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STAFF APPRAISAL REPORT

BOTSWANA

SECOND DEVELOPMENT FINANCE COMPANIES PROJECT

January 26, 1984

Regional Projects Department
Eastern Africa Regional Office

CURRENCY EQUIVALENTS

Currency = Pula (P)

US$1 = P1.06
P 1 = US$0.94

ABBREVIATIONS

ALDEP = Arable Lands Development Program.
BAMB = Botswana Agricultural Marketing Board.
BAS = Business Advisory Services.
Batswana = More than one citizen of Botswana.
BCL = Bamangwato Concessions Limited.
BDC = Botswana Development Corporation.
BEDU = Batswana Enterprise Development Unit.
BMC = Botswana Meat Commission.
CDC = Commonwealth Development Corporation.
DEG = Deutsche Entwicklungsgesellschaft. (German Finance Company for Investments in Developing Countries).
DFCs = Development Finance Companies.
EEC = European Economic Community.
FAP = Financial Assistance Policy.
FMO = Nederlandse Financierings Maatschappij Voor-Ontwikkelingslanden N.V. (Netherlands Finance Company for Developing Countries).
IFC = International Finance Corporation.
MCI = Ministry of Commerce and Industry.
MOA = Ministry of Agriculture.
Motswana = A citizen of Botswana.
NDB = National Development Bank.
PDSF = Public Debt Service Fund.
PFP = Partnership for Productivity.
RSA = Republic of South Africa.
SACU = Southern Africa Customs Union.
SSE = Small Scale Enterprises.
TGLP = Tribal Grazing Lands Program.
TIPA = Trade and Investment Promotion Agency of the MCI.
USAID = United States Agency for International Development.

FISCAL YEAR

Government: April 1 - March 31
NDB : April 1 - March 31
BDC : July 1 - June 30

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This report is based on the findings of a mission in March-April 1983 to Botswana composed of Messrs. Zia Ahmed, Godfrey Tumusiime, Mesdames Barbara Kafka and Mariluz Cortes. Mr. Philippe Nouvel also participated in the mission for the first three days.

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BOTSWANA DEVELOPMENT CORPORATION (BDC)

BASIC DATA
(As of June 30, 1983)

1. Date of Establishment: April 15, 1970

2. Capital

		(P'000)
Authorized - 4,100,000 ordinary shares of P1 each		4,100
1,200,000 8.5% cumulative redeemable non-voting preference shares of P1 each		1,200
		5,300
Issued and Fully Paid		
3,945,462 ordinary shares, owned by Govt. of Botswana		3,945
1,200,000 preference shares owned by:		
FMO	600,000	
DEG	300,000	
IFC	300,000	1,200
		5,145

3. Resources Position: (P'000)

Sources		
Paid-in Capital		5,145
Reserves and Retained Earnings		9,362
Botswana Government Loan		9,248
IBRD Loan		2,044
EIB Loan		1,230
		27,029
Uses		
Loans		9,099
Equity Investments		12,141
Fixed Assets (Net)		267
		21,507
Available for Disbursement		5,522
Undisbursed Commitments		
Loans	3,851	
Equity Investments	3,839	7,690
Deficit		(2,168)

4. Operations: (P'000)

Year Ending June 30	1979	1980	1981	1982	1983
Approvals and Commitments					
Loans	1,009	392	7,963	1,749	4,254
Equity Investments	-	415	1,127	1,128	5,836
	1,009	807	9,090	2,877	10,090
Disbursements					
Loans	230	9	1,525	4,828	3,866
Equity Investments	16	127	837	1,372	2,877
	246	136	2,362	6,200	6,743

5. Portfolio (Net of Provisions)
(As of June 30)

	1979	1980	1981	1982	1983
(i) Analysis by Type of Investment					
Loans	6,913	5,972	7,662	9,407	8,850
Equity Investment	1,250	1,971	2,325	7,023	11,435
	8,163	7,943	9,987	16,430	20,285
(ii) Analysis by Ownership (No. of Cos. in parenthesis)					
Wholly-owned Subsidiaries	6,009 (19)	4,932 (16)	6,822 (18)	13,657 (18)	16,944 (14)
Joint-venture Subsidiaries	1,886 (4)	2,736 (7)	2,888 (7)	2,490 (10)	2,689 (12)
Associated Companies	229 (8)	231 (8)	204 (7)	213 (6)	299 (8)
Others	39 (2)	44 (2)	73 (2)	70 (2)	353 (5)
	8,163 (33)	7,943 (33)	9,987 (34)	16,430 (36)	20,285 (39)
(iii) Analysis by Sector					
Agriculture	314	445	2,039	2,741	3,592
Industry and Commerce	1,998	2,886	2,709	2,103	2,565
Financial Services	131	131	131	131	131
Property	4,801	4,113	4,752	6,791	7,541
Tourism, Hotels & Transport	920	368	356	4,664	6,456
	8,163	7,943	9,987	16,430	20,285

6. Financial Results (As of June 30)

	1979	1980	1981	1982	1983
Total Revenue	1,444	1,362	1,870	2,557	3,826
Net Profit	407	1,153	396	1,302	1,036
PAT as % of Average Net Worth	16.8	22.8	6.0	13.8	7.9

7. Financial Position (As of June 30)

	1979	1980	1981	1982	1983
Net Worth	4,000	6,121	7,107	11,696	14,507
Total Assets	9,033	10,913	11,891	17,409	22,396
Debt-Equity Ratio	1.1:1	0.6:1	0.5:1	0.4:1	0.5:1

8. Interest Rate — Prime rate (at present 13%) + 0-3%

BOTSWANA

NATIONAL DEVELOPMENT BANK (NDB)

BASIC DATA

1. Year of Establishment: 1963

2. Ownership (as of June 30, 1983)
NDB is 100% Government owned.
Its capital consists of:

Funds Received from Botswana Government	
General Funds	P 2,426,736
Proceeds from State Land Amendment Fund	591,925
U.K. Capital Aid For Development	1,900,000
Subtotal	4,918,661
Funds Received from Overseas	
American Revolving Loan Grant	91,970
U.K. Freedom From Hunger Campaign Grant	76,475
Oxfam Water Supply Development Scheme Grant	30,000
U.K. Industrial & Commercial Credit Scheme Grant	27,698
Swedish International Development Agency (SIDA)	500,000
Subtotal	726,143
TOTAL 'UNRECALLABLE CAPITAL'	P 5,644,804

3. Summary of Approvals /1 (in Pula '000)

Fiscal year ending December 31	1979	1980	1981	1982	1983 /2
A. Micro-Credits					
Agricultural (up to P20,000)	1,049	4,597	6,593	6,213	6,131
Commercial & Industrial (up to P5,000)	210	913	457	552	552
Subtotal	1,259	5,510	7,050	6,765	6,683
B. SSE (P5,000-20,000)	—	—	933	405	418
C. Macro-Credits (over 20,000)					
Agricultural	—	576	1,626	2,335	2,306
Commercial and Industrial	25	3,330	2,571	3,031	2,610
Subtotal	25	3,906	4,197	5,366	4,916
TOTAL	1,284	9,416	12,180	12,536	12,017

/1 Up to 1982 NDB considered commitments to be synonymous with approvals; and due to poor records NDB does not have an accurate record of its historical disbursements.

/2 Figures for 1983 are for the year ending March 31, 1983 following change of NDB's fiscal year from January 1 - December 31 to April 1 - March 31.

4. Financial Results and Position (P'000)

Fiscal year ending December 31	1979	1980	1981	1982	1983
Results					
Gross Income	307	431	1,249	/3	4,011
Net Profit (loss)	4	(13)	23	—	(333)
Administrative Cost as % of average total assets	3.8	3.0	2.1	—	7.5
Position					
Networth	3,495	3,500	5,051	—	5,189
Total Assets	5,298	9,440	17,611	—	32,570
Long Term deby/equity ratio	0.5	1.6	2.2		5.2

5. Resource Position as at June 30, 1983

Sources	P'000
Unrecallable	
Capital	5,645
Reserves	44
Borrowings:	
Government Loans	25,895
UK Exchequer	286
Loan from Subsidiary	305
EEC Line of Credit	660
Total Sources	32,835
Uses	
Fixed Assets	983
Loans	28,298
Equity Investments	961
Total Uses	30,242
Resources Available for Disbursement	2,593
Less Undisbursed Commitments	4,700
Resources Available for Commitment	(2,107)

6. Interest Rates

Type of Loan	Interest Rate (%) (Based on Location) Rural	Urban
Micro Agricultural Loans	16	
Medium-size Agricultural Loans	16-16½	
Commercial/Industrial Loans	16-17	16-18

Penal Interest: 2% p.a. on overdue principal repayments

/3 NDB has recently changed its fiscal year form January 1-December 31, to April 1-March 31 in order to be consistent with the Government's fiscal year. Figures for 1983 are as at March 31, and represent a 15 month period; January 1, 1982-March 31, 1983. As such there is no FY '82.

BOTSWANA

APPRAISAL OF SECOND DEVELOPMENT FINANCE COMPANIES PROJECT

I. INTRODUCTION

1.01 In May-June 1982, the Botswana Government requested the Bank to provide a credit line to the Botswana Development Corporation (BDC) and the National Development Bank (NDB). BDC had already received a Bank loan of US$4 million in 1974, which was fully disbursed in March 1982. Since Bank knowledge of NDB was very limited, NDB, in consultation with the Government and the Bank, commissioned a firm of consultants to review NDB's role, organization, policies, procedures, operations and financial situation. This review was carried out in January 1983 and the report submitted to the NDB and the Bank in February 1983. Following this review, an appraisal mission visited Botswana between March 21, 1983 and April 13, 1983.

1.02 Reviewing the activities and operations of the two institutions the appraisal mission concluded that both had distinctive roles to play: BDC in promoting projects and attracting foreign investments in projects in various sectors of the economy which were beyond the capability of local entrepreneurs, and NDB in providing financial assistance to small scale Batswana farmers and entrepreneurs 1/ in commercial and industrial sectors. Accordingly, the mission has recommended a loan of US$12.3 million including lines of credit to both BDC (US$6.2 million) and NDB (US$5 million), technical assistance (US$1 million) mainly to NDB, and front-end fee.

1/ In this report, Small Scale Enterprises are defined as non-agricultural enterprises requiring loans over P5000 and up to P20,000. Micro-credit refers to an NDB loan (i) up to P20,000 for agriculture and (ii) up to P5,000 for commercial and industrial enterprises.

II. THE PRODUCTIVE SECTORS

A. The Manufacturing Sector

Past Performance and Contribution to the Economy

2.01 The contribution of manufacturing to the national economy, while growing, is still modest, with a share in GDP of less than 7% in 1980/81 (the last year for which GDP information is available). Manufacturing value added more than doubled in real terms between 1973/74 and 1980/81, but its share in GDP increased only slightly because other sectors of the economy, especially mining and services, also grew rapidly. The share of manufacturing in total productive activities, however, increased from 9% to 12% during that period. Employment in manufacturing also more than doubled from 2,800 workers in 1973 to 6,400 2/ in 1981. But, as employment in the entire formal sector 3/ also doubled, the share of manufacturing in total formal sector employment remained constant at around 6.6%. Most of the expansion of manufacturing occurred between 1973 and 1978, when value added grew at an average real rate of 20% per annum. In the following two years, production declined by 15% in real terms due to a crisis in the processed meat industry (caused by an outbreak of foot and mouth disease), which accounts for over one fourth of the sector's value added. During the same period, value added in the rest of the sector (food and beverages, textiles and garments, metal products and construction materials) increased by 33% in real terms. Since 1981, several new industrial projects have entered into operation attracted by a new incentive scheme, and meat production resumed its normal level. These developments point to a strong recovery of the sector's overall growth. Still, local production supplies only a fraction of Botswana's consumption of manufactured goods. The bulk of these goods is imported, mainly from the Republic of South Africa (RSA).

2.02 Exports of manufactures, not including processed meat, grew in real terms at an average yearly rate of 20% between 1974 and 1981. By 1981 manufactured exports amounted to nearly US$60 million, 4/ about 10% of the country's total exports composed mostly of diamonds, meat and nickel-copper. Non-traditional manufacturing exports consist mainly of textiles and garments, footwear, candles, umbrellas and metal furniture. The bulk of these exports goes to Zimbabwe where they enter duty free under a trade agreement between the two countries. Many of the exporters are investors

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2/ 43 new manufacturing firms established since 1981 are estimated to have created up to 1,500 additional jobs.

3/ Formal sector employment excludes domestic servants and workers employed in traditional agriculture and in informal village industries.

4/ This figure includes some reexporting.

from Zimbabwe attracted by Botswana's liberal foreign exchange regime and, more recently, by its investment incentives. Zimbabwe has, however, recently imposed quota restrictions on imports from Botswana obliging some firms to look for alternative markets. These firms are having difficulties because their prices and sometimes their quality are not competitive outside the protected Zimbabwean market. Nevertheless, export possibilities do exist particularly in markets where Botswana's exports can also enter duty free. They include the RSA, Lesotho, and Swaziland, which together with Botswana form the Southern African Customs Union (SACU), and Malawi with which Botswana has a standing free trade agreement. Botswana's goods have also preferential access to the European Common Market (EEC), under the Lome Convention agreement. At present the EEC market offers little export possibilities to Botswana's manufactures because they are not competitive with other exports that enjoy similar access conditions but lower transport and production costs. However, handicrafts and resource-based manufactures such as tannery products may have good prospects in the EEC market.

Structure of Industry

2.03 Medium and Large Scale Industry. Manufacturing establishments with 10 or more workers require a license from the Ministry of Commerce and Industry. The number of licensed firms increased sharply during 1982 and 1983 attracted by new investment incentives (para. 2.14): 64 firms received their licenses between January 1982 and March 1983, compared with 29 firms during 1980 and 1981 combined. Forty-three of the newly licensed firms had started operations by March 1983, raising to 146 the number of firms in the formal manufacturing sector. The number of firms with more than 100 workers increased from only five in 1978 to eight in 1981 and to 14 at the beginning of 1983. Besides the Botswana Meat Commission (BMC) which employs about 1,800 workers in its abattoir, four firms now have more than 200 workers each. These are: Everest Mills (250 workers), Hanoya Agricultural Engineering (200 workers), Kgalagadi Breweries (200) and Corn Products Animal Feed (216). Although the number of large firms is increasing, most licensed firms (nearly 2/3) have less than 50 workers. Most of the larger firms are concentrated in the major urban areas of Gaborone, Francistown, Lobatse and Selebi-Phikwe. Sixty eight of the licensed firms are exporting or have potential to export.

2.04 In terms of the number of operating establishments, the main subsectors are metal products with 35 firms and textiles and clothing with 29 firms. Food and beverages and construction materials come next with 18 firms each. However, in terms of value added and employment, the main subsector is meat and meat products (30% of value added), followed by food and beverages (24% of value added). The food and beverages sector has also the largest number of projects awaiting implementation (14), followed by textiles and garments (10).

PROFILE OF FORMAL MANUFACTURING SECTOR

Subsector	1978 Number of Establishments	1978 Employment	1978 Value Added (%)	1983 Number of Establishments	1983 Employment	1983 Value Added (%) /1
Food and Beverages	12	428	13.9	18	980	24.5
Meat and Meat Products	1	1,652	58.4	1	1,800 /2	30.0
Metal Products	19	704	1.8	35	1,659	2.1
Textile and Clothing	13	686	2.3	29	1,402	12.8
Tanning and Leather	2	49	2.8	7	461	3.4
Chemical Products	5	149	1.3	6	196	1.8
Building Materials	8	358	n.a.	18	877	n.a.
Paper and Printing	1	52	1.8	3	93	2.1
Wood and Wood Products	5	239	1.0	6	322	1.6
Other	13	771	16.7	23	555	21.7
Total	84	5,088	100.0	146	8,345	100.0

/1 For 1980/81, last year for which statistics on value added are available.
/2 Estimated based on the employment in the abattoir in 1981.
Source: 1978 National Development Plan 1979-85.
1983 MCI. Industrial Licensing Statistics.

2.05 Most manufacturing enterprises in Botswana are privately owned. Government's direct ownership in manufacturing is limited to the Botswana Meat Commission (which owns the abattoir, a tannery and a meat canning plant). Through the Botswana Developement Corporation the Government owns several enterprises (e.g. Kgalagadi Breweries), and participates as a shareholder in others (e.g. Botswana Furniture Manufactures). Although more than 60% of all the firms in the manufacturing sector are foreign owned, the proportion of locally owned firms has increased over time from less than 7% of all firms created before 1980 to nearly 15% of all the firms established since then; the rest of the firms (25%) are joint ventures between local and foreign partners. Also, the proportion of managerial and technical positions held by Botswana citizens has increased from only 39% in 1978 to 61% in 1981. These trends indicate a gradual development of entrepreneurial and technical skills among Batswana.

2.06 Small-Scale Industry. Although there is not enough information to assess the role of small-scale industries in Botswana's industrial structure, it appears to be substantial. It is estimated that 25,000 people, about 5% of the active labor force, work in the urban informal sector producing goods and services. In addition, there are countless informal village industries producing handicrafts and food and beverages (e.g. home-brewed beer). Modern small industries, however, are relatively

few due to the shortage of entrepreneurial skills among Batswana, although some improvement has taken place during the last few years. The Government established the Batswana Enterprises Development Unit in 1972 to assist the development of small industries, but its activities did not prove to be cost effective (paragraph 2.08).

Institutional Framework

2.07 The Ministry of Commerce and Industry (MCI) has primary responsibility for industrial policy. Some steps have been taken recently to strengthen the Ministry, including the appointment of two expatriate advisors. MCI assists industry through a number of specialized units and agencies. One of these, the Investment Promotion Unit, has carried out a number of feasibility studies that were made available to interested investors. The Ministry is in the process of converting the Unit into the Trade and Investment Promotion Agency (TIPA), a one-stop-service agency for local and foreign investors. This agency will assist entrepreneurs with investment procedures; promote trade through publications and missions abroad; and provide industrial information through sector surveys and feasibility studies. It will also compile an industrial land register to facilitate the search for industrial land. The EEC has pledged P 1.1 million on a reimbursement basis to support TIPA for a period of five years. The Government is in the process of defining the organizational structure and the policy guidelines of the agency.

2.08 The Batswana Enterprises Development Unit (BEDU), also a department within MCI, was set up in 1972 to promote development of indigenous small-scale enterprises. Up to 1982 BEDU's program was to provide factory shells at low rents (in six industrial estates) as well as financial, technical and marketing assistance to small entrepreneurs. This assistance was intended to be provided to each enterprise for a period of two years. After that period, enterprises were expected to "graduate" and no longer need the assistance. A total of 89 small enterprises received this assistance but most of them remained in the industrial estates until 1981/82, when BEDU initiated a consolidation scheme that phased out poor performers and graduated the better ones. BEDU was left with 22 firms that are receiving intensive assistance. The reorganized BEDU will concentrate on providing managerial and technical assistance to entrepreneurs inside and outside its estates, including rural craftsmen through a system of mobile workshops.

2.09 Many other training and advisory institutions, both Government and private, are active in Botswana including the Business Advisory Services (BAS) and the Rural Industrial Officer Cadre within MCI, which provide technical assistance to emerging small entrepreneurs. They offer a fairly wide range of services from training to book-keeping advice to technical advice. However, they tend to be understaffed, work in isolation from each other and overlap in the type of services they provide, while some aspects of SSEs development are left uncovered. Particularly important is the absence of coordination between institutions providing technical assistance and those providing financial assistance. The

Government is committed to improve this coordination and has recently constituted an Industrial Extension Co-ordinating Committee which will include representatives from all the existing institutions providing extension services, the two development financing institutions and the concerned ministries. The committee has been asked, among other things, to make recommendations on the organizational structure of the extension services in both rural and urban areas, to evaluate adequacy of services provided and delineate clearly the functions to be performed by the agencies in rural and urban areas. The Government has also decided to merge BAS with BEDU. An understanding was reached at the negotiations that the Bank and the Government would discuss a timetable for the implementation of the recommendations of the Committee during the Bank's next industrial mission to Botswana.

2.10 The Ministry of Finance and Development Planning also has a strong influence on the sector through its administration of investment incentives under its Financial Assistance Policy Scheme (FAP) (para. 2.14).

Government Objectives and Policies

2.11 Botswana's GDP averaged real growth rates of more than 10% a year between 1973/74 and 1980/81. The engine for this rapid growth has been the mining sector which, during the same period, grew at an average rate of 27% per year. However, Botswana's economic growth based on mineral exports has had little impact on employment. Two thirds of the active labor force is still engaged in agriculture; up to 45% of it is under- or unemployed. The realization that the benefits from rapid growth are not shared by large segments of the population prompted the Government to review its economic objectives. Both the Fifth National Development Plan (1979/80 - 1984/85) and, more recently, the report of the Presidential Commission on Economic Opportunities (1982) stress the need to identify opportunities for new employment outside the mining and service sectors and to spread the benefits of growth in mining more widely and equally than in the past. These opportunities are to be found in the manufacturing and the agricultural sectors. In addition, the recent balance of payments crisis -- brought about by lower export prices for diamonds and copper-nickel, and the embargo of beef exports by the EEC, due to an outbreak of foot and mouth disease -- demonstrated the vulnerability of the economy to external events and the need for a more diversified economic base.

2.12 The strategy adopted by the Government to stimulate growth of the manufacturing sector focusses on the creation of a climate more favorable to private investment. This includes renewed encouragement of private foreign investment as a means of acquiring the necessary capital, entrepreneurial and technical skills not available in Botswana. Although the Government expects the private sector to lead the country's industrial development, the incipient nature of Botswana's industrialization has required direct Government involvement in industrial production in such strategic areas as meat products and diamonds. In support of its strategy, the Government has traditionally provided industrial infrastructure such as roads, power, water and sites; direct investment services and term capital

to small firms through the National Development Bank (NDB) (since 1963) and to larger firms through the Botswana Development Corporation (BDC) (since 1970); as well as information to investors (since 1978) and technical assistance to small entrepreneurs (since 1972). Furthermore, the Government implemented liberal exchange control policies and provided investment incentives through low corporate taxes and a number of tax allowances, while limiting price controls to a few basic food items. An important characteristic of the Government's strategy towards the sector is that it provides direct assistance to enterprises instead of providing protection from outside competition to support manufacturing production. Botswana follows a liberal trade policy allowing goods from other SACU members, Zimbabwe and Malawi to enter duty free. Although the SACU countries (including Botswana) have external tariffs, they are generally low (10% average nominal rate) and goods not produced in SACU countries are exempt from all duties.

2.13 Despite these measures, industrial investment during the late 1970's remained below expectations. This situation prompted the Government to commission a number of studies that helped review its policies regarding investment incentives. In December 1982, the National Assembly approved a white paper entitled "National Policy on Economic Opportunities" which outlines the Government's reaction to the recommendations made by the Investment Climate and Investment Incentives Study (1981) and the Report of the Presidential Commission on Economic Opportunities. The most important actions the Government proposed to take to ensure faster industrial growth include: (a) providing financial assistance particularly to local citizens to start enterprises that are valuable to Botswana but might not initially be commercially viable; (b) improving publicity of investment opportunities in Botswana; (c) providing better assistance to citizens and foreign investors in their dealings with Government relating to the establishment of new enterprises; (d) coordinating the small business extension services and linking them closely to the various financial institutions; and (e) strengthening the Ministry of Commerce and Industry and shifting its activities towards support rather than regulation of enterprises. Some of these actions have materialized into policy schemes and new agencies. Others have yet to be implemented. The two most important actions stemming from this new strategy are the launching of the Financial Assistance Policy Scheme (paragraph 2.14) and the creation of the Trade and Investment Promotion Agency (para. 2.07). The new policy scheme does not include specific export incentives besides the tariff drawback on imports from outside the Customs Union granted to exports going outside the Customs Union. Recently, however, export activities have been stimulated, by the devaluation of the Pula in response to the devaluation of the South African Rand. Also, as part of its new strategy towards the sector, the Government is reducing infrastructure constraints by developing industrial estates in the three main cities; improving the telephone and telex communications and the railway system; and increasing power supply with a coal based central power station (to be completed in 1985). The Government also favors Botswana's participation in two regional agreements: the Preferential Trade Area of Eastern and Southern African States and the Southern Africa Development Coordination Conference, both of which envisage reducing trade barriers among member countries.

2.14 Investment Incentives. The Financial Assistance Policy (FAP) scheme, launched in 1982, is administered by the Ministry of Finance and Development Planning. The assistance, available to new and expanding firms, consists of packages of incentives depending on the size of the firm and its expected economic rate of return. Each package is a combination of financial incentives including tax holidays, subsidies for unskilled labor, training grants for off-the-job training, capital grants, and sales subsidies. The incentives are phased out in five years. A bias towards small, rural-based enterprises is built into the assistance package. The response to the program in the first 10 months since its implementation has been good. Approximately P5 million was committed for assistance and additional P10 million has been appropriated for FAP in 1983/84. This scheme has positive features: First, it can improve the competitiveness of emerging local firms against South African imports without the negative effects of tariff protection such as raising the price of manufactures to local consumers. Second, it is neutral between production for the local market and exports ensuring that exports will result from relative advantages and not policy biases. Third, there are indications that it is influencing new firms in favor of more labor intensive techniques, a reversal of the distinct bias in favor of capital intensity of the previous investment incentive based only on taxation allowances. The Government intends to evaluate the scheme's performance in early 1984.

Development Constraints and Issues

2.15 Manufacturing activities in Botswana face severe constraints, many of which cannot be solved through policy actions or public sector programs. First, Botswana suffers from periodic droughts which result in high cost and unreliability of both electricity and water supply. Second, its internal market, although growing fast, is still very small (Botswana's population was less than 1 million in 1981) and characterized by low average income levels and scattered location. Although, as part of the SACU agreement, Botswana's manufactures have free access to a much larger market (25 million), few firms are able to compete with the more efficient South African producers in their own market. On the other hand, imports from the RSA into Botswana present serious problems of competition for local producers both in terms of quality and prices. Third, because of Botswana's landlocked position, transport to and from external markets, other than those in Southern Africa, is slow and expensive.

2.16 Notwithstanding these constraints, several factors make investment in Botswana more attractive than in other countries of Southern Africa. First, producers located in Botswana have, in addition to free access to the markets of South Africa, Zimbabwe, and Malawi, the possibility to export to other African countries that would not trade with producers located in the RSA or the "Homelands". Second, it has political and economic stability including a sound and stable convertible currency with free remittance of interest and dividends. The Government seeks to enhance these advantages by adopting the lowest personal taxation (outside the RSA and the "Homelands") and the lowest corporate income tax outside the

"Homelands". Also, the Government allows domestic producers a 12.5% price preference over foreign firms when bidding for public contracts; the highest local preference in Southern Africa. In addition, the package of financial incentives recently introduced is probably the most generous in the region.

2.17 Manufacturing activities in Botswana are seriously limited by the low skill level of its labor force, the scarcity of local managerial and technical expertise and the shortage of experienced entrepreneurs. Although there has been some progress in the development of local managerial and technical capabilities (para. 2.05), more needs to be done in this area and in the area of vocational and technical training. Because of lack of skills, labor productivity in Botswana tends to be lower than in the RSA and Zimbabwe, its main competitors in manufacturing production. In some industries, lower wages of Botswana's semi-skilled and unskilled workers 5/ may compensate for their lower productivity, resulting in lower unit wage costs in Botswana than in its two more developed neighbours. The Government's wage policy has in the past operated against this type of advantage. During the second part of the 1970's the Government steadily pushed its own wages up, raising the general wage level in the formal sector and with it unit wage costs. Since 1982, however, the Government has followed a more realistic policy of wage restraint.

2.18 The central Government has recruited most of the University Graduates each year since independence, leaving little trainable material for the parastatals, local government, and the private sector. 6/ Firms resort to expatriates for these positions usually at considerably higher cost. The Government is taking various actions to increase the supply of both secondary and university graduates and has agreed to share the existing supply. To increase the pool of skilled manpower, the Bank is financing the training of local people through current and proposed projects. The Bank-financed First and Second Education Projects (loans approved in 1976 and 1980, totaling US$20.5 million) are both helping to improve vocational and technical education. The Government and Bank are discussing an expansion of such training in the proposed Fourth Education Project. The recent Bank-financed Power and Third Water Supply Projects also include training components, as well the proposed Family Health Project. The wider issues of manpower development and training are being discussed with Government in the context of the current Bank's Economic Planning and Management Study.

5/ Unskilled and semi-skilled workers in Botswana earn between 55% and 70% of the wages of their counterparts in Zimbabwe and the RSA. But, skilled workers and supervisors earn nearly as much as their peers in both neighboring countries.

6/ Although university graduates are obliged by the terms of their grants to work for the Government upon leaving school, some firms are now able to hire graduates by compensating the Government for part of the education costs.

Prospects

2.19 The contribution of the manufacturing sector to direct employment creation is limited. Even if the rate of growth of manufacturing employment can be trebled, the sector will still create less than 2,000 jobs a year out of the 13,000 to 15,000 required to keep pace with population growth 7/. However, the indirect employment effect of manufacturing growth can be much larger through activities that serve industry (trade, banking) and through its linkage effects on the informal sector. Another important justification for Botswana's emphasis on manufacturing development is the types of skills it helps to develop in the local population, ranging from production skills to technological know-how and managerial and marketing abilities.

2.20 In addition to the role industry can play in employment creation, there is potential for increased industrial production to substitute imports and to export to other countries. This would strengthen Botswana's balance-of-payments. The Government is conducting sector studies to evaluate this potential in areas such as agroindustries and building materials, and the scope for establishing supplier industries linked to the development of the coal and soda-ash deposits as well as to other Government and mixed enterprises (Botswana Meat Commission, the railways, etc.). Feasibility studies are also available for a number of potential projects including a large tannery and a foundry. The Government is discussing both projects with interested foreign investors. The extent to which this potential can be realized and sustained beyond the short scope of the FAP depends on the ability of the Government to reduce the sector's constraints in terms of lack of physical and human resources and of technical knowledge.

Bank Experience and Strategy in the Sector

2.21 Bank involvement in the industrial sector in Botswana has been through: (i) a US$32.0 million loan approved in 1971 to assist financing the construction of infrastructure facilities in support of a copper/nickel mining project, and (ii) a first line of credit to the Botswana Development Corporation (BDC) of US$4.0 million approved in 1974 and fully disbursed. The IFC participates as a preferential shareholder in BDC. Its shareholding in 1979 was equivalent to US$375,000; it has recently approved an increase in its shareholding by US$481,000.

2.22 The Bank's strategy is to help strengthen the institutions involved in providing development finance, particularly NDB and BDC, and to help the Government improve an already basically sound policy framework through policy dialogues (e.g., in the area of human resources development) between Bank missions and Government officials. The Bank supports Botswana's strategy of employment generation and economic diversification, through a more vigorous manufacturing sector.

7/ Cooper and Lybrand, "Investment Climate and Investment Incentives Study", July 1981.

B. The Mining Sector

2.23 The engine for the rapid growth of GDP since the mid-1970's has been the mining sector which between 1976/77 and 1980/81 grew at an average rate of 33% per year. During that period, the contribution of the mining sector to GDP almost doubled from 14% to 27%. At present, mineral exports consist mostly of diamonds and copper-nickel. But, by the end of the decade, Botswana may become a significant exporter of coal, salt and soda ash of which the country also has abundant deposits. With a production of 7.7 million carats in 1982 Botswana is one of the major diamond producers in the world. Production is in the hands of the De Beers Botswana Mining Company (Debswana), a joint-venture in which the Government of Botswana and the South African firm are equal shareholders. The international price of diamonds fell in mid-1981 reducing the value of Botswana's exports by almost US$100 million. Exports recuperated in 1982 due to the commencement of production in the new mine at Jwaneng, which made possible a large increase in Botswana's sales quota to the London-based Central Selling Organization.

2.24 Production of copper-nickel started in 1974 in Selebi-Phikwe. The owner of the mining complex is a holding company, the Botswana RST Limited, in which the major shareholders are: AMAX Inc., the Anglo-American Corporation of South Africa, the Botswana Government, and public shareholders. The operating company, Bamangwato Concessions Ltd. (BCL), is owned by BRST and the Botswana Government. BCL is at present in serious financial troubles due to earlier technical difficulties and the depressed international prices of copper and nickel. The company has gone through three financial restructurings and has received emergency funds to cover operating deficits. The financial difficulties of BCL may force the mine to close even before the ore reserves are estimated to run out early in the next century. Given these prospects, the Government is considering doing a comprehensive study on the future of the mining community of 30,000 people of Selebi-Phikwe which the Bank is prepared to consider financing, under a separate project. Meanwhile, the Bank has indicated to the Government that it is willing to provide financing, under the present loan, for a consultant's review of existing studies prior to determining the need and scope of a major study (para. 4.02). Despite its financial problems, BCL is not expected to make credit demands on the Botswana Development Corporation or the National Development Bank.

C. The Agricultural Sector

Role and Performance

2.25 The contribution of agriculture to GDP has steadily declined from 45% in 1968/69 to 11% in 1980/81, as mining substituted cattle production as the mainspring of the economy. However, agriculture is still the largest single sector of the economy in terms of the number of families who

derive a living from it. There are approximately 85,000 traditional farms operating on the country's tribal lands and 360 commercial farms outside the tribal lands. In total, over 80% of the population of Botswana lives in rural areas.

Crop Farming

2.26 The country's ecological conditions are more suitable for cattle raising than for crop farming because soils are poor and water is scarce. Nevertheless, there are about 68,500 traditional crop farms cultivating over 200,000 hectares with food crops such as sorghum, maize, millet and beans. In years of normal rainfall, local farmers can supply up to 50% of the country's grain requirements. Even in years of normal rainfall yields are low, notably among traditional farmers whose yields are on average one third the yields in commercial farms. The difference in productivity between both types of farmers reflects differences in the quality of land, in irrigation, and in farming practices, including the fact that one third of traditional farmers lack any source of draught power.

Cattle Ranching

2.27 About 80% of the agricultural output in Botswana is from livestock. Approximately 57,700 traditional cattle farms own 2.5 million cattle; the rest of the 3 million head herd is owned by 360 freehold ranchers. An estimated 80% of the slaughtered cattle is exported, mostly to the EEC countries where Botswana's beef enters duty free (under the Lomé II agreement). The major constraint in a further increase in beef exports has been abbattoir capacity which remained static from 1972-82. Until the proposed abbattoir in Francistown is operational, export slaughter offtake is limited to BMC's Lobatse plant: other problems such as overgrazing on the tribal grazing lands, are likely to be eased when additional slaughtering capacity is installed.

Government Objectives and Policies

2.28 The Government's objectives in the agricultural sector are: first, to increase agricultural productivity and with it employment and incomes for 70% of the rural families who depend on farm cropping for their subsistance and will depend on this activity for the forseeable future; second, to achieve self-sufficiency in basic grains and vegetables by the end of the decade; and third, to reduce herd sizes in grazing lands and to increase cattle offtake rates. The main instrument of Government policy to achieve its objectives in crop farming is the Arable Lands Development Program (ALDEP) run by the Ministry of Agriculture. This is a multi-faceted program covering all aspects of production (research, extension, credit, input supply, marketing assistance etc.). Recently, the credit component has been dropped and more emphasis is being placed on research and extension, particularly on the development of new systems of dry land cultivation. Shortage of trained and experienced manpower, particularly extension agents, limit the effectiveness of this well designed programme. Also, to stimulate crop production, the Government

provides a guaranteed market for food grains at annually fixed prices through the Botswana Agricultural Marketing Board (BAMB). Recently BAMB introduced a differential price system to encourage crop production in deficit areas and started announcing its prices in advance of the planting season. BAMB's guaranteed buying prices tend to exceed its own selling prices. Still, imports from the RSA reach grain millers in Botswana at even lower prices.

2.29 The main ongoing program for the cattle sector is the Tribal Grazing Lands Program (TGLP) which is aimed at establishing demarcated commercial leasehold ranches within the tribal grazing lands. The Government believes that converting to commercial ranching would help to relieve overstocking on communal grazing areas and encourage increased off-take rate. In operation since 1974, the program has proceeded very slowly. However, the Government has recently made some major policy statements on TGLP clarifying points on compensation for displaced settlers and on the number of ranches an individual can be allocated. It is expected that the program may now pick up momentum and achieve its stated objectives. The Government is also considering proposals to raise tax on cattle producers, eliminate subisidies on livestock services, and require the meat processing industry to finance its future expansion either from loans or retained earnings. The Bank has been involved in Botswana's agricultural development through two livestock development projects: (i) a US$1.65 million loan (IDA) approved in 1972; and (ii) a US$6.5 million loan approved in 1977. About US$2.4 million of the second loan was on-lent to the National Development Bank.

D. The Financial Sector

Institutional Structure

2.30 Botswana has a well-established financial sector regulated by the Bank of Botswana (established in 1975). The sector includes two Government-owned financial institutions. The National Development Bank (NDB), established in 1963, is the country's first development bank providing short, medium and long-term loans to small-scale enterprises in agriculture, commerce and industry. The Botswana Development Corporation (BDC) was established in 1970 to identify and promote investment opportunities in the modern business sector. Most of BDC's investments is in the form of wholly-owned subsidiaries and joint ventures in a wide range of activities including industry, agriculture, tourism and real estate. Although BDC has up to now concentrated on large-scale projects, it is now contemplating the creation of a subsidiary to redirect some of its lending to small and medium enterprises. There are three commercial Banks: Barclays Bank of Botswana Limited and Standard Bank Botswana Limited, both incorporated in Botswana during 1975 as wholly owned subsidiaries of their parent British Banks; and the Bank of Credit and Commerce International, owned by Middle Eastern interests, which started operations in November

1982. The commercial banks have not been significantly involved in the past in financing small enterprises, with the exception of Barclay's Bank which in 1975 started an SSE financing scheme (restricted to Batswana citizens) jointly with BDC. While this scheme did not make much headway at that time, BDC is now revitalizing the scheme through its proposed subsidiary (para. 3.25) and extending its scope to cover SSE financing by other commercial banks as well. Another financial agency, the Financial Services Company of Botswana, was formed in 1974 by NDB, BDC and the two older commercial banks to provide hire-purchase finance, industrial leasing and medium term lending. There are other specialized financial institution such as the Botswana Cooperative Bank, the Botswana Building Society, the Post Office Savings Bank, two insurance companies and two brokers with international connections. In terms of size, the commercial banks dominate the financial sector. The number and variety of financial institutions apears adequate to meet the current needs of the country.

2.31 Up to now there has been no significant joint financing between the commercial banks and the development banks. This may change in the future as a result of the Government's stated interest to promote complementarity between Government and private sector banks. For that purpose the Government proposes to establish a Banking Consultative Committee under the chairmanship of the Bank of Botswana with the task of jointly adopting guidelines for the development of banking services. The wide range of financial services offered by these institutions appear to be adequate for the needs of the economy.

Resource Mobilization and Credit Allocation

2.32 In the period 1980-1982 total commercial bank deposits increased from P121 million to P202 million, an average growth rate of nearly 14% in real terms. This growth represents a considerable success in mobilizing domestic savings, in a country where wealth is not traditionally held in monetary forms. As of June 1983, demand deposits accounted for 50% of all deposits, short-term notice deposits for 29% and savings for 21%.

2.33 Lending to manufacturing remained a modest 4 or 5 percent of all commercial bank lending until the second quarter of 1983, when it reached nearly 8% compared to 13% for mining, 9% for agriculture and 28% for trade.

2.34 High inflation and balance of payment problems obliged the Government to increase interest rates in 1981 and again in 1982. The prime lending rate was increased to 10.5% in July 1981 and to 14.5% in May 1982. At the same time, the Government introduced a statutory ceiling of 8% on credit expansion to the private sector, which was subsequently rised to 15% in the light of improved export prospects. As a result of these measures, commercial bank lending to the private sector stagnated during the second quarter of 1982 8/, but recovered in the last quarter. During this

8/ The most affected sectors were mining and services.

period, commercial lending to manufacturing continued largely unaffected increasing from P4.6 million by December 1980 to 5.4 million by December 1981 and to P6.9 million by December 1982, an average real growth rate of over 10 % per year. But, lending from Government institution such as BDC and NDB did respond to the reduction in loanable funds. For these two institutions, commercial and industrial lending in 1981 and 1982 was below the 1980 level even in nominal terms. In the second quarter of 1983, once the credit ceilings were removed, commercial bank lending to manufacturing rose to P11.8 million, a real increase of over 60% above the December 1982 level. The expansion in bank lending to the sector reflects, besides the removal of credit ceilings, an increase in manufacturing activities generated by the incentives scheme adopted in 1982. Excess liquidity in the banking systems, however, remained high reaching P66 million in June 1983.

2.35 The commercial banks normally lend short-term for working capital purposes. The two development financing institutions (BDC and NDB) are the major sources of long term lending. These institutions have to rely partly on the Government and the multilateral financial institutions for resources for their medium and long-term loans. BDC has already identified investment opportunities and is going ahead with an investment program of P32 million covering FY83-86. Considering the level of its operations during the past 3 years and its efforts to diversify into non-agricultural activities, NDB's commitments during the next 2½ years are expected to exceed P42 million. The Bank funds would finance about 18% of BDC's commitments and about 11% of NDB's commitments during FY84-86.

Inflation and Interest Rates

2.36 Inflation rates in Botswana reflect, to some extent, price trends in the RSA, Botswana's main source of imported goods and services. After several months of moderate price increases, inflation in Botswana accelerated during the last two quarters of 1980 and continued rising during the first half of 1981. The change in the cost of living index reached a peak of 18.5% per annum in May 1981. Since then, the inflation rate declined steadily reflecting the success of the Government measures to control demand growth (devaluation, wage freeze and higher interest rates), and the effects of the RSA's austerity program. Botswana's inflation performance continued improving during 1982. Accordingly, the twelve-month average increase in the cost of living index fell from 16.3% in 1981 to 11.5% in 1982. Botswana's National Accounts projections assume an inflation rate of 10% per annum between 1983 and 1985.

2.37 Real interest rates in Botswana were negative until early 1981, when bank rates were increased several times in order to take account of inflation and rising interest rates abroad, as well as to bring the demand for credit more in line with the reduction in loanable funds (paragraph 2.34). Real interest rates became highly positive in 1982 when further increases in bank rates coincided with a sharp deceleration in inflation. The prime lending rate remained at 14.5% from May 1982 to February 1983 when it was lowered to 13%, still above the 12.4% inflation rate for that quarter. The Government intends to keep interest rates positive.

III. THE FINANCIAL INTERMEDIARIES

A. Botswana Development Corporation

Objectives and Role

3.01 The Botswana Development Corporation was established in April 1970 as a wholly Government-owned company. Its goals were "to promote and facilitate the economic development of Botswana, to identify opportunities for development of new and existing industrial, commercial and agricultural business undertakings", either on its own or in partnership with other local or foreign investors and to provide them with appropriate assistance, including financial and management support. BDC is not a typical DFC, in as much as its major role has been that of a promotional institution which, due to the lack of local entrepreneurs, has taken strong entrepreneurial initiatives in identifying and establishing projects through wholly-owned or joint-venture subsidiaries, the latter with foreign participation. With a few exceptions, it has since inception promoted and/or invested in 45 medium and large scale enterprises (including six enterprises since disposed of to private investors or Batswana institutions). These investments cover a wide variety of sectors viz, commercial farming, commerce and industry, tourism and transportation, property development and financial services. Most of these activities have been carried out through subsidiaries. It has also attracted foreign investors and established joint-venture subsidiaries. While the number of its operations over the past five years has averaged 20 per annum most of these have been repeated operations to existing subsidiaries for expansion, modernization etc. It has performed its role successfully and has developed into a mature and financially strong institution with sound policies and procedures, good management and a satisfactory staff development program. In order to increase its developmental impact, it is planning to promote and implement a number of projects in productive sectors; the Bank considers the plans to be appropriate.

Capital, Ownership and Board

3.02 BDC's paid-in capital, as of June 30, 1983, was P5,145,000 of which P3,945,000 was in ordinary shares of P1 each, all owned by the Botswana Government and P1,200,000 in 8.5% cumulative redeemable non-voting preference shares held by FMO (P600,000), DEG (P300,000) and IFC (P300,000). The three preference shareholders were invited by the Government in 1979 to participate in BDC's capital and to take seats on the Board; their participation was intended to strengthen the expertise of the Board and to assist BDC in attracting foreign investment to Botswana.

3.03 BDC's Board, chaired by the Permanent Secretary of the Ministry of Finance and Development Planning, consists of eleven members, five representing the Government, three from the private sector (nominated by

the Government) and three representing the institutional preference shareholders. The Board is required to meet four times a year. The Board has constituted an Executive Committee, consisting of all local BDC Board members which can meet at short notice to take decisions on urgent matters. The Committee's decisions are required to be reported to the Board. The members take active interest in the deliberations of the Board which conducts its affairs in a business like manner and takes decision on each proposal on its economic and commercial merits, with due regard to the overall, long-term economic interests of and benefits to Botswana.

Organization and Management

3.04 BDC's organization chart is given in Annex 2. All work relating to project identification, promotion, appraisal, and implementation up to commissioning stage is carried out by the Project Development Department, which is headed by a Manager directly reporting to the General Manager. Supervision of existing investments is carried out by the Management Department (divided into seven divisions according to sectors of the economy) which is under the control of three Divisional Managers reporting to the Deputy General Manager. This department is also responsible for the management and proper development of BDC's subsidiaries. The Finance, Personnel and Administration Department, which is headed by the Financial Controller, is responsible for bookkeeping and treasury functions, and personnel administration. The Financial Controller is assisted by a qualified Chief Accountant. The latter also provides advice on accounting and financial matters to BDC's wholly-owned subsidiaries.

3.05 All management positions in BDC, with the exception of the Deputy General Manager, are held by expatriates. The General Manager and a Divisional Manager are funded under Dutch technical assistance grants whereas the other expatriates are directly employed by BDC. Due to the extreme shortage of qualified and experienced Batswana, most of the managerial positions in BDC will continue to be occupied by expatriates for a number of years. With a few exceptions, expatriates also occupy key positions in BDC subsidiaries. BDC's management is dedicated and competent. In order to improve the proportion of Batswana citizens in management positions, BDC has drawn up a program for staff development under which all management positions in the Project Development Department and the Management Department would be filled by Batswana citizens by the end of mid-1988. This program is discussed below.

Staffing, Staff Development and Training

3.06 As of June 30, 1983, BDC had a professional staff of 23 (excluding subsidiaries) of which 10 were expatriates. BDC has made good progress in recent years in recruiting Batswana graduates for professional positions in BDC itself as well as in some of its subsidiaries. Of the six Batswana professional staff in the Project Development Department, three project officers are being sponsored by BDC for higher education in Canada and U.K. and the remaining three (assistant project officers) are scheduled to undergo courses in finance, accounting and economics at the Botswana

Polytechnic. Four Batswana, two presently working as assistant accountants in the Finance Department and two in subsidiaries, are now preparing for level 2 examinations of the Association of Accounting Technicians of U.K. BDC appointed an expatriate (having project appraisal experience in a development bank) in the Project Development Department as a Training Officer, to provide on-the-job training to Batswana staff. Overall, BDC's staff training and development programs are satisfactory.

Policies and Procedures

3.07 Policies. In June 1982, BDC's Board adopted a new statement of "Investment Policy and Procedures" (Annex 3). This statement amplifies the statement adopted by BDC 's Board in June 1974 following the appraisal of the Bank's first loan to BDC. The salient features of the revised policy statement are:

(i) reiteration of the policy that investment decisions will be based on sound appraisal criteria including technical feasibility, economic viability and financial soundness of projects;

(ii) economic rate of return to be at last equal to the opportunity cost of capital;

(iii) appropriate restrictions on exposure in individual projects;

(iv) BDC not to involve itself normally in management of financed projects;

(v) BDC to disinvest its mature investments at commercial prices, preferably to Batswana citizens; and

(vi) BDC to protect itself against exchange risk and to charge market rates for its funds and services.

3.08 Procedures. While BDC has all along carried out adequate appraisal of investment proposals and closely supervised its investments, it has only recently prepared an Operations Manual in which its appraisal procedures are formally elaborated. The Manual is a well prepared document containing (i) guidelines for preparation of proposals for the Board, (ii) standard loan conditions and (iii) the procedure for handling disbursement requests. BDC 's Board at its March 1983 meeting approved the creation of a post of Corporate Development Officer for a period of two years to prepare procedures for all BDC's departments, as well as those governing subsidiaries' relationships with BDC and with other subsidiaries etc. The laying down of procedures in these areas will provide adequate guidance to the young Batswana staff who over the years will have to assume higher responsibilities and will also provide guidelines to the new expatriates who may replace some of the existing expatriates in BDC.

3.09 The appraisal guidelines provided in the Operations Manual are comprehensive. The lending criteria are based on the guidelines contained in BDC's statement of "Investment Policy and Procedures" (paragraph 3.07), particularly the provisions relating to maximum BDC exposure in a project and the estimation of the financial and economic rates of return. Agreement was reached with BDC at loan negotiations that it will calculate economic rate of return for all subprojects using more than $130,000 equivalent from Bank funds and that this return will not be less than 10%.

3.10 BDC closely supervises its projects whose executing agencies are required to submit quarterly progress reports and proforma financial statements, summaries of which are presented to BDC Board for information at each meeting. While BDC's real estate subsidiaries are controlled and managed by the Manager of the Property Division of the Management Department, other subsidiaries have independent managers who have been given reasonable autonomy to manage their affairs. BDC's management staff usually constitutes the Board of wholly-owned subsidiaries; in case of joint-venture subsidiaries, the management is usally with the foreign minority investor but here, too, BDC's management staff have seats on their Board. BDC provides accounting services, at reasonable fees, to six subsidiaries which cannot either maintain their own accounts at their locations (the two commercial farms) or which are too small to afford separate accounting staff.

3.11 Some of BDC procedures, particularly those relating to its relationship with its subsidiaries have continued to be a matter of concern to the Bank. During its early years BDC established a number of wholly-owned subsidiaries, particularly the property companies, with a nominal capital of P2, and made loans on a demand basis without fixed amortization schedules to finance their capital investments. This was done (i) to take advantage of the tax regulations in force at the time, (ii) to allow BDC flexibility in financial management through centralization of cash flow from the subsidiaries; and (iii) to cut down on administration costs during the early stages of their development. At the same time this practice resulted in the subsidiaries having an unsatisfactory capital structure (excessive debt and financial charges) and insufficient autonomy to manage their financial resources. Consistent with Bank advice, BDC has recently provided its non-property subsidiaries with adequate capital and has established fixed amortization schedules for all its loans to these subsidiaries for capital expenditure. However, BDC still does not propose to have fixed amortization schedules for its property subsidiaries (except two sub-projects financed under our first loan) for the reason that it finds it more convenient and efficient administratively to control property subsidiaries centrally and not leave surplus cash balances with them. This position is acceptable to the Bank.

3.12 Procurement. BDC's procurement procedures are adequate; its customers procure goods on the basis of competitive quotations, giving due weight to quality, after-sales service, delivery schedules etc.

3.13 Disbursement of funds is made either direct to suppliers against invoices or in reimbursement of expenses already incurred by borrowers. Disbursement procedures are adequate.

3.14 Audit. BDC's accounts as well as those of its subsidiaries, associated companies and other borrowers are audited annually by a locally based audit firm of international repute. Whereas BDC's auditors have in the past been giving adequate explanations and notes for various items appearing in the company's financial statements, they have not been producing the audit reports along the guidelines in the "Illustrative Form of Audit Reports for DFCs". An understanding was reached with BDC that starting with the closing of the financial year end of June 1983, the audited accounts will conform to the "Illustrative Form" as far as possible. Since the audited accounts reflect the position of the company (BDC) as well as the consolidated position of the Group, the Bank has agreed that BDC submit the audited accounts within six months of the close of its financial year.

3.15 Interest Rate. BDC has traditionally lent money to its subsidiaries and other borrowers at 0-3% above the prime rate in Botswana, which is presently 13% p.a., but has made exceptions in case of a few "small sub-commercial projects" (namely, projects which do not yield a commercial rate of return but have economic benefits), two agricultural operations and a few other operations which BDC thought could not sustain normal rates during the early years of their establishment. However, over 81% of the BDC loan portfolio is at 14.5% or above. Given the present inflation rate of about 11.5%, the interest rate is positive in real terms. It is also in line with the interest rate charged by commercial banks in Botswana. BDC is pragmatic about the interest rate charged on its loans and has been adjusting the rate in the light of the economic situation in the country. At the loan negotiations it was agreed that during the execution of the project BDC will annually review with the Bank the interest rates charged in its lending operations. An understanding was also reached that this review will take account of the inflation rate, the interest rate structure prevailing in Botswana, and the spread required to enable BDC to cover its costs, provide for possible losses and generate a reasonable profit.

3.16 Foreign Exchange Risk. On the first Bank loan, BDC passed the foreign exchange risk to its sub-borrowers. Since all of them were wholly-owned BDC subsidiaries, the risk had to be ultimately borne by BDC. However, since the Pula has been a stable currency, BDC made some exchange gains. In August 1980, the Government worked out a formula (Annex 13) for providing protection to BDC, among other parastatals, against exchange fluctuation risks for its existing as well as future foreign currency borrowings whereby 91.75% of the risk is borne by the Government and the remaining 8.25% by BDC. This arrangement is satisfactory.

Operations and Portfolio

3.17 Operations. The range of BDC's promotional and financing activities is very wide covering industry, commerce, agriculture, tourism, financial services, transport, industrial estates and residential and commercial properties. An analysis of the operations during the last five years appears in the Basic Data. The manufacturing sector investments include breweries, furniture workshops garment factories, and a concrete products enterprise. In agriculture, BDC subsidiaries have turned largely unused land into farmland which is currently producing cotton, maize, wheat, citrus and vegetables. Investments in the tourism sector include hotels in the main centers in Botswana and help develop tourism in remote areas which have considerable potential for attracting tourists. Transport sector investments include the national airline and a successful car rental franchise. In an environment where private entrepreneurship was virtually non-existent, BDC did a commendable job during the early years of its establishment in setting up a number of enterprises through wholly-owned subsidiaries and in acting as a catalyst to attract foreign investors to Botswana.

3.18 By mid-1975 BDC had established 20 subsidiaries, of which 17 were wholly-owned and 3 joint-ventures with foreign investors. It also took minority positions in 11 other companies. BDC could not keep up the tempo of project promotion in later years due to the inordinate amount of management time needed in project supervision. In case of wholly-owned subsidiaries, which needed independent management, BDC had to locate and recruit expatriate managers every few years on expiration of their contracts and provide the companies with policy guidance etc. Furthermore, BDC had to pay particular attention to salvaging two subsidiaries 9/ whose continued poor performance (1974-78), due to mismanagement, had created financial problems of a magnitude which were threatening BDC's own financial soundness.

3.19 The economic impact of BDC's operations has been significant, although not always quantitatively measurable. Apart from creating production/service facilities in a number of sectors in the economy through 28 subsidiaries, 16 sub-subsidiaries and 10 other enterprises, BDC operations have helped create over 2,600 direct jobs for Batswana citizens at an average cost per job of about US$18,000. Indirect employment created by industrial and commercial enterprises (not assisted by BDC) located in the BDC-owned industrial estate in Gaborone are estimated at about 2,500. Foreign exchange earnings from crop exports from a farm in Tuli Bloc (North Eastern Botswana) and the two hotels managed by a subsidiary were estimated at US$500,000 and US$150,000 respectively in 1982.

9/ The Prinz-Brau Brewery - since renamed Kgalagadi Breweries - originally a joint venture with a German company and the Hotel Management company responsible for managing the President Hotel in Gaborone and the Bosele Hotel in Selebi-Phikwe. BDC was able to turn around the fortunes of these companies by replacing the management and minority shareholder of the brewery by a more competent partner and by selling 40% of its shareholdings in the Hotel Management company to a professional company and concluding with the latter a management contract.

3.20 Because of the concentration of the country's population in the East and North East, most BDC projects are located in these areas with Gaborone claiming the lion's share, followed by Francistown and Selebi-Phikwe. BDC has not so far made any conscious effort to disperse its projects but will have to consider this seriously in view of the water shortage in Gaborone and the need to diversify the economic and employment base of Selebi- Phikwe, which is threatened by a possible closure of the copper/nickel mine by the end of the decade 10/.

3.21 Apart from direct project promotion and financing, BDC helped set up the Partnership for Productivity (Botswana) Ltd. (PFP), a non-profit institution whose guarantee shares have been assumed by BDC. PFP designs, develops and operates Batswana-staffed programs to assist small-scale Batswana entrepreneurs, particularly by providing assistance in start-up, management consultancy, accounting etc. BDC also provided some assistance in the initial stages to the Botswana Technology Center, which was set up with the assistance of London-based Intermediate Technology Development Group and which carries out appropriate technology research.

3.22 A project completion report on the first loan to BDC prepared in September 1982 concluded that BDC's performance in achieving the objectives the Bank had set at the appraisal of the first loan (institution building, project promotion with a view to creating employment opportunities for Batswana citizens, and providing subsidiaries with autonomy and a reasonable financial structure) had been mixed and somewhat slow. Past BDC management ascribed this slow progress to the excessive attention it had to pay to set BDC's ailing subsidiaries on proper footing.

3.23 While the management's contention is indisputable, the fact remains that BDC's developmental activities stagnated after 1975; the number of assisted enterprises ranged between 32 and 34 during FY76-FY80 and the amount of loan approvals averaged only about P1.1 million a year. Even this level of loan approvals somewhat overstates BDC's development financing activities in as much as it includes approvals of working capital finance to BDC subsidiaries; as a conglomerate operating multi-sectorally and as a holding company, BDC has to support its subsidiaries when they run into cash flow problems. BDC has not kept separate figures for these two types of financing but it informed the mission that a significant proportion of these approvals was for providing working capital to its subsidiaries. The mission obtained BDC's assurance that as from the fiscal year beginning July 1, 1983, it would keep separate statistics for the two types of financing activities.

3.24 In an effort to speed up the utilization of the Bank's first line of credit, and to redirect a part of the Bank Loan towards labour intensive activities, BDC participated in a scheme jointly with Barclays Bank of Botswana to provide a partial credit guarantee (50%) for losses on SSE

10/ A component of US$200,000 is being included in this loan to provide for consultancy to review studies relevant to the options available to the declining mining community of Selebi-Phikwe (paras. 2.24 and 4.02).

loans made by Barclays Bank to Batswana citizens and to reimburse Barclays up to about 70% of disbursements. It was expected that the scheme would benefit 390 entrepreneurs and create about 975 jobs at an average cost per job of $1,400. However, due to excess liquidity of the banking system and the problems associated with disbursement of the Bank loan in the then hard currencies only 16 SSEs were financed under the Bank loan.

3.25 The induction of a new management team in BDC in 1980 has led to adoption of policies, procedures and initiatives which address the problems and inadequacies in BDC's operations and institution building effort discussed above. There was a significant increase in the level of its approvals during FY81, mainly due to purchase of a commercial farm, expansion of the President Hotel in Gaborone and substantial capital expenditure on development of the Broadhurst Industrial Estate in Gaborone. BDC is, once again, stepping up its activities to an appropriate level. During FY83, BDC approved loans and/or equity investments in six new projects and is going ahead with a substantial investment program for 1984-86 which is consistent with Botswana's development plan and priorities and in line with growth prospects for Botswana's economy. It has also carried out significant improvements in its operational procedures (paragraphs 3.08 and 3.11). In order to provide assistance to small-scale Batswana enterprises, its Board has approved a proposal for setting up a subsidiary which will provide the types of assistance not available from the other existing institutions viz, equity investments, credit guarantees etc. BDC has also revived the BDC/Barclays Bank guarantee scheme and is planning to extend its coverage to other commercial banks.

3.26 In order to mobilize the savings of Batswana citizens for investment in profitable enterprises, BDC's Board has recently approved the establishment of an Investment Trust to which BDC would divest some of its mature and profitable investments. Batswana citizens who subscribe to the shares of the Trust would qualify for dividends/profit distribution from the earnings of the Trust's investments. The Government of Botswana has agreed to tax exemptions of BDC shares to the trust and from the trust to the public. Consultants are now preparing details of the trust and launching of the trust is set for early 1984.

3.27 Portfolio. The sectoral distribution of BDC's portfolio, which remained highly skewed towards property development until about 1980, has since improved considerably. As analysis of the portfolio as of June 30, 1983, is given in Annex 4. As of this date, investments in property (which stood at 82% of the portfolio in 1974), were 37% 11/ of the portfolio, followed by tourism and transport (32%), agriculture (18%), industry and commerce (12%) and financial services (1%). BDC's investments in the property sector involve industrial estates, commercial buildings, and residential buildings (including staff housing in Gaborone and in the two commercial farms in Talana and Seleka). BDC made these investments to meet the pressing need for land and buildings for industrial and commercial

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11/ This proportion also includes substantial revaluations of property companies carried out in 1981 and 1982.

enterprises and for housing its own staff and also to reduce the proportion of expatriate ownership of such land and buildings. Since BDC is allowed to sell such properties only to citizens or Batswana-owned companies, its progress in this area has been slow; it has so far disposed of only one office building (to NDB) and a few houses to citizens. Responding to the Bank's advice to reduce its excessive investments in the property sector, BDC has confirmed that its present policy is not to invest further in residential properties in Gaborone, except for some necessary low-cost housing for its junior staff which they, in turn, could buy from BDC. Residential properties not occupied by BDC staff are all up for sale to citizen buyers. Since most BDC residential properties are in blocks and since there is no sectional title (condominion) law in Botswana, disposal of such properties has been found difficult. BDC is investigating a scheme of sectional shareholdings. In the future, BDC will consider investment in housing only if absolutely needed for the operation of an industry or a commercial farm.

3.28 Because of the preponderance of subsidiaries in BDC's portfolio, over 56% of the portfolio represents equity investments. There has been a substantial increase in BDC's net equity investment portfolio, from P2.3 million as of June 30, 1981 to P11.4 million as of June 30, 1983; most of the increase (P6.2 million) resulted from the revaluation of seven property companies, the remainder (P2.9 million) representing four new investments and improvement of the capital structure of three subsidiaries.

3.29 An analysis of the performance of BDC investments outstanding as of June 30, 1983 is presented in Annex 5. Over 96% of BDC's investments are in its subsidiaries. Their overall performance is good; a review of their FY83 performance is given below. As of June 30, 1983 out of twenty six subsidiaries, twenty two were operating; of the latter fourteen made profits of P4.1 million in FY83, five incurred losses totalling P267,000, and results of three others were not available. During FY83, BDC received a dividend income of P1,375,000, representing about 20% return on its net equity investments of P7 million in FY82, as compared to a return of 25% in the previous year. The decline is due to a significant increase in the amount of equity investments resulting from revaluation of property subsidiaries' assets. Most dividend income was received from the joint venture subsidiaries (P958,000 representing a return of over 46%) and from associated and other companies (P417,000 or 142% of equity investments in these companies).

3.30 The loss making subsidiaries were two property companies which incurred small losses due to excessive debt, a small-scale enterprise, a hotel company and a furniture company in Gaborone. BDC is negotiating the sale of one of the two loss making property subsidiaries; the performance of the second is linked with the economic revival of the mining community of Selebi-Phikwe. The hotel in Gaborone was completed in FY82 and its prospects of profitability are good. BDC has informed us that the prospects of the furniture company are good. One of BDC's wholly owned subsidiaries runs the national airline, Air Botswana, and its losses in the

past have been a matter of some concern to the Bank. Responding to the Bank's concerns regarding the possibility of Air Botswana's continued losses and the Bank's proposal to commission a study of its financial prospects, the Government stated that two studies on the airline's operations had recently been completed. Following these studies, the Government had decided to reinforce its intention for Air Botswana to operate on commercial principles. At the negotiations the Government also agreed to meet any losses incurred by BDC in the unlikely event that uneconomic routes or other uneconomic actions were imposed on the airline by the Government. Furthermore, BDC recently carried out a reorganization of two of its former subsidiaries in the aviation business, Air Lease which owned the aircrafts and leased them to the airline, and Air Botswana which operated the airline. Whereas in the past Air Botswana was making modest losses, Air Lease continued to make small profits. This reorganization, which would put the performance of the airline operation into proper perspective, involved the setting up of a new subsidiary, Air Botswana Holdings (Pty) Ltd., of which Air Botswana itself would be a wholly-owned subsidiary; the former would own and lease the aircraft and the latter would operate it. In the future the combined performance of these two enterprises would be reflected in the financial results of Air Botswana Holdings (Pty) Ltd. The Government also stated that the airline's prospects are expected to improve considerably as South African Airlines' scheduled flights between Johannesburg and Gaborone have been taken over by Air Botswana as from June 1983 and the latter is considering re-opening the profitable Lusaka route. The Government and BDC are hopeful that in the foreseeable future Air Botswana would break even on its operations. Even if the airline were to incur modest losses, their impact on BDC's profitability is not expected to be significant in as much as BDC as a holding company is allowed tax credits for losses incurred by its subsidiaries. The Government's declaration of intent and commitments, as stated above, are satisfactory.

3.31 While some of BDC's subsidiaries have incurred modest losses, the overall quality of BDC's portfolio is in good shape. BDC carefully reviews the financial prospects of its investments at the close of each year and makes adequate provisions for possible bad debts. As of June 30, 1983, these provisions amounted to P955,000, of which P731,000 were against equity investments (over 6% of the equity portfolio) and P224,000 against loans (2.5% of the loan portfolio).

3.32 Because of the extremely limited number of private Batswana investors, BDC's progress in disinvesting some of its mature investments has been slow. However, in FY83 it was able to dispose of its investments in a property subsidiary in Selebi-Phikwe, a real estate agency subsidiary and a property maintenance subsidiary in Gaborone. BDC's revised policy statement (para. 3.07 (v)) requires it to endeavour to dispose of its mature investments in successful enterprises, at commercial prices, preferably to Batswana citizens. The proposed establishment of an Investment Trust (para. 3.26) is expected to help spur this divestiture process.

Resources

3.33 As of June 30, 1983, BDC resources consisted of its paid-in capital of P5.1 million of which P1.2 million represents 8.5% preference shares of P1 each held by FMO (600,000), DEG (300,000) and IFC (300,000), reserves and retained earnings of P9.4 million, 7.25% IBRD loan equivalent of P2.0 million (still outstanding out of the US$4 million loan), two Botswana Government loans aggregating P9.2 million (P2.5 million at 8% repayable by 1999 and P6.7 million at 10% repayable over 25 years commencing April 1984), and an EIB loan equivalent of P1.2 million.

Financial Condition

3.34 Annexes 6(a) -6(c) show BDC's financial statements and financial ratios 1979-1983 (and projections for 1984-1988). The balance sheets reflect stagnation of portfolio during 1979-80, mainly due to intensive attention paid by BDC management in salvaging two of its subsidiaries (para. 3.18). BDC investments more than doubled between FY80 and FY82. Major increases took place in equity investments, partly due to revaluation of the fixed assets of some of BDC's property subsidiaries. Other investments were financed out of increases in the paid-in capital (including P1.2 million contributed by IFC, DEG and FMO), Government loan and internal cash generation. BDC has traditionally maintained a sound liquidity position.

3.35 BDC's financial results have varied widely over the last five years but the performance has been consistently strong. BDC's net profits as percentage of average equity averaged 13.5% per annum during FY79-83. Its long-term debt equity ratio improved from an already conservative level of 1.1:1 in FY79 to 0.5:1 in FY83. While BDC has regularly paid dividends at 8.5% on its preferred shares, it declared a dividend of 8.5% on all its shares for the first time out of its FY81 profits. It did not pay any dividends on ordinary shares out of its FY82 profits as the Government, which is the sole ordinary shareholder, asked BDC to retain the earnings for its future investment needs.

Prospects

3.36 Operational Strategy. BDC's new management team since its induction in 1980 has been active in evaluating BDC's past performance and suggesting new initiatives to its Board. In March 1982, BDC adopted an operational strategy focussing on develomental impact of its operations, encouraging increased citizen participation in viable ventures, development of Batswana staff and their training to assume higher responsibilities in the future and development of financial discipline in an arms-length relationship with BDC subsidiaries. These strategies have the support of the Government and are appropriate. BDC has already started implementing them.

3.37 Forecast Operations. BDC intends to expand its activities considerably over the next five years. Its Board approved an overall investment program of P55 million covering the period 1983-87. Reviewing BDC's project pipeline, including projects under promotion, the mission estimated that BDC could undertake an investment program of P32.3 million during FY84-86; a break-down of these projected investments is given below. During FY83, BDC's approvals amounted to P10.1 million (loans P4.3 million and equity investments P5.8 million). Given its projected financial resources, BDC has the staffing capability to implement an investment program of this dimension.

Investment Program in P million

Sectors	FY84-86	%
Agriculture	7.5	23
Industrial Projects	5.1	16
Hotels and Tourism	6.7	21
Industrial Estates & Buildings	7.6	23
Commercial & Residential Property	4.3	13
Small-Scale Enterprises	1.1	4
	32.3	100

3.38 About 60% of the approvals are likely to be in the directly productive enterprises, 23% in development of industrial estates and factory shells and only 13% in commercial and residential property. About P1.1 million, or 4% of the proposed investment program, will provide assistance to small-scale enterprises, particularly those owned by Batswana (para. 3.25). BDC estimates that its proposed investment program will assist about 40 medium-size and large projects and over 50 small-scale enterprises. The projects would include those promoted and financed wholly by BDC, joint-venture subsidiaries with foreign investors, as well as projects sponsored by private entrepreneurs, both local and foreign, in which BDC would either be a minority shareholder or only a lender. The above investment program will contribute to a substantial shift in the composition of BDC portfolio away from property investments and towards investments in productive sectors.

3.39 Resource Requirements. BDC's resources position, which shows a financing gap of P2.2 million as at June 30, 1983, appears in the Basic Data. In order to cover this gap as well as to finance its FY83-86 investment program of about P32 million, BDC proposes a series of actions. It will increase its share capital by P6 million, of which P2.8 million will be in the form of cumulative redeemable non-voting and non-participating preference shares to be subscribed by IFC (P500,000), DEG (P500,000), FMO (P1 million) and CDC (P800,000), the remaining amount being

subscribed by the Government in ordinary shares. IFC and the other preference shareholders had initially agreed with BDC and the Government that the coupon rate on these shares would be 12% and on this basis IFC Board approved the investment in May 1983. BDC has now come up with the proposal that it would assume the exchange risk on the new investments in preference shares by the above-named institutions by guaranteeing that, on redemption (over 5 years beginning after the 10th year) of the shares, the shareholders will receive their investment in the currency and in the amount it was originally made. These shares will still be subscribed in Pula and the dividends paid in Pula. In view of this BDC has suggested a 10.5% coupon rate on these shares; IFC has approved the change but the other preference shareholders have yet to approve it. In the event of this proposal being accepted by BDC Board and the preference shareholders, BDC intends to make provisions for any foreign exchange losses as part of its annual review of loss provisions. BDC is also expecting loan funds amounting to about P20 million from EIB (about P4 million), IBRD (over P6 million) and the Government (P10 million) and is expected to generate cash of over P9 million from its operations during this period.

3.40 Projected Financial Position. BDC's projected financial statements for FY84-88 are attached as Annex 6 (a)-6(c) and the financial ratios as Annex 6(d). These projections, which show a good financial position for BDC assume a moderate improvement in world economy, and the drought not affecting project implementation to any sizeable extent. Increased revenues are likely to come from increased dividends and interest on loans. Administrative costs are expected to decline as a percentage of average assets from 8.7% in FY83 to 2.6% in FY88. The financial charges are forecast to increase from P0.4 million in FY83 to P3.2 million in FY88 reflecting the larger volume of BDC's borrowings. Net income is projected to show an average return on share capital of about 11.5% during the next five years. Coverage for debt-service and preference share dividend estimated at 4.3 times for FY84 is projected to decline to 2 times in FY88 which is still adequate. Debt-equity ratio is projected to increase from 0.6:1 in FY84 to 1.5:1 in FY88, which is still very conservative. An agreement was reached with BDC at the loan negotiations that the consolidated debt of BDC and its subsidiaries will not exceed five times their net worth.

B. National Development Bank

Background and Role

3.41 The National Development Bank (NDB), wholly owned by the Government of Botswana was set up in 1963 by an Act of Parliament to promote the economic development of Botswana. NDB has closely followed the Government development priorities; as such, it became the primary institution for financing agricultural and water development projects promoted by very small farmers particularly those with no access to credit from the commercial banks. As from 1980, NDB has also emerged as the main institution for financing locally owned non-agricultural small-scale and medium scale enterprises in the commercial and industrial sectors.

Capital

3.42 NDB's capital is designated as "unrecallable capital", and consists of funds provided by the Government (P4.9 million) and grants from overseas aid agencies (P726,000). The NDB Act requires NDB to pay interest to the Government on its unrecallable capital unless the Minister of Finance waives such interest payment. Thus, there is some ambiguity about the status of NDB's capitalisation; it is not clear whether the unrecallable capital represents equity in the normal sense of the word or subordinated loans. During negotiations, the Government agreed to delete all references to interest payments on capital in the NDB Act and to provide additional capital to enable NDB to maintain a debt-equity ratio not exceeding 5:1 during the life of the loan (para. 3.79). Amendment of the NDB Act so as to remove all reference to interest payments is a condition of effectiveness of the proposed loan.

Board of Directors

3.43 NDB's Board consists of 12 members including its General Manager and Assistant General Manager, seven members from the private sector, mostly retired civil servants, and three Government representatives. The last three are the Chairman, who is the Director of Fiscal Affairs in the Ministry of Finance, the Deputy Chairman, who is the Deputy Permanent Secretary of the Ministry of Agriculture, and the Permanent Secretary of the Ministry of Commerce and Industry. All Board members are appointed by the Minister of Finance for a term of three years which can be extended. There is no statutory limit on the number of Board members. The Board meets once every month to consider applications for loans above the General Manager's discretionary limit (currently P30,000). Although this remains its main role, the Board has in the past three years, begun to take increasingly active interest in matters relating to NDB's policies and organization.

Organization

3.44 The NDB organization comprises of the Head office in Gaborone, five regional offices each headed by a Regional Manager and eleven branch offices headed by credit supervisors. The rapid growth in its level of operations (para. 3.62) has put a strain on NDB's organizational and administrative capacities. NDB's existing organization is not suited to efficiently handle both a large number of agricultural micro-credits (traditionally its major area of activity) and normal development banking projects (including SSEs) which are larger, more complex and require a different approach in terms of appraisal, implementation and follow-up. The appraisal mission assisted NDB in drawing up a new organisation chart which has recently been adopted. As a result, NDB has restructured its organizational set-up by establishing two distinct departments: a Micro-credit, Special Operations 12/ and Administration Department headed

12/ Projects and funds administered on behalf of Government e.g. Livestock Development Project, Brigades Revolving Loan Fund.

by the present Assistant General Manager and a separate Development Banking Operations Department to be headed by an experienced second Assistant General Manager. Under the proposed organisation structure, the Administration, Micro-credit Special Operations and Administration Department would consist of two divisions each headed by a Manager: (i) Administration Division responsible for general administration, legal, personnel training and staff development and, (ii) Micro-credit and Special Operations Division responsible for NDB's regional office, government projects and all micro agricultural and commercial projects. The Development Banking Operations Department will have four divisions: (i) the Planning Division responsible for planning future expansion of NDB's regional office network, and project identification and promotion; (ii) the Commercial/Industrial Division for the appraisal and supervision of SSE's, and medium size commercial/industrial projects; and (iii) the Agricultural Projects Division for the appraisal and follow up of medium size agricultural projects, and (iv) the Finance Division responsible for NDB's accounting and financial management functions. In the new structure, NDB's internal audit unit will continue to report directly to the General Manager. NDB's new organization structure, outlined above, should help it to cope with its new expanding role and operations.

3.45 NDB has recently established two committees: (a) a Management Committee, comprising the General Manager, the Assistant General Manager, Divisional Managers and two senior staff, which meets once a month and deals with a broad range of matters including the institution's organization, procedures and manpower development; and (b) a Loan Committee, consisting of the Assistant General Manager and Divisional Managers, which also meets once a month to review applications for loans exceeding P5,000 and makes recommendations to the General Manager and to the Board on applications for loans below and above P30,000 respectively.

Management

3.46 NDB's General Manager joined the institution in May 1979, having previously held high ranking positions in the Government particularly in the Ministry of Finance. He provides strong leadership to NDB and has in the past three years played a dominant role in changing NDB's orientation from a low-key institution providing small loans to the agricultural sector to a rapidly growing development bank that is now the main institution providing financing to Small Scale Enterprises (SSEs). The present Assistant General Manager, also a Botswana citizen, has been with NDB since 1970 and is head of NDB's Administration Division. In the new reorganization (Annex 7) he will take over responsibility for administration and micro-credit operations. In order to effectively undertake its recently started development banking activities, NDB will need to strengthen its management by recruiting as soon as possible an Assistant General Manager with proven experience in development banking to head its development banking operations. Due to the lack of a suitably qualified and experienced Batswana citizen, within NDB or outside, NDB is already actively looking for an expatriate for this position.

3.47 Of NDB's six divisions, three: Planning, Commerce and Industry, and Finance -- and the Internal Audit Unit are headed by expatriate managers whose contracts are financed by bilateral agencies. NDB also has an Agricultural Advisor funded by the FAO. Some of the Divisional Managers lack the necessary expertise to effectively carry out their responsibilities. NDB has assured the Bank that it will recruit suitably qualified and experienced expatriates to head the key divisions (para. 3.49). The contracts of the key expatriate staff would be financed from the proceeds of the technical assistance component of the proposed loan (para. 4.02(c)).

Staffing, Staff Development and Training

3.48 Like most other institutions in Botswana, NDB relies extensively on expatriate staff for middle level management (Division heads) and key professional positions. Out of a total professional staff of 36, eight are expatriates mostly funded by bilateral aid agencies and six are U.S. Peace Corps volunteers. Five of the 22 Batswana professional staff were recruited in the last 6 months. The majority of Batswana staff in lower professional positions have not acquired the necessary experience to take over the positions currently filled by expatriates; only a few have received adequate training in accounting, finance and project appraisal. Due to the shortage of adequately qualified and experienced local professional staff, there are no Batswana counterparts assigned to the expatriates. This situation is expected to improve as NDB recruits more Batswana professional staff and continues training them (paras. 3.49 and 3.50). At negotiations, agreement was reached that NDB will assign local counterparts to all expatriate divisional managers by June 1986.

3.49 The rapid growth in NDB's volume of operations in the past three years and especially NDB's recently started regular development banking activities, has strained its professional manpower capabilities both in terms of number and expertise. To manage its existing portfolio and planned operations effectively, NDB needs to recruit experienced staff to fill key positions. Good progress has been made in this regard; NDB has recruited an expatriate Chief Accountant and has identified suitable candidates for the positions of the Assistant General Manager, Development Banking and a Senior Projects Officer in the Commercial and Industrial Division. The Assistant General Manager and Senior Projects Officer are expected to take up their appointments by March 1984. NDB is also looking for a qualified Motswana for appointment as Legal Officer. NDB needs to recruit at least six Batswana university graduates over the next five years, in an effort to gradually build up a cadre of Batswana professional staff. NDB will also need to recruit a suitably qualified and experienced Finance Manager before the end of September 1984, to replace the expatriate currently filling this position, whose contract is due to expire in mid-1984. During negotiations NDB agreed to: (i) fill the positions of Assistant General Manager and Senior Project Officer before loan effectiveness; (ii) recruit a Finance Manager, a Legal Officer by September 30, 1984, six additional Batswana University graduates over the next five years; and (iii) assign Batswana counterparts to all expatriate Division Managers by June 1986.

3.50 Training. For the past three years NDB has made good progress in the training and development of local staff. In 1981, it established a Training Unit and prepared a comprehensive, long-term program for providing both on-the-job and external training to local staff. Training of Batswana professional staff focusses on Accounting, Finance and Credit Management and is provided through periodic courses held at the local Institute of Development Management and through academic and professional correspondence study. NDB plans to send abroad a few selected Batswana professional staff on graduate degree programs in economics and/or finance and others on short-term courses in various aspects of development banking. NDB also provides in-house skill-upgrading courses to clerical and secretarial staff.

3.51 The resources for meeting NDB's training needs are mainly provided by bilateral agencies; the Botswana Government and USAID have recently started a workforce and skills training project from which a major portion of NDB's training resource needs will be met. To assist NDB pursue and implement its training program a Technical Assistance component has been included in the proposed loan (para. 4.02(c)) to finance the cost of training NDB professional staff in key areas such as project appraisal, accounting and financial management, and financing of SSEs, for which financing from other sources may not be available.

Policies

3.52 The NDB Board recently approved a policy statement (Annex 8) setting out guidelines for NDB's operations, investment and financial policies. The key guidelines of the proposed statement are: that NDB shall normally not finance more than 75% of a project's total cost, shall limit its total financial commitment in a single enterprise to 20% of its net worth, and that its debt to equity ratio shall not exceed 5:1. The policy statement is satisfactory, comprehensive and is consistent with NDB's Act and the overall framework of development programs and priorities established by the Government.

Lending Terms

3.53 NDB lends for maturities of between 1 and 15 years, including a normal grace period of 6 months for loans with maturities of up to 2 years and 1 year for loans with longer maturities. Security is taken in form of various legal instruments including notarial bonds over property on tribal land, mortgages and memoranda of agreement under the Agricultural Charges Act.

3.54 NDB's lending rates have increased rapidly in the past 5 years from 4.5% in 1979 to current levels ranging from a minimum of 16% p.a. 13/ to 18%. Within this range, the interest charged depends on the nature of

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13/ During negotiations, Government and NDB agreed to raise the interest rate charged on micro-credit agricultural loans from 14% to 16%; this is now NDB's overall minimum lending rate.

the loan, whether it is for a productive enterprise or for a retail business and whether the project is to be located in an urban or rural area. In general, loans to retail businesses in urban areas carry higher interest rates than loans to rural based productive enterprises. In addition to the interest rate, NDB charges a 2% p.a. penal interest on overdue principal repayments; it plans to charge a 1% appraisal fee on loans above P20,000 and a commitment fee of 0.5% p.a. on undisbursed loan amounts. Given Botswana's current inflation rate of 11.5%, NDB's rates are positive in real terms and in line with the rates charged by other financial institutions. The Government has proposed that it would pass on all funds to NDB (including the $5 million component of the proposed Bank loan to the Government) at the rate fixed by the Government for loans to all parastatals out of its Public Debt Service Fund (PDSF), which is currently 10% p.a. Even with a minimum on-lending rate of 16%, the 6 percentage points spread would be insufficient to cover the administrative costs associated with making micro loans to small farmers scattered throughout Botswana's large territory. Since the Government considers on-lending to small farmers to be a priority activity for NDB on social grounds, it has agreed to meet the uncovered costs by way of annual subventions out of the budget. A confirmation to this effect was given at the loan negotiations. NDB's other loans (small and medium size loans to commercial and industrial enterprises and medium size loans to agriculture) would be made at spreads which would cover their cost of administration, provision for possible losses and a moderate profit margin. Interest rates of 16%-18% on these operations (see Basic Data) are considered adequate. The exchange risk on NDB's relatively small borrowing from external sources is mainly borne by the Government with NDB assuming only 8.25% of the risk 14/. During negotiations, it was agreed that during the execution of the project NDB will annually review with the Bank the interest rates charged in its lending operations. An understanding was reached that this review will take account of the inflation rate, the interest rate structure prevailing in Botswana, and the spread required to enable NDB to cover its costs, provide for possible losses and generate a reasonable project.

Procedures

3.55 Appraisal. Because of the nature of its operations, NDB's appraisal procedures are essentially designed to handle a large number of applications for small agricultural loans which dominate its portfolio. The appraisal of small agricultural loans is jointly carried out by NDB's Regional Office staff and Agricultural Development officers from the Ministry of Agriculture. Regional offices also provide information on larger projects which are appraised at Head office. Loans up to P5000 are entirely appraised at the regional level and are approved by the Regional Managers; all loans exceeding P5000 are appraised at Head office with the General Manager approving loans up to P30,000. Loans exceeding P30,000 require approval of the Board of Directors. A recently established Loan Committee reviews all financing proposals before their submission to the General Manager and to the Board.

14/ The annual grant from the Government for micro credit operations and adequate spread on other operations should enable NDB to bear this minimal risk.

3.56 Generally, the quality of appraisals of routine small agricultural and commercial loans is satisfactory. However, the appraisal of SSE and medium size projects which are a relatively new activity in NDB is weak. NDB applies essentially the same technique applicable to micro-credit operations to the appraisal of relatively larger and more complex projects with the result that important aspects of a project are dealt with in a superficial manner. NDB recognizes, these weaknesses and has recently hired a consultant to prepare a project appraisal manual setting out appropriate guidelines for appraisal of SSE and medium size projects. The manual is expected to be ready for use by March 1984.

3.57 Supervision. Project supervision in NDB is weak due to the lack of a systematic follow-up plan and procedures. This weakness is further intensified by the large number of projects under implementation and in operation. Regional offices which have responsibility for project supervision, are preoccupied with handling large numbers of applications for new loans with the result that there is no follow-up on existing projects. To date, the minimal supervision that NDB carries out relates only to loans in serious arrears or default.

3.58 NDB is committed to correct this deficiency and has prepared a draft project supervision manual, establishing appropriate supervision procedures. It has also set up a Project Supervision Unit at Head office to introduce a project follow up function in Regional offices, coordinate their efforts and ensure adequate supervision of the portfolio.

3.59 Procurement and Disbursement. NDB requires each client to obtain an invoice from the supplier of items for which financing has been approved. Disbursements which are administered by Finance Division at Head office are made directly to the supplier. NDB is currently revising procurement and disbursement procedures with a view to bringing them in line with those in force in other Bank-assisted DFCs. For major items to be financed out of its loans, NDB will require project sponsors to obtain at least three quotations from different sources before selection of the supplier. A more efficient system of informing Regional offices of the disbursement on each loan is being implemented.

3.60 Auditors. NDB Board has reappointed Deloitte Haskins & Sells as its auditors. The scope of their audits has been adequate. NDB has agreed with the auditors that future audited accounts would be prepared and presented along the lines indicated in the "Illustrative Form of Audit Reports for Development Finance Companies" and submitted to the Bank within six months of the close of the financial year.

Operations

3.61 From the time of its establishment in 1963 up to 1979, NDB concentrated on loans for agriculture and water development to small farmers. In 1980, it started lending for industrial and commercial activities and its volume of approvals in subsequent years has grown rapidly as summarized below:

Approvals by Sector and Size 1979-1982
(Amounts in P'000)

	1979		1980		1981		1982		1983 /1	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
FY Ending December 31										
A. Agriculture										
Up to P20,000	1092	1049	2574	4597	4026	6593	3864	6212	3796	6131
Over P20,000	—	—	9	576	22	1626	37	2335	43	2306
Subtotal	1092	1049	2583	5173	4048	8219	3901	8547	3839	8437
B. Industry & Commerce										
Up to P20,000	83	210	197	913	308	1390	319	957	374	970
Over P20,000	1	25	21	3330	17	2571	21	3031	26	2610
Subtotal	84	235	218	4243	325	3961	340	3988	400	3580
Total	1176	1284	2801	9416	4373	12180	4241	12535	4239	12017

/1 1983 figures are for the 12 months ended March 31, 1983.

3.62 The volume of approvals grew rapidly from P1.2 million in 1979 to P9.4 million in 1980; and the number of loans approved doubled over this period. The level of operations has stabilized since 1980 with the number and amount approved averaging 4300 loans for P12.2 million per annum respectively. Since NDB started lending for medium size projects in 1980, micro-credits (loans up to P20,000 each) as a proportion of total annual approvals has declined from a high 98% in 1979 to an average of 65% in each of the past three years. The average loan size increased from about P1000 prior to 1980 to about P3000 over the past three years.

3.63 Agricultural loans have financed mainly the purchase of livestock (26% of amount approved), agricultural inputs (14%), agricultural machinery (21%), farms (21%) and water development, mostly drilling and purchase of bore hole equipment (18%). Except for agricultural input loans, almost all of which are for one year, all other loans have been for medium (1 to 5 years) or long (more than 5 years) terms. Recently, NDB has started considering larger agricultural loans of more than P100,000 for commercial farming; five such loans were approved in 1982. NDB's loans have traditionally financed from 90% to 100% of total project costs.

3.64 In recent years NDB's agricultural loan approvals have been relatively widely dispersed among regions with Kanye accounting for 33% of the volume of FY83 approvals; Gaborone (23%); Serowe (23%); Maun (15%); and

Francistown (6%). The proportion of loans approved for non-agricultural activities -- mainly commercial and industrial enteprises, has increased from 18% in 1979 to an average of 35% in each of the past 3 years. In commerce, NDB mainly finances stocks for street vendors in both urban and rural areas and for retailers (mostly general dealers, bars etc. but also some small supermarkets); loans for these activities are normally for 2-3 years. Industrial loans are predominantly for small scale projects in such activities as meat processing, dry cleaning, textiles and construction. As in agriculture, NDB has started to finance larger size projects in industry and in 1981-83 it approved 11 projects for more than P100,000 each in these sectors. The bulk of industrial and commercial loan approvals has been for projects located in Gaborone. The percentage of total approvals per region in the past three years was Gaborone (60%); Francistown (14%); Kanye (13%); Serowe (11%); and Maun (2%).

3.65 NDB has in the past considered commitments to be synonymous with approvals; and due to the poor quality of its records, NDB has not been able to compile accurate record of its historical disbursements. This deficiency is being rectified as NDB is in the process of computerizing its financial records.

Portfolio

3.66 As of August 31, 1982 15/, NDB had a loan portfolio of P22.5 million covering 8,567 loans and two equity investments amounting to P961,000. The sectoral distribution of the loan portfolio is summarized below:

15/ Accurate portfolio data are available only up to August 31, 1982. NDB is in the process of computerization of its financial records. Up-to-date data is likely to be available towards the end of 1983 after completion of the computerization exercise.

Loan Portfolio
(Amounts in Pula)

	Number	%	Amount	%
A. Micro-Agricultural Loans				
Livestock	3005	35	3,989,871	18
Agricultural Inputs	2426	28	1,088,714	5
Agricultural Machinery	1444	17	3,709,895	16
Water Services	472	6	2,941,069	13
Farm Development	84	1	2,991,779	13
Subtotal	7,431	87	14,721,328	65
B. Small Scale Enterprises	1,058	12	2,601,342	12
C. Medium-Size Projects	78	1	5,192,575	23
Total	8,567	100	22,515,245	100

3.67 The loan portfolio as of August 31, 1982 was dominated by small agricultural loans, mostly of less than P5000 each. Medium-size loans of over P20,000 each accounted for only 1% of the number of loans but represented about 23% of the value of the portfolio. The loan portfolio was of acceptable quality, but is beginning to deteriorate due to the present drought, weaknesses in project supervision (para. 3.57) and poor loan collection procedures. As of August 31, 1982, loan arrears of more than 3 months totalled P1.6 million, representing 7% of the portfolio, and affected 2811 loans. The arrears affected portfolio accounted for 21% of total outstanding portfolio. With the planned implementation of appropriate project selection, supervision and loan collection procedures, the arrears situation is expected to gradually improve. NDB plans to increase the level of bad debt provisions to 5% of the outstanding loan portfolio at the end of each year. This is considered adequate.

3.68 As of August 31, 1982, NDB had equity investments in two companies: (i) Development House (Pty.) Ltd. a subsidiary company of NDB that owns commercial property; and (ii) Financial Services Company of Botswana (Pty.) Ltd. - a hire purchase financing company; NDB regularly receives an excellent return on its investment in the latter company.

Resources

3.69 NDB depends primarily on Government for resources to finance its operations. As of June 30, 1983 its total resources amounting to P32.8 million consisted of: (i) P4.9 million contributed by the Botswana Government, (ii) P760,000 in grants received from bilateral aid agencies;

(iii) P27.2 million in loans of which P25.9 has been borrowed from the Government, P305,00 from NDB's subsidiary company, P660,000 from the EEC and P286,000 from the U.K. Exchequer. The borrowings are predominantly at highly concessional rates of interest ranging from 1% p.a. on the EEC line of credit, 5-6% on earlier borrowings from Government to 10% p.a. on the most recent loan from the Government's Public Debt Service Fund. NDB's resource position as of June 30, 1983 showed a gap of 2.1 million. It proposes to cover this gap by internal cash generation, and additional borrowings as indicated in paragraph 3.76.

Financial Performance and Situation

3.70 NDB's summarized financial statements for 1978 through 1983 are shown in Annexes 9(a) and (b) and selected financial ratios in Annex 12 (d). NDB made losses in three of the past five years and the profits made in 1979 and 1981 were only marginal; 1981 profits represented a low 0.2% of average total assets. In the past 3 years, NDB has financed a large portion of its general operating expenditures in regional offices, and to some extent, those at head office from grant funds provided by Government, mainly under the World Bank financed Second Livestock Project. Without these grants, amounting to a total of P1.8 million, NDB's losses would have been much larger. The poor financial performance is due to three main factors: (i) the large number of very small loans entails high administrative costs mainly because of the need to maintain a widespread network of regional and branch offices in order to adequately cater for a dispersed clientele in a large country; (ii) operational and cost inefficiencies also result from inadequate institutional capabilities especially in financial management and a lack of appropriate procedures; and (iii) the 4% spread which NDB earns on the bulk of its loans is too low to cover the high administrative costs of its operations. The technical assistance component of the project is aimed at strengthening the institution, particularly in the fields of financial management and operational procedures. Furthermore, the increase in interest rates on micro-credit operations in the agricultural sector (para. 3.54) and a proposed study to be financed under the proposed project to explore possibilities of reducing NDB's administrative expenses (para. 3.77) should help alleviate the situation.

3.71 NDB's financial structure has changed significantly over the past 5 years. Its equity, has increased steadily from P2.7 million in 1978 to P5.6 million as of June 30, 1983. However, borrowings increased even faster during this period. As a result, NDB's debt equity ratio has risen rapidly from 0.5:1 in 1978 to 5.2:1 at the end of March 1983. An agreement with NDB was reached at loan negotiations that its debt equity ratio will not exceed 5:1; in fact, it is expected to improve to 3.4:1 in 1988 (para. 3.80). Due to a very high rate of growth in the volume of operations and the establishment of regional offices in the past three years, NDB's total assets have increased rapidly, at an average rate of 68% p.a. in current terms and amounted to P32.5 million at the end of March 1983 up from P4.5 million in 1978. Until recently NDB used to drawdown from its borrowings large amounts which were placed on short-term deposits with commercial

banks pending disbursement of loans approved. Due to the time gap between loan approval and disbursement, NDB maintained an artificially high liquidity position resulting in an abnormally high current ratio averaging 6.3:1 over the past 5 years. This practice is proposed to be discontinued and in future NDB will draw down funds from the Government only to the extent of its needs.

Prospects

3.72 NDB's Strategy. NDB has recently prepared and adopted a strategy statement (Annex 10) that will serve as a guide for its activities during the next 2-3 years. The strategy places emphasis on two key areas: (i) strengthening NDB's institutional capabilities through (a) establishing and implementing appropriate procedures for its operations, and (b) recruiting suitably qualified and experienced professional staff; (ii) given its manpower constraints and institutional weaknesses, consolidating its operations and trying to achieve a growth rate that is consistent with its institutional capabilities. For this purpose NDB will seek to maintain its operations at levels no higher than 1983 levels in real terms during the next 2 years. As in the past, it would concentrate its financing in micro agriculture and commercial projects and small and medium-scale projects in the agriculture, commercial and industrial sectors.

3.73 Forecast Operations. NDB's forecast operations for 1984-88 are shown in Annex 11. Total approvals are forecast to remain constant in real terms over the period FY84-86, and to increase by 20% per annum in 1987 and 1988. Total approvals over the five year period would thus amount to P94million. Micro agricultural loans (up to P20,000) are expected to account for 51% of the total volume of approvals; micro commercial and industrial loans (up to P5000) for 5%; small-scale enterprise projects (P5-20,000) for 4%; medium size agricultural loans (over P20,000) for 19%; and medium size commercial and industrial loans (over P20,000) for 21%. Commitments and disbursements are forecast at 95% and 70% of the level of approvals in each year respectively. In order to ensure that the growth in the level of operations does not strain NDB's institutional capabilities, agreement was reached during negotiations that NDB will limit its rate of growth to not more than the 1983 level in real terms for the next 2 years while it streamlines and strengthens its organization, policies and procedures.

3.74 The projections are supported by a large pipeline of projects. For micro-credits, however, the pipeline is not indicative of future operations, as new applications continuously come in through the district and regional offices. As of mid-January 1983, NDB had a pipeline of 306 projects including: (i) 55 in agriculture for a total of P1.3 million; (ii) 191 in commercial loans for a total of P2.6 million; and (iii) 60 industrial projects for a total of P1.9 million. About 60% of the commercial projects were for expansion of existing enterprises. The industrial projects pipeline demonstrates a reverse trend, with about 60% of projects involving the establishment of new enterprises. The types of

projects in the industrial/commercial pipeline include small general dealers, textiles, construction, metal work, woodwork and hotels/tourism. The agricultural pipeline includes four projects requiring more than P100,000 each for farm purchase/development, while the commercial and industrial pipelines includes four and six projects respectively in this size category.

3.75 Resource Requirements. NDB's resource needs over the 2½ year period, April 1, 1984 through September 30, 1986 are expected to evolve as follows:

April 1, 1984 - September 30, 1986
(P'000)

Resource Needs	Amount
Expected Commitments	42,544
Undisbursed Commitments as at 3/31/84	3,775
Total	46,319
Sources of Funds	
Internal Cash Generation during period	26,457
Equity	1,401
Borrowings:	
Government	2,500
ADB	2,100
IBRD	5,000
Total	37,458
Resource Gap	(8,861)

3.76 NDB's commitments during the 2½ years period April 1, 1984 - September 30, 1986 are projected to amount to P42.5 million; with undisbursed commitments of P3.8 million at the beginning of the period, NDB's total resource requirements are expected to amount to P46.3 million (US$43.7 million). The proposed World Bank loan would represent about 11% of total resource needs. In order to cover part of the P8.9 million resources gap, NDB management plans to request further assistance from the EEC and ADB and from other donor agencies. It is expected, however, that the resource gap will be largely covered with additional borrowings from the Government's Public Debt Service Fund. The Government has assured the Bank that it will continue to provide loans to NDB, as needed, to enable it finance its operations.

Projected Financial Condition

3.77 NDB's projected financial statements and ratios for the period 1984 through 1988 are shown in Annexes 12(a) through 12(d). NDB's planned operations over the next five years will continue to be dominated by micro-lending activities. Given the nature of NDB's operations and the low spread of 6% available on the bulk of its operations (micro-credits), NDB would not be able to operate profitably unless its micro-credit operations were adequately subsidized. The Government has decided that since the micro-credit operations are important for socio-economic reasons, it will subsidize them openly in the form of cash grants to be budgeted annually on the basis of number of NDB's projected micro-credit operations, their administrative costs, and need for provisions for possible doubtful debts minus the income received from the micro-credit loans. According to projections, the proposed subsidy would increase from about P830,000 in FY85 to about P1.3 million in FY88. While NDB would not be able to do away with Government subsidy altogether, it would be important to reduce its heavy reliance on the Government for this purpose. In view of this, agreement was reached at negotiations that NDB will increase its interest rate on agricultural micro-credit operations (which are estimated to account for about 70% of NDB's operations during FY84-88) from 14% to 16%. Without an increase in the interest rate charged on agricultural micro credit operations, a further subsidy of about P0.6 million a year would be required over the next five years. It was also agreed that NDB would carry out a study before the end of calendar year 1984 of ways to reduce its administrative costs. The study will be financed out of the technical assistance component (US$800,000) of the project.

3.78 To help NDB strengthen its institutional capabilities, Government will also pass on the proceeds of the proposed $800,000 technical assistance component to NDB as a grant for financing key professional staff, for training Batswana staff in project appraisal, accounting and financial management, and for the proposed administrative costs study (para. 3.77).

3.79 To strengthen NDB's capital structure, agreement was reached with Government at negotiations that it will increase NDB's capital to enable NDB maintain a debt equity ratio not exceeding 5:1 during the life of the loan. Such ratio would be reviewed by the Bank, the Borrower and NDB at the request of the Borrower or NDB if the Borrower or NDB consider that such ratio is too restrictive in respect of the operation of NDB or the operations of its subsidiaries.

3.80 With the Government subsidising its micro-credit operations, NDB's financial performance over the next five years is projected to improve significantly. Average net profit after payment of dividends to Government 16/ is projected at P528,000 per year, representing a modest but increased average annual return on average total assets of 2% and of 6% on net worth. With the expected increase in paid-in share capital and

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16/ Government will require NDB to renumerate the paid-in share capital at a rate of 8% p.a.; Government will use the dividends earned to increase its share capital contribution.

reserves, NDB's debt-equity ratio is projected to improve from a 5.2:1 at the end of March 1983 to 4.9:1 in 1984 and down to 3.4:1 in 1988. NDB is expected to maintain an adequate liquidity position and debt service coverage is projected to improve from 1.4 times in 1984 to 2.9 times in 1988; overall, NDB's financial condition is expected to improve markedly if Government implements the measures outlined above.

3.81 The recent recruitment of an experienced Chief Accountant and the proposed recruitment of a suitably qualified Finance Manager by September 30, 1984 should help improve financial procedures and financial management.

IV. THE PROJECT

Objectives

4.01 The principal objectives of the proposed project are to: (i) provide resources to: (a) BDC to finance part of its program to promote and finance enterprises in productive sectors; (b) NDB to finance part of its micro-credit, small-scale and medium-scale operations in productive sectors and to help it to diversify into non-agricultural lending; and (ii) strengthen NDB's institutional capabilities to carry out its role effectively, as the leading institution for assisting the development of small and medium-scale enterprises in Botswana. While Botswana's overall macro-economic policy framework and industrial sector policies are generally satisfactory, the Bank has -- in connection with the preparation of the proposed loan -- discussed and agreed with Government on improvements in on-lending rate to small farmers (para. 3.77). The loan would also serve as a vehicle for continue dialogue on interest rates charged by BDC and NDB (paras. 3.15 and 3.54).

Description

4.02 The proposed project will have the following components: (a) a line of credit of US$6.2 million to BDC to finance part of the foreign exchange component of cost of capital goods and services needed by its subprojects in productive sectors and for establishment of industrial estates and factory shells; (b) a line of credit of US$5.0 million to NDB to finance part of the foreign exchange component of its micro-credit, small and medium-scale subprojects in a broad range of productive sectors - industrial, commercial, agro-industrial, agricultural, tourism, transport and construction; (c) US$800,000 in technical assistance funds to finance the contracts of key expatriate staff of NDB, the training of its Batswana professional staff in project appraisal, supervision, accounting and financial management, and a proposed study on ways to lower administrative costs; this amount would be passed on to NDB by the Government as a grant; and (d) US$200,000 to be used by the Government directly to finance a review by consultants of studies relevant to the options available to the declining mining community of Selebi-Phikwe (para. 2.24).

Terms and Conditions

4.03 The Bank loan of US$12.3 million (including a rounded-up amount of US$100,000 to finance the front-end fee) would be made to the Government of Botswana on variable interest rate, with a fixed amortization schedule for 15 years, including three years of grace, standard front end fee and commitment charges. Both BDC and NDB would be required to reimburse the Government the front-end fee and commitment charges.

4.04 Of the US$12.3 million loan, the Government would use a sum of US$1.1 million for technical assistance and for payment of the front-end fee, and on-lend US$11.2 million to BDC and NDB under subsidiary loan agreements, satisfactory to the Bank, with a fixed amortization schedule for 15 years including three years of grace corresponding to the amortization schedule between the Government and the Bank, on the terms and conditions spelled out in the following paragraphs.

4.05 BDC. A line of credit of US$6.2 million is recommended for BDC on variable rate corresponding to the rate payable by the Government to the Bank, with the Government assuming exchange risk to the extent of 91.75% in accordance with a formula prepared by the Government (Annex 13), the balance of 8.25% exchange risk being borne by BDC. The Bank loan would finance about 18% of BDC's investment program during FY84-86. BDC would pass on funds from this line of credit to its sub-borrowers at its normal rate of interest (at prime rate plus 0-3%) with fixed amortization schedules depending on the debt-servicing capacity of the subprojects within the maximum amortization schedule agreed between the Government and BDC. BDC would have a free limit of US$250,000 for a subproject and an aggregate free limit of US$1.5 million; this would ensure that the Bank would review sub-projects using over 75% of the proceeds of the Bank loan. In order to ensure that the Bank funds are used to finance a number of projects, BDC would be required not to use Bank funds in excess of US$1.3 million equivalent to finance an individual subproject. Except for small subprojects (involving subloans of US$130,000 or less), BDC would calculate the economic rate of return on all subprojects financed under the loan and the return would not be below 10%. Furthermore, in order to promote BDC's further diversification away from property investments (para. 3.27) the Bank funds would finance subprojects only in the productive sectors and for establishment of industrial estates and factory shells.

4.06 NDB. A line of credit of US$5.0 million is recommended for NDB at a rate of interest fixed by the Government for loans out of its Public Debt Service Fund, presently 10%. The Bank's loan would finance about 11% of NDB's commitments during FY84-86. Since most beneficiaries of NDB loans would be small-scale borrowers, it would not be feasible or appropriate for NDB to pass on the variable interest rate risk to them. The foreign exchange risk on the loan would be assumed by the Government to the extent of 91.75% in accordance with the standard Government formula (Annex 13) for risk-sharing on foreign currency loans onlent by the Government to parastatals; the balance (8.25%) will be borne by NDB. NDB would pass on

funds from this line of credit to its sub-borrowers in accordance with its normal interest rates (para. 3.54) with fixed amortization schedules depending on the debt-servicing capacity of the subproject within the overall repayment period of 15 years. Agreement was reached at negotiations that not more than US$2 million would be normally available for financing micro-credit operations unless the Bank otherwise agrees. This is considered important to diversify NDB's operations from the hitherto predominantly micro credit operations, which are essentially character loans, to slightly larger SSE operations involving use of more sophisticated project appraisal techniques by NDB. Furthermore, in order to ensure that the major portion of the loan onlent to NDB is used to assist SSEs in non-agricultural sectors, it was agreed that not less than US$3.0 million would be available for subloans in these sectors.

4.07 NDB will be allowed a free limit of US$50,000 for an individual subproject and an aggregate free-limit of US$3.0 million. This would allow the Bank to review most medium size subprojects. A higher aggregate free-limit for NDB than for BDC was set because of the large number of very small sized subprojects which NDB would finance out of the Bank loan. The average size of NDB subloans out of the Bank's credit line is estimated to be about P20,000. In order to ensure that Bank funds are used to finance only small and medium-size projects, agreement was reched at negotiations that the maximum loan amount to a subproject financed out of Bank loan would not exceed the equivalent of US$500,000. It was further agreed that the Bank funds would finance subprojects only in productive sectors, that NDB will calculate the economic rate of return on all subprojects using more than US$100,000 of Bank funds and that this return will not be below 10%.

Project Implementation

4.08 Reporting Requirements. Both BDC and NDB would be required to submit quarterly reports which would include a summary of operations, financial statements, resource position, statement of arrears, and notes on the situation of projects in their portfolio in difficulties. They would also be required to submit audited annual accounts, prepared in accordance with the Bank group guidelines for audit of DFCs, by qualified auditors approved by the Bank, within six months of the close of the financial year.

4.09 Procurement. Procurement of goods and services under the BDC line of credit would be in accordance with BDC's procurement practices, which are adequate (para. 3.12). NDB has recently revised its procurement procedures and these are now in line with those followed by Bank-assisted DFCs (para. 3.59) and procures goods and services in accordance with these procedures. The selection of consultants under the project and the terms and conditions of their employment will be subject to approval of the Bank. The qualifications and experience of expatriate staff for NDB to be financed under the technical assistance component would also be acceptable to the Bank.

Disbursements

4.10 Disbursement of the various components of the loan would be as follows:

(i) Proceeds of the component for credit lines to BDC and NDB would finance:

(a) 100% of the c.i.f. cost of imported goods into Botswana;
(b) 80% of the local cost of goods previously imported into Botswana through normal trade channels; and
(c) 75% of the cost in local currency of civil works included in subprojects.

(ii) Proceeds of the technical assistance component would finance an estimated 140 staff months of consultants at an average cost of US$5,000 per month for item (a) and an average cost of US$10,000 per month for item (b) below; the remaining amount of US$100,000 would finance staff training. Disbursements would be for:

(a) 100% of the salaries of selected key expatriate staff hired;
(b) 100% of any studies carried out by foreign consultants to improve NDB's operational/ administrative efficiency; and
(c) 100% of the total cost of travel to and from Botswana, tuition and subsistence during training of NDB's Batswana professional staff.

(iii) Proceeds of the component for consultancy services for Selebi-Phikwe study would finance 100% of the consultancy services, travel etc. involving an estimated 20 staff months at an average cost of US$10,000 per staff month. This component would be administered by the Government and the terms of reference of the consultants should be acceptable to the Bank.

4.11 In order to expedite disbursement of funds under the credit line to NDB, for a large number of micro-credit and small-scale operations involving loans up to the equivalent of US$20,000 agreement was reached at negotiations that Government would establish a Special Account in a financial institution acceptable to the Bank from which NDB could claim reimbursement against actual documentation or a certified statement of expenditure; this fund would be initially started with an advance of US$250,000 out of the Bank line of credit for NDB, and replenished by the Bank subsequently in accordance with an agreed procedure. The US$250,000 would cover the anticipated Bank contribution to eligible micro-credits for six month periods. The establishment of the Special Acount is a condition for disbursement of the NDB component of the proposed project.

4.12 In view of the proposed Special Account and given BDC's ability to commit and disburse funds quickly, neither the Bank-wide nor the Region-wide sectoral disbursement profiles for the IDF sector are considered relevant. Projected disbursements in Annex 14 are, therefore, based on BDC's and NDB's forecast of disbursements. BDC should be able to commit funds by June 30, 1986 and NDB by June 30, 1987. Disbursements for BDC subloans and investments should be completed by June 30, 1989 and those for NDB subloans by June 30, 1990.

Benefits and Risks

4.13 The major benefits of the project are as follows: firstly, the project envisages building up the National Development Bank into a stronger, more effective financial intermediary to channel funds to small farmers and small-scale entrepreneurs who do not get adequate assistance from commercial sources; secondly, the project would enable both BDC and NDB to create new employment opportunities for Batswana citizens by promoting and financing enteprises in productive sectors. Although it is difficult at this stage to quantify with any precision the number of new jobs that would be created under the project, it is estimated that the subprojects assisted under the Bank loan would provide direct employment to about 5,000 Batswana at an estimated average cost per job below US$7,500. The Government perceives the role of these two institutions as crucial in implementing its development strategy to diversify the economic base of the country and to increase the participation of its citizens in the economic opportunities. The project will also serve as a vehicle for continued dialogue on Botswana's interest rate structure. Because of the Bank's role in institution building in the case of NDB and continued financial support to BDC, the proposed assistance would play a catalytic role in attracting funds from other multi-lateral and bilateral institutions such as EIB, AfDB, CDC, FMO and DEG, (paras. 3.39 and 3.76).

4.14 The only major risk associated with the project is that due to lack of qualified and experienced staff, progress in building NDB into a stronger institution could be slower than anticipated. The recruitment of key experienced expatriate staff and additional Batswana professional staff, and increased staff training, are expected to mitigate this risk. This aspect of the project will be closely monitored during project implementation.

V. AGREEMENTS REACHED AT NEGOTIATIONS

5.01 During negotiations, agreement was reached with the Government, BDC and NDB on the following:

(a) With Government that it will:

(i) amend NDB Act before loan effectiveness by deleting all references to interest payments on capital as well as providing additional capital to enable NDB to maintain a debt-equity ratio not exceeding 5:1 over the life of the loan (para. 3.42);

(ii) make annual grants to NDB to cover that portion of NDB's cost of administering micro credits which is not covered by the spread available to NDB on its resources (para. 3.54);

(iii) on-lend US$6.2 million to BDC and US$5 million to NDB under subsidiary loan agreements satisfactory to the Bank (paras. 4.04, 4.05 and 4.06); and

(iv) establish before disbursement of the NDB component of the proposed loan, a Special Account in a financial institution acceptable to the Bank for expeditious disbursement of proceeds of the Bank loan for micro credits (para. 4.11).

(b) With BDC that it will:

(i) review annually with the Bank BDC's lending rates (para. 3.15);

(ii) maintain a consolidated debt-equity ratio (together with its subsidiaries) of not more than 5:1 during the life of the loan (para. 3.40);

(iii) not use more than US$1.3 million in Bank funds to finance any one project (para. 4.05);

(iv) require that projects using more than US$130,000 of Bank funds should have an adequate economic rate of return, not below 10% (paras. 3.09 and 4.05);

(v) use Bank loan only to finance subprojects in productive sectors and for establishment of industrial estates and factory shells (para. 4.05);

(vi) obtain Bank approval of all individual subprojects using Bank funds over BDC's free limit of US$250,000 (para. 4.05); and

(vii) not use more than US$1.5 million in the aggregate for free limit subprojects (para. 4.05).

(c) With NDB that it will:

(i) assign Batswana professionals as counterparts to all expatriate Division Managers no later than June 30, 1986 (para. 3.48);

(ii) fill the positions of Assistant General Manager and the Senior Project Officer before loan effectiveness,(para. 3.49);

(iii) recruit a Finance Manager, a Legal Officer by September 30, 1984 and six additional Batswana University graduates over the next five years (para. 3.49);

(iv) review annually with the Bank NDB's lending rates (para. 3.54);

(v) approve a suitable strategy statement before Board presentation (para. 3.72);

(vi) limit the rate of growth of its operations to not more than 1983 levels in real terms, for the next 2 years (para. 3.73);

(vii) raise its interest rate on micro-credit operations in the agricultural sector by 2 percentage points to 16% p.a. (paras. 3.54 and 3.77);

(viii) carry out a study before the end of calendar year 1984 of ways to reduce its administrative costs (para. 3.77);

(ix) maintain a debt to equity ratio of not more than 5:1 during the life of the loan (para. 3.79);

(x) use not more than US$2 million for financing micro credit operations, unless otherwise agreed with the Bank (para. 4.06);

(xi) use not less than US$3 million for subloans in non-agricultural sectors (para. 4.06);

(xii) obtain Bank approval of all individual subprojects using Bank funds over NDB's free limit of US$50,000 (para. 4.07);

(xiii) use not more than US$3 million in the aggregate for free limit subprojects (para. 4.07);

(xiv) not use Bank funds in excess of US$500,000 to finance any one subproject (para. 4.07); and

(xv) require that projects using more than US$100,000 of Bank funds should have an adequate economic rate of return, normally not below 10% (para. 4.07).

ANNEX 1

BOTSWANA

STRUCTURE OF INTEREST RATES (% per annum)

End of	1976	1977	1978	1979/80	July 1981	Dec. 1981	Feb. 1982	May 1982	Feb. 1983
A. DEPOSIT RATES									
Bank of Botswana									
Commercial banks' call rate	6,0	4,5	3,5	3,5	3,5	3,5	3,5	3,5	3,5
Official									
Treasury bills /1	7,5	7,0	6,0	5,0	5,0	5,0	5,0	-	-
Commercial Banks									
Savings accounts	3,5	3,5	3,5	3,5	5,0	7,5	9,5	11,0	9,5
Call /2	5,0	3,0	2,0	0,0	5,0	6,5	9,5	11,0	5,0
31 days notice	7,0	6,0	5,0	4,0	8,0	8,5	10,5	12,0	10,5
88 days notice	7,5	7,0	6,0	5,0	8,0	9,0	11,0	12,5	11,0
6 months fixed	8,0	8,0	7,0	6,0	8,0	9,5	11,5	13,0	11,5
12 months fixed	8,5	8,5	7,5	6,5	8,0	10,0	12,0	13,5	12,0
Botswana Building Society									
Indefinite period paid-up shares /3	9,5	8,0	7,0	7,0	7,0	7,0	9,5	9,5	9,5
Subscription shares	7,5	7,5	6,5	6,0	6,0	6,0	8,0	8,0	8,0
Savings account	3,5	2,5	2,5	2,0	2,0	2,0	2,0	2,0	2,0
Special savings accounts	8,0	6,0	6,0	5,5	5,5	5,5	9,5	9,5	9,5
Post Office Savings Bank									
Savings accounts /4	4,5	4,5	4,5	3,5	3,5	3,5	3,5	3,5	3,5
B. LENDING RATES									
Bank of Botswana									
Lending rate (Bank rate)	8,25	7,75	6,75	5,75	8,0	8,5	11,0	12,0	10,5
Official									
PDSF /5	10,0	8,0	8,0	8,0/60	8,0	8,0	8,0	10,0	10,0
Commercial Banks									
Prime lending rate	11,5	11,0	10,0	9,0	10,5	11,0	13,0	14,5	13,0
Botswana Building Society									
Mortgage loans	10,5	11,5	10,5	10,5	10,5	10,5	14,5	14,5	14,5
Short loans	8,5-	8,5	7,5-	7,5-	7,5-	7,5-	10,0-	10,0-	10,0-
	11,0	11,0	11,0	11,0	11,0	11,0	11,5	11,5	11,5

Botswana Development Corporation - Commercial Banks' prime lending rate plus 0-3%.

National Development Bank	Present rates (%) Rural	Urban
Micro agricultural loans	16	
Medium size agricultural loans	16-16½	
Commercial/Industrial Loans	16-17	16-18

/1 New issues of TB's were suspended from 18th December 1981.
/2 During the month of June 1982 the call rate dropped from 11% to 7 1/2%.
/3 Dividends on these shares are free of Botswana income tax.
/4 On 1st October, 1982, the Post Office Savings Bank introduced a special savings account with a minimum of P200 and earning interest of 8% p.a.
/5 PDSF = Public Debt Service Fund of the Government of Botswana.

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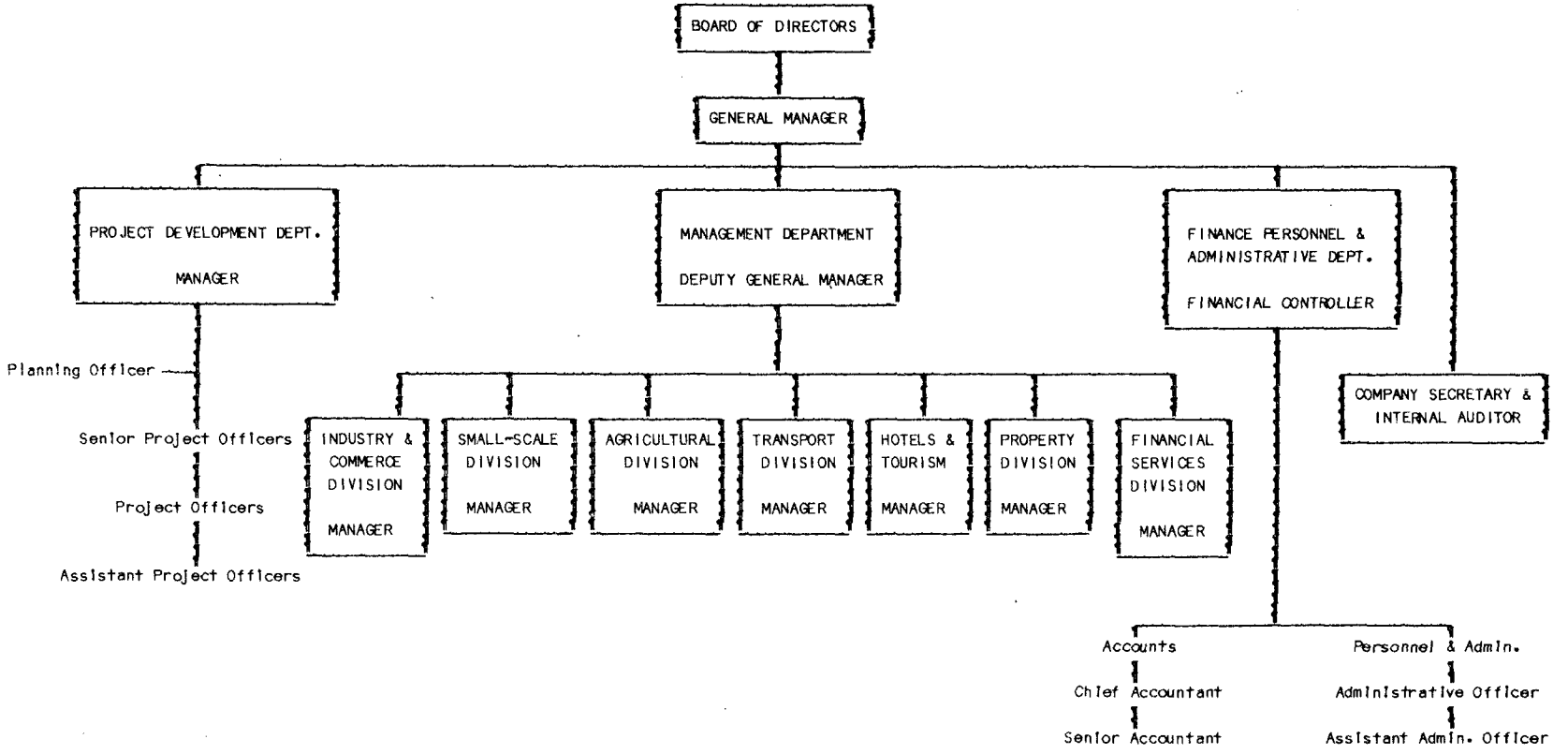
BOTSWANA

BOTSWANA DEVELOPMENT CORPORATION

Organization Chart



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BOTSWANA DEVELOPMENT CORPORATION (BDC)

INVESTMENT POLICY AND PROCEDURES
(23rd June 1982)

GENERAL

1. The Botswana Development Corporation's objectives are:

(a) to create and/or;

(b) to promote and assist the development in Botswana, of commercially and economically viable businesses including those in the private sector, which either:

(i) because of the nature of their products or services or

(ii) because of the manner in which they are operated will contribute to national goals as stated in the National Development Plan.

2. The National Development Plan favors the establishment of enterprises which will have potential for:

(a) generating significant employment;

(b) adding to the skills of Botswana nationals;

(c) producing products which can be substituted for imports;

(d) generating additional business opportunities;

(e) creating local entrepreneurs;

(f) contributing to the rural economy;

(g) upgrading natural resources;

(h) creating new national assets;

(i) diversifying the base of the economy; and

(j) contributing to the creation of a nationally owned commercial and indust

3. The National Development Plan also relies heavily on the private sector for investment in productive assets in agriculture, industry, transport, commerce, realty, hotels, and tourism.

FORMS OF ASSISTANCE

4. The Botswana Development Corporation (BDC) can assist enterprises in the form of:

(a) Share capital;

(b) Call loans;

(c) Term loans;

(d) Overdraft finance;

(e) Guarantees; and

(f) Management services.

THE ROLE OF THE BOTSWANA DEVELOPMENT CORPORATION

5. The BDC will use its approved forms of assistance to promote the objectives of the National Development Plan in the sectors described in paragraph (3) in a manner complimentary to those of the private sector, the commercial banks, and other financial institutions. In order to minimize the obstacles to development in these sectors, this principle of complimentarity will not be pursued to the point of preventing any overlap between the activities of the BDC and those of other financial institutions. In particular, it is acknowledged that BDC may:

(a) implement on its own viable projects which the private sector has failed to undertake and is willing to participate in; and

(b) make term loans without any associated equity investment.

6. Below are listed specific objectives for BDC assistance to a project. As a general rule BDC will not assist a project unless the pursuance of one or more of these objectives requires it, and it will limit its assistance to the minimum necessary to meet such objectives.

Specific Objectives

(a) Investment in projects, for which public investment, control, or influence is in the national interest;

(b) Investment in projects where BDC's or Botswana source investment is required to allow the project to proceed to implementation or to make it viable;

(c) Provision of viable based project finance in cases when security for loans is inadequate for other financial institutions;

(d) Assistance to projects (both financial and managerial) where there is a need for management assistance which BDC can supply. This assistance will be limited to companies controlled by Botswana citizens, except in cases when an existing enterprise is in difficulties;

(e) Provision of industrial and commercial property to those who for whatever reason do not wish or ought not to own property themselves, and in a manner which will encourage investors to locate in Botswana;

(f) A quick and effective service to investors ranging from provision of land or buildings to assistance with obtaining Government permits and financial assistance;

(g) Investment in profitable ventures which can generate additional resources for reinvestment by the Corporation;

(h) The use of guarantees to elicit finance for financially viable projects from third parties either directly for relatively large projects or indirectly through financial intermediaries for smaller projects;

(i) Provision to Botswana citizens of orderly access to ownership of enterprises of proven viability. Assistance of this nature must not result in any effective subsidization of the prospective owners of the enterprise in question; and

(j) Assistance to small-scale enterprises through a separate company, with its own investment policy and procedures.

INVESTMENT CRITERIA

7. The following investment criteria are to be used in pursuance of the above objectives. Proposals to the Board of Directors should demonstrate that these criteria have been met and should follow the attached "Format for BDC Board Proposals".

(a) The BDC's operations will be guided by sound commercial principles. The BDC's investment decisions will be based on sound appraisal methods, and will particularly take into account the total financial requirements of the project and the soundness of the resulting financial structure for the enterprise;

(b) The BDC normally will seek to finance or otherwise assist enterprises only where new productive assets are to be created, or where the purpose of BDC's assistance is to procure the transfer of ownership of the enterprise into the hands of Botswana citizens;

(c) For all assisted projects there must be some estimate made of the economic as distinct from financial impact of the project on the economy. The economic rate of return on the project must be at least equal to the opportunity cost of capital used by the Ministry of Finance and Development Planning;

(d) The effect of each assisted project on the acquisition of skills by Botswana nationals and the specific training plans of the enterprise must be described;

(e) The BDC will finance only economically viable, technically feasible projects with competent management. No project can be financed that is not expected to be commercially viable on the basis, if necessary, of a predetermined form and level of subsidy;

(f) The BDC will not normally manage enterprises, although it will use its best endeavors to ensure the acquisition of competent management. It will, however, notwithstanding these limitations, take such action as it considers appropriate when, in case a project supported by it is in jeopardy, it has to protect its investment;

(g) In considering whether or not to take a controlling interest in the voting securities of the projects in which it invests, the BDC will base its decision on relevant Government policies, and, where no specific Government policy directives are applicable, the BDC will seek to minimize its interest in projects subject to whatever is prudent to safeguard BDC's investment in the project;

(h) BDC will seek to arrange the terms of its investments so that when each assisted enterprise is successful, the BDC will have the opportunity to realize a capital profit. For this purpose, the BDC will seek to retain the right to dispose of its shareholdings in an assisted enterprise to third parties at commercial prices free of other shareholder rights of first refusal. When disposing of an investment, the BDC will firstly seek Botswana nationals as buyers;

(i) BDC will generally not finance more then 50% of total capital cost including permanent working capital with the exception of investments below P500,000 where a maximum of 75% applies and with the exception of subsidiary companies; and

(j) Except in the case of subsidiary companies, the private shareholders must contribute at least 25% of the capital cost. Where these shareholders include Batswana citizens, this contribution may include capital grants available from Government and attributable to the private shareholders.

LIMITATIONS

8. The following limitations shall apply to investments by the BDC:

(a) The BDC's aggregate investments in share capital will not be allowed to exceed the Corporation's own net worth;

(b) The BDC will not normally invest more than 15% of its net worth in the share capital of any one project; and

(c) The BDC will not normally invest more than 25% of its net worth in the form of loans and/or share capital in any one project.

PROCEDURES

9. (a) Applicants for assistance from the BDC will be asked to cooperate with, and assist in, the preparation of a feasibility study;

(b) The BDC will not formally invest any funds in any project prior to the completion of a thorough feasibility study;

(c) The BDC will not normally invest any funds in any project prior to signing an agreement which will provide the BDC with the ability to take remedial action should the value of its investment become endangered;

(d) When investing its funds the BDC will seek to:

(i) secure its principal; and

(ii) structure its investment in such a way that the financial strength of each assisted enterprise is increased;

(e) The BDC will seek to protect itself against the exchange risks of foreign borrowings;

(f) The BDC will seek to diversify its investments both geographically and by sectors;

(g) The BDC will recruit qualified personnel for its operations;

(h) The BDC will supervise its investments to protect its interests and to enable it to assist its projects to the maximum extent possible; and

(i) For all projects, excepting those for which there is a case on economic grounds for relaxing normal financial conditions for investment, the BDC shall charge market rates for its funds or services.

FORMAT FOR BDC BOARD PROPOSALS

Authority Sought

Introduction

1. Activity. Market. Input source. Total cost. Location. BDC contribution. Financial and control structure.

2. Relationship of the project to (a) BDC sector policy, (b) Government policy for the sector and region.

Project Sponsors

1. Background information on project sponsors including financial standing, reason for coming to BDC, and where appropriate, technical qualifications and performance record.

Market

1. Description of market and marketing arrangements. Comment on achievability of project sales and in case of domestic sales estimate market share. Pricing (including Price Control), protection, exclusive licence to manufacture.

Inputs and Employment

1. Source of raw materials, reliability and price competitiveness.

2. Labour requirements by skill, estimate of availability. Capital cost per citizen job.

3. Management, its competence and incentives to succeed, organization chart.

4. Infrastructural requirements not already available.

Linkages

1. Describe all forward and backward lingages within the economy.

Process

1. Description of productive process and comment on its appropriateness and the suitability of the location. Estimate capacity of plant (where appropriate), build up of capacity utilization and break-even capacity utilization.

Capital Costs

1. Detailed listing of capital costs, including contingencies and installation costs.

2. State and support assumption regarding working capital including stockholding.

Financial Plan

1. Detailed financial plan, including financing of peak working capital requirements.

2. Schedule of depreciation and replacement capital costs.

Implementation Schedule

1. Detailed implementation, including where appropriate description of separate phases and bar chart. Disbursement plan.

Financial Projections

1. Will the project be a recipient of assistance from the Productive Employment Development Fund? If so, have the level and types of benefit been determined and if they have not what can reasonable be assumed?

2. Tables should be produced as follows:

   (a) Income statement, detailing sales, direct and indirect operating costs. No PEDF benefits or taxation to be included. The statement should be on constant prices and the effect of adjustments to measure the economic return should be shown;

   (b) Cash Flow, starting from the operating profit of the Income Statement but converted to current prices. Benefits from PEDF, capital charges and taxation should be calculated. Debt service

coverage ratios should be calculated, and in the case of an investment in equity the financial rate of return at constant prices;

(c) Economic rate of return should be calculated using adjusted operating profit and capex and residual values adjusted for economic factors; and

(d) Balance sheet projections in current prices. Projections should be for a minimum of five years. In the case of loans the projections may be only for as long as the loan is not fully repaid. For equity proposals projections should be for ten years. Sensitivity analysis should be conducted in cases where there is some uncertainty attached to the projections, including all agricultural and export-oriented projects.

Summary of Economic Benefits

1. Economic rate of return.

2. Employment (numbers).

3. Cost per job.

4. Backward and forward linkages.

5. Relationship to relevant government policy.

6. Acquisition of skills.

Requested Resolution

Resolution including all conditions and safeguards.

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BOTSWANA DEVELOPMENT CORPORATION (BDC)

Portfolio Analysis
As of June 30, 1983
(P'000)

	SUBSIDIARIES																				
	Wholly-Owned Subsidiaries			Joint-Venture Subsidiaries			Sub-total Subsidiaries			Associated Companies			Others			Total			Grand Total		
	No.	Eq. Inv.	Loan	No.	Eq. Inv.	Loan	No.	Eq. Inv.	Loan	No.	Eq. Inv.	Loan	No.	Eq. Inv.	Loan	No.	Eq. Inv.	Loan	No.	Amount	%
Agriculture	3	1,420	2,172	-	-	-	3	1,420	2,172	-	-	-	-	-	-	3	1,420	2,172	3	3,592	18
Industry & Commerce	1	-	80	6	1,729	319	7	1,729	399	3	80	4	5	25	328	15	1,834	731	15	2,565	12
Financial Services	-	-	-	1	51	-	1	51	-	2	80	-	-	-	-	3	131	-	3	131	1
Property	8	5,432	2,109	-	-	-	8	5,432	2,109	-	-	-	-	-	-	8	5,432	2,109	8	7,541	37
Tourism & Transport	2	2,217	3,514	5	300	290	7	2,517	3,804	3	101	34	-	-	-	10	2,618	3,838	10	6,456	32
Total	14	9,069	7,875	12	2,080	609	26	11,149	8,484	8	261	38	5	25	328	39	11,435	8,850	39	20,285	100

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BOTSWANA DEVELOPMENT CORPORATION (BDC)

Performance of Oustanding Investments
as of June 30, 1983
(P'000)

Name	Economic Activity	Location	% BDC Ownership	BDC Investments Equity	Loan	Total	Profit Before Tax FY83	Dividend Paid to BDC FY82	FY83	Batswana Employment Created	Name of Other Investor or Tech. Partner
Wholly-owned Subsidiaries											
Botswana Hotel Development	Non Operating	-	100	3	25	28	-	-	-	-	-
Broadhurst Industrial Estate	Property	Gaborone	100	1944	158	2102	241	-	-	-	-
Commercial Holdings	Property	Gab/SP	100	1970	628	2598	(106)	-	-	2	-
Holding Company SPI 2590	Property	S/Phikwe	100	10	36	46	(2)	-	-	-	-
Lobatse Industrial Estate	Non-Operating	-	100	-	10	10	-	-	-	-	-
Madirelo	Property	Gaborone	100	430	352	782	17	-	-	6	-
Residential Holdings	Property	Gaborone	100	1252	712	1964	44	-	-	1	-
Town House Development	Property	Gaborone	100	347	394	741	79	-	-	2	-
Total Property				5956	2315	8271	273	-	-	11	
Air Botswana Holdings	Air Line	Gaborone	100	1419	385	1804	84	-	-	116	-
Botswanacraft	Crafts	Various	100	-	80	80	(3)	-	-	21	-
Farm Development	Farming	Mogobane	100	170	359	529	n.a.	-	-	35	-
Hotel Development	Tourism	Gaborone	100	798	3129	3927	(104)	-	-	-	-
Seleka	Farming	Sherwood	100	750	652	1402	n.a.	-	-	92	-
Talana	Farming	Tuli Block	100	700	1161	1861	n.a.	-	-	93	-
Total Non-Property				3837	5766	9603	(23)	-	-	357	
Total Wholly-owned Subsidiaries				9793	8081	17874	250	-	-	368	
Joint-Venture Subsidiaries											
Botswana Breweries	Trad Beer	Gaborone	60	375	-	375	1223	223	356	235	Linser
Botswana Furniture Manufacturer	Furn. Manuf.	Gaborone	51	174	-	174	(52)	-	-	35	Spring Master
Botswana Insurance Company	Insurance	Gaborone	51	51	-	51	412	41	41	24	Prescot
Botswana Tyre Corporation	Tyre Wholesaler	F'Town	60	54	-	54	38	-	13	12	Private
Car Rentals	Car Hire	Gaborone	90	-	18	18	32	30	-	12	-
Kgalagadi Breweries	Lager Beer etc.	Gaborone	60	900	182	1082	1730	-	533	176	Intracor
Kwena Concrete Products	Concrete Products	Gaborone	51	110	137	247	-	-	-	-	Private
Marakanelo	Hotels	Various	60	300	240	540	468	-	-	552	Linser
Shashe River Enterprise	Non Operating	Tuli	51	-	32	32	-	-	-	-	Lagonda
Travel International	Travel Agent	Gaborone	75	-	-	-	18	-	15	4	Manica
Tuli Game Land	Non Operating	Tuli	51	-	-	-	-	-	-	-	Holiday Inn
Waygaurd Securities	Security	Gaborone	80	116	-	116	26	-	-	362	-
Total Joint-Venture Subsidiaries				2080	609	2689	3895	294	958	1412	
TOTAL - SUBSIDIARIES				11873	8690	20563	4145	294	958	1780	
Provision for Losses				724	206	930					
				11149	8484	19633					
Associated Companies											
Financial Services	H.P. Co.	Gaborone	30	75	-	75	566	10	-	15	Local Banks
Frasers	Dept. Store	Various	45	23	-	23	302	90	90	129	Frasers
Holiday Inn	Hotel	Gaborone	20	100	-	100	425	140	120	260	Holiday Inn
Kweneng Hotels Co. (Pty Ltd.)	Hotel	Molepolole	20	7	52	59	1	-	-	20	-
Manica Freight	F. Forwarding	Various	20	1	-	1	30	13	11	5	F/Services
Marothodi	Clothing	F'Town	48	9	4	13	2	-	-	28	Private
Masoja Enterprises	Trading (Worms)	Tuli (Sherwood)	50	48	-	48	41	-	28	n.a.	-
Minet	Insurance Brokers	Gaborone	25	5	-	5	435	34	150	34	Minet
				268	56	324	1802	287	399	491	
Provisions for Losses				7	18	25					
				261	38	299					
Others											
Service Corporation	Property Maint.	Gaborone	-	-	43	43	(8)	-	-	23	KRDA
BUA	Clothing	Molepolole	-	-	15	15	39	-	-	32	KRDA
Sefalana	Wholesalers	Various	3	25	-	25	3730	-	18	725	Pulic Co.
Electro Mech.	Steel Furniture	Gaborone	-	-	70	70	(18)	13	-	18	Private
Image	Garments	Gaborone		-	200	200	81		-	120	-
				25	328	353	3824	13	18	918	
TOTAL INVESTMENTS				11,435	8,850	20,285					

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ANNEX 6(a)

BOTSWANA

BOTSWANA DEVELOPMENT CORPORATION (BDC)

Actual and Projected Income Statements
(P'000)

	Actual					Projected				
Year ending June 30	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Revenue										
Rental and Trade	209	501	875	1,025	1,191	1,246	696	712	730	751
Interest on Loans	676	565	529	886	1,226	1,763	2,552	3,341	4,043	4,724
Dividend Income	408	263	387	581	1,375	1,236	1,532	1,889	1,988	2,297
Other	151	33	79	65	34	-	-	-	--	--
Total	1,444	1,362	1,870	2,557	3,826	4,245	4,780	5,942	6,761	7,772
Expenses										
Administrative Expenses	325	506	571	705	1,737	1,262	1,353	1,358	1,466	1,471
(of which depreciation)	(10)	(15)	(14)	(31)	(45)	(40)	(51)	(56)	(60)	(65)
Interest on Borrowings	458	359	314	369	407	542	989	1,394	2,562	3,207
Total	783	865	885	1,074	2,144	1,804	2,342	2,752	4,028	4,678
Profit before Provisions and Taxes	661	497	985	1,483	1,682	2,441	2,438	3,190	2,733	3,094
Extraordinary Income (Loss)	(51)	860	-	--	--	--	--	--	--	--
Total	610	1,357	983	1,483	1,682	2,441	2,438	3,190	2,733	3,094
Provisions for Losses	--	--	310	(300)	--	810	918	934	1,052	1,176
Taxes	203	204	279	481	646	512	482	643	669	770
Net Profit (Loss)	407	1,153	394	1,302	1,036	1,119	1,038	1,613	1,012	1,148
APPROPRIATION										
Dividend						102	396	396	396	396
Non-Commercial Fund						189	195	254	206	232
Retained Earnings						828	447	963	410	520

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BOTSWANA

BOTSWANA DEVELOPMENT CORPORATION

Actual & Projected Balance Sheets
(P'000)

As of June 30	Actual 1979	1980	1981	1982	1983	Projected 1984	1985	1986	1987	1988
ASSETS										
Current Assets	668	2,766	1,702	739	1,844	3,454	3,911	4,736	4,926	6,599
Equity Investments	2,199	2,327	3,137	7,860	12,141	15,232	18,344	21,577	22,577	23,427
Loan Investments	7,640	6,591	8,135	9,555	9,099	14,455	19,804	24,773	30,255	36,829
Gross Portfolio	9,839	8,918	11,272	17,415	21,240	29,687	38,148	46,350	52,832	60,256
Less Provisions for Losses	1,676	975	1,285	985	955	(1,765)	(2,683)	(3,617)	(4,669)	(5,845)
Net Portfolio	8,163	7,943	9,987	16,430	20,285	27,922	35,465	42,733	48,163	54,411
Net Fixed Assets	202	204	202	240	267	280	288	298	312	330
TOTAL ASSETS	9,033	10,913	11,891	17,409	22,396	31,656	39,664	47,767	53,401	61,340
LIABILITIES AND EQUITY										
Current Liabilities	476	929	1,126	601	1,268	1,959	1,779	2,678	1,973	3,065
Long-term debt	4,557	3,863	3,658	5,112	6,880	11,121	17,862	22,603	28,532	36,273
Less Current Maturities	--	--	--	--	(259)	(259)	(259)	(259)	(259)	(1,673)
Total Liabilities	5,033	4,792	4,784	5,713	7,889	12,821	19,382	25,022	30,246	37,665
Equity										
- Ordinary	3,945	3,945	3,945	3,945	3,945	4,645	5,645	7,145	7,145	7,145
- Preference	--	200	1,200	1,200	1,200	4,000	4,000	4,000	4,000	4,000
- Reserves	55	1,976	1,962	6,551	9,362	10,190	10,637	11,600	12,010	12,530
Total Equity	4,000	6,121	7,107	11,696	14,507	18,835	20,282	22,745	23,155	36,675
TOTAL CAPITALIZATION	9,033	10,913	11,891	17,409	22,396	31,656	39,664	47,767	53,401	61,340
Long-term Debt to Equity	1.1:1	0.6:1	0.5:1	0.4:1	0.5:1	0.6:1	0.9:1	1:1	1.2:1	1.5:1

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ANNEX 6(c)

BOTSWANA

BOTSWANA DEVELOPMENT CORPORATION

Projected Sources and Application of Funds
(P'000)

As of June 30	Projected 1984	1985	1986	1987	1988
Sources of Funds					
Profit before tax & Depreciation	2,481	2,489	3,246	2,793	3,159
Miscellaneous Receipts	--	--	--	--	--
Loan Collections	826	875	1,498	3,268	4,426
Total Funds from Operations	3,307	3,364	4,744	6,061	7,585
New Equity	3,500	1,000	1,500	--	--
New Loans	4,500	7,000	5,000	6,188	8,000
Total Sources	11,307	11,364	11,244	12,249	15,585
Uses of Funds					
Investments	9,273	9,336	9,700	9,750	11,850
Capital Expenditures	53	59	66	74	83
Loan Repayment - Old	259	259	259	259	259
- New	--	--	--	--	1,414
Dividend On Shares - Old	102	102	102	102	102
- New	--	294	294	294	294
Miscellaneous Payments	701	677	897	875	1,002
Capital	919	637	(74)	895	581
	11,307	11,364	11,244	12,249	15,585
Debt Service and Preferred Share Dividend Coverage Ratio	4.3	2.7	3.3	3.0	2.0

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BOTSWANA

BOTSWANA DEVELOPMENT CORPORATION (BDC)

Actual and Projected Financial Ratios (1979-1988)

	Actual					Projected				
Year Ending June 30	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Income Statement Elements as % of Average Total Assets										
Gross Income	16.9	13.7	16.4	17.5	19.2	15.7	13.4	13.6	13.4	13.6
Less: Financial expenses	5.3	3.6	2.8	2.5	2.0	2.0	2.8	3.2	5.1	5.6
Administrative expenses	3.8	4.7	5.0	4.8	8.7	4.7	3.8	3.1	2.9	2.6
Gross Profit	7.1*	5.4	8.6	10.1	8.5	9.0	6.8	7.3	5.4	5.4
Less: Provisions for loans and Investments	--	--	2.7	(2.0)	--	3.0	2.5	2.1	2.1	2.1
Tax	2.4	2.0	2.4	3.3	--	1.9	1.4	1.5	1.3	1.3
Net Profit	4.4*	11.5**	3.5	8.9	5.2	4.1	2.9	3.7	2.0	2.0
Net Profit and Dividends										
Net Profit as % of year end share capital	10.3	27.8	7.7	25.3	20.1	12.9	10.8	14.5	9.1	10.3
Net Profit as % of average equity	16.8	22.8	6.0	13.8	7.9	6.7	5.3	7.5	4.4	4.9
Debt Equity Ratio										
Long-term debt/equity	1.1:1	0.6:1	0.5:1	0.4:1	0.5:1	0.6:1	0.9:1	1:1	1.2:1	1.5:1
Debt Service Coverage* **	2.4	2.0	1.9	6.0	6.0	4.3	2.7	3.3	3.0	2.0

* Due to an extraordinary loss.

** Due to an extraordinary gain.

*** Includes preferred share dividend coverage.

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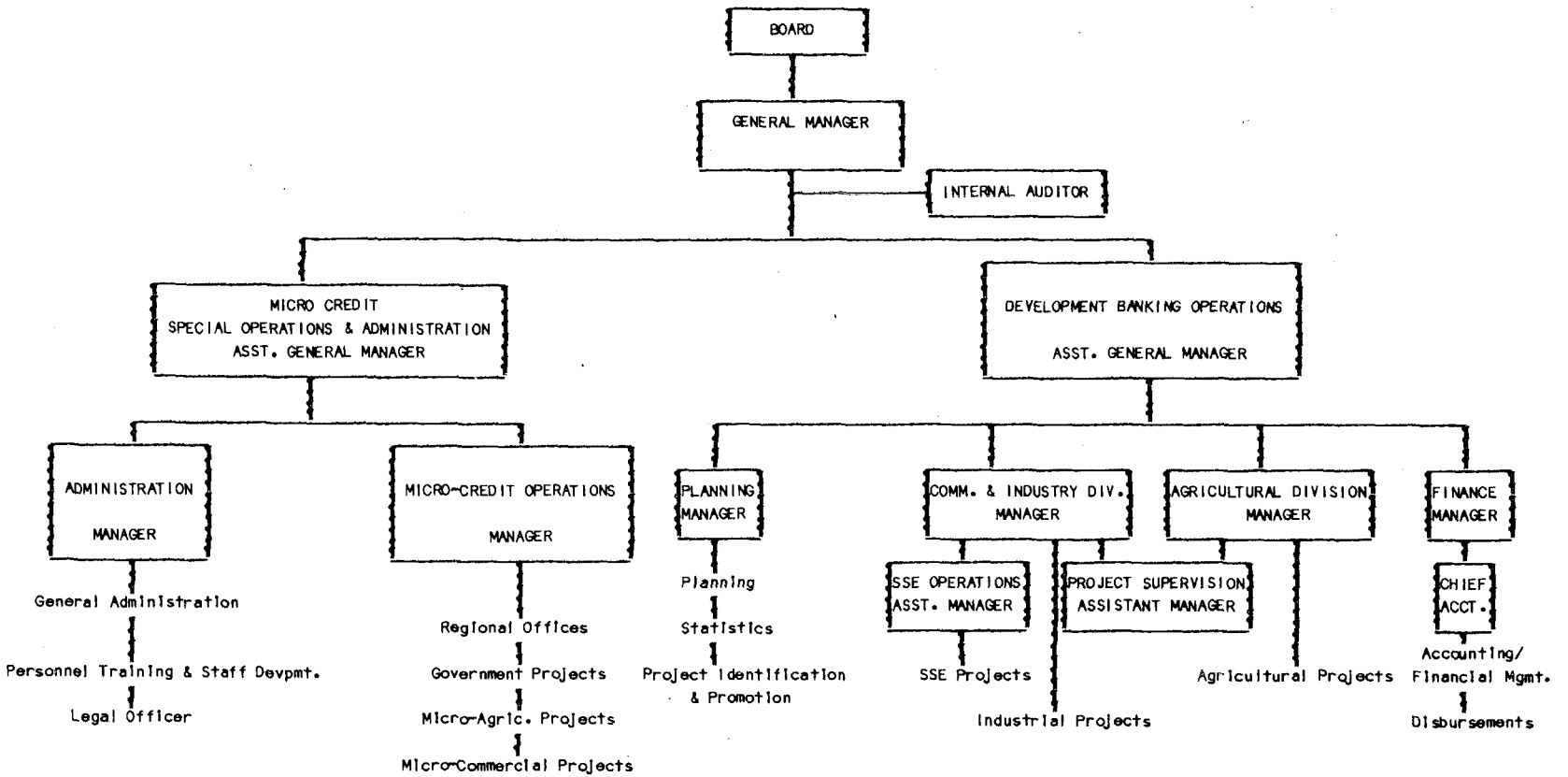
BOTSWANA

NATIONAL DEVELOPMENT BANK

Organization Chart



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BOTSWANA

NATIONAL DEVELOPMENT BANK (NDB)

POLICY STATEMENT

GENERAL

1. NDB shall promote and assist the development of productive enterprises in the agricultural, industrial, mining, tourist and commercial sectors of the economy with a special emphasis on small-scale enterprises.

2. NDB activities shall be in accordance with its Act and shall conform to the overall framework of development programs and national priorities established by the Government of the Republic of Botswana.

3. NDB shall only finance projects which are technically feasible, economically and financially viable and competently managed. When these requirements are satisfied, NDB shall give priority to projects contributing towards:

(a) creation of permanent employment;
(b) transfer of technology and the development of local manpower skills;
(c) use of local raw materials;
(d) local ownership and management.

4. NDB shall not normally provide working capital loans but shall provide financing for fixed investment provided its loans shall not be for a period shorter than one year and longer than 15 years.

5. NDB shall normally require all sponsors to give a written undertaking to be responsible for funding any end finance that may be required over and above that of the project cost estimates.

6. Where a project requires finance in excess of that obtainable from NDB, to the extent possible NDB shall try and interest other financial intermediaries in participating in the financing of the project. NDB shall ensure that finance made available to the project by other investors will be provided on terms and conditions acceptable to the project and NDB.

7. NDB shall not provide equity financing or guarantees except under special circumstances.

8. The Bank shall normally finance enterprises where new productive assets are to be created, but shall also finance the takeover of existing businesses by Botswana nationals.

INVESTMENT LIMITS

9. NDB will not finance more than 75% of the total capital costs of a project (including permanent working capital) but may finance up to 85% of a project's capital costs in the case of small-scale enterprises promoted by Batswana citizens. In either case, promoters' contribution in kind (e.g. buildings) will be acceptable but will be evaluated by means satisfactory to NDB. In this regard, NDB shall ensure that project sponsors have made their contributions to the cost of the project before disbursing any proceeds of its loans.

10. Except as the Government may agree after consultation with the Bank, NDB's total outstanding commitment in favor of one single enterprise shall not exceed 20 percent of NDB's net worth.

11. NDB's total investments in the form of equity participation shall not exceed 25% of the Bank's networth. In any one single enterprise, NDB's maximum equity investment shall not exceed 5% of the Bank's networth, nor 30% of the share capital of the enterprise.

FINANCIAL POLICY

12. The Bank shall charge interest rates, fees, and commission which are compatible with the prevailing rates and or which enable it to earn a reasonable return on its financing operations. The Bank shall charge higher interest rates and/or make loans of shorter maturities to projects whose financial prospects would enable them to borrow on such terms.

13. NDB shall at all times maintain a satisfactory balance between the maturities of its obligations and those of the loans it grants.

14. NDB shall at all times seek to protect itself against exchange risk on foreign currency borrowings.

15. NDB shall make adequate provisions against potential losses and build up reserves to a level consistent with sound financial practices taking into account the size and quality of its portfolio.

16. NDB shall seek adequate security for its loans.

17. NDB's total long term debt shall not at any one time exceed four times the amount of its unimpaired capital, surplus and reserves.

PROCEDURAL POLICIES

18. Procurement: - For the procurement of major items for a project it finances, NDB shall require project sponsors to obtain at least those quotations from different suppliers.

19. Disbursement: - NDB shall apply appropriate disbursement procedures to ensure that its funds are properly utilised for the intended purposes.

20. Technical Assistance: - NDB shall seek to establish and maintain a formal, close working relationship with BEDU and other appropriate institutions/agencies to facilitate provision of technical assistance and extension services to NDB financed projects especially those owned and managed by Botswana nationals.

21. Supervision: - NDB shall regularly supervise its investments to protect its interests.

22. Staff Development:

(a) NDB shall assign suitable Batswana counterparts to the expatriate officers, ensure that the expatriates train their counterparts to equip them with adequate technical and professional skills to enable them take over the positions held by expatriate staff.

(b) NDB shall actively provide its staff with both in-house and external training to strengthen the staff's technical and professional capabilities.

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ANNEX 9(a)

BOTSWANA

NATIONAL DEVELOPMENT BANK (NDB)

Summarized Income Statements (1978 - 1983)
(P'000)

Year Ending December 31	1978	1979	1980	1981	1983 /1
INCOME					
Interest on Loans	255	268	362	981	2,284
Income from Equity Investments	15	8	42	19	19
Administration Fee /2	10	20	16	37	71
Other Income	11	11	11	212 /3	1,637 /4
Total Income	291	307	431	1,249	4,011
EXPENSES					
Administrative Expenses	188	188	223	289	1,904 /5
Financial Expenses	64	107	187	611	1,660 /6
Depreciation /7	-	-	-	-	95
Bad Debt Write-Offs	1	1	-	7	25
Provisions	66	7	34	319	660
Total Expenses	319	303	444	1,226	4,344
Net Profit (Loss)	(28)	4	(13)	23	(333)

/1 NDB has recently changed its fiscal year from January 1 - December 31, to April 1 - March 31 in order to be consistent with the Government fiscal year. Figures for 1983 are as at March 31, and represent a 15 month period; January 1, 1982 - March 31, 1983. As such there is no FY82.

/2 Fees paid to NDB for administration of special funds.

/3 Includes P200,000 cash grant from Government.

/4 Includes rental income (P205,000) from Development House which has been transferred from subsisidiary to NDB and P1,420,000 drawn down from the second livestock project in form of a grant from Government to NDB.

/5 Apart from the extended fiscal year (see footnote 1), this figure is higher than in preceeding years owing mainly to the facts that (i) NDB's regional office network was significantly expanded in the period in question; (ii) the administrative expenses associated with the regional office network were not consolidated into NDB's accounts until 1983; and (iii) the salaries of many of NDB's expatriate staffmembers were financed -- on a grant basis -- by bilateral agencies prior to 1982/83. It was only in FY83 that their salaries began to be covered by NDB and thus began appearing in its administrative expenses.

/6 Higher financial expenses reflect much increased volume of operations by NDB in 1979-81 period, which, in turn, required NDB to obtain loans at near-commercial rates to finance this increase. In prior years, NDB's modest level of activities had enabled it to finance most of its on-lending from concessional sources.

/7 NDB began to depreciate its assets only in 1983.

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ANNEX 9(b)

BOTSWANA

NATIONAL DEVELOPMENT BANK (NDB)

Summarized Balance Sheets (1978 - 1983)
(P'000)

As of December 31	1978	1979	1980	1981	1983 /1
ASSETS					
Cash, Deposits & Short-term Investments	1,175	1,653	1,028	1,092	2,473
Interest Receivable	122	144	242	823	1,558
Current Maturities of Portfolio Loans	749	879	2,121	3,441	3,388
Total Current Assets	2,046	2,676	3,391	5,356	7,419
Loan Portfolio	2,538	2,682	4,797	11,322	24,404
Less Provisions	(177)	(184)	(218)	(537)	(1,197)
Loan Portfolio (Net)	2,361	2,498	4,579	10,785	23,207
Equity Investments	78	78	1,424	651	961
Net Fixed Assets	47	46	46	819	983
Total Assets	4,532	5,298	9,440	17,611	32,570
LIABILITIES					
Sundry Creditors	121	166	261	239	236
Current Maturities of Long-term Debt	262	277	308	271	1,828
Total Current Liabilities	383	443	569	510	2,064
Borrowings					
Botswana Government Loans	1,125	1,128	5,005	11,509	25,895
Post Office Savings Bank Funds	100	100	300	-	-
U.K. Exchequer Loans	435	409	374	362	286
EEC Line of Credit	-	-	-	-	659
Loan from Subsidiary	-	-	-	-	305
	1,660	1,637	5,679	11,871	27,145
Less Current Maturities	262	277	308	271	1,828
Total Borrowings	1,398	1,360	5,371	11,600	25,317
Unrecallable Capital					
Botswana Government	2,303	3,066	3,086	4,898	4,919
Overseas Grants	226	226	226	226	226
Reserves & Surplus	222	203	188	377	44
Net Worth	2,751	3,495	3,500	5,501	5,189
Total Liabilities & Net Worth	4,532	5,298	9,440	17,611	32,570

/1 NDB has recently changed its fiscal year from January 1 - December 31 to April 1 - March 31 in order to be consistent with the Government fiscal year. Figures for 1983 are as at March 31, and represent a 15 month period; January 1, 1982 - March 31, 1983. As such there is no FY82.

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NATIONAL DEVELOPMENT BANK (NDB)

STRATEGY STATEMENT

The following principles will serve as a guide for NDB's activities during the coming 2-3 years. They constitute NDB's strategy for strengthening its effectiveness in assisting the economic development of Botswana and supplement NDB's Act and its operating policies. After its approval by the Board of Directors, this strategy will be widely publicized within the institution so that staff are fully aware of it and become fully committed to its implementation. It will be reviewed from time to time in light of developments taking place in Botswana's economy.

1. STRENGTHENING INSTITUTIONAL CAPABILITIES

During the next 2-3 years, NDB will place emphasis on strengthening its institutional capabilities in order to increase its efficiency and effectiveness as a development finance institution. To achieve this objective, NDB will:

(a) establish and implement appropriate procedures for project promotion, appraisal, implementation and supervision; as well as for procurement, disbursement and loan collections;

(b) recruit suitably qualified and experienced professional staff to fill key positions; and

(c) recruit adequately qualified Batswana professional staff and provide them with on-the-job and external training to strengthen their technical and professional capabilities.

2. OPERATIONS

(a) Consolidation: Given NDB's manpower constraints and the need to devote its available technical and professional resources to the establishment of appropriate systems and procedures as outlined in (1) above, NDB will consolidate its operations and seek to grow at a rate that is consistent with its institutional capacity. For this purpose NDB will seek to maintain its operations at levels no higher than 1983 levels in real terms during the next 2-3 years.

(b) NDB will concentrate its financing in the following priority areas: micro-agriculture and commercial projects, small and medium-scale projects in the agriculture, commercial and industrial sectors.

(c) Within the key sectors selected, NDB will place emphasis on the financing of projects which contribute to transfer of technology and the development of local manpower skills and which utilise local raw materials.

(d) NDB will pay particular attention to financing projects which are labor-intensive and therefore have potential for creating new employment. As a guideline, project investment cost per job created up to a level of P15,000 would be considered acceptable. To be eligible for financing by NDB, projects with investment cost per job exceeding this level would have to be justified on the basis of very large other economic benefits.

(e) NDB will coordinate its activities with those of institutions/agencies providing technical assistance to ensure that projects receiving financial assistance especially those owned and managed by Batswana nationals, also receive adequate technical assistance and extension service support.

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BOTSWANA

NATIONAL DEVELOPMENT BANK (NDB)

Actual and Projected Operations (1979-1988)
(P'000)

Year ending March 31 /1	Actual					Projected				
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
APPROVALS										
A. Micro-Credits										
Agricultural (up to 20,000)	1,049	4,597	6,593	6,213	6,131	6,989	7,968	9,084	10,901	13,081
Commerce/Industrial (up to 5,000)	210	913	457	552	552	629	717	817	980	1,176
Subtotal	1,259	5,510	7,050	6,765	6,683	7,618	8,685	9,901	11,881	14,257
B. SSE (P5,000 - 20,000)	--	--	933	405	418	477	544	620	744	893
C. Macro-Credits (over P 20,000)										
Agricultural	--	576	1,626	2,335	2,306	2,629	2,997	3,417	4,100	4,920
Commercial/Industrial	25	3,330	2,571	3,031	2,610	2,975	3,392	3,867	4,640	5,568
Subtotal	25	3,906	4,197	5,366	4,916	5,604	6,389	7,284	8,740	10,488
Total Approvals	1,284	9,416	12,180	12,536	12,017	13,699	15,618	17,805	21,365	25,638
COMMITMENTS /2										
A. Micro-Credits										
Agricultural	--	--	--	--	5,211	6,861	7,821	8,916	10,629	12,754
Commercial/Industrial	--	--	--	--	469	618	703	802	956	1,147
Subtotal	--	--	--	--	5,680	7,479	8,524	9,718	11,585	13,901
B. SSE	--	--	--	--	251	453	517	590	644	834
C. Macro-Credits										
Agricultural	--	--	--	--	1,384	2,499	2,850	3,249	3,827	4,592
Commercial/Industrial	--	--	--	--	1,566	2,829	3,225	3,677	4,331	5,197
Subtotal	--	--	--	--	2,950	5,328	6,075	6,926	8,158	9,789
Total Commitments	--	--	--	--	8,881	13,260	15,116	17,234	20,387	24,524
DISBURSEMENTS /3										
A. Micro-Credits										
Agricultural	--	--	--	--	3,217	5,559	6,440	7,342	8,648	10,377
Commercial/Industrial	--	--	--	--	352	518	591	673	798	808
Subtotal	--	--	--	--	3,569	6,077	7,031	8,015	9,446	11,185
B. SSE	--	--	--	--	100	265	302	345	401	670
C. Macro-Credits										
Agricultural	--	--	--	--	830	1,500	1,710	1,949	2,296	2,755
Commercial/Industrial	--	--	--	--	548	1,643	1,872	2,135	2,482	2,979
Subtotal	--	--	--	--	1,378	3,143	3,582	4,084	4,778	5,734
Total Disbursements	--	--	--	--	5,047	9,485	10,915	12,444	14,625	17,589

/1 Figures for 1979-1982 are as of December 31; due to change of fiscal year from January 1 - December 31 to April 1 to March 31 figures for 1983-1988 are as of March 31.
/2 Up to 1982 NDB considered commitments to be synonymous with approvals.
/3 Because of the poor quality of its records, NDB has not been able to compile an accurate record of its historical disbursements.

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ANNEX 12(a)

BOTSWANA

NATIONAL DEVELOPMENT BANK (NDB)

Projected Income Statements 1984-1988
(P '000)

Year Ending March 31	1984	1985	1986	1987	1988
INCOME					
Income from Loans	3,310	4,336	4,839	5,315	6,073
Income from Equity Investments	19	19	19	19	19
Administration Fee /1	71	71	71	71	71
Operating Income	3,400	4,426	4,929	5,405	6,163
Rental Income	224	209	211	226	242
Extra-ordinary Income /2	600	262	267	267	--
Government Grants /3	--	832	948	1,123	1,345
Total Income	4,224	5,729	6,355	7,021	7,750
EXPENSES					
Administrative Expenses	1,723	1,963	2,235	2,548	2,909
Financial Expenses	2,543	2,552	2,603	2,714	3,020
Depreciation	149	149	149	149	149
Provisions	237	172	149	141	232
Total Expenses	4,652	4,836	5,136	5,552	6,310
Profit (Loss) Before Dividends	(428)	893	1,219	1,469	1,440
Dividends /4	--	433	468	506	546
Net Profit (Loss)	(428)	460	751	963	894

/1 Fees Paid to NDB for Administration of Special Funds
/2 Drawings against the Second Livestock Project (IBRD) and technical assistance grant from Government.
/3 Grants to NDB to finance cost of micro-credit operations. Size of the grants assume 16 percent on-lending interest rate to ultimate beneficiairies.
/4 Government will use the dividends earned to cover part of its equity contributions to NDB.

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ANNEX 12(b)

BOTSWANA

NATIONAL DEVELOPMENT BANK (NDB)

Projected Balance Sheets 1984-1988
(P'000)

As of March 31	1984	1985	1986	1987	1988
ASSETS					
Cash, Deposits & Short Term Investments	41	337	(70)	424	47
Accrued Income	1,688	1,875	2,100	2,440	2,818
Current Maturities of Portfolio Loans	7,463	9,474	11,820	12,931	14,224
Total Current Assets	9,192	11,686	13,850	15,795	17,089
Loan Portfolio	28,685	32,137	35,107	37,912	42,570
Less Provisions	(1,434)	(1,607)	(1,755)	(1,896)	(2,128)
Loan Portfolio (Net)	27,251	30,530	33,352	36,016	40,442
Less Current Maturities Of Portfolio Loans	7,463	9,474	11,820	12,931	14,224
	19,788	21,056	21,532	23,085	26,218
Equity Investments	961	961	961	961	961
Net Fixed Assets	1,434	1,335	1,237	1,097	947
Total Assets	31,375	35,038	37,580	40,938	45,215
LIABILITIES					
Sundry Creditors	236	196	236	236	236
Current Maturities of Long Term Debt	1,829	1,792	2,112	2,112	2,112
Current Liabilities	2,065	1,988	2,348	2,348	2,348
Borrowings					
Subsidiary Company	305	305	305	305	305
Botswana Government	21,765	20,457	19,824	21,120	24,366
U.K. Exchequer	249	200	151	102	53
EEC	1,459	1,459	1,459	1,459	1,459
ADB	2,100	4,200	4,200	3,880	3,560
IBRD	—	2,000	4,000	5,000	5,000
Total Borrowings	25,878	28,621	29,939	31,866	34,743
Less Current Maturities of Long Term Debt	1,829	1,792	2,112	2,112	2,112
	24,049	26,829	27,827	29,754	32,631
Unrecalled Capital					
Botswana Government	4,919	5,419	5,852	6,320	6,826
Overseas Grants	726	726	726	726	726
Reserves & Surplus (Loss)	(384)	76	827	1,790	2,684
Net Worth	5,261	6,221	7,405	8,836	10,236
Total Liabilities and Net Worth	31,375	35,038	37,580	40,938	45,215

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ANNEX 12(c)

BOTSWANA

NATIONAL DEVELOPMENT BANK (NDB)

Projected Sources and Uses of Funds 1984-1988
(P'000)

Year Ending March 31	1984	1985	1986	1987	1988
SOURCES					
Profit (Loss)	(428)	893	1,219	1,469	1,440
Depreciation	149	149	149	149	149
Provisions	237	172	149	141	232
Cash from Operations	(42)	1,214	1,517	1,759	1,821
Loan Collections	5,704	7,463	9,474	11,820	12,931
Borrowings					
EEC	800	--	--	--	--
ADB	2,100	2,100	--	--	--
IBRD	--	2,000	2,000	1,000	--
Government	1,000		1,000	3,000	5,000
Equity	--	500	433	468	506
Total Sources	9,562	13,277	14,424	18,049	20,258
USES					
Accounts Receivable	50	187	112	340	378
Fixed Assets	600	50	50	10	--
Loan Disbursements	9,485	10,915	12,444	14,625	17,589
Loan Repayments	1,829	1,829	1,792	2,112	2,112
Dividends	--	--	433	468	506
Total Uses	11,994	12,981	14,831	17,555	20,635
Balance	(2,432)	296	(407)	494	(377)

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BOTSWANA

NATIONAL DEVELOPMENT BANK (NDB)

Actual and Projected Financial Ratios 1978-1988

	Actual					Projected				
	1978	1979	1980	1981	1983	1984	1985	1986	1987	1988
Income Statement Items As % of Average Total Assets										
Gross Income	7.1	6.3	5.9	9.2	15.8	13.5	17.2	17.5	17.9	18.0
Loan Income	6.1	5.4	4.9	7.2	9.0	10.5	13.1	13.3	13.5	14.0
Financial Expenses	1.6	2.2	2.5	4.5	6.6	8.1	7.7	7.2	6.9	7.0
Administrative Expenses	4.6	3.8	3.0	2.1	7.5	5.5	5.9	6.2	6.5	6.7
Net Profit	--	.1	--	.2	--	--	1.4	2.1	2.5	2.1
Profitability Indicators										
Net Profit as % of Year End Net Worth	--	0.1	--	0.4	--	--	7.4	10.1	10.9	8.7
Loan Income as % of Average Loan Portfolio	10.7	10.3	9.7	10.8	12.6	12.3	14.3	14.4	14.6	15.1
Cost of Debt as % of Average Long Term Debt	3.9	6.5	5.1	6.9	8.5	9.6	9.4	8.9	8.8	9.1
Financial Structure Indicators										
Current Ratio	5.6	6.0	6.0	10.5	3.6	4.4	5.9	5.9	6.7	7.3
Long Term Debt Equity Ratio	0.6	0.5	1.6	2.2	5.2	4.9	4.6	4.0	3.6	3.4
Provisions as % of Average Portfolio	2.9	0.3	0.6	2.6	2.5	5.3	5.3	5.2	5.2	5.3
Debt Service Coverage Ratio	3.3	0.8	0.8	1.4	1.4	1.4	2.0	2.5	2.8	2.9

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ANNEX 13

BOTSWANA

MINISTRY OF FINANCE AND DEVELOPMENT PLANNING

Formula for Sharing Foreign Exchange Risk

The protection against exchange risk afforded by Government is based upon the following formula:

(a) A base exchange rate for the loan shall be established;

(b) Repayments of the loan plus interest shall be calculated at the quoted exchange rate 14 days before each due date for repayment;

(c) Variations will be shown between the base rate and the rate calculated at item 2 above; and

(d) The partial protection or benefit will be borne as follows:

(i) The first 4% of the percentage variation will be borne by the applicant;

(ii) Of the next 6% of the percentage variation, Government will contribute one half;

(iii) Of the next 5% of the percentage variation Government will contribute three quarters;

(iv) All of the variation exceeding 15% will be borne by Government; and

(v) Benefits will be shared in the same proportions shown in (a) to (d) above.

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ANNEX 14

BOTSWANA

SECOND DEVELOPMENT FINANCE COMPANIES PROJECT

Estimated Disbursement Schedule 1/
(US$'000)

IBRD - FY	NDB	BDC	Technical Assistance	Selebi-Phikwe Consultancy	Front-end Fee	Cumulative Total
84						
Fourth Quarter	--	--	25	--	100	125
85						
First Quarter	105	--	50	--	--	280
Second Quarter	105	--	50	--	--	435
Third Quarter	105	--	50	--	--	590
Fourth Quarter	105	500	50	50	--	1,295
86						
First Quarter	170	200	50	50	--	1,765
Second Quarter	170	200	50	50	--	2,235
Third Quarter	180	200	50	50	--	2,715
Fourth Quarter	180	200	50	--	--	3,145
87						
First Quarter	200	300	50	--	--	3,695
Second Quarter	200	350	50	--	--	4,295
Third Quarter	200	350	50	--	--	4,895
Fourth Quarter	200	400	50	--	--	5,545
88						
First Quarter	245	450	58	--	--	6,298
Second Quarter	245	450	59	--	--	7,052
Third Quarter	245	500	58	--	--	7,855
Fourth Quarter	245	500	--	--	--	8,600
89						
First Quarter	265	800	--	--	--	9,665
Second Quarter	265	400	--	--	--	10,330
Third Quarter	265	200	--	--	--	10,795
Fourth Quarter	265	200	--	--	--	11,260
90						
First Quarter	260	--	--	--	--	11,520
Second Quarter	260	--	--	--	--	11,780
Third Quarter	260	--	--	--	--	12,040
Fourth Quarter	260	--	--	--	--	12,300

1/ Assuming the loan becomes effective by April 1, 1984.

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ANNEX 15

BOTSWANA

SECOND DEVELOPMENT FINANCE COMPANIES PROJECT

Selected Documents and Data Available in the Project File

Botswana Development Corporation (BDC)

1. Assumptions for Projections of Operations and Financial Statements.
2. Annual Report June 30, 1982.
3. Unaudited Financial Statements June 30, 1983.
4. Staff Development Plan.

National Development Bank (NDB)

1. Assumptions for Projections of Operations and Financial Statements.
2. Unaudited Financial Statements and Analysis of Operations as of August 31, 1982.

Sector

1. Financial Assistance Policy, 1982.
2. National Policy on Economic Opportunities, December 1982.
3. Investment Climate and Incentives Study, July 1981.

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