Making Access Possible

Botswana

Financial Inclusion Country Update

2015

FINMARK TRUST

cenfri

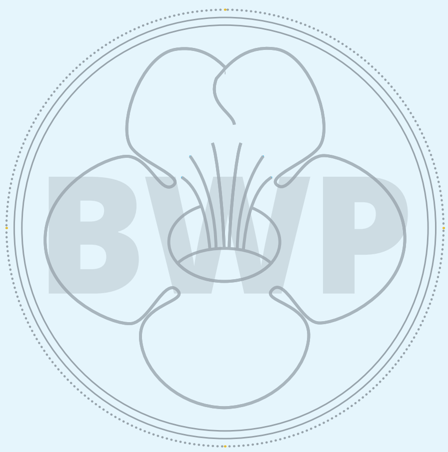
UNCDF | MAKING ACCESS POSSIBLE

PARTNERING FOR A COMMON PURPOSE

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

The cover symbol

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



ABOUT MAP BOTSWANA

This Diagnostic report presents a comprehensive analysis of the financial inclusion environment in Botswana as part of the Making Access Possible (MAP) Botswana initiative. MAP will be used to inform the Botswana government's approach to financial inclusion. In 2014, the Ministry of Finance formally requested FinMark Trust's support for its ongoing financial inclusion agenda. It was agreed that the MAP study will form the basis for the development of a multi-stakeholder roadmap for financial inclusion, which in turn will be leveraged as a vehicle towards an integrated financial inclusion strategy in Botswana.

The MAP Diagnostic comprises a comprehensive country context, demand-side, supply-side and regulatory analysis. The supply-side analysis covers the markets for payments, savings, credit and insurance, respectively. Hence the report provides an understanding of access to financial services in a broad context. The demand-side component includes an analysis of access, usage, perceptions and attitudes of financial services by different target groups. The demand-side analysis draws from quantitative data provided by the Botswana FinScope Consumer Survey 2014 and some qualitative research in the form of targeted interviews with key informants from the identified target segments.

The MAP methodology and process has been developed jointly by UNCDF, FinMark Trust (FMT) and the Centre for Financial Regulation and Inclusion (Cenfri) to foster inclusive financial sector growth.

THIS REPORT WAS PRODUCED BY THE CENTRE FOR FINANCIAL REGULATION AND INCLUSION (CENFRI) USING THE MAP BOTSWANA COUNTRY DIAGNOSTIC REPORT PRODUCED BY ECONSULT BOTSWANA.

AUTHORS
Comfort Phelane, drawing directly from the content of the MAP Botswana diagnostic authored by Keith Jefferis et.al.

Acknowledgements

The Ministry of Finance provided guidance and support throughout our research process, as well as highly valued feedback on our findings. The FinMark Trust country coordinator, Salvatore Coscione, provided assistance in organizing meetings, with overall support from Brendan Pearce, MAP coordinator at FinMark Trust. We would also like to thank the various people we met with from government, financial services providers, industry bodies, technology providers, telecommunications operators and donor agencies for their time, the critical insights that guided this research and their efforts to extend financial services to the excluded.

Abbreviations and Acronyms

BAB	Bankers Association of Botswana
BBS	Botswana Building Society
BCWIS	Botswana Core Welfare Indicators Survey
BDC	Botswana Development Corporation
BoB	Bank of Botswana
BPS	Botswana Postal Service
BSB	Botswana Savings Bank
CEDA	Citizen Entrepreneurial Development Agency
CENFRI	Centre for Financial Regulation and Inclusion
FNB	First National Bank
FSD	Financial Sector Development
FSDS	Financial Sector Development Strategy
GDP	Gross Domestic Product
IT	Information Technology
KYC	Know Your Customer
MAP	Making Access (to Finance) Possible
MFDP	Ministry of Finance and Development Planning
MFI	Microfinance Institution
MNO	Mobile Network Operator
MSMEs	Micro, Small and Medium Enterprises
MTC	Ministry of Transport and Communications
MTI	Ministry of Trade and Industry
NBFI	Non-Bank Financial Institution
NBFIRA	Non-Bank Financial Institutions Regulatory Authority
PHC	Population and Housing Census
POS	Point of Sale
SACCOs	Savings and Credit Cooperatives
SADC	Southern African Development Community
SMME	Small, Medium and Micro Enterprises

USD/Pula (BWP) Exchange Rate

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

Table of Contents

List of Figures

1 Introduction

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

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

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

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

2 Country context

Large country, with a small, urbanised population. Botswana is large but with a small population and hence a very low overall population density. The population is increasingly urbanised – now 65% - and concentrated in and around Gaborone. Where the provision of financial services is concerned, the small population constrains scope for growth and economies of scale, while the large size of the country adds to distribution costs.

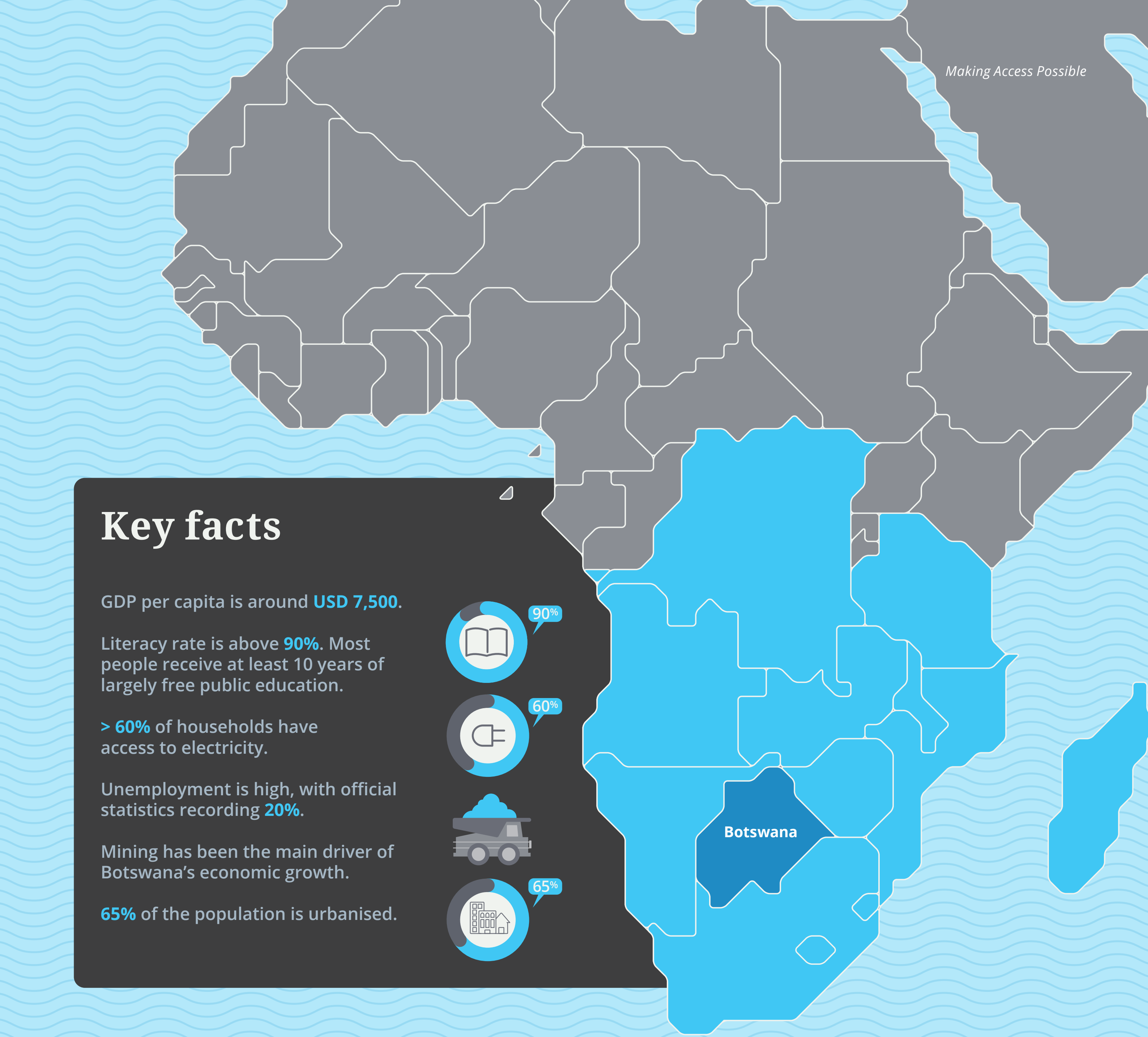
Upper middle income country with unequal income distribution. Botswana's GDP per capita is around US$7,500, one of the highest in SADC and sub-Saharan Africa as a whole. However, income distribution is quite unequal, with a Gini coefficient of 0.6, with a small group of well-paid adults and many with low incomes.

Mining and Government dominate; diversification a priority. Mining has been the main driver of Botswana's economic growth, and this has in turn supported the growth of a large government sector. The economy lacks diversification, but the pursuit of diversification is a high policy priority.

Well educated population. The largest share of public spending is devoted to education, and the literacy rate is above 90%. Most people receive at least 10 years of largely free public education.

Access to infrastructure is good. More than 60% of households have access to electricity, albeit with supply disruptions. Almost all of the population have access to safe drinking water. Mobile phone penetration is very high.

Complex land arrangements. There is a variety of forms of land tenure, which allows for land ownership to all citizens. However, the overall system is complex and inefficient, resulting in shortages of residential land in urban



Key facts

GDP per capita is around **USD 7,500**.

Literacy rate is above **90%**. Most people receive at least 10 years of largely free public education.

> 60% of households have access to electricity.

Unemployment is high, with official statistics recording **20%**.

Mining has been the main driver of Botswana's economic growth.

65% of the population is urbanised.

areas. Land tenure issues affect land markedly. Although agricultural land is in ample supply, the quality of most of this land is poor.

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

Economy is highly formalized. Formal employment is large, with the public sector being a major driver of this. Unemployment is high, with official statistics recording 20%. Entrepreneurship is weak, and at the small and micro level tends to be more female than male.

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

The largest share of public spending is devoted to education, and the literacy rate is above 90%.

Wide range of government welfare and economic support programmes. Many people benefit from welfare grants from government, although the level of most social safety net grants is low. In addition there are a wide range of economic support programmes, many of which are very expensive and of limited effectiveness.

3 Regulatory framework

Generally enabling environment, but modernisation is needed to extend inclusion. The regulatory environment is generally supportive of financial sector development. However, there are gaps, and in some respects the regulatory and policy environment is lagging behind financial sector development and innovation. Without modernisation, the regulatory framework will increasingly be a drag on financial inclusion.

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

4 Overview of financial sector institutions

Small but diverse provider landscape. The small population and low population density limits the number of financial institutions that can sustainably offer formal financial services. Most financial institutions are at least part foreign-owned. The financial services landscape is comprised of the following institutions:

Banking sector. The formal financial services sector is dominated by the four large banks: FNB, Barclays, Standard Chartered and Stanbic. There are also six smaller banks. All banks are completely or majority foreign owned.

Other deposit-taking institutions. Important entities include the Botswana Building Society and the Botswana Savings Bank. Although neither has a banking license they offer many of the services offered by the banks and hence can be considered as competitors to the banks from a consumer perspective.

Insurance. The long-term (life) segment is dominated by the oldest company, Botswana Life Insurance Ltd. The short-term segment is more diverse. There are now nine long-term and 12 short-term insurers. There are also nine medical aid providers that are currently unregulated.

The financial services landscape is governed by two authorities: the Bank of Botswana (BoB) and the Non-Bank Financial Institutions Regulatory Authority (NBFIRA).

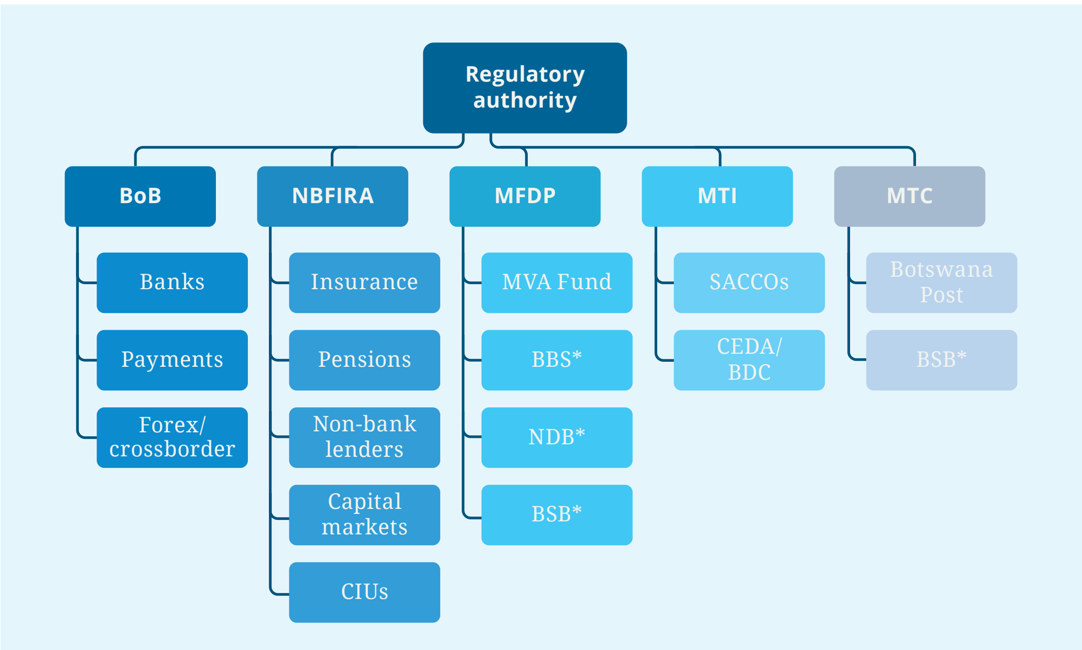


Figure 1: Financial sector regulatory institutions
Source: MAP Botswana Country Diagnostic Report, 2015

Development Finance Institutions. these are all state owned and include the National Development Bank, the Citizen Entrepreneurial Development Agency, and the Botswana Development Corporation. A related entity is the Youth Development Fund.

Non-bank lenders (Credit institutions). There are several large registered credit institutions (Letshego, Bayport, Blue, Afritek), and approximately 250 registered micro-lenders.

Savings and Credit Cooperatives (SACCOs). SACCOs serve largely the formally employed market. There are 50 registered SACCOs.

Retailers. There are several furniture and clothing retailers providing credit.

Informal providers. The primary informal organisations offering financial services are savings groups, including metshelo (small savings and credit groups), and informal moneylenders. Savings groups accept deposits and many also offer credit to both members and non-members. In addition, burial societies provide community-based risk pooling. They reach a limited number of people.

Mobile money. All three mobile network operators (MNOs) offer mobile money, including Orange Money, MyZaka (Mascom) and sMega (beMobile).

Post Office. Lastly, the Post Office provides remittance and bill payment services. It also offers a smartcard (Poso Card), which is used for the payment of government welfare grants. It provides a branch network for BSB.

SmartSwitch. This payment service provider provides the technology for the Poso Card and also distributes some government welfare payments directly, through a dedicated network of proprietary POS machines.

The diagram below summarises the financial service provider landscape across the four product markets, namely credit (top left), savings (top right), payments (bottom right) and insurance (bottom left). It differentiates between formal (regulated) and informal (unregulated) providers, with informal providers situated on the outer circle:

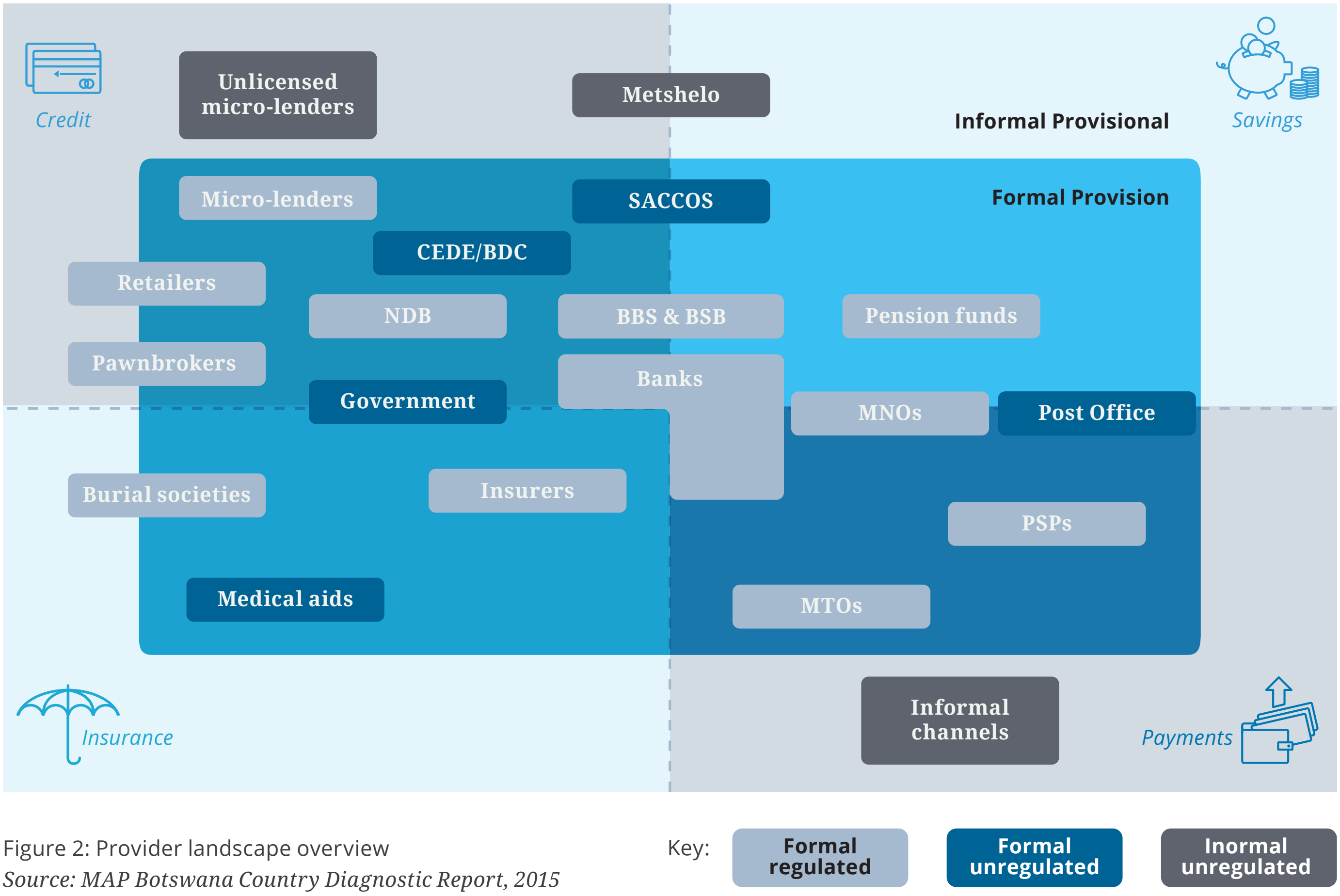


Figure 2: Provider landscape overview
Source: MAP Botswana Country Diagnostic Report, 2015

5 The Botswana consumer

Access to formal financial services is quite high. More than two-thirds (68%) of Botswana adults are formally served – a number that is relatively high in regional terms. A further 8% use informal services only and 20% are totally excluded.

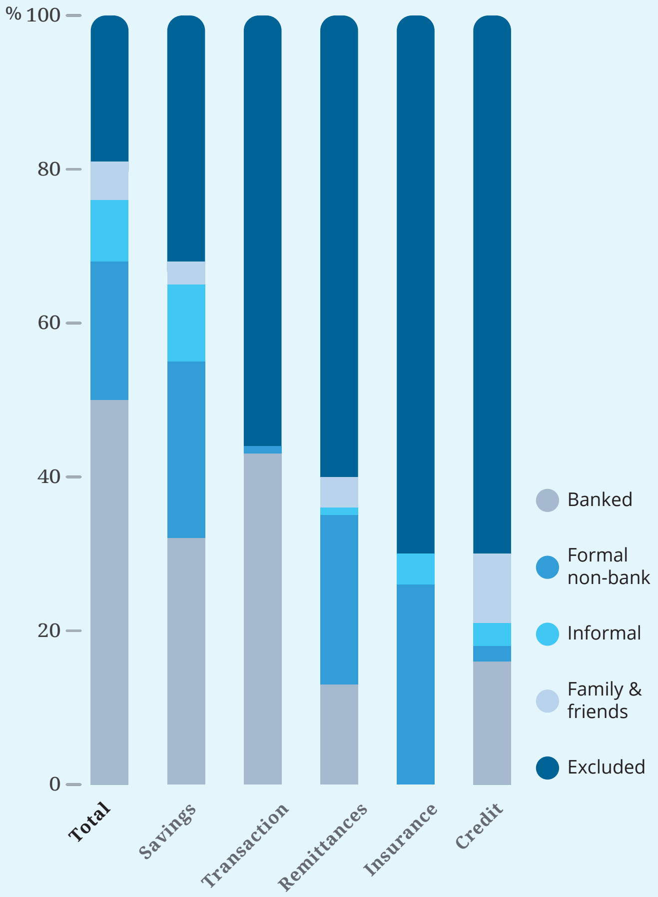


Figure 3: Financial services access
Source: FinScope 2014

As shown in the figure above above, usage is spread as follows across product markets:

- Only 17% of adults use formal credit. 3% solely make use of informal credit and a further 9% only borrow from family or friends. More than 70% of adults do not use any credit.
- 35% of adults use formal remittance products and a further 5% use informal products only and family and friends. Most remitters send money through various non-bank formal channels. 60% of adults do not send or receive remittances.
- Savings accounts are the formal products that reach deepest into the adult population. 46% of adults save in formal institutions. A further 13% of adults save only in informal savings groups and yet another 4% save only at home or in kind. Only 38% of adults do not save in any way.
- Formal insurance reaches 26% of adults. This number is fairly high compared to many other developing countries. The reach of community-based risk pooling in the form of burial societies is, however, low by regional standards. 4% of adults use informal insurance (such as a burial society) without having formal insurance cover. 70% of adults are without any risk cover.
- There is a clear variation in access levels across settlement types, with 87% of urban adults enjoying access to finance, compared to 64% of adults in urban villages, and 71% in rural areas.
- Access is quite broad. Of those who use formal financial services, the majority (63%) are broadly served, meaning they have a formal financial service across more than one product market. That is, 45% of adults use more than one product category (i.e. savings, credit, insurance and payments).

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

Segmenting the market

Not all Batswana face the same realities or have the same needs. In order to generate a more nuanced understanding of the target market, the analysis segments the adult population into six discrete target market groups based on their main source of income. The members of each group share a number of similar traits and are likely to have similar constraints and needs where financial inclusion is concerned.

The profile of each is summarised below:

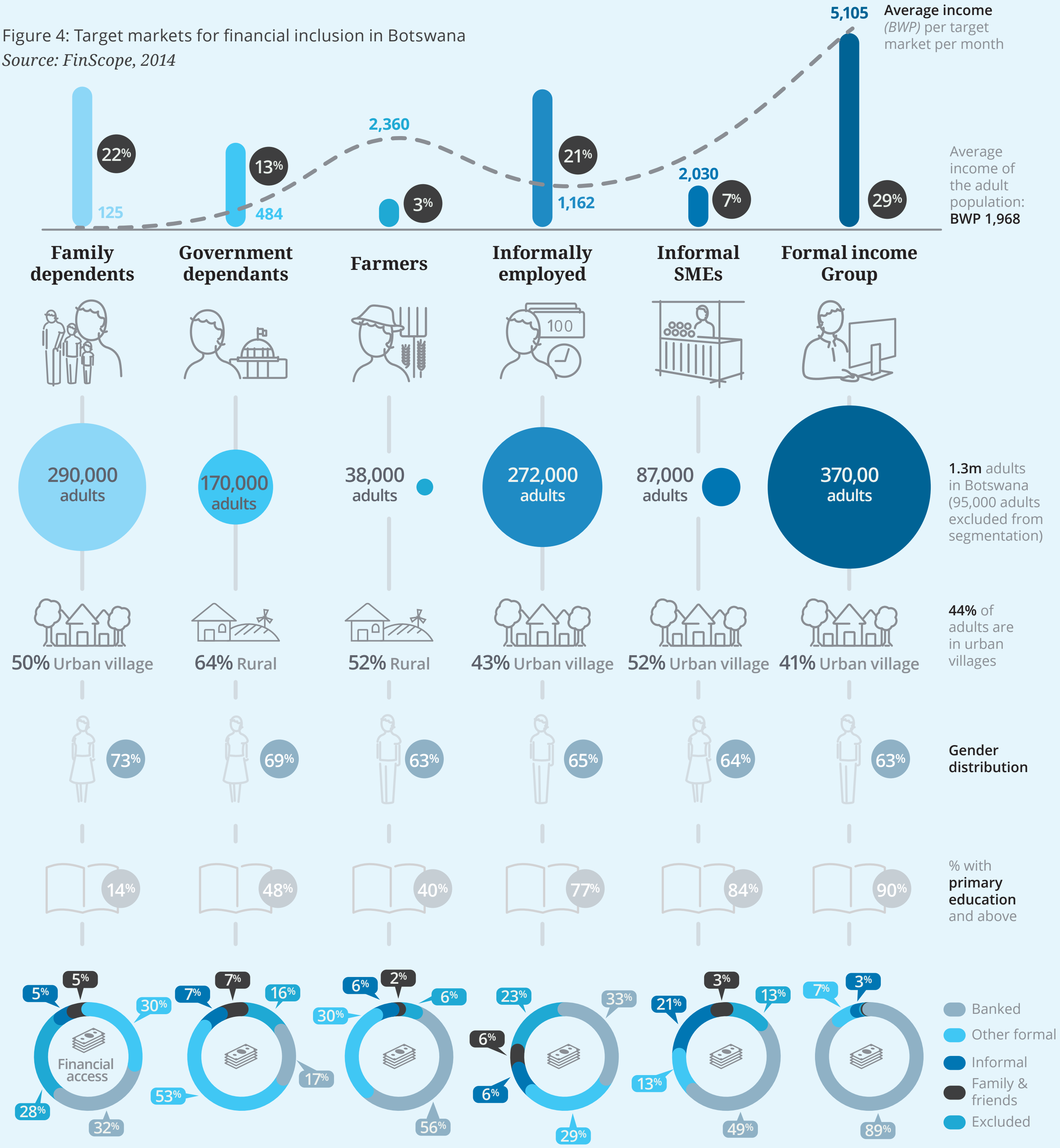
- ***The Formal Income Group*** includes government and formal private company employees because they had similar characteristics in terms of age-group, location, average income and overall access. Formally self-employed and commercial farmers are included in this group because they account for only 3.8% of the population and they also had similar overall access to financial services. Commercial farmers are only 0.2% of the population but have higher income than even government employees. This group also includes those with earnings on capital (rent, private pension and interest on savings) because they were a small portion of the population (3.5%) and also had similar access to financial services and average income.
- ***Informal employees*** are those earning wages and salaries from employment by a private individual, employment on a farm and those that earned income from piece jobs.

Their income was much lower than the formally employed.

- ***Informal SMEs*** include adults who are informally self-employed and those who trade non-farming goods and services. These groups shared similar characteristics and access to financial services.
- ***Farmers*** are those adults whose main income comes from selling their own livestock as well as other own farm produce. Note that this does not include most of the adults who own farmland or have some involvement in agriculture, because they earn the majority of their income from other sources.
- ***Family dependents*** are adults that receive money from someone else in the household or other family/friends and those that reported that they do not receive income.
- ***State dependents*** consist of state pensioners, those on maintenance grants and welfare grants, and drought relief assistance receivers. These adults were grouped together since their main source of income was receiving transfers from government.

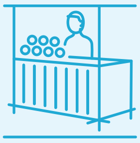
The diagram below shows the demographics and levels of financial services access for each target market.

Figure 4: Target markets for financial inclusion in Botswana
Source: FinScope, 2014



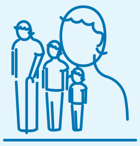
Formal Income Group are not the primary target market for financial inclusion as they are already relatively well-served. Almost all of the Formal Income Group are financially included with only 0.5% excluded. There is however an opportunity to serve the 'dependents' group through this group as they are the main senders of remittances. They therefore can benefit from enhanced remittance services and sophisticated banking products using cell phone and internet (given their existing access to this infrastructure).

Informal Employees should be one of the priority target markets in financial inclusion. They are the second largest economic group and are mainly cash based. 32% are already banked but only 28% use their transaction accounts and have limited access to credit. There is an opportunity to improve delivery of these services to this group, mainly through reduction of associated costs. In addition, there is great scope to transform the informal and family/friends savings into formal savings especially to store value in between jobs. This group may be best served by a tiered KYC system given that some of them do not meet the formal eligibility requirements.

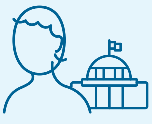


Informal SMEs mainly transacts in cash. They have high risks, infrequent and unreliable incomes and they therefore need to make use of efficient and cost effective savings accounts and payment methods. They do not meet the requirements for formal credit and according to the qualitative analysis, they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

Farmers are already largely banked and have access to formal financial services/ products. They are a saving group and also play an important role in supporting some dependents. They already use formal transaction and payment methods but could benefit from improved remittance services. Some members of these group can potentially move up to commercial farming with the right support; they need access to targeted seasonal agriculture finance. There is a possible role of low-value input finance for smaller farmers. Their mostly rural nature makes distribution through traditional channels challenging and highlights the importance of working through agricultural associations and other informal channels.



Family Dependents are the economically marginalized group. They are mostly served through remittances and savings. They do not meet the key requirements for a bank account or formal credit. They can however benefit from their family member who is financially served. The qualitative research suggests that many want to leverage and grow their remittance income through productive activities and to store their value for trouble periods. The biggest need would be for enhanced access to low-cost, convenient remittance and savings options.



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

Informal Employees should be one of the priority target markets in financial inclusion.

6 Cross-cutting trends and drivers of financial inclusion

Access to financial services is polarised. Those in formal employment, especially those on middle to upper incomes, have access to a wide range of financial products and services, which remain predominantly bank-based. But those outside of this group, with low and irregular incomes, have much more constrained access to finance. Most formal sector providers are currently targeted at the formally employed segment. There are fewer options present for those segments outside of the formally employed market.

Modernisation of welfare payments mechanisms has helped to drive inclusion. This has notably been a result of the movement away from direct cash payments of welfare grants which has helped to extend access to a large group of relatively low income, unserved adults. This achievement should be built upon, but from the perspective of extending financial inclusion, and not just improving the efficiency of delivering welfare payments.

Further extension of access is likely to come more from non-bank providers than banks. The banks have not shown appetite in extending products beyond their current target markets, apart from a few products such as mobile phone-based eWallets. Meeting financial inclusion priorities is likely to be driven more by non-bank financial service providers than by banks.

Technology provides a means of overcoming the impediments of distance, low population density, and limited access to bank infrastructure. Given that the banking system is unlikely to extend financial service provision to sparsely populated areas and low-income households through physical infrastructure, technology can help to fill the gap, through mobile money accounts and smartcards.

Greater modernisation is needed to extend inclusion. The regulatory environment is generally supportive of financial sector development. However, there are gaps, and in some respects the regulatory and policy environment is lagging behind financial sector development and innovation. Without modernisation, the regulatory framework will increasingly be a drag on financial inclusion.

7 Financial inclusion priorities

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

Priorities should support the welfare policy objective. Financial inclusion can improve welfare by reducing transaction costs, improving households' opportunities to access goods and services, offering tools to mitigate risks, increasing accumulation of capital and allocating such capital to productive opportunities. Financial inclusion interventions should be prioritised according to those opportunities that best meet the welfare objective.

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

Five key priorities

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

- Improve the payments eco-system
- Facilitate low cost, accessible savings products
- Develop accessible risk mitigation products
- Improve the working of the credit market
- Develop pension provision

These are not the only opportunities for enhanced financial inclusion. However, these five strategies are likely to have the most far-reaching impact on financial inclusion, given the nature of the target markets. Below we unpack each of these five strategies in more detail, considering the nature of the opportunity, the main challenges to be overcome and potential actions to realise the opportunity.

Improve the payment eco-system

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

Improving mobile money services is an important area for maximising the potential impact of payments system development. This can be done through additional payments functionality (e.g. for store purchases), lower (more competitive) fees, higher permitted values of transactions, inter-operability across networks and with bank accounts and other payments mechanisms, and extended agency networks, with appropriate liquidity arrangements.

Extending the functionality of Poso cards to increase access. The use of the Poso card can be significantly extended by allowing the public to access the card, allowing transfers to other cards and cash top-ups, and ensuring inter-operability with bank accounts and other payments mechanisms. Cross-border remittances and payments can be made easier and cheaper through cross-border mobile money transfers and participation in regional initiative such as SIRESS. Extending the payments system will be helped by a number of policy and regulatory developments such as promoting interoperability, considering the establishment of a local switch, and introducing a regulatory framework for retail payments and mobile money that is supportive of innovation and broadening access. Government can also utilise the mechanisms used for welfare grant payments to promote financial inclusion more generally.

Facilitate low cost, accessible savings products

All target groups save, to a greater or lesser extent. Groups that do not have ready access to bank accounts however have limited savings options. The availability of low-cost, accessible, flexible savings products is limited for the lower income segment, especially outside of major settlements. Obstacles to access for the unbanked include monetary costs (account maintenance and transactions fees), and the costs of accessing service points in terms of time and transport costs.

The bank branch network is unlikely to expand significantly beyond its present footprint. This is due to high costs, and hence it will be necessary to encourage non-bank / branchless solutions. This includes promoting mobile money accounts as savings accounts, including increasing the amount that can be accumulated in such an account and allowing the payment of interest. There is also scope for more bank-led mobile money accounts (e.g. eWallet with greater functionality), and introducing entry level bank savings accounts with minimal KYC requirements.

Develop accessible risk mitigation products

Outside of funeral policies, the take up of insurance is limited, especially in groups other than the formally employed. There is low take-up of vehicle insurance (especially 3rd party) and property insurance. Insurance lacks an effective distribution mechanism outside of major centres, and there is a limited product range for low-value asset insurance.

Lack of consumer awareness and understanding of insurance products a barrier to usage. Consumer attitudes have also been impacted by cases of abuse, including fraud and the sale of policies on the basis of inadequate customer information, leading to poor understanding of terms and conditions. The roll-out of policies suitable for low income consumers has been impacted by the lack of a supportive regulatory framework, slow processes for product approval by the regulator, and a reliance on paper-based processes, with no facility for electronic sign-up for policies.

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

Improve the working of the credit market

Formally employed have access to wider variety of options for obtaining credit. For other groups, the availability of reasonably priced credit is very limited. Housing finance is a particular problem, and for most households there is no effective means of obtaining credit for financing housing purchase/development. Outside of the formally employed, short-term credit (for consumption smoothing) is only available at high cost.

Limited availability of and access to information a constraint to credit granting. Generally, the efficiency of lending, the management of credit risk and loan pricing is constrained by a lack of credit information and restrictions on sharing such information.

Access to productive credit by Farmers and MSMEs inhibited by viability and lack of appropriate financial products. In overall terms, both groups are small. The main provider of credit to MSMEs is the government-owned CEDA, which is heavily subsidised. There are concerns over the high costs and limited effectiveness of CEDA, the lack of good quality information with regard to its impact and achievements, and its effect on squeezing the banks out of the market for SME lending. Access to credit for micro-enterprises is hampered by the fact that there is only one MFI.

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

Develop pension provision

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

Policy and regulatory imperatives

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

Cross-cutting initiatives

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

8 Going forward

Botswana is already fairly well served, financially, compared to many peer countries. However, the analysis shows that there is still significant opportunity for improved access to support welfare and growth policy objectives.

In this report MAP has identified five priority areas which will provide the largest marginal gain in welfare through the extension of financial services. Addressing these areas will require a coordinated effort across institutions, product categories and market segments, in order to ensure that the underlying market inefficiencies are adequately addressed and the opportunities capitalised on. It will also require the government to work together with other stakeholders such as the private sector, development partners and sector experts. To assist these stakeholders to address the opportunities in harmony, a MAP Roadmap is being discussed by the MAP Steering Committee. The roadmap, with its imperatives detailed in Appendix 2, outlines in further detail the programme of action necessary to address the identified priority areas.

There is still significant opportunity for improved access to support welfare and growth policy objectives.

A Appendix A:

Financial inclusion priorities matrix

Products		Formal employees	Informal employees	Informal SMEs	Farmers	Private dependents	State dependents	Est potential clients (´000)	
	Number (´000)	375	270	85	38	290	170		
	Average income (P)	5,105	1,162	2,030	2,360	125	484		
Payments ecosystem	Transactions							700	Distribution networks to reduce access cost; appropriate products
	Remittances							700	Distribution networks to reduce access cost; appropriate products
Dependence on savings	Consumption smoothing							750	Secure store of value to manage risk
	Capital accumulation							50	Long term return to build assets
	Pensions							300	Income secure after retirement
Credit	Productive							50	Low cost and appropriately targeted interventions for growth and employment
	Consumption smoothing							200	Low cost to enable consumption smoothing
	Housing							300	To enable asset acumulation and improve quality of life
Risk mitigation	Natural disaster							20	Support for farming
	Funeral							250	Build human capital
	Asset							300	Minimise impact of shocks
Consumer empowerment	Financial literacy							900	Enabling consumers to benefit from finance
	Consumer protection							900	Product price and conditions transparency
Policy & regulation	FI policy supportive regulation							900	Provides the basis for innovative reforms and leverage

% of adults: Highest need → Lowest neeed

Impact: High Medium Low

The Matrix above shows that the most significant impact for financial inclusion is possible where the focus is placed on enabling formal domestic **remittances**, low cost **savings** and **transaction** products, improved **pension** provision, as well as greater risk mitigation through funeral or life **insurance**. The major **credit** need is for housing finance, but this is much more than an access to finance issue.

Though further extension of credit per se is not ranked as a potentially high-impact opportunity in terms of the number of people it can viably reach, there is nevertheless a need to improve consumer protection for credit across the board. There is also a major need for improved financial literacy across the population.

B Appendix B:

Roadmap Imperatives presented at the Stakeholder Workshop

ROADMAP IMPERATIVES	MECHANISMS
Improving household welfare by extending financial inclusion to lower income households and target groups that are currently less well served	• *Payments / transfers (extending coverage of mobile money agents; reviewing mobile money fee structures; extending functionality of Poso cards);* • *Low cost savings (allowing mobile money to pay interest; allowing credits to Poso card balances);* • *Well-designed risk management products (micro-insurance);* • *Credit for consumption smoothing, risk management (customer profiles linked from e-money transaction records as basis for small scale credit from lending institutions, e.g. using Poso card records to unlock credit from BSB); and* • *National pension scheme.*
Improving overall economic efficiency by enhancing financial sector infrastructure, encouraging competition, modernising regulation and reducing risks	• *Establishing a national switch to facilitate linkages between banks and non-bank financial service providers;* • *Encouraging further competition from non-banks;* • *Licensing of e-money providers;* • *improved regulation and proper supervision of larger SACCOs;* • *Consumer protection (establish a new financial ombudsman to lessen the burden on prudential regulators);* • *Reforming limits and need for regulatory product approval; and* • *Tiered KYC.*
Supporting economic diversification by facilitating well targeted credit to productive enterprises and for investment in assets v	• *Developing an MFI policy / regulatory framework that will encourage the emergence of deposit-taking MFIs;* • *Provision of housing microfinance;* • *Reform of government credit provision (CEDA/YDF) to establish on a more sustainable basis that does not undermine the provision of credit on commercial terms;* • *Improving agricultural credit guarantees;* • *Improving credit quality through the provision legal and institutional framework for credit reporting and assessment (Credit Act, mandatory credit reporting and look-up).*

Endnotes

1. www.finance.gov.bw
2. www.econsult.co.bw

Bibliography

Extended bibliography based on original MAP Botswana diagnostic document

Baer, T, T Goland & R Schiff (2013) New credit-risk models for the unbanked, McKinsey Insights, April

Bank of Botswana (annual) Annual Reports

Bank of Botswana (annual) Banking Supervision Annual Reports

Bank of Botswana (monthly) Botswana Financial Statistics

Bankers Association of Botswana (2014) Comparative Study of Bank Charges in Botswana (November)

Capital Resources (2013) Botswana Economic Overview

Capital Securities (2010) Botswana Financial Sector Overview

Centre for Affordable Housing Finance in Africa (2014) Housing Finance in Africa – 2014 Yearbook

FinMark Trust (2015) Making Financial Access Possible in Botswana: Qualitative Research Findings (June)

Government of Botswana (2009) National Development Plan 10. Gaborone

Government of Botswana (2012) HIV & AIDS Resource Mobilization Strategy. Gaborone

Government of Botswana (2012a), Keynote Policy Paper for Mid-term review of NDP 10, Gaborone: Ministry of Finance and Development Planning, June.

Government of Botswana (2012b), Macro Economic Outline for Mid-term Review of NDP 10, Gaborone: Ministry of Finance and Development Planning.

Government of Botswana and World Bank (1989), Financial Sector Policies for Diversified Growth. Gaborone: Bank of Botswana / Ministry of Finance and Development Planning and Washington DC: World Bank

Government of Botswana and World Bank (2011) Financial Sector Development Strategy. Gaborone: Bank of Botswana / Ministry of Finance and Development Planning and Washington DC: World Bank

IMF (2015a) World Economic Outlook (WEO) database www.imf.org/external/pubs/ft/weo/2015/01/weodata/index.aspx

IMF (2015b) Financial Access Survey (FAS) database www.fas.imf.org

International Labour Organization (2012) Global Employment Trends for Youth Report. Geneva: ILO

International Labour Organization (2015) Impact Insurance Annual Report 2014. Geneva: ILO

Legatum Institute (2012) Legatum Prosperity Index www.prosperity.com

Liu, A & M Mithika (2009) Mobile Banking: The Key to Building Credit History for the Poor? USAID

Motor Vehicle Accident Fund (2015) Annual Road Crash Trends, 1981-2013. http://www.mvafund.bw/mva-content.php?cid=85

Non-Bank Financial Institutions Regulatory Authority (2014a) Annual Statistical Bulletin (1st Ed), Gaborone: NBFIRA

Non-Bank Financial Institutions Regulatory Authority (2014b) List of regulated entities. www.nbfira.org.bw/regulated-entities-list

Non-Bank Financial Institutions Regulatory Authority (2015) Medical Aid Funds, 2015. www.nbfira.org.bw/nbfira-medical-aid-funds

Siphambe, H.K., N. Narayana, O. Akinkugbe & J. Sentsho (eds.) (2005) Economic Development of Botswana: facets, Policies, Problems and Prospects. Gaborone: Bay Publishing

Statistics Botswana (2011) Population and Housing Census. Gaborone: Statistics Botswana

Statistics Botswana (2013) Botswana Core Welfare Indicators (BCWIS), 2009/10. Gaborone: Statistics Botswana

Swiss Re (2014) Digital Distribution In Insurance: A Quiet revolution. media.swissre.com/documents/sigma2_2014_en.pdf

Vision Secretariat (2014) Botswana Performance Report (Vision 2016). Gaborone: Vision 2016 Council

World Bank (2014) Worldwide Governance Indicators (WGI) www.govindicators.org

World Bank (2015a) Botswana Poverty Assessment, Report number 88473-BW. Washington DC: World Bank

World Bank (2015b) World Development Indicators. www.data.worldbank.org/data-catalog/world-development-indicators

Kameshnee Naidoo
MAP Global Programme Advisor
Kameshnee.naidoo@uncdf.org
map.uncdf.org

UNCDF | MAKING ACCESS POSSIBLE