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Presentation

by

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I feel privileged and honoured to have been given the opportunity to speak about Botswana's experience in obtaining a sovereign credit rating. I will enunciate the process that was followed, and share with you some of the benefits that have since flowed.

The idea of Botswana obtaining a credit rating was mooted in the mid-1990s, and the period that ensued was characterized by procrastination, in large part, due to the fact that Botswana had no immediate need for, and therefore no intention to launch, an international bond issue, given the relatively high level of international reserves.

On the positive side, there were the obvious advantages from which the country could derive benefit, for instance;

- (a) an independent external appraisal of Botswana's economic policies would provide a positive story to tell, and it is always reassuring to hear it from an unbiased observer; furthermore, a rating would point out the good (to be made better) and the challenges (on which to pay more attention);
- (b) a favourable rating would engender publicity for Botswana as a country and its international profile would be raised in the eyes of the investment community, especially with the objective of attracting participation in the newly established International Financial Services Centre;
- (c) a rating would offer strong support to a potential international bond issue.

On the downside, there were three main disadvantages:

- (a) if a favourable rating was obtained, there was the possibility of a downgrade at some time in the future if economic circumstances were to become less favourable;

- (b) there was the possibility of an adverse rating, even though, with some agencies, a client has the right to request that an adverse rating is not publicised; and
- (c) there were the associated financial costs of the rating process, such as the fees for advisors and rating agencies.

In the end, there was a meeting of minds and the decision to go ahead with the rating was made on the basis that, on balance, a rating would be beneficial, irrespective of any possible international bond issue, as it would, among others, attract foreign direct investment. The Minister of Finance announced in the February 2000 Budget Speech that the Government had decided to obtain a credit rating, and the Bank of Botswana set in motion the logistical arrangements for the entire process. A Reference Group comprising officials of the Central Bank and the Ministry of Finance was established to oversee the process.

The initial tasks included appointing an advisor who would assist in the search for the rating agencies, and of course provide advice throughout the rating exercise. A number of international banks and related organisations – many of which had earlier approached Botswana authorities on a possible credit rating – were invited to submit proposals for acting as the Government's advisor. From approximately seven proposals, three international investment banks were invited to make presentations in Botswana (Gaborone) to the Reference Group, which was beefed up by including senior Government and Bank of Botswana officials. J P Morgan emerged the winner and was appointed advisor.

Of the three major international rating agencies – Standard and Poor's, Moody's Investors Service and Fitch IBCA – the first two were selected, primarily due to their longer international track record on rating sovereigns, while Fitch IBCA has been, and continues to be, used by the Bank of Botswana for bank ratings in its reserve management activity.

The next step was the preparation of a "Credit Rating" document which involved a process of intensive consultation between the Government and J P Morgan, after which it was submitted to the rating agencies prior to their visit. The 144-page document contained an overview of the economy, focusing on elements of direct relevance to the country's credit-worthiness, such as growth, savings and investment, mining sector, economic diversification, monetary, exchange rate and financial sector policies, balance of payments and Government finances. Other factors that may affect credit-worthiness indirectly were also considered, such as social, political and governance issues. In Botswana's case the HIV/AIDS situation was particularly relevant.

Almost all the rating agencies' requests for data were immediately accommodated, and this facilitated a timely completion of the "Credit Rating" document for use in the review process.

The programme for the agencies' visits, which lasted three days each, included interviews with the President, senior Central Bank and Government officials, opposition politicians, and representatives of financial and non-financial institutions, academia and civil society. Arrangements for the interviews/discussions with respective rating agencies were handled in a way that ensured adequate preparation of all participants to make them aware of what would be expected of them, and to impress upon them the national importance of the exercise.

The rating results are normally received approximately 4-8 weeks after the agencies' visits, once the analysts' reports have been discussed by the rating agencies' internal committees. This was so for Botswana as well. While the visits had gone well and the rating agencies appeared satisfied with the process, the results were much better than had been expected. Both rating agencies gave investment grade ratings - "A2" by Moody's Investors Service and "A" by Standard and Poor's – far higher than any of the African countries so far rated. In fact, Botswana's ratings are comparable with those of several middle-income countries (Greece, Slovenia and Israel), and higher than many of the strongest countries in Central Europe, Latin America and Asia (Poland, Czech Republic, Hungary, Mexico, Chile, Malaysia and Korea).

The challenge for Botswana is to maintain the ratings, and at best to improve on them.

The ratings were accompanied by detailed reports from each of the rating agencies, which provided analyses and perspectives on Botswana's economic situation; this has proved to be a useful aid to the Botswana authorities particularly given the entrenched system of periodic reviews of national development plans.

Generally, Botswana has benefited in a number of ways from the rating process, for example:

- (a) Botswana has received favourable publicity. This was especially the case at the time the ratings were first issued, and this has continued. Interestingly, the Financial Times recently had an article with the headline "Japan's debt rating may fall below Botswana's", and this in itself is a positive profile. For a small country in a region that is often viewed negatively by the international investment community, the attention that the rating has attracted, and continues to attract, has been extremely useful in terms of augmenting the marketing effort of attracting foreign direct investment;
- (b) the ratings serve to "concentrate the mind" of economic planners and policymakers in that the implications of policy decisions on the credit rating has to be borne in mind. In this sense, a credit rating acts as a brake in case of a temptation to adopt policies that might undermine credit-worthiness;
- (c) should there be any developments that might undermine the credit rating, the authorities have to stand ready with credible explanations of the impact of such developments, not only for the rating agencies, but for the general public as well, thus enhancing the transparency of the policy-making process. While Botswana is considered to have always had a relatively high degree of policy transparency, the rating helps to make it all the more so;
- (d) the ratings reinforce the need for credible economic data and statistics, and underline the need to aspire to agreed international standards, such as the International Monetary Fund's General Data Dissemination System (GDDS) & Special Data Dissemination Standard (SDDS);
- (e) while the decision to obtain a rating was not specifically linked to a Government bond issue, the results of good ratings should stand the Government authorities in good stead should they decide to issue one in future.

I wish to conclude by stating that although the Botswana authorities approached the rating process with some trepidation, there has been no regret about the course that was followed. It was a good exercise to undertake, not just for the favourable results achieved, but also for the process of exposure and external scrutiny. It was a learning experience that helps to build confidence and credibility, and ensures good political and economic governance. I recommend it to any African country, and indeed any other country, that is considering obtaining a sovereign credit rating.

I thank you for your attention.