In On The Ground Floor

Jacqueline Irving interviews

Linah Mohohlo, Botswana's award-winning central banker

IT TAKES a certain steely quality to rise to the top of an organization when starting at the very bottom. But when that organization is a bureaucracy, it also takes tact and quiet determination, together with intellectual and managerial flair. Linah Mohohlo is head of the central bank of one of Africa's most successful economies—the diamond-rich country of Botswana. And now that she is at the top, she is not afraid to speak her mind, having become a strong supporter of transparency in government and discipline in economic policy.

Born in a small rural community, Mohohlo has risen partly through grit and determination. Appointed Governor of the Bank of Botswana in 1999, she says that after a career in the institution she had to learn that "the buck stops with me."

"I no longer make recommendations; they are forwarded to me and I have to make the final decisions without hesitation. I cannot afford to procrastinate because decisions made in central banking have to be definitive since they affect the entire nation—the rich, the not-so-rich, and the poor," says Mohohlo, who rose through the ranks after joining the Bank at its inception in 1976.

By all accounts, it is a lesson she has learned well. Twice chosen as Central Bank Governor of the Year for her region—by *The Banker* in 2002 and then by *Euromoney* in 2003—Mohohlo's achievements at the helm of central banking in Africa's best-performing economy over the past two decades would seem impressive enough by any gauge. But Mohohlo also has an active role in the private sector, sitting on the boards of several major companies in Botswana and abroad. Most recently, she has wielded influence beyond her country's borders through her appointment to the Commission for Africa—set up earlier this year by British Prime Minister Tony Blair to push for action in the international community on issues such as development aid, fair trade, and debt relief.

Mohohlo has already impressed colleagues. K.Y. Amoako, Executive Secretary for the UN Economic Commission for Africa who currently works with Mohohlo to cover the governance theme on Blair's Commission, describes her as "very impressive, thoughtful, and dynamic." This sentiment is echoed by Lee Thomas, Managing Director of Allianz Global Investors, who refers to her as a "strikingly good central bank governor and a delightful person as well."

Looking back at the milestones in her career with obvious nostalgia, Mohohlo recalls that she has worked in almost all of the Bank's key departments. Thirteen years into her career, as Botswana's foreign exchange reserves started to increase significantly in the 1980s, she was asked to set up and run the Financial Markets Department, responsible for managing foreign exchange reserves and implementing monetary policy through open market operations.

During the mid-1990s, Mohohlo acquired still broader experience at the IMF in Washington. She spent some time working in the IMF's African Department and what is now the Monetary and Financial Systems Department. She credits this experience for the insight she gained into the workings of various economies worldwide and the associated challenges revealed during many discussions with officials from countries she visited.

Shortly after her return to the Bank of Botswana in 1997, Mohohlo was appointed Deputy Governor. "I must admit, I never thought that I would be appointed the Governor of the Bank of Botswana—not even when I was appointed Deputy Governor," says Mohohlo, recalling that, until her

appointment as Governor, the tradition in the central bank had always been to appoint someone from outside to bring in new ideas. “When I was appointed Governor," she admits, modestly, "I was pleasantly surprised—first, that I had come from within and, secondly, that I had actually risen from the lowest ranks in central banking.”

Steps toward inflation targeting

One of Mohohlo’s main tasks is to keep inflation under control. Over the past several years, the Bank of Botswana has been steering toward a more transparent monetary policy. Since 1998, the Bank has been disseminating a monetary policy statement, most recently on a semi-annual basis. By keeping the public regularly informed about the future direction of monetary policy, this sort of public announcement is intended to boost policy credibility. Since 2000, the Bank has been setting an explicit target range for inflation, based on the average inflation rate of Botswana’s main trading partners. This target range was set at 4–6 percent over a 12-month horizon and remained unchanged until early this year, when the Bank increased the upper limit to 7 percent, to allow for some price-raising effects following a 7.5 percent devaluation in February of Botswana’s currency, the pula, against its trade-weighted currency basket. The currency basket comprises the South African rand and the Special Drawing Right (SDR), with the former being weighted more heavily.

Mohohlo stressed at the time that the widening of the range should not be seen as a loosening of monetary policy but rather a tightening, given the upward pressure on prices arising from the pula’s devaluation. According to Mohohlo, left unchecked by the Bank, the devaluation’s impact on import prices could have added 4 percentage points to inflation, in contrast to the 1 percentage point increase allowed for in the new target band. “It will be necessary, as a result, to accept some of the direct rise in inflation from higher imports costs, while focusing on preventing these costs from spilling into underlying inflation and inflation expectations,” she explained in February in her *2004 Monetary Policy Statement*, describing the widening of the target range as a short-term tactical measure. Attempting to counter the “full inflationary fallout” from the devaluation over too short a period would have been both too costly and unrealistic in terms of the effects on output and employment, while allowing the full inflationary fallout to occur would have eroded the gains in external competitiveness that the devaluation was intended to achieve, she warned.

Boosting competitiveness

Will the devaluation earlier this year bring the hoped-for sustained boost to export competitiveness? Shortly after the government devalued the pula, Mohohlo remarked that the most sustainable way to achieve and maintain a competitive real exchange rate is through low and stable inflation. She emphasizes that it is not just the exchange rate that is being used to boost competitiveness; Botswana is also using other policies to help diversify the economy away from reliance on the dominant mining sector. "It is important not to lose sight of the fact that real and durable competitiveness and diversification must ultimately come from improvements in productivity," she maintains, linking the Bank's focus on low inflation to the aim of export-led growth and economic diversification.

Botswana remains heavily dependent on its diamond sector, which accounts for about one-third of GDP, nearly three-quarters of export revenues, and a sizable share of government revenue. Diamond revenue has stabilized in recent years, however, while government spending demands are likely to increase significantly, especially in the face of the country's high HIV/AIDS infection rates. (Botswana has among the world's highest infection rates, estimated at nearly 40 percent of the adult population.) "We certainly do not believe that diamonds are forever," Mohohlo readily concedes, adding that the plateauing of the diamond sector comes as no surprise and had been forecast for some time.

Botswana's national diversification strategy emphasizes adding value to exports of raw materials while also developing much needed infrastructure. The country's telecommunications infrastructure is being upgraded as part of a sectoral restructuring program that could address one of the main impediments cited by foreign investors to doing business in the country. Development of the financial services sector has also been targeted as an area of emphasis in diversifying the economy, although Mohohlo acknowledges that considerable competition is posed by the more developed financial sectors of other economies in the subregion, such as South Africa, in particular, and also Mauritius.

Although the success of Botswana's economy in recent decades has been attributed partly to the strength of its public finances, there are now increasing demands for fiscal spending, and the public finances are expected to come under increasing pressure in the future. Aside from weaker revenues from the minerals sector and the costs associated with the country's high HIV/AIDS infection rate, government spending on education and general public services has been rising rapidly. Total government spending reached a record 46 percent of GDP in 2002–03, largely reflecting these spending pressures. "We have to continue to attract foreign direct investment to help generate more fiscal revenue sources," Mohohlo says. As part of the aim to broaden the tax base, steps are being taken to strengthen tax administration, including by increasing the efficiency of personal and corporate income tax collection. Other measures mentioned by Mohohlo include a value-added tax, introduced two years ago with a broader base than the sales tax it replaced.

The fiscal challenges that Botswana now faces have not yet affected monetary policy, according to Mohohlo. "We have been fortunate in Botswana to have had the resources to fall back on. And when we have requested the international community's assistance, we have done so from a position of strength," she explains, referring to the economy's track record of fiscal surpluses nearly every year for the last two decades and the accumulation of a comfortable level of foreign exchange reserves. Rather than accommodate fiscal policy, she underscores, "we have to continue to keep a tight purse at the central bank so that fiscal pressures don't produce inflation, which would erode competitiveness and economic growth."

Botswana: a nation of contrasts

- Botswana is a small, sparsely populated, landlocked country sandwiched between South Africa and Zimbabwe in southern Africa.
- In the past three decades, Botswana had the highest rate of GDP per capita growth worldwide, hovering close to 5.5 percent in recent years. Inflation has come down sharply from about 11 percent in 2002 to 6.4 percent in 2003, but the unemployment rate remains high at close to 20 percent.
- Life expectancy is only 39 years and, with nearly 40 percent of the adult population infected with HIV/AIDS, the epidemic threatens to undo past economic gains.
- Diamond production currently accounts for 40 percent of Botswana's output and 70 percent of export earnings, although the sector is reaching a production plateau.
- Botswana has an investment-grade sovereign credit rating—the highest in Africa.
- Together with neighboring countries Namibia, Lesotho, Swaziland, and South Africa, Botswana is a member of the long-standing Southern African Customs Union (SACU), within which goods trade freely. Botswana and its SACU partners are also members of a larger regional organization, the 14-member Southern African and Development Community (SADC).

Sources: Bank of Botswana; World Bank, *World Development Indicators, 2003*; IMF, 2004 Article IV Consultation with Botswana; UNAIDS.

Putting Botswana on the map

Mohohlo attributes success in her career to determination and perseverance, qualities that helped her win acceptance for the idea of getting a sovereign credit rating from international credit ratings agencies Moody's Investors Service and Standard & Poor's. Botswana received an investment-grade sovereign credit rating in 2001—the highest such rating in

Africa and higher than that of many industrial economies. "The initiative to invite the ratings agencies in and seek a sovereign credit rating came from the Bank of Botswana and so we were very excited by the outcome," Mohohlo recalls, noting that Botswana's rating has remained unchanged since 2001.

One factor contributing to Botswana's high sovereign credit rating is its high marks for governance and the quality of its public institutions—the highest marks in Africa. Transparency International ranked Botswana as the 30th least corrupt country out of 133 countries worldwide in 2003.

At this point, only a handful of African countries have sought sovereign credit ratings, and some economists believe that seeking one at this stage of economic development is misplaced energy. But, in explaining enthusiastically to *F&D* how the ratings agencies consult a broad spectrum of people as part of the process, including from government, civil society, and members of the opposition parties, it is apparent that Mohohlo herself places high value on openness and transparency. "Once invited in, a ratings agency cannot be stopped from obtaining any economic, political, and social data and information that they wish to review as part of the process," she argues.

"The main point of this exercise was to put more of Botswana on the map, where we did not exist before," says Mohohlo, since Moody's and Standard & Poor's publish their ratings on the Internet, including on Reuters' and the ratings agencies' own websites. "And, because a rating requires that we provide information regularly to keep the agencies updated about what is happening in Botswana, it instills discipline on the national authorities to continue to do the good things for which Botswana is renowned and to begin to pay attention to certain issues," she continues, pointing out that there is a strong incentive not to "rock the boat" in a way that could lead to a ratings downgrade. But Mohohlo recognizes that Botswana's economy faces challenges that are too critical to be postponed: "These include unemployment rates that are very high by any standard and the HIV/AIDS epidemic, which requires that the government put more of its resources into public health services and assist the populace in accessing adequate health care, including antiretroviral drugs, now provided free of charge."

Mohohlo maintains that Botswana does not plan to tap international capital markets any time soon. "Borrowing was not the intention in the first place in securing a sovereign credit rating because there is no balance of payments need to access the international capital markets," she explains, noting that "even if you borrow money at a time when you don't need to use it, you have to be able to invest it such that the returns either equal what you pay out to those lending you money in the first place, or exceed it by a margin."

Instead, says Mohohlo, the government decided to borrow from the domestic market last year, with one objective: to develop domestic capital markets. In 2003, the government floated 2-, 5-, and 12-year bonds, all of which were oversubscribed. This broadened the selection of available investment instruments and, by lengthening the maturity profile of government debt issues, was intended to set a benchmark for future corporate bond issues and help develop corporate bond markets—thereby expanding the sources of now scarce medium- to long-term credit available to companies.

Building a thriving private sector

Other priorities associated with developing the financial sector and building a thriving private sector include the need to fill the credit gap faced by small- to medium-sized enterprises and to help cultivate microenterprises. Among her many hats, Mohohlo served during the late 1990s as a member of the Ministerial Task Force for the Development of a National Policy on Small-, Medium-, and Micro-Enterprises (SMMEs), helping to spearhead economic policy to better organize and further develop profitable SMMEs. "A policy to cultivate SMMEs can help to create jobs for the economy," she says, "including by better organizing existing enterprises since a lot of people, especially women, who have small yet profitable businesses and don't go to someone's office every morning consider themselves unemployed."

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While Mohohlo acknowledges that women in Botswana may still encounter gender-related obstacles in business, government, and other arenas, she notes that there has been some recent progress toward equal rights. For example, a discriminatory law that has required a married woman to seek her husband's permission in order to take out a bank loan against her own collateral is in the process of being revised. At the same time, she stresses that more women need to be empowered through appointments to senior positions in both the public and private sectors for which they qualify and in which they excel—precluding the need for affirmative action. In her matter-of-fact, confident manner, Mohohlo shares her logic for excelling at her work and balancing the various aspects of her life, which have included raising two children, now young adults: "I don't think anyone who wants to succeed—male or female—should concentrate on hurdles because you will find them if you are looking for them, and I have been just too busy to spend time looking for obstacles." ■

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