

BANK OF BOTSWANA

PRESS RELEASE

Governor of the Bank of Botswana, Linah K Mohohlo, Voted 2003 Central Bank Governor of the year for Sub-Saharan Africa by Euromoney

The Governor of the Bank of Botswana has been voted the 2003 Central Bank Governor of the Year for Sub-Saharan Africa by Euromoney using a poll of international investors, bankers and other financial and capital market institutions. The award was presented to her at the annual meetings of the World Bank and International Monetary Fund held in Dubai recently. This follows a similar award as the 2002 Central Bank Governor for Africa and the Middle East awarded by the Financial Times magazine, The Banker.

The following is an extract from Euromoney's World Bank/IMF Meetings edition of September 21, 2003 in an article entitled *Policy Makers in Sub-Saharan Africa*:

"Educated at the George Washington University in the US, where she received a bachelor's degree in economics, and at the University of Exeter in the UK, where she took a master's degree in finance and investment, Linah Mohohlo was at the beginning of central banking in Botswana, joining the central bank at its inception in the mid-1970s.

The 1990s were a crucial time for Mohohlo's experience in money management. From 1989 to 1997, when she headed up the central bank's financial markets department, she was responsible for the management of Botswana's foreign exchange reserves, and honed the skills that have stood her in good stead as Governor of the Bank.

During that time – when global capital markets boomed and then began to bust, challenging even the most savvy rich-country financial official – Mohohlo got additional experience by doing stints in the African Department and the Monetary and Exchange Affairs Department at the International Monetary Fund.

Her firm stance behind the Pula and her push for spending curbs and stable interest rates allowed her as central bank governor to keep a lid on inflation.

The central bank deserves much of the credit for Botswana's highly prudent management of the overall economy, says Joyce Chang, Managing Director and global head of merging markets research at JP Morgan.

Though Botswana's economy is in a somewhat vulnerable position in that its diamond sector accounts for about one-third of GDP and 70 percent of exports, the central bank's prudent management of reserves from the mineral sector has allowed it to build up international reserves of more than \$5 billion, about 24 months worth of imports, enough to provide a substantial cushion to any shocks. Bolstering the non-minerals sector will take further government expenditure.

One challenge ahead for Mohohlo will be the global HIV/AIDS crisis. Botswana suffers the highest HIV rate in the world, with something like one-third of adults under 50 infected with the virus, and a per capita income of only USD3 300. But according to ratings agency Standard Poor's, Botswana's strong fiscal position makes it particularly well placed to fight the epidemic without undermining its credit worthiness.

High spending on social services means that education and health care are provided at low cost to the public, and there is a strong safety net for the poor – though some of this spending may have to come down as Botswana seeks to strengthen its non-mineral sector.

Though it holds foreign currency ratings of A/A1 from Standard Poors, Mohohlo says the country is not seeking to tap international capital markets just yet. Instead, Botswana's work lies first in strengthening domestic markets – indeed, the Bank of Botswana, together with the Government, has already begun to develop its domestic fixed-income market by issuing long-dated pula-denominated bonds, a move Chang applauds.

Furthermore, the Bank is a professionally intensive institution with a complement of capable staff who have made the challenge of managing the institution less onerous. What has also made the task of facing the challenges manageable is that I have a deep knowledge of how the Bank operates, its linkages, its procedures and its problems – having been in its employ for 27 years. The staff of the Bank and the Board have also been supportive.

You were at the IMF before you were at the Central Bank. Can you talk a bit about your work there, and how it prepared you for your current position?

It was a gratifying and rewarding experience to work for the IMF in the African Department and the then Monetary and Exchange Affairs Department (now Monetary and Financial Systems Department). My work included discussions with country delegations both in Washington DC and on missions abroad, and this exposed me to the workings of the economies of the countries I visited. It was interesting to compare and contrast the performance records of country economies, as well as the various sectors of each economy. I have benefited from exposure to the wealth of expertise that the IMF has to offer and about which it is renowned. As a result, I am able to better appreciate the macroeconomic policies which the IMF always recommends to member countries. Equally, I am in a position to appreciate the difficulty faced by policymakers in countries implementing structural adjustment programmes, as they attempt to strike a balance between political, social and economic considerations. Above all, I am able to make an informed contribution to the work of the Bank as it evolves over time.

Have you faced any particular challenges because you're a woman working in what's often seen as a man's world?

Not at all; I believe this is primarily because it does not matter to me whether the people with whom I work or interact professionally are male or female. I judge people and myself on performance, not on gender. When I get to work, I do not think in gender terms; I only worry about quality of delivery. Of course I can't help but recognise that indeed banking is the domain of men. Be that as it may, I am never intimidated, I quickly settle down to what matters most – the business of the occasion and the need to maintain the high standards and reputation of the Bank.

How have your operations been affected by the Kimberley Process?

The Kimberley Process (KP) has had very little effect on the operations of Botswana's mining company, Debswana, as there were effective audit and control systems in place before the KP came into being. Given that the major outcome of the KP was the development of a certification system intended to end trading in conflict diamonds, its impact has largely been confined to the tracking of diamonds from the point of the source mine to the point of destination.

All diamond producers participating in the KP are bound by the international agreement called the Kimberley Process Certification Scheme (KPCS), through which countries are certified conflict free. Botswana has reviewed its legislation and regulatory framework to ensure compliance with the KPCS.

How are you facing the fiscal challenge of AIDS and HIV in Botswana?

HIV/AIDS is one of Botswana's major economic and social challenges. The Government is tackling the pandemic head on, as an integral part of improving the quality of health care in Botswana. Resources have been committed to address this pandemic in a holistic manner through prevention programmes and

the provision of advanced drug therapies to those in need. The Government has also entered into partnerships with cooperating partners and, currently, about 80 percent of all HIV/AIDS related activities are government funded; non-government sources take care of the remaining 20 percent. In 2002/03, health spending was increased by 50 percent while in 2003/04 the Government committed 4 percent of the total development budget for the HIV/AIDS programme. This is a demonstration of a seriousness of purpose on the part of the Government in addressing the scourge.

What do you think is the most important step for African countries now, in terms of fiscal management?

African countries, like countries in the rest of the world, are not a homogenous group in terms of, inter alia, their level of development, fiscal management policies and standards, as well as their socio-economic and political circumstances. This notwithstanding, it is an inescapable reality that good governance and fiscal prudence are some of the major contributory factors to a success story in terms of sustainable economic growth, macroeconomic balance and economic policy coordination. The world economic history is littered with casualties of fiscal mismanagement. Experience and empirical evidence have shown that countries with profligate expenditure tendencies have had to endure painful adjustment while undergoing a process of fiscal reform. Unchecked rapid and unsustainable spending can cause aggregate domestic demand for local and foreign products and services to grow beyond supply capacities. This can lead to, among others, inflationary developments, external sector imbalances, rapid accumulation of domestic and foreign debt, individual and corporate bankruptcies, as well as systemic risk and bank failures, leading to banking and/or financial crises.

Overall, prudent fiscal management is indispensable in today's modern economies given its potential in underpinning an appropriate macroeconomic balance as a basis for sustainable growth.

What kind of results do you expect out of the IMF meeting?

Among the results of the 2003 Annual Meetings, there should be a commitment on the part of industrial countries to play a major part in renewed efforts towards multilateral trade liberalisation and to support closer regional cooperation in the context of deeper integration into world markets. This will be critical in fostering higher economic growth and poverty reduction in developing countries, thus enabling them to participate more fully in the benefits of globalisation. It is disappointing that there has been a breakdown in trade negotiations held in Cancun recently; however, the planned resumption of the negotiations offers hope.

Furthermore, the international community should commit to providing greater support to low-income countries to help them strengthen policies for macroeconomic stability and structural reforms, particularly in the areas of better functioning capital markets, stronger institutions and stable banking systems. What is also crucial is increased donor participation in resolving regional conflicts, through debt relief under the HIPC initiative. The developing countries too should deliver on their side of the bargain by, inter alia, pursuing enhanced political and corporate governance as well as transparency which are key to sustainable economic growth necessary for meeting the Millennium Development Goals.

The IMF and World Bank are expected to continue to play an important role in assisting low income countries in their implementation of reforms which should underpin sustainable economic growth. This will require enhanced efforts by developing and developed countries towards working in partnership. Sustained implementation of sound macroeconomic policies, supported by strong ownership, will remain key to reducing poverty and meeting the Millennium Development Goals. In this regard, the importance of technical assistance is crucial and it is, therefore, imperative that the IMF and World Bank should mobilise additional assistance for capacity building.

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