Status of Agricultural and Rural Finance in Botswana

July 2012

FinMark Trust

Prepared by

Keith Jefferis, Lex von Rudloff, Bogolo Kenewendo, Howard Sigwele, Bokang Tlali and Thinah Moyo

Table of Contents

Tables

Figures

List of Acronyms

ACGS	Agricultural Credit Guarantee scheme
ADF	African Development Fund
AIDI	Agricultural Infrastructure Development Initiative
ALDEP	Arable Lands Development Programme
AMSME	African Micro Small and Medium Enterprises
ARAP	Advanced Rainfed Arable Programme
ASCON	Associated Consultants
ATM	Automated Teller Machine
BBS	Botswana Building Society
BCCB	Bank of Credit and Commerce Botswana
BCWIS	Botswana Core Welfare Indicator Survey
BDC	Botswana Development Corporation
BECI	Botswana Export Credit Insurance
BEMA	Botswana Exporters and Manufacturers Association
BIDPA	Botswana Institute for Development Policy Analysis
BMC	Botswana Meat Commission
BoB	Bank of Botswana
BOCCIM	Botswana Confederation of Commerce, Industry and Manpower
BOSCCAs	Botswana Savings and Credit Co-operatives Association
BSB	Botswana Savings Bank
BTA	Botswana Telecommunications Authority
CGS	Credit Guarantee Scheme
CEDA	Citizen Entrepreneurial Development Agency
CIUs	Collective Investment Undertakings
CGAP	Consultative Group to Assist the Poorest
EU	European Union
FAP	Financial Assistance Policy
FIAS	Foreign Investment Advisory Service
FNB	First National Bank of Botswana
G2P	Government to Person
GDP	Gross Domestic Product
GEF	Global Environment Facility
GoB	Government of Botswana
GPO	Government Purchasing Order
HIVOS	Humanist Institute for Cooperation with Developing Countries
IFC	International Finance Corporation
IMF	International Monetary Fund
IPAR	Institute of Policy Analysis Research
ISPAAD	Intergrated Support Programme for Arable Agricultural Development
KYC	Know Your Customer
LEA	Local Enterprise Authority
LIMID	Livestock Management and Infrastructure Development
MFIs	Microfinance Institutions
MMT	Mobile Money Transfer
MVAF	Motor Vehicle Accident Fund

NAMPAAD	National Master Plan for Arable Agriculture and Dairy Development
NBFIRA	Non-Bank Financial Institutions Regulatory Authority
NDB	National Development Bank
NDP	National Development Plan
NGO	Non-Governmental Organization
NPF	National Petroleum Fund
NORAD	Norwegian Agency for Development Cooperation
PDSF	Public Debt Service Fund
RDP	Rural Development Programme
SACCOs	Savings and Credit Cooperatives
SADC	Southern African Development Community
SIDA	Swedish International Development Cooperation Agency
SME	Small and Medium Enterprises
SMME	Small Micro and Medium Enterprises
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WFHB	Women's Finance House Botswana

1. Introduction: Rural Finance in Africa

Most of Africa is predominantly rural, with poverty more pervasive in rural areas and the agricultural sector making the largest contribution to GDP in many countries. For example, Bryceson (2000) observes that

- a little over 70% of the Africa's poor live in rural areas, where the extent and severity of poverty are greater than in urban areas; and
- within rural areas, agriculture is often a key component of the local economy, and is particularly important for the livelihoods of the poor, notwithstanding increasing evidence that own account agriculture often contributes less than 50% to poor rural people's incomes.

The above suggests that in many African countries, development will be largely dependent on progress achieved in rural development and, specifically, agricultural development. However, many countries have achieved little progress in agricultural and rural development and this is one of the main reasons why poverty is still a major problem in much of the continent. Various explanations have been provided for the poor performance of the rural sector, particularly the agricultural sector. Key among these is lack of or limited access to rural financial services, including financial exclusion challenges.

While improving access to rural financial services is crucial to achieving agricultural and rural development, it would be wrong to conclude that this alone would solve all agricultural and rural development problems. However, it is sensible to conclude that improving access to rural financial services would contribute significantly toward removing many of the constraints limiting agricultural and rural development. Many analysts have noted the difficulty that poor farmers experience in financing seasonal input purchases for food grain production as a major problem (but not the only problem) constraining agricultural growth in many parts of sub-Saharan Africa.

Although the problem of lack of or limited access to rural financial services in sub-Saharan Africa is generally acknowledged, the extent of this problem and the nature of its causes in the SADC region and in individual countries within the region have not been adequately addressed in previous studies. Hence, a study was undertaken to examine the current status of agricultural and rural finance in six southern African countries: Botswana, Malawi, Mozambique, South Africa, Zambia and Zimbabwe. This report is on one of these countries, Botswana. The purpose is to gain insight into some of the challenges experienced in Botswana in improving access to rural finance and to propose measures that may be considered to address the challenges. The focus is on understanding the current situation with regards to the demand for and supply of agricultural and rural finance in Botswana, in the context of the rural economy and population patterns more generally. Knowing the current status of access to agricultural and rural finance is important, but even more important is to explain why the current situation is as it is and what needs to be done about it. Hence, the report goes further to identify the factors that may be responsible for the current state of access to agricultural and rural finance in Botswana. This involves identification of enabling and disabling factors to access to agricultural and rural finance. The report concludes with proposals for addressing factors disabling access to agricultural and rural finance in Botswana.

2. Botswana: Economic, Demographic and Financial Background

2.1 The Land, Population and Economic Structure and the Policy Framework

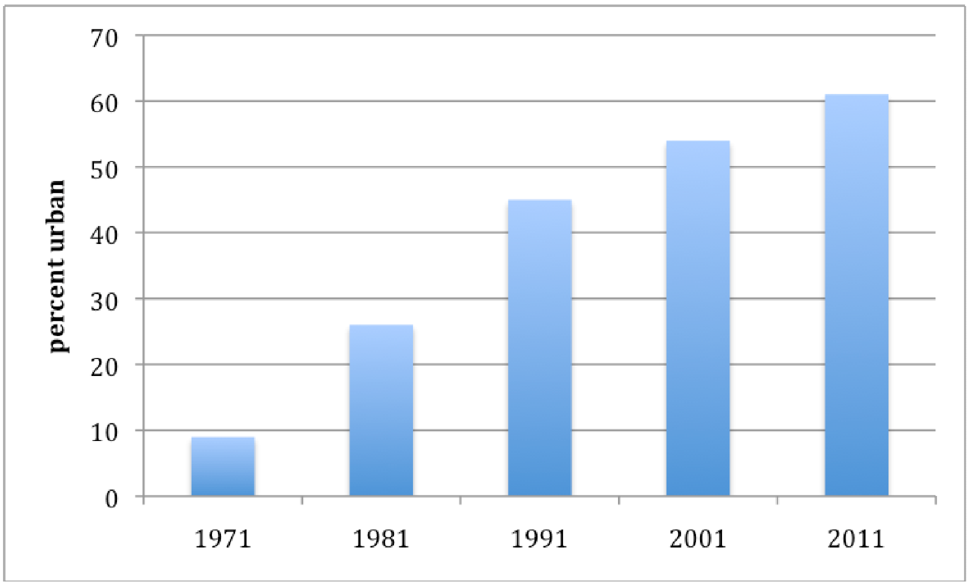
2.1.1 Land Tenure

Botswana has three types of land tenure systems, each with different sets of laws and regulations regarding access, ownership and sale/transfer (i.e., marketability): freehold land; state land and tribal land. There are also different types of permitted land use, including agricultural (with sub-uses including grazing, arable and mixed farming), commercial, industrial, community/social and residential. The vast majority of land in the country is tribal land, followed by state land (including national parks and the majority of urban land) and a small amount of freehold land (in both urban and agricultural areas). Despite having one of the lowest population densities in the world (3.5 persons per km^2), Botswana has severe land shortages in certain areas. The reasons for this are complex, but essentially reflect land tenure systems that do not flexibly allow change of land use to reflect evolving economic needs. As a result of laws, customs and regulation, land markets do not function effectively in most parts of the country. So the expansion of major urban areas is constrained by surrounding agricultural land, which cannot easily be converted to more productive uses. And because of very low agricultural productivity, very large land areas are required for agriculture, even to produce the country's small agricultural output.

2.1.2 Population

Botswana has a small population of around 2 million, which is becoming increasingly urbanised. In the first post-Independence census in 1971, only 9% of the population was recorded as living in urban areas. By the 2011 census however, this had risen to over 60%. The increasing rate of urbanisation is due to both the physical migration of individuals and households from rural to urban areas, and the reclassification of settlements from rural to urban on account of growth and the changing nature of the economic base of those settlements. There are three main settlement types in Botswana: urban (comprising cities and towns); urban villages (comprising district settlements with populations over 5,000 and 75% or more of the workforce engaged in non-agricultural economic activity), and rural areas (settlements with populations of less than 5,000). Over time, many previously "rural" areas and settlements have become urbanised.

Figure 1: Urban-rural population distribution



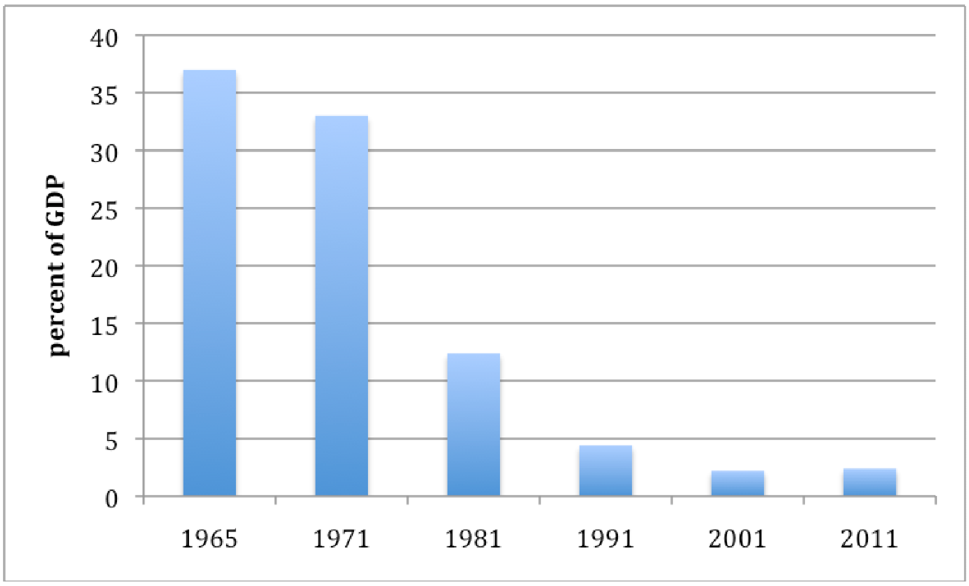
Source: Statistics Botswana, Econsult

2.1.3 The economic contribution of the agricultural sector

Botswana offers a stark contrast to most other African economies, or at least to the stereotypical African economy, because of the small role that agriculture plays. Although agriculture historically played an important role in the economy, its contribution to GDP has been steadily declining. By 2011, agriculture accounted for only 2.4% of GDP, compared to 25% in the mid-1970s and 37% at the time of Independence in 1966. Between 1974 and 2011 the average annual real growth rate of agriculture over was only 0.5%, making it the slowest growing sector of the economy. In contrast to many other African economies, agriculture is the smallest economic sector, not the largest.

Partly as a result of the poor performance of the agricultural sector, the rural economy is generally weak. The main sources of income include cattle farming, tourism (in certain areas of the country), small-scale retail commerce, and public sector activities (teachers, health workers, police, local government employees, agricultural extension workers etc. etc.).

Figure 2: Agriculture - share of GDP



Source: Statistics Botswana, Econsult

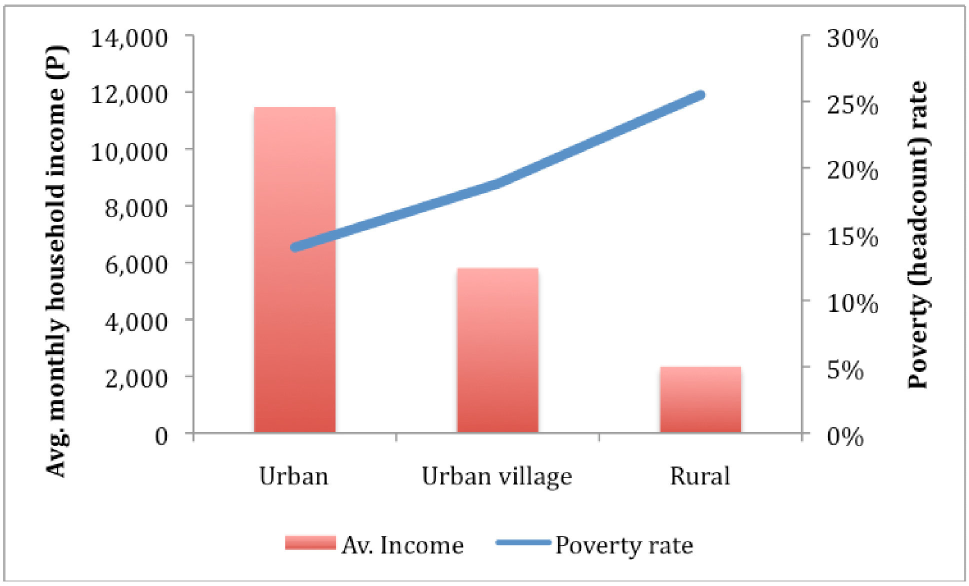
Traditionally, the beef sector has been the mainstay of the rural economy; however, this has been in decline for many years due largely to inappropriate policies and the negative impact of the monopoly (government owned) exporter, the Botswana Meat Commission (BMC). In 2010 Botswana lost access to the lucrative EU beef market, due to the inability to meet EU sanitary and phyto-sanitary SPS requirements for beef exports, a failure that was compounded by non-compliance with the EU's certification requirements by the Ministry of Agriculture Department of Veterinary Services. Measures have subsequently been implemented to reinstate compliance and credibility, and EU access was restored in mid-2012.

Besides problems with the management of the cattle industry, the fundamental reasons for the poor performance of agriculture include the arid climate (low rainfall, high temperatures, high evaporation rates and endemic drought), limited surface water supplies, poor soil quality and fertility (predominantly sandy with limited water retention capacity), and shortages of both skilled and unskilled labour.

2.1.4 Rural incomes and poverty rates

There is a clear contrast in income levels and poverty rates between urban and rural areas. According to the 2009/10 Botswana Core Welfare Indicators Survey (BCWIS), average (mean) household monthly incomes were approximately five times higher in urban areas than in rural areas. Consequently the (headcount) poverty rate in rural areas was almost double that of urban areas (on both measures – income and poverty – urban villages lie in between urban and rural and largely reflect national averages).

Figure 3: Poverty rate and household income by settlement type



Source: Statistics Botswana (2011)

One of the unusual features of Botswana's rural economy is how small a role agriculture plays as a source of household income. This is perhaps not surprising given the small contribution that agriculture makes to overall GDP. Data from BCWIS 2009/10 show that in rural areas, the largest sources of income are wage employment, pensions and remittances, with income from agricultural activities (cattle farming, arable farming or agricultural labour) playing only a small role. Similar results were obtained from the FinScope 2009 survey (FinMark Trust, 2009), which showed that only 4.6% of adults made a living from farming.

2.1.5 The Policy Framework

A range of policies is relevant to rural and agricultural development. Since 1991, agricultural policy has focused on food security rather than self-sufficiency. The current policy recognises that the previous pursuit of food self-sufficiency was not compatible with the broader national macroeconomic objectives of efficiency, competitiveness and sustainability. It also recognises that trade plays a critical role in meeting the country's food needs (Sigwele, 1993).

Notwithstanding the official policy stance, actual policy actions are not always in keeping with broad objectives and principles. Some policies, such as the National Master Plan for Agricultural and Dairy Development (NAMPADD) (GoB, 2002), and the establishment of the Agricultural Hub under the Ministry of Agriculture clearly support the development of a competitive and commercially focused agricultural sector. By contrast, there has been a whole series of schemes focused on subsistence farmers (the Advanced Rainfed Arable Programme (ARAP), the Arable Lands Development Programme (ALDEP), and most recently the Integrated Support Programme for Arable Agriculture Development (ISPAAD). ARAP and ALDEP were discontinued once evaluations demonstrated clearly that they were not working, and the assessment of ALDEP in the Study on Poverty and Poverty Alleviation (BIDPA, 1996) showed that it was having no positive impact on poverty alleviation. Although ISPAAD has not been properly evaluated, a rough assessment indicates that the foodgrains grown under the scheme cost government approximately five times the cost of imported foodgrains. Experience suggests that ISPAAD and its predecessors, despite ostensibly being focused on poverty alleviation, are unsustainable and do little other than entrench poor farmers in a poverty trap while benefitting mainly tractor owners and suppliers of seeds, fertilisers, fencing materials and farming equipment.

While the borders are generally open to agricultural trade there are important exceptions: the BMC has a monopoly on the export of beef, and imports of beef are banned, as are imports of chicken and eggs. There are periodic bans on the importation of vegetables and horticultural products, and restrictions on the importation of maize, wheat, wheat flour and sugar, and an "infant industry" tariff on imported UHT milk. Although the formal policy has not changed, the policy discourse now seems to be reverting to more prominence for food self-sufficiency.

Besides agricultural policies, policies towards rural development are also influenced by the Rural Development Policy (2003) and the National Settlement Policy (1998). The underlying thrust of these policies is to discourage rural-urban migration and encourage the provision of infrastructure and facilities in rural areas so as to develop the economic base. However this has largely been unsuccessful in that migration has continued and the economic base of the rural areas has stagnated, even while infrastructure, such as roads, water and electricity supplies, has been provided in rural areas at very high cost. However, the tenth National Development Plan (NDP 10) takes a somewhat different approach in recognising that "urbanisation is an inevitable consequence of economic development that must be recognised and provided for ….. urbanisation also presents a wide range of opportunities, including increased access to public services" (p20).

Despite a strong role for rural development in the overall development policy framework and the allocation of large amounts of public resources to agriculture and the rural areas, there has been little explicit attention paid to access to finance, whether in the country as a whole or in rural areas in particular. However, NDP 10 does indicate that in principle at least government wishes to promote financial sector development and in particular to improve access to financial services for the poor. The aim is to remove barriers to wider formal sector provision (e.g., the high cost of operating banking services in rural areas) and to create incentives for private sector financial institutions to improve access (p147). The high cost of operating banking services in the rural areas, which could benefit farming and non-agricultural SMMEs, has been identified as a major constraint for several years (GoB, 2002; World Bank, 2008; CSO, 2010). Government's approach as outlined in NDP 10 is to "create an enabling environment for financial sector development by putting 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 will also 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" (para 9.64).

2.2 The Financial Sector

Botswana's financial sector can be divided broadly into two segments: the banking sector (largely regulated and supervised by the Bank of Botswana), and the non-bank financial sector (largely regulated by the Non-Bank Financial Institutions Regulatory Authority (NBFIRA). On the banking side[1] the financial sector comprises the central bank, commercial banks, a savings bank, and a building society. On the non-bank side there are pension funds, insurance companies, state-owned development finance institutions, private non-bank lenders, a stock exchange and a variety of other

[1] *Banks are defined as deposit-taking institutions*

financial service providers such as asset managers. Commercial banks are the most significant financial intermediaries in terms of their share of savings from the public, although in terms of asset size they are nearly matched by the pension funds. Banking and financial services has been one of the fastest growing sectors of the economy over the past two decades, suggesting positive signs of financial sector development over this period. The growth can be attributed to a large extent to the general process of financial deepening in the context of a stable macroeconomic environment. Financial deepening was in turn supported by a set of financial sector reforms introduced in the later 1980s that liberalized the bank licensing criteria and moved towards a more market based financial system (World Bank, 1989).

The expansion of the financial sector has resulted in an increase in infrastructure and the range of services offered. The number of accounts provided by banks has risen, suggesting that a greater proportion of the population have access to banking services.

2.2.1 Government Institutions

There are a number of government institutions that play an important role in improving access to rural finance. Unlike many other countries, there has never been a government-owned commercial bank in Botswana. However, the government has been an extensive provider of finance in the economy, through the institutions listed below and also through the Public Debt Service Fund (PDSF), which lent directly from government funds to state-owned (parastatal) enterprises, and for many years the PDSF was the largest lending entity in Botswana. The main government-owned financial institutions include:

- *Botswana Savings Bank;* originally the Post Office Savings Bank, BSB was established in 1911 as a branch of the South African Post Office Savings Bank, and has the longest continuous existence of any financial institution in Botswana. BSB was specifically meant for the provision of savings services to the whole population of Botswana, including the rural poor. As BSB operates through the Post Office network, it has the largest branch footprint of any financial institution in Botswana. BSB has played an important role in allowing poor and rural people a chance to have savings accounts. However it has not generally provided credit to the poor, and in recent years it has concentrated its lending activities on the formally-employed, especially those in urban areas.
- *National Development Bank* (NDB), established in 1964 initially with a focus on lending to agriculture, is 100% owned by the government. Despite its name, NDB is not a fully-fledged bank as it does not take deposits, and is in reality a development finance institution. It lends primarily to business projects, including agriculture, industry, services and property, although it has recently introduced some products aimed at individuals.
- *Botswana Development Corporation* (BDC), established in 1970, to invest in agricultural, commercial and industrial projects through the provision of loans and equity finance. BDC's emphasis is on medium and large scale projects.
- *The Credit Guarantee Scheme*, established in 1999 with an aim of assisting small and medium enterprises with access credit, administered by Botswana Export Credit Insurance and Guarantee Company (BECI), established in 1996 as a subsidiary of Botswana Development Cooperation (BDC). The primary function of BECI is the granting and development of credit insurance and risk management solutions, but the company has evolved through time into issuance of other related products, such as construction guarantees and other related

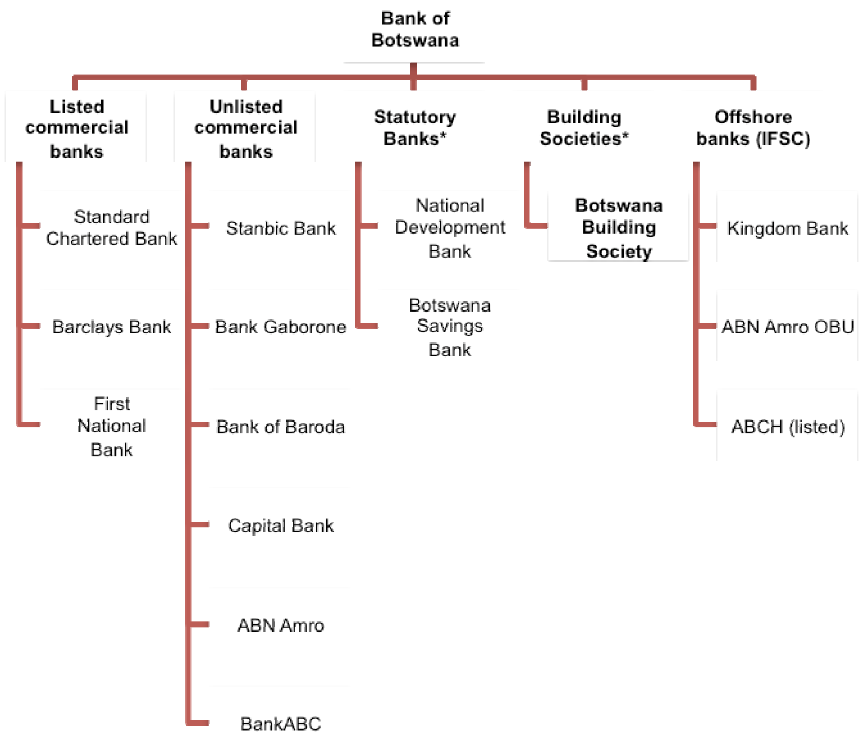
guarantees. Credit insurance involves evaluating the credit worthiness of clients' debtors and providing cover on approved customers' purchases, thereby reducing the level of bad debts. The CGS can in theory be used to provide partial guarantees for loans or overdrafts from commercial banks and CEDA (see below), though to date only Stanbic Bank has adopted the scheme.

- *Botswana Building Society* (BBS), originally established as a branch of the South African United Building Society in 1970, and locally incorporated in 1977. Although it originally had a majority government shareholding, the government is now a minority shareholder as funds have been raised from other depositors. BBS primarily offers mortgage loans as well as savings services, transactional products and short-term loans.
- *Citizen Entrepreneurial Development Agency* (CEDA) was established in 2001 to provide loans to SMMEs. CEDA differs from the abovementioned banks and societies in that it provides loans at subsidized interest rates.

2.2.2 Banking sector

Botswana's banking sector has grown and changed considerably over the period since 1990. Historically, the sector was relatively small and dominated by Barclays and Standard Chartered banks. These banks' operations in Botswana date back to the 1950s, and were originally run as branches of the groups' South African subsidiaries. In the 1970s the two banks were incorporated in Botswana as independent operations within the overall international structures of Barclays and Standard Chartered banks, and have been supervised by the Bank of Botswana since 1975. In 1982 the Bank of Credit and Commerce Botswana (BCCB) was established, bringing the number of banks to three. However, this bank remained relatively small, and did not fundamentally challenge the dominance of the two major existing banks. Since the liberalization of the licensing regulations in the late 1980s there has been a succession of new banks established. First National Bank of Botswana took over BCCB in 1991, and this was followed by the entry of Stanbic Bank, Bank of Baroda, Capital Bank, Bank Gaborone, BancABC and ABN Amro. Currently (2012), Botswana is serviced by nine commercial banks. Increased competition in the banking sector has led to the introduction of new products and services, but the banking sector remains concentrated in urban and urban village areas.

Figure 4: Outline of Banking Sector



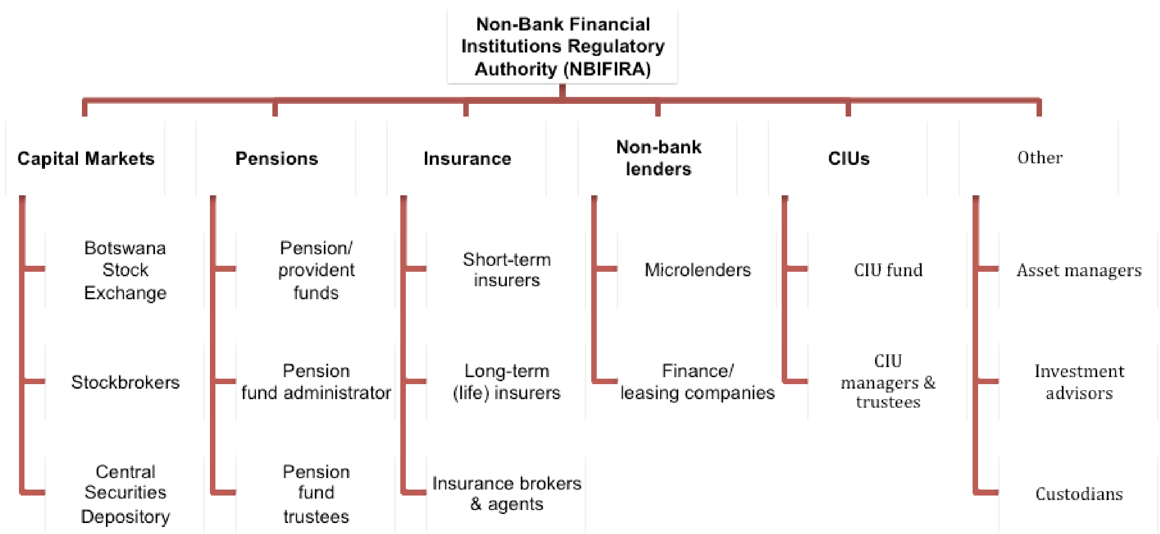
Most households and businesses obtain their loans or finance from commercial banks. One of the major concerns is whether these commercial banks are able to provide a broad spectrum of financial services to cater for all income levels.

The non-bank financial sector is quite diverse and has grown fast in recent years, and includes the following institutions;

- the Botswana Stock Exchange and stock broking firms;
- Insurers: short-term (casualty) insurance and long-term (life insurance);
- Pension funds;
- Asset managers;
- Credit institutions (non-bank lenders), which include "term" lenders such as Letshego, Penrich, Blue, Peo etc., which make medium-term loans against the security of payroll deductions, and short-term "cash loan" lenders;
- Microfinance institutions (e.g. Women's Finance House) (granted exemptions from the Banking Act by BoB);
- Collective Investment Undertakings (CIUs);
- three statutory development finance institutions (NDB, BDC and CEDA);
- statutory funds (e.g. Motor Vehicle Accident Fund, National Petroleum Fund); and
- the Public Debt Service Fund (PDSF).

These entities are mostly regulated by NBFIRA, but one (NDB) falls under the Bank of Botswana, despite the fact that it is not a deposit-taking institution. Some are unregulated, including the BDC and CEDA, and various statutory funds (PDSF, MVAF and NPF).

Figure 5: NBFIs



2.2.3 *Informal financial activities*

Informal financial activities continue to grow in Botswana, with most operations taking place in the urban, semi-urban areas and major villages (Mosene, 2002). About 60% of the clientele of informal financial institutions in Gaborone is female (Okurut and Botlhole, 2009). This may be because women lack collateral to offer as security for bank loans since many of them do not own property (Okurut et al., 2009). The high participation of women in informal financial institutions may also be explained by some key features of these informal markets, such as their accessibility, the simple procedures and the flexibility of credit and its adaptability to many purposes.

Informal financial products play an important role in complementing the scope of banking and other formal financial products. In many cases informal products provide a point of entry to the financial system for low-income households, whether for savings, credit or insurance, and help to provide a "first course" in financial literacy that can assist in later graduation to formal financial products.

The use of informal financial products in Botswana is quite widespread, according to FinScope 2009:

- Approximately 330,000 adults (33% of the total) used some kind of informal financial product;
- 236,000 adults (24%) used informal savings products;
- 141,000 adults (14%) borrowed from informal sources; and
- 254,000 adults (25%) used informal insurance products.

However, the landscape of access presented earlier shows that only 8% of the adult population relies *solely* on informal finance – a smaller proportion than in many other African countries. However, this may obscure the important role of informal financial services, which in some cases complements formal financial service provision, and in others cases supplements it.

Informal insurance, for instance, seems to complement formal provision; of those with formal insurance products, some 76% also have an informal insurance product; similarly, 78% of those with informal insurance products also have a formal product. The informal sector therefore provides a channel for "double insurance", rather than significantly extending access to insurance to those who would not otherwise have it.

The opposite is the case with informal credit; of those with a loan from a formal financial institution, only 37% also have an informal loan, and of those with an informal loan, only 42% also have a formal loan. Informal credit therefore seems to extend access to credit to those who otherwise would be unwilling or unable to get a loan from a bank or similar institution.

Generally, however, use of informal financial products is greater among the banked than the unbanked.

2.2.4 Internet and mobile phone based services

Various technologies show promise for lowering the costs, managing the risks and increasing the efficiency of financial services in rural areas, including the use of cellular phones. The mobile phone platform is now being used across Africa for the provision of largely transactional services, including remittances. Rural based individuals are able to undertake transactions without necessarily traveling distances for such services.

The number of active mobile phone subscribers (i.e. SimCards that have been recharged, have made a call or received a call in the last 3 months) is as per Table 1 below:

Table 1: Active SimCards by Network – April 2012

Network	**Active SimCards**
Mascom	1,592,203
Orange	1,020,444
BeMobile	347,442
Total	**2,960,089**

Source: BTA

With this level of penetration, Botswana has one of the highest mobile phone density rates in the world – 144 subscriptions per 100 people in 2011 (World Bank, 2012). This is higher than in many industrialised countries (such as Germany, the UK, the USA and Japan).

Table 2: Mobile Teledensity Selected Countries –2011

Country	**Mobile teledensity (2011)**
Libya	172
Gabon	165
Botswana	144
Germany	140
UK	130
South Africa	128
Namibia	110
USA	106
Japan	95
Swaziland	78
Zimbabwe	60
Zambia	54

Source: World Bank (2012)

Mobile network operators claim that between 92% and 95% of the Botswana population is covered by at least one mobile phone network, although the figure for geographical coverage by area would be much lower. An independent BTA population coverage and signal quality survey is currently underway.

Despite the high level of ownership, there is relatively little use of mobile phones for uses other than calling and messaging. Whereas in other countries the mobile platform is increasingly used for a broader range of services, including banking, other financial services, government, health and agriculture, in Botswana this has been very slow to take off.

The provision of banking and other financial services using mobile phones has the potential to improve access and coverage, and also to reduce costs for the benefit of poor households, including those in rural areas. However, additional financial, information and communication infrastructure, especially in the rural areas, is required to improve access to banking facilities (GoB, 2009). Results from the FinScope survey (2009) show that 29% of the Botswana population used mobile phone banking, though such services in 2009 were limited to account balance queries and airtime purchases only. Of these, 57% were male and 43% were female, and most users were in urban areas. Table 3 shows the distribution of mobile phone banking users by type of settlement.

Table 3. Distribution of mobile phone banking users by type of settlement in Botswana (%)

Location	**Proportion of Mobile phone banking users**
City/Town	51.2
Urban Village	30.7
Rural Area	18.0

Source: FinScope (2009)

People aged between 20 and 39 years use mobile phone banking the most. The distribution of mobile phone banking users by age group is illustrated in Table 4 below:

Table 4: Mobile phone banking users by age group in Botswana

Age group of service user	**Percent**
18-19 years	8.1
20-29 years	46.1
30-39 years	25.5
40-49 years	10.9
50-59 years	6.2
60-69 years	1.6
70 years and above	1.6

Source: FinScope (2009)

At the time of the FinScope 2009 survey mobile phone banking services were rudimentary, but since then several commercial banks in Botswana have started providing more extensive mobile phone based banking services. These services include transferring funds from one account to another, obtaining bank statements, etc. Similarly, electronic banking has been introduced by some commercial banks. E-banking covers conventional banking services. Internet banking is also increasingly important, but its impact is restricted by the relatively low usage of the internet amongst households in Botswana. The two major mobile network providers, Mascom and Orange, have recently introduced mobile money transfer (MMT) services, MyZaka and Orange Money respectively; although take-up numbers are not publicly available, anecdotal evidence suggests that adoption has been slow.

Internet banking appeals mainly to better off urban households, especially as internet penetration in Botswana is comparatively low, with only 6 users per 100 people in 2010[2]. However, mobile phone banking and MMT have the potential to dramatically improve access, given that mobile phone penetration in Botswana is extremely high (144 subscriptions per 100 people in 2011). However, this will depend on the development of financial products and services that are suited to poor households with low and variable incomes, not just a new platform for existing products and services.

[2] *International Telecommunications Union (ITU) http://www.itu.int/ITU-D/ict/statistics/ accessed 11 June 2012*

3. Supply and Demand for Rural/Agricultural Finance

3.1 Demand Side

3.1.1 Broad demand overview

The demand for agricultural and rural finance is potentially diverse, as illustrated in Table 5, which summarises the general nature of potential rural and agricultural finance clients. This covers both conventional household demand for financial services, as well as a range of agricultural and non-agricultural business needs. However, it is difficult to quantify the demand for different types of rural and agricultural finance as there is no comprehensive survey data available. Given the predominance of wage employment as a source of rural household income it is likely that conventional household / consumer financial needs are the most important (encompassing savings, credit, remittances, transactions and insurance). However, farming and small-scale businesses do play a role, and it is possible that they could play a larger role and contribute to a diversification of rural income sources. Improving the availability of rural finance could contribute towards such a diversification or rural income sources – although of course the (non-)availability of finance may be only one of a number of constraints on rural economic activity.

Table 5: Illustration of general demand for rural and agricultural financial services

Those demanding financial services	Financial services needed
Rural households (agricultural and non-agricultural)	• Purchase of and payment for consumption goods & services: (food, education, health, clothing, transport, church tithes etc) • Finance life events: lobola, death, family obligations • Mitigating risks: health insurance, unemployment, etc • Accessing remittances, money transfers • Cash flow management • Income smoothing • Saving instruments

Agricultural producers:
• Farmers
  o crop farmers
  o livestock farmers
  o producer groups
  o borehole syndicates
	• Long/medium term credit for
	  o land acquisition
	  o purchase of fixed assets: tractors, implements, land improvements
	  o inventory build up
	• Short term credit/working capital for
	  o purchase of crop and livestock inputs: (fertilizer, seeds, labour, vet medicine, agro-chemicals, etc)
	  o providing animals with water
	• Crop and livestock insurance products (health, weather)
	• Cash flow management
	• Income smoothing

Agro-dealers and processors:	• Long/medium term credit for

• Suppliers of inputs • Rural-based commodity buyers • Traders/urban-based travelling commodity buyers & input suppliers • grinding mills, small scale processors	o purchase of productive assets (trucks, trailers, weighing scales, processing equipment) • Short term credit/working capital for o purchase of inputs inventory o purchase of outputs o income smoothing • Deposit and transfer services for o cash flow management o payment for services o receiving of payments
Non-agricultural rural businesses and micro-enterprises: • general dealer shops, local supermarkets • beer outlets, entertainment clubs, • artisans service providers (e.g. welders, repairers, etc) • hair salons & other personal services • vendors of food, fruits & second hand clothing	• Long/medium term credit for o inventory build up o purchase of fixed assets: trucks, equipment • Short term credit/working capital for o services of fixed/operational assets o payment for services o purchase of supplies • Deposit and transfer services for o cash flow management o receipt of payments o money transfers • Insurance products for risk management: natural disasters, burglary
Medium & large-scale distributors, processors/exporters located in urban and peri-urban areas	• Long/medium term credit for o inventory build up o purchase of fixed assets: trucks, equipment • Short term credit/working capital for o services of fixed/operational assets o payment for services o income smoothing • Deposit and transfer services for o cash flow management o receipt of payments o money transfers

Source: CGAP (2010), authors

Farmers need finance to purchase improved technology and inputs such as fertilizer, improved seed varieties, veterinary medicine, agrochemicals, fuel, tools and equipment, hire and pay labour and transport farm produce to markets. Some farmers need only seasonal or short-term working capital, while for others; medium to long-term finance is required in the form of investment capital. Long-term credit may not be readily available in rural areas from commercial financial sources, at least to smaller farms and enterprises, although long-term credit may be available from certain government-owned financial institutions. Term credit finances capital improvements such as farm buildings, storage facilities, equipment or livestock expansion. Investments in these assets help businesses to grow and jump to the next level. Working capital is likely to be readily available to rural clients than long-term credit or other financial services. It meets seasonal needs for inputs, labour, and production services. When timed correctly, working capital allows use of fertilizer, improved seed varieties, labour and other inputs that may lead to increased income. Cash flow management, money transfers and risk mitigation tools such as insurance are critical to weathering unforeseen costs like a family emergency, a natural disaster or crop failure.

3.1.2 Smallholder farmers

Smallholder farmers can be classified based on their production orientation. To give an indication of the farming groups that exist in Botswana, the Annual Agricultural Survey (2006) indicates that there were about 115 000 such farmers of whom 96% were in the mixed traditional/communal farming system on tribal land whilst the remainder were engaged in commercial farming in freehold and leasehold areas (Annual Agricultural Survey, 2006; CSO, 2010). So, despite the low contribution of agriculture to GDP and rural household incomes, it is nevertheless an important occupation in rural areas – although for many people it is part-time and combined with other activities. Indeed, many farm-owners, especially cattle farmers, actually live and work in urban areas.

The dominant farming enterprises in the traditional farming system were cattle, goats, sheep, chicken, sorghum, maize and pulses production. According to the Annual Agricultural Survey of 2006, most farmers identified lack of finance as the main reason for not planting (Annual Agricultural Survey, 2006; CSO, 2010). Cattle farming is a major rural activity in Botswana. Access to finance to purchase cattle and goats including providing animals with water is very important for households to improve income security. In a study on Agricultural Research and Development in Botswana, experts indicated that farmers in the low-input traditional sector were not able to adopt most technologies to increase livestock and crop productivity because of lack of finance or high cost of inputs (Sigwele, 2010). Access to agricultural finance can help to increase technology adoption to increase productivity and competitiveness in Botswana. Currently, most smallholder farmers cannot meet most of the requirements of commercial banks, for a variety reasons, including irregular / seasonal incomes and lack of collateral.

Smallholder farmers will demand financial services differently, based on the extent to which the household strives to produce for own consumption and a marketable surplus. The demand for loans, savings, and insurance services by the poor is driven in the first instance by their motivation to avoid food insecurity.

3.1.3 Demand for credit/loans

Short-term finance may be needed by all categories of farmers to finance (i) the purchase of production inputs, (ii) purchase of livestock, (iii) purchase and servicing of implements, (iv) marketing of produce, (v) management of cash flow, (vi) better risk management, and (vii) crisis management. Demand for credit is ideally a composite of access to bank credit (number of people demanding overdrafts, credit cards or personal loans), microfinance (access to cash or term loans) and the number of people demanding loans from NGOs and credit cooperatives. Of the bank credit products, demand for current accounts can be used to depict demand for credit facilities. However, it can also be argued that the number of current accounts does not reflect the demand for credit to the poor, as many bank credit products are not within reach of poor households. Beyond the banks, microlenders provide credit but this tends to be focused on the banked/salaried market, and in any case the rates of interest charged (30% a month) are not suited to borrowing for business needs. Other than that, there are few sources of credit for rural households/farmers in Botswana.

Despite often owning large areas of land, many traditional farmers in Botswana only choose to cultivate a few acres, as that is all they need to feed their own families. Many farmers, both traditional and commercial, deal with cattle. The demand for medium and long-term loans in Botswana would therefore mainly come from the cattle and beef industry aimed at restoring the competitiveness of the sector. Such demand would however, generally be framed in terms of the dominance of "traditional" cattle producers farming on communal land, who, it is sometimes argued, do not view cattle rearing as a commercial activity, and only sell cattle to meet periodic money income needs. Medium and long-term finance is required for increasing the number and proportion of younger, breeding female animals and good genetic-quality males to increase the reproduction rate and make a higher off-take of young, newly weaned animals possible for marketing (Centre for Applied Research, 2007; Jefferis, 2007).

Rural households use credit in varying ways with an overall primary objective of income smoothing and maintaining food security. Table 6 shows uses of loans by rural and urban households according to the 2009 FinScope survey. The most common use for rural respondents was the purchase of a car (4.1%) while for the urban respondents, paying off debts was prevalent (3.8%). The use of loans for business purposes was relatively low for residents of all settlement types.

Table 6: Use of loans by populations in different settlement types (% of population)

Uses of loans	Urban	Urban village	Rural	Total
Buy/renovate house	2.9%	3.1%	1.2%	2.3%
Buy car	3.0%	2.6%	4.1%	3.3%
Pay off debt	3.8%	3.3%	2.1%	3.0%
Start/expand business	0.3%	0.9%	0.8%	0.7%
Funeral/burial	0.2%	0.9%	0.6%	0.6%
Other	7.1%	7.0%	6.8%	7.0%
Total borrowers	**17.3%**	**17.8%**	**15.5%**	**16.8%**

Source: FinScope (2009)

Table 7: Use of financial services by households (% of adults)

	Financially Included	Transactions	Insurance	Credit/loans	Savings
Total	67	33	33	25	54
Urban	76	52	35	39	65
Urban village	69	30	33	23	57
Rural	58	21	31	15	44

Source: FinScope 2009

3.1.4 Demand for savings products

It is in the interest of banks to encourage savings because limited efforts in this direction can ultimately retard the banks' capacity to lend. For individuals, saving is a reality of life, be it for a planned purchase, or security against those unplanned events. Considering the basic demand level of savings products, the simple savings account is the most basic and most accessible. Most people that have one or more of the other deposit accounts will also have a savings account. Furthermore, while it is quite possible that people may have any combination of several of the other types of deposit accounts, most will only have one savings account. It was therefore considered an appropriate estimate of access to formal savings products in general. Using the number of people utilizing a service as a proxy for the relative demand for that service, 40% of the Botswana's adult population had a savings account in 2009. Savings products are more accessible to lower income households. However, banks are reluctant to operate low balance accounts due to high administration costs relative to potential income. Nevertheless, the Botswana Savings Bank provides savings products with very low minimum balances, which are readily accessible to the rural population through the Post Office network. Besides formal products, many adults (around 25% of the total) had an informal savings product, with the majority of these being unbanked.

3.1.5 Demand for transaction services

Demand for transaction services can be a composite of the various transaction products available i.e. current accounts, credit cards, debit cards and other transaction accounts. For simplicity, the number of current accounts held is used as a proxy to measure the demand. It can be argued that current accounts are not accessible to the poor due to minimum salary requirements. Therefore, transactions services used by the poor, more so in rural areas, are minimal. Some other savings-based transactions accounts are also not accessible to the poor. These types of accounts may have lower requirements, but the transaction charges may be prohibitive and are not within reach of the poor.

3.1.6 Demand for insurance services

The estimated number of people that have insurance policies is generally used as a proxy to show the demand for this type of service. Insurance is widely used in Botswana, with 31% of adults having some kind of insurance product in 2009 according to FinScope. The dominant type of insurance product is a funeral policy, which is held by 26% of adults, followed by long-term insurance products, medical aid and short-term insurance (e.g. car insurance). Funeral insurance included having an insurance company funeral policy, burial/funeral policy with other registered institution, employer burial/funeral scheme, funeral cover through church or trade union. Agricultural insurance was launched for the first time in Botswana with the facilitation of the Agricultural Hub (part of the Ministry of Agriculture) in January 2010. Although small, the Botswana insurance industry has made steady progress over time.

3.1.7 Micro and Small Businesses in Rural Areas

It is common for businesses to need commercial loans both at the start-up phase and once the business is up and running, for equipment, expansion, or special projects. Small, micro and medium enterprises (SMMEs) require access to short, medium and long-term credit. They need medium and long term loans primarily for the acquisition of machinery and equipment and short term loans for the acquisition of merchandise stocks and consumables, as well as to finance credit for clients in some instances. They require affordable transactional banking (deposits and withdrawals) and affordable means of making bank-guaranteed payments to third parties for the acquisition of stock, payment of utilities, wages, etc. These payment means could be in the form of electronic funds transfer facilities either at an ATM or via mobile phones or the internet. SMMEs also need extended trading hours at the bank to enable them to bank when convenient to them. The SMME sector can play a significant role in economic diversification, and rural development in particular, if access to finance and other constraints can be adequately addressed.

The definition of small, micro and medium enterprises in terms of the value of annual turnover, relevant to Botswana is as outlined in Table 8.

Table 8: Definition of SMMEs in Botswana

	Turnover	Employees
Micro	<P100,000 p.a.	<6 (including the owner)
Small	P100,001 – 1,500,000 p.a.	<25
Medium	P1,500,001 – P5,000,000 p.a.	25 - 100

Source: Statutory Instrument no. 79, 2011

Unfortunately there are no recent comprehensive data on SMMEs in Botswana that can provide any kind of reliable, all-inclusive picture of where SMMEs are located, what kind of economic activities they are engaged in, how many people they employ, and what contribution they make to the national economy. Despite the vast resources devoted to support organisations such as LEA and CEDA, it is surprising that neither these institutions nor the Ministry of Trade and Industry (their parent ministry) has seen fit to commission a national survey of the SMME population. Even where data do exist – say for LEA and CEDA clients – the institutions are either unwilling or unable to release information that would assist research and policy analysis. Nor do the banks provide any breakdown of loans to business disaggregated by size. Although claims are sometimes made regarding the SMME sector, any numerical content is purely speculative, or based on data that is more than a decade old.

3.1.8 Other Farmer Categories

Besides small-scale farmers in the traditional mixed production system, Botswana has commercial farmers on freehold or leased land as well as on tribal land. Most commercial farms are engaged in livestock farming dominated by the export-led beef production system (Annual Agricultural Survey, 2006; CSO, 2010). Whilst the larger commercial farms are assisted by both commercial banks and the National Development Bank for their financial requirements, there may still be unmet demand for long-term finance for expansion of operations and land acquisition – although in the latter case constraints relating to land availability are likely to be more serious than financial constraints. Other farmer groups that demand financial services to increase net farm income include commercial producers in land intensive enterprises like dairy, feedlots, horticulture, poultry and piggeries. Farmers in land intensive enterprises may engage elsewhere in large-scale livestock farming and arable farming. In short, different farmer groups are not necessarily mutually exclusive. These farmers would be expected to access loans from formal financial institutions like commercial banks and development financiers since they operate on a commercial basis.

3.2 Supply Side

3.2.1 Banking Services

Location of Banking Services

In many developing countries, especially sparsely populated ones such as Botswana, there is a limited supply of bank branches and Automated Teller Machines (ATMs) in rural areas. This implies that for rural residents to access financial services, they have to incur high transaction costs, as they might have to travel long distances to the cities and towns to access these services. Prior to the mid-1980s, the licensing requirements of the Bank of Botswana required that banks establishing a presence in Botswana should develop a branch network or representation that would cover stipulated rural areas. However, this requirement (along with other elements of the licensing policy) acted as a barrier to entry to the banking system, and resulted in an oligopolistic and uncompetitive banking system. From the mid-1980s onwards the licensing policy was changed with a focus on encouraging competition through the entry of new banks, and opening rural branches was no longer stipulated as a license condition. As a result, commercial banks tend not to provide branches in smaller settlements, where they would be loss-making, and bank branches are concentrated in towns and villages along the eastern corridor and only in larger settlements elsewhere in the country.

Some banks of the newer banks such as Bank of Baroda, Bank Gaborone, Capital Bank and BancABC only have a presence in Gaborone and/or Francistown. Rural areas and smaller settlements do not have much choice by way of banking institution options, and even within those banks that do have a branch or agency, the product offering is limited.

Table 9: Distribution of commercial bank branches

Settlement	Population	No. of bank branches	Population per branch
Gaborone	326,031	38	8,580
Francistown	98,963	11	8,997
Molepolole	66,466	5	13,293
Maun	60,273	4	15,068
Selibe Phikwe	49,411	5	9,882
Serowe	50,820	3	16,940
Kanye	47,013	2	23,507
Mochudi	46,914	2	23,457
Mahalapye	46,409	3	15,470
Palapye	37,256	4	9,314
Lobatse	29,007	3	9,669
Ramotswa	28,952	1	28,952
Letlhakane	22,948	3	7,649
Moshupa	20,016	1	20,016
Jwaneng	18,016	3	6,005
Bobonong	19,389	1	19,389
Tutume	17,528	1	17,528
Ghanzi	14,809	3	4,936
Orapa	9,535	2	4,768
Kasane	9,084	2	4,542
Tsabong	8,945	1	8,945
Gumare	8,532	1	8,532
Shakawe	6,693	1	6,693
Masunga	5,666	1	5,666
Sowa	3,598	1	3,598
Total	**1,052,274**	**102**	**10,316**
% of population covered	*52.0%*		

Source: Bank of Botswana, Statistics Botswana, Econsult Botswana

Just over half (52%) of the Botswana population lives in settlements served by bank branches. Almost all medium/large settlements (with populations over 10,000) are served by bank branches (the exceptions being Tonota, Thamaga, Mmopane, Gabane, Mmadinare, which include 4% of the population). Few settlements with populations between 5,000 and 10,000 have bank branches – those that do are important regional centres. Some 8% of the population lives in these "small" urban villages without bank branches. Overall, 48% of the Botswana population lives in settlements that are not immediately served by banks, but the majority of the "unserved" live in rural areas – none of the settlements classified as "rural" have bank branches, and this covers 37% of the population.

Table 10: Population, settlements and bank coverage

Category	No.	% of total
Population living in settlements with bank branch	1,043,010	52%
Population living in settlements over 10,000 without bank branches	85,275	4%
Population living in settlements of 5,000 - 10,000 without bank branch	156,302	8%
Population living in small/dispersed settlements (less than 5,000) without bank branch	740,200	37%

Source: Econsult Botswana, Statistics Botswana

Table 11: Settlement size and bank coverage

Settlement size	No. of settlements	No. with bank branch	% of settlements covered
>25,000	12	12	100%
10,000-25,000	11	6	55%
5,000-10,000	26	6	23%
>5,000	n/a	1	n/a

Source: Econsult Botswana, Statistics Botswana

Clearly, banks find it uneconomic to operate branches in smaller settlements – with a population of around 10,000 being the operational cut-off. This is not entirely surprising – bank branches are expensive in terms of physical infrastructure and staff costs, and the level of business in smaller settlements may not be sufficient to justify those costs. There may be some scope for extending bank branches to some currently unserved larger settlements, but even so, it is unlikely that the rural areas will ever be served by conventional bank branches operated on a commercial basis by banks. Hence, innovative solutions will be necessary to extend the outreach of financial services to rural areas. This is likely to include mobile phone based financial services (banking, transfers, micro-insurance etc.) and agent banking (through retail stores etc.).

These data do not include financial institutions other than commercial banks. In addition, the Botswana Savings Bank provides a range of financial products and services through the Post Office network, which includes nearly 120 branches, including many in unbanked settlements. This network offers considerable potential for extending the provision of financial services in rural areas.

Specialised lending for agriculture and/or SMMEs

The commercial banks lend to agriculture and SMMEs, although data are only available for lending to the agricultural sector (no data are published on lending to SMMEs). In addition, CEDA provides subsidised loans to SMMEs and has a dedicated Young Farmers Fund. NDB also specialises in lending for agricultural purposes. Total bank lending for agricultural enterprises amounted to P179.8 million in March 2011, less than 1% of total lending and around 2% of bank lending to the business sector. Data on lending to agriculture by NDB and CEDA are not available. However, rough estimates suggest that lending by these institutions significantly exceeds lending to agriculture by the commercial banks.

Most commercial banks do not have dedicated SME or agricultural finance divisions. See Table 12 for a summary of products and programmes offered by the commercial banks:

Table 12: Specialised SMME and/or agriculture lending programmes

Bank	SME Division	Agrifinance Division	SME Programmes	Details
FNB	√	√	Accounting solution for SMMEs	Automatically generates financial statements and reports, balance sheets and VAT reports, using electronic FNB bank statements
Stanbic Bank	√	√	SME Quick Loan (New SME Product)	primary assessment criteria include a battery of risk assessment tests, including entrepreneurial competencies
Standard Chartered	√	X	SME Services include: Business Credit loans & overdrafts GPO Financing / L/C facility	 P 120,000 – 4m, secured by up to 70% of the value a residential or commercial property SMMEs do not have to provide any security or collateral to the suppliers, minimum P100, 000
Barclays	√	X	SME Services include: Business Solution Loans - Tender and Performance bonds Business Club	 Unsecured loans from P10 000 to P40 000 Secured loans P41 000 to P500 000 CEDA Guaranteed loans Access to Business Development services
Baroda	√	X	SMME Banking Overdraft/Loan or L/C or Offshore Bank Guarantee	 Maximum P2.5m over 60 months, full collateral security
Bank Gaborone	X	X	No dedicated SMME services. The bank has developed a specialisation in lending to agriculture, notably cattle farming, drawing on its Namibian heritage.	
Capital Bank	X	X	No dedicated SMME services	
BancABC	X	X	New SMME programmes in the pipeline	2011 deal with International Finance Corporation (IFC) will allow BancABC to create SMME finance products through the Africa Micro Small and Medium Enterprises (AMSME)

3.2.2 Agricultural insurance

Agricultural insurance was launched for the first time in Botswana in January 2010 by Agrinsure Botswana with the facilitation of the Agricultural Hub. This was an effort towards commercializing the agricultural sector. Agrinsure is a joint venture effort between South Africa's Farmers Technical

Insurance Services Company and Alexander Forbes Botswana. The company offers agricultural insurance products covering both crops and livestock. Cover for crops is determined by the guaranteed yield, which is calculated according to previous production, with an agreed price per tonne, and extends to flooding and drought, uncontrollable crop diseases and pests, as well as fire, lightning, frost, with a basis rate at 5%. For livestock, to make the premiums affordable, a Herd Select Insurance has been made available, where rates are based on the number of animals insured and the farmer selects the animals he wants to insure if he does not want to ensure his entire herd. (Benza, 2010).

3.2.3 Agricultural Credit Guarantee Scheme (ACGS)

The Agricultural Credit Guarantee Scheme (ACGS) provides loan insurance for credit provided to dryland arable farmers by two development finance institutions (NDB and CEDA). The AGCS provides insurance against inability to repay loans due to drought, flood or hail.

In principle, the scheme works by levying a 5% premium on farmers on the value of eligible loans (for seeds, fertiliser, ploughing, fencing, farm machinery etc), which is matched by a 5% premium paid by Government. In the event that "drought" or "flood" are formally declared by the government, the AGCS pays out 85% of the value of eligible loans outstanding.

The AGCS is currently under review as it is recognised that the scheme is badly designed and vulnerable to abuse. One of the design problems is that the designation of "drought" or "flood" is done on a nationwide basis, rather than on a localised geographical basis where the problem actually occurs. There is also a severe moral hazard problem. The AGCS applies to all loans undertaken before mid-February in any given cropping year. By that time, it is possible to make an assessment of whether "drought" or "flood" is likely to be declared – and if this is likely there is an incentive to borrow as much as possible (say, for tractors and other farm machinery) in the expectation that the loan will be largely written off with a few months. More generally, the declaration of "drought" had become increasingly subject to political manipulation, and indeed the AGCS payouts were triggered in eight of the ten years up to 2006/7. Since that time, there have been no payouts – leading to complaints from farmers and requests for refunds of premiums.

Table 13: AGCS premiums & payouts, 1997/8 - 2006/7 (P'000)

Cropping season	**Premiums**	**Claims paid**
1999/2000	390	4,142
2000/01	400	0
2001/02	1,032	8,770
2002/03	1,527	13,128
2003/04	2,228	3,361
2004/05	1,938	16,172
2005/06	1,926	16,961
2006/07	2,543	21,612
2007/08	2,538	0
2008/09	3,865	0
2009/10	3,956	0
2010/11	4,420	0
Total	**26,763**	**84,145**

Source: MFDP

3.2.4 Donor programmes and projects

There are very few donors in Botswana that support projects on rural finance. Since Botswana graduated to middle-income developing country status, donor-funding has been drastically reduced as the international financiers perceive the country as capable of funding most of the projects or could raise loans in the global capital markets. Currently, the European Union (EU) provides grants to non-governmental organizations and trusts including churches to engage in sustainable organizations. The EU through its Non-State Actors Programme provides grants to non-governmental organizations (NGOs), etc. However, to date, most of the grants have been towards non-income generating initiatives, such as the HIV-AIDS programme, with limited focus on rural finance for sustainable activities.

Women's Finance House Botswana (WFHB), a non-governmental organization (NGO), was incorporated in 1989 and operates under the name Thusang Basadi (Help the Women). It benefits from EU grants and in turn provides loans to women to venture into viable enterprises including farming and other commercial non-farming activities at subsidized interest rates. WFHB also receives grants for viable enterprises from Kellogg Foundation. In addition to foreign donors, WFHB also receives grants from the government through the Department of Women's Affairs, which the NGO can lend to individuals for viable projects. WFHB requires deposits to be made as a condition of granting loans, and has been granted an exemption from the Banking Act by the BoB. Since its inception WFHB has provided micro finance services to over 6,000 poor women operating in the informal sector. WFHB products and services are available to women in 14 villages around Botswana, including Serowe, Mahalapye, Kanye, Gabane and Lobatse. It targets peri-urban, urban and rural women who have been running a micro business for a minimum of six months.

In addition to loans, the organization started a savings program in 1999 and currently has an active portfolio of over 2,000 savers and about 1,000 active loans.

The United Nations Development Programme (UNDP) also provides grants to registered societies, trusts and NGOs to engage in viable conservation projects as well as the utilization of natural resources. Through its Global Environment Facility (GEF), UNDP provides grants for registered groups, especially in the rural areas, to venture into income and employment creation enterprises, including farming.

Other donors like the Embassy of the United States of America and the High Commission of the United Kingdom also provide limited grants to NGOs with some focus on rural finance to support sustainable projects.

3.2.5 NGOs

Non-governmental organizations play an important role in the development of the economy of any given country. The term non-governmental organization (NGO), as described by Lekorwe and Mpabanga (2007), refers to a range of organizations within civil society, from political action groups to sports clubs. Several non-governmental organizations receive grants from various institutions including government and donors to venture into commercial and non-income generating activities. Except for the Women's Finance House, very few NGOs provide grants/rural finance to individuals or groups to venture into income-generating activities, including the establishment of infrastructure for production or consumption. NGOs, trusts and societies including individuals funded for sustainable projects cover a cross-section of enterprises like farming, small businesses (SMMEs), conservation and utilization of natural resources, etc..

3.2.6 Micro-finance

It is notable that Botswana almost totally lacks microfinance institutions (MFIs), whether deposit-taking or non-deposit-taking, that provide credit for small and micro enterprises[3]. Women's Finance House is the only MFI currently in operation. The lack of MFIs contrasts with many other African countries (indeed with developing countries as a whole), where MFIs are an important source of finance for SMEs. This phenomenon needs further investigation, in particular to identify whether it reflects a lack of demand for such credit or supply problems that could perhaps be addressed through regulatory or policy changes[4].

3.2.7 Cooperative institutions

Cooperative Societies are established countrywide and include marketing, retail and savings and credit co-operatives (SACCOs). Cooperative societies are mostly found in rural and peri-urban areas. Some of the cooperatives have directly ventured into commercial, property and agricultural activities in order to broaden their income base.

SACCOs provide members with facilities to save money and access credit for consumption and investment purposes. During the 2002/08 period, expanded their role; savings were increased from P80m in 2002 to P110m in 2008 whilst credit to members rose from P79m in 2002 to about P95m in 2008 (GoB, 2009). Overall, however, savings and credit co-operatives account for an insignificant amount of savings and lending in the context of the financial system as a whole. There is an umbrella organisation, the Botswana Savings and Credit Co-operative Association (BOSCCA) but it appears to be inactive.

The Financial Sector Assessment Programme conducted by the World Bank and the IMF in 2007 concluded that the SACCO sector did not have a proper regulatory framework, had weak oversight, and faced governance issues with frequent complaints from members (World Bank, 2008). Although reform was said to be urgent, no improvements have yet been introduced.

3.2.8 Pertinent Informal Sector Institutions

Information on loans made by informal micro-lenders is hardly documented and yet many households and some SMMEs are believed to obtain loans from them. They operate largely in the short-term "cash loan" space and charge very high interest rates that make them largely unsuitable for the financing of productive activities. Micro-lenders or cash loan shops are now regulated and operate under the Non-Banking Financial Institutions Act (since late 2011). Regulation mainly focuses on business practices and consumer protection, but does not attempt to restrict interest rates (unlike South Africa and Namibia, there is no Usury Act in Botswana). It is not clear what impact this regulation will have on informal micro-lending enterprises.

3.2.9 Support Institutions

In order to improve the provision of financial services for viable projects or enterprises, public and private sector institutions may develop the capacities and skills of clients/potential customers. The

---

[3] *It is important to distinguish MFIs from microlenders, which generally lend for consumption purposes*

[4] *Although deposit-taking institutions in principle require a banking licence, the banking regulator (the Bank of Botswana) can issue exemptions to small-scale MFIs, and has done so in the past.*

Local Enterprise Authority (LEA), a state-owned organization is the lead public institution providing training to SMMEs and potential clients on business plans and financial management. Similarly, commercial banks undertake customer training programmes on business and financial management. Private sector organizations like the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) and the Botswana Exporters and Manufacturers Association (BEMA) provide training to members on financial and business management in order to improve the sustainability of firms and enterprises.

LEA has adopted a particular focus on agri-business, and is focusing its support efforts on dairy, leather products, poultry and piggeries.

The government has also established an Agricultural Hub under the Ministry of Agriculture, which provides support for the commercialisation of agriculture under schemes such as NAMPAADD.

4. Access to and inclusion in rural financial services

4.1.1 Broad Overview of Access to Finance in Botswana

Access is about the ability of an individual to get and use financial services that are affordable, usable, and meet their financial needs. The key dimensions of access include:

Physical Access: How far must a person travel to access the financial service?

Affordability: The financial service must be affordable to the user;

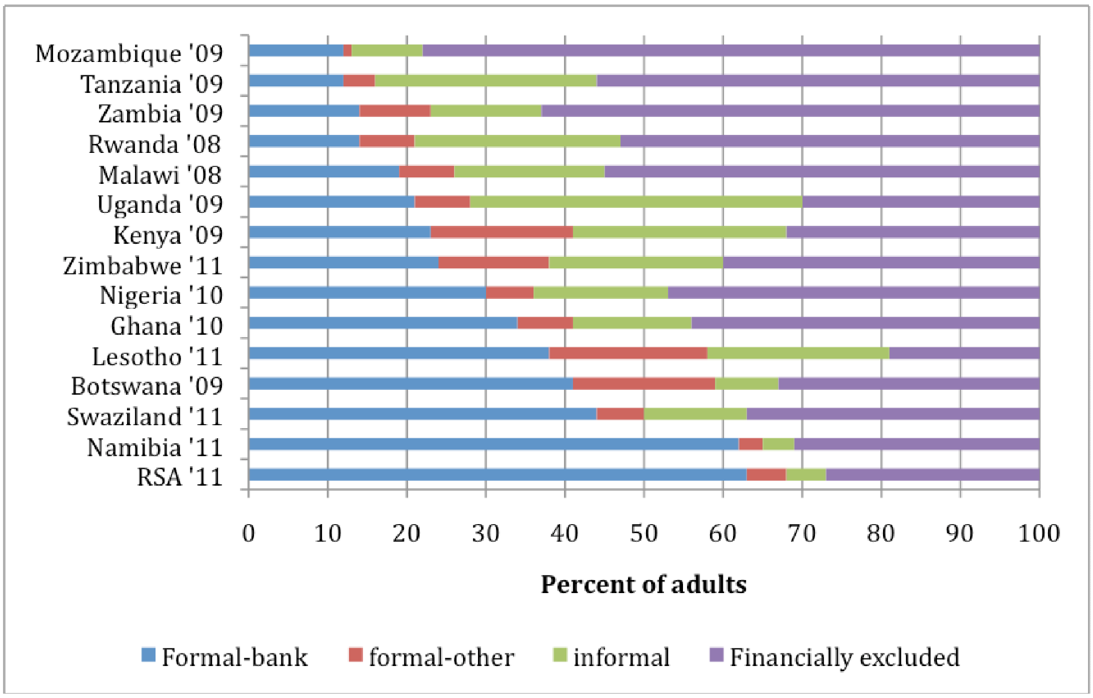
Appropriate Features: The features of the financial service should be appropriate to the user and be able to meet the user's particular needs for financial services;

Appropriate Terms: There should be no terms that effectively exclude one category of user from utilising the service (for example minimum levels of income, formal employment or other insurmountable obstacles).

Access is largely determined by the factors that affect the demand for financial services. For the rural poor, the communication system in rural areas, particularly the road network, restricts them from accessing banking services. Where access is available, clients' low skill achievement in business development dictates their business' absorptive capacity to remain weak. Many are risk averse, or do not like (for cultural reasons) to venture into non-traditional activities, while others have a very low income perspective and simply do not have the demand for such income-improving services (Gobezie, 2005). Furthermore, the products and services offered by the banks may not be suited to them.

Figure 6 shows comparative usage of financial services across select African countries. The formal sector dominates provision of financial services in most countries, including Botswana. However, in several countries there is a large informal financial sector that in some cases serves more people than the formal financial sector. The level of financial inclusion in Botswana is in line with neighbouring countries in the region.

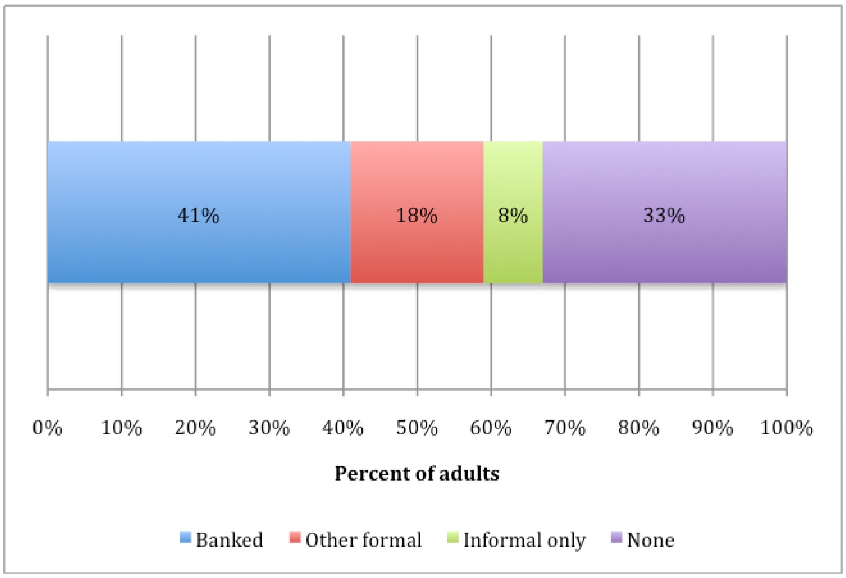
Figure 6: Comparative usage of financial services in Botswana and other African countries



Source: FinScope

In 2009, the financially included segment of the Botswana population was 67%, with 41% of the population formally banked, 18% percent using formal other products, and 8% using informal products. The financially excluded segment of the population was 33%. Compared to the previous survey in 2004, the level of the banked population was similar, although there had been a slight improvement in financial inclusion due largely to an increase in the use of "other formal" products, mostly insurance products.

Figure 7: Financial access strand – Botswana

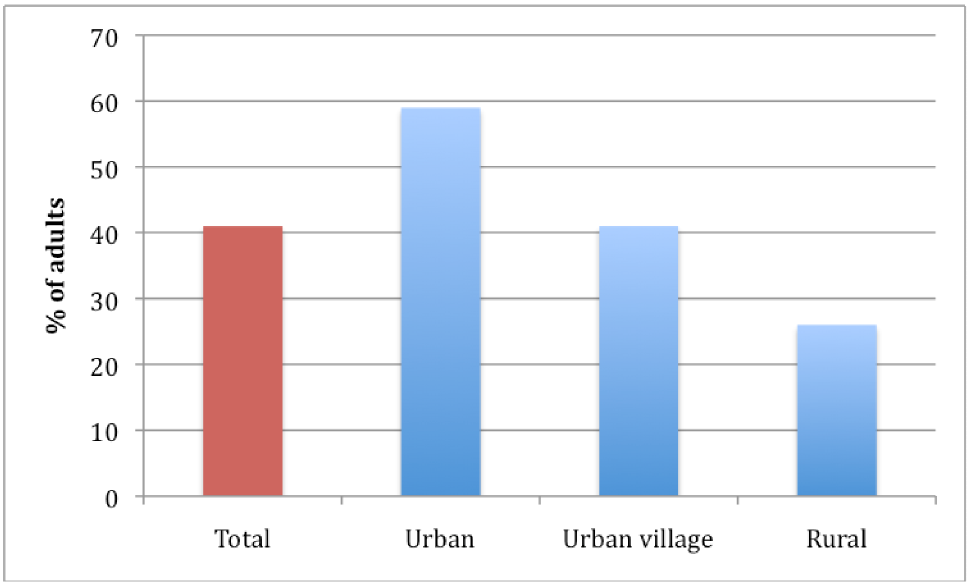


Source: FinScope 2009

There is generally a serious urban and rural divide in accessing banking services. Figure 8 shows the proportion of urban and rural people accessing banking services based on the 2009 FinScope survey.

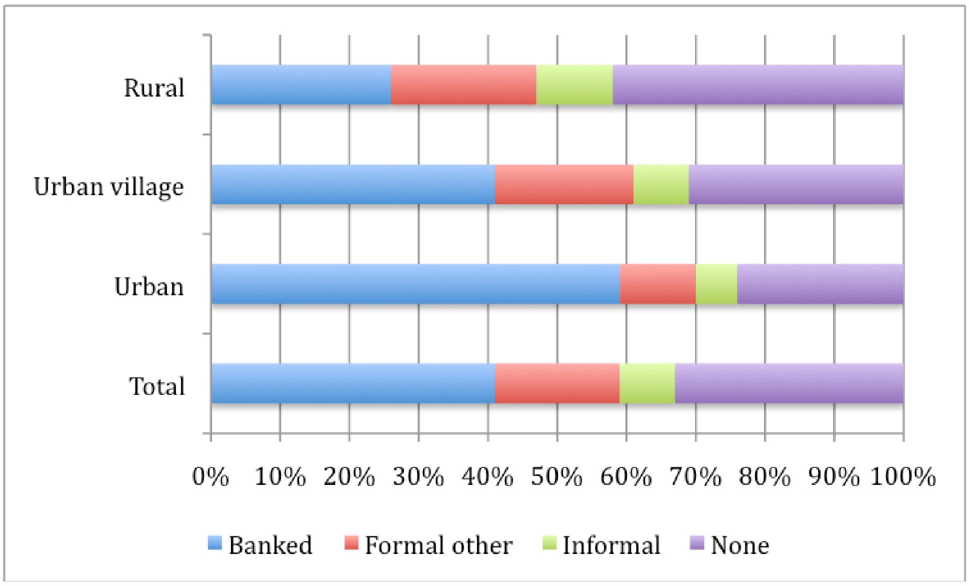
A far higher proportion of people use banking services in urban areas than in rural areas, and the proportion of unbanked in rural areas is correspondingly higher than in urban areas. .

Figure 8: Access to banking by type of settlement



Source: FinScope (2009)

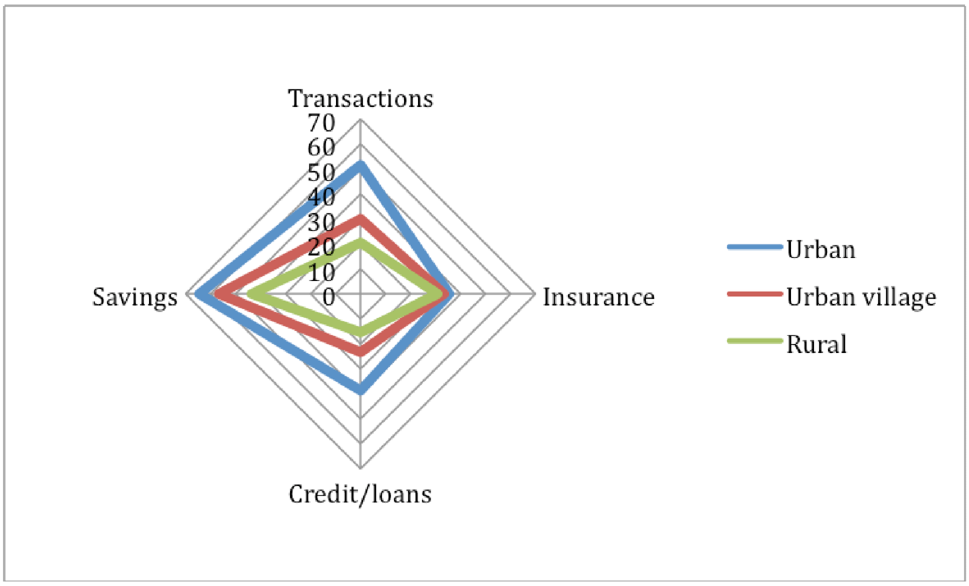
Figure 9: Financial access strand by type of settlement



Source: FinScope (2009)

Although the use of informal finance only by households is lower in Botswana than in many other African countries (Figure 6, above), there is relatively higher use of informal finance in rural areas. There is also a higher level of overall financial exclusion in rural areas.

Figure 10. Access to different types of financial services by type of settlement



Source: FinScope 2009

Figure 10 shows the proportion of urban and rural people accessing different types of financial services. Savings is the most accessed financial service and is more popular within the urban population, although it is also the most used financial service in rural areas. In contrast to bank-based financial products that have much higher usage in urban than in rural areas, the use of insurance is fairly equally distributed across settlement types.

Physical access involves considerations such as the cost of travelling from one point to another in order to access the financial services. This is a real problem, particularly in rural areas, where poor people have to incur travelling expenses to get to financial service points. This, therefore, means that the distance to access financial services physically limits poor people in the rural areas of Botswana.

Affordability is also an important issue in financial access because poor people are not willing or able to pay significant transactions costs. People are more concerned about the rate and level of return they receive from using the improved services that are offered by financial institutions. Appropriateness of the financial service also plays an important role in encouraging poor people to participate in the formal financial sector. If financial services are not delivered in a way that will accommodate the poor, it is as good as not trying to deliver them to the poor, because people will not be encouraged to take part in an inappropriate financial system that does not take into account their financial needs.

The number of people reached by rural financial services differs across countries and across settlement types within the country.

Table 14 shows the sources of loans by both the rural and urban population in Botswana. Generally, urban and urban village respondents had more access to loans than rural respondents. Banks were the largest source of loans across all settlement types. After banks, rural respondents made greatest use of loans from motshelo/savings clubs.

Table 14: Sources of loans by settlement type in Botswana (% of population in each area)

Source	Urban	Urban village	Rural	Total
Bank	8.4%	10.9%	9.6%	9.6%
Insurance	0.4%	0.6%	0.4%	0.4%
Microlender	1.9%	1.2%	1.1%	1.4%
Motheo	1.1%	1.4%	2.5%	1.7%
Employer	5.5%	1.6%	0.0%	2.2%
Family/friend	0.7%	2.3%	1.0%	1.3%
Retailer	0.0%	0.0%	0.8%	0.3%
Total	17.9%	18.0%	15.4%	17.0%

Source: FinScope (2009)

4.1.2 Small Farmers

In many countries, smallholder farmers are often the hardest hit by the problem of lack of finance. According to Nagarajan and Meyer (2005), the gap that exists between the supply of financial services and demand for such services is influenced by several factors at both macro and micro levels. Farmers in the rural areas are more vulnerable compared to residents of urban areas. This reflects remote locations and long travel distances to population centres, poor communication technologies, poor infrastructure, and a weak economic base. This and other problems lead to the constraints/challenges listed below as identified by Nagarajan and Meyer (2005).

- Dispersed Demand

Farmers in the rural areas are widely dispersed. This makes it difficult for suppliers of financial services to provide ready access to the whole population.

- High Information and transaction costs

Poor communication in the rural areas of Botswana is a constraint to people's income and savings. Poor communication and infrastructure, such as poor quality roads, result in high transaction costs for people in the rural areas.

- Institutional capacity

The Government of Botswana has given a high priority to the provision of basic services in rural areas, including roads, schools, water supplies, electricity and telecommunications. Institutional capacity is generally sufficient to deliver such infrastructure. However, due to the wide dispersion of the rural population this is extremely expensive, and it is not feasible or sustainable to provide a full range of public services to the entire population. With regard to the delivery of economic services, this is less impressive, and areas such agricultural extension work are often characterised by poor delivery. Furthermore, there is a lack of clarity over the role of many rural support programmes (such as ISPAAD) – while they are conceived as income generating programmes, they are in reality social safety nets, and end up being inappropriately designed for both objectives.

- Farming risks

Every enterprise is subject to a variety of risks - production, operational or market risk. Rural based people are generally risk averse in respect of the adoption of new business practices. Often this is for very good reasons; for poor rural farmers operating in harsh, marginal conditions, taking a risk that goes wrong can lead to catastrophe. Hence most rural households in Botswana utilise a range of income sources and are not fully dependent upon farming.

- Lack of usable collateral

Poor rural people usually do not have sufficient traditional forms of collateral, such as land and financial assets, to obtain credit from financial institutions, particularly from banks. While this imposes a major constraint on the growth of small and micro enterprises in Botswana, as alternative forms of collateral and collateral substitutes, such as leasing and value chain finance, are developed this constraint will lessen. Lack of fundamental viability

The most important single problem facing agricultural activities in Botswana is the lack of fundamental economic viability. For most people, in most areas, farming – especially rained arable farming - is a marginal, risky and low return activity. As a result, incomes are very low, except where subsidised through government schemes. Also as a result, most subsistence farmers are elderly and young adults show little or no interest in entering farming, which is not generally considered a suitable or worthwhile occupation for people who have been through ten or more years of schooling. This also explains why there are labour shortages, despite high unemployment, and a reliance upon foreign unskilled labour (mostly from Zimbabwe, Zambia and Malawi) on farms.

A consequence of the marginal economic viability of many agricultural activities is that the sector is dependent upon government provision of grants/subsidies to farmers to plant crops, access farm equipment and provide water to livestock, and so on, because of the reluctance of commercial banks to extend credit. The public financial institutions involved in financing agriculture, such as CEDA and NDB, experience high losses and defaults. However, these public-finance schemes to assist farmers may not be sustainable. Sustainable sources of credit for farmers and other rural players are critical to reduce poverty and diversify household incomes.

Extent of access to financial services in rural Botswana

The FinScope survey provides a wealth of information about the nature of the banked and unbanked populations in rural areas. The key results are presented below.

Of the respondents living in rural areas, higher proportion of men (47.7%) were banked than women (34.6%) (Table 15)

Table 15: Proportion of banked and unbanked rural respondents by gender of respondent

Gender of respondent	Banking Status	
	Banked	Unbanked
Male	47.7	52.3
Female	34.6	65.4

Source: FinScope (2009)

Table 16 shows banking status by age group of rural respondents. The most banked age group was between 40 and 49 years followed by the 30-39 year age group. The 18-19 year age group had least access to financial services (13.4%).

Table 16: Banking status by age group of rural respondents (% households)

Age group in years	Banking Status	
	Banked	Unbanked
18-19	13.4	86.6
20-29	37.1	62.9
30-39	54.8	45.2
40-49	58.2	41.8
50-59	37.4	62.6
60 and above	29.4	70.6

Source: FinScope (2009)

Table 17 shows banking status by highest level of education of the rural respondents. Of those without formal education, only 16% were banked. Access to banking services increases with level of education. Those who had completed university education were the most banked (90.2%).

Table 17: Banking status by highest education level of rural respondents (% households)

Education level	Banking Status	
	Banked	Unbanked
No formal education	16.0	84.0
Some primary	27.9	72.1
Primary school completed	41.1	58.9
Some high school	32.7	67.3
High school completed	41.9	58.1
Post secondary	74.2	25.8
Some university	86.8	13.2
University completed	90.2	9.8

Source: FinScope (2009)

Table 18 shows the proportion of banked and unbanked respondents in rural areas by household monthly income. Access to banking services and products increased with income:50% of the respondents with a monthly income more than P5000 were banked, compared to 36.5% banked but without monthly income.

Table 18: Proportion of banked and unbanked rural respondents by household monthly income

Income level	Banking Status	
	Banked	Unbanked
No income	36.5	63.5
P250 or less	36.3	63.7
P251-500	39.6	60.4
P501-1000	41.1	58.9
P1001-5000	42.3	57.7
More than P5000	50.0	50.0

Source: FinScope (2009)

Table 19 shows banking status by type of employment for rural respondents. Most of the respondents living in rural areas and employed in the public and private sectors are banked (82.7% and 65.5%, respectively), as opposed to those who are unemployed only about 20% of whom are banked. The retired still participate considerably in the financial market since 43.6% were banked in rural Botswana.

Table 19: Banking status by type of employment of the rural respondents (% households)

Employment status	Banking Status	
	Banked	Unbanked
Paid employment in public sector	82.7	17.3
Paid employment in private sector	65.5	34.5
Self employment	41.8	58.2
Unemployed but seeking employment	20.1	79.9
Unemployed but not seeking employment	18.2	81.8
Retired	43.6	56.4
Other	42.2	57.8

Source: FinScope (2009)

4.1.3 Micro and Small Businesses in Rural Areas

Limited access to finance for the SMME sector has been identified as a major growth constraint by several previous studies (FAP, 1982; World Bank FIAS report, 2004; Hinton et al. 2006; NDP 10, 2009). The SMME sector can play a significant role in economic diversification and rural development, in particular, if access to finance, can be enhanced. The economic development of the people of Botswana, specifically poor people, relies substantially on their ownership of small and micro enterprises (BIDPA, 2010). Important to note is that the small and micro enterprises play a crucial role in creating employment for the poorest citizens of Botswana (Acquah and Mosimanegape, 2007). There are a number of challenges that micro and small businesses face, including problems in accessing finance (Acquah and Mosimanegape, 2007). The reason behind this is that the owners of small and micro enterprises are individuals who often do not have collateral for bank loans. CEDA has helped to ease the provision of finance to SMMEs, and does not apply such strict collateral requirements as the banks. However, CEDA has its own problems in terms of sustainability, as its loan portfolio is hampered by problems of very high loan defaults, and it is dependent upon continued government subsidies.

A distinction has been made by some authors between access to finance by micro enterprises, and small and medium enterprises. Significant resources are directed at larger, sophisticated clients and micro enterprises, leaving the small and medium enterprises (SMEs) space underserviced. Development practitioners often call this gap the “missing middle” (Hinton et al., 2006). This has left many SMEs still facing significant obstacles in accessing both business finance and non-financial support services. A survey funded by FinMark found that 15% of the SMEs in Botswana were unbanked (Hinton et al., 2006). The establishment of CEDA and LEA was partly aimed at filling this gap, within the context of the broader Policy on Small, Medium and Micro-enterprises (Government of Botswana 1999). There is a pressing need for evaluations of both institutions to assess how well they are achieving this and other objectives.

4.1.4 Infrastructure Finance

Botswana's large size and sparse population distribution means that it is expensive to provide infrastructure throughout the whole country, and as a result infrastructure in some rural areas is underdeveloped, both on and off-farm. Even though there is a good network of major road infrastructure, many farmers remain far from good quality all-weather roads. Poor transport facilities have been a problem for small farmers, particularly for transporting produce to the market (Botswana Gazette, 2010). There is an extensive programme of rural electrification under way, but this has been mainly aimed at rural villages rather than widely dispersed farming areas. Government has also provided a large amount of veterinary infrastructure, for instance to control foot and mouth disease, to facilitate compliance with SPS requirements in beef export markets.

As one of the Agricultural Hub's projects, the Agricultural Infrastructure Development Initiative's (AIDI) main goal is to facilitate the diversification of the agricultural sector and at the same time improve food security, through the provision and development of infrastructure in key areas, i.e. road, power, telecommunications and water. According to ASCON (2010), there are a number of projects that have been put in place to establish and improve the quality of roads for easy transportation of agricultural goods and other products.

In general, finance for further investment in agricultural infrastructure will have to come from government or related sources, such as multilateral financial institutions. The challenge will be to ensure that such infrastructure is capable of generating a viable economic return. It is probable that this will focus on infrastructure required to improve productivity in the cattle industry, and to develop high value agricultural activities – such as horticulture and dairy farming – in appropriate areas of the country, which are likely to be those rural areas that are closer to towns.

4.1.5 Summary

In terms of access to financial services, Botswana is in a much better position than other African countries, as a larger proportion of people have access to the various forms of financial services. The lack of physical access to financial services is, however, a serious constraint for individuals and small and micro enterprises. Meeting the demand for rural and agricultural finance is a challenge if Botswana is to improve household food security as well as reduce rural poverty, although there may well be other constraints – such as climatic conditions and low population density – that are more serious constraints. Currently, access to finance for sustainable rural economic activities is limited. Not only is access to finance important for the rural economy, but the diversity of farming and non-farming SMMEs should also be taken into account when a financing programme is developed. The SMME sector can play a significant role in economic diversification and rural development if access to finance can be enhanced and other constraints addressed. Improved access to agricultural finance is critical for those farmers who wish to commercialise, to increase and diversify farm incomes, adopt new technologies and enhance food security.

5. Enabling and disabling factors in rural finance

5.1 Introduction

This section aims to provide a better understanding of the factors that enable or disable access to rural financial services. Put differently, the section tries to identify (a) what makes it difficult or impossible to access rural financial services (disabling factors); and (b) what makes it possible or easier to gain access to rural financial services (enabling factors). However, it is necessary first to understand that the enabling and disabling factors can occur at different levels of the financial system. According to Helms (2006) these levels or components of the financial system are client, micro, meso and macro (see Figure 11).

Levels or components of the financial system

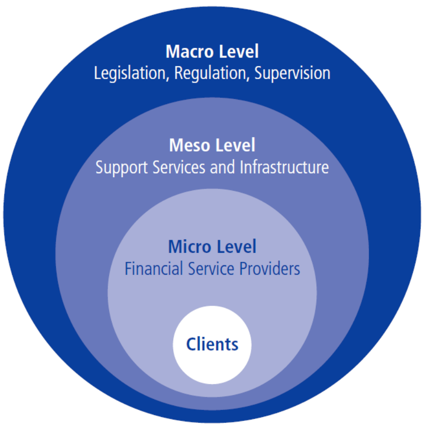
Clients: The focus here will be on poor and low-income clients in rural areas, given the emphasis in this report on identifying and addressing the gaps or inadequacies in current agricultural/rural finance policy

Micro: While the backbone of the financial system remains individual large scale retail financial service providers, those that presently provide most of the financial services used by poor rural clients around the world, even if not in Botswana – at least in respect of savings and credit - are micro-level service providers, who run the gamut from informal moneylenders, through voluntary savings and credit associations to registered microfinance institutions. In the agricultural setting, the micro level also includes agricultural banks and non-bank lenders, such as input suppliers, marketing cooperatives and many more.

Meso: This level includes the basic financial infrastructure and the range of services to the financial sector required to reduce transactions costs, increase outreach, build skills, and foster transparency among financial service providers. It includes a wide range of players and activities, such as auditors, rating agencies, professional networks, trade associations, credit bureaus, transfer and payments systems, information technology, technical service providers and trainers. These entities can transcend national boundaries and include regional or global organizations.

Macro: An appropriate legislative, regulatory and policy framework is necessary to allow sustainable access to financial services – including those to agriculture and the rural economy at large - to flourish. Central banks, ministries of finance, and other national government entities constitute the primary macro-level participants.

Figure 11: The financial system



5.1.1 Enabling factors

Fiscal and monetary policy. Sound macroeconomic and sectoral policies, prudent use of diamond revenues, coupled with prevailing political peace, have made Botswana one of the fastest-growing countries in Africa over the last 25 years. A predictable and generally well-managed policy environment has led to frequent budget surpluses and an accumulation of foreign reserves. By and large, the macro-economic policies of Botswana are aimed at maintaining stability and predictability to encourage investment and contain budget deficits. The global financial crisis and its impact on the diamond market has however had major implications for Botswana, leading to large budget deficits and reduction of the foreign exchange reserves and government's accumulated financial savings.

During NDP 10, the government plans to reduce the budget deficit through a reduction of public expenditure to 30% of GDP, compared to a previous benchmark of 40% of GDP. It is expected that towards the end of the NDP 10 period in 2016, Botswana will once again witness small budget surpluses, although much depends on the fortunes of the global economy and the diamond market in particular. The intention is to rebuild the financial buffers – government savings and foreign exchange reserves – that provide the economy with flexibility in responding to external shocks. Improved productivity in the economy through public service reforms, skills development and investment in education, rationalization of expenditure and institutions including privatization will also help to reduce public expenditure. This can also be achieved through outsourcing and inviting or attracting foreign firms to complement local efforts

Maintaining price stability or controlling inflation is part of the country's macro-economic policy and strategy. The target range for controlling inflation by the Bank of Botswana is between three and six percent. This target range is considered critical for sustainable economic growth, an important development objective to reduce, among others, rural poverty. The Bank of Botswana has adopted a three-year rolling period to control inflation. The Bank will provide a medium-term outlook of inflation to assist government and the private sector.

The lowest interest rates compatible with achieving economic growth and price stability simultaneously are essential for private sector investment, business growth and maximum access to finance. For much of the 1990s and 2000s interest rates set by the Bank of Botswana were relatively high, due to concerns about inflation. The BoB's main policy rate is the Bank Rate, which is the interest rate that the BoB charges its main borrowers, commercial banks. The Bank also manages interest rates by influencing the amount of funds (credit) that commercial banks can loan in and out through the sale and purchase of BoB certificates. Since 2008, interest rates have been sharply reduced in the wake of the global financial crisis, which has led to the lowering of interest rates throughout the financial system in an attempt to rekindle growth

Monetary policy has also entailed improved transparency and communication to avoid loss of public confidence in the banking sector by customers. Through regular information dissemination brochures, interviews and meetings, the Bank of Botswana strives to enhance transparency and trust in the country's banking system.

The policy of broadening government revenue from its present mineral-dependent base through economic diversification, led mainly by the private sector, will be intensified to increase non-mineral tax revenue. The growth potential of the service and manufacturing sectors will continue to be targeted by both government and the private sector for sustainable diversification and to generate additional public revenue. Nevertheless, as the role of diamonds in the economy gradually declines as known reserves are exhausted, government revenues are anticipated to decline as a share of GDP, even if diversification is successful. Hence the need to manage levels of public to keep the budget balance sustainable will mean that spending demands have to be carefully prioritised and managed.

Exchange rate policy. As a small open economy, Botswana aims to maintain a competitive exchange rate policy in order to promote and increase trade. At the same time, the exchange rate is expected to play a role in controlling inflation. These tasks are made more complicated by the currency pattern of Botswana's trade, whereby most imports are priced in rands and most exports are priced in dollars, therefore making Botswana vulnerable to changes in the (volatile) rand-dollar exchange rate. In this environment, the exchange rate of the Pula is not market determined but is set by the BoB through a crawling peg attached to a basket of currencies including the SA rand, the US dollar, the yen, pound and euro.

Financial Assistance Policy/CEDA. The Financial Assistance Policy (FAP) was for many years the government's direct financial assistance program for private productive enterprise development, and formed an important component of the government's industrial policy following its introduction in 1982. It was one of the efforts by the government of Botswana to improve access to finance for business development. The main objective of FAP was to provide a platform for all citizens and non-citizens of Botswana to obtain grants for investment and other economic empowerment activities. Over the years, however, FAP became less effective and increasingly expensive and subject to abuse, as is in the nature of grant schemes. It was abolished in August 2001. Subsequently the Citizens' Entrepreneurial Development Agency (CEDA) was established, and replaced the grant assistance of FAP with subsidised loans. CEDA centralized the provision of credit and tightened access requirements and control over repayments. However, CEDA has faced problems of poor repayments and high arrears, is heavily dependent upon government subventions, and its effectiveness remains open to question.

National Development Plan 10 (NDP 10). During NDP 10, financial sector strategy aims to:

- improve access to financial services;
- reduce the cost of borrowing;
- expedite the use of technology, such as electronic banking, to facilitate speedy and efficient payments;
- update legislation and supervisory functions to sustain financial stability;
- enforce disclosure requirements to improve public understanding of financial products and costs;
- put in place mechanisms to reduce fraud and money laundering.

A competitive licensing policy is in place in order to facilitate the provision of financial services based on market factors. The government also plans to privatize development financial institutions like the National Development Bank and Botswana Savings Bank whilst at the same time reviewing and streamlining the role of state-owned organizations like CEDA and LEA. For these two institutions, the intention is to ensure that they complement each other, operate efficiently, and reduce overlapping activities.

Market liberalisation. Botswana has a fairly developed financial sector which is supervised and regulated by the Bank of Botswana. Botswana's financial sector went through a number of reforms in the late 1980s and early 1990s, and the immediate impact of the reforms was an increase in the number of commercial banks. Financial institutions, besides being used for effecting payments to facilitate trade through the purchase and sale of goods and services, mobilize individual and institutional savings, which are, in turn, loaned to households, businesses and government for consumption, investment and trade finance. The government of Botswana established a number of financial regulations and laws that promoted the competitiveness of the banking sector. The banking sector comprises nine commercial banks, three of which are listed on the Botswana Stock Exchange (BSE). The non-banking financial sector involves development financing and the insurance subsectors. The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) is responsible for the regulation and orderly market conduct of all non-banking financial institutions registered within Botswana.

It is anticipated that this market liberalization should promote an extension of financial services to low income households, including those in rural areas. As competition intensifies and existing markets become saturated, banks and other financial institutions will need to develop new markets. This should include moving away from "core" banking markets of medium to large firms and middle to upper income employed individuals – markets that are largely urban – to SMEs and lower income households, including those outside of urban areas. A regulatory environment that encourages new entry will also facilitate different types of financial institutions, including those with different product and market orientations. It can also help to encourage the exploitation of opportunities offered by new technology.

Public sector finance institutions. The Botswana Savings Bank (BSB) was established with the aim of providing savings facilities especially to the rural and poor population that was not adequately served by commercial banks. It operates as a national financial institution, wholly owned by Government. One of the purposes of the BSB is to provide savings and other financial products to smaller, less affluent clients. It now provides both savings and loan products. The BSB is currently being merged into one institution with the Post Office, which will strengthen the relationship between the two and facilitate the use of the post office network to offer financial services to smaller communities. The Botswana Building Society (BBS), although owned by members, receives a high proportion of funding from government. The Society provides long-term housing loans and offers a number of savings products, which can be opened with a minimum deposit of less than P100. The National Development Bank (NDB) provides medium and long-term loans to the agricultural sector. Its portfolio also includes commercial and industrial sectors focusing on small and medium enterprises. The presence of BSB and NDB in particular promotes access to rural finance.

Rural finance support institutions. There are several donor agencies supporting NGOs that provide financial services. These include the African Development Fund (ADF), UNDP, USAID, UNICEF, HIVOS, SIDA and NORAD. Some of these donor agencies also receive financial support from the government. ADF in Botswana is currently 50% government funded while government provides $3 for every $1 UNDP brings into Botswana. In addition to supporting these donor agencies, several government departments are also involved in direct financial support of NGOs (e.g. the Women's Affairs Department supporting Women's Finance House). In addition to rural finance institutions, there are other institutions engaged in activities that indirectly enhance access to rural finance. These include institutions that provide education, business training, financial literacy, etc., and include LEA, BOCCIM and BEMA. However, and similar to the experience in the some other African countries, there seems to be a general withdrawal of donor funded financial support in Botswana (as witnessed by several NGO contracts running to an end and not being extended). The remaining donors are refraining from direct lending to entrepreneurs and efforts are rather focused on providing training to entrepreneurs and addressing barriers to development e.g. discriminatory legislation.

Communication infrastructure. Access to communication infrastructure such as mobile phones in rural Botswana has certainly improved in recent years. Coupled with the provision of mobile phone-based financial services, this will contribute to improved access to rural finance. Mobile phone based financial services offered by banks, mobile network operators and potentially other entities can improve access and reduce costs for the benefit of poor households including those in rural areas. The mobile phone-based financial service is also promoted by the NDP 10 strategy in Botswana.

Electricity infrastructure. Improved access to electricity in the rural areas of Botswana has not only made it possible to use mobile phones for financial transactions but also enabled rural entrepreneurs to establish micro and small enterprises, which would not have been possible without electricity. This provides a potentially larger market for financial institutions to serve, but requires an improvement in outreach and infrastructure to service the increased demand.

Financial sector infrastructure. The expansion of the financial sector since 1995 has resulted in an increase in infrastructure and the range of services offered. However the impact on access to finance is not clear, especially in rural areas. Between the two FinScope surveys in 2004 and 2009, overall access to finance improved (in the sense that the size of the "financially excluded" portion of the population fell), but access to banking did not increase and where financial access did increase, it was largely due to increase use of funeral insurance.

Lower transaction cost. High transaction costs are known to be a major reason for formal financial service providers to provide limited access to financial services for rural people. Hence, lowering transaction costs through, for example, using mobile phones to effect financial transactions should contribute to improved access to credit.

Product design. The introduction of new products designed for low-income people facilitates access to financial services. The expansion of the financial sector since 1995 has resulted in an increase in infrastructure and the range of services offered. As a result the number of accounts provided by banks has risen. This may have contributed to improved access to finance by people living in rural areas. However, the general impression is that even with the expansion of the financial sector, products and services have generally been orientated towards the same, largely urban, markets and customers.

*Service delivery (internet, telecommunications).*Botswana has a fibre-optic telecommunications network connecting all major population centres. There are numerous internet service providers and three cellular phone providers that cover most of the country.

Transaction costs. High transaction costs reduce the demand for financial services. With the entry of mobile phone-based financial services into Botswana bringing with it greater price competition in the mobile phone market, the demand for finance is expected to have increased; however, these services are relatively new and evidence of impact is still awaited. The 2009 FinScope survey found that more than 75% of the unbanked population had access to a cellphone – almost as many as in the banked population. This shows the potential to access mobile phone-based financial services.

5.1.2 Disabling factors

a. Income inequalities. Despite having achieved strong economic growth over the last decade and having a high GDP per capita, Botswana is still struggling with issues of unemployment. There is a substantial number of people without a regular monthly income, and this has implications for access to financial services. Poverty rates are much higher in rural than in urban areas. Low household income hampers efforts to increase access to financial services for the rural population. Such households will almost always find formal financial services too expensive, especially if the cost of transport is included, and/or inaccessible in terms of product requirements, such as collateral, and/or their cash flows are too small to warrant the opening of a formal sector account. Similarly, financial institutions may find it unattractive to provide financial services to poor households, especially in sparsely populated areas. However, at least for money transmission, cell phone based services are beginning to change this and provide a first significant foothold in low- income rural communities for formal financial institutions.

In addition, the clients are a complex and overlapping blend of rural households, small farmers, agribusinesses and off-farm enterprises. They can be classified as non-agricultural households/businesses, agriculture-related enterprises and agribusinesses located in urban and peri-urban areas. The heterogeneity of the clients brings about a complexity in providing financial services that suit their various needs, especially when the profitability of these products for the banks may be low.

b. CEDA. Although CEDA has provided credit to many small businesses, it still faces a number of problems with developing a sustainable business model, which limits the potential to increase access to financial services. The fact that funding is provided at about a third of the commercial rate is also problematic, as it makes it impossible for commercial banks to compete and discourages the banks from developing products for SMMEs. CEDA is also not readily accessible to very small enterprises, particularly in rural areas, due to the high cost entailed in the application and registration process. Moreover, it does not have the capacity to monitor loans and the development of the funded businesses.

c. Road infrastructure. The country now has completely paved highways connecting all major towns and district capitals. However, because of the size and low population density of the country, there will always be large areas that are not well served by road infrastructure, given budgetary constraints. The same factors will impose a limitation on the spread of branch-based financial services. However, communications technology will assist to some extent in overcoming these constraints.

d. Electricity infrastructure. Some rural areas are still not electrified. This could have a negative effect on access to rural finance in several ways, including raising transaction costs for rural residents and deterring financial institutions from setting up branches in rural areas, as well as depressing the demand for financial services.

e. Financial sector infrastructure. Botswana's financial sector is relatively small reflecting the small size of the market. The rural financial landscape is still dominated by informal suppliers. Commercial banks do not reach the rural poor. As noted earlier, there are few or no bank branches in rural areas.

f. Declining donor support. There are very few donors in Botswana that support projects on rural finance. Since Botswana graduated to middle-income developing country, donor-funding has been drastically reduced as the international financiers perceive the country as capable of funding most of the projects or could raise loans in the global capital markets. In many other countries, donors have played a key role in developing rural finance.

g. *KYC procedures.* Know-Your-Customer (KYC) procedures imposed by the banking regulator restrict access to finance in rural areas, by requiring proof of physical address, which is not easy for people in rural or informal settlements to provide.

h. *Collateral requirements*. Although it is legally possibly for banks to use cattle as collateral (and for such collateral to be legally registered), banks are reluctant to do so because of the practical difficulties in claiming such collateral. Similarly, properties on tribal land with formal title deeds can be used as collateral for loans, but banks require high levels of such collateral because of their low forced sale value.

i. Product design. Banks in Botswana require certain minimum income levels to open an account and typically look for proof of such income. All products provided by banks are only accessible to account holders and having an account is not easy for the smallholder farmers in rural areas, in part because they do not have regular income or proof of income.

Limited product choice. There are very few formal products that are suitable to meet the needs and requirements of the rural population in Botswana. However, the emergence of mobile-phone and card-based products and services may address this historical problem.

Concern about costs (price). The high costs of obtaining finance limit demand. The costs of obtaining financial services in Botswana are generally high given the poor road infrastructure leading to high transport costs and long distances that potential clients have to travel to access the service. This limits the demand for finance, particularly among low-income members of the population most of whom are in the rural areas. Again, mobile-phone based offerings will help to address this problem

Fear of seizures. The fear of losing one's assets due to the failure to repay a loan is believed to be one of the most important reasons why poor rural people do not borrow from formal financial service providers. This fear limits the demand for formal rural finance.

Preference for alternative providers. Rural people may prefer to deal with non-formal financial service providers because this is based on mutual trust and close social networks, perhaps resulting in no formal collateral being required. In some cases, informal financial service providers may accept a form of collateral – such as surrender of identity documents - that may not be suitable for banks (and indeed may not be legal).

Ignorance. Rural people generally have little financial literacy and exposure to modern financial instruments. Hence, there is a need for financial education in rural areas. Rural people may also not know what options are available to them in terms of access to formal finance. The level of awareness is closely linked to low levels of publicity and marketing by government, educational institutions, and by financial institutions which are barely in existence within the rural set-up. This is an important factor in determining the demand for rural finance in Botswana.

Table 20: Enabling and disabling factors for Botswana

Type of factors	**Nature of effect**		**Type of service affected**	**Level of financial system affected**
Societal factors	*Enabling*	*Disabling*		
1. Income inequalities		X	Credit, Savings	Macro; micro; meso and client
2. Fiscal and monetary policy	X		Credit	Macro; micro; meso and client
3. Exchange rate policy	X		Credit	Macro; micro; meso and client
4. Financial Assistance Policy/CEDA	X	X	Credit	Macro; micro; meso and client
5. National Development Plan 10	X		Credit, Transactions	Macro; micro; meso and client
6. Market liberalization	X		Credit	Macro; micro; meso

Type of factors	**Nature of effect**		**Type of service affected**	**Level of financial system affected**
				and client
7. Public sector finance institutions	X		Credit; Savings, Transactions	Macro; micro; meso and client
8. Rural finance support institutions	X		Credit; Savings	Micro; meso and client
9. Road infrastructure		X	Credit; Savings, Transactions	Macro; micro; meso and client
10. Communication infrastructure	X	X	Credit, Savings, Remittance payments	Macro; micro; meso and client
11. Electricity infrastructure	X	X	Savings, Transactions, Remittance payments	Macro; micro; meso and client
12. Financial sector infrastructure	X	X	Credit; Savings, Transactions	Macro; micro; meso and client
Supply factors				
1. KYC procedures		X	Credit	Micro; client
2. Product design (terms and conditions)		X	Credit; Savings, Insurance	Micro; client
3. Service delivery (e.g. internet, telecommunication)	X	X	Savings, Transactions	Client
4. Type of product	X		Savings, Transactions	Client
Demand factors				
1. Concern about costs	X		Credit	Client
2. Preference for alternative providers		X	Credit	Client
3. Fear of asset seizures		X	Credit	Client
4. Ignorance		X	Credit	Client

Source: authors

6. Summary of main findings, main challenges and potential reactions (solutions) or recommendations

The rural economy and agricultural sector in Botswana have been in long-term decline. As a result, poverty is concentrated in rural areas and rural-urban migration has continued at a steady pace, so that the country is now more than 60% urbanised. This has come despite massive government expenditure over the years on agricultural support programmes, as well as on sustained high spending on economic and social infrastructure in rural areas – roads, electricity, water, schools, clinics, telecommunications etc.

There are a number of reasons for the rural economy remaining weak. First and foremost is the weakness of the agricultural sector, which is in turn due mainly to adverse soil and climatic conditions, in particular infertile soils, low rainfall and surface water availability, and high temperatures. This is compounded by the large and sparsely populated nature of rural areas, which leads to high transport costs, and high costs of providing infrastructure and services (including financial services). The main economic activity in rural areas across the country as a whole is cattle rearing, but this industry has not thrived or prospered for many years. In part this is due to mismanagement by government institutions and the state-owned monopoly beef exporter, the Botswana Meat Commission (BMC), within an outdated policy framework, and this has not provided a set of incentives to farmers that encourages efficiency and modernisation. Finally, the nature of land tenure and land allocation systems has not helped to stimulate rural economic development. Besides cattle rearing, the only other commercial activity that contributes significantly to the rural economy in some parts of the country is tourism. But large parts of the rural economy are dependent on the financial injections from government expenditure, including direct support and social welfare programmes, and the salaries paid to large numbers of government employees in rural areas. Transfer payments – whether public social welfare programmes or private remittances – are crucial in sustaining most rural settlements.

The availability of finance in rural areas is, perhaps unsurprisingly, fairly limited. Commercial banking presence is minimal; based on the official definition of rural areas (settlements with populations of less than 5,000) there are no commercial bank branches in rural areas, although there may be some "mini-ATMs" in rural stores. This reflects the lack of commercial viability of providing bank branches in small, remote settlements, and the economic weakness of agricultural activity that would provide an economic base for both lending and branch activity. Commercial bank lending to agriculture is very limited, amounting to only 2% of lending to the private business sector.

There are, however, a variety of government institutions and schemes that provide credit and other financial services in rural areas. The state-owned financial institutions NDB and CEDA provide extensive lending to agriculture, although it appears that arrears rates on such lending are very high, and lending by CEDA in particular is highly politicised. While such lending by DFIs clearly fills a gap in commercial lending, it is subject to large losses and (in CEDA's case at least) a need for subsidies. There are also a number of government direct financing schemes, including ISPAAD and LIMID (for small-scale arable agriculture and cattle farming respectively), but again there is concern that, like all previous support schemes for agriculture, they will prove to be unsustainable, in part because they lack a commercial focus.

However, this does not mean that there is no scope for improving the provision of finance in rural areas, and to agriculture in particular. There are two main areas where the provision of finance could be improved, with wider benefits for the rural economy and poverty alleviation. First, targeted financial support for agricultural activities with a viable commercial focus, and second the extension of financial products and services to households and small-scale farming and commercial activities through means other than bank branches.

Although agriculture is difficult in Botswana, there is some scope for the further commercialisation of agriculture, through initiatives such as the Agriculture Hub and NAMPADD. The main areas of attention through these initiatives include:

- Improved cattle rearing
- Developing other activities in the beef value chain
- Horticulture (on periphery of urban areas)
- Dairy farming
- Seed multiplication
- Fodder production
- Biofuels
- Specialised crops for export
- Rain-fed foodgrain production (in a few areas where soil and climatic conditions are favourable)
- Irrigated agriculture (in a few areas where water is readily available)
- Large scale integrated agricultural projects (e.g. Pandamatenga)
- Promoting competitiveness of the poultry sector

These are the main activities with potential viability that could be suitable candidates for financial support on broadly commercial terms. Nevertheless, even in these areas there are many other pre-requisites that need to be put in place for commercial sustainability, and the availability of finance is only one of these.

A recent study on the beef value chain proposes a wide-ranging set of strategic activities and reforms to address the problems afflicting the cattle and beef industry (Agriculture Hub, 2012). These cut across production (farming), processing and marketing activities in the industry, as well as systemic issues. If these reforms are implemented, it should lead to a revitalisation of the cattle/beef sector with a commensurate positive impact on the rural economy. This would require a significant improvement in access to finance for cattle farmers as well as other players in the industry (feedlots, buyers and agents, auctioneers, suppliers of feed and other inputs, abattoirs, cold storage, transport etc.). This in turn will require a greater understanding of the industry on the part of banks, and specialised skills to assess credit risk. It is also likely that NDB, and perhaps CEDA, will be able to use their skills and experience to maintain a leading role in the financing of the cattle/beef sector.

The second area requiring attention is the provision of financial services to rural households. Commercial banks have not paid much attention to providing branch-based financial services in rural areas, because they are generally not commercially viable. However, there are a number of options for improving rural financial provision.

First, financial institutions could be offered subsidies or incentives to provide branch-based services that are not commercially viable – perhaps in a similar manner to the approach used for under-served areas in the provision of telecommunication services. However, it could be politically unpalatable to subsidise highly profitable banks. An alternative would be to require banks to open rural branches, as a condition of their banking licence, but this is unlikely to be sustainable and would be resisted by the banks. It would also mark a significant shift away from the “market-led” approach that has governed financial sector development over the past two decades.

A second approach would be to make much better use of the Botswana Savings Bank and its relationship with the Post Office network – a relationship that will be deepened by the planned merger of the two organisations. The post office network is far more extensive than the commercial banking network. Although many rural post offices may also be unviable in commercial terms, like bank branches, it may be possible to justify subsidies on the basis that they are an essential public good used in the provision of many government services (in the same way that other public infrastructure is provided in rural areas). With this approach, the cost of providing financial services in rural areas canbe shared with the costs of other public service provision.

A third approach is to promote the development of commercially sustainable financial services in rural areas. This essentially makes use of the possibilities opened up by new technology.

When considering how rural financial services can be provided on a cost-effective basis, it is important to note that extending financial inclusion into rural areas is not simply a matter of rolling out the current range of financial products and services to more and more people. Inclusion needs different types of financial products and services, suited to people with different types of work, different income levels and patterns, and living in different places compared to those who are currently served. These financial products and services will have to be low cost, flexible, and suited to irregular transactions, small transaction sizes and low average account balances.

In recent years a great deal of innovation has taken place in financial sectors around the world, much of which is very supportive of “banking the unbanked” and extending financial inclusion to rural areas. In contrast to high-cost branch-based banking platforms, this uses low-cost technology-based platforms, typically based around cell phones and/or smartcards. These can be used for transactions (such as remittances), payments for goods and services, savings accounts, credit, and insurance. Besides using phones and/or smartcards, this new financial services model will need to make use of some kind of agency network (stores, post offices, airtime sellers etc) as the “touchpoint” with customers covering, at the very least, “cash-in/cash-out” transactions.

The technology exists to implement many of these advances, although business models will still need some refinement. The small market size in Botswana may still be a barrier, as even low cost models are very dependent on achieving volumes and scale. Experience to date also varies across countries – there is no uniform model of success, and what works in one country may not work in another. Factors such as the extent of existing financial service provision, cell phone penetration and the market shares of different service providers, culture, population density, the nature of economic activity and financial flows, and the approach of regulators all have a bearing. However, there is a general conclusion that technology-based provision opens up many possibilities for providing financial services on a commercially sustainable basis in areas that were previously out of reach.

Regulatory reform can do much to encourage, or at least not inhibit, such developments. However, this will require a regulatory approach that is open to innovation, much of which is not originating in banks. Instead, the main sources of innovation are often not financial companies at all, but may be telecoms companies or other types of technology companies. Innovation can come from unexpected sources, and for this reason the policy approach towards encouraging innovation and extending access should focus on *products and services*, wherever they come from, rather than on *institutions*.

Regulatory reform should therefore allow a wide range of financial services to be provided by non-banks (such as telecoms companies/mobile network operators), including low value phone or card based accounts (e-money). This may in return require the introduction of a new type of "limited scope banking" licence, which would be available to non-banks. Other existing regulations, such as the "Know Your Customer" (KYC) requirements imposed by commercial banks that require proof of income and address, will also need to be relaxed as it will be impossible to effectively extend access to low income, rural customers – reliance on the widely-held national ID cards (Omang) should be sufficient to prove identity. A third area of regulatory reform relates to the use of "agents", especially by banks. In the absence of bank branches, agents are essential to provide the interface with customers in rural areas. Legally permitting banks to use agents for a range of banking functions (such as account opening) will require changes in the banking regulations, as well as the development of appropriate contractual relationships that provide sufficient protection for banks, agents and customers.

Finally, government should consider moving welfare and other payments (pension etc.) from a cash basis to a modern payments platform, which could be based on mobile phones or smartcards[5]. This would encourage the integration of G2P recipients, many of whom are poor, into the formal financial sector, as well as providing a demand for financial services in the rural areas.

7. References

Acquah B. K. and Mosimanegape B., 2007. Factors contributing to the performance of small enterprises in Botswana: A case study of Gaborone and Environs.

Agriculture Hub, 2012. Beef value chain study (draft), prepared by the UN Food and Agriculture Organisation.

ASCON, 2010. Engineering the African Renaissance. Online. Available at; http://www.asconafrica.com/index.php?option=com_content&view=article&id=114&Itemid=76.

Benza B., 2010. Agricultural insurance launched in Botswana. African agriculture. Africa news network. Available at: http://www.africanagricultureblog.com/2010/01/agricultural-insurance-launched-in.html (Accessed on 20 August 2010).

BIDPA, 1996. Study on Poverty and Poverty Alleviation, BIDPA / MFDP

BIDPA, 2010. Review of the Botswana National Strategy for Poverty Reduction, BIDPA / UNDP / MFDP

Botswana Gazette, 2010. Talana Farms Call for Import Controls. Online: Available at: http://www.gazettebw.com/index.php?option=com_content&view=article&id=7507:talana-farms-call-for-import-controls-&catid=13:business&Itemid=2.

Bryceson, D.F., 2000. 'Poverty and Power: Review of World Bank 2000, Can Africa Claim the 21st Century', Leiden, Afrika-Studiecentrum

[5] *A pilot project involving the payment of certain government allowances (for destitutes and orphan carers) using the SmartSwitch platform has reportedly been very successful (UNICEF, 2010)*

CGAP (Consultative Group to Assist the Poor), 2010. Financial Access 2010. The State of Financial Inclusion Through the Crisis. The World Bank Group

Central Statistics Office, 2010. Annual Agricultural Survey 2006. Gaborone, Botswana.

Centre for Applied Research, 2007. SADC Multi country Agricultural Productivity Programme (MAPP). Draft country assessment report: Botswana.

FinMark Trust, 2009. FinScope Botswana 2009 Summary Report. Available at: http://www.finscope.co.za/new/pages/Initiatives/Countries/Botswana.aspx?randomID=3a3a42f3-116e-455e-8abc-f96ac52ea54c&linkPath=3_1&lID=3_1_1. (Accessed on 05 May 2012).

Gobezie G., 2005. Livelihoods through micro-enterprise services? Assessing supply and demand constraints for microfinance in Ethiopia (with particular reference to the Amhara Region). Paper Presented at the 3rd International Conference on the Ethiopian Economy, Organized by the Ethiopian Economic Association June 2-4, 2005, Addis Ababa, Ethiopia.

Government of Botswana, 1998. National Settlement Policy (Ministry of Local Government)

Government of Botswana, 1999. Policy on Small, Medium and Micro Enterprises in Botswana (Ministry of Commerce and Industry)

Government of Botswana, 2002. National Master Plan for Agricultural and Dairy Development (NAMPADD) (Ministry of Agriculture)

Government of Botswana, 2003. Revised National Policy for Rural Development (Ministry of Lands and Housing)

Government of Botswana, 2009. National Development Plan (NDP 10) (Ministry of Finance and Development Planning).

Helms, B., 2006. Access for All: Building Inclusive Financial Systems. Washington, D.C.: Consultative Group to Assist the Poor.

Hinton P., Mokobi U. and Sprokel C., 2006. Botswana small and medium enterprise under – banked market research. Enterprise Banking Group. FinMark Trust.

IPAR (Institute of Policy Analysis Research), 2007. Poverty reduction through enhanced access to financial services; Case Studies of Botswana, Kenya and Namibia. Occasional Paper No. 010/2002

Jefferis K., 2007. The impact of cattle/beef prices on incomes and poverty in Botswana. Submitted to USAID Southern Africa by the Services Group. Gaborone, Botswana. USAID, Southern Africa Global Competitiveness Hub.

Lekorwe M. and Mpabanga D., 2007. Managing Non Governmental Organizations in Botswana. The public Sector Innovation Journal volume (12)3. University of Botswana. Gaborone.

CGAP, 2010. Microfinance Gateway. Microfinance at the crossroads. Available at: http://www.microfinancegateway.org/p/site/m/template.rc/1.11.48254/1.26.9212/#1. (Accessed on 18 April 2011).

Mosene O., 2002. Informal credit demand in Botswana, micro-lending industry in Gaborone, MA Dissertation, Department of Economics, University of Botswana.

Nagarajan & Meyer., 2005. Rural Finance: Recent Advances and Emerging Lessons, Debates and Opportunities. Reformatted version of Working Paper No. (AEDE-WP-0041-05), Department of

Agriculture, Environmental, and Development Economics, The Ohio State University. Columbus, Ohio, USA).

Okurut F.N. & Botlhole T., 2009. Informal Financial Markets in Botswana ; A Case Study of Gaborone City.

Sigwele H.K., 1993. Food Self-Sufficiency versus Food Security: Which way Forward? MoA

Sigwele H.K., 2010. Exploring Strategic Priorities for Regional Agricultural Research and Development Investments in Southern Africa: A Country Study for Botswana, Gaborone, Botswana.

Statistics Botswana, 2010. 2009/10 Botswana Core Welfare Indicators Survey (BCWIS)

UNICEF, 2010. Evaluation of the Food Coupon System for Assistance to Destitutes and Orphan-Headed Households: Final Report, for Ministry of Local Government.

World Bank, 1989. Botswana: Financial Policies for Diversified Growth, Report No. 7690-BT

World Bank, 2004. Foreign Investment Advisory Services (FIAS) Report. Washington DC, United States of America.

World Bank, 2008. Botswana: Financial Sector Assessment, Report No. 45047 (August). Washington DC, USA

World Bank (2012) Information and Communications for Development: Maximising Mobile (Conference Edition) www.worldbank.org/ict/IC4D2012 Washington DC, USA