Making Access Possible

Botswana

Demand, Supply, Policy and Regulation

Diagnostic Report

2015

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PARTNERING FOR A COMMON PURPOSE

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level.

At country level, the core MAP partners collaborate with Government, other key stakeholders and development partners to ensure an inclusive, holistic process. MAP Botswana represents a partnership between the United Nations Capital Development Fund (UNCDF), the Centre for Financial Regulation and Inclusion (Cenfri) and FinMark Trust for the Development of a Strategic Framework for Financial Inclusion in Botswana.

This Roadmap was produced by the FinMark Trust as part of the larger MAP diagnostic work in Botswana.

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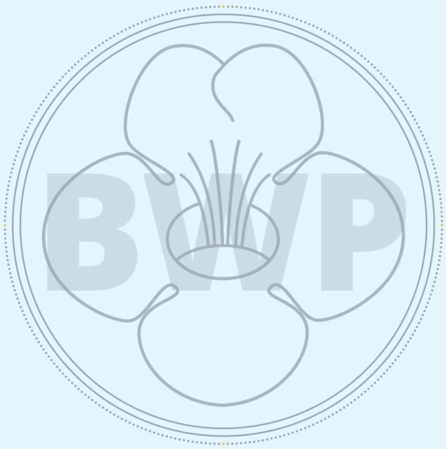
The cover symbol

Through the MAP programme, we hope to effect real change at country level and see the impact of financial inclusion on broader national growth and development. The cover graphic features the Adenium, a flower synonymous with Swaziland. The flower symbolises growth and development while the circle represents inclusive growth. Each flower is an example of the successful growth in a unique environment. By combining the flower with the currency symbol of Swaziland we represent the characteristics of the country, linking financial inclusion with successful growth.



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ACGS	-	Agricultural Credit Guarantee Scheme
ACH	-	Automated Clearing House
ATM	-	Automated Teller Machine
AML	-	Anti- Money Laundering
ART	-	Anti-Retroviral Therapy
BAB	-	Bankers Association of Botswana
BAIS	-	Botswana AIDS Impact Survey
BAMB	-	Botswana Agriculture Marketing Board
B2B	-	Business to business
BBS	-	Botswana Building Society
BCWIS	-	Botswana Core Welfare Indicators Survey
BDC	-	Botswana Development Corporation
BHC	-	Botswana Hosing Corporation
BIHL	-	Botswana Insurance Holdings Ltd
BISS	-	Botswana Interbank Settlement System
BLIL	-	Botswana Life Insurance Ltd.
BLLAHWU	-	Botswana Land Boards and Local Authorities Health Workers Union
BMC	-	Botswana Meat Commission
BOCRA	-	Botswana Communications Regulatory Authority
BoB	-	Bank of Botswana
BPOPF	-	Botswana Public Officers Pension Fund
BPS	-	Botswana Postal Service
BSB	-	Botswana Savings Bank
BSE	-	Botswana Stock Exchange
BURS	-	Botswana Unified Revenue Service
CEDA	-	Citizen Entrepreneurial Development Agency
CENFRI	-	Centre for Financial Regulation and Inclusion
CMA	-	Common Monetary Area
CPA	-	Credit Providers Association
DB	-	Defined Benefit
DC	-	Defined Contribution
DFI	-	Development Finance Institution
DoC	-	Department of Cooperatives
DSP	-	Department of Social Protection
ECH	-	Electronic Clearing House
EDD	-	Economic Diversification drive
EFT	-	Electronic Funds Transfer
EMV	-	Eurocard, MasterCard, Visa
EU	-	European Union
FIP	-	Financial and Investment Protocol
FNB	-	First National Bank
FSD	-	Financial Sector Development
FSDS	-	Financial Sector Development Strategy
FTA	-	Free Trade Area
GDP	-	Gross Domestic Product
GoB	-	Government of Botswana
GPO	-	Government Purchase Order
HIES	-	Household Income and Expenditure Survey
HHI	-	Hirshmann-Herfindahl Index

ID	-	Identification
IFSC	-	International Financial Services Centre
IMF	-	International Monetary Fund
ISPAAD	-	Integrated Support Programme for Arable Agriculture Development
IT	-	Information Technology
KYC	-	Know Your Customer
LEA	-	Local Enterprise Authority
LFS	-	Labour Force Survey
LIMIAD	-	Livestock Management and Infrastructure Development
LNO	-	Letter of No Objection
LPR	-	Land Policy Review
MAP	-	Making Access (to Finance) Possible
MCST	-	Ministry of Communications, Science and Technology
MFDP	-	Ministry of Finance and Development Planning
MFI	-	Microfinance Institution
MLAB	-	Micro-lenders Association of Botswana
MM	-	Mobile Money
MNO	-	Mobile Network Operator
MoA	-	Ministry of Agriculture
MLG	-	Ministry of Local Government
MOU	-	Memorandum of Understanding
MSMEs	-	Micro, Small and Medium Enterprises
MTC	-	Ministry of Transport and Communications
MTI	-	Ministry of Trade and Industry
MVAF	-	Motor Vehicle Accident Fund
MYSC	-	Ministry of Youth, Sports and Culture
NAMPAADD	-	National Masterplan for Arable Agriculture and Dairy Development
NCSS	-	National Clearance and Settlement System
NBFI	-	Non-Bank Financial Institution
NBFIRA	-	Non-Bank Financial Institutions Regulatory Authority
NPS	-	National Payment System
OTC	-	Over-the-counter
P2P	-	Person to Person
PAYG	-	Pay As You Go
PDL	-	Poverty Datum Line
PHC	-	Population and Housing Census
PIN	-	Personal Identification Number
POS	-	Point of Sale
PPP	-	Public Private Partnerships
PSPs	-	Payment Service Providers
ROSCAs	-	Revolving Savings and Credit Associations
RTGS	-	Real Time Gross Settlement
SACCOs	-	Savings and Credit Cooperatives
SADC	-	Southern African Development Community
SARB	-	South African Reserve Bank
SIRESS	-	SADC Integrated Regional Electronic Settlement System
SMME	-	Small, Medium and Micro Enterprises
TA	-	Technical Assistance
UNCDF	-	United Nations Capital Development Fund
WFHB	-	Womens' Finance House Botswana
WTO	-	World Trade Organisation
YDF	-	Youth Development Fund

ABOUT MAP BOTSWANA

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. Through its design, MAP seeks to strengthen and focus the domestic development of dialogue on financial inclusion. At country level, the core MAP partners (see "Partnering for a Common Purpose" below), collaborate with Government, other key stakeholders and donors to ensure an inclusive, holistic process. The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level.

Preparation for MAP Botswana was announced by the Minister of Finance and Development Planning in the February 2015 Budget Speech. The programme has been developed by FinMark Trust in close cooperation with the Centre for Financial Regulation and Inclusion (Cenfri) and the United Nations Capital Development Fund (UNCDF). MAP Botswana is funded by FinMark Trust. The project is governed by a Working Group chaired by the Ministry of Finance and Development Planning, and consists of 11 members representing government, the private sector, and civil society.

This Country Diagnostic Report is a comprehensive demand-side, supply-side and regulatory analyses. The supply-side analysis covers payments, savings, credit and insurance, and therefore provides an understanding of financial inclusion in a broad context. The demand-side component includes an analysis of access, usage, perceptions and attitudes of financial services by target groups. The demand-side analysis draws from quantitative data provided by the Botswana FinScope Survey 2014 and qualitative research in the form of Home Visits and Key Informant Interviews. Within this document (unless otherwise referenced) demographic, income and financial usage data is obtained from the 2014 FinScope (henceforth referred to as FinScope) Survey. It is supplemented by information derived from the most recent national Population and Housing Census (PHC) (carried out in 2011) and the 2009/10 Botswana Core Welfare Indicators Survey (BCWIS). The sampling framework and weighting for FinScope is based on the 2011 PHC, and was developed in close collaboration with Statistics Botswana.

A summary presentation of the key Botswana MAP Diagnostic Report findings, presented to a Stakeholder Workshop in July 2015, is available on request. In addition, a summary presentation of FinScope Botswana is available on request and the FinScope dataset is available on request for future research.

EXCHANGE RATES:

The average exchange rate of the Botswana Pula in 2014 was 1.21 SA rand (ZAR) per BWP and 8.97 BWP per US dollar (USD).

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Lastly, we would like to thank the individuals from government, regulators, financial services providers, industry bodies, technology providers and telecommunications operators for your inputs into this research process and your efforts to extend financial services to the excluded.

Executive Summary

Introduction

This report summarises the findings of the MAP Botswana diagnostic, a comprehensive study of the scope for financial inclusion in Botswana across four product markets: credit, payments, savings and insurance. MAP Botswana was requested by the Government of Botswana as input towards the development of a financial inclusion strategy for Botswana. The Ministry of Finance and Development Planning[1] has set up a working group to steer the MAP project. MAP Botswana is funded by FinMark Trust, and this Diagnostic Report was prepared by Econsult Botswana[2], with assistance from Cenfri.

MAP does not pursue financial inclusion merely for its own sake, but explores the linkages between financial inclusion and the real economy so as to impact people's welfare. It is set apart from other diagnostic exercises in that: (i) it sets a detailed understanding of the target market and their needs at the core of the analysis; and (ii) is fundamentally linked to a multi-stakeholder process towards the implementation of a roadmap for financial inclusion. The findings in the rest of this report form the evidence base for such a roadmap.

The analysis first provides an overview of the country context and regulatory framework, which shapes the nature of the opportunities and constraints for financial inclusion. Based on quantitative as well as qualitative demand-side research, it then takes a closer look at the target market for financial inclusion: their realities, needs and current usage profile. With the target market needs and enabling environment in mind, the analysis then turns to the supply of financial services in Botswana, unpacking the dynamics of the market for credit, payments, savings and insurance, respectively. Finally, it concludes on the cross-cutting factors driving financial inclusion in Botswana, outlining five key priorities for extending financial inclusion and, for each, suggesting potential actions to unlock the opportunities and overcome current barriers.

Below, we summarise the salient features of the market emerging from the analysis, before outlining the key financial inclusion opportunities in Botswana.

Analysing financial inclusion in Botswana

Context drives scope for market development

Large country, with a small, urbanised, well-educated population: Although Botswana has a very low overall population density, the population is well-educated and increasingly urbanised (concentrated in and around Gaborone). Where the provision of financial services is concerned, the small population constrains scope for growth and economies of scale, while the large size of the country adds to distribution costs.

Income inequality and government welfare prevalent. Botswana's has one of the highest GDP per capita in SADC and sub-Saharan Africa, although income distribution is very unequal (Gini coefficient 0.6). Many people benefit from welfare grants from government, although the level

[1] www.finance.gov.bw

[2] www.econsult.co.bw

of most social safety net grants is low. In addition there are a wide range of economic support programmes, many of which are very expensive and of limited effectiveness

Economy highly formalized with good access to infrastructure. Formal employment is high, with the public sector being a major driver of this. Mining has been the main driver of Botswana's economic growth, and this has in turn supported the growth of a large government sector. There is a strong emphasis on diversifying the economy. However, unemployment is also high, with official statistics recording 20%. Entrepreneurship is weak, and at the small and micro level tends to be more female than male. More than 60% of households have access to electricity, albeit with supply disruptions. Almost all of the population have access to safe drinking water. Mobile phone penetration is very high.

Macroeconomic position is strong. Botswana has the highest sovereign credit rating in sub-Saharan Africa. Although government spending is high (as a proportion of GDP), the budget is generally balanced and there is minimal public debt. The balance of payments is generally in surplus and the country has large foreign exchange reserves.

Impact of HIV/AIDS. Botswana has among the highest HIV/AIDS infection rates in the world. However, the roll out of a major treatment programme through the public health service has reversed the decline in life expectancy and led to sharply reduced mortality. Nevertheless, there are many orphans, many households look after children of deceased relatives, and funerals are a regular occurrence in the community.

Regulatory framework and financial inclusion

Regulatory environment in transition. The financial services landscape is governed by two authorities: the Bank of Botswana (BoB) and the Non-Bank Financial Institutions Regulatory Authority (NBFIRA). Broadly, the BoB governs banks and NBFIRA governs non-bank institutions, including credit institutions, insurance and pensions. The division of responsibilities between the two regulators is generally clear. Several aspects of the regulatory framework facilitate financial inclusion. However, a number of elements also constrain access; notably, the framework for bank licensing does not readily accommodate new and innovative forms of financial service delivery; there is no provision for tiered KYC for low value bank accounts and low income households; and an unclear regulatory framework for mobile money / e-money. Some regulatory reforms currently in progress should support further financial inclusion.

Current usage of financial services

Access to formal financial services is quite high. More than two-thirds of Batswana adults are formally served – a number that is relatively high in regional terms. A further 8% use informal services only and 20% are totally excluded. Usage is mainly driven by savings products, followed by remittances, insurance and credit. There is a clear variation in access levels across settlement types, with 87% of urban adults enjoying access to finance, compared to 64% of adults in urban villages, and 71% in rural areas. Of those who use formal financial services, the majority (63%) are broadly served, and have a formal financial service across more than one product market. That is, 45% of adults use more than on product area of savings, credit, insurance and payments.

A number of usage and access barriers. Low usage is indicative of a number of barriers to uptake. The most important perceived barrier is that people do not have enough money, or their income is too low, to use formal financial services. There are also problems of lack appreciation of the attributes of financial products, and a lack of understanding of how they operate. Even should they choose to use formal financial services, many consumers face substantial access barriers, notably low affordability, difficult documentation requirements, lack of flexibility and distances to access branches and distribution networks.

Priority target markets needs

Different target groups have different needs. The Botswana adult population is not a homogenous market. Needs and circumstances differ across the six segments identified, based on their income source and level, and demographic profile. The main needs across target markets are the ability to send and receive money at low cost, store value securely and cheaply, earn good returns on long-term savings, manage the impact of risks, and to access short-term flexible loans and long-term housing loans.

Small but diverse provider landscape

The small population and low population density limits the number of financial institutions that can sustainably offer formal financial services. Most financial institutions are at least part foreign-owned. The financial services landscape is dominated by banks, notably the four large banks: FNB, Barclays, Standard Chartered and Stanbic. Other important entities include the Botswana Building Society and the Botswana Savings Bank, which are competitors to the banks from a consumer perspective. For insurance, the long-term (life) segment is dominated by the oldest company, Botswana Life Insurance Ltd. The short-term segment is more diverse. There are now nine long-term and 12 short-term insurers. There are also nine medical aid providers that are currently unregulated. Amongst non-bank lenders there are three state-owned Development Finance Institutions; several large registered credit institutions and approximately 250 registered micro-lenders. The primary informal organisations offering financial services are savings groups, including *metshelo* (small savings and credit groups), and informal moneylenders. Mobile money is a relatively new innovation, offered by all three mobile network operators (MNOs). The Post Office provides remittance and bill payment services, offers a smartcard for the payment of government welfare grants, and provides a branch network for BSB.

High level financial inclusion trends

A number of high level trends are apparent with regard to financial inclusion. First, access to finance is polarised. Those in formal employment, especially those on middle to upper incomes, have access to a wide range of financial products and services, which remain predominantly bank-based. But those outside of this group, with low and irregular incomes, have much more constrained access to finance. Most formal sector providers are currently targeted at the formally employed segment. There are fewer options present for those segments outside of the formally employed market. Second, modernisation of welfare payments mechanisms has helped to drive inclusion, notably the movement away from direct cash payments of welfare grants has helped to extend access to finance to a large group of relatively low income, unbankable adults. This achievement should be built upon, but from the perspective of extending financial inclusion, and not just improving the efficiency of delivering welfare payments. Third, further extension of access is likely to come more from non-bank providers than banks. Fourth, technology provides a means of overcoming the impediments of distance, low population density, and limited access to banks. Given that the banking system is unlikely to extend financial service provision to sparsely populated areas and low-income households, technology can help to fill the gap, through mobile money accounts and smartcards. Finally, while there is generally an enabling environment, modernisation is needed to extend inclusion. The regulatory environment is generally supportive of financial sector development. However, there are gaps, and in some respects the regulatory and policy environment is lagging behind financial sector development and innovation. Without modernisation, the regulatory framework will increasingly be a drag on financial inclusion.

Financial Inclusion Priorities

Identifying priorities. The report identifies a number of gaps and opportunities to extend financial inclusion in each of the four product markets. As basis for the roadmap, this section concludes on the key financial inclusion priorities and provides strategic recommendations for unlocking each priority.

Priorities identified based on needs and potential reach. The most significant impact for financial inclusion is possible where the focus is placed on enabling formal domestic **remittances**, low cost **savings** and **transaction** products, improved **pension** provision, as well as greater risk mitigation through funeral or life **insurance**. The major **credit** need is for housing finance, but this is much more than an access to finance issue. Though further extension of **credit** *per se* is not ranked as a potentially high-impact opportunity in terms of the number of people it can viably reach, there is nevertheless a need to improve consumer protection for credit across the board. There is also a major need for improved financial literacy across the population.

Five key priorities. Based on the needs of the various target markets, as well as the nature and challenges to provision evidenced through the analysis, we identify five priority strategies to capitalise on these opportunities, which are likely to have the most far-reaching impact on financial inclusion, given the nature of the target markets.

Improve the payments eco-system

The payments eco-system refers to all of the institutions and networks involved in processing transactions and remittances, domestic and cross-border. There has been a great deal of development and innovation in this area in recent years, but there is scope for much more, if the opportunities offered by technology are taken up. The impact is potentially very wide, as everybody transacts (even if in cash) and many people send or receive remittances. Whilst cash is the most widely used means of transaction, it may not be the best option in many circumstances. Payments products can easily be linked to the other three product areas, of savings, credit and insurance.

One important area for maximising the potential impact of payments system development is improving the uptake of mobile money, through additional payments functionality (e.g. for store purchases), lower (more competitive) fees, higher permitted values of transactions, inter-operability across networks and with bank accounts and other payments mechanisms, and extended agency networks, with appropriate liquidity arrangements. Secondly, the use of the Poso card can be significantly extended by allowing the public to access the card, allowing transfers to other cards and cash top-ups, and ensuring inter-operability with bank accounts and other payments mechanisms. Cross-border remittances and payments can be made easier and cheaper through cross-border mobile money transfers and participation in regional initiative such as SIRESS. Extending the payments system will be helped by a number of policy and regulatory developments such as promoting interoperability, considering the establishment of a local switch, and introducing a regulatory framework for retail payments and mobile money that is supportive of innovation and broadening access. Government can also utilise the mechanisms used for welfare grant payments to promote financial inclusion more generally.

Facilitate low cost, accessible savings products

All target groups save, to a greater or lesser extent. But for groups that do not have ready access to bank accounts, their savings options are limited. The availability of low-cost, accessible, flexible savings products is limited for the lower income segment, especially outside of major settlements. Obstacles to access for the unbanked include monetary costs (account maintenance and transactions fees), and the costs of accessing service points in terms of time and transport costs. The bank branch network is unlikely to expand significantly beyond its present footprint, due to high costs, and hence it will be necessary to encourage non-bank / branchless solutions. This includes promoting mobile money accounts as savings accounts, including increasing the amount that can be accumulated in such an account and allowing the payment of interest. There is also scope for more bank-led mobile money accounts (e.g. eWallet with greater functionality), and introducing entry level bank savings accounts with minimal KYC requirements.

Develop accessible risk mitigation products

Outside of funeral policies, the take up of insurance is limited, especially in groups other than the formally employed. There is low take-up of vehicle insurance (especially 3rd party) and property insurance. Insurance lacks an effective distribution mechanism outside of major centres, and there is a limited product range for low-value asset insurance. There is also a lack of consumer awareness and understanding of insurance products, and the role of insurance in risk management. The provision of policies suitable for low income consumers is impacted by the lack of a supportive regulatory framework, slow processes for product approval by the regulator, and a reliance on paper-based processes, with no facility for electronic sign-up for policies.

Future priorities for maximising the potential impact of improved risk mitigation include the introduction of micro-insurance products, with appropriate pricing and flexible arrangements for premium payments, improved consumer education and disclosure of product conditions. This will require the completion of micro-insurance regulations; improved processes for approval of products, allowing electronic processes for sign-up to insurance policies. There is also potential for third party motor vehicle insurance.

Improve the working of the credit market

The credit market functions well for many of those in formal employment, who have a variety of options for obtaining credit, from banks and non-banks, on reasonable terms and conditions. However, for other groups, the availability of reasonably priced credit is very limited. Housing finance is a particular problem, and for most households there is no effective means of obtaining credit for financing housing purchase / development. Outside of the formally employed, short-term credit (for consumption smoothing) is only available at high cost. The efficiency of lending, the management of credit risk and loan pricing are constrained by a lack of credit information and restrictions on sharing such information. For productive credit, there are credit constraints for some SMEs and farmers. The main provider of credit to SMEs is the government-owned CEDA, which is heavily subsidised, but there are concerns over its high costs, the lack of good quality information with regard to its effectiveness, and squeezing the banks out of the market for SME lending. Access to credit for micro-enterprises is hampered by the fact that there is only one MFI.

Future priorities for improving the availability of credit include the facilitating the provision o housing microfinance, using mobile phone / mobile money data to unlock micro-credit, using Poso card data to unlock credit from BSB, improving the provision of SMME credit by banks, and strengthening links between banks and CEDA (so that they complement each other), and attracting more MFIs. Regulatory and related provisions that would support this include allowing deposit-taking MFIs, reviewing the subsidised government housing loan schemes to improve effectiveness, developing legal and regulatory structure / credit reference institutions and credit information sharing, and undertaking an in-depth assessment of CEDA' impact and effectiveness.

Develop pension provision

There is a major gap in pension provision between occupational pensions for the upper half of formal employees (which yields reasonably good pensions for those who work a full working lifetime) and the universal state pension (which is available to all, but at a minimal level). There is no intermediate provision. As a result, pensioners are amongst the poorest of adults. Filling the pension gap will need to be driven by policy, with a supporting role for the private sector. The establishment of a statutory contributory pension scheme for all those in formal employment is already being considered by government.

Cross-cutting initiatives

There are a number of cross cutting initiatives that can be undertaken to support financial inclusion, related to financial literacy, debt management and risk management, and credit information sharing. There is also a need for improved consumer protection, through a financial ombudsman, and reorganisation of prudential regulation and market conduct responsibilities across relevant regulators.

Policy & regulatory environment

MAP provides the opportunity for a re-orientation and re-invigoration of the policy and framework to give a stronger emphasis to the needs and dynamics of financial inclusion. Key elements of this will include policy strengthening, with a firm commitment to financial inclusion, backed by resources where necessary, a recognition that the market alone will not be sufficient to bring financial inclusion to un-served and under-served, and that additional interventions will be necessary, and a commitment to utilise infrastructure established for welfare grant payments to support broader financial inclusion (rather just focusing on costs of welfare grant delivery). There is also a need for regulatory modernisation, with a recognition that banks will not be the only, or even the main, type of financial institution relevant to extending financial inclusion, a willingness to undertake regulatory reform in support of innovation and access to finance, and reform of the regulatory framework to embrace non-traditional forms of financial service delivery, especially by non-banks

1. Introduction

What is MAP

This diagnostic report forms the evidence base for the Making Access to Financial Services Possible (MAP) Botswana initiative. This report applies the MAP diagnostic and programming framework to support expanding access to financial services for individuals as well as micro and small enterprises. MAP is a multi-country initiative to support financial inclusion through a process of evidence-based country analysis. It is a partnership between the United Nations Capital Development Fund[3] (UNCDF), FinMark Trust[4] and the Centre for Financial Regulation and Inclusion[5] (Cenfri). In each country, it brings together a broad range of stakeholders from within government, private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country[6].

Why focus on financial inclusion? Financial inclusion is achieved when consumers across the income spectrum in a country can access and sustainably use financial services that are affordable and appropriate to their needs. The MAP approach pursues financial inclusion not in and of itself, but in support of enhanced welfare and an impact on the real economy, namely those activities that contribute to GDP and economic growth[7]. Economic theory suggests that financial intermediation can fuel real economy impacts at the macroeconomic level by mobilising savings for investment purposes (including capital allocation for business development), reducing transaction costs and increasing efficiency, thereby contributing to employment generation and growth. At the microeconomic or household level, financial inclusion can impact people's welfare directly by reducing their transaction costs, enabling them to more efficiently manage risks, allocating capital for productive use and supporting the accumulation of wealth over time. Financial services can also facilitate access to core services,

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[3] ***UNCDF*** *(www.uncdf.org) is the UN's capital investment agency for the world's least developed countries. It creates new opportunities for poor people and their communities by increasing access to microfinance and investment capital. UNCDF focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict or crisis. It provides seed capital – grants and loans – and technical support to help microfinance institutions reach more poor households and small businesses, and local governments finance the capital investments – water systems, feeder roads, schools, irrigation schemes – that will improve poor peoples' lives.*

[4] ***FinMark Trust*** *(www.finmark.org.za) is an independent non-profit trust whose purpose is 'Making financial markets work for the poor by promoting financial inclusion and regional financial integration'. The trust was established in March 2002 with funding from the UK's Department for International Development (DFID).*

[5] ***Cenfri*** *(www.cenfri.org) is a non-profit think-tank based in Cape Town. Cenfri's mission is to support financial sector development and financial inclusion through facilitating better regulation and market provision of financial services. They do this by conducting research, providing advice and developing capacity building programmes for regulators, market players and other parties operating in the low-income market.*

[6] *For more information on MAP visit any of the partner websites listed in the footnotes above.*

[7] *It goes both ways, however. As the discussion later in this report will show, the real economy and broader country context also impact the scope for financial inclusion by determining the realities within which the target market functions.*

such as health or education. This can impact growth directly, by triggering service sectors, as well as indirectly, by enhancing productivity.

Why conduct MAP in Botswana? In early 2015, the Government of Botswana, via the Ministry of Finance and Development Planning, formally requested the implementation of MAP in Botswana. MAP builds on the earlier work related to financial inclusion in Botswana, notably the Financial Sector Development Strategy (FSDS), completed in 2011. The intended outcome of the MAP diagnostic in Botswana is to facilitate the development of a comprehensive financial inclusion roadmap to align stakeholders and resources around agreed key priorities. This report forms the evidence base for the stakeholder process towards the development of such a roadmap.

The MAP project is formally hosted by the Ministry of Finance and Development Planning (MFDP). A MAP Working Group has been formed to oversee the MAP diagnostic and roadmap development process. The MAP Working Group, chaired by MFDP, comprises a range of members from government, financial institutions and other key stakeholders. A full listing of Working Group membership is included at Appendix 4.

Scope and methodology

MAP incorporates a comprehensive analysis of the country context as well as of the demand and supply of financial services and the regulatory environment in order to identify key barriers and opportunities to increased financial inclusion across four core product markets:

Table 1: Four core product markets

	***Credit***
	***Payments***
	***Savings***
	***Insurance***

Source: Authors' own

Customer needs as point of departure. MAP puts the demand-side perspective – the customer and his/her needs – at the core of the analysis and recommendations. The adult population is segmented into groups of individuals with similar profiles and needs that could form discrete target markets for financial services. With the target markets in mind, the rest of the analysis then seeks to identify which institutions currently serve which parts of the market through which services, as well as what the potential and gaps are for enhanced provision. The analysis is informed by the realities of the context of the country and ultimately seeks to meet the policy objective of financial inclusion as a tool to improve welfare and poverty alleviation.

The supply-side analysis was informed through consultations with industry, regulators and other stakeholders, complemented by desktop research. Data was gathered from published sources and directly from institutions[8]. The demand-side analysis is based on the FinScope (2014) survey, as well as insights generated by qualitative demand-side research in the form of individual consumer interviews conducted as input to the study.

The FinScope study was conducted in October-December 2014, and was based on a structured sample of 1500 households, selected on the basis of a sample frame provided by Statistics Botswana. The qualitative survey was conducted in the first half of 2015.

The MAP Botswana diagnostic is funded by FinMark Trust. It was carried out by Econsult Botswana, with the support from Cenfri and the FinMark Trust Botswana coordinator.

Guide to reading this document

Scope. This document builds an evidence base across various areas of analysis. It considers the country context, target market features, regulatory framework, as well as the provision of financial services in four product markets: credit, savings, payments and insurance.

The start of a process. The diagnostic document is the beginning rather than the end of the road, as it provides the basis for an ongoing multi-stakeholder process across government and the private sector to develop a financial inclusion **roadmap** and implement it through an **action plan**.

In order to impact on the real economy and improve welfare, a suite of appropriate financial services are needed that are accessible and provide value to clients. The scope for financial inclusion is conditioned by the country context as well as the regulatory environment within which the financial sector operates. After taking stock of the context and regulatory framework, we consider the needs and realities of various target market segments, as well as the potential, gaps and barriers for financial services across the four product markets to meet those needs. The recommendations are then informed by an assessment of the potential of various financial services to meet the key target market needs.

The document is structured as follows:

- **Chapter 2** outlines the country context, including the macroeconomic and socioeconomic context, as well as physical infrastructure. The country context plays an important role in shaping the scope for financial inclusion.
- **Chapter 3** provides an overview the financial service provider landscape in Botswana and analyses market infrastructure and the distribution network.
- **Chapter 4** analyses the relevance of the regulatory framework in Botswana for financial inclusion.
- **Chapter 5** takes a closer look at the demand for financial services and the target markets, focusing in on the profile and needs of different target market groups and analyzing current levels of usage of financial services.
- **Chapters 6 to 9** consider each of the four product markets: credit, payments, savings and insurance. For each market, the analysis considers:

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8 *The main sources of published data were: Botswana Financial Statistics (published monthly by Bank of Botswana (BoB)); BoB Annual Reports; World Bank World Development Indicators (WDI) database; IMF World Economic Outlook (WEO) database; IMF Financial Access Survey (FAS) database.*

- **Current usage** – the profile of usage in the particular product market
- **Use cases** - the nature and extent of various use cases for the product (see Box 1 for an explanation)
- **Providers** – an overview of the types and performance of providers serving the particular product market.
- **Products** – an overview of the suite of available products in the market and their key features from a financial inclusion point of view.
- **Barriers to access** – the factors that prevent greater financial inclusion in the particular product market, be it factors relating to the nature of the target market (such as their perceptions and trust – called *usage barriers*) or the features and accessibility of the product suite -called *access barriers*[9].
- **Regulatory issues** - with a bearing on financial inclusion in the particular market
- **Gaps and opportunities** – concluding on the key gaps and opportunities for serving target market needs in the particular product market.

- **Chapter 10** concludes by identifying the financial inclusion priorities stemming from the target market needs and supply-side analysis and highlighting potential roadmap focus areas to unlock the opportunities.

Box 1. What is a use case?

A "use case" is simply an identified need or application for a particular service among the target market, the reason why a particular product is demanded. For each product market, there will be several use cases. The use cases for a particular product will differ across countries, depending on the context and target market features. For example, "to pay bills" or "to send money to rural family members" can both be a use case for payments, while "to provide for education expenses" can be a use case for either savings or credit.

The use cases identified in Chapters 6 to 9 are intended to focus the discussion on the actual or potential needs expressed in the market and the prospective roles that a particular product could fulfil. The use cases for each product market are identified based on the qualitative and quantitative demand-side research, along with an overview of products on the market and insights from provider interviews.

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9 ***Access barriers*** *are factors relating to the supply of financial services that preclude certain individuals from using such services. Affordability, availability of the service within easy reach, the eligibility requirements set (which can be the result of regulatory requirements) and the appropriateness of the available products to prospective clients' particular needs are the main access barriers.*

Usage barriers *refer to factors that cause people not to use financial services even if they technically have access to it. Usage barriers are internal to the individual or society and include perceptions, trust, financial capability and the fear of officialdom.*

2. Country Context

Physical Context and Infrastructure

Size and Infrastructure

Botswana is a landlocked country in Southern Africa. The country has a maximum length from north to south of about 1000 km and a maximum width from east to west of about the same. It is bordered on the southeast and south by South Africa, on the west and northwest by Namibia, on the north by Zambia, and on the northeast and east by Zimbabwe. With a total area of around 580,000 square kilometres, it is larger than France and about the same size as Texas. Botswana's terrain is mostly flat desert, savannah and grassland. As most of the country is sparsely populated by humans, it is a haven for wildlife and, for example, hosts the largest population of elephant in the world.

Population census. According to the 2011 Population and Housing Census, the population of Botswana then stood at 2,024,904, making the country, alongside Mongolia, Australia and Namibia, one of the least densely populated in the world, with less than four inhabitants per square kilometre on average. The population is concentrated in the eastern part[10] of the country where arable farming is possible on account of better and more favourable climatic and soil conditions. With population growth estimated at 1.5%, the population in 2015 is around 2.15 million.

*Fairly developed road network***.** The major roads are generally in good condition and are regularly maintained and upgraded. Given this, and the fact that the country is largely flat and traffic volumes are low, it is possible to travel long distances quite easily. However, more remote and less populated areas are sometimes not served by all-weather roads. Transport costs are an issue for lower value, higher volume exports, e.g. coal, as Botswana is land locked and distant from major ports. The main cross-border road linkages are from Selebi-Phikwe, Gaborone and Lobatse to South Africa in the south-east; the Trans Kgalagadi Highway to Namibia in the west; from Francistown to Zimbabwe in the north-east; and from Kasane to Zambia and countries to the north.

Very high mobile phone penetration. In recent years the penetration of telecommunications in particular, has been extremely rapid. This has largely resulted from the introduction of mobile phones, with two licences awarded in 1998, and a third licence in 2008. Since the start of the service, the number of mobile phone users has grown, in 2013, Botswana recorded 160 cellphone subscribers per 100 inhabitants, one of the highest cellphone penetration rates in Africa[11]. According to FinScope 2014, 94% of Batswana have access to mobile phones, while 90% presently own a mobile phone. There is network coverage for almost the entire population, notwithstanding its large, sparsely populated territory.

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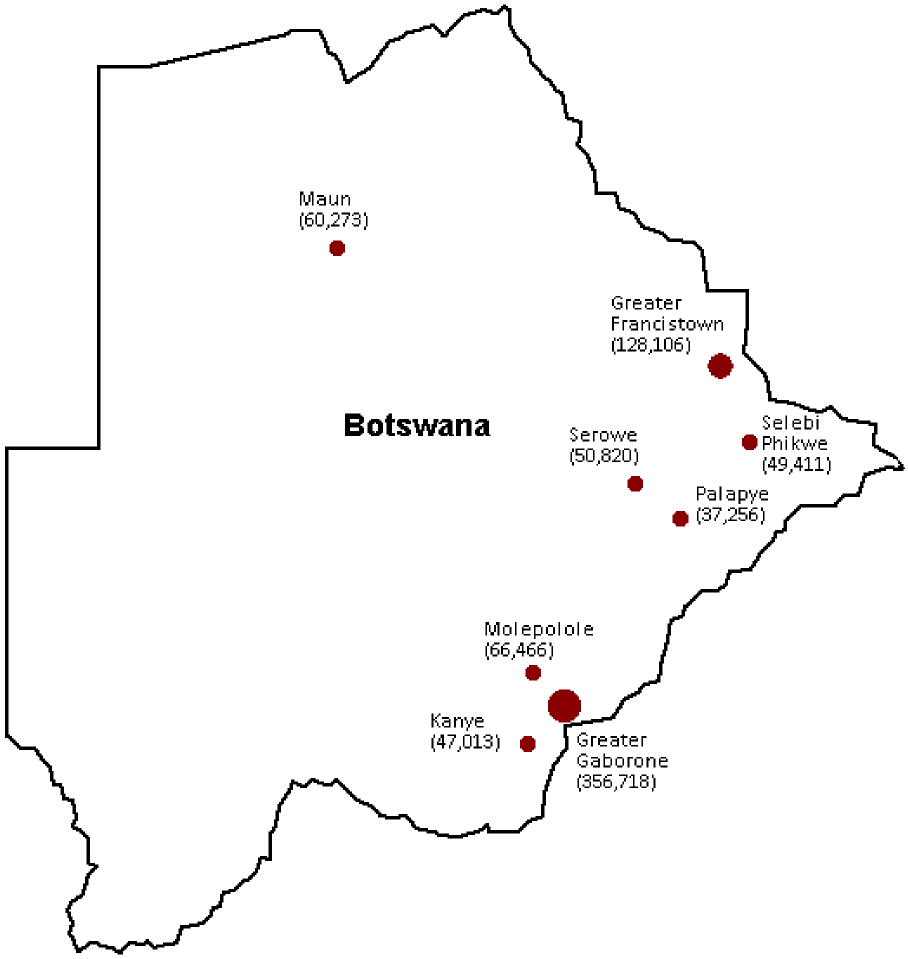
[10] *Further discussion under the socio-economic context*

[11] *International Telecommunications Union Facts & Figures 2014 (http://www.itu.int/en/ITU-D/Statistics/Pages/facts/default.aspx)*

Figure 1: Botswana map with key centres



Source: Statistics Botswana, Econsult Botswana

Access to Electricity. Access to electricity remains a big challenge for development and affect the kind of productive activities that households engage in for steady and sustainable income generation. Access to electricity has improved in the past 2 decades, the number of villages with access to electricity has been growing in recent years, thanks in part to the Botswana Rural Electrification Project. In 1991 10.1% of the households used electricity as their principal source of energy for lighting and this increased to 24.8% in 2001 and 53.2% in 2011[12]. The national grid is still skewed towards the eastern corridor with the majority of electrified households.

Though Botswana has an abundance of coal and a power plant, it is still heavily reliant on South Africa for power. This has mainly been an outcome of the failure of the Morupule B power station despite the Government having invested well over P10 billion in the last decade.

Semi-arid climate. Rainfall is low, unreliable, unevenly distributed and highly variable from year to year. Drought is a recurrent phenomenon, most rivers are seasonal and hence water is a scarce resource. Botswana experiences two seasons, summer and winter. The summer season, which is also the rainy season, lasts from October to March and is characterized by

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[12] *Population and Housing Census (PHC), 1991, 2001, 2011*

high temperatures, while the winter season lasts from April to September. Botswana is potentially vulnerable to global warming with the likely rise in temperatures intensifying the arid climate and causing water shortages to worsen. The climate plays an important role in reducing the productivity of the agricultural sector, which most Batswana are involved in to some degree.

Good access to safe drinking water. Although almost all of the population have access to safe drinking water – a considerable achievement given that water is a very scarce resource in Botswana – national water resources are under stress and are being depleted. Around two-thirds of water supplies are derived from boreholes tapping underground aquifers, and there is concern that the water in these well fields is being "mined", with extraction rates higher than replenishment rates. Use of recycled water is very limited. Water stress is likely to be an increasingly important environmental issue in Botswana, especially in the south of the country where most major population centres are located. It is less of an issue further north, where most mining activity takes place, as water flow in rivers (albeit seasonal) and provision of large dams is much better.

Land Tenure and Administration

Complex land tenure system. Land tenure in Botswana is divided into 3 categories; tribal, state and freehold land. Each type of land has different rules regarding ownership, transfer and marketability. At independence, about 49% of the national land area was tribal land, less than 4% was freehold and the balance state land. Today, tribal land comprises 71% of the land area; freehold about 4.2% and state land the remainder. Table 1 below illustrates the current types of land tenure.

Table 2: Land tenure categories

Type of Land	Area in Km^2	% of total land
Tribal Land	411,349	70.9
State land	144,588	24.9
Freehold land	24,572	4.2
Total	580,509	100.0

Source: Ministry of Lands and Housing

Citizenship-based access to land. Ownership (through grants or leases) of tribal land is restricted to citizens, unless there is ministerial permission for a non-citizen to acquire a specific piece of tribal land. Tribal land under a formal lease can be pledged as collateral for a loan. However, restrictions on ownership and the thin nature of property markets in some localities makes financial institutions cautious in terms of the amount they will lend against such collateral. Allocations of tribal land by land boards are not made on a market basis, but on the basis of "need". Tribal land is provided free of charge, or at a low nominal cost, and hence demand far outstrips supply, particularly in areas of significant economic activity. The number of people on the waiting lists for residential plots on tribal land is greater than the population of the country[13]. State land leases or freehold land can be owned by citizens and non-citizens alike.

[13] *Botswana Gazette, 15 June 2015, quoting the testimony of the Permanent Secretary in the Ministry of Lands and Housing to the Public Accounts Committee.*

Land policy review. In the past, there were no laws against multiple allocations of tribal land, however, The Land Policy Review (LPR) of 2010 recommended that: (a) the entitlement of citizens to apply for any number of residential plots should be limited; (b) application fees should be restored to 1968 values, to act as a demand regulator and (c) the regulations relating to the repossession of undeveloped land should be amended. The LPR proposed that citizens should be limited to a single lifetime grant of tribal land for residential purposes in the area of their choice. If the plot were serviced, the recipient should pay the costs involved. For additional plots on tribal land, they should rely on the land market. With regard to the allocation of urban state land, it was recognised that the waiting list system had outlived its usefulness and that middle and upper income groups should obtain land through the market. However, government should continue to acquire, service and distribute land to meet the housing needs of the poor.

Socioeconomic Context

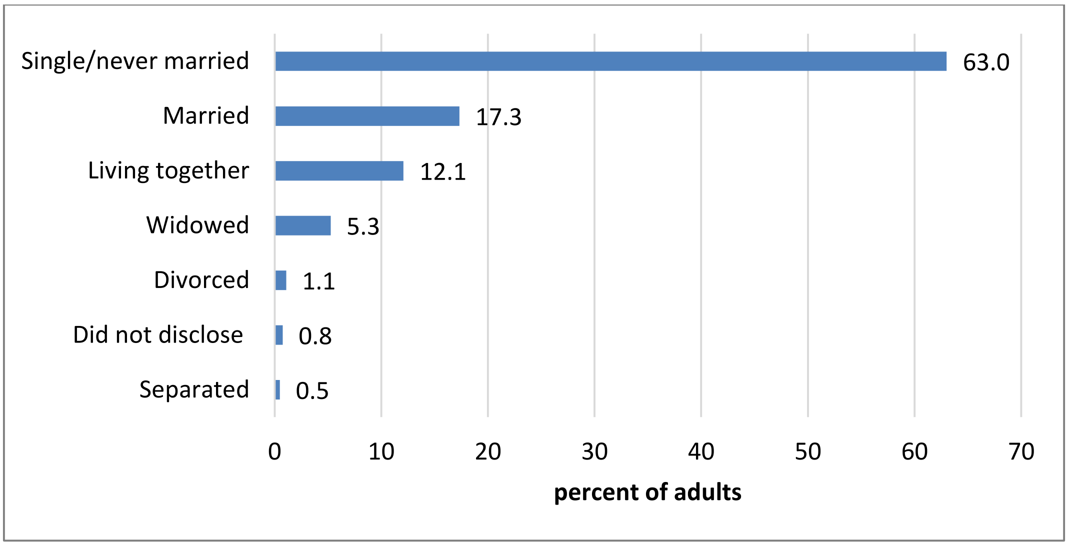
Social dynamics. The collective term for the country's people, Batswana, refers to national rather than ethnic origin. According to the 2011 Population and Housing Census, approximately 78% of the population speak Setswana as their first language. 52% of the adult population is female with 48% being male.[14]

Families and households are important, but fluid and with a variety of different structures. Many families are split across locations, with more than one residence (urban and rural). Most adults are not married; according to FinScope 2014, only 17% of adults are married – a figure that is consistent with the results of the 2011 PHC. HIV/AIDS caused many deaths during the 1990s and 2000s, leading to many orphans[15]. As a result of this, and migration of working age adults to urban areas, children are often raised by grandparents. Nevertheless, families are an important financial unit. Most extended families have at least one member in formal employment, often a government sector employee, who is usually the breadwinner and responsible for the family dependents, and who will often extend financial assistance to members of the broader family.

[14] *FinScope, 2014*

[15] *HIV/AIDS is discussed later in this chapter*

Figure 2: Marital status



Source: FinScope 2014

Urbanized population. The majority of the population is concentrated around the five major centres of the country - Gaborone, Serowe-Palapye, Molepolole, Francistown and Selebi-Phikwe. Other major concentrations are around the Okavango Delta area (Maun) and in the South of the country (Lobatse, Mahalapye, Kanye and Molepolole). Nearly 50% of the population lives within 100 km of Gaborone. Urbanisation is increasing at a very rapid pace with corresponding rural depopulation, and over 65% of the population now lives in urban areas.[16] This is a result of economic development in the cities and the relative hardship of working in the agricultural sector in a country where droughts are relatively common. The average household size has been declining over time, from 5.5 in 1981 to 3.7 in 2011[17]. The relative homogeneity, and urbanisation, of the population has resulted in a significant degree of social cohesion that has allowed Botswana to develop free of tribal competition often experienced in other African countries. Racial and tribal problems are uncommon, although perhaps increasing as the country has struggled to absorb large numbers of Zimbabwean migrants in recent years.

Good access to education. Over 85% of the population has some form of formal education, with the majority having at most secondary education. Education is free for the most part; primary education is free while secondary has a minimal fee, which poor families are exempted from. The government provides grants or loans for tertiary education.

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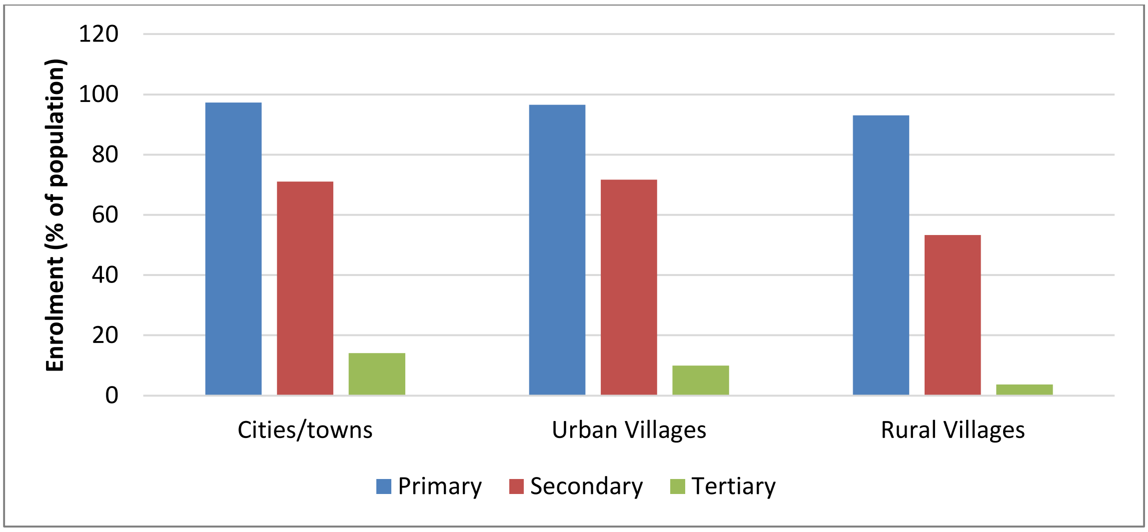
16 *Ibid*

17 *Source: PHC 2011*

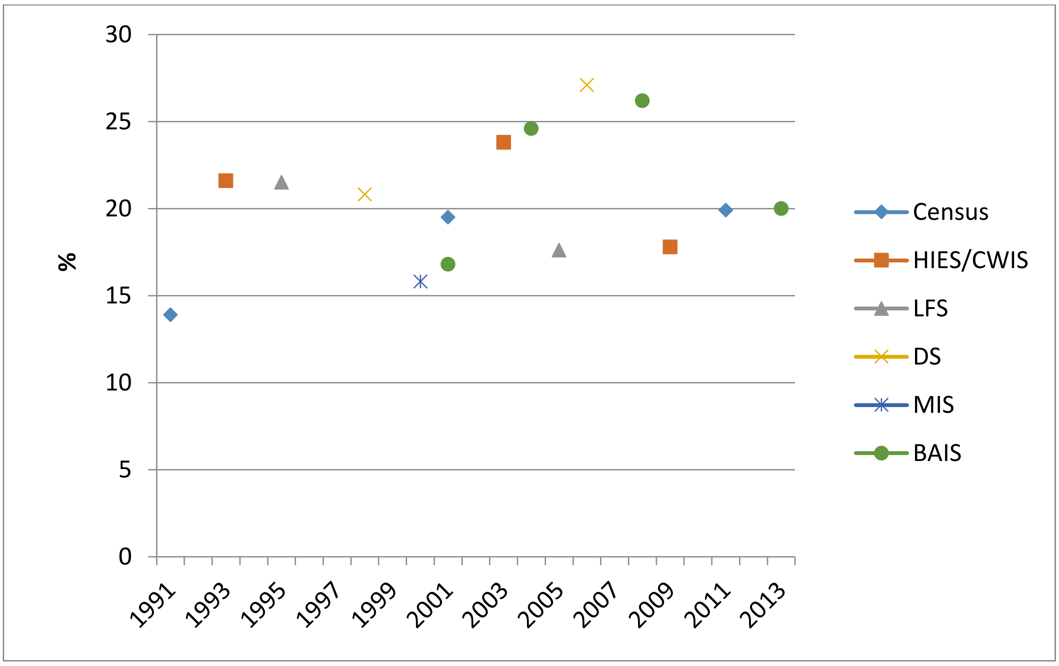
Figure 3: Access to education by location



Source: Statistics Botswana, PHC 2011

Labour market participation. According to the PHC, 801,529 people were in the labour force in 2011, of which 642,065 were employed. The formal sector employed approximately 335 000 – in other worlds about 52% of those employed had formal sector jobs, while the rest were in the informal sector, the agricultural sector or were unemployed. There is no clear trend in unemployment over the past decade, or even comparing the 2000s with the 1990s; however, available data from various sources show that Botswana's "official" unemployment rate is high, ranging between 20% and 30%. The latest three unemployment readings have all been around 20% as shown in Figure 4 below.

Figure 4: Unemployment rate



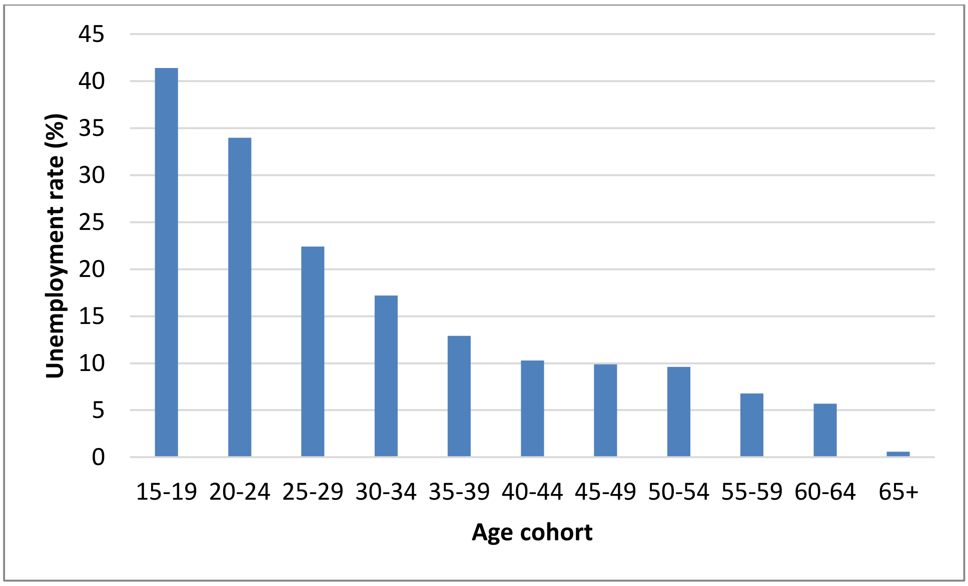
Source: Statistics Botswana, Econsult Botswana

High unemployment rate. According to the national Population and Housing Census (PHC), the unemployment rate remained virtually unchanged between 2001 and 2011 at around 20%.

However, household surveys provide a more encouraging reading; the 2009/10 BCWIS showed a drop in unemployment compared to the previous similar survey in 2002/3. It should, however, be noted that household surveys are based on a sample of the population and therefore have a margin of error, and while the censuses are more comprehensive and accurate, being based on the entire population. There is a high unemployment problem in Botswana partly because the rate of job creation in the formal sector has been quite low in the last decade, below both economic growth and labour force growth. Annual formal sector employment growth has averaged 2.3% over the last decade, lower than the annual growth rate of total employment, which is approximately 3.6%[18].

Worrying youth unemployment. Of those who are unemployed in Botswana, the majority (61%) are aged 15-29. This is partly due to the large size of these age cohorts relative to those of older adults. But furthermore, the unemployment rate in an age cohort is inversely related to the age of the cohort, with age cohorts below 30 experiencing above-average unemployment and those above 30 experiencing below-average unemployment. This worrying trend is similar to that of other countries in the region and less so of Arabic countries[19].

Table 3: Unemployment by age group



Source: Population and Housing Census 2011, Statistics Botswana

Falling poverty rate. Poverty levels in Botswana are not excessive by the standards of comparable middle-income countries – they are comparable with poverty levels in middle-income countries in Latin America, but higher than middle-income countries in Asia. Poverty levels are much lower than in some of the low-income countries in the Southern African region. The percentage of Batswana living below the Poverty Datum Line (PDL)[20] decreased from 47%

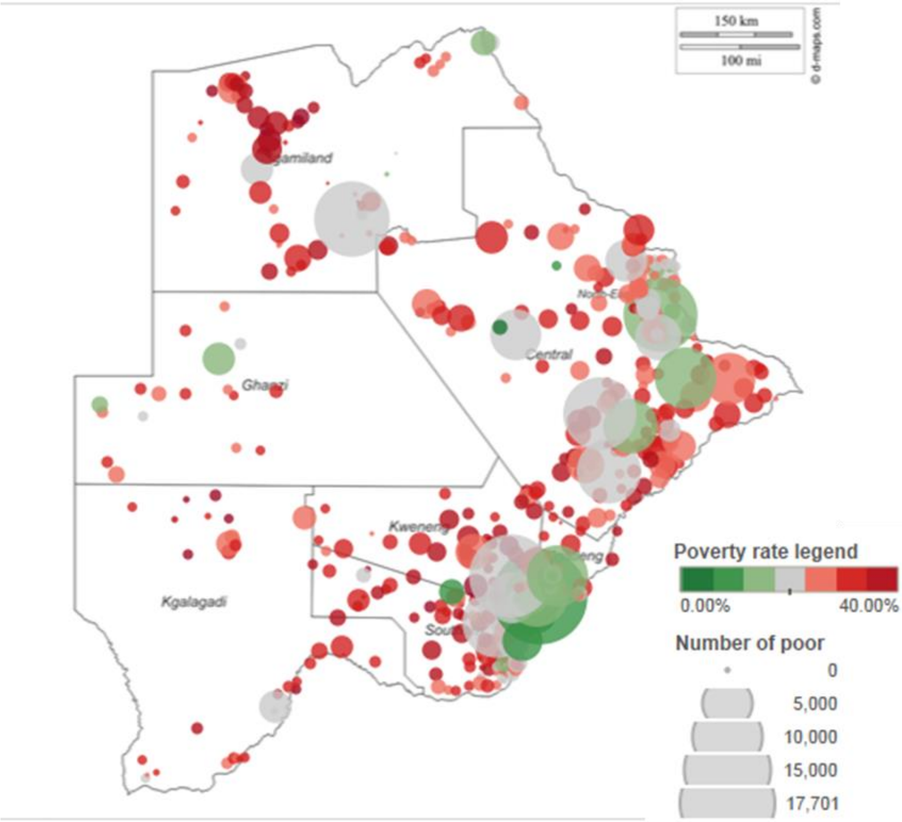
[18] *The total employment annual growth rate, as reported by Statistics Botswana, is an approximation as there is very limited data on the informal sector in Botswana.*

[19] *Global Employment Trends for Youth 2012 Report, International Labour Organization, Geneva*

[20] *The PDL is defined in terms of the amount of expenditure required to maintain a specified standard of living, which in turn comprises the food consumption necessary to meet a specified calorie consumption requirement, as well other consumption items such as clothing, housing, transport etc. Extreme poverty is defined in terms of the food component of the PDL basket only.*

in 1993 to 31% in 2003 and 19% in 2010[21]. Comparison between the 2003 Household Income Expenditure Survey (HIES) and 2009 Botswana Core Welfare Indicator Survey (BCWIS) data shows that national poverty decreased by 11.2 percentage points, while rural and urban poverty decreased by 20.8 and 7.6 percentage points respectively. While extreme poverty decreased by 8.3 percentage points at national level, it fell by less than 5 percentage points in urban areas (including urban villages) with the biggest decline being in rural areas, where it decreased by 17.2 percentage points.

Figure 5: Concentration of poverty



Source: World Bank (2015a)

Agriculture continues to play an important role. Agriculture has played an important role in the creation of employment and rapid poverty reduction in the rural areas where it is the biggest sector and employer in those economies. However, there is a misconception that Botswana is an agriculture based country; it is common to hear phrases such as “the majority of Batswana are dependent upon agriculture” or “the majority of Batswana live in rural areas”[22].

Moderately pro-poor growth leading to a decline in poverty. The shared prosperity has also translated to a modest decline in inequality, although it still remains high by international standards. The Gini coefficient for per capita consumption expenditure declined from 64.7% in 2002/3 to 60.5% in 2009/10, remaining in the upper half of the global range of inequality[23].

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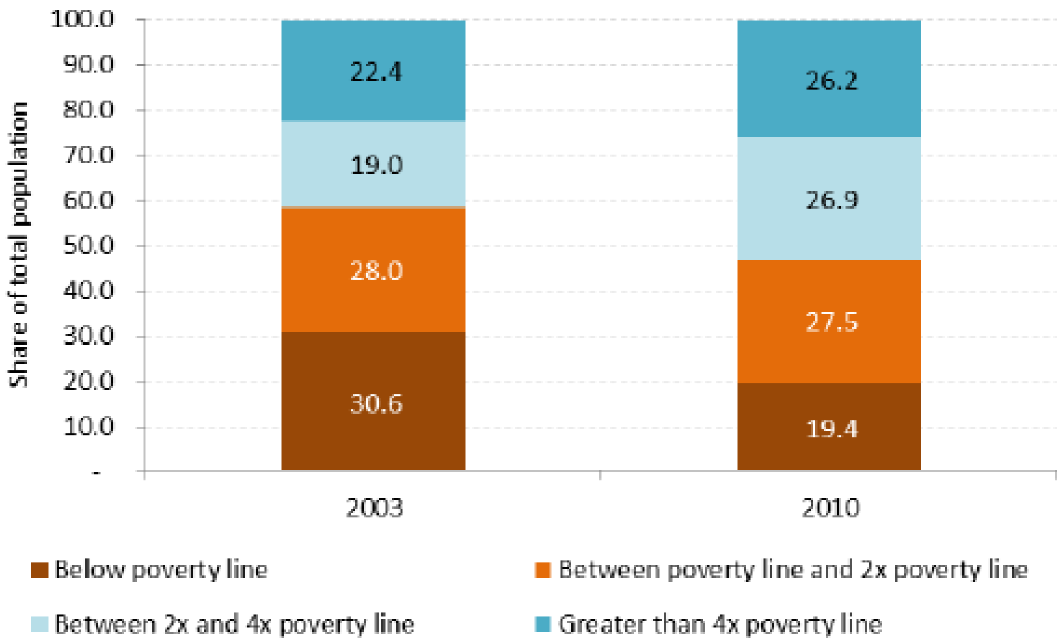
21 *BCWIS 2009/10, Statistics Botswana*

22 *Agriculture is discussed in more detail later in this chapter*

23 *World Bank (2015b)*

However, data on the distribution of income – which is generally considered to be less reliable than the measurement of expenditure – suggests that income inequality may have risen.

Figure 6: Distribution of population by consumption levels (2003 v 2010)

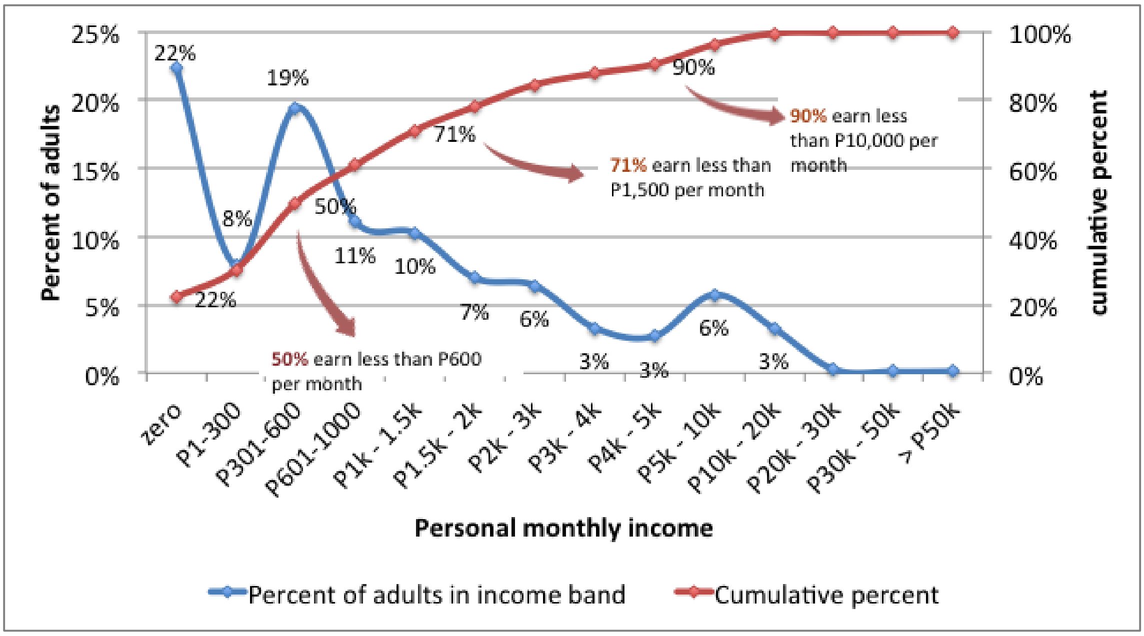


Source: World Bank (2015a)

The average (median) household in Botswana had total monthly consumption expenditure of P1,586 in 2009/10[24]. However, across the districts average monthly spending varied a great deal, with the highest in urbanized centres (Orapa at P4,592 and the lowest figures in rural and remote areas in the western part of the country (Ngami west at P656). Adults with the highest probability of being poor are those with a low level of education while the majority of those with post-secondary education earn above the “high income” threshold of P3,000. Despite the high per capita GDP, according to FinScope 2014 only 10% of adults earn more than P10,000 (approximately USD1,000) a month.

[24] *The median is a more representative average than the mean when describing a variable with a skewed distribution.*

Figure 7: Income distribution

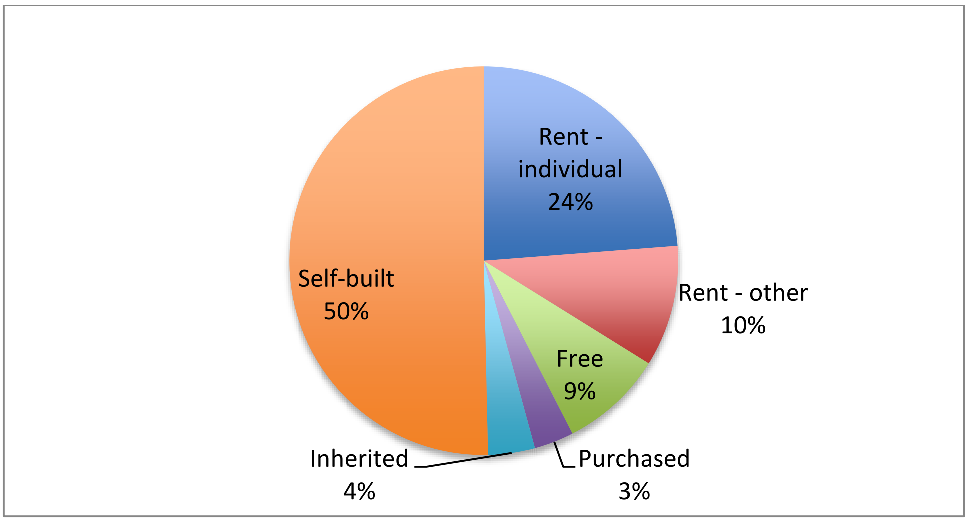


Source: Botswana FinScope Report 2014

Box 2: Housing in Botswana

According to the 2011 PHC, there are approximately 550,000 households in Botswana. Some two-thirds of households (66%) own their own houses; however, rental is becoming rapidly more widespread, especially in urban areas. Of the households that own their own houses, the majority are self-built. Relatively few houses are purchased, although the number is increasing rapidly – from 1.3% of the total in 2002/3 to 3.3% in 2009/10.

Figure 8: Housing by source, 2009/10

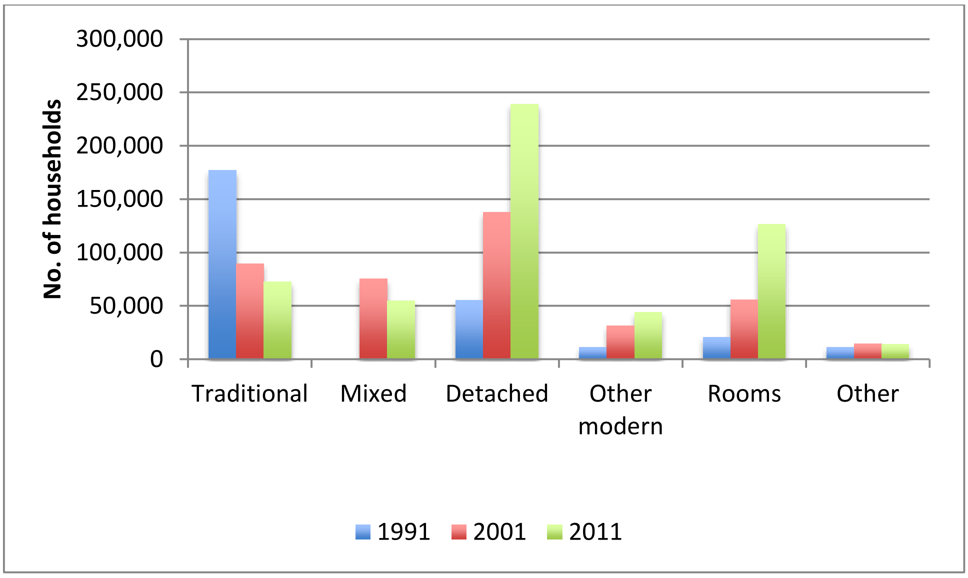


Source: Botswana Core Welfare Indicators Survey, 2009/10

The nature of housing is also changing. The housing census results from 1991, 2001 and 2011 show that there has been a major shift away from "traditional" housing to modern "detached" housing. This essentially means that thatched huts are being replaced by simple brick structures. Other important changes include the rise of urban forms of modern housing such as semi-detached, town houses and flats – although this still accounts for a small proportion of the overall national total. Furthermore, many more people are living in "rooms" – small urban accommodation on multi-residential plots.

Housing availability and affordability are major issues. There is a shortage of land for residential property in many areas, notably in Gaborone and Francistown, notwithstanding Botswana's relatively low population density. The reasons for residential land shortages are many, including relatively low density construction in urban areas (few blocks of flats or other multi-residential developments); the rapid growth of urban areas; and constraints to the conversion of agricultural land to urban land. Urban land prices are therefore relatively high.

Figure 9: Households by type



Source: Statistics Botswana – Human Settlements Report, 2013

Health System and HIV & AIDS

High investment in healthcare. There is a well-established health system network with approximately 682 health facilities and 894 mobile clinics country wide. There are 3,000 people per doctor and 352 people per nurse. The government has invested a lot into the health sector, spending around the global average on per capita health spending, but much higher than its neighbours. However, given this high level of investment, health outcomes in Botswana are not as high as they ought to be in a number of areas when compared to many of its neighbours. This may be a reflection of the strong focus on dealing with HIV/AIDS (which is relatively expensive) to the possible neglect of other diseases and illnesses, as well as some issues of lifestyle that are not conducive to good health and wellness.

Figure 10: Comparative health expenditures and outcomes

How Botswana Compares Globally and with Selected Neighbours in terms of Health Expenditures & Selected Health Outcomes						
Factor*	Botswana	South Africa	Zimba-bwe	Zambia	Mozam-bique	Global Average
Health expenditures/person (Int $ PPP) – 2009	1341	862	20 (2007)	88	55	1323
Infant mortality rate (per 1,000 live births) - 2010	36.10	40.70	50.90	68.90	92.20	22.60
Undernourishment (% of population) - 2008	25.00	5.00	30.00	44.00	38.00	11.20
Deaths from respiratory disease (per 100 people) - 2008	152.00	131.00	137.00	234.00	229.00	86.90
Incidence of tuberculosis (per 100,000 people) – 2010	503.00	981.00	633.00	462.00	544.00	103.70
Do you have any health problems? (% who respond 'yes') - 2010	31.80	28.70 (2011)	21.20 (2011)	16.80 (2011)	21.60 (2011)	23.00

Source: Legatum Prosperity Index, 2012

** Year of data as indicated for factor (unless specified under country column)*

HIV and AIDS is challenging. HIV/AIDS continues to be the leading health and development challenge. There has been a national anti-retroviral (ARV) programme rolled out since 2002, with free treatment for all citizens through the public health service. The programme is considered to be highly successful with a very high outreach and a low failure rate. Since the inception of the programme, only around 10% of recipients have died. Following rigorous investment and implementation of HIV/AIDS related programmes, HIV prevalence amongst adults aged 15-49 was largely unchanged from the rate for 2004 (25.3%) and 25.0% in 2008 (according to the fourth Botswana AIDS Impact Survey (BAIS IV)). National HIV incidence (for population 18 months and over) declined from 1.45% in 2008 (BAIS III) to 1.35% in 2013 (BAIS IV). However, national HIV prevalence has been on an upward trajectory, and has increased from 17.1% in 2004 (BAIS II) to 18.5% in 2013 (BAIS IV). This may be largely driven by the rapid rollout of the Anti-Retroviral Treatment (ART) programme during this period. This in turn caused deaths from HIV and AIDS to drop sharply, and for those who are HIV positive to live much longer. Approximately 250,000 people are on ARV therapy as at mid-2015, of whom some 85% are being treated through the public health network of hospitals and clinics. The remainder are treated via private hospitals, general practitioners and medical aid funds.

Slow behavioural change. Although many of the programmes related to HIV and AIDS have been very successful, several challenges remain. In particular, behavioural change is very slow; multiple concurrent partnerships and inter-generational sexual relationships are not viewed as inappropriate behaviour, despite contributing to the spread of HIV/AIDS. Achieving real behavioural change remains perhaps the largest challenge to achieving the long-term objective of 'no new infections' and eradicating HIV and AIDS.

Rising financing gap. A major challenge for Botswana over the coming years is an emerging 'financing gap' for HIV/AIDS programmes, as costs of treatment will most likely continue to rise while the availability to finance them becomes more constrained (due to government fiscal restraint and an expected decline in donor funding).[25] This has implications for household consumption, with costs potentially being transferred to the patient.

Government programs and welfare programs

Wide government intervention. There is an array of social welfare programmes aimed at eradicating poverty in Botswana. The number of these programmes reflects the high level commitment to poverty alleviation. There is little doubt that there is a strong political commitment to achieving this objective.

Poverty alleviation is a priority. Poverty alleviation programmes can be categorized into two groups: Social Safety nets and Economic Empowerment programmes. It is estimated that between 2004/05 and 2010/11 the Government spent an average of P2 billion (2% of GDP) on safety nets per year. This share of spending is reported to be in the medium range in comparison with countries with similar income levels. However there is no consolidated data source on social spending, and so these estimates have a high degree of uncertainty.

Table 4: Selected government social welfare programmes (2012/13)

Programme	Target	Benefits in BWP	Number of beneficiaries
Orphan and Vulnerable Care	Orphan carers	P 301 per month in food packages	40,030
Destitute Persons	Rural and urban destitutes (indigent)	P241 per month (food basket) + cash allowance	30,518
Old Age Pension Scheme	All citizens aged over 65	P279 per month	93,639
World War II Veteran Grants	Veteran or their spouse.	P312 per month	n/a
Community home-based care (CHBC)	Payment to those caring for the chronically ill	Varies	n/a
School meals and vulnerable group feeding schemes	Nutrition programmes for infants and pregnant/lactating mothers, and primary and secondary school children	Direct food provision	Approx. 800,000
Public works / Ipelegeng	Unemployed adults	P500 per month	55,000

Source: World Bank (2015)

Investment in economic support programs. In addition there are a number of active labour market programmes, including the national internship scheme (government subsidies for employment of graduates), an apprenticeship scheme, and the Youth Development Fund. There are also subsidies to institutions supporting economic growth, diversification and employment creation, including the Citizen Entrepreneurial Development Agency (CEDA) and the Local Enterprise Authority (LEA), as well as policies including, the National Master Plan for Arable Agriculture and Dairy Development (NAMPAAD) and the Economic Diversification Drive (EDD).

[25] *HIV & AIDS Resource Mobilization Strategy 2012, Government of Botswana*

Table 5: Selected government economic empowerment programmes (2012/13)

Programme	Annual budget (P mn)	No. of beneficiaries	Benefits/individual
Economic Diversification Drive (EDD) [26]	n/a	28,000 accredited firms	n/a
Integrated support programme for arable agricultural development (ISPAAD)	500	130,000	3,800
Livestock Management and Infrastructure Development (LIMID)	224	18,000	12,500
Young Farmer's Fund	6.9	592	11,655
Youth Development Fund	99.0	1,111 (projects funded, 2013/14)	89,000
Women Economic Empowerment Grants	1.5	N/A	N/A

Source: Budget documents, supply side consultations

Benefits distribution. Various distribution schemes are used. Many welfare benefits are distributed by Botswana Post. This is through post offices, through the *kgotla* in villages, or using mobile delivery mechanisms (visiting remote locations monthly by 4 x 4 vehicle, boat or helicopter). Other benefits are distributed local councils, which every city, town and major village has. Other payments are made through government revenue offices, by cheque, or by bank transfer.

Concern about low impact of programs. A number of concerns have been expressed both within and outside of government about the impact and effectiveness of these programmes. The general diversification and economic support programmes have not yielded the desired results nor created the expected level of jobs[27]. The social safety nets are heavily dependent upon government spending, and in an environment of constrained availability of public funds, this level of spending may not be sustainable – certainly it will be difficult to secure an increased allocation of funds for social safety nets[28]. There is also a concern that the wide range of programmes and availability of government support has created an environment of "welfare dependency".

Lack of programme coordination. Concern has also been expressed that the programmes and policies meant to combat poverty are uncoordinated and are sometimes contradictory. There is no overall framework for co-ordination of poverty alleviation policies. Some programmes are old and may have outlived their initial rationale. It is also likely that there is overlap in terms of the beneficiaries of different programmes, but there is virtually no information on the extent to which different programmes are used by different (or the same) people. Some programmes are thought to suffer from poor take-up or limited impact because of deficiencies in design. A further issue is that even if the programmes are well designed, they are hindered by poor implementation and delivery.

[26] *Aggregate budget and beneficiary numbers*

[27] *Government of Botswana (2012a), page 14*

[28] *Government of Botswana (2012b), page 19*

Political Context

Democratic state. Botswana has a flourishing multiparty constitutional democracy, which has operated continuously since independence in 1966. Elections for a unicameral National Assembly occur every five years. Each of the elections since independence has been freely and fairly contested and has been held on schedule. There are two houses of parliament; the National Assembly and the *Ntlo ya Dikgosi*. The upper house of Parliament, *Ntlo ya Dikgosi* (originally called House of Chiefs), acts as a purely advisory body and has no legislative power. Its role is mainly to provide advice on tribal or customary law issues, and parliament is not obliged to implement the advice they give. The ruling Botswana Democratic Party has won all elections since independence

Internationally acclaimed governance. The view internationally about Botswana's political stability has always been high; that is, most viewing it unlikely that the government would be destabilized by unconstitutional or violent means. Indeed, over time, there has been an overall improvement in perceptions: in 1996, Botswana ranked in the 78th percentile, improving to 86th in 2013[29]. Botswana continues to be ranked among the least corrupt countries in Africa, Transparency International ranking it first in 2014. In addition, Botswana was ranked 3rd in Africa by Ibrahim Index of African Governance (2013), with high ratings for 'willingness of the government to respect the rights of citizens to take part in the affairs of the state' and 'fighting poor ethics in the public service'.

Botswana's economic success and social stability has been credited to good governance and democracy.[30]

Macroeconomic Context

Economic Growth and Diversification

Historically sound economy. Botswana has a reputation as the best-performing economy in Africa over the past few decades, and indeed one of the better performing economies in the world. Over the thirty years between independence in 1966 and the mid-1990s, Botswana was the fastest-growing economy in the world, with average annual GDP growth rates of over 10%, faster than the better-known "tiger" economies of South East Asia. This prolonged growth took Botswana from being one of the poorest countries in the world in 1966 to middle-income status by the 1990s. Today, it is an upper middle income country with a GDP per capita of $7,880, comparable to other middle income countries in the region; Mauritius ($9,710), South Africa ($6,800) and Namibia ($5,820)[31].

Investment grade credit rating. Botswana has investment grade credit ratings from the ratings agencies Moody's and Standard & Poors. This reflects the sound government finance position (with net savings rather than debt), and strong record of macroeconomic management and growth. Botswana credit ratings are the highest of any country in Africa.

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[29] *Worldwide Governance Indicators, WGI 2014*

[30] *Botswana Performance Report (Vision 2016),2014*

[31] *IMF World Economic Outlook (WEO) database, 2014 estimate*

*Impact of global financial crisis***.** Botswana's economy has continued to grow steadily, although more slowly than in the boom years, with GDP growth rate averaging 4.8% over the last decade. The country experienced a major shock during the global financial crisis in 2008-9, which had a significant impact on Botswana's major export, diamonds, causing overall GDP growth to weaken, and for Botswana to have its first-ever negative annual GDP growth in 2009.[32] Although diamond output and exports have subsequently recovered, the impact of the crisis still creates uncertainty in global markets. In 2009 Botswana also undertook significant foreign borrowing for the first time, notably with a budget support loan from the African Development Bank totalling US$1.5 billion. Although this loan is large relative to previous international borrowing, debt service costs are still low and Botswana's foreign debt is very small by international standards. Statutory limits on government borrowing should prevent borrowing from becoming unsustainably large.[33]

Investment in economic diversification. Economic diversification has long been at the centre of the economic policy framework in Botswana. There has been a series of policies aimed at boosting the non-mining sector, including subsidy schemes such as the Financial Assistance Policy and the Citizen Entrepreneurial Development Agency, a wide range of agricultural subsidies, and "Hubs" to promote various sectoral activities. There have been concerns that all the government's efforts have not have not been successful as there has been no long-term increase in the share of manufacturing or agriculture in GDP. However, this picture is incorrect, as economic output is much less dominated by mining than it was in the past, and in general non-mining sectors have been growing faster than mining.

Drivers of growth have changed. At the time of independence in 1966 Botswana's economy was agriculture-based, but the importance of agriculture has steadily declined[34]. Historically, the main driver of growth has been minerals, particularly diamonds but also to a lesser extent base metals (copper & nickel) and gold. Despite the long period of mineral-led growth, mining's contribution to both GDP and as a growth driver has been declining over the years, to some extent pointing to the diversification of the economy (discussed below). Over the decade from 2004-14, the main drivers of growth were finance & business services, hotels & restaurants, and trade (wholesale & retail), which contributed over 85% of growth. As mentioned above, the notion of growth in Botswana being led by mining was not the case over this period, as mining contributed negatively to growth (-26%) and average growth has been slowly declining from 4.6% to 4.1% over the same period. Measured in terms of the relative contribution of different sectoral activities to GDP, there is no doubt that the economy has become more diversified since 1996. When value added is measured at current prices, mining accounts for the largest share of GDP. However, at constant prices, it is second to the trade sector as illustrated below[35].

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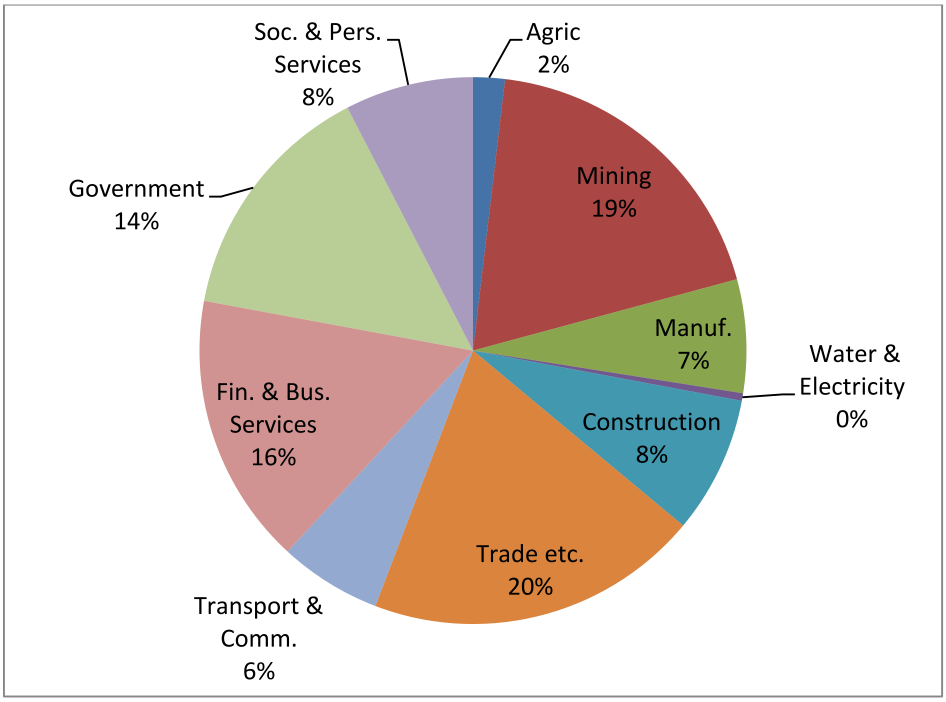
[32] *Bank of Botswana Annual Report, 2011*

[33] *Capital Resources (2013)*

[34] *Siphambe et al (eds.) (2005).*

[35] *This section uses data from Statistics Botswana and Econsult Botswana.*

Figure 11: Value added shares, 2014

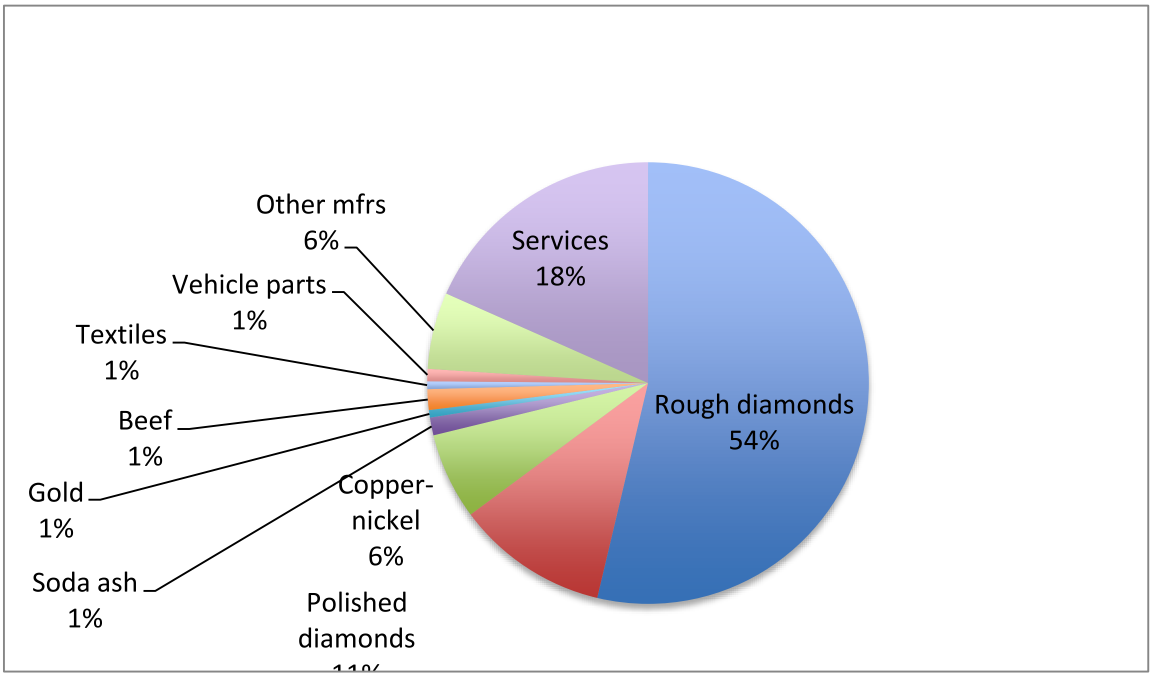


Source: Statistics Botswana, Econsult Botswana

Evolution in the definition of diversification. Botswana's diversification objective has evolved in the last decade shifting from "diversification away from mining" to include "diversification within mining", and an emphasis on minerals beneficiation. This has become more evident when looking at diversification of exports. As illustrated in the figure below, mining dominates exports accounting for nearly 90% of the total. However, exports of rough diamonds have declined as a share of the total, from an average of 75% in the 1990s to 60% in 2014. Other minerals have risen from 7% in the 1990s to 12% in 2014, and most importantly polished diamonds, which contributed 14% of total exports in 2014 from being non-existent in the 1990s. The trade in services data shows that services have performed well in recent years, and provided 18% of total exports in 2014[36]. About two-thirds of this comes from tourism, which confirms its position as the country's second largest export, after diamonds. This is encouraging, and suggests that the expansion of other mining (along with beneficiation) and services could contribute to achieving a more diversified export base and an export-led economy.

[36] *Botswana Financial Statement 2014, Bank of Botswana*

Figure 12: Export shares, 2014



Source: Statistics Botswana, Econsult Botswana

Box 3: Agriculture

Understanding the livelihoods of Batswana requires consideration of the role of agriculture in the economy and society more generally. Almost all households had some involvement in farming, which for many was their main income source, and urbanisation was very low.

Agriculture's share of GDP is now around 2%, and beef exports are insignificant. Production of food grains has not kept pace with population growth, and around 85% of food grain consumption is imported.

Notwithstanding the relative decline, agriculture still plays an important role in Botswana, both from a cultural perspective and as an economic activity in rural areas. There are more cattle than people. However, the sector has an importance beyond its representation in GDP.

FinScope 2014 found the following:

- 575,000 adults (43%) live in households with agricultural land;
- 80% of these farming households grow maize, and 48% have cattle;
- 25% of adults were involved in farming (although a much smaller proportion, around 6% - 38,000 - reported that their main income came from farming);
- Two-thirds of adults in farming households reported they did not sell any agricultural products – i.e., farming was for home consumption only; and
- 66% reported that they had support from government under the ISPAAD scheme.

This information is complemented by data from the annual Agricultural Survey (the most recent was for 2012). The survey reports that there are around 122,000 "traditional" farm holdings (presumably arable) and 72,000 cattle holdings (but does not detail where households have both). It confirms that most farming households do not earn their main income from farming, or even get their food mainly from their farms:

- Of the traditional agricultural holdings (i.e. on tribal land), only 10.7% earn their main income from agriculture, and of this, 9.2% is from the sale of livestock;
- The most important main sources of income, for those involved in farming, are paid employment (24.1%), pension (21.9%) and remittances (20.5%); and
- Only 9.2% record that their main source of food is "own produce". Hence, even those who farm mainly for home consumption do not provide the majority of their own food requirements, indicating the limited range of farming produce in Botswana.

Government provides extensive support to farmers, especially small-scale ("subsistence") arable farmers. The ISPAAD provides free seeds, fertilisers, ploughing and fencing to small scale farmers (with less than 5 hectares), and partial subsidies for larger holdings. Some 100,000 farmers are enrolled in this programme – i.e. almost all arable farmers. There is also the LIMID programme for small scale cattle farmers and the NAMPAAD programme for large scale commercial farmers. In addition to subsidies and subventions, government has an established agricultural procurement system for local produce through the Botswana Meat Commission, Botswana Horticultural Market and Botswana Agricultural Marketing Board, which have clusters around rural areas.

Labour Force Survey data show that 160,000 people were employed in agriculture in 2006. This is a large number, and compared with 300,000 employees in the formal sector in that year, and probably represents around 20% of the labour force. However, most of those involved in agriculture are believed to be under-employed. The LFS number is also much lower than the number adults who reported involvement in agriculture in FinScope – approx. 300,000. This may reflect further expansion of agriculture in the intervening period, with the establishment of new support schemes.

Economic Integration and Trade

Trade relations. Botswana is a signatory to numerous regional and international trade agreements. Perhaps the most important of these is the Southern African Customs Union (SACU), under which Botswana enjoys free trade with South Africa, giving access to this large and important regional market. South African products can also be imported duty free into Botswana, although VAT is payable at the border. As a result, the majority of Botswana's imports come from South Africa. Botswana is also a member of the SADC Free Trade Area (FTA), which was launched in August 2008. Under the SADC FTA most goods produced in the region can enter member countries free of customs duties. Botswana is a member of the World Trade Organisation (WTO), and in 2008 entered into an interim Economic Partnership Agreement (EPA) with the European Union.

High Intra-regional trade. Botswana's main trade partners are in the SACU region, EU zone and the rest of Southern Africa. There are more developed trade channels to the United Kingdom and South Africa than to other countries, this is evident even from the numbers pointing to these countries as the main trade partners. Botswana is most comparable to Namibia in the region; they are both upper middle income countries and have a small population. The trade patterns and economics of the countries in the SACU region are quite similar given that their main trading partner is South Africa.

Table 6: Comparative indicators, SACU countries

	Population (Mn)	GDP (Billion US$)	Income class.	GDP per capita	Area (Km^2)
Botswana	2.0	14.79	upper middle	7 316	581,730
Lesotho	2.1	2.23	lower middle	1 075	30,355
Namibia	2.3	12.58	upper middle	5 462	825,615
South Africa	53.0	350.6	upper middle	6 618	1,221,037
Swaziland	1.2	3.79	lower middle	3 034	17,364

Source: World Bank (2015b)

Exports are greater than imports. Botswana has a history of strong a balance of payments (BoP), which has enabled it to build up substantial foreign exchange reserves. This favourable balance of payments position over many years has encouraged the pursuit of a liberal trade policy, with minimal controls on imports and exports. Although there are no tariffs on trade with South Africa, SACU tariffs apply to imports from the rest of the world; however, these have been reduced steadily in recent years as the region becomes more integrated into the world economy and in line with World Trade Organisation commitments.

3. Overview of the Botswana Financial Sector

Introduction

This chapter provides an overview of Botswana's financial sector in terms of types and numbers of players as well as the distribution network. Further detail is provided in the following chapters, relating to the specific product and service segments of savings, credit, payments and insurance.

Institutional Overview

Dispersed population limits the scope for traditional financial services models to serve the whole country. In developing the financial sector, Botswana has to balance financial sector efficiency, competition and the desire to extend financial services to the whole population, especially the low income group. The small population and large size of the country means that economies of scale are difficult to achieve. The low population density means that there is limited scope for extending the traditional brick and mortar model of doing business, at least outside the well served urban/employed market. As such, financial services providers have to come up with innovative and alternative ways of accessing the unserved and underserved market.

Provision of financial services and products focused on salaried individuals. Owing to the size and structure of the market, there are difficulties serving the low value (margin) market segment, as high volumes (in terms of customer numbers) are not available. Hence there is a tendency for financial service providers to focus on one market segment. Most products and services are tailor made for the salaried individuals because of their regular – and relatively high - income.

Financial sector is concentrated in urban areas. The low population density makes it difficult to spread the fixed costs associated with providing financial services (i.e. constructing branches). This, therefore, limits the number and types of products that can be offered in the market. The provision of financial services is centralised around urban areas – which are in the main concentrated on the eastern part of the country[37].

Financial sector is small, for a country of Botswana's income level. Domestic credit provided by the financial sector, as a proportion of GDP, is a commonly-used indicator of the relative size of the financial sector. Using this measure, Botswana's financial sector is amongst the smallest of the middle-income countries in the region, with domestic credit provided by banks only measuring 31.6% of GDP – compared to South Africa's 150% and Mauritius' 100% (See Figure 13). This partly reflects the structure of the economy, given that the dominant government and diamond mining sectors do not borrow significantly from the banking system.

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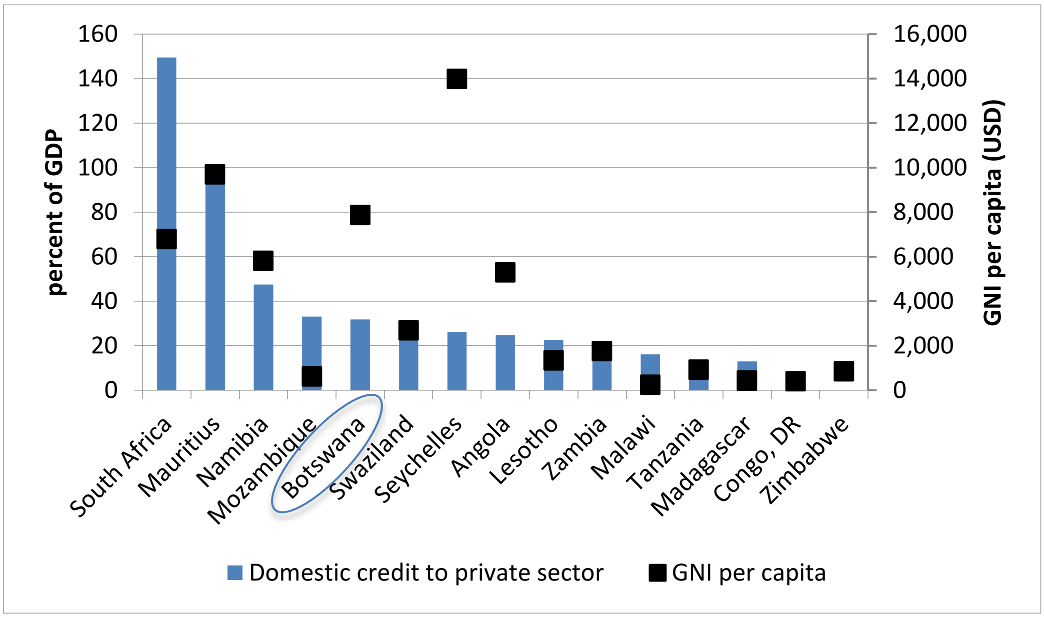
[37] *Further information on the geographical distribution of financial services is provided later in this chapter.*

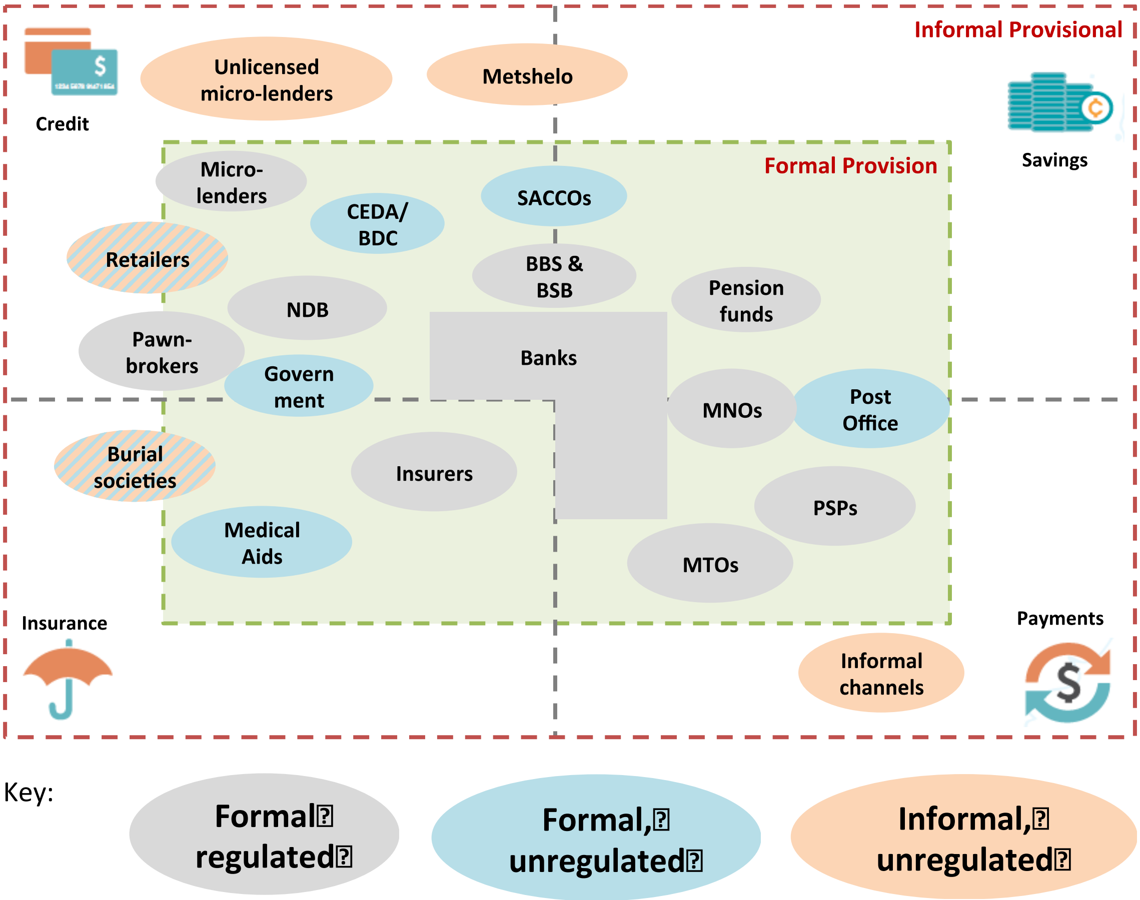
Figure 13: Domestic credit provided by the financial sector as a % of GDP, 2014



Source: World Bank databank

Largely regulated financial sector. Most, but not all, financial service providers are regulated and supervised. Figure 14 below maps Botswana's financial institutions across two parameters – products provided and the level of regulation that the entities are subject to. Each quadrant represents one of the four main financial product categories – credit, savings, insurance and payments. Each ring represents the level of regulation the providers are subject to, with the innermost ring representing the providers that are formally regulated and supervised. The outermost ring represents those providers that are completely informal and not subject to any regulation, whilst the middle ring represents those providers that are subject to institutional regulation, or have some formal status, but are unsupervised in practice for the provision of financial services.

Figure 14: Mapping of Botswana's financial sector



Source: authors

Financial market dominated by banks. The market is dominated by banks, which continue to grow in number. Currently, there are 10 commercial banks, one statutory bank (Botswana Savings Bank (BSB)) and one building society (Botswana Building Society (BBS)). In addition, there are three non-deposit taking development finance Institutions (DFIs): Botswana Development Corporation (BDC), Citizen Entrepreneurial Development Agency (CEDA), and National Development Bank (NDB). As at the end of 2014, commercial banks alone had assets at 47.9% of GDP.

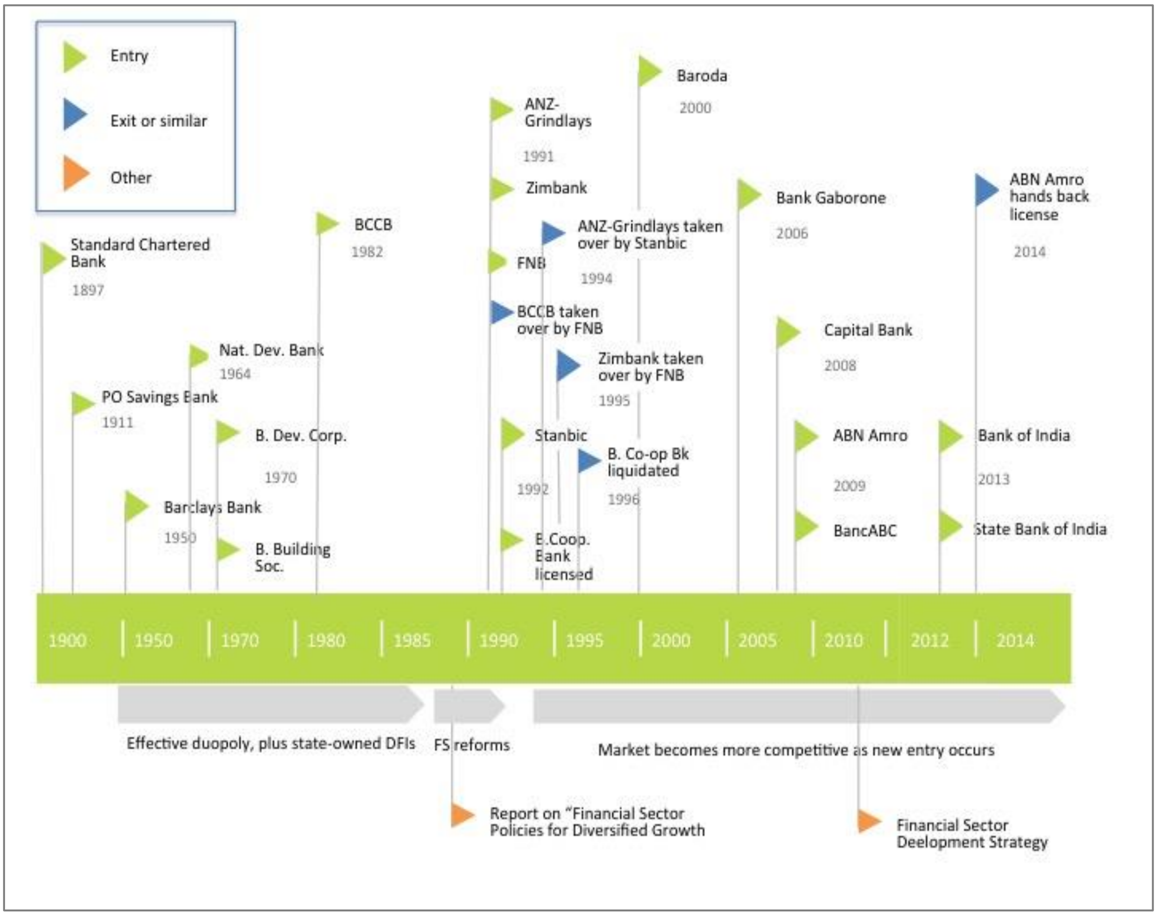
Big 4 commercial banks dominate the market. For a long time the banking system has been dominated by the big 4 banks; FNB, Barclays, Standard Chartered and Stanbic. Barclays and Standard Chartered have been long-established in Botswana – over 50 years – while FNB and Stanbic have been around for around 25 years. Each of the Big 4 have assets of at least P11 billion and a loans book of at least P8 billion. These banks account for 78.8% of total assets in banking and a 90.6% share of the total loan book.

Government institutions established to fill gaps in the market. BSB was originally the Post Office Savings Bank, but was later separated and given independent status. NDB was established in 1964, and BDC in 1970, to provide credit to agriculture and industry. More recently, CEDA was established to provide credit to SMMEs[38]. Current plans are to partially

[38] *These institutions are discussed in more detail in chapter 6 (Credit).*

privatise NDB, and to bring BSB and the Post Office back together under a holding company structure.

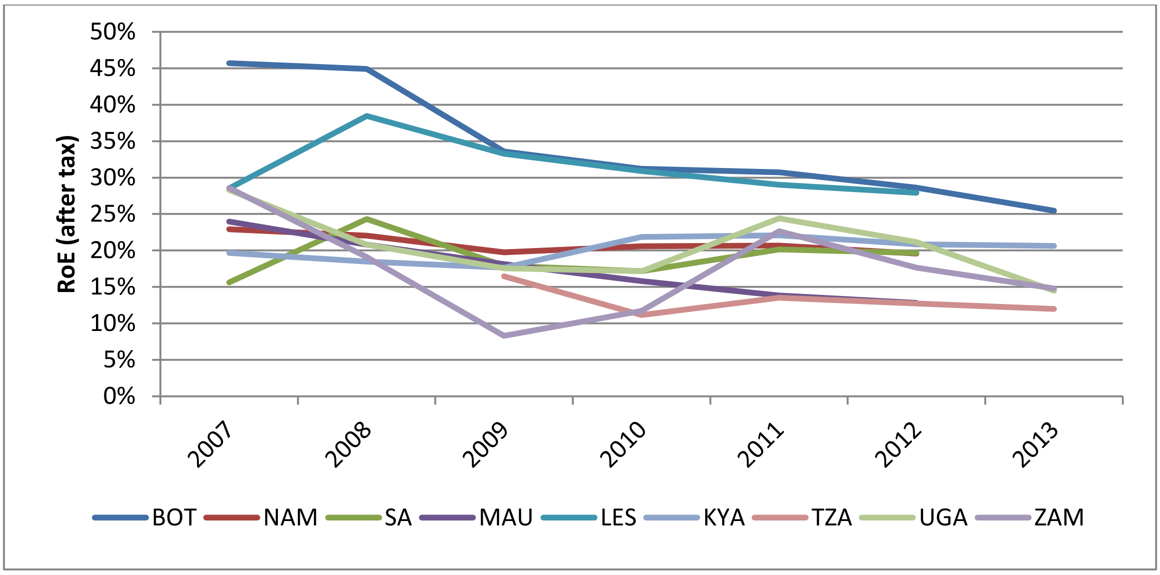
Figure 15: Timeline of banking sector entry and exit



Source: authors

Banking market continues to see entry. Despite the domination of the Big 4, new entrants keep coming into the market. The number of commercial banks increased to 10 in 2012 with the entry of 2 India linked banks; State Bank of India and Bank of India. The continued entrance may be attributable to the relatively high profitability of Botswana's banking system. As presented in Figure 16, the post-tax return on equity (RoE) of Botswana's banking system is the highest amongst the select countries in the region. This is despite the long-term downward trend of profitability that largely indicates increasing competition. Anecdotal evidence suggests that there could be more banks in Botswana as aspiring entrants continue to submit applications for banking licenses. Increasing competition, has encouraged some innovation in product offerings, but nevertheless all banks tend to concentrate on the same retail market – urban, employed, salaried individuals.

Figure 16: Cross-country comparison of banking system profitability, 2007-13



Source: Bankers Association of Botswana, Econsult Botswana

Only one building society. The Botswana Building Society (BBS) is the sole building society in the country. It was established in 1976, and is a mutual organisation, owned by members. The largest shareholders are the Government and the Motor Vehicle Accident Fund (MVAF). BBS is intending to demutualise and become a commercial bank.

Thriving micro-lending market. As at the end of 2013, there were 243[39] “micro-lenders”, including 6 large lenders. Although termed micro-lenders, the largest such lenders have loan book sizes comparable to those of the 3 smallest banks, while the biggest micro-lender, Letshego[40], boasts a loan book valued at about P2 billion, which makes it bigger than the smallest 4 commercial banks[41]. In addition, there is a plethora of unlicensed micro-lenders.

Very little micro-finance activity. There is only one “traditional” micro-finance institution (MFI), Womens’ Finance House Botswana (WFHB). This offers a Grameen-type group-based lending model to female entrepreneurs, linked to micro-savings[42].

Pension funds are an important form of saving. Pension funds have grown in importance in the capital markets. This is largely attributable to the shift from Defined Benefit (DB) pension schemes to Defined Contribution (DC) pension schemes in the early 2000s, in line with global trends. During this period the Government changed its pension policy and shifted from an unfunded DB scheme to funded DC scheme when it established the Botswana Public Officers’ Pension Fund (BPOPF). This dramatically increased the magnitude of pension fund assets and the associated pool of savings. The value of pension fund assets grew from 37.4% of GDP in

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39 *NBFIRA Annual Statistical Bulletin 2014*

40 *Letshego Financial Services Botswana, a subsidiary of Letshego Holdings Limited. Letshego Holdings has a presence in numerous countries in the region including Kenya, Lesotho, Mozambique, Namibia, Rwanda, Swaziland, Tanzania and Uganda.*

41 *The smallest 4 commercial banks (Bank of Baroda, Bank of India, Capital Bank & State Bank of India) have loan books range between P800 million and P20 million.*

42 *See chapter 6 (Credit) for more discussion of WFHB*

2004 (P15.7 billion) to 41.8% of GDP (P59.4 billion) in 2014. Data from NBFIRA shows that as at the end of 2013 there were 93 Stand Alone Pension Funds and 6 Umbrella Pension Funds. Within the 6 Umbrella Funds there were 214 Sub-Funds.

Insurance sector provides a range of products. Botswana had 23 insurance companies at the end of 2013. This number included 3 reinsurance companies, 11 short term insurance companies and 9 long term insurance companies. In addition there are 9 medical aid funds. The long-term insurance sector is more prominent than short-term insurance Insurance, in part because of the links to pension provision. In the long-term segment there is a dominant player (Botswana Life Insurance Limited), whereas in the short-term segment market shares are more evenly spread. All firms are privately owned, except for the statutory Motor Vehicle Accident Fund (MVAF), which is a quasi-insurer. There has been entry across all segments in recent years, and there are some concerns about whether some of the smaller players have the critical mass to survive.

Variety of informal or unregulated providers. An array of informal providers exist in the gap created by the market's failure to provide for certain consumer segments. As shown in Figure 14, there are a number informal or semi-formal providers in Botswana. These include *metshelo*, unregulated moneylenders and burial societies. *Metshelo*[43] are informal savings and credit groups usually made up of family, friends, or workplace associates, to which members regularly contribute an agreed amount. These savings are often lent out at a cost (amongst each other or to third parties) with a view of growing the savings, which are ultimately shared. There are believed to be a large number of unregistered (and technically illegal) small-scale money-lenders (machonisa). There are also those providers that semi-formal in that they have legal status and are registered, but are effectively unregulated, such as Savings and Credit Co-operative Societies (SACCOs) and burial societies. SACCOs are generally workplace-based and hence the members are in formal employment, mainly in government or elsewhere in the public sector (parastatals and local authorities). A few SACCOs are community-based (i.e. in villages) rather than employment-based. In all cases, the members have come together for the common purpose of saving. Burial societies are also based around particular groups, whether workplaces, trade unions etc[44]. Nevertheless, these mechanisms do not push out the extension of inclusion very far, and mostly provide complementary financial services to adults who are have access to formal financial services.

Distribution channels

A variety of distribution networks are in place for the delivery of financial services in Botswana. Distribution channels are distinguished as traditional and alternative distribution channels. The former includes formal banking infrastructure such as branches, ATMs and POS, while the latter includes transacting through the Post office, mobile money (by MNOs) and retailers.

Traditional channels

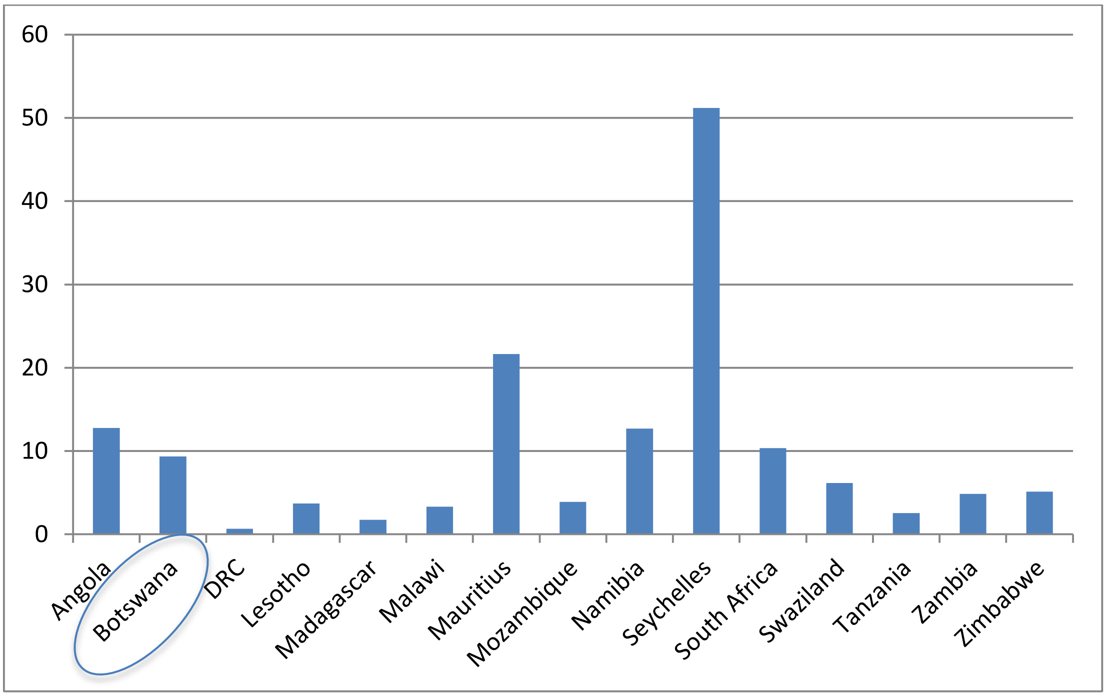
Major settlements are reasonably well-served by commercial bank branches, but not smaller settlements. As at the end of 2014, commercial banks had a network of 119 branches. Almost

[43] *Metshelo (pl.); motshelo (s)*

[44] *Discussed in more detail in the insurance chapter.*

all of the larger settlements have bank branches: 18 of the 19 settlements with populations of 20,000 or more have bank branches, and 99 of the 119 bank branches are in such settlements. For the 15 settlements with populations between 8,000 and 20,000, only 8 have bank branches (although 5 of the 7 that do not are peri-urban locations on the fringes of Gaborone or Francistown). Only 4 of the 21 with populations from 5,000 to 8,000, and only one settlement with a population of less than 5,000, have a bank branch This outcome is not entirely surprising, as smaller settlements struggle to generate the level of business needed to make a branch – with its high fixed costs – profitable, unless they also act as regional centres[45].

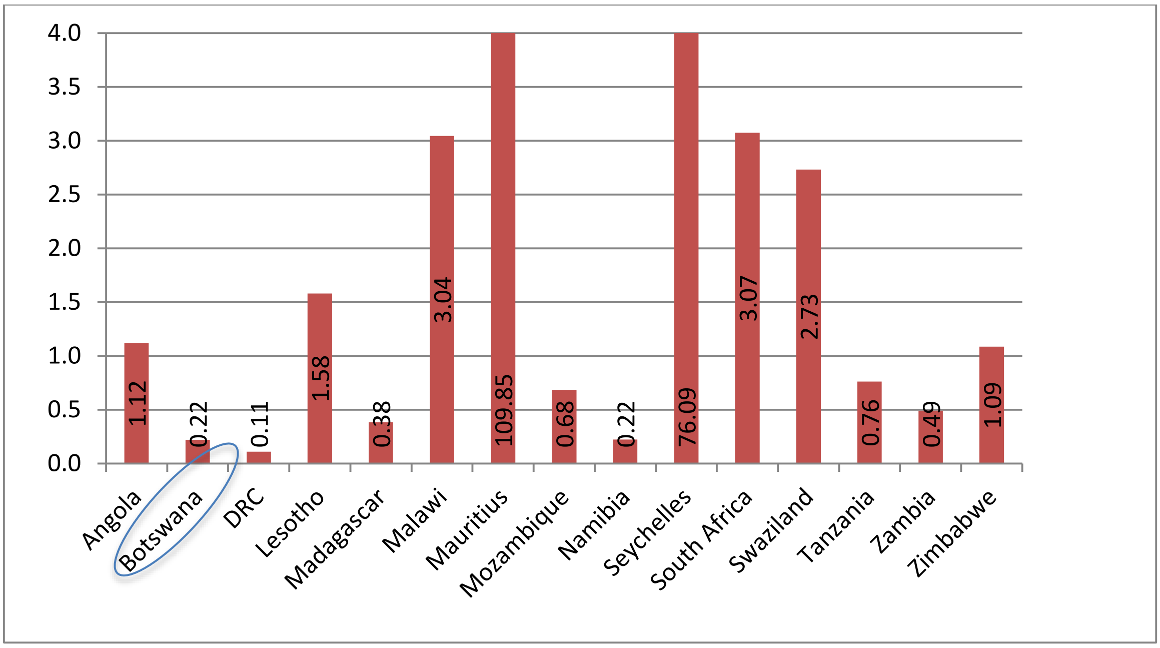
Figure 17: Commercial bank branches per 100,000 adults, SADC, 2013



Source: Financial Access Survey (FAS) Dataset; IMF

45 *See Appendix 1 for a listing of all settlements with bank branches, post offices and mobile money outlets*

Figure 18: Commercial bank branches per 1000 km^2, SADC, 2013



Source: Financial Access Survey (FAS) Dataset; IMF

As shown in Figure 17 and Figure 18, Botswana has the sixth highest number of commercial bank branches per 100,000 adults but the joint second lowest number of commercial bank branches per 1,000km^{2}in the SADC region. This is attributable to the thinly distributed population of Botswana.

Table 7: Bank branches and ATMs

Bank	No. of branches	No. of ATMs
Commercial Banks	*119*	*369*
BancABC	8	10
Bank Gaborone	7 (+11 agencies)	20
Bank of Baroda	3	5
Bank of India	1	0
Barclays Bank	45	105
Capital Bank	4	4
First National Bank	20	143
Stanbic Bank	11	26
Standard Chartered Bank	19	56
State Bank of India	1	0
Other deposit-taking institutions	*11*	*9*
Botswana Savings Bank	2 (+124 Post Offices)	0
Botswana Building Society	9	9
Non-deposit-taking	*13*	*0*
National Development Bank	4	0
CEDA	8	0
BDC	1	0

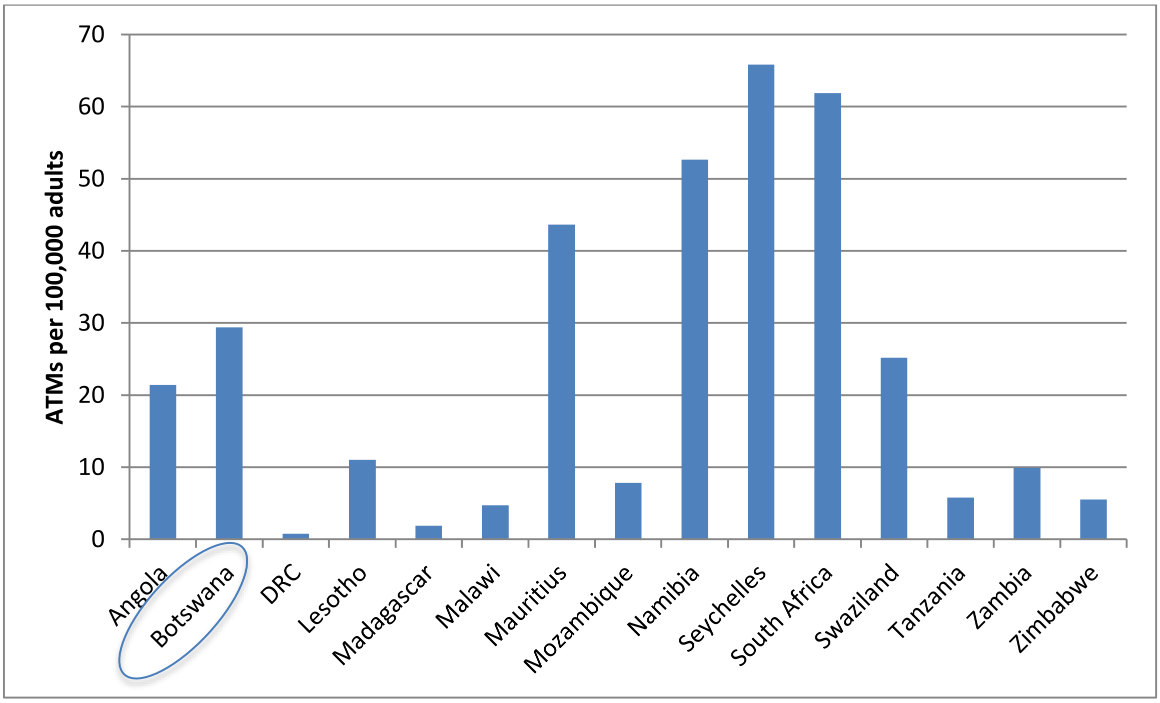
Source: financial institutions

Banks looking to technology and innovation to expand reach as there is limited scope for branch network increase. As discussed earlier in this chapter, Botswana has a small market and yet competition in the banking sector continues to rise. In this situation, banks are looking to move away from the costly branch banking and towards innovative branchless banking initiatives. As such banks have:

- Introduced cell phone banking;
- Introduced internet banking;
- Increased the number ATMs; and
- Increased functionality to enable ATMs accept deposits and facilitate transfers and payments

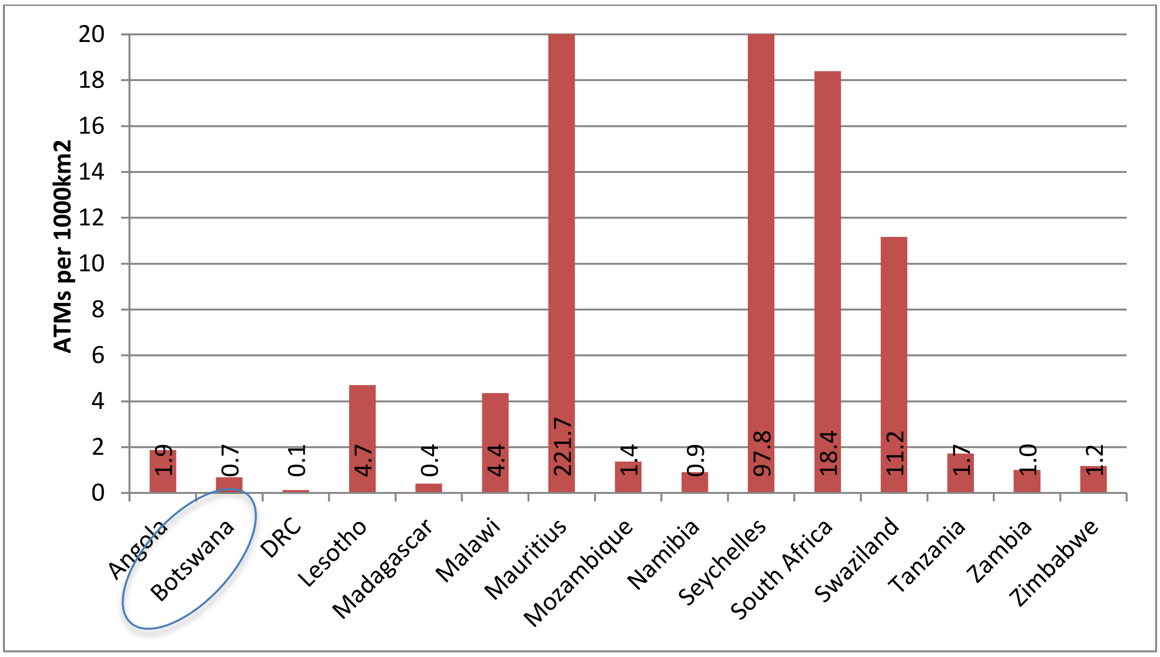
Botswana has a relatively good network of ATMs. Although Botswana has 0.69 ATMs per 1000 km^2 (the second lowest figure in the SADC region), it has the fifth highest number of ATMs per 100,000 adults (29.38) in SADC (see Figure 19 and Figure 20).

Figure 19: ATMs per 100,000 adults, SADC, 2013



Source: Financial Access Survey (FAS) Dataset; IMF

Figure 20: ATMs per 1000 km², SADC, 2013



Source: Financial Access Survey (FAS) Dataset; IMF

Alternative channels

Botswana Post Services (BPS) has the largest branch network in Botswana. BPS has 124 branches, which is more than the branches of all the commercial banks combined[46]. Post Offices are more evenly spread across the country than banks; only 18 out of 132 in settlement with populations of over 20,000, while 53 are in settlements with populations of less than 5,000.

Post Offices are used for the distribution of financial services on behalf of other entities. Given that BSB was originally the Post Office Savings Bank, BPS provides the branch network for BSB. Insurance companies and MNOs are also taking advantage of the network to get their products to remote areas. The Post Office provides mobile money agency services, and has teamed up with an insurance company to market a life insurance product through its branches. It is used by government to distribute welfare grants such as old-age pensions. Of the Post Office branches, 60 are in settlements where there is no bank branch. Settlements that do not have post offices are served by mobile payment points for the distribution of old-age pension grants. Hence the BPS provides an important extension to the physical network of financial service providers in Botswana.

Urban Post Offices are often congested. The relatively low number of Post Offices in major urban areas means that there can be very long queues. Many of the larger settlements have only one Post Office per 30,000 residents; relative to population, smaller settlements are much better served by the Post Office than larger settlements.

Card-based channels[47]. There has been important innovation in the use of smartcards for the delivery of financial services. SmartSwitch[48] delivers monthly food basket allowances to 32,000

46 *Although many of the smaller branches are said not to be commercially viable*

47 *For more detail, see review of Payments and Remittance products*

registered destitutes on behalf of the Department of Social Protection, via a dedicated nationwide POS network of about 1,200 machines. Using the same SmartSwitch technology, the BPS processes monthly cash allowances to about 100,000 old-age pensioners, 2,000 World War II veterans, as well the 32,000 destitutes through the Poso Card.

Mobile money is available. The FinScope 2014 results show that 94% of the population has cell-phones. In line with what is happening in other African countries, mobile money services have been available in Botswana since 2011. Currently, all three MNOs offer mobile money products: *beMOBILE has Smega; Mascom has MyZaka; and Orange Botswana has Orange money*. Mobile money accounts have increased from 70,000 at the end of 2011 to 404,758 as at the end of February 2015. However, usage (discussed further in the Payments chapter) is still limited.

Mobile money agent network is limited. Mobile money agents include telco retail outlets, supermarkets, other retail stores and Post Offices. There is limited use of airtime sellers as agents. The largest mobile money network (Orange Money) does not use super-agents. However, the agent network does not extend distribution significantly beyond the coverage of existing financial service providers; in particular, the agent network does not extend beyond settlements that have Post Offices[49].

Mobile money outlets (from the largest operator only) are the largest in number, but tend to be concentrated in the largest settlements; 287 out of 406 are in settlements with populations of over 20,000. Nevertheless, they have a reasonably widespread coverage – in fact very similar to Post Offices – and are present in 52 settlements with populations of less than 5,000.

Post Office and Mobile Money outlets are more widespread than banks. The Post Office provides an important extension to the provision of financial services over and above bank branches – whereas banks are present in 31 settlements, Post Offices are in 104. Therefore, many Post Offices are in settlements that do not have banks. Mobile money outlets are widespread, but have virtually the same spread as Post Offices; they therefore do not add significantly to the geographical reach of financial service provision.

Substantial proportion of the population remains unserved. Despite the extension of coverage beyond banks provided by the Post Office and mobile money, 30% of the total population live in settlements that are not served by any of these providers of financial services (although some may live in locations that are not far from served settlements).

Retailers are potential channels of distribution. Choppies is the largest retailer in the country with 72 stores, and is currently an agent for both Mascom MyZaka and Orange Money. The second largest network is Sefalana, which has 52 outlets and is also an agent for Mascom MyZaka and Orange Money. MyZaka also uses a chain of furniture stores (Furnmart) as agents. Other retail chains (Pick’n’Pay, Spar, Shoprite) are relatively limited and confined to the major urban centres. Beyond mobile money agency, retailers do not offer financial services. Cashback services are not available at retailers in Botswana, apparently due to problems with

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[48] *A payment service provider*

[49] *These comments refer to Orange Money. The second mobile money provider (Mascom MyZaka) did not provide information on their agent network, while the third network is very small.*

fraud when it was tried. The prohibition of agency banking limits the scope for the development of retailers as distribution channels.

Table 8: Settlements with financial services outlets

			Number of:			Population per:		
Settlement population	**No. of settle-ments**	**Total popu-lation**	**Bank bran-ches**	**Post Offi-ces**	**Mobile money agents**	**Bank branch**	**Post Office**	**Mobile money**
>20k	18	972,981	17	18	18	9,611	24,948	3,390
8k-20k	15	184,601	8	15	14	7,560	10,256	3,934
5k-8k	21	129,404	4	19	17	6,551	5,882	4,929
<5k	52	142,109	1	50	47	3,598	2,566	2,470
Unserved settlements	n/a	595,692	0	0	0	n/a	n/a	n/a

Source: authors, based on information from Statistics Botswana, BoB, BotsPost, Orange

Note: Mobile money agents are for Orange only. Population per branch refers only to those settlements where there is a branch

Supporting Financial Sector Infrastructure

This section outlines the infrastructure that enables the distribution of financial services. This includes the credit bureau, capital markets and foreign exchange markets.

Credit Information Sharing

There are several credit bureaus, serving different groups of credit providers. There are three credit bureaus that serve different types of credit providers. Firstly, the commercial banks and BBS exclusively participate in the Credit Referencing Bureau (CRB). Secondly, there is CompuScan which used by the smaller microlenders, which are in the main members of the Micro-Lenders Association of Botswana (MLAB). Lastly there is Transunion, formerly known as ITC, which is a credit reporting platform open to almost all credit providers in the market, including retail stores. In a bid to forge credit reporting cooperation amongst different providers, the Credit Providers Association (CPA) was formed in 2014.

Limited sharing of credit information. There is no legal or regulatory framework for credit providers or credit bureaus, and no legal obligation for lenders to carry out credit checks or share credit information. There is no central credit bureau. As a result, the different providers have varying levels of flexibility in sharing credit information. Banks are prohibited by the Banking Act from sharing credit information with non-banks, while micro-lenders are not prohibited from sharing information with banks. Hence the inter-bank CRB is closed, and the information shared there is not available to non-members. As such, this makes the credit information environment biased in favour of the banks. Positive credit information is generally not shared, and the Compuscan and ITC databases comprise only negative data [check].

Lack of a standard measure of default. The credit market as a whole does not have a standard measure of what constitutes a default or a non-performing loan, meaning that there is no commonly agreed classification for credit notifications. Delinquency therefore depends on the credit provider's own classification.

Capital Markets

Small yet growing capital markets. Botswana has one stock exchange which has 4 stockbroker members. These are African Alliance, Imara Capital Securities, Motswedi Securities and Stockbrokers Botswana. The stock market was established in 1989 and the Botswana Stock Exchange formally constituted in 1995. It has an Automated Trading System (ATS) and owns the Central Securities Depository of Botswana Ltd (CSDB), which clears and settles trade of listed securities. Both the ATS and the CSDB aid efficiency and enhance liquidity of the BSE. At the moment there are 35 stocks and 3 Exchange Traded Funds listed on the BSE. In addition, there are 30 Corporate and Quasi-Government Bonds and 6 Government Bonds listed on the Exchange. Trading of Government Bonds is through the Bank of Botswana.

Foreign Exchange Markets

Commercial banks and Bureaux de Change are the main authorized Forex dealers. The Bank of Botswana is the regulator of foreign exchange market activities. The 10 commercial banks and 57 bureaux de change are the authorized forex dealers. However, there exist some informal forex dealers, in areas such as bus stations.

No exchange controls. Botswana has no exchange controls, and hence there are no restrictions on trading the Pula. Foreign individuals and companies are allowed to repatriate profits realised in Botswana. However there are disclosure requirements associated with AML regulations and balance of payments data collection.

4. Policy and Regulatory Framework

Policy initiatives for financial inclusion

Financial Sector policies for Diversified Growth. Although not specifically directed at financial inclusion, a major set of financial sector reforms was implemented in the later 1980s and early 1990s with the objective of improving the efficiency of the financial sector and extending the range of financial institutions and services available. The reforms including liberalising the regulations relating to the licensing of new banks, removing controls on interest rates, reducing the dominant position of Government in the financial sector, and moving towards a more market-based implementation of monetary policy[50].

High-level recognition of the importance of financial inclusion. The objective of financial inclusion has been included as part of financial sector development objectives in previous national development plans (NDPs). For instance, NDP 10 (GoB, 2009, para's 9.63-9.64) emphasised the importance of creating incentives for private sector financial institutions to widen access to the rest of the population and improve access to financial services for the poor, as an important part of building a more inclusive society and economy. Government affirmed its intention to put in place appropriate regulatory structures that promote more competition, allow space for innovation, improve consumer education and infrastructure, and facilitate entry and exit to the market and institutional growth. Government also committed to use its own economic position to leverage change by encouraging financial innovation, e.g., by moving to smartcard based payments systems and by providing improved and timely data.

Financial Sector Development Strategy developed in 2011. The Financial Sector Development Strategy (FSDS), finalized in 2011, was a broad-based strategy covering all aspects of financial sector development (GoB/BoB/World Bank/FIRST, 2011). The FSDS proposed several initiatives related to financial inclusion. These included the following (para 3.09):

- Enhancing the commercial bank contribution to improving access to finance;
- Catalysing the establishment of an MFI subsector focusing on small clients;
- Commercialising the operations of relevant government financial institutions to increase effectiveness and impact;
- Supervising large micro-lenders effectively;
- Establishing a robust cell phone "banking" system;
- Establishing an effective credit information system; and
- Enhancing housing finance.

The FSDS Action Plan included a large number of detailed recommendations relating to the implementation of these initiatives, covering the five-year period from 2012-16.

Implementation has lagged. Notwithstanding the commitments in NDP 10 and the FSDS, implementation has been slow. Although prepared at the Government's request, the FSDS has not been formally adopted, and there has been no decision regarding which of the FSDS recommendations Government agrees with and which ones it rejects – which would be the normal response to a policy document such as this in Botswana. Although some of the

[50] *Although implementation of reforms started in the late 1980s, the arguments and justification for reforms were laid out in an extensive report produced by the Government and the World Bank in 1989, entitled Financial Sector Policies for Diversified Growth.*

recommendations have nevertheless been implemented, there is no official, formal, overarching strategy for the promotion of financial inclusion.

Regulatory Framework

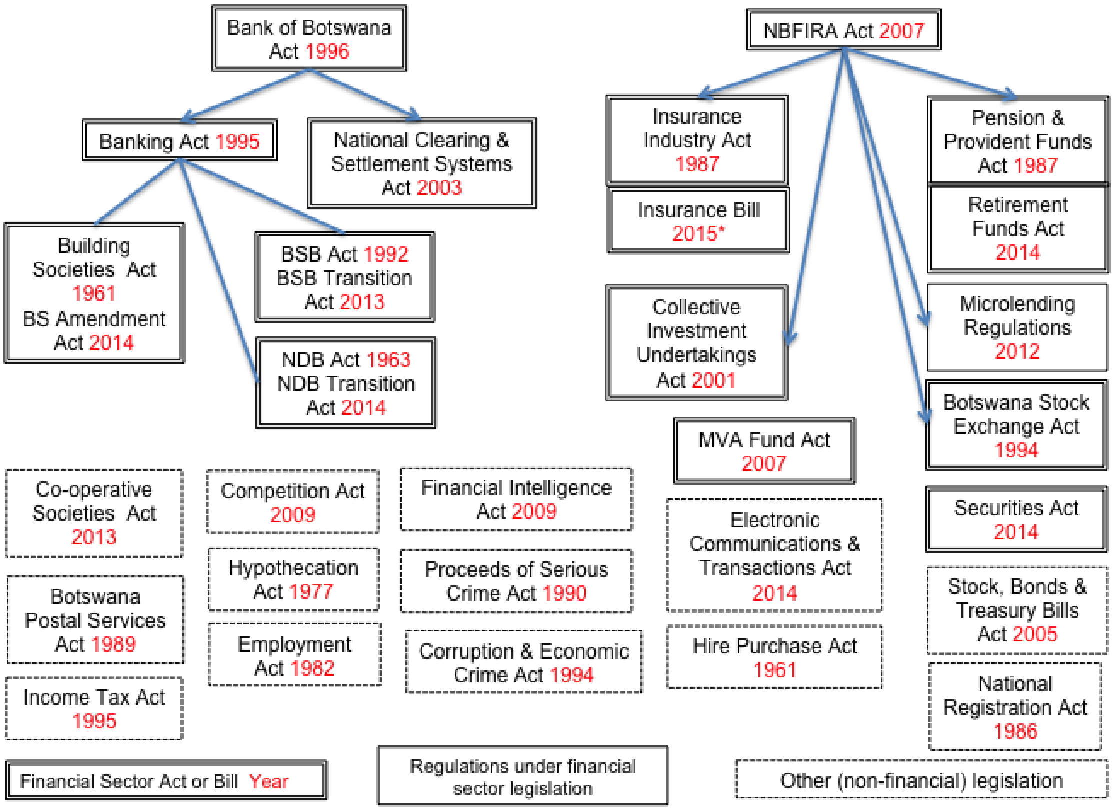
Dual financial sector regulators. Whereas the Ministry of Finance and Development Planning (MFDP) is the financial sector policymaker, the regulatory system for the Botswana financial system is based around the Bank of Botswana (BoB) and the Non-Bank Financial Institutions Regulatory Authority (NBFIRA). The BoB is responsible for regulating banks and deposit-taking MFIs, foreign exchange bureaus and the payments system. NBFIRA is responsible for regulating other credit providers, insurers, pension funds and the capital market. It plays a role in the enforcement of rules relating to the International Financial Services Centre (IFSC). NBFIRA is relatively new (it was established in 2008). Prior to that time, most of the regulatory functions it now handles were the direct responsibility of MFDP. MFDP still has a few residual regulatory responsibilities, including for building societies and some state-owned financial institutions, but *de facto* supervisory responsibilities have been delegated to BoB.

Structure and Funding of Regulators. Within BoB, regulatory responsibilities are split between the Banking Supervision Department and the Payments System Department. Within NBFIRA, there are separate departments for the regulation of Pension Funds, Insurance, Capital Markets, and Micro-lending. BoB does not finance its regulatory and supervisory activities through fees levied on regulated institutions. However, while NBFIRA received some start-up funding from government, it is now largely financed by fees levied on regulated institutions, which therefore tend to be relatively high[51].

Key Legislation. The BoB derives its authority from the Bank of Botswana Act, 1996, which sets out the general powers and responsibilities of the Bank. However, detailed regulatory responsibilities are set out in other legislation, primarily the Banking Act 1995 and the National Clearing and Settlement System (NCSS) Act 2003. NBFIRA derives its authority from the NBFIRA Act, as well as a range of subsidiary legislation such as the Insurance Industry Act, 1987, the Pension and Provident Funds Act, 1987, and the Botswana Stock Exchange (BSE) Act 1994. The following diagram outlines the various pieces of legislation under the ambit of the BoB and NBFIRA. Certain key aspects of regulation and supervision are contained in regulations issued under the main act.

[51] *For instance, NBFIRA levies an annual fee on microlenders of 0.525% of the institution's loan book. Hence a non-bank lender with a balance sheet of P1 billion would pay an annual fee to NBFIRA of P5.25 million.*

Figure 21: Botswana financial sector regulatory framework



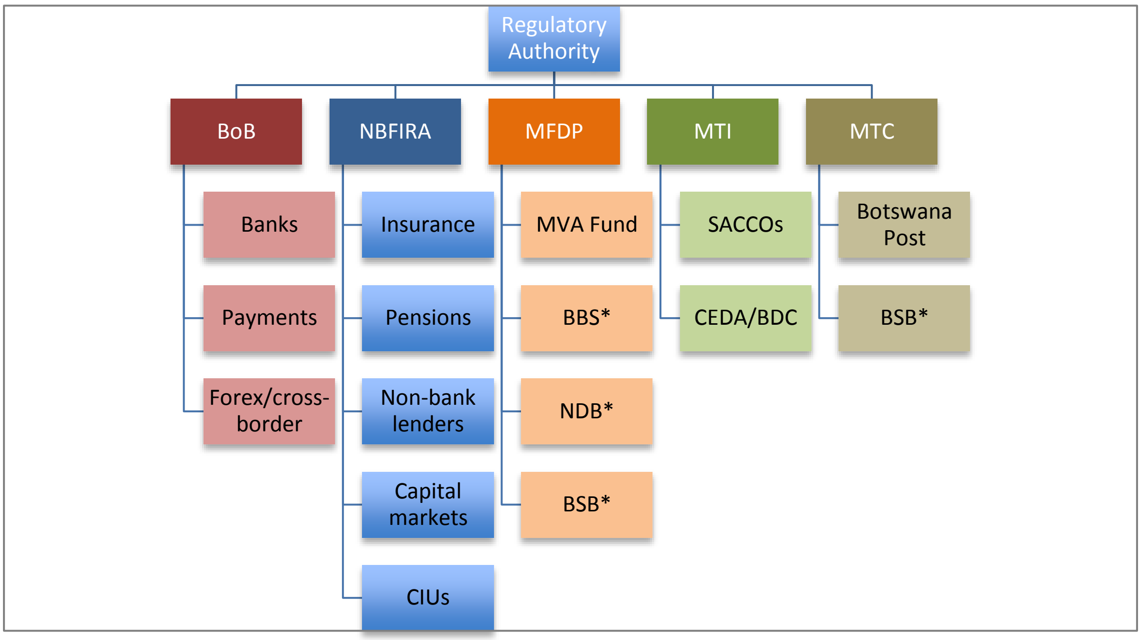
Source: Authors' own

Note: BSB – Botswana Savings Bank; BS – Building Societies; NDB – National Development Bank; MVA – Motor Vehicle Accident. The category "Other (non-financial) legislation" includes acts that are not directly related to the regulation and supervision of financial service providers but which have implications for the provision of financial services.

Regulatory framework gradually being modernised, but lags behind the pace of innovation and the opportunities for financial inclusion. As the financial sector evolves and new institutions and products develop, the regulatory framework needs to be updated and modernised. This requires both institutional supervisory capacity and legal reform. However, the process of drafting and passing new legislation is very slow – for example, the new Insurance and Retirement Funds Acts took many years to reach the stage of being presented to Parliament. Even when Acts are passed, they do not become effective until the relevant Regulations are in place, and this extends the process even further. Both bank and non-bank supervision is in the process of moving from compliance-based to risk-based supervision, which requires different skills and systems. The Banking Act dates back 20 years and relates to an era when the structure, conduct and operation of banks, and the way in which banking services is provided, were quite different to the present. The approach to bank supervision is based around conventional, branch-based banking. Furthermore, all of the banks currently licensed in Botswana are subsidiaries of foreign banking groups, which in most cases provides an additional layer of supervisory protection and risk management. The structure of bank regulation (discussed in more detail below) has not been modernised to reflect the changing nature of banking, sources of innovation with regard to technology and service delivery, and the emergence of new institutional forms for the delivery of financial services that would support financial inclusion. This is in part because of a lack of the skills needed to undertake effective supervision of new or unconventional forms of banking service delivery.

Below, more detail is provided on the regulatory framework pertaining to key categories of financial service providers in Botswana, namely, banks, payment systems, insurers, pension funds, capital markets, and member-based financial service providers, as well as other regulation of relevance to financial inclusion.

Figure 22: Financial sector regulatory institutions



Source: authors

Banks

Definition of Banking. The Banking Act defines banking business as follows:

(i) the business of accepting deposits of money repayable on demand or after fixed periods or after notice, as the case may be, by cheque or otherwise; and/or

(ii) the employment of deposits in the making or giving of loans, advances, overdrafts or other similar facilities and in the making of investments or engagement in other operations authorised by law or under customary banking practice, for the account of, and at the risk of, the person or persons accepting such deposits, and includes the discounting of commercial paper, securities and other negotiable instruments, for the purpose of extending loans or other credit facilities;

Banking business is therefore defined fundamentally in terms of deposit-taking (under (i)), which may, or may not, be used for intermediation (under (ii)). However, it is not clear what exactly is meant by “deposit-taking”, as it not defined in the Act, and BoB have not provided a definition. In practice, the mobile money activities of mobile network operators (MNOs) are not considered to be deposit-taking, and hence do not require a banking licence; rather they are classified as a payments service (discussed further below). But it is not clear where the dividing line is between payments and banking activities, which leads to a lack of regulatory clarity for potential innovators in the provision of financial services.

Regulations. While the Bank of Botswana Act and the Banking Act set out the framework for regulation of financial institutions, including capital requirements, much of the detail is left to the regulations promulgated under the Banking Act.

Authority to issue banking licences. The BoB is empowered to issue licences for various categories of banking business, including commercial banks, credit institutions, investment banks and discount houses. There is a different capital requirement applicable to each category. The BoB is required to reach a decision on whether to grant a banking licence within six months of receiving a complete application. In the case of a rejection, the applicant may appeal to the Minister of Finance and Development Planning, who may in turn request the BoB to reconsider its decision. The Minister may in turn accept or reject the appeal. Banking licences may only be issued to domestic corporates - limited companies registered under the Botswana Companies Act.

No explicit provision for "tiered" bank licensing, but flexibility to vary license conditions. As noted above, various categories of banking licence can be issued. However, the nature of the financial services that can be provided by each of these types of banks is not specified in any readily available document. While there is no explicit provision for different "tiers" of banks within each category, the BoB may impose conditions on the issuance of a licence that specify or restrict the types of banking business that a licensed institution is permitted to undertake. BoB considers that this is flexible enough to accommodate "limited scope" banking, should there be a demand for such from the market. However, this does not extend as far as the flexibility to vary capital requirements within a licensing category.

Representative Offices. No entity is permitted to undertake banking business without a licence issued by BoB. However, banks licenced in other countries are permitted to open representative offices, with BoB's permission, although these offices are not permitted to undertake banking business.

Approval of branches. The BoB must approve both the opening and closure of branches by banks.

No banking agents. There is no provision for the use of independent third parties as banking agents, and agency banking is therefore not permitted.

Regulation of interest rates. BoB generally influences interest rates through a market-based system, whereby it determines a number of key policy interest rates (particularly the Bank Rate and the Repo Rate), which are intended to influence interest rates throughout the financial system. Neither the Banking Act nor any other legislation contains any specific interest rate cap. However, under the Bank of Botswana Act the BoB is permitted to regulate interest rates, including setting maximum and minimum interest rates on deposits, and maximum interest rates on loans. The latter provision is not restricted to banks and may be extended to any credit institution. Currently the BoB imposes a minimum interest rate on 3 month (90 day) deposits, on which banks must pay an interest rate no less than 3% below the Bank Rate; this rate must also be used as a benchmark for other classes of deposits. The BoB also requires banks to set their own Prime Lending Rates at 1.5% above the Bank Rate. This is based on moral suasion, rather than statutory provision.

Regulation of bank charges. The BoB is also permitted, under the Bank of Botswana Act, to regulate bank charges. For many years this was implemented through a requirement that banks seek BoB permission for any changes to existing charges or the introduction of new charges. Currently, there is a two-year freeze (from January 1, 2014) on bank charges.

Market Conduct. Historically BoB has been more concerned with financial stability and protection of depositors than with the market conduct of banks. However in recent years, this has changed, and BoB has taken a more interventionist approach, and has established a market conduct unit within the Banking Supervision Department.

Capital Requirements. The capital requirements for banks are set out in the Banking Act and Regulations. The minimum capital for a bank is P5 million, which is very low by international standards, and does not act as a barrier to entry. In addition, banks must maintain core capital equivalent to 15% of risk-weighted assets. This is the binding capital requirement that relates to the size and growth of a banking institution.

Liquidity and Primary Reserve Ratios. The BoB imposes a Liquidity Ratio and a Primary Reserve Ratio on the banks. The Liquidity Ratio is 10% of eligible deposits, and has not been changed in a long period of time. The Primary Reserve Ratio is currently 5%, having been reduced from 10% in March 2015. Prior to 2006 it was set at 3.25%. The Liquidity and Primary Reserve ratios reduce the proportion of deposits that can be lent out.

Payments Systems

Regulation focused on high-level systems. The NCSS Act, as its name implies, deals with the recognition and regulation of clearance and settlement systems, and does not deal clearly with payments systems in general, particularly retail payments systems.

Provision of payments services restricted. The Act implies that only participants in recognised clearance and settlement systems may execute transfer (i.e. payments) instructions. Participation in such systems is restricted to financial institutions and the BoB, where financial institutions are defined as a licensed bank, a broker-dealer, insurance company, investment scheme, central securities depository, or pension fund[52].

Some institutions are exempt. Certain institutions are exempt from this restriction on the provision of payments services, including the Botswana Savings Bank (BSB), Botswana Postal Services (BPS), the Botswana Building Society (BBS), and any other entity exempted by BoB. Hence the provision of money transfer services by BPS does not need BoB approval, nor does the issuance of the Poso Card. However, the BPS keeps BoB informed regarding the payments services that it operates. Unlike BPS, BSB and BBS are subject to BoB supervision in respect of their activities as financial institutions.

No explicit provision for the licensing of mobile money or e-money. The NCSS Act does not provide for the licensing of providers of payments services (as noted above, it limits this to financial institutions, as defined, that are members of recognised clearance and settlement systems, or exempted institutions). In this situation, the provision of mobile money (MM) services by mobile network operators (MNOs) has been permitted on the basis of a "Letter of No Objection" (LNO) from the BoB (in common with the approach adopted in other countries in similar situations). Amongst the requirements stipulated in the LNO are that all mobile

[52] *The NCSS Act does not include definitions of these terms. However, it may be assumed that a central securities depository, insurance company and pension fund are as defined in the NBFIRA Act. However, "investment schemes" and "broker-dealers" are not defined in that Act.*

money (e-money) balances must be backed in full by a deposit in a trust account in a licensed bank. This provides some protection for MM customers, as it means that the MNO cannot use the money received from those customers for other purposes – such as granting credit or financing its other operations – that might put those funds at risk. However, the protection is limited as there is no trust law in Botswana that would provide an explicit legal underpinning for such trust account funds being held "in trust" for MM customers; instead, the trust arrangement is based on common law. The other key restrictions on mobile money operators is the cap of P4,000 imposed on the value of MM accounts, and the prohibition of interest payments on trust account balances held at banks.

Modernisation of regulatory framework under way. The BoB is in the process of developing regulations to govern the operation of MM operators. These are expected to be completed by the end of 2015. Furthermore the BoB is also considering the introduction of a new law to regulate and supervise the provision of retail payments services.

Cross border money transfer operators dispensation. With regard to cross-border payments, there are no formal requirements in place at present for the licensing of Money Transfer Operators (MTOs) (such as Western Union or Moneygram), and approvals are on an "ad hoc" basis by the BoB. Approval requirements mainly relate to "fit and proper" tests, the approval of the applicant's business plan and the adequacy of AML/CFT procedures.

NBFIs

Definition of NBFI. The NBFIRA Act gives defines a "non-bank financial institution" (NBFI) as any one of the following:

i. an asset manager;
ii. an administrator of a pension or provident fund;
iii. a person operating a central securities depository;
iv. a collective investment undertaking that is an investment company with variable capital;
v. a person operating a collective investment undertaking other than one described in paragraph (d);
vi. a custodian;
vii. a finance or leasing company;
viii. a friendly society;
ix. an insurance agent;
x. an insurance broker;
xi. an insurer;
xii. an international insurance firm;
xiii. an investment adviser;
xiv. a management company for a collective investment undertaking;
xv. a member of the insurance industry;
xvi. a micro lender;
xvii. a pension or provident fund;
xviii. a securities dealer;
xix. the operator of a securities exchange;
xx. a trustee of a collective investment undertaking or a pension or provident fund;
xxi. a financial group;
xxii. a person prescribed for the purposes of this definition, and includes such an institution that provides financial services to persons outside Botswana;

Although not specifically mentioned, the range of regulated entities includes medical aid funds (classified as insurers), and pawn shops (classified as micro-lenders).

NBFIRA Act relates to other legislation. The Act deals with both the establishment and operation of the regulator (NBFIRA) and the regulation of NBFIs. In terms of regulatory powers, the NBFIRA Act cross-references a range of pre-existing legislation, including the Insurance Industry Act; the International Insurance Act; the Pension and Provident Funds Act; the Botswana Stock Exchange Act; and the Collective Investment Undertakings Act.

NBFIRA Act being revised. The Act is currently undergoing revision, and the revised Act is expected to be finalized by the end of 2015. The revision is mainly a "tidying up", and makes provision for the detailed regulation and supervisory requirements to be moved from the Act itself to Regulations and Rules issued under the Act. It also extends the list of NBFIs to include capital market entities subject to the new Securities Act[53].

Market Conduct. NBFIRA is responsible for market conduct issues in the NBFI sector. Investigation of consumer complaints – e.g. over disputes with insurers - is extremely time consuming and appears to detract from NBFIRA's ability to undertake work of greater national importance at the level of financial sector development.

Insurers

Outdated insurance legislation. The insurance sector in Botswana is defined and governed primarily by the Insurance Industry Act of 1987. It defines general (or short term) insurance and long term insurance. Medical aid societies, which provide health insurance, are not covered by the Insurance Industry Act of 1987, and are at present unregulated. The Insurance Industry Act is supported by subsidiary regulations. The Insurance Industry Act provides for general insurance companies (including general reinsurance companies), long term insurance companies (including long term reinsurance companies), brokers and agents. The Act does not allow for composite insurance (or reinsurance) licences. In other words, a general insurer may not underwrite long term insurance and vice versa. However, both short-term and long-term insurers may operate within a holding company structure. The Act does not distinguish between insurers and reinsurers.

Provision for brokers and agents. Brokers are independent intermediaries and may transact on behalf of any number of insurance companies, both short term and long term. Therefore a broker may offer clients both life and non-life products. Corporate agents are companies licensed to act on behalf of only one principal, namely a short term insurance company, long term insurance company or a broker. Individual agents are natural persons licensed to act on behalf of only one principal, namely a short term insurance company, long term insurance company or a broker.

Prohibition on external insurance. No type of insurance is mandatory (in a legal sense) in Botswana. However, the Act makes it mandatory for Botswana residents, companies and individuals, to insure via a Botswana registered insurance entity should they opt to take insurance. However, this provision is very difficult to enforce, at least for individuals.

Motor Vehicle Accident Fund. Third party motor bodily injury insurance is provided by a statutory body, the Motor Vehicle Accident (MVA) Fund. The Motor Vehicle Accident Fund is

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53 See "Other Financial Legislation section below.

regulated separately, by MFDP, under the Motor Vehicle Accident Fund Act of 2007. It provides for the compensation, care, benefits, medical management and rehabilitation of victims of motor vehicle accidents.

New Insurance Legislation. The Insurance Industry Act of 1987, which is outdated, has been revised and the Insurance Industry Bill of 2014 is currently going through Parliament. The new bill provides for a number of changes to the current Act including, amongst others, the following:

- A significant increase in fines and penalties (which had been fixed in monetary terms and hence been overtaken by inflation);
- An allowance for the minimum capital levels of insurers, reinsurers, brokers and agents to be increased;
- A restriction on the use of agents by brokers;
- An allowance for agents to act for one short term and one long term insurer;
- An allowance for microinsurance; and
- A limited right to freedom of choice for consumers required to take insurance to secure a loan, goods on lease or any other credit.

Consultations on the new act started in 2000, and official drafting started in 2011. The Bill was presented to Parliament in 2014, but (by mid-2015) had still not been completed. Following promulgation of the new Act, however, regulations will still need to be developed and the proposed content of these regulations is not public knowledge yet.

The draft Insurance Bill provides for the following classes of insurance business:

Table 9: Classes of insurance business

General Insurance	Long-term insurance
Accident	Disability
Engineering	Health
Property	Fund (annuity or similar)
Guarantee	Life
Liability	Sinking Fund (investment)
Miscellaneous	
Motor	
Transportation	

Source: Insurance Bill, 2014

Medical Aid Funds. NBFIRA is also responsible for medical aid societies, which hitherto have not been formally regulated. Under the NBFIRA Act, medical aid funds are defined as insurers. However, there are as yet no regulations in place to operationalise this provision. NBFIRA is in the process of establishing regulations for medical aid funds (also known as health funding providers), and has had some consultations with industry participants in this regard. There is some debate in the medical aid industry as to what role the MFDP, under which NBFIRA falls, should play in the regulation of private health-care provision versus the Ministry of Health under whom medical practitioners and other medical service providers fall.

Pension Funds

Outdated pensions legislation. Pension Funds are regulated under the Pension and Provident Funds Act, 1987, which was introduced in the very early days of the pensions industry in Botswana. Since that time the pensions sector has grown enormously, and has also changed, from a Defined Benefit (DB) basis to a largely Defined Contribution (DC) basis. The growth of the pensions sector means not just more funds under management, but also the proliferation of related entities, such as asset managers, fund administrators, asset consultants etc., whose role has also changed following the shift to DC funds.

Link to Income Tax Act. Contributions to approved pension funds are tax-deductible, under the Income Tax Act 1995, up to 15% of salary for employees' contributions and 20% of salary for employers' contributions. In return for this concession, the member's entitlement must be used to purchase an approved retirement annuity, offered by a pension fund or a life insurance company, on retirement[54].

Most pension funds are occupational funds, linked to a specific employer. Although pension fund membership is not required by law, it is often required as part of an employment contract, particularly for management and skilled employees. In government, all permanent employees are required to join the Botswana Public Officers Pension Fund (BPOPF) as a condition of their employment.

Member and employer contributions. There is no statutory provision for minimum contribution levels for employers and employee members. The largest fund, the BPOPF, has an employer contribution of 15% of salary and an employee contribution of 5%.

Limited provision of pension annuities. Currently, retirement annuities are only offered by the Botswana Public Officers Pension Fund (BOPPF), the Debswana Pension Fund (DPF) (in both cases to members only), and Botswana Life Insurance Limited (BLIL). For retirees who are not members of the BPOPF or the DPF there is therefore only one provider of pension annuities. Tax rules prevent retirees from buying foreign annuities. The lack of competition in the annuity market, coupled with a limited range of assets – because of the limited government bond market - that annuity providers can use to match pension liabilities, as well as low interest rates generally, means that annuity terms are unattractive for retirees. Although pension annuity providers are permitted to invest in foreign assets, they prefer to avoid doing so because of the resulting asset-liability mismatch.

Legislation being updated. The old Act is being replaced by a new Retirement Funds Act, which has been approved by Parliament, but is awaiting the finalisation of Regulations before it can commence.

Generous offshore investment allowance. Pension funds are allowed to invest up to 70% of their assets outside of the country. This reflects the limited range on domestic investment opportunities. Given the nature of DC pension fund management – where there is no fixed liability – investing in foreign assets does not give rise to the asset-liability mismatch problems that arise for pension annuity providers. As at December 2014, the actual proportion of assets held offshore was 59%. There has been some discussion of reducing the offshore allowance for pension funds, but the risk is that this would reduce returns to pension fund members (and

[54] *Up to one-third of the pension entitlement may be taken as a tax-free cash lump sum, on retirement.*

their subsequent pensions), because of the negative impact on the ability of pension funds to diversify their assets.

Non-bank lenders

Micro-lending Regulations. NBFIRA licenses micro-lenders – defined as an entity (not a bank or building society) that makes loans to individuals - in terms of Regulations issued under the NBFIRA Act. The Regulations are mainly concerned with disclosure (of interest rates and borrowing terms), minimum capital requirements, and "fit and proper" requirements. They also prohibit practices such as the taking of borrowers' ATM cards and PINs, which had previously been widely used as a repayment mechanism. The Regulations permit NBFIRA to impose interest rates caps (at a "reasonable" level), although no cap has yet been imposed. The Microlending Regulations were developed, in part, to address public concerns regarding the activities of microlenders, in particular that taking of ATM cards and PIN numbers for the lenders to take loan repayments.

Enforcement still being developed. Many micro-lenders are believed to operate without being licensed by NBFIRA, including some that have applied for licenses but have not been compliant. No enforcement action has yet been undertaken against unlicensed micro-lenders. A template for enforcement action is being developed by NBFIRA. While there is some public support for the enforcement of the Regulations, due to concerns about the nature of some of microlenders' business practices, it is possible that attitudes could change if enforcement results in the exit of a significant number of microlenders from the market.

Some other lenders also fall under NBFIRA. Finance and leasing companies also fall under the NBFIRA Act, but are not yet regulated; however, they need to seek exemption from NBFIRA. The same applies to pawnshops. However, stores (such as furniture shops) are not yet covered.

Co-operatives and other group-based mutual financial service providers

Mutual formats are possible as an alternative to a corporate structure. Banks are required to be limited companies. However, there is provision for alternative, member-based mutual structures. This includes financial co-operatives, burial societies, and building societies.

No regulation of cooperative financial activities. Savings and Credit Co-operatives (SACCOs) are registered under the Co-operatives Act 2013, and fall under the authority of the Department of Co-operatives in the Ministry of Trade and Industry. The regulatory requirements for SACCOs are minimal, and relate mainly to the need to have annual audited accounts, and to transfer 25% of the net surplus every year to a non-distributable reserve. There is no real regulation of SACCOs as financial institutions, in terms of the management of risks specific to financial institutions, and even the minimal regulations in place are not strictly enforced (e.g., most SACCOs are well behind schedule in the preparation of audited accounts). Some SACCOs have become quite big (the largest has a balance sheet of over P90 million). There is no size limit over which SACCOs become subject to BoB supervision as deposit-taking institutions, and as a result there are potential risks to depositor-members. Similarly, there is no financial regulatory framework pertaining to informal savings groups (*metshelo*), and burial societies (although the latter can be legally constituted as mutual Societies),

Other Financial Legislation

Building Societies. The Building Societies Act makes provision for the establishment and regulation of building societies. Only one such institution exists, the Botswana Building Society (BBS). Building societies are mutual organisations, with various categories of shares (indefinite, Paid-Up and Subscription). They can also take deposits from non-members. Lending is restricted to loans secured against fixed assets (property) and shares/deposits. Regulation falls under the Registrar of Building Societies, which is MFDP, but supervision is carried out by the BoB. A recent amendment to the Act makes provision for building societies to demutualise and convert to a bank, which the BBS intends to do.

Statutory Banks. The National Development Bank (NDB) and the Botswana Savings Bank (BSB) have their own founding acts. The BSB is permitted to take deposits and lend, while the NDB is restricted to lending only. In both cases, recent Transition Acts make provision for their conversion to companies and application for banking licences. GoB intends to partially privatise NDB, while BSB is being merged into a holding structure along with the Botswana Postal Service (BPS). Both NDB and BSB are supervised by the BoB.

Other Development Finance Institutions. The Botswana Development Corporation (BDC) and the Citizen Entrepreneurial Development Agency (CEDA) are established as companies, and fall under the Ministry of Trade and Industry (MTI). Both institutions grant loans and can make equity investments. Neither is supervised by BoB.

Capital Markets. Several pieces of legislation relate to capital markets, specifically the Botswana Stock Exchange Act 1994 and the Securities Act 2014. The BSE is constituted as a member organisation "owned" by broker-members, although it is currently being converted to a company. The Stocks, Bonds and Treasury Bills Act 2005, under which GoB issues securities, also plays a role in the capital market.

Hire purchase and hypothecation. Secured credit transactions classified as hire purchase are, in principle, regulated under the Hire Purchase Act. However this is an extremely old piece of legislation – dating back to 1961, and has not been updated since 1966, and does not seem to be utilised in practice. The Hypothecation Act, 1977, makes provision for lenders to take security over moveable assets. A wide range of credit providers, particularly for trade credit, are authorised to legally take such security under the Act.

Other Relevant Legislation

Savings in lieu of pensions. As noted above, membership of a pension fund is not a legal requirement for employees. However, under the Employment Act 1982, employees who are not members of pension funds are entitled to a "gratuity" or severance pay. The gratuity is payable every five years or when employment is terminated, whichever is sooner. The gratuity is payable in cash at the employer's expense. The accrual rate is one day per month worked for the first five years and two days per month worked for subsequent five year periods.

Botswana Post. The Botswana Postal Services Act 1989 provides for the functions of BPS, including the provision of money transfer services. BPS is regulated by the Ministry of Transport and Communications, but this does not entail any significant regulation of financial services provision.

Competition. The Competition Act, 2009, establishes the Competition Authority (CA) and the Competition Commission. The CA is permitted to investigate and take action in the case of market conduct abuse by financial institutions, and has to give consent to takeovers and mergers, it has tended to defer to the primary regulators (BoB and NBFIRA).

Identity Cards. Under the National Registration Act 1986, all citizens over the age of 16 have to obtain a national identity card ("Omang"). Virtually all adults have such a card (95% according to FinScope 2014). However the card is somewhat old-fashioned, is not machine readable, and the national ID database cannot be interrogated by third parties.

Anti-Money Laundering. Various pieces of legislation relate to financial intelligence and economic crime, including the Financial Intelligence Act, 2009, the Proceeds of Serious Crime Act, 1990, and the Corruption and Economic Crime Act, 1994. The Financial Intelligence Act provides the basis for identification of customers and the reporting of certain cash and electronic transactions, as well as the establishment of the Financial Intelligence Agency (FIA). The Act also specifies the institutions that are covered by reporting requirements[55].

KYC Requirements. The Financial Intelligence Act requirements for customer identification, with respect to banks, are laid out in the Banking (Anti-Money Laundering) Regulations, 2003. This specifies that banks must verify a customer's identity by means of a National Identity Card (Omang) for citizens, or a passport for a foreign national, as laid down in the Act. Furthermore, under the Regulations, customers' addresses must be verified by means of either a reference from an employer, a well-known professional, or a customary authority (such as a chief or village headman), or by means of a council rates or utility bill, although the Financial Intelligence Act does not appear to require proof of address, only identity. In practice, banks also require evidence of source of funds when an account is opened, although this is not specified in the Regulations for individuals (only for corporate customers).

KYC Issues: As noted above, most adults have national ID cards and can therefore prove identity quite easily. Proof of address is much more difficult, however. According to FinScope, only 19% of adults have water utility bills in their own name. Electricity is now sold via pre-paid units, so electricity bills have largely been phased out. For proof of address, most people use letters from employers or chiefs. Evidence of source of funds is straightforward for those in formal employment, but more difficult for those who are not. Banks report that some prospective customers are put off by requirements for proof of address and proof of source of funds (i.e. they make initial enquiries and do not come back).

KYC requirements for mobile money. The KYC requirements for mobile money accounts are less stringent than those for bank accounts, as only proof of identity is required. All mobile money customers must also have simcards, which must be registered with BOCRA. However, simcard registration only requires provision of information on identity and address, which does not have to be verified with documentation.

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[55] *These include: attorneys, accountants, real estate professionals, banks, bureaux de change, building societies, casinos, NBFIs, lottery operators, Botswana Post, BSB, precious stones dealers, CEDA, BDC, NDB, car dealers and money remitters.*

Consumer Protection

Multiple responsibilities. Consumer protection responsibilities fall under the prudential regulators (BoB and NBFIRA) and the Competition Authority. The latter has not to date played an active role in the financial sector with regard to consumer protection or market conduct, even though these fall under its general authority. Whereas BoB's consumer protection activities focus on regulation of prices and interest rates, NBFIRA's responsibilities are much broader, and include product approval (for insurers) and the investigation of consumer complaints. The banking industry has established a Banking Ombudsman, which has responsibility for investigating consumer complaints against banks that cannot be resolved through the banks' own internal procedures.

Recommendation for financial ombudsman. The FSDS recommended that a Financial Ombudsman be established to take over responsibility for investigating consumer complaints. This would help take some of the pressure off of NBFIRA, in particular, and free up time for prudential regulation. It would also allow BoB to focus on prudential regulation and systemic stability. However this recommendation has not been implemented.

Re-alignment of roles would help. Establishing a Financial Ombudsman, and allowing the Competition Authority to deal with issues that fall under its purview – such as market conduct, pricing etc. – would allow the prudential regulator to concentrate on their core responsibilities. This could be particularly helpful given the additional demands being made on the prudential regulators with the emergence of new forms of business models for financial service providers, and would also help financial inclusion by allowing the development of appropriate regulatory structures for emerging financial service models[56].

[56] *The needs for new forms of regulation are discussed in detail in the product area chapters 6-9.*

5. Demand Side Analysis

This section unpacks the insights generated by demand-side research into the lives of the adult population of Botswana and the society within which they live. This analysis is based on the quantitative results of the FinScope 2014 survey, and combines this with the qualitative analysis undertaken as part of MAP. This analysis will go further to break down the adult population into target market segments to allow a more intimate understanding of financial services & products usage and needs.

MAP Qualitative Research Analysis

This section discusses the findings of the qualitative research undertaken as part of the Botswana MAP process. It contains individuals' perceptions of the country's socioeconomic status, their own positions within it, and the level of financial inclusion.

Government provides a high level of support to the population through a wide range of programmes, across all income groups.. According to the qualitative report there is a strong reliance on government for the potential improvement of their own well-being (as opposed to an attitude of personally being responsible for their potential improved situation in life.)

> *"Keanole works in Ipelegeng because it is better than staying home for nothing, and she is also assisted by social workers every month. They help her with groceries for her family, however she does not get cash for this. She uses a card which each month allows her to buy food for her family."*

Nevertheless, society is disheartened in many respects. Botswana is currently facing many challenges, including economic hardship due to unemployment (or under-employment), HIV/AIDS, a lack of jobs for school leavers and very high inequality. People tend to be critical and complaining – the glass is half empty rather than half full. A common syndrome is "PHD" – Pull Him (or Her) Down - for some reason, people do not seem to like others succeeding.

Strong elements of collective responsibility, particularly within households. From the qualitative analysis it was found that there is financial assistance for poorer members of the community by those who are more affluent. This 'community collectivism' is not only a rural phenomenon but was also evident in Gaborone.

> *''Even if we are sparsely populated, we check on each other frequently; if anything were to happen to me the neighbours would assist me………I trust that, if I fall sick, my neighbours would come and assist me or take me to the hospital and my son would come and look after me too….we are a close knit society and we visit each other regularly.'' (Remittance receiver, Ramaphathla)*
>
> *''Nobody in Botswana will die of hunger; the government will help, otherwise the community will assist.''*
>
> *The people in my community are very good people, they help each other if one gets into trouble or there is a problem, we live as a unit….when things happen, we contribute as a family, my relatives help out.'' (Employee of a small business, Thamaga)*[57]

[57] *FinMark (2015)*

Box 4: Qualitative market research methodology

The qualitative research was based on 42 in-depth interviews, and was conducted (at Gaborone, Jwaneng, Gabane, Thamaga, Kanye and Ramapatle) from 18 March – 2 April 2015. The sample was structured to reflect the target market for financial inclusion[58] in Botswana. Extensive interviews were conducted with respondents representing different economic profiles sampled according to main source of income. The following were the main source of income segments we used to design the sample:

Income from Government

Employed by government – high earning job

Employed by government – low earning job

Grant recipient (productive/education)

Grant recipient (poverty alleviation)

Old age pension

Income From Private Sector

Formal

Employed by registered/bigger company

Employed by unregistered/smaller company

Employed by Debswana

Informal

Employed by farmer

Subsistence farmer

Productive farmer

Small trader

Bigger trader

Not Earning income

Receives remittances

Rely on family

For a full overview of the findings, see the qualitative research report (FinMark, 2015).

Most people have access to at least ten years of largely free public education. Over 47% of the population has at least some secondary education, with only 10% having no formal education (mostly above 50 years of age)[59]. The majority of the educated in the qualitative sample went to government schools and those with post-secondary training have benefited from government grants and loans, which they have not started paying for[60]. Due to these government education grants and loans, the majority of Batswana do not take loans for education.

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[58] *MAP applies a broad conception of the target market for financial inclusion as the unserved and underserved population. They are often low-income and not in receipt of formal income.*

[59] *Botswana FinScope Survey 2014*

[60] *MAP Qualitative analysis 2015*

> *"I was a government sponsored student at the University of Botswana from 2010 - 2014, studying Social Sciences. I benefited from Tertiary Sponsorship but I have not yet started paying it back."*

Economic hardships lead people to respond in different ways. 68% of the adult population has one source of income and 26% have more than one source of income[61]. Women are particularly inclined to be entrepreneurial, and informal SMEs tend to be female-owned. By contrast, men tend to look for paid work, such as piece jobs. Those that are unemployed often try to take up some of government assistance programs - such as *Ipelegeng* - to make ends meet, and sometimes benefit from more than one program.

High proportion involved in agriculture. FinScope results show that nearly half of adults are involved in arable agriculture, and many own livestock. Many adults encountered during the qualitative field work owned livestock personally or had family who owned livestock (which, given their collective orientation, they considered to be partly owned by themselves or that could be sold to assist them financially if required). Involvement in agriculture is encouraged by access to tribal land, which makes up the largest percentage of total land in Botswana, and by a high level of government provision of support services. Despite the high number of people involved in agriculture, it is not a major source of income for most of them[62].

Take up of Financial Services

Access Strands

This section features an analysis of the Botswana FinScope Survey 2014, using the access strand tool.

The access strand illustrates the take up of financial services and products. It assumes that the goal of financial inclusion initiatives is to improve the uptake of formal financial services and products. MAP has adapted the standard access strand categorisation employed by FinScope to define the following distinct sections or groups of adults in Botswana;

Financially Excluded: This group consists of individuals who do not currently have or do not currently use any form of financial products or services, either regulated or unregulated.

Financially Included. Those that are not excluded, but have access to[63] or are served in some way by formal and/or informal financial services, are divided into two groups:

- **Informally Included-** *Unregulated/informal financial products and services*: This group comprises of individuals who are financially included through the uptake of financial products or services from entities that are unregistered and not supervised for the provision of financial services (or any other aspect of their activities) including but not limited to 'metshelo', *but have no formal products or services*. It also contains individuals who are financially included through the take-up of financial products or services from institutions that are registered with a public authority but that are not

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[61] *Botswana FinScope Survey 2014*

[62] *See Chapter 2*

[63] *In line with "access strand" terminology, we often refer to "have access to" as synonymous to "use or have"*

subject to supervision in their provision of financial services such as burial societies and saving groups.

- **Formally Included-** *Regulated/ Formal products and services:* This group is made up of individuals who are financially included through the take-up of financial products or services from institutions that are both regulated and supervised for the provision of financial services.
    - *Banked vs. Other formal, non-bank products and services*: The regulated component is furthermore disaggregated into those who have a bank account and those who do not have a bank account, but have another formal financial service. The former may also have other financial services, but the latter excludes all with a bank account. Other formal financial services include services such as mobile money, money transfers.

It is important to note that the access strand does not show any overlaps in the use of financial products and services. As such an individual with both regulated and unregulated (formal and informal) products will only be reflected in the regulated (formal) group, and somebody with both a banked and non-bank formal product, or both a bank account and an informal product, will only be reflected in the banked strand. An individual with a non-bank formal product such as a Poso card and a *motshelo* account, but no bank account, will only be reflected under the "other formal" strand.

However, it is recognised that informal/unregulated financial services play an important role, whether as a complementary product for those also using formal products, or as a product that extends access for those who do not have access to formal products. As a result, much of the discussion of product usage also looks at total usage of different product groups without excluding overlaps, as in the access strand. Hence total informal usage will be larger than "informal only" usage.

The access strand can further be used to illustrate take-up across particular product groups (credit, savings, insurance or payments). At the product group level, usage of "family and friends" is included in the measurement of access, even though this category is not included in the overall access strand and calculation. All financial products, services, mechanisms and activities that have been included for each category of the product group access strands are listed under each product group below:

Credit strand

Regulated/formal take-up: This relates to uptake of formal credit including bank credit. The main sources are commercial banks, licensed microfinance institutions, licensed money lenders, (non-bank) financial institutions and stores. Some of these institutions are registered and have operating guidelines, but are not fully supervised yet.

Unregulated/informal take-up only: Those without a regulated service who borrowed money from an employer, savings group, informal savings group, unlicensed money lenders or micro-credit institutions (machonisa), community-based organisations. This includes registered SACCOs credit schemes.

Borrowing with family or friends only: Those without regulated or unregulated services who borrowed money from family or friends that you have to pay back.

Savings strand

Regulated take-up: Saving with or having a savings account with a commercial bank, formal (nonbank) financial institution.

Unregulated take-up: Those without a formal savings account who belong to a savings group or have savings with a savings group, money donations group, or another institution that is not supervised for the provision of financial services, this includes SACCOs and 'metshelo'

Saving with family, friends or self: Saving within the household, family or community who keep it safe for you, saving in a secret place at home, saving in kind.

Insurance strand

Regulated/formal take-up: Any formal insurance product with an insurance company. This includes funeral parlour schemes, which in Botswana are generally provided by funeral parlours acting as agents for insurance companies.

Unregulated/informal take-up: Without a formal product, but belonging to a burial society or (informal) funeral parlour schemes.

Payments strand: Remittances and Transactions

Regulated/formal take-up: Making payments including remittances via bank transfer (or paying into a bank account), ATM, Mobile Money, the Post Office, Western Union, MoneyGram, etc., or using somebody else's bank account for remittances.

Unregulated/informal take-up: Not making use of regulated services, but have made transactions and remittances in the last 12 month through an unregulated money transfer facility, including informal channels such as bus or taxi drivers.

Sending money with family or friends: None of the above, but have sent or received remittances in the last 12 months directly via friends or family.

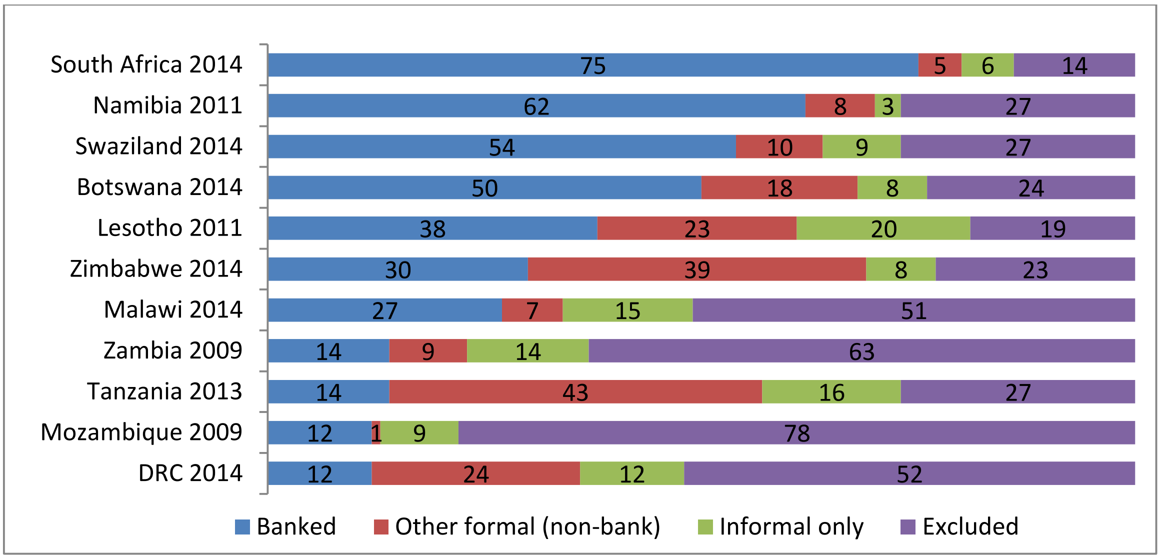
Regional Access Comparison

Botswana has reasonably high financial inclusion in regional terms. Botswana ranks 5th in terms of banked access and least excluded adult population., among the 15 African countries in which FinScope surveys have been undertaken. Botswana has 24% of the adult population is financially excluded[64], 50% of adults are banked – which is in line with figures for other SACU countries - and a further 18% have access to other formal financial services[65]. This means that 68% of Botswana adults are formally included. Reliance on informal financial services only is comparable to other middle-income countries in Southern Africa, with 8% of adults using solely informal channels.

[64] *South Africa, Mauritius and Lesotho have lower figures for overall financial exclusion*

[65] *In the FinScope access strand terminology, "usage" is treated as analogous to "have access to". However, this may not always be the case; someone may have access to a product (e.g. credit) but choose not to use it.*

Figure 23: Regional comparison of financial inclusion



Source: FinScope 2014

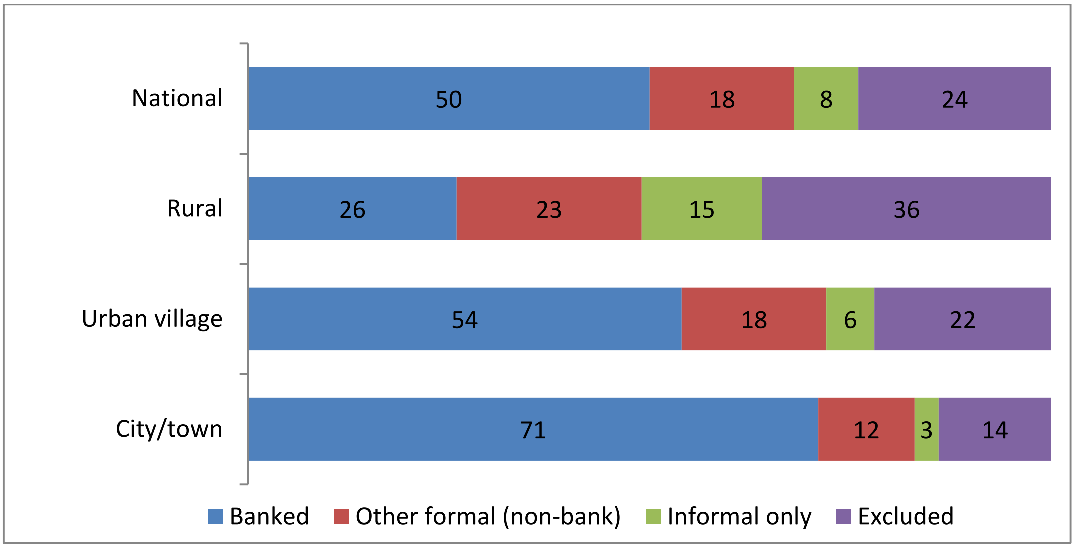
Usage across localities

Urban vs rural skew among banked. Nationally, 50% of Botswana adults are banked, but access varies considerably across settlement types. The highest access to banking is in the urban and urban village areas, with 71% and 54% banked respectively. However, adults in rural Botswana have limited access to banking, as only 26% are banked.

'Other Formal' use high in rural areas. There is also a relatively high uptake of 'other formal' financial services, mainly in rural areas, attributed to the use of funeral policies, Poso cards for the previously excluded (destitutes and state pensioners). 33% of adults in rural areas have access to 'other formal' without having access to a bank account.

Relatively low use of Informal only. Reliance on informal financial services only (6.5%) is lower than in some countries, but is not out of line with other middle-income countries. However, it is important to remember that the access strand masks the fact that there is substantial overlap between usage of bank formal, other formal and informal products.

Figure 24: Access strands by settlement type



Source: FinScope 2014

Usage across Products

A core hypothesis of MAP is that people use an array of services to meet their financial needs, and that there are cross linkages between product markets. By analysing use/take-up across product markets we can derive a better understanding of people's financial needs, and make more granular/targeted recommendations.

Figure 25: Breakdown of financial access by products

Credit

17% of adults borrow from a formal institution

37,000 adults borrow from unregulated money-lenders

Insurance

26% of adults have insurance from a formal institution

39% of adults respond to risk events using credit or savings

Remittance

36% of adults make remittances through a formal service provider

12,800 adults make payments through an unregulated network of payment brokers

Savings

55% of adults save with a formal financial service provider

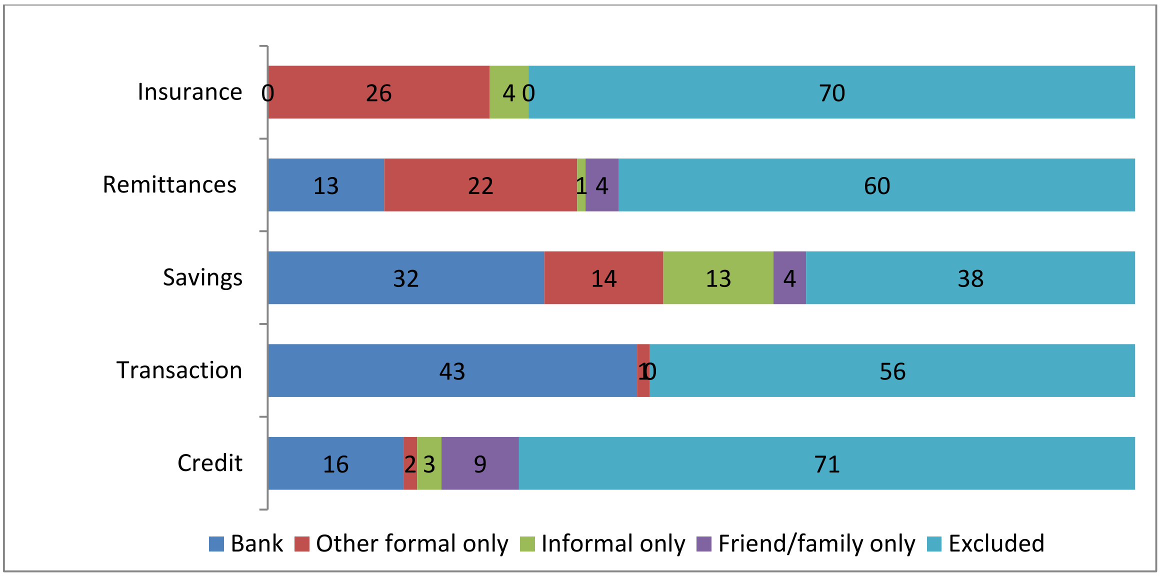
13% of adults report saving, but do not save with a regulated or unregulated service provider

Source: FinScope Survey 2014

The figure below considers the percentage of adults served in each of the four product markets:

- Insurance
- Savings
- Credit
- Transactions and Remittances

Figure 26: Product access strands



Source: FinScope 2014

Credit particularly low. In comparison to the other products, credit has the lowest uptake (29%); with formal bank credit and other formal credit at 15.6% and 1.5% respectively. However, this product has a higher use of 'friend/family' than the other products.

High access to savings products. Over 60% of adults have access to some form of a savings product, whether formal or informal. Nearly one third of adults have a bank savings account and around 14% have a savings account with a non-bank financial institution.

Most transactions and payments are made through a formal medium. About 42% and 13% of adults make use of bank formal payment mechanisms for transaction accounts and remittance services respectively, while 22.5% and 1.5% use other formal products for remittances and transactions respectively.

Insurance reaches only one in four. The insurance market has a similar access as the remittance market: relatively high use of formal (25%) versus informal services, but with 70% of adults excluded.

Breadth and depth of usage

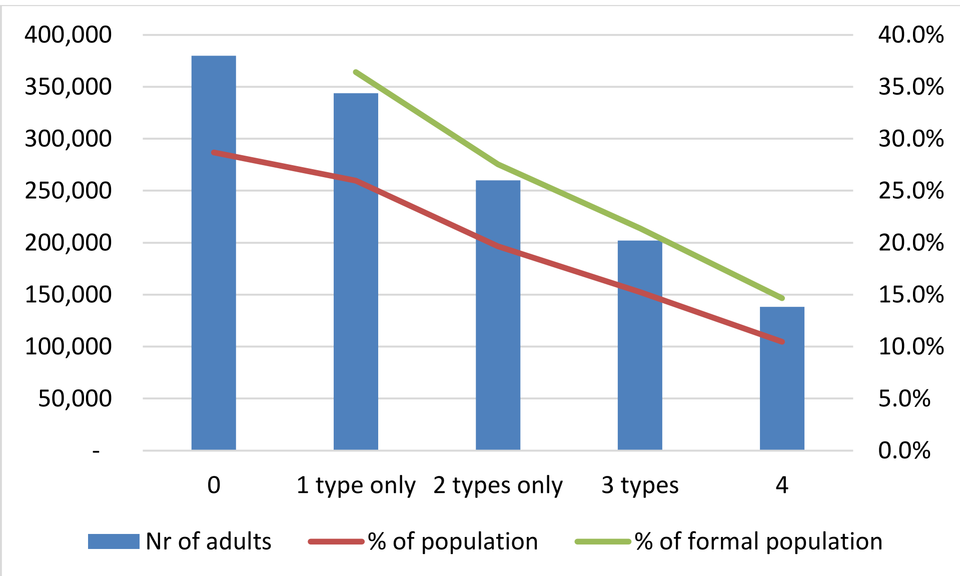
Consumers generally use a combination of products. As discussed above, the access strand does not show any overlaps in the use of financial products and services; as such an individual with multiple products, either regulated or unregulated, will only be reflected in one group, with preference traditionally given to banking.

Figure 27: Depth of access

Source: FinScope Survey 2014

Fairly broadly served. 63% (600,377 individuals, 45.4% of adults) of formal users are broadly served, have a formal financial service across more than one product market. This is a cumulative of 19.4% formally served adults who have two products/services, 15.3% formally served with three products and lastly 10.5% of those who are formally served with all four products. 22% of the adult population are "thinly served", meaning that they only use one product area.

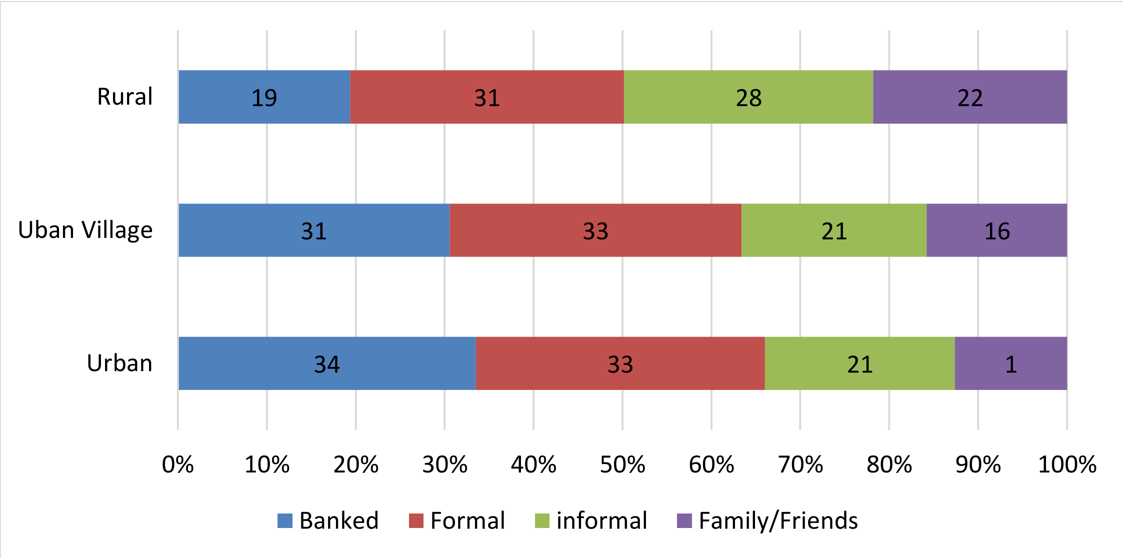
Figure 28: Combination of products usage



Source: FinScope Survey 2014

The Informal sector plays an important role. In addition to being broadly served in the formal sector, consumers also use some informal services and products. 31% of those that are financially included use a combination of formal and informal mechanisms to manage their financial needs. The informal sector continues to play an important role particularly in the rural areas where usage of informal product/services is relatively high at 49.8%, including family and friends (without any overlaps with formal products).

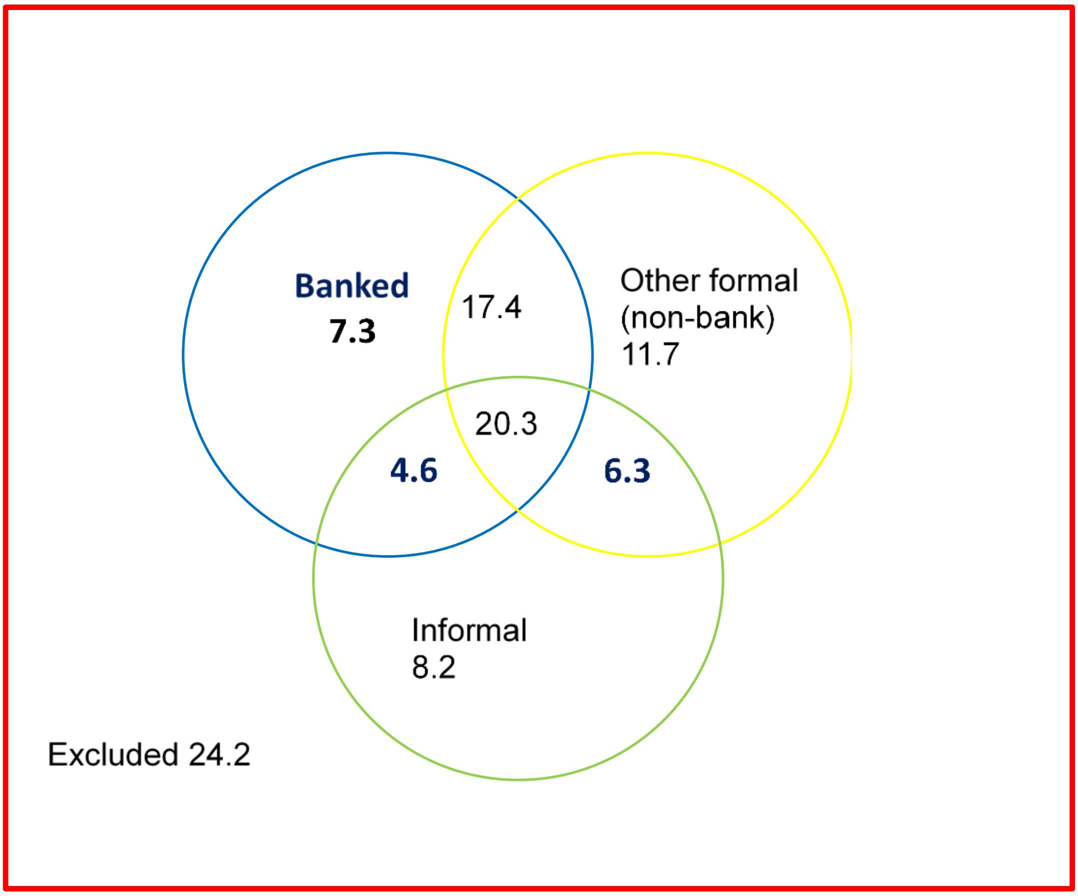
Figure 29: Usage by location



Source: FinScope Survey 2014

A dual financial economy. Botswana society though fairly banked and formally served still makes use of informal and community based type of products and services. Furthermore, 20% of the financially served adults use a combination of banks, other formal and informal services/products, small populations exclusively use one type of a product either formal or informal (7.3% banked, 11.7% other formal and 8.2% informal.) This confirms that financial inclusion should not only focus on formal products or one single anchor product, plus in Botswana 'collective responsibility' can be used to further the financial inclusion mandate.

Figure 30: Financial services/products usage overlaps



Source: FinScope 2014

Segmenting the Market

Different types of consumers behave differently and have different needs for financial services, leading to different real economy outcomes that require systematically different policy approaches. MAP is generating data that enables disaggregation of the adult population into discrete segments and sub-segments with differing profiles, needs, behaviour and usage of financial services. Understanding the shared features and differences between target markets enables a more granular understanding of the financial service needs of different segments. When the target market-level analysis is overlaid with the supply-side picture, a multi-dimensional picture is created that can help policy makers formulate a focused roadmap of financial priorities to achieve key sectoral and national objectives.

The MAP analyses show that segmenting by main source of income is strongly aligned with earning potential, lifestyle and financial service needs.

This sub-section therefore focuses on the dynamics related to the uptake and usage of financial services by the different target markets, as divided by economic parameters, in particular, income[66]. Main income source is used as a proxy for the level and regularity of income, both of which are key indicators to whether a person meets the requirements to be a viable financial service client. The market segments are clusters of people who are sufficiently

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[66] *Target market segmentation only focused on main income source and does not take into consideration the extra income sources that an adult may have*

different from other groups and yet have enough shared characteristics, including geographic and demographic characteristics, to form a common target market for financial institutions.

Box 5: Target Market Grouping

The target markets were primarily defined in terms of an adult's main income source. FinScope recorded a wide range of income sources, as shown in the first column of the table below. Each of these detailed groups was then reviewed in terms of key characteristics such as demographics, income level and financial access. The 24 detailed income sources were then aggregated into six broad target groups, which were similar in terms of these key characteristics and the nature of their main source of income.

Detailed income source	Broad target group & number of adults included
Wage / Salary - government employment Wage / Salary - employment in a formal Self-employed (own business) - formal Rent Private pension Interest on savings Commercial farming	Formal employment (income) (*373,922 adults*)
Wage / salary - employment by a private individual Wage / salary - employment on a farm Income from piece jobs	Informal employment (*271,743 adults*)
Sale of own livestock Sale of other own farm produce	Farming (*37,944 adults*)
Self-employed (own business) - informal Trading of goods and services - non farm	Informal SMEs *(86,879 adults*)
State pension Maintenance grants Drought relief assistance Welfare grants	State dependants (*168,803 adults*)
Receive money from someone else in this Receive money from other family / friend None	Private dependants (*289,411 adults*)
Student allowances Others Not specified	Others (*95,039 adults*)

In considering these target groups, there are a few key points to note:

Formal employees: this includes all groups that have regular, formal earned income. Formally self-employed and commercial farmers are included in this group, because they account for only 3.76% of the population and they also had high incomes and similar (very high) overall access to financial services. Commercial farmers are those whose classified their farms as businesses (companies). This group also includes those with earnings on capital (rent, private pension and interest on savings) because they were a small portion of the population (3.45%) and also had similar access and average income.

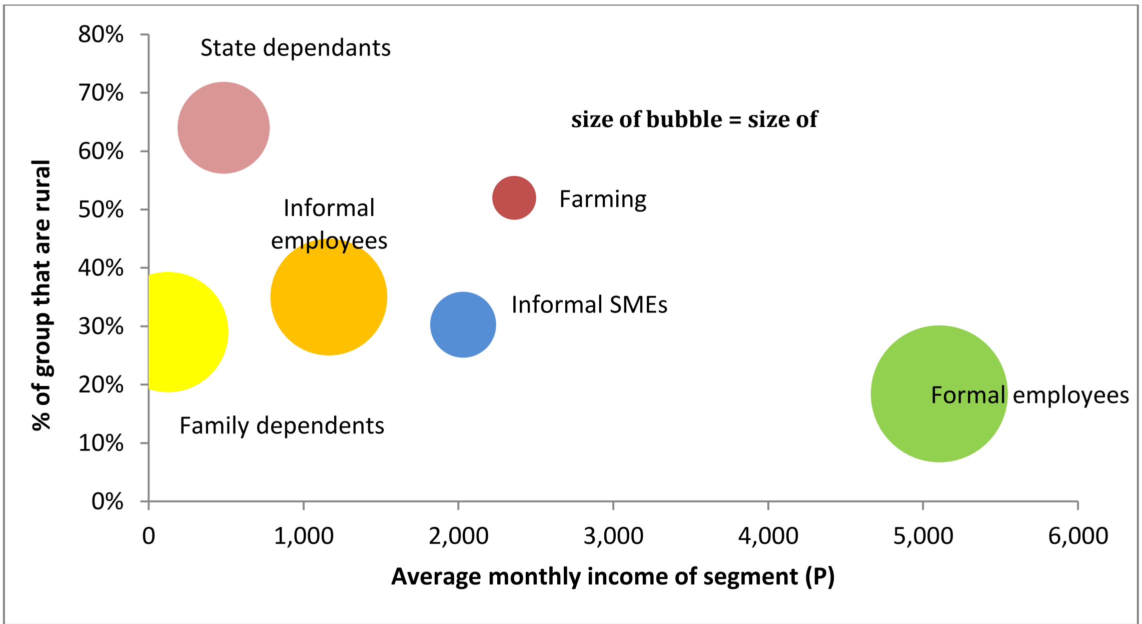
Farmers: includes those that sold their own livestock as well as other own farm produce as their main source of income. This group does not include most of the adults who own farmland or have some involvement in agriculture, because they mainly earn their income

from other sources Others: this group includes a range of income sources that do not fit neatly with any of the other groups. This group is not included in the target group analysis.

The diagram below shows the size of each segment and plots the various segments in terms of their geographical as well as income spread:

- The largest group is formal employees who are mostly in urban areas and have high income.
- Informal employees are the second largest group. It includes people with both regular and irregular incomes. Over 40% of this group live in rural areas; they have the lowest incomes of the economically active groups.
- Farmers (defined only as those whose *main income source* is farming) make up a small percentage of the total population; they are mostly in villages and have high incomes, second only to those Formal Income Group[67].
- Informal SMEs make only 7% of the adult population; over 60% of this group lives in urban areas and they have the third highest income.
- State dependents are a smaller group than family dependents and have higher incomes. State dependents are mostly in rural areas while family dependents are in urban areas.

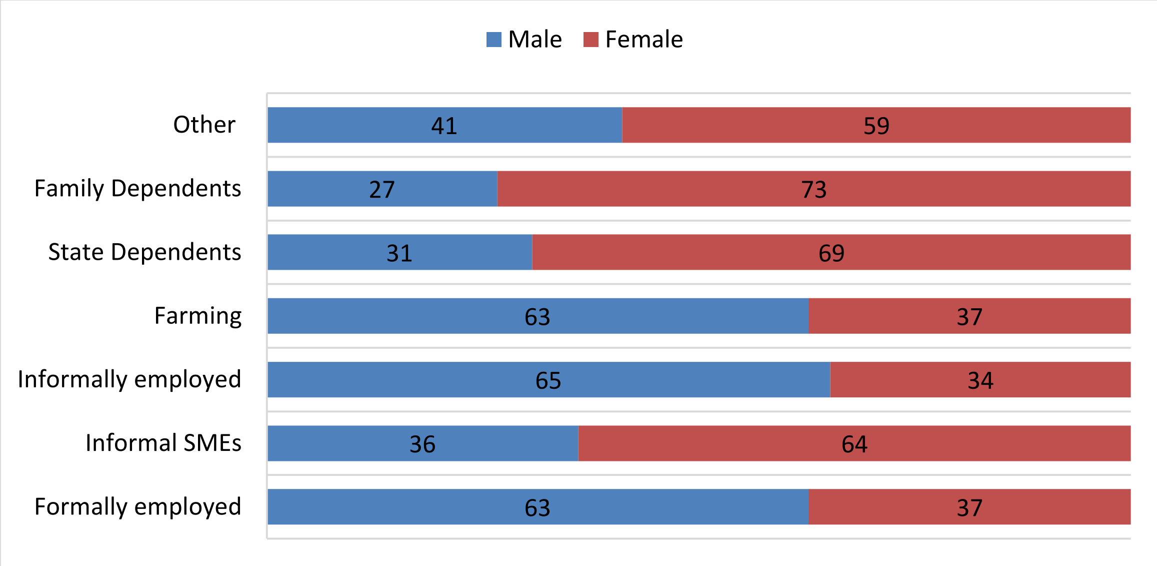
Figure 31: Target markets by size and average income



Source: FinScope 2014

[67] *While there are many farmers in Botswana, this group comprises only those who receive their main income from farming, which is a relatively small number. For most people involved in agriculture, income from that source is only one of a range of income sources.*

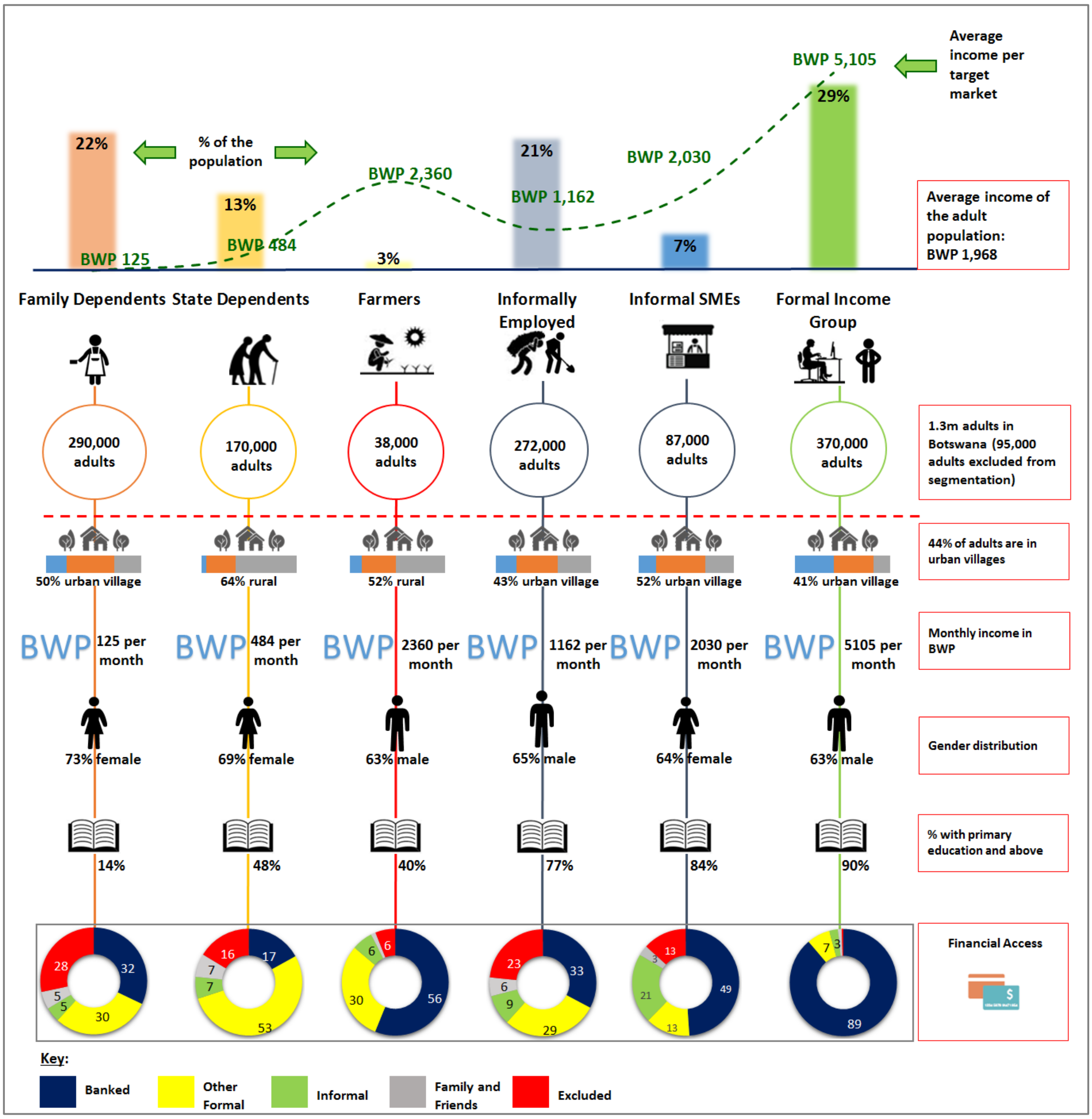
Figure 32: Distribution of target markets by gender



Source: FinScope 2014

The Formal Income Group has the highest financial inclusion level (99.5%). The majority are banked and this is due to their steady and relatively high incomes. They are followed by Farmers, who also have relatively high incomes compared to the other segments, with a 94% financial inclusion rate. The Farmers group has high access and usage of banking (56%) as well as other formal financial services (30%). Informal SMEs is the third most financially included group (87%); they have higher usage of informal financial services only (21%) than the top two groups. The informally employed have similar access strand to the farmers but they are less financially included at 77%, they have higher usage of 'other formal' (29%) products than informal products (21%). Dependents are generally less financially served than the groups engaged in productive activities. State Dependents are more financially served (84%) than family dependents (78%) because the government has switched from dispersing financially benefits as cash to using some formal products such as the POSO card. This modification to benefits distribution has led to state dependents to be better served than the informally employed group. The Family Dependents group is the least financially served.

Figure 33: Access strands by target group



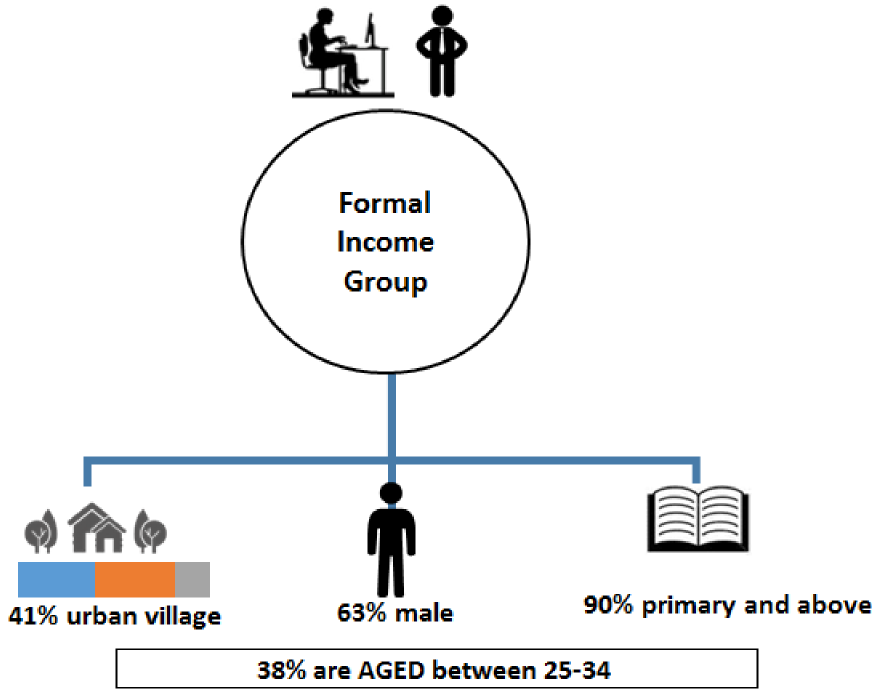
Source: FinScope 2014

Below, each segment is analysed in more detail in order to conclude on the key financial services needs for that segment.

Formal Income Group

This section analyses the Formal Income Group (formal employees). This segment consists of adults with a regular monthly salary, including those employed in the private sector and the public sector, the self-employed in the formal sector, and those living off of pensions, rent, and savings, and large-scale commercial farmers. This group makes up 28% of the adult population in Botswana.

Figure 34: Formal Income group key indicators

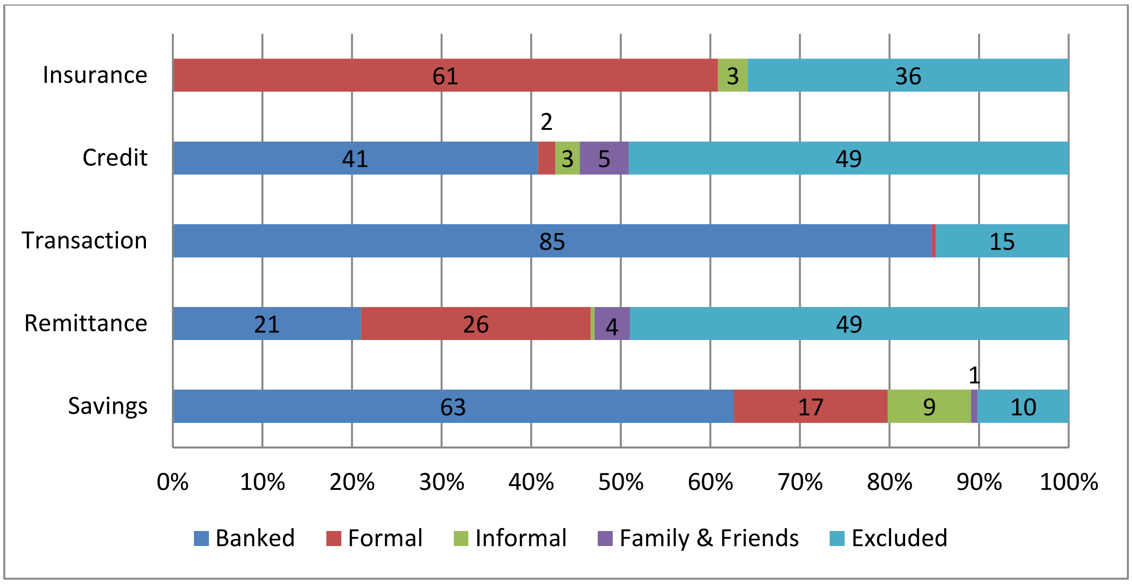


Source: FinScope 2014

Urban and well-educated. The majority of the Formal Income group, (82%) reside in urban and urban village areas. Over 60% are between the ages of 25 and 44, over one third have done their post-secondary i.e university or technical/vocational training. This segment is also dominated by males (63%). 83% of this group relies on their wages or profits as the only source of income while the remaining 17% have more than one income sources.

Fully financially included. This group is virtually fully financially included, with only 0.49% adults being financially excluded. According to the qualitative analysis; this group has easy access to good bank and formal infrastructure. The majority of this segment is banked (88.8%), with other formal being at only 5.8% and informal financial product and services with an uptake of 2.9%. The use of family and friends by this segment is very small at 1%.

Figure 35: Formal income group product access strand



Source: FinScope 2014

Broadly served. The Formal Income group has high uptake of formal savings accounts (82.8%), payment services (85%) and insurance (60.8%). Their regular income and ability to provide a pay slip puts them in a good position to access personal loans that they could then also leverage for productive purposes, they therefore have a higher uptake of formal credit than the national uptake (43% vs 17%). An additional 2.7% and 5.4% of adults use informal credit and loans from family/friends, respectively.

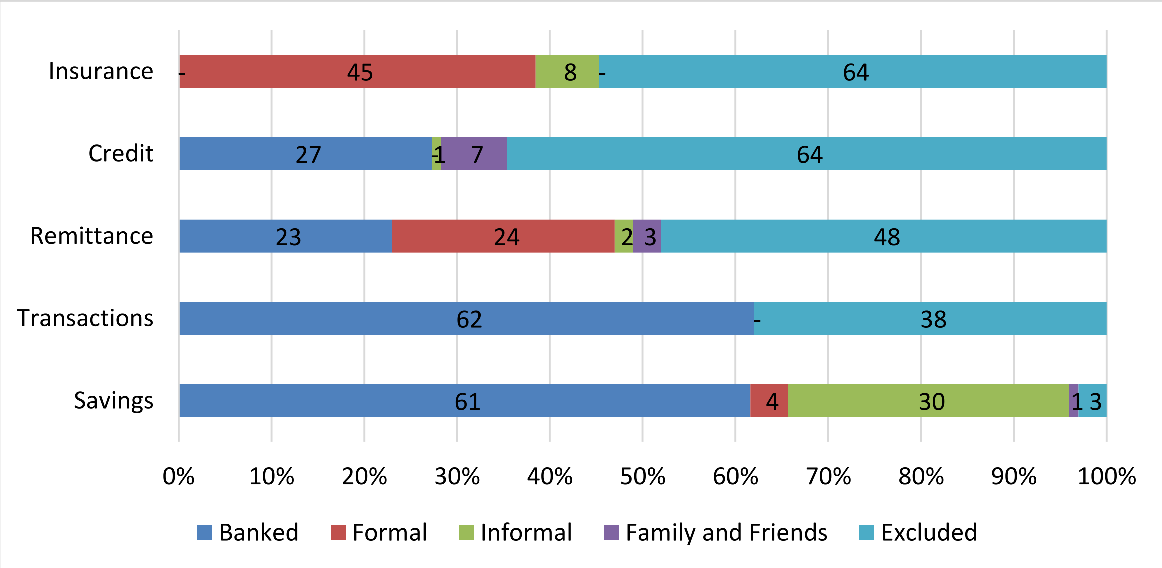
Box 6: Formal SMEs

This is a sub group of the Formal Income Group. They have the same characteristics which justifies why they were included with government and formal private employees. This group only makes up 4% of the total adult population.

They are mainly in urban areas and have easy access to financial services/products. They are well financially served across all markets;

- 62% of transaction are done through banks while 37% are excluded. There is no use of the 'other formal' transactional products by this group.
- 52% have access to remittance services/products with 23% using banks and 24% using 'other formal'
- This group has one of the highest inclusion rates in the insurance market, at 45%. There is also some 8% using only informal insurance.
- 23% of this group has access to bank credit while 7% of the credit to this group is from family and friends. The credit market is the one where this group is highly excluded
- Only 3% of this group is not served in the savings market. This group has high access to banked savings (60%) and over 30% of informal savings, this is comparable to the rest of the formal income group.

Figure 36: Formal SMEs product access



Source: FinScope 2014

Key Financial Service Needs: Formal Income Group

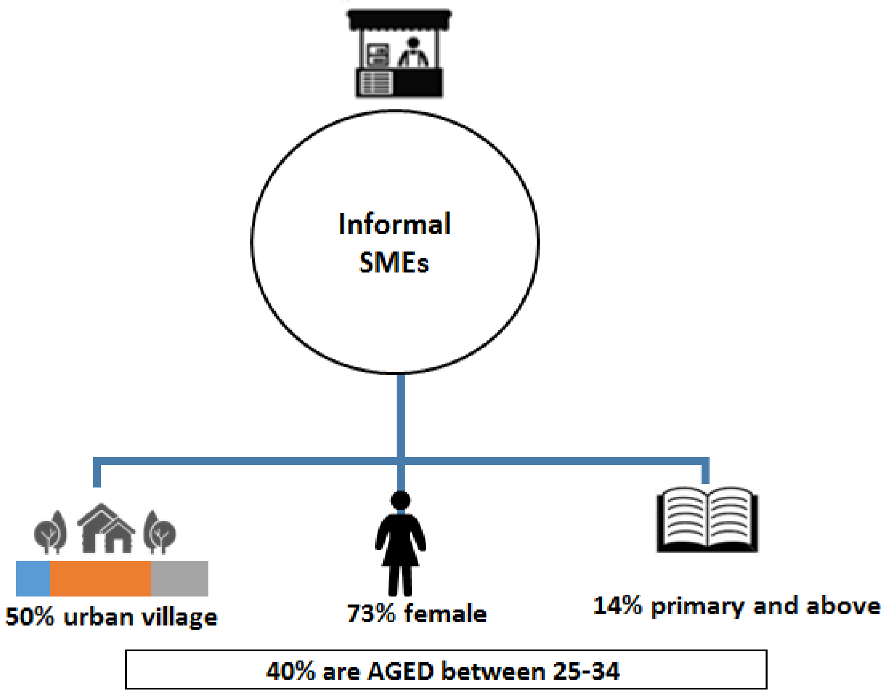
Almost all of the Formal Income group are financially included; 0.5% excluded. Therefore, they should not be a priority for financial inclusion. There is however an opportunity to serve the 'dependents' group through this group as they are the main senders of remittances. They therefore can benefit from enhanced remittance services and sophisticated banking products using cell phone and internet (given their existing access to this infrastructure).

Informal SMEs

Multiple income sources. This section analyses the Informal SME segment. This segment consists of adults that are self-employed (informally) and those that trade goods and services that are not farming related. This is only 6.6% of the adult population in Botswana, making it the second smallest group after farming. Their average income is P1,950 per month. Most (80%) of these SMEs do not have any employees and of those who do employ only hire one person. The majority of this group has a diversified income base, with 83% of this group having 2 or more income sources. 48% of this group are into wholesale and retail operating from home. Lastly, 60% of this group has used their own savings as capital for their businesses.

Urban village-based and female. Over 50% of the population in this segment live in urban village areas, and they are generally young. This group is predominantly female (64%) with only a small percentage of those who have completed their post education and training.

Figure 37: Informal SME key indicators



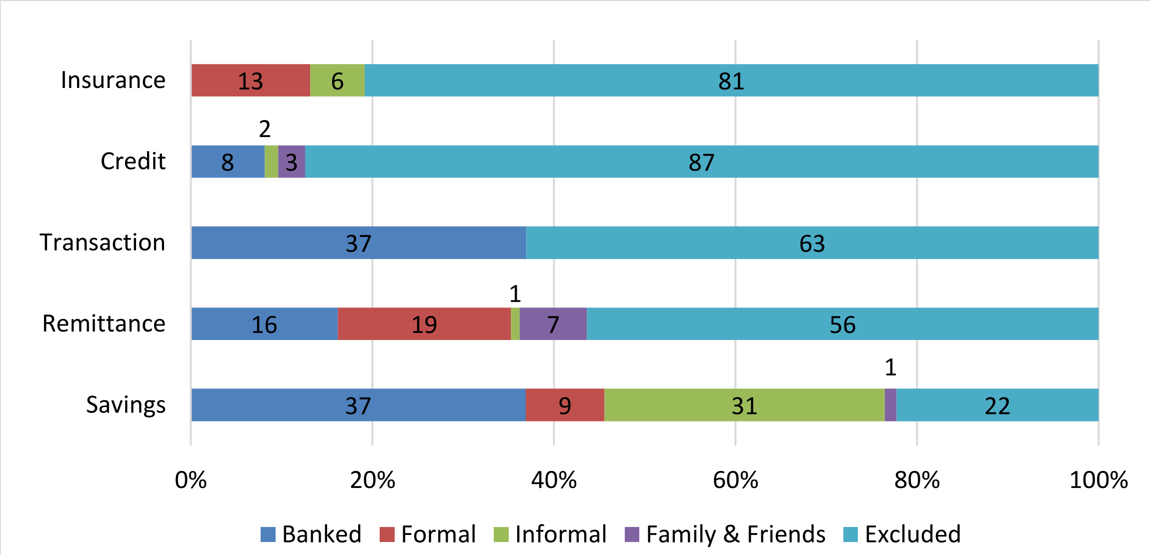
Source: FinScope 2014

Well served financially. This market segment is also well served financially, with only 13% being financially excluded. There has been a push by some banks to include SMEs through tailor made products and SME divisions[68]. Roughly half of the segment is banked (49%), with other formal at 11%. This segment also has high uptake of informal financial products and services (22%) which is greater than the national uptake of 8%. 12% of this group have benefited from government tertiary scholarships which are delivered through bank accounts and it has been shown in the qualitative analysis that people do not close those bank accounts after finishing their tertiary education.

[68] *Barclays Bank, Capital Bank and Stanbic Bank provide SME banking*

Little use of insurance. Informal SME owners are mostly financially excluded when it comes to insurance. However, over one third of this group has access to formal transaction accounts and remittances. Due to the nature of this group's income, i.e. irregular and unstable, they have a very low uptake of formal credit (9.6%). An additional 2.7% and 5.4% of adults use informal and family/friends credit. This segment appears to have a very high uptake of saving services and products with only 21% being excluded from this market. To note is the importance of informal savings to this segment, this presents an opportunity for formal savings providers to tap into this market.

Figure 38: Informal SME product strand



Source: FinScope 2014

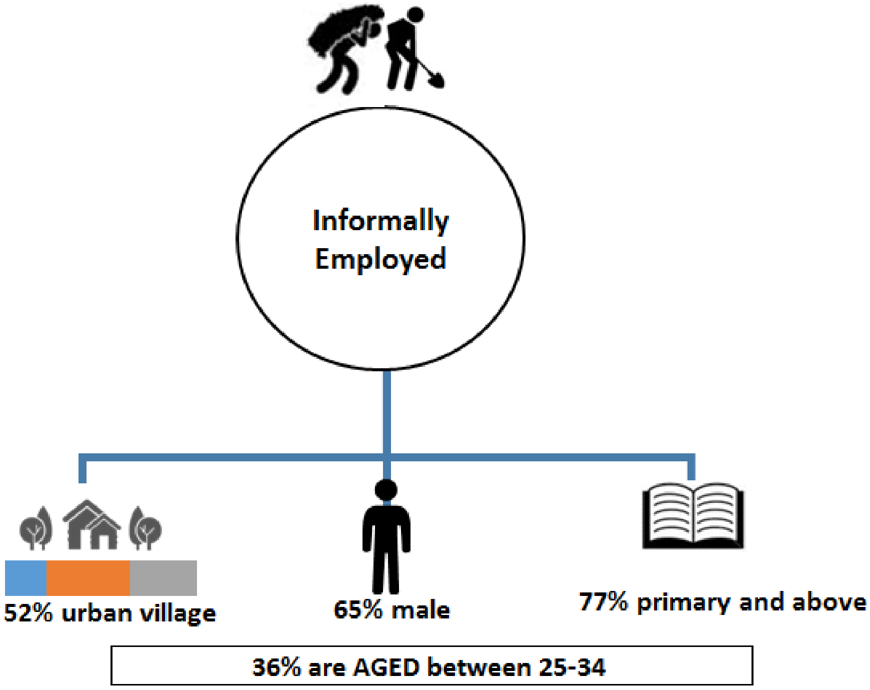
Key Financial Service Needs: Informal SMEs

This group mainly transacts in cash. They have high risks, infrequent and unreliable incomes and they therefore need to make use of efficient and cost effective savings accounts and payment methods. They do not meet the requirements for formal credit and according to the qualitative analysis, they get credit from family/friends.

Informally Employed

This segment consists of adults that rely on low-wage jobs, that is, piecework or casual labour, including working on a farm, and those employed by private individuals. This group makes up the second earning group but the third largest economic group by number (20.5% of adults) and is mostly based in urban village and rural areas. This segment is relatively young, with over one third falling in the age group of 25-34 year and it is significantly more male than the population average (65%). The income from piece jobs is not only small (approx. P1200 per month on average), but highly irregular. 67% of this group relies on one income source while the other 33% has 2 or more income sources.

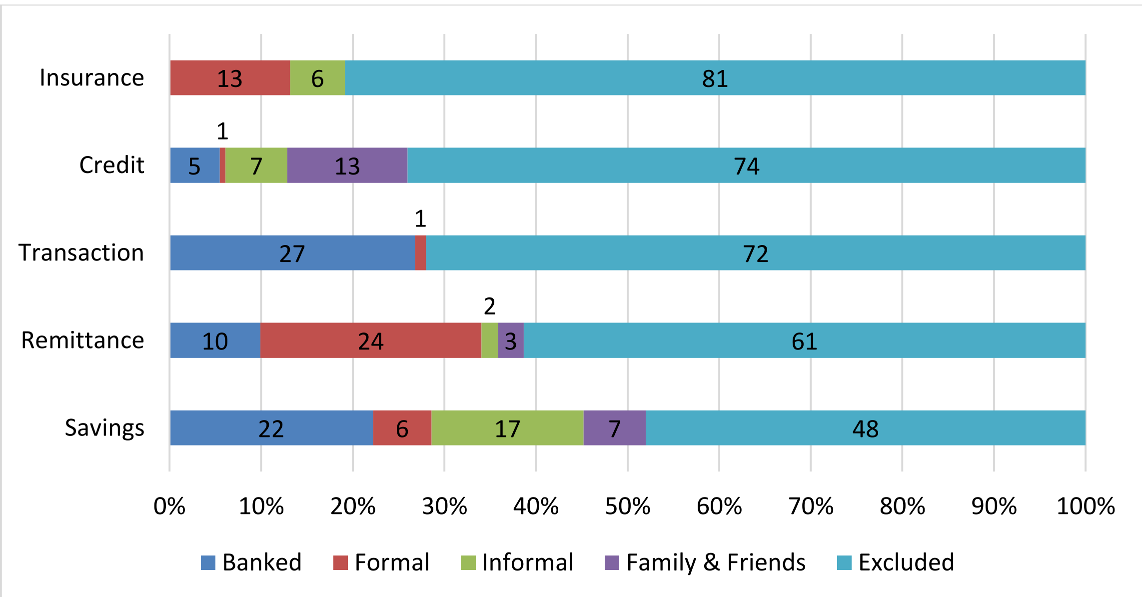
Figure 39: Informally employed key indicators



Source: FinScope 2014

This segment has significantly lower access to banking (33%) and formal services (19%) than the national rate. The percentage financially excluded is also higher than the national rate. This is expected given the unstable nature of jobs and small, irregular incomes. They also have a higher use of friends/family for financial services than the national average.

Figure 40: Informally employed product strand



Source: FinScope 2014

As with the informal SME segment, this group is largely financially excluded in all markets except for savings. Just more than one in four (28%) of this segment have transactions products at a bank while remittances are largely through 'other formal' products such as Post Office money transfers, Mascom MyZaka and Orange Money. Around 60% of this segment has a form of savings product, with a fairly good balance between bank, other formal and informal. Access to credit is different from the other groups and the national rate; the largest credit line is from family/friend (13%).

Key Financial Service Needs: Informally Employed

This is one segment that should be of priority in financial inclusion. It is the second largest economic group and it is mainly cash based. 32% are already banked but only 28% use their transaction accounts and have limited access to credit. There is an opportunity to improve delivery of these services to this group, mainly through reduction of associated costs. In addition, there is great scope to transform the informal and family/friends savings into formal especially to store value in between jobs.

This group may be best served by a tiered KYC system given that some of them do not meet the formal eligibility requirements

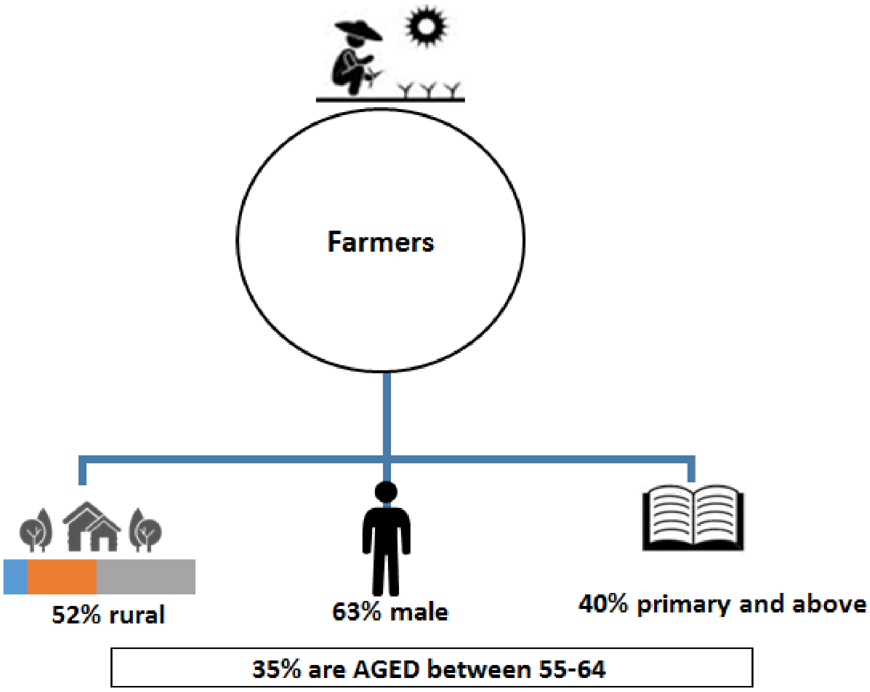
Farmers

This segment represents adults that rely mainly on income from agricultural related activities, from the sale of livestock or other farm produce. These are therefore farmers who generate significant income from agriculture. The main difference between this group and the commercial farmers is that the former do not have registered agricultural business[69]. The large majority benefit from government subsidies (77.9%). They comprise a very small part of the total adult population (2.87%). 49% of this group have 2 or more sources of income whilst 51% depend solely on the sale of their livestock/ crops for income. Unsurprisingly, this group is largely rural, with over 50% of adults in this segment living in rural areas. They are also largely older, over 50 years old and are predominantly male (63%).

Over 50% of this group participate in livestock farming which is also the highest income earning type of farming. These farmers sell mainly to the Botswana Meat Commission (BMC). In addition, there are some arable farmers who produce and sell maize and cowpeas; these farmers have the second highest income after the livestock farmers, and mainly sell to the Botswana Agricultural Marketing Board (BAMB). As the discussion in the country context showed, agriculture still plays an important role in rural economies and as such there is heavy investment from the Government to try to ensure its survival. Consequently, many of these farmers benefit from government schemes including subsidies and veterinary services. Over 60% of those involved in arable farming and horticulture are benefiting from the Integrated Support Programme for Arable Agricultural Development (ISPAAD), while only 3% of those involved in livestock farming have benefited from the Livestock Management and Infrastructure Development (LIMID)..

[69] *Based on the FinScope questionnaire, commercial farmers were classified as those that had farming companies. This group is very small, and is included in the formal income group.*

Figure 41: Farmers key indicators

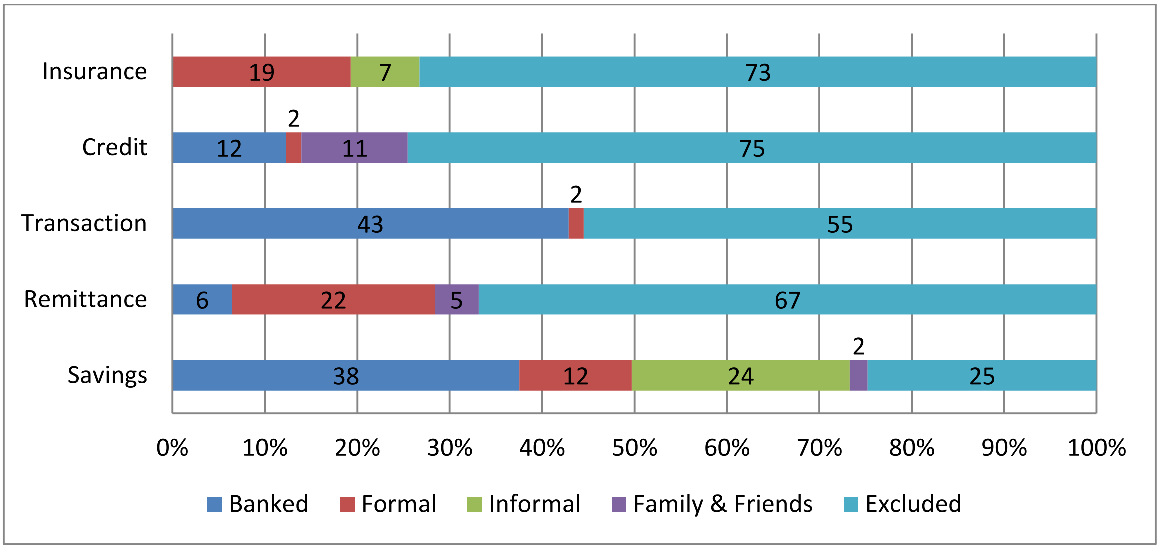


Source: FinScope 2015

Of the 2.8% of adults in this segment, 56% are banked, 16% are provided for by other formal services, while a small group of 14% is financially excluded. This group has a relatively high uptake of informal only financial services (14%), close to the national rate. These farmers are banked since they transact with the BMC and BAMB, which pay by cheque and require their clients and suppliers to have bank accounts.

However, when analysing the different markets, it appears that this group is largely financially excluded across all markets except for transactions and savings. The majority of transactions and savings for this segment are provided by banks, 42.9% and 37.5% respectively.. They tend to use informal and formal savings to smooth consumption and manage the impact of risk; do not make much use of insurance – perhaps due to limited specialized insurance products for farmers, and the subsidised government provision of climate-related agricultural credit insurance; and most farmers do not have access to (or do not want) formal, targeted agricultural credit to supplement the widespread government agricultural subsidies. It is furthermore noticeable that the farmers' participation in the remittance market is low relative to other target markets. While only 6% use bank remittances channels, an additional 22% remit in some way through other formal channels.

Figure 42: Farmers product strand



Source: FinScope 2014

Key financial service needs: Farming

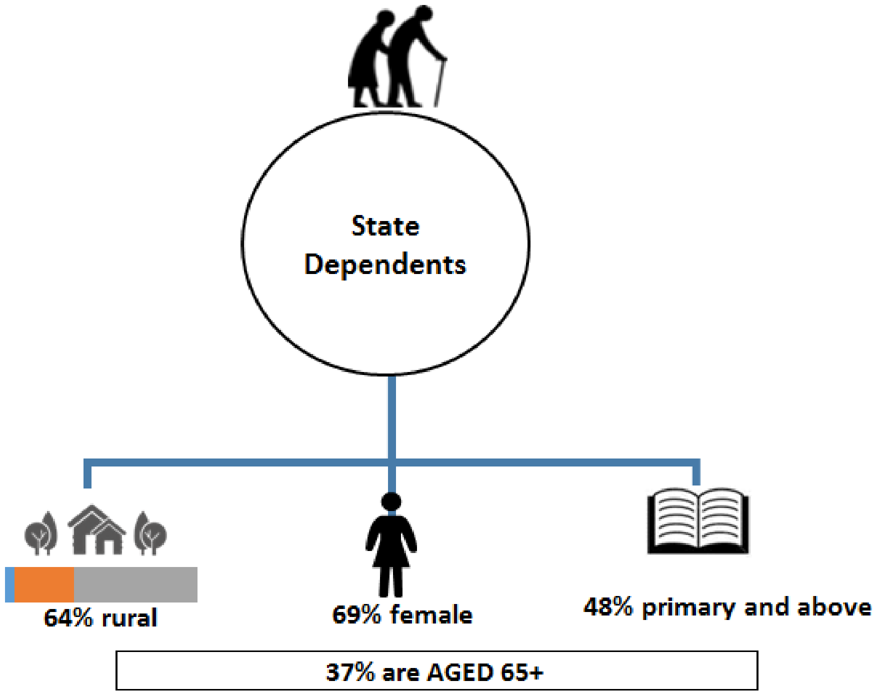
This group is already largely banked and has access to formal financial services/products. They are a saving group and also play an important role in supporting some dependents. They already use formal transaction and payment methods but could benefit from improved remittance services. Some members of these group can potentially move up to commercial farming with the right support; they need access to targeted seasonal agriculture finance.

There is a possible role of low-value input finance for smaller farmers. Their mostly rural nature challenges distribution through traditional channels and highlights the importance of working through or agricultural associations and other informal channels.

State Dependents

The government or state dependents group consists of adults that are receiving some sort of income from the government, including state pensions, maintenance grants, drought relief assistance and welfare grants. This group makes up 12.75% of the total population with 168,803 adults.

Figure 43: State Dependents key indicators



Source: FinScope 2014

Most adults in this group have at most some primary education (87%). It is also an old group with the over 65 age group being the largest sub-group (37%). In addition, 64% of this segment lives in rural areas and it is primarily female (69%). Not surprisingly, this is the group with the second lowest average income (P548, mainly from one source (78%)

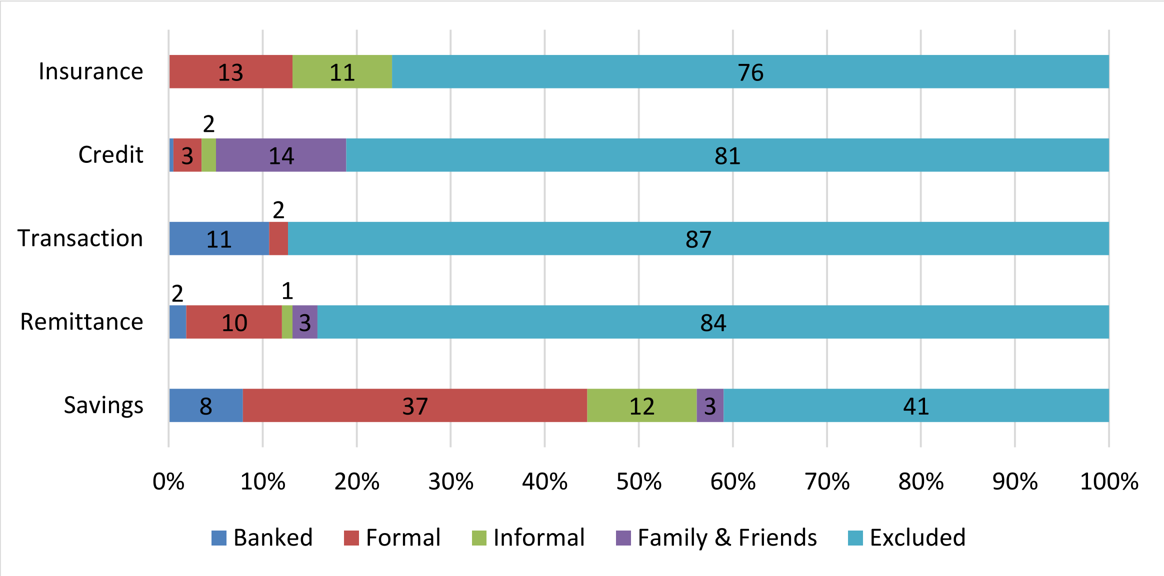
This group has a low uptake of banking services, but has a relatively high uptake of other formal services and products. This is attributed to by the use of Poso card to distribute any government welfare benefits[70]. The introduction of the Poso card has substantially improved access for this market segment. Other than using this mechanism for receiving grants, it has also been reportedly used as a pseudo savings account[71]. In addition to the Poso card, Botswana Post acts as an agent for the BSB account, which many people in this market segment utilise. .

Formal borrowing on the other hand has limited penetration for state dependents. They remain largely financially excluded in respect of credit, insurance and remittances. Like most groups predominantly in rural areas, this group has access to burial societies, which explains the relatively high usage of informal insurance vis-à-vis formal.

[70] *See Chapters 3 (Financial Sector Overview) and 8 (Payments) for further discussion*

[71] *Recipients sometimes roll over grants received, more so for pensioners, this is a safe store of value*

Figure 44: State Dependents product strand



Source: FinScope 2014

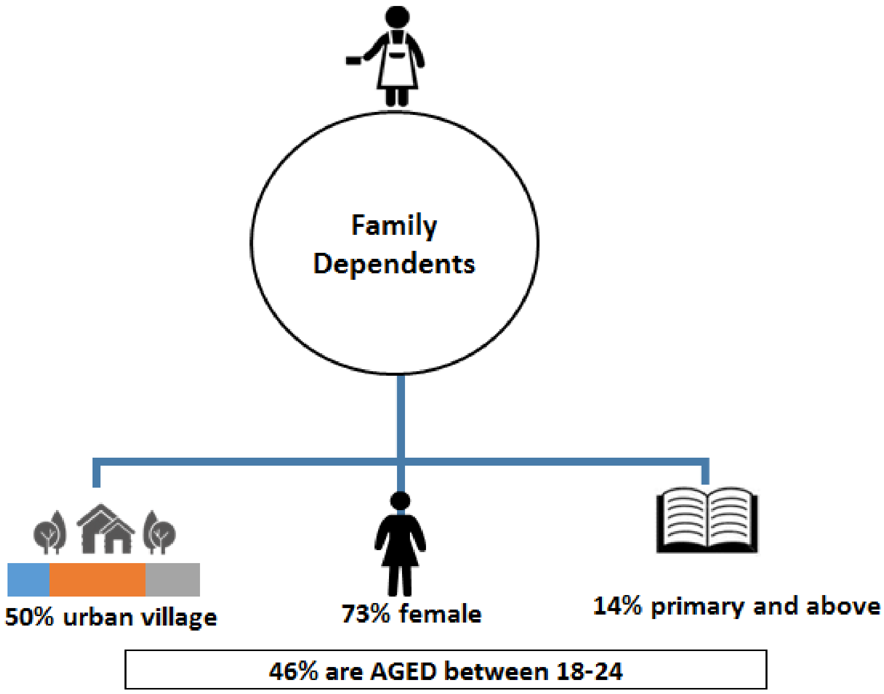
Key financial service needs: State Dependents

This group has a relatively high usage mostly as a function of funeral cover, burial society and savings club membership. Furthermore, they tend to borrow informally and in the community. Government dependents' biggest financial services needs would therefore seem to be well served informally/at community level – a role that should be acknowledged and leveraged. The main formal financial inclusion gain in this market could be had by ensuring access to a low-cost, convenient payment mechanism for receiving grants especially through maintenance and opening up of the POSO card.

Private Dependents

Private dependents consist of adults and young people that receive income from spouses, parents, guardians or other household members. This group is the second largest economic group (21.9%), 50% of whom live in urban rural villages. They are largely young (46% under 25) and female (73%). This is the group with the lowest income, P135 per month, even lower than that of state dependants. 78% of this group rely on one income source. Surprisingly, over 80% of this group has one source of income and they are either the spouse or child of the person they are dependent on.

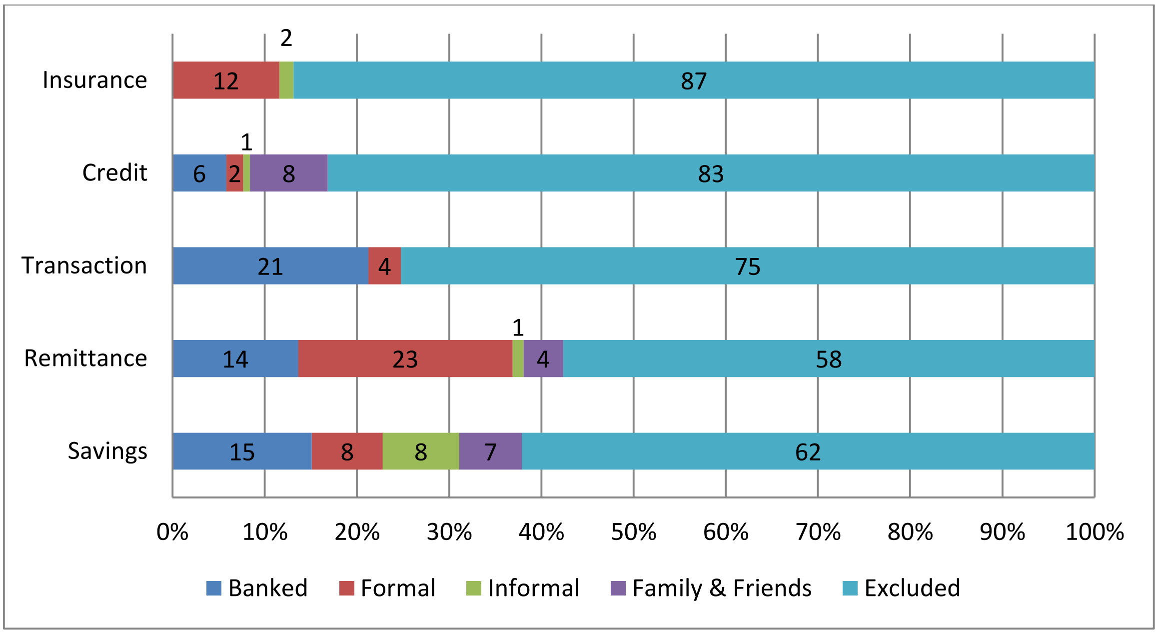
Figure 45: Private Dependents key indicators



Source: FinScope 2014

This group has a surprisingly high uptake of financial services, given their low incomes. This may reflect that some members of this group were formerly students at tertiary institutions (i.e., unemployed graduates), or were formerly employed (and have resigned or lost their jobs). As expected, they are best served by the remittances market, with 23% of them using formal remittance products/services. Like for all the other groups, private dependents also has a relatively high use of savings products, both formal and informal with 43% being included in total.

Figure 46: Private Dependents product strand



Source: FinScope 2014

Key Financial Service Needs: Private Dependents

Private dependents are the economically marginalized group. They are mostly serves through remittances and savings. They do not meet the key requirements for a bank account or formal credit. They can however benefit from their family member who is financially served. The qualitative research suggests that many want to leverage and grow their remittance income through productive activities and to store their value for trouble periods.

The biggest need would be for enhanced access to low-cost, convenient remittance and savings options.

Target Market Conclusion

Segment	Size	Main realities and needs
All segments	1,325,000	• Financial literacy; consumer protection
Formal Income Group	375,000	• Largest group. Well served, high level of inclusion, multiple products, high average income but wide spread between top and bottom of income spectrum • Concerns about over-indebtedness • Supporting extended families, hence need for low-cost remittances/transfers • Low use of insurance, apart from funeral; need financial education • Lack of provision for income in retirement for lower-income segment

Segment	Size	Main realities and needs
Informal SMEs	85,000	• Relatively small group, predominantly female (entrepreneurial culture not widespread) • Need for non-cash means of receiving and making payments, short-term store of value • Limited access to credit, outside of government schemes (CEDA/YDF). Need for MFIs • Asset insurance (housing, vehicles)
Informal Employees	270,000	• Large group, low income, mostly paid cash. • Need alternative means of receiving payment, facilities for saving (consumption smoothing) • Asset insurance (esp. housing).
Farmers	38,000	• Small group, relatively high income. • Savings for agricultural inputs, assets • Targeted agricultural credit • Highest users of cheques, need alternatives
Private Dependents	290,000	• Large group, low income. Dependent on household/extended family transfers. • Main needs: payments and remittances, low cost savings
State Dependents	170,000	• Low income. More rural than other groups. Dependent upon post offices. • Payments and remittances, low cost savings

6. Credit

Introduction

Credit is an integral part of any economy. Its primary role is to re-allocate surplus financial resources (savings) between economic agents and across time. Credit enables economic agents with financial deficits to tap into surplus funds, for the purposes of investment or consumption. The credit mechanism allows small amounts of savings to be aggregated, to fund large investments; to be shifted geographically, between surplus and deficit regions (or countries); and to be shifted across time, linking short-term surpluses with longer-term deficits. Credit – when well-managed - also provides the returns that attract savers. Through credit, otherwise idle resources are lent to those who can use them to generate economic activity. Credit is therefore an important part of the process of financial intermediation.

Credit can be used for either consumption or investment. The former entails borrowing to purchase products and services while the latter entails borrowing money to acquire assets that would yield some return. As such, when allocated effectively, credit can be a driver of economic growth and development, by facilitating investment. Credit can also be used to smooth consumption, when spending needs are not matched in time by income flows. It facilitates risk management by providing access to finance in response to a shock, and hence provides a form of insurance, However, credit can be detrimental if not used with care, especially when used to finance expenditure that cannot be supported by income in the long-term – i.e. when debt levels become unsustainable.. In view of this, extension of access to credit should be coupled with consumer protection.

This chapter discusses the credit market in Botswana. It provides an overview of current uptake, usage, types of products and providers of credit. It also discusses accessibility barriers, regulatory issues and opportunities for improving access by the underserved and excluded.

Current Usage

Most Batswana do not make use of credit. Usage of credit in Botswana is relatively low. The FinScope (2014) results indicate that only 29.0% of adults (390,000 adults) currently make use of credit (see Figure 47). The high proportion of adults that do not currently have a loan (71.0%) may be excluded (would like to have credit but cannot get access on suitable terms), or may not currently want or need credit.

Perceptions of household indebtedness may be inaccurate. It is widely held that households in Botswana are over-indebted. There are many reports of households borrowing from multiple sources (banks, non-bank lenders, informal sources) and of employees with very low take-home pay after deductions of loan repayments[72]. The FinScope results cast some doubt on this, or at the very least suggest that the debt burden may be concentrated on a relatively small group of adults. This issue is explored in more detail below.

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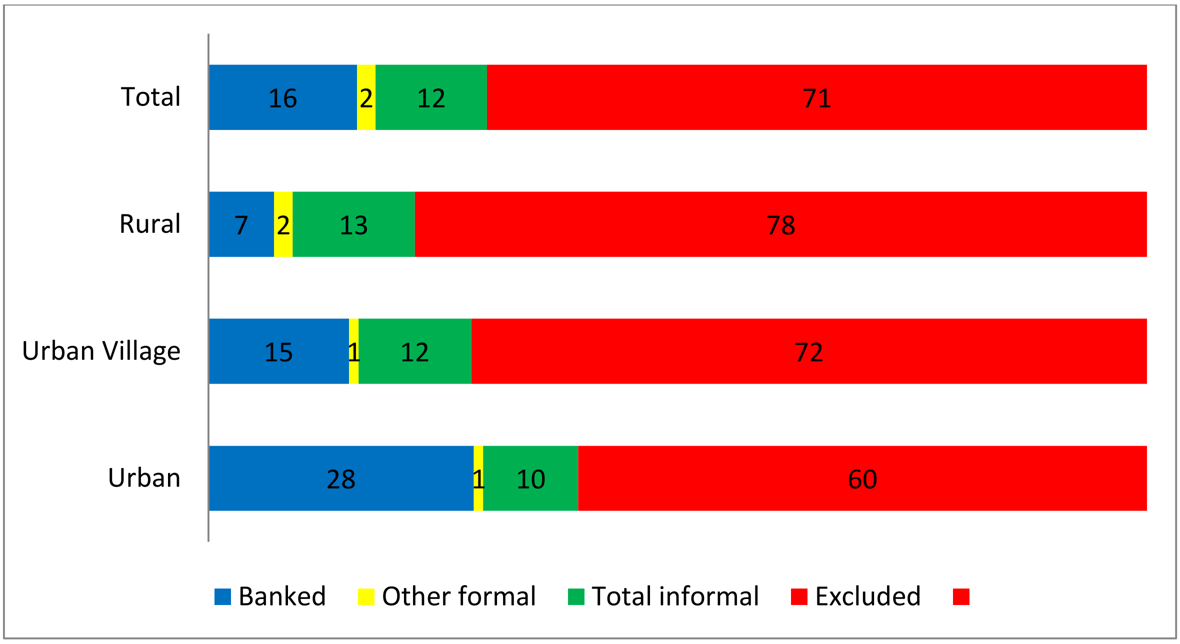
[72] *For more discussion, see BoB (2013), p.109.*

Figure 47: Credit access strand by settlement type

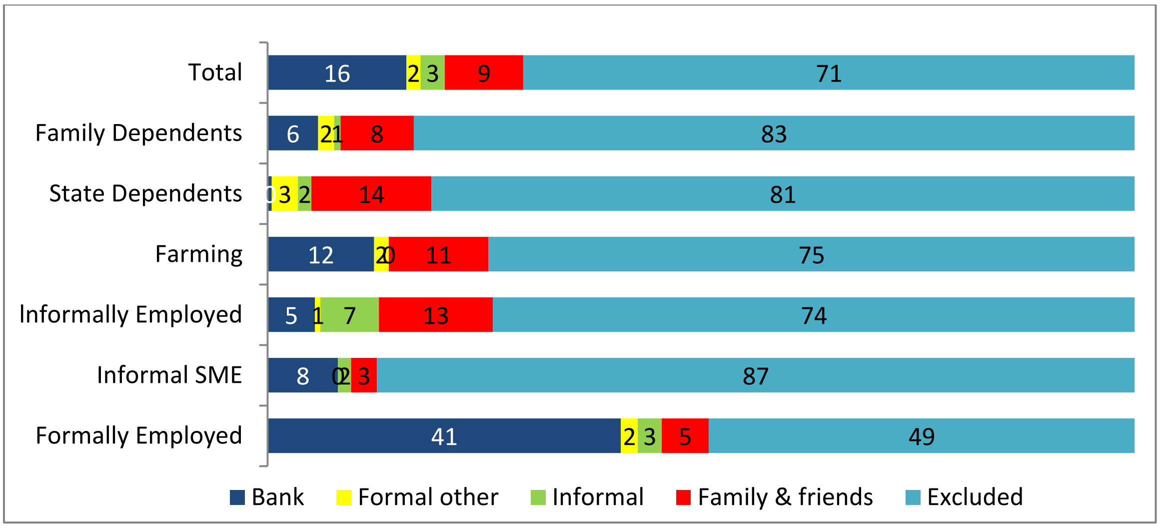


Source: FinScope 2014

Bank credit usage higher in urban areas. Access to credit from other formal credit providers, informal providers, and family and friends is fairly similar across all settlement types. As such, access to bank credit determines the overall level of access. Evidently, from Figure 47 bank credit is skewed towards predominantly urban areas and less towards rural areas. Usage of bank credit falls from 27.9% in urban settlements to 14.9% and 7.2% in urban villages and rural settlements, respectively. Only 15% of adults who access bank credit live in rural areas, with 44% in urban areas and 41% in urban villages.

Limited access to formal credit. Only 18% of adults in Botswana have access to formal credit. Most of the formal credit is provided by banks, which account for 90.8% (207,000 adults) of access to formal credit, while 21,000 adults access credit only from other formal providers.

Figure 48: Credit access by target group



Source: FinScope 2014

The formally employed dominate formal credit. As expected, the formally employed (salaried adults) have much higher access to formal credit than other target groups, and they dominate the use of formal credit. These make up 74% (160,000 adults) of the adults that take up credit from formal credit providers.

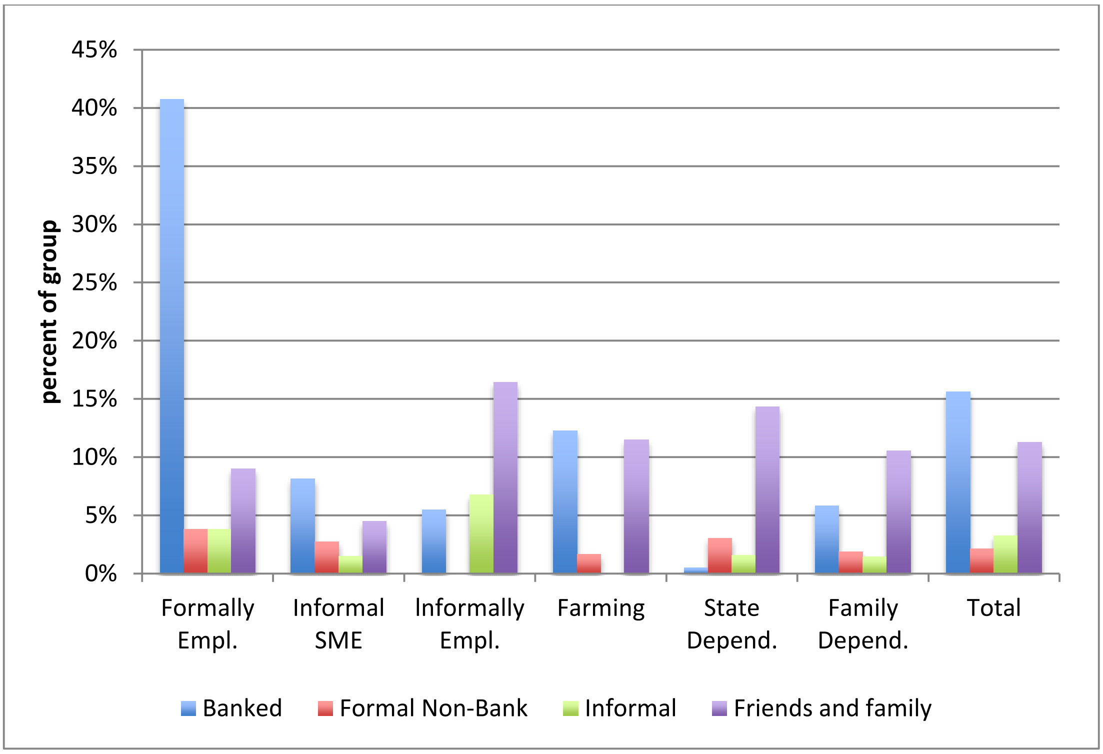
Bank credit is the main source of credit for several target markets. More of the formally employed and farmers obtain credit from banks than they do from other sources. Perhaps surprisingly, informal SMEs also reported obtaining more credit from banks than from other sources (see Figure 49 below), although their overall use of credit is very low. It is not clear whether this is bank funding provided directly to informal SMEs, or indirectly via unsecured personal loans. Nevertheless there is some consistency, as the three target groups reporting the highest use of bank credit are those with the three highest levels of average income. This is all relative, however, as apart from formal employees, use of bank credit is very low across all target groups.

Informal credit mostly from family and friends. For those who use credit from sources other than formal providers, the possible sources are informal credit providers (money lenders) or family and friends. Informal money lenders are not widely used, according to FinScope, with only 43,250 adults borrowing from this source in 2014. Borrowing from family and friends is much more common, with almost 150,000 adults using this source. Whereas borrowing from formal providers is dominated by the formally employed, borrowing from informal provides and family and friends is much more widely spread across target groups, with the informally employed accounting for the largest share of both.

Family and friends is the most important source of credit for lower income target groups. By contrast to the results for borrowing from banks, family and friends is the largest source of credit for state dependants, family dependants and the informally employed – the three target groups with the lowest average monthly income levels. These groups do not borrow much from formal sources. However, farmers also borrow from family and friends, almost as often as they borrow from banks.

Informal SME owners have the least access to credit of the target groups. FinScope 2014 results show that 87% (76,000 adults) of informal SME owners do not currently use credit, compared to 81% and 83% state dependents and family dependents, respectively.

Figure 49: Current credit usage – with overlaps

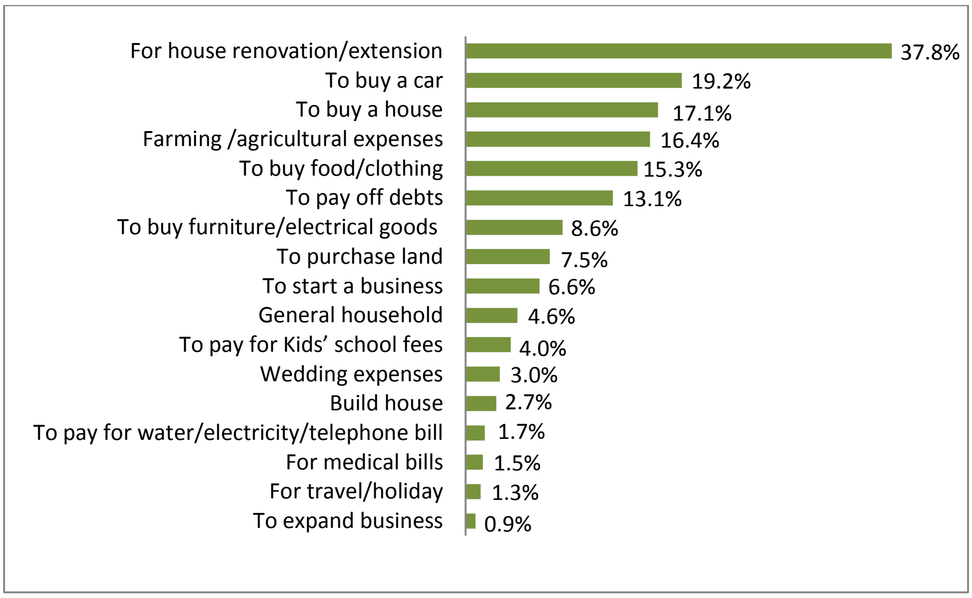


Source: FinScope 2014

Use cases

This section outlines the use cases for credit uptake by Batswana consumers, as identified through the qualitative and quantitative demand-side research. The use cases demonstrate the needs of the consumer market. The supply-side picture painted by the following sub-sections can then be compared to these target market needs to determine the gaps and opportunities in the provision of credit in Botswana.

Figure 50: Reasons for taking a loan (of those who took a loan in past 12 months)



Source: FinScope 2014

According to the results of FinScope 2014, 6% of Batswana adults (77,000 adults) recently took loans (in the last 12 months), for an assortment of reasons. Most of these are not for consumption purposes, but investment. These are as follows:

Property acquisition and/or improvement are the primary reason for taking credit. Figure 50 above shows that most adults who took credit did so in order to acquire or improve their shelter: renovating or extending a house (37.8%); buying a house (17.1%); purchasing land (7.5%); and building a house (2.7%). It also fits in with findings from the qualitative study, where the aspiration to own a house was a clear finding:

> *''I will think I have achieved a good life when I have my own house and not staying in a government house.'' (Government employee, Gabane)*
>
> *''My dream is to build my own house, because the land is there already. (Employee of small business, Thamaga)*[73]

The high usage of credit for longer-term (development) purposes in Botswana contrasts with many other countries in sub-Saharan Africa, where credit is predominantly for short-term purposes. This may reflect the relatively high per capita income in Botswana, as well as the fact that credit is mainly used by better off, formal employees.

Credit usage for consumption smoothing. A significant proportion of Batswana adults use credit to fund consumption. 15.3% of adults who took loans did so to buy food and clothing, while 4.6% and 1.3% took out loans to buy general household expenses and to use on travelling and holidays, respectively.

Funding of farming and agricultural activities. Some farmers use credit to fund their operations; the farmers' target market has the third highest usage of credit across target groups. Most of the credit held by farmers is sourced from formal credit providers (including banks). This suggests that these farming activities are bankable – which is in line with the selection criteria for the target group, with farming income providing the main income source for these adults. However, the data indicate that it is not just those in the farming target group who borrow for agriculture. The largest group of those who reported "farming expenses" as the reason for borrowing were formally employed. This indicates that adults in formal employment use their ability to source credit (on the basis of their employment) to finance secondary agricultural activities.

The usage of credit to pay existing debt. 13.1% of adults who recently got loans indicated that they did so in order to pay off existing credit. The use of credit to pay off existing debt has been reported in other MAP countries, but could be an indication of financial stress or over indebtedness. However, it could also simply indicate a need for financial education. Lastly, the poor tend to use whatever mechanisms are available to meet their financial needs, and the use of credit to pay off existing debt may simply be one tool which is utilised to meet current needs, and therefore does not necessarily mean that this behaviour indicates financial distress.

Capital for businesses. Relatively few adults obtain credit for the purposes of starting and expanding their businesses (6.6% and 0.9% respectively, of those who obtained a loan in the last 12 months). This may reflect a combination of the relatively small size of the

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[73] *FinMark (2015)*

entrepreneurial sector in Botswana (10.1%[74] of adults in Botswana get a majority of their income from business activities), and the constraints that small business face in obtaining credit.

Providers

There are several categories of credit providers to households and SMMEs. The main formal providers include commercial banks, large non-bank financial institutions, and development finance institutions. Smaller credit providers include retail stores, small-scale registered and unregistered micro-lenders, MFIs, SACCOs and *metshelo*, as well as friends and family. Government also provides credit, through various channels. These include direct credit to parastatals, housing loans, education loans to tertiary students, and the Youth Development Fund.

The availability of data on the number of borrowers, average size of loans and total amount of lending by type of lender is highly variable, particularly for smaller and less formal lenders. For some institutions, particularly DFIs, it is not possible to distinguish lending to individuals and small/micro-enterprises (the borrowers of interest for this study) from lending to medium and large companies. However, available data indicates that banks dominate the retail credit landscape, accounting for 75-80% of lending to households by institutions for which data are available[75].

The following table and figure provide a summary of credit providers.

Table 10: Providers of credit

Institutional Type	Number of Institutions	Regulation and Supervision	Lending Model	Range of Services	Est. total credit (P mn)
Commercial banks	10	BoB	Commercial	Savings and credit	42,760
Statutory Banks	1	BoB	Commercial	Savings and credit	860
Development Financial Institutions (DFIs)	3	BoB / Line Ministries	Commercial	Credit	4,340
Building Societies	1	None	Commercial	Savings and credit (mainly mortgages)	2,900
Large non-bank lenders	4	NBFIRA	Commercial	Credit (payroll)	3,000
Micro-lenders (formal)	243	NBFIRA	Commercial	Credit	54
Micro Finance Institutions	1	Exemption acquired from BoB	NGO	Savings and credit	4
Insurance policy loans	n/a	NBFIRA	Commercial	Lending against security of life insurance policies	421

74 *This includes those who get their main source of income from self employment (formal and informal) and trade goods and services.*

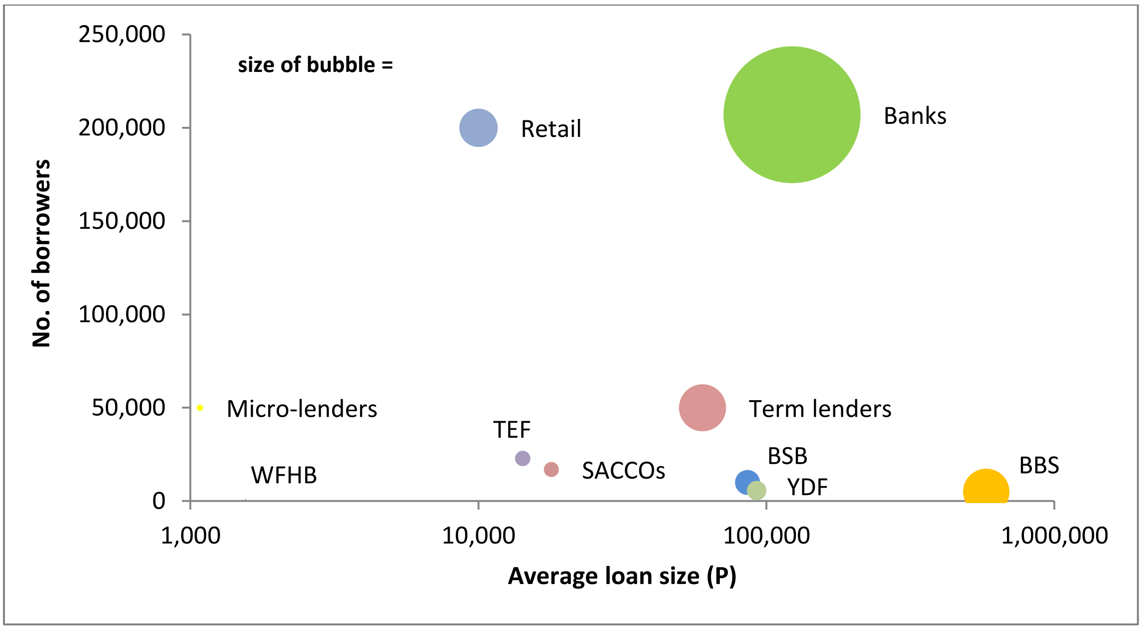
75 *Relevant data are available for lending by banks, large and small non-bank lenders registered with NBFIRA, BBS and BSB, Womens' Finance House, SACCOs and retail lenders. Data are not available on credit provided by informal sources (friends and family, informal micro-lenders, and metshelo). But even when rough estimates are made for provision by these entities, the conclusion that banks dominate credit provision remains.*

Institutional Type	Number of Institutions	Regulation and Supervision	Lending Model	Range of Services	Est. total credit (P mn)
SACCOS	50 (approx.)	Dept of Co-operatives	Member based	Savings and credit	305
Retailers	Unknown	None	Commercial	Consumer credit	2,000 (est.)
Pawnshops	Unknown	None	Commercial	Credit	n/a
Informal Micro lenders	Unknown	None	Commercial	Credit	n/a
Metshelo	12,000 (est.)	None	Member based	Savings and credit	n/a
Government	1	None	Policy loans (parastatals)	Credit	1,545
Government	1	None	Tertiary Education Fund (TEF)	Subsidised credit (interest free)	325
Government	1	None	Housing finance	Subsidised credit (interest free)	n/a
Government	1	None	Youth Development Fund (YDF)	Subsidised credit (interest free)	523

Source: supply side consultations, BFS, TransUnion ITC, BLIL

Notes: data on Government education loans is incomplete. Data on YDF includes grant component. Insurance policy loan total is for BLIL only.

Figure 51: Landscape of credit to households, selected institutions



Source: FinScope, supply side consultations

Banks

The banking sector dominates the financial sector in Botswana. There are commercial banks and statutory banks, as outlined below.

Commercial Banks

The oldest banks are the largest. The 'Big 4' banks are also the oldest. These banks have been around for at least 2 decades and each have assets of at least P10 billion, and loan books of at least P6 billion. Standard Chartered Bank Botswana has been active in Botswana for over a century.

Table 11: List of commercial banks

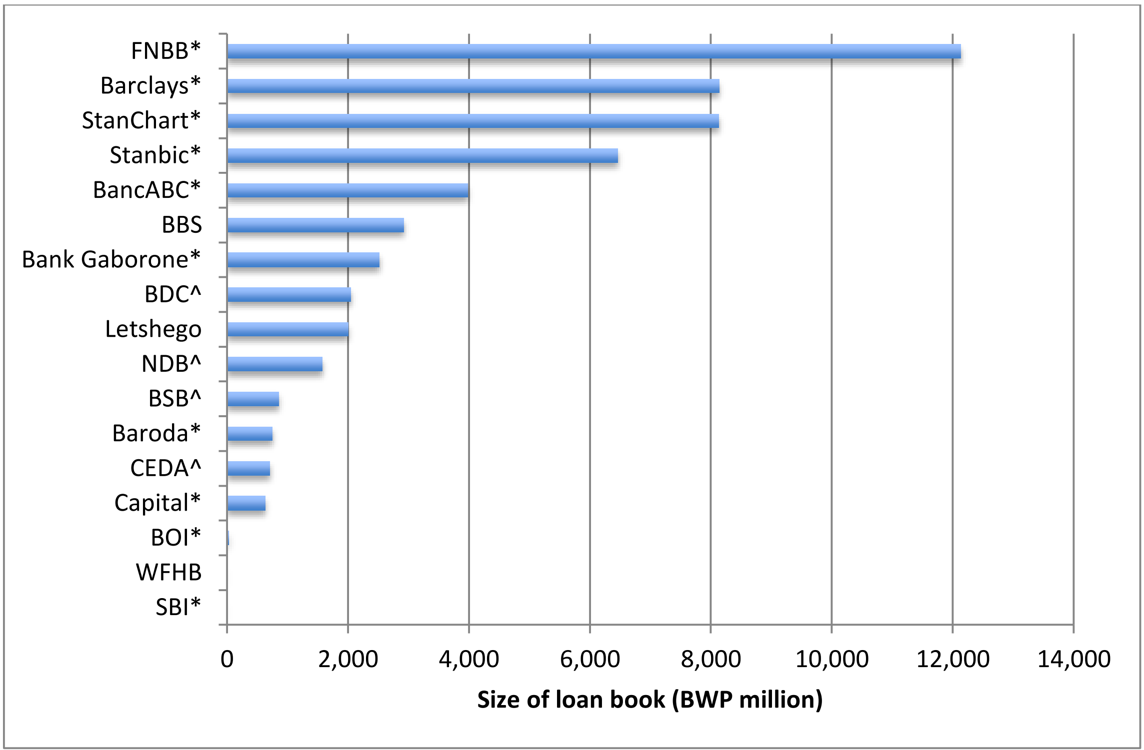
Name	Est.	Assets (P mn)	Loans (P mn)
FNBB^	1991	17,639.41	12,131.42
Barclays Bank^	1950	12,248.56	8,132.72
Standard Chartered^	1897	12,800.27	8,128.31
Stanbic Bank*	1992	10,918.26	6,461.35
Banc ABC*	2009	6,194.03	3,978.18
Bank Gaborone	2006	3,671.23	2,521.14
Bank of Baroda*	2001	1,543.27	713.66
Capital Bank	2008	1,162.07	631.22
Bank of India*	2012	91.00	28.67
State Bank of India*	2012	72.96	0.30

Note: All information is for the 2014 Financial Years, except for Bank of Baroda which is 2013 information.
*Source: Commercial Banks. Note: ^ listed on BSE. * 100% ownership by parent company.*

All of the banks are completely or majority foreign owned. Botswana is open to foreign investment in the banking sector, and several banks are 100% foreign owned. Three banks are listed on the Botswana Stock Exchange, with majority ownership by their parent companies. Hence there are no banks with a majority of local ownership.

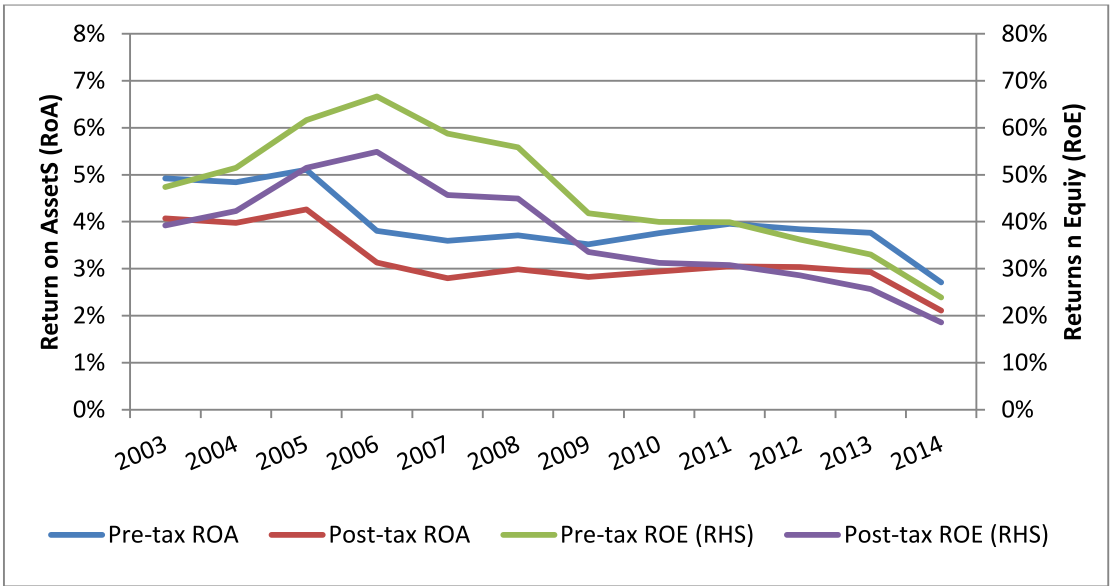
The banking market is relatively competitive. Despite the domination of the “Big 4” banks, the banking sector is relatively competitive as it has 10 participants. Banks can be classified into 3 classes: the “Big 4” with loan books of more than P6 billion; the 2 “mid-tier” banks (Banc ABC and Bank Gaborone) with loan books between P2-P4 billion; and lastly the four small banks with loan books less than P1 billion (see Table 11).

Figure 52: Total credit by institution (2014)



*Source: financial institutions, BFS. Note: * = licensed commercial bank ^ government-owned*

Figure 53: Bank profitability ratios



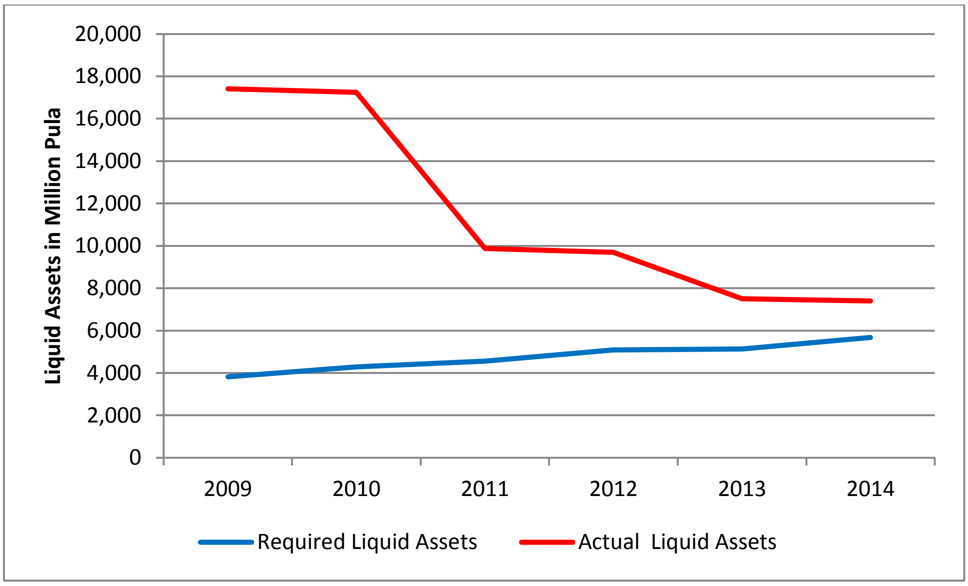
Source: Bank of Botswana

Bank profitability has been very high, but is now declining. Botswana banks have historically been very profitable, with post-tax return on equity over 50% in 2006. This has been one of the factors attracting new entrants to the banking sector – especially given the high rate of return on banks in Botswana compared to other countries[76]. However, profitability has been declining steadily since the peak in the mid-2000s, and post-tax return on equity fell to 18.6%

[76] *See Figure 16 in Chapter 3*

in 2014. This has mainly been driven by increased competition, falling policy interest rates and declining liquidity. However, it must be noted that the banking system is still very profitable.

Figure 54: Banks' liquid assets



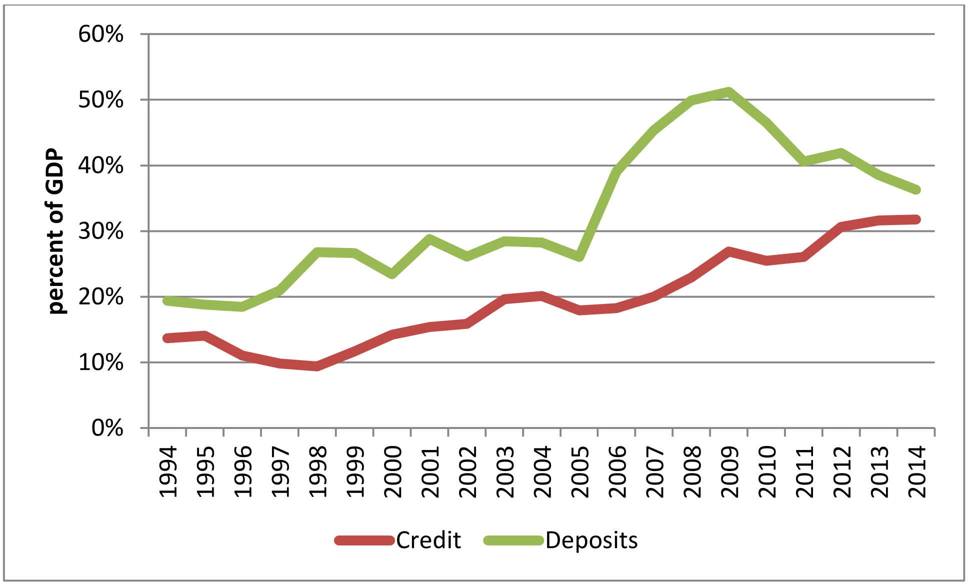
Source: Bank of Botswana

Banking sector traditionally characterised by high levels of liquidity. For most of the past four decades, the Botswana banking system has been characterised by excess liquidity, i.e. a level of deposits in excess of what is required to finance lending and meet statutory requirements[77]. Banks have never had to try very hard to attract deposits, leading to relatively low interest rates on deposits. Absorbing such excess liquidity has been one of the main policy challenges facing the central bank. Furthermore, bank lending has never been constrained by the availability of loanable funds.

Liquidity in the banking sector is now drying up. The loan-deposit (L/D) ratio in the banking system has been on the rise while the liquid asset ratio has been declining. This is attributable to deposits growing more slowly than advances, over several years. Between 2009 and 2013, total bank deposits grew by 30% while advances grew by 132%. Consequently, as illustrated in Figure 54, the gap between required liquid assets and the actual assets held by banks has been narrowing over the recent years. As such, banks are almost fully lent as the liquid asset ratio fell sharply to about 10%, close to the statutory minimum. At the end of 2014, liquid assets stood at P1.7 billion, down from P14.1 billion at the end of 2009. Therefore, banks' ability to increase lending is now dependent on the mobilisation of deposits or other sources of loanable funds.

[77] *This is common in developing countries with bank-dominated financial systems*

Figure 55: Bank deposits and credit (% of GDP)

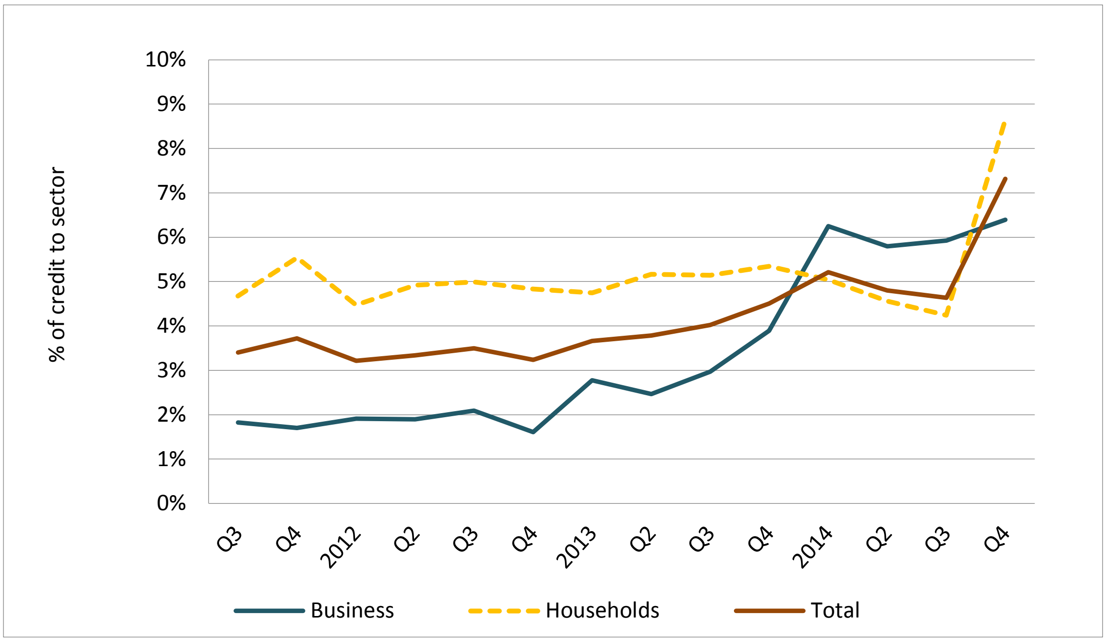


Source: Bank of Botswana, Econsult

Reduced liquidity likely to constrain credit availability. In response to reduced liquidity, banks are focusing more on the riskiness of credit. The cost of credit is also increasing, as banks attempt to maintain margins in the face of the higher cost of deposits. From a policy perspective, there may be pressure to reduce the permitted share of pension fund assets that can be held offshore, while policy interest rates will need to track foreign rates more closely in order to minimise the incentive for capital outflows.

Policy responses to liquidity shortage. In response to the shortage of liquidity in late 2014, BoB reduced the primary reserve ratio applied to banks' in early 2015, from 10% to 5% of eligible deposits, bringing it back towards its historical level of 3.25% (which applied until 2006). Other possible policy responses include moving some deposits of government-related entities (such as the revenue authority, BURS) from the BoB to the commercial banks, or reducing the proportion of assets that pension funds can hold offshore.

Figure 56: Arrears on bank credit



Source: Bank of Botswana

Arrears on bank credit increasing but still low. Bank arrears are on the rise but are still low. Any loan that defaults on payment for at least 30 days is classified as an arrear. As such, these cannot be deemed to be non-performing but they are good indicator of the health of loan books. During 2014, individuals and businesses alike struggled to service their bank credit. The big jump in arrears in the last quarter of 2014 seems to have been mainly driven by a reclassification of loans at one particular bank.

Statutory Banks

The Botswana Savings Bank (BSB) is both a deposit-taking and credit institution. BSB has about 150,000 accounts: 10,000 are loan accounts and the rest being savings accounts. BSB's credit products include mortgages and car loans (for government employees, where the employer provides a guarantee), and personal loans for savers. Interestingly, the pricing of both savings and credit products[78] is better than that of commercial banks.

Building Societies

BBS provides mainly mortgages. For BBS, the sole building society lending is largely restricted to the provision of mortgage loans for fixed property; it also offers savings and investment products. Apart from offering different variations of property loans, BBS can also lend to savers/investors loans, to a certain proportion of their savings/investment.

Non-Bank Financial Institutions

Development Finance Institutions (DFIs)

Botswana has three DFIs, namely Botswana Development Corporation (BDC), Citizen Entrepreneurial Development Agency (CEDA) and National Development Bank (NDB). The DFIs are purely credit-only institutions, and are all government-owned. They were established to fill

[78] *Higher interest earned on savings and lower interest charged on loans*

the funding gaps left by other institutions in the provision of credit to businesses. Of the three, CEDA is the most important in the extension of credit to SMMEs. CEDA provides heavily subsidised credit, as well as training and some mentorships (directly and through LEA). CEDA can in principle lend any amount from P500 upwards, but in practice its loans are generally from P150,000 to P4 million. Interest rates vary from 5% (on loans below P0.5 million) to 7.5% (P0.5m to P4m). It also provides structured finance solutions (combining loans and equity) for amounts between P4 million and P30 million, with loan interest charged at the commercial bank prime lending rate. Although CEDA's mandate allows it to provide credit to micro- and small business, and indeed that was a large part of the justification for its establishment, in practice it has focused more on medium-scale lending, and is not a micro-credit provider in the traditional sense. Even their smallest loans are large compared to traditional microfinance loans. NDB and BDC largely cater for medium and large businesses, and provide credit on broadly commercial terms. NDB also has a particular focus on agricultural credit, which accounts for around 50% of its loan book, but has recently expanded into the retail market by offering products such as mortgage loans.

Table 12: Development Finance Institutions (DFIs)

	Projects Funded	Funding Type	Loan Sizes
BDC	• All large commercial projects	• Loan • Equity participation	More than P30 million
CEDA	• All commercial projects esp. SMMEs	• Loan, • Equity (up to 49%) • Hybrid	P500 – P30 million
NDB	• Property finance (incl. personal) • Agricultural projects (incl. personal) • Other commercial projects	• Loan	P10,000 - P15 million

Source: BDC, CEDA & NDB

The three DFIs have had varying experiences from a commercial perspective. BDC has generally been profitable, but much of its activity in recent years has been in property development – competing with the private sector rather than filling financial gaps. It has also made some poor quality investments in recent years, but has been kept afloat by the dividend flows from its substantial investment in Kgalagadi Breweries. BDC is not dependent upon subsidies, and generally pays dividends to government. NDB has had a chequered history, and has on several occasions written off loans to farmers[79]. It has tried to operate on a commercially sound basis, with mixed success. However, it has recently been financially self-sufficient, and is only subsidised to the extent that the shareholder (government) is prepared to accept a sub-economic return on equity. CEDA, however, is a major contrast to BDC and NDB. It offers highly-subsidised interest rates (5%-8%), and has experienced very high loan write-offs and impairments. Interest revenues cover only a small proportion of operating costs and loan losses, and it requires large government subsidies on an annual basis. In 2011/12, the most recent year for which accounts are publicly available, the government grant was P302 million, representing 87% of CEDA's total costs in that year, while charges for impairments amounted to 30% of the value of the loan book in that year. CEDA's grant of P302 million in 2011/12 was roughly equivalent to total spending on old-age pensions in that year. Not only does CEDA

[79] *This has been controversial, because many of the beneficiaries of such loan write-offs sit in Cabinet, where the decision to write off loans (and recapitalize the institution) is taken.*

receive large annual subventions, but it does not have to pay for the funds that it lends out, unlike BDC and NDB.

Prospects for the three DFIs are mixed. BDC has recently been restructured, with a new management team and operating model, and will focus on medium and large-scale commercial investments, and will also be permitted to invest outside of Botswana. Government has announced that NDB will be converted from a statutory institution to a company, following which it will need to apply for a banking licence, and it may then be partially privatised. Assuming that it is successful in obtaining a banking licence, it will be able to provide a full range of banking services, including – for the first time – deposit taking. CEDA's operating model is dependent upon a continued high level of government subsidies. Although this is partly justified by broader social objectives, in terms of promoting SMME development and job creation, there is no available evidence that evaluates CEDA's achievements in terms of these objectives. CEDA has expressed an intention to move into micro-finance lending, but details of the proposed operating model have not been finalised. There are also concerns that although CEDA was intended to fill a space – for SMME lending – that the commercial banks were not catering for, its subsidised interest rates make it very difficult for banks to compete in this space, should they wish to. As the Bank of Botswana notes, "the presence of government institutions, such as CEDA, may have had a bearing on innovation (or lack thereof) by private institutions in this area" (Annual Report 2011, p.113) Furthermore, CEDA's poor repayment experience sends a signal that somewhat undermines the credit disciplinary environment and perception of risk in that arena (Financial Sector Development Strategy, p.28).

Micro lenders (credit-only institutions)

According to the NBFIRA[80] there are 243 licensed micro-lenders in Botswana. These can be classified into the large and small lenders.

The large lenders make up the Micro Finance Association[81]. Letshego, Bayport, Blue and Afritek lend out up to P200,000 for a period of up to 60 months. They have loan books ranging from the tens of millions of Pula up to P2 billion (for Letshego). Total lending from the large lenders is not documented, but is estimated at around P3 billion (including Letshego). They have formed an association to aid the sharing of credit information, as well as to co-ordinate interactions with NBFIRA.

The small lenders formed the Micro-Lenders Association of Botswana (MLAB). The rest of the licensed micro-lenders are considered small. Small micro-lenders generally provide short term loans (up to 6 weeks) of values between P500 and P8,000. MLAB has about 180 members with average books of P300,000. These small micro-lenders have an estimated total loan book of about P54 million, and around 50,000 borrowers in total[82].

Micro-Finance Institutions

There is only one micro-finance institution in Botswana - the Women's Finance House Botswana (WFHB). This was established with donor support as an NGO. It is structured as a

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[80] *Annual Statistical Bulletin 2014*

[81] *This should not to be confused with MFIs*

[82] *Interview with MLAB*

company limited by guarantee, was incorporated in 1987 but started functioning in 1993. This MFI runs a saving-lending program and business training for women in SME businesses. It operates on small self-selective lending groups of 3-5 women, who are expected to save at least P5/day for three months. The savings then makes the women eligible for an initial loan of P750. Subject to good credit repayment behaviour, the women graduate until they ultimately qualify for a maximum of P20,000[83]. The lending group then takes collective responsibility for ensuring loan repayments. As such, if one of the members is struggling the others would help, hence mitigating risk of delinquency. As a deposit-taking institution, WFHB has an exemption from BoB. However, the exemption prescribes that savings should not be on-lent. Consequently, WFHB runs 2 ring-fenced portfolios, separately for savings and loans. WFHB therefore finances its new loans with repayments from existing loans (i.e. a revolving loan fund). This fund was originally donor financed, and has recently been topped up with a contribution from Standard Chartered Bank's corporate social responsibility budget. As at the end of Q1 2015, WFHB had about 900 borrowers and P1.4 million in loans. The WFHB model is the typical Grameen-style lending, which has proven quite successful in other countries. WFHB indicated that there is still a considerable appetite for MFI funding that is not satiated, especially in the Northern and Western part of the country where WFHB has a limited footprint. The main constraints on growth are their own capacity, and the availability of loanable funds given that they are not permitted by the regulator to lend out deposits. These factors may also explain why there are no other MFIs in Botswana.

Savings and Credit Co-Operatives (SACCOs)

SACCOs play an important role in the credit market. These see the coming together of a group of people who then commit to saving a certain amount of money per month and get the opportunity to borrow from the pooled savings. SACCOs are supervised by the Department of Cooperatives (DoC), under the Ministry of Trade and Industry. Data from the DoC indicated that as at the end of 2014 there were more than 45 SACCOS with over 17,000 members (see Table 13). The biggest SACCOs are those that are employment-based (e.g. Motswedi), mainly in the public sector. However, there are several relatively small SACCOs that are village/town based. Generally, SACCOs offer loans at very competitive prices with interest rates ranging between 12%-24% per annum. However, the maximum size a loan from a SACCO is determined by the savings a member contributes; with most maintaining a maximum savings-to-loan ratio of 1:3. The 1:3 savings-to-loan ratio would mean that a member who has P100 saved can only borrow up to P300.

Table 13: Summary Details - SACCOs

Number of SACCOs	Number of Members	Net Assets	Members Loans	Members Savings
50 (approx.)	17,402	P129,473,310	P305,713,366	P253,438,440

Source: Botswana SACCOs Quarterly Statistics – Quarter 2 2014/2015, DoC

83 *WFHB offers loans that attract interest of 5% per month and a repayment period of 5-18 months*

Retailers

There are a number of stores that offer goods on credit in Botswana. In the main, these are furniture stores[84], which offer furniture on hire purchase, and clothing stores – which are mostly the Edcon group of stores – that offer clothes on credit. Moreover, recently some hardware and building material stores will offer credit on such things as bricks, cement and other building supplies. Furthermore, there is one department store, Game, that offers store credit on all of its consumer goods; ranging from food to clothing and furniture.

Pawnshops

A number of pawnshops have been established in recent years. These are not yet regulated, although NBFIRA is intending to make them subject to regulation once the NBFIRA Act is amended. In vie of this status, there is no aggregated information on the number of pawnshops or the value of their lending.

Insurers

Some life insurance companies provide loans to policyholders secured against the maturity value of their life insurance policies.

Informal Providers

The informal credit market can be broken down into 2 segments: unlicensed micro-lenders and *Metshelo*.

Unlicensed micro-lenders probably large in number. Anecdotal evidence suggests that there are a few hundred micro-lenders operating outside the supervision of NBFIRA, many of them run by individuals. Not much is known about these entities, except that they generally lend small amounts for very short periods at high interest rates of 20-30% a month.

> *''At school we used to receive a student allowance of P1400 per month and I was saving P400 each month until I had an amount of P3500, which I started lending out to some of my friends and school mates who needed cash; it was small amounts of P50 to P1000, I charged 30% interest per month (which doubled for late payment). I started in 2012 while I was a student and continued graduating, since I am unemployed.''*
>
> *Gaborone, Male, Aged 28 years (BW Qualitative Report, 2015)*

Metshelo are used by all target markets. FinScope (2014) results indicate that 17.5% (230,000 adults) of adults in Botswana are members of a *motshelo.* These are adults from all target markets. Moreover, using reported values saved with *metshelo* (FinScope, 2014), it is estimated that *metshelo* have about P800 million in savings, some of which is available for credit. While the amount of metshelo funds that are lent out is unknown, qualitative evidence suggests that obtaining access to credit is an important driver of membership.

> *''You find yourself needing small amounts of money, and would not go to the bank for that. Let's say you just want P500, you won't go to the bank to get a P500 loan. That is why I joined a motshelo.''*

---

[84] *These include but are not limited to Beares, Ellerines, FurnMart, Lewis, OK Furniture and Supreme*

Gabane, Female, Government Employee (MAP Botswana Qualitative Report, 2015)

Family and friends are an important source of credit for those with the least incomes and least access to formal credit. Family and friends seem to be the important source of income for the informally employed and state dependents target group. According to the FinScope (2014) results, 13.1% and 13.8% of adults the informally employed and state dependents, respectively, solely relied on family and friends as a source of credit. Moreover, the two target groups used formal credit the least, with 6.1% of the former target group using formal credit compared to 3.5% of the latter target group. Furthermore, it must be noted that these two target groups are two of three with the least monthly average incomes: P1162 for the informally employed; and P484 for the state dependents.

Government

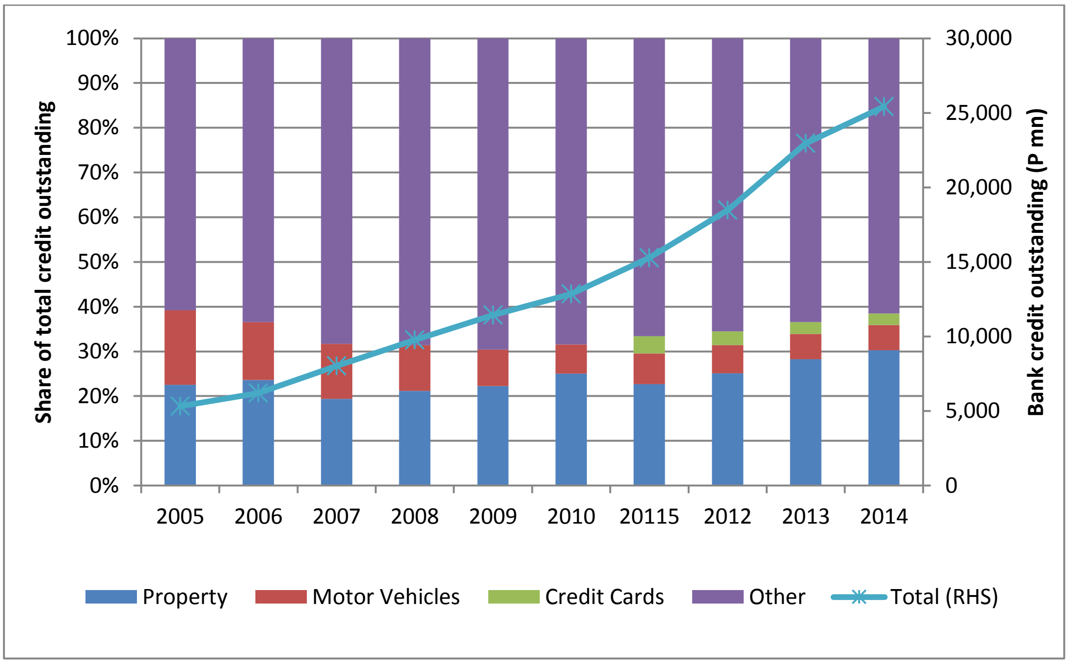
Government is an important credit provider. The largest amounts are **direct loans provided to parastatals** and similar entities, notably the Botswana Meat Commission (BMC). Total lending as at March 2013 (the most recent data available) was P1,545 million, of which the bulk (86%) was to three entities: BMC, BDC and De Beers. Government also lends through the **Youth Development Fund** (YDF, discussed under Products below). Government also provides **housing finance** through the SHHA and Turnkey schemes (see below), and **education loans** to tertiary education students.

Products

The costs and characteristics of different credit products are shown in Table 16 below (at the end of this chapter).

Credit products can be classified into 2 broad categories, unsecured and secured. Loans can also be classified by purpose, with some specialised categories such as agricultural loans, SMME loans, housing loans etc.

Figure 57: Share of household bank credit outstanding by type



Source: Bank of Botswana

Secured loans

These are loans where the borrower pledges an asset (such as property or a vehicle) against the loan. Mortgages and vehicle loans are the most common form of secured loans, and are mainly offered by the banks and BBS. In most cases the lender has a direct legal claim over the asset, for instance by way of a bond registered on a fixed property asset and recorded at the deeds registry, or by way of lender's interest recorded on a vehicle registration document. In the case of pawnbrokers, physical possession is taken of the asset pledged as security.

Mortgage lending slowly increasing. Mortgage lending for property acquisition or development is the most important type of secured lending to households (even though, as discussed below under housing finance, mortgage lending is nor particularly big in Botswana). Figure 57 indicates that bank mortgage lending to households has steadily increased in relative terms (as well as absolute terms) over the past decade. Property loans increased from 22.5% (P1.2 billion) of bank credit to households in 2005 to 30.2% (P7.7 billion) in 2014. In addition to the banks, BBS had total credit outstanding (almost all property loans) of P2.9 billion at the end of 2014. Mortgage loans are the cheapest form of bank financing available to households.

Vehicle loan financing decreasing. Vehicle loans are the second most important type of secured bank lending to households. Unlike property loans, vehicle loans have been on the decline. This may be attributable to Batswana having an inclination to use unsecured/personal loans to purchase cheaper second-hand cars. Vehicle asset finance provided by the banks grew only marginally from P889 million in 2005 to P1,441 million in 2014.

Borrowing against insurance and savings products. Moving away from the traditional property and vehicle backed loans, some long-term insurance companies and other deposit-taking institutions (BSB and BBS) offer loans backed by the value of their insurance, savings or government guarantees. BSB provided P860 million in credit at the end of 2014, while the largest insurance group, BIHL, had P421 million in policy loans outstanding at the same date[85].

Corporate credit secured against collateral assets. Most corporate credit is secured against assets for collateral. No information is available as to the extent of lending to small or micro enterprises. Total lending to businesses at the end of 2014 was P17.2 billion from the banks, P1.6 billion from NDB, P1.3 billion from CEDA, and P212 million from BDC[86].

Retail credit secured under hire-purchase agreements. Some credit from retail stores is secured under a hire purchase agreement, whereby title remains with the seller until the loan is fully paid off. This particularly applies to consumer durables and furniture.

Pawnshops a growing phenomenon. Although there is no information on the number of pawnshops or the value of their lending, the regulator (NBFIRA) has determined that due to their growth and extent, they need to be regulated. Pawnshops provide short-term loans (1-2 months) against the security of assets that they take physical possession of. This includes vehicles, consumer durables such as fridges and TVs, computers, and jewellery. Interest rates are comparable with those charged by short-term micro-lenders.

Unsecured loans

Unsecured loans are not secured by a legal or physical claim over specified assets, and are hence granted on the basis of an assessment of the borrower's ability (and willingness) to repay – i.e. on the basis of the borrower's creditworthiness. Repayments are often by way of a direct deduction from salary, and they are the most widely provided credit product in Botswana. Besides banks, non-bank lenders, micro-lenders, SACCO[87]s, and metshelo all provide unsecured credit.

Unsecured lending has the largest share of bank lending. Data from Bank of Botswana indicates that unsecured lending dominates bank credit. The share of unsecured lending to total outstanding bank credit has steadily increased from 60.8% in 2005 to 64.1% in 2014. Unsecured loans tend to attract higher interest rates than secured loans, and are more likely to be used to fund consumption rather than investment.

Unsecured credit is often provided against salary, and hence is mainly available to those in formal employment. Many credit providers will lend against salary, with repayments made by salary deductions. The larger non-bank lenders all have government "deduction codes". These enable repayments of loans to government employees to be deducted at source by the employer and then passed on in bulk to the lender. Banks typically require the salary to be paid into a bank account before granting an unsecured loan, and will deduct loan repayments from the salary as soon as it is credited to the account. Micro-lenders of the MLAB also participate in a system that deducts loan repayments from bank accounts. All of these lenders (banks, large non-bank lenders and MLAB members) also check – in principle at least –

85 *The number of borrowers using this facility is unavailable.*

86 *CEDA figures as at March 2012. Loan amount is gross, before netting out impairments. Most BDC financing is in the form of equity investments, which totalled P1.8 billion at the end of 2014.*

87 *Credit from SACCOs is partially secured, as borrowers must have a savings account. However, the loan can be larger than the savings deposit.*

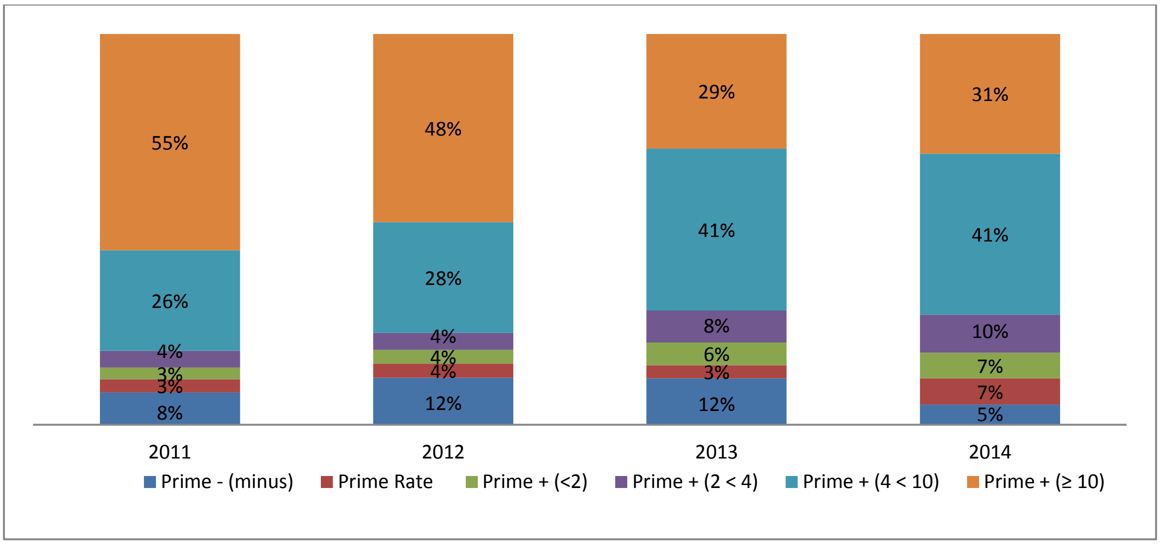
whether the borrowers have the capacity to repay the loan being requested, given other financial commitments. These deduction and repayment mechanisms make unsecured credit readily available to many of those in formal employment.

Range of unsecured product maturities. Banks and the larger non-bank lenders will provide unsecured loans over periods of up to five years. The smaller lenders (formal and informal micro-lenders, pawnshops, metshelo) generally lend short-term, from periods measured in days up to 3 months. WFHB lends for up to 18 months to its SMME members, while SACCOS lend for up to 15 years.

Interest on credit offered by banks is pegged to the prime lending rate. Commercial banks set interest rates on loans at a rate linked to the prime (see Figure 58). The prime is in turn pegged to the Bank Rate set by the Bank of Botswana. The norm is that commercial banks maintain the 1.5% spread between the bank rate and their prime lending rate. As such, when BoB changes the bank rate, this affects the prime lending rate which in turn affects level of outstanding credit and repayments of the borrower. Borrowers tend to consider the overall cost of repayments (including interest and capital) when they apply for loans and how much they can afford to repay – which is determined by interest rate and duration.

Wide variation in interest rates. Unsecured bank credit is provided at rates varying between prime+9% to prime+19%[88], depending on the bank, the amount and the customer. Non-bank lenders do not peg their interest rates to prime. The larger micro-lenders lend at rates varying from 2% to 15% a month, while the smaller micro-lenders lend at rates varying from 15% to 30% a month. WFHB charges 5% a month, while SACCOs lend at 14%-24% a year.

Figure 58: Distribution of outstanding bank loans by interest rate, by number



Source: Bank of Botswana

The number of loans at high interest rates is declining. As shown above, the share of bank loans that earn at least prime+4% decreased from 81.1% of total number of loans in 2011 to 71.8% in 2014. This may be attributable to the increased competition in the banking sector, which is causing the interest rate spread to decline.

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[88] *As at mid-2015, the prime lending rate was 8%*

Banks and BBS offer the cheapest credit, overall. Due to the differing risk profiles, secured credit is cheaper than unsecured credit. The lowest interest rates are offered by the banks and BBS on property mortgages. Even for unsecured credit, banks are the cheapest source, followed by the larger non-bank lenders, then the smaller formal micro-lenders, and finally informal lenders.

Besides classifying loans according to whether they are secured or unsecured, loans can also be classified by the purpose for which they are intended, especially for lending for specialised purposes. The following paragraphs consider some of these purposes, including SMME loans, agricultural loans and housing loans.

SMME loans

SMME credit often an issue. Providing credit to SMMEs is often seen as one of the most challenging aspects of developing a financial system, and a lack of finance is often cited as a major constraint to the growth of the SMME sector – in both developed and developing countries. However, while many SMME owners report problems accessing credit in response to surveys, it is not always clear whether this is a supply side constraint (a lack of appropriate products and institutions), or the result of a demand side problem (such as a lack of business skills, business plans, unsound business models, etc.) that results in problems obtaining finance. That is, while a lack of credit may often be seen as problem for SMMEs, it is not always evident as to whether it is a symptom or a cause of poor performance. But as a result of actual or perceived credit constraints, governments often established specialised institutions, lending or guarantee schemes to stimulate SMME credit. Alternatively, micro-finance institutions may emerge to serve this market.

SMME market modestly served by formal providers. In Botswana, historically, the SMME credit market was not well served by banks, because of high risks (due to defaults), high costs (of appraising and administering small loans), and inadequate lending models. Government therefore stepped in to plug the gap, and two of the three DFIs (CEDA and NDB) were set up to provide cheap credit to the SMME (and Agriculture) sector. Banks have in the recent past shown more interest into extending services to the SMME market, and this may have had some impact[89]. FinScope 2014 results show that 27% of formal SMEs have bank credit, although surprisingly FinScope records that no formal SMEs have credit from other formal providers (such as NDB and CEDA). However, some of this bank credit may have been sourced in a personal (rather than business) capacity.

The only MFI in the market does not fund start-ups. Womens' Finance House Botswana has a strict policy of not funding start-ups. This limits access to credit for new SMME's from this source. However, the policy helps instil a sense of ownership by business owners, as well as ensuring that bad debts are kept at a minimum. WFHB offers SME loans of size between P750 and P20,000 at a fixed rate of 5% per month. However, these have a short term ranging between 5 - 18months.

Delinquency high on SMME loans from CEDA. As noted above, CEDA was established to provide credit to SMMEs at highly subsidised rates; CEDA's interest rates vary from 5% to 7.5%. However, loans are not being serviced well; 70% of CEDA's loan book is in arrears. This is due

[89] *Supply side consultations*

to a combination of factors: borrowers knowing that the funds are from government, which is not strict in enforcing repayment; as such, the borrowers often treat the loans as grants. In addition, CEDA has – in the past at least - funded unviable projects and not enforced strict collections practices.

Mixed picture on SMME loan delinquencies from banks. Although banks do not provide information on arrears on loans to SMMEs as a category, there is a mixed picture from supply-side consultations. One bank reported that a scheme to provide short-term unsecured credit to SMMEs for working capital had been a big failure, while another reported that a scheme to provide working capital financing against the security of Government Purchase Orders (GPOs) had been a success. There are also mixed views on the impact of lax government schemes on repayment discipline, with some commentators (e.g. the quote from BoB above) expressing concern, while others (see the quote from the qualitative research below) expressing the opposite.

> *The lax attitude of respondents towards repayment of government loans led to a question amongst the researchers: Would this same attitude extend to (non) repayment of loans to formal financial institutions? However, respondents and fieldworkers were adamant that this is not the case, because ''banks are very quick to repossess'' (MAP Botswana Qualitative Report, 2015)*

Agricultural loans

Several institutions provided specialised agricultural credit. As noted above, banks and DFIs offer specialised agricultural credit products, varying from short-term, seasonal crop finance to longer-term asset finance. Total lending for agriculture by the banks was P801 million at the end of 2014, with a similar amount lent to agriculture by NDB[90] and an estimated P230 million by CEDA. This represents 3.9% of total credit extended by the banks, NDB and CEDA – significantly larger than the contribution of agriculture to GDP[91].

The Farmers' target market has the second highest level of access to formal credit. According to FinScope 2014, 14% of the Farmers group made use of credit from banks or DFIs. Nevertheless, many borrowers for agricultural purposes are in other target groups – notably the formally employed; this group includes commercial farmers, as well as those in formal employment who borrow for agricultural purposes but earn the primary income from employment.

DFI agribusiness loans are the worst performing. The main DFIs providing agricultural finance – CEDA and NDB - indicated that loans to agricultural businesses have the highest delinquency rates. Nevertheless, commercial banks are assigning more resources to the agribusiness market, which has been for a long time served only by DFIs. This may reflect a confidence that the determined government effort to support the agricultural sector through policy initiatives and subsidies will yield positive results.

Supplier credit developing. The largest supermarket chain in the country, Choppies, has started advancing supplier credit to some of the farmers who supply fruit and vegetables to their

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[90] *Approx. 50% of total lending of P1,578 million.*

[91] *2.1% in 2014*

stores. A total of P30 million was outstanding as at early 2015, and has apparently helped to strengthen the reliability of supplies. There are no repayment problems as the amounts owing are deducted from the payments to suppliers.

Youth Development Fund (YDF)

In a bid to plug the SMME financing gap (left by traditional credit providers) and create more employment for the youth, the Government has introduced the Youth Development Fund (YDF). The YDF is a youth (citizens aged 18-35 years) specific SMME financing scheme run and administered by the Ministry of Youth, Sports and Culture (MYSC). The YDF can fund an individual project up to P100,000, and a business involving at least 5 youths as applicants up to P400,000, for both of which 50% is a grant and 50% is a loan. Moreover, the loan part of the funding is interest free. Data from MYSC shows that between 2009/10 and 2014/15, a total of 5,655 projects have been funded by about P523 million.

YDF at risk of creating moral hazard. Although there are some pockets of success to the YDF story, the general picture is gloomy. Evidence from the MYSC suggests that a majority of the YDF loans are delinquent. This may be attributable to recipients misusing the funds, due to the fact that the funds are perceived to be 'free', as well as poor appraisal of the projects funded. Moreover, recipients are not required to have collateral, and as such no action is taken against recipients to recover the loan if their business fails. Since 2009/10, only P11 million (of the P523 million disbursed) has been repaid to YDF while P43 million are in arrears[92].

> *'' I think the problem with the grant is that people are not using it wisely. I was at the office where I found out that most people who took the grant lost their businesses. They did not use the money wisely hence they ended up closing at the end of the day. This happened to most people who got the money when I got it. I am the only person still operating my business. I think we Batswana like money more than business, hence our overspending, without thinking what we have to do and how to get the business going. We just want to see the heap of money but we don't see where it is coming from. That is where the problem is (Successful YDF receipt, Gabane, Female, MAP BW report 2015).*

The effective rate of subsidy on YDF loans is therefore extremely high, given the fact that 50% is grant, the loan portion bears no interest, and the rate of eventual write offs seems likely to be very high.

Government Education Loans

Government provides bursaries to many tertiary education students, for study in Botswana or outside of the country. These bursaries are provided on a partial grant/partial loan system, depending on the subject studied. Loans are meant to be repaid from salary once the graduate starts working. Record keeping and follow up on education loans has been poor. Of 162,000 students who have received government bursaries, loan amounts have been identified from 22,000 of them, totalling P325.3 million. However, there are likely to be many more loans outstanding, on which data is incomplete. Loans are interest free.[93]

[92] *Source: MYSC*

[93] *Source: Ministry of Education*

Box 7: Cost of Government Subsidised Credit Provision

Government provides credit in various forms, either directly or indirectly, including:

- Direct loans to parastatals (e.g. BMC)
- Youth Development Fund (YDF)
- CEDA loans to MSMEs
- Loans to tertiary students (Tertiary Education Fund)
- Turnkey housing loans
- SHHA building materials loans
- Agricultural credit insurance through the ACGS

All of these involve subsidies of various kinds, including non-repayable components (i.e. grants), zero or reduced interest rates on loans, losses from non-repayment, and meeting costs of management and administration.

In most cases, no figures are published on the total cost of these subsidies, and the lack of information more generally on some of these schemes makes the subsidy amount difficult to calculate. However, by making some approximations, the annual subsidy cost can be estimated, as follows.

Table 14: Estimated cost of government credit subsidies

Type of credit	Amount outstanding (P million)	Annual subsidy (P million)
CEDA [1]	n/a	300
Youth (YDF) [2]	523	105
Education (TEF) [3]	325	65
Housing turnkey [4]	500	100
Housing SHHA [5]	500	100
ACGS [6]	n/a	80
Total	n/a	750

Notes: [1] approximate annual government grant; [2] 50% grant, 50% interest free credit; assumes interest subsidy = 20%; I[3] includes cost of identified loans only; assumes interest subsidy 20%; [4] amount unknown, estimated based on maximum current provision of P82 million a year and 20% interest subsidy; [5] amount unknown, assumed equal to turnkey; [6] based on current credit and premium levels; assumes 75% likelihood of payout.

The total implied government credit subsidy is therefore approximately P750 million on the basis of these estimates. This is equivalent to approximately 1.5% of government spending and 0.5% of GDP.

There is insufficient evidence currently available to determine the impact of these subsidies. For instance, are they achieving the desired objectives (indeed, are those objectives well articulated?), and who reaps the benefits of subsidised credit? From a financial inclusion perspective, there may be more justifiable uses for subsidies, such as meeting the costs of rolling out financial service provision to rural areas. An evaluation of the impact of existing subsidies, and a comparison with other possible uses, is overdue.

Housing Finance

Given the most households own their own properties[94], a key question is how they finance the acquisition (by purchase or construction) of what is, for most people, their largest asset. Mortgage financing is a typical form of housing finance, but is most suited to people with reasonably high, regular incomes[95].

Mortgages

Relatively few mortgages in Botswana. The number of mortgages in Botswana is very low, estimated at around 15,000 in total, of which around 5,000 are from BBS and 10,000 from commercial banks. Therefore only around 3% of houses are financed by a mortgage. The number of mortgages is low relative to the number of people in formal employment (340,000[96]). Mortgage finance accounts for just over 30% of bank lending to households, by value. Relative to other upper-middle income countries in Southern Africa, the ratio of mortgage finance to GDP in Botswana is relatively low.

Table 15: Mortgages as a proportion of GDP, selected countries, 2013

Country	Mortgages as % of GDP
South Africa	22.0%
Namibia	18.2%
Mauritius	13.0%
Botswana	6.6%
Zimbabwe	2.8%
Zambia	1.3%

Source: Centre for Affordable Housing Finance in Africa (2014)

Other forms of housing finance

So how is housing financed in Botswana? There are various channels:

Other forms of bank borrowing, such as unsecured personal loans. FinScope (2014) data shows that borrowing for the purposes of acquiring or developing property is the most important reason for taking credit. Given the small number of mortgages, this suggests that borrowers are using other sources – most likely medium term unsecured credit - for financing property.

Self-Help Housing Agency (SHHA) Loans. The SHHA scheme entails the provision of urban (or urban village plots) to low income households by local authorities, on which people will self-build. Loans for building materials are also provided. Recipients must have a monthly income from P367 – P4333 per month. Interest-free loans of up to P60,000 for building materials are provided, repayable over 20 years. Unfortunately there is no centralised data on the number or value of SHHA loans provided across the country, or on the repayment record

"Turnkey" housing loans. This scheme involves local authorities financing the construction of simple houses for low-income households, on plots they already own. The same income eligibility requirement as SHAA applies. The maximum cost is P90,000, provided as an interest

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94 *See Chapter 2*

95 *Mortgages are specialized housing loans, secured against a property, and typically repayable over a long term (10-25 years).*

96 *Of course this is greater than the number of households with someone in formal employment*

free loan repayable at P375 per month for 20 years. The scheme is capped at 17 houses per constituency per year (969 nationwide)[97]. Government provides the financing, and it was recently announced that responsibility for housing construction is to be transferred to the Botswana Housing Corporation (BHC). A rough calculation shows that the effective subsidy rate on these long-term interest-free loans, without making any allowance for defaults, is approximately 70%

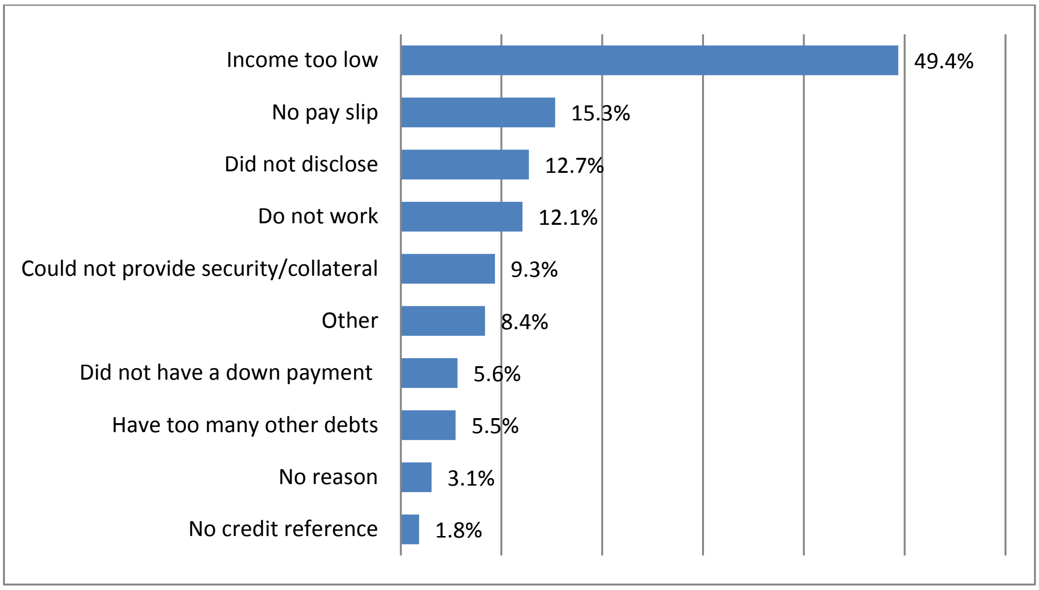
Self-financing and loans from family and friends. There is little information on this, but it is probably very common[98].

Barriers to access

Small portion of the adult population was recently denied credit. According to the FinScope (2014) results, only 6.7% of adults (90,000) were recently denied access to credit by credit providers. Of these 90,000 adults, 47,000 and 27,000 adults where denied credit by family & friends and banks, respectively.

The most common reason cited for being denied bank credit was low incomes. FinScope (2014) indicated that 49.4% (13,000) of the adults who said that they had been refused bank credit was because their incomes were too low.

Figure 59: Reasons for being refused bank credit



Source: FinScope (2014)

Irregular income not appropriately catered for by formal credit providers. Many Batswana earn irregular income from activities such as farming, informal employment, informal SME, and

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97 *This implies total funding of P87 million a year. No data are available on the outstanding credit or the repayment record.*

98 *Around 300,000 houses are owner-occupied. Approximately 40% of borrowers cite do so for property purchase, renovation or extension; applying this to bank borrowers gives around 80,000 people. Adding 15,000 mortgages and an estimated 15,000 beneficiaries of government schemes, and making an allowance for paid-off loans, leaves the majority of housing self-financed or financed through informal sources.*

family and friends. However, most formal products have relatively inflexible repayment terms, leaving a lot of Batswana excluded.

Lack of payslips also impeding access to credit. 15.3% of people that were refused bank credit in the past 12 months did not have payslips.

The reasons cited by those who have been denied credit reflect more generally on barriers to credit. As noted in earlier discussions, credit provision is concentrated on those in formal employment. Those who have regular jobs and incomes have many opportunities to borrow, and in general have maximised those opportunities. For those in other target groups, however, with low and irregular incomes, their opportunities to borrow are very limited. But it may also be that borrowing needs are low, given the extent of the welfare state, government support for agriculture, and limited opportunities for entrepreneurial activity.

ISPAAD grants available to most farmers. The Integrated Support programme for Arable Agriculture Development (ISPAAD) provides grants to small farmers (with 5 hectares of land or less) for almost all input requirements, including seeds, fertiliser, ploughing and fencing. Hence these small, quasi-subsistence farmers have little need for credit. Larger farmers get partial subsidies. Productivity amongst ISPAAD farmers remains very low, and few have graduated to what the Ministry of Agriculture considers to be commercially viable farmers (and who hence might be able to service loans on commercial terms)[99]. The total cost of ISPAAD grants is around P500 million a year, covering around 100,000 farmers. Hence it may be that the need for agricultural credit is limited, at least for small-scale farmers.

The establishment of CEDA has reduced the scope for commercial institutions to enter the SMME credit space. CEDA provides loans at interest rates of 5-8%; this makes it difficult for other entities – whether commercial banks or MFIs – to compete.

As noted earlier the provision of mortgage finance in Botswana is limited. There are a number of reasons why conventional mortgage finance is not widely used, including:

- *Affordability*: one of the major housing problems in Botswana is the mismatch between expectations regarding housing quality, the costs of conventional housing, and incomes[100];.
- *Housing types*: most housing is informal or semi-formal, not compliant with modern building regulation, built on an incremental basis, and not readily mortgageable (because it has low marketability in the event of foreclosure).
- *Low collateral values, especially outside of urban areas*. Even formal housing may not present an attractive collateral proposition to a bank or building society. Housing markets outside of Gaborone are thin, compounded by restrictions on the ownership of property on tribal land by non-citizens.
- *Unclear / semi-formalised title.* In rural areas and some urban areas, land title is unclear or only semi-formalised, which again undermines the ability of a financial institution to register a bond against a mortgage loan. This applies to plots allocated informally (by village headmen), or formally against a customary lease, or in SHHA areas against a certificate of rights. While these latter two forms are legal and can be converted to formal title, the process is expensive.

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[99] *Supply side consultations*

[100] *See Appendix 2*

Regulatory Issues

The consultations and research suggest the following regulatory issues in the credit market.

KYC regulations make it difficult for some people to access banking products, including credit. The overarching regulatory problem has been the, sometimes, unnecessarily strict KYC requirements[101]. These may or may not be informed by AML regulations, but they have proved to be a hindrance in the inclusion of low-income groups, who sometimes find it difficult to meet proof of address and proof of income requirements. People who are either not able to meet the KYC requirements or are turned off by the effort involved to meet them are then discouraged to use formal financial services and are ultimately excluded from the credit market.

> *''I have a problem, I have not gotten help with my banking needs, I need a letter from my employer, because I do not get a payment slip.''*
>
> *Jwaneng, Male, Farm employee (MAP Botswana Qualitative report, 2015)*

Insufficient regulation/supervision of SACCOs, particularly big ones. SACCOs are regulated by the Department of Co-operatives, and even though regulatory requirements are minimal, regulation is not enforced. SACCOs can go for years without being audited. This is a potential risk, particularly for the bigger SACCOS. Part of the problem maybe that the most SACCOs do not have computer information systems. As such, this renders the audit process even more daunting. Furthermore, even if regulation were properly implemented, they do not cover the normal risks that regulation of financial institutions deals with, such as liquidity and provisioning requirements[102].

Lack of a central credit bureau. Currently, there is no system (nor statutory/regulatory basis) in place to enable all credit providers to share negative and positive information about borrowers. As such, there is a risk of a borrower accessing more risk than they afford thus putting themselves and the credit providers at risk. Credit providers cannot build up a full credit exposure assessment of potential borrowers, and hence cannot properly assess risk. The lack of information reduces the supply and increases the cost of credit.

Regulatory gaps. Some credit providers are not covered by the regulatory framework for banks and non-banks. These include pawnbrokers and retail credit providers (such as furniture stores). Regulations are being developed for pawnbrokers, which are now required to register with NBFIRA.

Non-enforcement of regulations. NBFIRA is not yet enforcing the micro-lending regulations, and hence many micro-lenders continue to operate outside of the regulatory framework. This includes practices such as taking debit cards and PIN numbers as security.

Liquidity and primary reserve regulations. The tightening supply of credit in 2014 was due to a combination of rapid credit growth, slow deposit growth, and the maintenance of the primary reserve ratio at 10%, a level that had been set much earlier, in times of excess liquidity. The reduction of the primary reserve ratio to 5% in early 2015 has reduced this constraint on bank lending.

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[101] *See discussion in Chapter 4*

[102] *Refer to regulatory discussion in Chapter 4*

No regulatory framework for deposit-taking MFIs. The regulatory framework for deposit-taking institutions does not accommodate micro-finance institutions. The only existing deposit-taking MFI, Women's Finance House Botswana, is not allowed to lend out deposits, as a condition of its exemption from banking regulations by BoB. This, therefore, limits the WFHB's ability to extend credit to more SMMEs. There is evidence that there is appetite for more MFI type credit in the market. However, owing to capacity constraints, WFHB are not keen on pushing for regulatory change to allow them to on lend deposits. On-lending deposits requires more administration and risk mitigation work, thus putting additional pressure on the already stretched capacity of WFHB. The regulatory framework prevents a conventional deposit-taking MFI from becoming established in Botswana.

Gaps and Opportunities

Use cases	Relevant target markets	Potential impact and opportunity
Housing	All income-earning groups	Improved availability of housing finance will assist people to acquire/develop a house, by spreading the cost over a longer period, and lead to improved housing quality and increased household wealth. ***Relevant for all income earning groups, except for upper end of formal employees***
Consumption smoothing	All	Direct: reduced interest cost if more people can access low value credit facilities for consumption smoothing due to e.g. improved information through credit bureaus ***All income-earning groups apart from formal employees.***
Emergencies	All	Direct: reduced interest cost if more people can access low value credit facilities for emergencies. ***All income-earning groups apart from formal employees.***
Business loans	SMMEs	Direct: appropriate product design, additional institutions (MFIs), reform of CEDA to improve the integration of credit provision with the banks, and improved information sharing can improve access to this form of credit. ***Limited scope - formal and some informal SMEs***
Asset purchases	Formally employed, informally employed and SMEs	Direct: Some opportunity to borrow against an extended range of assets, including vehicles, furniture, household durables ***Limited scope – those who can afford such borrowing mostly have access***

Agricultural finance	Farmers	Direct: some opportunity to increase access to credit for productive use ***Limited scope: the "professional" farming group is small, and government provides a wide range of subsidies to subsistence and part-time farmers***
Consumer protection	All	Direct: improved disclosure of product terms and cost of credit can improve decision making and ensure more appropriate products are selected. ***This is the most significant opportunity, given number of people affected.***

Source: authors

From a credit perspective, Botswana society is polarised between those who have easy access to credit and those who have very limited access. For those in formal employment, the problem is, if anything, too much credit rather than too little. For other groups, the challenge is to make credit available in appropriate amounts, and on appropriate terms, to meet credit needs, where they exist. This is essentially a question of making small credits available, on flexible repayment terms, at reasonable interest rates.

A striking characteristics of Botswana's financial landscape is the lack of micro-finance institutions for SMME credit (although this is similar to Lesotho). This raises the question of whether there is insufficient demand (from SMMEs), regulatory barriers, or insufficient institutional development. Certainly the market is small, but the fact that WFHB reported unmet demand, and cannot serve the whole country, suggests that there is scope for more SMME-focused MFI activity. WFHB could extend its successful lending model if it had more funds and more capacity. Drawing from the successes of WFHB, Botswana could potentially benefit from more micro-finance institutions, which have proved to be effective in extending credit to deserving SMMES in other countries.

Group lending model of financing SMME seems to be efficient. It may be that SMMEs need a 'non-traditional' approach to financing. The group lending model employed by WFHB seems to be effective at keeping delinquent behaviour minimal. Maybe institutions that provide credit to the SMMEs could employ a similar model of putting the responsibility of ensuring compliance with a group of borrowers. WFHB reported that it has NPLs of less than 5%.

No regulations for deposit-taking MFIs. While it is difficult to be definitive on the potential for more SMME-focused MFIs, the lack of regulatory provision for deposit-taking MFIs is a gap in the regulatory framework. Filling this gap was a recommendation of the FSDS.

There may also be scope for utilising mobile phone and mobile money data to build up financial profiles for the unbanked. Mobile money providers cannot provide credit, and it would not be desirable for them to do so (they should be restricted to providing savings and transactions/payments services). However, information about a mobile phone user's usage patterns – airtime consumption, frequency of recharges, mobile money usage, value and volume of payments etc., can all be used to build up a financial profile of the subscriber, which could be used as the basis for access to micro-credit for the unbanked[103]. Such credit decisions could be largely automated, and credit disbursed (and repayments collected) through mobile money. This would require collaboration between a mobile network operator and a bank or non-bank credit provider.

Lack of appropriate housing finance products. Currently, there is a mismatch between the products that are available and the needs of the target market. Most of the adults that took credit in the last 12 months did so in order to acquire and/or renovate property (Figure 50). However, the proportion of property loans to total household outstanding credit is around 31% (Figure 57). As such, adults may be using (expensive) unsecured personal loans as an imperfect substitute for mortgages, in part because conventional mortgages are not well designed for the way in which many people in Botswana acquire houses. For instance, many people buy a plot first, and only build on it later, but bank mortgage/building loans do not accommodate this. Similarly, many people build incrementally, adding rooms to existing structures. Hence there is scope for appropriately structured housing microfinance products, especially for those who are not in formal employment.

Tiering of KYC requirements[104]. This would allow for different levels of regulation for different levels of usage; with less regulation for low value/activity accounts and more strict regulation for high value accounts. This will enable those with low and irregular income to have access to formal financial services and ultimately access to formal credit.

Credit information. The FSDS proposed the introduction of statutory framework for credit reporting and information sharing. This would require all credit-providing entities, both banks and non-banks, to report credit information – both positive and negative – to a credit registry, and for credit providers to enquire as to the credit status of potential borrowers before providing credit. Such an initiative is strongly supported by the banks. However, it remains an outstanding issue.

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[103] *See, for instance, Liu & Mithika (2009) and Baer et al (2013).*

[104] *Discussed in more detail in Chapter 4 (Policy & Regulation) and Chapter 8 (Payments)*

Table 16: Summary of credit terms from different institutions

Institution	Product	Interest Rate	Security	Maximum Term
Commercial Banks				
	Mortgage	Prime - Prime + 5	House	10-25 years
	Unsecured	14% - 27%	Personal Income	6 years
BSB				
	Personal	Prime + 9	Personal Income	6 years
	Secured		Government Guarantee	
BBS				
	Mortgage	Prime + 1	House	30 years
	Personal loans	12%	Deposits	1-5 years
NBFIs				
Letshego	Personal	2% - 3% per month	Payroll Deduction	5 years
Bayport	Personal	3.2% - 15% per month	Payroll Deduction	5 years
Formal Microlenders	Personal	15% - 30% per month	Direct debit payment systems (e.g. RealPay)	Average 3 months
Informal Microlenders	Personal	20% - 30% per month	Generally unsecured, some take ATM cards although this is illegal	Average 3 months
DFIs				
CEDA	CEDA Loan	5% (up to P500k) 7.5% ((over P500k)	Up to 100% collateral	10 years
NDB	Business, Agriculture and Mortgage Loans	13%-22%	Payroll Deduction/Collateral	5-7 years, 25 for mortgages
YDF	SMME Finance Scheme	50% grant, other 50% at 0% interest rate	Unsecured	1 year grace period, then 10 years
SACCOs				
	Loan	14% - 24%	Must be member and have a savings deposit	15 years
Retail Credit (Unregulated)				
Game	Hire Purchase	32%	Hire Purchase	2 years

Edgars, Jet	Hire Purchase	2.6% per month	Hire Purchase, must be a member, each member vetted (payslip)	
Beares	Hire Purchase	23%	Hire Purchase	3 years
MFIs				
Women's Finance House Botswana	Micro-finance loan	5%	Collective Responsibility	18 months
Other Institutions				
Metshelo	Motshelo Loan	10% - 30% per month	Savings/Collective Responsibility	Average 3 months
Pawn Shops	Secured loan	15% - 30% per month	Pawned Item	Usually 1-2 months

Source: supply-side consultations

Note: Commercial banks' prime lending rate was 8% when this data was compiled. All interest rates annual unless otherwise stated.

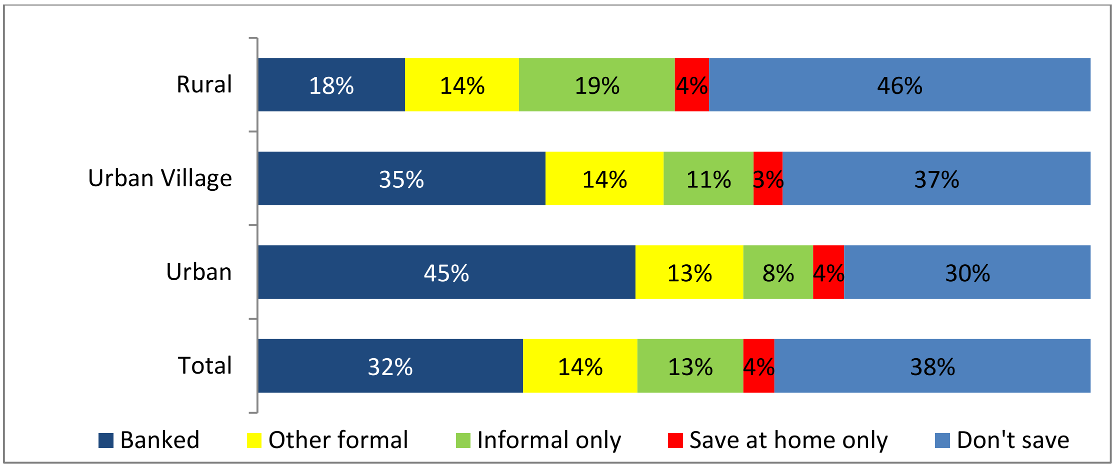
7. Savings

Current usage

Savings is widespread amongst Batswana adults. Approximately 58% of adults claim to save through formal or informal savings mechanisms, and a further 4% save only at home, as shown in Figure 60. Savings is the most widely used type of financial product or service by Batswana. This contrasts with a widely held "received wisdom" in Botswana, which is that individuals do not save.

> *"We have a fixed deposit account; once we put the money in there we do not touch it again, These savings are for our retirement benefits because, as we grow old, we won't be able to work. ….I think there must be about P30 000 in. (Nicholas and Kenneth, traders/bush mechanics, ages probably about 30, Gabane)*[105]

Figure 60: Savings mechanisms/products (% of adults using)



Source: FinScope, 2014

Most household savings is in formal financial institutions. According to FinScope (2014), 46% of adults save with banks or other formal financial institutions. Nevertheless, 37% of adults have informal savings products, often as a complement to formal products.

Household share of bank deposits much lower than share of borrowing. Households account for around 24% of the deposit base of the banking system: as at December 2014, household deposits totalled P12,358 million, out of a total deposit base of P51,492 million. This is lower than the share of households in bank borrowing, which is 56%. Nevertheless, household deposits have been growing reasonably steadily, having increased by 76% over the five years to December 2014, compared to overall deposit growth of only 37% over this period. The share of households in total bank deposits has therefore been growing.

Formal savings substantially higher amongst urban dwellers. The uptake of formal savings varies by settlement type: 58% in urban areas, 49% in urban villages and 31% in rural areas. This discrepancy is to some extent offset by higher use of informal savings and savings at home in rural areas. Nevertheless, there is still a difference in savings rates by settlement types, with

[105] *FinMark (2015)*

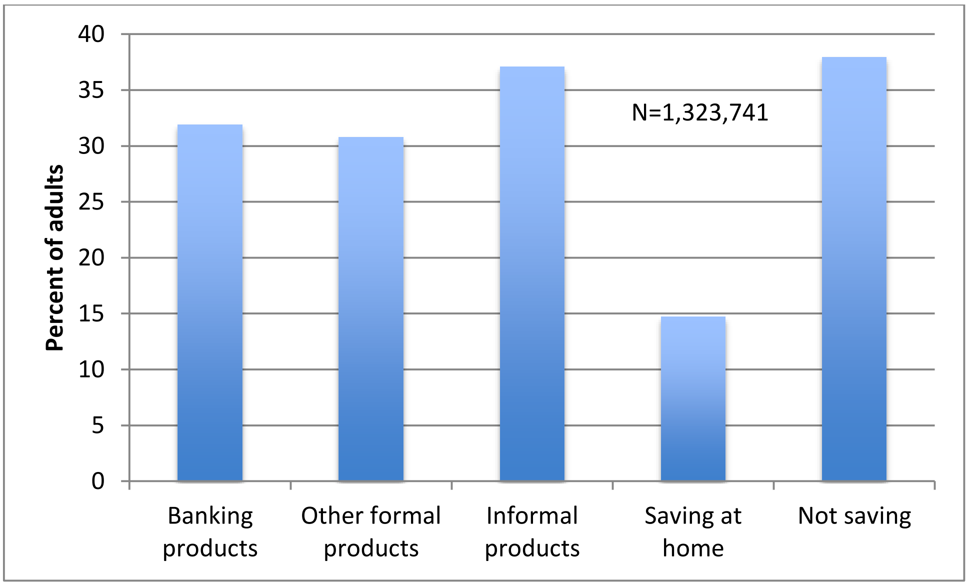
54% of adults saving in rural areas, 63% in urban villages, and 70% in urban areas. The greater use of formal savings institutions in urban and urban village areas is likely to be due to a combination of a greater proportion of salaried workers (who have greater access to formal institutions), higher incomes and easier physical access to formal products as formal institutions are situated within urban / urban village areas[106]. For instance, 50% of urban adults fall into to the "formally employed" target group, whereas only 29% of urban village adults and 18% of rural adults fall into this category.

Informal savings groups play an important role. Many Batswana (37% of adults) use informal savings – such as a *motshelo* or other informal savings groups. The role of informal savings varies: for most (27% of adults), it is a complement to other (formal) forms of savings, while for others (10% of adults) it is the only form of savings available.

Multiple forms of savings used. Many people use multiple forms of savings, combining savings with a bank, savings with another formal institution, and savings with an informal group such as a *motshelo*. FinScope (2014) estimates that 52% of savers save in more than one form of savings category. For example, it is estimated that 57% of those who save with a bank also save with an informal savings group.

Taking into account multiple uses, formal types of savings still dominate (55% of adults). However, use of informal savings institutions is also important in terms of the number of adults served.

Figure 61: Total use of savings institutions (including overlaps)



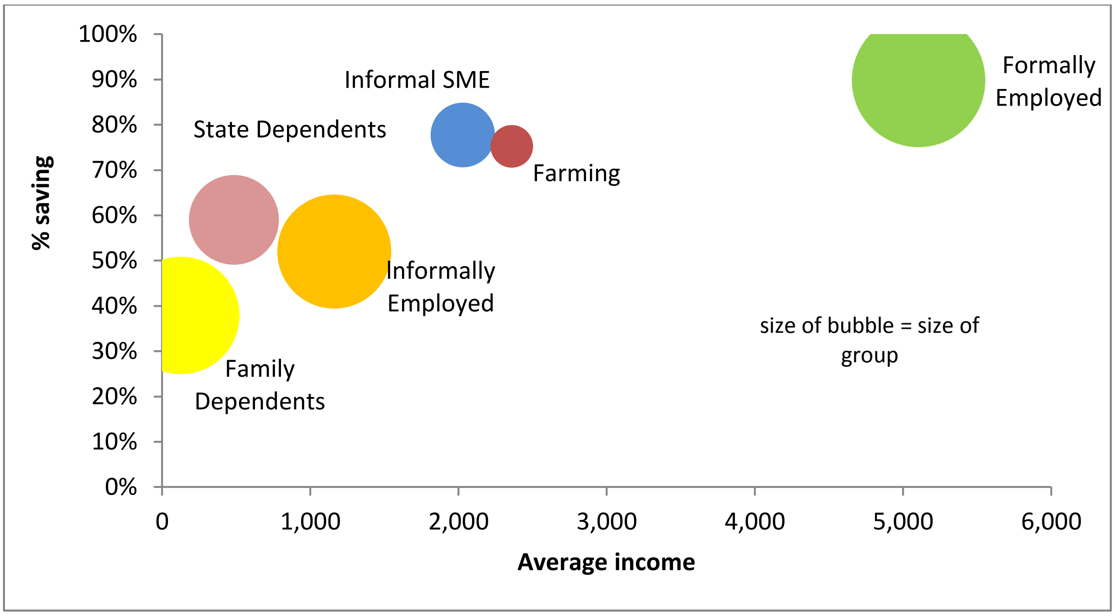
Source: FinScope 2014

Higher income groups save more. The level of savings varies considerably across target markets, and there appears to be a clear relationship between savings and income levels. Almost 90% of salaried workers, the target market with the highest income level, save. Comparatively, only 52% of informal sector workers, the target market with the lowest income level amongst economically active groups, save. Furthermore, only 38% of family dependents, who have the lowest income level of all target groups, save. For the other target markets, the

[106] *Discussed in more detail in the Financial Sector Overview (Chapter 3)*

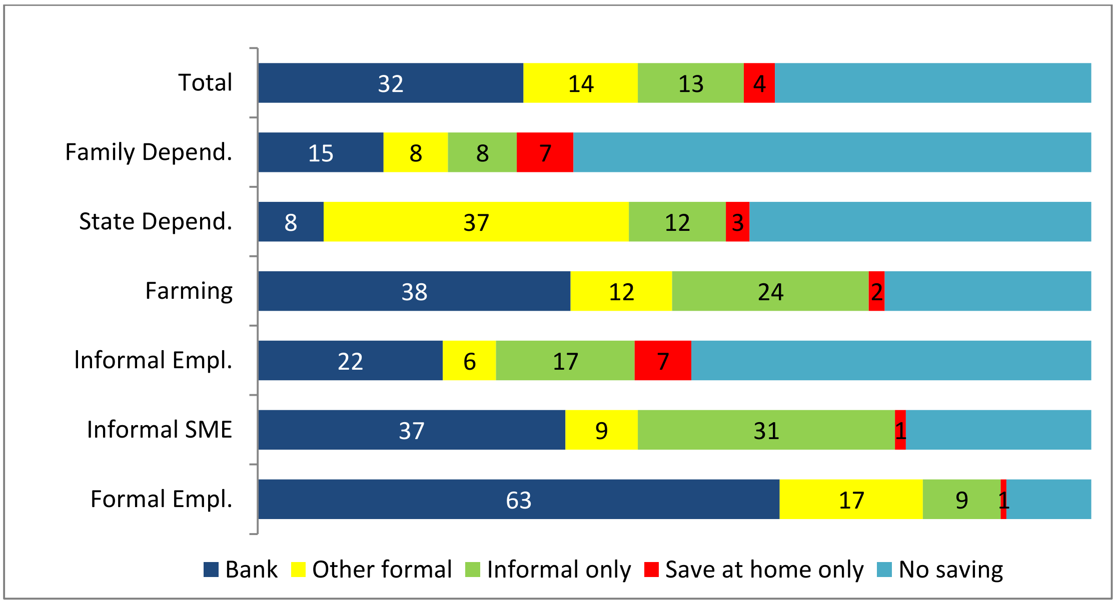
proportion of adults who save is also correlated to the average income level of the target group as shown in Figure 62 below. The two key implications of this finding are that the capacity to save is directly related to income level (as would be expected), but furthermore, even those on low incomes find it important to save, and are able to do so.

Figure 62: Proportion of target market who save, by average income



Source: authors, FinScope, supply side consultations

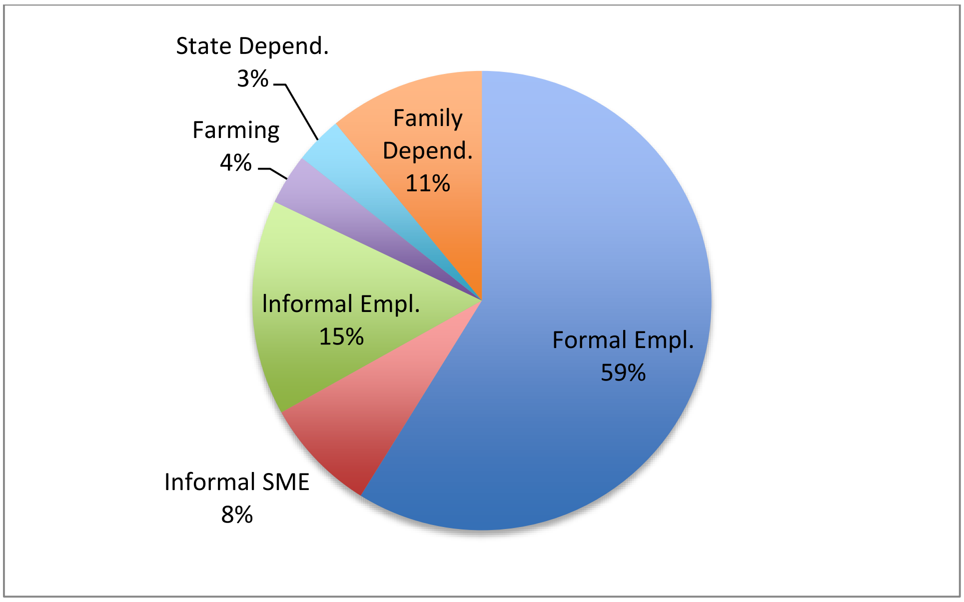
Figure 63: Use of savings channels by target groups



Source: FinScope 2014

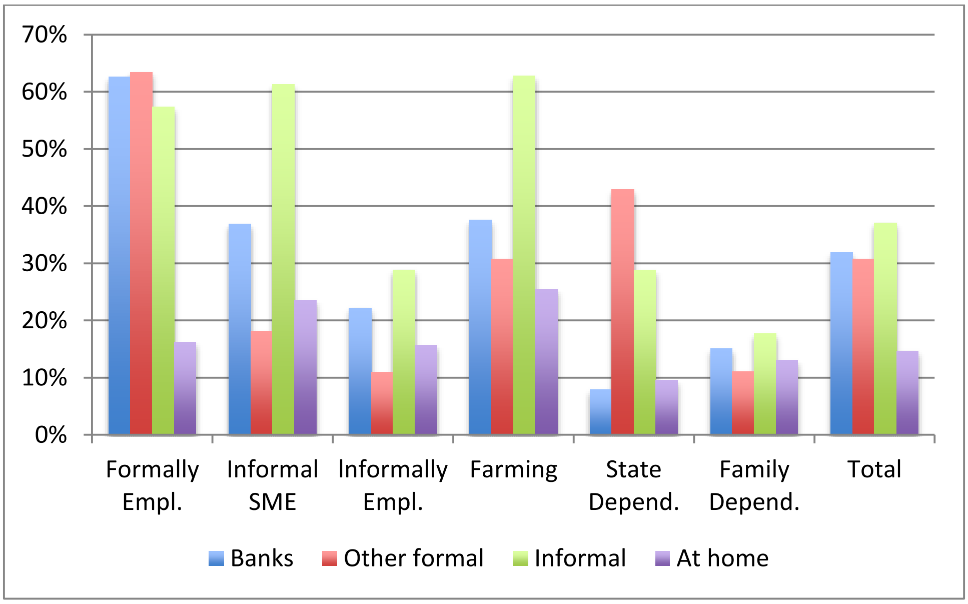
Although people use multiple types of saving, different target markets prefer different types of savings channels. As would perhaps be expected, banks cater mainly for the formally employed – 55% of those who save in banks are from this group, even though they make up only 30% of the total adult population. But other savings types are also dominated by formal employees, simply because they save more. Even so, (marginally) more formal employees save with other formal institutions than with banks. For informal employees, informal SMEs, farmers and family dependents, the most common form of saving is with informal groups. For state dependents, other formal institutions are the most common way to save.

Figure 64: Breakdown of bank clients between target markets



Source: FinScope, 2014

Figure 65: Total usage of different savings channels by each target group



Source: FinScope, 2014

Use Cases

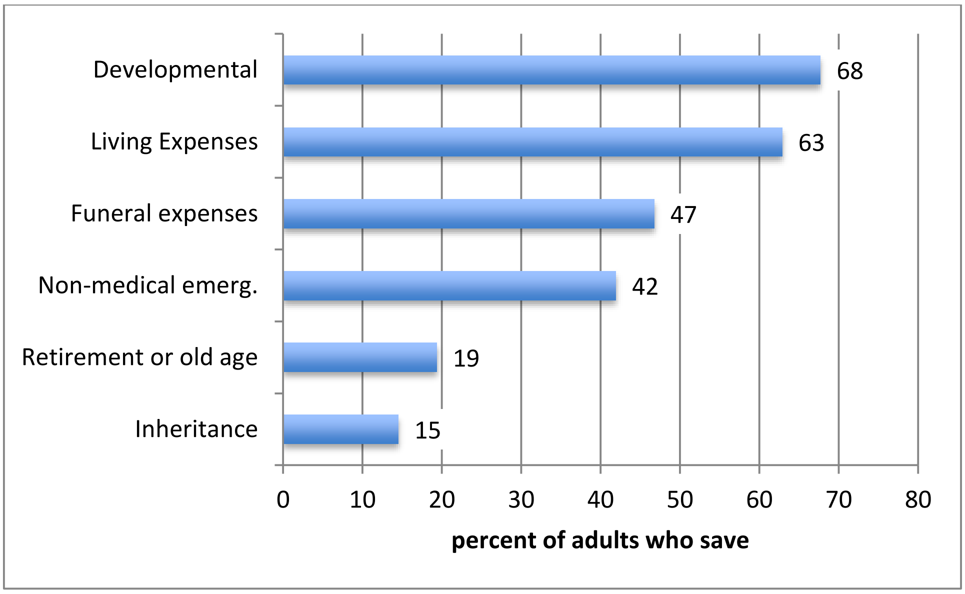
Savings are defined in the FinScope survey as "safeguarding and accumulating wealth for future use". By implication this refers to financial savings, which is somewhat narrower than the economic definition of savings that would include the direct accumulation of physical assets (such as housing, cattle etc.).

There may be a number of different motivations for savings, which can be classified into the following five categories[107]:

- Consumption smoothing
- Risk mitigation (emergencies, funeral expenses)
- Development purposes (education, housing, cattle, farming, capital accumulation)
- Retirement
- Inheritance (provide for dependents after death)

The FinScope 2014 survey results describe the relative importance of the various use cases for Batswana adults:

Figure 66: Reasons for saving, for Batswana adults who save



Source: FinScope, 2014

Development purposes. Figure 66 above shows that the greatest use of savings is for a variety of development purposes (generally related to accumulation of physical or human capital), including school fees (education), buying land, building a house or for farming. According to FinScope (2014), 68% of Botswana adults who save, do so for development purposes.

Education. Amongst the various reasons for savings that can be classed as developmental, savings is one of the most important (the second most important after housing). Of adults who save, 10.5% do so for education. This is likely to be mostly amongst better-off households, who wish to send their children to private schools. However, it could also include poorer households who save to meet the (relatively low) costs of public schooling, where there are modest fees for secondary schooling as well as costs for uniforms.

Consumption smoothing. The second most important purpose for savings – indicated by 63% of Batswana who save – is to meet living expenses, i.e. smoothing their consumption between income receipts. This is a particularly important function in Botswana given the large

[107] *There may be other reasons, but these are the most important reasons identified by demand-side research in Botswana.*

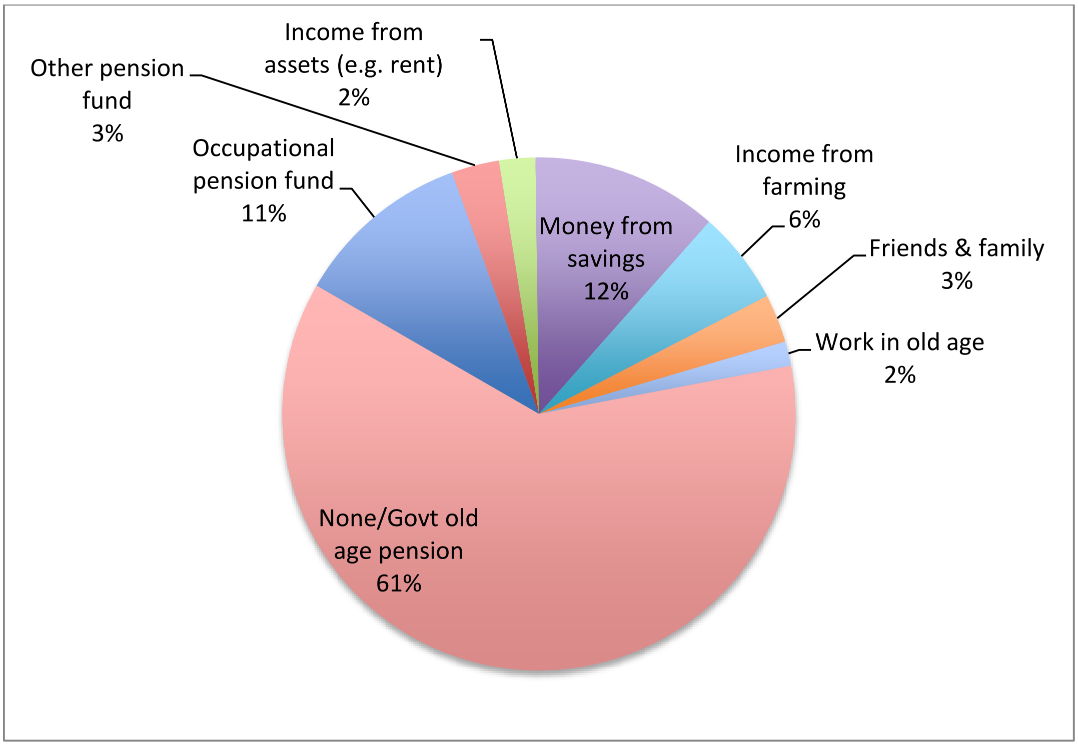
proportion of adults that earn their income from infrequent and/or irregular sources such as informal SMEs, piece work, farming and remittances.

Risk mitigation. The use of savings to mitigate risks is also commonly cited purpose of saving in Botswana. 47% of Batswana who save indicate they save for funeral expenses, whilst 42% save for a non-medical emergency. However, relatively few (6% of savers) save for medical expenses (FinScope, 2014). Using savings to mitigate risk would be used across all target markets.

Retirement. Long-term savings for retirement can be considered lifetime consumption smoothing as savers save their surplus from when they are earning an income to support them when they are no longer earning an income. FinScope (2014) indicated that 19% of savers save for retirement and old age.

However, this may be an underestimate, relating mainly to people who deliberately put money aside for retirement, perhaps excluding those who are members of pension funds. When asked directly how they intend to provide for their income in old age, 28% of adults (not adults who save, as in the figures above) have a strategy to accumulate financial or other assets to provide retirement income, whether through a pension fund or savings (see Figure 67). A further 10% intended to rely on income from farming, friends and family, or continuing to work. The remaining 61% of adults said that they had made no provision or were intending to rely on the (universal) Government Old Age Pension.

Figure 67: Provision for income in old age



Source: FinScope, 2014

Providers

There are a wide variety of institutions offering savings facilities for households in Botswana. These are classified below into two categories: formal/regulated institutions and community-based organisations.

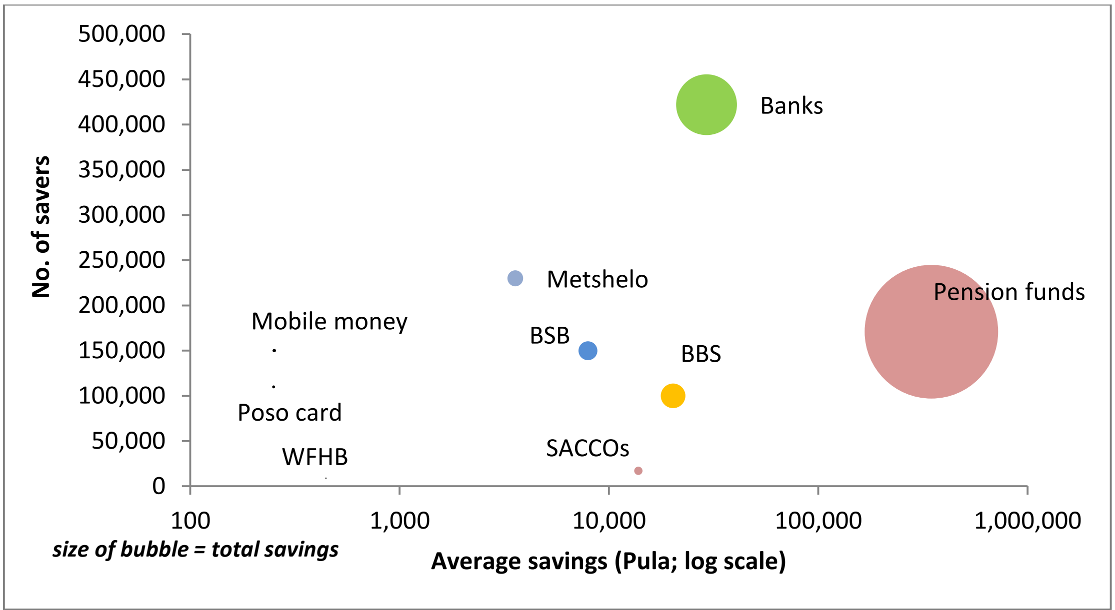
The approximate reach of the various types of savings providers is as follows:

Table 17: Savings users and values by institutions

Type of institution	Approx number of customers	Approx total value of savings (P million)	Average value of savings (P per saver)	Source
Formal/Regulated institutions				
All banks	656,000	12,358	18,838	FinScope 2014/BFS
All banks (savings accounts only)	422,000			FinScope 2014
Pension funds	171,000	59,393	347,327	NBFIRA/BoB
Life ins. policies with savings component	145,000	n/a	n/a	FinScope 2014
Botswana Building Society (BBS)	100,000	2,027	20,270	BBS/BFS
Botswana Savings Bank (BSB)	150,000	1,190	7,933	BSB/BFS
Mobile money	405,000	50	123	BoB
Poso card	110,000	28	250	BPS/DSP
Community-based / informal institutions				
SACCOs	17,000	235	13,824	Dept of Co-operatives
MFIs (WFHB)	9,000	4	444	WFHB
Metshelo etc.	230,000	822	3,574	FinScope 2014

Source: various, as noted

Figure 68: Savings by institutional type



Source: authors, FinScope, supply side consultations. Mobile money based on estimated active users.

Each of these groupings is discussed further below

Formal / Regulated Institutions

Banks the primary formal providers of savings products. Banks have the largest number of savers amongst Botswana's savings providers, with FinScope (2014) estimating that more than 422,000 adults save with banks. FNB accounts for more than half of total bank clients The banks have total deposits from households of P12.35 billion (December 2014), around 9% of GDP.

Pension funds are a major long-term savings vehicle in Botswana. Pensions are an important vehicle for savings, particularly long-term savings in order to meet the "retirement income" objective of savings noted above[108]. Total assets of pension funds are P59.4 billion (December 2014), or 42% of GDP, and are nearly five times the size of deposits by households in the banks. In total, pension funds have around 170,000 active members (excluding retirees), and so around half of all employees in the formal sector belong to a pension fund. Membership of a pension fund is not a legal requirement (although it is often required as part of an employment contract), and pension funds generally focus on managerial, skilled and semi-skilled employees; unskilled and lower-paid employees are often not members of occupational funds. There is also a major divergence between coverage in the public (government/parastatal) sector, where it is very high, and in the private sector, where it is much lower. Although many of those in formal employment are well provided for in terms of pensions, other adults are not[109]. According to FinScope (2014), 41% of those in formal employment are members of

[108] *Also discussed in the Insurance chapter, given that many pensioners buy pension annuities from insurance companies.*

[109] *At least not directly. Pensions are (or should be) designed to support dependents as well as the primary member.*

pension funds, but only 1.6% of those earning other forms of income (informal employees and SMEs, and farmers) are members.

BPOPF is dominant. The most important pension fund is the Botswana Public Officers Pension Fund (BPOPF), which was established in 2001, and has around 110,000 members and P43 billion in assets. The BPOPF is a defined contribution fund, covering most government employees, with both employer and employee contributions. The second largest fund is the Debswana Pension Fund. Most major employers have similar occupational funds. Although there is no fixed requirement for how large pension contributions should be, a common split is 15% of salary contributed by the employer, and 5% by the employee. Pension contributions are tax-exempt up to 20% of salary for employers, and 15% for employees.

NBFIs provide an important extension to bank provision. Two institutions provide savings accounts as an alternative to/extension of commercial bank provision, on a significant scale. The BBS has around 100,000 account holders (including both share accounts and deposit accounts); although it is largely urban-based, it is considered by some savers to offer a more attractive proposition than banks, due mainly to higher interest rates. BSB has a different focus, given its relationship with BPS, which enables it to offer savings accounts to those who live in rural areas and smaller urban villages that are not served by banks. BPS is popular with a more rural, elderly demographic.

Life insurance companies also play an important role. Life insurance companies leverage their expertise in managing investments to offer combined insurance and savings products, mostly aimed at the salaried market.

Pension fund asset managers also provide retail products. Specialised financial companies – such as the asset managers that primarily service pension funds – increasingly offer products for retail savers, such as unit trusts, although the market for these is fairly limited.

Mobile money potentially a savings vehicle. Although mobile money accounts are primarily designed for payments and remittance purposes, they can – in principle - be used as savings accounts. There are almost as many holders of mobile money accounts as of bank savings accounts, although the values are much lower. At present, however, the fee structure for mobile money discourages its use for savings, and no interest is paid[110].

Card-based savings. A substantial number of adults now hold Poso cards. These are used for the distribution of certain welfare benefits by government[111]. Although primarily intended for payments purposes at present, they can be used for savings as payments received can be left on the card and withdrawn at some time in future. However, functionality is limited as the cards cannot be topped up with additional deposits, nor are they available to the general public.

Informal and/or Community-based organisations

Community-based and informal savings are relatively low in value but significant in terms of coverage. The main entities in this category include Savings and Credit Co-operatives (SACCOs) and informal Rotating Savings and Credit Associations (ROSCAs), known in Setswana as *metshelo*.

[110] *See discussion later in this chapter*

[111] *Discussed in more detail under Payments (chapter 8)*

SACCOs are popular amongst formal sector employees, particularly in the public sector. There are around 50 SACCOs registered with the Department of Co-operatives. These are mostly based around employment, particularly government departments, public enterprises, and other medium/large employers. A small number are community/village-based. Members of employment-based SACCOs typically make savings deposits via payroll deductions. Members can also borrow from the SACCO; hence profits are generated by the interest rate spread, less operating costs. In total, SACCOs have total deposits of P235m and total assets of P306m, with around 17,400 members. SACCOs are therefore relatively small in overall terms, with membership accounting for around 5% of those in formal employment and just over 1% of the adult population.

> *" I have savings, I love to save…most of the money I save is for my business, but I also save for my daughter in her trust fund…I don't know how much I have but it must be somewhere around P15 000….I save with SACCOS because it is easy to get a loan rather than a bank where it is a long process to give you the loan; sometimes it takes months to get a loan from the bank" (Debswana employee)*

SACCOs are popular with members but come with risks. As mutual groups, SACCOs recycle surpluses among members. The structure can be quite profitable, due to the interest rate spread between loans and deposits. As a result, members can earn much higher rates of interest – when bonuses are taken into account – than they can in bank deposits; rates of 8% - 11% were quoted during supply side interviews with SACCOs. However, they are poorly regulated, often based on manual administrative processes, and are vulnerable to fraud, mismanagement, and poor governance.

Metshelo are informal SACCOs. A *motshelo*[112] is an informal savings group (with some parallels to South African stokvels), usually with 5 to 20 members, who will typically be known to each other, whether socially or through work. *Metshelo* are spontaneously formed by members, rather than driven by an outside entity. Essentially a *motshelo* is an unregistered SACCO. While they are mostly based on monthly contributions, the exact mechanisms can vary. Sometimes the monthly contributions are collected and distributed immediately to one of the members; sometimes the contributions are saved and distributed equally amongst members at the end of the year; when contributions are accumulated, they may be used for short-term loans to members, or even non-members. Lending *metshelo* have the attraction that they can earn a significant income, but bear risks of bad debts, although loans to non-members may have to be guaranteed by a member. It is believed that the prospect of access to credit is one of the major drivers of *motshelo* membership[113]. Some *metshelo* have specific purposes. The qualitative research uncovered a *motshelo* specifically for taxi/combi drivers, whereby they built up a savings funds for use by members to pay for repairs to their vehicles.

Metshelo are widespread. Many people belong to more than one *motshelo* – according to FinScope (2014), 25% of *motshelo* members belong to two or more, and 6% belong to three or more. With an estimated total of 230,000 adults belonging to a motshelo (based on FinScope),

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[112] *Singular: motshelo, plural: metshelo*

[113] *Based on informal discussions by the authors.*

and an average membership of 10[114], this suggests that there are over 20,000 *metshelo* in Botswana.

Extent of motshelo membership varies across target groups. While on average, 18% of adults belong to a motshelo, membership varies considerably across target groups. They are most widely used by adults in informal SMEs, 35% of whom belong to a *motshelo*, and those in formal employment, at 24%. Lowest usage is amongst those who are farming (at 12%) and state dependents (9%).

Considerable financial flows into metshelo. The average monthly contribution is just under P250, meaning that around P57 million flows into *metshelo* each month. With average savings per member of P3,553 (FinScope 2014), the total amount of accumulated savings in *metshelo* is estimated at P822 million. Although it is much smaller than the P12 billion of household deposits held in the banks, it is a significant amount nonetheless.

Metshelo funds held In different forms. Funds that are not lent out may be held in cash but are increasingly held in accounts at financial institutions; some banks have designed savings deposits that can be used by *metshelo,* even though they are typically unregistered and have no legal form. Where cash is held it is more likely to be because it is short-term (e.g. awaiting a loan request) or because of proximity issues (to bank branches). But most *metshelo* funds are intermediated, whether through direct lending to members or non-members, or through the banks.

Metshelo have a variety of benefits, alongside risks. Besides offering members the chance to obtain credit, metshelo (like SACCOs) recycle surpluses among members. They also play a social role (kinship groups). However, there are risks of fraud (especially if any balances are held in cash) and bad debts, and may not be long-lasting if the groups that they are based on fall apart.

Only one deposit-taking microfinance institution. Womens' Finance House Botswana requires members (around 9,000) to save the equivalent of P5 a day as a prerequisite for obtaining loans. Savings deposits are collected in cash at regional offices. Savings funds – P4 million in total - are held in a bank deposit, and are not used for lending[115].

Products

Flexible savings

Savings accounts the dominant type of bank account. The majority of bank savers save in short-term flexible savings accounts. Many may also use these like a transaction account. Most banks offer a variety of savings accounts, including those aimed at low-income savers with relatively low minimum balances, and "premium" savings accounts with higher minimum balances but higher interest rates and, sometimes, lower fees. Of the 1,075,000 bank accounts across all the commercial banks in 2014, 54% of them - 576,238 – were savings accounts[116].

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[114] *This is an approximation, based on informal discussions by the authors. There is no register of metshelo, nor was there a question in FinScope on the sizes of metshelo.*

[115] *WFHB is discussed in more detail in Chapter 6 (Credit)*

[116] *Data from the Bank of Botswana on the number of bank accounts. Note that this is different to the FinScope data, which refers to the number of account holders.*

Low interest returns. Deposit interest rates on basic savings accounts are often low - below 1% - offering little reward to those who have surplus funds for discretionary savings. In general, savings accounts have offered below-inflation returns – i.e. negative in real terms – for many years[117]. However, as indicated in Table 18 below, there is considerable variation across banks, with interest rates as high as 4% on some basic accounts. The fact that people still save in banks, despite negative returns after inflation, indicates that there are other benefits obtained, the most likely being safety and security[118].

As noted in chapter 4, the BoB imposes a minimum interest rate on certain types of deposits (notably the 30 day benchmark deposit), which is meant to underpin the structure of interest rates across the board. However, this does not extend as far as basic savings accounts.

Table 18: Characteristics of basic savings accounts (end 2014)

Bank	**Stan-bic**	**Capital**	**FNB**	**Bar-oda**	**Bar-clays**	**Stan-chart**	**BancABC**	**Bank Gabor-one**	**BSB**
Reference account	Pure-Save	Savings	Future-Save	Isago	Lek-golo	Ordinary	Fresh-Saving	Ipeele	Ordin-ary
ATM card	Yes	Yes	Yes	Yes	No	Yes	Yes	No	No
Min. opening balance	50	500	100	0	100	100	50	0	70
Monthly fee	5.09	0	0	0	0	50	0	0	8.50
Interest rate	0.25%	0.25%	0.15%	1.50%	4.00%	0.00%	2.50%	3.00%	2.0%

Source: authors. Note: bank fees are discussed in more detail below and in chapter 8.

Tightening bank liquidity and increased competition is leading to higher interest paid on some deposits. One of the reasons for the low deposit interest rates in Botswana is that banks have historically been very liquid. With low loan-to-deposit ratios, there has been no real incentive to mobilise additional savings, through paying competitive interest rates that would attract additional deposits. This contrasts with banks in many other countries, which conventionally have a liquidity shortage, and hence an incentive to mobilise deposits and pay higher interest rates. However, as discussed in chapter 6, bank credit has grown rapidly in recent years. Furthermore, bank deposits have been growing much more slowly. These long-term trends have led to rising loan-to-deposit ratios, and when combined with regulatory requirements for reserve and liquid assets have resulted in excess liquidity declining to almost zero. The market for bank deposits tightened considerably during 2014, leading to a great deal of competition for available deposits between banks. This in turn led to higher interest rates paid on savings deposits, although this effect was more pronounced for larger, longer term deposits than for smaller, retail deposits.

Opening balance requirements fairly low. The minimum opening balance requirements on entry-level savings accounts are relatively modest, typically P50 or P100. Many savings accounts also come with the added functionality of ATM cards and access to cellphone and internet banking, although this varies between banks.

117 *Inflation was 3.8% at the end of 2014 and 3.1% in mid-2015, although it has been significantly higher (averaging 8%) over most of the past decade.*

118 *Although it addressed a slightly different question, when asked what people looked for when purchasing an investment product, the most common answer was "trust" in FinScope 2014.*

Table 19: Comparison of bank savings account and mobile money account costs and returns, for monthly deposits of P100 for 12 months.

	Banks									Mobile Money	
	Stanbic	Capital	FNB	Baroda	Barclays	StanChart	BancABC	Bank Gaborone	BSB	Orange Money	MyZaka
	PureSave	Saving	FutureSave	Isago	Lekgolo	Ordinary	FreshSavings	Ipeele	Ordinary		
Monthly deposit	100	100	100	100	100	100	100	100	100	100	100
Interest earned (average, per month)	0.125	0.125	0.075	0	2	0	1.25	1.5	1.0	0	0
Total deposits	1200	1200	1200	1200	1200	1200	1200	1200	1200	1200	1200
Deposit fees (per month)	0	0	0	3.5	0	0	0	0	0	0	0
Monthly account fee	5	0	0	20	0	50	0	0	8.5	0	0
Total at year end	**1141.5**	**1201.5**	**1200.9**	**918**	**1224**	**700**	**1215**	**1218**	**1110**	**1200**	**1200**
Annual income/cost (-)	**-58.5**	**1.5**	**0.9**	**-282**	**24**	**-500**	**15**	**18**	**-90**	**0**	**0**
% of original value left at year end	**95%**	**100%**	**100%**	**77%**	**102%**	**58%**	**101%**	**102%**	**93%**	**100%**	**100%**
If P600 is withdrawn at year end:											
Withdrawal fee (counter/ATM/agent)	3.4	2.24	0	1.12	0	0	1.75	0	1.5	23	26
Annual income/cost (-)	-61.9	-0.74	0.9	-283.12	24	-500	13.25	18	-91.5	-23	-26

Wide range in returns to savers at banks. Despite bank fees often being perceived as high, analysis of the fees related to entry-level savings accounts, as shown in Table 19, indicates that fees on these accounts are not very high at many banks. Analysis of savings accounts at eight banks, with a deposit of P100 a month into an entry level savings account, show that at five banks a positive return would have been earned, with interest income exceeding fees, while at three banks the return would be negative.

Bank are generally more competitive than mobile money on savings accounts. If the same savings were paid into a mobile money account at either of the two main operators, the net return would have been zero. Once withdrawal fees are included, saving in mobile money accounts is even less attractive compared to banks.

> *''Dude!! I am not using cell phone banking again! I had a problem opening my savings account, that is why I opened MyZaka, it was one way of keeping my money. It is good for buying utilities and buying airtime, but treating it like a bank, maybe saving and sending money, then you are in trouble. They charged me P92! It is daylight robbery, why are they doing such things? If you deposit P200, P25 of that money is theirs. It is too much, they should just stick to what they are good at and leave the banking to the bankers, because they are messing things up.'' (Productive grant recipient, aspiring farmer.)*[119]

The low interest rate earned on bank accounts and absence of interest on mobile money accounts, however, means that saving through either channel results in a loss in the real value of the savings due to inflation.

Mobile money has non-expense benefits over bank accounts. A potential advantage of saving with mobile money rather than with banks is the greater distribution network of mobile money agents (around 700) as compared to bank branches (119) and ATMs (around 380). For regular low value savings contributions, travel costs from a rural area to access banking infrastructure may constitute a major proportion of the value of the savings[120]. In addition, accessing mobile money has fewer barriers to entry than bank accounts in terms of reduced KYC requirements and no proof of employment or income requirement. However, as discussed in Chapter 3, the reach of mobile money agents is no greater than the reach of post offices, which act as branches for BSB, so the additional outreach of mobile money is not great.

Cash widely used for saving. Although not strictly a product, cash is one of the most widely used savings instruments in Botswana. In total, 15% of adults (195, 000 adults) save at home in cash (FinScope, 2014), although only a small proportion of them (4% of adults) save <u>only</u> at home – in most cases it is in addition to other savings products. Nevertheless, saving in the form of cash is convenient, has no entry barriers or no transactions costs, and is very liquid. However, it is also risky (vulnerable to loss and theft), earns no return, and the liquidity that is useful can also be a drawback, as it can easily be depleted. In an environment where inflation is an issue, cash also loses real value quickly.

Cattle are widely used as a form of saving. According to FinScope (2014), some 273,000 adults, or 21% of the population, live in households that own cattle. Culturally, cattle are widely seen

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[119] *FinMark (2015)*

[120] *However, the distribution of mobile money agents in rural areas still needs to be developed, so the potential benefits of mobile money cannot yet be fully realised.*

as a form of savings, contributing to household financial security, and as an asset that both generates a return on can be drawn down in times of need – i.e. cattle have many parallels with financial assets.

Fixed term savings

Fixed term savings limited, but may rise. Banks also offer fixed term savings accounts, but these are less popular. Most banks offer fixed term savings accounts, for periods ranging from 30 days up to 36 months. These are not widely used – there were only 32,100 fixed term accounts in 2014, or 3% of the total number of bank accounts. However, with the shortage of liquidity, banks have started offering higher interest rates on longer-term deposits, so this may have an impact on the popularity of fixed-term deposits in due course.

Pension savings have relatively high returns, benefit from favourable tax treatment and act as a commitment device. The long-term nature of pensions means that they can be managed and invested so as to earn higher returns (compared to, say, bank savings deposits). In Botswana, as in many other countries, pension contributions are exempt from income tax (up to 15% of income), although pension income is taxable. The pension contribution from the employer – which is also tax free and typically larger than the employee contribution – is a further benefit of belonging to a pension fund. Furthermore, as contributing to a pension fund is often a contractual commitment (as part of an employment contract), it is effectively a form of non-discretionary savings, and therefore acts as a commitment device "forcing" people to save. Some savers value the commitment device offered by inflexible savings products such as pensions, which tie them into savings and ensure that the lump sum is not spent. It is well established that many people find it difficult to save by themselves on a discretionary basis due to self-control problems. Where there is easy access to savings it is difficult to build up amounts over time, as there are always competing priorities. Despite the in-principle attraction of pensions, low incomes and limited formal employment means that many adults are beyond the reach of pension products in Botswana. According to FinScope 2014, only 21% of income-earning adults are members of pension funds, and as noted earlier in this chapter, only 13% of all adults intend to rely on income from a pension fund in retirement.

A range of other formal savings products are available. Besides conventional commercial bank products, BSB and BBS offer a range of savings accounts, with varying characteristics, and interest rates in the range of 2% - 7%, depending on the term and notice period required. SACCOs offer attractive rates on savings accounts – typically 8-10% per annum. The Botswana Stock Exchange offers shares for sale to the public, and various asset managers offer unit trusts or similar investment funds, although these would typically be of interest only to high-income savers. Government bonds can also be purchased, through the banks. Life insurance companies offer a range of products with combined savings and life insurance components, which are sometimes designed as products specifically for savings towards school fees. Most of these other products offer higher (expected) returns than the interest on bank accounts, although they may well come with commitments such as regular monthly contributions and, in some cases, a lack of liquidity[121].

[121] *As an example, the largest life insurance company, BLIL,*

Box 8: Botswana Life's "Mompati Educator" Policy

Although offered by an insurance company, this is a pure investment (savings) policy structured towards the payment of school fees. The policy is taken out for a pre-determined term, with a minimum of nine years. The product invests in a fund that is designed to allow for frequent encashment. It permits up to three encashments in a year (Botswana schools have three terms). The first encashment can only occur in the 5th policy year.

The encashment are as follows:

- For the duration of the policy up until the 4th last year of the policy term, a maximum of 35% of the policy value can be encashed from the policy

The maximum encashment percentage will then increase as follows:

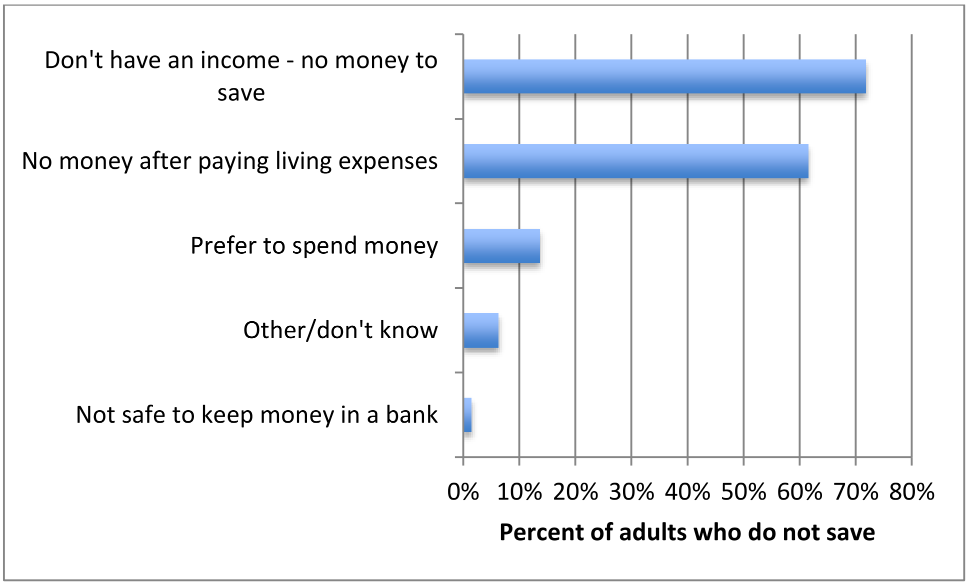
- 50% for the 3rd last policy year,
- 65% for the 2nd last policy year and
- 100% in the final year of the policy

Source: www.botswanalife.co.bw/mompati-educator

Employment Act gratuity scheme provides for limited forced savings. As noted earlier, the Employment Act requires employers to provide a gratuity scheme for workers who are not members of approved occupational pension funds. This pays out as a cash lump sum every five years of service. There is little hard evidence as to how this lump sum is used. Some workers are believed to use this as a contribution towards housing construction (e.g. additional rooms), for the purchase of consumer durables, or for livestock, while others just use it to meet living expenses.

Accessibility barriers

Figure 69: Reasons adults do not save



Source: FinScope, 2014

Lack of excess income the primary reason for adults not to save. As noted above, the majority of Botswana adults save. However, 31% do not save. Figure 69 above shows that the primary reasons cited in FinScope 2014 for not saving - amongst Batswana adults that do not save - is having no income at all, or having insufficient excess income after living expenses.

There may be other barriers, not explicitly stated. Although lack of income is cited as the main barrier to saving, many low-income adults would face barriers if they had funds to save. It is possible to save in a bank account at low cost, but only 54% of the population live in settlements with bank branches. BSB extends the footprint, through post offices, but have a monthly account fee (P8.50) and a withdrawal fee (P1.50). Mobile money extends the footprint similarly, but also has withdrawal fees (P6-P99). So both BSB and mobile money have affordability barriers for low-income savers. And 30% of the population live in settlements that are not financially served (by banks, post offices or mobile money agents) – so for some of them at least, proximity may be a barrier.

Regulatory Issues

The following regulatory issues impact on the market for savings:

No interest paid on mobile money products. None of the current mobile money products offer interest on balances, for a combination of market and regulatory reasons. The operators say they have not considered this as yet. The fact that MNOs are not permitted to receive interest on mobile money trust accounts held at the banks removes the major potential source of income from which interest could be paid, so in this situation it would not be commercially attractive to pay interest on mobile money balances. If they wished to do so, it would require the permission of the regulator. As yet there is no official pronouncement on this, as the regulator has not been asked and there are no formal rules or guidelines on mobile money. However, it seems likely that the regulator would prohibit the payment of interest on mobile money (to keep it clearly distinct from bank products[122]). In principle, however, it could be attractive to savers for MM operators to offer a savings wallet, paying interest, as part of their suite of products. The Botswana Financial Sector Development Strategy (FSDS) recognises that mobile money products can play an essential role in extending financial inclusion and providing low cost options for savings products that will help to fill the gaps left by the banks and other formal institutions. The FSDS addresses this by proposing that a new e-money licensing category is introduced that specifically accommodates deposit-taking e-money issuers; this would be suitable for non-banks – including MNOs – and would allow the provision of card- or phone-based savings products. The new licensing category would deal with concerns about the encroachment of MM into the banking space, and by providing a definitive regulatory basis for such products it would encourage their rollout and access for the unbanked.

Low monetary cap on value of MM accounts. Mobile money accounts in Botswana are restricted to a maximum of P4,000[123]. This is low by international standards, relative to the limits imposed by mobile money regulators elsewhere. Of the 16 countries for which data on mobile money account value caps is presented in Table 20, Botswana is the second lowest (after Mali) in absolute terms, and is by far the lowest when compared to GDP per capita (at 5%). Raising the cap to a level that is more internationally comparable (say P25,000) would

[122] *Supply side consultations*

[123] *See chapter 4 for the regulatory context*

increase the attractiveness and usefulness of mobile money accounts for savings purposes for low income savers.

Table 20: Comparative data on mobile money account value caps - selected countries

Country	Operator	Limit (BWP equivalent)	% of GDP/capita
Mali	Orange	1,650	23%
Botswana	Orange	4,000	5%
Botswana	beMobile	4,000	5%
Botswana	Mascom (MTN)	4,000	5%
El Salvador	Tigo	4,905	12%
Egypt	Orange	6,500	20%
Zambia	MTN	6,800	43%
India	M-Pesa	8,000	58%
Lesotho	M-Pesa	8,200	58%
Kenya	M-Pesa	11,000	96%
Uganda	MTN	16,500	254%
South Africa	M-Pesa	20,500	29%
South Africa	MTN	20,500	29%
Tanzania	Tigo	25,500	348%
Ghana	MTN	25,800	136%
Tanzania	M-Pesa	26,000	355%
DRC	M-Pesa	33,000	1286%
Cameroon	Orange	41,250	306%
Fiji	M-Pesa	48,700	101%
Chad	Tigo	82,500	595%

Source: authors, based on MNO websites

Lack of tiered KYC for banks, and stricter requirements than for mobile money. The fact that full KYC is applied to all applicants for bank accounts, including proof of address and income as well as proof of identification, means that KYC requirements to access bank accounts are a barrier to many Batswana, and could be lessened by an exemption for low value accounts for low income earners. This is relevant for the savings market, as well as for the payment and credit market insofar as bank services are concerned. A related concern is that stricter KYC requirements are applied to banks than to MM operators. For instance, MM operators only require proof of identity (which virtually everybody has) for opening MM accounts. However, this is not possible for banks, which have to implement full KYC requirements for all accounts.

No provision for agency banking. In some countries, banking agents have been effective in rolling out banking provision to areas that cannot support bank branches. In Botswana, banking agents are not permitted, and hence this solution is not available.

Branchless banking not encouraged. Also in other countries, where bank branches may not be cost-effective, extending financial inclusion has been supported by the roll-out of branchless banking solutions. These may include card-based, mobile phone-based or agent-based solutions. In Botswana, existing banks are able to offer some e-banking solutions as an add-on to a bricks-and-mortar, branch-based operation, banks that are based purely or predominantly on an e-banking approach are not encouraged by the regulator[124].

Lack of effective regulation and supervision for SACCOs. The fact that SACCOs are effectively unregulated and unsupervised exposes members to considerable risks. Although there have been no reported problems amongst SACCOs, risks arise from their reliance on manual processes, and the long delays in preparing audited accounts. They are highly vulnerable to fraud and mismanagement, as well as from non-performing loans. Consideration needs to be given to making SACCOs subject to Bank of Botswana supervision, with suitable regulatory requirements, once they reach a certain size. Even for smaller ones, the current minimal supervisory requirements need to be properly enforced, and the Department of Co-operatives needs the capacity to effectively discharge their functions.

Gaps and Opportunities

Banks are unlikely to be interested in developing savings accounts for low income / low value savers. Despite the fact that the core retail banking market – employed individuals with regular salaries – is largely saturated, banks have shown only limited interest in going "down market" and developing products more suited to customers with low and irregular incomes. This market is perceived as offering limited profitable opportunities for banks. Even though banking liquidity constraints have provided banks with an incentive to raise more deposits, the banks do not appear to conclude that it is cost-effective to do so through raising low value deposits from households[125]. Hence an extension of financial inclusion through savings products for low-income households is unlikely to occur through solely, or even mainly, through bank provision.

Branch networks unlikely to expand significantly. Banks have also indicated that they are unlikely to significantly expand their branch networks. Some of the smaller banks are still opening branches, driven by the need to achieve scale and to serve the corporate / small business market. But the larger banks, with more extensive branch networks, are unlikely to open many branches – if any – in locations that are currently unserved.

Branchless banking solutions not yet placed to overcome distributional challenges. One of the primary challenges to extending bank savings products to rural areas is the absence of physical bank infrastructure in remote areas. However, there are no big branchless banking solutions on the horizon, so barriers to this distributional for rurally based savers is unlikely to be resolved in the short to medium term.

Mobile money (potentially) represents a low cost, accessible alternative flexible savings product. With zero deposit and monthly service fees, mobile money is a cheap alternative to saving with a bank. There are already more mobile money agents than banking infrastructure, and the MNOs are still extending their agent networks, making mobile money more accessible to many Batswana than banks. This is particularly relevant for those residing in the rural areas, for whom the cost of travelling to access the relevant banking infrastructure in urban areas to make regular savings deposits may constitute a substantial portion of the value of their savings. Furthermore, the less stringent KYC requirements for mobile money make it more accessible

[124] *Based on supply-side consultations*

[125] *Based on supply-side consultations*

to those that are unable to meet these requirements in order to save in a bank. Saving with mobile money eliminates the risks associated with saving in cash at home, as people excluded from saving with a bank might be forced to do. Mobile money can improve the efficiencies of low value savings for all target markets, particularly those residing in rural areas; however, this needs much greater agent roll out, as the number of agents is still limited.

The potential of mobile money would be boosted by regulatory and product design changes. The potential usage of mobile money as a savings product, rather than a payments and remittance product, would be boosted if the cap on the value of funds that could be held in a mobile money account was raised significantly – say to P25,000, from the current P4,000. Permitting the payment of interest on a mobile money savings wallet would also increase its attraction as a savings product. Furthermore, for mobile money to be attractive as a savings product for low-income savers, the fees would need to be made more attractive, particularly through lower withdrawal fees. Nevertheless, this would conflict with the need to extend the agent network, as transaction fees generate income for agents.

Extending pension coverage. For those who are in formal employment in the middle- to upper-income group, financial security in old age is mainly achieved through membership of an occupational pension fund. But this option is not available to those on lower incomes in the formal sector, or to those employed in the informal sector, those running farms or SMEs. Government is considering the establishment of a new, contributory national pension scheme. If it proceeds, this could make an important contribution to extending pension coverage, as long as it is well designed. According to FinScope 2014, 55% of adults said that they would be willing to contribute to a mandatory national pension scheme.

Poso Card offers savings opportunities for the unbanked. At present, the newly introduced Poso card is used for some welfare recipients to receive payments electronically, which can then be withdrawn as cash at Post Offices (see discussion under Payments). The card has additional functionality, not yet activated, which includes the capacity to receive top up credits (e.g. cash sums), and the payment of interest, that could facilitate its use as a savings mechanism. It could also be made more widely available to the public, beyond pension and destitute allowance recipients.

The table below summarises the opportunities and challenges to be overcome for the various types of savings products in Botswana:

Table 21: Characteristics of savings institutions and products

Institution / Product	Main target group	Pros	Cons
Banks • **Interest-bearing savings accounts**	• All	• Safe/secure • ATM/POS debit card (most) • Interest earning	• Branches not always convenient (location/queues) • Monthly fees (some) • Transaction fees • Entry criteria (KYC) • Low interest rates
Pensions • **Occupational pension fund (individual DC account)**	• Salaried	• Tax concessions • Employer contributions • Good returns • Contractual/ discipline	• Illiquid • Poor pension annuity rates • Asset manager fees • Limited coverage

Institution / Product	Main target group	Pros	Cons
Mobile money • **De facto savings accounts (no interest)**	• All	• Minimal KYC (easy account opening) • No monthly fees • Convenience (phone)	• No interest paid • Agent liquidity • Limited agent network
SACCOs • **Interest-bearing savings accounts** • **Profit sharing**	• Salaried	• Member-based • Any surpluses recycled to members • Linked to employment (most) • High interest • Access to credit	• Poor management • Weak regulation • Poor supervision • Fail to meet (weak) regulatory requirements • Risk of fraud • Weak MIS
Metshelo	• All	• Member-based • Any surpluses recycled to members • Access to credit (some)	• Risk of fraud • May not last

Source: Authors' own

8. Payments and Remittances

Introduction

This section provides an overview of the market for transaction banking, remittances and e-money[126] in Botswana. Remittances are defined as "the sending and receiving of money between people in one place to people in another, using formal and/or informal means".

Focusing on payments is an integral part of MAP. In many respects payments are the most widely used financial service. Everybody makes and receives payments (at least, everybody who is part of the cash economy, and not purely subsistence). This includes paying for goods and services, and being paid for the supply of labour, goods or services, or receiving transfers from relatives, friends or the state. As such, even poor households are involved in payments, even if they may not be users of savings, credit or insurance. Furthermore, making or receiving payments can be expensive, whether in financial terms or in terms of time taken, inconvenience, or the risks of loss or theft. Payments systems typically have a great deal of room for improvement in efficiency and reducing the costs of usage, especially with the innovations resulting from new technology and means of communication. Hence there are potential benefits for poor (and non-poor) households by reducing the costs of the most widely used financial service.

Botswana has a fairly conventional payments infrastructure. Retail payments are largely split between cash and bank cards (primarily debit cards). Banks provide facilities for payments using cheques, electronic funds transfers (EFTs) and the high-value payments system. Mobile money exists but is a fairly new introduction and has been slow to take off. Apart from mobile money, the main recent innovation has been the introduction of smartcards for the distribution of some government welfare payments. Remittances are important, notably domestic intra-family transfers and outward cross-border transfers.

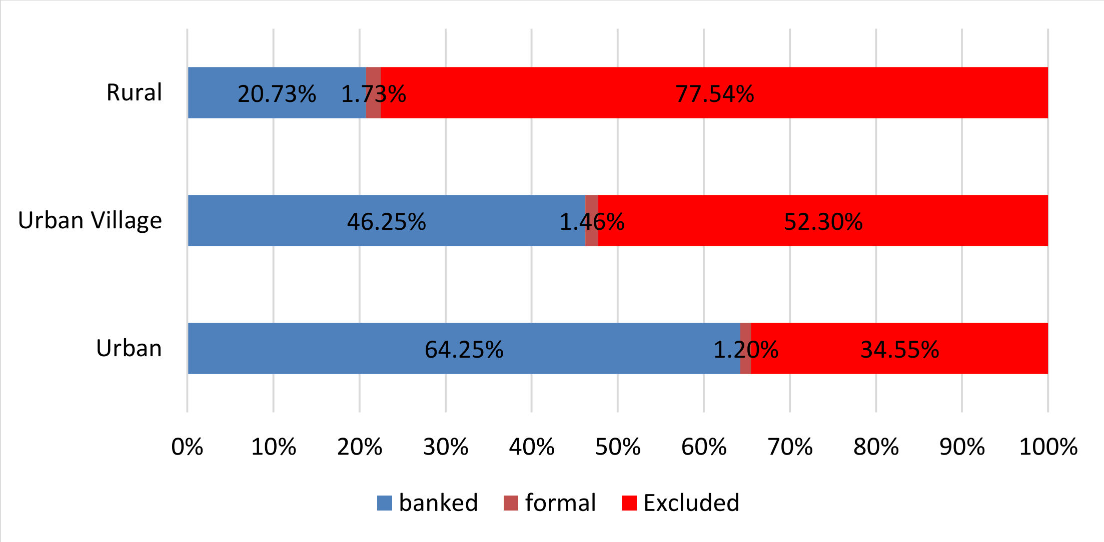
Current Usage

Transactions

Usage of non-cash transactions varies across the population. There are much higher rates of usage in urban as compared to rural areas, and amongst those with more rather than less education. This is indicative of a process of change as the population becomes more urbanised and better educated.

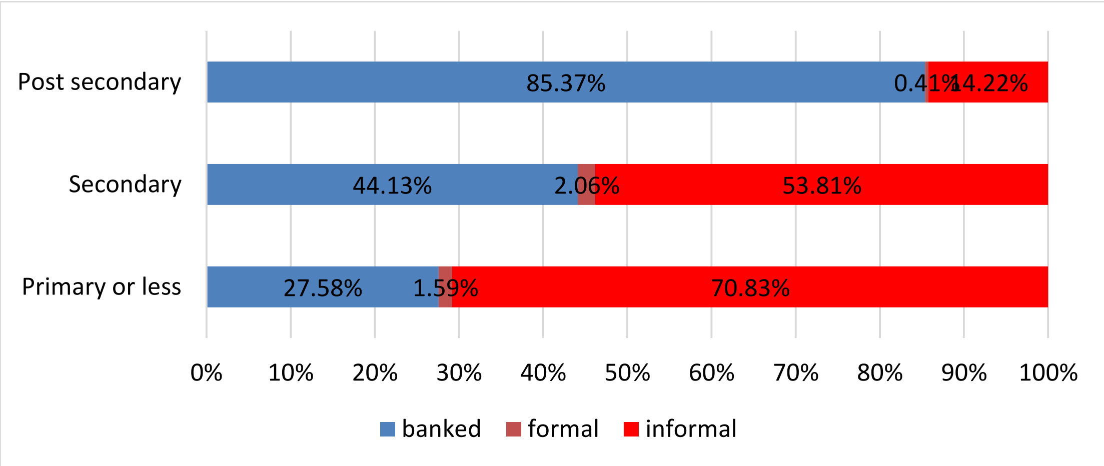
[126] *For consistency purposes, mobile money is used to refer to value stored in mobile form, whilst e money is money stored in any electronic form, including mobile money but also prepaid cards, e wallets etc.*

Figure 70: Transaction access by location



Source: FinScope 2104

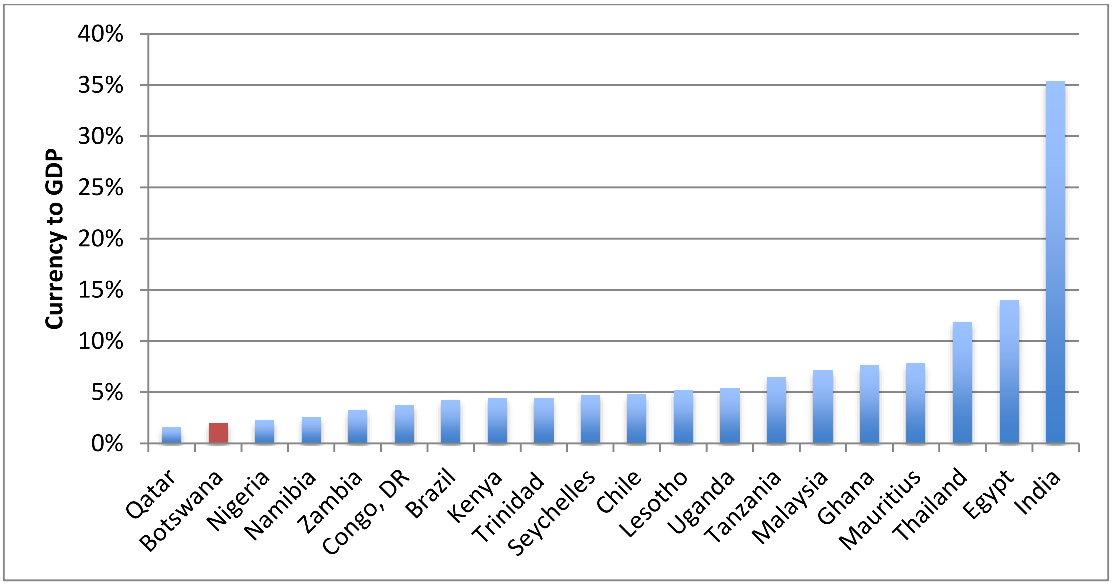
Figure 71: Transaction access by education



Source: FinScope 2104

Mixed picture with regard to cash usage. In macroeconomic terms, the Botswana economy makes relatively little use of cash. On the basis of one commonly-used measure, the ratio of currency in circulation to GDP, Botswana's figure of around 2% is one of the lowest in the world. (see Figure 72). This compares with a global average currency-to-GDP ratio of around 7%.

Figure 72: Ratio of cash usage to GDP, selected countries



Source: IMF International Financial Statistics

However, this does not necessarily reflect a reluctance to use cash. It may be more of a reflection of the structure of GDP, with relatively large mining and government sectors, which tend not to use much cash. Furthermore, in Botswana, household consumption accounts for less than half of GDP by expenditure (49% in 2014), and wages account for a relatively small proportion of GDP by income (22% in 2013). So the low usage of cash may simply reflect the fact that business and government are relatively more important economic players in Botswana than households.

Other evidence suggests a preference for cash. One of the major retail chains in Botswana reports that cash accounts for around 85% of transactions; this compares with a lower rate of 75% in the same business's South African stores. This business focuses on lower-income customers; however, another with a different (higher income) customer profile reports a much higher usage of card payments, accounting for 45% of its transactions[127]. Similarly, debit cards are used more to withdraw cash from ATMs than to make electronic payments, although this situation is gradually changing[128].

Cash is most widely used for purchases. In responding to FinScope questions regarding the preferred method of payment for purchases of groceries and larger items, cash was the overwhelming preference, for 88% of adults. Only amongst the formally employed, where cash preference was 79%, was there a significant difference. Amongst farmers and state dependents, 97% expressed a preference for cash.

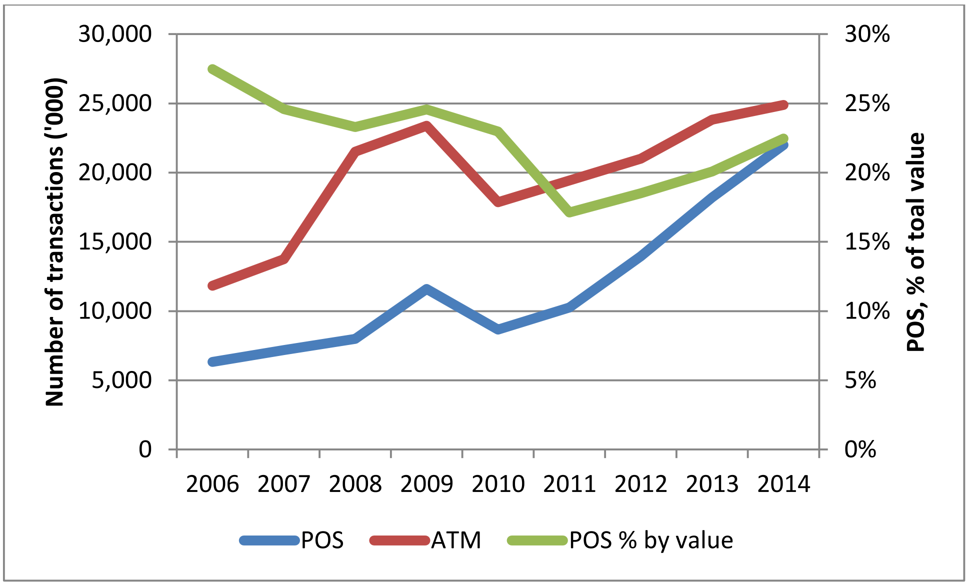
Payment cards are widely held and POS usage is gradually increasing. Results from the 2014 FinScope survey show that approximately 477,000 adults (39%) hold bank debit (ATM) cards, and 73,000 adults (6%) hold credit cards. These are primarily used for either ATM transactions

[127] *Supply side consultations*

[128] *Botswana Financial Statistics, Table 3.28*

(largely cash withdrawals) or purchases at Point of Sale (POS) machines[129]. Back in 2006, when data reporting on the number of card transactions started, cards were used for ATM transactions twice as often as for POS transactions. By 2014, however, the number of POS and ATM transactions were almost equal. By value, however, ATM transactions account for over three-quarters of the value of card transactions.

Figure 73: POS and ATM transactions (number, '000)



Source: BFS

Bank accounts not generally "mailbox" accounts. Cards are used extensively: in 2014, each debit/credit cardholder used a card on average 3.3 times a month for POS transactions and 3.8 times a month for ATM withdrawals[130]. This suggests that bank accounts in Botswana are not generally used as "mailbox" accounts (where salaries are credited once a month and immediately withdrawn in full). Furthermore, the high frequency with which debit cards are used suggests that transaction fees are not a major disincentive to usage.

Debit cards are the primary means of interaction with banks. Debit card holders have an average monthly income of P3,862. The average monthly value of card transactions, per card holder, in 2014 was P742 for POS transactions and P2,562 for ATM transactions, indicating that a high proportion of income paid into bank accounts is withdrawn by card.

Bank customers increasingly willing to use multiple channels. Data from a survey of retail bank customers carried out in 2013 indicated that 52% had used their debit card to make a purchase in a store in the previous month. The same survey reported that 70% of customers used cellphone banking and 33% used internet banking[131].

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129 *Credit and debit cards can be used for ATM transactions (including bill payments) and online purchases. There are no facilities for cash advance at POS machines, and no banking agents. POS machines can only be used for purchase of goods and services, not for bill payment or EFT.*

130 *Calculations based on transactions data in Botswana Financial Statistics (BFS), Table 3.28 and data on number of cards from FinScope (2014).*

131 *Bankers Association of Botswana (2014)*

Many customers make cash deposits. Perhaps surprisingly, many bank customers make cash deposits at banks. According to FinScope 2014, 71% of banked adults "regularly" make cash deposits. Similarly, in the 2013 BAB survey, 42% of retail bank customers had made a cash deposit at their bank in the previous month. Indeed, making a cash deposit was the main reason for retail customers to physically visit a bank branch (most other transactions are done via ATMs, cellphone or internet banking, but until the recent introduction of deposit-taking ATMs, customers had no choice but to deposit cash over the counter at banks)[132].

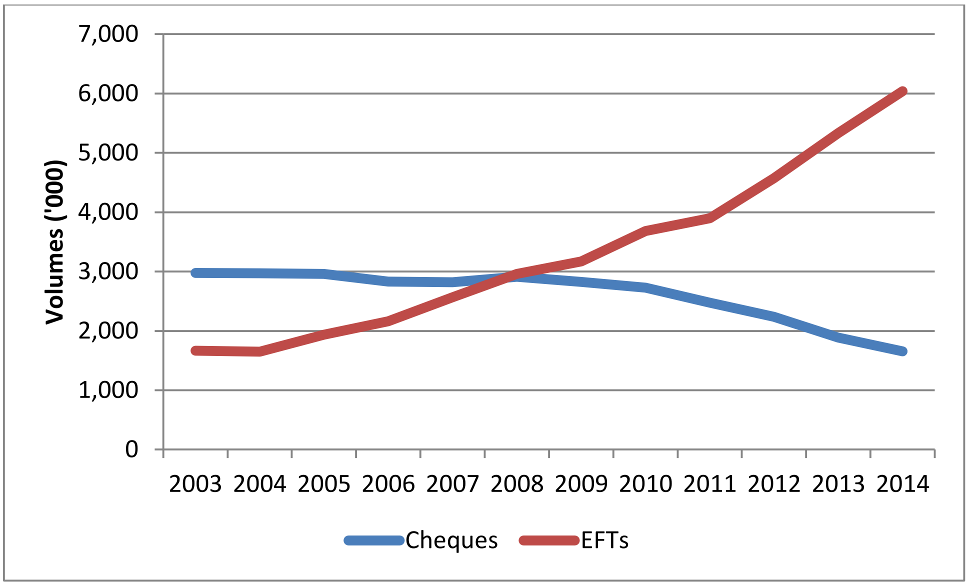
Cheque usage is declining steadily in favour of EFTs. Over the decade to 2014, cheque usage (in volume terms) declined by nearly 6% a year, while EFT usage increased by 13% a year[133]. The number of EFTs surpassed the number of cheques in 2008, and by 2014 there were nearly four times as many EFTs as cheques. Furthermore, in 2014 there were more mobile money transactions than cheques issued. Cheques have fallen out of favour due to slow clearing times and the risk of non-payment. Few retail businesses now accept cheques for payment, nor will government or its agencies such as the revenue authority (BURS). Government uses EFT or BISS for payments, not cheques. The fee for cheque usage is higher than for EFTs[134]. Cheques are still used for some business to business (B2B) transactions, and are used by individuals for deferred payments (i.e., post-dated cheques). They are also used by the BMC to pay for cattle purchases. However, according to FinScope (2014), only 4.1% of banked adults regularly used cheques to make payments (although 10.9% regularly made cheque deposits). Notwithstanding the fact that cheques are generally falling out of favour, some residual use is likely to remain for a while. The BoB has recently required banks to invest in new technology for cheque truncation and imaging, which should lead to faster clearing.

[132] *It is not clear what economic activity this reflects. It could reflect multiple income sources (most people have their primary income paid by bank transfer) including side businesses (e.g. trading), cattle sales, and metshelo deposits.*

[133] *Note that these data refer to items processed through the ECH. Hence they do not include intra-bank (i.e. "on-us") cheque and EFT transactions, as these are processed internally by individual banks.*

[134] *The costs vary across banks, but for retail customers the average cost of an EFT to a 3rd party is around P3, while the cost of a cheque is around P6. For businesses, the costs of cheque issuance is much higher.*

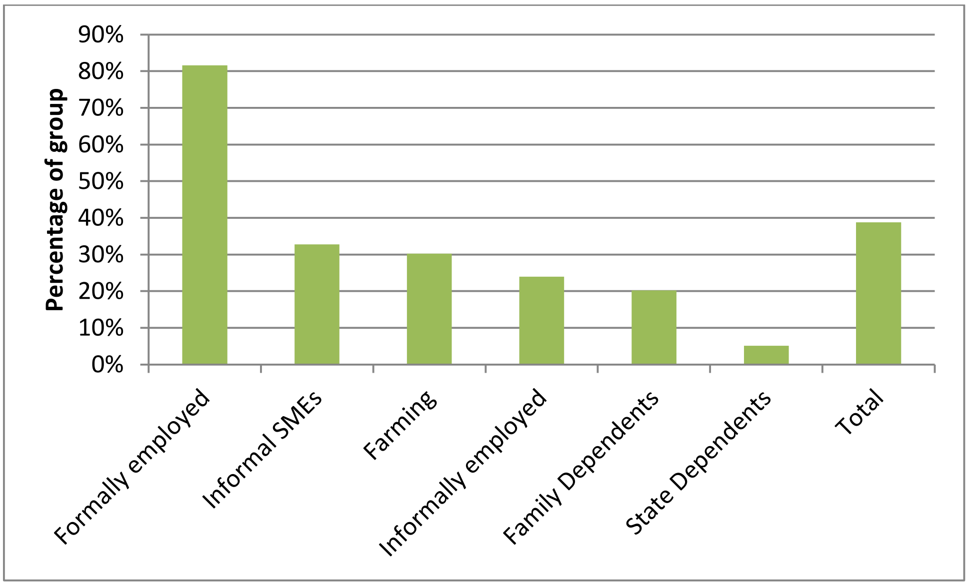
Figure 74: Usage of cheques and EFTs



Source: BFS

Major contrasts in card usage across target groups. Although card issuance is widespread for holders of bank accounts, it varies considerably across target groups. Almost all of the formally employed have debit cards, access is much lower among all other target groups. The outcome may be, therefore, that the middle-to-upper income group makes relatively little use of cash, while the middle-to-lower income group is much more reliant on cash, in part because they have more restricted access to bank card products, and non-bank products are not yet widely useable in retail outlets[135].

Figure 75: Access to debit cards by target group



Source: FinScope 2014

[135] *This would tie in with the comments of the supermarket chain noted above, which deals mostly with middle-to-lower income customers.*

Smartswitch biometric smartcards. The major non-bank payment system in operation is Smartswitch, which issues biometric smartcards with fingerprint authentification. Smartswitch has a contract with the Department of Social Protection (DSP) to distribute “food basket” allowances to around 32,600 social welfare grant recipients under the Destitute Allowance programme. The Smartswitch cards can be used in around 1,200 proprietary fingerprint-activated POS machines across the country; because of the nature of the welfare programme, their use is restricted to the purchase of food items and cannot be used for cash withdrawals or the purchase of alcohol or tobacco products. In rolling out the system, the DSP decided that the Smartswitch POS machines would only be placed in small village stores, and not in the larger chain stores, in order to provide a base for small-scale commerce (albeit at the risk of higher prices for grant recipients). The rollout of the system (placement of POS machines and issuance of cards) was paid for by Government. The total value of payments through the SmartSwitch scheme is around P17 million per month.

Poso cards use the same technology for the payment of old age pensions and other welfare grants. Prior to August 2014, old age pension grants were paid by cash, which was expensive for the DSP due to both distribution costs and the risks of theft. Reconciliation of accounts was also a slow and laborious process. Furthermore, pensioners – who were issued with coupon books - were obliged to draw their pensions every month, failing which the pension amount reverted to DSP. With the Poso card, now issued to over 100,000 pensioners, the cash is withdrawn via a Smartswitch POS machine at post offices, or mobile POS machines used to make payments to grant recipients in rural areas without post offices. Cash can accumulate and pensioners are only required to make one transaction every six months (required for “proof of life”). On a monthly basis, around 130,000 welfare payments are made to some 100,000 recipients (some get multiple benefits paid onto a single card), with a total value to P35-P40 million a month. Government pays a fee to the Post Office for distributing pensions and other grants.[136]

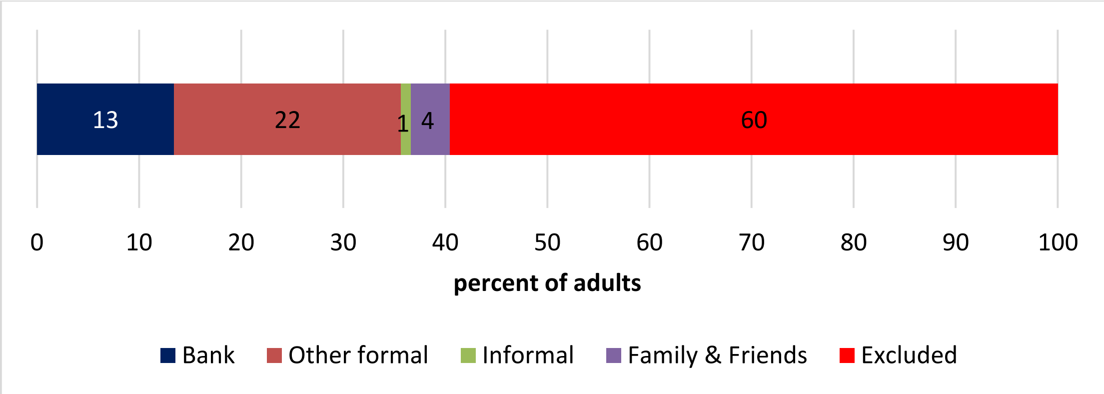
Remittances

Remittances are used to a moderate extent in Botswana[137]. Some 40% of adults send or receive remittances, according to FinScope 2014 – much less than in highly remittance-dependent economies such as Lesotho. Use of remittances is similar across most target groups, although formal employees use remittances more than the average, and state dependents less. The most common remittance channels are a variety of non-bank formal channels, such as the Post Office and mobile money.

[136] *The standard fee is P15 per payment made in a Post Office, and P40-P70 for payments made in remote (non-Post Office) locations. In total, the cost to government is approximately 8.5% of the value of the grant payments.*

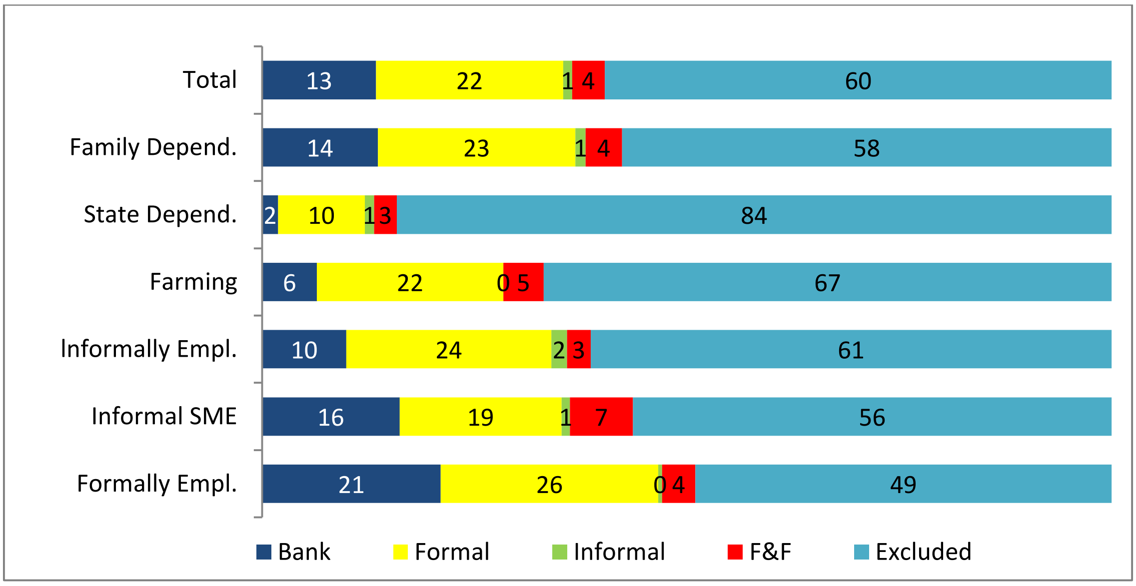
[137] *The discussion refers to both domestic and international (cross-border) remittances unless otherwise stated.*

Figure 76: Remittance access strand



Source: FinScope 2014

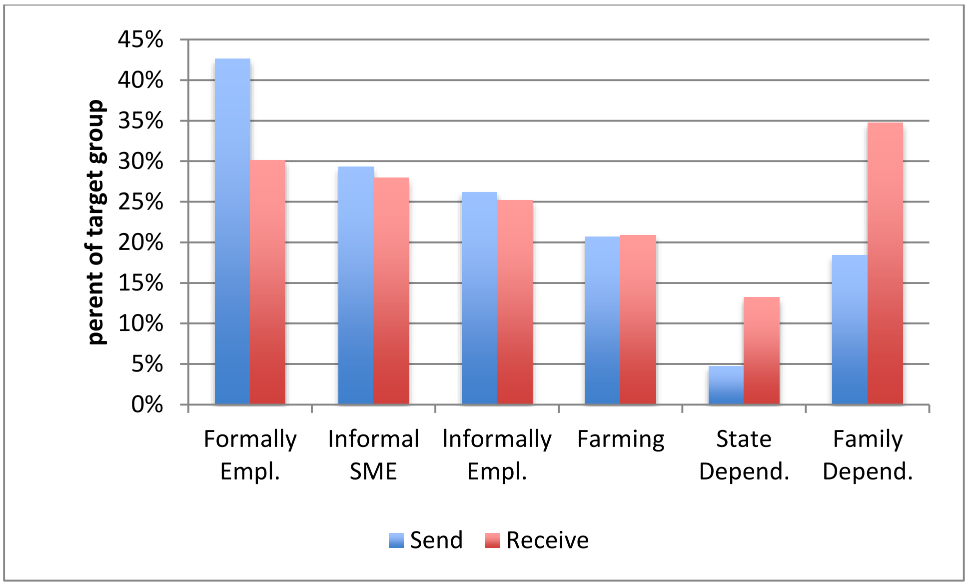
Figure 77: Use of remittances by target groups



Source: FinScope 2014

Most target groups both send and receive. Within this total, 26% of Batswana adults send remittances, while 28% receive. Informal employees, informal SMEs and farmers send and receive equally. Formal employees tend to send much more than they receive, as would be expected due to their income level, while state dependents, and in particular family dependents receive much more than they send.

Figure 78: Remittances sending and receiving by target group



Source: FinScope 2014

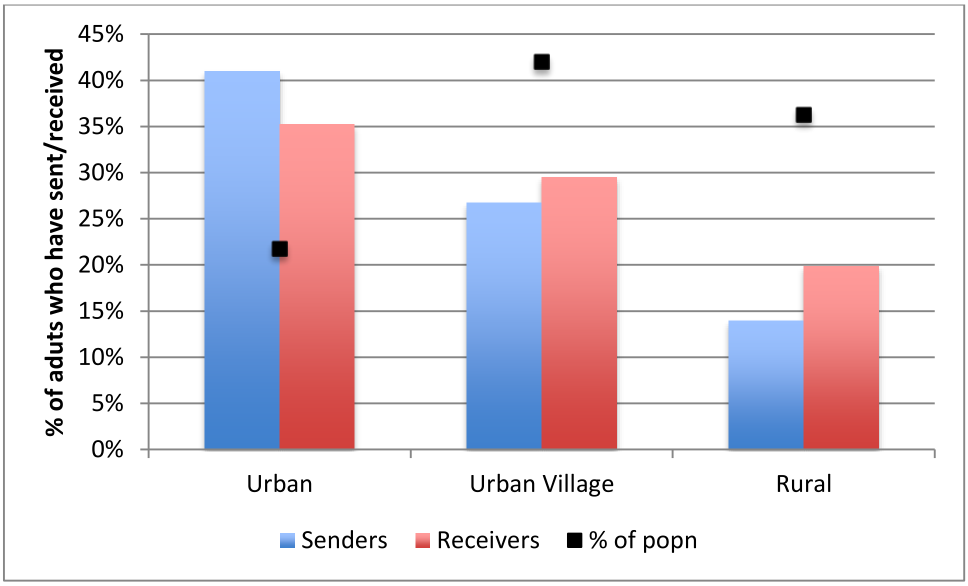
Few demographic differences between remittance senders and receivers. FinScope data shows that the demographic differences between remittance senders and receivers are minimal. The average age of remittance senders is 33.3 years, while that of receivers is 33.8 years. There is a gender difference, however, as 57% of senders are male while 55% of receivers are female.

Most remittances are either monthly or irregular. Around 40% of remittances are sent or received monthly, and another 40% at unspecified intervals. The average (median) amount remitted is between P250 and P500.

Remittance flows are mainly domestic. Most remittance flows are between Botswana residents. To the extent that cross-border remittances are used, flows are mainly outward. 23% of remittance senders (6% of adults) sent money out of the country, mainly to South Africa and other Africa countries (believed to be mostly Zimbabwe). Only 8% of remittance receivers (2% of adults) received remittances from outside of the country. In contrast to many other SADC countries, therefore, Botswana is not particularly dependent on financial inflows from citizens working in other countries.

Domestic remittance flows are mainly to urban and urban village areas, rather than rural areas. The dynamics of domestic remittance flows, as revealed in the FinScope results, are not in line with expectations that remittances would flow mainly from urban to rural areas. Urban areas are the main source of remittances, but they are also the main recipients. Surprisingly, only 20% of remittance receivers live in rural areas, despite the fact that 36% of the population lives in rural areas. One possible explanation is that many intra-family payments are made in person (one family member physically takes money – and often goods – to another family member), and hence are not classified as remittances.

Figure 79: Domestic remittance sending and receiving by locality



Source: FinScope 2014

Use Cases

This section outlines the major reasons why Batswana use payments mechanisms, detailing the primary uses that individuals have for payments.

Remittances (P2P). Remittances include domestic transfers, such as intra-family money transfers from urban to rural areas, as well as cross-border transfers, such as the remittance of wages earned in Botswana to family members in other countries. Remittances are important to all the target markets but particularly to salaried workers (which constitute the main senders) and private dependents (as receivers).

Bill payments (P2B, B2B, P2P). Bill payments constitute the payment by a person or a business to business or another person in return for a good or service. Bill payments encompass the purchase of goods, such as clothes, groceries, agricultural or business inputs, airtime, prepaid electricity, TV subscriptions, or financial services such as insurance premiums, loan repayments and contributions to community organisations like metshelo and burial societies. All the target markets are required to make payments and hence this use case is important to all.

Salary payments (B2P, G2P, P2P). Salary payments constitute the payment of individual employees by their employer, either a person, business or the government, and may be formal or informal. As many salary payments constitute a bulk payment disbursement, it is important that employers are able to use efficient and cost effective channels to conduct these payments. From the individual receiver's perspective it is imperative that they receive salaries on a consistent, timely and reliable basis. The target markets most affected by salary payments are the salaried workers any business owners that have employees. However, this segment also includes one-off or irregular payments for piece jobs and informal employment.

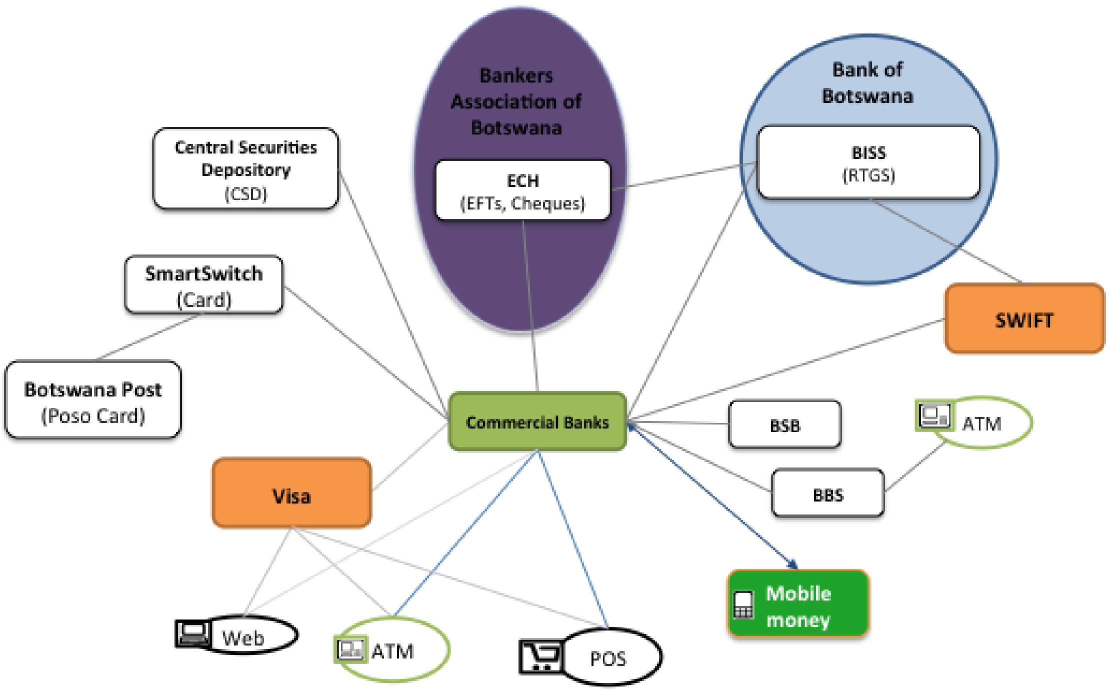
Welfare payments (G2P, NGO2P). Welfare payments constitute the payment of grants[138] to grant recipients and other social security payments by the Government. As with salary payments, grants also constitute a bulk payment disbursement by the state, but the recipients have different profiles that will affect the payments mechanisms used. In Botswana, most grants were until recently paid in cash but there is now a transition to card-based payments mechanisms. The use of cards makes the overall cost of distributing grants substantially less expensive for the government. Government dependents are the primary target market affected by grant payments.

Providers

This section considers the providers of payments services and products to Botswana consumers, whilst also examining the underlying payments infrastructure that enables payments in the country.

Payments Infrastructure

Figure 80: Payments system infrastructure & linkages



Source: authors

Payments infrastructure is moderately well-developed. As noted in Chapter 3, Botswana has a relatively high penetration of ATMs on a per capita basis (if not on a geographical basis, due to the low population density). There are around 320 ATMs in the county and 4,000 POS machines[139]. The Bankers Association of Botswana (BAB) operates an Electronic Clearing House (ECH) for cheques and EFTs. The maximum value of cheques is capped at P500,000. The BoB

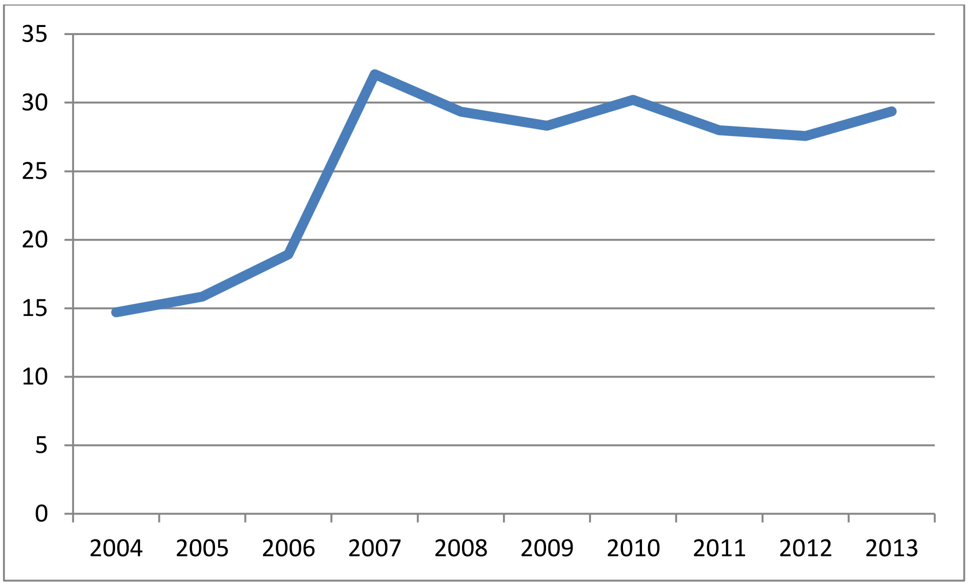
[138] *A specific sum of money allocated by a government to purposes necessary for the protection of an individual's social welfare, such as replacing basic income lost due to disability or providing basic monetary support to the poverty stricken for child support.*

[139] *Source: BFS June 2015, Table 3.28*

operates the Botswana Interbank Settlement System (BISS), a high value, real time gross settlement system. Three banks (Barclays, FNB and Stanbic) operate separate, standalone POS networks.

The payments system has been progressively modernised over the past 10-15 years. This includes the establishment of the ECH (initially by the BoB, but subsequently transferred to the BAB); the introduction of machine-readable cheques; the introduction of EFTs; the establishment of the BISS; the transition by the banks from branch-based to electronic transactions (ATM, POS, cellphone and internet banking); and the introduction of cellphone-based payments and remittance systems (by the MNOs and some banks).

Figure 81: ATMs per 100,000 adults, 2004-14



Source: IMF Financial Access Dataset

Visa network plays a crucial, if expensive, role. All debit cards and credit cards issued by Botswana banks are Visa-branded, and inter-bank POS and ATM transactions are all processed through Visa, which is relatively expensive. Some banks absorb part of the higher costs of Visa transactions (e.g. ATM withdrawal fees at other banks, or POS transactions through other banks' machines), while some pass the cost on to customers.

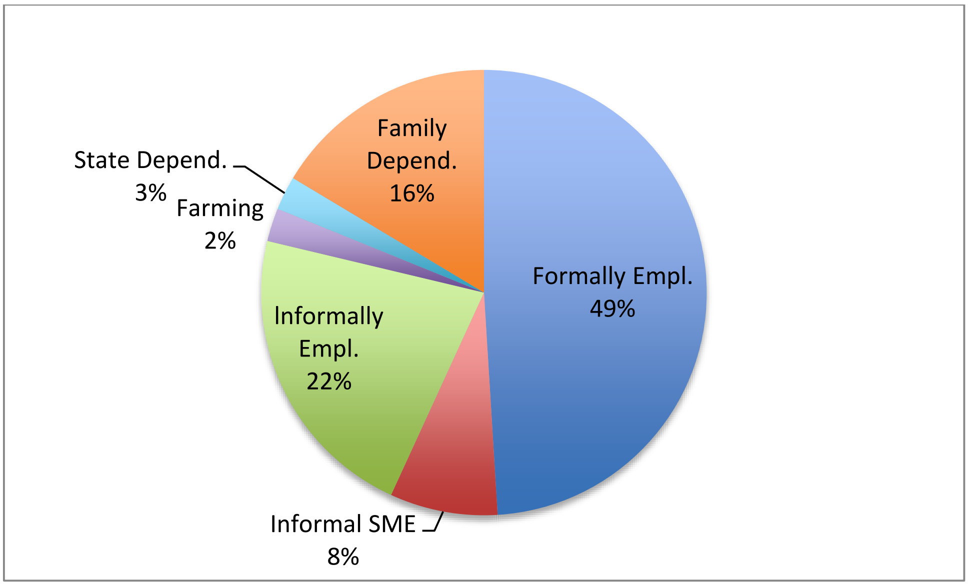
No local switch. Unlike many countries, Botswana has no local switch for acquiring and processing card transactions. This in part reflects the universal use of the Visa network by the banks; there is no absolute need for a local switch because card transactions are processed by Visa. However, there are some disadvantages, besides the cost. The lack of a local switch means that it would be difficult for non-Visa card issuers to enter the market. It also limits the scope for linkages between non-bank products (such as mobile money or smartcards) and bank accounts. At some point, increasing volumes for bank transactions and potential volumes for non-bank transactions will make a local switch a viable financial proposition.

Payments Providers

The commercial banks are key players in the payments and remittance markets. The banks run much of the payment infrastructure, and have been important players in the modernisation of the payments system, including being the source of much innovation[140]. The importance of the banks partly reflects the highly-banked nature of formal employees, who are the main source of payments and remittances. Many payments and remittances take place as transfers between bank accounts. They are also important channels for cross-border payments (via SWIFT), although mainly for large amounts.

The Post Office plays a key role in domestic remittances and social grant payments. This reflects its widespread branch network, and the fact that the government makes extensive use of the Post Office for grant disbursements. The Post Office also has a facility for cross-border remittances to Zimbabwe and South Africa, and is also considering the introduction of cross-border transfers, initially to Zimbabwe, via the Universal Postal Union network. As mentioned in Chapter 4, the Post Office is exempt from payments regulatory requirements under the NCSS Act.

Figure 82: Remittance senders by target group



Source: FinScope 2014

All three MNOs have established mobile money operations. These include Mascom MyZaka (loosely based on MTN Money[141]), Orange Money (based on similar systems rolled out by Orange in other countries), and beMobile sMega[142]. Although there has been reasonable growth in mobile money usage, the outreach of mobile money agents is still relatively limited. As at mid-2015, MyZaka had 193 agents, Orange 496 and beMobile 14.

Retailers play an increasingly important role as agents. The largest retail chain in Botswana, Choppies, is a key agent for Orange Money. The DSP has placed dedicated POS machines in 1,200 small village shops to act as disbursement channels for food grants, via smartcard.

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140 *Such as mobile phone and internet banking, ATMs, EFTs, eWallet etc.*

141 *MTN has a substantial minority stake in Mascom*

142 *beMobile is wholly owned by the Government of Botswana (via Botswana Telecommunications Corporation). BTC has recently signed a technical co-operation agreement with Vodafone, and this is expected to include access to M-Pesa product and marketing expertise.*

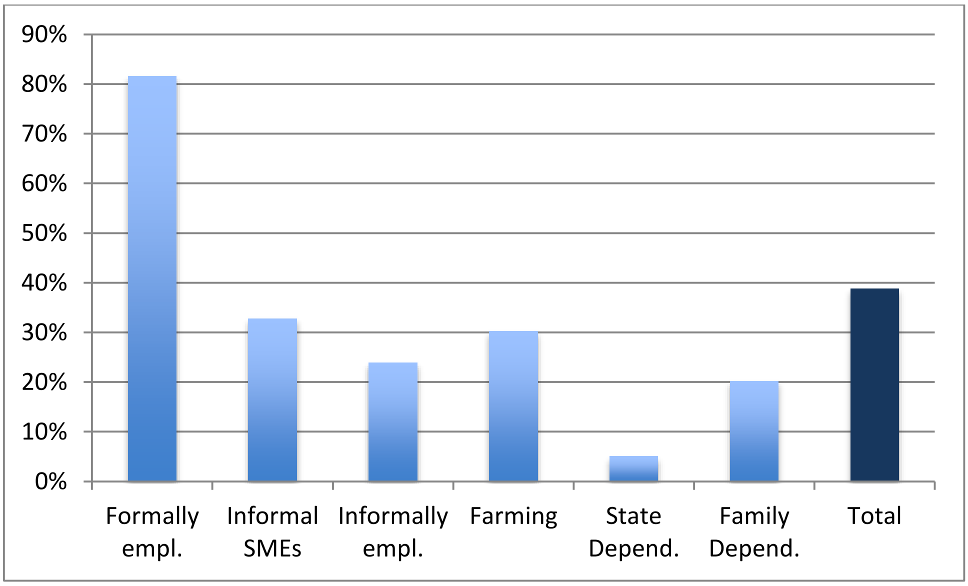
Money Transfer Operators (MTOs) are key channels for cross-border transfers. The main operators are Western Union (which operates through Post Offices, as well as other outlets), and Moneygram. MTOs are given permission to operate by the BoB, although not formally licensed.

Informal channels are not used extensively, relative to formal channels. In contrast to some other countries, informal third-party channels (such as buses, taxi drivers) etc. are not much used to send payments or remittances in Botswana (well under 5% of both senders and receivers, according to FinScope). The main informal channels used are delivering money directly oneself or via friends and family members.

Products

The central product for payments and remittances is the bank transactions account, which is the most common type of bank account. Most transactions accounts come with a Visa-branded debit card, which can be used in all bank ATMs. Around 40% of adults have an ATM card, although across target groups this varies from as much as 82% for formal employees to as little as 5% for state dependents. Besides ATM transactions and POS purchases, transactions accounts generally have cellphone and internet banking capability. As noted earlier, bank transactions have shifted away from cheques towards electronic payments (EFTs). Standard transaction accounts do not offer cheque books, which are only offered on current accounts to customers with a minimum income level. Bank transfers are by far the most cost-effective ways to make domestic remittances (see Figure 85).

Figure 83: Access to ATM debit cards by target group



Source: FinScope 2014

eWallet extends functionality of bank accounts for transfers. An important extension to the functionality of some bank accounts has been the introduction of eWallet transfers, originally by FNB but more recently by Barclays and Stanbic. This enables cash to be sent from a bank account to any domestic cellphone number (for which an underlying bank account is created). The recipient does not need to have a bank account, and the cash can be withdrawn at any of the originating bank's ATMs. The FNB eWallet service is significantly cheaper than competing mobile money services, but has an upper limit of P3,000 on both the value of daily transfers and the total balance in an eWallet account at any time. eWallet balances can be left in the account, but do not earn interest; they can also be on-sent to other customers and used for certain bill payments.

The Post Office offers transfers by money order between domestic post offices. The service is very popular, and is the most important single channel for remittances. Cash-in and cash-out must be done at post offices, which have a reasonably widespread network across the country. Post Offices are also mobile money agents.

Mobile money accounts have been growing steadily since their launch by Mascom and Orange in 2011. The total number of mobile money accounts reached 405,000 in February 2015, of which the MNOs report that one-quarter to one-third are active[143]. Nevertheless, the number of bank eWallet users is higher than the number of mobile money users. The main services offered by mobile money include cash-in, cash-out, mobile money transfers, bill payment (prepaid electricity, DSTV). They do not yet offer the facility for purchases at stores, although this is being considered. Mobile money transfers are one of the three most important channels for remittances, according to FinScope 2014, although this most likely includes both mobile money and eWallet. None of the MNO or bank-led mobile money schemes are interoperable.

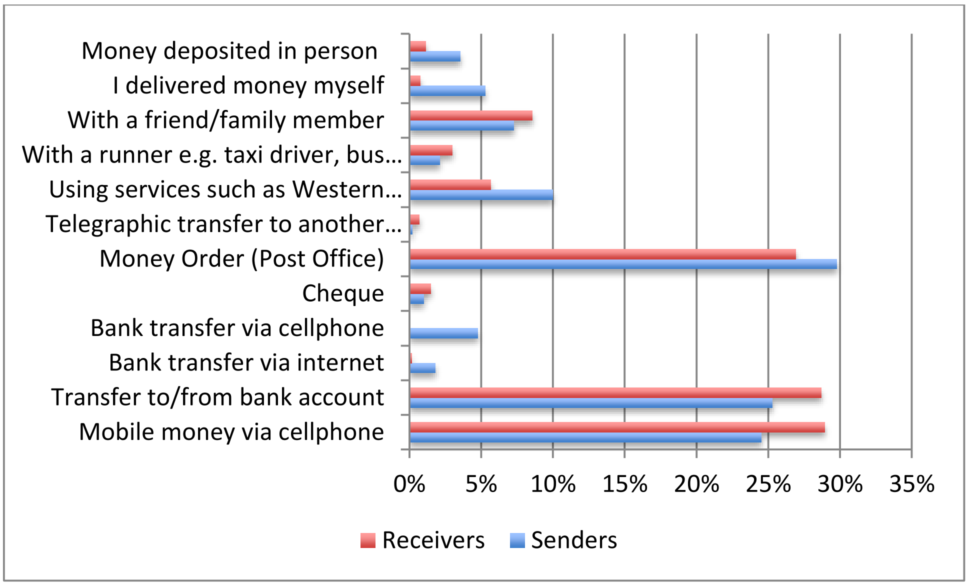
Table 22: Mobile money transactions (per month)

	2013 (Jan-Dec)	2014 (Jan-Dec)	2015 (Jan-Jun)
Volumes ('000)	68.3	190.3	286.9
Values (P mn)	13.3	35.2	59.2
Average value (P)	194.7	185.0	206.3

Source: Bank of Botswana

[143] *Defined as having a non-zero balance or a transaction in the past month (depending on the operator)*

Figure 84: Use of remittance channels for sending and receiving

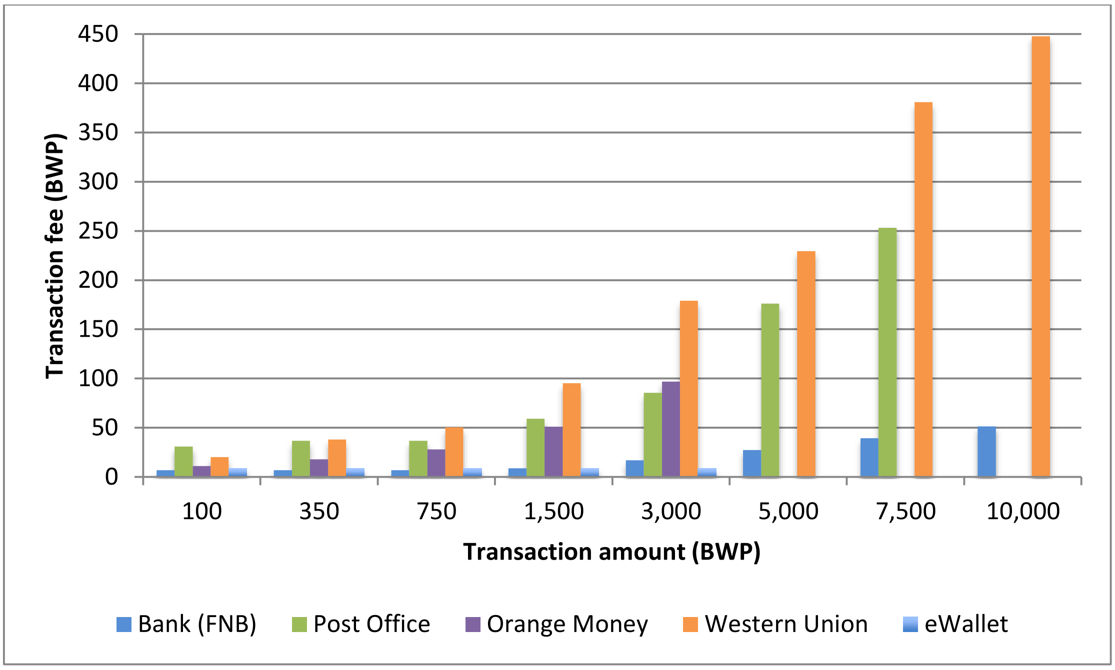


Source: FinScope 2014

Mobile money is providing competition for money orders. For lower value transactions (below around P2,000), mobile money fees are less than Post Office money order fees. For larger amounts, money orders are cheaper. Furthermore, mobile money accounts are more restrictive, in that the maximum value that can be transferred is P4,000 (on Orange Money) or P1,000 (on Mascom MyZaka). Money orders can go up to P8,000.

Mobile money not providing competition for banks. The business model of the mobile money operators in Botswana appears to be based around a high-fee low-volume approach, with fees calibrated to non-bank payment service providers such as Botswana Post and Western Union. However, mobile money fees are much higher than fees charged by banks. In contrast to many other countries, the mobile operators do not seem to be pursuing a low-cost high-volume strategy.

Figure 85: Transaction fees, domestic money transfers



Source: Botswana Post, Orange, FNB, Boitekanelo (Western Union). Mobile money fees are those applicable to transfers to registered users. FNB fees include cash deposit charges and ATM withdrawal fees.

Biometric smartcards are used for the payment of food basket allowances to registered destitutes and for old age pension grants. As noted earlier, the arrangement is slightly different in each case, although the underlying technology is the same. For destitutes, the cards are issued by Smartswitch (on behalf of the Department of Social Protection (DSP)), and the allowance can only be used for the purchase of food items only at some 1,200 dedicated POS machines across the country. Poso cards are issued by the Post Office on behalf of the DSP, using the Smartswitch system, to the same 32,600 destitutes, who receive a small (P120) monthly cash allowance. Poso cards are also issued to 100,000 recipients of old age pension grants (P300 per month), 2,000 recipients of World War 2 veterans allowances (P420 per month), and 5,000 disability grant recipients (P300). Some recipients receive multiple benefits onto a single card (the average number of grants received per card is 1.2). At present, the functionality of Poso cards is limited, as they can only be used for receipt of government grants and for cash withdrawals; cardholders cannot make cash top ups, receive credits from bank or mobile money accounts, use them in Smartswitch POS machines in shops, or make transfers to other cardholders. However, the system is technically able to provide such additional services.

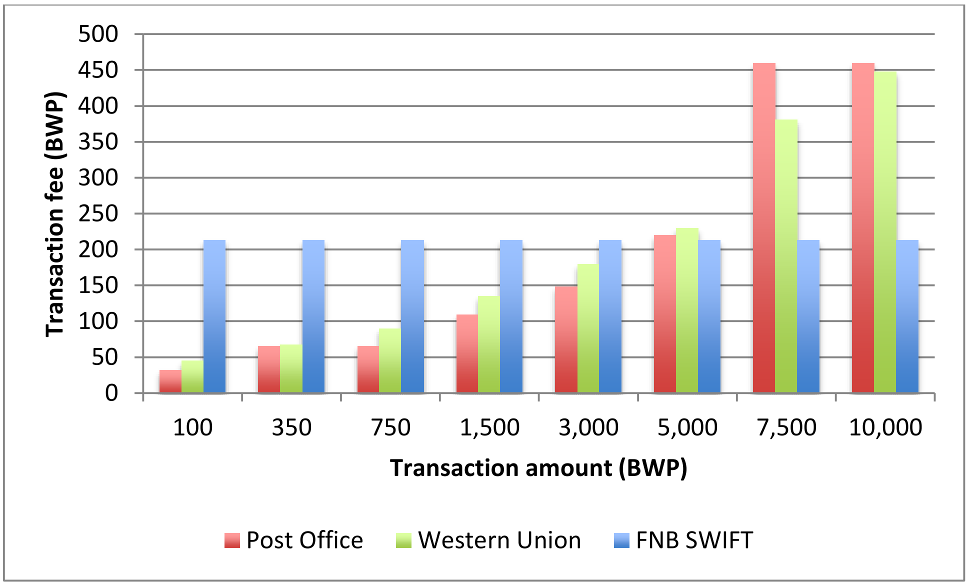
Cross-border products

Various formal products are available for cross-border transfers. These include Post Office money orders (to South Africa and Zimbabwe), money transfer services (inward and outward) by Western Union and Moneygram, and bank transfers using SWIFT. The Post Office product is generally the cheapest, but has limited functionality in that it is only available to South Africa and Zimbabwe, and has upper limits of P5,000 and P10,000, respectively. Western Union is available worldwide, for both inward and outward, and has no upper limit, although there are more stringent anti-money laundering requirements to be met for amounts over P10,000. Bank transfers via SWIFT are only cost-effective for larger amounts (P5,000 upwards).

According to FinScope 2014, 69% of those who send international remittances use (only) other formal channels, while 23% use banks.

Use of informal products appears to be small. According to FinScope 2014, only 2% of those who send international remittances use informal channels (bus drivers, taxis etc.), while 6% remit through family members. There is some anecdotal evidence of an established remittance channel to Zimbabwe via bus drivers, but nothing beyond that. Given the frequency of movement between the two countries, it is not surprising that the use of (extended) family members is more common.

Figure 86: Costs of formal cross-border outward transfers



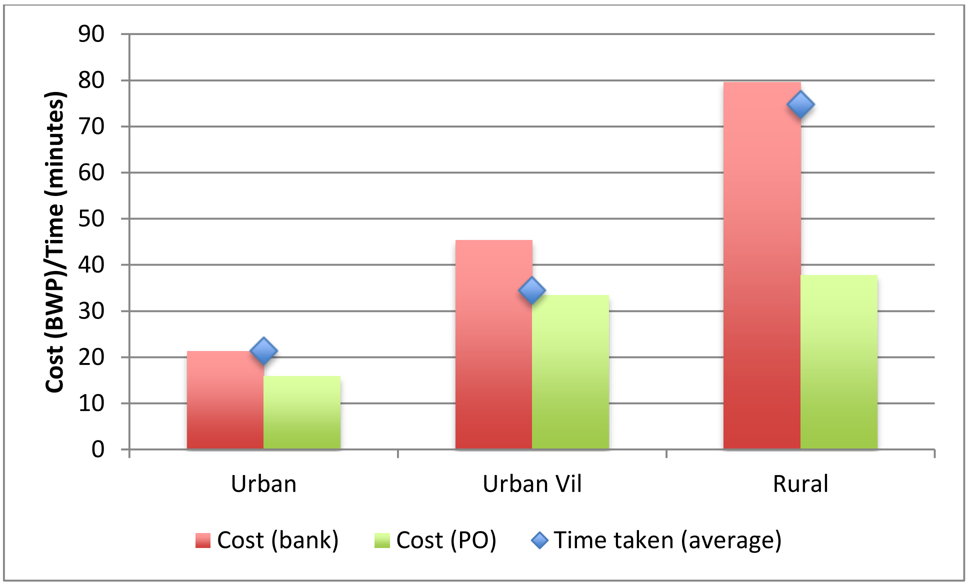
Sources: Botswana Post, Boitekanelo (Western Union), FNB

Barriers

There are several barriers to the use of bank accounts. These include economic and financial barriers; physical (proximity/distance); cost; and eligibility. When asked why they do not have bank accounts, by far the majority of unbanked adults (70%-80%) cite not having a job or an income as reasons. This could reflect a lack of need for a bank account, or a perception that they would be unable to open a bank account if they needed or wanted to. Banks generally do not offer products that are suited to those on low and irregular incomes.

Physical proximity a problem in rural areas. Although banks are reasonably well distributed in urban areas, including the larger urban villages, there are virtually no banks in rural areas, where post offices would be the main outlet for delivering (limited) financial services. Hence it is time-consuming and expensive for residents of rural areas to reach bank branches. On average, in rural areas it takes 75 minutes to reach the nearest bank/post office, compared to 21 minutes in urban areas. Similarly, in rural areas it costs on average P80 to travel to the nearest bank, and P38 to the nearest post office, compared to P21 and P16 respectively in urban areas. The network of mobile money agents has not yet been developed sufficiently to extend access beyond the area already covered by post offices.

Figure 87: Cost of travel and time taken to nearest bank/post office



Source: FinScope 2014

KYC requirements can also be a barrier to opening bank accounts. This is especially the case for low income employees, where the requirements for documented proof of income can be difficult to fulfil.

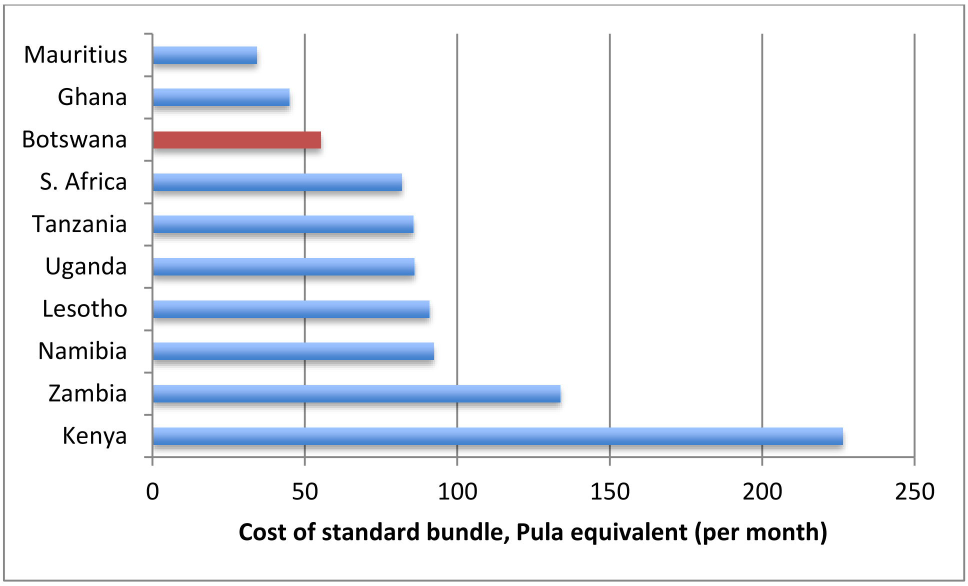
> *"It is hard for me to open an account, they were asking me, do I have a source of income? Where am I earning it from? They wanted to know that before they opened an account. I have been going to the bank for some time without success. Only when I had the grant funding letter, only then they offered me an account – it is business now. (Recipient of a productive grant for farming, Metsimotlhabe)*[144]

The cost of banking has been a controversial issue. There have been complaints about the costs of banking in Botswana, in relation to the quality of service, for many years. This led BoB to initially restrict banks' ability to increase fees for banking services (all changes had to be approved by BoB) and then to impose a two-year freeze on tariff increases (for 2014-15). In response, in 2014 the Bankers Association of Botswana commissioned a study on bank charges and perceptions of quality of bank services in Botswana[145]. The study found that the majority of bank customers were satisfied (or better) with the relationship between tariffs and services in terms of value for money. The study also found that the overall cost of banking services in Botswana – priced across a bundle of commonly used services – was relatively low by regional standards

[144] *FinMark (2015)*

[145] *FinMark (2015)*

Figure 88: Regional comparison of bank tariffs



Source: BAB (2014)

The study also found that banking tariffs varied considerably across banks in Botswana. The study included a survey of usage of banking products, which was used to price a standard bundle of products, as below.

Table 23: Average monthly usage of key banking products (retail customers)

Product/service	Average frequency of use (monthly)[146]
ATM on-us cash withdrawal	2.9
POS transaction	1.5
ATM cash withdrawal at other bank	0.9
Cash deposit	0.8
Inter-account transfer	0.8
Debit order	0.6
Payment to 3rd party (internet/cellphone)	0.5
Cash withdrawal OTC	0.3
ATM statement	0.3
Statement – branch	0.2

Source: BAB (2014)

The cost of this bundle for a basic transactions account, across banks, is shown below

[146] *This is the average frequency of use across all retail customers (including those do not use the product, i.e. have zero usage)*

Table 24: Cost of transactions bundle – by bank (Pula per month)

	Bundle Cost
StanChart	88.49
Capital	68.06
Barclays	59.38
Bank Gaborone	54.89
Stanbic	50.07
FNB	50.10
Baroda	42.43
BancABC	28.00
Average (unweighted)	**55.18**

Source: BAB (2014)

Nevertheless, banking may still be unaffordable to low-income groups. There is no formal rule as to what makes bank charges "affordable". However, FinMark has in the past used a rule of thumb that for banks to be accessible on the grounds of costs, account fees and charges should not amount to more than 2% of household income. The average cost of a transactions account is P55 per month. For this to amount to 2% or less of income, monthly income would have to be more than P2,750. On the basis of the most recent household survey data (the Botswana Core Welfare Indicators Survey (BCWIS), 2009/10, updated to 2014 prices), this would be unaffordable to some 50% of households. However, if a household avoided some of the more expensive transactions (such as over-the-counter statement requests) and usage of other banks' ATMs, and went to one of the cheaper banks, the monthly cost can be considerably reduced, such that it becomes affordable to 70% of households.

> *One respondent in Kweneng who did not want to be recorded, brews and sells beer. She said she wanted to open a bank account, but the bank advised her against it, because ''the monthly charges would lower her static money.''*[147]

Mobile money accounts have not significantly extended affordability. A comparison of the costs of using mobile money for transactions purposes shows that both Mascom and Orange mobile money products are considerably more expensive than the closest bank equivalent (from FNB). Withdrawal fees in particular are perceived as very high.

[147] *FinMark (2015)*

Table 25: Comparison of account costs, mobile money and FNB (P)

Transactions	Mobile Money		FNB	Bundle
	Orange Money	Mascom Myzaka	Smart acc	# per month
Monthly fee	0.00	0.00	11.93	1.0
Cash deposit - P500	0.00	0.00	0.00	0.8
Cash withdrawal - P250 (agent/ATM)	8.00	9.00	2.34	2.9
Bill/merchant payment - P100	6.00	5.00	4.54	2.0
Money transfer to unreg phone - P250	19.00	25.00	8.48	0.5
Money transfer to reg phone - P250 (incl. w/d fee)	13.00	14.00	8.48	0.8
Bundle	55.10	59.80	33.62	

Source: authors

Mobile money fees in Botswana are relatively high by international standards. A comparison of money transfer and cash withdrawal fees across a range of developing countries and mobile money providers suggests that mobile money fees in Botswana are higher than the average. Maximum transaction values and account balances are below the average[148].

Table 26: International comparison of mobile money fees and limits (BWP)

	International Average	Botswana Mascom	Botswana Orange
Minimum Single Transaction Value	4.11	25.00	1.00
Maximum Single Transaction Value	10,465.26	1,000.00	4,000.00
Cost to transfer P25	1.24	16.00	5.00
Cost to transfer P250	3.55	25.00	5.00
Cost to transfer P2500	17.23	N/A	5.00
Cost to withdraw P25	2.47	N/A	8.00
Cost to withdraw P250	7.04	9.00	8.00
Cost to withdraw P2500	45.06	99.00	92.00
Maximum account balance	24,946.67	4,000.00	4,000.00

Source: mobile operators' websites

The Poso card has extended access but is not publicly available and has restricted functionality. The provision of Poso cards to 150,000 government grant recipients has provided a basic financial instrument for payments and savings to people who would generally not have access to bank accounts. However, functionality is restricted, as explained above, and the cards are not yet available to the general public.

148 *International figures are from: Benin, Bolivia, Cameroon, Chad, Congo Republic, Cote d'Ivoire, DRC, Egypt , Fiji, Ghana, Guatemala, Guinea, Honduras, India, Jordan, Kenya, Lesotho, Madagascar, Mali, Mozambique, Niger, Nigeria, Paraguay, Rwanda, Senegal, South Africa, Tanzania, Uganda and Zambia, and across the following networks: Orange Money, Tigo Money, M-Pesa (Vodafone), and MTN Money. NB the figures still need to be refined to distinguish charges for registered and unregistered users*

Regulatory Issues

Non-bank payment service providers operate in a regulatory vacuum. As discussed in Chapter 4, the NCSS Act touches on payments service providers, but does not really provide a regulatory framework for them. The outcome of this is that SmartSwitch was recognised as a clearing and settlement system under the NCSS Act, even though it does neither clearing nor settlement. Mobile money and money transfer service providers have been given permission to operate by BoB, but there is no clear policy framework governing their activities, while Botswana Post is exempt.

The relationship between payment service providers and the banks providing trust accounts is unclear. As is usual for mobile money providers, all customer funds held in the form of e-money must be backed by trust account balances at a commercial bank. However, Botswana has no trust law to provide a legal underpinning for this. Mobile money trust accounts are "bulk" or wholesale accounts with no direct link to the ultimate customers who have mobile money accounts. SmartSwitch card holders – including holders of Poso cards – are required to individually register with Bank Gaborone, who operate the SmartSwitch and Botswana Post trust accounts, but they do not have individual accounts at Bank Gaborone. The mobile money operations of the MNOs are not conducted by legally distinct subsidiaries, but are on the books of the MNOs themselves.

The regulatory cap on the value of mobile money transactions is low. BoB imposes a cap of P4,000 on the value of mobile money transactions (although one operator imposes a lower cap internally). A higher cap would improve the functionality of mobile money accounts.

Anti-Money Laundering requirements require additional disclosures for transactions over P10,000. This applies to banks and money transfer operators such as Western Union (but not mobile money, which has a cap well below this limit). The AML requirements are not particularly onerous, but the monetary value of the limit has been unchanged for many years and should perhaps be reviewed in line with inflation.

Gaps and Opportunities

Table 27: Payments & remittances – opportunities across use cases

Use cases	Relevant target markets	Potential impact and opportunity
Remittances	All	Direct impact: Key source of income for large number of family dependents. Reduced cost improves funds available. Improved predictability reduces cashflow risk. ***This is a significant area given the number of people affected.***
Bill Payments	All	Direct impact through reduced cost and improved efficiency. Also improves access to goods and services. Reduces costs and risks of handling / keeping cash for SMEs ***This is a significant area given the number of***

Use cases	Relevant target markets	Potential impact and opportunity
		people affected.
Salaries & other payments for work done	Formally employed Informally employed Informal SMEs	Direct impact: efficient disbursal of salaries / piece job payments vital to income earners and reduced costs to businesses / employers. ***Generally important, but particularly so given Botswana's large size and often the distance between employers and employees***
Welfare grants	State dependents	Direct impact: reduced costs and improved distribution can increase the value of grants to recipients. Indirect impact: Improved value of grants will see recipients able to invest more in productive areas such as education for grandchildren and health. ***Important given the high level of dependence upon welfare grants, especially among low income households***

Source: authors

There is scope to extend the usage of Poso cards to other government welfare payment recipients. This is particularly relevant for participants in the Ipelegeng scheme, under which around 60,000 people are paid to participate in various public works activities. They are currently paid in cash by local authorities, but could be transferred to Poso cards, as with pensioners and destitute grant recipients. The only problems might be that many Ipelegeng participants are in urban areas, where there is a low density (relative to population) of post offices, which is where they would need to draw cash, plus the fact that Ipelegeng is irregular employment.

There are large potential gains from extending the functionality and availability of Poso cards. This could include allowing cash top-ups and other credits to cards, payment of interest on card balances, as well as allowing payments and use at SmartSwitch POS machines in stores. With extended functionality, Poso cards could be made available to the general public. This is under consideration, and would be relatively straightforward to implement as the cards and supporting infrastructure already have these capabilities built in – they just have to be activated. Also under consideration is introducing Visa-branding and compatibility. However, there is a technical barrier to this, in that Visa standards are based on chip-and-pin verification, whereas Smartswitch/Poso cards use biometric verification. Making Poso/SmartSwitch cards VISA and EMV compliant is possible – incorporating both chip-and-pin and biometric verification, but would require re-issuance of all cards and new POS machines.

Poso cards have already made a major step forward in providing a large number of low income households with access to a formal financial product, and reducing the costs and risks of using cash. Many of the recipients would have no prospect of opening bank accounts. The fact that government has met the costs of rolling out infrastructure, while saving on the overall costs of distributing welfare grants, provides a platform for extension to other (non-welfare grant) adults. However, it will require government to acknowledge that there are dual objectives: improving the efficiency of welfare grant distribution as well as extending financial inclusion to un-served or under-served areas, which will not be provided for by the market alone.

Other changes could improve the functionality of cellphone-based payments systems. Raising the caps on mobile money and eWallet transfers and account balances – or introducing dedicated products for business - could make them more useful for certain purposes, such as payment of wages. Mobile money fees are relatively high, and the MNOs need to review their fee structures to determine whether they are discouraging the large-scale usage that has developed in other countries.

Extending mobile money agency network. Mobile money agents do not extend beyond the footprint already served by banks and post offices, and the number of mobile money agents in Botswana is relatively low. An extension of the agency network would help to improve the use value of mobile money for remittances and payments in financially under-served areas.

Local switch. The establishment of a local payments switch linking banks and non-banks would significantly enhance the functionality of payments instruments, enable interoperability through the linking of bank accounts and other payments service providers (such as mobile money and Poso cards), and allow non-banks to provide more effective competition to banks. It would also reduce dependence on Visa, and could reduce costs.

Integration into regional initiatives. The SIRESS (SADC Integrated Regional Electronic Settlement System) went live in July 2013, originally providing cross-border settlement for banks in the four countries of the Common Monetary Area (South Africa, Namibia, Swaziland and Lesotho), all of which used the SA Rand. It has now been extended to nine SADC countries (including Malawi, Tanzania, Zimbabwe, Zambia and Mauritius), from the original four. As a result it is now a multi-currency system. SIRESS has initially focused on high-value payments, but is now developing a low-value payments stream. Botswana is not yet participating in SIRESS, but has observer status. However, it could potentially offer much cheaper cross-border transactions through banks than the current system, and hence reduce the cost of cross-border remittances and payments.

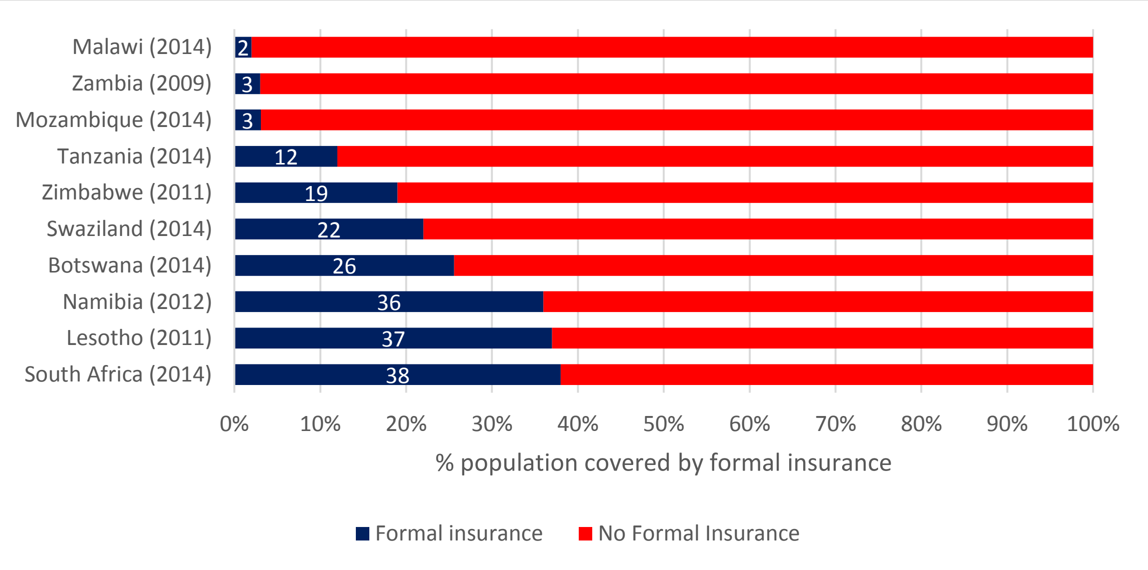
9. Insurance

Introduction

Insurance provides a key financial service to the population through financial products that assist in the management of risk. Insurance is not the only way to manage risk – savings and credit are other financial products that also assist with risk management. However, it offers products that are specifically designed to cater for different types of risk. Nevertheless the insurance market can often be relatively slow to develop as it requires a certain level of financial literacy and sophistication, and is not generally prioritised from an affordability point of view by budget-constrained households or those with irregular income. As with other financial services, insurance can be provided informally, sometimes through community organisations, or formally. In Botswana, as is conventional elsewhere, insurance is categorised into long-term or life insurance, short-term or general insurance and medical aid categories, each category consisting of several companies offering the products relevant to that category of insurance, with very little overlap. As discussed in Chapter 4, separate licenses are required for short-term and long-term insurance business, and these two types of insurance cannot be provided by the same legal entity.

Botswana's insurance penetration is low for its income level. Insurance penetration can be measured in various ways, such as the proportion of the population with an insurance policy, or insurance premium income as a share of GDP, and tends to rise with real income per capita. Although insurance penetration in Botswana is relatively high by the standards of African countries as a whole, it is low given the country's income level. Amongst African countries where there has been a FinScope survey, Botswana has much lower formal insurance penetration than South Africa, Lesotho and Namibia, despite their lower levels of GDP per capita.

Figure 89: Botswana insurance penetration rates vs other African countries

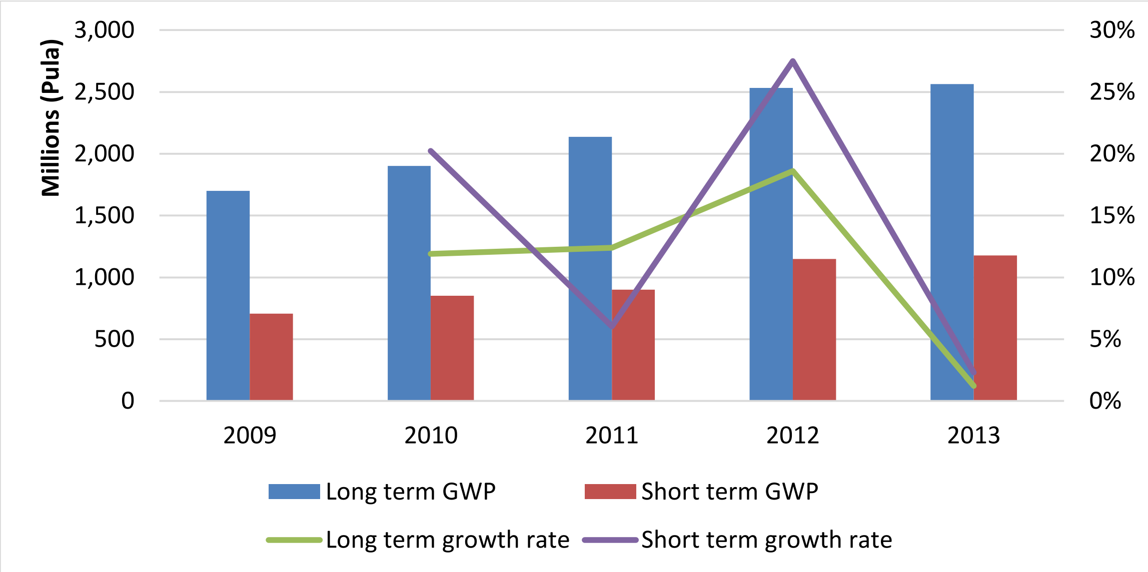


Source: Botswana FinScope Data, 2014

Despite lower penetration, composition of insurance market resembles more developed African markets. Like Mauritius and South Africa, the long term insurance industry is larger than the short term insurance industry in terms of premium income, at P2.5 billion versus P1.2 billion, as noted in

Figure 90[149]. However, the short term insurance industry experienced a faster growth rate on average between 2009 and 2013 than the life term industry at 16.6% per annum versus 12.7% per annum. The fact that life premiums are greater than non-life premiums suggests a more mature insurance market.

Figure 90: Gross written premium by year for the insurance industry in Botswana



Source: NBFIRA Statistical Bulletin, 2014

Health insurance primarily provided by medical aid funds. Medical aid funds have not been regulated in the past and thus the publicly available NBFIRA reports have limited statistics on medical aid funds. Medical aid funds are not required to publish their financial statements and therefore information on the solvency of medical aid funds is not available to the general public. As at 31 December 2014, there were 9 registered medical aid funds.

Current Usage

Current uptake of insurance is far below the uptake of banking. According to Botswana FinScope 2014, the uptake of formal insurance products stood at 26% of the adult population, while 4% use informal forms of insurance only. Total insurance uptake of 30% compares with access to banking at 50% of the adult population. Only 2% of the adult population use both formal and informal insurance. At 26%, formal insurance uptake is far below that of access to banking (50% of the adult population). However, this is comparable to South Africa, where formal insurance uptake in 2014 at 38% is also far below access to banking at 75%[150]. With total usage of only 6% of the adult population, the extent of informal insurance is small.

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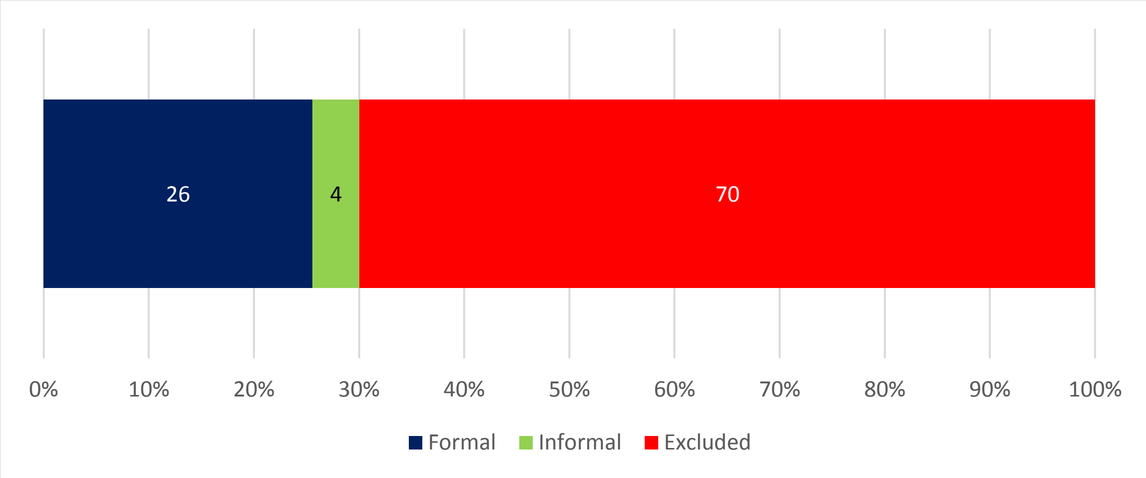
[149] *NBFIRA Statistical Bulletin 2014*

[150] *FinScope South Africa, 2014.*

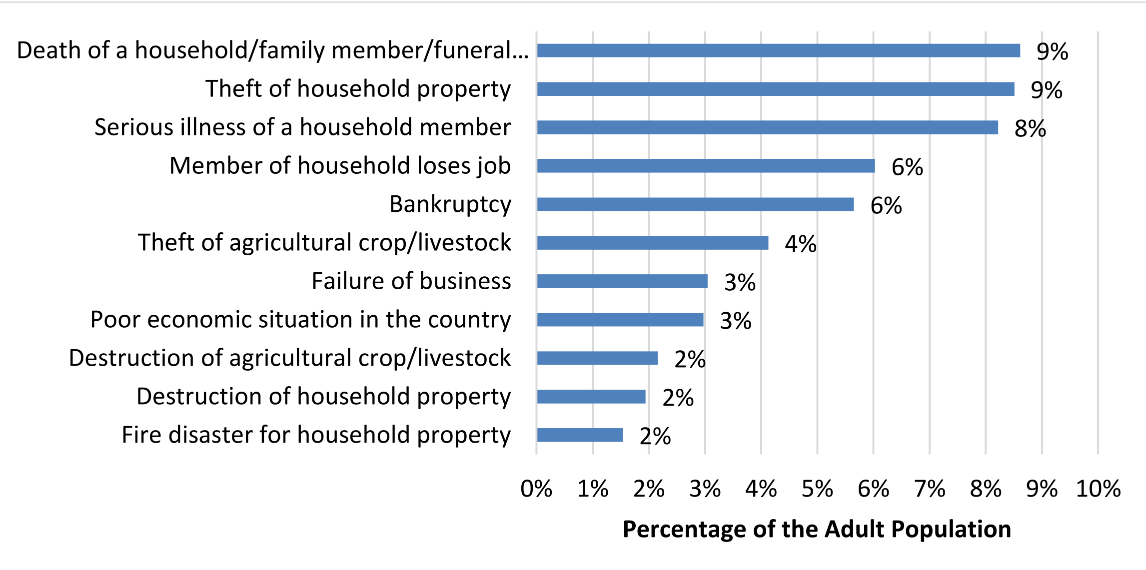
Figure 91: Insurance access strand



Source: Botswana FinScope Data, 2014

Gap between those with loss events and cover. Whilst only 30% of the adult population has insurance in some form (either formal or informal), 43% of the adult population experienced a loss event of some kind in the previous twelve months. The types of loss events experienced are shown in Figure 92.

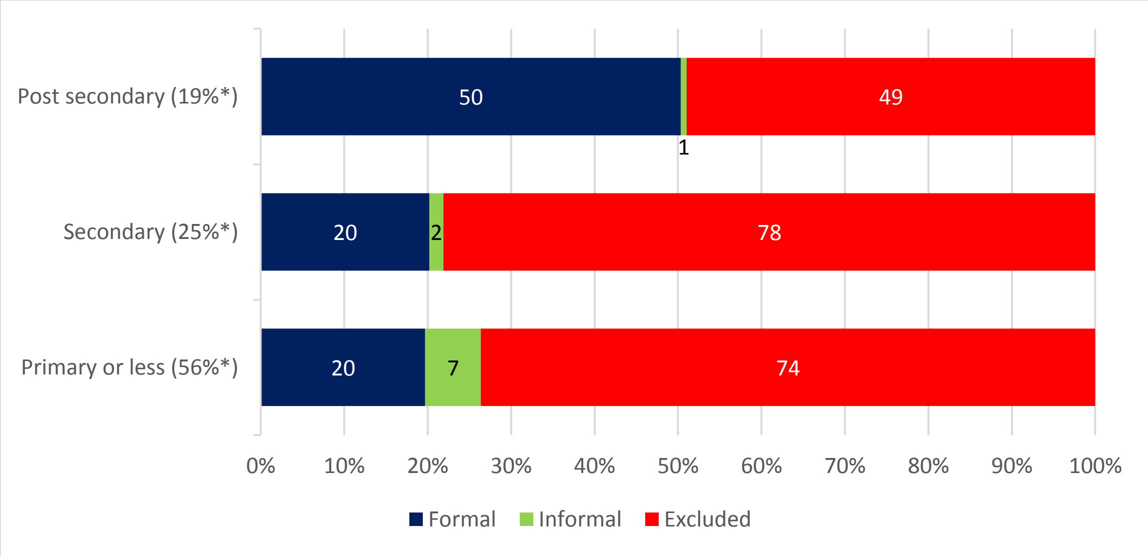
Figure 92: Loss events over a 12-month period



Source: Botswana FinScope, 2014

Formal penetration correlates with education level. The data from the 2014 FinScope survey indicates that formal insurance uptake increases with educational level. Of the adult population, half of those with post-secondary education have formal insurance compared to 20% of those who have either primary or secondary education only. Only 2% of those with secondary school education and 1% of those with tertiary education rely exclusively on informal insurance. Of those with primary school education, 7% rely exclusively on informal insurance.

Figure 93: Uptake of insurance products by education level

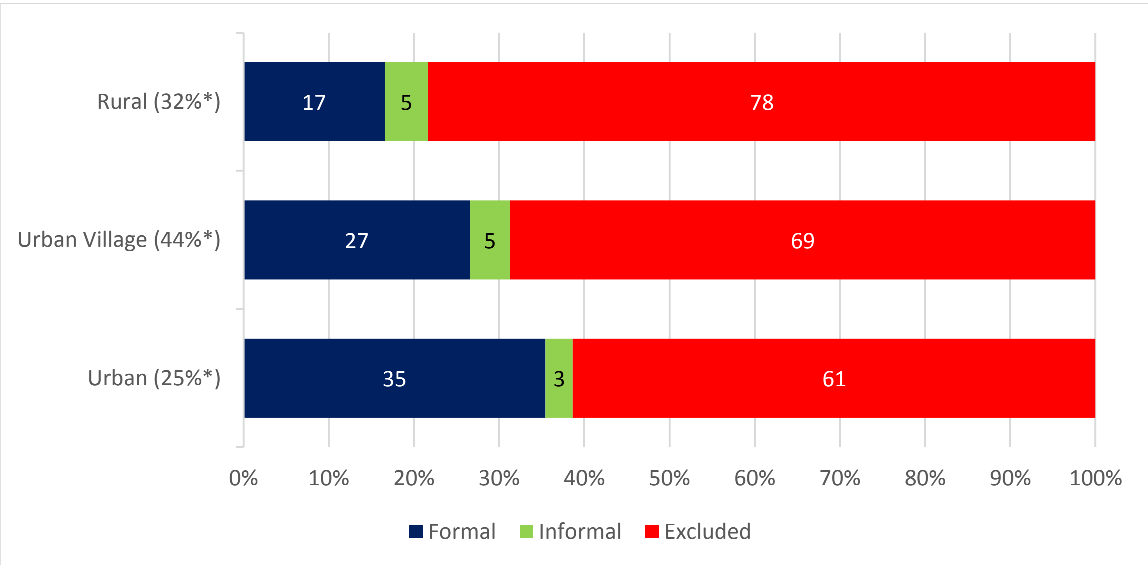


**Percentage of adult population within this educational bracket*

Source: Botswana FinScope Data, 2014

Formal penetration correlates with level of urbanisation. The FinScope study also indicates that formal insurance uptake increases with urbanisation. Whilst only 17% of the rural adult population have formal insurance, double that percentage of urban dwellers have formal insurance. For informal insurance, on the other hand, uptake is similar across rural, urban village and urban dwellers.

Figure 94: Uptake of insurance by level of urbanisation

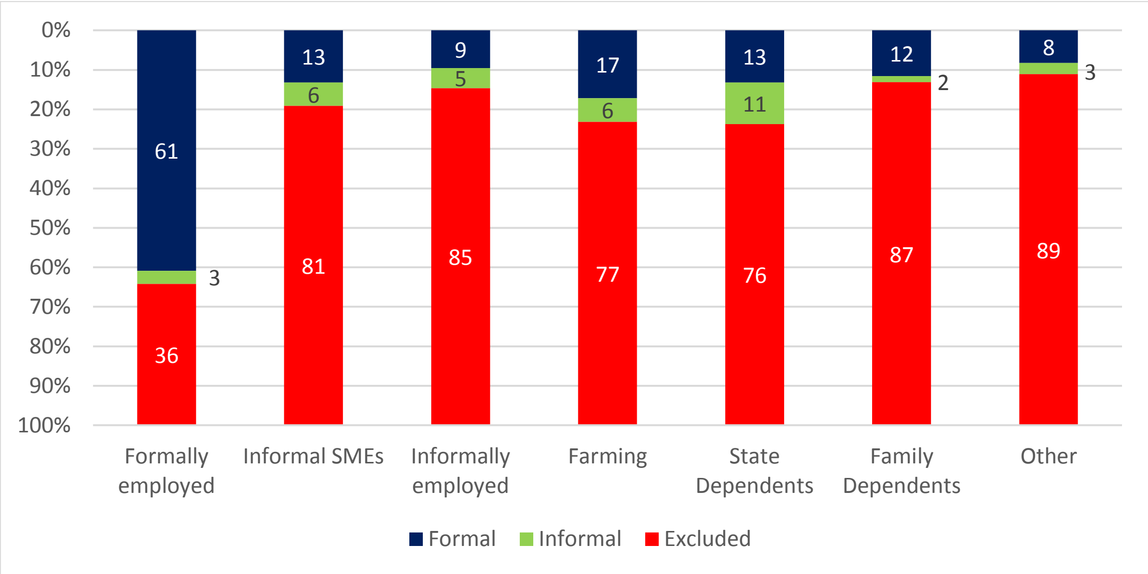


**Percentage of adult population within this geographic area*

Source: Botswana FinScope, 2014

Formally employed best-served, and increased significantly since 2009. Uptake of formal insurance is by far the highest in the Formally Employed target group, at 61%, compared to uptake between 8% and 19% for all other target groups (see Figure 95 below). Furthermore, uptake amongst salaried workers increased significantly from 38% in 2009[151]. The current level of uptake of formal insurance amongst salaried workers in Botswana is comparable to formal insurance uptake amongst salaried workers in South Africa (59% in 2014[152]) and Zimbabwe (68% in 2014[153]). The target group with the highest reliance on informal insurance only is the State Dependents target group with 11% having informal insurance only.

Figure 95: Uptake of insurance by target groups



Source: Botswana FinScope, 2014

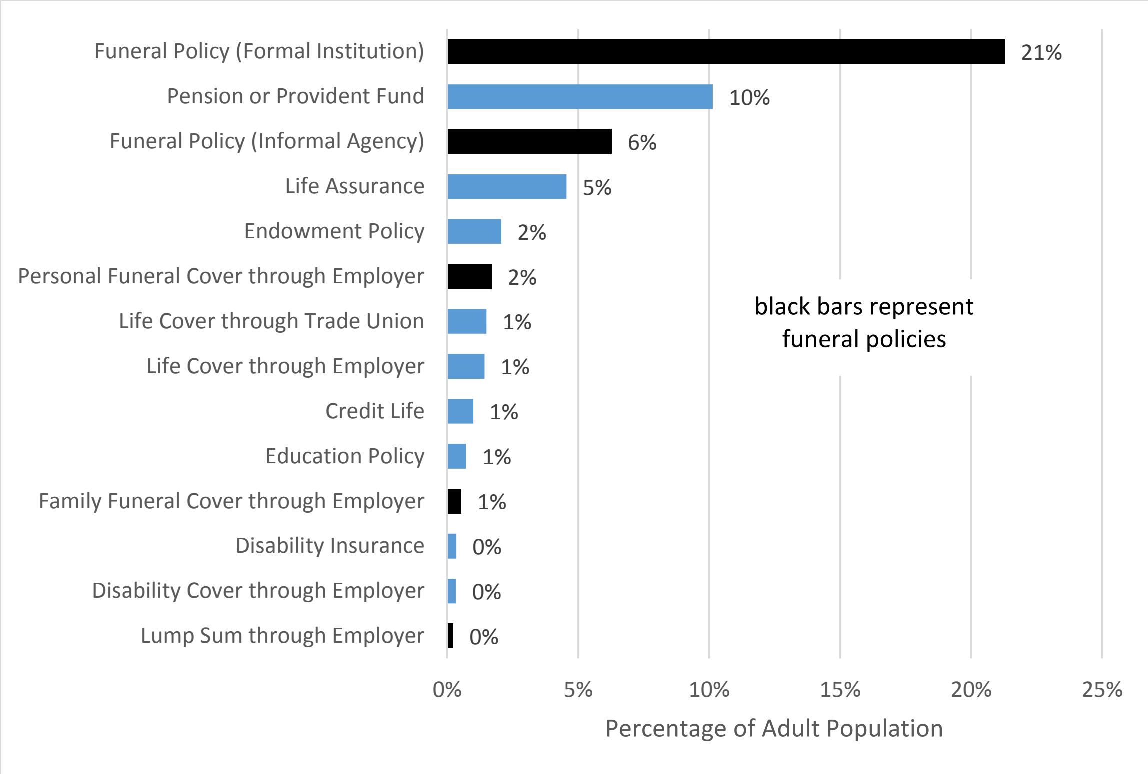
Life insurance uptake dominated by funeral insurance. Figure 96 shows the number of people who reported that they have long term insurance cover. One in four adults indicated that they have funeral cover either through a formal institution, an informal institution, through their employer or through an employer of another family member. There is, however, limited uptake of longer term products such as endowment and pure life. There is even lower uptake of credit life cover with FinScope 2014 data indicating that only 1% of the adult population has credit life cover. The relatively low reported uptake of credit life may be attributed in part to consumers not being aware that they have credit life cover from a credit provider such as a bank, a microlender or furniture store. Credit life insurance is typically bundled as a mandatory part of a credit sale and some consumers may not fully understand that such cover is included in the sale.

[151] *Botswana FinScope Report, 2009*

[152] *South Africa FinScope Report, 2014*

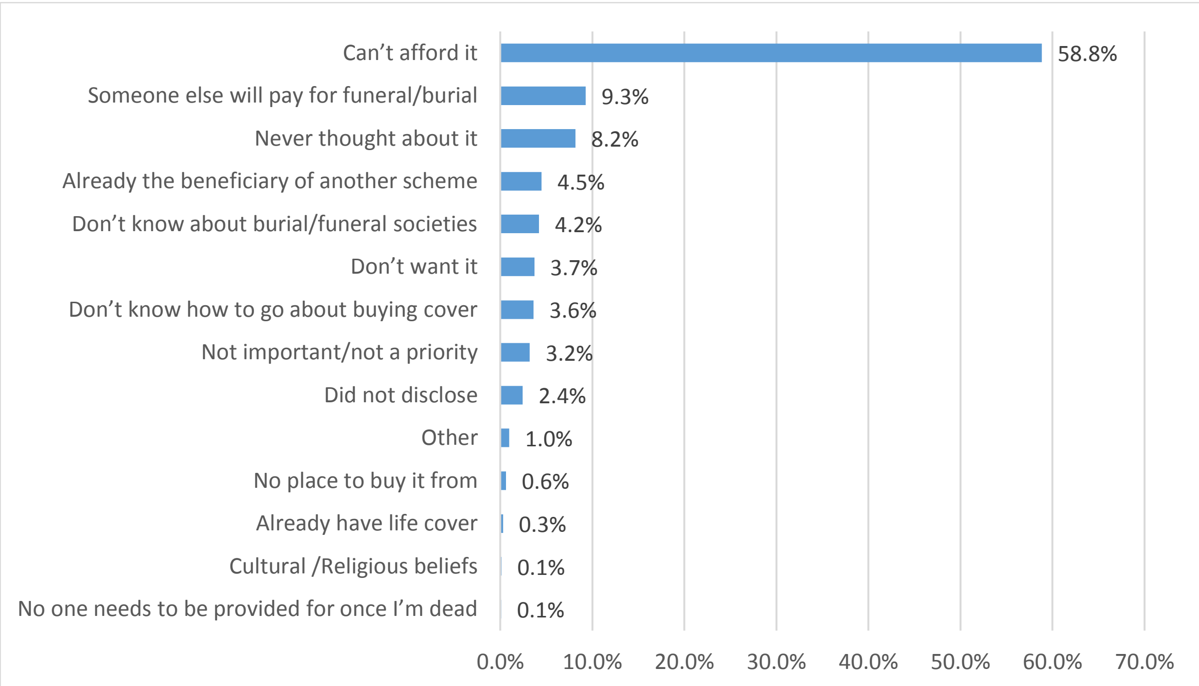
[153] *Zimbabwe FinScope Report 2014*

Figure 96: Life insurance uptake



Source: Botswana FinScope, 2014

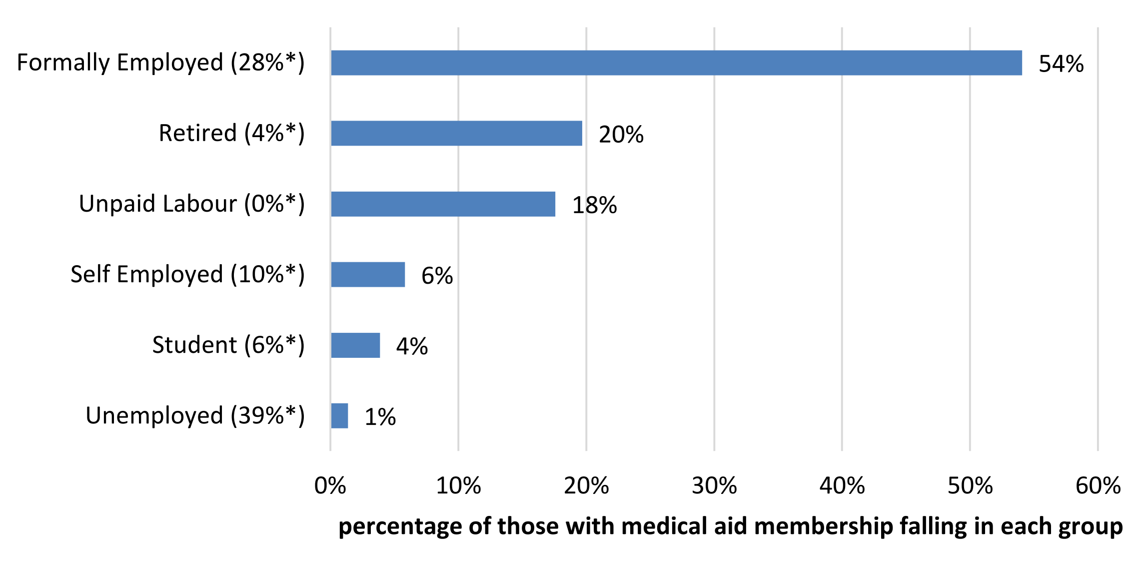
Figure 97: Reasons for not taking burial cover



Source: Botswana FinScope, 2014

Medical aid concentrated in formally employed, upper-end market. Whilst medical aid funds covered 385,000 lives in 2013 (Table 36), medical aid cover is generally limited to people in formal employment and their dependants, as well as those who have retired from formal employment[154].

Figure 98: Medical aid uptake by employment

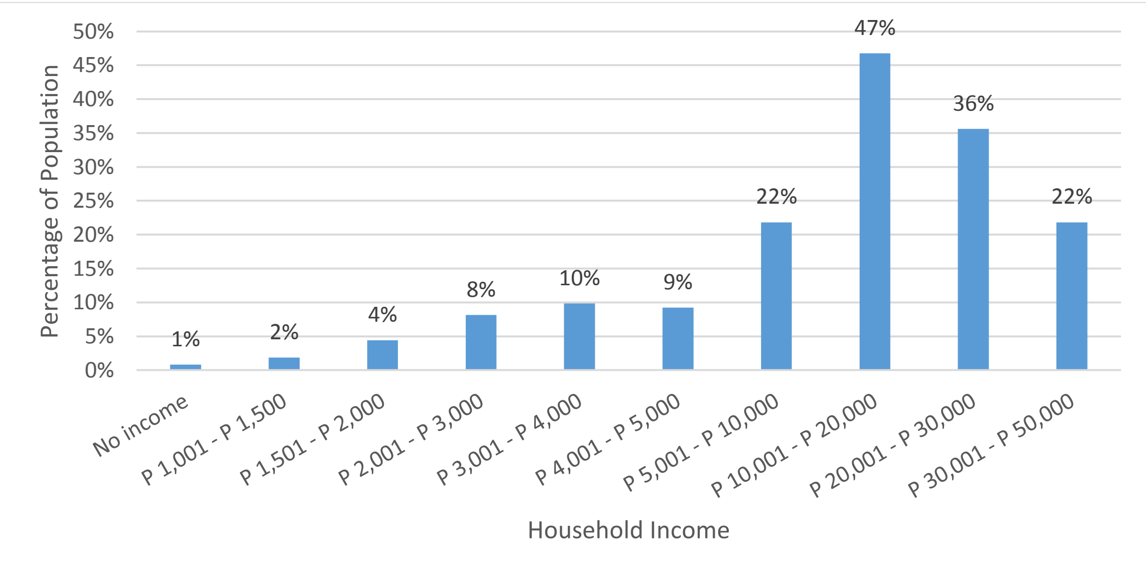


**Percentage of adult population employed within this category*

Source: Botswana FinScope, 2014

Uptake of medical aid cover correlating with income. Uptake of medical aid cover is low in households with income of less than P5,000 per month, with 10% or less of these households having medical aid cover. Uptake is significantly higher in households with income of P5,000 per month or more, with uptake ranging from 22% to 47%.

Figure 99: Uptake of medical aid by household income



Source: Botswana FinScope, 2014

[154] *Based on data reported by NBFIRA. This represents just under 20% of the population. This may not necessarily correspond with the FinScope results, because of the distinction between Primary Members and lives covered (Primary plus Dependent members).*

Use Cases

Death of household member, theft and illness top of mind risk events. The 2014 FinScope study revealed that an estimated 43% of the adult population experienced a loss event in the previous 12 months. The top loss events are noted in Figure 92 above, showing a need for insurance, or at least some way of managing risk.

Use of non-insurance coping mechanisms when experiencing risk events. According to the 2014 FinScope data various coping mechanisms other than insurance were used when experiencing a risk event. For example 17% of respondents used family savings, 13% cut down on household expenses while 7% borrowed from family and friends.

The most prominent use cases are unpacked in the following sections.

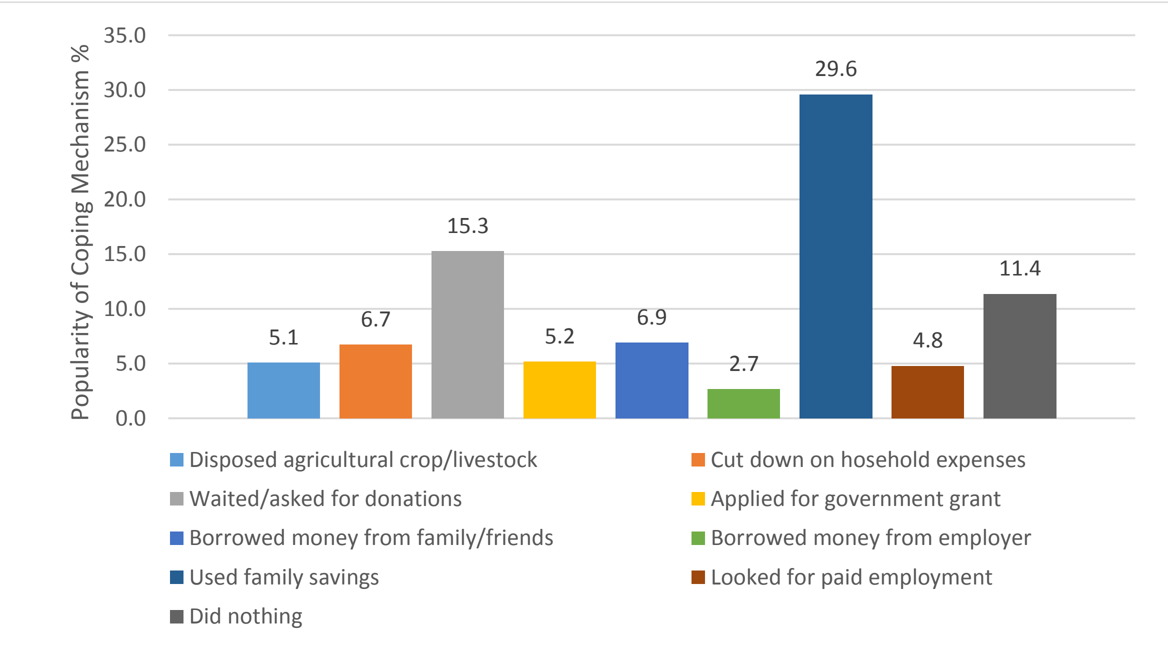
Funeral Expenses Risks

The most commonly reported loss was the death of a household member (9% of adults reported experiencing the death of a household member in the previous 12 months). From the consumer's perspective, it is important to have funds available very soon after the death of a household member to meet funeral expenses.

Funerals play an important role in Botswana and can be costly. Funerals are important social gatherings and are well attended by even people who may never have met the deceased in person. Funeral costs are therefore quite considerable.

Family as important coping mechanism. Figure 100 below shows that most adults experiencing the death of a household member resorted to using family savings as a coping mechanism (29.6%), followed by asking or waiting for donations (15.3%), doing nothing (11.4%) and borrowing from family or friends (6.9%). Family and friends are therefore an important mechanism that households rely on when having to deal with the expenses of a funeral.

Figure 100: Coping Mechanisms



Source: Botswana FinScope, 2014

The following are examples of more coping mechanisms cited during the qualitative study:

"***Risk event:*** *Funeral (She lost her grandmother)*
Way of coping: *Insurance plus loan from Motshelo (P2500 + 1500)."*

"Risk event: *He said he has had nothing go wrong, and prays that nothing ever does go wrong.*
Way of coping: *He is under a medical scheme and Life Insurance that covers him and his family.*

If one mine worker dies or is ill, all mine workers at the mine contribute money to assist. So he is assured that he will be taken care of if anything were to happen."

Uptake of higher cost formal insurance exceeds lower cost informal insurance. In line with the strong funeral expense use case, formal and informal funeral insurance products have the highest uptake (compared to other insurance products), partly due to their low premium (see Table 31). However, formal funeral insurance products have higher uptake than informal funeral cover. The table below shows the average contributions to burial societies, insurance companies and funeral parlours as well as the number of people stating that they contribute to each vehicle.

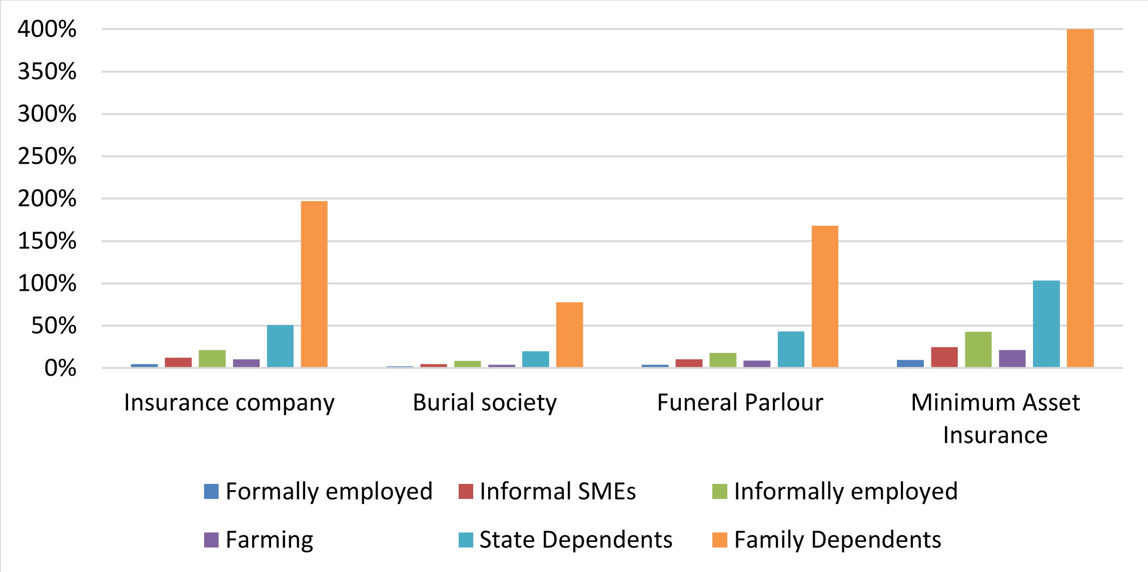
Table 28: Monthly contributions to funeral policies

	Type of Insurer				Total
	Insurance Company	Funeral Parlour	Burial Society	Employer	
Average Contribution (Pula)	246.51	210.08	96.86	179.59	
Number of people contributing	176,150	98,197	78,048	25,752	378,147

Source: Botswana FinScope, 2014

Burial societies the most affordable but still expensive for dependents. For the Informal SMEs target group, with an average income of P2,030 per month, the insurance company average contribution of P246.51 is 12% of income as noted in Figure 101. On the other hand, the burial society average contribution of P96.86 is about 5% of the Informal SMEs' average income, which is a considerable difference in cost. The proportions of income of funeral parlour contributions are below those of insurance companies by small margins, unlike those of burial societies, which are much lower. Despite this, the number of people contributing to burial societies is relatively low, which may reflect that they are still expensive for low income groups.

Figure 101: Average premiums as proportion of personal income



Source: Botswana FinScope, 2014

High willingness to pay indicates strong value proposition. Funeral cover appears to have high perceived value, as illustrated by the following responses from the qualitative survey:

> *"…defaults are low and persistence is quite high…people in villages have funeral cover as the highest priority."*
>
> *"In our company's view, funeral benefits are more accepted than life cover."*
>
> *"…it has not been difficult to introduce these products because of the following reasons; funeral cover - funerals are a part of our culture"*
>
> *Source: Supply side consultations, 2015*

In some cases, some people pay very high contributions to informal schemes relative to the benefit they receive. For example, there is a funeral motshelo with a benefit of P1,000 for a monthly contribution of P250[155] . Funeral expense policies, however, do not cover loss of future income to the household of an income earner and thus do not address the longer-term financial needs arising from the death of a household member.

Use of burial societies not only based on lower cost. According to FinScope (2014), 11% of those who contribute between P101 and P250 per month are contributing towards burial societies (41,000 adults). This group can afford formal (regulated) funeral insurance which typically offers greater benefits than the informal cover of the same premium. This, together with the fact that some people have both formal funeral insurance and are members of a burial society, lends support to the notion that burial societies provide social support and not just financial support during crises.

Use of multiple coping mechanisms. Multiple coping mechanisms for funeral expenses goes beyond multiple insurance policies, for instance, the use of both insurance plus a loan from

[155] *However, it also acts as a savings* motshelo, *which generates income through loans with 25% interest. The proceeds are shared amongst members at the end of the year.*

motshelo to cope with a death in the family. According to FinScope, meeting funeral expenses is also a major driver of savings Figure 66.

Household Contents Theft Risks

The theft of household contents was the second most commonly reported loss (8.5% of the adult population). However, the coping mechanisms for this loss generally do not involve formal insurance. Formal household contents insurance policies as a percentage of total households is less than 1%. There is no evidence of any informal household contents insurance. Households generally make use of savings or credit to replace the stolen or damaged items, or go without them.

Medical Expense Risks

The serious illness of a household member that requires expensive medical treatment was reported to have affected 8.2% of the adult population in the previous 12 months. This implies that the household either did not use the public medical system or did but there was need for additional medical treatment above and beyond what was available in the public health-care system. Although people in Botswana have access to public health care, the respondents show a need for cash while incarcerated in hospital. Illness may deprive workers of the ability to work and therefore the ability to generate income.

Respondents in the qualitative study cited various different ways of coping with medical expenses, including borrowing from a *metshelo,* borrowing from family and friends, or building up savings by doing extra work through piece jobs..

Catastrophe Housing Risks

Houses are typically the most valuable possession owned by an individual. Houses, even those of non-standard construction can withstand day-to-day risks but will suffer varying degrees of damage when there are natural or man-made catastrophes like flood, severe wind storms, hail, fire, lightning, land-slides, etc. Since catastrophic events are rare in Botswana, most homeowners do not consider it a priority and do not have a mechanism in place in the event of such a loss, be that formal insurance or not. The government occasionally provides relief for low-income households affected by natural catastrophes, but such relief is not guaranteed and is often delivered long after the effect.

Some higher income houses and most houses with secured bank finance are formally insured. The house-owners policy used may also have cover for household contents. On the whole, however, there is no strong use case for homeowners’ insurance in Botswana.

Motor Related Risks

Rapid growth in car ownership, but low use of vehicle insurance. Private car ownership in Botswana has grown rapidly in recent years due to the availability of ‘low cost’ second hand imports. FinScope data indicates that 333,970 people (25% of the adult population) have cars in their household, but only 16,206 (1.2% of the adult population) have motor insurance. Despite this, motor-related incidents were not cited as one of the top loss events in the FinScope survey.

Statutory Motor Vehicle Accident Fund reduces use case for liability insurance. The Motor Vehicle Accident Fund (MVAF) indicates that there were 17,062 motor vehicle accidents in 2013, which resulted in 6,157 casualties and 411 deaths. In Botswana, third party bodily injury risk is insured by the MVAF. Any third party injured in a motor accident, including pedestrians, is covered by the MVA Fund. Premiums are paid via a fuel levy. The fund does not pay cash to victims but pays directly to suppliers of medical and rehabilitation services. Cover is limited to P1m but few accidents result in claims above the P1m limit.

However, the MVAF does not insure against damage to vehicles. The drivers of uninsured vehicles may cause accidents that result in significant damage to the other car. The driver at fault may be liable to pay the other party significant sums of money, especially in the case of a write off. A driver who could not afford insurance is not likely to be able to afford to pay for the damage to both his own car as well as the car of the third party. The third party will also want immediate payment so he can fix his or her car. In many cases, the third party or his insurer will appoint an attorney thus adding to the eventual indebtedness of the uninsured driver. Whist third party motor property damage premiums, which typically range between P750 per annum and P1,500 per annum, are more affordable than comprehensive motor insurance premiums, there is hardly any uptake of these policies. This is despite the growth of car ownership in Botswana driven by the availability of low cost 'grey imports'.

Potential for growth in comprehensive motor insurance. Regardless of the MVA Fund, owners of private vehicles remain exposed to the risk of damage to their own vehicle or another vehicle in the event of an accident. Some use comprehensive motor insurance to mitigate that risk. FinScope suggests that 16,206 people have motor insurance, almost all of which would be comprehensive motor insurance. The NBFIRA Statistical Bulletin 2014 indicates that there were 2,519 insurance policies in the motor class of insurance in 2013 but indicates that not all product providers reported their policy information in 2013. This would include private and commercial vehicle insurance policies. A policy may have one or more motor vehicles on it. This is an opportunity for product providers to significantly grow their income since the motor class of insurance alone represented 36%[156] of the total short-term premium income for all providers in 2013.

Limited evidence of informal schemes to manage the motor damage risk. The qualitative study found that some providers of public transport reported an informal way of dealing with the risk of their combi/taxi parts failing. One group has a self-help saving scheme which is solely meant to aid the replacement of vehicle parts (for combis/taxis), to avoid the vehicles being put off the road. It does not appear to cover damage to motor vehicles in accidents, but relates to "wear and tear" parts replacements. It is thus clear that many owners of private motor vehicles are only able to manage the risk of motor accident damage through their own savings and credit facilities and that of their friends and family.

Job Loss Risks

The last major potential use case for insurance relates to the risk of retrenchment. Job losses are becoming a feature of Botswana's economic landscape even in the public sector. According to FinScope 2014, 6% of households experienced a job loss in the previous 12 month period. In addition, several qualitative interview respondents attested to being concerned about the chances of losing their income. The coping mechanisms stated by respondents are starting a new business and searching for new employment. Below are examples of coping mechanisms from the qualitative study;

[156] *NBFIRA Statistical Bulletin 2014*

*"**Risk event**: Losing her job has cost her all of her savings. She then spent the little money she had saved to survive.*

***Way of coping**: She moved from her village and is trying to find a job." (Lorato Manjale, Dependent)*

*"**Risk event**: Should UNIBO not renew his contract.*

Way of coping:

-Runs a bottle store

-His car is insured. As a contract worker, he does not qualify for most benefits (only end-of-contract package)

-Will apply and study for a Masters' degree." (Keletso, Government Employee)

In addition, some lenders insist on credit insurance related to retrenchment, and in those cases the obligation for the borrower to pay back the loan is waived. However, there is no state unemployment insurance fund in Botswana. In the long-term space, product providers provide policies that incorporate income replacement as a result of disability. Cover for loss of income due to retrenchment is provided on the short-term side, however, there are very few options and consumer awareness is very low.

Agricultural Risks

The MAP Botswana Qualitative study yielded the following observation highlighting the risks to those involved in agriculture:

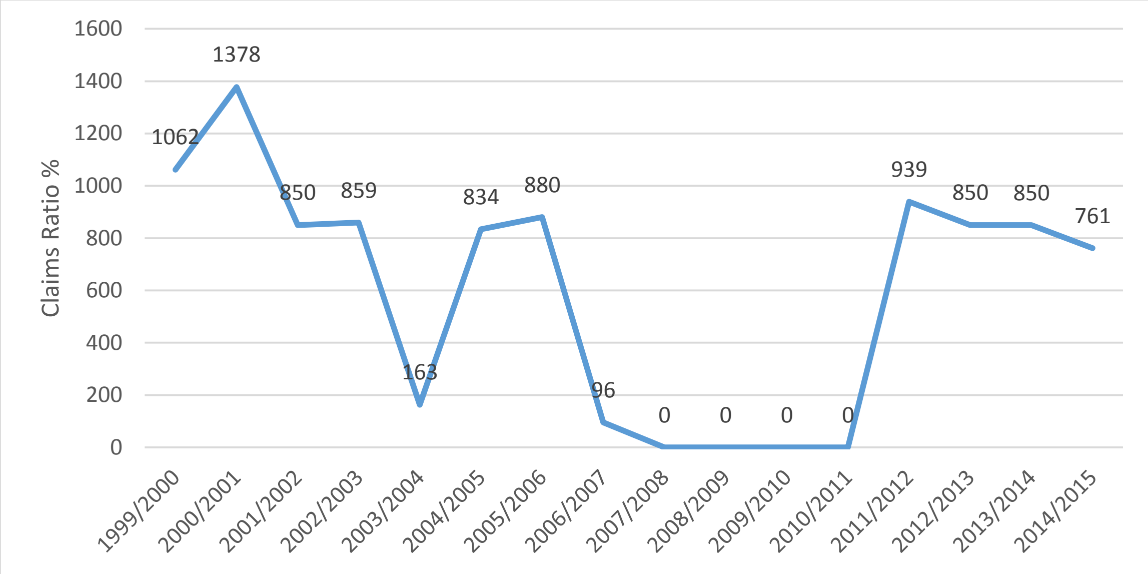
All respondents with livestock or growing crops emphasised the <u>importance of the weather</u>, particularly whether it rains or not, as an important factor that influences their financial position.

According to FinScope, theft of agricultural property (livestock) or destruction of crops or livestock were cited a loss events.

Agricultural Credit Guarantee Scheme (ACGS) provides limited crop insurance. The ACGS was set up in 1986, mainly to assist dry-land crop/rain-fed farmers to repay part of their loans in the event of adverse climatic conditions. Farmers get credit risk insurance for natural events, including drought, hail and frost. The President has to declare a disaster such as drought, on the advice of the Inter-ministerial drought assessment committee, for the ACGS to pay out. The loan covers 85% of the loan instalment for the year or season of the drought. The bank and the farmer each pay a premium of 5% of the outstanding loan per annum. The ACGS is only open to two state owned DFIs, namely NDB and CEDA. The scheme covers crops planted between September 30th of the year drought or flood is declared to February 15 the following year (crops planted outside this period will not be covered). Participation is compulsory to farmers who take loans from CEDA and NDB. Agricultural loans provided by the commercial banks are not eligible for ACGS coverage.

This scheme is highly subsidised by the government, and has experienced unsustainable claims ratios. The risky nature of crop farming is clear from Figure 102 because claims were paid in 12 out of the 16 years from 1999/2000 to 2014/15.

Figure 102: ACGS claims ratio trend, 1999 to 2014



Source: Botswana Government Agricultural Credit Guarantee Scheme Report, 2015

Commercial product providers cite the ACGS as a barrier to creating agricultural insurance products.

An alternative approach is collective support. Farmers often resort to forming associations to help buffer the effects of the challenges they encounter, for example, a government grant farmer in the qualitative study expressed desire and effort to form such an association;

> *"He has been talking to his friend to also get a youth grant for farming, and when they all have youth grants and their farms are up and running they will form an association. Their aim is to assist each other to overcome various challenges as a community of farmers. Currently two of his close friends have also had their grant approved." (Tumelo Motlhabane's interview, Government grant recipient).*

Providers and Products

The insurance industry in Botswana has 30 registered insurance product providers[157]. The insurance market in Botswana is larger, in terms of uptake, than Swaziland and Lesotho but smaller than South Africa and Namibia. The life insurance market is dominated by Botswana Life Insurance Limited (BLIL). The dominance of Botswana Life may be partly attributed to the fact that it is the oldest life insurance company having started operations in 1975. The short-term and the medical aid markets are less concentrated than the life insurance market. Most firms in the industry are partially - if not completely - owned by foreign entities. There are no insurance entities that are directly state-owned.

Fairly large number of players for size of market. There has been an increase in product providers in both the long term, short term and medical aid fund space over the last five years. There are currently 12 short-term insurers, 9 long-term insurers and 9 medical aid funds.

[157] *NBFIRA list of regulated entities, October 2014*

Table 29: Numbers of registered insurance companies

	2009	2010	2011	2012	2013	2014
Short Term Insurance Companies	9	11	12	12	11	12
Long Term Insurance Companies	6	7	7	8	9	9
Medical aid funds	n/a	n/a	n/a	n/a	n/a	9

Source: NBFIRA Statistical Bulletin, 2014

Expanding product suite. There is evidence of new products being introduced by providers in response to growing competition. 61 short term and 44 long term insurance products were introduced between 2009 and 2013 according to the 2014 NBFIRA Annual Statistical Bulletin.

Solvency concerns among smaller, newer players. The average industry figures mask a great degree of variability between the older, long established providers and new entrants in terms of capital, market share and profitability. The decline in premium rates has impacted on the viability of new product providers. One short-term insurer became insolvent in 2013 and another sold its book of business to a competing short-term insurer in 2014. Similar sustainability concerns have been voiced in the medical aid fund sector. There is currently no fund for compensating members of the public who lose out if and when an insurance company or medical aid fund becomes insolvent and is liquidated. This could undermine trust in the insurance sector.

The rest of this section gives an overview of the product providers, their performance and relevant products in the long-term, short-term and medical insurance markets, respectively. Thereafter there is an overview of distribution channels for each of these markets.

Long Term Insurance

The long term insurance industry has 538,062 users, according to Botswana FinScope 2014, representing 41% of all adults. .

Formal Long Term Insurance Providers

Table 30 gives a general summary of the various companies that have long term insurance licenses in Botswana:

Table 30: Overview of life insurance companies.

Company	Ownership	Market Penetration, Profile	Products
Barclays Life	Private	Life insurer owned by Barclays/ABSA group. Mainly underwrites long term bancassurance products for Barclays customers.	Credit Life, Funeral Plans, Hospital Cash, Motor Insurance, Home Owners and Household Contents Insurance, Hospital Cash and Personal Accident
Botswana Insurance Fund Management	100% owned by the BIHL group which is 58%	Does not sell any policies directly to the	Uses insurance licence as a means of providing pooled asset management products to

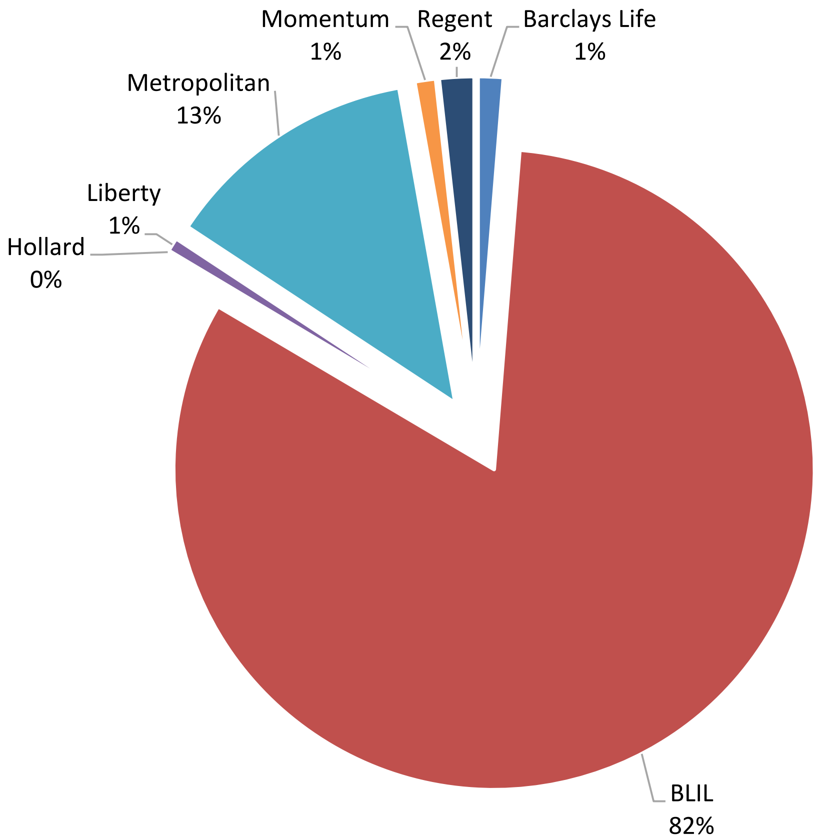
Company	Ownership	Market Penetration, Profile	Products
(BIFM)	owned by the South African Sanlam group	public.	pension funds
Botswana Life Insurance Ltd (BLIL)	100% owned by the BIHL group which is 58% owned by the South African Sanlam group	Oldest and largest insurance company with dominant market share. Wide range of products and distribution channels. Has very large agency force.	Life Cover, Hospital Cash, Retirement Funds, Education Savings Plans, Funeral Plans, Group Life, Group Funeral, Temporary and Total Disability, Credit Life, Dread Disease Cover and Permanent Health Cover
Bramer Life Insurance	Private. Owned by Botswana Public Officer's Pension Fund, management and a private investment fund.	Newest life insurance company in Botswana.	Funeral Cover, Hospital Cash, Wedding Savings Plans and Pension Plans
Hollard Life	Member of the Hollard Group of South Africa	New life company. Uses alternative distribution channels.	Only Funeral Plans at the moment
Liberty Life	Private, related to the Standard Bank Group (South African)	Relatively small insurer. Leverages off Stanbic Bank's customers.	Group Life, Temporary and Total Disability, Permanent and Total Disability, Permanent Health Cover, Dread Disease, Group Funeral, Funeral Plans, Personal Accident, Life Cover and Critical Illness Cover
Metropolitan Life	Private/Public Partnership. Part of MMI Group South Africa	Second oldest and second biggest life insurer.	Funeral Plans, Life Cover, Hospital Cash, Health Endowment, Multicash, Education Savings Plans, Pension Plans, and Retirement Annuities
Momentum Life	Private. Part of MMI Group South Africa	Formerly First Life. Associated with First National Bank.	Group Life Assurance, Permanent and Total Disability, Income, Funeral Plans and Credit Life
Regent Life	Private	Small but very profitable. Leverages off relationship with First National Bank.	Group Funeral, Group Life, Credit Life, Death and Disability Cover and a Women's Exclusive Life Cover

Source: Econsult Botswana, Stakeholder supply side consultations

Performance of the Formal Long Term Insurance Industry

Botswana Life Insurance Limited (BLIL) dominates the life insurance market. The company accounts for over 70% of gross premium written and holds more than six times the value of assets when compared to its nearest competitor (BIFM can be discounted as it does not sell products to the general public). This singular dominance can be explained in part by the fact that BLIL is the oldest life insurer in Botswana. Of the remaining life insurers, only Metropolitan Life has a significant market share, at 13%.

Figure 103: Life insurance industry market share in terms of gross written premiums (2013)



Source: NBFIRA Annual Report, 2013

Sector is financially strong. The life insurance sector as a whole is well capitalised and profitable with good investment returns. Figure 104 shows the underwriting performance of the life insurance market over a five year period. Gross written premiums have shown steady growth over the five year period. Net written premiums are almost as large as gross written premiums indicating that there is very little reinsurance in the life industry, unlike the short term industry. Incurred claims have grown modestly since 2010. There has been significant volatility in the total underwriting income, with the negative total underwriting income in 2012 and 2013 being driven by BIFM[158] and, to a lesser extent, its related company, Botswana Life.

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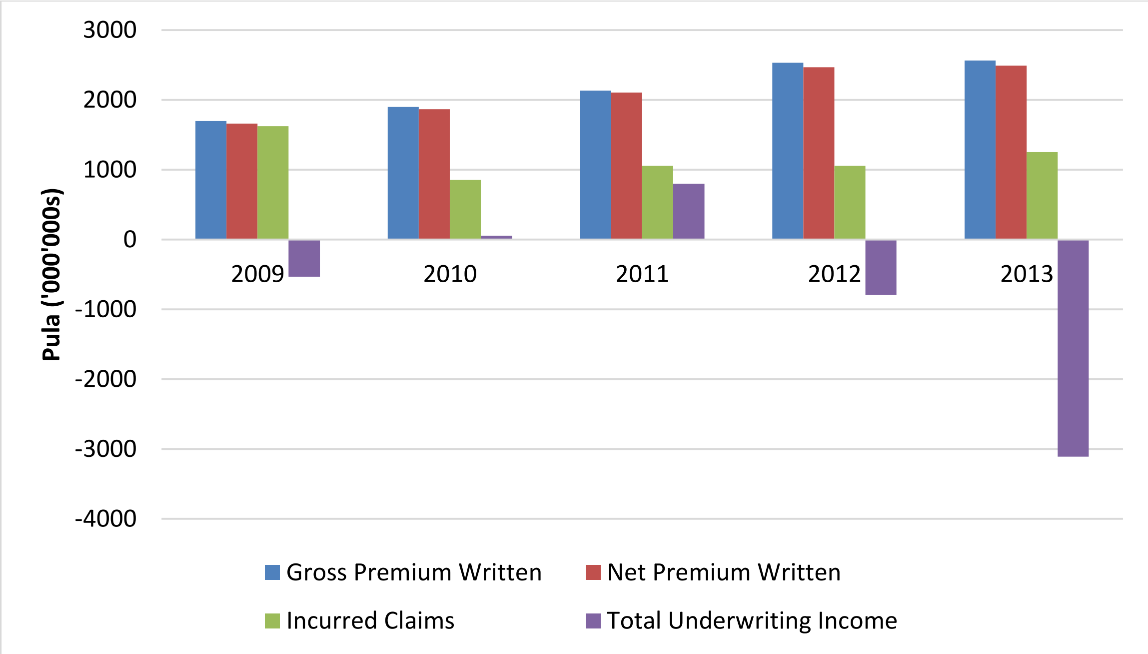
[158] *BIFM's position complicates the picture presented of the overall life insurance sector. Although BIFM has a long-term insurance license, it functions primarily as an asset manager for pension funds. Its insurance license enables it to offer pooled pension products on its balance sheet, rather than being purely a manager of third party funds. Its reported underwriting income in 2013 was affected by a restructuring of some of its pension investment products*

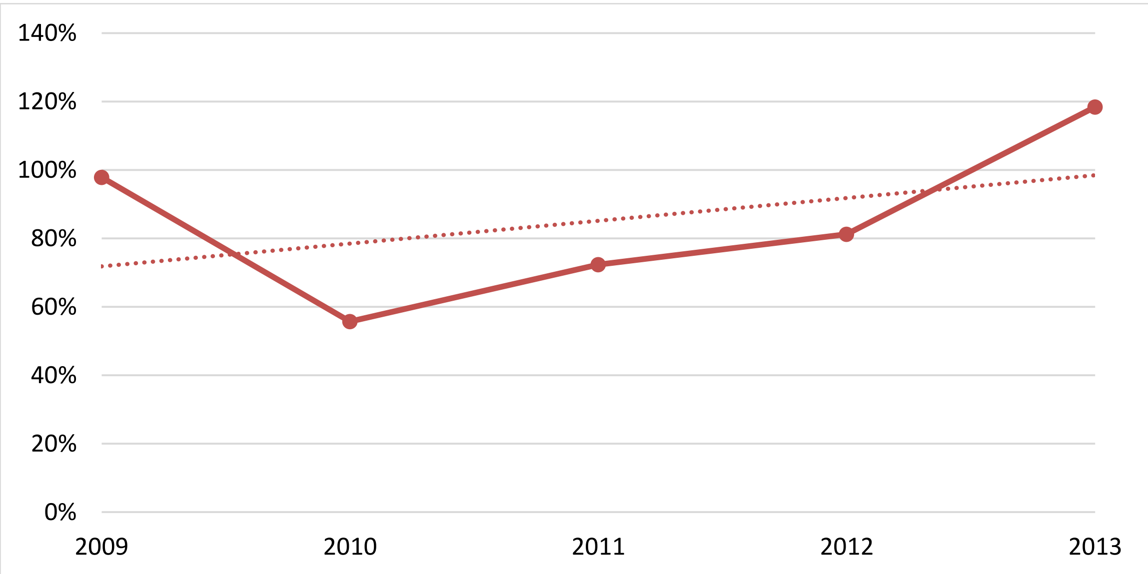
Figure 104: Performance of the life insurance sector



Source: NBFIRA Annual Statistical Bulletin, 2014

Rising Claims Ratios. Although the insurance sector as a whole is well capitalised and profitable, claims ratios have risen in recent years. Rising claims ratios are indicative of rising consumer value as a result of growing competition.

Figure 105: Life market claims ratio trend, 2009 to 2013



Source: NBFIRA Annual Statistical Bulletin, 2014

Formal Long Term Insurance Products

The discussion below outlines the range and features of formal insurance products on the market.

A range of life entry-level products. Overall premium trends do not give an indication of the extent and features of products on the market that are relevant from a financial inclusion point of view.[159] This requires a closer look specifically at entry-level products. A broad range of entry level products are found in the life market. Among these, funeral products seem to be the cheapest, with a higher uptake than other life products.[160] The table below gives an overview of the categories of the long-term entry-level products available in the Botswana insurance market.

Table 31: Overview of microinsurance-relevant long term products

Category of Products	Number of Providers	Benefit and premium ranges/description	Distribution channel
Funeral	All long term insurers and 3 medical aid schemes. (One long term insurer sells a funeral product that is primarily designed for the unbanked market)	Benefits range from P5,000 to P100,000. Premiums range from P15 to P195 per month (single member). The P15 premium is a bulk discount for a large group (3000+ members).	Mostly agents, brokers and branch (walk-ins). Increasing use of post office and retail. One insurer allows premiums to be paid using mobile money.
Credit Life	Most long term insurers.	Benefits typically start from P200,000. Premiums start from P156 monthly	Credit providers
Death & Disability:	Group Life, disability & income replacement, and individual life, offered by long term insurers. Personal accident, offered mostly by short term insurers.	Group Life, disability and income replacement; benefits and premiums are determined by the member's earnings. Benefit can be a lump sum or as monthly income. Personal accident: from the sampled insurers, premiums range from P500 - P1,500, and a typical benefit for a P1,500 premium is P500,000.	Taken mostly through groups (usually through the employer).

Source: Econsult Botswana, Stakeholder supply side consultations

Funeral insurance has the lowest premiums in the industry, making it the most affordable insurance product with uptake even amongst those not in formal employment. The flexibility in mode of payment as well as the importance of burials in local culture also contribute to the popularity of the product. Credit life is another product with low premiums, though awareness is low as is reported uptake[161]. Death and disability products, which are usually attached to life

[159] *MAP Swaziland Demand Supply Policy and Regulation Diagnostic Report, 2014*

[160] *MAP supply side consultations, 2015*

[161] *However, as noted above, many people have credit life insurance bundled with credit products, but may not perceive this as a separate product.*

cover, exhibit higher premiums. Furthermore, providers of life cover typically require regular employment hence the product's distribution channel is mostly through employers.

Informal Long Term Insurance

The informal insurance sector consists mainly of burial societies. Burial societies are exempted from complying with [most of] the provisions of the Insurance Industry Act of 1987, which otherwise outlaw insurance provision by entities not duly licensed to conduct insurance business. Burial societies are regulated under the Societies Act and fall under the Ministry of Labour and Home Affairs. Burial societies are therefore not regulated by NBFIRA. A total of 1,556 were registered with the Registrar of Societies as at June 2014, though it is not clear how many of these are active or how many burial societies exist that are not registered. Registered burial societies are required to submit annual returns to the Registrar of Societies but the level of compliance is unclear. The returns are in paper format. No statistics are produced from the returns and therefore there is no consolidated information on burial societies.

Effective funeral insurance providers. Some burial societies are quite formalised and have clear policy terms and conditions, proposal forms, claim forms, etc. For example, the Botswana Land Boards, Local Authorities and Health Workers Union (BLLAHWU) Burial Society offers funeral cover with additional tombstone and accidental death benefits (each with an additional premium). With a website, an application form, a debit order arrangement for premium payment and a claim process similar to that of insurance companies, BLLAHWU is as formal as regulated funeral insurance providers. On the other hand, most burial societies operate in a more informal manner. Contributions are usually paid in cash (either monthly or when the risk occurs) and the added benefits attached are mainly social (helping hands and shared resources, e.g. pots, chairs, tables, etc.). The members of these burial societies usually wear uniforms that they identify themselves by and pride themselves in. They rely on the principle of *botho* (humanity and respect). Claims are also approached in a less formal manner (depending on the size of the society) and payouts are relatively fast.

Table 32 compares key features of formal funeral insurance providers versus a prominent burial society, Botswana Land Boards, Local Authorities Health Workers Union Burial Society (BLLAHWU).

Table 32: Product comparison: insurance companies and BLLAHWU burial society

Aspect	Insurance companies	BLLAHWU Burial Society
Risk pooling	Standard; upfront premiums	Standard; upfront premiums
Lives covered/ beneficiaries	Principal policyholder, children, spouse, parents (some include in-laws), extended family (a few products)	Principal member, spouse, children, parents (maximum 4), and extended family.
Benefits	Cash payout P5,000 to P270,000	Cash payouts up to P15,000.
Premiums	P25 per single member (offered by a prominent funeral product provider) to over P250.	P38 (member and immediate family) to P278 (including 4 parents) and up to P75 per member of extended family.
Mode of premium payment	Debit order, cash	Debit order
Pay-out	EFT, cheque	EFT, cash
Underwriting	No medical tests; No medical	No medical tests; No medical

Aspect	Insurance companies	BLLAHWU Burial Society
	questions	questions
Grace period for payment of premiums	30 days	3 - 6 months.
Claims processes	A list of documents are required: typically, death certificate, policy document, ID copies (of beneficiaries), birth certificate (if beneficiary is a minor).	A list of documents are required; Certified copy of death certificate, Certificate of the deceased, in event of death of a child, a full birth certificate showing full name of parents is required if deceased is under the age of 18 years. For accidental deaths, a police report is also required. For stillbirths, a clinical card and medical report will be required. Certified copy of identity card of the beneficiary. Affidavit or letter from relevant authority. Certified copy of marriage certificate (For those who are married).

Source: Econsult Botswana, Stakeholder supply side consultations

Qualitative research confirms popularity of funeral insurance[162]. The review encountered quite a number of respondents with funeral policies, most with Botswana Life, which is the leading provider of formal, regulated funeral insurance. The review also identified the Zionist Christian Council (ZCC) as a prominent provider of funeral insurance.

The following quote is from an interview with an employee at a registered small business;

> *" I am a member of a funeral society called ZCC. We contribute about P55 per month every member and I don't know how many members there are, because it is insurance provided by the church so we just contribute. …When someone dies they help at the funeral with everything, buying food and buying the casket and they also organise transport."*

Short Term Insurance

According to Botswana FinScope 2014, the short term insurance industry has 60,194 users.

Short Term Insurance Providers

Table 33 gives a general summary of the various companies that hold short-term insurance licenses in Botswana:

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[162] *MAP Botswana Qualitative Review*

Table 33: Overview of short term insurance companies

Company	Ownership	Market Penetration, Profile	Products
Alpha Direct	Part of the Motovac group (Botswana)	Newest company, operates directly to the public (does not use brokers)	Motor, Household Contents, House Owners, Personal All Risks
BECI	Owned by Botswana Development Corporation (public)	Only offers commercial insurance	Trade Credit Insurance
Botswana Insurance Company	34% local, 66% TA Holdings (Zimbabwe). Pending takeover by BIHL, subject to regulatory approval	Oldest insurance company. Wide range of products and distribution channels.	Travel, Personal Accident, Portable Possessions, Household Contents, House Owners, Motor, Legal
Legal Guard (BIHL Sure)	Part of BIHL group (Sanlam subsidiary, listed on BSE)	Largest legal expenses insurance provider.	Legal
Hollard General	Member of Hollard group (South Africa)	Began operations in 2006 and has grown rapidly.	Personal Accident, Household Contents, House Owners, Personal All Risks, Motor, Hospital, Excess Buyback
Mutual & Federal	Member of Old Mutual group (South Africa)	Established company. Rebranded to Old Mutual in 2014.	Personal Accident, Household Contents, House Owners, Personal All Risks, Motor, Hospital, Personal Liability, Legal, Bereavement, Retrenchment and Redundancy
Phoenix	Part of Phoenix Assurance group (Kenya/Mauritius)	New company. Part of a fast growing regional insurance group.	Motor, Household Contents, House Owners, Personal Accident,
Prefsure	Owned by Ellerines Holdings (South Africa)	Owned by retail group. Provides insurance for the retail group's credit customers.	Borrower's Protection Insurance Policy
Regent General	Owned by Imperial Holdings (South Africa)	Established motor insurer with large share of vehicle asset finance insurance business.	Motor, Household Contents, House Owners, Personal All Risks
Sesiro	Subsidiary of Debswana (De Beers/Botswana govt.)	Captive insurer of Debswana. Does not offer products to the public.	No Personal Lines
Sunshine	Part of Sunshine insurance group	Small insurer. Mainly focussed on	Not interviewed, no website

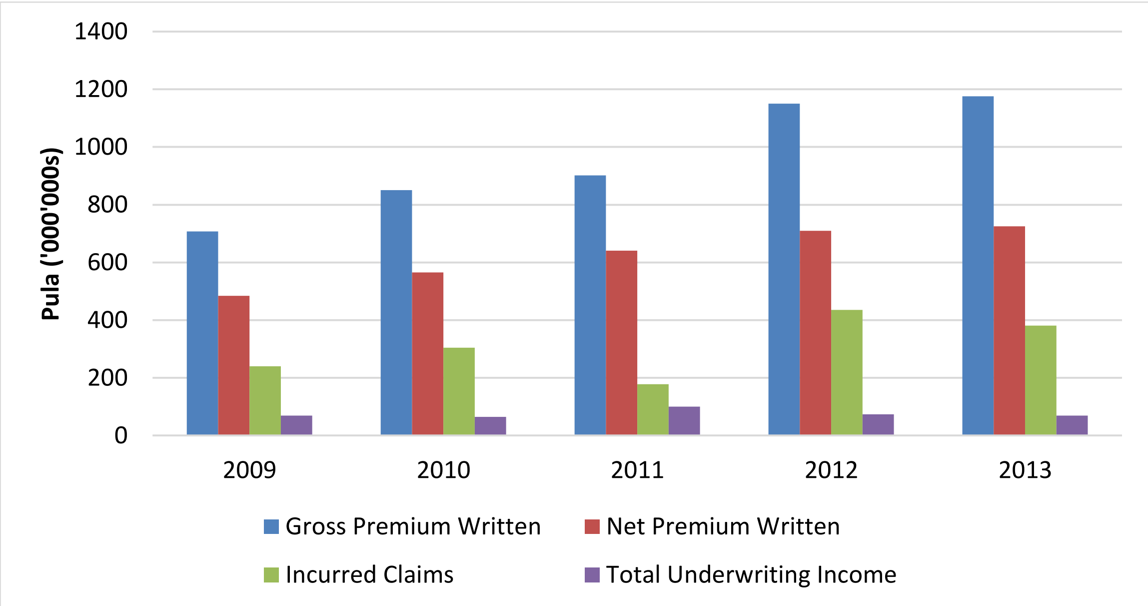
Company	Ownership	Market Penetration, Profile	Products
	(China)	construction and motor insurance.	
Zurich	Part of Zurich group (Switzerland)	Second oldest short-term insurer. Distributes exclusively through brokers.	Motor, Household Contents, House Owners, Personal Accident, Personal Liability,

Source: Econsult Botswana, Stakeholder supply side consultations

The most established players in the short term market are Botswana Insurance Company, Zurich Insurance Company, Mutual and Federal Insurance Company and Regent Insurance. These four dominate the market and are very well capitalised. Hollard Insurance is a more recent entrant (2005) and was followed by Maemo, Sunshine, Phoenix and BIHL Sure. Maemo had financial problems and was closed down by NBFIRA. Sesiro is a captive of a mining group and does not offer insurance to the public while Prefsure distributes credit protection policies via furniture / white goods retail stores.

Performance Of The Short Term Industry

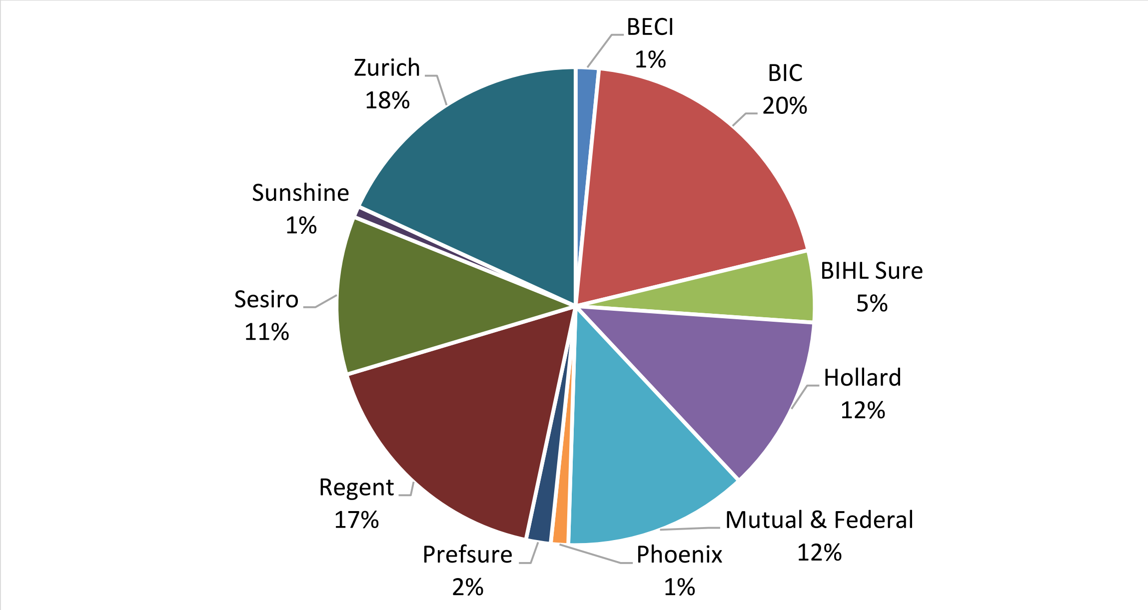
Figure 106: Performance of short-term insurance market, 2009-2013



Source: NBFIRA Annual Statistical Bulletin, 2014

The general insurance market is more fragmented compared to the life insurance market. The five largest insurers (Botswana Insurance Company, Hollard General, Mutual & Federal, Regent General and Zurich) collectively account for almost 80% of gross premiums written. Product providers in the short term insurance industry raised serious concerns about excessive competitive pressures during the supply side interviews.

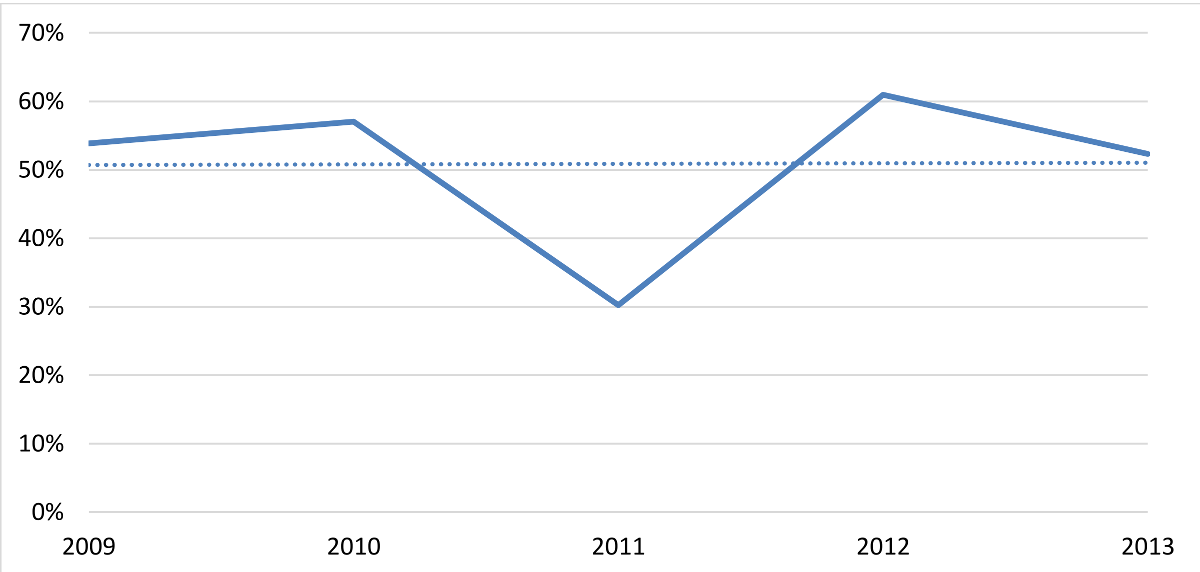
Figure 107: Non-life insurance market shares - gross written premiums (2013)



Source: NBFIRA Annual Report, 2013

Relatively high claims ratios. This increase in competition suggests that there could have been an improvement in consumer value. Product providers report declining premium rates, which supports positive consumer outcomes. Rising claims ratios for some product providers lend some support to the assertion that competition is forcing down some rates, but the evidence across the short term industry as a whole is not highly supportive of this claim. Figure 108 shows that the industry aggregated claims ration for the non-life market has remained relatively stable from 2009 to 2013.

Figure 108: Claims ratios for non-life insurers



Source: NBFIRA Annual Statistical Bulletin, 2014

There is also a danger that an increased number of providers in a small market could lead to an increase in administration costs and a decline in value for money.

Short Term Insurance Products

Table 34 gives an overview of the categories of short term entry-level products available in the Botswana insurance market.

Table 34: Summary of typical categories of entry level short term products

Category of Products	Number of Providers	Benefit and premium ranges/description	Distribution channel
Short Term: Household, cellphone, agricultural, vehicle.	All short term insurers.	Benefits and premiums subject to value of assets and the risk attached. Household: Premiums range from P350 (provided the assets e.g. household contents are valued at P10,000) to P1,500. Benefits typically range from P250,000 to P1,250,000. Motor insurance premiums range from P500 per annum to about P105,000 per annum.	Mainly agents and brokers, followed by the post office and branch walk-ins (not as common as the others).

Source: Econsult Botswana, Stakeholder supply side consultations

The entry level products in the short term market are more expensive than entry level products in the life and medical insurance industries. There is little innovation specifically aimed at the low-income general insurance market. There is no agricultural index insurance. Very low-valued sum assured asset insurance is discouraged in many cases by minimum premiums. Homeowners insurance is targeted at houses of standard construction and not at informal housing structures.

There was no evidence of informal short term insurance in Botswana.

Health Insurance

Cover for private health care is provided by privately administered medical aid funds. Short term and long term insurance companies can also offer health insurance products in terms of the Insurance Industry Act and some products like Hospital Cash and Personal Accident are offered by some life and short term insurance companies respectively but none offer traditional medical aid. The health Insurance industry has 121,799 users, according to Botswana FinScope 2014 study.

Formal Health Insurance Providers

The nine medical aid funds registered in Botswana in 2014 are listed in **Error! Reference source not found.**. Most medical aid funds are administered by a separate legal entity.

Table 35: List of Medical Aid funds

Botswana Medical Aid Society (BOMAID)
Botlhe Medical Aid Fund
Botsogo Health Plan
Botswana Public Officers Medical Aid Scheme (BPOMAS)
Doctors – Aid Medical Aid Scheme
Etudiant Medical Aid Scheme
Itekanele Health Scheme
Pula Medical Aid Fund
Symphony Health Trust

Source: NBFIRA Annual Report, 2014

Performance Of The Formal Health Insurance Industry

Current and historical statistics on formal health insurance are limited. The NBFIRA website provides a summary of the medical aid fund industry (Table36). The number of lives covered in 2014 was 18% of the total population of Botswana, a slight increase from 17% in 2010. The ratio of total lives covered to principal members increased slightly from 2.4 in 2010 to 2.6 in 2014.

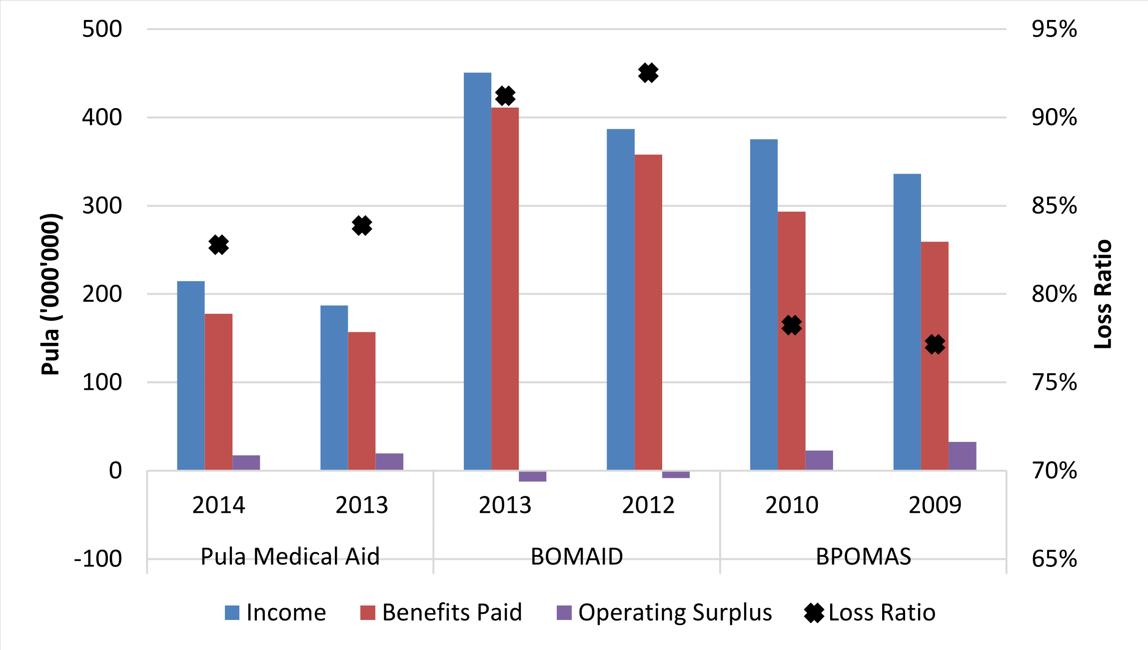
Table 36: Medical aid fund statistics

	2010	2014
Principal lives covered by medical aid funds	142,013	149,295
Number of all lives covered by medical aid funds	341,265	385,470
% Population of covered lives in Botswana	17	18
Annual contributions (P)	802,353,648	N/A
Annual benefits paid (P)	661,360,212	N/A
Total Assets (P)	1,482,837,290	N/A

Source: NBFIRA Website, 2015

Three long-established funds, plus number of new entrants. The three largest and oldest medical aid funds are BOMaid, BPOMAS and Pula Medical Aid Fund. BOMaid and Pula serve private employers while BPOMAS is exclusively for civil servants (and is the largest medical aid fund in Botswana). Pula and BPOMAS are both administered by Associated Fund Administrators (AFA). The three funds collectively dominate the market. Their performance is summarised in Figure 109 and clearly show that operating margins are slim in the medical aid industry with BOMAID, the second largest provider, showing negative operating surpluses for 2012 and 2013.

Figure 109: Performance of the three largest medical aid funds



Source: Pula Medical Aid Annual Report, 2014, BOMAID Annual Report, 2013, BPOMAS Annual Report, 2010

Products Of The Formal Health Insurance Industry

Table 37 gives an overview of the categories of health entry-level products available in the Botswana insurance market. The public health service is almost free in Botswana. Private health insurance is distributed mostly through employers.

The P94 (single member) product mentioned in Table 37 is a medical aid product with basic cover designed for low income earners. The premium is based on the income of the member and the number of dependents. The provider pays 90% of the covered medical costs while the member is liable for the 10% co-payment. The medical aid provider also pays the 12% value added tax on behalf of the member.

Table 37: Summary of typical categories of entry level health products

Category of Products	Number of Providers	Benefit and premium ranges/description	Distribution channel
Health	Medical: Mostly health insurers (medical aid funds) and some life and short term insurers.	Benefits for medical products range from a minimum of P14,000 - P20,000 (individual: 5+ dependents) to P1,300,000 - P2,500,000 (individual: family per year). Medical products premiums range from P94 per month to P1,473 per month.	Groups for most of the medical cover and walk-ins.

Source: Econsult Botswana, Stakeholder supply side consultations

Informal Health Insurance

Due to the existence of (almost) free, universal public healthcare in Botswana, there is no informal health insurance beyond family and friends. Gaps in cover can exist when a patient without formal medical aid cover needs medical services which are above and beyond what the public health system will provide. In these cases patients rely on their own finances as well as family and friends.

Distribution

Insurance Distribution Overview

Insurance sales and post sales service limited to agents, brokers, and retail and bank branches. There are multiple possible touch points between the insurance client and the insurance provider during the process of buying insurance. Figure 110 below provides a summary of the use of different touch points in the process of buying insurance for Botswana's insurance landscape. While brokers are the most extensively used for all steps leading up to and following the purchase of insurance (looking for information, advice, the purchase itself, after sales service and claims), the only other touch point that is significantly utilised is retail branches or banks (used more for information gathering and sales than for other steps). Social media is only used for gathering information and after sales service, and the internet is only used for information gathering. Call centres and mobile phones remain entirely unutilised in the purchasing and after sales service of insurance. The use, though limited, of internet and social media means that the insurance industry has the opportunity to raise awareness, gather information about its customers, as well as improve the distribution of insurance products, i.e. the efficiency and effectiveness of distribution channels.

Figure 110: Touch points for interaction with insurers In Botswana

Function / Channel	Gather information	Seek advice	Purchase policy	After sales service	Make claim
Internet					
Mobile					
Social media					
Agent / broker					
Call centre					
Retail branch / bank					
Employers/trade unions					

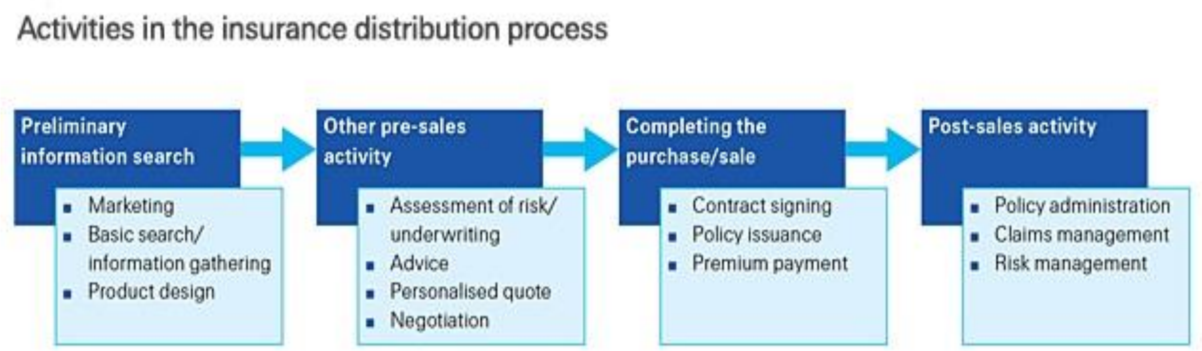
Legend

	Commonly used in Botswana
	Limited use in Botswana
	Hardly ever used

Source: authors, adapted from Swiss Re Sigma Digital distribution in insurance: a quiet revolution, 2014

The Figure below shows the activities in the insurance distribution process. The insurance buyer, his or her broker or agent and the product provider are involved in the preliminary information search and in other pre-sales activities. In terms of the Insurance Industry Act, insurance may only be sold by duly registered persons, namely an insurer, broker or agent and thus these are the only parties that may be involved in the pre-sales and sales of insurance products. A bank or mobile money operator can also become involved in the completing the purchase/sale phase but only to facilitate premium payment, unless the bank is licensed as an agent or broker. In the post sales activity phase, independent and unregulated service providers, such as loss adjustors, motor assessors, risk surveyors and fraud investigators, may also become involved. There is much more post-sales activity in the short term and medical aid industries than in the life insurance industry.

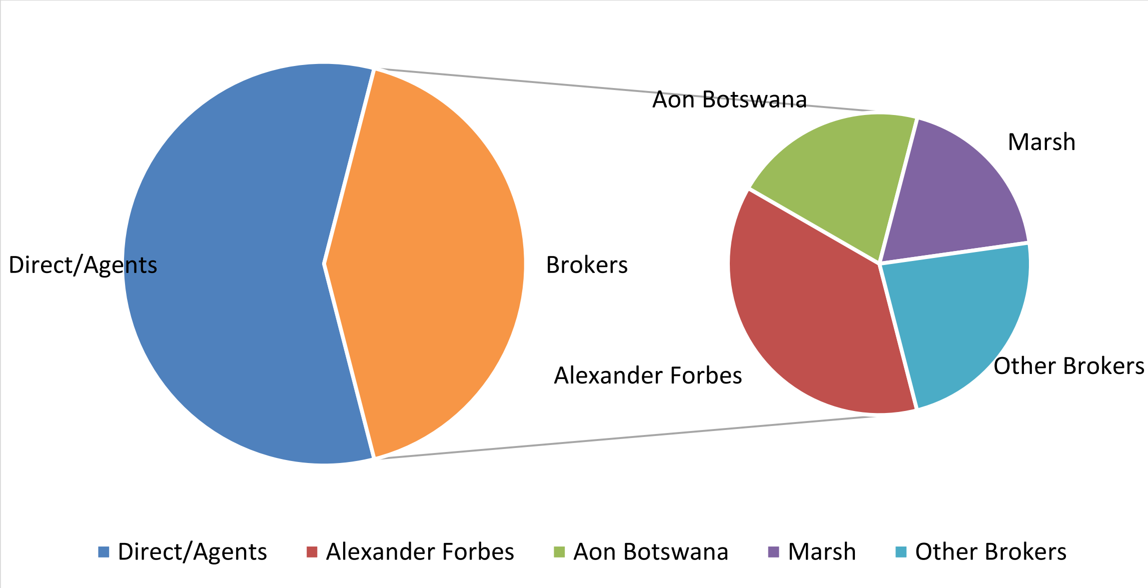
Figure 111: The insurance distribution process



Source: Swiss Re Sigma Digital distribution in insurance: a quiet revolution, 2014

Traditional distribution channels dominate. There are various different distribution channels, which vary by the category of insurance. Distribution is dominated by brokers in the short-term industry, tied agents (including banks and funeral parlours which act as agents) and brokers in the long-term industry whilst health product distribution is primarily through employers or employee unions.

Figure 112: Distribution of gross written premiums by channel, 2013



Note: includes both long-term and short-term insurance

Source: NBFIRA Statistical Bulletin, 2014

Table 38 shows the numbers of insurance intermediaries over a five year period. Banks, unions, retailers and other entities with a distribution network may register as corporate agents. Typically they would register as a sub-agent of a broker but may also register directly as an agent of an insurance company.

Table 38: Number of active Insurance intermediaries by reporting period

	2009	2010	2011	2012	2013
Insurance Brokers	39	42	42	40	45
Corporate Insurance Agencies	318	386	197	204	187
Insurance Agents and Sub-Agents	2000	2,195	2,585	2,875	2,523

Source: NBFIRA Annual Statistical Bulletin, 2014

Broker industry dominated by three big brokers. Whilst there were 45 registered insurance brokers as the end of 2013, the three largest insurance brokers, Alexander Forbes Financial Services, AON and Marsh, the local subsidiaries of multinationals of the same names, dominate the insurance broking market with 77% of total gross written premiums. In 2013, Alexander Forbes Financial Services' market share was 37%, while AON had a market share of 21% and Marsh 19%. AON accounted for 53% of the profit before tax of the entire broking industry in Botswana in 2013 while Alexander Forbes Financial Services accounted for 28% of the industry's profit before tax. Marsh accounted for only 2% of the industry's profit before tax[163].

The following section reviews specific distribution trends for the long-term, short-term and medical aid sectors.

[163] *NBFIRA Statistical Bulletin, 2014*

Long Term Insurance Distribution

More diverse distribution than short-term and medical aids. Group life and group funeral products are distributed mainly through insurance brokers who in turn contract with employers. Individual life products are distributed both through agents or brokers with agency forces as well as through insurer's direct sales staff. Agents may be individual agents or corporate agents. In addition, individual life products are distributed through brokers who in turn contract with banks, unions, mobile network operators, the post office and other affinity groups. In some cases, long term insurers may contract directly with the employer, bank, union, mobile network operator, post office or other affinity group but this practice is vigorously opposed by the brokers and is thus not that common. A commission and sometimes an administration fee is paid to the intermediaries in the distribution chain. Long term commission in Botswana is typically front loaded (i.e. most of the commission is paid upfront at the time of the sale) but this has caused some problems with mis-selling by agents. Whilst commissions are not set by the insurance regulator, the regulator has to approve changes to commission structures.

Premiums are collected by the broker and remitted to the insurer, net of broker commission, on a monthly basis. Most monthly paid premiums are collected by debit order directly into the product provider's account. The product provider then pays the commission to the broker on a monthly basis. Agents typically do not collect premiums. Their clients' premiums are paid directly to the product provider and their commission is paid to them by the provider on a monthly basis. Policyholders who do not use intermediaries pay direct to the product provider.

Short Term Insurance Distribution

Mainly distributed through brokers. Although there is a similar variety of channels as with long-term insurance, distribution through brokers dominates the short term industry. This is due to the predominance of commercial / corporate insurance versus individual insurance. Agents play a very small role in short term insurance distribution unlike in long term insurance. Brokers distribute most commercial / corporate policies with a small portion being distributed directly to the commercial / corporate client by the insurer. Distribution to individuals is through a variety of channels. A small portion is distributed directly to individuals without the use of an intermediary. Brokers play an important part either distributing direct to individuals or to individuals via an employer, bank, union or other affinity group. There are no short term products of any significance currently being distributed via mobile network operators or the post office although one provider offers a mobile money payment option to its policyholders. Industry consultations indicated that the short term providers did not consider the individual, or personal lines market as high priority, preferring to concentrate on group schemes, mostly through employers.

Commission is not front-loaded in short-term insurance. It is paid monthly or annually for as long as the policy is in existence as the intermediary has a duty to service the policyholder throughout the life of the policy.

Premiums are collected by the broker and remitted to the product provider, net of broker commission, on a monthly basis. Most monthly paid premiums are collected by debit order directly into the product provider's account but failed debit orders are common. Banks levy a charge on policyholders for each failed debit. The product provider then pays the commission to the broker on a monthly basis.

Agents typically do not collect premium. Their clients' premiums are paid directly to the product provider and their commission is paid to them by the provider on a monthly basis.

Policyholders who do not use intermediaries pay direct to the product provider.

Medical Aid Distribution

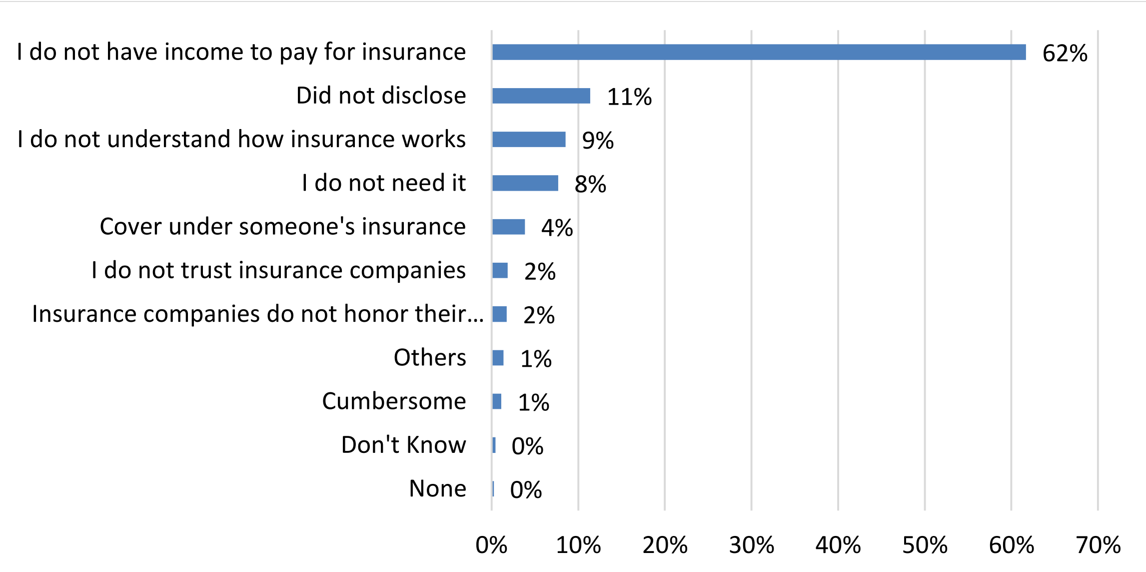
Distribution almost exclusively through employers or employee unions. Medical aid funds deal directly with employers and unions and offer their pre-underwritten products to the members of the organisation. Payment is made directly to the medical aid fund (or its administrator) by means of salary deduction or debit order. No commissions are thus paid to intermediaries.

Barriers to Access

Access Barriers

High product cost is a barrier to access for the excluded population. 62% of people without insurance cite affordability as the main barrier (see Figure 113).

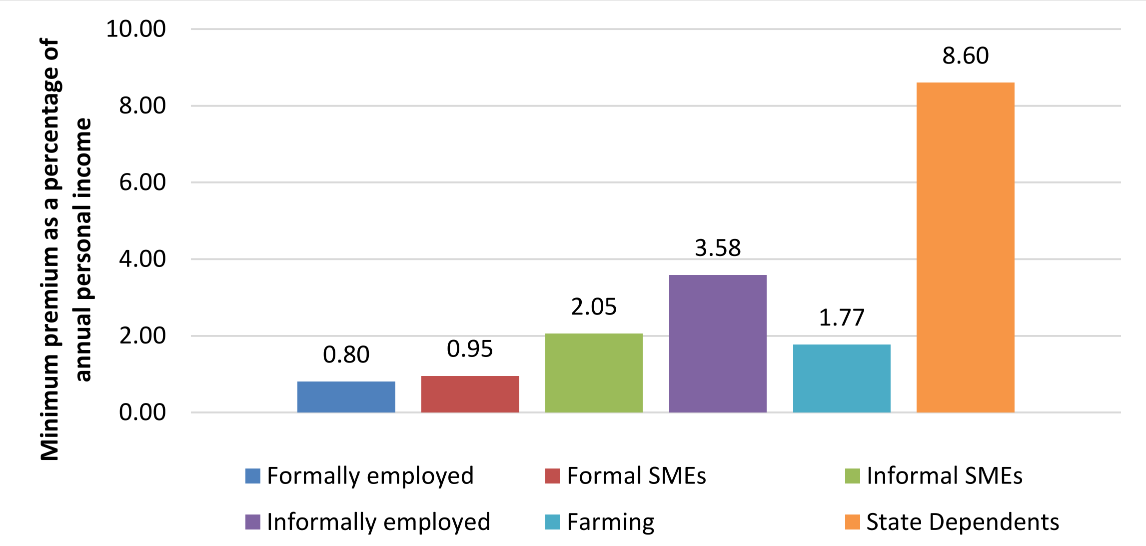
Figure 113: Reasons for not taking insurance



Source: Botswana FinScope, 2014

Affordability a particular problem for short-term insurance. High product cost is particularly noticeable in the short-term space where many short-term insurers have high minimum premiums per policy, which are designed to discourage low value consumers. Figure 114 shows that a minimum premium of P500 per annum is more than 8% of the average income of those in the State Dependents target market, but would not discourage those in the Formally Employed and target market. Short term insurance policies are renewed annually and there may be many interactions on the policy in one year (claims, changes in sums insured, etc). These frequent interactions increase administration costs for product providers and thus influence product pricing and minimum premiums. Furthermore, most short-term and long-term policies are intermediated which adds a commission cost to the product. Where collection is monthly, the cost is further increased.

Figure 114: Proportion of a P500 short-term minimum premium with respect to income



Source: Botswana FinScope, 2014, Stakeholder Supply side consultations

In addition to the actual product cost, there are hidden transaction costs for the consumer such as travel to and from brokerages or insurance companies, debit order charges for failed debits (which can be as high as P326 per failed debit attempt for big banks or as low as P21 per failed debit attempt for the smaller players), the time to complete requirements and the need to fax and/or photocopy documents. However, only 1% of those that do not have insurance cite the inconvenience of getting a policy as a barrier[164]. The following statement from the supply side consultations also illustrate this point:

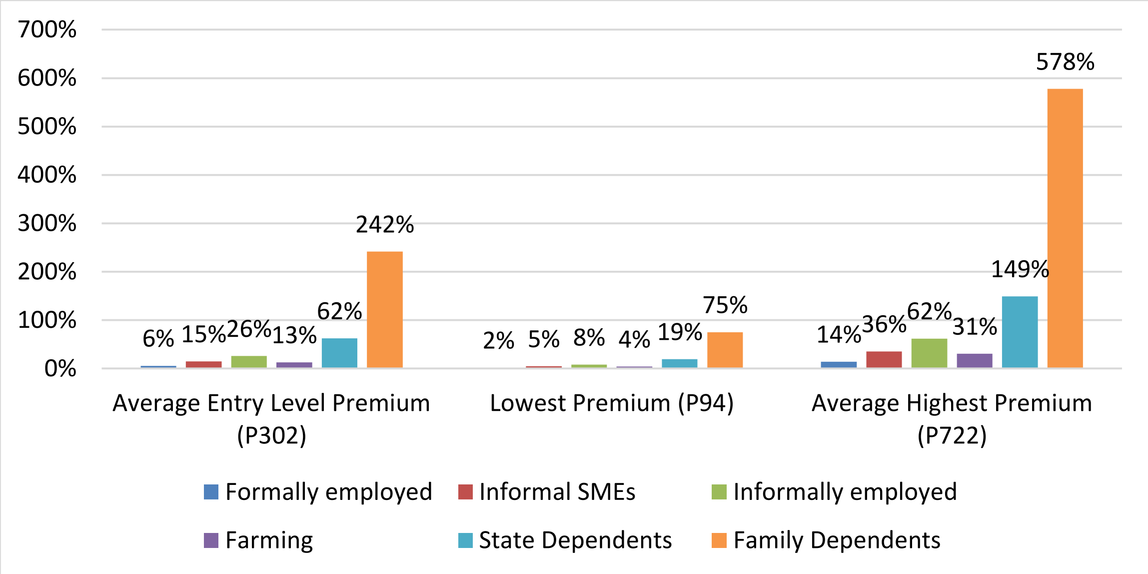
> *"Premiums are quite low, if one has a debit order of P60, there is need to make sure that there's more than that in the bank to allow for bank charges."*
>
> *"The problem with that is that the charges make this option too expensive for clients. People in these remote areas prefer to pay in cash."*
>
> *Source: Supply side consultations, 2015.*

Affordability of medical aid products an issue for all target groups except formally employed. Figure 115 below compares the average monthly income of each target group with the typical medical aid insurance products available in Botswana, using the average entry level premium (P302), the lowest entry level premium (P94) and the average highest premium as proxies. While the lowest priced product is less than 10% of the monthly income for all target groups except the state and private dependants, the average entry level product is substantially more than 10% of the average income for all target groups except the formally employed (and extremely costly for state and family dependants at 62% and 242% of average monthly income for these two groups). This suggest that the cost of insurance could be a barrier to uptake for all target groups other than the formally employed. Although average members of most the target markets (excluding dependants) could afford very basic medical cover if it was absolutely necessary, the fact that there is an almost free, universal and reasonable quality

164 *Botswana FinScope 2014*

public health system means that private medical aid is not an absolute necessity for most people.

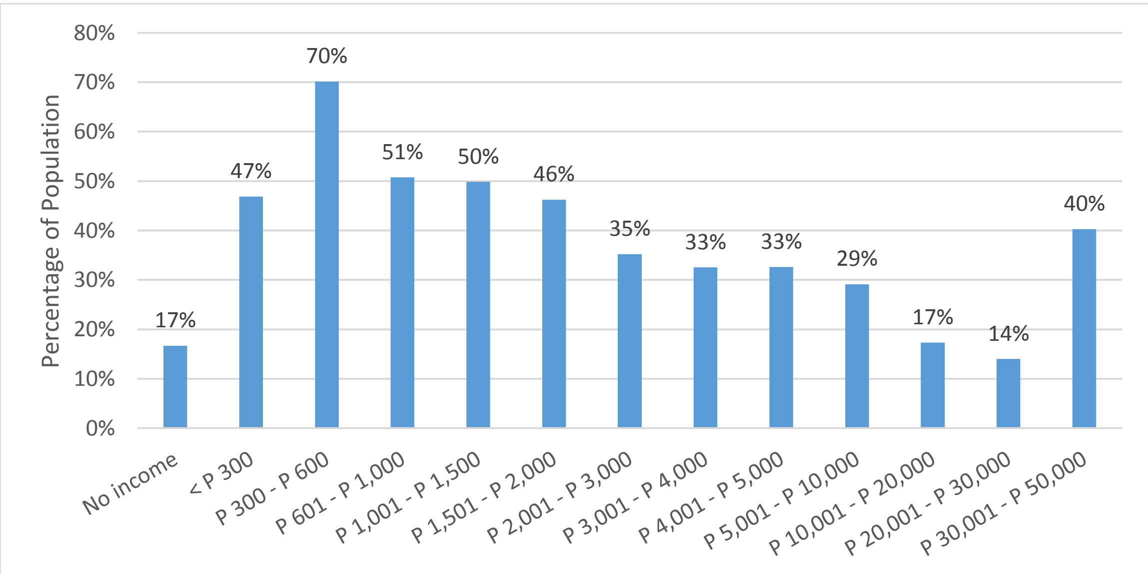
Figure 115 Medical aid premiums as a proportion of personal income



Source: FinScope 2014 Data, Supply Side Interviews

Affordability a particular issue for low-income households. It is clear from Figure 116 that affordability is a factor inhibiting insurance uptake in low-income households. More than 45% of households with income of less than P2,000 per month considered insurance to be unaffordable. Affordability of insurance was even a concern for one third of households with income between P2,000 and P10,000.

Figure 116: People who believe that insurance is unaffordable (by household income)



Source: Botswana FinScope, 2014

Eligibility requirements a barrier but KYC requirements generally not. Eligibility requirements stipulating the need for regular income are an access barrier to those with irregular income, especially for life and medical aid products. According to the FinScope 2014 data, the following categories have very low rates of access to insurance:

- Informal self-employed 13%
- Livestock, arable and commercial farmers 23%, 7% and 0% respectively
- Traders 13%
- Piece job workers 7%.

However, at this point in time, there are no limiting Know-Your-Customer (KYC) requirements for product providers. According to industry consultations, this is due to the fact that few premium payments are made in cash and those made in cash are almost always below P10,000, the notifiable limit. Some short term product providers cited proof of residential address as a barrier to entry, while long term product providers stated that the only requirement is of proof of identity. This indicates that the requirements are set by the providers themselves and not by the regulator.

Some product providers indicate that lack of infrastructure in rural areas (roads, banks, electricity, bank branches, etc) hinders access as it is uneconomic for them to build their own infrastructure in rural areas.

Usage Barriers

Understanding of insurance is limited. Lack of understanding of insurance is perceived to be a key barrier by product providers. However, only 9% of those who are uninsured cite lack of understanding of insurance as a barrier. Another 8% believe that they don't need it, which may be indicative of a lack of understanding (see Figure113).

The MAP Botswana qualitative review did yield examples of a lack of understanding of insurance. When asked about insurance, a number of respondents said that they do not need insurance, because they have dogs – that is sufficient protection against theft. Others trust in their religion for protection.

> *''I live alone with my dog, which I keep for security reasons. Nobody can enter this place at any time if I don't allow them. Even during the day when I am not here, they cannot enter.'' (Remittance receiver)*
>
> *''We have heard of insurance but we have never tried it. The truth is we are men of faith, our protection is in God. We also have vicious dogs that safe guard our house.'' (Traders, Gabane)*
>
> *''(Question: what if this equipment gets stolen?) By who? Where exactly? That would never happen! Because people here are God fearing people. We are guys who believe in prayer.'' (Nicholas and Kenneth, successful traders/bush mechanics, Gabane)*
>
> *"The shop is not insured. You know how it is, if one does not have the information on how these things of insurance, Aupa (in Thamaga).*

Limited need given the collective functioning of the society and other methods of managing risk. The community usually rallies around a member of the community when there is a loss and contribute in cash and in kind. It appeared to be normal practice in Botswana that members made a contribution when a death occurred in the community; however, the amount and the nature of the contribution was not specified (physical assistance e.g. to dig a grave or to assist with food preparation was also considered to be an acceptable contribution)[165]. More generally, insurance is not the only method of risk management. As noted in chapter 7, providing for funeral expenses and non-medical emergencies are major drivers of savings behaviour.

Regulatory Issues

The regulatory environment in Botswana is generally conducive to the operations of the insurance industry. There has been a continuous process of regulatory change since the Non Bank Financial Institutions Regulatory Authority Act of 2006 was passed allowing for the regulatory environment to keep up with needs of the industry. The Insurance Industry Act is currently being revised and this will be followed by revisions to the Non Bank Financial Institutions Regulatory Authority Act.

This section covers some of the key issues that were raised in industry consultations.

Inability to complete insurance contracts online (website, mobile phone or call centre). A major concern amongst some product providers is the lack of enabling legislation allowing insurance transactions to be entered into without the need for a piece of paper to be physically signed. Whilst an Act of Parliament has been passed enabling e-commerce, the subsidiary legislation has not been promulgated and therefore product providers have been denied permission by NBFIRA to provide insurance online or over the phone. This means that distribution costs remain high and product providers are unable to provide products with very low premiums.

Need for NBFIRA approval for products. A major concern of many product providers was the need for NBFIRA approval of any new product. Providers cited inordinate delays in getting approval from NBFIRA for new products.

Need for BOCRA approval for cell phone payment. It is reported that the communications regulator, BOCRA, needs to approve any premiums to be paid to a product provider by means of an SMS. This need to approve may stem from the use of SMS platforms for 'SMS to win' promotions, but the approval process inhibits take up of this payment gateway by product providers who could use it for simple, pre-underwritten insurance products like funeral insurance.

*Impending introduction of 70% onshore rule for insurers with no clarity on the time limit for adherence. S*ome long term product providers were concerned that they will be required to invest 70% of their minimum capital within Botswana. This proposed change is contained in the Insurance Industry Bill of 2014 (Part III, clause 30 (a).). The concern is around how much time will be given for the transition, if any. There are also proposals for pension funds to be subject to a similar change, whereby the maximum proportion of their assets that they can hold offshore will be reduced from 70% to 30%, but with a proposed 20 year time horizon.

Impending restriction on the use of agents by brokers. Brokers are concerned that the Insurance Industry Bill of 2014, Part VIII, clause 87 (3), will no longer allow them to use agents if passed in its current format. Many brokers use commission agents to sell life insurance products. This distribution channel will not be permitted under new law.

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[165] *FinMark (2015)*

Micro-insurance. There is currently no legal framework for micro-insurance. The Insurance Industry Bill of 2014 defines micro-insurance for the first time. It is defined as policies which may be from any class of long term or short term insurance but limited to P50,000 in benefit, 12 months in extent and must exclude weather insurance, catastrophe and other pooled disaster risk policies. No further guidelines on micro-insurance are provided in the new law. It is possible that the subsidiary regulations, once promulgated, will provide the necessary framework to stimulate the micro-insurance sector.

Gaps and Opportunities

This section identifies gaps in insurance provision and the opportunities arising to improve financial inclusion by extending that provision. The table below identifies the key insurance needs and opportunities by target market.

Table 39: Market for insurance: opportunities across use cases

Use cases	Relevant target markets	Potential impact and opportunity
Funeral expenses	All	Direct: reduced need to draw down savings or borrow (possibly at high interest) ***Opportunity across the board, but beyond formally employed requires innovative distribution and payment flexibility***
Health insurance	Formal employees	Direct: enables access to private healthcare, quicker and more flexible than public system. Indirect: productivity gains ***Affordability constraints likely to limit opportunity to wealthier groups. Public health system functions reasonably well and is (almost) free of charge.***
Loss of income (due to retrenchment, illness, accident or disability)	Formal employees Informal SMEs Informal employees Farmers	Direct: through consumption smoothing effect in the event of retrenchment or another trigger that undermines income generation ***Opportunity for very low cost policies for all income earning groups, but challenged by consumer awareness and need for low-cost distribution channels and payment flexibility.***
Asset loss, or business damage	All	Direct: by preventing business losses or removing the need for households to draw on savings or resort to credit in the event of asset loss. Indirect: Can reduce likelihood of asset loss shock pushing household into poverty. ***Opportunity for very low cost policies for all groups, but challenged by consumer awareness. Beyond formally employed requires innovative distribution and payment flexibility. Potential moral hazard problems, which may be expensive to guard against.***
Agricultural insurance	Farmers	Direct: reduces volatility of agricultural incomes due e.g. to climatic conditions (drought, flood), and asset depletion due to loss of livestock ***Opportunity for commercial provision limited; high costs; moral hazard problems with livestock. Scope for extending government***

	subsidy scheme for climate risk to loans from commercial lenders as well as DFIs.

Source: authors

Product innovation

The high uptake of insurance by those formally employed, including those formally employed in small and medium enterprises (see Figure 95) as well as the review of the features of the existing products in the market (see Table 31, Table 34 and Table37), suggest that most products serve the already insured segment of the population and thus may be contributing to the decline in provider profit margins. Most product providers cited declining rates, a lack of new business in the market and that most growth came from taking existing business from competitors. There is, however, an opportunity for product providers to design new products for the low income market based on a combination of the following factors:

Micro-insurance: The new Insurance Industry Bill recognizes and provides for micro-insurance as a separate category of insurance for the first time. The regulations that pertain to the new act are now being developed. Product providers should take this opportunity to engage with insurance policy makers to provide input into the design of the micro-insurance regulations to ensure that the regulations thus developed will create an enabling environment for micro-insurance making it easy and profitable for them to introduce micro-insurance products.

E-commerce: The regulations enabling the offering of electronic commerce by product providers are in the process of being developed and, based on supply side consultations, product providers wish these to be enacted as soon as possible. The promulgation of such legislation, if not restrictive or burdensome, will allow product providers to offer insurance online or via call centres thus reducing their costs of distribution and enabling access to those geographically distant from existing distribution infrastructure.

Mobile premium payment: The use of airtime could be a cost effect channel of paying for micro-insurance premiums as there is no need to open a bank or mobile money account. It requires flexibility from BOCRA. A lowering of mobile money fees by mobile network operators would also increase insurance premium collection efficiency and enable consumers to avoid bank charges for failed debits, which can exceed the premium that was to be collected. Both of these options would also enable premiums to be paid in smaller more frequent amounts (e.g. weekly). Currently, premiums can only be paid monthly or in some cases, only annually.

Product design: Current products are limiting for consumers with irregular income. Providers should consider designing products with flexible premium payment terms to increase the uptake of insurance beyond the formal employed target market, which is the only target market with significant uptake (see Figure 95).

Product approval: The current regulatory approval process for new insurance products is slow and should be reviewed for efficiency to encourage new product design by product providers. In particular, products meeting the definition of micro-insurance should have a simpler and quicker regulatory approval process.

Extension of Agricultural Credit Guarantee Scheme (ACGS)

Crop farmers in Botswana face risks like drought, disease, pests, flood and damage by wild animals. Only those taking loans through NDB and CEDA obtain cover, and the cover is limited. The scope of the Agricultural Credit Guarantee Scheme (ACGS) could be widened to be accommodative of more farmers and a broader range of risks. It can be opened up to other banks, such as commercial banks wishing to provide finance to farmers. However, the scheme is heavily subsidised by government, and premiums are nowhere near to reflecting costs and risks. The fact that government subsidy of the ACGS is one of the factors that inhibits formal insurance provision by the private sector can be addressed by increasing the premium rate on the ACGS scheme in steps over a period of several years until premiums are market related.

Third party property damage motor insurance

As discussed earlier, the majority of vehicles in Botswana are uninsured. While the MVAF provides insurance against injury to persons, it does not insure damage to vehicles. Third party vehicle insurance is much cheaper than comprehensive insurance. The lack of vehicle insurance, combined with affordability, provides an opportunity to extend coverage.

Use of bancassurance to increase penetration

Whilst 50% of the adult population in Botswana is believed to be banked, only 26% have access to formal insurance[166]. There is an opportunity for insurers to close the gap. Banks also have larger branch networks than brokers than insurers and can bundle products from various insurance product providers into one package combined with their own banking products. Several insurance companies are already collaborating with banks to distribute their products in both the long term and short term spaces. However, products need to be lower in cost to increase uptake.

Financial literacy and education

Lack of understanding of insurance was identified as a barrier to access by both consumers and by product providers. This leads to mid-selling (consumers being sold unsuitable products, or not being aware of the "small print" of products), and provides an environment for fraud (especially by brokers). There is, thus, a need for the government to increase financial literacy and education. There is also a need for insurance companies and insurance intermediaries to provide more information and training on their insurance products to prospective insurance consumers.

[166] *Botswana FinScope 2014*

10. Towards a Financial Inclusion Roadmap in Botswana

It is intended that the end result of the MAP process will be an effective and well-founded financial inclusion strategy for Botswana. The MAP analysis will be used to develop a roadmap for financial inclusion that will serve as an input to the strategy. The roadmap is a document that sets out practical actions towards overcoming the core barriers and unlocking the key opportunities identified through the MAP analysis set out in this document.

As basis for the roadmap, this section concludes on the main financial inclusion opportunities stemming from the analysis and recommends actions to convert the opportunities into reality. It starts by summarising the key factors that will determine the scope for financial inclusion. Then it considers a framework for narrowing down the range of financial inclusion opportunities into a set of five core priorities – each of which is unpacked in turn. Finally, it formulates a number of strategic imperatives for financial institutions and regulators, respectively, which cut across the five financial inclusion priorities.

Cross-cutting trends and drivers of financial inclusion

This MAP Diagnostic Report has identified a number of cross-cutting factors shaping the process of financial inclusion in Botswana. These factors may be drivers, or alternatively may be impediments towards financial inclusion.

Large country, with a small, urbanised population: Botswana is large but with a small population and hence a very low overall population density. The population is increasingly urbanised – now 65% - and concentrated in and around Gaborone. Where the provision of financial services is concerned, the small population constrains scope for growth and economies of scale, while the large size of the country adds to distribution costs.

Upper middle income country with unequal income distribution. Botswana's GDP per capita is around US$7,500, one of the highest in SADC and sub-Saharan Africa as a whole. However, income distribution is quite unequal, with a Gini coefficient of 0.6, with a small group of well-paid adults and many with low incomes.

Mining and Government dominate; diversification a priority. Mining has been the main driver of Botswana's economic growth, and this has in turn supported the growth of a large government sector. The economy lacks diversification, but the pursuit of diversification is a high policy priority.

Macroeconomic position is strong. Botswana has the highest sovereign credit rating in sub-Saharan Africa. Although government spending is high (as a proportion of GDP), the budget is generally balanced and there is minimal public debt. The balance of payments is generally in surplus and the country has large foreign exchange reserves.

High level of formalisation: a relatively high proportion of adults have formal sector employment with regular incomes. Associated with this is high usage of formal financial products and services, albeit with informal products and services playing an important complementary role.

Entrepreneurship is weak. In contrast to many other countries, where entrepreneurship is widespread and driven by the need to survive, the entrepreneurial drive is limited in Botswana. Furthermore, it is a predominantly female phenomenon.

Well educated population. The largest share of public spending is devoted to education, and the literacy rate is above 90%. Most people receive at least 10 years of largely free public education.

Access to infrastructure is good. More than 60% of households have access to electricity, albeit with supply disruptions. Almost all of the population have access to safe drinking water. Mobile phone penetration is very high.

Complex land arrangements. There is a variety of forms of land tenure, which allows for land ownership to all citizens. However, the overall system is complex and inefficient, resulting in shortages of residential land in urban centres. Land tenure issues affect land marketability. Although agricultural land is in ample supply, the quality of most of this land is poor.

Impact of HIV/AIDS. Botswana has among the highest HIV/AIDS infection rates in the world. However, the roll out of a major treatment programme through the public health service has reversed the decline in life expectancy and led to sharply reduced mortality. Nevertheless, there are many orphans, many households look after children of deceased relatives, and funerals are a regular occurrence in the community.

Farming is both widespread and limited. Many Batswana adults have some involvement in farming, whether pastoral or arable. But very few rely on farming for their livelihoods; for many people it is largely driven by culture and tradition, and makes a marginal contribution to incomes. For poorer farming households, government keeps them afloat, but they are mainly dependent on other income sources.

Market is economically small but physically large. The small size of the population and of the economy limits the scope for economies of scale, which has implications for the number of range of financial institutions and products that can be provided on a cost-effective basis. The fact that the country is physically large, and the population spread out at low densities in many areas, increases the costs of financial service provision, and imposes further limits on the extent of market-led solutions to financial inclusion.

Government provision fills gaps but encourages dependence: Government is a major economic player in Botswana and in the provision of public services, support for livelihoods and safety nets, although the level of most social safety net grants is low. There is a wide range of economic support programmes, many of which are very expensive and of limited effectiveness. Many people receive payments from Government, and how these payments are made determines the way in which many people – especially those on low incomes – relate to financial services. But high levels of government provision – e.g. of agricultural subsidies and cheap credit – encourages dependence and a lack of innovation, and arguably limits the space for the private sector to operate.

High level of social cohesion. In addition to government social safety nets, a high level of social cohesion provides an underpinning of community support for the poor. However this is stronger in smaller and more rural communities and it is not clear how well it will survive continued urbanisation. Social cohesion also provides a basis for collective institutions such as savings and loans groups and burial societies.

Old age can lead to poverty or income insecurity. While the upper half of the formally employed segment benefits from well-funded pension provision, for the rest of the population retirement can lead to a major drop in incomes, often resulting in poverty. The government provides old age pension grants, but at a subsistence level. The weakness of agriculture means that, despite the widespread availability of agricultural land, this does not provide an adequate standard of living after retirement for many people.

Target market realities set the parameters for financial inclusion

Access to formal financial services is quite high. More than two-thirds (68%) of Batswana adults are formally served – a number that is relatively high in regional terms. A further 8% use informal services only and 20% are totally excluded. Usage is spread as follows across product markets:

- Only 17% of adults use formal credit. 3% solely make use of informal credit and a further 9% only borrow from family or friends. More than 70% of adults do not use any credit.
- 35% of adults use formal remittance products and a further 5% use informal products only and family and friends. Most remitters send money through various non-bank formal channels. 60% of adults do not send or receive remittances.
- Savings accounts are the formal products that reach deepest into the adult population. 46% of adults save in formal institutions. A further 13% of adults save only in informal savings groups and yet another 4% save only at home or in kind. Savings is the main driver of financial inclusion. Only 38% of adults do not save in any way.
- Formal insurance reaches 26% of adults. This number is fairly high compared to many other developing countries. The reach of community-based risk pooling in the form of burial societies is, however, low by regional standards. 4% of adults use informal insurance (such as a burial society) without having formal insurance cover. 70% of adults are without any risk cover.
- There is a clear variation in access levels across settlement types, with 87% of urban adults enjoying access to finance, compared to 64% of adults in urban villages, and 71% in rural areas.
- *Access is quite broad.* Of those who use formal financial services, the majority (63%) are broadly served, and have a formal financial service across more than one product market. That is, 45% of adults use more than on product area of savings, credit, insurance and payments.

A number of usage and access barriers. Low usage is indicative of a number of barriers to uptake. The most important perceived barrier is that people do not have enough money, or their income is too low, to use formal financial services. There are also problems of lack appreciation of the attributes of financial products, and a lack of understanding of how they operate. Even should they choose to use formal financial services, many consumers face substantial access barriers, notably low affordability, difficult documentation requirements, lack of flexibility and distances to access branches and distribution networks.

Access to finance is polarised. Those in formal employment, especially those on middle to upper incomes, have access to a wide range of financial products and services, which remain predominantly bank-based. But those outside of this group, with low and irregular incomes, have much more constrained access to finance.

Despite polarisation, use of financial services is broad. Many people make use of multiple financial services; 46% of the population use more than one of the four main financial products (savings, credit, payments and insurance) from a regulated financial institution.

Modernisation of welfare payments mechanisms has helped to drive inclusion. The movement away from direct cash payments of welfare grants has helped to extend access to finance to a large group of relatively low income, unbankable adults. This achievement should be built upon, but from the perspective of extending financial inclusion, and not just improving the efficiency of delivering welfare payments.

Further extension of access is likely to come more from non-bank providers than banks. The banks have not shown much interest in extending products beyond their current target markets, apart from a few products such as mobile phone-based eWallets. Meeting financial inclusion priorities is likely to be driven more by non-bank financial service providers than by banks.

Technology provides a means of overcoming the impediments of distance, low population density, and limited access to banks. Given that the banking system is unlikely to extend financial service provision to sparsely populated areas and low-income households, technology may help to fill the gap. Mobile money accounts provide a channel for payments and remittances, and the Post Office smartcard (Poso card) is already extending the frontier of financial inclusion, although much more could be done. Nevertheless, low population density in some rural areas may limit the extent to which there is enough business to make agent networks viable.

Providers prioritise the top end of the market. The landscape of provision outlined in this report shows that most formal sector providers are currently targeted at the formally employed segment. Access rates for all product areas are much higher for formal employees than for all other groups. Savings and transaction accounts offered by banks and the Post Office are the only formal financial products to significantly reach into the remaining target markets. Group-based structures such as SACCOs and *metshelo* also reach mostly those with a regular and relatively higher income, although *metshelo* do have a broader reach. While burial societies reach across all target market segments, penetration is low. The upper end of the market is well served and largely saturated, but there are fewer options present for those segments outside of the formally employed market.

Regulatory framework in need of modernisation to fully support financial inclusion

Generally enabling environment, but modernisation is needed to extend inclusion. The regulatory environment is generally supportive of financial sector development. However, there are gaps, and in some respects the regulatory and policy environment is lagging behind financial sector development and innovation. Without modernisation, the regulatory framework will increasingly be a drag on financial inclusion.

Regulatory environment is clear but has gaps. The financial services landscape is governed by two authorities: the Bank of Botswana (BoB) and the Non-Bank Financial Institutions Regulatory Authority (NBFIRA). Broadly, the BoB governs banks and NBFIRA governs non-bank institutions, including credit institutions, insurance and pensions. The division of responsibilities between the two regulators is generally clear. Some elements of the regulatory framework facilitate financial inclusion, including:

- Mobile money is permitted, without the system operator requiring a bank license;
- New insurance legislation accommodates micro insurance;
- The exemption of Botswana Post from payments legislation provides an opportunity for innovation;
- Informal member-based savings and credit groups are allowed to operate without regulatory interference;
- There is no cap in lending interest rates, which accommodates risk-based pricing of credit.

However, a number of elements also constrain access, notably:

- The framework for bank licensing does not readily accommodate new and innovative forms of financial service delivery, such as branchless or agency banking
- Full KYC requirements are applied to all bank accounts, with no provision for tiered KYC for low value accounts and low income households.
- An unclear regulatory framework for mobile money / e-money, and a cap on the value of mobile money accounts, limits functionality, especially for savings purposes
- Product approval processes, particularly for new insurance products, can be slow and onerous
- Some lenders (including pawnshops and retail stores) are currently unregulated. In the insurance sector, medical aid schemes are unregulated. However, regulations are under way in both cases to incorporate them under NBFIRA's authority and enhance prudential oversight.
- SACCOs are unregulated, and pose some risks to depositor-members
- There is no regulatory provision for deposit-taking MFIs

Some regulatory developments under way should help to improve the environment for financial inclusion. These include regulations on the use of electronic signatures and e-commerce more generally, and regulations for mobile money.

Small but diverse provider landscape

The small population and low population density limits the number of financial institutions that can sustainably offer formal financial services. Most financial institutions are at least part foreign-owned. The financial services landscape is comprised of the following institutions:

Banking sector. The formal financial services sector is dominated by the four large banks: FNB, Barclays, Standard Chartered and Stanbic. There are also six smaller banks. All banks are completely or majority foreign owned.

Other deposit-taking institutions: important entities include the Botswana Building Society and the Botswana Savings Bank. Although neither has a banking license they offer many of the services offered by the banks and hence can be considered as competitors to the banks from a consumer perspective.

Insurance. The long-term (life) segment is dominated by the oldest company, Botswana Life Insurance Ltd. The short-term segment is more diverse. There are now nine long-term and 12 short-term insurers. There are also nine medical aid providers that are currently unregulated.

Development Finance Institutions: these are all state owned and include the National Development Bank, the Citizen Entrepreneurial Development Agency, and the Botswana Development Corporation. A related entity is the Youth Development Fund.

Non-bank lenders (Credit institutions). There are several large registered credit institutions (Letshego, Bayport, Blue, Afritek), and approximately 250 registered micro-lenders.

SACCOs. Savings and Credit Cooperatives (SACCOs) serve largely the formally employed market. There are 50 registered SACCOs.

Retailers. There are several furniture and clothing retailers providing credit.

Informal providers. The primary informal organisations offering financial services are savings groups, including *metshelo* (small savings and credit groups), and informal moneylenders. Savings groups accept deposits and many also offer credit to both members and non-members. In addition, burial societies provide community-based risk pooling. They reach a limited number of people.

Mobile money. All three mobile network operators (MNOs) offer mobile money, including Orange Money, MyZaka (Mascom) and sMega (beMobile).

Post Office. Lastly, the Post Office provides remittance and bill payment services. It also offers a smartcard (Poso Card), which is used for the payment of government welfare grants. It provides a branch network for BSB.

SmartSwitch. This payment service provider provides the technology for the Poso Card and also distributes some government welfare payments directly, through a dedicated network of proprietary POS machines.

Priority target markets needs

Different target groups have different needs. The Botswana adult population is not a homogenous market. Needs and circumstances differ across the six segments identified, based on their income source and level, and demographic profile. The main needs across target markets are the ability to send and receive money at low cost, store value securely and cheaply, earn good returns on long-term savings, manage the impact of risks, and to access short-term flexible loans and long-term housing loans.

The priority needs for each target market established in this report are as follows:

Segment	**Size**	**Main realities and needs**
All segments	1,325,000	Financial literacy; consumer protection
Formal Employees	375,000	Largest group. Well served, high level of inclusion, multiple products, high average income but wide spread between top and bottom of income spectrum Concerns about over-indebtedness Supporting extended families, hence need for low-cost remittances/transfers Low use of insurance, need financial education

		Lack of provision for income in retirement for lower-income segment Lack of access to housing finance for all except the very top
Informal SMEs	85,000	Relatively small group, predominantly female (entrepreneurial culture not widespread) Need for non-cash means of receiving and making payments Need access to low cost accessible savings for accumulating funds to finance business activities, as well as short-term store of value for consumption smoothing Limited access to credit, outside of government schemes (CEDA/YDF). Need for MFIs, and for reform of government schemes Asset insurance (housing, vehicles) Funeral insurance
Informal Employees	270,000	Large group, low income, mostly paid cash. Need alternative means of receiving payment, facilities for saving (consumption smoothing) Pensions Asset insurance (esp. housing). Funeral insurance
Farmers	38,000	Small group, relatively high income. Savings for agricultural inputs, assets Pensions Targeted agricultural credit, including insurance Housing finance Highest users of cheques, need alternative means of receiving payments Asset insurance Funeral insurance
Private Dependents	290,000	Large group, lowest income of all groups income. Dependent on household/extended family transfers. Main needs: payments and remittances (receipts), low cost savings
State Dependents	170,000	Low income. More rural than other groups. Dependent upon post offices. Main needs: payments and remittances, low cost savings

		Funeral insurance

Financial Inclusion Priorities

Identifying priorities. Chapters 6 to 9 identified a number of gaps and opportunities to extend financial inclusion in each of the four product markets. A financial inclusion roadmap will not be able to bridge every gap and realise every opportunity. In light of the analysis and given the various drivers of financial inclusion outlined above: what are the priorities for extending financial inclusion in Botswana?

As basis for the roadmap, this section concludes on the key financial inclusion priorities and provides strategic recommendations for unlocking each priority.

Priorities should support welfare policy objective. Financial inclusion can improve welfare by reducing transaction costs, improving households' opportunities to access goods and services, offering tools to mitigate risks, increasing accumulation of capital and allocating such capital to productive opportunities. Financial inclusion interventions should be prioritised according to those opportunities that best meet the welfare objective.

Priorities identified based on needs and potential reach. The key financial inclusion priorities are identified in Figure 117. It shows the potential for deeper reach of different financial services in each of the various target market segments (grey shading, with darkest shading indicating largest potential), as well as the number of people and average income of each segment. To the right it indicates the estimated potential clients that could be impacted for each financial service type and the welfare impact that could be had from that service based on the various impact transmission channels. On this basis, the likely impact is ranked as high (green shading), medium-level (yellow) or low (red).

Figure 117: Priorities Matrix

Products		Formal employees	Informal employees	Informal SMEs	Farmers	Private dependents	State dependents	Est potential clients ('000)	
Number ('000)		375	270	85	38	290	170		
Average Income (P)		5,105	1,162	2,030	2,360	125	484		
Payments Ecosystem	Transactions							700	Distribution networks to reduce access cost; appropriate products
	Remittances							700	Distribution networks to reduce access cost; appropriate products
Dependence on savings	Consumption smoothing							750	Secure store of value to manage risk
	Capital accumulation							50	Long term return to build assets
	Pensions							300	Income security after retirement
Credit	Productive							50	Low cost and appropriately targeted interventions for growth and employment
	Consumption smoothing							200	Low cost to enable consumption smoothing
	Housing							300	To enable asset acumulation and improve quality of life
Risk mitigation	Natural disaster							20	Support for farming
	Funeral							250	Build human capital
	Asset							300	Minimise impact of shocks
Consumer empowerment	Financial literacy							900	Enabling consumers to benefit from finance
	Consumer protection							900	Product price and conditions transparency
Policy & regulation	FI policy Supportive regulation							900	Provides the basis for innovative reforms and leverage

% of adults

Highest Need → Lowest Need

Impact:

High **Medium** **Low**

Error! Reference source not found. shows that the most significant impact for financial inclusion is possible where the focus is placed on enabling formal domestic **remittances**, low cost **savings** and **transaction** products, improved **pension** provision, as well as greater risk mitigation through funeral or life **insurance**. The major **credit** need is for housing finance, but this is much more than an access to finance issue. Though further extension of **credit** *per se* is not ranked as a potentially high-impact opportunity in terms of the number of people it can viably reach, there is nevertheless a need to improve consumer protection for credit across the board. There is also a major need for improved financial literacy across the population.

Five key priorities. Based on the needs of the various target markets, as well as the nature and challenges to provision evidenced through the analysis, we identify five priority strategies to capitalise on these opportunities:

1. Improve the payments eco-system
2. Facilitate low cost, accessible savings products
3. Develop accessible risk mitigation products

4. Improve the working of the credit market
5. Develop pension provision

These are not the only opportunities for enhanced financial inclusion. However, these five strategies are likely to have the most far-reaching impact on financial inclusion, given the nature of the target markets. Below we unpack each of these five strategies in more detail, considering the nature of the opportunity, the main challenges to be overcome and potential actions to realise the opportunity.

Improve the payments eco-system

The payments eco-system refers to all of the institutions and networks involved in processing transactions and remittances, domestic and cross-border. There has been a great deal of development and innovation in this area in recent years, but there is scope for much more, if the opportunities offered by technology are taken up. The impact is potentially very wide, as everybody transacts (even if in cash) and many people send or receive remittances. Whilst cash is the most widely used means of transaction, it may not be the best option in many circumstances. The range of alternatives is broadening all of the time, and these offer potential benefits to users, many of who are in lower income and less well served target groups. Not only are there potential savings in transactions costs (from more efficient payment/remittance mechanisms) and reduced risks (from less use of cash), use of non-cash payments channels is an important entry mechanism to the use of other financial products and services. Payments products can easily be linked to the other three product areas, of savings, credit and insurance.

Key recent developments in the payments eco-system in recent years include:

- The introduction of mobile money
- The introduction of Botswana Post's Poso Card and the movement of many government welfare payments to it and the related SmartSwitch card
- The introduction of cellphone and internet banking
- The automation of bank-based payments through the electronic clearing house (ECH) and the Botswana Interbank Settlement System (BISS)

Future priorities for maximising the potential impact of payments system development include the following:

Improving the functionality of mobile money:

- Enhanced payments functionality e.g. for store purchases;
- Lower (more competitive) fees;
- Higher permitted values of transactions;
- Inter-operability across networks and with bank accounts and other payments mechanisms; and
- Extended agency networks, with appropriate liquidity arrangements.

Payments functionality for Poso card:

- Allow public to access Poso card;
- Allow usage in other compatible POS machines (SmartSwitch network);
- Allow transfers to other cards;
- Allow cash top-ups;

- Inter-operability with bank accounts and other payments mechanisms; and
- VISA (EMV) compliance.

Cross-border remittances and payments:

- BPS to extend scope of cross-border services;
- Allow MNOs to operate cross-border mobile money services; and
- Participate in SIRESS.

Regulatory, Policy and Development Requirements:

- Promote interoperability;
- Consider establishing a local switch;
- Introduce a regulatory structure for mobile money and other e-money services, including tiered KYC requirements;
- Raise cap on mobile money balances and payments;
- Utilise mechanisms for welfare grant payments to promote financial inclusion; and
- Consider incentives for financial service providers to extend services to under-served areas

Facilitate low cost, accessible savings products

All target groups save, to a greater or lesser extent. But for groups that do not have ready access to bank accounts, their savings options are limited. The availability of low-cost, accessible, flexible savings products is limited for the lower income segment, especially outside of major settlements. Obstacles to access for the unbanked include monetary costs (account maintenance and transactions fees), and the costs of accessing service points in terms of time and transport costs.

With regard to physical access, the bank branch network is unlikely to expand significantly beyond its present footprint. The prohibition on banking agents means that banks cannot use this channel, commonly used in other countries, to extend outreach at low cost. The post office network is more extensive, but the lack of viability of some of those in smaller settlements puts their future into question, without an explicit support commitment from government. The mobile money agent network does not currently extend beyond that of the post offices, although the MNOs state that they are committed to adding agents and extending to the present very limited outreach.

Nevertheless, products offered by Botswana Post and MNOs provide the starting point for accessible, low-cost savings products with much wider availability and accessibility than bank accounts. They provide a starting point, but need further development and support.

Future priorities for maximising the potential impact of accessible, low cost savings include the following:

- Encouraging non-bank / branchless solutions;
- Promoting mobile money accounts as savings accounts, including increasing the amount that can be accumulated in a mobile money account;
- Developing a more extensive mobile money agent network;
- Reducing fees for mobile money, especially cash withdrawal fees;
- Payment of interest on mobile money balances;
- Allowing the public to access Poso cards;

- Extending Poso card functionality to include cash top-ups and interest on savings wallets;
- Developing bank-led mobile money accounts (e.g. eWallet with greater functionality); and
- Introducing entry level bank savings accounts with minimal KYC requirements.

Regulatory, Policy and Development Requirements:

- Allow payment of interest on MM trust accounts held at banks;
- Allow MM operators to pay interest on MM balances;
- Remove MM value cap;
- Formalise regulatory structure for e-money;
- Introduce tiered KYC for bank accounts;
- Facilitate agency banking;
- Consider subsidy for service provision in financially under-served areas (parallel with telecoms); and
- Improve supervision of SACCOs.

Develop accessible risk mitigation products

Outside of funeral policies, the take up of insurance is limited, especially in groups other than the formally employed. There is low take-up of vehicle insurance (especially 3rd party) and property insurance. Insurance lacks an effective distribution mechanism outside of major centres, and there is a limited product range for low-value asset insurance.

Barriers to the take up of insurance include a lack of consumer awareness and understanding of insurance products, and the role of insurance in risk management. Consumer attitudes have also been impacted by cases of abuse, including fraud and the sale of policies on the basis of inadequate customer information, leading to poor understanding of terms and conditions. The roll-out of policies suitable for low income consumers has been impacted by the lack of a supportive regulatory framework, slow processes for product approval by the regulator, and a reliance on paper-based processes, with no facility for electronic sign-up for policies.

There are however some promising developments that could remove or alleviate some of these constraints. These include the new insurance Industry Act, which introduces micro-insurance as a class of business, and legislating giving legal foundation to electronic signatures.

Future priorities for maximising the potential impact of improved risk mitigation include the following:

- The introduction of micro-insurance products, with appropriate pricing and flexible arrangements for premium payments;
- Encourage take-up of third party motor insurance;
- A broader range of bancassurance products (using banks as distribution mechanisms – brokers/agents, possibly through bundled credit/insurance products); and
- Improved consumer education, disclosure.

Regulatory, Policy and Development Requirements:

- Micro-insurance regulations (under new Act);
- Review ACGS to make it sustainable and consider extending to commercial bank lenders to agriculture;

- Revised processes for approval of products and payment channels (reduce obligations; timeliness);
- Allow electronic processes for sign-up to insurance policies;
- Allow more broader and flexible payments mechanisms; and
- Promote financial literacy.

Improve the working of the credit market

The credit market functions well for many of those in formal employment, who have a variety of options for obtaining credit, from banks and non-banks, on reasonable terms and conditions. However, for other groups, the availability of reasonably priced credit is very limited. Housing finance is a particular problem, and for most households there is no effective means of obtaining credit for financing housing purchase / development. There are a number of reasons for this, including the high price of land in key urban areas, a mismatch between house prices and income levels, and the fact that most homes are not mortgageable (they are semi-formal, and built incrementally) and not suitable for conventional secured, long-term finance. Improving the availability of housing finance potentially impacts a large number of people, although it is not just an issue of making finance available – there is also a need for reforms to improve the availability of land.

Outside of the formally employed, short-term credit (for consumption smoothing) is only available at high cost.

Generally, the efficiency of lending, the management of credit risk and loan pricing are constrained by a lack of credit information and restrictions on sharing such information.

With regard to productive credit, there are credit constraints for some SMEs and farmers, although this reflects problems with the underlying viability of some businesses as much as the lack of appropriate financial products. In overall terms, both groups are small. The main provider of credit to SMEs is the government-owned CEDA, which is heavily subsidised. There are concerns over the high costs and limited effectiveness of CEDA, the lack of good quality information with regard to its impact and achievements, and its effect on squeezing the banks out of the market for SME lending. Access to credit for micro-enterprises is hampered by the fact that there is only one MFI.

Future priorities for improving the availability of credit include the following:

- Housing microfinance;
- Using mobile phone / mobile money data to unlock micro-credit;
- Using Poso card data to unlock credit from BSB;
- Improving the provision of SMME credit by banks;
- Strengthening links between banks and CEDA (so that they complement each other);
- Moving CEDA towards micro-finance operation (for small credits) and credit guarantees (with banks) for medium scale credits[167]; and
- Attracting more MFIs.

Regulatory, Policy and Development Requirements:

- Allow deposit-taking MFIs; develop appropriate regulations and supervisory capacity;

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[167] *This was a core recommendation of the Financial Sector Development Strategy in 2011, but was never followed through*

- Seek international housing MFI to come to Botswana;
- Credit information – develop law and regulatory structure / credit reference institutions;
- In-depth assessment of CEDA impact and effectiveness; and
- Evaluate impact of government credit subsidies (for CEDA, housing schemes, YDF, TEF etc.) with a view to reform to contain costs, improve effectiveness, and possibly re-direct to more justified uses in terms of financial inclusion.

Develop pension provision

There is a major gap in pension provision between occupational pensions for the upper half of formal employees (which yields reasonably good pensions for those who work a full working lifetime) and the universal state pension (which is available to all, but at a minimal level). There is no intermediate provision. As a result, pensioners are amongst the poorest of adults.

Filling the pension gap will need to be driven by policy, with a supporting role for the private sector.

- Provision of low cost administration and investment mechanism for low value pensions, with flexible contribution structures; and
- Use mobile money for premium payments.

Regulatory, Policy and Development Requirements

- Develop the existing proposal for a statutory contributory pension scheme for all in formal employment, with options join for those in self-employment and informal occupations; and
- Conversion of statutory gratuity for formally employed to pension.

Cross-cutting initiatives

Financial literacy: debt management, risk management

- Lack of understanding of obligations and risks of debt; managing debt; over-indebtedness;
- Understanding role of insurance in risk management;
- Strengthen financial literacy in education system;
- Clearer disclosure of credit obligations; and
- More effective systems of credit burden assessment.

Consumer protection: Credit information and market conduct

There is limited sharing of credit information, with no legal framework, and some legal barriers to the sharing of information. Where there is sharing, the focus is on negative rather than positive information. There is no legal obligation on credit provides to carry out credit checks prior to granting credit.

As a result, it is difficult for credit providers to carry out an informed credit assessment of borrowers prior to lending, and it enables borrowers to conceal their overall credit commitment. Because of imperfect information, it leads to higher costs of credit than necessary, particularly for lower risk borrowers.

As recommended in the FSDS, a Credit Act is necessary to provide the framework for a comprehensive credit information sharing network, and an obligation for proper credit checks prior to granting credit.

Market conduct

There is a disjointed framework for consumer protection with regard to market conduct by financial institutions. In the cases of both banks and non-banks, the responsibility for monitoring market conduct falls under the prudential regulators. In the case of NBFIs, NBFIRA is also responsible for investigating and resolving or adjudicating individual customer complaints. For banks, BoB only gets involved with individual complaints for serious matters that cannot be resolved by other means (notably the BAB Banking Adjudicator). This situation can impose an unnecessary burden on prudential regulators, and as well lead to possible conflicts between their different responsibilities.

The FSDS recommended that a dedicated Financial Ombudsman be established, to deal with individual consumer issues. The Competition Authority is the competent authority for investigating potential market abuse, while the prudential regulators should deal only with the relevant parts of market structure concerns (e.g. relating to systemic financial stability, and the stability of individual financial institutions).

Policy & regulatory environment

MAP provides the opportunity for a re-orientation and re-invigoration of the policy and framework to give a stronger emphasis to the needs and dynamics of financial inclusion. Key elements of this will include:

Policy strengthening:

- A firm commitment to financial inclusion, backed by resources where necessary;
- A recognition that the market alone will not be sufficient to bring financial inclusion to un-served and under-served, and that additional interventions will be necessary; and
- Commitment to utilise infrastructure established for welfare grant payments to support broader financial inclusion (rather just focusing on costs of welfare grant delivery).

Regulatory modernisation:

- Recognition that banks will not be the only, or even the main, type of financial institution relevant to extending financial inclusion;
- A willingness to undertake regulatory reform in support of innovation and access to finance; and
- Reform of the regulatory framework to embrace non-traditional forms of financial service delivery, especially by non-banks.

Appendix: Roadmap Imperatives presented at the Stakeholder Workshop

1. Improving household welfare by extending financial inclusion to lower income households and target groups that are currently less well served:
   - payments / transfers (extending coverage of mobile money agents; reviewing mobile money fee structures; extending functionality of Poso cards);
   - low cost savings (allowing mobile money to pay interest; allowing credits to Poso card balances);
   - well-designed risk management products (micro-insurance);
   - credit for consumption smoothing, risk management (customer profiles linked from e-money transaction records as basis for small scale credit from lending institutions, e.g. using Poso card records to unlock credit from BSB); and
   - national pension scheme.
2. Improving overall economic efficiency by enhancing financial sector infrastructure, encouraging competition, modernising regulation and reducing risks:
   - establishing a national switch to facilitate linkages between banks and non-bank financial service providers;
   - encouraging further competition from non-banks;
   - licensing of e-money providers;
   - improved regulation and proper supervision of larger SACCOs;
   - consumer protection (establish a new financial ombudsman to lessen the burden on prudential regulators);
   - reforming limits and need for regulatory product approval; and
   - tiered KYC.
3. Supporting economic diversification by facilitating well targeted credit to productive enterprises and for investment in assets:
   - developing an MFI policy / regulatory framework that will encourage the emergence of deposit-taking MFIs;
   - provision of housing microfinance;
   - reform of government credit provision (CEDA/YDF) to establish on a more sustainable basis that does not undermine the provision of credit on commercial terms;
   - improving agricultural credit guarantees;
   - improving credit quality through the provision legal and institutional framework for credit reporting and assessment (Credit Act, mandatory credit reporting and look-up).

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Appendix 1: Location of financial institutions outlets

Table 40: Settlements by population and financial services outlets

Settlement	Status	Population	Bank branches	Post offices	Mobile money
Gaborone	C	231,626	41	8	120
Francistown	C	98,963	13	3	19
Molepolole	UV	66,466	5	2	17
Maun	UV	60,273	5	3	16
Mogoditshane	UV	58,079	4	1	10
Serowe	UV	50,820	3	2	10
Selebi Phikwe	T	49,411	6	2	8
Kanye	UV	47,013	2	4	12
Mochudi	UV	46,914	2	1	7
Mahalapye	UV	46,409	3	2	10
Palapye	UV	37,256	5	2	15
Tlokweng	UV	36,326	1	1	5
Lobatse	T	29,007	3	2	13
Ramotswa	UV	28,952	1	1	3
Letlhakane	UV	22,948	3	2	12
Thamaga	UV	21,471		1	3
Tonota	UV	21,031	1	1	3
Moshupa	UV	20,016	1	1	4
Bobonong	UV	19,389	1	1	3
Jwaneng	T	18,016	3	1	6
Tutume	UV	17,528	1	1	5
Mmopane	UV	15,450		1	
Gabane	UV	15,237		1	2
Gantsi	UV	14,809	3	1	6
Mmadinare	UV	12,086		1	2
Shoshong	UV	9,679		1	2
Orapa	T	9,538	2	1	3
Kopong	UV	9,312		1	1
Kasane	UV	9,084	2	4	8
Tsabong	UV	8,945	1	1	2
Metsimotlhabe	UV	8,884		1	1
Gumare	UV	8,532	1	1	1
Tati Town	UV	8,112		1	1
Otse	UV	7,661	1	1	1
Molapowabojang	UV	7,520		1	2
Letlhakeng	UV	7,229		1	1
Lerala	UV	6,858		1	1
Mmankgodi	UV	6,802		1	1
Nata	UV	6,714	1	1	1
Shakawe	UV	6,693	1	1	1
Good Hope	UV	6,659		1	2
Rakops	UV	6,396		1	1
Tsienyane/Rakops	UV	6,396		1	1
Kang	UV	5,992	1	1	1
Maitengwe	UV	5,890		2	1
Bokaa	UV	5,765		1	1
Masunga	UV	5,696	1	1	3
Borolong	UV	5,663		1	
Oodi	UV	5,464		1	2
Kumakwane	UV	5,447		1	
Gweta	UV	5,304		1	1
Sefhophe	UV	5,102		1	1
Mmathethe	UV	5,078		1	1
Mathangwane	UV	5,075		1	1
Lentsweletau	R	4,916		1	1

Settlement	Status	Population	Bank branches	Post offices	Mobile money
Lotlhakane	R	4,822		2	
Hukuntsi	R	4,654		1	4
Sefhare	R	4,602		1	1
Maunatlala	R	4,552		3	1
Ramokgonami	R	4,486		1	1
Tsetsebjwe	R	4,393		1	1
Kazungula	R	4,148			1
Sojwe	R	3,983		1	1
Ntshinoge	R	3,955		1	
Mopipi	R	3,912		1	1
Pitshane	R	3,654		1	2
Sowa	T	3,598	1	1	2
Charleshill	R	3,591		1	1
Moiyabana	R	3,571		1	1
Nkange	R	3,550		1	1
Lecheng	R	3,344		1	1
Digawana	R	3,296		1	1
Sebina	R	3,276		1	1
Werda	R	3,261		1	1
Serule	R	3,241		1	1
Shashe	R	3,136		1	1
Tumasera	R	3,136		1	1
Etsha	R	3,130		1	1
Mookane	R	2,983		1	1
Khakhea	R	2,944		1	1
Sehithwa	R	2,748		1	1
Takatokwane	R	2,738		1	1
Thebephatswa	R	2,690		1	1
Machaneng	R	2,537		1	1
Mabutsane	R	2,386		1	
Matsiloje	R	2,380		1	1
Tshesebe	R	2,277		1	1
Mabule	R	2,260		1	1
Kalamare	R	2,196		1	1
Maokatumo	R	2,044		1	1
Ncojane	R	1,958		1	1
Lehututu	R	1,956		1	1
Pitshane Molopo	R	1,945			1
Pandamatenga	R	1,809		1	
Moeng	R	1,510		1	1
Sikwane	R	1,466		1	1
Ramokgwebana	R	1,458		1	1
Motokwe	R	1,413		1	1
Semolale	R	1,288		1	1
Pilikwe	R	1,282		1	1
Makaleng	R	1,256		1	1
Middlepits	R	1,121		1	1
Sedibeng	R	708		1	
Kavimba	R	549		1	1
Kalkfontein	R			1	1
Sherwood	R			1	1
TOTAL			119	132	406

C=city, T=town, UV=urban village, R=rural

Mobile Money outlets are for Orange Money only

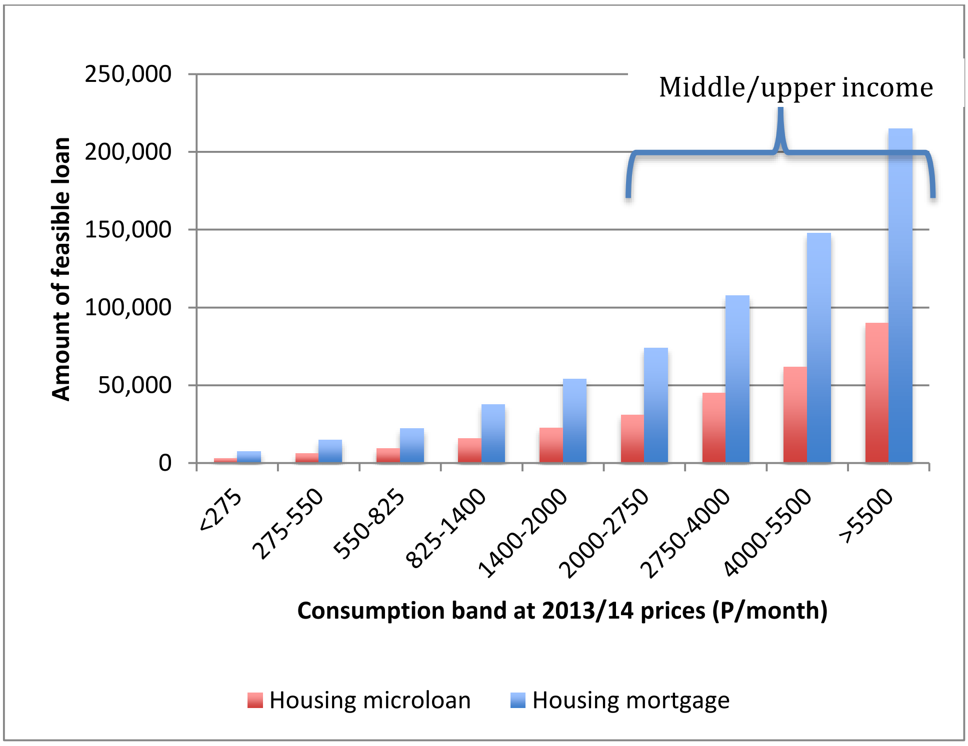
Appendix 2: Housing Affordability

Although Botswana has a relatively high GDP per capita, income levels are low for many households. This is due in part to very high inequality, and also to the low proportion of GDP that goes to wages. Using data from the most recent household survey (BCWIS 2009/10), and updating to current prices, we can calculate the size of housing loan is affordable, using a benchmark that households can in general afford to spend 30% of their income on housing. We do this for a conventional mortgage and housing microfinance, as laid out below:

Type of financing	***Tenor***	***Interest Rate***
Housing Mortgage	20 years	12%
Housing Microfinance	5 years	18%

The maximum loan that households in different consumption/income brackets can afford is shown below.

Figure 118: Affordability of housing loans



Source: Econsult Botswana

It is immediately apparent that the affordable size of housing loans is out of line with the price of housing in the market. The selling prices of Botswana Housing Corporation (BHC) stock provide a benchmark, as below:

Table 41: BHC Housing Prices

Type	*Price Range (Old/New Stock)*
Low Cost (58-70m2)	P408,000 – P513,000
Medium Cost (70 - 99 m2)	P537,000 – P855,000
High Cost (> 100m2)	P947,000 – P1,276,00

Source: Botswana Housing Corporation

The maximum affordable mortgage loan for an average member of the upper income group (which we have taken as having a monthly income of P8,000) – i.e. P215,000 – is far below the cost of the cheapest BHC house (which is broadly indicative, or slightly below, the costs of housing in the formal private sector). None of the middle-income groups have a chance of securing an affordable loan for the purchase of a completed modern house.

Hence the binding constraint on the provision of conventional mortgage finance is not the availability of funds but the availability of effective demand. In turn the lack of effective demand is the mismatch between income levels and housing prices.

Nevertheless, most people own their own houses, and hence potentially there is a role to play for housing finance. But it has to be the appropriate type of housing finance, for houses costing P150,000 and below. The housing finance market can only be tapped on a large scale if it finds a way to finance self-built/low quality/incremental housing. This may require more of a housing microfinance approach, rather than a conventional mortgage approach.

Appendix 3: Persons/Institutions met – supply side and regulatory consultations

Institution	Name, Designation
BancABC	Mr J Kurian, Chief Executive Officer
Bank Gaborone	Mr S Coetzee, Chief Operations Officer Ms S Lenong, Chief Financial Officer Mr J Vermaas, Head, Retail Banking
Bank of Botswana	Mr M Pelaelo, Deputy Governor Mr O Motshidisi, Deputy Governor Mr A Motsomi, Director, Banking Supervision Ms E Rakhudu, Director Payments and Settlements Dr K Masalila, Director, Monetary and Financial Stability
Bankers Association Of Botswana	Mr O Mabusa, Chief Executive Officer
Bayport	Mr F Maphongo, Managing Director
Botswana Insurance Company (BIC)	Mr J Claasen, Chief Executive Officer Mr T Majova, Underwriting Manager; Mr NGonsalves, Claims Audit Manager
Botswana Life Insurance Limited (BLIL)	Ms C Letegele-Lesedi, Chief Executive Officer
Botswana Medical Aid Society	Mr D Alexander, Group Chief Executive Officer
Botswana Post	Mr P Moleta, Chief Executive Officer Mr C Ramatlhakwane, Head of Business Development Ms B Kwelagobe, Channels Manager
Botswana Savings Bank	Mr E L Maine, Acting Managing Director Mr O Tsie, Head, Risk & Compliance Mr M Gokatweng, Manager, Operations
BPOMAS/Associated Fund Administrators	Duncan Thela, Managing Director
Bramer Life Insurance	Ms R Sikalesele Vaka, Chief Executive Officer
Capital Bank Botswana	Mr J Viljoen, Chief Executive Officer Mr R Banerjee, Chief Commercial Officer
Choppies	Mr R Ottappath, Chief Executive Officer
Citizen Entrepreneurial Development Agency (CEDA)	Mr A Madwesi, Chief Operations Officer
Competition Authority	Mr I Molalapata, Manager, Mergers & Monopolies Ms M Gabaraane, Director, Mergers & Monopolies Ms T Pule, Director, Corporate Services

Institution	Name, Designation
Credit Insurance and Guarantee Company Botswana (Pty) Ltd (BECI)	Ms P Sebina, General Manager Mr B Dube, Marketing Manager
Dynamic Insurance Brokers	Mr A Tembo, Managing Director
Financial Intelligence Agency	Ms A S Kula, Assistant Director, Legal Ms S Chube
First National Bank of Botswana	Mr R Wright, Deputy Chief Executive Officer
First Sun Alliance Financial Services Brokerage	Mr P Chitate, Chief Executive Officer Mr G Taderera
Funeral Services Group Limited	Mr M Nicolic, Group Managing Director
Hollard General	Ms J Tselayakgosi, Chief Executive Officer Ms D Mokopanele, Personal Lines Manager
Hollard Life	Mr M Phuthego, Business Development Manager
Letshego Holdings Ltd	Mr S Bruwer, Chief Operating Officer Ms M Sambasivan-George, Head of Corporate Affairs Mr C Low, Managing Director
Liberty Life Botswana	Ms KDisele, Head of Business Development Mr K Rantswaneng, Head of Operations Ms R Hassam, Head of Finance
Marsh (Pty) Ltd	Mr C Dzwairo, Divisional Director, Mining, Construction & Parastatals
Mascom	Ms T Lebotse-Sebego, Chief Communications & PR Officer Mr O Masima, Chief Commercial Officer
Metropolitan Botswana	Mr L Charumbira, Principal Officer
Metropolitan Health Botswana (Botsogo Health Plan)	Mr L Pule - Chief Executive Officer
Micro-lenders Association of Botswana (MLAB)	Mr B Malan, Chairman
Ministry of Agriculture	Mr L E Telekelo, ISPAAD Co-ordinator Ms T Pelaelo-Grand, Acting Co-ordinator, NAMPAADD
Ministry of Finance & Development Planning MFDP)	Mr S Sekwakwa, Permanent Secretary Dr T Nyamadzabo, Secretary for Economic and Financial Policy Ms E Richard-Madisa, Director, Finance & Banking Ms E Gonsalves, Director, Insurance & Pensions Ms S Molale Mr R Powe

Institution	Name, Designation
Ministry of Local Government	Ms R Radibe, Director, Department of Social Protection Ms P Nguvauva, Department Of Social Protection
Ministry of Trade & Industry	Ms M Nthomiwa, Director, Industrial Affairs Ms L B Tjikwakwa, Chief Cooperative Auditor, Department of Cooperatives Mr M Tsheboeng, Chief Cooperative Auditor, Department of Cooperatives Ms T Banda, Cooperative Superintendent, Department of Cooperatives
Ministry of Youth, Sports & Culture	Mr K Ramoroka, Deputy Permanent Secretary, Policy Implementation Mr D Molebatsi, Programmes Coordinator, South Mr M C Sheleni, Manager, Development & Finance Ms S Khumo
Motor Vehicle Accident Fund	Ms C Motswaiso, General Manager, Corporate Services Ms M Seipato, Finance Manager
Non-Bank Financial Institutions Regulatory Authority (NBFIRA)	Dr H Sadhak, Deputy Chief Executive Officer – Regulatory Ms O Modisa, Head of Research Mr S Gade, Director, Lending Activities Mr A Ndoro, Director, Retirement Funds and Investment
Old Mutual Botswana	Mr J Bekker, Managing Director
Orange	Mr S Pilane, Director, Orange Money Mr N Seboko, Partnership Lead, Orange Money
Pick'n'Pay	Mr M Patel, Managing Director
SmartSwitch Botswana	Mr K Duke, Managing Director Ms C Ajuba
Stanbic Bank Botswana	Mr C Chijoro, Head of Customer Channels Mr L van Ravesteyn, Acting Head, Personal & Business Banking
Standard Chartered Bank of Botswana	Mr M Lekaukau, Chief Executive Officer Ms P Tafa
Symphony Health	Ms R Tatedi, Chief Executive Officer
TransUnion ITC	Mr R Mpabanga, Managing Director
Womens' Finance House Botswana	Ms V Masenya, Programme Director Ms P Derera, Credit Manager
Zurich Insurance Company	Ms B Moorad, Chief Executive Officer

Appendix 4: Members of the MAP Working Group

Ministry of Finance and Development Planning (MFDP) (Chair)

Ministry of Trade and Industry (MTI)

Bank of Botswana (BoB)

Bankers Association of Botswana (BAB)

Non-Bank Financial Institutions Regulatory Authority (NBFIRA)

Micro-lenders Association of Botswana (MLAB)

Consumer Watchdog

EU Delegation

Letshego Holdings Ltd

Botswana Post

Botswana Communications Regulatory Authority (BOCRA)