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Trends in Central Bank Governance

Summary by
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Bank of Botswana

Introduction

1. Participants and Facilitators

- 1.1 The Bank of Botswana organised and hosted a two-day Seminar from February 5-6, 2007 on *Trends in Central Bank Governance* at the Gaborone International Conference Centre. Including the host central bank, nine (9) central banks from the Southern African Development Community (SADC) region attended the Seminar. The forty-five (45) participants included five (5) Governors, one (1) Deputy Governor, twenty three (23) Board Members, Board Secretaries, Advisors and Directors.
- 1.2 Mr. Gavin Bingham, Secretary General of Central Bank Governance Forum, Bank for International Settlements (BIS), and Mr. Marc Quintyn, Division Chief at the International Monetary Fund (IMF) facilitated the Seminar. Mr. Stefan Ingves, Governor of the Sveriges Riksbank, was a Keynote Speaker.



The keynote speaker: Mr Stefan Ingves
(Sveriges Riksbank) with the Governor

2. Seminar Objectives

- 2.1 The objectives of the seminar were threefold:
 - (a) to promote a shared understanding of the key elements of central bank governance;
 - (b) to increase awareness of the characteristics and practices of central bank boards; and,
 - (c) to provide a platform to discuss practical applications and implementation of Board policies.

Participants at the Seminar



3. Coverage of Topics

3.1 The Seminar was divided into three Sessions:

Session 1: Opening Remarks; Official Opening; Keynote Address, and Key Elements of Central Bank Governance.

Session 2: Role of Central Bank Boards and Committees; Accountability of Central Bank Governing Boards and Management; and Chairmanship of Central Bank Boards.

Session 3: Size and Membership of Central Bank Boards; Possible Areas and Sources of Conflict of Interest; Term Length, Appointment Procedures and Immunities; Lessons and Recommendations; and Closing Remarks.

Seminar Proceedings

4. Opening Remarks

4.1 Governor Mohohlo welcomed her colleagues and other participants to the seminar which, she noted, was the first of its kind to be held in the SADC region. She expressed her sincere gratitude to the Minister of Finance and Development Planning (MFDP), Hon. Gaolathe, for accepting to officially open the Seminar in spite of his very busy schedule for the day, especially the delivery of the National Budget Speech to Parliament that afternoon. In introducing the Hon. Minister, Governor Mohohlo summarised his very distinguished public service spanning decades which included Permanent Secretary, Ministry of Finance; Bank of Botswana Board member; Chief Executive Officer of Debswana; and Governor of Bank of Botswana. She also welcomed Governor Ingves of the Swedish Central Bank and thanked him for accepting her invitation to present a keynote address to the Seminar. The Governor also expressed her gratitude to Messrs Bingham and Quintyn, alongside their respective institutions, for facilitating the Seminar.

4.2 In highlighting some issues on the subject of governance in general, she observed that the concept was not new and that it dated back to two centuries. However, she pointed out that the subject matter and practice had recently attracted more attention than before and was evolving. In this regard, she was of the view that, as is the case with other institutions, central banks also needed to keep pace with the changes taking place in governance practices. The Governor went on to stress the importance of prioritising central bank objectives as well as the required authority and autonomy in order to achieve the goals. She, however, emphasised the requirement of accountability if a central bank was to be credible.

5. Official Opening

5.1 In his official opening address for the Seminar, the Minister of Finance and Development Planning, Hon. Gaolathe, welcomed the Governors and other participants to the country on behalf of the Government and people of Botswana. He thanked Governor Ingves, Messrs Bingham and Quintyn for accepting to share their experiences with the participants on the very important seminar topic.

5.2 He informed the participants that the Seminar was in line with the Vision of the Bank of Botswana, namely, "to become a world-class central bank, with the highest standards of corporate governance and professional excellence", which, he said, demonstrated the Bank's commitment to adopt international best practice in its governance, performance, values, integrity and efficiency. The Minister noted that it was almost universally accepted that the main function and focus of a central bank should be the maintenance of monetary stability; and that this could best be achieved if a central bank had operational autonomy in the pursuit of its mandate. The need for such independence, he observed, had become more compelling as shown by the adverse economic and financial effects of excessive Government borrowing from a central bank.



- 5.3 Highlighting some of the issues on the agenda of the Seminar, the Minister observed that the topic for the Seminar was timely since it included the subject matter of central bank autonomy which was a topical issue in the region. In this regard, the Minister informed the participants that model legislation for SADC with proposals for central bank autonomy, was under consideration in the individual member states. He expressed the view that accountability in governance implied the conduct of the affairs of an institution in trust on behalf of, and in the best interest of all stakeholders. From this perspective, the Minister encouraged the delegates to share views on how best central banks could ensure that the goals they set for themselves and the related policies for their achievement had the widest possible support among a cross-section of stakeholders. From this perspective, he stressed the need for the attainment of optimal policy coordination between an autonomous central bank and those of other policy-making structures in the best interest of all stakeholders.
- 5.4 The Minister pointed out that autonomy is accompanied by accountability which required transparency and responsibility in the conduct of the affairs of any institution. He then observed that while there was diversity in central bank governance practices entrenched in the law around the world, he encouraged the participants to relate the issues under discussion to the conditions and circumstances obtaining in the SADC region.
- 5.5 On governance in general, the Minister advised on the importance of increased use of an IMF document on the Code of Good Practices on Transparency in Monetary and Financial Policies adding that the Code provides guidelines and suggests clear goals of what good governance is intended to achieve and the modalities for their attainment together with information on transparent rules and regulations, policy-making structures and instruments.
- 6. Keynote Address**
- 6.1 As an introduction to his keynote address, Governor Ingves informed the participants that a central bank is a unique and complex organisation which is a publicly controlled firm with a regulated monopoly producing public goods through its performance of several functions. He added that central banks' roles include banker of banks and insurance companies, in addition to that of regulator and supervisor of the banking industry. The Governor explained that it is the interaction between these different roles that often creates and raises questions about optimal governance structures for central banks; and that the complexity of these responsibilities at times result in institutional arrangements and governance structures that may not necessarily be well designed to assist or permit a central bank to execute all its functions efficiently. He then informed the participants that, nevertheless, the need for appropriate structures and functioning of a central bank is buttressed by research findings that suggest a link between a central bank's effectiveness in the delivery of its mandate and economic growth.
- 6.2 The keynote address covered five (5) subjects:
- Objectives and multiplicity of tasks;
 - Separation of powers: boards and management;
 - Budgetary independence and central bank balance sheet;
 - Governor's compensation; and
 - Term length, term limits and "cooling-off".
- 6.3 Governor Ingves pointed that, over time, key central bank functions have shifted away from government financing and providing commercial bank liquidity, to the inclusion of debt management; banking supervision; monetary policy; oversight and regulation of payments system; and deposit insurance. He then observed that the multiplicity of tasks undertaken by central banks, at times, makes governance difficult; and that to overcome this problem there is a tendency to focus on objectives/goals that can be measured especially inflation. He cautioned, however, that even in cases where the objectives are measurable, the many goals render overall evaluation of performance difficult. As an illustration, Governor Ingves explained that a conflict of policy could occur depending on whether banking supervision or monetary policy was the main function of a central bank. In this regard, he added that it was conceivable that a central bank that supervises banks can also use interest rates to ensure their financial stability, and that such a policy may run counter to the central bank's role to control inflation.
- 6.4 On the issue of central bank independence, participants were informed that, unlike other institutions, most central banks are not subject to ex-ante budget approvals by government as a shareholder. Governor Ingves added that from this perspective, budgetary independence is an important element of central bank autonomy in its relationship with both government and commercial banks. Nevertheless, he observed that there is a debate regarding the freedom with which a central bank allocates its profits. As an illustration of this point, participants were informed that of the central banks surveyed, about seventy-five (75) percent did not need approval from government or legislature on profit allocation.
- 6.5 Governor Ingves said that remuneration for a central bank Governor is another subject of topical interest in central bank governance. He pointed out that although the issue of compensation for central bank Governors had been debated in the media, there has never been a "line up" of the arguments and that approaches to, as well as practices in, Governor's compensation vary a great deal. However, he stated that in theory the approach to this issue is to set the remuneration package at a level that would attract the best candidate, avoid corruption and preclude individuals driven by self interest.
- 6.6 A related matter to remuneration for the Governor was the term limit. On this issue, Governor Ingves suggested the importance of a long-term tenure that avoids coincidence with political cycles of the appointing authority and some "cooling-off" period after the expiry of the term of office to avoid "regulatory capture". He observed that term limits were not common for central bank Governors and cited the pros and cons of term limits. It was pointed out that one of the advantages of term limits is the avoidance of acquisition of too much power by the incumbent Governor; while the disadvantages include the undesirable frequent turn over of competent people. The Governor then stated that sixty-nine (69) percent of the central banks surveyed had no term limit for Governors.



*Facilitators: Messrs Gavin Bingham (BIS)
and Marc Quintyn (IMF)*



Lessons and Recommendations

7. Seminar Coverage

- 7.1 Several trends and practices of central bank governance were outlined. In addition, some practical lessons were drawn from the international experience, so far. The discussions on the trends in central bank governance centred around five broad areas: First, a trend towards a smaller range of objectives for central banks; second, the move towards autonomy in its relations with central government; third, the principles regarding the required obligations related to autonomy (accountability and transparency); fourth, the structure, size and composition of boards based on the objectives of a central bank under the law which also safeguards its functional autonomy/independence but optimises on skills and gender balance; and fifth, governance and related procedures that prevent conflict of interest by the board and staff and ensures the central bank's autonomy.
- 7.2 However, it was concluded that there is diversity in the internal governance structures and procedures required to ensure good governance of an autonomous central bank. Similarly, it was noted that consensus is yet to emerge regarding the best practice for the modus operandi in the conduct of accountability by a central bank in its relations with various stakeholders.

8. Multiplicity of Central Bank Functions and Governance Structures

- 8.1 As a banker¹, regulator, and supervisor of the financial system, central banks produce a public good and that the quality of a central bank's performance has been shown to have a significant impact on economic growth. However, the interaction between the central bank's various roles often creates and raises questions about optimal governance structures. For this reason, the institutional and governance arrangements of central banks may not necessarily be well designed to assist or allow them to execute all functions efficiently.
- 8.2 Although some central banks have tended to have multiple objectives, the trend now is towards fewer principal objectives especially "price stability" or "low inflation" as the primary goal, and that maintenance of "financial stability" through the supervision of the financial sector by central banks is also increasingly being adopted.

9. Central Bank Autonomy/Independence

- 9.1 Most of the central bank governance issues centre on the need for autonomy or independence. However, independence or autonomy relates to a central bank's functionality within the framework of Government's institutions; and that in this context, a central bank is assigned specific responsibilities for macroeconomic and financial management. It is generally agreed that autonomy is necessary for a central bank to deliver on its narrower range of objectives professionally without interference from Government as a shareholder or any other institution or person.

10. Key Characteristics of an Autonomous Central Bank

- 10.1 The key elements of autonomy for a central bank include budgetary and financial independence; appointment procedures of Governor, Deputy Governor and board members that avoid Government leverage on the performance of their duty; governance structures as well as code of conduct of the board and senior management that mitigate against internal and external conflicts of interest.

11. Key Obligations of an Autonomous Central Bank

- 11.1 Central bank autonomy requires certain obligations to be met particularly transparency in the conduct of all its affairs and accountability to stakeholders: the Government, Parliament and the general public. Since an independent central bank is part of Government institutions assigned specific responsibilities under the law, the trend is towards provisions in the statutes for the Governor to regularly meet the Minister of Finance in order to facilitate policy coordination and consultation processes. There is, however, no common international model for the format of such meetings and consultation processes. An autonomous central bank is obligated to account for its actions and activities to its stakeholders especially the Executive Branch of Government, Parliament and the general public. The accountability practices include the following:

12. Internal Conflicts of Interest: Governance Practices and Structures

- 12.1 In order to avoid internal conflict of interest the trend is towards governance practices that separate the powers of boards from those of management. In this regard, the narrow range of central bank functions and autonomy/independence have increasingly given rise to governance structures and practices with clearer mandates and procedures that guard against both internal and external conflicts of interest. For this reason, even in cases where central banks have single boards that combine policy, supervisory and oversight functions, there is now increasing use of sub-committees of the boards to recommend to the full board various policies pertaining to the activities of the central banks.
- 12.2 A Governor is best placed to chair a board in view of the expertise and institutional knowledge required. However care is required to avoid conflict of interest in appointments of supervisory/oversight board members and participation in Remuneration Committee proceedings affecting the Governor.



13. External Conflict of Interest

13.1 The issues that can give rise to external personal conflicts include outside business and or financial interests of Management and board members; political affiliations and allegiances; family ties and potential post-retirement or employment opportunities outside the central bank. To guard against these potential sources of external conflict of interest a number of governance practice and codes of conduct are now increasingly being put in place in most central banks such as:

- (a) application of “fit and proper” test for membership of boards;
- (b) board members and staff should not receive instructions or seek instructions from any body or constituency in the discharge of their duties;
- (c) senior management and, in general, the staff should not belong to any other boards except where such board membership is complimentary to the functions of a central bank.
- (d) the Governor and senior staff are expected not to take up any appointment, especially in the financial sector, for a period ranging from one to two years after leaving the services of the central bank. This is known as the “cooling off” period.

13.2 As a practice or code of conduct, the “cooling off” period raises several issues especially:

- (a) the levels of financial compensation required for the affected person during the period when they cannot take up certain types of employment.
- (b) the level of remuneration for senior staff that would reduce a high turnover.

14. Sizes and Composition of Boards

14.1 A balance needs to be struck between the need for a pool of expertise afforded by a large board and the importance of ensuring board effectiveness and timely decision-making which may be difficult with a very large board. Also, board composition should focus on skill complement. In addition, oversight and supervisory boards need, as much as possible, to have external members to avoid conflict of interest by Management. Similarly, policy boards require external members as a means of optimising the skill and diversity of views while avoiding personal conflict of interest and adhering to the membership fiduciary responsibilities.

Footnote
¹ Most central banks are bankers to banks, other financial institutions and government

“ The Seminar was in line with the Vision of the Bank of Botswana, namely, to become a world-class central bank, with the highest standards of corporate governance and professional excellence. ”



Board Members were also participants at the Seminar. Left to right: Messrs Cunliffe, Corea, Bolele and Moelets



The Bank of Botswana

2006 Annual Report

Theme Chapter

Summary by
Moemedi Phetwe
and Lorato James
Principal Economist and Economist
in the Research Department,
respectively, Bank of Botswana

With Botswana celebrating forty years of independence in September 2006, the Bank considered it germane to review progress in the country's development in the form of a theme chapter analysis in its 2006 Annual Report. In this analysis, the Bank also outlines its perspective on the contemporary and emerging challenges faced by the economy, as well as the impact of Government's development strategy and policy initiatives.

It is indisputable that in the forty years since independence, Botswana has made significant economic and social progress. There is the commonly cited data that in 1966 the country, whose size is 588 000 square kilometres, almost equal to France or the state of Texas in the USA, had less than 10 kilometres of tarred road. In a population of just over 500 000, only about 40 people had university degrees while the nine secondary schools, existing then, produced only 16 people qualifying for tertiary education. Among the estimated working population of 292 000, 32 000 worked as migrant labourers in South African mines; locally subsistence agriculture was a major economic activity. Poverty incidence was high and measured at 59 percent of the population in the 1985/86 Household, Income and Expenditure Survey (HIES). Using the current purchasing power of the Pula, on average, each citizen had only P3000 annually available to them. Fifty-one percent of the Government budget of about P10 million was financed by grant-in-aid from the hitherto colonial Government of Great Britain. In essence, the level of income, skills, infrastructure and institutional support were insufficient to support industrial development considered to be the basis for sustainable growth.

From these less promising starting conditions, the combination of stable political governance, forward economic planning, prudent macroeconomic management, lucrative diamond production and judicious appropriation of mineral revenues, contributed to broad-based economic and social development. Using the current purchasing power of the Pula, the average per capita income of P33 000 in 2005/06 compares with P3000 in 1965/66. For a population of about 1.7 million people, by 2006, there was virtually universal primary education while the number of secondary schools increased 100-fold since 1966 to just below 300. Health facilities also grew precipitously, from about 100 at independence to over 1400. Indeed, before the onset of the AIDS scourge, life expectancy had increased from 46 years in 1966 to 65 years in 1991 while the infant mortality rate fell from 108 per 1000 live births to 48 per 1000 live births over the same period. Government also undertook infrastructure development, directly or through dedicated parastatals with notable development of the road network whereby tarred roads link all the major population centres, with substantially enhanced access to housing, electricity, telecommunications and potable water. In addition, there is extensive institutional support in

the form of agencies that are involved with policy development, research, regulation, governance as well as the promotion of entrepreneurship, business and trade.

Notwithstanding the considerable progress highlighted above, the theme chapter discussion notes that Botswana's developing economy is continually undergoing transformation and the challenges that face the country evolve and become increasingly complex. The sluggish rate of diversification of the Botswana economy, for example, implies limited sources of economic growth, employment and revenue. In turn, it is associated with relative slow progress in alleviating poverty and income inequality. In the thirty years to 2005/06, for example, the mining sector has averaged 38.4 percent of Gross Domestic Product (GDP) while diamond revenues alone, were in excess of 70 percent of exports and mineral income constituted about 50 percent of Government revenue. The various initiatives towards economic diversification mostly impacted on the services sector for which the contribution to GDP grew from 31.8 percent to 42.8 percent over a thirty-year period. Meanwhile, the relative slow growth of the manufacturing sector, which is often considered a source of industrial development and an engine of growth, resulted in a decline in its share of output from 7.6 percent to 3.3 percent.

Little surprise, therefore, that the unemployment rate has remained high, for example, it stood at 19.6 percent at the 2001 census, albeit falling to 17.6 percent as measured in the 2005/06 labour force survey. Partly as a result of limited job opportunities, income inequality also continues to be a challenge for the country despite relative strong output growth and decrease in poverty incidence. Related to this, the report also examines the challenge of citizen economic empowerment, which is associated with an increased likelihood of alleviating the lack of economic diversification, unemployment, inequality and poverty. It is, nevertheless, important that the good aspects of citizen economic empowerment are not assuaged by the louder claims for exemption from what are normal business operation rules and obligations and undue bias towards citizens and exclusive claims for entitlement to low cost finance and Government business. These have a potential to constrain long-term sustainability of citizen enterprises and, therefore, undermine the very idea of citizen economic empowerment. The theme chapter also discusses the challenge of globalisation, which provides opportunities for expanding trade, attracting foreign direct investment and raising the country's productivity and competitiveness, as well as strengthening of governance, benchmarking for the professions and assimilation of modern technology.

In response, therefore, the menu of recent Government initiatives outlined in the theme chapter, to sustain rapid economic growth

and raise living standards, encompasses an outward-looking industrial development strategy that recognises the potentially bigger export market and for increasing competitiveness. The institutional support for this strategy includes bilateral and multilateral trade arrangements to facilitate market access and export and business and enterprise promoting agencies such as BEDIA, CEDA and LEA. The increasing importance of high level skills and information and communication technology is recognised in expansion of access and enhancing the quality of education, communication network upgrading and liberalisation of the sector to accommodate an increase in investment and infusion of modern technology in business and Government operations as well as lifestyles, generally. Moreover, Government provides social support and poverty alleviation programmes such as assistance to destitute citizens and orphans, old age pensions and small-scale agricultural schemes. The devastating impact of HIV/AIDS is being addressed through a variety of awareness and prevention measures, treatment, care and vaccine research programmes.

The Bank's assessment on the effectiveness of policy initiatives and institutional support is that there is a possibility of them being hampered by their proliferation and inadequate prioritisation. It is considered that an improvement in prioritisation would reduce the potential for conflict of objectives, economise on scarce resources and facilitate sustained focus and persistence of initiatives, which tends to be undermined by quick addition on new policies. The focus on low cost finance, relative to market interest rates, can be detrimental to long-term private sector viability as it in effect hinders proper project costing and can encourage financial indiscipline and operational behaviour that puts a greater risk on the financier rather than favouring successful business performance. The presence of this type of finance can also inhibit financial innovation and crowd out the private financial sector. The policy of positive discrimination in favour of citizens in terms of both business and employment is ostensibly a genuine effort to avail income-generating opportunities to locals. Nevertheless, it is important not to forego or undermine the involvement of foreigners. In an increasingly integrated global economy there is significant benefit that can be derived from foreign expertise, finance and investment, business linkages and benchmarking for the professions, quality of service and competitiveness.

The theme chapter also echoes the concern with slow implementation of Government

programmes that appears to be indicative of lack of synergy and, sometimes, the incompatible operations and objectives of the various Government agencies. Improving on establishing indicators for monitoring implementation progress can also contribute to faster implementation. In addition, and as has been indicated by previous studies, there is a continuing need to address the microeconomic impediments to entrepreneurial and business development by easing the administrative and regulatory burden. Contributing to improvement in this area would be continuing rationalisation of Government activity in the economy through privatisation and cost recovery measures which can provide business opportunities for the private sector and lead to improved efficiency in the provision of services. There is, nevertheless, an important role for Government in sustaining stability and balanced growth. In one area, the macroeconomic balance that has supported economic development in the past would, going forward, continue to be derived from coordination of policies and appropriate prioritisation and ranking of the macroeconomic objectives.

Overall, the 2006 theme chapter discussion appears to suggest that the development path of economic growth and improvement in living standards can be sustained through a focus on the broad economic and social development objectives, supportive governance, prioritisation and rationalisation of institutional development as well as accommodating the globalisation imperative, while being aware of possible deleterious effects of selective and ad hoc interests of special groups of economic agents.

List of Acronyms

- HIES
Household, Income and Expenditure Survey
- AIDS
Acquired Immune Deficiency Syndrome
- GDP
Gross Domestic Product
- BEDIA
Botswana Export Development and Investment Authority
- CEDA
Citizen Entrepreneurial Development Agency
- LEA
Local Enterprise Authority
- HIV
Human Immunodeficiency Virus



The Governor's Awards in 2007



In 2007 the Governor of the Bank of Botswana, Mrs Linah Kelebogile Mohohlo received two international awards. At the first ever award ceremony held in Washington D.C. (USA) on October 19, 2007, the *African Banker* Magazine conferred on the Governor the Banking Regulator of the Year Award. The award was one of the eleven categories identified by the *African Banker* Magazine covering a variety of activities undertaken by institutions and individuals in finance and banking. Other Award winners included South Africa's Minister of Finance, Mr Trevor Manuel; Governor of the Central Bank of Nigeria, Prof. Chukwuma Soludo; Managing Director of the Oceanic Bank; United Bank of Africa (UBA) Plc; Ecobank

Transnational Plc, Dr Cecilia Ibru and President of the BMCE Bank, Morocco, Mr Othman Benjelloun. The second award for the Governor was the **Africa Leadership Award** by *African Times*, a bi-weekly news and opinion Journal in the USA that is devoted to, among other issues, edifying and contributing to the Africa dialogue with the American and international communities.

Governor Mohohlo is a recipient of other awards, among them: The Banker Magazine's **Central Bank Governor of the Year (2001) for Africa and the Middle East**, Euromoney's Emerging Markets **Central Bank Governor of the Year (2003) for Sub-Saharan Africa**,

Presidential Order of Honour (2004) - Botswana's highest public service award.

In her 2007 Christmas Message, the Governor said that she had received the awards on behalf of the Bank of Botswana, hence it was important that the staff should share in the accolades accompanying the awards. In particular, the Governor commended the Banking Supervision Department for the excellent performance which made the award of the **Banking Regulator of the Year** possible.

The staff of the Bank are equally proud of the Governor.



Bank of Botswana Awards 2007

The Governor, Mrs Mohohlo handing over the "Banker of the Year Award" to Mr Lesego Caster Moseki



Ms Nozipho Mabe and Ms Keneilwe Kgaile displaying their 30 Years of Service Certificates



Banker of the Year Award

This award is given to a staff member who has been selected to represent the Bank in the annual Botswana Institute of Bankers competition

Winner:
Lesego C. Moseki

Most Promising Banker of the Year

The award is similar to the Banker of the Year Award, except that, whereas the former is open to all staff members, this one is confined to non-managerial staff

Winner:
Mr Mphoeng Mphoeng

Inter-department HIV/AIDS

Knock-Out Quiz Winners

Francistown Branch:

Mr Moitshepi Mojalemotho
Mr Bheki Mochumali
Mr Ofentse Gaoswediwe

Head Office

Bokhana Motshewa
Gonaya Raroki
Mohumi Ramatu

Group Performance Awards

Requirements

Nominations for Group Awards are extended to two categories of teams/groups.

Department Specific

Work teams which performed their duties consistently and exceptionally well during the year.

Bank Wide Groups

A Task Force or Committee, which successfully completed a project/activity for the Bank in a given year

Winner:
HIV/AIDS and Peer Educators Committees

Long Service Awards

30 Years of Service (continuous) (1977 – 2007)

1. Ms Nozipho Mabe
2. Ms Keneilwe Kgaile

25 Years of Service (continuous) (1982 – 2007)

1. Ms Tsholofelo Motshidisi
2. Ms Nonofa Jarabani
3. Ms Morwesi Mosedame
4. Ms Ruth Mholo
5. Ms Sethunya Seeletso
6. Ms Patience Nyadza
7. Ms Gabanyalwe Kgakane

20 Years of Service (continuous) (1987 – 2007)

1. Mr Jowitt Asele
2. Dr Lesedi Senatla
3. Mr Joseph Selwe
4. Mr George Mogomotsi
5. Mr Martin Moatlhodi
6. Mr Mosimanegape Morapedi
7. Mr Kebonyekgotla Wantwa
8. Mr Montshwari Gaoalafe
9. Ms Oakantse Modisa
10. Ms Kokwana Ralekgobo
11. Ms Edith Teseletso
12. Mr Maitapoloso Rabangwe



The Governor's Staff Address at the *Christmas Party 2007*



The Bank of Botswana Choir entertaining staff at the Christmas Party

The general thrust of monetary policy was supported by regular absorption of excess liquidity that arose mainly from the higher level of external reserves and government spending.

There were also notable improvements in data quality and timeliness, in compliance with the IMF's General Data Dissemination Standards (GDDS). Furthermore, the inclusion of the Francistown area in the biennial business expectations survey, the publication of two measures of core inflation, and the continued refinements of the inflation forecasting model supported the Bank's capacity for proactive monetary policy action. In the same vein, the regular announcements of the decisions of the Monetary Policy Committee is expected to further anchor inflationary expectations.

So far as the Bank's publications are concerned, we lived up to expectations by publishing, in a timely manner, the 2006 Annual Report. As usual, this was followed, by economic briefings to a variety of stakeholders. The Bank also published the 2007 Monetary Policy Statement and its mid-term review, as well as the 2006 Annual Banking Supervision Report. The monthly Botswana Financial Statistics Bulletin continued to be posted on the Bank's website.

In this area of publications, we remain challenged by the need to improve on quality control so that we can eliminate errors, and indeed we are moving in the right direction. We must also undertake more research beyond that associated with the Annual Report theme topics, as this is one way that we can put together and publish the Research Bulletin and other research material regularly.

On the **Banking and Payments System's** front, the Bank undertook initiatives towards improving on its function of issuer of the national currency.

As you are aware, a secure and efficient payments and settlement system is indispensable for the stability of the financial sector; and the efficiency of the banking system and its ability to promote economic activity, depends on the reliability, safety and speed with which all transactions are processed. To this end,

On behalf of the Board and the Senior Management of the Bank, it is a pleasure to welcome each and every one of you to the 2007 Christmas party. I want to believe we all look forward to this event every year, because of the opportunity it gives us to interact and socialise in a relaxed and informal setting. It is important that, from time to time, we should get together to renew our collegial bond and re-affirm our common goal of advancing the Bank's interests.

Let me recognise the very welcome presence of the Bank's former Board member and now Minister of Trade and Industry Hon Moroka, members of the Bank's Board of Directors, who are with us this evening, and thank them for their untiring wise counsel and guidance. I also wish to welcome those of our staff who joined the Bank during the course of the year, and congratulate them for joining one of this country's finest institutions. You should know by now that the Bank is a professionally intensive institution which requires high standards of performance and work ethics; and that any slippages can result in costly mistakes. I, therefore, request that you settle down quickly so that you can effectively contribute to the demanding and disciplined work of the Bank.

As outlined in the programme, we have, as usual, taken advantage of this occasion to accomplish several objectives. We will briefly assess how we managed to deliver on the Bank's mandate in the year that is

about to end, so that we are in a position to acknowledge successes and identify the challenges; we will also award prizes to those who distinguished themselves in some activity, within and without the Bank. After which I hope we can unwind and enjoy each other's company.

The awards demonstrate the importance the Bank attaches to dedication to duty, institutional loyalty, efficiency and versatility of staff in non-work related activities. You will agree that these exemplary staff qualities enhance the Bank's corporate image of competence, efficiency and responsible corporate citizenship. Taken together, they contribute to the effectiveness of the Bank in discharging its mandate.

Let me now remind you of some of the activities of the year that is about to end.

In no particular order, I begin with the **Bank's Monetary Policy and Research** activities. With the guidance of the Monetary Policy Committee, the Bank maintained a tight grip on inflation during the year as it threatened to remain stubbornly above the Bank's desired objective of 4 – 7 percent. You will recall that some of the major causes of inflation were supply shocks associated with high oil prices, high growth rate of commercial bank credit and cost increases in respect of some utilities. The medium-term outlook for inflation is that it should be within the medium-term range of 3 – 6 percent by the end of 2008.



the time lag for clearing and processing of transactions has been reduced with the introduction of the Real Time Gross Settlement (RTGS) system and electronic funds transfer for government funds, while international transactions are now faster, following the interface between the RTGS and SWIFT systems.

There have also been improvements in the **Bank's activities in Banking Supervision, Reserves Management and the wider Financial Market.**

The Bank's regular assessment of banks, through on-site examinations and off-site monitoring, has provided some comfort about the well-being of the banking sector. It has been encouraging to witness a discernible improvement in banking infrastructure, products and range of services during the course of 2007, and this has contributed to an increase in access to banking services by those who had hitherto been excluded. Equally encouraging is the fact that the banking sector is soundly managed, under the watchful eye of the Bank.

It is noteworthy that the Government has now established the Non-Bank Financial Institutions Regulatory Authority, and this should provide the authorities with authentic information on the functioning of the financial sector entities which do not fall under the regulatory and supervisory purview of the Bank. Overall, the financial sector as a whole is expected to perform in a more stable and sound manner.

This and other related developments demand that we adapt in a manner that will enable us to respond effectively to the changing dynamics of the country's financial sector.

With respect to the country's **foreign exchange reserves**, the effect of a healthy balance of payments situation has meant that the reserves increased by the equivalent of eight months of import cover of goods and services, to 38 months in the nine months to September 2007. Some reserves management efficiency measures were undertaken during the year, particularly in the clearing and settlement areas, correspondent banking relationships, real time portfolio valuation and performance attribution.

I hasten to add that the Bank's contribution to the financial and economic developments of the country, combined with the Government's renowned tradition of prudent management of the economy, have, for the seventh consecutive year, resulted in a reaffirmation of the country's "A" ratings by both sovereign credit rating agencies, Moody's Investors Service and Standard & Poor's. We have a responsibility to work hard and increase output, individually and as a nation, if we are to maintain and improve the ratings.

The efficient delivery of the core functions of the Bank that I have just highlighted, would not have been possible without the well functioning corporate services part of the Bank with respect to **human resources management and administration.**

Staff welfare continues to be taken seriously, not only for reasons of efficiency and productivity, but also for reasons of corporate citizenry and humanitarian obligations. My observation is that our state of health is generally good due, in part, to the effective delivery of primary health care to staff. The Bank's Clinic has continued to be the lynchpin of our internal and national HIV/AIDS activities, and I hope more of us can take part in all the anti-HIV/AIDS initiatives so that we are



The Governor joined the BoB Choir to entertain staff



Staff members enjoying themselves during the Christmas Party



Staff members enjoying themselves during the Christmas Party





able to keep up with developments and, in the end, lead more healthy lives.

There are a number of critical areas of the Bank where consistent good performance is the order of the day and this tends to take place behind the scenes. These include the **financial management, internal audit, Board secretariat and information technology**.

The commendable efforts of accounting, planning and internal audit have again secured the Bank a clean bill of health so far as the external auditors are concerned, and the Control Risk Self-Assessment programme has continued to serve the Bank well.

Another milestone achieved during the year is that we have adopted a Medium-Term Strategic Plan spanning a three-year period (2008 – 10), and this should serve as a guide in putting together work programmes and the budgeting process. This approach to the Bank's operational procedures and activities should promote internal consistency as we identify work synergies. The end result has to be greater efficiency in resource allocation, effective programme implementation and a coherent planning process.

As usual, the **Board Secretariat** has ensured that the senior structures of the Bank, the Executive Committee and the Board in particular, enjoy good quality service, as necessary. We are also making some appreciable progress on archiving the Bank's historical material.

The Bank's **public education** activities have made in-roads during the year; so has the public relations outfit; the result of which has been the Bank's conspicuous participation in several career fairs and trade exhibitions countrywide.

As for the **Technical Services Department**, we can all testify that it has been an unusually busy year, given the number of projects undertaken during the course of 2007. So far so good – but I can assure you that there will be more work going forward.

There are other very essential services without which many of us would be rendered dysfunctional; the **Secretarial, Security and the Support Services** provided by the Technical Services Department are good cases in point. I thank the staff for always being there for us, in more ways than one.

The Central Bank Union and other structures in its league deserve constant encouragement to play their advisory role constructively, given the benefits that can flow to all interested parties.

As the year comes to a close, all of us should be able to evaluate our contribution to the development of the Bank in the last twelve months. Indeed we are just about to finish reviewing individual performance records for 2007 as reflected in our performance appraisals.

As we discuss the results of the appraisal exercise, it is important that we do so unemotionally and professionally. We should avoid confrontation because that is counterproductive. It can serve only to undermine the good intentions of the appraisal system, as well as the relevant statutes, bye-laws and general conditions of service.

Furthermore, as we engage in introspection on our individual and collective performance levels, we need to encourage those who are not keeping the right side of the bargain in delivering on the Bank's responsibilities, to turn a new leaf and raise their performance levels to the required standard. We must also create an enabling environment for this to happen.

That said, I must express my admiration for, and pay homage to, all those who excelled in one way or another during the year. We owe them a debt of gratitude because they make us look good.

As I come to the end of my message, I hope that what I have outlined is broadly representative of the Bank's 2007 activities. Any of our failures (perceived or real) should be viewed as challenges on which to refocus our attention in the coming year.

So far as the future is concerned, much remains to be done and the work programmes for next year have set targets. I have no doubt that we will aim at outperforming our collective and individual benchmarks in the coming year. What we have accomplished together should inspire our confidence that we can do more. Hence, I call on each one of you to implement your work programmes with determination and commitment, in the best interests of Botswana, whom we serve through our institution. We should never rest on our laurels; for to rest is to rust.

Let me also point out that we cannot attain our aspirations and effectively deliver on our mandate unless we build on a strong sense of team spirit, have respect for one another and generally observe "botho" in our relations with each other. I urge you to openly and constructively discuss disagreements, so there can be amicable solutions.

With all the challenges, the Bank remains solid, and I wish to conclude by thanking the Board, members of the Executive Committee, and indeed all the staff of the Bank, for their partnership that, in general, resulted in a higher level of performance for the Bank in 2007.

Please accept my best wishes for a Merry Christmas and a prosperous New Year. The sentiment goes for all your loved ones. Enjoy the party, have fun and take care.

I thank you for your attention.