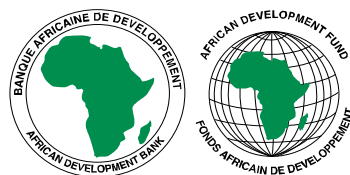


AFRICAN DEVELOPEMENT BANK GROUP



**OPERATIONS EVALUATION DEPARTMENT
(OPEV)**

EVALUATION OF POLICY BASED LENDING IN THE AFRICAN DEVELOPMENT BANK, 1999-2009

Case Study: Botswana Economic Diversification Support Loan

High Level Evaluations Division (OPEV.2)

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Executive Summary

On May 27th 2009 the Board of the Bank approved a Direct Budget Support Loan (DBSL) of \$1.5 billion to Botswana – the Economic Diversification Support Loan (EDSL). This was the largest single loan ever made by the Bank and it was also significantly larger than any previous PBO. EDSL was processed and approved in just two months. The loan was envisaged as having two tranches of \$1.0 billion and \$0.5 billion respectively. The second tranche was initially scheduled for disbursement at the end of 2009. But this was slightly delayed and a supervision mission from the Bank in January 2010 recommended a further delay to await the fulfilment of two of the remaining conditions for tranche release.

The need for the EDSL arose from the exceptional fiscal circumstances that Botswana faced at the beginning of 2009 due to the global crisis but in particular due to the collapse of its export revenues from diamonds. In the period from 2004 to 2008, Botswana had achieved a strong fiscal surplus averaging some 7.4% of GDP. But the projections for the fiscal year 2009/10 initially anticipated a huge reversal of this situation with the fiscal balance going into deficit to the tune of 13.5% of GDP. At the same time, the case for a traditional IMF stand by loan was difficult to make. Botswana's very large foreign exchange reserves meant that these were still projected to amount to 19 months imports by end-2009 and the overall balance of payments was expected to remain in surplus. So the government took the unusual step of seeking *general budget support* to help address the short-term collapse of fiscal revenues in a situation where its foreign exchange position was still very sound. Although the actual fiscal need perceived by Botswana in early 2009 was explicitly a *short-term* need, the loan was extended for a maturity of 20 years. The justification for the approach taken was, first, to re-engage with international financial markets, and second (and more substantively) was the view that the collapse of diamond revenues after 2008 was symptomatic of a deeper structural problem within the Botswana economy related to the limited level of economic diversification achieved.

Rapid preparation and approval of the loan was possible because of the substantial amount of prior work on diversification strategy that had been undertaken by the Government of Botswana, and Botswana's strong public finance systems and creditworthiness. The conditions agreed were straightforward ones for government to comply with, so these did not involve any attempt by the AfDB to secure further reform through loan conditionality. The Bank prepared a country strategy paper in parallel with the EDSL, so the case for the loan did not follow from a pre-prepared strategic analysis. It appears that there are good prospects for sustained dialogue with the Government of Botswana (and for potential future operations) on implementing the diversification strategy although the Bank will need to demonstrate that it can provide high quality technical assistance and other forms of support for this future agenda.

Follow on activities so far include the provision of technical assistance to Non-bank Financial Institutions Regulatory Authority (NBFIRA) and the Public Enterprise Evaluation and Privatization Agency (PEEPA), and the approval of two integrated private sector development programmes that are now under implementation, focusing on tourism and financial and business services.

There were four factors in the EDSL that made this impressive performance possible namely:

- i) An extremely strong and determined lead from the President of the Bank

- ii) A client country that ranks as one of the strongest and better governed of all the Bank's clients, and with a coherent medium term programme of reforms that was already substantially designed before the Bank's loan was mooted
- iii) A set of circumstances that created a wholly unusual and unexpected need for assistance from that client country, and
- iv) Some good fortune in that many of the basic building blocks of the due diligence processes were already substantially in place when the idea for the loan emerged early in 2009.

While these conditions were in many ways exceptional, it would be useful for the Bank to examine in more detail what broader lessons for its processes and practices could be derived from this successful experience. Such lessons might include:

- The acceptability of using fairly light-weight formal tranche release conditions provided that there is real trust in the programme of the client country.
- The need to have realistic time-limited standards on all internal Bank procedures that are wholly under the control of the Bank and to be realistic too (not aspirational) about the time that procedures under the control of the borrowing country might require (e.g. approvals from the local Parliament).
- The acceptability of a GBS operation that is nominally designed to respond to a *fiscal need*, being represented as an operation designed to support a well-defined *structural programme* but only where such a programme exists, is credible and commands real trust.
- Lessons about the limits of the possible in mobilising appropriate teams from different organisation parts of the Bank and how seniority/reporting issues can best be addressed in such teams.

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Abbreviations

AfDB	African Development Bank
ADF	African Development Fund
CGP	Country Governance Paper
CSP	Country Strategy Paper
DBSL	Direct Budget Support Loan
DRC	Democratic Republic of Congo
EC	European Commission
EDSL	Economic Diversification Support Loan
FFMA	Financial Management Department
FSAP	Financial Sector Assessment Programme
FSRP	Financial Sector Reform Programme
GABS	Government Accounting and Budgeting System
GDP	Gross Domestic Product
GoB	Government of Botswana
IFI	International Financial Institution
IMF	International Monetary Fund
LIBOR	London Inter Bank Offer Rate
MFDP	Ministry of Finance and Development Planning
MTI	Ministry of Trade and Industry
NBFIRA	Non-bank Financial Institutions Regulatory Authority
NDB	National Development Bank
NDP	National Development Plan
OPEV	Operations Evaluation Department
ORSA	Southern Africa Regional Department
OSGE	Governance, Finance and Economic Management Department
PAD	Project Appraisal Document

PBL	Policy Based Lending
PBO	Policy Based Operation
PEEPA	Public Enterprise Evaluation and Privatization Agency
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PRSP	Poverty Reduction Strategy Paper
RMC	Regional Member Country
ROSC	Report on Observance of Standards and Codes
TA	Technical Assistance
UNDP	United Nations Development Programme

1 Introduction

This case study forms part of the evaluation of policy based lending in the African Development Bank (AfDB) from 1999-2009. It is one of four case studies of specific operations that have been carried out as part of the evaluation:

- Botswana Economic Diversification Support Loan (approved 2nd June 2009). This is by far the largest PBO over the evaluation period representing about 22% of the total value of PBO approvals between 1999 and 2009, and is now the largest loan ever made by the Bank.
- Nigeria Economic and Power Sector Reform Programme (approved 1st October 2010). This is the largest sectoral operation in Sub-Saharan Africa.
- Egypt Financial Sector Reform Loan (approved 26th July 2006). This is the largest sectoral operation over the evaluation period and was at the time the largest loan ever made by the Bank.
- Democratic Republic of Congo Emergency Programme to Mitigate the Impact of the Financial Crisis (approved 1st May 2009). This is a major recent operation in a fragile context.

These case studies were selected (to complement the six country case studies) because they represented particularly large operations that have accounted for a significant proportion of the Bank's commitments under policy based operations over the evaluation period, or in the case of the DRC programme because only one fragile state was represented in the country case studies. These case studies have been carried out through a desk review of documentation, and through interviews with AfDB staff. They have not involved country visits or interviews with RMC counterparts.

The case study is structured as follows. Section 2 provides an overview of the operation. Section 3 discusses the wider reform process that the operation sought to support. Section 4 discusses the major issues that arose in implementation of the programme.

2 Overview of the Operation

On May 27th 2009 the Board of the Bank approved a Direct Budget Support Loan (DBSL) of \$1.5 billion to Botswana – the Economic Diversification Support Loan (EDSL). This was the largest single loan ever made by the Bank and it was also significantly larger than any previous PBO. EDSL was processed and approved in a remarkably short period of time. The initial formal request to the Bank is dated 27th March 2009, the main mission to prepare and appraise the loan was in the field by April 17th and the draft Project Appraisal Report had been prepared by May 8th.

The loan was extended with a maturity of 20 years including a grace period of five years and at an interest rate equal to the Bank's own cost of borrowing (then just below LIBOR) plus 40 basis points. It was disbursed in two tranches of \$1.0 billion and \$0.5 billion respectively. The second tranche was initially scheduled for disbursement at the end of 2009. But this was slightly delayed and a supervision mission from the Bank in January 2010 recommended a further slight delay to await the fulfilment of two of the remaining conditions for tranche release (see below). Nonetheless the loan was remarkable not only for its size but also for being fully identified, prepared, appraised, approved and disbursed within a twelve month period.

3 The Reform Programme Supported

3.1 The need for the loan

The need for the EDSL arose from the exceptional fiscal circumstances that Botswana faced at the beginning of 2009 due to the global crisis but in particular due to the collapse of its export revenues from diamonds - the country's main export: diamonds and other minerals accounted then for 39% and 89% of GDP and exports respectively. In the period from 2004 to 2008, Botswana - unusually for an African country - had achieved a strong fiscal surplus averaging some 7.4% of GDP. But the projections for the fiscal year 2009/10 initially anticipated a huge reversal of this situation with the fiscal balance going into deficit to the tune of 13.5% of GDP. Through the period of loan preparation this disastrously high figure was gradually revised downward but a fiscal deficit for that year of more than 10% of GDP still remained likely. ¹ At the same time, the case for a traditional IMF stand by loan was difficult to make. Although the country's current account external balance was also expected to move from surplus to deficit in 2009, Botswana's very large foreign exchange reserves meant that these were still projected to amount to 19 months imports by end-2009 and the overall balance of payments was expected to remain in surplus. So the government took the unusual step of seeking *general budget support* to help address the short-term collapse of fiscal revenues in a situation where its foreign exchange position was still very sound.

Although the actual fiscal need perceived by Botswana in early-2009 was explicitly a *short-term* need, the loan was extended for a maturity of 20 years. With the benefit of hindsight it would seem that Botswana's fiscal problem was indeed of relatively short duration. By the time of the IMF's Article IV review as issued in June 2010 (but actually undertaken during 2009), the anticipated fiscal deficit for 2011/12 was projected to be only 4.5% of GDP reducing to 1.4% by the following year. In the light of these developments, it was indeed the case that the true "need" for the AfDB loan to close an anticipated fiscal gap was at least debatable. So the complete justification for the loan and its underlying purpose needs further explanation.

That explanation relies on two lines of argument. It relies first on the opportunity that the GoB took from the situation of the global crisis to re-orient its approaches to the international financial markets. In the words used in the AfDB's own appraisal report (PAD -Technical Annex) of May 2009*"the GOB after several years of self-financing has taken a deliberate choice to use the global economic and financial crisis as an opportunity to do things differently by borrowing internationally and getting exposed to international best practices"*... The PAD goes on to commend the GoB for its cautious economic management. This it is argued was legitimate and prudent given that the effects of the global crisis at that time were not fully clear.

This is valid line of argument and one that was accepted within the Bank. However, it might be contested from a number of angles. For example it presupposes that the contracting of a large loan from the AfDB was indeed the route to getting the country more fully "*exposed to international best practices*" for international borrowing. Clearly it was one way to achieve this but an unprecedentedly large one-off loan from a regional development bank does not expose a country to many of the complexities of financing its economy internationally. Similarly, in the context of an unprecedented crisis it could be argued that committing such a large sum to one of the strongest and more resilient economies in Africa was not necessarily

¹ Technical Appendix II to *Project Appraisal Document* of May 2009, pg

the best use of the AfDB's funds. The counter to this is that there was probably no significant opportunity cost to the Bank in using the money in this way. The EDSL after all was a loan from AfDB and not from the ADF. Certainly given the high credit-rating that Botswana continued to enjoy, the large amount of headroom in the Bank's exposure to the country, and its ability to meet other pre-requisites (see below) this was very good business for the Bank.

The second and more substantive justification for the loan is found in the argument that the collapse of diamond revenues after 2008 was symptomatic of a deeper structural problem within the Botswana economy. Specifically it was argued that the revenue collapse of 2008/09 was symptomatic of a serious lack of diversification of the economy which would be likely to threaten future macroeconomic instability unless corrected. It may be noted though that the formal request to the AfDB from the government dated March 27th 2009 makes no reference to the diversification agenda that eventually became the central focus of the loan. In the very short period between end-March and end-May this agenda was developed to become the core structural objective of, and justification for, the operation.

3.2 Structural conditions

In the event the policy matrix that was included in the Bank's PAD involved an extensive and complex list of structural policy reforms and ambitions directed broadly at the "diversification" of the economy. This matrix is reproduced in full as Annex 1 to this note. It involved two main components as follows:

1. **Promoting the private sector as the mainstay of economic growth:** The reforms in this component sought to promote competitiveness and diversification of the economy away from diamond revenue through the development of a vibrant private sector including privatization and PPP as well as competitiveness and trade.
2. **Deepening the financial sector and strengthening the regulation of nonbank financial institutions:** The reforms in this component sought to strengthen governance in the financial sector, the development of the capital market and improved regulation of the non-banking financial sector:

The only reason why the Bank was able to process such a complex operation so expeditiously was that the reform packages under each of these two main headings and their 18 sub-headings were already substantially prepared by the GoB prior to the request to the Bank for the EDSL. Specifically, the PAD refers to a large number of prior policy commitments by the GoB and supporting pieces of analytical diagnostic work by the GoB supported by donors that together provided a strong set of foundations for the reform agenda included in the Bank's policy matrix². Above all the GoB in its tenth National Development Plan (NDP-10) covering the period April 2009-March 2016 had covered much of the ground that later got included in the Bank's policy agenda for the EDSL. Specifically, the strategic thrust of NDP-10 is to accelerate the diversification of the economy, as a means of reducing poverty and expanding employment creation. Since this work already existed in an advanced

² These included the 2009 *Budget Speech* which contained significant ideas about the GoB's response to the global crisis; the *Background Notes on the Global Economy* (2009) prepared by the Ministry of Finance and Development Planning (MFDP); the *Privatization Master Plan* of 2005; the *Country Governance Paper* for Botswana of 2008, a *Diversification Study* also of 2008, the *Country Economic Review* (2008) prepared by the AfDB; the 2007 *Financial Sector Assessment Program* (FSAP) of the World Bank and the IMF; the 2009 *PEFA Final Report*; and the IMF 2008 *Article-IV Staff Report*.

state, the Bank's mission of April 17th – 24th was able to work rapidly with the Botswana authorities to agree a sub-set of the measures that could be included in the policies identified for the purposes of the EDSL.

The PAD points out (i) that the Bank had not had a significant lending presence in Botswana for many years prior to the EDSL operation (para 3..3) but (ii) that the Bank had nonetheless been engaged actively with the country through its participation in analytical/diagnostic work such as the joint AfDB and World Bank Report on the Observance of Standards and Codes (ROSC), the Diversification Study, the Country Governance Paper (CGP) and the Country Economic Review (para 3.4).

The parts of that agenda that were specified to be elements of the formal tranche release conditions represented merely a small sub-set of the whole package and were intended to support reforms to which there was already significant commitment from the GoB. In that sense the EDSL operation reinforced the country ownership of a significant package of reform and did not seek to change this in any significant manner.

In fact the release of the large first tranche required no conditions other than (i) Botswana complying with the Bank's general conditions for Loan Agreements and (ii) documentary evidence of the opening of a dedicated foreign currency account at the Bank of Botswana to receive the proceeds of the EDSL. Botswana seemed to have little difficulty in achieving rapid compliance in these areas and even the small Act of Parliament needed to give the GoB the authority to borrow was dealt with extremely rapidly – a significant contrast with Bank experience of similar requirements in other countries. The second tranche conditions invoked just a few of the structural elements in the policy matrix and specifically it required:

- A Cabinet Decision approving the Privatization Strategy of the National Development Bank (NDB).
- A Cabinet Memorandum evidencing the Submission of the new Trade Policy to Cabinet and
- Submission of the Revised Securities Act to Parliament as evidenced by publication in the Government Gazette.

It can be seen that these three conditions are all *process matters* that were fully under the control of the government and not issues where challenging substantive reform was called for. They cover only a small part of the total of eighteen structural steps listed in Annex A.

It is noteworthy also that these structural conditions were very much lighter than those applied in the case of the Bank's previously largest PBO – the *Financial Sector Reform Program* to Egypt in 2006. The PAD for the Botswana EDSL specifically records that this operation learnt lessons from earlier operations such as that in Egypt. It also claims as one of three examples of the project's compliance with principles of good practice on conditionality that:*"the policy actions chosen by the Bank as triggers for disbursement are the ones critical for achieving results and are derived from the 2009/10 Budget Statement and consultations with the country stakeholders. They also focus mainly on actions to promote diversification and competitiveness."* (p. 11).

In fact it is really quite difficult for the external reviewer to reconstruct the logic underlying this statement from the full policy matrix and the log frame. For example, it is not clear in what sense items (i) or (iii) in the list of tranche release conditions as listed above be more critical to the diversification objectives than, say, *"improving the legal framework for the business environment (re contract enforcement and the protection of investors)"*, or *"a new legislative*

framework to position Botswana as the medium to long-term preferred offshore financial center for sub-Saharan Africa” or indeed various other important entries in the policy matrix. The actions chosen seemed to be ones where the GoB was fully confident that rapid implementation could be achieved. Hence their insertion as tranche conditions posed little real risk of any significant delays in disbursement. But this being the case the so-called “good practice” on conditionality may be something of a sham – if the good practice is really about choosing conditions so as not to delay loan disbursements, then so be it. But this is not the same thing in any sense as the choice of conditions being focused on those “critical for achieving (substantive) results.”

4 Issues Arising

4.1 Fiduciary risk and other prerequisites

The rapid pace of processing EDSL also meant that the Bank had to move exceptionally fast in satisfying itself about the fiduciary risks involved in lending such as large amount of money in one single operation and about other normal prerequisites for lending. Once again the Bank was able to do this only because almost all of the substantive work to confirm the suitability of Botswana's domestic systems of accountability, its external credit standing and the broad health of its economic system had already been carried out. In particular a PEFA assessment had been carried out earlier in 2009 and the Bank was content that the good scores achieved by Botswana on many of the component indicators were sufficient to meet its own standards. In particular, the PEFA had concluded that when viewed from the perspective of *three* main objectives of sound public finance management (PFM): aggregate fiscal discipline, strategic allocation of resources and efficient delivery of services, Botswana scores well. In addition the GoB had recently implemented a number of PFM reforms of direct relevance to the issues of country competence and transparency in the conduct of its public finances. These had included a reformed GoB accounting and budgeting system (GABS), improved revenue administration, a strengthened external audit system and a new public procurement and regulatory framework.

Other aspects of Botswana's ability to comply with the Bank's April 2004 Guidelines for budget support also seemed to have been capable of being addressed without significant additional work or time delays. A few examples of this are as follows:

- Economic stability - Botswana had enjoyed a sustained economic stability for over a decade and was generally acknowledged as one of the best managed economies in Africa. The country seemed very well placed to maintain that high standing even in the face of the significant challenges of the global crisis.
- Existence of a well designed PRSP or National Development Plan. - NDP-10 (2009-2016), was assessed to be a very well conceived plan. It had been prepared through a broad participatory approach involving national stakeholders, and had also attached great importance to results and value for money.
- Viable macroeconomic and financial medium-term framework - The NDP involves a Macroeconomic Outline and Policy Framework which is the map setting priorities for expenditure over the medium term. It is approved by the Economic Committee of Cabinet, and provides their framework for budgetary planning year-on-year.
- Donor Coordination – as a country having only limited dependence on foreign aid, Botswana does not have the deep donor arrangements seen in many African countries but has historically had a strong record of government action to ensure aid coordination. In 2007, the GoB established an Aid Coordination Forum which had become operational with meetings once a month.

In undertaking its internal assessment of the loan, the Bank also made use of a number of special exercises. For example, it was provided with a three page *Assessment Letter* from the IMF about the general economic situation and various specific aspects of this such as fiscal, monetary and exchange rate policies and briefly about medium term structural needs as seen by the Fund. This letter was dated May 20th and seems to have been in essence a brief advance summary of the Fund's Article IV Staff Review that ended its work in the field only on May 15th. The Bank also commissioned a *Special Country Risk Note*. This provided

an assessment of the country's long-term growth prospects and the outlook for its international credit risk profile given the large scale of the Bank's proposed loan of \$1.5 billion. This work was also undertaken and reported on in May 2009.

In summary the Bank, faced with an unusual request for support from the GoB was able to respond as quickly as it did only because much of the standard groundwork to support such an operation was already in place. The government with its comprehensive and current national Development Plan provided the Bank with the substantive materials to design and process its loan in record time. The fiduciary risk assessments and other checks on the EDSL's compliance with Bank guidelines were also fortuitously able to be completed quickly because of prior work – by the Bank and other agencies – that was already done and very up-to-date. Botswana presented the Bank with almost the ideal budget support opportunity and the Bank to its credit was able to respond.

4.2 The Country Strategy Paper and the loan

At the time of the GoB's request to the Bank the Country Strategy Paper (CSP) 2004-2008 was somewhat out-of-date. Although the Bank had undertaken a CSP Progress Report in 2008 and a parallel Country Economic Review in that same year, the new CSP had not been prepared at the time of the request. It was decided to field the mission to prepare the CSP at exactly the same time as the mission that was fielded to prepare the EDSL. The Aide Memoire for the first of these missions notes that the two missions coincided, worked together, had some shared staff and also held a joint wrap-up meeting with officials from the Ministry (MFDP).

Although it is very easy to see how the momentum for this particular loan led to this unusual sequencing of actions, it is difficult to commend it as good practice. A good Country Strategy for a four or five year period needs to be carefully thought through and to balance an invariably complex set of considerations. These will include country priorities, the competing claims of different sectoral programmes, the depth of the need for external assistance in those different areas, the Bank's own assessment of its comparative advantage in some areas relative to others and so on. It is hard to accept that this process can be as careful and reflective as it needs to be if condensed into a period of just a few weeks, against the backdrop of crisis and with the pressure from both within the Bank and from the GoB to commit a very large part of the Bank's head-room for the country to a single loan.

The Bank takes great credit for the speed of its response to the Botswana request. Nonetheless, it would seem appropriate that normal practice in the Bank should continue to be to have a degree of separation between the regular CSP process and the work on particular large loans.

4.3 Sustaining the dialogue

The support that the Bank was able to provide to Botswana in the EDSL operation was both highly valued by the country but also distinctive from what seemed to be on offer from any of the other IFIs at the time. The World Bank was unwilling to provide the funding that the GoB required in anything like the amounts requested; the IMF saw no reason to mobilise a standard Fund programme even if one had been requested; and other donors do not seem to have been in the frame to compete with AfDB on this occasion.

However, having put itself in a much more prominent position as a lead financier, the Bank has a stronger interest than might otherwise be the case (i) in ensuring that the objectives of the numerous reforms of the EDSL as listed in Annex A are achieved as fully as possible and (ii) in utilising its lead role in the component areas of EDSL to spin off potential new lending and other business activities in further support of these.

Thus far the Bank seems to have made a determined effort to follow through by committing significant financial and human resources in support of these interests. So, for example, it has used the opportunities accorded by supervision missions on the EDSL to further advance ideas for a set of new capacity building and technical assistance activities in Botswana. However, it will be necessary for the Bank to demonstrate to the Government of Botswana its ability to provide high quality technical assistance and other forms of support.

There are already for example two specific capacity building activities that speak directly to components of the EDSL policy matrix. These are assistance to the Non-bank Financial Institutions Regulatory Agency (NBFIRA) and similar capacity building work to the Public Enterprise Evaluation and Privatization Agency (PEEPA). These are important steps in helping to ensure that the underlying objectives captured in the EDSL policy matrix are indeed achieved. In addition the same supervision mission of January 2010 was able to advance a number of ideas for broader TA programmes in the area of Private Sector Development. The AfDB team agreed with the Botswana Ministry of Trade and Industry (MTI) to conduct a joint preliminary diagnosis to try to establish which types of policy interventions in the private sector may have the greatest effects. Two integrated private sector development programmes are now under implementation, focusing on tourism and financial and business services.³ A variety of potential joint arrangements with other donors such as the EC, the World Bank, and UNDP were also discussed. These are all encouraging steps which together suggest that the Bank's leap of faith in undertaking the EDSL could well provide a strong basis for an ongoing engagement with the GoB both in terms of future loans and in terms of TA programmes. This is in sharp contrast to the somewhat disappoint follow-up outcomes from the earlier large PBO in the Egyptian FRSP which is the subject of a separate case study. The difference between the two cases seems to lie first in the relative strength of the Bank's position within the donor community, and second in its willingness to commit significant resources to the follow-up dialogue.

4.4 Lessons for Bank procedures

Several of the Bank staff consulted in the course of conducting this evaluation have spoken with pride and excitement about their involvement in the EDSL operation. It would seem that the conduct of this operation has revealed a capacity within the Bank – previously somewhat obscured – for bureaucratic ponderousness to be swept aside when a substantive and critical need arises. The ability to progress the various necessary stages of loan processing so expeditiously has revealed that the Bank does have the capacity to move quickly when called upon to do so. The rapid assembly of teams from different parts of the Bank (OSGE, ORSA, FFMA and others) to carry out the work has also demonstrated that the Bank is able to work as a unified team across departments. There would seem to be four factors in the EDSL that made this impressive performance possible namely:

³ See Botswana: Framework for Private Sector Development Programs, Information Note, African Development Bank, October 2010.

- i) An extremely strong and determined lead from the President of the Bank
- ii) A client country that ranks as one of the strongest and better governed of all the Bank's clients, and with a coherent medium term programme of reforms that was already substantially designed before the Bank's loan was mooted
- iii) A set of circumstances that created a wholly unusual and unexpected need for assistance from that client country, and
- iv) Some good fortune in that many of the basic building blocks of the due diligence processes were already substantially in place when the idea for the loan emerged early in 2009.

A quick look at this list of circumstances suggests that the Bank should not expect to find too many policy-based lending opportunities that match the one that arose in the case of Botswana. So the lesson from the Botswana EDSL should **not** be that this is the type of thing that the Bank can routinely expect to do in future operations.

Only the first of the four special features listed above are truly under the Bank's own control. Item (ii) on the list will unfortunately apply to only a tiny minority of the client countries. Items (iii) and (iv) are somewhat dependent on serendipity and cannot be expected to occur let alone coincide very often. Nonetheless, there are almost certainly important lessons to be learned and to help re-shape the Guidelines. There is a case for the Bank undertaking a detailed step-by-step review of how it conducted the EDSL in order to extract all available lessons from this very successful operation. This review could be used internally to set or re-set some of the Bank guidelines and standards for internal processes. Even if this did not lead to radical changes, it would be likely at the margin to indicate some ways in which the more normal PBO activities of the Bank might be conducted more effectively and expeditiously. Such lessons might include things such as:

- The acceptability of using fairly light-weight formal tranche release conditions provided that there is real trust in the programme of the RMC.
- The need to have realistic time-limited standards on all internal Bank procedures that are wholly under the control of the Bank and to be realistic too (not aspirational) about the time that procedures under the control of the borrowing country might require (e.g. approvals from the local Parliament).
- The acceptability of a GBS operation that is nominally designed to respond to a *fiscal need*, being re-presented as an operation designed to support a well-defined *structural programme* but only where such a programme exists, is credible and commands real trust. As was noted above there was little apparent connection between the substantive request from the GoB on March 27th 2009 and the structural package that emerged a few weeks later to constitute the EDSL.
- Lessons about the limits of the possible in mobilising appropriate teams from different organisation parts of the Bank and how seniority/reporting issues can best be addressed in such teams.

Matrix of Policy Measures				
Specific Policy Objectives	Strategic Reform Measures	Time-frame	Responsible Agency	Bank CSP Pillar
Vision 2016 and NDP 10: Creating the conditions for accelerated private sector growth, diversification and poverty reduction				
1- Promoting private sector as the main stimulus for economic growth				
Promoting privatization and Public Private Partnership (PPP) initiatives	1. Develop a PPP Framework to expand the participation of the private sector in the economy.	May 2009	PEEPA/MFDP	<i>Pillar 1: Support a more competitive and Dynamic private sector</i>
	2. Implement Management Contract for the Air Botswana	April 2009	MFDP/MWT	
	3. Finalize Privatization Transaction of Botswana Telecommunications Corporation (BTC).	2009/10	MFDP	
	4. Complete the restructuring and capitalization of the Botswana Railways (BR) and increase freight tariff towards cost recovery	2009/10	MFDP/MWT	
	5. Develop a Privatization Strategy for the National Development Bank to enhance private sector participation in the Bank.	July 2009	MFDP	
Improving competitiveness and Trade	6. Finalize study on the establishment of an appropriate law reform structure for Botswana which will enhance the legal framework for the business environment.	March 2009	MFDP	
	7. Enact a Competition Law to curb unfair and restrictive business practices.		MTI	
	8. Develop a Trade Policy to facilitate the integration of Botswana into the multilateral trading system	July 2009	MTI	
	9. Undertake the review of the Industrial Development Policy to identify achievements, challenges and opportunities posed by globalization	2009/10	MTI	
	10. Complete the computerization of the issuance of residence permits, visas, citizenship as well as investigations and repatriation processes to improve service delivery and accessibility.	2009/10	MFDP	

Matrix of Policy Measures					
Specific Policy Objectives	Strategic Reform Measures	Time-frame	Responsible Agency	Bank CSP Pillar	
2 - Deepening the financial sector and strengthening the regulation of nonbank financial institutions					
Governance and capital market development	11. Revise the legislations for non-financial institutions namely, the Insurance Industry Act, the Business and Provident Fund Act and to align them with current market conditions.	2009/10	NBFIRA/ IFSC/ MFDP	<i>Pillar 1: Support a more competitive and Dynamic private sector</i>	
	12. Submit to Parliament a legislative framework to position Botswana as the medium to long term preferred offshore financial services centre for sub-Saharan Africa.	2009/10	MFDP		
	13. Enact a Financial Intelligence Law	February 2009	MFDP		
	14. Revise the Securities Act to transform the Botswana Stock Exchange (BSE) from a parastatal to a commercial organisation.	November 2009	NBFIRA/ MFDP		
3- Improving pro-poor service delivery					
Strengthening public administration capacities	15. Transform the Central Statistics Office (CSO) into an autonomous institution and develop poverty data base and information systems which will provide information for monitoring.	2009/10	MFDP		
	16. Transform the Botswana Institute of Administration and commerce into a modern Civil Service College.	2009/10	MFDP		
Improving social safety nets and service delivery	17. Develop a comprehensive Decentralization Policy to guide decisions on overall service delivery and promotion of local level participation through further devolution of local functions to the sub-district level.	June 2009	MLG		
	18. Improve the social safety nets with a view to graduating able-bodied beneficiaries from the programs and shift focus towards psycho-social support and empowerment to prevent people falling into poverty trap.	2009/10	MFDP		