran from 2009/10 to 2015/2016⁵.

Botswana's NDPs usually run for 6 years and direct the limited resources towards the most productive and effective projects

The NDP 10 prioritised the water and electricity infrastructure sectors (see Figure 1) to serve the growing private sector demand. The Ministry of Minerals, Energy and Water Resources received the largest development budget to cater for electricity production through the expansion of power stations and the construction of dams.⁶ Key projects include the construction of strategic water-resource infrastructure at Dikgatlong, Lotsane and Thune dams, at a cost of BWP⁷ 1.13 billion (\$114.4 million), BWP 128 million (\$13 million) and BWP 543 million (\$55 million), respectively.⁸ Other projects include the Morupule B Generation and Transmission and the Botswana/Zambia–Kazungula Bridge projects. The Morupule B Generation and Transmission Project is aimed at supporting Botswana in (i) developing reliable and affordable supply of electricity for energy security; (ii) promoting alternative energy resources for low-carbon growth; and (iii) building its institutional capacity in the energy sector⁹. The Botswana/Zambia–Kazungula Bridge project is a multinational project on the North–South Corridor in the Southern African Development Community region, and forms part of the corridor-long infrastructure improvement programme intended to boost regional integration.

4 Botswana, 'National Development Plan 10', 2009, <http://www.gov.bw/globalassets/mfmdp-ministry/ndp-10-final-16th-dec-2009-edit-in-19-jan-2010.pdf>, accessed on 26 February 2018.

5 NDP 10 ran for seven (7) years instead of the usual six (6) years to ensure that it coincides with the end of Botswana's long term, Vision 2016. <http://www.gov.bw/globalassets/mfmdp-ministry/ndp-10-final-16th-dec-2009-edit-in-19-jan-2010.pdf>, accessed on the 26 February 2017.

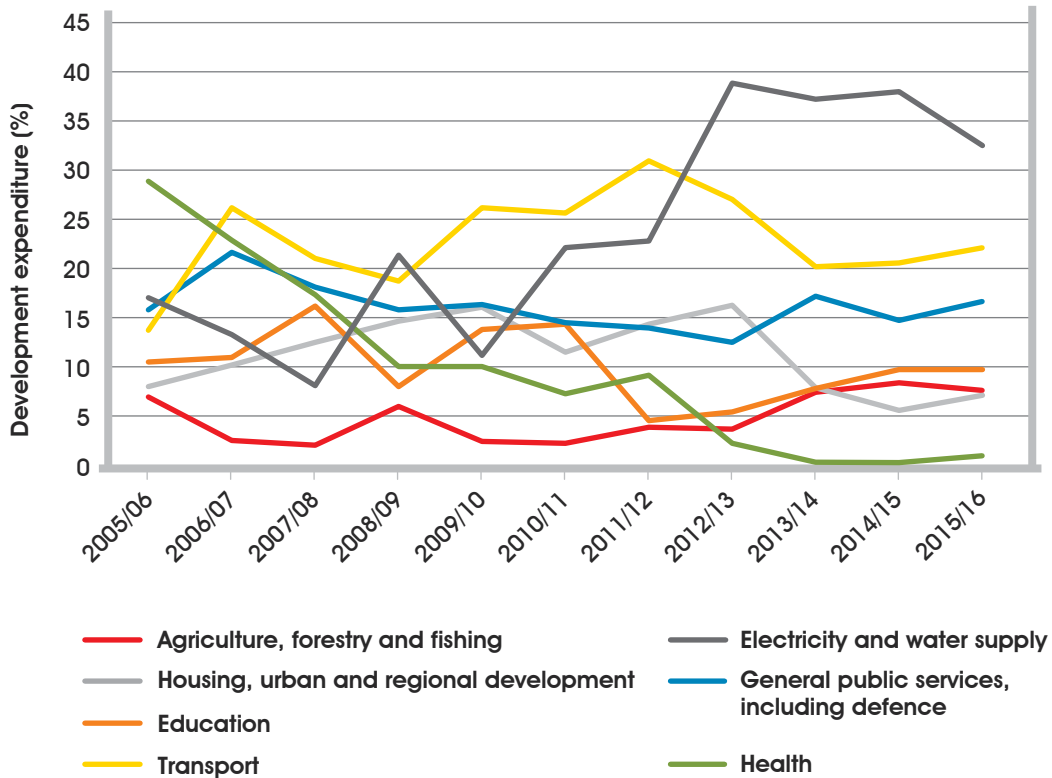
6 Okatch ZA & NC Madala, BIDPA Budget Briefing, Gaborone: BIDPA, 2016.

7 BWP is the three-letter currency code for the Botswana pula.

8 Botswana, Minister of Finance and Development Planning, Budget speech delivered to the Botswana National Assembly, 4 February 2013, http://www.gov.bw/globalassets/portal-team/2013-budget-speech_1feb2013_final.pdf, accessed 26 August 2016.

9 The World Bank, 'Morupule B Generation and Transmission Project', 2009, <http://projects.worldbank.org/P116784/morupule-b-generation-transmission-project?lang=en>, accessed 26 August 2016.

FIGURE 1 DEVELOPMENT EXPENDITURE BY ECONOMIC FUNCTION (%), 2005–16



Source: Author's calculations using Bank of Botswana, 'Botswana financial statistics – Past issues', <http://www.bankofbotswana.bw/content/2011062816053-botswana-financial-statistics-past-issues>, accessed 25 August 2016

BORROWING PATTERNS AND FINANCING TRENDS

The reclassification of Botswana as an MIC in 1992 made the country ineligible for concessional resources from MDBs and other developing agencies¹⁰. Thus, varied forms of development projects, including infrastructure projects, were mainly financed using public funds. After several decades of growth and budget surpluses, the global financial crisis and decline in the prices of diamonds led to a sharp contraction in the economy and a rise in external borrowing from development partners and use of domestic market to finance infrastructure. The government's external debt, especially with MDBs, also increased owing to improvement of the MDBs' lending environment. Botswana's external debt accounted for 5% and 11% of

10 Hope KR, Somolekae G, editors. *Public administration and policy in Botswana*. Juta and Company Ltd; 1998.

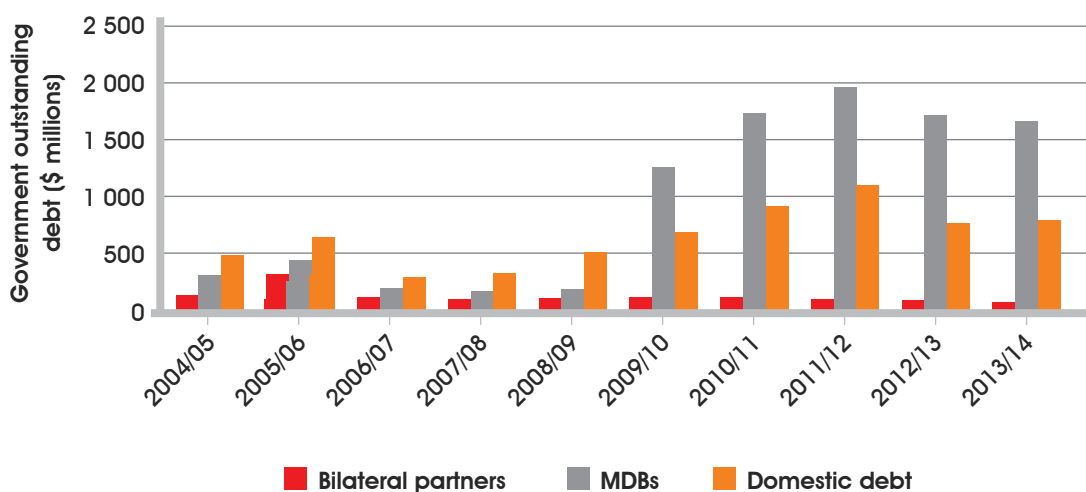
the GDP in 2005 and 2014 respectively. However, the extent to which the country's external debt can further increase is limited given that its external debt ceiling is 20% of GDP.

Figure 2 illustrates that since 2009, MDBs have been the largest source of external financing in Botswana, suggesting a higher level of satisfaction with MDBs than with bilateral organisations. Botswana authorities consider factors such as loan pricing, longer maturity and grace periods, and technical expertise for project preparation and monitoring and evaluation (M& E) when seeking finances for infrastructure investment projects. This generally places MDBs on a better platform compared with their counterparts in financing projects in the country.

Since 2009, MDBs have been the largest source of external financing in Botswana, suggesting a higher level of satisfaction with MDBs than with bilateral organisations

The government outstanding domestic debt has experienced growth over the past 10 years. According to government authorities interviewed, the government's issued bonds to support the development of the capital market and to finance social infrastructure projects which needed large sums of funds for financing. These social infrastructure projects included the construction of the Botswana International University of Science and Technology, University of Botswana expansion and construction of the medical school.

FIGURE 2 GROSS OUTSTANDING GOVERNMENT DEBT (\$ MILLIONS), 2004–14



Source: Author's calculations, using Bank of Botswana, *op. cit.*

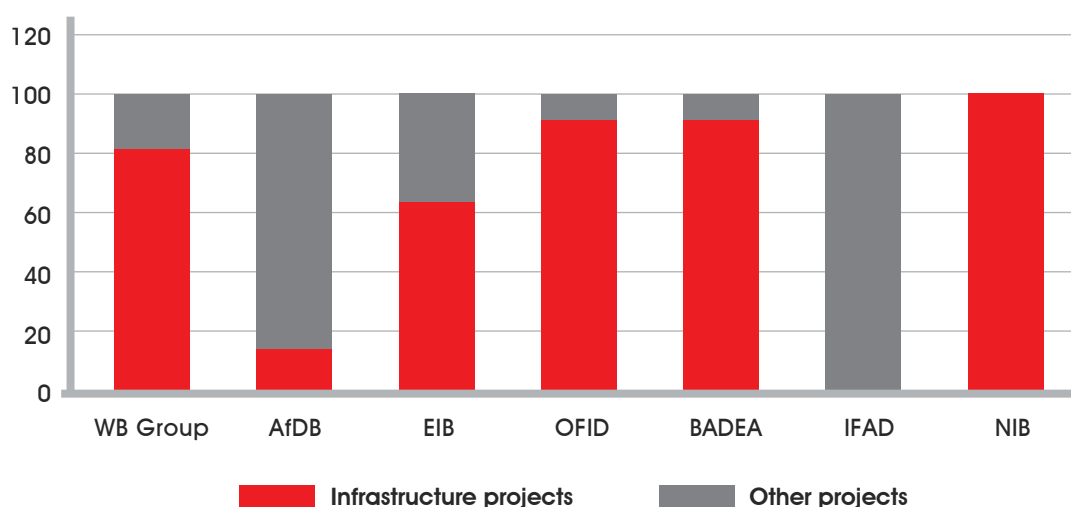
BOTSWANA'S ENGAGEMENT WITH MDBs

Botswana cooperates with MDBs to obtain financing for infrastructure projects as well as other development needs. The lending operations are usually guided by a country strategy paper (CSP), which identifies key areas for possible cooperation between the financier and borrower.

Only a few MDBs operate in Botswana. These include the World Bank (through the International Bank for Reconstruction and Development) and the AfDB (through the African Development Fund). Other MDBs that have had their operations in Botswana include the European Investment Bank (EIB), Nordic Investment Bank (NIB), the Arab Bank for Economic Development in Africa (BADEA) and the Organization of the Petroleum Exporting Countries Special Fund (OFID).

Botswana's engagement with MDBs over the past 10 years has focused particularly on funding for infrastructure in the energy sector (see Figure 3 and Table 1).

FIGURE 3 MDB's CUMULATIVE DISBURSEMENT LOANS TO BOTSWANA BY SECTOR (%) IN 2016



Note: IFAD represents International Fund for Agricultural Development

Source: AfDB (African Development Bank), 'Botswana/Zambia-Kazungula Bridge Project', <http://www.afdb.org/en/projects-and-operations/project-portfolio/project/p-z1-db0-031/>, accessed 17 November 2016; The World Bank, 'All projects', http://www.worldbank.org/en/region/afri/projects/all?qterm=botswana&x=0&y=0&lang_exact=English, accessed 17 October 2016; The OPEC (Organization of Petroleum Exporting Countries) Fund for International Development, 'Botswana project portfolio', <http://www.ofid.org/COUNTRIES/Africa/Botswana>, accessed 19 November 2016; BADEA (Arab Bank for Economic Development in Africa) 'Operation listing', <http://www.badea.org/operation-listing.htm?countryId=36>, accessed 17 November 2016

Infrastructure loan disbursements from the World Bank account for 80% of its cumulative loan disbursements while the AfDB 's share on loan disbursements for the country's infrastructure is less when compared with the World Bank and other MDBs. This is partly because the AfDB supports a varied range of sectors (including Agriculture, private sector development and economic diversification efforts) which are priority actions of Botswana's national development initiatives. Other MDBs' share in disbursements for the country's infrastructure account for over 90% of their cumulative loan disbursements.

TABLE 1 INFRASTRUCTURE LOAN DISBURSEMENT TO BOTSWANA BY MDBs FOR ONGOING PROJECTS IN 2016

PROJECT	SECTOR	TOTAL AMOUNT (\$ MILLION)	MDBs
Integrated Transport Project	Transport	0.04	OFID
Kasane Airport Project	Transport	0.01	OFID
Integrated Transport	Transport	186.00	World Bank
Morupule B Generation and Transmission Project	Power	242.66	World Bank
Pandamatenga Agricultural Infrastructure Development Project	Water and sanitation	36.70	AfDB
Botswana/Zambia–Kazungula Bridge Project	Transport	25.20	AfDB

Note: The AfDB results should be interpreted with caution since they exclude completed projects.

Source: *Ibid*

According to government authorities interviewed and the AfDB report¹¹, the lending operations in Botswana by other MDBs, with the exception of the World Bank, have subsided since the AfDB's lending operations resumed in Botswana in 2004. The AfDB's lending activities in the country had plummeted owing to the perception that its market-based loans were expensive compared with those of other MDBs following Botswana's reclassification as an MIC¹². The AfDB's re-engagement strategy included expanding its MIC envelop to make its products more competitive. This was followed by sensitisation and consultation missions¹³. The AfDB–Botswana CSP considers the bank's re-engagement strategy with Botswana as a success, and an example for rejuvenating relationships with other MICs.

11 AfDB (African Development Bank), *Botswana: Progress Report of the Country Strategy Paper 2004–2008*. Regional Department, South A , 2008, <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/ADB-BD-IF-2008-127-EN-BOTSWANA-CSP-PROGRESS-REPORT-2004-2008.PDF>, accessed 15 November 2016.

12 *Ibid*.

13 *Ibid*.

KEY CHALLENGES AND SUCCESSES IN LENDING: BOTSWANA'S EXPERIENCE

This section documents the challenges that Botswana has faced in securing loans for infrastructure financing from MDBs. It also profiles successes in lending by MDBs. The following was identified during consultations with Botswana authorities and other relevant stakeholders.

Loan processing procedures, approvals and disbursement

The time taken by MDBs active in Botswana to design, review, negotiate and approve loans is perceived as a significant burden to borrowing. The disbursement of loans is also perceived to be slow. Loan preparation requires considerable commitment from Botswana's government to discuss project details with MDB staff. Procedures and times vary according to the type of loan, with loans for long-term investments typically taking longer owing to stringent procurement procedures rather than the adjustment lending.

The duration between loan processing and the actual disbursement of an investment loan can take up to five years, irrespective of the economic and developmental impacts of such projects

The duration between loan processing and the actual disbursement of an investment loan can take up to five years, irrespective of the economic and developmental impacts of such projects. Delays in processing loans usually represent a significant opportunity cost to countries and have led to many countries seeking alternative financing mechanisms to achieve the economic benefits of such investments. It is thus important for MDBs to improve their processing times for effective loan processing.

Financial management and procurement processes

Although the AfDB's have made strides in improving its financial and procurement processes, its processes are considered to be slow in Botswana. There should not be delays in reconciling its system to Botswana's system given that Botswana has sound auditing and control systems as well as a sound public procurement and asset disposal system. The due diligence for selecting contractors and completing the necessary paper work requires lengthier periods partly due to limited client understanding and many processes that officials has to adhere to. It is important that the bank continues to work towards improving its processes hence the bank has to

enhance the continued efforts towards building capacity in the country especially on procurement related issues.¹⁴

Responsiveness to needs of the country

Projects funded by the AfDB and other MDBs are generally guided by a CSP, which reflects the country's development goals and stakeholder consultations. Stakeholders have indicated both challenges and successes regarding the AfDB's responsiveness to a country's development needs. The bank has been quick to

The bank's non-lending activities are seen as a successful re-engagement strategy and serve as model for its engagement with other MICs

respond with providing loans to Botswana's government to address 'emergency financial constraints'. However, it has been criticised for its low response rate to development needs that fall outside the scope of the CSP. MDBs need to strengthen their consultations, particularly with the private sector, in the process of drafting the CSP since the sector is expected to contribute significantly to Botswana's future economic development.

KNOWLEDGE SERVICES/NON-LENDING SERVICES

The AfDB's non-lending activities include analytical and diagnostic work. Improving its operations in MICs has strengthened the AfDB's partnership with Botswana's government, and made it one of the country's preferred MDBs. The AfDB's strong engagement in non-lending services in Botswana has led the bank to secure more projects to finance. These projects include providing lines of credit (LoC) to the National Development Bank and Botswana Development Corporation and the Pandamatenga Agriculture project¹⁵. The bank's non-lending activities are seen as a successful re-engagement strategy and serve as model for its engagement with other MICs.¹⁶

14 AfDB, Botswana: Country Assistance Evaluation 2004–2013 Summary Report, 2015, https://www.ecgref.org/sites/default/files/Botswana_Country_Assistance_Evaluation_2004-2013.pdf, accessed 16 November 2016.

15 The Pandamatenga Agricultural Infrastructure Development Project was funded to the tune of UAC 42.94 million, of which UAC 5.67 million is provided by the Government of Botswana while AfDB is supplying the other UAC 37.27 million. It involved the construction of a water drainage system together with a new road network to improve access to the farms in the area and was to cover more than 27,500 hectares of farmland. <https://www.afdb.org/en/projects-and-operations/project-portfolio/p-bw-qac-001/>, accessed 27 February 2018.

16 AfDB, Botswana: Progress Report of the Country Strategy Paper 2004–2008, *op. cit.*

BANK'S FINANCIAL TERMS

The AfDB's lending terms have greatly benefited its lending operations in Botswana. Its loan pricing, and longer maturity and grace periods are perceived as competitive when matched with other MDBs operating in the country.

ENVIRONMENTAL AND SAFEGUARD MEASURES

The AfDB has continued to reinforce the environmental and safeguard measures that usually accompany its loans. The bank's measures are similar to those of the World Bank Group. However, environmental and safeguards measures are generally regarded by borrowers as a burden when they borrow from MDBs. To avoid these measures countries now opt to borrow from new financing sources, which often lack such measures. The increased choice is certainly positive from the point of view of borrowers, but it also brings risks.

The notion to protect the environment is not foreign to Botswana's government. In 1997 the country's 2016 Vision¹⁷ recognised the need to address environmental issues in order to achieve sustainable development. The NDP 9 and NDP 10 also reflected the environmental considerations¹⁸. Botswana has partnered with the AfDB in projects and agreed on the benefits of developments that incorporate environmental safeguard measures. Clear communication and training on the benefits of best practice in environmental safeguard measures between the financier and the borrower are important. MDBs should facilitate capacity building in this regard, given their technical expertise when compared with most of their borrowers.

ALTERNATIVE INFRASTRUCTURE FINANCING SOURCES IN BOTSWANA

Besides traditional MDB lending, MICs such as Botswana also have access to alternative infrastructure financing sources. Alternative infrastructure financing has the potential to displace the role of MDB lending in MICs for a number of reasons. These include MICs' ability to borrow from the capital market, and their attractiveness to other financiers that are willing to provide affordable funds that are tailor-made to meet MICs' needs and require less conditionalities. This section examines financial alternatives that are operational in Botswana, and the extent to which they have contributed to infrastructure development. Such alternatives include NDFIs, official development assistance (ODA), bond markets, bilateral donors and public-private partnership (PPP) activities.

17 Botswana, 'Vision 2016', 6, 1996. <http://www.paris21.org/sites/default/files/3144.pdf>, accessed 27 February 2018.

18 Botswana, 'National Development Plan 10', 2009. <http://www.gov.bw/globalassets/mfdp-ministry/ndp-10-final-16th-dec-2009-edit-in-19-jan-2010.pdf>, accessed on 27 February 2018.

NATIONAL DEVELOPMENT FINANCE INSTITUTIONS

NDFIs in Botswana include the Botswana Development Corporation, Citizen Entrepreneurial Development Agency and the National Development Bank. These NDFIs do not necessarily participate in economic infrastructure financing, but rather focus their attention on areas such as agriculture, commerce and industrial development. Their mandate is influenced by the government's position to promote small and medium enterprises (SMEs) and the private-sector development in the country.

NDFIs play an important role in Botswana in both domestic resource mobilisation and in building partnerships for effective onward-lending from the MDBs. The AfDB has provided LoC with technical assistance for capacity building to the NDFIs for onward-lending to the private sector. Recently, AfDB LoC have also been extended to the private sector via Bank ABC, a commercial bank operating in Botswana.

NDFIs play an important role in Botswana in both domestic resource mobilisation and in building partnerships for effective onward-lending from the MDBs

One of the LoC from the AfDB includes a JPY¹⁹ 3 billion (\$27.2 million)²⁰ loan to the National Development Bank, of which the National Development Bank on-lent for 365 subprojects to the private sector. An independent development evaluation (IDEV) report²¹, which assessed the AfDB–Botswana country strategy of 2004–13, suggested that the LoC to the National Development Bank created an estimated 2 160 jobs. However, support for the private sector was characterised by considerable under delivery and delays. The LoC allocated for the technical assistance and a half of the corporate governance code grants were not disbursed, even after four extensions. The IDEV evaluation team reviewed 41 projects under the LoC and found that 67% of respondents were unhappy with the services provided, especially in terms of follow-up, M&E, and providing appropriate lessons and experiences. It is therefore important that the AfDB and other MDBs improve their involvement in the oversight of projects undertaken by NDFIs. Capacity building of NDFIs is essential to avoid challenges associated with the implementation of these projects.

19 JPY is the three-letter currency code for the Japanese yen.

20 Calculations reflect the official exchange rate in 2005 (LCU per \$, period average) between the \$ and Japanese yen of 110.28.

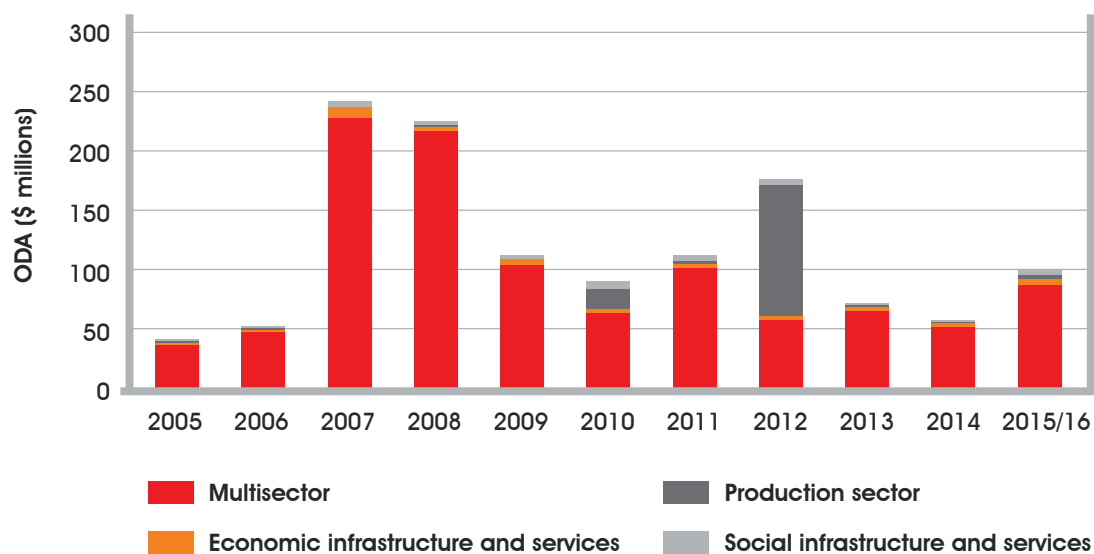
21 *Ibid.*

OFFICIAL DEVELOPMENT ASSISTANCE AND BILATERAL DONORS

ODA flows into Botswana from the Organisation for Economic Co-operation and Development countries are among the lowest in the region and have continued to decline since the late 1980s. This is attributable to the decrease of traditional bilateral donors following the country’s attainment of MIC status.

ODA to Botswana has a marginal role in financing economic infrastructure in the country. It has gone mainly towards social infrastructure, especially the health sector (see Figure 4) over the past 10 years. ODA for the health and population sectors accounted for 81% of total ODA distributed to Botswana in 2015/16. The increase of ODA in the social infrastructure sector was a result of the country’s HIV/AIDS epidemic. Botswana’s largest official development partners are the US, Japan and the EU institutions, which accounted for 74% of total official ODA during the 2015/16 period²². The ODA’s role in infrastructure financing in Botswana may increase in the future to help meet the country’s pressing investment requirements.

FIGURE 4 ODA BY SECTOR IN BOTSWANA (\$ MILLIONS), 2005–14

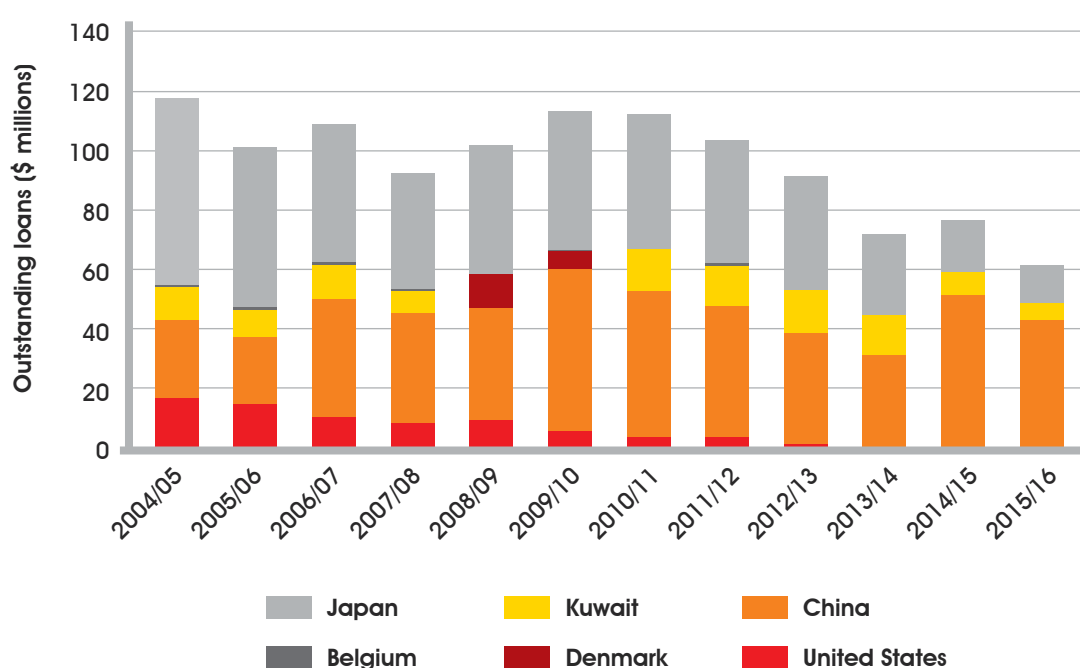


Source: OECD (Organisation for Economic Co-operation and Development), Aid statistics by donor, recipient and by sector, <http://www.oecd.org/statistics/datalab/oda-recipient-sector.htm>, accessed 15 September 2016

22 Organisation for Economic Co-operation and Development-Development Assistance Committee, 'Aid at glance', 2017, https://public.tableau.com/views/OECD-DACAidataglancebyrecipient_new/Recipients?:embed=y&:display_count=yes&:show_tabs=y&:toolbar=no?&:showVizHome=no, accessed on 27 February 2018.

Whereas funding for projects from its traditional bilateral partners has decreased (see Figure 5), Botswana has increased loans from China, Japan and Kuwait. Government loans from China can be attributed to China’s provision of construction services in Botswana. However, the extent to which infrastructure financing from bilateral partners has contributed to economic development in Botswana is unknown, given the lack of disaggregated data on sectors funded by these new financiers.

FIGURE 5 GOVERNMENT OUTSTANDING LOANS FROM BILATERAL PARTNERS (\$ MILLIONS), 2005–15/16



Source Author’s calculations, using Bank of Botswana, *op. cit.*

PRIVATE FUNDING

Government bonds have been used to source funds by various governments to build bridges, roads, transportation systems, power plants, reservoirs and sewer systems. Since 2009 Botswana’s government has increased the issuance of bonds in the domestic bond market to source financing for its infrastructure investments. Key projects financed in this manner include the construction of the country’s first medical school at the University of Botswana; and its newly established university, the Botswana International University of Science and Technology. Government bond market capitalisation has grown tremendously over the past 10 years, with market

capitalisation increasing from BWP 0.4 billion (\$78 million) in 2005 to BWP 6.4 billion (\$632 million) in 2015 in the domestic market.²³

Foreign direct investment (FDI) inflows into the country remain uneven and skewed to the mining sector, financial services and retail sectors.²⁴ Low FDI flows into the energy, water and transport sectors suggest FDI's limitation to contribute to long-term financing of projects in Botswana. Another potential financing option available to finance infrastructure in Botswana is pension funds, which had a total asset base of BWP 69.9 billion (\$6.9 billion) in 2015. Should the government explore alternative options to finance its long-term infrastructure projects, this may decrease further lending by MDBs.

PPP ACTIVITIES

In 2009 Botswana's government established the PPP Policy and Framework to create a solid environment aimed at encouraging and attracting the private sector for infrastructure and service delivery. The government anticipated that PPPs would be used extensively as a form of procuring and financing infrastructure

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projects in the public sector with the goal of ensuring sustainable investment in infrastructure and restoring sound public finances.²⁵ Benefits envisaged from a solid PPP Policy included the acceleration of infrastructure provision, and making use of private-sector financial resources and their expertise, while the government focused on providing the required regulatory oversight.²⁶

23 Botswana Stock exchange, *Annual Reports of 2015 and 2006*, <http://www.bse.co.bw/publications.php>, accessed 26 September 2016.

24 Makoni PL, 'Foreign direct investment – The case of Botswana', *Acta Universitatis Danubius*, 11, 4, 2015, <http://journals.univ-danubius.ro/index.php/oeconomica/article/viewFile/2856/2735>, accessed 17 November 2016.

25 Botswana, 2010 Budget Speech, 'Transforming our economy after the crisis: 2010 and beyond', Speech given by OK Matambo, Minister of Finance and Development Planning, 2010, p. 12, <http://www.gov.bw/globalassets/mfdp-ministry/budget-speeches/budget-in-brief-2010.pdf>, accessed 20 September 2016.

26 World Bank, PPP Knowledge Lab, 'Botswana', <https://pppknowledgelab.org/countries/botswana>, accessed 21 August 2016.

The intent was that this should ease implementation constraints on the government, and yield sustained efficiency benefits in infrastructure service delivery.²⁷

However, as of 2015, PPP activity in Botswana has been rather limited. Since the adoption of the PPP policy, only two minor undertakings have been carried out under the PPP framework. The country has signed one power IPP with Karoo Sustainable Energy for the 90 megawatt Orapa Emergency Power Plant; and recently built the Botswana International University of Science and Technology through a PPP. Reasons for less PPP activity in Botswana include weak institutions (with the established PPP unit being short-staffed), limited capacity by the public and private sectors on PPPs, and weak processes to deliver within the PPP framework.²⁸ Continued attempts by the government to increase PPP activity include the review of draft legislation and the establishment of a committee to complete the implementation of the enabling environment for a PPP framework.

Lessons drawn from Botswana's experience with the implementation of PPPs show that traditional forms of financing infrastructure in Botswana²⁹ cannot be replaced by PPP activities in the near term, given the outstanding preparatory work required for creating an enabling environment for PPP activities. Therefore, lending by MDBs to Botswana remains relevant to address the infrastructure challenge, since PPP activities are limited. Perhaps the MDBs could assist Botswana by offering technical assistance towards the outstanding preparatory work required for creating an enabling environment for PPP activities and future cooperation with the private sector in providing PPP activities.

CONCLUSION AND RECOMMENDATIONS

The paper explores Botswana's experience with MDBs in financing infrastructure to identify key challenges and alternative financing mechanisms available to Botswana that may hinder greater lending by MDBs. The study uses a mixed methodological approach, comprising desktop research and interviews with relevant stakeholders engaging with MDBs.

With a focus on AfDB lending operations in Botswana, the key challenges identified include onerous loan processing and approvals characterised by delays; complex procurement processes that are not fully aligned with Botswana's procurement system; and a lack of response from the bank to address emerging development needs that were not part the CSP. Key successes in lending operations by the AfDB in Botswana include its financial terms, which are perceived as competitive; and its knowledge services, which have continued to strengthen the bank's partnership with

27 Kaboyakgosi G & KP Marata, 'An analysis of Botswana's implementation challenges', *Botswana Journal of African Studies*, 27, 2, 49, 2013, pp. 309–24.

28 Southern Africa Development Community–Development Finance Resource Centre 3P Network, *Public PPP Botswana Country Paper*, 2012, http://www.sadcpppnetwork.org/wpcontent/uploads/2015/02/botswana_27012014.pdf, accessed 25 August 2016.

29 This excludes the use of public funds.

the government in lending operations. Existing and potential alternative financing options available to Botswana include PPP activities, the domestic capital market, pension funds and ODA. However, uptake of these alternative financing options by the government has been generally low owing to varied reasons. Consequently, the government external debt remains the largest source of financing to meet pressing infrastructure needs.

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In order to enhance lending operations in Botswana as well as in other MICs on the continent, MDBs together with new entrants such as the New Development Bank should improve or streamline their processes and reduce response times. They should further align their financial and procurement processes with country systems, especially in countries with robust accounting, auditing and procurement systems. Finally, MDBs should prioritise their efforts to practice flexibility and adaptability to constantly changing conditions in MICs.



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