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Banknotes

Inside

Mohohlo is Africa's Central Bank Governor of the Year

Linah K Mohohlo
Central Bank Governor of the Year for Africa

The Governor of the Bank of Botswana, Mrs Linah K Mohohlo, was honoured with the Central Bank Governor of the Year Award for Africa at a reception hosted by The Emerging Markets Forum in Washington DC on October 10, 2008. The reception was convened at the time of the annual meetings of the International Monetary Fund and the World Bank, to honour the recipients of the 2008 awards for Finance Minister and Central Bank Governor of the Year for Latin America, Asia, Middle East, Africa and Emerging Europe. The award winner for Finance Minister of the Year for Africa was Mr Trevor Manuel of South Africa.

> Mohohlo has extended the bank's policy horizon

The Award is in recognition of Governor Mohohlo's success in steering the Bank of Botswana in the right direction, with respect to, in the main, implementing prudent and effective financial, monetary and reserve management policies, thus making a meaningful contribution to the development of the country. Nominations are made and votes cast by third party observers and bankers in major world financial centres on the basis of, among others, efficiency and effectiveness of policies.

Award Recipients
Central Bank Governors and Ministers of Finance of the Year

The following is a commentary by the Emerging Markets Forum publication of October 10, 2008:

For even the most able central banker, getting the right balance between monetary and exchange rate objectives, in a small open economy vulnerable to external price shocks and which sits within a region prone to volatility, is a daunting challenge. But Linah Mohohlo, the governor at the Bank of Botswana (BoB), has nimbly balanced these objectives by beefing up monetary transmission channels and making medium-and long-term price stability a priority.

Mohohlo, who has been governor of the bank for nine years, announced in February that the rate of commercial bank credit growth would no longer be the sole indicator for inflation forecasts. The bank has now "developed analytical capacity to estimate aggregate demand conditions to the extent that a wider range of factors can be considered more systematically", she tells Emerging Markets.

As well as widening the data used for forecasts, Mohohlo has extended the bank's policy horizon – rather than have an annual inflation target, a rolling three year goal of between 3% and 6% has now been set. "This is in recognition that monetary policy is inherently forward-looking", says Mohohlo. "Since it has little impact on short-term price developments, monetary policy action can only realistically be successful in the medium term".

This more rigorous inflation-forecasting framework and aim for sustainable price performance will "benefit policy transmission and… now provide better guidance to inflationary expectations, which themselves play a role in the transmission mechanism", she predicts.

The Market appears to agree. Phumelele Mbiyo, local and sovereign strategist as Standard Bank, says the new policy horizon "is a good idea, since focusing economic agents on the future and not past price performance helps monetary policy".

Whereas the monetary authorities of other emerging markets have, to the disdain of many economists, excused lax policy on the basis that prices shocks hit them from outside their own economy, Mohohlo has grappled with targeting inflation. The former IMF economist passionately affirms the central bank's power to control price performance in the small, liberalized country, despite its acute economic links with South Africa.

This year, annual inflation rose from 8.4% in January to 15.1% in August, largely driven by rising food prices. Subsequently, the BoB raised the policy rate by half a percentage point to 15% in May, and again by the same amount to 15.5% in June. Mohohlo argues that these rate increases were necessary moves "to counter second-round effects and influence inflation expectations".

Most crucially, the central bank is tasked with boosting the competitiveness of exports to diversify the economy of the world's largest diamond-producer through the crawling peg regime introduced in 2005. Mohohlo is charged with preventing an overvalued currency and ensuring some nominal exchange rate flexibility in case of external shocks.

Standard Bank's Mbiyo argues that "diversifying the economy is the overriding objective, to the detriment of inflation". Nevertheless, Mohohlo is adamant that the crawling peg regime is flexible enough to support her counter-inflationary battle. By optimising monetary policy tools and improving communication, the governor is in a strong position to reconcile these opposing objectives.

– Sid Verma

The Bank of Botswana
2007 Annual Report
Theme Chapter

Botswana's Framework for Macroeconomic and Financial Stability in Support of Sustainable Economic Growth

Summary by
Research Department

Introduction

Since attaining independence in 1966, Botswana has achieved robust economic growth which has transformed the country from being one of the poorest in the world to middle-income status with a GDP per capita of over USD4 500 and has one of the best performing economies in Africa. The country also has the highest sovereign rating (investment grade) by Moody's Investor Services and Standard and Poor's.[1] These achievements have been a combined result of the exploitation of the country's large diamond reserves, sound macroeconomic policies, political stability and good governance.

The 2007 Annual Report theme chapter discusses the subject of macroeconomic and financial stability and the role it plays in fostering economic growth in Botswana. Broadly defined, macroeconomic stability is a multi-dimensional concept which encompasses the careful management of imbalances in key components of the economy, which, taken together, result in sustainable long-term economic development. In particular, macroeconomic stability requires a budgeting framework that is consistent with fiscal solvency; monetary policy that fosters the attainment of low and stable inflation; and an exchange rate management that maintains a fairly stable real exchange rate that sustains an external balance. Policies for sustaining macroeconomic stability evolve over time, across the world, in response to the dynamic changes in the economic structure, development needs, international economic relationships and channels through which policy ultimately affects the rest of the economy.

Components of Macroeconomic Stability

Price stability refers to low and stable inflation that minimises its variations as well as being consistent with sustainable long-run growth. High and volatile inflation is costly and detrimental to efficient economic activity and output growth as it discourages financial saving and generates uncertainty for future investment returns. It also exacerbates income inequality as the poor are unable to protect themselves against sharp increases in prices through the acquisition of inflation hedges such as property and foreign assets.

Fiscal stability implies sound management of the government budget with public expenditure aligned to sustainable revenue sources, and borrowing which does not generate structural problems that can disrupt economic performance. When attained, fiscal stability has an impact on macroeconomic objectives especially economic growth, price stability and sustainable external balance. The cross-cutting effects of fiscal operations on a broad range of other national macroeconomic objectives highlights the need for fiscal policy implementation to be coordinated, complementary or alighted to other policies.

External stability defines the ability of the economy to meet its international financial commitments with minimum disruptions to foreign trade and financial flows. Its indicators include the volatility of the exchange rate; levels and adequacy of foreign exchange reserves in relation to months of imports as well as foreign debt servicing and the balance of payments as proportions of the country's output.

Financial stability encompasses the ability of the financial system to continually allocate economic resources for the purposes of production and trade, as well as providing channels for financial saving, to sustain wealth accumulation and economic growth. The role of the financial system in facilitating saving and access to financial resources entails the assessment of the associated risks and returns, which contributes to the efficient deployment of finance. Nevertheless, to foster macroeconomic stability and growth, it is critical that the financial sector operates in a stable environment, which is, in part, afforded by an appropriate regulatory framework, the proper assessment of risks and processes for quickly addressing constraints to accessing financial resources. The adverse impact of the recent sub-prime lending crisis in the United States of America on the world economic performance demonstrates the need for the maintenance of financial stability. In addition, financial stability affords saving, the channelling of financial resources to the productive sectors and facilitation of payments in support of macroeconomic stability and durable economic growth.

Strategies and Policies for Sustained Macroeconomic Stability in Botswana

Botswana's overall strategy for attaining sustained macroeconomic stability is the formulation and implementation of medium-term national development plans (NDPs) and related macroeconomic policies. For example, the current plan, NDP 9, stresses the need for macroeconomic stability in addressing the economic and social challenges of diversified growth, unemployment creation, poverty alleviation and the impact of HIV/AIDS. NDP 10, currently being drafted, focuses on creating the conditions for accelerated private sector growth, in order to achieve the goals of Vision 2016.

Monetary Policy

Monetary policy in Botswana has played an important role in macroeconomic stability by fostering monetary stability as required by the provisions of the Bank of Botswana Act. In particular, monetary stability implies the maintenance of low, stable and predictable level of inflation. Although the modalities of monetary policy implementation have evolved over time since the establishment of the Bank, its principal objective has remained: the maintenance of monetary stability. During the 1980s, monetary policy was implemented by use of direct controls on interest rates, credit levels as well as allocation, and primary reserve requirements. Subsequently, direct controls were removed in favour of a framework in which monetary control was achieved through indirect instruments and a policy aimed at achieving positive real interest rates. In order to properly manage the determination and maintenance of interest rates at an appropriate level consistent with the monetary policy stance, Bank of Botswana Certificates (BoBCs) were introduced in 1991 to regulate excess liquidity in the banking system.

The introduction of open market operations (purchases and sale of BoBCs), together with the use of the Bank Rate and reserve requirements, has supported the achievement of the price stability objective. The current monetary policy framework incorporates the use of Bank Rate and BoBCs[2] to influence other short- and long-term interest rates in the economy and to regulate excess liquidity in the banking system. The Bank also uses Repurchase Agreements (Repos), Reverse Repos and the Secured Lending Facility (SLF) to manage short-term and overnight liquidity fluctuations in the banking system.

The publication of the Monetary Policy Statement (MPS) started in the late 1990s. Since then, the Statements have highlighted the monetary policy objective of the achievement of a sustainable, low and predictable level of inflation (price stability) over the medium- and long-term. This goal also contributes to the stability of the real effective exchange rate (REER) and macroeconomic stability, in general. In 2002 the Bank commenced the specification and announcement, of an inflation objective in the MPS. The announced objectives guide the expectations of stakeholders with respect to monetary policy responses to the changing domestic as well as global economic and financial trends that affect inflation.

Fiscal Policy

Fiscal policy has three major functions:

(i) the allocation of resources between the production of private and public goods, as well as within the private sector;

(ii) the distribution of income or wealth in a manner considered fair by society; and

(iii) the stabilisation macroeconomic activity.

As is the case with monetary policy, Botswana's fiscal policy has evolved over time. Since the early 1980s, fiscal policy has put greater focus on restraining the growth of public expenditure in order to limit both the role of government as the main engine for growth as well as ensure sustainable levels of government debt. For the euro area, the bias in favour of fiscal restraint is enshrined in the 'Maastricht Criteria' which set strict fiscal policy benchmarks to be adhered to by member countries. For developing countries, the need for sound fiscal policy has been a central focus of policy advice by the International Monetary Fund (IMF) and the World Bank.

Fiscal prudence has also been entrenched in protocols and agreements for regional economic groupings which have benchmarks for budget deficit/GDP and debt/GDP ratios as part of their convergence criteria on the road towards achieving regional integration. In Botswana, prudent fiscal policies have aimed at achieving a medium-term budget balance and the adoption of fiscal rules that align expenditure to sustainable revenue sources. As a result, fiscal policy has contributed to a stable macroeconomic environment. The pursuit of fiscal prudence and the steady growth of mineral revenues, ended Botswana's reliance on the UK Government for funding the recurrent budget in 1972/73. Since then, the objective of maintaining budget surpluses became entrenched and by the mid-1980s, budget surpluses had become the norm, a tradition that continued, albeit with a few years of budget deficits up to early 2000s when the country experienced high volatility in the budget balance. However, the adoption of formal fiscal rules does not imply a rigid adherence to the objective of budgetary balance on an annual basis but over the medium term.

Exchange Rate Policy

Exchange rate regimes are usually classified as floating or fixed, but with

a continuum of intermediate exchange rate arrangements between these two extremes. The choice of an exchange rate regime is mainly influenced by a country's conditions and policy choice. Developing countries often choose a mid-way course; this is the exchange rate system used in Botswana. In choosing the exchange rate regime, developing countries have transited from pegging to a single or key internationally traded currency to pegging to a basket of these currencies.

When the Pula was introduced in 1976, it was pegged to the US dollar, until 1980 when it started to depreciate against the rand as the South African currency appreciated against the US dollar. The Pula's depreciation against the rand accelerated the rise in inflation in Botswana. As a result, the exchange regime was reviewed following which the Pula was pegged to a basket of the rand and the Special Drawing Rights (SDR)[3]. This decision was guided by the country's trade patterns and the need to include the major currencies used in international trade and payments in the basket. The fixed basket peg also permitted the use of exchange rate for purposes of supporting the competitiveness of international traded goods during certain periods and the objective of price stability, on some occasions.

Recently, however, given the relative success of monetary policy in controlling inflation, the exchange rate has tended to be used for supporting export competitiveness, which is critical for the achievement of the national economic diversification objective. Moreover, in order to avoid occasional discrete adjustments to the exchange rate in pursuit of this objective, and to ensure continual stability of the real effective exchange rate (REER), the crawl of the fixed peg was introduced in 2005. The rate of crawl is determined as the differential between the inflation objective adopted by the Bank of Botswana and the average forecast inflation in trading partner countries included in the basket peg. The crawling of the band has contributed to the relative stability of the REER which, in turn, has helped export sector competitiveness.

External Stability

As a result of prudent fiscal policy, the vigilant monetary policy implementation as well as the sound exchange rate policy, together with buoyant mineral export proceeds, the country has continuously maintained external stability. This outcome is reflected in the high rations of balance of payments surplus to GDP and the levels of foreign exchange reserves months of import cover.

Financial Stability

The financial stability framework in Botswana entails ensuring the soundness of financial institutions and the efficiency of associated markets, the payments and settlement system, as well as the resilience of the financial system to shocks. The robustness of the financial sector is based on self-correcting mechanisms adopted by banks and regulatory intervention by the authorities. A stable financial system facilitates economic growth through, among other factors, innovation, orderly integration and links with the other sectors of the economy, leading to enhanced access to financial services which are important for a country's development.

Since the institutions in the financial system are closely linked, operational problems in one institution can spread to other financial organisations leading to a system-wide crisis that would potentially generate macroeconomic instability. Prudential supervision is, therefore, crucial in order to detect potential problem areas early as well as taking timely intervention to sustain stability. The Botswana supervisory framework has multiple regulatory authorities. The banking system is supervised by the Bank of Botswana. The Ministry of Finance and Development Planning (MFDP) previously carried out limited supervision of development financial institutions and capital markets. This responsibility is now carried out by the recently established Non-Bank Financial Institutions Regulatory Authority (NBFIRA).

The supervisory framework in Botswana has evolved in response to the significant growth, diversification and integration of the financial system. Over the years, the composition of the financial system has changed significantly with the share of non-financial assets increasing significantly displaying trends similar to those seen globally. The overall stability of the financial sector can, in part, be assessed through the performance of the commercial banking system as indicated by adherence to the regulatory capital adequacy, asset quality, profitability and liquidity. The banking system in Botswana continues to outperform the international benchmarks for these prudential standards and their high profitability has contributed to broad financial stability.

Conclusion

The theme chapter discusses evolving policies that have been implemented over the years in order to sustain macroeconomic growth. Monetary policy contributes to price stability by moderating demand pressures and lowering expectations of future high inflation despite the challenges of externally induced increases in costs. Similarly, through the implementation of fiscal rules and few deficits, Botswana has experienced fiscal stability. However, there are challenges of the prospective decline in revenues growth in the years ahead. External stability has been maintained through the pursuit of appropriate exchange rate policies that are indicated by the stability of the real effective exchange rate, the strong balance of payments and high levels of external reserves.

Finally, financial stability has been maintained through the Bank's supervisory activities. The country's financial services have grown significantly with considerable diversification of products while meeting all the prudential requirements and maintaining high profitability levels. Nevertheless, broadening regulatory oversight and information sharing among the institutions require further improvement.

(Footnotes)

[1] *A detailed explanation of Botswana's growth path is outlined in the theme chapter for the 2006 Annual Report*

[2] *The primary counterparty status in the BoBC market is now restricted to commercial banks and merchant banks, thus reflecting the primary use of BoBCs as a monetary policy instrument and rather than as an investment vehicle.*

[3] *The SDR is a composite unit of account of the International Monetary Fund (IMF). It is determined by a weighted average of the exchange rates of the United States dollar, the Euro, the Japanese yen and the British Pound Sterling.*

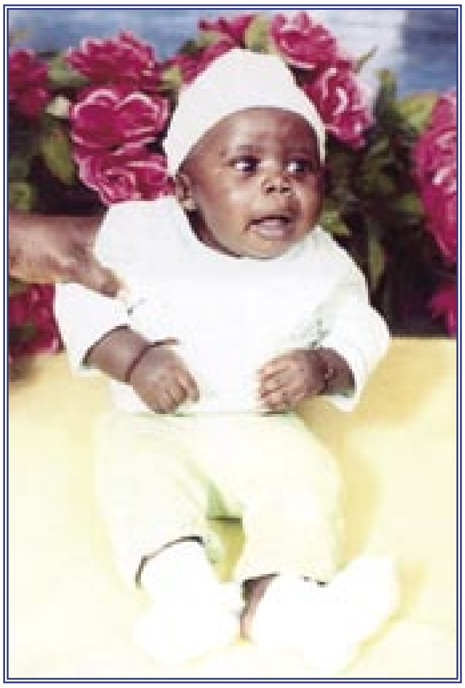
Bank of Botswana's

Exciting Family News 2008

2008 Babies

Babies born

Mr Rushil Mehta
25/02/2008
Born to Ms Brenda Mehta



Mr Otim Tinashe Makuni
05/05/2008
Born to Ms Lovie Makuni

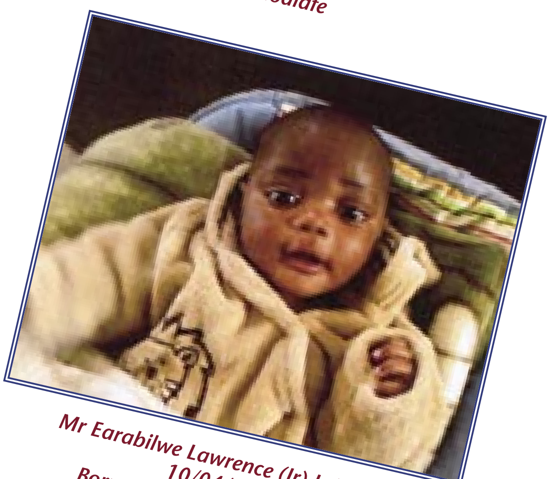
Mr Motheo Phadza Joao
01/08/2008
Born to Mr Lesego Joao

Ms Ame Chube
29/03/2008
Born to Ms Koongalele Chube

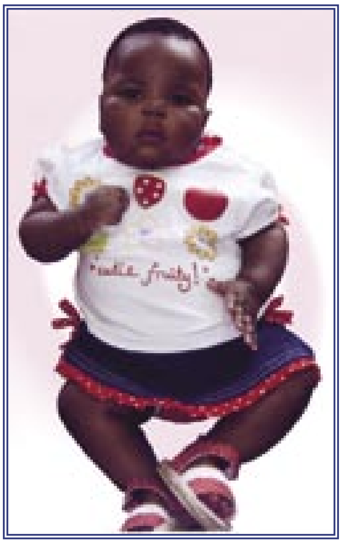
Ms Beda Gaoalafe
11/05/2008
Born to Mr Montshwari Gaoalafe

Mr Eda Gaoalafe
11/05/2008
Born to Mr Montshwari Gaoalafe

Ms Dirang Lotshwao
23/03/2008
Born to Mr Mangweemang Lotshwao

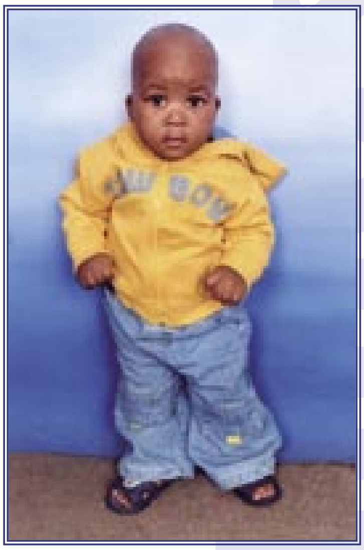


Mr Earabilwe Lawrence (Jr) Leinaeng
10/04/2008
Born to Mr Lawrence Leinaeng



Ms Agape Lame Theo
01/08/2008
Born to Ms Matildah Theo

Mr Khosi Oarata Nesengani
13/04/2008
Born to Dr Matlhodi Serero

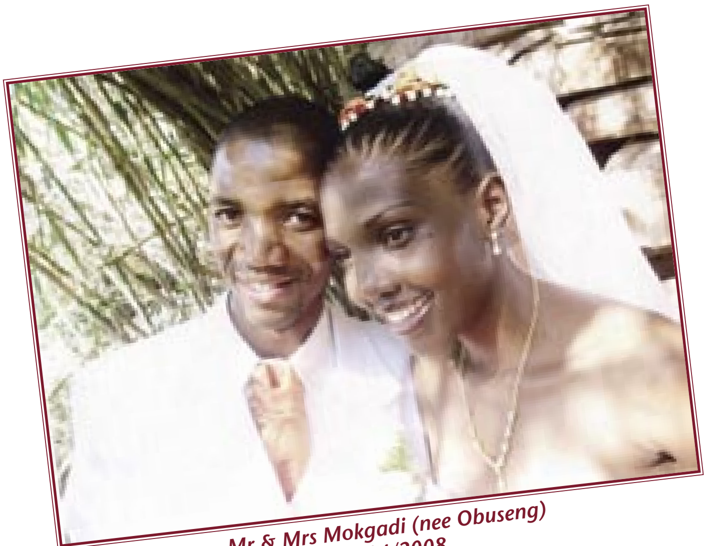


Mr Baone Mbako Sebina
24/01/2008
Born to Mr Benjamin Sebina

Weddings

Mr & Mrs Seokamo (nee Ramatu)
26/04/2008

Mr & Mrs Leshelea (nee Boikanyo)
18/07/2008



Mr & Mrs Mokgadi (nee Obuseng)
26/04/2008

Regional Seminar on International Accounting & Auditing Standards

Summary by
Lynette Mokokwane
Senior Investment Accountant in the Accounting and Planning Department, Bank of Botswana.

Introduction

The Bank of Botswana, in collaboration with the Financial Stability Institute (FSI) of the Bank for International Settlements (BIS), hosted a seminar on International Accounting and Auditing Standards on May 27 – 29, 2008 for central bank officials whose responsibilities were in the areas of accounting, internal auditing and banking supervision. Forty participants attended from fifteen central banks in the East and Southern Africa region. The resource persons were Mr Jason George, Senior Financial Sector Specialist from FSI; Dr Linda Ditchkus, member of the Secretariat of the Basel Committee on Banking Supervision; Mr Olivier Morelle, Senior Financial Expert at European Central Bank; Mr Carl Oosthuizen, Adviser at the South African Reserve Bank; Mr Robert Storch, Chief Accountant of the Federal Deposit Insurance Corporation (USA) and Ms Alta Prinsloo, Deputy Director at the International Federation of Accountants (IFAC). The purpose of the seminar was to discuss developments relating to international accounting and auditing standards and their proper implementation.

Opening Remarks

The seminar was officially opened by Governor Mohohlo. In her opening remarks, the Governor noted that a transformation of the global and economic financial environment has taken place in recent years. This has necessitated a revamping of existing standards and issuing of new ones by the accounting and auditing standards setters. She indicated that this was a challenge to institutions as it meant that they had to quickly learn and implement the revised and new standards in order to adequately disclose all the relevant information in the financial statements. She said that central banks were equally affected in that they too have to change with the times, noting that even more challenging was the fact that most central banks were not in full compliance with the reporting standards, partly because their accounting and financial requirements were in some cases enshrined in their respective central bank legislations while others were of the opinion that accounting standards are primarily developed for commercial entities with a profit motive.

She noted though that there has been a discernable change with a number of central banks having adopted the international accounting standards to enhance corporate governance as it relates to among others, transparency and accountability, but some have exercised discretion by applying the standards in so far as they are appropriate for the business of a central bank. In concluding, she suggested that since in some cases the applicability of the International Financial Reporting Standards can be inconsistent with the operations or objectives of central banks, it would be logical to consider a separate international framework for central banks.

Seminar Coverage

(a) Global Accounting and Auditing Standards

The seminar started with a presentation that highlighted the evolution of the accounting and auditing standards. In the case of accounting standards, these are currently prescribed as International Financial Reporting Standards (IFRS) previously known as International Accounting Standards (IAS). The IFRS are considered as being a "principle-based" set of standards in that they establish broad rules as well as dictate specific treatments. Many of the standards forming part of IFRS were issued between 1973 and 2001 by the board of International Accounting Standards Committee (IASC). The presenter indicated that before 1973, accounting standards were developed country by country and set by government accounting bodies or independent boards. This was adequate then but with globalisation, capital markets and cross-border investments confusion arose as different countries were using different Generally Accepted Accounting Principles (GAAP), which made comparisons difficult. That posed a challenge because financial statements prepared in one country would show different profit or loss figures if prepared in another country. This, therefore, called for the best practice hence the introduction of IFRS to create harmony. This led to the formation of the International Accounting Standards Committee (IASC) in 1973.

The standards developed by this Committee allowed many different treatments of the same transactions, to encourage sign-up by many countries. A new board, International Accounting Standards Board (IASB), was formed to replace the IASC in 2001. While basically adopting all the existing IAS, the IASB had as its objective the development of a set of high quality enforceable global standards applicable to all private companies and limiting alternative treatments under a new name of International Financial Reporting Standards (IFRS). To date, approximately 100 countries have adopted the IFRS. The harmonisation of the standards through the issuance of IFRS has provided advantages which include:

(i) facilitation of international capital flows as investors seek investment opportunities globally;

(ii) comparability of financial statements of companies in the same industry;

(iii) facilitation of easy cross border mergers since the financial statements would be consistently prepared and understood by regulatory authorities in different nationalities.

On the development of an accounting standard, participants were informed that this involves a consultation process with all stakeholders as well as cooperation with national standard setters. In the process, an Exposure Draft is released to enable interested parties to comment before the standard is issued. The process takes up to two years before the standard becomes effective. The workshop felt that in order to make comments that carry more weight, central banks at regional level, for example, could make collective comments instead of making individual comments.

It was also noted that some of the standards issued by the IASB were too complex and difficult to interpret and in this regard the board had been urged to develop new standards that are principle-based and less complex. In response to this, the IASB has hence released a document for comment titled "Reducing Complexity in Reporting Financial Instruments".

Regarding International Standards of Auditing (ISA) which are auditing standards for the performance of audit of financial information, these are issued by a different board, the International Auditing & Assurance Standards Board (IAASB) which operates under the auspices of the International Federation of Accountants (IFAC), of which the Botswana Institute of Accountants (BIA) is a member. The formulation process is almost the same as for the accounting standards.

> Institutions had to quickly learn and implement the revised and new standards

The IAASB engages in constant dialogue with different key regulators such as Basel Committee, European Commission, International Organisation of Securities Commission (IOSCO), World Bank and World Federation of Exchanges. This allows for more robust agreements and global acceptance of the ISA. Among the many reforms that have taken place in this area, was an establishment of a Public Interest Oversight Board in 2005 to strengthen the standard setting process, enhance transparency of the process, provide for public interest oversight and to continue collaboration between the profession and regulation.

For the period 2009 – 2011 the focus of the IAASB will be on development of the standard with specific concentration on issues relating to world capital market and small/medium enterprises.

(b) Relevant Accounting Standards and Issues

Selected topics of relevance to financial institutions were presented to highlight, among other things, accounting and auditing issues especially relating to recording/valuation of financial instruments and treatment of effects of exchange rate changes in the financial statements. Some of the standards discussed were IFRS 7: Financial Instruments Disclosures and IAS 21; The Effects of Change in Foreign Exchange Rates. IFRS 7 which became effective on January 1, 2007, prescribes the extent of accounting and risk disclosures to be made in financial statements, the nature and extent of risk arising from financial instruments that an entity is exposed to and how those risks are managed. The presenter acknowledged that this is a very complex standard especially regarding measurement of financial instruments, hedge accounting requirements and derecognition of financial instruments. It is envisaged that the comments on the IASB discussion paper on Reducing Complexity in Reporting Financial Instrument will come up with an acceptable approach on how to reduce the measurement and hedge accounting complexities. Other topics covered accounting and supervisory practices relating to loan provisioning; accounting for derivatives and hedges; derecognition and securitisation accounting; and business combinations and consolidated financial statements.

(c) Basel Committee's Efforts in Accounting and Auditing

Under this topic, the presentation highlighted that the Basel Committee's main purpose is to deal with the accounting and auditing standards of commercial banks. The Committee has an accounting task force which is currently dealing with fair value accounting since the IASB and the American Financial Accounting Standards Board (FASB) are moving towards adoption of fair value for valuing entities assets and liabilities. With regards to the banking supervision issues being considered by the Basel Committee include the IASB discussion paper on financial instruments that have characteristics of equity.

In addition, the Committee is responsible for the implementation of Basel II structures and the three pillars of the Basel II framework which deal with minimum capital requirements, supervisory review process and market discipline. Pillar 1 addresses the minimum capital requirements to cover a bank's credit, market and operational risks whereas Pillar 2 ensures and encourages that banks have adequate capital base, smoothly operate their internal risk management procedures

and have adequate internal control mechanisms. Pillar 3 on the other hand, ensures that banks provide the market with more detailed information on risks, capital structure, reserves and risk management. All the 3 pillars are mutually reinforcing and as such Pillar 3 complements the others.

Pillar 3 corresponds to the disclosure requirements of IFRS 7 in that risks in the financial instruments of an entity should be conducive to market discipline and therefore be in line with the main target of Pillar 3. These disclosure requirements allow market participants to access key information that relates to scope of applications, capital, risk exposures and risk assessment process. It was noted though that while IFRS 7 disclosures can be used to satisfy Pillar 3 requirements, the Pillar 3 disclosures do not need to be audited by external auditors unless they are part of the accounting disclosure requirements.

(d) Corporate Governance Reform and Auditors

The presenter observed that there was a global trend towards enhanced corporate governance and a move towards global convergence, focusing on restoring investor confidence and the protection of public interest. However, it was still apparent that differences still existed as evidenced by the fact that Africa was still lagging behind due to lack of capacity to implement international standards.

On the brighter side, it was indicated that there has been some developments in several countries involving review of national laws, rules, regulations, codes, etc. and, for example, that Botswana had recently revamped its Companies Act. On the auditing side, it was emphasised that in order to enhance corporate governance in an institution, ISA 265 requires that an auditor must communicate deficiencies in internal controls to management and those charged with governance. An issue still being debated is that instead of using the same external audit firm for years, an institution should rotate the audit firm or at least the engagement partners after a certain period of time.

(e) EuroSystem Accounting Framework

Detailed presentations were made on the euro system accounting framework and cooperation between central banks in the ESCB with regard to use and development of accounting and IT applications. The EuroSystem of Central Banks (ESCB) is composed of the European Central Bank (ECB) and the National Central Banks (NCB) of all the 27 European Union (EU) member states. The presenter indicated that the ESCB has adopted its own accounting framework which was formulated to standardise reporting by all member banks. Out of the 34 standards that were in existence when the ECB was formed, 19 were viewed to be of relevance to the ESCB. Of note was that, the ESCB decided not to apply the IFRS to their core policy operations of the EuroSystem, but it however, continues to monitor the development of the IFRS and the application of the IFRS for the non-core activities is examined on a case-by-case basis.

The reasons for non-adoption of the IFRS by ESCB were stated to be that the IFRS were designed for commercial companies and do not take into account the specificities of central banks. For example, the ESCB considered it necessary to set up provisions against general risks (which practice is not in line with IFRS), the rationale being that the main objective of a central bank of price stability would be compromised if no provisions were made for possible losses on foreign exchange transactions.

For transactions of foreign currencies and securities held for trading, IFRS recommend that unrealised gains or losses be recognised as income or expenses whereas the ESCB guideline recommends that unrealised gains go to the specific revaluation account and all unrealised losses are expensed with no reversal later. Other departures from the IFRS framework given were that in their financial statements the ESCB does not produce cashflow statement or the statement of changes in equity and the balance sheet does not follow the IASB convention where assets and liabilities should be ordered in their order of liquidity.

On cooperation between member central banks, it was indicated that this facilitated communication on development of appropriate accounting and IT frameworks, sharing of development costs and knowledge transfer. It was noted that the need for extensive consultation could possibly entail long lead time, however, this was outweighed by the pros.

(f) Conclusion

Despite the limitations provided by the fact that IFRS and ISA were provided for the private sector, the Bank had taken the initiative to keep up to date with the developments in the accounting and auditing environments. It has adopted and is implementing all the standards including the latest standard, IFRS 7, which deals with the disclosure of financial instruments.

Workshop on the Challenges and Opportunities for Growth in Sub-Saharan Africa: Botswana's Case

Summary by
Christine Ega Moloi
Principal Economist in the Research Department, Bank of Botswana

1. Introduction

1.1 On the occasion of the visit by the Deputy Managing Director of the International Monetary Fund (IMF), Mr. Takatoshi Kato, the Bank of Botswana hosted a workshop on September 26, 2007 to address challenges and opportunities for growth in Sub-Saharan Africa and with specific focus on Botswana. The workshop, which was led by Mr. Kato, included presentations by the IMF and World Bank staff, as well as locals who served as discussants. The workshop was attended by, among others, the Executive Director of the Africa Group I Constituency at the IMF, Mr. P. Gakunu, Honourable Minister of Finance and Development Planning, Mr. Baledzi Gaolathe, the IMF Resident Representative in South Africa, Mr. Sean Nolan, some Board Members of the Bank, the IMF 2007 Article IV Mission Team, representatives of the Botswana financial sector and the academia, and the media.

1.2 Officially opening and welcoming the guests to the workshop, Governor Mohohlo, welcomed the views of the Deputy Managing Director on the economy of Botswana, especially relating to avoidance of the resources curse and Dutch Disease. The visit was also considered testimony to the cordial relationship between Botswana and the IMF, buttressed by the positive attributes of the country such as prudent management of resources and a stable macroeconomic environment.

2. Strong Economic Performance and Good Management of Diamond Wealth; Avoiding the "Curse of Natural Resources" and Policy Challenges of Fostering Diversification and Growth as Diamond Receipts Decline by Mr. Kato

2.1 In his opening statement, Mr. Kato intimated on the great importance that he attached to the workshop and pointed out that the subject of natural resources was a difficult one and hence the need to bring all the experts that were present at the workshop. He pointed out how sound macroeconomic policies had transformed Botswana into the middle income country it was today, but cautioned that Sub-Saharan African countries were facing challenges brought about by events in the broader global economy. Global growth was robust at more than 5% in 2006 and 2007, and it was more balanced than hitherto, with emerging markets and other developing countries also participating in the expansion. The Sub-Saharan African region recorded the best economic growth in 30 years of between 5% and 6% over the same period; when excluding Zimbabwe, the growth rate was between 6% and 7%. Strong commodity exports were expected to drive growth in 2007 and 2008 to above 6% with the main driving force being the increase in oil production.

2.2 Mr. Kato pointed out that there were, however, challenges to sustaining this growth momentum. He stressed the need for a dynamic private sector which was essential for reducing poverty and also the need for the government to put in place policies that are conducive to private sector growth. A reduction of barriers to trade would also help in sustaining the current growth rates.

2.3 With regard to Botswana, Mr. Kato touched on the challenges to growth that were faced by the country which include, inter alia, poverty, unemployment and the HIV/AIDS pandemic; challenges which could reverse what the country had attained so far. There was a need to provide a social safety net to the needy and Botswana had made good progress as poverty levels were on a downtrend while great strides had been achieved with regard to the HIV/AIDS problem. There was also progress in diversifying the economy both within and outside the mining sector. Beneficiation in diamond and copper mining was making appreciable progress as well as diversification in other areas such as the financial and tourism sectors.

2.4 On the fiscal side, Mr. Kato highlighted the fiscal surpluses that the country has been recording but cautioned that it could be hard to sustain the positive balances in future, particularly if the diamond production was to plateau at the current levels in the near future.

3. Review of Diamond Regime and Comparisons with other Countries/Mineral Taxation: Trends in Sub-Saharan Africa by Mr. Philip Daniel, Fiscal Affairs Department, IMF

3.1 The presentation covered the preconditions for investing in minerals which include, amongst others, the geological and infrastructural aspects, securing leases to mining rights, a satisfactory and stable fiscal environment, repatriation of profits, and international arbitration. Difficulties associated with the taxation of mineral rents were outlined and these mainly concerned the uncertainty about mineral grades, costs and prices which made it difficult to accurately assess the rents in advance. The manner in which tax was imposed was deemed crucial as it affected investors' perceptions of risk and hence, the required return. Further, it was deemed important for the fiscal regime of a mineral-based economy not to differ much from those economies with similar or competing minerals, albeit with due regard to specific conditions. The tax system should not be used to exploit higher shares of rent from the investors and authorities must aim for tax neutrality and always take into consideration the tax burden and tax structure when proposing taxes.

3.2 The paper also discussed the different individual tax instruments applicable to mineral rents (e.g., royalties, corporate income tax, taxes on inputs), profit sharing formulae (applied to diamonds in Botswana and Namibia) and current mineral tax issues in Sub-Saharan Africa, with specific examples.

4. Fiscal Management in Resource-Rich Countries: The Case of Botswana by Ms Janet Stotsky, IMF 2007 Article IV Mission Head.

4.1 The presentation focused on fiscal policies in resource-rich countries as well as fiscal sustainability benchmarks for Botswana. The objectives of fiscal policies in resource-rich countries included the acceleration of socio economic development through macroeconomic stabilisation as well as sustainable and intergenerational equity. Macroeconomic stabilisation requires a strong macroeconomic case for smoothing fiscal expenditure and minimising the impact of mineral prices on the budget, considering that the volatility of mineral prices could be substantial and impact on the budget. In turn, smoothing expenditures is crucial as it would be costly and inefficient to adjust spending rapidly and abruptly. Sustainability and intergenerational equity refers to the ability to save mineral resources for future generations while sustaining expenditures at reasonable levels.

4.2 With regard to the case of Botswana, Ms Stotsky pointed out that the country has been a rare exception among the many resource-rich countries as it had shown a stable macroeconomic environment as reflected in high growth rates, low inflation, budget surpluses and high levels of international reserves. Botswana had also met its three fiscal objectives, viz., a surplus in the overall balance, expenditures below 40% of GDP, and a surplus in the non-investment balance[2].

5. Avoiding the Dutch Disease and Natural Resource Curse
by Mr. Sean Nolan, IMF

5.1 Mr. Nolan pointed out that in general, the macroeconomic performance of resource-rich countries has been quite disappointing as they are characterised by, among others, higher macroeconomic volatility reflecting exposure to terms of trade volatility and real exchange rate volatility. The name Dutch Disease was coined during the natural gas discoveries in the Netherlands in the 1970s and it refers to a situation whereby higher commodity revenues lead to surging domestic demand and especially demand for non-tradeable goods and services which in turn bid up prices of domestic factors of production and squeeze out output in the non-booming tradeable goods sector. This sequence of events often results in the real exchange rate appreciating. When these resources get depleted, prices decline leading to distortions and market failures, hence the disease. The Dutch Disease and resource curse can be avoided by putting in place appropriate political economy aspects (as in protecting and strengthening institutions) and economic policy aspects (as in appropriate fiscal, monetary, exchange rate and supply side policies).

5.2 Botswana has, to a certain extent, succeeded in avoiding the resource curse as evidenced by its impressive and sustained growth performance. Botswana's average long run growth from 1970 – 2005 was 7.84%, which far exceeded that of resource intensive low income and emerging countries as well as the non-resource intensive ones both of which registered average growth rates that were below 2% during this period. The coefficient of variation reveals modest variation in Botswana's GDP, the real exchange rate and terms of trade. This exceptional performance has been attributed to, inter alia, a sustained record of stabilisation oriented policies, prudent fiscal policy, a judicious public investment strategy and appropriate focus on diversification beyond the diamond sector. Looking ahead, the country needs to maintain and improve on these and other policy priorities. There is also need to improve managerial performance and productivity.

6. Investment Climate and Export Diversification in Botswana
by Ms Ritva Reinikka, Country Director, World Bank

6.1 An investment climate assessment is a core tool used by the World Bank to measure investment climate conditions in a country with the objective of assessing the main barriers to firm investment and productivity. Such barriers include those that discourage firms from achieving a number of factors, including expanding and creating more employment; entry by foreign investors; and preventing micro-enterprises from growing into formal firms.

6.2 Ms Reinikka presented benchmarks against which Botswana's performance could be assessed, vis-à-vis countries in the Southern African Customs Union (SACU), other parts of Africa and other regions of the world, using results of a survey conducted on micro-enterprises, Small and Medium Sized Enterprises (SMEs) and large enterprises in manufacturing, retail trade and other service sectors. Some of the highlights of the survey were that: labour productivity was higher in Botswana than elsewhere in Africa, except for South Africa and Namibia; domestic-owned firms in Botswana were far more dependent upon sales to government than was the case in other countries; corporate tax rates were low in Botswana and especially for manufacturing enterprises and that tax compliance was, however, low in Botswana. Furthermore, firms were concerned about high crime and security costs as it is the case elsewhere in Southern Africa and the other concern relates to the time it takes to license and register a business (108 days) and this was more a constraint to foreign owned companies than domestically owned companies. A few companies also cited the incidence of corruption in the form of bribes to facilitate service.

6.3 Overall, the study concluded that the investment climate in Botswana was favourable compared to other countries in Sub-Saharan Africa and even in other middle income countries. The study revealed the necessity to diversify exports especially considering that diamonds accounted for 35% of GDP but only 3% of formal employment.

7. Discussants

7.1 The first discussant, Dr Joel Sentsho of BIDPA, commented on the mineral taxation and fiscal issues. On mineral taxation, he pointed out that Botswana was one of the few resource rich countries with a tax system that has benefited significantly from the diamonds resource boom. Botswana had also generated substantial savings from diamonds revenues. On fiscal policy, he concurred with the presentations that Botswana had performed well, saving mineral revenues during boom years and utilising the savings when revenues were low.

7.2 Dr Jay Salkin discussed Mr. Nolan's presentation on the Dutch Disease and concurred with Mr. Nolan's clear articulation of Botswana's success in avoiding the resource curse. Dr Salkin gave credit to the country's long history of developing, through open, transparent and consultative processes, comprehensive and logically sound national development planning policy frameworks. These policy frameworks, including strategies for private sector development, prudent fiscal policy, sustainable budgeting, sound monetary policy, a stable, competitive exchange rate policy, an open trade regime, a competitive industrial development policy, agricultural development policy, a modern financial sector development strategy, broad-based education and human resources development, an incomes policy of restraint, employment creation and economic opportunities policies, etc., have been enshrined over the past 41 years in the country's development plans. He, however, pointed out that there had been episodes where the authorities have put in place strategies that have led to periods of macroeconomic and monetary instability as evidenced in escalating and unsustainable growth in money and credit, government spending and asset prices.

7.3 The last discussant was Professor Happy Siphambe of the University of Botswana who focused on the investment climate and export diversification in Botswana. He underscored the point that firms in Botswana were comparatively competitive and that the investment climate was indeed relatively favourable. Nonetheless, it was puzzling that the country failed to attract foreign direct investment (FDI) with such good investment climate and also failed to fully diversify from diamonds. Botswana was said to be exporting less (non-traditional exports) because it wasn't competitive and Professor Siphambe attributed the lack of competitiveness to the small size of the economy and pointed out that being small had its own advantages which the country could exploit. On skills shortages, he challenged the education system at tertiary level, which focuses more on white collar jobs, to introduce syllabi that will address the skills shortages.

8. Conclusion

8.1 The seminar addressed pertinent issues relating to challenges to growth faced by Botswana and Sub-Saharan Africa and further addressed opportunities that lay ahead for Botswana and other resource rich countries. While Botswana has performed relatively well and managed its resources efficiently, the speakers stressed the need for policy priorities to embrace strategies that will take into account the fact that the major mineral resources are subject to depletion and price fluctuations.

(Footnotes)

[2] A surplus in the non-investment balance indicates that current spending (excluding expenditures on health and education) has been kept below non-mineral revenues and that the country has used mineral revenues to finance expenditure on human and physical capital.

Bank of Botswana
Sporting Club Events

Summary by
Geoffrey Ncube
Senior Economist in the Research Department of the Bank of Botswana but writes here in his capacity as Chairman of the BoB Sporting Club

The first halve of the year 2008 was yet another period full of activity for the Bank of Botswana Sporting Club. The Club engaged in several activities thus far, among them the annual Central Bank games and local bank games. This article serves to reflect mainly on these two events, which are the main competitive events on the Club's calendar.

2008 Central Bank Games

The 2008 Central Bank games were held in Mbabane, Swaziland over the Easter holidays on March 21 to 24, where the Bank of Botswana was represented by 120 participants from the Bank of Botswana Sporting Club. Eight (8) countries participated in the games, namely Botswana, Angola, Lesotho, Mozambique, Namibia, South Africa, Swaziland and Zimbabwe. The sporting codes which featured in these games were chess, basketball, netball, football, volleyball, darts, table tennis, lawn tennis and pool.

The games proceeded well. The facilities were of a good standard, apart from the fact that different sporting codes were played at different venues. This made it difficult to give our teams the moral support they needed, since some of the venues were separated by a distance of about 7km.

Hospitality provided by the Central Bank of Swaziland (CBS) was satisfactory, despite that at times our hosts lost track of time. As is the practice at these games, the CBS provided supper for the visitors on Good Friday. This event was followed by the plush prize giving gala dinner at Mavuso Trade Centre in Manzini on Saturday. To wrap up the events, all participants were invited for an excursion and lunch at House on Fire on Sunday, with first class entertainment provided.

Unfortunately, on our way back from Swaziland one of our colleagues Ms Tsholofelo Moloi, who is one of our star netball players and two of her friends had a car accident. Their car overturned due to a tyre burst. The three of them sustained injuries, some of which were quite serious. We wish them quick and full recovery.

Summary of Results

BASKETBALL	1. Angola 2. Mozambique 3. Zimbabwe
CHESS	1. Zimbabwe 2. Mozambique 3. Angola
DARTS	1. Swaziland 2. Zimbabwe 3. Botswana
FOOTBALL	1. Angola 2. Lesotho 3. Zimbabwe
NETBALL	1. Swaziland 2. Zimbabwe 3. Botswana
LAWN TENNIS	1. South Africa 2. Swaziland 3. Mozambique
TABLE TENNIS	1. Zimbabwe 2. Angola 3. South Africa
VOLLEYBALL	1. Angola 2. Mozambique 3. Zimbabwe
POOL	1. Swaziland 2. Zimbabwe 3. South Africa

The Bank of Botswana Sporting Club participated in eight out of the nine sport codes, with no representation in basketball. The Bank of Botswana teams put up a gallant fight to the end in all the sporting codes. Dividends of this fight were realised when the netball and darts teams won bronze medals. Chess, table tennis, football and pool teams came 4th, while the volleyball and lawn tennis teams were eliminated in the preliminary rounds.

Although many of our teams took position four, we lost out in the overall standings due to the fact that this is based on the number of medals won, and medals are only awarded up to position three.

Local bank games

Local bank games were played on the weekend of May 9 – 11, 2008. These were hosted by Standard Chartered Bank of Botswana. At this time of the year, our teams are still at their peak performance boosted by the fact that they had just come back from the Central Bank games. The momentum built during preparation for the Central Bank games is normally carried through into these games.

The beauty pageant was the first event to take place on the evening of May 2, 2008. This is hailed as the ‘event’ of the year by banks, just as we treat the Central Bank gala dinner as our premium event. The hall at Gaborone International Conversion Center was fully packed on that evening, as is always the case at this event.

People came to witness the beautiful ladies doing their thing on stage, in their beautiful swimwear and evening gowns. The night was also made a memorable one by the performances of Maxi, Puna and others, who kept some people out of their seats most of the time whenever they came on stage to perform. At the end of the catwalk and parade after parade by the beautiful ladies, it was Barclays Bank of Botswana beauties who went away with the 1st and 2nd prize, with Standard Chartered Bank of Botswana scooping the 3rd prize. Regrettably the Bank of Botswana was not represented by anyone in the pageant. This is now becoming a norm whereby we never get any of our beautiful ladies volunteering to represent us. I would like to appeal to the ladies in the Bank to represent us next time in this event.

As usual, the games started with the indoor games, which were played in the evening of May 9, 2008 at Gaborone City Council hall. Attendance was satisfactory, and the games were played with the seriousness that we witness from year to year. On the following two days (Saturday and Sunday), outdoor games were played at the UB stadium and other nearby grounds. These games never fail to pull huge crowds, and the competition mood is usually high, with the banking fraternity showing that they could also do sports, and not just process transactions at their respective banking halls.

Overall, the Bank teams performed very well as shown in Table 1 below:

Table 1: Performance by the Bank teams

Sport	Position
Volleyball	3
Netball	2
Football	Knocked out at semi-finals
Table Tennis	2
Pool	3
Darts	Games were cancelled
Golf	1

Conclusion

The Sporting Club would like to express its sincere appreciation and gratitude to the Management of the Bank for the continued support and commitment they have shown, and to the development of sports in the Bank. We also want to thank the Bank for the development of the sports facility, which we hope will encourage staff to take part in sports, more especially for their health and fitness benefit.

Bank of Botswana builds a

Sports Facility

Summary by
Chepete Chepete
Special Assistant to the Governor and
PRO at the Bank of Botswana

The Bank of Botswana has built a sports facility for its staff which is also open for use by the wider community. The facility, which is now nearing completion, was launched on February 27, 2008 through a turf laying ceremony. The facility, among others, boasts of a football pitch with a synthetic turf (see pictures).

Performing the official launching of the facility, the Governor, Ms Mohohlo, explained that the concept of the facility goes beyond the exclusive needs of the staff of the Bank. When completed, she explained, the venue will serve the recreational needs of the wider community both at home and within the region. From this perspective, the Bank will fulfil its corporate citizenship responsibility within the country and further afield, she noted.

The Governor said that she was particularly delighted as the significance of the facility goes far beyond the requirements for physical fitness, recreation and the promotion of sports culture among staff members; but that, more broadly and significantly, the venue will nurture inter-personal harmony by fostering deeper mutual understanding and sharing of personal interest outside the work environment. Observing that, this will inevitably strengthen team spirit, civility, mutual respect and comradeship among the staff.

Ms Mohohlo further intimated that the laying of a synthetic turf on the football field is a clear indication of the Bank's commitment to the recreational welfare of the staff.

She explained that the decision to use the more costly synthetic turf was motivated by two considerations. The first was that the nation's water resources are limited for watering a playing field; and second, that the negligible maintenance cost of the material over a life span of over 15 years are justifiable reasons for incurring the initial high capital costs.

Explaining the architectural design, the Director of Technical Services Department, Mr Julius Ghanie, noted that the facility is just a third of the total area allocated by the Ministry of Lands and Housing and that it comprises:

- Synthetic turf football field of FIFA club standard with floodlighting – worth noting that this will be the only synthetic turf field in Gaborone;
- Dirt practice field;
- Spectator mounds which would need further development to accommodate concrete seats if limited funds permitted;
- Two multipurpose all weather courts for tennis, netball, volleyball, etc, with floodlighting;
- Ablutions and change rooms for two football teams; and
- A Games room for indoor sports and functions.

Staff are encouraged to take advantage of the facility to attain both physical and mental fitness.

Mr Grant Buckmaster addressing Senior Management on the facility

Senior Management of the Bank listening to speeches during the launch

Deputy Governor Pelaelo remembering the good olden days

Some parts of the facility