My Recollections of the Introduction of Botswana's Pula Currency on 23 August 1976

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In 1975, the government of Botswana set up a Monetary Preparatory Commission to oversee the introduction of Botswana's first ever currency. This was under the overall guidance of Quett Ketumile Masire (later Sir Ketumile Masire), the then Minister of Finance and Development Planning (MFDP). He in turn, was strongly supported by President Sir Seretse Khama.

Since 1961, Botswana had used the South African rand as its currency, and before that the South African pound and the Cape Colony pound. In 1910 the Union of South Africa was established and it began to use the South African pound, which, like the Cape Colony pound, was on par with the British pound. Until 30 September 1966 Botswana was under British colonial control and called Bechuanaland Protectorate.

In 1961, South Africa became left the Commonwealth to become a republic and replaced the pound with the rand, which automatically become the legal tender of Botswana. This was after it had been decided in principle that Botswana would have its own currency. This would allow Botswana, for the first time, to determine the value of its own currency and to set its own interest rates, instead of automatically copying whatever South Africa did. For the first time ever, Botswana could choose the designs for its own notes and coins. It would also allow Botswana to decide for itself how many, if any, of South Africa's complex regime of exchange control regulations should be retained.

There was one additional and minor advantage of having one's own currency. Before a central bank can issue its own currency, it needs to buy the brand new bank notes from a security printer. The central bank then proceeds to sell its note to the local banks, at face value. The relatively small profit that accrues to the central bank is known by the technical term 'seigniorage'. This profit, arising from the rand in circulation in Botswana, had previously accrued to the South African Reserve bank (SARB). The profit was expected to be large enough that the future Bank of Botswana (BoB) would be financially independent of government.

The bulk of the preparatory work for the introduction of the country's currency fell on Quill Hermans, who was the Permanent Secretary at the MFDP. One of the first jobs that was given to him was to organise a nationwide opinion poll, to ask the public to recommend what the new currency should be called. There was near universal agreement throughout the country that the bank notes should be called 'pula'. This is the Setswana word for rain and also the motto on the national coat of arms, and part of the ceremonial greeting on the arrival of any very important person (VIP), namely '*Goroga ka pula*' ('Welcome with rain'). There was a majority in favour of the coins being called 'Thebe', the Setswana word for a shield.

Various jobs were deputed to senior civil servants. Some of the study areas more or less produced their own solution. In particular, there was complete agreement among the country's senior economists that Botswana would not expect the exchange rate for the new currency to be allowed to 'float', that is to be determined minute-by-minute on the open international foreign exchange market in response to the law of supply and demand. The reasoning for that decision was as follows. Examination of the pattern of Botswana's imports and exports showed that Botswana would have a modest international balance of payments (BoP) deficit on the current account of the BoP (Botswana imported more than it exported)

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on 355 days in the year. This would be interspersed with 10 days every year with enormous balance of payments surpluses (receipts from exports would massively exceed receipts from imports on those particular 10 days) when Botswana would receive a deluge of American dollars when it sold its annual ten packages of uncut diamonds to the Central Selling Organisation (CSO) in London (defined by De Beers as 'diamond Sights') for US dollars. This roller coaster mixture of 355 small daily BoP deficits, plus10 very large BoP surpluses, clearly indicated that a market determined float would NOT be appropriate, at least at that stage of Botswana's economic development.

An important question that had to be answered was as follows. What was going to be the government's exchange rate policy? This had important implications for the parts of Botswana's nascent plan to diversify the economy by developing non-diamond exports. There were a number of countries which were suffering from the so-called 'resource curse'. This was economic slang for troubles that some other mineral rich countries, such as Nigeria (in the case of oil) and the Netherlands (in the case of natural gas), had experienced when they had allowed their currencies to appreciate, because of their mineral exports; this appreciation of their currencies had then had negative impacts on their non-mineral exports.

This policy decision was also closely linked to the government's policies on how its share of the diamond profits should be spent. How much should be used to balance the government's budget, and how much should be used to support the National Development Plan? How much, if any, of the diamond income should be saved for future generations? To assist the debate, I was asked to answer the following technical question. What were the alternatives to 'pegging' the pula to the rand? A secondary question was, how much, if any, of South Africa's exchange controls should Botswana retained? These regulations had applied automatically to all the members of the Rand Monetary Area (RMA), which included Botswana, Lesotho, Namibia and Swaziland, as well as South Africa.

As a member of the RMA, Botswana had been obliged to comply with a detailed panoply of exchange control regulations. They were also time-consuming to administer. This included applying annual limits to foreign exchange for overseas holidays; the need to register all incoming foreign exchange loans, plus the need to approve the schedule for the gradual repayment of such loans, etc. Botswana had been diligently implementing these exchange control regulations. Nearly all the burden of doing so fell on the commercial banks, all of which had been licensed to deal in foreign exchange (forex).

I looked at both the current account of the BoP (payments for imports, plus interest payable to overseas lenders) and the capital account (repayment of foreign loans). My analysis found that with the help both of revenue from diamond sales, and incoming foreign currency from overseas donors in support of Botswana's National Development Plans, Botswana's BoP would be robust enough to need only the most minimal of exchange controls. The next question was, if the pula could not be pegged to the rand, for obvious political reasons because of South Africa's apartheid, how should a pula basket be constructed?

Then a stroke of luck occurred. As it happened, the rand was at that stage itself pegged to the US dollar, (the value of one rand was specified in terms of American dollars and cents) with lengthy spells when the rand was fixed at a given value in dollars and cents. It then became obvious that if the pula were pegged to the US dollar, we would effectively achieve the desired peg to the rand without actually saying so. All went well with this arrangement for the first six years, until South Africa decided in March 1982 to allow the rand to float against the dollar (and hence against all other currencies), in response to the law of supply and demand for rand in the international minute-to-minute foreign exchange market.

This created sufficiently large daily swings in the value of the pula in rand terms, that it greatly inconvenienced Botswana's major wholesale importers, both general importers and petrol and diesel importers, and many other residents. Because of their 'clout' as major purchasers of South Africa's exporters, Botswana's major importers had all been able to negotiate generous trade credit arrangements with their South African suppliers. Typically, Botswana's major importers had been given six weeks in which to pay their South African suppliers for their imports into Botswana. These 'suppliers' credit' arrangements were designed to give the Botswana importers enough time to sell the bulk of their imported goods to Botswana retailers. This in turn meant that the large importers could simply go to a Botswana bank, use the pula from their Botswana sales to buy a rand credit transfer, and thus pay off the trade credit loan that they owed to their South African suppliers. Quite large sums of money were involved in these arrangements.

But now, with the international value of the rand fluctuating from day to day, it was quite possible that the cost in pula terms of buying rand could have increased in the six weeks between when the goods were delivered to Botswana and then subsequently sold for pula, and the date when the Botswana importer went to his bank to buy the rand to pay for his imports. Since the wholesalers' mark ups could be as low as 15%, e.g. in the case of maize meal, any increase in the cost of buying the rand with pula of as little as 5%, could wipe out as much as a third of the Botswana wholesalers' profit margins. Inevitably, the wholesalers had to increase their mark ups as a kind of insurance against rand-pula fluctuations. This had the unintended consequence that the cost of living in Botswana went up slightly.

The next meeting of the Board of Governors of the BoB instructed me to recommend a solution to this problem, subject to the constraint that a direct peg of the pula to the rand would probably not be favoured, for obvious political reasons. In response to this considerable inconvenience for the importers, the idea of pegging the value of the pula to a 'basket' of currencies was suggested. The obvious question then was, what should such a basket of currencies look like, in order to support the aims and objects of Botswana's exchange rate policy? I studied the well-known economic theory on the most cost-effective way to peg the currency of a country with a small economy, like Botswana's, when the bulk of its imports came from a much larger economy, like South Africa's. The textbook gave reasons why any such currency basket should ideally be in line with the smaller country's trading patterns of imports and exports; but with the caveat that the correct way to measure these volumes of trade with any particular country should be measured on a 'value added' basis.

For example, if Botswana bought a Japanese car that had been assembled in South Africa, the South African assembly costs should be attributed to South African imports, but that the cost of the imported Japanese engine should be attributed to Japan. After studying Botswana's patterns of imports and exports, I found that it was convenient to say that Botswana's imports were composed roughly 50% by value added from South Africa, and by 50% from the rest of the world. I was also aware that the International Monetary Fund (IMF) had chosen their own unit of account, the Special Drawing Right (SDR) so as to represent the pattern of currencies used throughout the world in international trade. Then there was the question of Botswana's exports. This was clearly dominated by the US dollar, the currency that was used to pay for not only Botswana's exports of uncut diamonds, but also its exports of copper-nickel matte. Other exports went to a multitude of different countries.

Accordingly, and as a first approximation, I recommended that the pula should be pegged to a basket consisting 50% of US$ and 50% of rand. The board's constitution had defined the bank's governor to be its chairman. The minister was statutorily represented on the board by the Permanent Secretary of Ministry of Finance and Development Planning. My recommendation was accepted by the BoB board. After the recommendation was accepted, I was deputed (with the implicit agreement of the minister) to brief President Sir Seretse Khama on why the Board had made this decision. In order to prepare for this meeting, I did quite a lot of homework, including showing two graphs that I had drawn on the same graph paper. The first graph showed what the actual fluctuations in the pula-rand rate of exchange had been over the previous three months. These fluctuations were not insignificant and showed why the importers had been badly inconvenienced.

The second graph showed that these fluctuations would have been much reduced if the pula had been pegged to the recommended new basket. I was all set to launch into the theory about pegging a currency to a basket which represented Botswana's international trade patterns, and how much the new basket would have dampened down the above fluctuations, and I had already mentioned the requirement to improve the payment difficulties of Botswana's importers. However, I was stopped short by the president. He said that because the board knew so much more about economic issues than he did, he would accept the board's recommendation on trust. My interview had lasted about 12 minutes. I was much impressed with President Seretse Khama's modesty.

The next job I was given was to work with a small committee, under the chairmanship of the bank's Director of Operations, to draw up a map of the points in Botswana where people could hand in their rand and receive the same amount of pula in exchange. We were urged to come up with an arrangement that would make the currency exchange as convenient as possible. These currency exchange points were nearly all bank branches. However, there was a 'gap' of at least 300 kilometres between the nearest bank to the south west corner of the Okavango Delta in the Ngamiland district, and Shakawe at the north west of the delta. I thought that I could solve this problem quite easily. There was a large co-operative store at a small village called 'Etsha Number 6', half way up the west side of the delta. It was the designated headquarters of twelve contingent Hambukushu villages.

I trusted the manager, who was very well known to me personally. This was based on his reputation as an excellent shop manager. He had welded a small safe onto the chassis of the Landrover which was used once a month to transport the shop's cash takings to the shop's bank in Maun ('the place of reeds' in Setswana). There were two keys to this safe. One had been given to the bank manager in Maun, and the manager kept the other one. There was never a key with the driver. It was then necessary for me to recommend that manager's 'credit limit'. How much pula was he going to be trusted with? After some haggling inside the BoB, with the rather conservative Director of Operations who was horrified that a mere shop keeper should be given any credit limit at all, that a much smaller amount was agreed than the much larger credit limits which each bank branch had been given. I rolled my eyes to heaven, but was forced to concede a much lower credit limit than I had originally proposed. In the event, the shop's allocation of pula was all exchanged within the first two weeks, a second tranche of pula had to be quickly delivered to the shop from a bank branch in Maun.

After six weeks, I was instructed by the Board of Governors to choose a typical village in Botswana, go there and investigate whether there were still any rand that were waiting to be exchanged. I accordingly arranged with the armed unit of the police that we would go in a small convoy with an armoured Landrover loaded with some spare pula, complete with a guard armed with automatic rifles, in case there still were some rand that had not yet been exchanged. I selected the small village of Lentsweletau in the eastern Kweneng District, close to the southern boundary of the Central District. It had three general dealers. I first went to the village chief, to explain the object of my visit. He was pleased that his village had been chosen for this experiment, although he personally doubted that there were any rand left in his village. He suggested that my best source of information would be to visit the managers of the three shops in the village. I was deluged with assurances by the shop managers that all the rand in the village had already been exchanged.

We returned to Gaborone with the entire stock of pula in the Landrover untouched. A very elderly resident went to his bank in Lobatse and asked if they would accept his Cape Colony bank notes, which had ceased to be legal tender upon the creation of the Union of South Africa in 1910. He had held this money for 66 years, as part of his life savings, without earning any interest on it.

Eventually, I phoned a colleague at the International Monetary Fund to tell him how smoothly the currency exchange had gone. He paused for a few minutes, then said that, provided my assessment was correct that 95% of the rand had been changed into pula within six weeks, Botswana had probably broken the world record for the speed of a currency exchange.

Before Pula Day (23 August 1976), I had had one other minor role to play. Governor Quill Hermans had specified the designs for the bank notes, after the rough designs had been approved by the cabinet. He then asked me to review the draft drawings that the security printers in England had come up with. I had just one comment. The artist who had been instructed to show a fish eagle catching a fish in its talons had drawn both the fish and the drops of water falling off the fish at an accurately proportional size. This meant that the fish was necessarily much smaller than the fish eagle, while the drops of water looked like tiny dots. I suggested to Hermans that the scene depicted would be much more interesting to the public if the artist used artistic licence so that both the fish and the droplets were slightly magnified. This idea was accepted and the printer was instructed accordingly.

In retrospect, Botswana's official economists had felt that the economic arguments in favour of Botswana having its own currency had amply justified the expense of setting up Botswana's own central bank, and issuing its own currency. However, from the point of view of the public, it was obvious that it was actually Seretse's portrait on the bank notes which had made them so popular with the public. Some years later, when the time came to introduce a new P50 bank note, the instruction to the artist was that he had to portray a single 'poler' who was punt-polling a heavily laden '*mokoro'* (dugout canoe) in the Okavango Delta, surrounded by water lilies and bulrushes. I saw that the artist had come up with a bent punt pole. I consulted my colleagues in the BoB, and we all agreed that polers in the Okavango always used a straight punt pole. This idea was also accepted and duly implemented.

In retrospect, we made one minor error. We accidentally ordered far more pula currency than there were rand bank notes in circulation. This of course did no harm. It simply postponed by several months the date on which we would have to order the next tranche of new currency from the printer. After some years of operating with the new pula bank notes, I was instructed to visit the bank note security printer at the large industrial estate of the English town of Basingstoke, just outside London. A date was chosen when I would be in London on other bank business.

You can imagine how impressed I was to find, on my arrival, that the flag pole outside the printer was flying the Botswana flag for the day, in honour of my presence. I was shown around the printer's very impressive research laboratory. There, they used the most up-to-date Japanese colour photo copiers to see how closely they could get to being able to forge their own bank notes. They told me that they would launch a new security feature in a few years' time, which would be offered to each of the nearly 100 countries whose bank notes they printed. This would be a shiny thin metallic strip which would be woven into the bank note paper. The idea was that any photocopy of a bank note would then only show the half of the strip which lay on the surface of the bank note. Subsequently, the BoB's Director of Operations decided to incorporate this new feature in all future bank note orders. The result was that Botswana was one of the first countries in Africa to incorporate this new anti-forgery device in its bank notes.

My second last task was to construct Botswana's first ever international balance of payments (BoP). This task had previously been performed by the statisticians at the South African Reserve Bank. For this purpose, they had regarded the entire RMA, the Rand Monetary Area consisting of Botswana, Lesotho, Namibia (as it was later to be called), South Africa and Swaziland as one monetary area. (The IMF's so-called BoP table for 'South Africa' that was published monthly in the IMF's statistical, had always actually been the BoP table for the entire RMA, and not just for South Africa). I was sent on a three week crash course at the internal training college of the IMF in Washington DC, then instructed to start preparing to construct Botswana's first ever BoP table.

I asked for and obtained the kind cooperation of both the Trade Statistics Unit of the Central Statistics Office and the foreign currency departments of all of the commercial banks. I kept close watch over the monthly balance of payments deficit. On most days, Botswana was importing more than it exported, while during those months the receipts from exports had been slightly less than the accumulated payments for imports. I was therefore expecting the level of the forex reserves to fall slightly, because I had deliberately chosen a period in which there were no diamond export sales. You can therefore imagine my surprise when I observed that the level of Botswana's forex reserves were slowly increasing. Obviously, I was leaving something out of the analysis, but I couldn't work out what it was. Where had it all gone wrong?

Eventually, the penny dropped. Before Pula Day on 23 August 1976, the largest importers had, quite legally, built up huge rand balances at their banks in Johannesburg. When the time came for them to pay their South African suppliers for goods they had imported six weeks previously, all they had to do was to write rand cheques drawn on their own rand accounts with which to pay their debts to their South African suppliers. In effect, these wholesale importers had, quite legally, been temporarily running their own private forex reserves. After four months, all their rand bank balances were used up, and the statistical situation returned to a more normal situation.

In March 1978, discussions began between the Chief Economist of the MFDP, Mike Stevens, and Governor Quill Hermans, on whether or not the Botswana economy was strong enough to justify a 5% (upward) revaluation of the pula. Eventually, with the approval of the Board of Governors, the Minister and the President, this was done on 30 April 1978. Hermans phoned Governor de Jongh of the SARB to give him the news personally. From the expression that de Jongh used when he answered the phone, it appeared that he was quite surprised. It appeared to Hermans that the South African Governor had apparently thought it more likely that any such phone call would be to tell him that the pula had been devalued(reduced).

My final new task was to work under the direction of the Director of Operations, the senior members of staff of the BoB had to take it in turn to learn how to destroy 'soiled' bank notes that had been withdrawn from circulation because they were too dirty. These soiled notes first had several large holes punched into them so that they could not be re-used. On the day when it was my turn to witness the entire procedure, I first went (along with a security guard) into the high security vault, watched the security cage within the vault being unlocked, noted the soiled notes being loaded onto a security cart and taken under guard to the Bank's very high temperature furnace. There, the soiled bank notes were placed in the high security furnace, sprayed with a fine shower of dieseline, and then set alight at a high temperature. They were then burned for several hours. The next morning, I had to return to the scene. I watched as the ashes were carefully raked, to make absolutely sure that no bank notes remained.

As part of the BoB's campaign to explain the need for Botswana to have its own bank notes, the BoB's Governor had asked the Government Statistician, Phopi Nteta, whether he would be prepared to have an open discussion about the pula currency with Moeding College, the (Methodist supported) secondary school at the village of Otse, south of Gaborone. Part of Phopi's brief was to explain the need to burn soiled bank notes. At the end of Phopi's talk, he asked the students if they had any questions. A girl put her hand up. She said that she had a suggestion for the BoB. Instead of going through the above elaborate and time consuming procedure, why didn't the BoB simply give the soiled bank notes to the poor?

Acknowledgments

I wishes to acknowledge helpful comments on earlier drafts from Professor Charles Harvey in England, and from Dr Jay Salkin at Bank of Botswana.