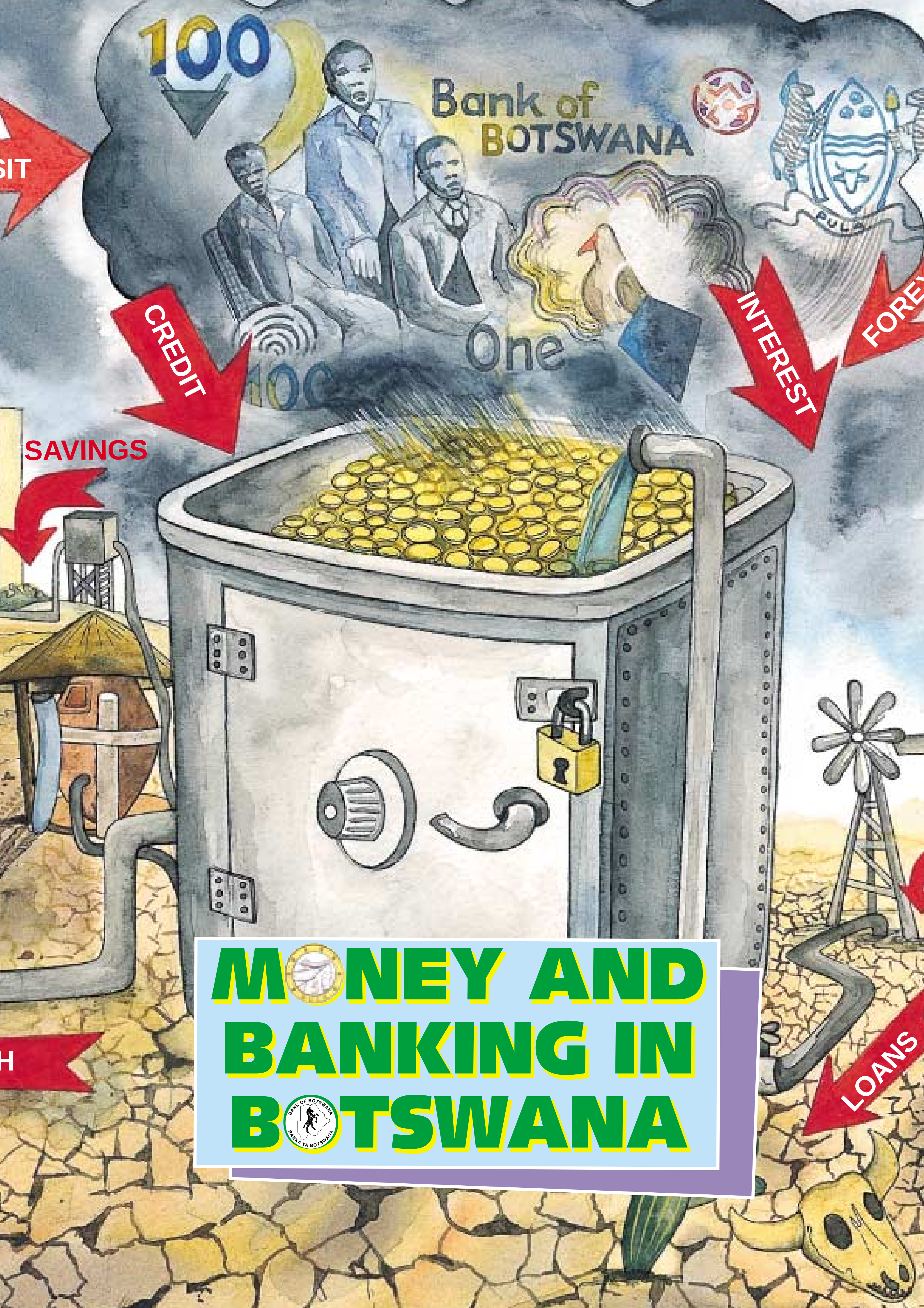
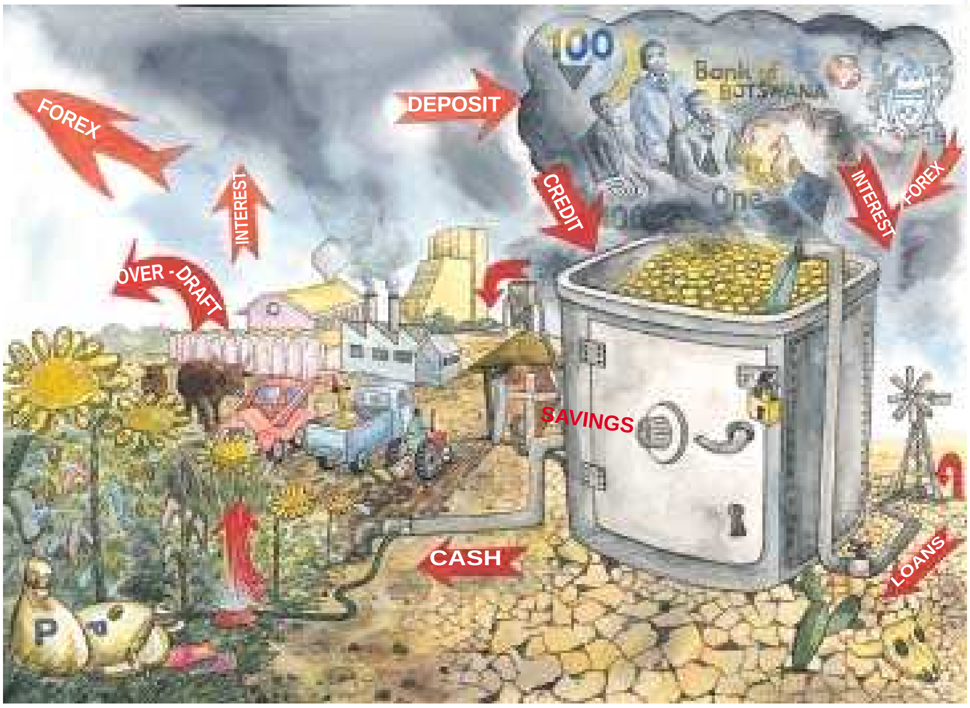


MONEY AND BANKING IN BOTSWANA



About the Cover:

A central bank is like a big dam in a village or city. From the dam, water is distributed to the nation.

Likewise, a central bank issues money to commercial banks before the money gets into our hands for our use.

Water is highly treasured in Botswana. Since we never know when it will rain next, we should always have some reserved. In the same way, we must save money in commercial banks for future use.

Publishers:	The Bank of Botswana Private Bag 154, Gaborone
Text :	Public Education Unit, Bank of Botswana
Editing:	Sholo A. Matale, Principal Bank Examiner Sabata Legwaila, Senior Economist Balisi Phuthego, Banking Supervisor Bence Ntswaneng, Public Education Manager
Art Director:	Billy Dikeme Chiepe
Illustrations:	Different Strokes
Desktop Publishing:	Different Strokes
Reproduction:	ReproScan
Printing:	Printing and Publishing

TABLE OF CONTENTS

Money rules!

INTRODUCTION

This is another publication in the Public Education Programme on Banking series to educate the public about money and banking. The first pamphlet published by the Bank of Botswana was known as "*Money Matters.*" In a foreword to that pamphlet, the former Governor of the Bank of Botswana, Mr. H.C.L. Hermans mentioned that it was an initial building block and had been written to provide basic information on banking to a wide audience.

"Money and Banking in Botswana" is a follow-up to *"Money Matters*". It has been written with the Junior Certificate Business Studies students in mind. It adequately covers Module 8 - Money and Financial Institutions - of the syllabus. Specific topics include money, its emergence, types and functions; the evolution of banks, types and functions of banks - central banks, commercial banks, investment banks, statutory banks and finance leasing companies. Students at senior secondary, especially those doing Development Studies, will find it a useful companion. The ordinary reader will also find this pamphlet useful.

If you require further information about the Public Education Programme on Banking or about this publication on *"Money and Banking in Botswana"*, please contact:

The Manager
Public Education Unit
The Bank of Botswana
Private Bag 154
Gaborone

Tel: 360 6412
360 6000

Fax: 374 859

MONEY

***Barter:** Exchange of actual goods and services e.g. Ivory for silk cloth*

Before we can define money, let us consider the importance of money in our daily lives. Today, there is virtually nothing anybody can do without money. For one to lead a decent life, one needs to have money. We use money to buy or purchase basic necessities, e.g., food, clothes, shelter, etc. Therefore, money plays an integral part in our lives. Broadly defined, money is anything that is widely used for making payments for goods and services or in the payment of debt. It can be in the form of coins, notes, cheques, travellers' cheques, etc.

Before money was invented, people traded with each other for many thousands of years by exchanging goods or services for other goods or services. This form of trade was known as the barter system. This method of trading, offering goods or services in exchange for other goods or services, was often very difficult and inconvenient. There was often a problem of different people not having what another person wanted in exchange for what they had to offer. A peasant with maize to exchange might want meat, while a person with the meat to exchange might not have interest in the maize but a pot. The person with the pot to exchange, on the other hand, might want a hoe. There was a problem of agreeing on the value of what was being sold. That is, how many of a given good should be exchanged for another good or service. To use the example above, how many pots should be exchanged for a given piece of meat? There was also a problem that some items could not be broken down into small portions so that they could be exchanged for smaller units of other goods. A pot could not be broken down in order to buy small pieces of meat. Since there was no acceptable value of goods and services there were often disputes whenever exchange had to be made. These problems were solved by the introduction of money.

How Money Came About

Where and when money was first used has been the subject of much debate. Throughout history, many things have been used as money. Cowrie shells, beads, skins and salt have all served as forms of money and used as means of payment. Such commodities had some of the qualities and performed some of the functions of money. They were generally accepted for making payments locally; an agreed value could be placed on them; they were portable (could easily be carried around); they were limited in supply (scarce) and to some extent were durable; but most of them could not be stored and used for future payments.

Functions of Money

We have just learnt about the qualities of money, namely that it must be acceptable, scarce, durable, portable, etc. Now we need to know the functions that money performs. These functions are:

Medium of Exchange

Money makes the exchange of goods or services much easier. As long as one has money, one can buy anything with it. For instance, he/she can purchase a book, a dress, a pair of trousers, etc. Money has purchasing power.

Unit of Account or a Measure of Value

Money is a standard by which goods or services may be valued as to their relative worth. Thus, money makes it possible for anybody to compare the values of various goods and services with each other before one can make a decision to purchase them or not. If two shops sell the same size bag of maize meal at different prices, one is able to compare the prices and choose to buy the maize meal from the shop that sells at a lower price.

Store of Value

If not required immediately, money can be stored with the knowledge that its value will remain the same for a reasonably long period of time.

Standard for deferred payment

Money allows debts to be recorded and paid in the future. Thus, it is possible for one to obtain goods today and pay for them later. For example, I can borrow five Pula (P5.00) from you today and pay you the same amount that I borrowed next month.

Types of Money

Coins

The use of gold coins as a means of payment is thought to have started in Greece in the year 400 AD. Eventually silver coins followed. Why gold and silver? Both had the qualities which are necessary for money. The qualities of money are durability (longer lasting), divisibility (can be divided into smaller units), acceptability (generally known and accepted for payment by everybody), portability (easy to carry around) and scarcity (limited in supply). When a commodity or service is limited in supply it would have a stable price. Silver and gold had the above qualities and, therefore, could be used as money.

The price of commodities could be related to the weight of the coins. For example, if the value of one cow was equal to the value of one kilogram of gold and the value of four goats was equal to that of one cow, then a goat was worth a quarter of a kilogram of gold. It was thus possible to calculate the value of any good or commodity in terms of gold.

Bank Notes

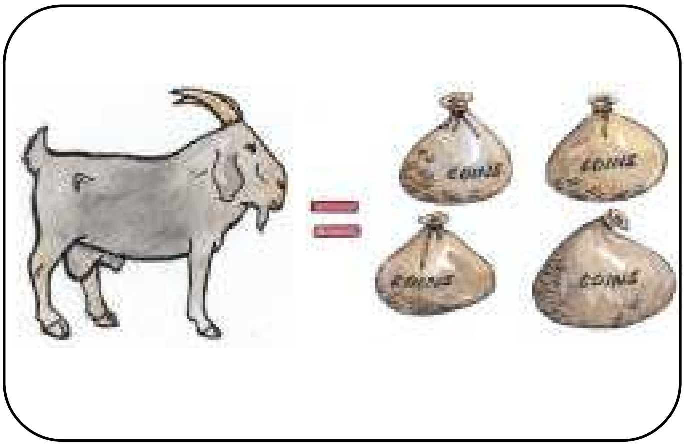
Notes (paper money) are believed to have evolved from the activities of goldsmiths, who were the forerunners of our modern banks. As merchants acquired gold coins, they would place the surplus with goldsmiths for safekeeping. Goldsmiths were honest, had safes and would give a receipt which promised to pay the bearer of the receipt, the amount of gold shown on the receipt. These receipts gradually became acceptable as means of making payment. The advantage of carrying a piece of paper rather than a bag of coins is obvious and the receipts/notes were soon widely used. These Fiduciary Notes (a promise to pay specific amounts of gold or silver) gradually evolved into modern day paper money in Great Britain and other European countries.

In the evolution of paper money, each goldsmith/banker had the right to issue his own paper money. In due time, notes of doubtful value were circulating in Great Britain. This caused a lot of concern to people in authority. To curb the activities of these banks, the right to issue paper money was vested in the Bank of England, which was an ordinary commercial bank at the time. The money issued by the Bank of England became fiat money. Fiat money is that issued on the authority of a government or state. Such money is known as Legal Tender, meaning money which must by law be accepted within the country in payment for any purchase or settlement of debt. For example, if you want to repay a P5 loan you received from your friend, then handing over a P5 banknote is a legally correct way of settling the loan.

The value of this bull equals the value of four goats

But I don't have four goats

What if we chop your bull into four bits then?
No way!



Other Forms of Money

There are other instruments which serve as money but are not money in the true sense of the word. These instruments are referred to as quasi-money and they include cheques, debit cards and credit cards. These can be used for making payments but they are not legal tender. One is not legally obliged to accept a cheque, debit card or credit card as means of payment. For example, if you obtained a P5 loan from a friend and offered to repay the loan with a cheque for P5, it would be entirely up to your friend to decide whether or not to accept this method of settling the debt.

Money In Botswana

Early Currency

Before Botswana's independence in 1966 and the introduction of the Pula in 1976, foreign currency circulated freely in the country. The first legal tender in Botswana was the Pound Sterling. It was issued by the Government of the Cape Colony after the proclamation of Bechuanaland as a British Protectorate in 1885. Following the founding of the South African Reserve Bank on June 30, 1921, the Pound Sterling and Union coins issued by the South African Reserve Bank became legal tender in Bechuanaland.

The Big Decision

In 1976, the Government of Botswana took the decision to introduce its own currency because, as Sir Seretse Khama put it at the official opening of the buildings of the Bank of Botswana:

Say the value of one goat equals the value of four 20kg bags of coins

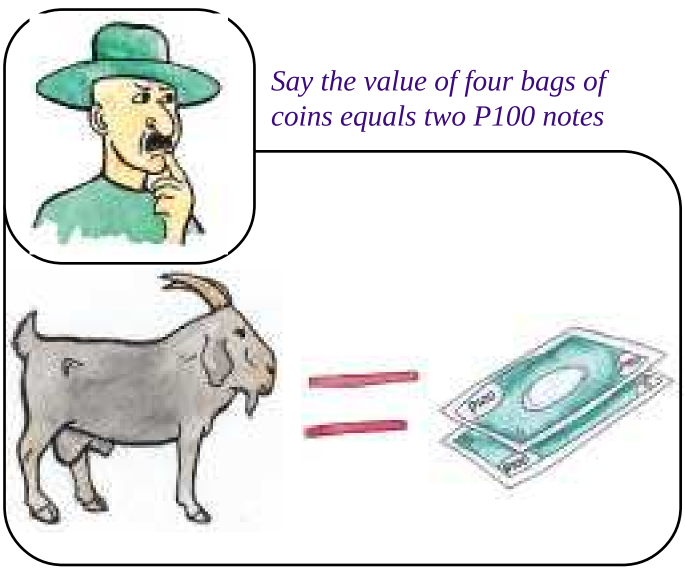
How will I carry 320 kgs of coins?

"Without its own currency and its own central bank there are a number of things that a country simply cannot do". Money can flow freely between the various parts of a monetary area - as it did in the old Rand Monetary Area. A member country can be dragged along, suffering the results of other countries' problems and mistakes. Before Pula Day in 1976, Botswana had to have much the same interest rates as South Africa, exchange control regulations and the rules controlling banks were outside Botswana's authority and inflation in South Africa was imported into Botswana without any modification. Moreover, the reserves of Botswana, which were held mostly by private companies, were almost all in Rand. It was, therefore, not possible to spread exchange risk among different currencies as it is possible with the Bank of Botswana today.

The New Names

Banknotes of Botswana are known as Pula, abbreviated "P". The Pula was introduced on August 23, 1976 (Pula Day).

Before the notes were introduced, the public was invited to suggest the name for the new currency. "Pula" was an overwhelming favourite for the new bank notes. The literal translation of Pula is rain, but the idiomatic translation is blessings. The coins are called thebe, abbreviated "t", meaning a shield.



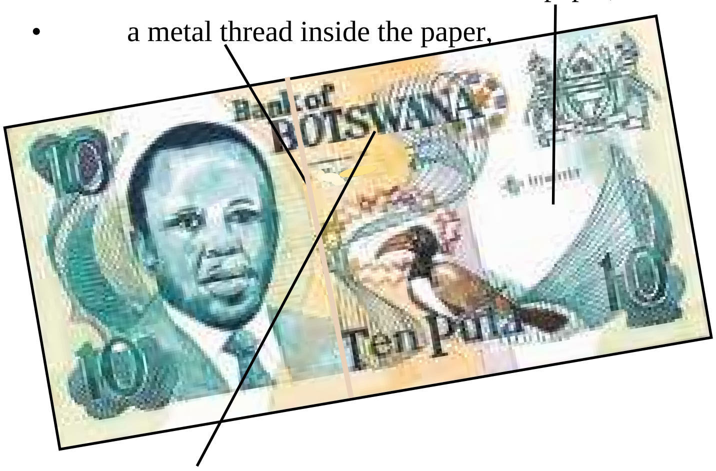
The Impact of Inflation

When the currency was introduced in 1976, notes denominations were P1, P2, P5, and P10 and the coins were 1t, 2t, 5t, 10t, 25t and 50t. Now we have P5, P10, P20, P50 and P100 notes denominations and 5t, 10t, 25t, 50t, P1, P2 and P5 coin denominations. Because of inflation, the lower denomination notes and coins continue to be phased out and replaced with higher denomination notes and coins. An example is the phasing out of the 1t and 2t coins and P1, P2 and P5 notes and the introduction of the P1, P2 and P5 coins and P50 and P100 notes.

Security features

Botswana's banknotes have been designed with a number of security features built in. These include:

- a watermark which is visible in the paper,
- a metal thread inside the paper,



- "intaglio" or raised printing, and
- concentric circles on both sides of the paper

The security features are there to make it impossible for anyone to make exact copies of the banknotes.

The bull is therefore worth eight P100 notes

THE EVOLUTION OF BANKING

Keeping coins in a safe place

The origins of banking can be traced back to the days when the use of silver and gold coins as media of exchange were becoming common. The widespread use of coins meant that large merchants and silver or goldsmiths were usually in possession of large quantities of coins and, therefore, were exposed to the risk of being robbed. In order to protect themselves against that happening, they built secure storage places in which they could safely keep their coins. In addition, they could offer excess storage space, for a fee, to smaller merchants and ordinary people who did not have secure storage facilities.

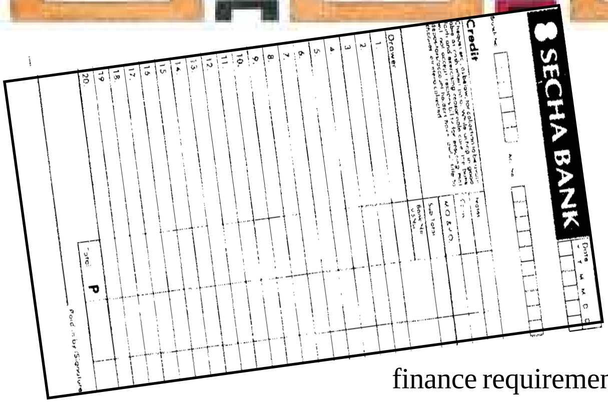
As time went by, owners of storage facilities realised that their customers (those who had rented storage space), never all at the same time asked for all their coins. There were always some coins belonging to customers left in the secure storage facilities, which could be lent out to others for a fee (interest). Although banks today carry out many other activities, in addition to accepting deposits and giving out loans, this was the beginning of basic banking as we know it today.

Giving written instruments to the deposit holder

It was indicated in the previous section that receipts issued by reputable goldsmiths on accepting deposits of coins later became acceptable as a means of payment, and that such receipts were the forerunners of the present day banknotes. Another method used by some goldsmiths was to register each depositor in a ledger. The depositor could later issue written instructions authorising the goldsmiths to transfer from his/her (the depositor's) account to that of the person indicated as the payee in the instruction, a specified amount of either gold or silver. This was even more convenient since the depositor could state any amount as long as it was less or equal to the total amount of gold or silver she/he had deposited. This practice was the equivalent of what is known as issuing a cheque (an order to a bank to make a payment to someone out of a deposit).

Ancient Banks

Ancient Egyptians used temples as banks. These temples were sacred, therefore, they were perfect places for the safekeeping of valuables. In such superstitious times, it was the very few who could anger the gods by stealing from a holy place. Deposits were



accepted and loans could also be obtained at these temples.

The ancient Greeks called their bankers "money changers". These people exchanged local coins in return for foreign coins. Money changers also accepted deposits, transferred money between accounts and granted loans to those who had enough security (some sort of guarantee that the loan would be repaid) to qualify for a loan.

The Romans merely adopted Greek banking practices, improving upon them by creating uniform banking laws that applied throughout the Roman Empire.

The origin of modern banking

Modern banking originated in the medieval Italy (period between 600 - 1500 AD). By the 12th and 13th centuries, the cities of Florence, Genoa and Lucca in Italy had become centres of trade and finance. From there, banking slowly spread to the rest of Europe and ultimately, the rest of the world. The development of banking has and continues to follow this evolutionary path as it responds to: (i) the needs of customers; (ii) trade and finance requirements; (iii) competitive pressures; (iv) globalisation and internationalisation; and (v) the development of technology. However, modern banks continue to perform the basic functions that were started by the goldsmiths.

(i) Acceptance of Deposits

Banks accept deposits from customers i.e., people and organisations paying money into accounts held with banks, first, for safe-keeping and second, to earn interest.

(ii) Funds Transfer

Banks transfer money deposited with them between different accounts, even to accounts at other banks, according to the written order (instruction) of the depositors.

(iii) Lending

Banks lend money to customers, usually but not always, against some security such as property or some other moveable assets. The banks charge customers interest on the money that the customers have borrowed.

(iv) Foreign Exchange

Banks buy and sell foreign currency, i.e., currency of other countries. The price at which banks buy foreign currency is lower than the price at which they sell it, and that is how they make their profit on foreign exchange transactions.

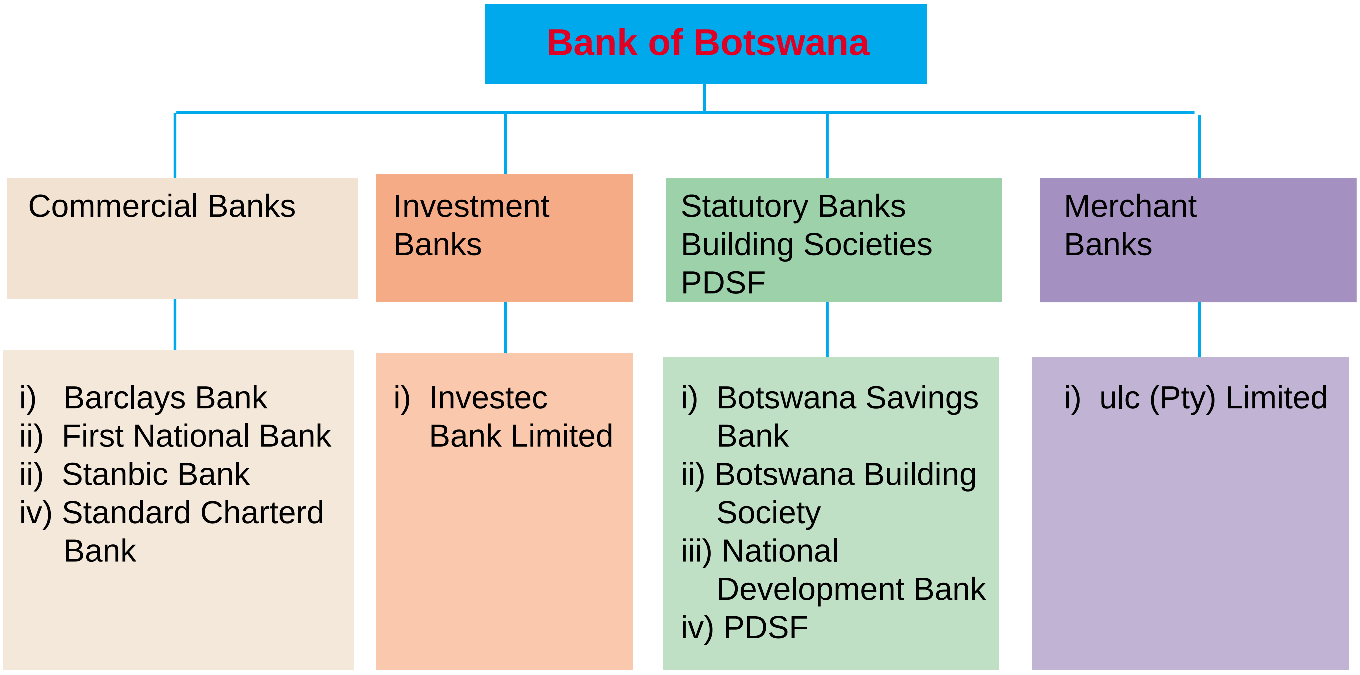
The use of the word "bank"

The word "bank" originated from the Dutch word for "a bench" on which the money that had to be deposited was spread out and counted in front of the bank manager.

Bank manager spreads and counts money deposited

THE BOTSWANA BANKING SYSTEM

(Types of Banks and Structure of the System)



Types of Banks

The Botswana banking system comprises the following: Bank of Botswana, which is the central bank or reserve bank; four commercial banks (Barclays Bank of Botswana Limited, First National Bank of Botswana Limited, Stanbic Bank Botswana Limited and Standard Chartered Bank Botswana Limited); one investment bank (Investec Bank Botswana); one merchant bank [ulc (pty) Ltd.], two statutory banks - Botswana Savings Bank and National Development Bank; and one building society- Botswana Building Society (BBS).

The commercial banks

Commercial banks in Botswana carry out traditional banking functions of:

(a) accepting deposits of various classes;

(b) transferring funds between accounts;

(c) giving out short and medium term, secured and unsecured loans; and

(d) buying and selling of foreign currencies.

Commercial banks are regulated under the Banking Act, 1995.

Banking Licences

In order to commence operations in Botswana, banks require banking licences. All the commercial banks operating in Botswana, including Investec Bank and ulc (Pty) Limited, applied for and were issued with banking licences by the Bank of Botswana.

Buying of Shares in Banks

Three of the four commercial banks have their shares listed in the Botswana Stock Exchange. This means that members of the public and institutional investors such as pension funds can buy shares in these banks through Stockbrokers. The listed banks are Barclays Bank of Botswana Limited, First National Bank of Botswana Limited and Standard Chartered Bank Botswana Limited.

The Bank of Botswana

At the top of all established banking systems throughout the world, there is a central/reserve bank. In Botswana, the central/reserve bank is the Bank of Botswana.

It is interesting how these words ‘central’ and 'reserve' came about. During the early days of banking, bankers used to experience a lot of difficulties in the long and complicated process of clearing cheques (the process of exchanging cheques between banks). The banks decided on a central place, where this task could be carried out. And this is how the word 'central' came about.

Initially they would choose one of the banks to act as a clearing house, but with the advent of central banks, this task was taken over by central banks. To facilitate the clearing of cheques, all the banks had to maintain accounts with the central bank to ensure that there was no shortage of funds for clearing purposes. In addition to ensuring that the banks were liquid (the ability of banks to meet the demands of cash by customers on a daily basis), central banks imposed “reserve requirements” on the banks. That is, the banks were required to hold a certain proportion of total deposits of the public in an account at the central bank to act as a cushion against failure of these banks to meet customers’ demands. This gave birth to yet another name for central banks, reserve banks.

It is because of these reasons that central banks are called differently in different countries. For example, in Botswana we have Bank of Botswana, in Lesotho they have Central Bank of Lesotho, in Zimbabwe they have the Reserve Bank of Zimbabwe, etc. All these banks basically serve the same purpose of a central bank.

Central banks are mostly government owned. They serve as bankers for the government and commercial banks.

It should be noted that central banks do not normally open accounts for the general public (individuals, businesses and companies).

Establishment of Bank of Botswana

The Bank of Botswana was established under the Bank of Botswana Act (No.7 of 1975), which was amended in 1996. The Act mainly specifies the way in which the Bank of Botswana should be run. The principal objectives of the Bank are to:

(ii) promote and maintain monetary stability in the country;

(iii) ensure an efficient payment system;

(iv) ensure that the country’s financial system functions properly; and

(v) manage the investment of Botswana’s foreign exchange reserves.

In addition, it is the Bank’s duty to put in place monetary, credit and financial conditions that encourage sustainable economic development of Botswana.

Functions and Services of the Bank of Botswana

Sole Issuer of Currency

Since its inception (establishment) in 1976, the Bank of Botswana has been the sole issuer of Botswana currency (Pula notes and Thebe coins). One may wonder why the issuing of currency of a country should be the responsibility of only one authority. The answer to this is that if different authorities issued currency, it would have different values attached to it, and thus cause a lot of confusion to everyone, especially policy makers.

Acts as Banker to Government and Banks

The Bank of Botswana is the banker to the Botswana Government and to all commercial banks in this country. As a banker to Government, it receives all funds for deposit to the Government (e.g. taxes) and makes all payments on behalf of Government by either encashing Pula cheques issued by Government or by making foreign payments as directed by Government. It further receives funds of the reserve requirements and other deposits from the commercial banks.

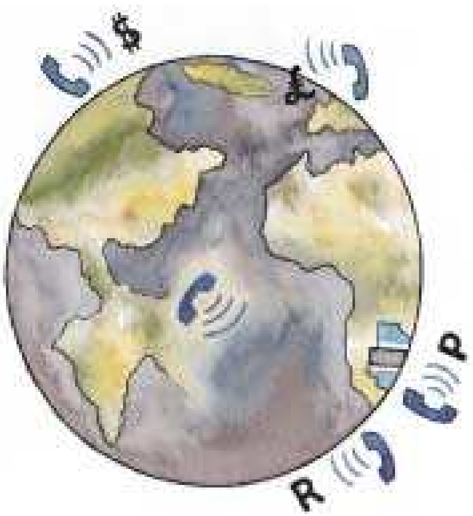
Clearing Cheques

The Bank of Botswana effects payments on account of clearing cheques. Each day banks receive a number of cheques drawn on customers' (including other banks) accounts. All the banks meet in a room at the Bank of Botswana, which has come to be known as the Clearing House, where these cheques are exchanged. At the end of the day, the banks' accounts at the central bank are debited (the money owed to others is deducted from) or credited (the money owed to them is added to) on account of these cheques. For example, suppose bank **A** has to pay bank **B**

P50 000 for cheques drawn on bank **A** but deposited in the accounts of customers (payees) at bank **B**. Suppose further that bank **B** owes P40 000 to bank **A** for a similar reason. The **Bank of Botswana** then pays the difference of P10 000 to bank **B**.

Acts as Fiscal Agent and Advisor to Government

As a banker and financial advisor to, as well as fiscal agent of the Government, the Bank of Botswana performs a number of statutory functions for and on behalf of the Government. The Bank submits recommendations to the Ministry of Finance and Development Planning each year before the preparation of the Government's annual budget and gives advice on different aspects of financial policy. In terms of Section 48 of the Bank of Botswana Act, the Bank is required to give advice to the



Government and to statutory corporations on the timing, terms and conditions of any proposed borrowing.

Represents government at certain international fora

The Bank also represents the Government of Botswana at meetings of international financial bodies of which Botswana is a member such as the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD) or World Bank, as it is commonly known, the African Development Bank (ADB) and the African Export-Import Bank.

Formulates and Implements Monetary Policy

Monetary policy, defined simply, refers to the management of money and interest rates. One may wonder why we need to be concerned with monetary policy. The answer to this is that, money can positively affect the well being of the economy if it is managed properly. But if it is not well managed, it can hurt the economy. Thus, there is need for good quality management of money. The formulation and implementation of monetary policy is the responsibility of the Bank of Botswana.

In Botswana, monetary policy is directed mainly at low and stable inflation. By far, this is the most important of the Bank's responsibilities. The Bank monitors developments in domestic, neighbouring and global economies so as to guide its monetary policy. Instruments at the disposal of the Bank for the conduct of monetary policy include:

(a) the Bank Rate;

(b) the reserve requirements; and

(c) open market operations.

These instruments are explained as follow:

Bank Rate

The Bank Rate is the rate of interest that the Bank of Botswana charges on loans it makes to the financial institutions licensed by it. In this way, the Bank of Botswana is able to indirectly influence credit conditions in the financial system. By lowering or raising the Bank rate, the Bank of Botswana sends signals to the commercial banks that there is too much or too little money in the system. As a result, the banks alter their interest rates to account for the rising or falling cost of borrowing from the Bank. The general public is expected to adjust its borrowing according to the cost attached to borrowing from the commercial banks.

"Real" Interest Rates

The other twin objective of the Bank's monetary policy is the maintenance of positive real interest rates. Real interest rates refer to the interest rate we get after adjusting for inflation (the rate at which prices change). For example, if we have 10% as our nominal interest rate, and 7.5% as the inflation rate, then the real interest rate will be 10% - 7.5% = 2.5%, which is positive. If, on the other hand, we have 7.5% as nominal interest rate and 10% as the rate of inflation, then we would have minus 2.5% as real interest rate. Interest rates have to be positive in real terms and high enough to provide positive returns to savers. This encourages savings. However, the level of interest rates should not be so high as to discourage entrepreneurs from borrowing to invest in profitable business activities.

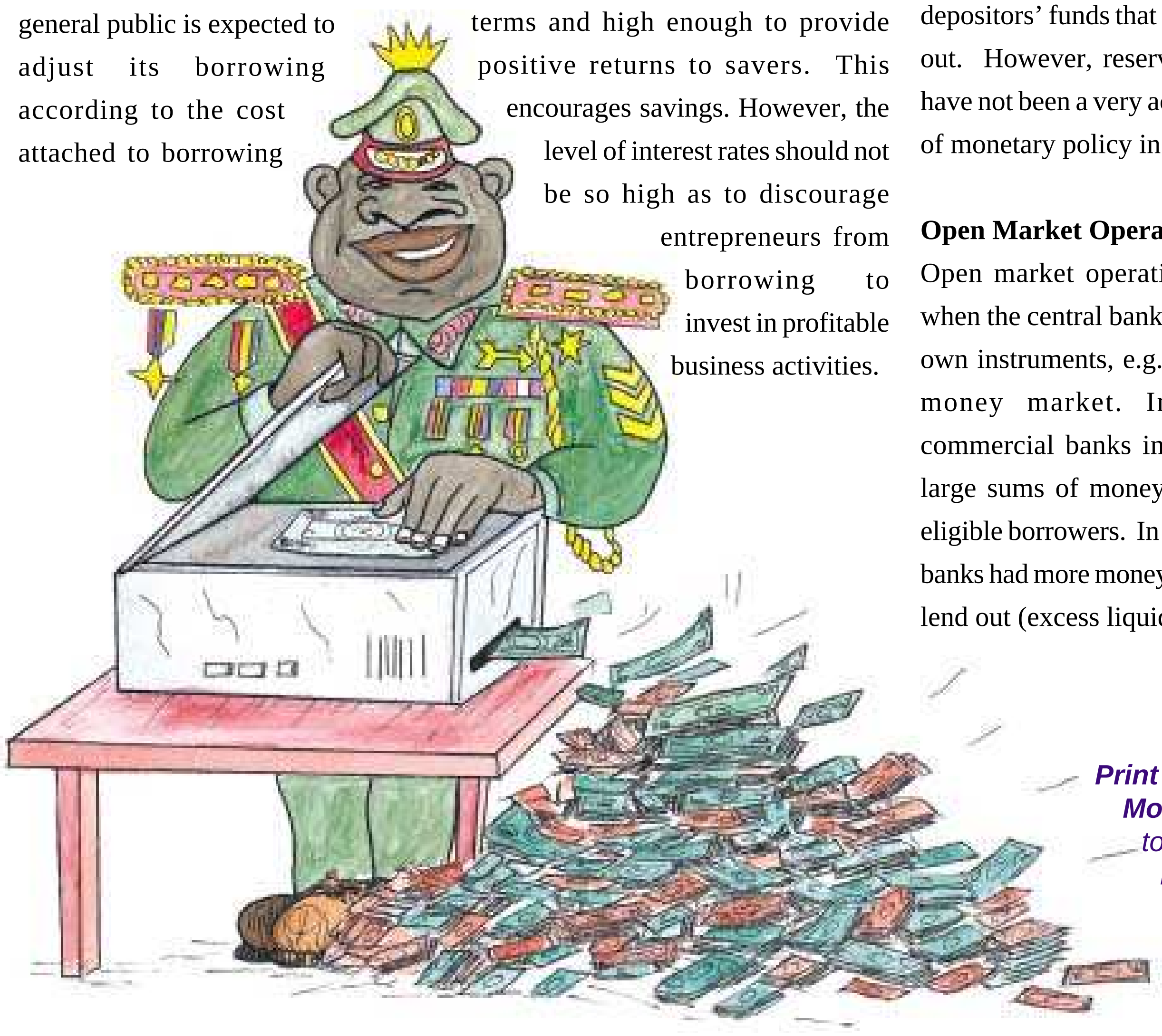
Reserve Requirements

Reserve requirements are the funds that the Bank of Botswana requires the commercial banks to hold on the basis of the deposits they have accepted from the public. These funds are held in an exclusive (separate from the other deposits of the banks at the central bank) account at the Bank of Botswana.

Reserve requirements are another policy tool available to the Bank of Botswana. Their purpose is mainly to control money supply and bank credit. The Bank has the authority to change reserve requirements as it sees fit. This effectively limits the proportion of depositors' funds that a bank may lend out. However, reserve requirements have not been a very actively used tool of monetary policy in Botswana.

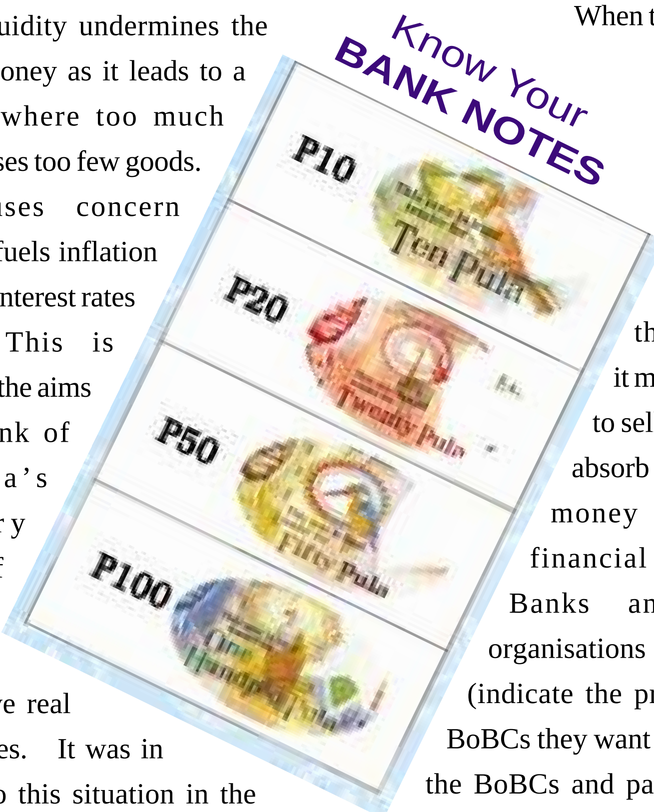
Open Market Operations

Open market operations take place when the central bank sells or buys its own instruments, e.g. BoBCs, on the money market. In the 1980s, commercial banks in Botswana had large sums of money with very few eligible borrowers. In other words, the banks had more money than they could lend out (excess liquidity).



Print More Money! *Printing too much money may lead to inflation*

Excess liquidity undermines the value of money as it leads to a situation where too much money chases too few goods. This causes concern because it fuels inflation and drives interest rates down. This is contrary to the aims of the Bank of Botswana's monetary policy of low inflation and positive real interest rates. It was in response to this situation in the past, that the Bank of Botswana introduced an open market instrument called Bank of Botswana Certificates (BoBCs). BoBCs can be used to help the commercial banks to mop-up the excess liquidity in the banking system. This is because the purchase or sale of the BoBCs has an influence in the level of money in the system.



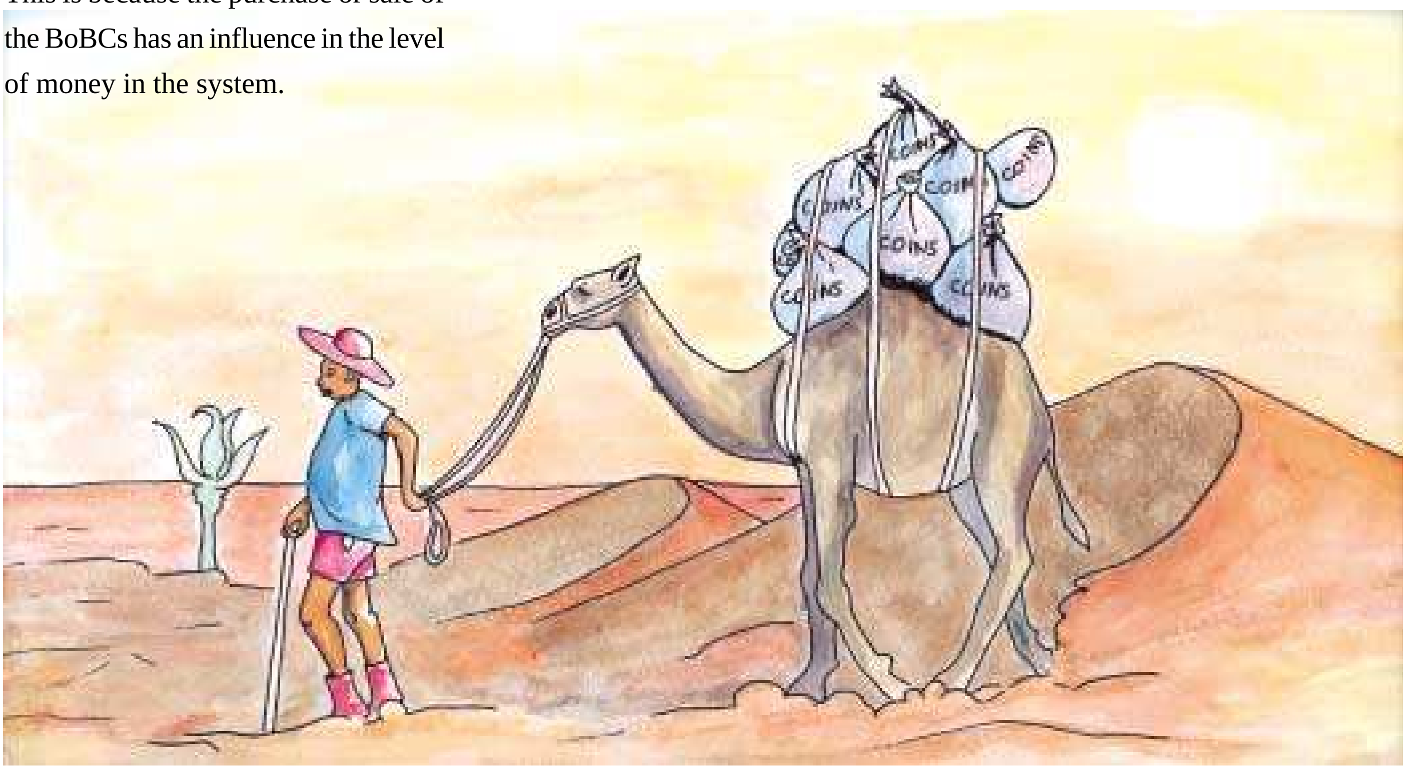
When the Bank of Botswana realises that there is too much money in the system, it might decide to sell BoBCs to absorb the excess money from the financial system. Banks and other organisations would bid (indicate the price of the BoBCs they want to buy) for the BoBCs and pay Bank of Botswana money in exchange for the BoBCs. Since this money is kept at the Bank of Botswana, the money in the banking system would be reduced. On the other hand, if the Bank discovers that there is too little money in the economy, it would buy back the BoBCs from the system and issue cash in payment for the Certificates. When the Bank acts in this way, money would be injected into the economy.

Regulates and Supervises Banks

Another important responsibility of the Bank is to license, supervise and regulate commercial banks and those other financial institutions which require to be licensed under the Banking Act, 1995 in order to operate in Botswana. The objectives of licensing, supervising, and regulating banks are to ensure that:

(i) only trustworthy and capable individuals with adequate resources (capital to absorb any future losses) are allowed to operate banks in Botswana;

(ii existing banks continue to be run by capable and trustworthy individuals and that the banks



are run in such a way that depositors' funds are not unduly endangered (safe and sound); and

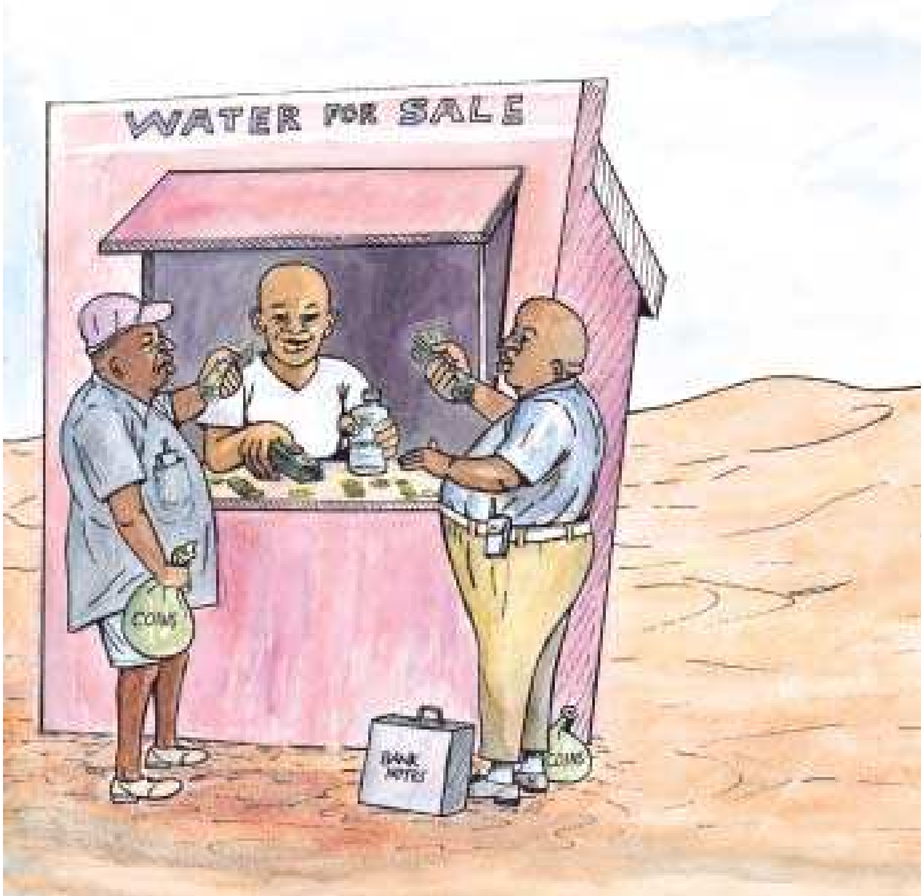
(iii any badly run banks that have to close down for one reason or another, would not disrupt the rest of the banking system.

Implements the Government's Exchange Rate Policy

The exchange rate is the rate at which Pula can be converted into foreign currency in order to carry out international transactions such as paying for imports. The exchange rate can encourage or discourage foreigners to pay for things such as locally produced goods or tourism services in Botswana. Such transactions play an important role because they influence the level of income that our country earns from other countries. The exchange rate policy, therefore, affects the life of all citizens because it influences the prices of all imported and exported commodities.

The exchange rate policy is formulated and implemented to achieve the developmental goal of sustainable economic growth and diversification. Botswana's economic strategy (way of running the economy) since independence has been directed towards rapid economic growth and diversification away from beef and diamonds, which are the main sources of income for the country. The Bank, acting as Government's agent, implements the Government's exchange rate policy and stands ready to buy and sell foreign currency at exchange rates which are set in accordance with the approved exchange rate policy. The commercial banks act as agents of the Bank of Botswana and in this regard, they buy and sell foreign currency from and to the public.

When something is scarce, e.g., water in a desert, it becomes expensive



International competitiveness

The exchange rate policy of the Government is often misunderstood by the public and requires some explanation. The policy has been designed to ensure international competitiveness of the prices of goods sold in the international market by Botswana, especially its trading partners in the sub-region. It is, therefore, important for us to understand how Botswana's exchange rate is determined.

Pegging the Pula

Botswana's currency is pegged (linked) to a basket (group) of currencies. A basket is usually formed by the currencies of major trading partners. Currency weights in the basket may be based on trade, services or major capital flows. When Botswana left the Rand Monetary Area in 1976 and introduced its own currency, it first pegged its currency to the US Dollar but later, in 1980, opted for the currency composite peg. This practice has been adopted by many developing countries because it ensures that the pegged currency remains more stable than if a single currency peg was used.

This exchange rate policy is dictated by and based on business realities and supported by sound economic theory and logic. For any exchange rate policy to be effective, the exchange rate should not be too far out of line with that of its neighbours, who are normally the country's major trading partners. The policy has to be supportive of maintaining the competitiveness of local business.

Choosing the weights in the Pula basket

When the Pula is pegged to a group of other currencies, each of these currencies in the basket have different weights (proportions). This means that the different currencies have different importance attached to them, depending on the volume of trade between Botswana and those respective countries. For instance, if Botswana trades a lot with South Africa, the Rand will relatively have more weight than other currencies in the basket to which the Pula is pegged.

Direction of Trade

The exchange rate itself can influence the direction of trade between countries. If the Pula appreciates (becomes stronger) against the Rand, it will become cheaper to buy goods from South Africa, and as such the level of imports will go up. At the same time our local producers who export goods to South Africa will be hurt because less of their goods will be bought, as they will be expensive for South Africans. On the other hand if the Pula weakens against the Rand, it will become very expensive for Batswana to buy goods from South Africa, while South Africans will find our goods cheap.

All of these logical implications of a gain or loss of value of currency against that of a major trading partner will have ripple effects throughout the economy. This shows that a balance should be struck in the exchange rate, through the exchange rate policy, to ensure stability in the economy.

Manages Foreign Exchange Reserves

Management of foreign exchange reserves has become a major responsibility of the Bank as the reserves have grown to represent about 30 months of import cover for goods and services. The Bank manages the official foreign exchange reserves on behalf of Government. It has to ensure their safety and liquidity for immediate and future use. At the same time, the Bank has to maximise the income the reserves generate for the nation within reasonable and acceptable limits of risk.

Provides Economic Analysis

Economic analysis is directed at the production of research and statistical reports. These are distributed by the Bank to better serve policy makers and the Botswana public at large in the formulation of economic and financial policies. The collection and dissemination of reliable statistics and the generation of policy oriented research are ultimately intended to aid informed decision-making and guide policy choices.

Issues National Savings Certificates

In June 1999, the Bank of Botswana assumed the responsibility for issuing National Savings Certificates on behalf of Government. The objectives of the National Savings Certificates are to ensure that:

- Batswana diversify their savings portfolios from saving in the form of cattle only to include other financial assets;
- there is a continuous flow of savings, which can be recycled into productive lending by financial institutions;
- savings opportunities are offered to people in the rural areas so that they too can contribute to the development process. This would also partly redress the problem of the absence of commercial banks in some areas.

COMMERCIAL BANKS

Commercial banks are financial intermediaries. Financial intermediation, in the context of banks, means acceptance of deposits from members of the public who do not have immediate use for funds (savers) and lending such funds to those requiring funds for investment (borrowers). Commercial banks also transfer funds from one customer to another. They provide other services such as offering advice on a wide range of matters relating to finance.

As at the middle of the year 2000, there were four commercial banks operating in Botswana.

Standard Chartered Bank Botswana Limited

The Standard Bank, incorporated in the City of Port Elizabeth, as a subsidiary of the Standard Bank in the U.K., opened its first representative office in Botswana, then known as the Bechuanaland Protectorate, at Francistown in 1897. Conditions were hard and the branch soon closed. It was not until 1934 that a presence was once again established. Even this renewed effort at representation only lasted for a year. In 1950, the bank opened at Lobatse as a sub-branch to Mafeking and has continued operating in Botswana ever since.

In 1975, the bank was incorporated locally when the Financial Institutions Act (No.8 of 1975) was passed. The Act required all foreign banks to be locally incorporated under Botswana law. Today, Standard Chartered Bank Botswana Limited has its headquarters in Gaborone and in 1999 had a network of fifteen branches.

Barclays Bank of Botswana Limited

Barclays Bank Plc, an UK-based bank's involvement in Botswana dates back to 1950, when a representative office was opened in Lobatse. By independence in 1966, four full branches had been opened and networks of agencies serving major villages were in the process of being developed.

In 1975, the bank was locally incorporated but was operated as an autonomous, wholly owned subsidiary of Barclays Bank Plc of the United Kingdom and managed from the head office in Gaborone. However, in May 1986 a limited number of shares were sold to the public in Botswana.

In 1999 Barclays Bank of Botswana Limited operated a network of 36 outlets countrywide. The network is made up of main branches, full service outlets and selected service outlets.

First National Bank of Botswana Limited

Towards the end of 1990, the First National Bank of South Africa took a decision to invest in a retail banking operation in Botswana. It applied for and was issued a licence to operate in Botswana as First National Bank of Botswana Limited (FNBB). The expansion of the bank in Botswana was aided by a series of acquisitions of financial institutions. These institutions were the Bank of Credit and Commerce (Botswana) which was taken over in September 1991, the Financial Services Company of Botswana Limited which was acquired in 1993 and Zimbank Botswana Limited which FNBB took over in October 1993.

In 1999, FNBB had eleven branches spread across Botswana. FNBB also has a division, the Wesbank, which offers hire purchase and leasing facilities.

Stanbic Bank Botswana Limited

Stanbic Bank Botswana Ltd., which formerly operated as the Union Bank of Botswana, opened for business at the Broadhurst Branch in Gaborone on March 2, 1992. Stanbic has its origins in a much larger structure which is the Standard Bank of South Africa Limited.

Stanbic Bank of Botswana Limited offers leasing facilities for equipment and machinery to enterprises and individuals so that they do not need to purchase such equipment and machinery with their own capital. As at the end of 1999, the bank had three branches in Gaborone and one in Francistown.

Functions and services provided by Commercial Banks

The role of commercial banks can be described as distributing funds accumulated by one section of the economy to the other, i.e., from those who have surplus funds to those who need them. In economic language, this is known as financial intermediation. Financial intermediation is an important channel for first mobilising (non-government) domestic savings and then funding investment. A successful strategy for savings mobilisation requires the services of commercial banks that are currently the key intermediaries in Botswana.

Deposits

Commercial banks accept deposits into various types of deposit accounts, namely; current account, fixed deposit account, call account and savings account.

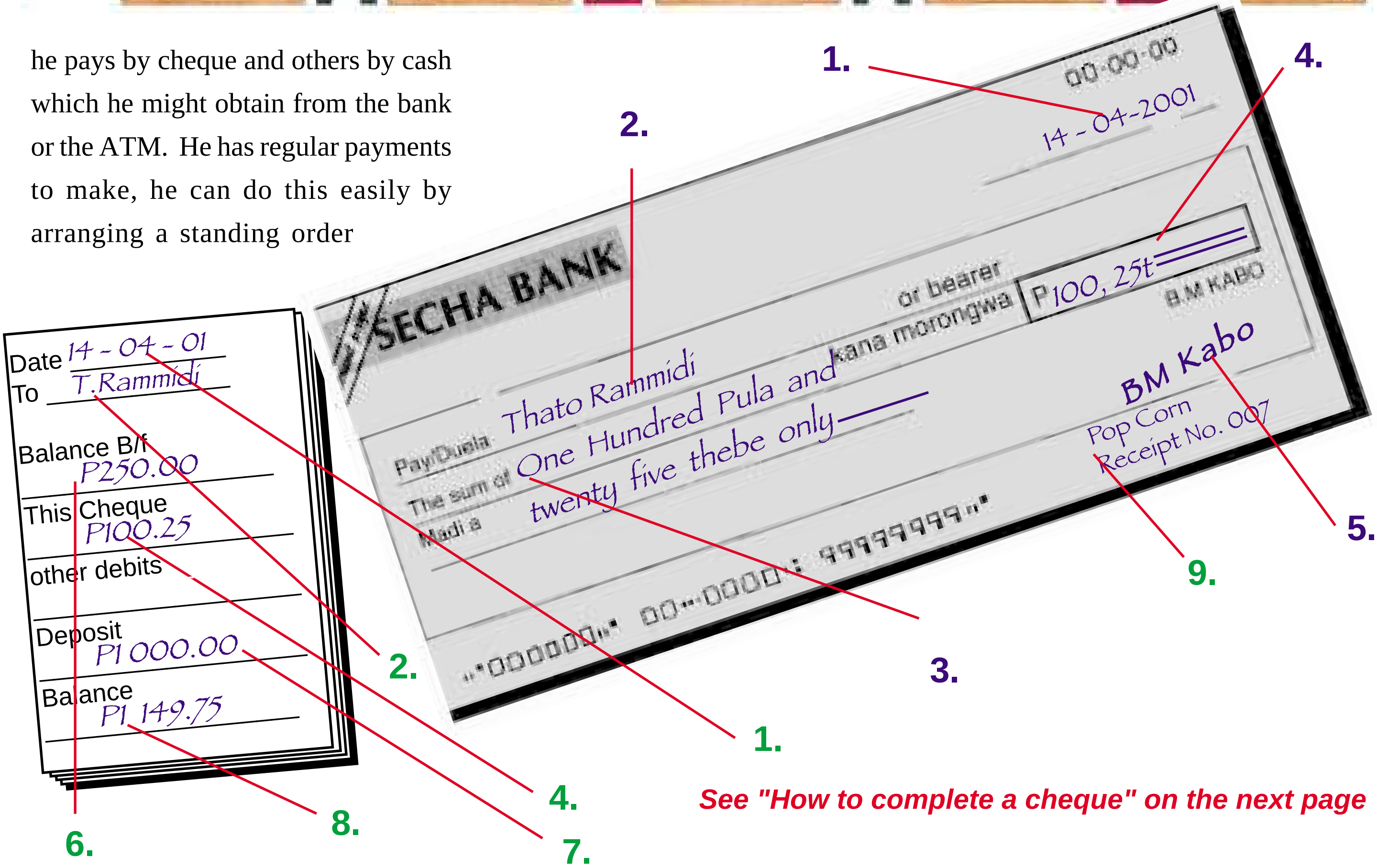
Current Accounts

A current account is an account that gives instant access to funds. It is a deposit account which is payable on demand. Commercial banks are the only financial institutions allowed by law to offer current account services to their customers. This account provides a safe place for money which can then be withdrawn by means of a cheque, debit order or cash card [at an Automated Teller Machine (ATM)]. Cheques can be made payable to third parties to whom the account holder owes money. Some charges are made for the services available on current accounts. Usually, no interest is paid to the account holder. Statements showing the movements of funds in and out of the account are sent monthly so that the account holder can have a record of payments and deposits into the account.

To open a current account you need to be properly introduced to the bank. This is to ensure that the bank knows the identity and reliability of the customer to prevent fraud. A private individual with a lower income may be encouraged to open a savings account rather than a current account (savings account explained on page 19).

Businesses need current accounts to run their operations. To appreciate this, let us imagine that Justice Pako owns a shoe factory. When he sells his shoes he is paid with cash by some customers and cheques by others. These are deposited into the current account of his business. He has to pay his suppliers, landlords, electricity, etc. This he does by writing cheques. He also pays his staff wages, some

he pays by cheque and others by cash which he might obtain from the bank or the ATM. He has regular payments to make, he can do this easily by arranging a standing order



See "How to complete a cheque" on the next page

where the bank pays the beneficiaries automatically whenever payments are due.

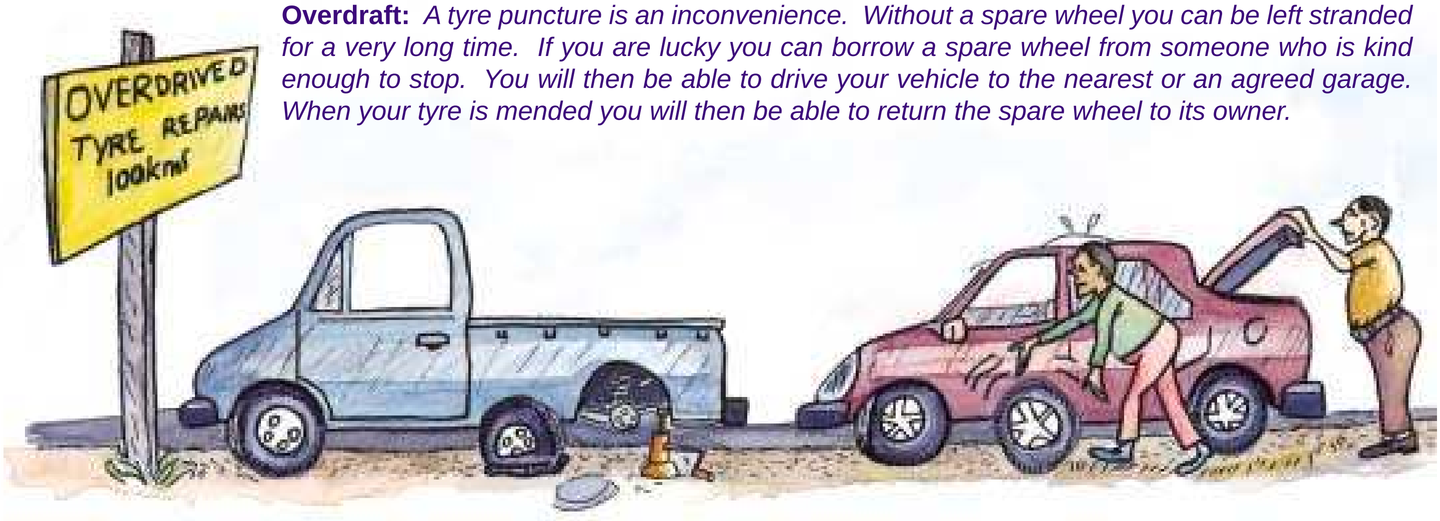
Overdrafts

Justice Pako may need to borrow money for a short time while waiting for his customers to pay for shoes he had sold to them. To do this, he can arrange an overdraft at his bank. He will agree with his bank how much more money he can take from his account beyond what he has deposited. He will be charged interest on the balance of his overdrawn account and this will be debited to his account.

Cheque

On opening a current account, a customer is issued with a cheque-book by the bank. A cheque book is a booklet that contains blank cheque forms. A cheque is a written instruction to a bank by a person who holds a current account, asking the bank to pay money from his/her account to the account of a person whose name is written on the cheque or to pay cash to a person presenting the cheque.

Overdraft: *A tyre puncture is an inconvenience. Without a spare wheel you can be left stranded for a very long time. If you are lucky you can borrow a spare wheel from someone who is kind enough to stop. You will then be able to drive your vehicle to the nearest or an agreed garage. When your tyre is mended you will then be able to return the spare wheel to its owner.*



How to complete a cheque:

1 Write today's date.
2 Write the name of the person or company to whom the cheque is payable (Payee).
3 Write the amount in words.
4 Write the same amount in figures.
5 Sign the cheque with your name.
6 Write an amount.
7 Write the amount that you have just deposited.
8 Add (6) and (7) and subtract (4) write the answer
9. Sometimes you may want to record what it is you are paying for.

The dotted line is the tear-off line. The portion on the left (the stub) remains in your chequebook as your record when you tear-off the cheque and give it to the payee. When you complete this stub you will know how much money remains in your account and this is the balance on the account.

Advantages of issuing a cheque

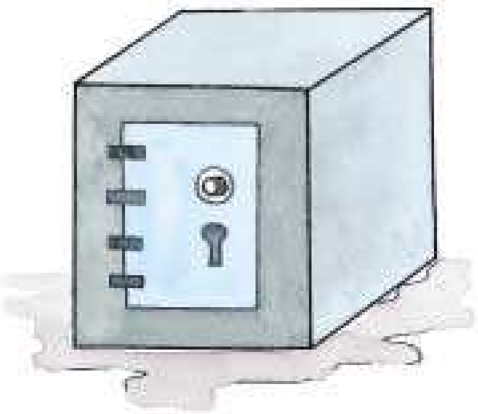
(a) Your money stays in the bank until the cheque is presented.
(b) You do not have to carry a lot of cash with you.
(c) You can post or send a cheque (within Botswana) and know your money is safe.
(d) You know that the company or person written as the payee will receive the money.
(e) You can cross the cheque to make sure that the funds are deposited directly into the account of the person you are making the payment to.

Disadvantages of issuing a cheque

(a) The cheque can be fraudulently altered (the amount payable can be changed).
(b) The person you want to pay may not have a bank account.
(c) There may be a delay where the bank is closed for the day before the payee can receive the money.
(d) You may have made an error and not have enough money in your account to meet the cheque and the cheque may be returned by the bank unpaid.
(e) A criminal may obtain a copy of your blank cheque form, write a cheque payable to cash or to himself, forge your signature and then attempt to cash the cheque. You can prevent this kind of criminal activity by locking up your cheque book when it is not in use.

Crossing

When a cheque is crossed, its advantage is that the money cannot be paid over the counter but should be paid into a bank account. There are occasions when people issued with crossed cheques have no bank accounts



into which the cheque can be paid. A banker can pay cash for a crossed cheque at great risks. In such instances the payee may be asked to get the drawer to "open" the cheque by instructing the banker "to pay cash" against his/her full signature.

Types of crossing a cheque

There are two types of crossing a cheque. These are general crossing and special crossing. A general crossing consists of two parallel lines across the face of the cheque with or without the words "& Co". A special crossing is where the name of a bank is added to the crossing. The effect of a special crossing is that payment must be made to the particular bank named in the crossing for the credit of the payee's account. A crossing can also say "Not negotiable". The crossing of a cheque in this way is advantageous to a drawer because it ensures that the money in the cheque only passes to the party intended to receive payment.

Fixed Deposit Accounts

If you do not need all your money immediately, you can open a fixed deposit account and keep the money in the account to earn interest. The amount of interest paid will depend on the amount of money and the length of time that you leave the money in the account. Interest is quoted as a percentage per year. For example, P1,000 placed on fixed deposit for six months at 10% per annum means the bank will pay P50 interest, which will be added to your P1,000 when six months have passed. Fixed deposit accounts vary from 6 to 24 months. It should be noted though that you will not be allowed to use the money until the end of the period. If the money is withdrawn before the agreed period, you would lose some of the interest.

Notice Deposit Account

Notice/time deposit accounts require the account owner to give notice to the bank an agreed number of days before the money can be withdrawn. Notice deposit accounts vary from 30 to 90 days.

Call Account

These are the accounts operated by big companies who receive large deposits from their customers. They are usually looking for better rates of interest. As they receive news of better rates prevailing elsewhere, they will remove the funds into such an account to take advantage of interest being offered elsewhere. Normally a customer will only move amounts of more than P1000 into or out of a call account.

Savings Accounts

This is the best form of saving for the small saver because he can add small amounts when he receives them, and the interest paid will make the savings grow. In addition, a savings account can also be used to keep your salary in a safe place. You simply ask your employer to deposit your monthly salary directly into your savings account. You can then withdraw money when you need it.

It is easy to open and operate a savings account, but each bank has its own rules. Usually you will be asked to complete an application form giving details of your name, address and occupation together with identification - your Omang if you are over 16 years old. You will be given a savings card or book which shows your account number, name and signature, for identification when you visit the bank in future. Great care should be taken with this. If it is lost, you should inform the bank immediately to stop somebody else taking money from your account. You will be required to keep a minimum balance on your account. This balance varies from bank to bank.

For example, Tebogo Pule has just started work as an office cleaner. He/she does not yet earn a lot of money, and wants to buy a radio. He/she opens a savings account and deposits P50 in it each month. He/she has no chequebook and must go to the bank or an Automated Teller Machine (ATM) when he/she needs to withdraw money. In time, the money will grow with interest being added from time to time and he/she will eventually be able to purchase the radio for cash.

Electronic Banking

The Automated Teller Machine (ATM), mentioned earlier, is a facility that enables one to get some banking services such as drawing cash, checking your balance, ordering a new cheque book or a statement of your account, depositing money or even moving money between accounts or banks without going into the bank itself. Each bank has its own ATMs connected to its computer system. Each customer who wishes to use an ATM is given a plastic card with a magnetic stripe, which contains personal account details.

Get banking services from the comfort of your bedroom

Debit Cards

Most plastic cards can also be used as debit cards, which enable the holder to purchase goods and services at many outlets. The seller passes the card through a terminal which will then electronically debit the account of the purchaser and credit the seller's. Safeguards are in place to protect the owner against fraudulent use. This card saves the writing of many cheques, costs the owner nothing and saves carrying large sums of money.

Future Developments

New plastic cards are being developed which, instead of a magnetic stripe, will have a microchip. This will allow many different uses including replacing chequebooks, serve as credit cards and replace other existing cards. These cards are called smartcards and are so versatile that it is possible to foresee their development and expanded future use including being used as telephone cards, medical records and identity cards.

To gain access to the account, each customer is given a Personal Identification Number (PIN). In order to prevent any other person gaining information or withdrawing money from the account, the PIN should be kept secret and never written on the plastic card.

Most plastic cards can also be used as debit cards, which enable the holder to purchase goods and services at many outlets

Internet Banking

Internet banking is part of the electronic banking system whereby a customer's personal computer is linked to the bank's main computer system. This enables him/her to carry out most of his/her banking transactions in the home without going into the bank, such as moving funds from one account to another.

Telephone Banking

In today's world everybody is busy. Time has become very precious and, as often put, time is money. It must not be wasted. To save time, banks have introduced telephone banking so that you do not always have to visit your branch unless you want to. All you need is a touch-tone-phone to call your branch from anywhere in the world. With this and your Personal Identification Number (PIN), you can securely and confidentially check on your account balance, order a statement or cheque book, transfer funds between accounts or banks, obtain up to date information on currency exchange rates, savings and fixed deposit interest rates, etc.

Telephone banking does not only make your account just a call away but also saves money because you do not need to write so many cheques, so the bank charges are reduced. There is no need to confirm transactions to the bank in writing. You are able to check all your instructions against your statement whenever you want.

Loans

Banks have different types of loans. These differ depending on one's requirements (wants). There are two things to remember when you ask a bank to lend you money:

- You have to pay it back; you have to show the bank how you will do this.
- It will cost you more than the amount you originally received as a loan.

The reasons why loans have to be repaid and why the repayments cost more than the original loan are basically that:

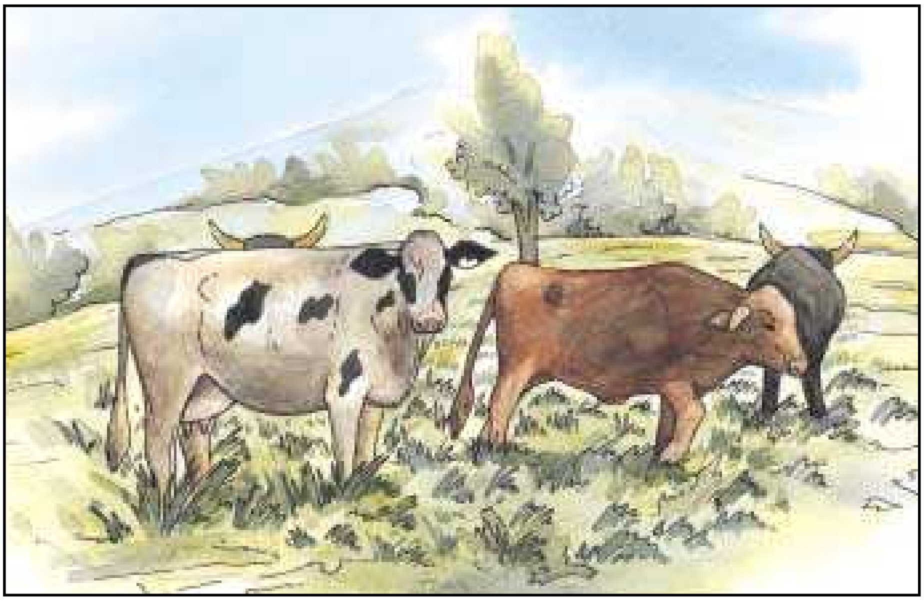
- It is not the bank's money you are borrowing, but rather the money deposited by other people who are saving, and who will want their money back one day.
- It will cost you more because you pay interest. You pay interest because the bank in turn will pay interest to the depositors. The banks also have to pay staff and other expenses, which is why they charge more to lend money to you than they pay to the people who deposit money with them. The difference between the two rates is the banks' income, from which they pay their expenses. Substantial portions of commercial banks' profits or income are derived from interest charged on loans. Under normal circumstances, the banks are willing to lend more, provided you have the ability to repay a bigger loan.

Why do people borrow money?

There are, of course, many reasons for borrowing money. People borrow money to invest it in new businesses. A person in business may feel he can make money by borrowing in order to make a profit in excess of what he will have to pay in interest on the borrowed funds. A shopkeeper can, for instance,

There are many reasons for borrowing money...

...To build a house



...To buy cattle or lifestock

... To buy a new car or vehicle

...To invest in businesses

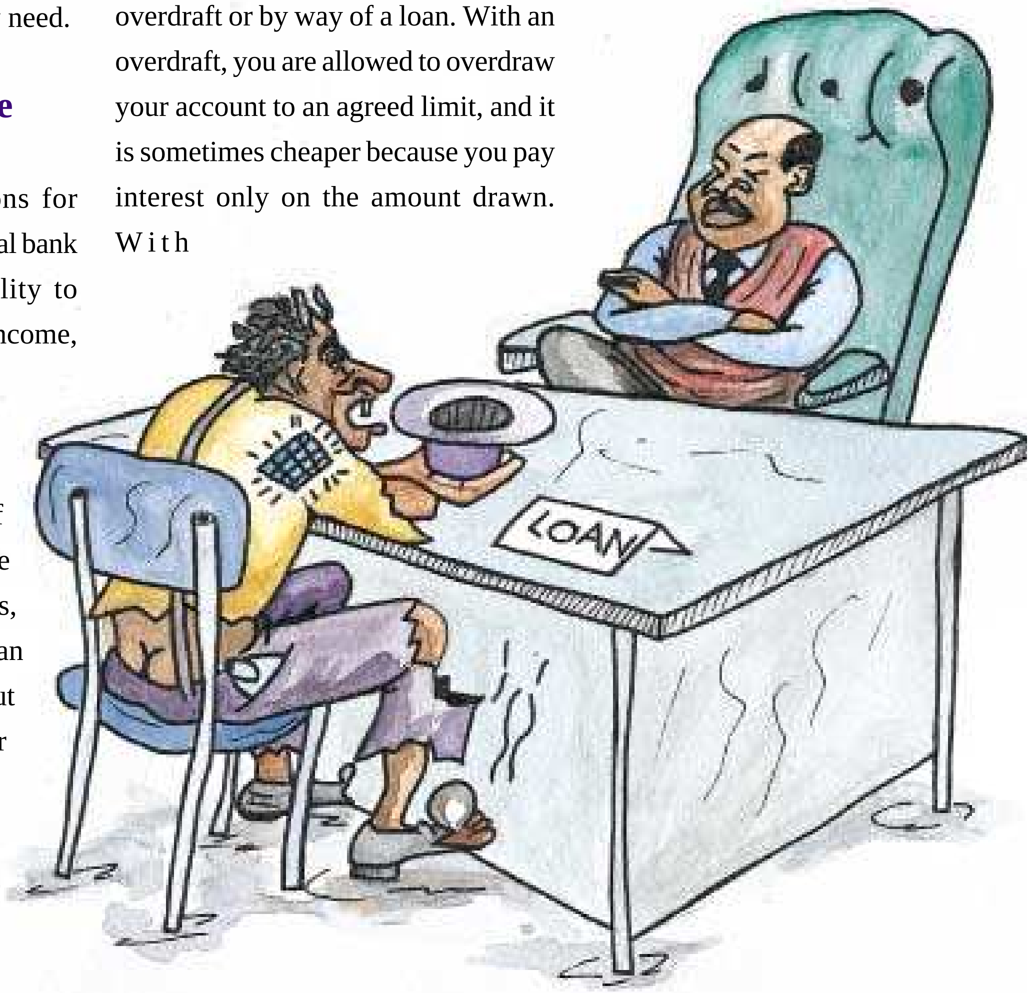
increase the stock of goods he has to sell by borrowing. People may also borrow money to improve their lives (satisfy their wants). They may find it worth paying extra to obtain something now rather than wait until they have saved enough to buy what they need.

The point of view of the lender

When considering applications for loans by customers, a commercial bank evaluates the applicants' ability to repay the loan based on their income, i.e., the bank assesses the risk of default by their customers. In addition, the bank may take into consideration the type of security provided by the borrower, e.g., property, shares, bonds, etc., which the bank can sell to recover the money lent out in the event that the customer fails to repay the loan. A Bank would normally reject loan applications from high-risk customers. Failure by customers to repay their loans can undermine the profitability and in the long run undermine the very existence of a bank.

Different types of loans

You may borrow either by way of an overdraft or by way of a loan. With an overdraft, you are allowed to overdraw your account to an agreed limit, and it is sometimes cheaper because you pay interest only on the amount drawn. With the loan, the amount of the loan is paid straight to you and interest is calculated on the loan amount. Repayment is by instalments that the borrower pays over an agreed period of time.



Different ways that a bank or building society can charge you interest.

If you borrow for a short period such as six months, the Bank will tell you what the interest rate will be for the entire six months. Conversely, if you borrow for a longer period, say 3 years for a car loan or 15 years for a home mortgage loan, the bank will tell you whether the interest rate is "fixed" or "floating". As its name implies, a fixed interest rate is kept constant for the duration of the loan. A floating interest rate will normally be expressed as some number above the prime interest rate. For example, you may borrow at "prime plus 2%", this interest rate will vary from time to time.

Credit cards

Credit cards are an alternative means of borrowing to pay for goods and services. The credit card company, usually a subsidiary of a commercial bank, will allow you to purchase goods with your card up to an agreed total value. This is your personal credit limit. As you use your card, the total value will be debited to your account with the credit card company. Each month you will receive a statement showing the items which you have bought during the month. The total amount you have spent will be shown. You have to repay a minimum percentage of what you owe by a certain date. You may repay the total amount, if you wish. If you do not repay in total, interest will be added to the balance you owe. However, you will only be able to spend the difference between what you owe and your personal credit limit. This form of borrowing is similar to having a bank loan or overdraft, except that your credit card gives you instant recognition as a credit worthy customer, wherever you are in the world.

Foreign Trade and Foreign Exchange

There are various transactions that are undertaken by commercial banks to facilitate the making of payments for foreign transactions. Some of these are highlighted below.

Foreign exchange

Commercial banks buy foreign currency from travellers, banks outside the country and other suppliers, e.g., currency transmission services like the Western Union. People travelling outside their own country can then buy the foreign currency from the banks to enable them to meet minor expenses in those foreign countries.

For example, in commercial banks in Botswana, there are often queues on Fridays when customers line up to buy South African Rand to spend in South Africa over the weekend.

People travelling outside their own country can buy foreign exchange from banks

Travellers' Cheques

Travellers who require large sums of foreign and domestic money can buy Travellers' Cheques (TCs) from banks. These are cheques drawn on large and reputable financial institutions like Thomas Cook, American Express, VISA etc. TCs can be bought in different denominations. The buyer is required to sign on the face of each cheque when he/she buys them and countersign them each time he/she makes a payment with the cheque. Once one reaches his/her destination (foreign country), one can either go to a local bank and exchange the cheques for cash or use the cheques to make payment. It is safer to carry TCs than actual cash because when they get lost, and you report the loss to a local branch of the issuing company before the TCs are encashed, you will be refunded.

Bank Draft

Frequently a need arises for a large single payment to be made to a supplier of goods in a foreign country (for imports of goods or services), and it is not convenient to pay by either cash or TCs. Under such circumstances it is usually necessary for the paying customer to apply for a bank draft from a commercial bank. A bank draft is an order by one bank to another bank in another country to pay money to someone in foreign currency.

Letters of Credit

Commercial banks also act as intermediaries between importers and exporters. They write letters of credit in cases where the importer and exporter have never done any business together before and may not be sure of the trustworthiness of each other. The supplier may be in Europe and may not be prepared to send the goods until he has been paid. The importer, on the other hand, may not be sure that the goods will be sent after he/she pays. The bank will, thus, act as an intermediary and will send a letter of credit which will state that provided the supplier can present the bank with documents showing that the goods have been exported, the bank will guarantee to pay the supplier. In this way the importer will be assured that the goods will be sent and the exporter will be assured of payment for his goods.

INVESTMENT BANKS

Investment banks are financial institutions engaged in underwriting or brokering publicly traded corporate securities. Underwriting is the act of guaranteeing to a corporate body that the shares or bonds it intends to sell to members of the public on the Stock Exchange would indeed be taken up by the public. In case they are not bought by the public, the bank stands ready to buy the unsold shares or bonds from the issuer. Investment banks neither do intermediation by accepting deposits from the public and lending these deposits nor provide current account services.

Investec Bank (Botswana) Ltd.

A good example of an investment bank is Investec Bank (Botswana) Limited. It was granted a banking licence to operate in Botswana in 1998. Investec Bank (Botswana) is a subsidiary of Investec Group Limited, an international investment and private banking group. It started business in South Africa in 1974 as a small finance company. It was registered as a bank in South Africa in 1980. Investec grew through a number of strategic acquisitions and alliances with other businesses in both the South African financial sector and internationally, in London, United Kingdom.

Investec focuses on serving the needs of select market groups and providing specialised and customised products and services. The group specialises in corporate and investment banking as well as private banking.

The private banking operation is intended to provide specialist value-added services to a select group comprising mainly professional people and high networth individuals.

STATUTORY BANKS

These banks are so called because they are established by Parliament under their own statute, instead of having to apply for a licence from the Bank of Botswana. They are established to meet particular national needs and are specialised in their operations. Examples of such institutions are the Botswana Savings Bank and the National Development Bank.

Botswana Savings Bank

The Botswana Savings Bank (BSB) was established in 1963. It was originally called the Post Office Savings Bank and was administered

within the Department of Posts and Telecommunications Services of South Africa and Bechuanaland. Later in the same year, South Africa handed the Post Office Savings Bank to the Bechuanaland Postal Services Department under the Ministry of Works and Communications. In 1982, the Post Office Savings Bank was transferred to the Ministry of Finance and Development Planning and was upgraded to a full specialised Government Department with the title - the Botswana Savings Bank.

In 1992, Parliament passed the Botswana Savings Bank Act, which established the BSB as an independent, national financial institution, wholly owned by Government. The purpose of BSB is to provide avenues for saving by the small saver and to provide financial services for all the people of Botswana under the supervision of the Bank of Botswana.

The services of BSB are provided countrywide through special Savings Bank counters at the Postal Services network (there were 112 Post Offices by the end of 1998). Services provided by the Botswana Savings Bank are savings and loans.

Savings

The Botswana Savings Bank offers three types of savings products with differing interest rates. These are:

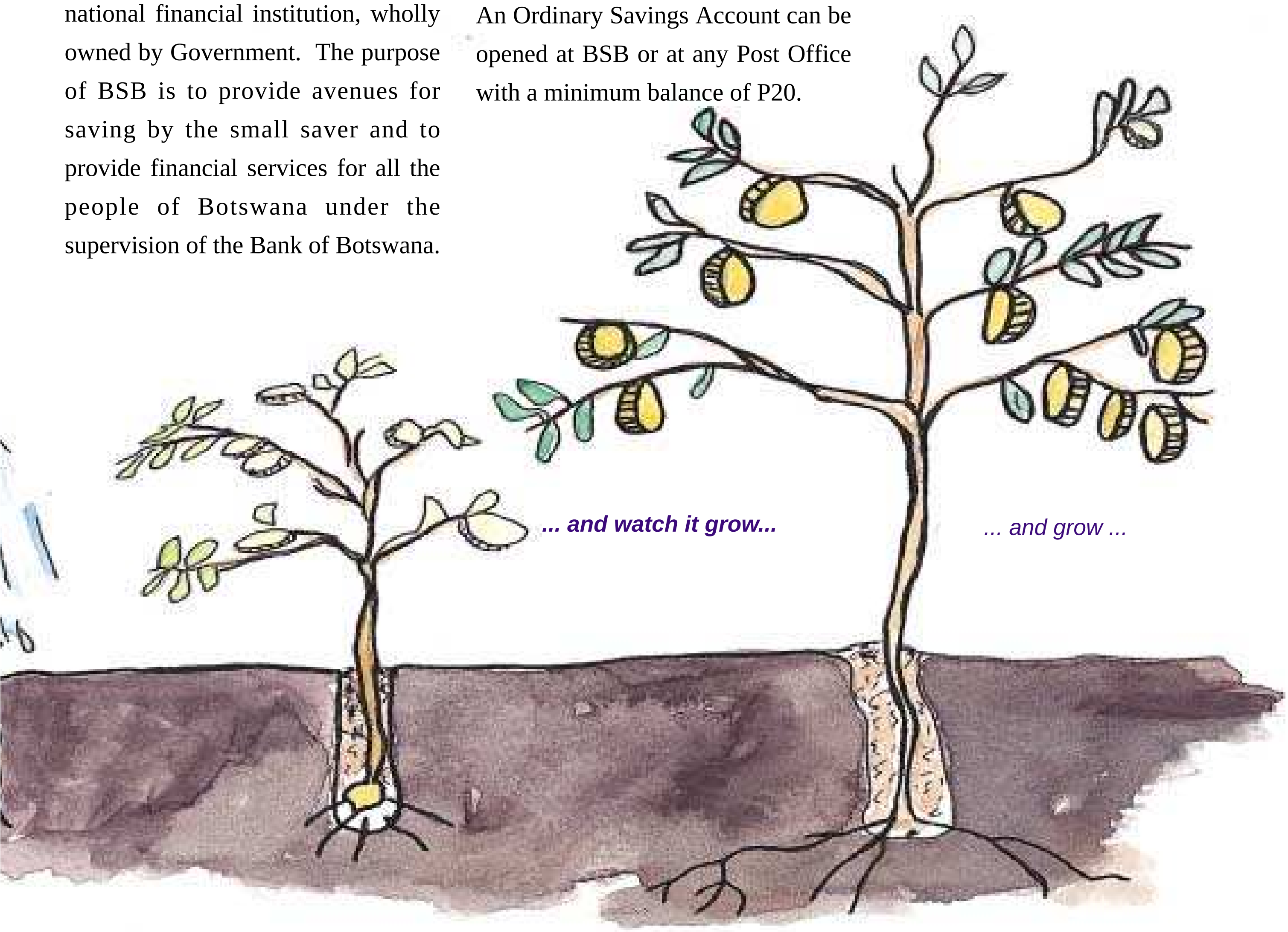
- The Ordinary Savings Account
- Special Savings Account
- The Save-As-You-Earn Scheme.

Ordinary Savings Account

An Ordinary Savings Account can be opened at BSB or at any Post Office with a minimum balance of P20. Subsequent deposits and withdrawals are possible at BSB or at any Post Office with a Savings account counter. Withdrawals can be made at seven days' interval.

Special Savings Account

A Special Savings Account can be opened at BSB or at any Post Office with a minimum of P200. Subsequent deposits and withdrawals are possible at BSB or at any Post Office. Withdrawals are one month apart. This kind of account earns a higher rate of interest than the Ordinary Savings Account.



Save-As-You-Earn Scheme

The Save-As-You-Earn Scheme is a stop-order-based savings scheme for a continuous period of 24 months. This account can be opened with a minimum amount of P50 saved every month by means of a direct debit from the salary. It pays the highest rate of interest with a 10% bonus added to the interest earned.

Loans

The Ipelegeng Loan Scheme is a personal loan scheme offered by the BSB to Save-As-You-Earn and Special Savings account holders. The loan can be used for a variety of purposes with very liberal re-payment terms. Loans of up to P10,000 are repayable over 36 months and a loan exceeding P10,000 and up to P20,000 is repayable over 48 months.

A Motor Vehicle and Residential Property Advance Scheme is available to Public Officers to purchase vehicles or residential properties. The repayment periods are four years for old and five years for new motor vehicles, while Residential Property Loans are repayable for 10 years and over.

The National Development Bank

The NDB was established by the Government in 1964 to provide medium and long-term loans to the agricultural, commercial and industrial sectors. It gets most of its funding from Government. It does not accept deposits from the public. It is known as a development bank because it helps people to develop enterprises from scratch by providing seed capital. Loans are usually for longer periods than are provided by the commercial banks. It is the process of providing start-up capital, repayable over many years, which is referred to as developmental.

Another feature that many borrowers find attractive about NDB loans is that they are generally fixed rate of interest loans.

The Public Debt Service Fund

The Public Debt Service Fund (PDSF) is not strictly a bank but it receives deposits and gives out loans. It is a special fund which was set up under the Finance and Audit Act in 1973. It is unique to Botswana and has only one depositor - the Botswana Government. However, it has many beneficiaries namely: parastatal bodies, district and town or city councils. Government receives a lot of income in the form of interest from loans issued by PDSF. For many years PDSF has been one of the largest financial institutions in the country.

THE BOTSWANA BUILDING SOCIETY

The Botswana Building Society (BBS) is an important financial institution that you need to know about.

The origin of the BBS can be traced to 1970 when the Government established both the Botswana Housing Corporation and the Civil Service Housing Purchase Scheme. The effect of their establishment was to effectively and immediately create a demand for long term finance. Prior to its establishment and in the absence of a local institution, the United Building Society in South Africa was asked to establish a branch in Botswana. The United Building Society operated in Botswana for a period of six years. In 1976 the assets and liabilities of the Society were taken over by the BBS, which was registered under the Building Society's Act. The Society provides long term housing loans for people to acquire their own property. A high proportion of BBS's funds come from Government. The Society offers a variety of savings schemes to raise additional funds, Botswana Building Society lends these funds as home mortgage loans.

The savings schemes operated by the Society, include:

Ordinary Savings Account

This account can be opened with a minimum balance of P50. Withdrawals are permissible without any time restrictions.

Special Savings Account

This account can be opened with P500. Two withdrawals are permissible per month.

Subscription Share Capital Account

This account can be opened with a minimum of P50. Withdrawals are not permissible within the investment period of 36 - 300 months. The holders of this account are the members of the Society and may be rewarded with dividends and can vote on all matters at an annual general meeting. One does not need a savings account or a share capital account to qualify for a mortgage loan.

MERCHANT BANKS

The term " Merchant Bank" is more historical than a description of the functions undertaken by these banks. These banks originated in the UK during the latter part of the eighteenth and the early part of the nineteenth centuries. The name "merchant bank" is derived from the fact that merchants initially started this specialist type of banking activity. These merchants specialised either as Acceptance Houses or Issuing Houses.

Acceptance Houses

Acceptance Houses deal in Bills of Exchange, which used to be the most important instrument in trade financing. Because these merchants were largely trusted, overseas exporters having dealings with lesser known importers always desired to have the confirmation of these merchants as to whether the importer was a good risk for business. It came to pass that these merchants started accepting bills of exchange drawn upon these lesser-known importers and charged a commission for so lending their name. As time went on these merchants abandoned their trading activities and concentrated on the acceptance business.

Issuing Houses

There were further developments as these merchants grew in reputation. In those days the multilateral financial institutions such as the World Bank and the IMF as we know them today had not come into existence. The World Bank and the IMF were only created after the Second World War in 1945. In the circumstances, therefore, where a country or institution desired to borrow from overseas, it turned to the merchant banks in view of their reputation and activities in the finance of international trade. These merchant banks, therefore, helped needy countries and institutions to raise loans from overseas by selling bonds and other instruments on the financial markets. As these activities increased, some of these merchant banks specialised as Issuing Houses. During and after the world wars, there was

a decline in international trade and there was a great drop in the acceptance business. Furthermore, there was not much by way of the issue of foreign loans because of the wars and naturally, these banks diversified their activities.

In modern eonomies, merchant banks arrange loans to companies, deal in international finance, buy and sell shares and launch new companies in the stock exchange, but do not provide normal banking services to the general public. The only merchant bank in Botswana is ulc (Pty) Limited.

ulc (Proprietary) Limited

ulc Proprietary Limited was incorporated in Botswana in 1989 under the Companies Act and was subsequently licensed as a credit institution in accordance with the Financial Institutions Act in December 1989 (now replaced by the Banking Act, 1995). The principal activities of the Company are:

Financial leasing to individuals and companies for the procurement of vehicles, equipment, plant and machinery. It also offers hire purchase to individuals and companies for the acquisition of capital equipment and motor vehicles. In addition, it is involved in lending to the business sector to assist in agricultural, industrial and commercial development. The Company accepts large deposits on fixed terms.

Early in 2001, the company successfully applied to the Bank of Botswana, under the banking Act, 1995, to have its licence changed from that of a credit institution to that of a merchant bank. While it will continue to operate its leasing function, the institution is now a merhant bank

Try and understand banking jargon

GLOSSARY

Bank Credit: the money that banks lend to the public and other institutions.

Bank of Botswana Certificates: Bank of Botswana paper used as an instrument of monetary policy.

Bank Rate: the rate of interest for a commercial bank that needs to borrow money from the Bank of Botswana.

Bid: offer to buy something at a specified price (bid price), and in this context, offer to buy a specified amount of BOBCs at a specified price.

Borrowing: in this context means money or funds that the Government of Botswana, statutory corporations, wholly owned Government corporations and local authorities have recieved on a loan from third parties.

Clearing: the process of banks exchanging cheques which have been drawn on one bank and deposited in another bank by their respective customers.

Clearing house: a place where cheques drawn on different banks and deposited with others are exchanged between banks. In Botswana, the clearing house is at the Bank of Botswana.

Collection: in the context of this pamphlet, this means cheques drawn on a bank by its customers, paying customers of another bank and deposited in that second bank by the beneficiaries.

Commodities: articles, products or services that can be traded (bought and sold).

Composite peg: pegging a country's currency to a basket (group) of currencies, as opposed to pegging it to a single currency or allowing a free float.

Credit: in the context of this pamphlet, means of increasing a bank's cash balancce in its books with the Bank of Botswana.

Debit: in the context of this pamphlet, refers to the act of of reducing a bank's cash balancce in its books with the Bank of Botswana.

Entrepreneurs: people who risk their own money to undertake and control businesses with the purpose of making profit.

Exchange Risk: the risk associated with fluctuation (upward and downward movement) in currency exchange rates.

Fiat money: money issued on the authority of the state.

Fiduciary notes: a piece of paper on which is written a promise to pay a specified amount of money on demand by the payee.

Financial intermediaries: institutions that accept funds from the public and other institutions and extend loans.

Fiscal: in the context of this pamphlet, it means collection of Government revenues.

Import cover: importing refers to buying goods and services from foreign countries, hence import cover means resources available to purchase or pay for goods and services obtained from foreign countries, and is measured in months.

Income: money received or earned over a given period

Inflation: Continuing and sustained rise in prices over a substantial period of time

Instruments: in the context of this pamphlet, this refers to the tools that the Central Bank uses to conduct monetary policy, in this case, BOBCs and the Bank Rate.

Interest: the cost of borrowing money

Investment: the act of using money especially for profit

Legal tender: same as fiat money, but with an added characteristic that it must (by Law), be accepted within the country for payment of goods and services.

Liquid: in the context of this pamphlet, it means banks having adequate cash resources to be able to meet customers' demand for cash withdrawals.

Money markets: this is a market where money and other money market instruments are traded.

Money supply: total money available in the economy.

Peg: fixing of the exchange rate of one currency, the Pula, by reference to others; this minimises fluctuations of the exchange rates.

Prime rate: the rate of interest that the bank charges for its loans to its very best customers.

Real rates: after subtracting the rate of inflation from nominal rates.

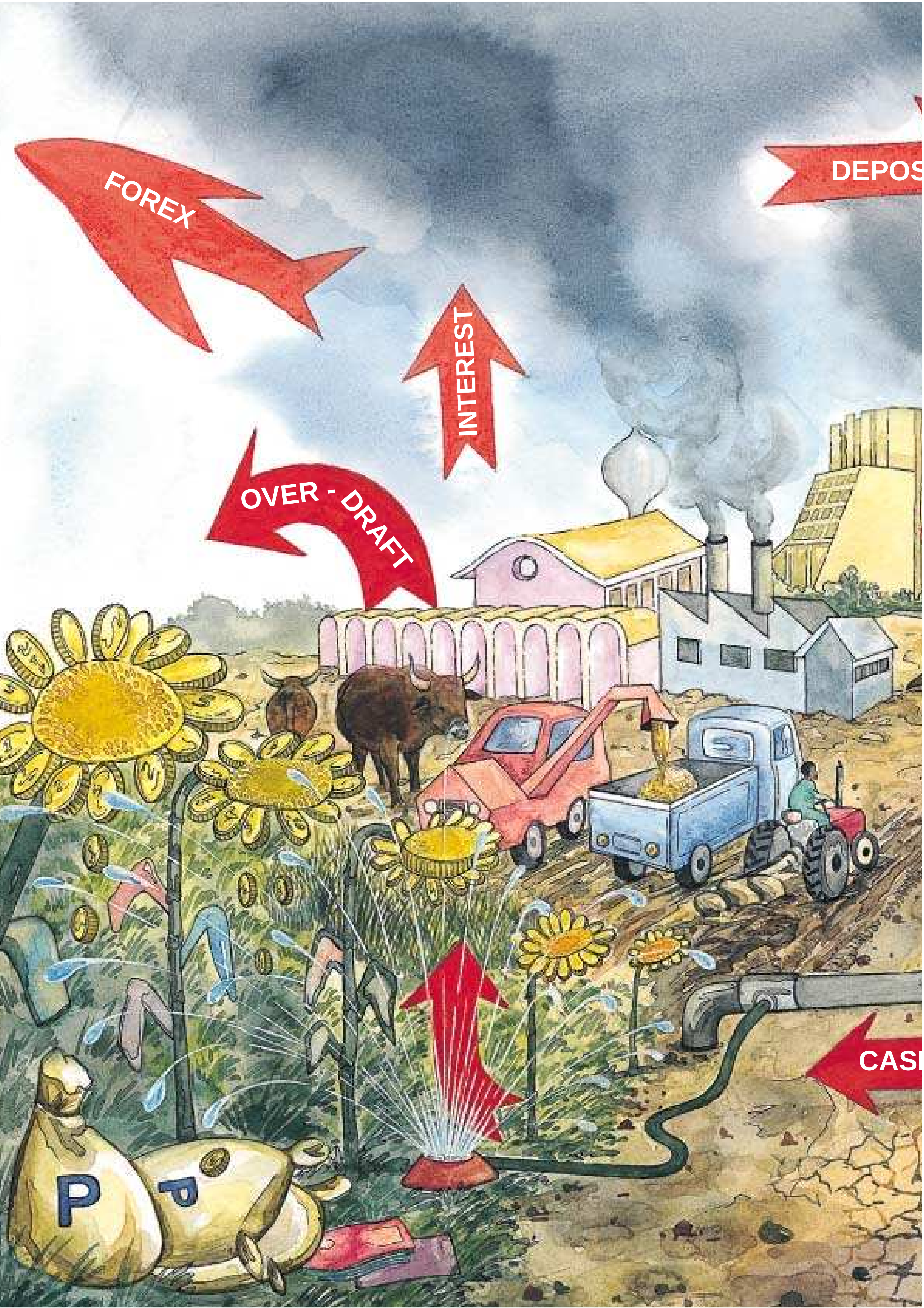
Reserve requirements: a requirement by the Central bank that commercial banks should keep a certain amount of money, usually calculated on the basis of customer's deposits, in an account with the Central Bank.

Statutory: as prescribed by law

Weights: in the context of this booklet, this means the importance attached to a currency depending on the volume of trade going on between two countries.

Tsie E Fofa Ka Moswang!

There is virtually nothing anybody can do without money


FOREX
DEPOS
INTEREST
OVER - DRAFT
CAS