CENTRAL BANK OF LESOTHO

REFLECTIONS

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CBL STAFF ETHICS SEMINAR

Providing responsive service delivery

Keynote address by
His Grace Archbishop
Tlali Lerotholi O.M.I

INSIDE

- Central Bank of Lesotho ethics seminar
- Financial education successfully integrated into grades 10 -12 curricula
- The structure of public sector in Lesotho
- Inflation - linked bonds in Lesotho
- Know your money
- Workplace occupational health and safety programmes and practices
- Stakeholder sensitization seminar 2019

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Foreword

By Dr. Retšelisitsoe Matlanyane

Governor of the Central Bank of Lesotho

INVESTING AS AN individual or at corporate level is usually dependent on critical assessment of risks related to the environment. In most countries, capital markets are construed as save investment avenues. However, inflation is one of the key risk factors considered as it can have an impact on the investment assets. In this issue, there is a conspectus introduction on how Inflation Linked Bonds could benefit both the issuer and the investors. Inflation Linked Bonds offer protection against inflation risk and preserve the purchasing power of investors.

As investment instruments are used as capital mobilization for the issuers, normally governments, it is important for the issuer, to have stable finances. Most countries have experienced some instability in public finances which gave rise to focus on fiscal arrangements. Lesotho is not an exception to the fiscal instability. The country faces decline in SACU revenue. This may call for the need for the country to identify and adapt fiscal policy rules which shall strengthen the fiscal governance.

The Bank remains committed to give the best services to its customers and stakeholders. This is dependent of on core values and ethical considerations. Compliance is one of the core values largely embraced in the Bank. Bank employees are strongly encouraged to observe and comply with all legal rules germane to operations of the Bank. In addition, they are spurred to uphold ethical conduct in dealing with customers, and stakeholders. Deriving from King IV, employees emulate the compliance culture based on how the Management gives the lead.

"Inflation Linked Bonds offer protection against inflation risk and preserve the purchasing power of investors."

In deepening the compliance and ethical culture, the Bank invited His Grace Archbishop Tlali Lerotholi O.M.I to run a workshop for the Bank's staff members on fundamentals of having an honest, hardworking workforce. He encouraged them to prioritize employer's needs and abide by the policies that enhance order and understanding among them.

The Bank and the Bureau of Statistics hosted a Stakeholder Sensitization Workshop for relevant stakeholders and entities that provide data that is used in economic reports. This was meant to improve data compilation and dissemination for macroeconomic management.

In maintaining its stakeholder centric focus, the Central Bank of Lesotho in collaboration with the National Curriculum Development Centre has finalised implementation of integration of Financial Education into Grades 10 -12 Curricula. This will help learners to be financially capable from an early age.

In keeping close collaboration with the stakeholders, the Bank hosted a student who was given an exposure into the Bank working environment as a shadow Governor for one week. This rare life time opportunity was received with exhilaration by the student who was exposed to the environment to learn from the best. Indeed, this exposure should have left an enduring inspiration and influence to our valued guest. We hope to see him making significant strides in economics or related disciplines ❑

Lesotho must take advantage of demographic dividend

By Mr. Mofuoa Mofuoa

"It is reported that the global share of old people (60 plus) has risen from 200 million people in 1950 and expected to reach 2 billion by 2050".

IT IS REPORTED that the global share of old people (60 plus) has risen from 200 million people in 1950 and expected to reach 2 billion by 2050. While population ageing started in the developed countries, it is rapidly becoming a global phenomenon especially in the developing countries; where the share of old people is estimated to reach 1.6 billion by 2050. Factors which contribute to population ageing include declining fertility rates and increased life expectancy.

Implications of population ageing on developing countries

The population ageing implies that the developing countries must act swiftly to embrace this new reality by establishing the infrastructure and policies necessary to meet the wneeds of their rapidly shifting demographics. In parallel, the developing countries, which are endowed with relatively young population, can therefore, benefit significantly from the demographic dividend before they will need to cope with getting old.

A case of Lesotho

In Lesotho, almost two- thirds of the population is exclusively the youth. The literacy rates have improved with the rising levels of education. But the country should overcome a myriad of socio-economic problems before the nation could start to benefit from the demographic dividend of its sizeably large young labour force.

The country has a high rate of youth unemployment while life expectancy is also relatively low. The high rate of youth unemployment is caused by growing mismatch between supply and demand for skills. The life expectancy is affected by a high incidence of HIV/AIDS. The implication is that the economic growth is unacceptably low relative to potential and that more can be done to lift it, especially given the available abundance of the labour supply.

Development of skills and prevention of communicable diseases

More broadly, the youth must possess the right skills to take advantage of new employment opportunities. However, this would require educational institutions to produce appropriate skills that employers need to allow for a productive absorption of the growing working-age population. At the moment, the disgruntled youth have little prospect of participating in the formal job market.

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Investments in education and economic empowerment of the youth can also help to alleviate high rates of unemployment and poverty amongst the youth. We already see encouraging signs of essential business leadership which are focused on promoting entrepreneurship and private sector-led economic growth.

Investments in HIV treatment and prevention would increase overall life expectancy and drive long- term growth. Specific health interventions directed at the youth can prevent the spread of new HIV infections thereby safeguard the future of many youths. This would prolong their productive lifespan, so does the general contribution to production activity and economic growth.

Letšeng Diamond mine awards the youth with scholarships on an annual basis. Lesotho Revenue Authority, Basotho Enterprises Development Corporation and Standard Lesotho Bank have joined forces to establish Bacha Entrepreneurship Project, which seeks to address youth unemployment by promoting entrepreneurship culture amongst the youth. The National University of Lesotho has launched an annual Lesotho Science and Technology Innovation Exhibition which aims to turn academic research into the sustainable job. Vodacom Lesotho Foundation would invest M100 million in entrepreneurship, education and health programmes to support economic development.

Conclusion

Perhaps most important, these developments can offset negative labour-market trends in a country where the private sector is too small to accommodate an estimated 7, 500 graduates who enter the job market every year. It is imperative for the government to tailor policy and innovative business ideas by developing favourable labour-market policies that facilitate entrepreneurship and job creation. In addition, the government must accelerate investment and economic reforms to support private sector development and job creation. Finally, an inclusive partnership between the government, development partners, private sector and NGOs is critical to coordinate interventions and programmes which are geared to promote entrepreneurship and achieve rapid private sector development ❑

Fiscal policy rules and their potential benefits for implementation in Lesotho

By Mrs. 'Marethabile Hlaahla

"Successful implementation of fiscal policy rules promotes fiscal discipline...".

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THE INSTABILITY IN the public finances has recently drawn attention to fiscal arrangements such that most countries are committed to implement different fiscal rules at different levels of government. The Kingdom of Lesotho is not an exception in this case. It is currently facing some development challenges coupled with declining SACU receipts which have substantially affected its revenue. It is experiencing high levels of public debt which requires prudent fiscal consolidation through mechanisms of fiscal policy rules. But the question is: which fiscal policy rules can be implemented in Lesotho? This paper aims to highlight the fiscal policy rules which can be implemented in Lesotho and suggests possible benefits.

The following sections will be elaborated in detail in this paper: definition of the fiscal policy rules, experiences of other countries on fiscal policy rules implementation and the conclusion and the recommendations.

Definition of Fiscal Policy Rules

The fiscal policy rules are fiscal management instruments that pressurize decisions on fiscal policy. They can be in the form of numerical and/or procedural fiscal policy rules and their boundaries cannot be changed frequently. They are binding for a minimum period of 3 years. These rules are used to strengthen the fiscal governance of a country. They aim to aggregate fiscal discipline and macroeconomic stability.

The numerical fiscal policy rule is defined as a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates. There are 4 types of numerical fiscal policy rules: budget balance rule, debt rule, expenditure rule and revenue rule. The fiscal policy rules mentioned above promote the objective of fiscal and debt sustainability. They have numerical targets on public finance aggregates covering at least central government, as a minimum level of government. Only de jure numerical fiscal policy rules are considered.

The procedural fiscal policy rules are the ones that define the features and collaboration of participants in the budget process through effective fiscal management, transparency and accountability. They support the implementation of numerical fiscal policy rules, as such, need to be addressed first for numerical rules to be effective. They are usually embodied in the sound processes and systems of public financial management framework. Examples include: adoption of medium term expenditure framework, establishment of a buffer or stabilization fund, and adoption of international standards.

In general, the fiscal policy rules (numerical and procedural) contain various characteristics which can serve different fiscal goals. They are characterised by their coverage and legal status. Thus, they can be adopted in commitment form, legislation form, constitutional form, or in the form of international treaties by sub-national or national governments. They are implemented by low income countries, emerging economies and advanced economies. Some countries have legal binding fiscal policy rules through the fiscal responsibility laws, or constitutional, while other rules are based on international agreements.

Experiences of Other Countries

About 89 countries, since 1985, have established at least one fiscal policy rule, be it in the form of numerical or procedural rule. These countries comprise 32 advanced, 33 emerging, 24 low income, of which 21 countries are in African continent. The African countries include 3 SADC (Botswana, Congo Republic, and Namibia) and 2 SACU (Botswana and Namibia) member states.

> "The numerical fiscal policy rule is defined as a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates."

The first countries to adopt numerical fiscal policy rules are Australia, Germany, Indonesia, Japan, Malaysia, and Singapore. Australia, unlike other 5 countries which have continuously implemented numerical and procedural fiscal policy rules, abandoned fiscal policy rules for a period of 10 years between 1988 and 1998. Australia did not adhere to a rules-based framework (budget balance, revenue and expenditure rules at national level) for fiscal policy that was aimed to guide spending and tax decisions. By that time, there was no independent statutory body whose mandate would be to execute or monitor the implementation of the fiscal

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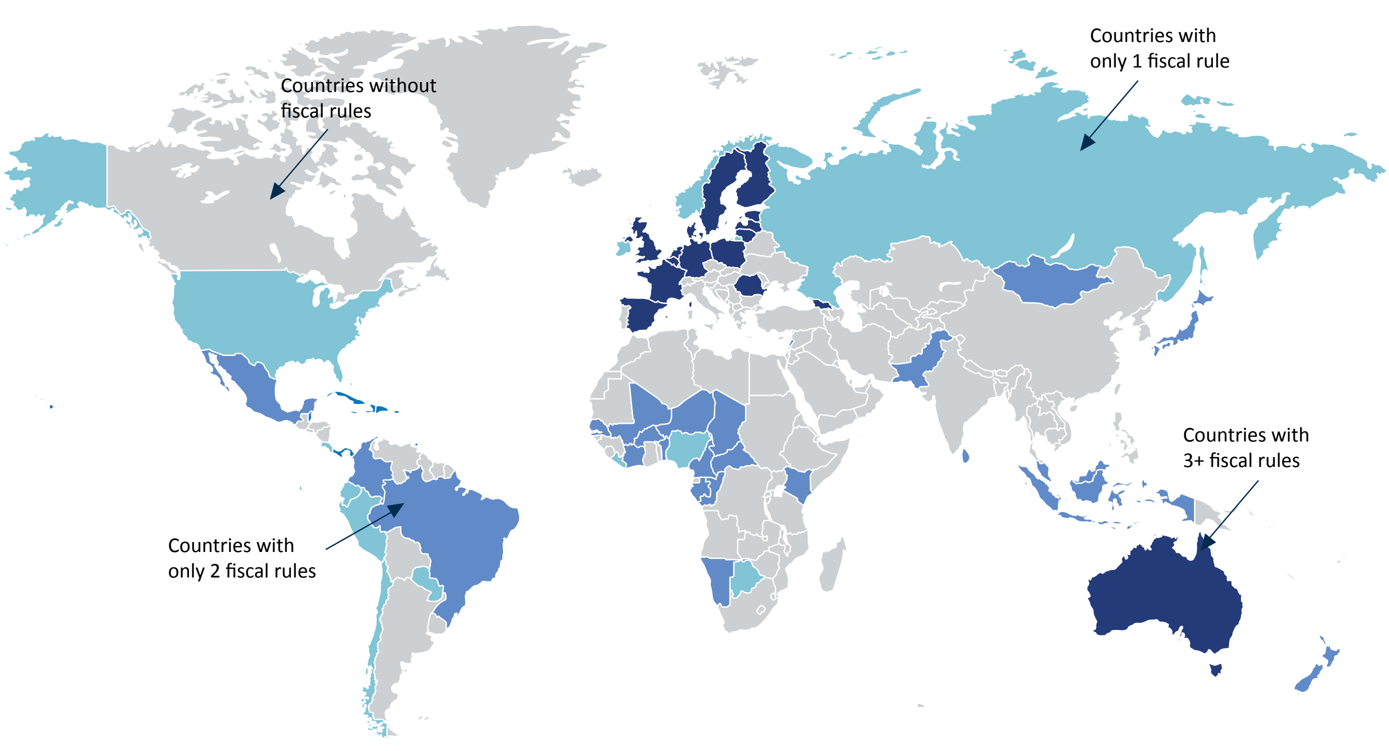
P05 ▶ policy rules. As a result, the fiscal positions of the Australian Government deteriorated and also led to a downgrade in terms of credit ratings.

Moreover, the first low income country that adopted numerical fiscal policy rules was Kenya in 1997, implementing 2 fiscal policy rules (debt rule and revenue rule) at national level under political commitment. Kenya has successively maintained these rules and never abandoned them. In particular, it succeeded in maintaining 21-22 per cent of revenue to GDP which increased to 24 per cent in 2013. However, the debt rule has been characterised by changing and non-binding targets. Kenya was not eligible under the Highly Indebted Poor Countries initiative as it ranked at low risk of external debt distress. A country is said to be in debt distress when all its debt burden indicators (for example, ratios of debt-to-GDP, debt-to-revenue, and debt-to-exports) breach the thresholds. Though Kenya did not implement expenditure rule, it however experienced weak co-movements between GDP and expenditure since fiscal policy rules involve very complicated administrative, institutional and political dimensions. Out of 54 African countries as mentioned earlier, only 21 countries have implemented numerical fiscal policy rules. None of these countries has adopted at least 3 or more fiscal policy rules. They have implemented 1 or 2 fiscal policy rules. Figure 1 illustrates countries which have implemented fiscal policy rules while Table 1 indicates those that implemented numerical rules only.

Figure 1 Implementation of Fiscal Policy Rules by Countries in 2015



Source: IMF Fiscal Rules Database (2015)

Table 1 Number of countries which adopted numerical fiscal policy rules as of 2014

-	Countries	2014			
No.		3+ Rules	2 Rule	1 Rule	Rules recently abandoned - targets remaining
1.	Advanced countries	13	13	4	2 (Canada & Iceland)
2.	Emerging countries	7	13	11	2 (Argentina & India)
3.	Low income countries	0	18	5	1 (Maldives)
4.	African countries	0	16	5	0
5.	SADC member states (Botswana, Republic of Congo, Namibia)	0	2	1	0
6.	SADC member states (Botswana and Namibia)	0	1	1	0

Source: IMF website (2015)

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Benefits and Drawbacks of Fiscal Policy Rules Implementation

The adoption of fiscal policy rules can be beneficial to governments by improving fiscal balances and contributing to economic growth. Some countries have benefited from the adoption of fiscal policy rules through the improved fiscal performance in terms of fiscal consolidation and fiscal adjustments. Thus, the budget balance and debt rules in EU countries have contributed to better budgetary outcomes. Furthermore, more fiscal discipline has been experienced in terms of national fiscal policy rules than rules at lower level of government. Moreover, strong legal-rule based and strict enforcement have impacted positively on fiscal performance.

Australia, in particular, has experienced increased revenue, decreased expenditure, improved fiscal deficit and a fall in the debt levels due to implementation of fiscal policy rules. This success was due to the strong external economic conditions coupled with the decisions of the government on tax and spending. Thus, fiscal policy rules helped Australia to impose fiscal discipline. Furthermore, the positive outcomes from the adoption of fiscal policy rules were brought about by the following: adoption of fiscal responsibility legislation (that stated clearly legislated fiscal policy rules that would help impose fiscal discipline) and implementation of fiscal consolidation.

> "Successful implementation of fiscal policy rules leads to increased revenue, decreased expenditure, improved fiscal deficit and a fall in the debt."

As part of measures undertaken to achieve a success from the adoption of fiscal policy rules, Australia managed to implement short, medium and long term fiscal strategies and targets. It implemented fiscal policy together with inflation targeting monetary policy and exchange rate policy. It further maintained regular fiscal and economic updates (for example, economic and fiscal outlook report, five-year fiscal sustainability report, and budget outcome report) to increase fiscal transparency and accountability so as to ensure that public is well informed of fiscal debates.

Fiscal policy rules can help countries to improve their credit worthiness and to gain the lasting confidence of the financial markets. They can help countries to attain sustainability, avoid negative spillovers, and or gain policy credibility.

In terms of drawbacks, inflation can hinder the design and implementation of fiscal policy rules. Fiscal policy rules constrain the ability of governments to do countercyclical fiscal policy making. This means that during the economic downturn, the government will not be flexible to reverse the economy due to the rules and as a result any abandonment of the rule may result in loss of fiscal policy credibility and investor confidence. Australia, as an example, has some drawbacks on fiscal policy rules implementation. It abandoned fiscal policy rules during the economic and political recession, when the government had to provide fiscal stimulus in the local economy thereby supporting microeconomic incentives other than macroeconomic stabilization. The other drawback was due to change of government which came up with new changes that affected the budget.

These benefits and drawbacks form the basis from which countries willing to implement fiscal policy rules can draw lessons from including Lesotho with its current macroeconomic volatility where there is declining revenue, accumulating external debt and increasing unemployment.

Conclusion and Recommendations

Lack of legal binding framework on fiscal management from which procedures can be derived makes the country to adopt adhoc measures which are not sustainable and increase risk towards maintaining fiscal and debt sustainabilities, a situation which prevails in Lesotho.

There is a need to implement fiscal policy rules in Lesotho, be them numerical or procedural fiscal policy rules. Successful implementation of fiscal policy rules leads to increased revenue, decreased expenditure, improved fiscal deficit and a fall in the debt. This success can only be achieved if there is a strong external economic condition coupled with the decisions of the government on tax and spending internally which promote fiscal discipline.

Furthermore, Lesotho has to adopt legislated fiscal policy rules that would help promote fiscal discipline

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in the implementation of fiscal consolidation. The adoption of the core principles (accountability, transparency, and stability) of fiscal management through statutory instruments, like fiscal responsibility frameworks, may help this country implement fiscal policy rules to achieve fiscal consolidation goals. Lack of commitment to fiscal discipline may hinder the achievement of fiscal consolidation goals.

Moreover, the country needs short, medium and long-term fiscal strategies and targets that accompany fiscal policy rules. For example, Lesotho needs to align fiscal policy rules with the monetary policy. This will help in inflation targeting.

The country further needs to maintain regular fiscal and economic updates (for example, economic and fiscal outlook report, five-year fiscal sustainability report, and budget outcome report) to increase fiscal transparency and accountability so as to ensure that public is well informed of fiscal debates.

Thus, the threatening macroeconomic instability, currently experienced in this country relating to the ratio of public debt-to-GDP, may be mitigated through implementation of debt rule in conjunction with expenditure rule (recurrent and capital).

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Inflation – linked bonds

By Mrs. 'Malefu Manamathela

"To counter the negative effects of inflation on investments, financial instruments such as Inflation-Linked Bond (ILB) are now widely used".

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INFLATION IS A QUANTITATIVE measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time (Chen 2019). The level and volatility of inflation have a crucial impact on the decisions of financial investors. To counter the negative effects of inflation on investments, financial instruments such as Inflation-Linked Bond (ILB) are now widely used. An ILB is a bond which has its coupon payments and principal adjusted for inflation by linking the payments to a nationally recognized inflation measure such as the Consumer Price Index (CPI).

The ILBs have a long history, dating back to the 17th century when the first known indexed financial instrument was issued by the State of Massachusetts in 1790. United Kingdom introduced their ILB in 1981 and the ILB has since spread to other countries in the region. Internationally, the role of ILBs is growing and they have become integrated in many portfolios in developed, emerging markets and developing economies.

ILBs have been issued for different reasons and in different circumstances. Reasons advanced by various countries as outlined by Garcia and Rixtel, (2007) can be broadly categorized into three: raising of long term capital in the bond market by countries experiencing high and volatile inflation (Chile, Brazil, Argentina, Turkey and Italy) which could not be achieved using plain vanilla bonds.

"United Kingdom introduced their ILB in 1981 and the ILB has since spread to other countries in the region."

Secondly, other countries issued ILBs to strengthen credibility of their policies aimed at controlling inflation, which demonstrates commitment of the government to these policies and reduce cost of borrowing, by exploiting excessive inflation expectations. This group is made up of the following countries; United Kingdom (1981), Australia (1985), Sweden (1994) and New Zealand (1995).

Lastly, some countries issued these securities for social welfare benefits and to complete financial markets by providing effective hedge against inflation, especially to the pension sector. Such countries include; Canada (1991), U.S (1997), France (1998), Greece (2003), Japan (2004) and Germany (2006).

In the region, South Africa became the first African country to issue ILBs in 2000 (Deacon et al., 2004). Mauritius, Namibia and Nigeria also trade ILBs. Angola has also introduced ILB, however, they remain essentially inactive (Chironga, 2015). Although a few countries are already trading ILBs, the instruments have not been issued extensively in the African region despite their rapid growth in other parts of the world.

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How do they work?

Plain vanilla bonds promise fixed interest payments as well as principal throughout the life of the bond. The real value of future payments remains unknown at the issuance of plain vanilla bond. Both the issuer and purchaser face inflation risk (the risk of unanticipated changes in the purchasing power of the nominal payments promised by bond).

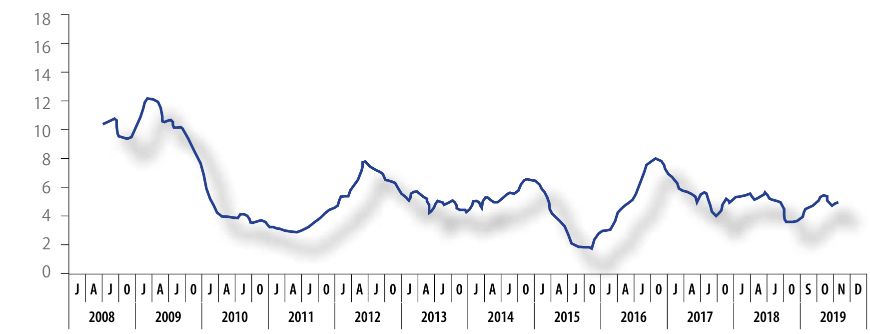
The goal of ILBs is to ensure purchasing power by directly linking returns to inflation for the bond's entire term. Linkers, therefore, contain two forms of payment: the real interest that is fixed at the beginning of the term, and compensation for the loss of purchasing power. The real income over the term is certain, whereas the nominal income is determined ex post. The bond is provided with a fixed real coupon. The nominal coupons and the nominal face amount (and thus the repayment of the principal) are calculated by increasing the real quantities based on the increase in the inflation rate.

Implementation of ILB require consistent, timely and reliable indicators of inflation. In the pricing of ILB, issuance base inflation figure has to be determined on the date of issue and measured over the tenor of the bond. Bureau of Statistics - Lesotho has been compiling and publishing CPI monthly since January 2002. The history of the index is provided below.

Comparison of a nominal bond with ILB

Consider a 5 year ILB with a semi-annual coupon rate of 8 per cent per annum. The principal amount of the bond is LSL 5,000.00. For the ILB, the principal amount of the bond is adjusted by the inflation rate and the subsequent coupons are calculated using the 8 per cent per annum coupon rate as shown in table 1 below. The coupon values in a plain vanilla bond are constant for the duration of the bond and upon maturity, the bondholder receives the principal and the coupon.

Figure 1 Inflation rates (2008 - 2019)



Source: Central Bank of Lesotho

Table 2 Inflation lined bond illustration

	Time	Inflation			Coupon		ILB	Plain vanilla bond
No.	(Years)	Annual	Semi-annual	Principal	Annual	Semi-annual	payments	payments
1.	0			5 000,00				0
2.	0,5	4,2%	2,1%	5 105,00	8%	4%	204,20	200,00
3.	1	3,3%	1,7%	5 189,23	8%	4%	207,57	200,00
4.	1,5	3,6%	1,8%	5 282,64	8%	4%	211,31	200,00
5.	2	5,5%	2,8%	5 427,91	8%	4%	217,12	200,00
6.	2,5	7,5%	3,8%	5 631,46	8%	4%	225,26	200,00
7.	3	5,8%	2,9%	5 794,77	8%	4%	231,79	200,00
8.	3,5	5,0%	2,5%	5 939,64	8%	4%	237,59	200,00
9.	4	4,8%	2,4%	6 082,19	8%	4%	243,29	200,00
10.	4,5	5,6%	2,8%	6 252,49	8%	4%	250,10	200,00
11.	5	5,4%	2,7%	6 421,31	8%	4%	6 678,16	5 200,00

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Why issue ILBs?

Benefits to Issuer:

Deepen the domestic bond market by providing a wider variety of instruments.
Diversify funding sources for government by attracting new investors (e.g. pension funds).
Matching of government assets and liabilities.
Serve as bench mark for other ILBs issued by Agencies and Corporate Issuers.

Benefits to Investors:

- ILBs are designed to help protect investors from the negative impact of inflation by contractually linking bonds' principal and interest payments to a nationally recognised inflation measure such as CPI.
- Offer protection against inflation risk; thus the purchasing power of investors is preserved.
- Serve as an incentive to save for investors; thus promoting savings culture.
- Provide investors with opportunity to diversify their portfolio.
- Possess high credit quality since they are government securities backed by full faith and credit of government.

Why should Lesotho offer ILBs?

Lesotho still lags behind in as far as the development of financial markets is concerned. As an asset, ILB's can be an ideal hedge for institutions whose liabilities fluctuate sharply with the inflation rate (Stumpp 2003). This applies mostly to the liabilities of many defined-benefit plans whose obligations are closely tied to changes in inflation or wages. If such institutions invest mainly in traditional bonds, they run the risk of the value of their assets declining significantly as the value of their liabilities increase as a result of a sharp rise in inflation. This feature helps to effectively control many problems that traditional investment vehicles cannot solve.

Currently the market does not have the kind of instrument that protects the investors from the risk of inflation. If ILBs are issued, they will fill this gap since long-term investors would like to preserve the value of their investment especially in a case of countries like Lesotho where price stability's future is not known with certainty.

ILBs will allow the government to reduce its cost of financing. If investors are willing to pay a premium for protection against inflation, then the premium will be reflected in a lower yield paid by the government on debt instruments that provide such protection. Indexing the government's debt allows a more accurate matching of the government's assets and liabilities. A large share of the government's income (e.g. taxes) is more or less indexed to inflation. ILBs therefore allow the risk of a discrepancy between the government's assets and liabilities to be reduced. To the extent that a more precise matching of assets and liabilities reduces the financial risks to which the government is exposed.

Lesotho stands to gain in terms of; social welfare improvement, efficient debt management and credibility as well as development of capital markets.

Conclusion

ILBs could be a valuable innovation in the Lesotho financial markets, providing benefits to the Government as well as investors. Most importantly, the introduction of ILB will have benefits to both the issuers and investors especially in the management of pension assets. The introduction of one financial innovation may in turn facilitate other innovations which would help to complete financial markets.

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Know your money

By Mr. Thebe Ntho

"As the technology is utilized to improve security features of currencies, the counterfeiters also work hard to enhance the materials used in their unlawful acts of producing illegal counterfeit currency."

IN THE 21ST CENTURY the world has witnessed significant technology improvements which have changed various spheres of life. Production of currency is also one of the affected areas and largely influenced by technology. As the technology is utilized to improve security features of currencies, the counterfeiters also work hard to enhance the materials used in their unlawful acts of producing illegal counterfeit currency. This heralds the need for every individual to know the security features of the currencies that circulate in Lesotho.

The knowledge of security features of currencies helps to protect the country's economy and enable individuals to avoid falling into the trap of being in possession of counterfeit which is an offence. As counterfeiting of currency can affect anyone, it is important to know security features and contribute in combating counterfeiting.

The Lesotho currency has the following three levels of security:

(a) Level 1 Security features

These features that are visible to the human eye (general public) and do not require the use of any device to be seen on a banknote.

(b) Level 2 security features

These can only be visible under devices such as ultra violet (UV) light, magnifying glass and the use of small counting machines.

(c) Level 3 Security Features

These are forensic security features which are detected by high speed processing machines used in the Central Bank.

In this paper only level one security features will be briefly highlighted. It is of paramount importance for every individual to know these features because they can be seen by a naked eye. These include the watermark, security thread, see through, raised printing and latent image.

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1

Water mark. If the note is held up to the light, the water mark on the left of the note made with the portrait of Morena Moshoeshoe I can be located, Basotho hat and the denomination value.

2

Security thread. When the note is held up to the light, the security thread can be seen as a continuous strip running from the top to the bottom of the note except on M200. The text that reads as CBL can be located.

The images of the Basotho hat and shield in the wide Silver stripe on M200 banknote, when the note is held up to the light two thin parallel lines alongside the wide Silver stripe will be seen and read CBL and 200.

3 **See through feature**. Locate the outline of the Basotho Hat motif. The Basotho Hat motif and denomination value fill in with the image on the reverse of the note.

4 **Raised or Intaglio Printing**. Feel raised or intaglio printing on the words Central Bank of Lesotho on all denominations. On M200, the same feature can also be felt on the portraits of our Kings and on the value at bottom left.

5 **Latent image**. When the note tilts horizontal to the eyes, denomination value can be seen on the note, underneath King Moshoeshoe 1.

Building and sustaining an effective compliance culture within financial institutions

By Mrs. 'Makananelo Kome

"An appropriate compliance culture is one in which an organisation and all of its staff embrace and actively demonstrate as the need to comply in substance, avoiding tick box compliance".

Defining Compliance Culture

There is generally a little consensus on the definition of a compliance culture but, research and thought leadership have a generally acceptable concept: compliance culture is a workplace behaviour that meets ethical and legal rules. Therefore, an organization should promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law to have an effective compliance and ethics program.

The compliance culture of an organisation is closely linked to its ethical values and reflects the collective values, norms, beliefs, behaviours, assumptions, standards and expectations in respect of compliance and related behaviour by an organisation and its staff. An appropriate compliance culture is one in which an organisation and all of its staff embrace and actively demonstrate as the need to comply in substance, avoiding tick box compliance. Therefore, understanding how "ethics" and "compliance" differ and complement each other will help ensure that compliance program is even more effective.

How Can Institutions Improve Compliance Culture Among Their Staff?

King IV emphasises on ethical leadership. In any entity, it is the responsibility of those charged with governance to create an ethical culture.

Setting the Tone at the Top and Management Taking the Lead

"Employees pick up on the lead of their bosses". Thus, management plays a critical role in influencing a culture of compliance. When the bosses take compliance seriously, the employees are far more likely to take it seriously too. If they do not, neither will the employees because senior management are visible role models that employees look up to for ethical behaviour. Their behaviour sends a message to everyone that the company takes compliance with laws and regulations seriously.

Ethics

Actually, "ethics" is frequently presented as a higher moral standard or value, sometimes reduced to dictums such as "do the right thing," or thumbnail checks like "how would you feel if your actions were

1. Culture is defined as a set of shared attitudes, value, goals, and practices that
2. characterize an institution
3. GACP
4. Everfi – Lead Legal Editor - Douglas Kelly 2017 – Compliance Culture.

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P16 ▶ recounted in today's newspaper?" However, the problem with seeing ethics so conceptually is that it fails to take advantage of how ethics can support an overall compliance program. If compliance is the articulation of the expected standards of behaviour, then ethics is the means by which the organization comes to comply, or not, with those standards. Why do we need to focus on both? A company cannot achieve compliance without first addressing the behavioural issues in its culture that impact the ability, and the desire, to follow the rules.

Change Management

Institutions must create an environment where they understand the nature of any gap between the desired culture and the actual culture. This should be a first step in determining the nature of any ethics-based risks inside the institution and to embed values such as predictability, and accountability in the compliance culture.

Integrated- Based Approach

In many organizations, compliance management has developed and remained as a series of silos, each meeting with its own needs but not coordinated across organizational levels. It has been said that the world's most admired companies like Apple and Google, have successfully integrated their cultures with their business goals.

In her breakthrough Harvard Business Review article in 1994, Professor Lynn Sharp Paine stated the case for a values-based approach to ethics and compliance: *A firm using a compliance-based program focuses its efforts on deterrence through threat of detection and punishment for violations of the law or the code of conduct. A firm using an integrity-based approach, on the other hand, focuses its efforts on establishing legitimacy with employees through internally developed organizational values and self-governance. In a successful ethics and compliance program, the "what" and the "how" need to each be seen as core components that must meet the organization's highest standards*.

Where ethics and compliance can be seen as partners on the business side, it will be able to create the good relationships that will not only make it easier for it to do its job, but also help it to be seen as a vital.

1. SCCE Compliance Handbook 2014

What Is The Role Of The Compliance Staff In Building A Compliance Culture?

Employees at all levels become frustrated when their managers are not consistent in their actions. Other times they see inconsistency when a manager is seen as saying one thing and doing another, the classic "walking the talk" gap. Consequently, integrity and consistency of compliance staff is vital for the culture.

Compliance function must be a partner in employee engagement. Ethics and compliance staff just, like institution leaders, need to take the initiative in showing how the role it plays inside the organization is far more than just a legal minimum or people-based risk management.

Further, standards with regard to the roles and responsibilities of the compliance function include: identify, assess and manage compliance obligations. In order to assist management in discharging their responsibility to comply with applicable compliance obligations through the provision of compliance risk management services, the compliance function should facilitate the development and assist in the implementation of a compliance risk framework.

The compliance function should advise the governing body, management and appropriate staff members on all aspects of meeting applicable obligations and facilitate appropriate trainings, while also maintaining meaningful communication on compliance.

What Are The Elements Of Strong Institutional Compliance Culture?

Clear and updated Compliance Policy, Framework with Clear Values and Systems

Governing body should be an ultimate responsible for compliance culture. There should also be established expected values and behaviour in respect of compliance, and governance structure must establish, facilitate and emphasise the expected compliance culture.

Lead by Example

Management promote and enforce expected values and behaviour, while compliance advises on and assists the governing body and management to establish, communicate and promote and appropriate compliance culture. Staff act in accordance with expected values and behaviours and there is periodical awareness, reporting and trainings ❑

My CBL experience as a shadow governor

By Mr. Lehlohonolo Mapetla

> **"Having completed this programme, I can positively say that it was the most insightful week of my life".**

WHEN IT COMES TO A "work experience" programme, the task of having to pick both an industry of interest, and also an institution fit for your endeavours, appears exceptionally daunting. I can accurately say that this was the case for many of my fellow learners at school, but it quite surprisingly wasn't for me. My unrivalled passion for economics and my natural ability of grasping the core principles of the subject, left me with no clear choice but to do my work experience at the highly professional Central Bank of Lesotho. Having completed this programme, I can positively say that it was the most insightful week of my life.

The thought of shadowing the Governor of the Central Bank of Lesotho was enough to put me into a state of unmitigated nervousness. Now together with the mission of signing confidentiality agreements, I was left wildly questioning what this experience would entail. It didn't take long to answer my questions, as on my first day alone, it was made succinctly obvious that being an economist is not a stroll in the park. Meetings about economic reforms, going through classified mail with the Governor and being briefed on the different tasks performed by the Financial Markets Department were a few key pointers for this hypothesis on the first day. I realised in these activities that the Bank performs an extremely diverse group of tasks that keep the whole economy afloat.

On my second day, I met the Research Department for the first time. I was told by the Governor that the Research Department is where I would go if I was looking for the "master" economists of the Bank, and rightfully so. Economists there work tirelessly to produce and compile economic statistics based on research and keeping up to date with every single bit of economic news published. I also had the privilege of meeting with members of the Banking Supervision Department. I acquired valuable knowledge on the relationship of the Central Bank with commercial banks and other financial institutions, and how certain frameworks test, and policies are used to strengthen the financial sector while ensuring the security of liquidity.

My third day was, without a doubt, the toughest and most eye-opening. I had been given the task of working with a member of the Research Department (Mr. M. Damane) to formulate a policy brief which would be presented to a handful of selected Heads of Department. The task at hand meant that I had to do research on a recent event in the global economy (Saudi Arabia Oil Attacks) and explain how and to what extent it would potentially affect the local economy. After hours of extensive, tiring research and eventually being able to draw up an outline of my presentation, it was made clear to me that there were lots of flaws in the way I had done my research and approached the presentation. That moment perfectly painted the picture of what it means to be an economist, but it also motivated me to prove

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myself adequate to complete the formidable task. After retiring from work that day, I didn't fail to realise the fact that I had to burn the candle at both ends in order to pass off a worthy brief, and by the time I was done with the work for the presentation, I had no left wax to burn through anymore.

My last day at the Bank, I would say, was the most memorable for me. I was part of the Executive Committee meeting and an item on the agenda for that meeting made me realise the magnitude of my week's experience. I had been granted the opportunity to share my experience for the week and also express my gratitude to the very many that had taken their time to make sure that I understood key economic principles and also those who had organised what had turned out to become a life-altering path along a long journey. On this day, the Director of Research, Mr. Lehlomela Mohapi, also let me in on what I believe to be the most accurate analogy of the importance of any Central Bank in an economy, “A Central Bank is like oxygen. While it exists, no one pays any attention to it. But the minute it ceases to exist, it is the only thing that people think about”. That quote, very elegantly made crystal clear an area that I believe is going to shape the rest of my life. But the “crown jewel” for my entire week's experience came after lunch on that day. The nerve-racking presentation of my policy brief. After hours of research, a sleepless night and tons of advice from a highly qualified economist and mentor, Mr. M. Damane, I successfully presented the brief. It was met with tons of positive feedback and was classified as one worthy of being sent to the Honourable Minister of Finance, for genuine economic consideration.

In conclusion, my work experience at the Central Bank of Lesotho was more than just that. It was a tremendously insightful introduction to my ‘extended family’. It is impossible to put into words firstly, how impressed I was with the professionalism and depth of knowledge shown by every single member of the Bank and secondly, my gratitude to the Governor, Dr. A.R Matlanyane; the Advisor to the Governor, Dr. R. Masenyetse; the Secretary to the Governor, Mrs. M. M. ‘Musi, and finally a mentor in my journey, Mr. M. Damane. The work ethic and the intelligence shown by members of staff of the Bank have set a clear sign-post for where I ought to be headed and have certainly served as daily inspiration to do my best in all my life endeavours now and moving into the future ❑

Central Bank of Lesotho ethics seminar:

Providing Responsive Service Delivery

> “The central goal of the Central Bank of Lesotho (CBL) is to achieve and maintain price stability .”

THE PRINCIPAL GOAL of the Central Bank of Lesotho (CBL) is to achieve and maintain price stability. In pursuit of this mandate, the officials of the Bank interacts with a wide range of stakeholders including: government; employees; commercial banks; insurances; micro finance institutions; mobile network operators; development partners; central Banks; correspondent banks; counter party banks; collective investment schemes; exchange bureaus; money transfer companies; insurance brokers, agents and other financial intermediaries; credit bureau; and the general public. Therefore, engaging with its internal and external stakeholders is essential to ensure provision of a responsive service delivery to all strategic partners.

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It is against this background that the Bank organised the "CBL Ethics Seminar" which was held at the Lehakoe Recreation and Cultural Center of the Bank on Friday 06th September, 2019. In her opening Remarks, the Governor of the Bank, Dr. Retselisitsoe Matlanyane, reiterated that members of staff should align their individual behaviour with the corporate culture of the Bank based on the principles of Stakeholder Centricity, Trust, Accountability, Integrity and Respect (STAIR). She indicated that, these principles were enshrined in both the strategy, as well as Code of Conduct and related policies, guidelines and procedures of the Bank. In this regard, she averred that CBL culture referred to a set of values, assumptions, behaviours, attitudes and beliefs resulting from the history of the Bank.

Considering that CBL Staff was the interface between the Bank and its stakeholders, and the fact that their level of service quality had impact on stakeholders, she reminded them that their behaviour could affect, both positively and negatively, the brand perceptions and relationships between the Bank and its different stakeholder groups. Therefore, they should always:

- Show professionalism while dealing with their business;
- Be impartial and transparent at all times in the performance of duties;
- Demonstrate excellence and innovation;
- Show courtesy, integrity and neutrality in dealing with stakeholders;
- Act responsibly and in accordance with the rules and regulations of the Bank; and
- Demonstrate integrity and respect all rules.

In conclusion, she invited, His Grace Archbishop Tlali Lerotholi O.M.I who was the guest speaker to deliver his motivational talk to inspire participants. To start with, the Archbishop contextualized the acronym CBL to mean "Center of Business Leadership". He, therefore, urged members of CBL staff that, while delivering their services, they should always take note of the following eleven (11) 'Ps':

- ***Public asset:*** reiterated that, as a government entity, CBL was a public asset;
- ***Promoter and protector of nation's assets:*** stated that CBL was a public institution, hence should strive to meet the needs and expectations of stakeholders at all times. In particular, the staff of the Bank shall comply with the confidentiality requirements to do with the important assets being protected by the institution such as money;
- ***Professionals:*** members of staff should not only regard themselves as promoters and protectors of national assets, but professionals who are expected to act ethically while performing their duties;
- ***Personalities:*** as a group of people working for the Bank, they brought different personalities with them (boleng). As such, they needed to abide by the rules and values governing behaviour within the Bank;
- ***Principles:*** take note that there were principles guiding their behaviour which were based on values;
- ***Priorities:*** they should manage their priorities well by putting employer's priorities first while on duty;
- ***Policies:*** they were expected to abide by the policies guiding behaviour within the Bank, and these policies might be referred to as clear guidelines to bring order and common understanding among them;
- ***Processes and procedures:*** there were processes and standard practices to be followed while delivering service. These practices were meant to bring their different personalities together to function as a unit; and
- ***Procurement:*** He singled out procurement as one of the most sensitive parts of the Bank, hence all procurement processes shall be followed to the latter thus promoting and maintaining the image of the institution.

In conclusion he alluded that CBL as an institution should 'listen' how its stakeholders expected to be served rather than 'telling' or ignoring the needs, expectations, views, ideas and perceptions of stakeholders ❑

Stakeholder sensitization seminar 2019

Data for Policy and Decisions

“If you can’t measure it, you can’t manage it.”

THE BANK IN COLLABORATION with the Bureau of Statistics (BOS), organized a sensitization workshop for entities that provide data and use economic reports for their various planning and decision making processes on 28th August, 2019. This was done as an attempt to create a close collaboration with same institutions in order to improve data compilation and dissemination for macroeconomic management. The theme of the meeting was: ***“If you can’t measure it, you can’t manage it”.***

Why CBL/BOS partnership?

BOS is mandated to collect data and produce quarterly and annual GDP estimates that come with a lag of three months and six months respectively, after the reference period. CBL prepares periodic economics reports, macroeconomic outlook , and research bulletins . In Addition, the Monetary Policy Committee (MPC) of the CBL, holds its meetings every two months. These reports and meetings are informed by recent economic developments across the four sectors of the economy, namely - monetary and financial sector, government budgetary operations, international economic activity and the real economy, accompanied by employment developments. However, all these, but monetary data were at most available timely.

> To improve the quality of statistics, there is a need for highly dependable and timely high-frequency data.

To improve the quality of statistics, there is a need for highly dependable and timely high-frequency data. To achieve this, the Bank in collaboration with the BOS facilitated the 2019 Stakeholder Sensitization seminar held on the above-mentioned date. The seminar was aimed at establishing closer working relations with different stakeholders, both government and private sector, that generate, use and/or need the same data for overall macroeconomic management. This would be realized through meetings whose purpose is to build a rapport with the stakeholders and to demonstrate the importance of the statistics needed on a timely basis. The proceedings of the seminar are summarized below;

Proceedings of the Seminar

Opening remarks

The seminar was officially opened by the Director of Research, Mr. Lehlomela Mohapi. During his remarks, the Director highlighted the role of the reports produced by CBL given the available data. In addition, the importance of data was emphasized indicating that it was for policy and decision making. BOS presented key statistics for the country which included 10 years GDP growth rates, poverty line, and unemployment rates, just to mention a few.

The sections within the Department expanded their presentations by including as-is situation and ideal situation reports. Furthermore, current challenges and solutions with regard to data were presented before the stakeholders.

1. Economic reports include monthly, quarterly and annual reports.
2. Economic forecast report is published biannually
3. Research Bulletin contains research papers by CBL staff.

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Mr. Retšelisitsoe Mabote - the presenter in the stakeholder sensitization seminar

Participants in stakeholder sensitization seminar

Discussions (Questions and Answers Session)

The interesting session of the day was the discussions, questions and answers session. The summary of the proceedings is as follows:

a) ***Data privacy***: Stakeholders raised the issue of privacy with the data they provide to the CBL since most of it is highly confidential. When addressing the concern, the stakeholders were made aware that the department only publishes data in aggregated form. The same applies to the data submitted to BOS.

b) ***Detailed data***: In addition to data privacy, the level of depth/ detail of data was also an issue of concern, which was addressed same as above.

c) ***Collaboration***: one of the stakeholders (Lesotho National Development Corporation) vowed to collaborate with the Bank.

Conclusion

The seminar was successful in many ways, from attendance, participation, as well as, to preparedness of the host. It is, therefore, ideal to host such seminars regularly to achieve and maintain strategic relationships among stakeholders ❑

Financial education successfully integrated into grades 10-12 curricula

"This integration will make school leaners to be financially savvy at an early age, that is, knowledge of the productive use of money, avoiding exploitative financial practices, undue risks and over–indebtedness to increase savings and financial flexibility".

HAVING SUCCESSFULLY INTEGRATED financial education (FE) into Grades 8-9 curriculum in 2017, CBL in collaboration with the National Curriculum Development Center (NCDC), successfully implemented a workshop which was held at Mmelesi Lodge from 15th to 19th July, 2019.

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It was intended to integrate FE into Grade 10 curriculum, and develop scope and sequence charts for Grades 11-12.

It will be recalled that this project was undertaken by the Government of the Kingdom of Lesotho under the leadership of the Bank in 2015 as part of the country's efforts to promote financial literacy, capability and inclusion among the population of Lesotho, school learners in particular. The NCDC was represented by experts in the following learning areas: Mathematics; Home Economics and Fashion and Textile; History; Tourism; Development Studies; Arts and Entrepreneurship; Business Education and Geography while CBL was represented by officials from the Departments of Corporate Affairs and Enterprise Risk Management.

According to the Acting Director of NCDC, Mr. Zongezile Dlangamandla, the integration of FE into the syllabus would be a long term solution that could benefit senior curriculum specialists, teachers and students. "This integration will make school leaners to be financially savvy at an early age, that is, knowledge of the productive use of money, avoiding exploitative financial practices, undue risks and over–indebtedness to increase savings and financial flexibility", he said.

Mr. Dlangamandla was optimistic that this integration would contribute to the creation of a better tomorrow for Lesotho. He said that, "Unlike us, financially literate youth, shall make informed decisions for themselves and their families". For instance, "I had an investment policy with one of the local insurance companies. At maturity, I purchased luxury goods rather than basic ones, simply because, I did not have a clear goal or plan when that investment matured". In conclusion, he stated that he was hopeful that the NCDC officials were going to share the knowledge and experience gathered during that week, not only for their personal benefit, but fellow teachers as well.

During his presentation to the participants, Chief Corporate Communication of the Central Bank of Lesotho, Mr. Ephraim Moremoholo, provided a brief background on FE so as to facilitate its smooth integration into school curriculum by the NCDC. To start with, he introduced the concept as the process where individuals access information to improve their understanding of financial concepts thus:

> "Inflation Linked Bonds offer protection against inflation risk and preserve the purchasing power of investors."

- Gaining knowledge, skills and confidence to become aware of financial risks and opportunities relevant to making informed choices; and

- Knowing where to go for help and to take other effective actions to improve their financial well-being. In this regard, he informed the participants that the financial concepts covered in FE include household budgeting, household savings, risk and debt management to mention a few. And, in order to say one is financial literate, they said that a person would have gone through the following:

a) Financial Literacy: relates to an individual's internalised knowledge of financial concepts and personal financial wellness, this includes information about both formal and informal financial products.

b) Financial capability: is the ability to act in a financial responsible manner in connection with the opportunity to do so through access to financial management techniques, financial products and services (formal and informal).

c) Financial inclusion: access to finance and financial capability. It is thus a state whereby everyone has access to quality financial products and services which are provided at affordable prices in a fair, convenient and transparent manner to clients who can make informed judgement and effective decisions about the use and management of their finances.

Furthermore, he emphasised that the integration of FE into school curriculum was critical because it would equip students with the knowledge, skills and to make and exercise informed, confident and timely money management decisions. As such, FE would make learners confident and competent with money, he said.

In conclusion he contextualized the four core areas of learning within which the NCDC should carefully consider while integrating FE into curriculum:

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Table 3 Inflation lined bond illustration		
No.	**Core**	**Expected Learning Outcomes (Learners should be able to)**
1.	How to manage money	• Effectively manage their money. • Draw, implement and monitor a budget. • Read bank statements. • Know savings and borrowing options and how much they cost.
2.	Becoming a critical consumer	• Get good deals when shopping. • Seek out advise about what to do about saving, invest-ing and borrowing when needed. • Understand their rights and responsibilities.
3.	Managing risk and emotion	• Manage risk and emotion. • Protect themselves from identity theft online. • Protect their money and property e.g. insurance.
4.	Understanding the important role money plays in our lives.	• Understand importance of paying taxes. • Understand social, moral, environmental consequences of financial decisions they make.

Finally, he warned the participants against illegal financial schemes that have and continue to lure the public to invest its monies with them with a promise to repay their money with very high rates of return within short time frames. He urged them to desist from investing their hard earned money with any individual or company which was not licenced by the Central Bank.

How can all sectors of society be financially included?

Central Bank of Lesotho continues to double efforts on policy development to enhance financial inclusion of all Basotho, particularly those who live in areas nested deeply in the Maluti mountains and other rural areas.

The technology is in our midst, what remains is more innovation to engineer financial solutions that will herald financial inclusion for all.

Continuing with additional effort and collaboration of all key global, regional and stakeholders at home, encouraging utilisilisation of Financial Technology Platforms, there is no doubt that the walls of exclusion that pervades Lesotho shall be broken down, step by step.

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CENTRAL BANK OF LESOTHO
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Workplace occupational health and safety programs and practices

By Mr. Thabiso Mopeli

> **"Workplaces that implement OHS standards and best practises are proactive in preventing injuries and illness, this is leading to a productive workforce that maximises achievements of organisational objectives".**

OCCUPATIONAL HEALTH and Safety (OHS) is a field that relates to health and safety of people at work. It looks into ways of assessing work places health and safety practices, identifying, implementing and mitigating strategies. Workplaces that implement OHS standards and best practises are proactive in preventing injuries and illness, this is leading to a productive workforce that maximises achievements of organisational objectives.

Historically, the focus of occupational health and safety efforts have been on manual labour occupations, such as factory workers. In the recent years, there has been a move to encompass all occupations in the workplace. As such, there has been a necessity for organisations to engage OHS practitioners such that they can assist with their knowledge to limit both short- and long-term hazards that could lead to physical or mental illnesses.

The Central Bank of Lesotho is, therefore, committed to ensuring health and safety of its staff members and its customers. As such, eight members of staff from different business units in the Bank attended a two-day in-house training on applying OHS principles and procedures. All the eight members have successfully passed the test and have been issued the NQF: Level 2 certificate by the National Occupational Safety Association of South Africa.

Furthermore, another course was conducted on application of basic first aid, where members of staff have passed and certified by the Lesotho Red Cross as first aiders ❑

Money Lending

The law does not allow for anyone to be forced to surrender a passport, ID, Bank Card and a PIN in order to get a loan.

Use only financial institutions licensed by the Central Bank of Lesotho for a loan.

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