

# Botswana Halves its Total Estimated Interest Payments by Customizing an IBRD Policy Loan

The World Bank Treasury supported the Government of Botswana in reducing the total amount of estimated interest by 47 percent on a [new USD 250 million IBRD Development Policy Financing \(DPF\)](#).

By customizing the repayment profile to its debt management strategy, the Government of Botswana (i) reduced the average maturity by more than 3 years to ensure a lower spread and alignment with the project financing needs, and (ii) released around USD 24 million of fiscal space to foster economic recovery.

## Background

Botswana is an upper-middle-income IBRD country and not a frequent borrowing client of the World Bank. However, like other countries, the COVID-19 pandemic hit Botswana very hard and increased their financing needs. According to an April 2021 [World Bank assessment](#), Botswana's economy is estimated to have contracted by 7.9 percent in 2020 as the COVID-19 pandemic affected vital sectors, notably diamonds and tourism. Unemployment edged up to 24.5 percent, and the poverty rate is estimated to have reached 16 percent in 2020 (USD 1.9 per day, 2011 PPP).

Recognizing the severity of the crisis, the Government responded with a relief program valued at approximately 2 percent of GDP. The Economic Recovery and Transformation Program includes measures to protect lives and limit the spread of virus, supporting livelihoods as well as supporting firms and the banking sector.

In only six months, the World Bank prepared the [Botswana Programmatic Economic Resilience and Green Recovery DPF \(P175934\)](#) to support country's swift recovery from the pandemic through diversification and broadening of the economy.

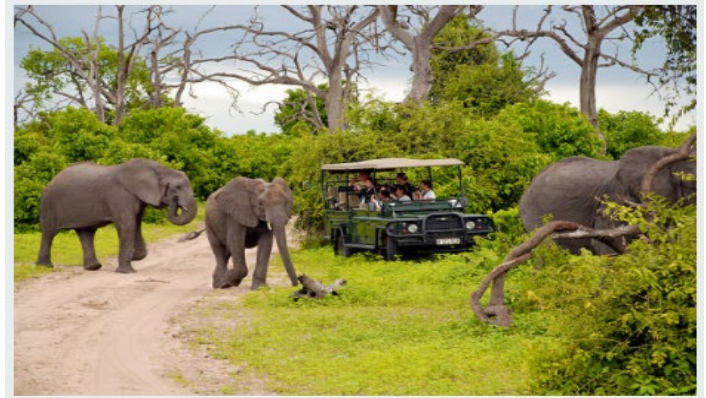


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## Project and Financial Objectives

- Support the response to the COVID-19 pandemic while strengthening private sector development and promoting a resilient, green recovery.
- Raise external financing from IBRD compared to other financing sources to support the country's immediate fiscal needs.
- Align the financing with Botswana's debt management goals that include longer-term financing options.

## Financial Solution and Outcomes

Unlike other comparable financial products, the IBRD Flexible Loan (IFL) allows borrowers to customize repayment terms (e.g., grace period, repayment period, and amortization profile) to only pay for the terms the client really needs. The selected repayment terms are the key elements determining the maturity premium and the interest rate attached to the loan. The shorter the average repayment maturity, the lower the maturity premium a client pays on the loan. Therefore, decisions around the maturity structure of the loan are central to project financing considerations.

### Reduced Total Estimated Interest Payments

A major benefit of this customized structuring of the DPF is that it enabled the Government of Botswana to move to the [shortest average repayment maturity \(ARM\)](#) category of eight years and below, which in turn provided for the lowest spread option for borrowing. Moving from a loan of five years grace period with a 15-year final maturity to three years grace period and 10-year final maturity enabled the Government to reduce the total amount of estimated interest to be paid over the life of the loan by USD 24.5 million, equivalent to a 47% reduction (data based on Bloomberg as of June 2021).

### Fiscal Space for Sustainable Development

The customized loan structure allowed for a sufficient grace period to accommodate the planned period of the DPF disbursement. It also pushed the loan principle repayments further out to 2024 when external debt is projected to be on a [declining trend](#), in line with Government's debt management strategy (see Figure 1). This, together with the reduction in the total estimated interest, helps create the fiscal space for the Government to fund other essential sustainable development projects and to respond to current crisis.

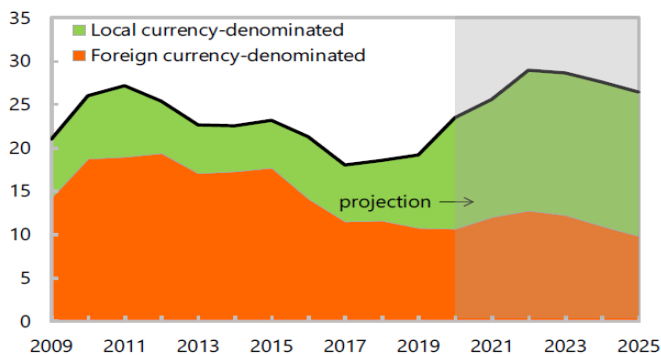


Figure 1. Composition of Public Debt by Currency (in % of GDP). Source: Botswana, IMF 2021 Article IV Consultation, Staff Report, June 2021.

### Increased Room for Additional IBRD Financing

Finally, the DPF will enable Botswana to access additional IBRD financing as needed by limiting the final maturity. It will be repaying the DPF off

relatively quickly, thus freeing up the IBRD lending envelope for additional loans in the future.

The DPF for Botswana is the first-ever budget support loan Botswana requested from the World Bank, and it is planned to be the first in a programmatic series of two lending operations. Similar structuring of the subsequent loans can continue generating significant savings for the Government that can be applied towards other priority development spending projects.

### World Bank Treasury's Role

- The World Bank Treasury team worked closely with the Ministry of Finance and Economic Development (MOFED) to structure the DPF currency, repayment profile, and maturity. This work included explaining the full range of terms, flexibilities, and risk management features IBRD financing offers.
- The Treasury team also provided numerous financing scenarios to support MOFED's decision-making process.
- Finally, the Treasury team supported the project team throughout the cycle and played a critical role in the loan negotiations to enable timely delivery to the World Bank Board.

Customizing the financial terms of Botswana's DPF is one of the many ways the World Bank Treasury helps clients use the flexibility of IBRD loans to achieve better financial terms for their projects, and optimize cost and risk for their debt portfolios.

Summary of Financial Terms	
Approval Date	June 11, 2021
Amount	USD 250 million
Term	10 years
Grace period	3 years
Structure	Amortizing