

**THE PAYMENT SYSTEM
IN BOTSWANA**

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OVERVIEW OF THE NATIONAL PAYMENT SYSTEM IN BOTSWANA

Most of the population is served by cash as part of the formal payment system. A small percentage of the population, mainly on farms and cattle posts and in the informal sector, is served by non-cash payment services such as cheques. Cash (notes and coin) is the most widely used instrument of payment for most goods and services.

The payment system in the rural areas is mainly characterised by the use of notes and coin. Rudiments of the bartering system are still evident in the most remote of the rural areas. There is also still noticeable “in kind” modes of payments, in the form of agricultural produce and the like. In general terms, the commercial banks branch network is virtually non-existent in most of the rural areas, much less the most remote ones, as determined by the cost effectiveness of such a presence. That notwithstanding, in some cases the network outlets of some of the banks offer banking services to a reasonable size of the population.

In rural areas cheque payments are sometimes made, but people still have to travel to urban areas or major villages in order to encash their cheques. In some cases, shopkeepers or local business people may encash cheques for customers, but the fee paid for this service is usually higher than that in the formal banking sector.

In the urban areas, including most cities, towns and some major villages, the payment system is more sophisticated in that the use of cash, cheques, ATMs and the electronic payment system at point of sale, are prevalent. Indeed, more than half of the country’s population lives on the eastern flank, a well banked strip, stretching from Francistown in the north to Lobatse in the south.

1. INSTITUTIONAL ASPECTS

1.1 General legal aspects

The Roman Dutch Law is the common law in Botswana. In 1885, Botswana, then Bechuanaland, sought the protection of the British government. At the time, the Cape Colony was under British rule, with the latter’s High Commissioner resident at the Cape of Good Hope. In granting Bechuanaland protection, Britain decided, by an Order-in-Council in 1885, that the territory would be governed by the High Commissioner from the Cape. A proclamation passed by the British High Commissioner in the Cape of Good Hope, decreed that for administrative convenience, the civil law applicable in the Cape Colony would be applied to the Bechuanaland Protectorate. From that point, Botswana has always followed the civil law applicable in South Africa. The common law that was applicable at the Cape Colony then, was, and still is, the Roman Dutch law. Hence, the civil law (which includes commercial law) in Botswana is the Roman Dutch law. It should be recognised that the Roman Dutch law applicable in South Africa has undergone extensive change due to the influence of English common law. Therefore, commercial law in Botswana is reliant on South African law. In this regard, where there is conflict between the South African law and the English law, the courts in Botswana have tended to rely on the South African authorities as opposed to the English authorities. Recourse is made to English law where South African law is silent on an issue.

1.2 Financial intermediaries that provide payment services

The Botswana financial system includes a number of different types of intermediaries or institutions, such as commercial banks, other deposit-taking institutions, insurance companies, investment dealers, development finance institutions, and so forth as listed in Appendix 1. Non-deposit-taking financial institutions are, however, users of the payment services that are provided by deposit-taking institutions, rather than providers of payment services themselves. Accordingly, it is

deposit-taking institutions (i.e. those financial institutions that typically accept deposits transferable by order to a third party) that are the most important financial institutions in the context of the payments system in Botswana.

Deposit-taking institutions in Botswana comprise commercial banks, cooperative credit institutions, a building society and governmental savings institutions. Each type of deposit-taking institution is described separately below.

1.2.1 Commercial banks

Commercial banks accept demand and time deposits, make commercial bank loans, and provide other banking services, including payment services, to the public. Assets of commercial banks as at 31st December 1996, amounted to approximately Pula 4,586.5 million. At the end of 30th September 1997, there were four commercial banks in Botswana. Between them, the four banks had 51 branches and 28 sub-branches, agencies and encashment points. Other contact points of banks included 76 ATMs and 782 point of sale/speed points, installed in cities, towns and some major villages. The banks also have plans to install at least 16 more ATMs in the very near future. (See Appendix 2.)

Commercial banks are licenced under the Banking Act: 1995 and are supervised and regulated by the Bank of Botswana. The banks are subject to reserve requirements, established by the Bank of Botswana. The banks also hold settlement accounts with the Bank of Botswana.

In addition to holding a portfolio of securities, banks make loans under a variety of conditions, for agricultural, commercial, consumer, and industrial purposes. Banks also deal in foreign exchange, provide safekeeping facilities, and perform various other services. In the case of the largest banks, these operations are, for the most part, carried out through their network of branches. The head offices of the banks typically confine their activities to general administration, policy functions, the management of investment portfolios, administration of high value loans to corporate customers and similar matters.

1.2.2 Other financial and non-financial institutions

Worthy of special mention here are the following financial and non-financial institutions, who although not parties to the clearing arrangements, provide some form of payment services.

The Post Office. The Botswana Postal Services has a network of some 112 Post Offices/Postal Agencies. They provide a range of payment instruments as well as agency services for the Botswana Savings Bank. Deposit and withdrawal transactions from the Botswana Savings Bank agency services are reported to be of significant magnitude, both in terms of volume and value. Post Offices are also used by the Accountant General's office for old age pension payments, as well as for the collection of revenue relating to motor vehicle, road transport and driver's licence fees.

Agency services are also provided for both the Botswana Housing Corporation and the Botswana Power Corporation, albeit currently on a small scale. In this regard, customers of the two corporations, in some villages, make payment of their rentals and/or electricity bills through Post Office counters. The Post Office in turn issues them with receipts on behalf of the corporations and subsequently pays such revenue over to the respective corporations.

Credit card companies. So far only one bank issues credit cards in Botswana. The card issued is affiliated to a major credit card institution abroad and is for use both locally and internationally. As there are no laws nor regulations relating to the issuing of credit cards in Botswana, issuance is subject to an agreement between the issuing bank and the cardholder/person to whom the card is issued. It is perhaps appropriate to make the point that these agreements are in compliance with appropriate legislation of the country in which the parent bank of the issuing bank in

Botswana is located. Thus, in this case, issuance is in accordance with the provisions of the Credit Agreement Act of the Republic of South Africa.

1.2.3 Other institutions/intermediaries offering payment services

The one known institution offering payment services is the Western Union Transmittal Services, which operates electronic funds transfers.

1.3 Role of the central bank

1.3.1 Establishment of the Central Bank

The Bank of Botswana came into existence on 1st July 1975, under the provisions of the Bank of Botswana Act of 1975, which provided for its establishment, constitution, objectives and powers to regulate the issue of Bank notes and coin. It also provided for the Bank to handle certain matters connected with banking, currency and coinage, for matters connected therewith and incidental thereto. The Bank of Botswana is a body corporate with perpetual succession and a common seal, capable of suing and being sued in its corporate name and which, subject to the provisions of the Bank of Botswana Act, may do all things necessary for, or conducive to, the proper carrying out of its objectives and the performance of its functions as a central bank.

See Appendix 3 for the principal objectives of the Bank of Botswana.

1.3.2 Role of the central bank in the payment system

The role played by the Bank of Botswana in the payment system is central but operationally relatively limited. The Bank of Botswana does not accept deposits from individuals or non-financial business corporations or compete with institutions in the lending field. The Bank of Botswana does, however, interact in the payment system in at least two different ways viz:

- it facilitates and effects the final settlement of balances for the national clearing and settlement system; and
- it acts as banker to Government, which is the largest payer in the country.

See Appendix 4 for overall functions of the Bank of Botswana.

1.3.3 Banking services provided by the central bank

The Bank of Botswana provides the following banking services to the Government and commercial banks as well as the Botswana Savings Bank:

- the Bank of Botswana is the official depository of Government funds. That notwithstanding, the Government maintains small disbursement accounts with some commercial banks where the Bank of Botswana is not represented and generally uses their services in such cases and on such terms and conditions as may be agreed between the Minister of Finance and Development Planning and the Bank of Botswana;
- the Bank of Botswana receives from Government, and disburses on its behalf, Government moneys and keeps account thereof without remuneration for such services. No interest is paid by the Bank of Botswana on Government balances held, unless the Bank and the Government otherwise agree;
- the Bank of Botswana may act as banker and fiscal agent to statutory and wholly-owned Government corporations or Government controlled corporations and to local authorities

on such terms and conditions as may be agreed between the parties concerned, with the approval of the Minister of Finance and Development Planning.

The Bank of Botswana may open accounts for, and accept deposits from domestic financial institutions and other domestic statutory persons under such terms and conditions as the Board may from time to time determine. It may also open accounts for, and accept deposits from:

- foreign financial institutions, foreign governments, international and regional organisations; and
- other persons authorised to tender for auctions of the Bank of Botswana, Government or other public securities.

See Appendix 5 for types of accounts held by the Bank of Botswana.

1.3.4 Money markets

Botswana has a money market which has developed considerably over the past number of years. The main instrument used in the money market are Bank of Botswana Certificates (BoBCs), to mop up excess liquidity. This is the principal instrument through which interest rate policy is implemented. BoBCs are auctioned to “primary counterparties”, who are so designated by the Bank of Botswana, in view of their potential to influence liquidity in the economy.

Participation at BoBC auctions is not confined to banks. In addition to the four commercial banks, there are other counterparties entitled to bid directly for the BoBCs as listed at Appendix 6 hereof, who also are players in the secondary market.

Other investors interested in bidding for BoBCs do so indirectly through the primary counterparties; thus, members of the public would, for example, use their respective bankers. Primary counterparties each have two types of accounts in respect of BoBCs holdings. The one type is in respect of their own holdings and the other is in respect of holdings on behalf of their customers, where applicable.

There is also trade between the commercial banks who trade in the domestic money market on short term or on an overnight basis and settlements take place via their respective current accounts at Bank of Botswana.

1.3.5 Correspondent banking arrangements

The Bank of Botswana also has correspondent banking arrangements with the World Bank and other central banks. Foreign commercial banks use local banks for their correspondent banking activities.

1.3.6 Payment services for the government

The Bank of Botswana provides the under listed payment services for the Government:

- Administration of accounts for the Accountant General;
- Public Debt Management operations to finance deficit before borrowing and debt repayment by Ministry of Finance and Development Planning.

The Bank of Botswana processes retail payments for Government. In this regard there is the encashment of salaries and wages cheques of some Government employees. Accountant General’s paymasters, based at various Government Departments, also draw cash from Bank of Botswana for the payment of the majority of daily rated employees’ wages.

1.3.7 Banking supervision

The Banking Act 1996 forms the legal basis for banking supervision. The purpose of the Act is to safeguard the viability of the banking industry, by providing protection for depositors. The Act seeks to achieve this objective while respecting free market principles.

Banking supervision in Botswana is carried out by the Bank of Botswana which enforces the recommendations of the Basle Committee on Banking Supervision. This function is carried out through its Financial Institutions Department, whose major responsibility is the autonomous administration of the Banking Act. Pursuant thereto, the Bank of Botswana seeks to ensure that banks are in a sound financial condition and that they observe the requirements of the banking legislation. In this regard, the Bank of Botswana supervises commercial banks, credit institutions (finance/lease) and development finance institutions, as specified under the relevant legislation.

Banking supervision aims to reduce systemic risk in the banking system by promoting sound risk management within banks. Since banks perform a core function as the backbone of the payment system, there is a close relationship between the payment system and banking supervision. Bearing in mind the advent of technology and globalisation of the banking systems, examination of banks focuses on operational risk and adoption of key prudential standards

1.4 Banking associations/groupings

1.4.1 Interbank structures - committees

Currently there are four commercial banks in Botswana and interaction amongst themselves and with the Bank of Botswana is possible without a multiplicity of formal interbank structures. That notwithstanding, there are a few formal structures in place worth mentioning, viz;

Clearing House Committee. Currently membership of the Clearing House Committee comprises the Bank of Botswana and the four clearing commercial banks. Membership would be open to any other bank that gets licenced henceforth. This committee manages the business of the Clearing House.

Technical Committee. Membership of this committee is the same as above. The Technical Committee addresses issues of a technical nature, which include policy rules, formulation of regulations, other legal issues, etc.

Banking Committee. The Banking Committee was established as a consultative forum, with all institutions licensed and/or supervised by the Bank of Botswana, on industry wide matters. Its agenda often includes items such as policy developments in the financial or monetary sector, interest rates, exchange rate policies, exchange controls, money market operations, quality and cost of banking services, clearing and settlement issues, frauds, security and crime, etc. as they impact the banking sector. The Committee has no formal executive powers and meets in March and in October each year, under the chairmanship of the Governor.

1.4.2 Interbank structures - other arrangements

The commercial banks occasionally meet bilaterally, with no Bank of Botswana involvement, to address issues of common interest. Such meetings are on an as and when necessary basis.

The Bank of Botswana and the banks meet regularly under the auspices of:

Tier I bilateral meetings with banks. These meetings are convened to address policy issues relating to the banking industry and are chaired by the Governor.

Tier II meetings. These meetings focus on operational issues relating to the banking industry and are chaired by the Director responsible for Banking Supervision.

Trilateral meetings. These meetings are held once a year with each bank and its auditors, to discuss matters arising from statutory audits of that bank, including relevant aspects of the bank's business, accounting and internal control systems, annual balance sheet and profit and loss accounts. These meetings are chaired by the Director responsible for Banking Supervision.

2. SUMMARY INFORMATION ON PAYMENT MEDIA USED BY NON-BANKS

2.1 Cash payments

2.1.1 Background

Currency notes and coin. Effective 23rd August 1976, the Pula was established as the monetary unit of Botswana. The Pula is divided into one hundred Thebe and the symbols for the monetary unit are "P" and "t" respectively. The Bank of Botswana has the sole right to procure services for the printing of notes and the minting of coins denominated in Pula and Thebe and to issue them into circulation. Notes and coin issued by the Bank are legal tender within Botswana and are valid:

- in the case of notes, for the payment of any amount;
- in the case of coins, for payment of an amount not exceeding one hundred Pula.

The Bank of Botswana arranges for the printing of notes and minting of coins and for all matters relating thereto. It also arranges for the security and safekeeping of unissued notes and coin as well as for the custody of and destruction, as necessary, of plates, dies and retired or soiled or torn notes or soiled or damaged coins. In this regard no person other than the Bank of Botswana or an entity duly authorised by the Bank of Botswana shall issue, in Botswana, notes and or coins, or any documents or tokens payable to bearer on demand, having the appearance of or purporting to be or which are likely to pass as or be confused with legal tender.

Notes and coins on issue in Botswana are of such denominations, composition, form and design as approved by the Minister of Finance and Development Planning. Pursuant thereto currently denominations of notes are: P5, P10, P20, P50 and P100, whilst for the coins the denominations are: 1t, 5t, 10t, 25t, 50t, P1 and P2.

At the end of October 1997, notes in circulation totalled P364.1 million and coin stood at P20.4 million. Currency in circulation is composed of notes and coin only and the ratio between the two at 31st October 1997 was 94.7% and 5.3% respectively.

See Table 4 for data on notes in circulation.

2.1.2 Cash distribution and handling

The main distributors of Botswana currency notes and coin are the four commercial banks. Distribution to the public normally takes place through encashment of cheques or through cash withdrawals by depositors. The banks replenish the supplies of their respective branches through what are called Treasury Depots, which maintain stocks of currency at strategic places in towns or regionally.

Equally, notes and coin surplus to the needs of a bank are taken in by a Treasury Depot and redeposited with the Bank of Botswana. Surplus notes, even if fit for reissuing, may be returned to the Bank of Botswana for immediate credit of the account of the bank returning them. Such notes

are processed, held and get reissued as and when the need arises. The Bank of Botswana also redeems unissuable notes, that is to say those that are soiled or worn out or otherwise unfit for further circulation.

2.1.3 Cash usage

Although there is a wide variety of payment instruments available in Botswana, notes and coin continue to be the most common and frequently used means of effecting everyday small-value transactions. Indications are that levels of cash have fluctuated considerably, and are higher than in 1992. Unfortunately, there are no precise data or other information on the number or the value of cash payments.

2.1.4 Cash as proportion of M1 and M2

As at August 1997, the proportion of M1 which consisted of cash was about 55.8%, that is to say P305.8 million out of P548.3 million. For M2, the proportion was roughly 10.25%, being P305.8 million out of P2,984.8 million.

The value of cash in circulation as a percentage of GDP at current prices as at 1995/96 was 1.64%.

2.2 Non-cash payment media and instruments¹

2.2.1 Types of bank accounts²

The banks offer at least six types of deposit accounts, some interest bearing. Some are subject to minimum balance as well as notice of withdrawal requirements. Of the six, types four can be used for non-cash payments, as customers may arrange to have funds transferred out of such accounts through *Standing/Stop Orders*, *Direct Debits*, etc. for the payment of liabilities with third parties. Depending on the nature of the transaction banks may charge a fee for this service. The other accounts such as demand or time deposits are not used for making non-cash payments.

Savings accounts. This is the type of account intended to give customers the facility to save money in excess of their daily requirements. These accounts are subject to a minimum balance requirement as well as service charges, prescribed by the institutions providing the facility. In some cases, there are limits on the amount that can be withdrawn without giving prior notice.

Payroll accounts. Some financial institutions provide an account facility distinct from the savings account, which is intended to facilitate the payment of the account holders salary/wages. These accounts are subject to a minimum balance ranging from zero to P100. These accounts offer access by electronic means only (i.e. via ATMs or point of sale terminals) and access via branch counters is discouraged.

Cheque accounts. These accounts are normally referred to as current accounts and access to money in such accounts is on demand, subject to there being no uncleared effects. Normally account holders get issued with a cheque book to use in accessing funds in such accounts. Other forms of accessing the funds, such as direct debits and standing orders, are permissible.

Credit card accounts. These are accounts for the recording of transactions resultant from the use of credit cards by holders of such cards. A person issued with a credit card may use it to

¹ Please see Appendix 8 for the range of payment instruments in use in Botswana.

² Please see Appendix 7 for the volume of accounts in the banking industry.

obtain advances of money from a bank through the purchase of goods, services and or other facilities or cash advances and for any other purpose which a bank may permit from time to time. These accounts are subject to credit limits prescribed by the issuing banks and also attract interest, fees and other charges set by the issuing bank. In some cases, the cardholder will be paid interest on a credit balance in such an account.

Demand deposit accounts. These are accounts in which money is deposited, interest is paid and funds are available, with interest earned, on demand.

Time deposit accounts. These accounts serve the same purpose as for demand deposits above, save that notice of withdrawal of the funds is required. Where withdrawals have to be made before maturity, interest earned would normally be forfeited or discounted.

Electronic banking. Electronic banking is conducted by individuals and corporates through a modem link to banks. Electronic payments and transfers take place between accounts within some banks. In addition, certain corporates are linked via the computer network, called Value Added Networks (VANS), through to their parent companies in South Africa. This will, in time, permit these companies to link up with full Electronic Data Interchange (EDI).

2.2.2 Cheques and other paper payment instruments

Background. The legal framework for cheques and other paper payment instruments consists primarily of the Bills of Exchange Act, common law, Clearing House rules, and agreements between a deposit-taking institution and its customers.

The Bills of Exchange Act. The Bills of Exchange Act represents the legislative source of the legal framework that governs cheques and other bills of exchange. It was passed by Parliament in 1964 and has since had three amendments in 1966, 1983 and 1984. It has remained in substantially the same form since promulgation of Statutory Instrument Number 83 of 1984.

The Clearing House rules. Within the broad framework provided by the Bank of Botswana Act, Section 42, the Clearing House rules set out the procedures and standards that govern the national clearing and settlement system processes.

The rules facilitate the exchange of cheques and other payment items between clearing banks. They establish when the participating institutions will be reimbursed and when the unpaid items are to be returned to the presenting institution. These rules touch upon many aspects that affect the treatment of cheques and other payment items, including provisions that:

- determine which items are eligible for presentation through the clearing and settlement system as well as those that are not eligible;
- set out which items may be returned by branches;
- set out the time limits for the exchange or return of unpaid items through the system;
- set out procedures for the treatment of large value items.

The agreement between a deposit-taking institution and a customer. Most deposit-taking institutions require a customer, on opening an account, to sign some kind of standard agreement. The agreement covers a variety of subjects, including the following:

- the authority to pass charges to accounts;
- the issuance of cheques, bills of exchange, promissory and other negotiable instruments;
- the issuance of statements of account, and certificates of balance;
- the customer's signing arrangements;
- an authority for the bank to comply with instructions initiated by the customer by electronic means;

- an undertaking to advise the bank of any changes to signing arrangements from time to time.

Cheques usage. Following on cash, the other most used instrument for making payments is cheques. According to a partial survey conducted in 1996, the volumes of cheques processed in Botswana averages 24,000 to 30,000 per day. Cheques are used to facilitate access to funds in current accounts at banks. Banks will normally have cheques printed for issuance to their customers. Where customers prefer to privately print their own customised cheques, banks insist on their customers using cheque forms which conform to the specifications agreed to between banks, namely the paper format and size; the paper quality and related security features; the layout as well as encoding of cheques to facilitate reading by high speed equipment. For some banks the cheque format is capable of being read by high speed readers/sorters while other banks are working towards that capability for their cheques.

2.2.3 Direct debits

Direct debits are commonly used for the payment of insurance premiums, security monitoring fees, other utilities, etc. Data on the volume and value relating to usage are not available.

2.2.4 Credit transfers

Credit transfers are used for interbank and foreign exchange transfers and have a wide ranging usage, which includes low and high value transactions, typically payments of salaries, pensions and retail payments at the low end. The main users are the banks, Government and large corporations. The predominant types of such transfers are mail and credit transfers including the use of S.W.I.F.T. Data on the volume and value relating to usage are not available.

2.2.5 Card-based payments

Cards in use include:

Automated Teller Machine (ATM) cards. ATMs are widely used in most cities and towns including some major villages, where the payment system is relatively sophisticated. A partial survey shows that some 76 ATM machines have been installed, by three of the banks, in cities, towns and major villages and there are plans to install 16 more in due course. ATMs are used extensively for cash withdrawal as well as for making deposits to the holder's account. In the case of one of the major banks, total ATM cards issued have been advised as being over 70,000, with an average of P35 million monthly cash distribution through ATMs. Currently there is no ATM switch in place, nonetheless discussion relating thereto are taking place between two of the banks.

EFTPOS (Electronic Funds Transfer at Point of Sale). Some ATM cards are used for consumer payments at point of sale. In the case of one of the major banks, statistics provided show average monthly purchase transactions were in the region of 180,000 from a network of some 550 POS terminals, throughout the country.

Debit card. ATM cards of some banks also serve this purpose. Details on usage of debit cards not available.

Credit card. Only one of the four banks issues credit cards in Botswana. The cards are affiliated to a major credit card institution abroad and are used both locally and internationally.

Prepaid card. Both Botswana Telecommunications Corporation and Botswana Power Corporation are known to provide this service in the form of telephone and electricity cards, respectively.

Retailers card. A few retailers, particularly clothing shops, have introduced this instrument. Two categories of cards have been noticed viz:

- (a) In some stores, the card is used for facilitating payment by cheque, but the card cannot be used for accessing the bank account of the holder.
- (b) In other stores, possession entitles holders to special discounts or access to credit up to a credit level computed in some way. Again the card cannot be used for accessing a bank account.

2.2.6 Electronic banking

One of the major banks has advised that facilities are in place for electronic banking, which can be conducted by individuals and corporates through a modem link to the bank. Notwithstanding the absence of a Clearing Bureau to facilitate transfers between banks, electronic payments and transfers between accounts within some banks can take place. With access to S.W.I.F.T., the Bank of Botswana and the four banks use the facility to transmit domestic and international payments. There is, however, as yet no direct S.W.I.F.T. link between the banks and their accounts at Bank of Botswana.

2.3 Post Office instruments

The underlisted payment services are available from the Post Office for both local and international purposes:

- Mail Order;
- Money Order;
- Telegraphic/fax money order;
- Telephone Money Cards;
- Postal Order.

2.4 Government/treasury instruments

The government is using the following instruments:

- Cheques;
- Drafts;
- S.W.I.F.T.

2.5 Other non-bank instruments

There is no information available on the value nor the volumes of payments made through the following non-bank instruments:

- Coupons;
- Tokens;
- Postal Orders;
- Money Orders - Ordinary and Telegraphic;
- Botswana Telecommunications Corporation Telephone Cards;

- Botswana Power Corporation Electricity Cards.

2.6 Cheque system

2.6.1 Standardisation of cheque forms

Banks will normally have cheques printed for issuance to their customers. Where customers prefer to privately print their own customised cheques, banks insist on their customers using cheque forms which conform to the specifications agreed to between banks, namely the paper format and size; the paper quality and related security features; the layout as well as encoding of cheques to facilitate reading by high-speed readers/sorters. Viz:

Paper format and size. There are two standards used, one being for small personal cheques and the other for corporate cheques viz:

Personal cheques: minimum length (width) 152 mm; minimum width (depth) 76 mm.

Corporate cheques: maximum length (width) 203 mm; maximum width (depth) 102 mm.

Paper quality and security features. Cheques must be printed on paper of 95 or 96 gms/sq.meter to CBS 1 standard paper. Micro lettering is widely used to provide background light colours.

Layout. The branch sorting code number must be printed in the top right-hand corner of the cheque in figures not less than 3 mm high.

2.6.2 MICR encoding of cheques

For some banks, the cheque format is capable of being read by high-speed readers/sorters. Other banks are progressing towards that status. The major specific requirement relating thereto is that the approved font is E-13B. All MICR characters must be printed in magnetic ink (i.e. ink capable of being magnetised and sensitised). The MICR E-13B code line is to be printed so that the bottom edges of the characters are nominally 6.4 mm from the bottom reference edge of the trimmed voucher.

3. INTERBANK EXCHANGE AND SETTLEMENT

3.1 General overview

Interbank transactions on current accounts with the Bank of Botswana are effected through credit transfers, clearance vouchers, cheques and S.W.I.F.T. instructions.

S.W.I.F.T. is the electronic transfer system used. It is currently used to send messages/instructions. There is no automatic electronic data transfer.

Credit items may be cleared at any of the clearing times referred to above, and should be accompanied by an Inter Bank Clearing payment voucher in the event of direct delivery. Where necessary, in an emergency, and with the consent of the recipient bank, credit items accompanied by a clearance voucher for the total value may be delivered to the recipient bank after the last clearing, but not later than the closing time of the receiving bank or the presenting bank, whichever is the earlier.

Where the local branch of the beneficiary experiences difficulty in dealing with volumes of credit transfers, they should approach their administrative/head office.

Banks may not send credits through the post, direct to the beneficiary bank/branch. In cases where the beneficiary bank is not represented at point of deposit and the depositing bank is not represented at point of payment, the transfer must be cleared through an intermediary point in accordance with the internal instructions of the depositing bank.

Beneficiary banks should regard all cheques included in the mail and credit transfers as representing uncleared effects, unless otherwise indicated in the transfer.

Inter branch transactions are effected through the respective bank's internal processing and accounting systems. Some of the banks use electronic real time on line gross posting.

3.2 Structure, operation and administration of large-value systems

3.2.1 Clearing

Clearing structure. The clearing system in Botswana is manual, with paper exchanged by representatives of participating banks, at Bank of Botswana premises both in Gaborone and in Francistown. In this regard, there is one Clearing House at the Bank of Botswana Head Office and another at the Bank of Botswana branch in Francistown. The clearing houses are controlled in terms of the Clearing House rules agreed to by the four banks and the Bank of Botswana. In addition, in towns and major villages where there is more than one bank represented, the banks concerned have local clearing houses from which clearing settlement figures are sent to their respective head offices to effect interbank settlements. Each bank has a Clearances Centre at their respective headquarters, to process cheques from their outlying branches, prior to getting them to the Clearing House(s).

The business of the Clearing House(s) both at Bank of Botswana headquarters and at the Francistown branch is managed by a Clearing House Committee composed of a representative from each member bank and is presided over by a Chairman, who is representative of the Bank of Botswana. The exchange of items at the Clearing House(s) is conducted under the supervision of an Inspector of Clearing, appointed by the Bank of Botswana, who is responsible for the discipline of the Clearing House. The exchange of items process is that the paying bank receives cheques and bank paper through the local clearing and forwards this paper to paying bank branches for processing payment and fating. The collecting bank provides final funds if the paying bank does not return the cheque unpaid in the time allowed in the Clearing House rules. The time delay, following deposit, for providing final funds varies in accordance with the Clearing House rules. For cheques collected and payable on bank branches both in a local clearing area, paying banks should return unpaid cheques no later than the fourth business day after exchange at the clearing point. For cheques drawn on banks outside the local clearing area final funds should be provided to the depositor not later than the tenth business day after the exchange at the clearing point.

Bank of Botswana and the commercial banks have reached an agreement in principle to reduce the effects not cleared period for local and non local cheques to four and six days, respectively.

Clearing times. Clearing takes place Monday to Saturday (except on public holidays) as hereunder:

- morning clearing is at 9.30 a.m.
- afternoon clearing is at 2.30 p.m. (except on Saturdays).

Items eligible for presentation through the clearing system. Items eligible for presentation through the Clearing System are limited to the following:

- cheques payable in Botswana, excluding those mentioned hereunder;
- clearance vouchers;
- credit slips;

- debit slips bearing an authorised signature and a bank stamp;
- debit/credit order system items;
- unpaid items;
- demand drafts and bills payable within the local clearing area;
- credit card vouchers.

Items NOT eligible for presentation through the clearing system. The following items are not eligible for presentation through the Clearing System and must be presented to the paying banker directly for settlement by clearance voucher:

- guarantees;
- coupons;
- country bills payable outside the local clearing area;
- items expressed in foreign currency, even if converted into Pula;
- items to which charges or expenses have been added.

Presentation of large value items and return of dishoured items. Large value items should be presented through the afternoon clearing which consist **only** of the following:

- individual items of P 50,000 and above;
- local clearing settlements;
- items returned for reasons either of non-payment or wrong delivery.

These items may also be presented at the morning clearing if required.

Treatment of cheques returned because of insufficient funds. The drawee branch must return dishonoured cheques as soon as possible. The time limit allowed to dishonour and return cheques drawn within the local clearing area is no later than the fourth business day after the exchange at the clearing point. The time limit allowed to dishonour and return cheques drawn outside the local clearing area is no later than the tenth business day after the exchange at the clearing point. The commercial banks charge an activity fee to their respective customers for cheques returned because of insufficient funds.

3.2.2 Settlement

The settlement process in Botswana is a centralised operation, with the commercial banks maintaining clearing accounts with the Bank of Botswana. In this respect multilateral netting is in use, with each clearing bank facilitating, at the Clearing House, the net payment due to other members and in turn receiving net amounts due from the other banks. The banks are then notified of these positions by their representatives at the clearing house. The banks are then expected to take action to fund the accounts if need be, to facilitate successful settlement. The Bank of Botswana serves as the settlement agent for payment transactions.

Pursuant to the foregoing, on the same day as the clearances take place, at 4.30 p.m., the Inspector of Clearing passes the appropriate entries, either debit or credit, to the accounts of the respective banks. Needless to say, such posting could result in an overdraft if a bank fails to fund the amount before close of business. In this regard settlement is to all intents and purposes automatic, with no constraints and with the potential to expose the Bank of Botswana to undue risk.

4. SPECIAL USE OF INTERBANK TRANSFER SYSTEMS FOR INTERNATIONAL AND DOMESTIC FINANCIAL TRANSACTIONS

4.1 Exchange and settlement systems for international transactions

4.1.1 Exchange controls

Some exchange controls still exist and they are administered by the Bank of Botswana through the Financial Institutions Department. This function is carried out on an agency basis for the Ministry of Finance and Development Planning. Over the last few years, there has been a progressive liberalisation of exchange controls, amongst which has been the abolition of controls on current payments. The effect of the remaining controls is insignificant, because of the highly liberalised exchange control regime. Botswana has acceded to the conditions of IMF Article VIII status under the IMF Articles of Agreement.

4.1.2 Monetary cooperation

Botswana does not have any formal monetary cooperation with any country. However, Botswana accepts repatriated Pula currency notes from other countries in exchange for other convertible currencies.

Banks usually use their own correspondent banks to pay foreign counterparties, using convertible currency. In most cases, banks make use of correspondent agreements to effect such payments. These agreements allow a bank to hold a foreign-currency-denominated account with an overseas bank. In order to effect payment, a bank will instruct its correspondent bank to make payment to its foreign counterparty, in the foreign currency, by debiting its account and transferring the funds to the account of the counterparty. S.W.I.F.T. is the system mainly used for these types of payment.

5. THE ROLE OF THE CENTRAL BANK IN INTERBANK SETTLEMENT SYSTEMS

5.1 General responsibilities

5.1.1 Statutory responsibilities

The current banking laws do not cover the regulation and supervision of the payment system. That notwithstanding, the Bank of Botswana has a vested interest in overseeing the payment system to ensure its soundness, efficiency, safety and effectiveness. Only licensed banks are entitled to participate in the clearing system and such banks are licensed and supervised by the Bank of Botswana.

5.1.2 Establishment of common rules

Botswana does not have legislation specific to the payment system. The Clearing House rules are about the nearest one can get to regulations intended to supervise and/or regulate a component of the payment system. The basic objectives of these rules are to ensure the efficiency, reliability, safety and effectiveness of the clearing system in the country by providing guidance to the clearing banks. Pursuant thereto, certain basic requirements and procedures are prescribed therein. These include the management of the business of the Clearing House, conduct and supervision,

definition of clearing areas, stationery to be used, standardisation of cheque forms, items eligible for presentation through the Clearing House, etc.

There are, however, some sections in banking and other legislation, which can be referred to on payment system related issues. See Appendix 10 for the list of current banking law and regulations as well as for other related legislation.

5.1.3 Regulation of non-bank institutions

There are no specific regulations aimed at controlling activities of non-bank entities. That notwithstanding, the provisions of the Banking Act, generally those ensuring prudence in banking, shall apply to certain institutions authorised by any other legislation, to engage in banking business, notwithstanding such other legislation, unless otherwise prescribed.

5.1.4 Interest rate(s) setting

Interest rate setting for loans is free-market driven. Banks are not regulated on the interest rates they wish to charge for loans. The Bank of Botswana sets the Bank Rate which is the rate at which it makes loans to commercial banks. The Bank Rate in turn influences the interest rates set by commercial banks.

5.2 Provision of settlement facilities

After receiving a letter/S.W.I.F.T. message from a commercial bank, a transfer is made across the current accounts of clearing banks held at Bank of Botswana. Usually settlement is made on the same day.

The Bank of Botswana provides overnight loans to banks against approved collateral, e.g. Bank of Botswana Certificates. Other provisions include:

- commercial banks are subject to primary reserve requirements as set out in the Bank of Botswana Act. The reserves are not utilised for settlement purposes. The reserve requirement currently is 3.25% of deposit liability, excluding foreign currency accounts;
- in addition, for prudential reasons there is, a liquidity assets reserve requirement. Currently set at 10% of deposit liabilities for commercial banks and 3% for credit institutions;
- the Bank of Botswana is the settlement bank in the interbank market;
- the Bank of Botswana owns and provides the settlement facilities. Settlement takes place at Bank of Botswana, daily on a net basis over the clearing accounts of the banks;
- banks are not charged to use settlement facilities.

5.3 Monetary policy and payment systems

- The Bank of Botswana formulates and implements monetary policy.
- The Bank of Botswana may act as Government's agent in the issuing of Government Debt.
- The Bank of Botswana is restricted in the extent to which it can lend to Government.

6. RECENT DEVELOPMENTS IN THE PAYMENT SYSTEM

6.1 Description of the new system

The Bank of Botswana is central to payment services of the country and therefore has an undeniable interest in the soundness and safety of the payment system. Conscious of this role, the Bank has, of its own accord, as well as under the auspices of the SADC Payment System Project, taken a wide range of actions, the collective objective of which is to work towards the improvement of the payment system. In this regard the Bank of Botswana has:

- participated in payment system related workshops held under the auspices of the SADC Payment System Project. These include the Technical/Orientation Workshop, the Comparative Workshop as well as Focus Groups Workshops. As a result of attendance of the Focus Groups Workshop, Bank of Botswana will now spearhead the establishment of country Focus Groups to concentrate on areas of specialisation, to chart out courses of action. In this regard, the Legal Focus Group would, for example, look into drawing up a legal framework to harmonise laws relating to the payment system;
- given the magnitude of the tasks of the project and in keeping with the SADC Project Team recommendations, the Bank has assigned two senior members of staff on a full-time basis to oversee and direct the project in Botswana;
- established an in-house Payment System Committee, comprising senior staff from the Banking, Finance and Financial Institutions Departments. Its purpose is to involve all relevant departments of the Bank in the review and improvement of the payment system. The committee also has the responsibility to oversee and monitor the work progress of the Focus Groups. This committee will work in close liaison with the country “Working Group to Review Payment Systems”;
- in April 1997, at the behest of the Governor of the Bank of Botswana, established a joint Working Group, comprising senior representatives from the commercial banks and the central bank. The purpose of the working group is to look into possible strategies for Botswana’s Payment System modernisation and the development of appropriate plans in line with the SADC initiative on payment system modernisation. The Working Group is also to develop a clear understanding between banks and other participants in the payment system in respect of their responsibilities thereto, and to work with the Bank of Botswana Payment System Committee;
- the Clearing House Committee, which regularly reviews clearing arrangements, has in principle, agreed to shorten the value date for both local and country cheques;
- recently completed a Payment System Sensitisation Workshop, under the auspices of the SADC Payment System Project. The workshop was successful in its objective of sensitising the main participants in the payment system about current and future developments.

6.2 Technical assistance

In October 1997, the Bank of Botswana procured the services of an International Monetary Fund Payment Systems Expert to review the current payment arrangements in Botswana and to make recommendations for improvement.

The Bank is also actively giving consideration to procuring the services of a Payment Systems Project Advisor to work in liaison with the Bank of Botswana in, among other things:

- assessing the available capacity and commitment of those involved in the payment system in Botswana;
- developing an action plan and assigning responsibilities;
- assessing the need for local and foreign consultations to speed up the payment system improvement process;
- assess the usefulness, to Botswana, of work that has already been carried out in SADC and other countries and so reduce the effort required.

The primary purpose of providing such services being to maintain the momentum gained at the sensitisation workshop, referred to in 6.1 above.

7. INFRASTRUCTURE

7.1 Telecommunications infrastructure

The current all-digital network comprises 5,300 kilometres of microwave radio and fibre optic links between 13 main processors. The network layout allows for alternative routing of traffic, via the microwave fibre rings if faults occur on direct routes.

Botswana Telecommunication Corporation (BTC) has embarked on expansions to the network to cater for increased demand for new services. Botswana Telecommunications Corporation has also been engaged in discussions to improve links with telecommunications operators in neighbouring countries. Among other things, Botswana Telecommunications Corporation customers can now lease high capacity data circuits between Botswana and South Africa. Botswana Telecommunications Corporation's commitment to upgrading services and provision of additional services throughout Botswana prompted a major network expansion on to around 130,000 lines in the next three years. As part of the programme, a second international exchange is also planned for Francistown.

Broad-band ISDN (Integrated Services Digital Network) services are to be introduced. Data networks with digital links to neighbouring countries will be expanded and so enable Botswana Telecommunications Corporation to provide digital leased lines throughout Botswana and Southern Africa. In view of an anticipated large scale customer switch from low-speed to high-speed data circuits, Botswana Telecommunications Corporation is implementing a Managed Data network which will allow centralised monitoring of all equipment up to customer premises. This is a prerequisite for giving customers different levels of service.

Finally, Botswana Telecommunications Corporation is introducing VSAT (Very Small Aperture Terminals Network), which is a point-to-point and or point-to-multiple points, two way data and voice satellite based communications network that connects a company's head office with remote or branch offices. This network would be independent of existing telecommunications infrastructure. Being a satellite based system it has advantages of wide coverage and is cost independent of distance and difficult terrain.

7.2 Roads infrastructure

There is a national road network connecting all urban and major village settlements with bitumised roads. In the urban areas, most of the roads are tarred including those which join the urban areas. In remote rural areas, many roads are still under-developed.

7.3 Domestic air infrastructure

Air Botswana is the main local air service, which is supplemented by a few small charter aircraft companies. On international standards, our airline infrastructure is small, but the few services that it offers are reliable.

Table 1
Basic statistical data

	1992	1993	1994	1995	1996
Population (millions) ¹	1.358	1.391	1.425	1.460	1.500
GDP (millions of Pula) ²	8,372.5	9,126.0	11,115.0	12,530.3	14,631.0
GDP per capita (thousands of Pula) ²	6,190	6,587	7,828	8,609	9,807
Exchange rate (domestic vis-à-vis USD)					
<i>year ending</i>	<i>0.4431</i>	<i>0.3899</i>	<i>0.3680</i>	<i>0.3544</i>	<i>0.2744</i>
<i>average</i> ²	<i>0.4651</i>	<i>0.4053</i>	<i>0.3723</i>	<i>0.3607</i>	<i>0.2994</i>

¹ As per Statistical Bulletin Volume 20, Number 4 and Volume 3, Number 1: Central Statistics Office. ² As per Botswana Financial Statistics Volume 4, Number 9: Bank of Botswana.

Table 2
Settlement media used by non-banks
(in millions of Pula at year-end, not seasonally adjusted)

	1992	1993	1994	1995	1996
Notes and coins	233.1	274.8	302.6	318.5	363.8
Transferable deposits:					
Corporate sector	900.2	1,015.9	1,168.7	1,231.6	1,637.2
Household	454.1	558.5	609.5	641.2	770.1
Other (see Appendix 9)	396.2	431.4	439.3	592.5	564.9
Narrow money supply (M1)	589.2	666.9	623.2	532.0	513.6
Broad money supply (M3)	2,428.1	2,566.0	2,718.3	3,251.1	4,116.2

Source: Botswana Financial Statistics Volume 4, Number 9 - 1997: Bank of Botswana.

Table 3
Settlement media used by banks
(in millions of Pula at year-end, not seasonally adjusted)

	1992	1993	1994	1995	1996
Reserve balances held at central bank	91.9	99.0	52.8	70.3	67.9
Transferable deposits at other institutions	1	1	1	1	1
Accounts at the Post Office	n.a.	n.a.	n.a.	n.a.	n.a.
Accounts at the Treasury	n.a.	n.a.	n.a.	n.a.	n.a.
Required reserves	83.5	91.0	70.7	80.0	85.6
Institutions' borrowing from central bank ² ...	50.0	Nil	Nil	Nil	Nil

¹ Data not available. ² During some months of 1995 and 1996 there was some borrowing.

Source: Botswana Financial Statistics Volume 4, Number 9 - 1997: Bank of Botswana.

Table 4
Banknotes and coins
(in millions of Pula at year-end, not seasonally adjusted)

	1992	1993	1994	1995	1996	1997 ¹
Total banknotes in circulation	221.7	262.1	286.3	300.7	343.8	364.1
Total coins in circulation	11.4	12.7	16.3	17.8	20.0	20.4
Denomination of banknotes:						
100 Pula	Nil	59.5	103.2	133.6	167.3	208.8
50 Pula	130.0	110.8	99.1	83.9	95.5	78.7
20 Pula	52.4	49.8	48.3	47.6	45.1	41.5
10 Pula	27.2	28.3	25.5	25.4	24.7	24.5
5 Pula	7.0	7.8	8.1	8.4	9.4	8.8
2 Pula	4.2	5.1	1.3	1.0	1.0	1.0
1 Pula	0.9	0.9	0.8	0.8	0.8	0.8

¹ As at 31st October 1997.

Source: Botswana Financial Statistics Volume 4, Number 9 - 1997: Bank of Botswana.

Table 5
Institutional framework
(as at 30th September 1997)

Categories	Number of institutions	Number of branches	Number of accounts (thousands)	Value of accounts (millions of Pula)
Central bank	1	1	2.3	-
Commercial banks	4	51	286.0	3,832.8
Savings banks ¹	1	0	-	-
Public credit institutions	2	14	-	-
Post Office	1	112	n.a.	n.a.

¹ Botswana Savings Bank does not have branches but operates through Post Offices and Postal Agencies located in many parts of the country. Data on number and value of accounts are not available.

Source: Financial Institutions Department: Bank of Botswana.

Appendix 1

Financial institutions operating in Botswana as at 30th September 1997

Central Bank	Bank of Botswana
Commercial banks	Barclays Bank of Botswana Ltd First National Bank of Botswana Ltd Stanbic Bank Botswana Ltd Standard Chartered Bank Botswana Ltd
Credit institution (finance leases & hire purchase)	ULC (Pty) Ltd
Development finance institutions	Botswana Savings Bank National Development Bank Tswelelo (Pty) Ltd
Building society	Botswana Building Society
Insurance companies	Botswana Insurance Holdings Ltd Mutual & Federal Insurance Company of Botswana Ltd Botswana Eagle Insurance Company Ltd
Stockbroking company	Stockbrokers Botswana Ltd

Appendix 2

Branch network and other contact points of the commercial banks

	Barclays	First National Bank	Stanbic	Stanchart	Total
Branches	19	11	6	15	51
Agencies	13	2	-	5	20
Encashment points	7	-	-	1	8
ATMs installed	30	23	-	23	76
ATMs due	5	5	-	6*	16
POS/Speed points	550	232*	-	-	782

* Estimate figures only.

Appendix 3

Principal objectives of the Bank of Botswana

<p>1. The principal objectives of the Bank of Botswana are:</p> <p>(a) first and foremost to promote and maintain monetary stability, an efficient payments mechanism and the liquidity, solvency and proper functioning of a soundly based monetary, credit and financial system in Botswana;</p> <p>(b) secondly, in so far as it is not inconsistent with the objectives set out in paragraph (a), to foster monetary, credit and financial conditions conducive to the orderly, balanced and sustained economic development of Botswana; and</p> <p>(c) thirdly, to assist in so far as it is not inconsistent with the objectives as set out in paragraphs (a) and (b), in the attainment of national economic development goals.</p>
<p>2. In the attainment of the objectives set out in subsection (1), the Bank of Botswana has and may exercise all the powers generally conferred upon a central bank.</p>

Appendix 4

Overall functions of the Bank of Botswana

The Bank of Botswana functions include the underlisted:	
(a) Advisor to Government	(f) Administer Exchange Controls
(b) Implementation of Monetary Policy	(g) Management of FOREX Reserves
(c) Banking Supervision	(h) Central Banking Services
(d) Issuance of Notes and Coin	(i) Collection and Dissemination of Statistics
(e) Implementation of Exchange Rate Policy	(j) Lender of Last Resort

Appendix 5

Types of accounts held by the Bank of Botswana

Type of accounts:	
(a) Remittances Account	(d) Old Age Pensions Account
(b) Central Account	(e) Current Accounts
(c) Salaries Account	(f) Required Reserve Accounts

Appendix 6

Other counterparties entitled to bid directly for BOBCs

Other counterparties:	
(a) Debswana Diamond Company (Pty) Ltd	(e) Investec Asset Management Botswana
(b) Botswana Savings	(f) Stockbrokers Botswana Limited
(c) Botswana Postal Services	(g) Water Utilities Corporation
(d) ULC (Pty) Ltd	(h) Botswana Railways

Appendix 7

Volume of accounts in the banking industry

Account type	31st December 1996
Current	106,918
Savings	159,568
Deposit	11,644

Appendix 8

Payments instruments in use in Botswana

(a) Cheques	(f) Credit cards	(k) Prepaid cards
(b) Bank cheques	(g) Debit cards	(l) Gift vouchers
(c) Clearance vouchers	(h) Coupons	(m) Credit transfers (S.W.I.F.T.)
(d) Local promissory notes	(i) Travellers cheques	(n) Direct debits
(e) Money orders	(j) Mail transfers	(o) Standing order/Stop order drafts

Note: The above list has been compiled from common knowledge, as there is no formal list, and is therefore not conclusive.

Appendix 9

Other transferable deposits

(ref. Table 2)

	1992	1993	1994	1995	1996
Central government	8.8	31.3	16.1	19.4	40.4
Local government	122.2	183.1	172.9	249.6	217.9
Parastatals	265.2	217.0	250.3	323.5	306.6
Total	396.2	431.4	439.3	592.5	564.9

Appendix 10

Banking and other related legislation

(banking and other related legislation which can be referred to on payment related issues)

	Cap	Amended
Current Banking Laws		
Banking Act, 1995 ¹	46:01	n.a.
Bank of Botswana Act, 1996 ²	55:01	n.a.
Exchange Control Act, 1964	55:03	Act 19, 1976
Current Banking Regulations		
Banking Regulations 1995 - Statutory Instrument 73 of 1995		n.a.
Other related legislation		
Botswana Savings Bank Act, 1962	56:03	1992
Bills of Exchange Act, 1964	46:02	Act 12, 1979
Companies Act, 1959	14:01	Act 34, 1982
Finance and Audit Act, 1970	54:01	None
Insolvency Act, 1929	42:02	Act 3, 1981
Botswana Postal Services Act, 1989 ³	72:01	n.a.
Registered Bonds Act, 1976	56:06	None
Registrar of Government Securities Act, 1972	56:05	None
Stock Bonds and Treasury Bills Act, 1976	56:07	Act 8, 1982

¹ This Act was amended and substituted the Financial Institutions Act. ² This Act amended the Bank of Botswana Act, 1975.

³ This Act was amended and substituted the Post Office Act, 1980.

Note: This list is based on the Law Revision as at 31st December 1987 and incorporates acts passed during 1988 and 1989. The above list is by no means exhaustive. The heading AMENDED merely reflects amendments of the various legislation up to the date indicated.