



PULA 2022

The Pula Fund

Pillar 1: Legal

Legal framework, objectives, and coordination with macroeconomic policies

Principle 1

1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).

1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.

1.2. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.

The Pula Fund, established in 1993, is not a separate legal entity. The [Bank of Botswana Act amendment in 1996](#) promulgated the legal framework supporting the Fund.

Management of the Pula Fund is in accordance with Section 35 of the Act, which stipulates the establishment and management of long-term investment funds.

The Act tasks the Bank of Botswana with the operational management and transactions of the Pula Fund, in order to ensure the legal soundness of the Fund. In addition, the Ministry of Finance (MoF) assumes the role of the asset-owner on behalf of Government. The Bank of Botswana assesses the needs for primary international reserves (invested in the Liquidity Portfolio) to accomplish its principal objectives. In consultation with MoF, the assets in excess of reserves adequacy requirements (six months of import cover) form the investments in the long term (Pula Fund). The Bank determines the policies, terms and conditions for Pula Fund including selection of appropriate investments and the payment of dividends.

The Government of Botswana has allocation in the Pula Fund, via the Government Investment Account, which represents government's share of the Pula Fund. The Act details the legal specifications for such activities.

Principle 2

The policy purpose of the SWF should be clearly defined and publicly disclosed.

The Bank of Botswana Act does not explicitly specify the purpose of the Pula Fund. However, there are two major uses for the Fund. First, it was created to preserve part of the income from diamond exports for future

generations. The Bank of Botswana invests mineral revenues in order to generate long-term returns. Second, the Government of Botswana uses its share of the Fund to fulfil its objectives and budgetary obligations on instances of shortfalls, in particular, the funding of infrastructure development. The Government has allocated to the Pula Fund (the Government Investment Account) which is available for spending while the balance belongs to the Bank of Botswana and used for mainly to meet demand from commercial banks.

These objectives include a short-term stabilisation objective and a long-term investment objective aimed at ensuring that assets are available for future generations in a situation when Botswana's vast natural resources (predominantly diamonds) are depleted.

Principle 3

3. Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.

By Act, the Bank of Botswana, after consultation with the MoF, determines the policies, terms and conditions for any such long-term investment funds, including the selection of appropriate investments and the dividends payable to the Government Investment Account. The Pula Fund only invests in foreign financial assets and thus the activities related to those investments do not have any significant direct domestic macroeconomic implications.

In practice, there are on-going consultations between the Bank of Botswana and MoF. The Government has representation on the Bank of Botswana Board. The management of the Pula Fund is subject to recurring reviews and discussions between the Bank of Botswana and MoF due to the shared ownership structure of the long-term assets invested in the Pula Fund.

Government fiscal policy decisions that give rise to budget surpluses or deficits, or monetary policy decisions that give rise to balance of payments surpluses or deficits can lead to increases or decreases in the level of the Pula Fund investments. This results in withdrawals or injections into the Fund.

Principle 4

4. There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

4.1. The source of SWF funding should be publicly disclosed.

4.2. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

The management of the Pula Fund also considers the fiscal policy framework and the three-pronged strategy of spending for development, affording stabilisation and saving for future generations.

The Government cannot withdraw more than its share of the Pula Fund, represented by the Government Investment Account, to finance the budget, requiring parliamentary approval. The Pula Fund does not function in any quasi-fiscal/off-budget operation to finance investment, or the purchase of goods and services outside the government budget framework.

If the need arises, to enable the Government to pursue agreed national development objectives, Government can withdraw from the Government Investment Account, which represents its share of the Pula Fund. That is, if the Government believed the funds in the Pula Fund are required for productive investment in the country,

then the Pula Fund can be utilised.

The Government has opted for a qualitative approach to withdrawals. Withdrawal and injection discussions by stakeholders in the context of prevailing fiscal conditions determine the extent of withdrawals and injections. There is no predefined numerical trigger point for withdrawals or deposits. However, such clear trigger points exist for intra-funds transfers (long-term and short-term funds). This approach has served the country well through different economic cycles.

Principle 5

5. The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

The Bank of Botswana Financial Statistics is the Bank's monthly statistical bulletin. Information on the size of the Pula Fund and the government ownership is available in the [publication](#).

In addition, the monthly government gazette publishes details and level of the Pula Fund. The Annual Report provides the audited financial statements and comprehensive details about the Pula Fund, on an annual basis.

Pillar 2: Institutional

Institutional Framework and Governance Structure.

Principle 6

6. The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

The governance structure is detailed in Part IV of the Bank of Botswana Act. A three-tier structure is followed in terms of governance:

The Board of the Bank of Botswana has overall responsibility for the management of the Pula Fund. The Board includes a member from MoF representing the government ownership of the Pula Fund. Other members of the Board include the Governor of the Bank of Botswana and seven (7) independent non-executive directors, which are appointed by the Minister of Finance. The Board approves the investment policy and the strategic asset allocation while responsibility of developing and implementing the investment guidelines has been devolved to the Investment Committee chaired by the Governor.

(b) The Investment Committee decides on the execution of the investment strategy, including tactical deviations from the board-approved strategic asset allocation. The Investment Advisor advises on strategic investment, external fund manager selection and monitoring. The custodian provides custody services and measures the performance of both the internally and externally managed Pula Fund portfolios.

(c) The International Dealing and Strategy Unit within the Financial Markets Department executes the investment strategy and ensures attainment of the desired asset allocation in financial markets. Regular reporting of all the activities of the Pula Fund to the Board is utilised to ensure operational compliance with the agreed investment strategy.

(d) The Risk Management Department advises on risk management and compliance to the investment guidelines.

(e) The Verification and Compliance Unit undertakes reconciliation, cash transfer, correspondent banking and Know Your Customer (KYC) processes.

(f) The Payments and Settlement Department executes the back-office functions of the investment process.

(g) The Finance Department executes the accounting, performance and valuation functions of the investment process.

Principle 7

7. The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

Botswana Government performs the ownership role of the Pula Fund via representation on the Board of the Bank of Botswana and through the periodic consultations between the Governor of the Bank of Botswana and the Minister of Finance and annual reporting to Parliament and Cabinet. The Minister appoints the Board while the Government through the President appoints the Governor and Deputy Governors. Through the Government-appointed Board, which has direct representation for the Ministry, the Bank of Botswana performs the oversight on behalf of the government.

The management of the assets in the Pula Fund is subject to a regular review of the entire investment strategy, which is agreed between the Governor of the Bank of Botswana (representing the manager of the Pula Fund) and the Minister of Finance and Development Planning (representing the owner of the assets as in the Government's share of the Pula Fund and as the sole shareholder of the Bank of Botswana).

Principle 8

8. The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.

The Board of the Bank of Botswana executes its fiduciary role in full compliance with the Bank of Botswana Act. Its mandate is clear and its authority and independence is well-established, both in the Act and in practice.

The Board consists of a representative from the Bank of Botswana, the MoF and the independent directors with in-depth knowledge of the issues pertaining to the macroeconomic management, accounting, auditing and best practices in investment management.

Principle 9

9. The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

The three-tier governance structure ensures that the Pula Fund is managed in an independent manner with clear separation of responsibilities. As such:

(a) the Board approves the overall framework for investment management and establishes the investment policy and strategic asset allocation.

(b) the Investment Committee approves investment guidelines and decides on tactical deviations from the strategic asset allocation; and

(c) the Financial Markets Department executes the investment strategy in financial markets using both internal and external fund managers.

Principle 10

10. The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

The accountability framework is enshrined in Section 35 and Sections 66 - 68 of the Bank of Botswana Act. In this regard, the Bank of Botswana maintains accounts and records in accordance with international accounting standards and prepares an annual set of financial statements in accordance with the international financial reporting standards (IFRS). These are audited by independent external auditors approved by the Board of the Bank of Botswana.

The Board of the Bank of Botswana has – in accordance with the Act - an Audit and Risk Committee of the Board chaired by a non-executive Board member with vast experience in accounting and auditing.

The Audit and Risk Committee of the Board is responsible for the review of the financial statements of the Bank of Botswana, including the Government Investment Account. The external accountability is ensured by the legislation, as the Auditor General shall, if so requested by the Minister of Finance and Development Planning, examine and report on the accounts of the Bank of Botswana or any aspects of its operations (including the management of the Pula Fund).

Principle 11

11. An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

In accordance with the Act, the Bank of Botswana produces an annual report on its operations, together with audited financial statements. The accounts are prepared in line with the International Financial Reporting Standards (IFRS). As well as the accounts, the annual report also includes reference to the changes in the structure. The report is publicly available and it covers the calendar year and must be presented to the Minister of Finance by the end of March the following year. Thereafter, the Annual Report must be laid before the National Assembly within thirty days. This ensures parliamentary oversight over the management of the Pula Fund.

Beyond fulfilling a statutory requirement, the Annual Report is the principal means through which the Bank of Botswana reports on its operations, including the management of the Pula Fund.

Following publication, the Annual Report forms the basis of a series of economic briefings for stakeholders, including His Excellency the President of Botswana, the Cabinet, senior government officials, parliamentarians, the media, business leaders and the diplomatic corps. The Annual Report has been produced annually since 1976 and is available on: <http://www.bankofbotswana.bw/publications>

Principle 12

12. The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

Under the Bank of Botswana Act, the Bank of Botswana produces an annual report on its operations, together with audited financial statements. The Annual Report includes a discussion of the management of the Pula Fund (see GAAP 11). The external auditor (currently Ernst and Young) makes annual attestation that the financial statements are produced in accordance with the International Financial Reporting Standards and the Bank of Botswana Act.

Principle 13

13. Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

The Bank of Botswana adheres to high ethical standards and manages the Pula Fund assets in accordance with sound ethical practices. By nature of employment in the financial markets Department, staff members are expected to adhere to international ethical standards and best practices. Staff members are encouraged to attain CFA qualifications.

Principle 14

14. Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

The investment policy and guidelines for the management of the Pula Fund are underpinned by the need to preserve purchasing power of assets, always maintain liquidity and to maximise return within acceptable risk parameters. Periodically, the entire investment strategy and strategic asset allocation is subjected to a comprehensive review. All investments, both internally and externally managed, are made in accordance with investment guidelines, where the only motivation is to meet the investment objectives of the Fund. Political and non-commercial reasons are not relevant for the management of the Pula Fund.

Principle 15

15. SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.

All investments in the foreign countries are in financial assets only and are undertaken in full compliance with the applicable regulatory framework and disclosure requirements in the countries in which the investments are made. A global custodian is appointed to ensure that legal compliance is always in place on all investments held in the Pula Fund. The PF external fund managers comply with regulatory and disclosure requirements in countries where they operate. Also, an international portfolio consultant is engaged to assure that best practice is adopted and followed at all times.

Principle 16

16. The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

The Bank of Botswana, in its role as investment manager, is operationally independent from the owner represented by the Ministry of Finance. The operational independence is enshrined in Sections 33 and 34 of the Bank of Botswana Act.

Principle 17

17. Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

The Bank of Botswana publishes relevant information in its Annual Reports and in Botswana Financial Statistics.

Furthermore, the size and nature of the investment of the Pula Fund in relation to the international markets in which it is invested poses no risks to financial stability in international financial markets. The information provided in the Annual Reports and Botswana Financial Statistics, along with the country's investment grade ratings by Standard and Poor's and Moody's Investors Service, enhances trust in recipient countries.

Pillar 3: Investment

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Principle 18

18. The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

18.1. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.

18.2. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

18.3. A description of the investment policy of the SWF should be publicly disclosed.

The investment policy and guidelines for the management of the Pula Fund are underpinned by the objective of preserving purchasing power of assets, always maintain liquidity and to maximise return within acceptable risk parameters.

Periodically, the entire investment strategy and strategic asset allocation is subjected to a review and all investments, both internally and externally managed, are done in accordance with investment guidelines approved by the Board in consultation with the MoF. This consultation process ensures that the owner's risk tolerance and investment objectives are reflected in the agreed investment strategy.

The investment strategy does not allow the use of leverage and places emphasis on the application of sound risk management practices.

The Pula Fund is invested using both internal and external managers with specific guidelines and precise benchmarks for the measurement and assessment of investment performance. The global custodian assists with performance data, which are reconciled with external fund managers and subjected to performance attribution analysis. Furthermore, an external portfolio consultant assists the Investment Committee in the recruitment and monitoring of the externally managed funds. The Investment Committee regularly undertakes due diligence exercise to assess the operations of the fund managers.

On a quarterly basis, the performance report is submitted to the Board for monitoring and any remedial action that may be necessary.

The Bank's investment policy is guided by key objectives of safety, liquidity and return. The details are contained in the Annual Report.

Principle 19

19. The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

19.1. If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.

19.2. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

The investment policy and guidelines for the management of the Pula Fund are underpinned by the objective of preserving purchasing power of assets, always maintaining liquidity and to maximising return within acceptable risk parameters.

All investment activities are executed in line with the highest standards for sound asset management. The investment management framework is guided by a clear governance structure resting on separation of duties, impartiality and accountability in all investment decisions.

All investment decisions are taken on the basis on economic and financial necessity.

Principle 20

20. The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

The managers of the Pula Fund do not trade on any privileged information and is in no way influenced by the broader government in its activities. As the Pula Fund consists of foreign assets only, accordingly, there is no risk of competing with private domestic entities.

Principle 21

21. SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

The Pula Fund is invested in both fixed income securities and global equities. Ownership rights are exercised as part of the specific external fund management contract with the objective of maximising the risk-adjusted return on all investments. Proxies are voted with this objective in mind.

Principle 22

22. The SWF should have a framework that identifies, assesses, and manages the risks of its operations.

22.1. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

22.2. The general approach to the SWF's risk management framework should be publicly disclosed.

Principle 23

23. The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.

The investment performance of the Pula Fund is calculated by the global custodian on a monthly and quarterly basis and all assets are marked-to-market on a daily basis to ensure compliance with guidelines.

The investment performance is presented both in absolute and relative terms vis-à-vis the established portfolio benchmarks. This information is available to the government – together with attribution.

Principle 24

24. A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

The voluntary endorsement of the Santiago Principles represented in this assessment of the 24 GAPPs is available on www.bankofbotswana.bw at any time to indicate the regular review on the implementation of the Santiago Principles.