Making Access Possible

2021

Botswana

Financial Inclusion Refresh

SUSTAINABLE DEVELOPMENT GOALS
17 GOALS TO TRANSFORM OUR WORLD

UNCDF
Unlocking Public and Private Finance for the Poor

Making Access Possible

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based analysis feeding into a financial inclusion roadmap jointly implemented by a range of local stakeholders. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. In each country, MAP brings together a broad range of stakeholders from within government, the private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country.

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The cover symbol and artwork

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 Devil's Claws (Harpagophytum procumbens), the national flower of 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.

Working together to support implementation of Agenda 2030

Countries are seeking new ways to address complex and interconnected challenges. Fulfilling the promise of the UN Sustainable Development Goals (SDGs) requires multisectoral approaches that bring together expertise from a range of perspectives. By harnessing our comparative advantage and working within the context of our respective mandates, we can collectively make significant progress towards realising the vision of the SDGs.

Financial inclusion is increasingly positioned as an enabler of broader development goals, in support of the SDGs. More and more countries are including an inclusive financial sector as a key objective in their national development plans, and this tendency is further underpinned by the G20 leadership of financial inclusion, which highlights the ongoing relevance of the SDGs and nationally led financial inclusion efforts. Furthermore, financial markets play a vital role in creating a sustainable future. Access to finance for individuals, SMEs and governments is important to a number of the SDGs, helping to facilitate secure payments, including for basic services and trade; smooth cash flows; offer financial protection; and improve allocation of capital while also enabling investments in many areas.

This MAP refresh, in supporting country efforts, increases the focus on inclusive growth (especially through SMEs and agriculture), access to basic services (energy, health and education), and improving household resilience, as well as gender equality. Increased reliance on technological innovation and digital financial services will help to improve the scale and efficiency of financial inclusion interventions.

This refresh was undertaken by the United Nations Capital Development Fund (UNCDF) to jointly address UNDP's Signature Solution 1, which seeks to work with countries to keep people out of poverty, relating directly to SDG 1: eradicate all forms of poverty, wherever it exists.

The core focus of Signature Solution 1 is helping people get out of – and stay out of – poverty; and hence the analysis and interventions identified help eradicate poverty, such as by creating decent jobs and livelihoods, providing social safety nets, and ensuring access to services such as water, energy, healthcare, credit and financing support for investment in productive assets.

Partnering for a common purpose

By combining inspiration, ideas, knowledge and resources with our partners, we become more than the sum of our parts.

We are committed to empowering investors—public and private alike—with the clarity, insights and tools they need to optimise the positive impact of their investments, closing the gap between high-level principles and financial performance to make a positive contribution to society.

MAP was initiated by the UNCDF and developed in partnership with FinMark Trust. In the SADC region, FinMark Trust is a MAP implementing partner.

FinMark Trust is an independent non-profit trust whose purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'. The Trust works to unlock real economic sector development through financial inclusion, by gathering and systematically analysing financial services consumer data to provide in-depth insights, and following through with systematic financial sector inclusion implementation actions to overcome market-level barriers hampering the effective provision of services.

Note on the use of household data

Within this document (unless otherwise referenced), demographic, income and financial usage data is obtained from the 2020 FinScope Botswana Consumer Survey and compared where applicable to the 2014 FinScope Botswana Consumer Survey. A summary report and presentation of FinScope is available as a separate deliverable, and the FinScope dataset is available for future research at https://uncdfmapdata.org.

Our technical response

The effective use of a wide range of quality, affordable & accessible financial services, provided in a fair and transparent manner through formal or regulated entities, by all people living in Botswana.

In February 2015, the Ministry of Finance and Development Planning (MEFD) of Botswana, announced the Making Access to Financial Services Possible (MAP) for Botswana. The initiative was supported by the United Nations Capital Development Fund (UNCDF) and Finmark Trust. It was focused on strengthening and focusing the dialogue on financial inclusion between the government, regulators, stakeholders and donors. This followed an approach adopted in a range of countries, including Eswatini, Democratic Republic of Congo, Lao PDR, Lesotho, Malawi, Mozambique, Myanmar, Nepal and Thailand. The 2015 MAP diagnostic report for Botswana considered the country context, demand and supply for financial services, and the regulation of these services. The report identified practical recommendations for overcoming barriers to greater financial inclusion. A roadmap and strategy was developed for the period 2016-2021. The financial inclusion working group chaired by the MFED and made up of representatives of policy makers, regulators, and associations was formed to monitor the programme. In this updated MAP report (MAP refresh), we assess the progress of financial inclusion in Botswana since the last MAP study was undertaken, consider key market changes and identify financial inclusion interventions that can grow the economy and benefit society.

Botswana at a glance

2019-2020

GDP (2019)

USD18,34bn

(US$43,9 bn in PPP terms)

GDP per capita (2019)

USD8,093

Upper middle-income country

The main source of employment and livelihoods:

Service sector

Contribution to GDP

trade, hotels and restaurants

20%

GDP in highest band of SADC countries

2.4%

Average annual growth (2015-2019)

-8.3%

Contracted growth in 2020

Contribution to GDP

mining

15%

(likely reduced role in the futire)

Contribution to GDP

finance and business

14%

Pedominantly urban

71%

Urban population 2020

Rural

29%

Rural population 2020

Down from 32.85% in 2015

Inequality

55.2%

Gini coefficient (2016)

Down from 64.7% in 2002

Global Gender Gap

0.708

73rd of 185 countries (2020)

Living below the international poverty line

14.5%

Improved from 33.3% in 1993

Dependence on remittances

35%

Down from 40% of adults remitting in 2014

Botswana at a glance

2019-2020

Total population

2.3mil

One of the world's

top 10 unequal countries

35%

under the age of 14

65%

15 years or older

Female

52%

Male

48%

Employed in formal sector

477,716

(2020)

48%

228,134 male

52%

249,582 female

1,64m

Adult population 15 years or older

COVID-19 accelerating negative trend with poverty being estimated to have reached 60% in 2020

World Bank, April 2021

Unemployment

>20%

Youth unemployment

32%

Donor contribution to country's budget

0.44%

As percentage of GDP

Imports from South Africa

USD3,8bn

Total exports

USD5,35bn

Self-employed

28%

25% of females
23% of males

Household internet access

63%

(2019)

Increased from 42% since 2015

Mobile penetration

162.64

subscriptions per 100 inhabitants (2019)

Exports

90%

diamonds

Financial inclusion and access to finance

Roadmap target versus performance

Improve household welfare, increase economic efficiency and support growth by reducing the percentage of adults who are excluded, and increasing those with access to more than one formal financial product

Formal and informal

The depth of access in Botswana has increased to 52% of adults using more than one formal financial product type

Formally included: 68% (2014) → 82% (2020)

Mobile usage: 22% (2014) → 54% (2020)

'Banked' (led by loans, then payments): 50% (2014) → 56% (2020)

Financially excluded: 24% (2014) → 16% (2020)

Informal products and services continue to be important with total usage increasing marginally to 42% in 2020, led by savings, but increasing use of informal and formal services together

56% of adults were banked in 2020, up from 50% in 2014

85%	55%	20%	27%	20%
withdraw cash	deposit cash	transfers between bank accounts	third party payments	electronic bank transfer

Remittances (cross-border and domestic)

Use of formal channels decreased

35% (2014) → 32% (2020)

Financially excluded increased

60% (2014) → 65% (2020)

38% *of men engage with remittences*

32% *of women engage with remittences*

Financial inclusion and access to finance

Savings

Savings have the deepest reach of all product categories at 47%

46% *of people that save use a formal saving mechanism*

Rural individuals save less, but more likely to save at home

40% *Individuals in rural areas do not save*
15% save at home

20% *Individuals in urban areas do not save*
6% save at home

Mobile savings could potentially play a larger role in rural areas.

Credit

Very low levels of formal credit, and decreasing.

Proportion of population borrowing to meet daily expenses:

Formal credit: 18% (2014) → 17% (2020)

Informal credit: 5% (2014) → 0.2% (2020)

Insurance

Formal insurance increased to 36% driven by funeral insurance and burial society cover. Novel insurance products for lower income consumers have recently been introduced, but have limited reach.

41% women insured

36% men insured

17% youth insured

44% adults insured

46% urban dwellers insured

29% rural dwellers insured

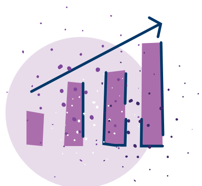
1

The changing environment

Economy, population and growth

Botswana is a large country geographically, but has a small population of 1.64 million over the age of 15. Botswana's economy grew rapidly in recent decades, largely as a result of mining and mineral incomes.

Unlike many neighbouring countries, Botswana has had a strong macroeconomic performance and is now classified as a middle-income country with an average annual growth rate of 2.4% over the period 2015-2019 (Figure 1). While, in 2020 the global economy entered an unprecedented health crisis in the form of COVID-19 which saw the Botswana economy contract by 8.3%, growth is expected to rebound by 7.5% in 2021.[1]



Botswana has had a strong macroeconomic performance and is now classified as a middle-income country with an average annual growth rate of 2.4%

Botswana's gross domestic product (GDP) per capita is one of the highest in the Southern African Development Community (SADC) region and sub-Saharan Africa more generally (as seen in Figure 1). However, despite its strong macroeconomic position, Botswana still faces some challenges including dependence on minerals in the face of declining mineral income and high levels of poverty, inequality and unemployment.[2] From a global perspective, Botswana is ranked as the 116th largest economy in the world. Importantly, Botswana ranks highly in terms of the UNDP Human Development Index with an HDI value of 0.735 which falls into the category of "High Human Development" in comparison to an average HDI of 0.547 for sub-Saharan Africa.[3]

In 1966, Botswana emerged as an independent but impoverished nation. Since then, the country has grown rapidly and shown significant developmental progress. This has largely been driven by diamond exports, good economic practices and the benefit of having a comparatively small population. Botswana recorded a population of approximately 2.154 million in the last population survey in 2017 of which 1.120 million (52%) were female and 1.036 million (48%) were male. This is up 6.4% from 2.024 million in the 2011 census. The country also has a high unemployment rate with recent estimates above 20%, while averaging 17.8% over the last five years.

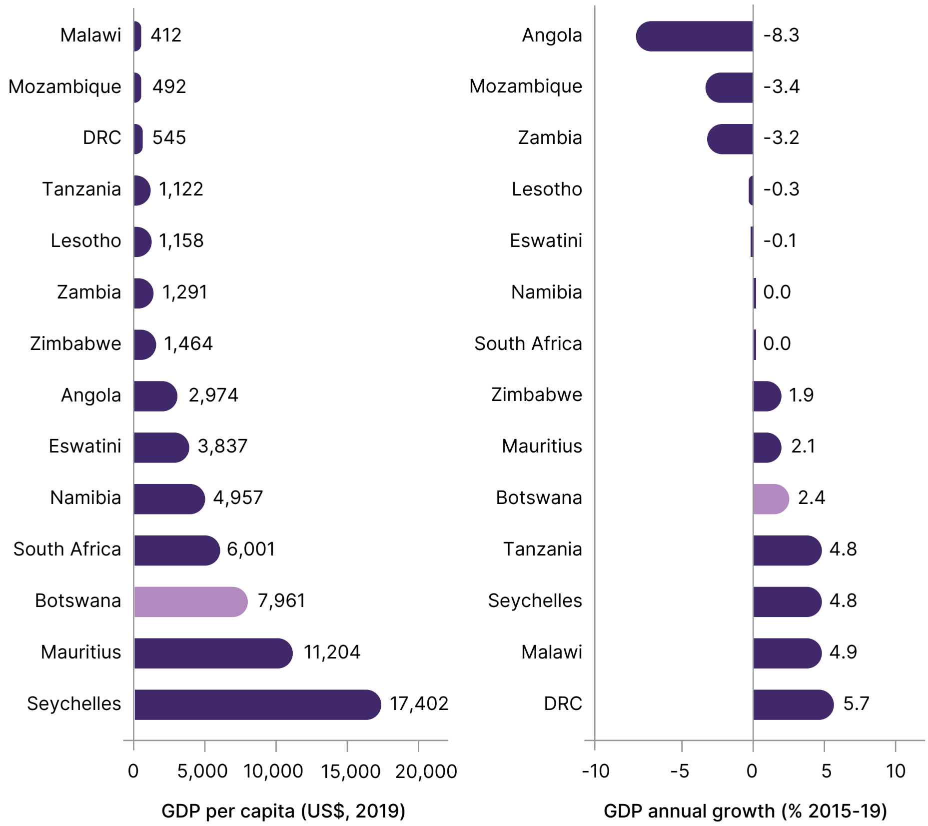


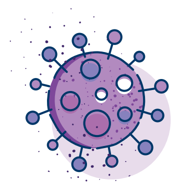
Figure 1: GDP per capita in 2019 and annual growth between 2015-2019 (SADC)

Source: World Bank, World Development Indicators

Botswana has a high GDP relative to other countries in the region and steady growth. The GDP of Botswana (in current year USD) was P197.27 billion in 2019 (approximately USD 18.34 billion), which is up from P145.87 billion in 2014 (USD 16.25 billion). In per capita terms, GDP has risen from P67,868 (USD 7,864) in 2014 to P84,902 (USD 8,093) in 2019.[4] Botswana has also had consistent GDP growth prior to 2020, with an average annual growth of 2.4% between 2015 and 2019.

Although the economy has been growing over time like many other economies, it experienced a sharp decline in 2020 due to the COVID-19 epidemic. As shown below, Botswana has the largest GDP per capita in the SADC region outside of the small island economies.

The currency of Botswana is based on a "crawling peg" to the South African Rand (45%) and IMF Special Drawing Rights. However, as the rate of crawl is small it has been largely fixed. Inflation in Botswana is currently low and has remained below the midpoint of their 3% to 6% inflation target since 2005. Administered prices such as fuel, electricity and water have not increased in line with costs implying a level of subsidisation. In addition, interest rates are low and prime interest rates

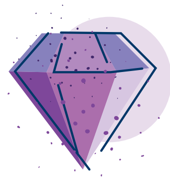


Although the economy has been growing over time like many other economies, it experienced a sharp decline in 2020 due to the COVID-19 epidemic.

have been decreased from 11% in 2012 and 7% in 2016, to 6.25% by September 2019.

The economy of Botswana is led by the following sectors: Trade, Hotels and Restaurants (19.7%), Mining (15.2%), Government (15.1%) and Finance and Business Services (14.2%) as at 2019. A key change since the last MAP study has been trade, hotels and restaurants overtaking mining as the largest contributor to the economy. While mining (particularly diamond mining) has historically played an integral role in the economy, diamond production has plateaued as the industry matured and the cost of mining has increased.[5] Furthermore, the dependence on diamond prices is seen as a vulnerability.[6] As such, mining is likely to play a reducing role as a share of GDP going forward. However, rough diamonds account for 62% of exports with polished diamonds adding another 10%. As such, it is still an essential contributor to the economy. Agriculture has a low contribution to GDP (1.9%) and has been largely stagnant since the first MAP study (2.1% in 2014) but is important to the income and food security of a large part of the country. Tourism is also an important area for growth.

In terms of regulation, Botswana ranks 87 out of 190 countries in terms of the World Bank's Ease of Doing Business Index, which is worsening –relative to other



Rough diamonds account for 62% of exports with polished diamonds adding another 10% to the GDP.

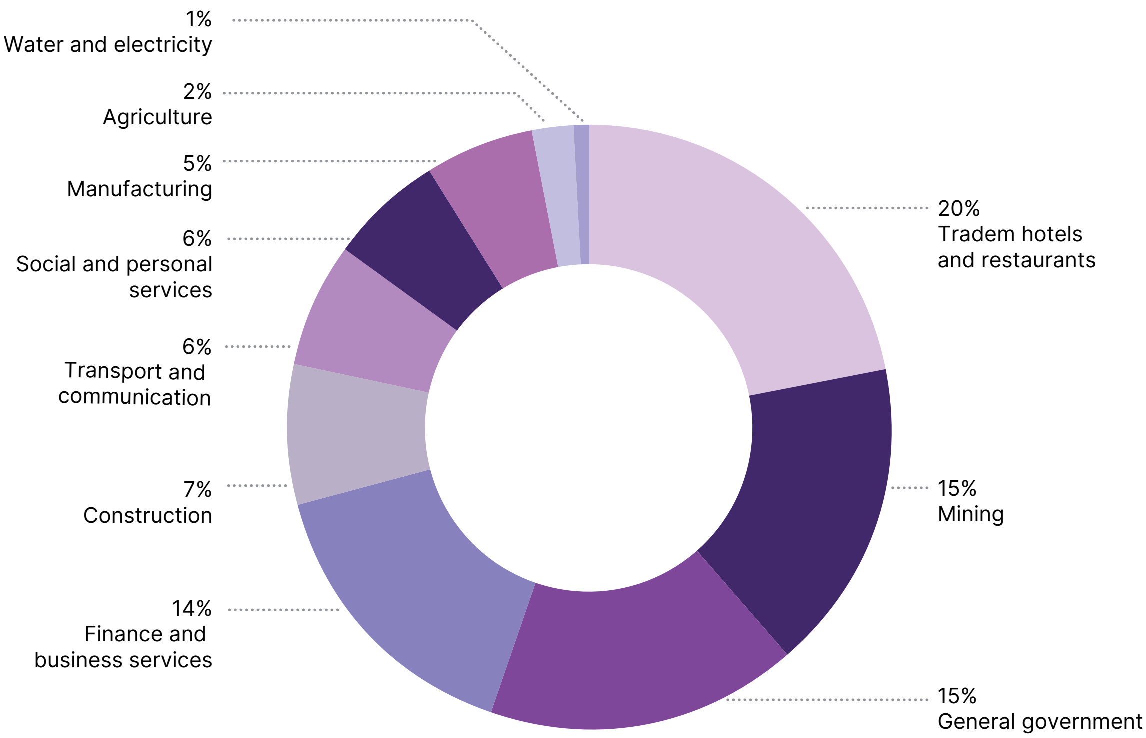


Figure 2: Botswana's GDP, by sector (2019)

The pie chart does not equal 100% as other components of the "value added" to GDP come from taxes on imports and other products and subsidies.
Source: Statistics Botswana (2020)

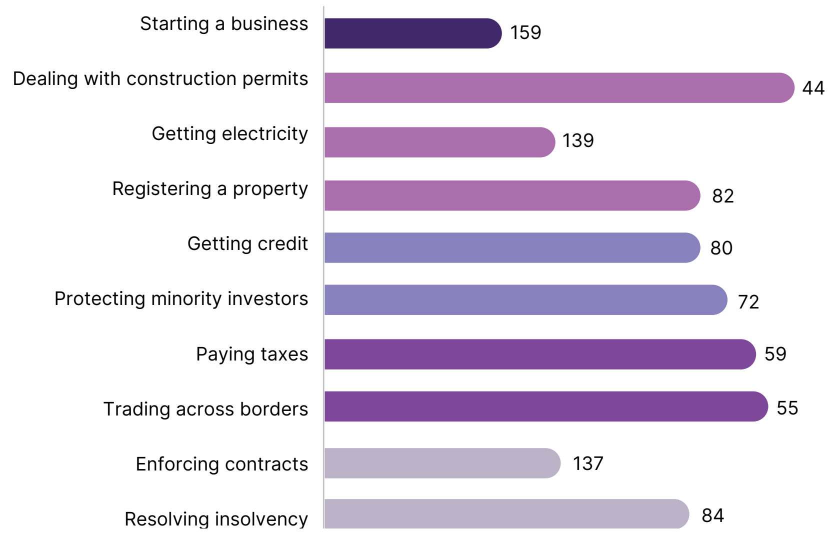


Figure 3: Ease of Doing Business Indicators for Botswana

Source: World Bank, 2020. Doing Business.

countries from its 2015 rank of 74 out of 189 countries. However, the regional average among economies in Sub-Saharan Africa is 140.

A closer look at the different indicators reveals that the ranking for getting electricity and enforcing contracts was lower than the general ranking at 139 and 137 respectively, while the country ranked higher in terms of construction permits, paying taxes and trading across borders (See Figure 3). As such and relative to many countries, the obstacles to doing business in Botswana do not appear to be very high though the obstacles identified such as getting electricity, may impact on smaller businesses.

Despite its strong financial position as an upper middle-income country, Botswana still receives significant official development assistance (ODA). According to the World Bank, the country received an estimated USD 80.42 million (measured in constant 2015 USD).[7] As a percentage of GDP, this constitutes approximately 0.44%.

Despite its strong financial position as an upper middle-income country, Botswana still receives significant official development assistance.

Botswana's export market is heavily weighted towards diamonds which account for over 90% of the country's exports. One of the challenges Botswana faces with increasing exports and expanding its trade links is its geographic position. Being a land-locked country means that it must rely on South Africa among other coastal countries to transport its goods to foreign markets. Despite this, the African Continental Free Trade Agreement (AfCFTA) stands to benefit Botswana (which is a signatory of the agreement) by deepening economic integration on the continent further to other regional trade agreements such as Southern African Customs Union (SACU) and SADC. In May 2021, Botswana and Zambia inaugurated the opening of the Kazungula bridge which stretches over the Zambezi River. This multimillion-dollar project will ease congestion at border crossings, boost trade and improve regional integration within the SADC region.

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Policy and regulation

In Botswana, the National Financial Inclusion programme is supported by a range of departments and regulators.

It is situated within the Ministry of Finance and Economic Development (MFED). There are three key economic regulators. The MFED is the primary ministry focused on financial markets including non-bank financial institutions. The Bank of Botswana (BoB) is focused on the regulation of deposit taking institutions, foreign exchange and money markets while the Non-bank financial Institutions Regulatory Authority (NBFIRA) regulates non-bank institutions including insurance, pensions, collective investment undertakings and non-bank lenders. The Ministry of Investment, Trade and Industry focuses on two priority areas that relate to financial inclusion, namely credit market development and consumer protection and literacy.

The MFED chairs the Financial Inclusion Working Group. The group has a key stakeholder responsible for heading for each of the six priority areas in the Financial Inclusion Strategy.

PRIORITY 1
Payment ecosystem development – Bank of Botswana

PRIORITY 2
Develop low cost accessible saving products –Botswana Savings Bank

PRIORITY 3
Develop accessible risk mitigation products – Non-Bank Financial Institutions Regulatory Authority

PRIORITY 4
Improve capital market working – Ministry of Investment, Trade and Industry

PRIORITY 5
Consumer protection and financial literacy – Ministry of Investment, Trade and Industry

PRIORITY 6
National coordination – Finance Administration Subdivision MFED

The Ministry of Investment, Trade and Industry focuses on two priority areas that relate to financial inclusion, namely credit market development and consumer protection and literacy.

There is routine feedback from members of the financial inclusion team but there have been some challenges in co-ordination with industry. Quarterly meetings between members of the Financial Inclusion team provide updates and feedback from the different priority components. Submissions are consolidated into biannual reports. There have been some challenges for the group. In particular, receiving information from market participants for some priority areas has been challenging. In particular, the Botswana Savings Bank operates within the industry and as such there has been some resistance from commercial banks to share information that they feel is strategic.

This may be better co-ordinated by the Bank of Botswana as the banking regulator together with NBFIRA. Furthermore, there have been some challenges with the Ministry of Trade in receiving information for Priority 4 as the parties are typically commercial banks and regulated by the Bank of Botswana. As such, better co-ordination and greater Bank of Botswana involvement may assist. There are other donors involved in financial inclusion work. For example, the IMF and KfW Development Bank set up a microfinance enhancement facility in 2009. Donors such as the OPEC fund for international development have supported this.[8]

Over the period since the last MAP study there has been policy development in various areas relating to financial inclusion. These include the following notable interventions:

- The development of the Electronic Payment Service regulations which allow for the licensing of electronic payment services (including mobile money provided by telecommunications companies) and bring them under the regulatory ambit of the Bank of Botswana.
- The development of a National Payments System Strategy which includes a range of objectives with implications for retail payments and remittances, interoperability and participation in the national payment system.[9] This is building towards discussions on the development of a National Payment Switch.
- Movement towards legislation to enhance access to credit in terms of a collateral registry to allow movable assets to be registered and used as collateral for credit.[10]
- The Credit Information Sharing Bill has been approved by MFED and is being codified through draft legislation. The MFED is also trying to operationalise BODRA (an industry credit information sharing association), which has been registered in 2016.

Table 1: Key legislation and regulations in Botswana that relate to financial services 2015-2019

POLICY/REGULATION	OVERVIEW
Credit Information Bill	In drafting stage
Movable Assets Bill	In drafting stage
Electronic Payment Services Regulations 2019	Regulates the licencing of electronic payment service providers, administration of licensees including infrastructure and operations, electronic payment transactions including limits and agents, information and confidentiality
Financial Intelligence Act and Regulations, 2019	Regulates customer due diligence, verification of information, record keeping and reporting of suspicious transactions.
Guidelines on Risk Management, 2018	Guidelines on risk management strategies for banks
NBIFIRA Act, 2016	To continue the establishment of NBFIRA and provide for its powers.
Electronic Communication and Transactions Act, 2014	To allow for admissibility of electronic records and authentication of electronic records

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Demand side analysis

The previous MAP roadmap aims to "Improve household welfare, increase economic efficiency and support growth by reducing the percentage of adults who are excluded from 24% to 12%, and increasing those with access to more than one formal financial product from 46% to 57% by 2021."

Although access to financial services in Botswana has increased since the last MAP study in 2014, Botswana is moving towards the 2021 goal of reducing financial exclusion to 12% or increasing usage of more than one type of formal financial service to 57%. The results show that adults (18 years and older) who were financially excluded decreased from 24% in 2014 to 16% in 2020, while those who are formally included increased from 68% to 82% over the same period. This is partly due to the increase in those banked from 50% to 56%, but also a sizeable increase in people who use other formal products (but are not banked) from 18% to 26% partly driven by increases in mobile money.

Botswana is moving towards the 2021 goal of reducing financial exclusion to 12% or increasing usage of more than one type of formal financial service to 57%.

Furthermore, the depth of access in Botswana has increased to 52% of adults using more than one formal financial product type (i.e., insurance, credit, savings and payments), up from 46% in 2014. This is moving towards the target of 57% by 2021. A fair portion of the increase in formal access came from people only having access to one formal financial product type, which increased from 22% in 2014 to 30% in 2020. Individuals relying solely on informal means to manage their financial needs decreased from 8% (2014) to 3% (2020), while uptake of informal products/services increased marginally from 39% to 42% over the same period. This means that more people who previously only used informal services are now using formal (and informal) services.

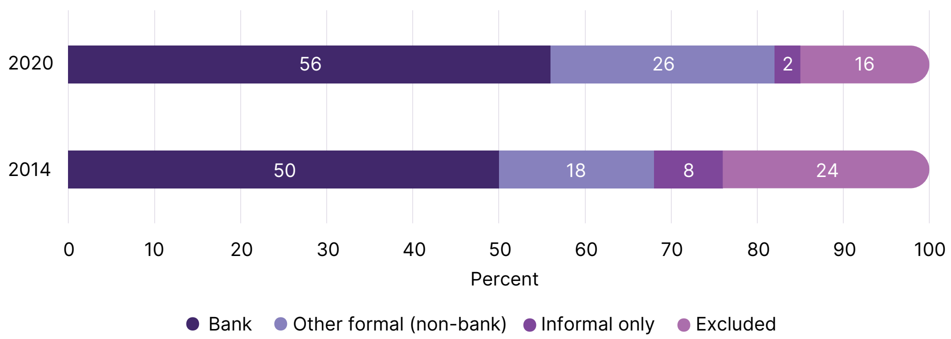


Figure 4: Access to financial services

Source: Finscope 2014 & 2020

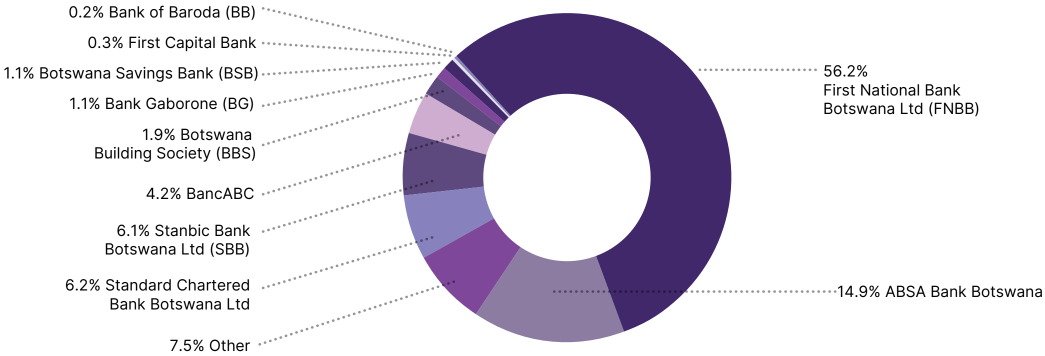


Figure 5: Banks used by those who are banked

Source: Finscope 2020

Furthermore, those using a combination of formal and informal mechanisms to manage their financial needs increased by 29% over the aforementioned period.

Banking penetration has increased in the last few years. In the latest Finscope Survey, 56% of adults were banked in 2020, up from 50% in 2014. A large proportion (more than half) of those surveyed primarily use First National Bank suggesting it has a strong retail performance. This is despite having a similar number of branches and employees as competitors (e.g. Barclays has a more extensive branch network). This may be a result of its larger ATM network which allows for deposits and offerings targeted at consumers such as e-wallets.

There is still a lack of depth in use of bank accounts. As shown below the bulk of those surveyed appear to use bank accounts primarily for cash deposits and withdrawals. The reasons for not having a bank account appear to be largely related to a lack of income with respondents in the 2020 Finscope survey citing not having a regular income and not having a job as reasons for not having an account. However, issues such as know your client (KYC) requirements also can play a role. In particular in instances in which proof of income is required (as is the case with many banks), the lack of recognised employment documentation for some potential customers of banks mean that these individuals are unable to comply with banking regulatory requirements.

The bulk of those surveyed appear to use bank accounts primarily for cash deposits and withdrawals.

Financial access differs among demographic groups. While a higher percentage of men are banked, women use informal services to a greater extent: 60% of men are banked while for women this figure is only 52%, while 47% of women make use of informal financial services/products compared to 37% of men. In terms of age, 34% of elderly individuals (above 60 years) are banked which is the lowest figure out of all three age groups[11] and this is followed by the youth (18-24 years) at 44%. Moreover, 44% of elderly individuals also make use of informal financial services/products. In terms of location, 72% of individuals living in cities/towns are banked while this is only 32% in rural areas.

Mobile money strong contributor to increased access. There has been a significant increase in the use of mobile money over the last five years. Mobile money usage in Botswana increased from 22% in 2014 to 54% in 2020. This has contributed significantly to the extent to which individuals in Botswana are financially included, as the uptake in other formal (non-bank) products/services is driven by mobile money and transactional products (total use of other formal

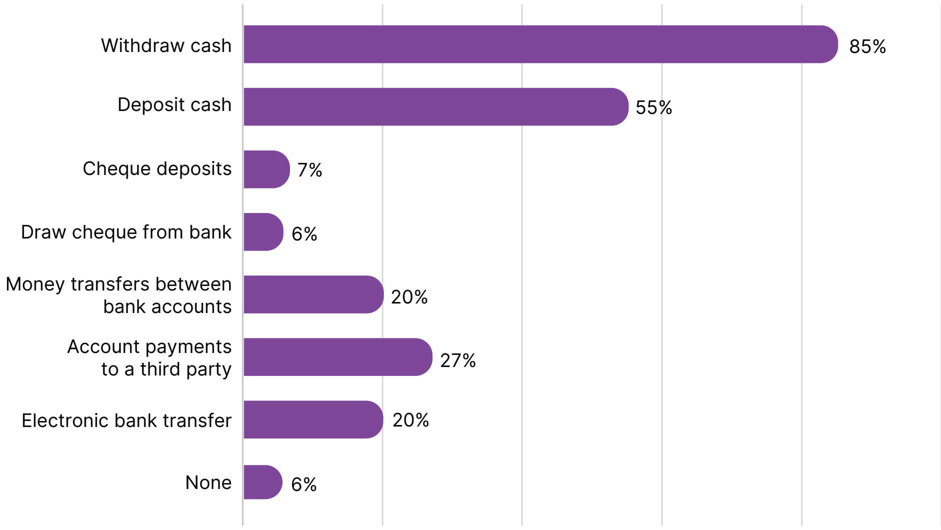


Figure 6: Use of bank account by those who are banked

Source: Finscope 2020

products increased from 56% to 76% from 2014 to 2020).[12] In general, uptake in informal financial products is driven by savings groups, while banking is driven by transactional products and savings.[13]

Insurance and savings increased; credit and remittances decreased. Figure 7 shows that savings have the deepest reach among adults in the formal products category (47%), while credit has the lowest (17%). Total formal inclusion only increased for insurance and savings. Furthermore, the use of credit and remittances has decreased since 2014 by eight and five percentage points, respectively.

Credit has contracted since the previous MAP study. Credit usage for both men and women contracted over the period 2014-2020, with women borrowing less than men (15% of women borrow compared to 20% of men in 2020) (see Figure 7). In terms of age groups, the elderly borrows the least with only 8% borrowing in comparison to 21% of the 25 to 60 year old cohort. Individuals have shifted away from informal sources and family/friends towards more formal (non-bank) sources of credit.

The number of savers has increased by 11%, but a large proportion of this is due to saving at home and saving informally. Total formal savings has remained fairly stagnant (see Figure 7), although non-bank formal savings increased. This may be a result of hesitance to leave home as a result of the COVID-19 pandemic in 2020. As such, it is not clear if this is a general pattern or due to the particular circumstances of the year. Savings amongst men and women are fairly similar at around 70%, but men tend to save more at banks (32% vs. 28%), while women use more informal savings relative to men (44% as opposed to 34%). In rural areas a large proportion of individuals (40%) do not save while 15% save at home. This is in contrast to cities and towns in which only 25% do not save and only 6% save at home. Mobile savings could therefore potentially play a larger role in rural areas.

The number of savers has increased by 11%, but a large proportion of this is due to saving at home and saving informally.

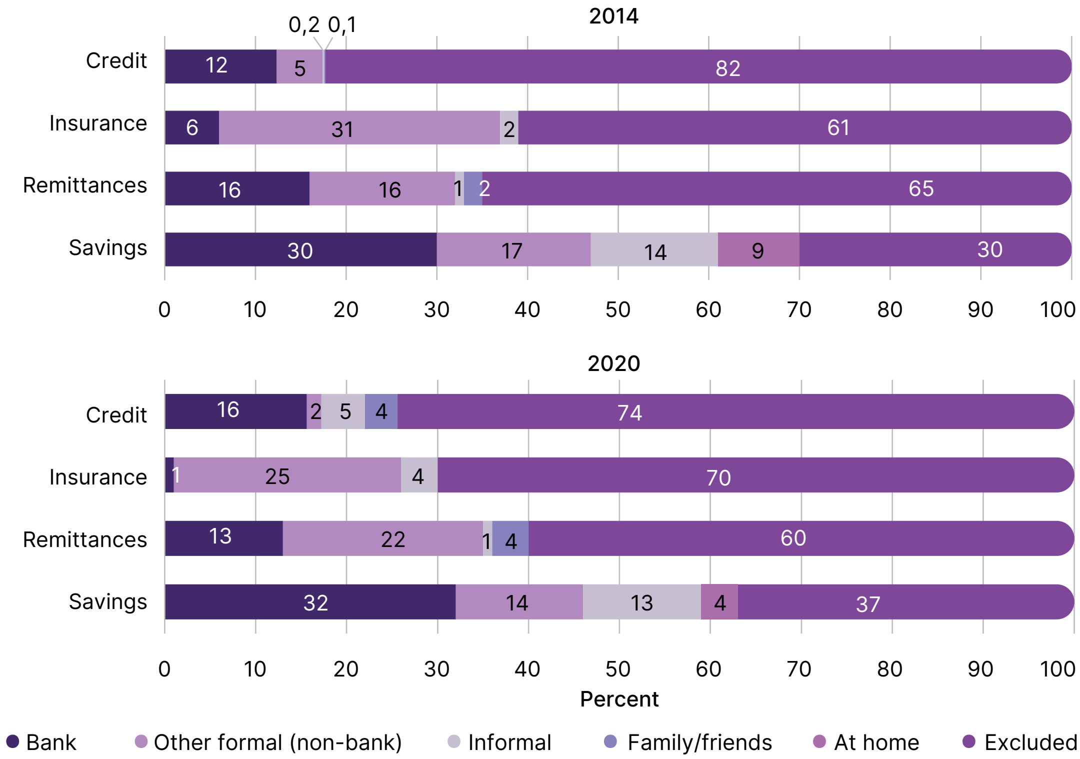


Figure 7: Financial services access across products

The credit strands in the figure does not equal 100% due to rounding.
Source: Finscope 2014 & 2020

In contrast, insurance has risen by 30%, which is due to increases in banked and other formal insurance channels (see Figure 7). This is driven by funeral insurance and burial society cover. This is also sold through mobile money companies as will be discussed later. Th key barrier for the adults who are not insured is not having an income. There is also an interesting gender disparity in insurance as more women are insured (41%) relative to men (36%). According to age groups, the elderly and the 25 to 60 year old cohort are both insured at around 44% and the youth at 17%. A greater percentage of individuals living in cities/towns are insured (46%) compared to those living in rural areas who are the least insured at only 29%.

Remittances have also fallen over the years from 40% of adults remitting in 2014 to 35% in 2020 (see Figure 7). This came from a reduction in the proportion of individuals who only remit through other formal (non-bank) channels and family/friends. This may in part be due to the timing of the survey (during 2020, with the COVID-19 pandemic potentially limiting earnings for individuals to remit), also, the remittance rates may have decreased with more people opting to return home. A high proportion of individuals have expressed dissatisfaction when it comes to the cost of remitting money. Men engage more in remittances than women with 38% of men remitting compared to 32% of women. Those living in cities/towns remit the most at 47%, while only 25% of individuals in rural areas remit.

As such, from a demand side perspective there appears to have been a significant increase in financial inclusion in Botswana during the MAP review period. However, this appears to have been to a large extent driven by mobile money. Furthermore, it is of concern that remittances and credit has fallen, though this could potentially be due to the impacts of the COVID-19 pandemic. With credit already being low in 2014, the further decrease is a cause for concern though.

PART 1 NOTES

1 IMF World Economic Outlook: https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021

2 Government of Botswana (2016), Vision 2036, Achieving Prosperity for all, https://www.vision2036.org.bw/sites/default/files/resources/Vision2036.pdf

3 UNDP (2020), Human Development Report: The next frontier, Human development and the Anthropocene, available at http://hdr.undp.org/sites/default/files/hdr2020.pdf

4 World Bank. (2021). World Development Indicators database.

5 NDP Review

6 Vision 2036

7 Data sourced from the World Bank's World Development Indicators Database

8 https://opecfund.org/news-stories/improving-financial-inclusion-in-botswana

9 Bank of Botswana (2020), The National Payments System Vision and Strategy 2020-2024

10 Government of Botswana (2018) State of the Nation Speech 2018)

11 The three age groups are: 18-24 years (youth), 25-60 years and above 60 years (elderly).

12 Finscope 2020

13 Finscope 2020

2

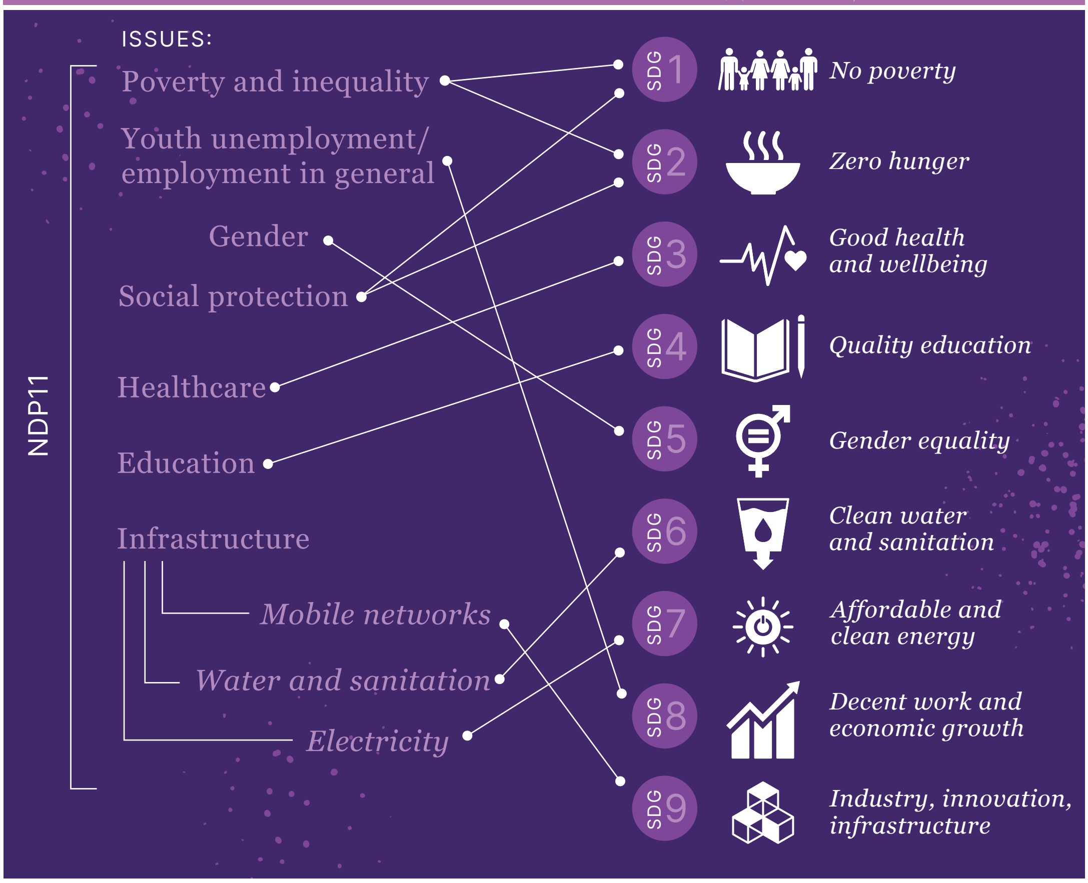
Financial inclusion and its links to social and economic questions

2.1 Introduction

In assessing the progress since the last MAP study, a number of issues were selected for deeper analysis

These issues were selected due to (i) their likely impact on human development, (ii) relationship to government policies in Botswana, particularly the National Development Plan and Vision 2036 and (ii) links to United Nations Sustainable Development Goals (see Table 2 below). In what follows, we summarise some of the issues in Botswana and links with financial inclusion.

LINKS BETWEEN
Issues considered, policies in Botswana and UN SDGs

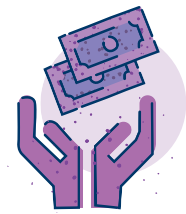


22

Poverty and inequality

While Botswana is classified as an upper-middle-income country there are still high levels of poverty.

However, there have, by many measures, been significant improvements in the last few decades. According to the Oxford Poverty and Human Development Initiative (OPHI), Botswana had a multidimensional poverty index (MPI) of 0.073 with only 3.5% of the population living in severe poverty. Overall poverty levels have declined from 47% in 1993 to 16.3% in 2015/16.[1] Poverty is more prevalent among female-headed households compared to their male counterparts, while poverty incidence is higher among younger age groups. However, poverty levels vary geographically with increased poverty in rural areas which have a poverty level of 24.2% as opposed to 13.4% in urban villages and 9.4% in cities and towns. Furthermore, certain geographic areas show poverty rates as high as 46%.[2]



Botswana had a multidimensional poverty index of 0.073 with only 3.5% of the population living in severe poverty.

Income inequality is also high, with the Gini coefficient* at 52.2.[3] This makes Botswana the third most unequal country in the world. However, despite the prevalence of inequality, it has decreased significantly over time. The Gini coefficient fell 17.6% between 2002 and 2015 (a decrease in the Gini coefficient from 64.7 to 53.3).[4] In terms of gender, on average, men earn 29% more than women, with some differences by occupation or sector of employment.[5]

* Gini index or Gini ratio, is a measure of statistical dispersion intended to represent the income inequality or wealth inequality within a nation or any other group of people.

Economic evidence suggests that financial sector development can play a role in multidimensional poverty reduction and has strong linkages with growth.[6] This can include an improved ability to smooth consumption, access opportunities, building of human capital and improved health.[7] An inclusive financial sector has both an indirect and a direct impact on poverty alleviation; with links between financial sector development and more equitable growth, and the impact of broadening access to finance - especially to the poor, those in rural communities and women.[8] This will increase the probability of a more equal society as well as increased equitable consumption patterns. Specific aspects of this are discussed in the sections that follow.

It can also be noted that low growth and limited opportunities may mean less incentives for individuals to seek financial products and thereby dampen inclusion. The impact of the COVID-19 epidemic on the economy is likely to worsen poverty levels and growth. Furthermore, it is likely to increase unemployment which also will have an effect on poverty. This may in turn have an impact on financial sector development to some extent.

23

Employment

Unemployment in Botswana is high. The unemployment rate was around 24.5%[9] in 2020 which is higher than 17.7% at the time of the last MAP study in 2015 and reflects in part the effects of the COVID-19 pandemic.[10]

The National Population and Housing Census (PHC) notes in the first MAP that between 2001 and 2011 the unemployment rate averaged 20% suggesting that there have not been significant improvements.

More youth are unemployed. Youth unemployment remains a serious concern with the youth unemployment rate sitting at 38% of the total youth labour force in 2019 (as modelled by the ILO).[11] However, this demonstrates an improvement since the first MAP where 61% of unemployed individuals in Botswana were between the ages of 15 and 19. For this specific age cohort, the unemployment rate exceeded the 40% margin. This suggests that unlocking positive opportunities for youth to grow will have benefit.

38%

Youth unemployment remains a serious concern with the youth unemployment rate sitting at 38% of the total youth labour force.

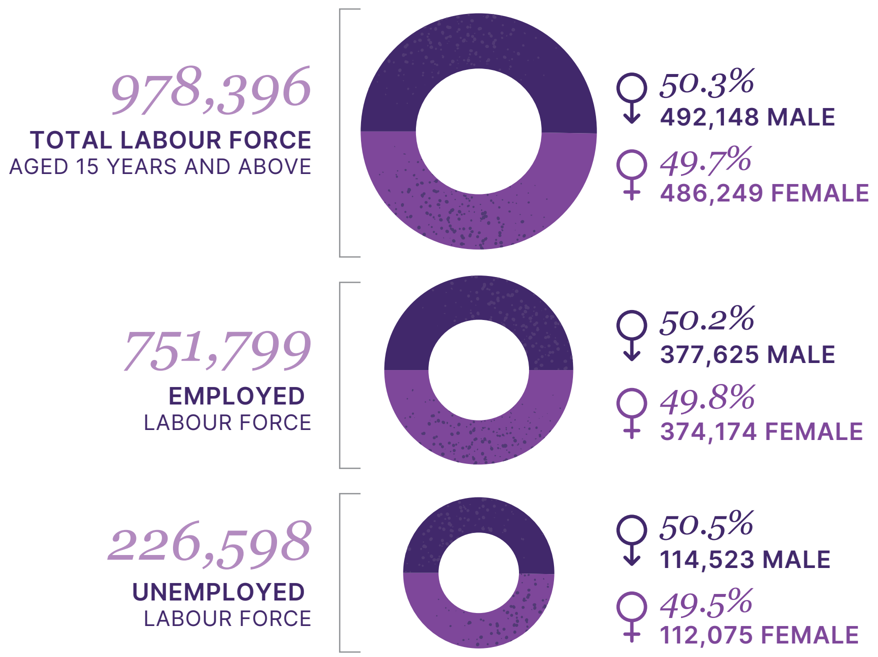


Figure 8: Breakdown of the Economically Active Population Aged 15 years and Older in Botswana

Source: Statistics Botswana Quarterly Multi-topic Labour Force Module Report (2020)

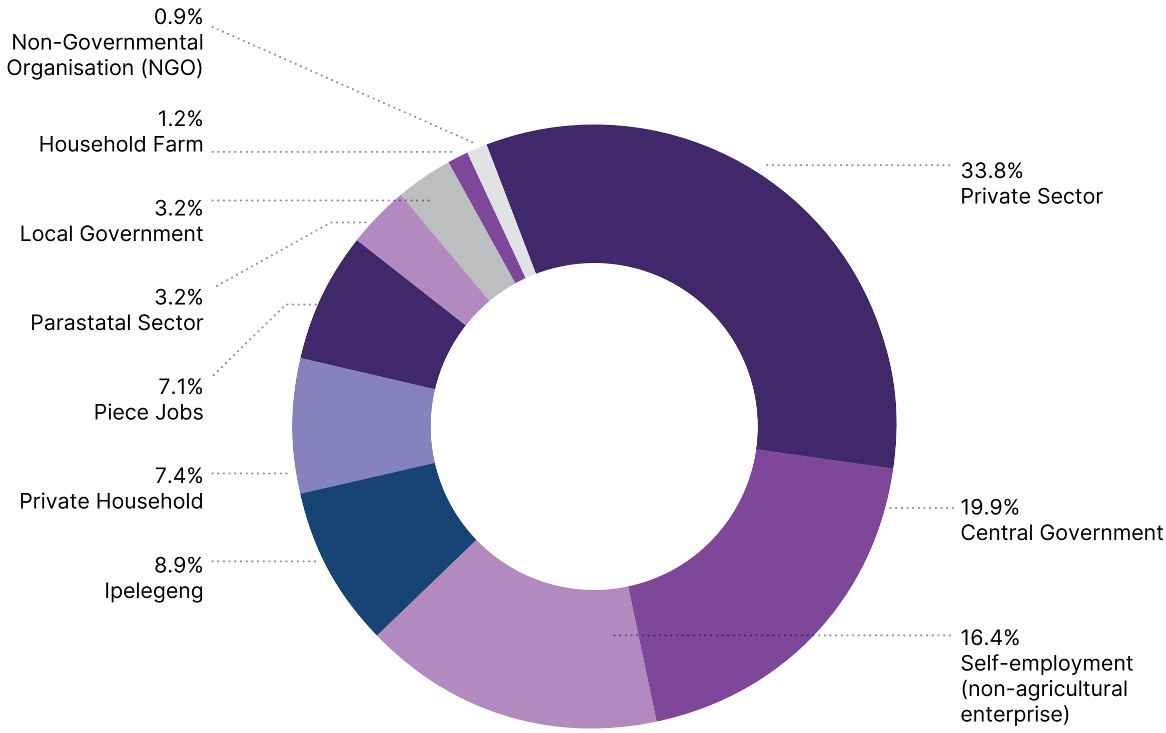


Figure 9: Employment in Botswana by sector

Source: Statistics Botswana (2020)

Labour force participation has increased since the first MAP.[12] For the first quarter of 2020, total labour force in Botswana comprised approximately 978,396 individuals. This excludes those that are outside of the labour force by definition such as students, the elderly, those that choose to stay at home and unemployed job seekers. This meant that the labour force participation rate (LFPR) was estimated to be 59.7% as a percentage of the total population.[13]

In 2011, the PHC recorded 801,529 labour force participants and 642,065 employed individuals. Compositionally, the LFPR for males was substantially higher than the LFPR for females with it sitting at 65.1% and 55.2% for men and women respectively in 2020. Furthermore, the 35 to 39 and 40 to 44 age cohorts recorded the highest levels of labour force participation.

Public administration, education and construction provides a relatively high contribution to employment. Of the 751,798 employed individuals in Botswana, 19.7% worked in public administration, 9.5% in education and 7.6% in construction. A high proportion of those employed are resident outside of cities and towns. Specifically, 45.5% of employed individuals resided in urban villages, 29.7% in rural areas followed by 24.8% in cities and towns.

For the first quarter of 2020, total labour force in Botswana comprised approximately 978,396 individuals.

24

Children and Youth

Botswana has a youthful population with approximately 35% under the age of 14 and a further 50% between 15 and 49. However, the age structure of the population is slowly changing with the population over 65 increasing slowly over time.[14]

The United Nations has a range of interventions targeted at young people between the ages of 15 and 24 and as a vulnerable population children and youth are an important focus area for financial inclusion.[15] This is largely due to the fact that in environments of high unemployment levels, youth are often unable to attain employment (due to inexperience, low networks etc) and limited resources. Given the link between unemployment and poverty, this makes youth particularly vulnerable.[16] As such, addressing interventions for youth is a social issue.

The government of Botswana has particular programmes targeted specifically at empowering youth. This includes the Youth Development Fund which provides a mix of loans and grants for youth to enter into business. It is aimed at those who are out of school and unemployed or earning low salaries.[17] Youth Enterprise Revolving fund (YERF) is a parastatal tasked with promoting youth employment and alleviating poverty among 18 to 35 year olds. They have various financial-linked initiatives including purchase order financing, skills development for loan recipients and mentorship programmes.[18] The 2021 Budget speech notes that YDF has created 1,954 jobs, which another 1,918 created through other youth funding programmes. As such, the reach is still quite narrow.[19]

The United Nations has a range of interventions targeted at young people between the ages of 15 and 24 years old.

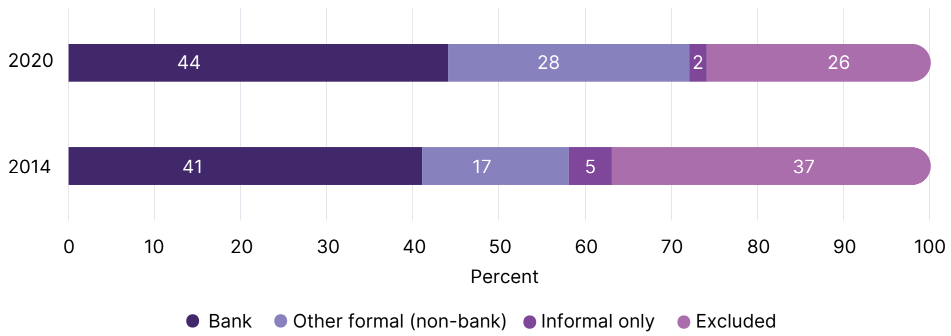


Figure 10: Financial access by youth (18-24 years)

Source: Finscope 2014 & 2020

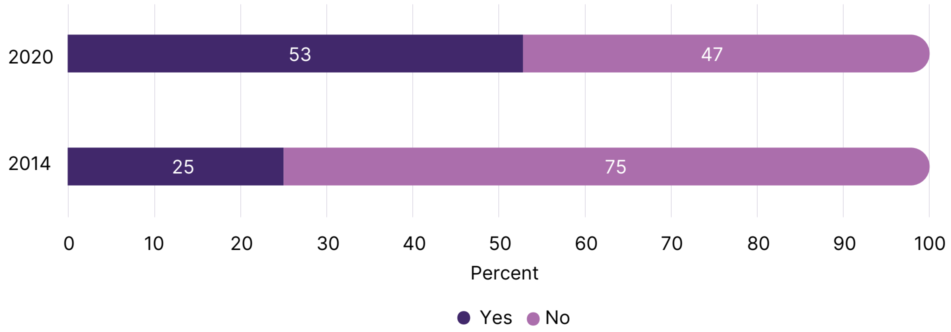


Figure 11: Mobile money usage among youth (18-24 years)

Source: Finscope 2014 & 2020

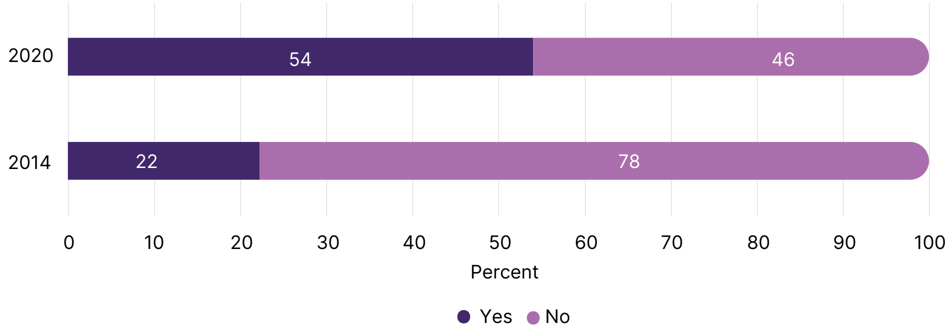


Figure 12: Mobile money usage in Botswana (18 years and older)

Source: Finscope 2014 & 2020

Youth in Botswana have a lower level of financial inclusion than adults. Figure 10 shows that the proportion of youth that are currently banked has increased marginally from 41% in 2014 to 44% in 2020 but this is far smaller than the general population of which 56% were banked in 2020. This is despite the existence of some products tailored to youth which offer lower opening balances, subsidised fees while providing access to debit cards. For example, Absa has an account which targets youth at P5 in contrast to P30 to P231.

However, more youth hold mobile money accounts. As shown in Figure 11, the proportion of youth with mobile money accounts has risen significantly from 25% in 2014 to 53% in 2020. However, the proportion of the total population using mobile money is marginally higher (54%).

Given the lower level of employment and income received by youth, a lower level of usage of financial services is to be expected. However, there are likely to be various interventions that can assist in financial inclusion of the youth. This includes the creation of products that are targeted towards the usage patterns of youth (for example, mobile based credit products). In addition, linkages between the funds focused on youth and the financial inclusion team will likely be beneficial, particularly if it can decrease youth unemployment (including through finding opportunities for self-employment).

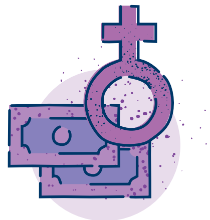
The proportion of youth with mobile money accounts has risen significantly from 25% in 2014 to 53% in 2020.

25

Gender related disparities

Botswana has gender related disparities on several measures. Botswana ranked 116 out of 162 countries on the Gender Inequality Index (GII) in 2019 at 0.465 which has improved since 2014 when it was 0.483.[20]

This is higher than the value for Sub-Saharan as a whole (0,573) and many other African countries including many SADC countries. Using another measure, the Global Gender Gap, Botswana's score of 0.708 implies a rank of 73 out of 185 in 2020.[21] As noted in the section on poverty, female-headed households are generally poorer than that of male-headed households and female-headed households often have a larger number of dependents to support. We discuss some of the details of these disparities and financial inclusion responses in the sections that follow.



Female-headed households are generally poorer than that of male-headed households.

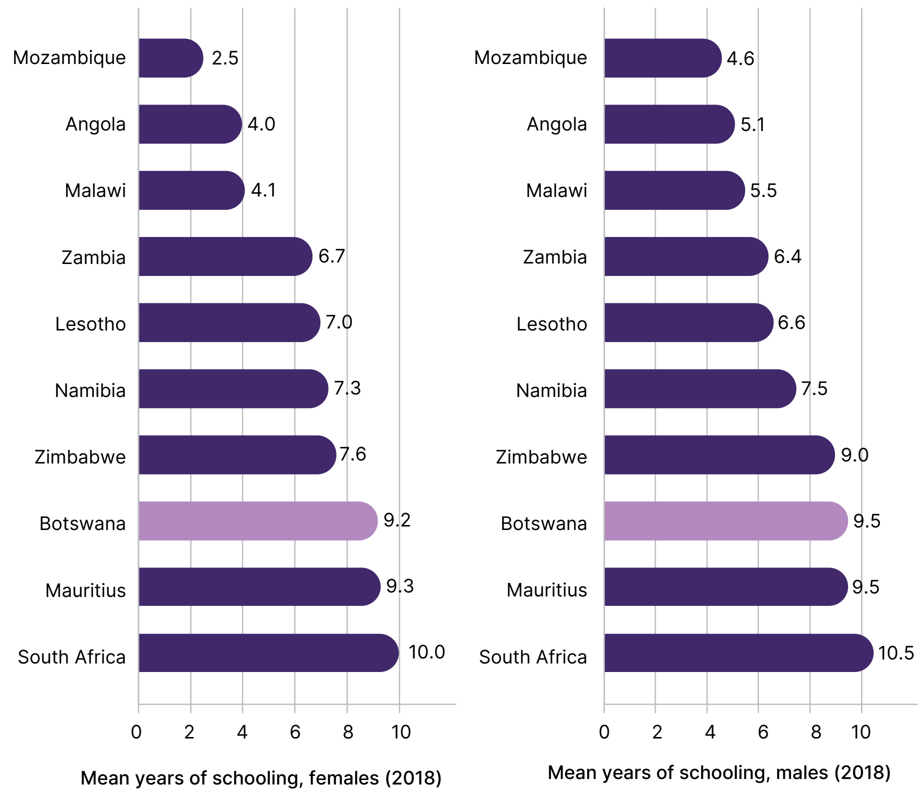


Figure 13: Mean years of schooling for males and females in selected SADC countries, 2018

Women often have lower paying careers. As shown previously, women have similar levels of employment to men. However, the average cash earnings for women in Q4 2020 were P4,547 which is 19% less than the average of P5,437 earned by men.[22]

Mean years of schooling is similar for males and females. The mean years of schooling in Botswana in 2018 was 9.2 years for females and 9.5 years for males. While this is higher than the average for Sub-Saharan Africa, it is lower than other SACU countries like South Africa as shown in Figure 13 above. Furthermore, it shows similarity in education for males and females. There are still many barriers to girl's education, including sexual violence, orphan and child-headed households, social-cultural issues and early pregnancies.[23] Many initiatives and programs, such as those by the National Gender Commission below, are determined to improve learning outcomes for females and provide a gender-sensitive environment that will encourage girls to stay in school.

The mean years of schooling in Botswana in 2018 was 9.2 years for females and 9.5 years for males.

Women have lower access to banking but have narrowed the gap in financial services overall: Finscope shows that the proportion of women who are banked is lower than men, though the gap has narrowed since 2014. This is because the proportion of women who are banked increased, while the proportion of men that are banked increased by a smaller margin. However, more women rely solely on other formal (non-bank) and informal financial products, pushing up their overall access levels to higher than that of men.

Interestingly, the proportion of women with mobile money accounts is equal to that of men. In 2016, Botswana was found to have the largest gender gap in the region with regards to financial inclusion and access to credit.[24] However, where non-bank lending was included, the gap between men and women's access to credit was reduced, and access to informal accounts was the same for men and women - for example, through microfinance institutions.[25] As such, in terms of general access women in Botswana have improved in both banking and non-banking products.

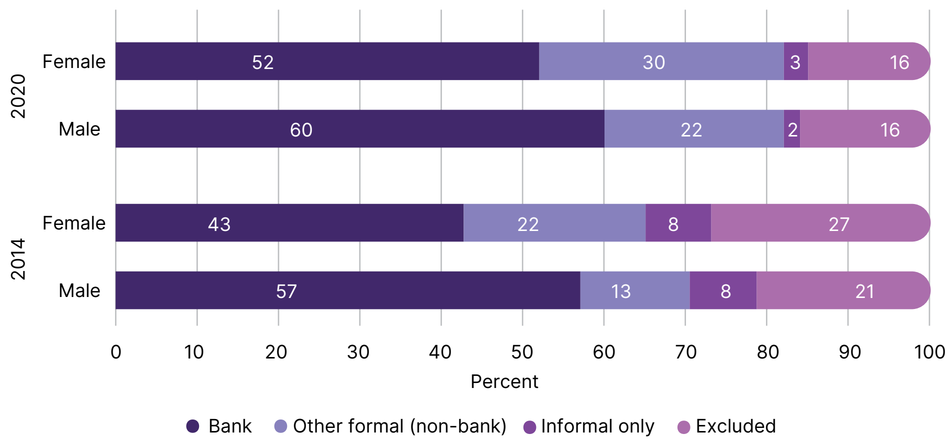


Figure 14: Financial access by gender

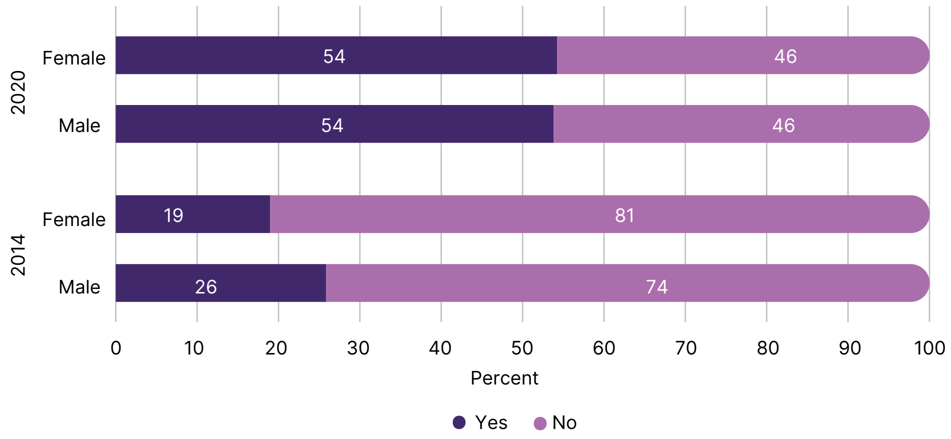


Figure 15: Mobile money usage by gender

Source: Finscope 2014 and 2020

In recent decades women have been provided with improved property rights, but historic laws may have impacted on land assets, which can be used as collateral. Historically, women in Botswana married in community-of-property – meaning that all the assets and debts from before the marriage are shared in a joint estate between both spouses and were subject to the legal status of a minor. Therefore, they required permission or consent from the husband in order to engage in a number of juristic acts.[26] Incremental legal reforms and court decisions have however, enhanced the ability of women to have access to property.

The Abolition of Marital Power Act of 2004 changed property rights for women in Botswana as it provided that women have the same rights as men to administer the joint estate when married in community of property (Section 7), however, it currently does not extend to customary and religious marriages. In 2012, the Court of Appeals decided in favour of women's rights to inherit and to remain on the property after the death of a spouse. A 2013 case though, found for inheritance of a property by daughters despite customary law noting that it contravened equality before the law.[27] Furthermore, women were historically not allowed to independently own land. This changed in 2015 with the 2015 Land Policy which allowed unmarried women to own land. A further amendment in 2020 now allows married women to own land independently regardless of whether their husband owns land.[28] These historic restrictions on the ownership of land by women limited the ability of a married woman to historically own land in her name and therefore to utilise it as collateral.

Women have the same rights as men to administer the joint estate when married in community of property.

Government interventions to support women have been introduced but have had limited results. In 2011, the Government introduced a Women's Grant that aims to support women to start their own income generation projects. In addition, the National Development Bank provides loans for various forms of investments. However, the Government has noted that despite investment schemes positively affecting women's ability to own small stock, men are still more likely than women to have ownership over subsistence farming.[29]

In 2016, Botswana established the National Gender Commission (NGC) - made up of commissioners from government, parastatals, the private sector, and civil society organisations. The NGC is focused on providing policy direction, leadership, and governance; advising government on gender issues (policy development and service delivery); and liaising with the Gender Affairs Department and other public and private sector stakeholders to develop strategies for advancing gender equality through various initiatives.[30] [31] The proportion of seats held by women in parliament has increased from 7.9% in 2009-13 to 10.8% in 2019-20, but this is far smaller than the country's 2000-03 figure of 17%.[32] Underrepresentation at this level makes it harder for women to influence policy.

The proportion of seats held by women in parliament has increased from 7.9% in 2009-13 to 10.8% in 2019-20.

Gender disparity issues must be simultaneously addressed while implementing financial inclusion strategies. According to a report by the Alliance for Financial Inclusion (AFI),[33] targeted interventions such as affordable and flexible credit facilities, education and literacy support mechanisms, training, quota systems for women and other regulatory incentives, could help break down the social, cultural and stereotype barriers that remain an obstacle for women's economic empowerment and financial inclusion.

Strategies should include different types of financial products. Given the growth in mobile money accounts and the role of informal and other formal institutions in improving access for women (Figure 14 & 15) it is also useful to ensure that strategies relating to inclusion incorporate such institutions.

26

Social protection

Social protection is a well-established feature of the Botswana economy. In 2017, the World Bank supported the Government of Botswana in the development of a National Social Protection Framework (NSPF).[34]

In the 2018/2019 financial year, 3.7% of GDP or P7.4 billion was allocated to social protection in Botswana with 14% of this expenditure focused on child-sensitive social assistance programmes. The overall level of spending on social protection is reasonably high by international standards, despite increasing pressure on the public budget.[35]

P7.4 billion was allocated to social protection in Botswana with 14% of this expenditure focused on child-sensitive social assistance programmes.

The government-funded social protection system comprises ten social assistance programmes. There are the Destitute Persons Programme (for those with a monthly income of less than P120) with 33,730 individual participants in 2014, Orphan Care Programme (35,076 participants in 2015), Community Home Based Care, Primary and Secondary School Feeding Programmes, Vulnerable Groups Feeding Programme (383,392 participants in 2013), Remote Area Development Programme, Old Age Pension Programme (of P530 per month) with 98,714 participants in 2014, Ipelegeng (55,000 participants in 2013) and WWII Veterans Allowance (P600 per month) with 2,010 participants in 2015.[36] When it comes to

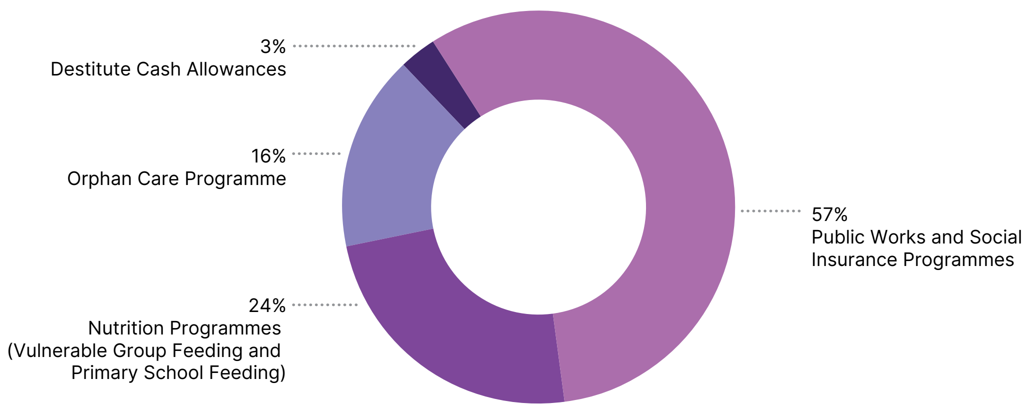


Figure 16: Composition of Social Protection Spending in Botswana (2017)

Source: UNICEF Botswana Social Protection Budget Brief (2017)

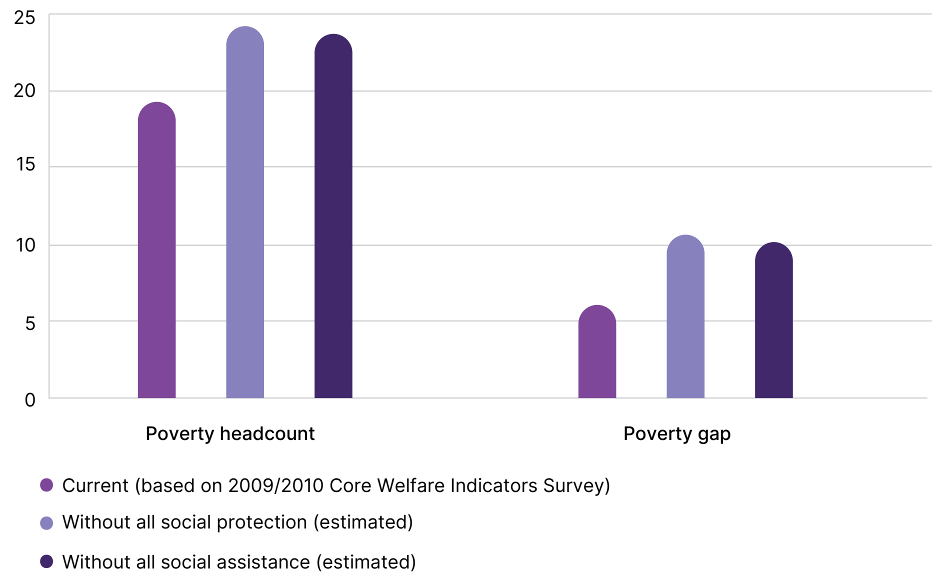


Figure 17: Contribution of social assistance to poverty reduction (% 2009/2010)

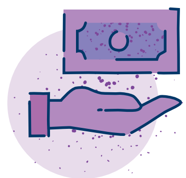
Source: An adaptation from the World Bank Botswana Poverty Assessment (2015)
Sourced in UNICEF Botswana Social Protection Budget Brief (2017)

sources of income, Finscope 2020 data shows that 8% (122,869 individuals) of Botswana adults are government dependent, down from 13% in 2014. However, FinScope figures would exclude children 17 years and younger.

While we do not have a recent analysis, there is evidence historically that social grants in Botswana have helped reduce poverty significantly, illustrated in Figure 17 above. Furthermore, Botswana appears to be stronger than various peer countries in terms of social protection. A cross-country study in 2017 placed Botswana third in Africa for social protection.[37]

The last Roadmap included interventions related to social security that extended access to finance. The Financial Inclusion Implementation Programme have included the activity "Evaluate sustainability of current government and targeted design of grants and subsidies to develop digital use case." In particular, the action plan included "Extend the use of digital means (Poso cards, Smartswitch cards, bank cards, mobile wallet, MNOs money etc.) to pay grants." Indications are that there have been developments in this over the period of the MAP in extending channels for disbursement increasing benefits to beneficiaries.

Social protection is disbursed through various channels and increasingly utilises digital innovation. Social protection is primarily disbursed via the post office in Botswana. Botswana Post have branches across the country as well as various channels for the disbursement of grants including through SmartSwitch cards. In the more rural parts of Botswana where post offices do not exist, grants are disbursed via the Community Meeting Place or Kgotal. Furthermore, they have entered into partnerships that increase the range of options for customers such



There is evidence historically that social grants in Botswana have helped reduce poverty significantly.

as their partnership with supermarket group Choppies which allows customers to receive grants from Postal Kiosks in retail stores. It is anticipated that this will be rolled out to other retailers in time.

Botswana Post have also adopted a digitised biometric verification process to validate the credentials of beneficiaries.[38] Essentially, the beneficiary uses their fingerprint as a password which authorises the disbursement of funds.

Prepaid cards and mobile money are being used to disburse grants. Social protection for unbanked Batswana is now also disbursed through "Pula cards", a type of prepaid Visa card that is loaded with funds and can be used to pay, and through PosoMoney which is Botswana Posts mobile money offering.[39] However, although the facilities for different channels exist, usage of these channels still appears to be underdeveloped. 72% of welfare grant recipients still receive their payments in cash and only 20% through a bank account. Payment through mobile money is not reflected in the data as yet. Cash payments to maintenance grant recipients is much less at 41%, while payment into a bank account or via mobile money are 38% and 9%, respectively.[40] As such, Botswana is already using digital mechanisms to increase the efficacy of social transfers.

Botswana Post have also adopted a digitised biometric verification process to validate the credentials of beneficiaries.

27

Healthcare

The healthcare system in Botswana has the challenge of a high disease burden but has been making improvements.

Botswana has the fourth highest HIV prevalence rate in the world with 20.7% of the adult population infected with the virus. Only South Africa, Lesotho and Eswatini have a higher HIV prevalence. Looking at other epidemiological metrics, Botswana has 380 000 individuals living with HIV and recorded 9,500 new infections in 2019.[41] HIV prevalence also differs across gendered lines with women being disproportionately affected. In 2019, 210,000 women were infected with the virus compared to 160,000 men. Despite this, Botswana has made significant progress in curtailing the spread of HIV. It was the first country to offer universal antiretroviral treatment at no cost to people living with HIV. Furthermore, the change in new infections is down 34% since 2010, according to UNAIDS 2020 data.[42]

Botswana has the fourth highest HIV prevalence rate in the world with 20.7% of the adult population infected with the virus. Only South Africa, Lesotho and Eswatini have a higher HIV prevalence.

The country has also had declines in other major communicable diseases. TB infections have fallen with the number of people developing TB falling from 10,000 in 2010 to 5,800 in 2019. At 253 per 10,000 people infection rates are higher than countries in the region such as Zimbabwe (199) and Malawi (146) but less than other SADC countries as Lesotho (654) and Namibia (486). Malaria has also fallen significantly from 71,000 cases in 2000 to 533 in 2018 (though there was a spike in 2017).[43] However, life expectancy in Botswana is 62.25 years, which is relatively low by international standards, but it is improving as life expectancy in 2000 was 45.59 years. Life expectancy is considerably lower for men than it is for women, at 58.95 and 65.46 years, respectively.[44]

Health outcomes are still low relative to other middle-income countries. Maternal mortality in Botswana has fluctuated significantly between 2005 and 2017, illustrated by Figure 18 below. Over a five year period, the maternal mortality rate (MMR) increased by 9.7% from 151.6 deaths per 100,000 live births in 2014 to 166.3 deaths per 100,000 live births in 2019.[45] The MMR remains exceedingly high relative to comparable middle income countries.[46] In 2019, the under-five mortality rate is 41.6 deaths per 1,000 live births while the infant mortality rate is 32 deaths per 1,000 live births.[47] The SDG target for Botswana is to reduce the MMR to less than 70 per 100,000 live births. Therefore, by comparison, progress is still to be made to reduce the MMR which has been consistently above 100 per 100,000 live births. Maternal mortality remains an issue and can increase the vulnerability of children in Botswana if a single mother dies leaving children without a source of income. Between 2012 and 2014, 64.4% of women that died were single mothers with the majority leaving behind impoverished children.[48]

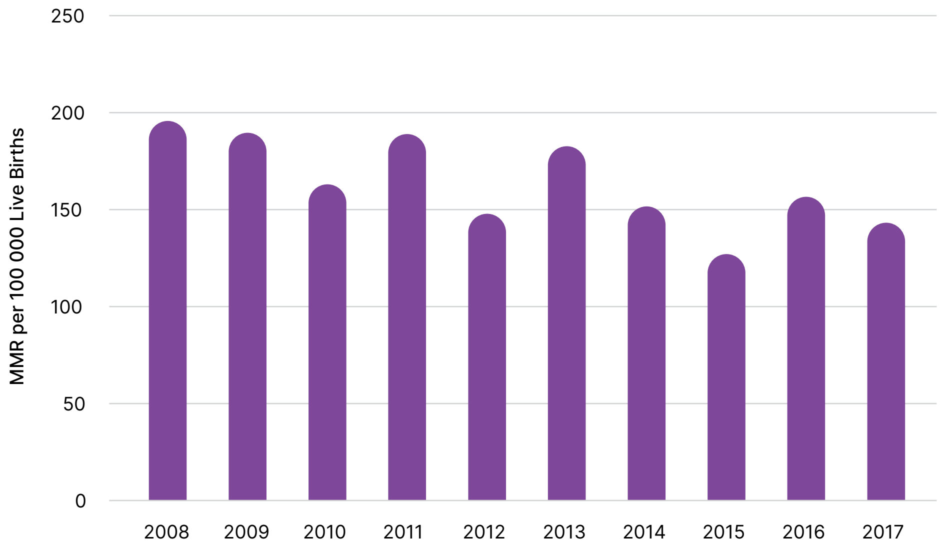
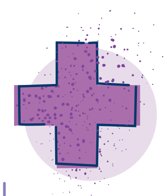


Figure 18: Maternal Mortality Ratio (2008-2017)

Data Source: Botswana Medical Aid 2019 Annual Report

Funding for healthcare in Botswana has increased. Budgetary allocations to the healthcare system have increased over time and the development of health plans in Botswana include a primary role for the public health system. In the 2018/2019 fiscal year, per capita healthcare spending was P3,500.[49] During the 2017/2018 financial year, 4% of the country's GDP was allocated to the healthcare sector, which received the third largest share of government spending. In monetary terms, healthcare spending equalled P8.1 billion – an increase of 12.3% from the previous fiscal year. The rise in the share is largely attributed to cost of financing the fight against HIV. There is also significant donor funding. OECD data suggests that 97% of HIV/AIDS related international assistance was provided by the United States of America (USA).[50] Although budget allocations have increased significantly, the healthcare sector faces serious challenges that manifest in the form of HIV/AIDS, child malnutrition, infant and maternal mortality. Furthermore, the COVID-19 pandemic is expected to also add to strain on the healthcare sector in terms of affecting capacity and costs of containing the pandemic.



Budgetary allocations to the healthcare system have increased over time.

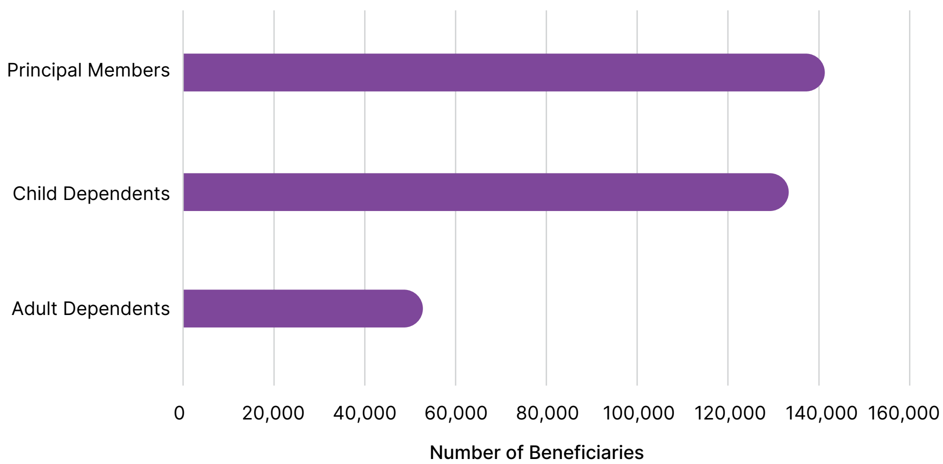


Figure 19: Beneficiaries

Source: Finscope 2020

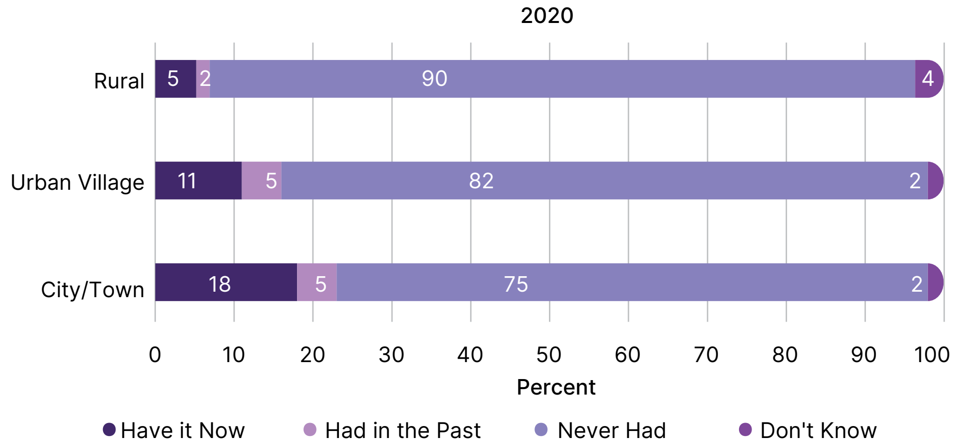


Figure 20: Proportion of adults (18 years and older) with medical aid

Rural may not equal 100% due to rounding.
Source: Finscope 2020

There is a significant private healthcare sector in Botswana. 16.3% of total healthcare expenditure was financed by the private sector and it is estimated that 15% of Botswana's population is covered by private medical aid schemes. Botswana has five medical aid funds registered with NBFIRA. Four of these funds offer coverage to approximately 327,500 beneficiaries in 2019.[51] However, there are inequities in the healthcare system as services are primarily tailored towards those in the formal sector.[52] Furthermore, as shown in Figure 20 above, in the Finscope 2020 survey, only a small number of respondents had medical aid, and those that did were primarily based in cities and urban villages (approximately 11% to 18%) with a smaller proportion of those in rural areas (5%).

Access to healthcare does not appear to be an issue. In terms of accessibility, it is estimated that 84% of Botswana's population lives within 5km of a healthcare facility and 95% within 15km.[53]

Out-of-pocket (OOP) fees are low relative to other countries. While OOP fees and spending remains an important policy issue, Botswana has, comparatively speaking, the lowest OOP spending in sub-Saharan Africa.[54]

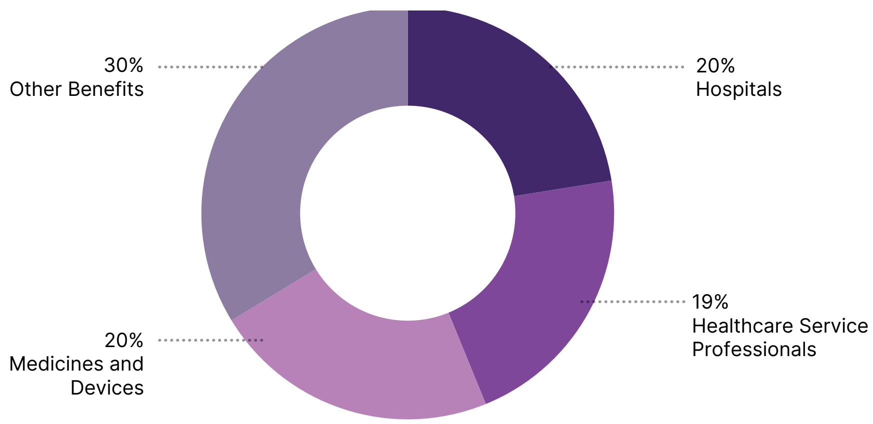


Figure 21: Out-of-pocket Expenditure Composition (percent)

Data Source: Botswana Medical Aid 2019 Annual Report

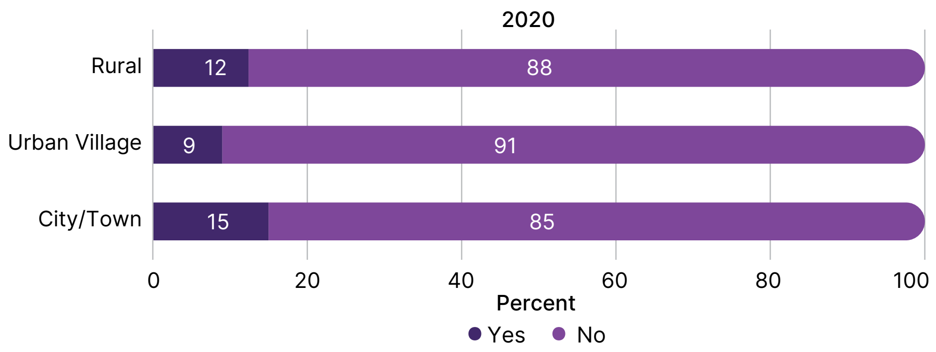


Figure 22: Proportion of those saving, who were saving for medical expenses either planned or emergency

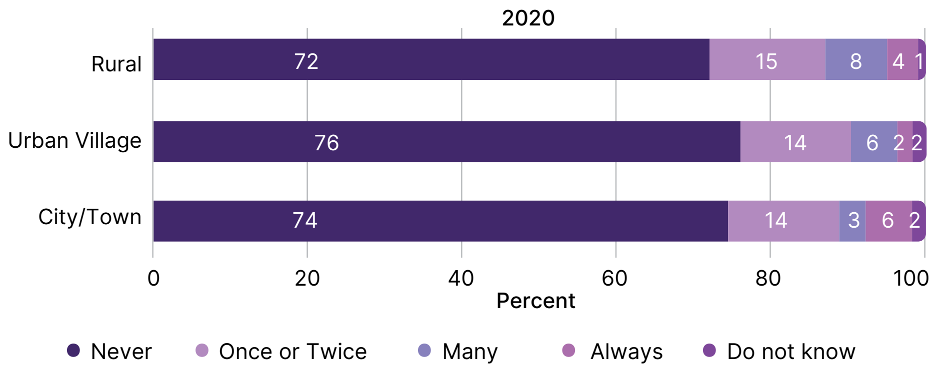


Figure 23: The number of times, over the past year, respondents were unable to pay their bills and had to go without medicines or medical treatment

Source: Finscope 2020

In 2012, OOP spending comprised 13% of total health expenditure in the country.[55] Since then, it has decreased significantly constituting an estimated 3.2% of total health expenditure in 2018.[56] In monetary terms, OOP per capita spending is approximately USD 16. In 2019, total OOP expenditure in Botswana was estimated to P403 million comprising 20% of total healthcare expenditure. Although Botswana has relatively lower OOP fees, total OOP expenditure in the country (20% of total healthcare expenditure) exceeds the World Health Organisation's recommendation of 15%.[57] According to the Board of Healthcare Funders in Botswana, P167 million was spent at healthcare service providers in 2019. The bulk of this expenditure, approximately 30%, went to pathologists, medical specialists and general practitioners.[58] However, this only comprises a subset of total OOP spending comprised of those with medical aid cover.

Medical expenses impact on financial behaviour. Finscope data suggests that individuals are saving for medical expenses. Those who are saving for medical expenses ranges between 9% in urban villages to 15% in towns. This suggests that a proportion of individuals foresee medical expenses and therefore try to pre-empt it by saving for it. Furthermore, as shown in Figure 23, those that were unable to pay bills, a sizeable proportion had to go without medical treatment or medication as a result. This suggests that there is a need for financial instruments that assist in the payment of medical expenses such as medical aid with a lower price point and health insurance.

P167 million was spent at healthcare service providers in 2019. 30% of this expenditure went to pathologists, medical specialists and general practitioners.

28 Education

Botswana has a well-educated population that benefits from free provision of primary school. The Government of Botswana has viewed education as a primary driver of development. This is emphasised by the fact that over 7% of the country's GDP is allocated to education expenditure – the largest share of public spending.[59]

All citizens are offered free primary school education, which has contributed to the relatively high enrolment rates.[60] The net enrolment rate drops from 92.9% for primary education to 64.1% for secondary education.[61] However, it does not appear as though fees are a barrier to education. Botswana has a well-educated population with a literacy rate of over 90%. In the 2017/2018 financial year, education expenditure totalled P12.7 billion representing 21.3% of the total budget and 7.2% of GDP in Botswana.[62] Of this total spend, 7% or P1.1 billion was allocated to the development and construction of rural schooling facilities. However, UNICEF notes that infrastructural expenditure remains low by international standards as certain spending inefficiencies inhibiting the impact of the education spend.

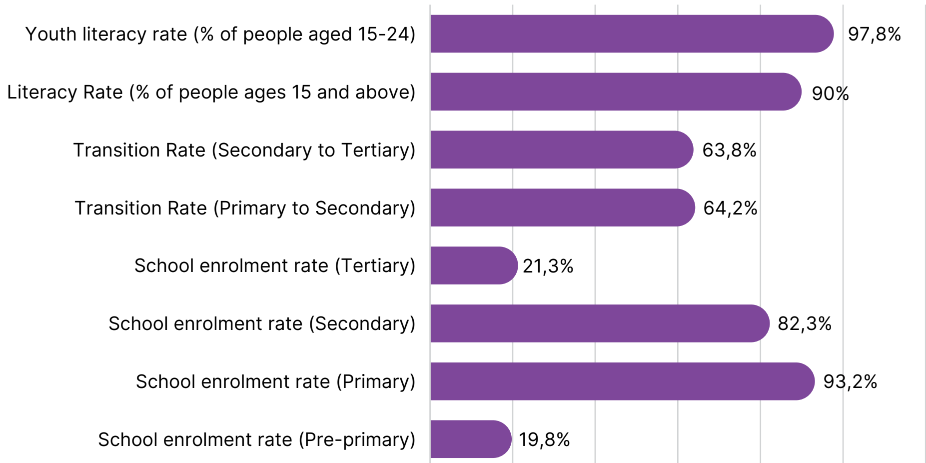


Figure 24: Education Indicators

Source: UNESCO Institute for Statistics Database (2020)

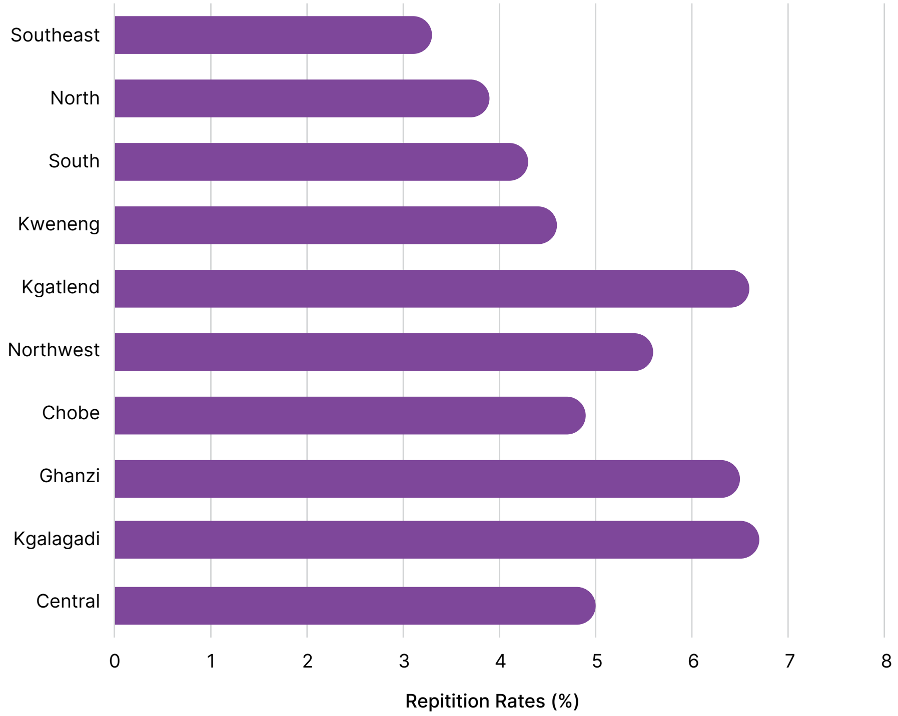


Figure 25: Repetition Rates (2015)

Source: UNICEF and World Bank. (2019). Botswana Basic Education Public Expenditure Review (PER)

However, there are concerns over the quality of schooling.[63] The World Bank notes that although Botswana has achieved consistently high enrolment rates, at a primary education level, the country's quality-adjusted average education attainment remains low. 4.8% of children that enrolled for primary school repeated primary grade in 2015. In 2018, pre-primary education had an enrolment rate of 41% for standard one, while the enrolment rate for 5-year olds was 43%.[64]

Educational expenses impacts on savings and loans. Finscope data suggests that individuals have needs for financial instruments to assist with educational expenditure. As shown below between 10% to 17% of individuals are saving for education or school fees with a bias towards individuals in cities. In addition, 18% of individuals in villages, that have loans, have also taken out loans for school fees. This suggests that instruments that assist in saving or the provision of loans for educational purposes may be useful.

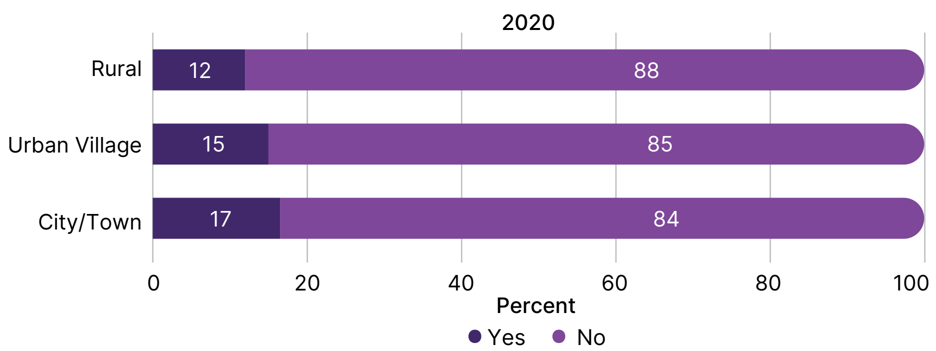


Figure 26: Of those that are saving- proportion saving for education or school fees

Source: Finscope 2020

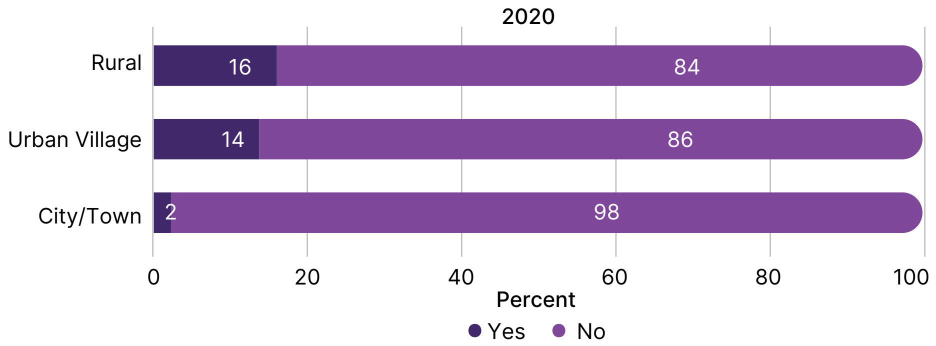


Figure 27: Of loans, proportion that have been taken out to pay school fees

Source: Finscope 2020

There may be scope for increased products to assist with in the educational sector.

1. **Payment systems:** If payment for school fees and education can be done through mobile money or bank transfers this reduces the time and effort spent paying fees and reduces risk of money being lost or stolen (particularly in instances where fees are given to children to pay).
2. **Creating savings and loan products to assist with education:** Given the high societal benefit of education it may be helpful if specific products be created to assist with educational expenses. While there are certain commercial products offered by insurance companies (for example, by Botswana Life and Metropolitan) these do not appear to be targeted to lower income markets. Products that could be created at a low price point can include savings products (including digital) that pay a return that incentivises savings and loan products. Government assistance to subsidise these savings accounts and loans will create societal benefit as a result of assisting with educational expenses.

It can be noted that digitising school fees, for example can lead to increased financial inclusivity. For example, Building Resources Across Communities-BRAC in Bangladesh, ran a pilot programme which digitised school fees and set up a mobile money account on parent's phones. The result was that families used the mobile money accounts for uses beyond school fees, and students also learnt how to use mobile money. While at present the depth of use of mobile money in Botswana is quite low, incentivising use of mobile money such as through digitalisation of school fees may provide additional benefits. However, it can be noted that this is only applicable to high school.

This also suggests a further link between education and financial inclusion, namely the role that schools and educational institutions can play in enhancing financial literacy of youth and children. Partnering with the educational ministry to incorporate practical financial literacy tools for students into the system (either through curriculum or workshops) could potentially be done in partnership with financial institutions.

The result was that families used the mobile money accounts for uses beyond school fees, and students also learnt how to use mobile money.

29

Infrastructure

The links between infrastructure and real-world outcomes, including the social impact on people, is considered in this section.

Mobile network infrastructure

Strong mobile penetration and thus telecommunications infrastructure is critical to enabling digital services in the country (along with other digital infrastructure building blocks such as suitable payment rails and a national ID as discussed in more detail in the section on digital financial services).[65] This has implications for the development of businesses, in terms of market access, access to information and systems (including payment), as well as individual financial services.

Botswana is primarily served by strong mobile as opposed to fixed services. Telecommunications infrastructure is critical to enabling digital services in the country. This has implications for the development of businesses, in terms of market access, access to information and systems (including payment), as well as individual financial services. While Botswana has low levels of fixed line penetration with only 6.1 fixed telephone subscriptions per 100 inhabitants, it has excellent mobile phone penetration with 173. subscriptions per 100 inhabitants, up from 160 subscriptions per 100 inhabitants in 2013.[66] Household internet access has increased since the last MAP and is current estimated at 63.5% in 2019 up from 41.7% in 2015. However, with fixed broadband access at under 2% Botswana is very dependent on mobile networks for access to communications.

Household internet access has increased since the last MAP and is current estimated at 63.5% in 2019 up from 41.7% in 2015.

Botswana currently has a range of network operators that compete. These are Botswana Telecommunications Limited (BTCL) through their subsidiary beMobile, as well as Orange and Mascom. Since 2015 the market share of Mascom has declined while that of Orange has increased so the market is effectively a duopoly with emerging competition from BTCL. Botswana Fibre Networks provides wholesale services. As such, it should be noted that it is a highly concentrated industry.

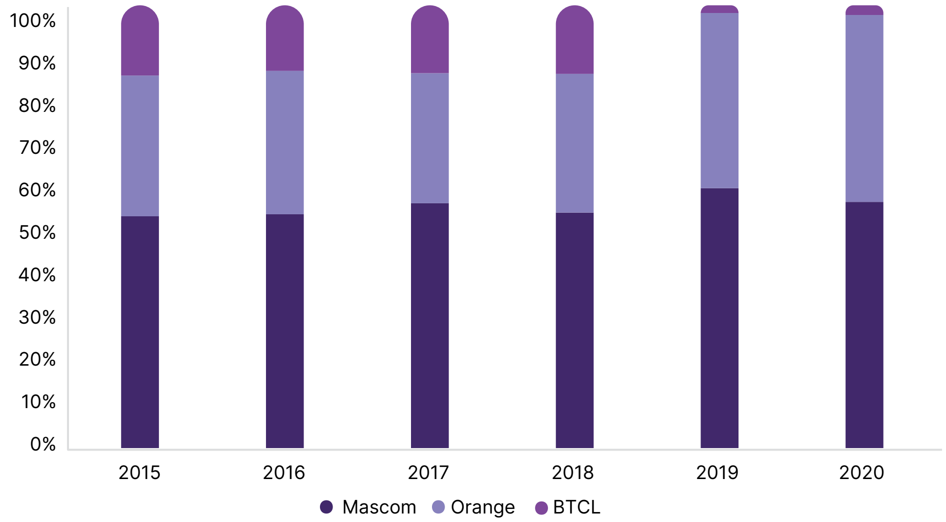


Figure 28: Market share of mobile operators by subscription over time

Source: BOCRA

Table 2: No of mobile subscriptions (million) as at March

	2015	2016	2017	2018	2019	2020
Mascom	1.78	1.82	1.78	1.69	1.7	1.75
Orange	1.08	1.12	0.94	0.99	1.14	1.32
BTCL	0.54	0.51	0.49	0.49	0.05	0.07
Total	3.4	3.46	3.22	3.18	3.35	4.02

Source: BOCRA

Mobile network coverage is 97% and appears to have remained at this level in recent years. However, this differs by region.

There is good coverage in urban areas but rural areas are often limited to 2G coverage. Mobile network coverage is 97% and appears to have remained at this level in recent years. However, this differs by region. While much of country has access to 2G coverage, there is more limited 3G coverage and 4G is largely limited to more urbanised areas such as Gaborone and Francistown and tourist areas while coverage is poorer in more rural areas. The fact that many areas have 2G access limits the speed of data and therefore the breadth and scope of digital applications. However, it does allow for use of mobile money or other applications that work through Unstructured Supplementary Service Data (USSD) codes.

Data prices are high. As shown in Figure 29, data prices in Botswana are fairly high in comparison to other countries in Africa. High data costs can impact on the ability for customers to utilise digital financial services (particularly app-based ones) and increases transaction costs.

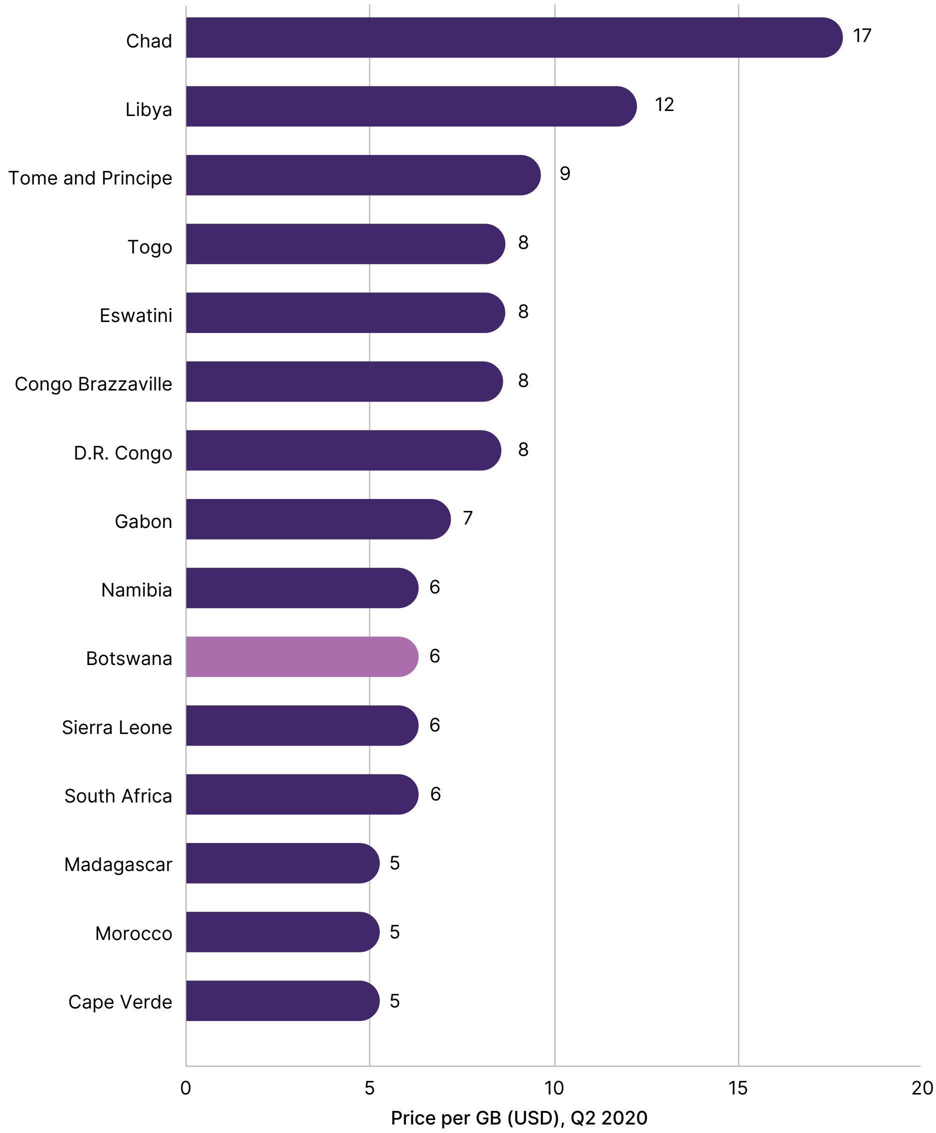


Figure 29: Top 15 most costly data prices in Africa (out of 40 countries)
Source: Research ICT Africa

It can be noted that strong ICT infrastructure is a base for financial inclusion both in terms of its role in payment systems (both bank and mobile) and digitisation. This is both as a conduit to digital and mobile services including remittances and payment systems. Strong and consistent ICT infrastructure is therefore a prerequisite to the development of a mobile or digital financial ecosystem.

Water and sanitation

Water is essential resource for households for consumption, sanitation and agricultural irrigation. This is particularly the case given the shortages of rainfall that are frequently experienced in the country. There are nine dams in Botswana used for storing surface water. The largest of these dams is Dikgathong which has a capacity of 400 million cubic metres, while the smallest dam is Nnywane in the South-east District which has a capacity of 2.3 million cubic metres.[67]

Access to basic sanitation services has improved significantly in Botswana although disparities still exist across the rural-urban divide. In 2015, 60% of people in Batswana were using at least basic sanitation services.[68] This was disparate across areas with 75% using these services in urban areas compared to 39% in rural areas. According to the latest data provided by the World Bank, there has been an improvement with coverage estimated at 77% in 2017.[69] The gap in coverage between residents in rural and urban areas has remained relatively unchanged and still significant. In rural areas, 50.5% were reported to be using basic sanitation services compared to 89% in urban areas.[70] Furthermore, 76.6% of the population made use of a latrine while 4.9% used sceptic tanks in 2017.[71] Figure 30 shows that most households have access to their own toilet, but rural residences still rely more on communal and neighbour toilets, relative to city/town and urban villages.

79% of the population had access to at least basic drinking water sources. The urban areas had almost 95% coverage while the rural areas had 58% coverage.

Access to basic drinking water has also improved. In 2015, 79% of the population had access to at least basic drinking water sources. The urban areas had almost 95% coverage while the rural areas had 58% coverage.[72] According to the World Bank, coverage has improved with approximately 90% of Batswana using at least basic drinking water sources in 2017.[73] In urban areas, the coverage increased to 97%, by comparison, coverage in rural areas increased to 75.5%. Although the gap between rural and urban areas still remains, it has decreased fairly significantly. In 2017, 90.4% of Botswana's population used piped water as the source of drinking water compared to 6.5% that used non-piped.[74] Moreover, from 2010 to 2017, piped water usage in rural and urban areas remained consistent at around 77% and 97%, respectively.

Progress can still be made in rural areas. As shown below, there has been a substantial increase in access to piped water across most locations except for rural areas, who appear to be served to some extent by boreholes, but for whom a fair proportion still use dams, rivers and wells.

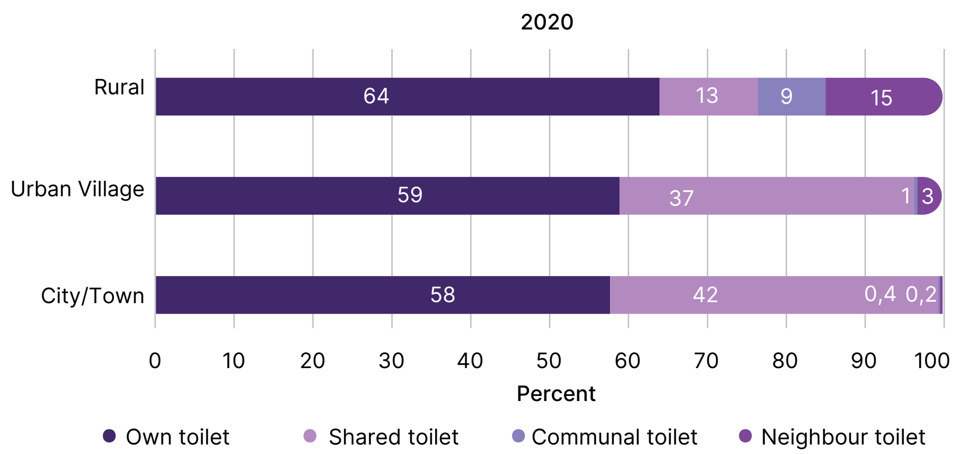
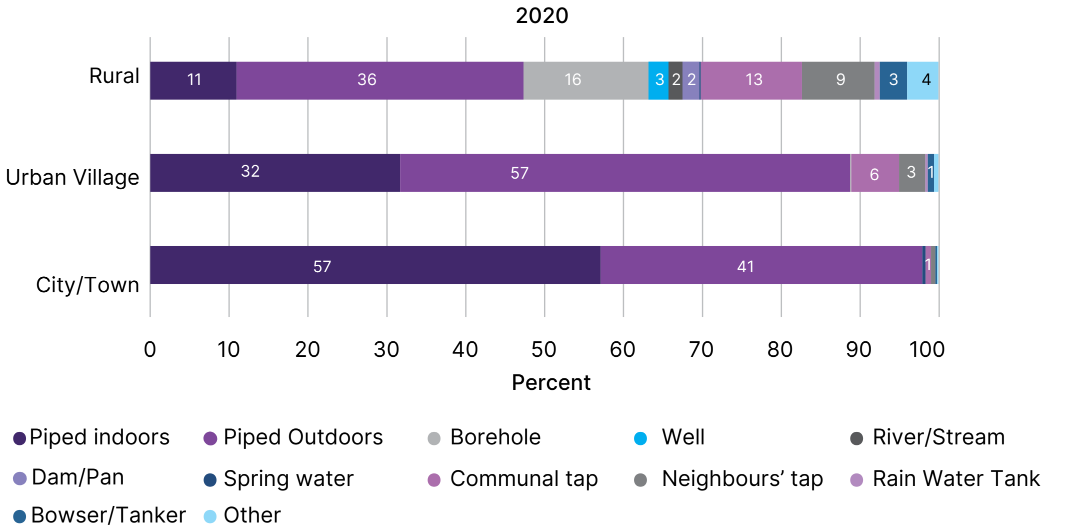


Figure 30: Main type of toilet facility for the household

City/Town bar does not equal 100% due to rounding.
Source: Finscope 2020



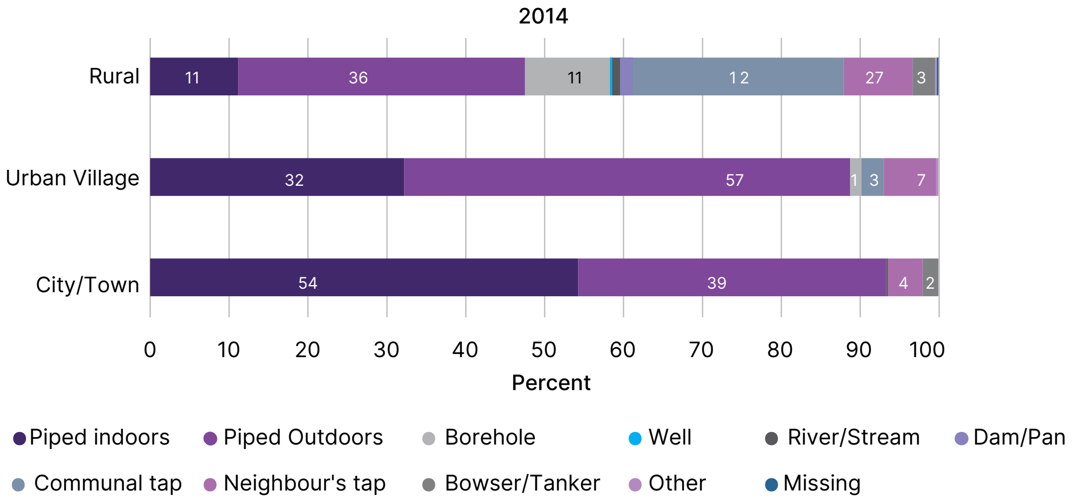


Figure 31: Main source of water supply for the household

For brevity purposes, the percentages of water sources that are less than 0.5% has not been shown. Bars may not equal 100% due to rounding. In 2014, the Finscope survey uses the term Urban and not City/Town.
Source: Finscope 2014 & 2020

Despite the evident benefits to increased sanitation, it remains an expensive venture for households to undertake. Based on international research, sanitation financing is an inhibiting factor to improved sanitation and that tailored financing options should be available to build sanitation.

Electricity

Access to electricity in Botswana has improved in the past two decades but is still limited in rural areas. The number of villages with access to electricity has grown in recent years, in part due to the Botswana Rural Electrification Project. The percentage of the population that had access to electricity in 2018 was 64.9%, with electricity access reaching 81.1% of the population in urban areas but limited to 27.9% in rural areas.[75]

There are high levels of electricity usage for lighting purposes but less for cooking. FinScope (2020) found that 72% of adults report using electricity for lighting, while 10% used candles, 7% paraffin, and 5% solar. However, for cooking, only 23% used electricity, with the majority instead using LPG/gas (41%) and wood (33%). In other SADC countries, the UNCDF found that the reliance on gas and wood for cooking is due to the affordability of electricity for higher intensity use cases.[76] As shown below, usage of electricity for lighting (a proxy for access to electricity), is significantly lower in rural areas (where 30% of adults live). It is however notable that the use of solar power, candles and "other"[77] are increasing in these areas, suggesting a gap in the market for solar home products in rural areas. Therefore, access to electricity remains a big challenge for development in rural areas and affects the kind of productive activities that households engage in for steady and sustainable income generation.

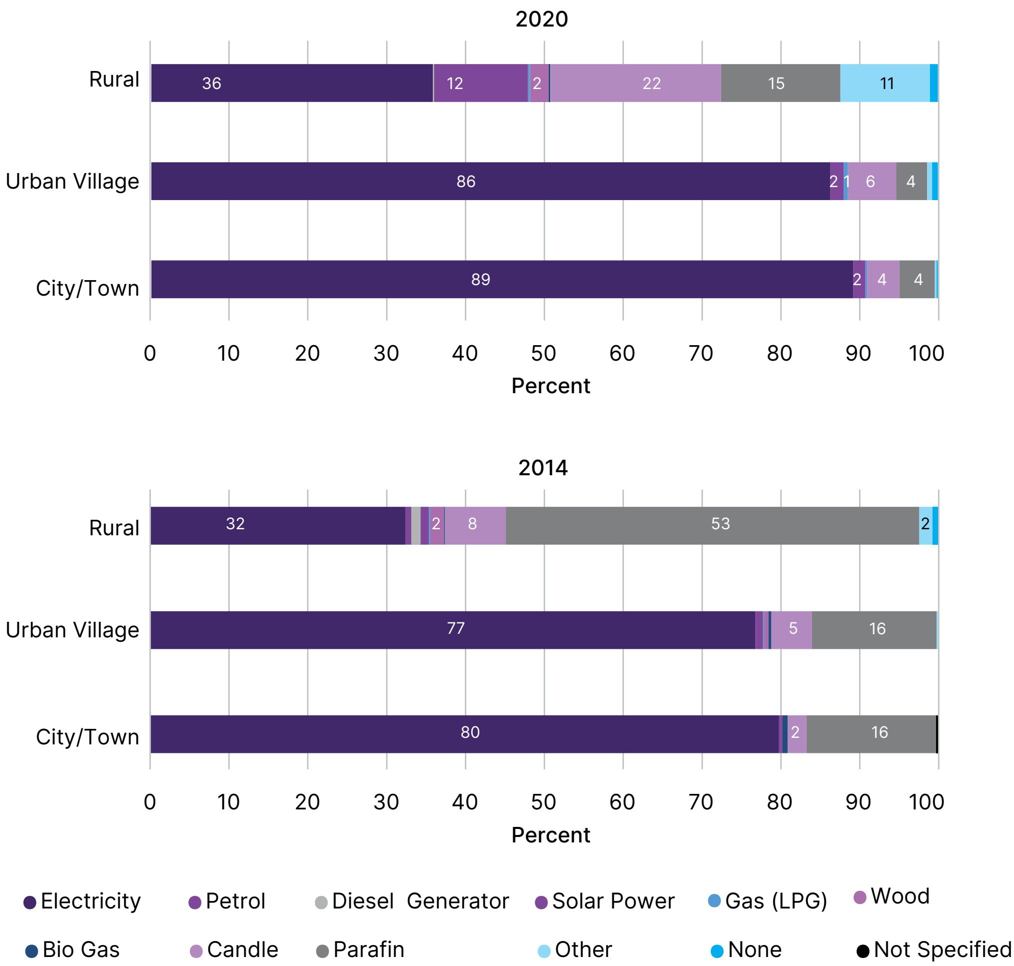


Figure 32: Main source of energy/fuel used by the household for lighting

For brevity purposes, the percentages of energy/fuel sources that are less than 0.5% has not been shown. Bars may not equal 100% due to rounding. In 2014, the Finscope survey uses the term Urban and not City/Town.
Source: Finscope 2014 & 2020

Botswana relies mainly on electricity, coal, fuelwood and petroleum for its energy demands. The country may have an abundance of coal and a power plants, but due to shortages mainly caused by the failure of Botswana's Morupule B power station, it is still heavily reliant on South African electricity imports and diesel generators for power – meaning Botswana must increase their capacity if they want to reduce this reliance. The quasi-fiscal deficit, or the implicit electricity subsidy in Botswana was 3.4% of GDP in 2014.[78] While Botswana has the largest un-tapped coal resources on the continent,[79] banks and investors are becoming increasingly reticent in providing finance for new coal projects due to the link between coal and climate change.

However, there is the potential for a shift to renewable energy. There is transformation happening in the energy sector in Botswana, with the falling prices of renewable energy, particularly from wind and solar sources, together with battery storage, increasingly replace traditional sources of electrical power.[80] Botswana's renewable energy resources include solar, wind, and various forms of bioenergy that include biofuels and biomass wastes. Solar is particularly promising. In 2016, Botswana had direct normal irradiation (DNI) of 3,000kwh m2/year –among the highest in the world. It is estimated that by using less than 1% of the country's area, Botswana would be able to meet its electricity consumption.

Renewable energy solutions may hold particular promise in rural areas. Donors including the UNDP and the World Bank have initiatives to promote off-grid and on-grid renewable energy solutions such as mini-grids, microgrids, solar home systems and PV. Several solutions are available for solar solutions that can at least assist with lighting and the charging of mobile devices, and the increasing use of non-electricity lighting sources in rural areas (see Figure 32), could see there being a market for solar home products. Given the overall high reliance on gas and wood for cooking, cheap clean energy cookstoves can provide alternative energy sources for cooking that are better for the environment. The development of pay-as-you-go models to allow households to invest in off-grid systems, potentially with some subsidisation to assist with affordability can also be considered. In various countries payment of distributed generation systems (such as the pay-as-you-go solar energy systems) are being made using digital channels (for example, M-Kopa Solar in East Africa). Furthermore, the development of solar power related services may be a useful area for the development of SMMEs.

Access to electricity is first and foremost important for poverty reduction and the improvement of livelihoods. Energy access improves the lives of people as it allows for increased access to services and opportunities, one of which is that of financial inclusion – which supports access to electricity in the first place. Financial inclusion allows for access to finance to invest in basic energy needs (such as a solar power system) and the ability to pay for electricity using payment systems.

On the other side of the coin, energy inclusion leads to an overall improvement of people's welfare - one example is by enabling financial inclusion, as access to energy enables the charging and use of devices to facilitate financial transactions (such as mobile phones or POS devices), allows for the generation of income to realise financial needs, and allows people to take advantage of more opportunities and services in the economy and moving to cleaner energy sources also has benefits for health and safety. As such, the feedback loop between financial inclusion and access to energy sources is one of the ways in which energy access increases welfare in a country.

PART 2 NOTES

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76 https://www.uncdf.org/article/6474/energy-and-the-poor-unpacking-the-investment-case-for-clean-energy

77 The top 3 sources of energy/fuel for lighting in the “other” category are torches, phone torches and phones.

78 Trimble & others (2016), cited above.

79 See: https://www.miningmx.com/news/energy/45076-wary-of-diamonds-after-ravages-of-covid-19-botswanas-president-wants-more-coal-mines/

80 See, for instance, Zerrahn, A., Schill, W. P., & Kemfert, C. (2018). On the economics of electrical storage for variable renewable energy sources. European Economic Review, 108, 259-279.

3

National financial inclusion strategy achievements

It is important to reflect on progress against the 2015-2020 MAP Roadmap, in order to consider what gaps might still exist, and how best to prioritise future interventions. There are a number of ways in which the financial services sector is better positioned to expand financial inclusion, particularly by means of mobile money services and use of agents and retailers, discussed next in Section 3.1. At the same time, there are a number of areas where progress has been more limited for example, in relation to the development of insurance and savings products, discussed in Section 3.2.

31

Progress on MAP 2015 diagnostic study

Progress against activities set out in the 2015 MAP

The overall goal proposed by the 2015 MAP Roadmap was to:

Improve household welfare, increase economic efficiency and support growth by reducing the percentage of adults who are excluded from 24% to 12%, and increasing those with access to more than one formal financial product from 46% to 57% by 2021 by:

1. extending financial inclusion to lower income households and target groups that are currently less well-served
2. enhancing financial sector infrastructure, encouraging competition, improving regulation and reducing risks
3. facilitating well targeted credit to productive enterprises and for investment in assets.

Botswana has reduced the number of adults excluded to 16%, and improved the number of individuals that use more than one formal financial product to 52% in 2020, but these still fall short of the above targets.

At present, Botswana is still working towards its overall goal as it has reduced the number of adults excluded to 16%, and improved the number of individuals that use more than one formal financial product to 52% in 2020, but these still fall short of the above targets.

There has been considerable progress since 2015 on some recommendations set out in the previous MAP diagnostic (summarised in Table 3).

In terms of implementation, there has been considerable success in implementation in several of these areas and objectives. In particular, there has been massive progress in terms of growth of e-money and remittances. However, as will be discussed in more detail in the sections that follow, there has been slower progress in terms of meeting objectives in terms of savings, insurance and credit. Key elements of progress and challenges are listed in the table below. We look at each component in more detail in the sections that follow. These tables are based on implementation reports provided by the Financial Inclusion Task Team. It can be noted that there are often multiple components of a task. Where these have been partially achieved or are still in process it is demarcated as such. Where there is insufficient information or it has not been achieved, we have noted this.

Table 3: MAP diagnostic (2015) roadmap and Botswana Financial Inclusion Strategy Implementation Programme (2016-2020)

ROADMAP AREAS FOR IMPLEMENTATION	
1. Development of a payments ecosystem	
Leverage Bank reach	• Partnerships to develop infrastructure – ATM, POS and agency networks • Evaluate potential for self-stocked and cash accepting ATMs housed with retailers • Third party service provider potential to reduce costs • Interoperability with MNOs • Revisit bank charges for sustainable rural provision to reduce overall bank access costs • Prepaid card (e.g Poso card) potential for salary, grant, harvest payments
Mobile money effectiveness	• Partner with banks, Botswana Post and super-agents to leverage distribution network and for rebalancing • Improve interoperability – with banks and between MNOs • Improve agent management approach for liquidity and consumer value • Consider broader mobile money benefits to drive internal business case, including reviewing mobile money fee structures
Re-energize post office	• Partner with MNOs for distribution • Re-evaluate the cost of domestic and international remittances especially at the lower bracket
Develop retailers and petrol stations as alternative channels	• Extend mobile money agent and super-agent role and banking agency functions • Partner with banks to extend card value proposition and increase footfall • Partner with cross border remittance providers to send and receive
Regulation, policy and financial sector development	• Develop a rural payment distribution strategy including incentives for rural roll out (e.g. use of BOCRA grants to incentivise private sector participation) • License third party service providers to provide service for banks • Leverage SIRESS to reduce cross border payment costs • Evaluate sustainability and targeted design of government grants and subsidies to develop digital use case • Provide a framework for payment and settlement service providers to expand services beyond transactions (e.g. extend functionality of Poso card, and similarly mobicash, Real Pay, Smart Switch) • Potential of Agency banking model • Consider a business case for a national switch to facilitate linkages between banks and with non-bank financial service providers • Formation of a national payments association to amongst tasks lead the national switch process. • E-money licensing
2. Facilitate low cost, accessible savings products	
Enhance bank and payment provider products	• Product development for targeted savings (e.g. saving wallets) – bank and mobile • Banks to improve customer communication to direct clients to appropriate products • Savings bank potential, given interest margin
Strengthen provision by other formal institutions	• Post office saving account potential given reach • Regulate and expand SACCOs, manage and ensure stability • Monitor savings market to encourage access and use • Improve returns: capital market development and macro-economic change required
Improve retirement provisions	• Leverage mandatory pensions to allow productive access to credit, e.g. collateral for housing finance • Extension of pensions to unserved employees, potentially through a new statutory scheme (under consideration)
Regulatory and policy interventions	• Remove barriers on deposit taking including tiered microfinance licenses to enable new entrants e.g. deposit taking MFIs and SACCOs • Policy level review to position mobile money as a savings instrument, including reviewing maximum wallet balances (currently P4,000), reviewing notification limits (currently P10,000), and potentially paying interest on consumer balances to encourage use as a savings instrument. • Encouraging savings by allowing cash-ins to Poso card balances

3. Develop accessible risk mitigation products	
Improve products and distribution partnerships	• Explore partnerships with MNOs, general dealers, SACCOs and others for distribution • Expand payment options (e.g. mobile) • Flexibility / innovation in product design e.g. to cater for non-regular incomes • Improved disclosure of product terms and conditions
Regulatory and policy interventions	• Micro insurance framework potential (consider the SADC guidelines to flesh out the new Insurance act) • Monitor Insurance data to encourage value to customers (e.g. claims ratio) • Review new product approval requirement and processes • Review potential for compulsory 3rd party insurance for property damage • Electronic sign up of services • Customer education and awareness
4. Improve the workings of the credit market	
Enhance Bank credit provision	• Increased partnership for credit provision to target appropriate recipients, including with CEDA • Improve disclosure of product information (eligibility, costs and terms) • Support credit information sharing initiatives
Build and strengthen MFIs	• Attract additional MFIs through capacity building and improving coordination and policy environment for MFIs • Investigate alternative sources of capital to development partner funding/debt (e.g. crowd sourcing) • Operational support to innovate on services to SMMEs (currently focused on consumer payslip model)
Alternative support mechanisms for SMMEs	• SMME skills development, mentoring (potential for programs targeted at women) • Alternative capital opportunities beyond debt given cost (e.g. venture capital and private equity) • Leveraging Metshelo (savings groups) and others as a conduit for the provision of formal credit
Regulatory and policy support	• Credit Act • Consumer credit legislation to empower consumers • Credit information sharing (Positive and Negative) • Mandatory credit reporting and look-up • Improved enforcement in micro lender market to manage risks • Collaborate with SMME development committees • Develop capital market and improve macro-economic environment to reduce cost of credit • Credit monitoring to effectively supervise for targeted access, abuse and indebtedness • Housing finance strategy potential given urbanisation • Increase financial and credit literacy including addressing lack of understanding of obligations and risks of debt; managing debt; over-indebtedness, accompanied by more effective systems of credit burden assessment • Leverage customer profiles from e-money transaction records as basis for small scale credit, e.g. Poso card records to unlock credit from BSB, Mobile money records • Developing an MFI policy / regulatory framework that will encourage the emergence of deposit-taking MFIs • Reform of government credit provision (CEDA/YDF) to establish a more sustainable basis that does not undermine commercial players • Improving agricultural credit guarantees
5. Consumer empowerment and protection	
Formal financial service provider led initiatives	• Research target audience and train sales team for improved communication during teachable moments • Make statements inexpensive and simple to obtain to encourage usage and trust (first time financial service users check balances often)
Consumer protection framework	• Clarify lead authority to implement • Ombudsman across all services to reduce cost and improve access to fair treatment (ideally within existing structures e.g. Consumer protection unit) • Empower traditional judicial structures to deal with minor financial service cases • Strengthen legislation, bearing cost in mind (don't protect consumers out of the market)
Targeted Financial literacy initiatives	• Targeted initiatives needed for impact, appropriate design critical (school, radio etc.) • Strengthen financial literacy in education system
6. National Coordination*	
Ministerial ownership	• Endorsement by Minister of Finance of MAP Report
Institutional framework	• MFED Financial inclusion team

* This is drawn from the Botswana Financial Inclusion Strategy and Implementation Programme.

Table 4: Progress on MAP diagnostic tasks as at 2021

PRIORITY	NO OF ACTIVITIES	ACHIEVED	PARTIALLY ACHIEVED OR IN PROCESS	NOT ACHIEVED OR UNCLEAR
Create a payments ecosystem	21	6	12	3
Facilitate low cost accessible savings products	10	1	6	3
Develop accessible risk mitigation products and improve usage of existing products	10		2	8
Improve the working of the credit market	15		8	7
Consumer empowerment and protection	12	5		7
National Co-ordination	3	3		

Table 5: Summary of key MAP diagnostic (2015) highlights and challenges as at 2021

INTERVENTION AREAS	NO OF ACTIVITIES	ACHIEVED	PARTIALLY ACHIEVED* OR IN PROCESS	NOT ACHIEVED OR UNCLEAR	HIGHLIGHTS AND CHALLENGES REMAINING
Priority: Create a payments Ecosystem					
Leverage Bank Reach	5	1	3	1	• Some bank to wallet transfers enabled • Need greater interoperability between MNOs and bank wallets • Insufficient development of products for rural clientele
Mobile Money Effectiveness	3	1	2		• Social grant payments through mobile money enabled • Retailers such as Choppies acting as agents extending footprint • Improvement in agent management approach for liquidity • Adding multi card services
Re-energise Post Office	2	2			• Introduction of Posomoney mobile money product • Social benefits paid out through Post Office channels • POS machines Visa accredited
Develop retailers, post office as alternative channels	3	1	2		• Botswana Post offers remittances • Distribution of pensions through retailers • Challenge: Merchant payments by mobile money not common
Regulation, Policy and Financial Sector Development	8	1	5	2	• Electronic Payment Regulations Published • Drafts of rural payment regs, third party provider licences • SIRESS awaiting implementation- some large banks are using it • Agency banking discontinued • National Switch in early stages of development
Facilitate low cost accessible savings products					

INTERVENTION AREAS	NO OF ACTIVITIES	ACHIEVED	PARTIALLY ACHIEVED* OR IN PROCESS	NOT ACHIEVED OR UNCLEAR	HIGHLIGHTS AND CHALLENGES REMAINING
Enhance bank and payment provider products	2	1	1		• Interest returns have increased in some institutions for basic accounts • Challenges: Mobile money accounts are not able to earn interest • Charges for savings and mobile money are high
Strengthen provision of savings by other formal institutions	4		1	3	
Improve pensions	1		1		• *Challenge* National Pension Scheme not established
Regulatory and policy interventions	3		3		• To include tiered licences in Banking act • *Challenge* No regulations for savings in mobile money accounts
Develop accessible risk mitigation products and improve usage of existing products					
Improve products and distribution partnership	4		2	2	• Distribution of some insurance at retailers
Regulatory and policy interventions	6			6	
Improve the working of the credit market					
Enhance bank credit provision	3		3		• Credit information sharing bill has been drafted with improved disclosure requirements
Build and strengthen MFIs	2		2		
Alternative support mechanisms for MSMEs	3		1	2	
Regulatory and policy support	7		2	5	• Legislative changes including draft of Credit Information Sharing Bill and reviewd Consumer Legislaton • Challenge:Insufficient complementarity with financial inclusion team and Ministry of Agriculture an, CEDA etc • Reassess government credit provision programmes • Agricultural credit guarantees need to b Challenge e reviewed
Consumer empowerment and protection					
Formal financial services	2	1		1	• Financial statements now provided
Consumer Protection Framework	4		1	3	• Consumer protection legislation
Targeted financial literacty initiatives	2		2		
Ministerial ownership	1	1			
Institutional framework	3	3			
National Co-ordination					
Institutional framework operalisation	3	3			

* This means that part of the activities have been achieved and part have not (there are often multiple components to a single activity) Altenative.

3.1

Analysis of financial sector and findings

Banking

There are a range of banks that compete in Botswana. There are nine licenced commercial banks and three statutory banks in Botswana. The five largest banks are Absa (formerly Barclays), Standard Chartered, First National Bank of Botswana (FNBB), Stanbic, and African Banking Corporation of Botswana (BancABC). The five smaller banks are Baroda, Bank Gaborone, First Capital Bank Limited (FCB) and Col and Bank SBI. In 2019, the Bank of India (Botswana) closed operations after being acquired by FCB. The banks offer a wide range of products and services including savings, current accounts and credit through a range of channels including physical branches, automatic teller machines (ATMs) as well as internet and mobile phone banking. Several banks also offer complementary products such as insurance and asset finance.

There are nine licenced commercial banks and three statutory banks in Botswana.

The commercial banking industry is concentrated. The banking industry in Botswana is concentrated with an HHI of 1,756 (indicating a moderately concentrated market), though this is lower than the 2000 level in 2014. The five largest banks account for 84.7%, 85.3% and 87.5% of the total assets, deposits, loans and advances, respectively, in 2019. This indicates a slight increase in the market share of large banks relative to 2014 when the large banks accounted for around 80% of total assets, deposits and loans and advances. This suggests that while the share of large banks has increased relative to smaller banks, there has been a reduction in concentration of large banks. The market share of the three statutory banks [Botswana Savings Bank (BSB), National Development Bank (NDB), BBS Limited (BBSL)] increased to 7.3% and 6.7% with respect to total assets and deposits respectively. However, with respect to loans and advances, the market share for these three banks decreased to 7.5% in 2019.[1] Typically, high levels of concentration within a market is associated market power which typically leads to higher prices or less innovation. As shown in the section on demand, concentration from a consumer perspective may be stronger with a large number of those in the Finscope study using FNB, relative to other banks.

Access to banking infrastructure has marginally increased since the first MAP study. The number of bank branches and ATMs has increased since 2015 largely as a result of expansions by FNB, Stanbic and Bank Gaborone. There

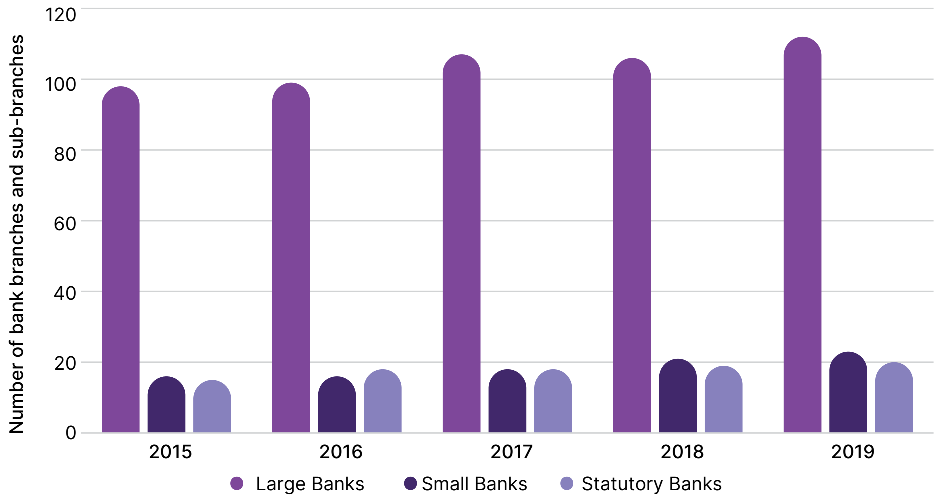


Figure 33: Bank Branches & Sub-branches (2015-2019)

Source: Bank of Botswana Banking Supervision Annual Report 2019

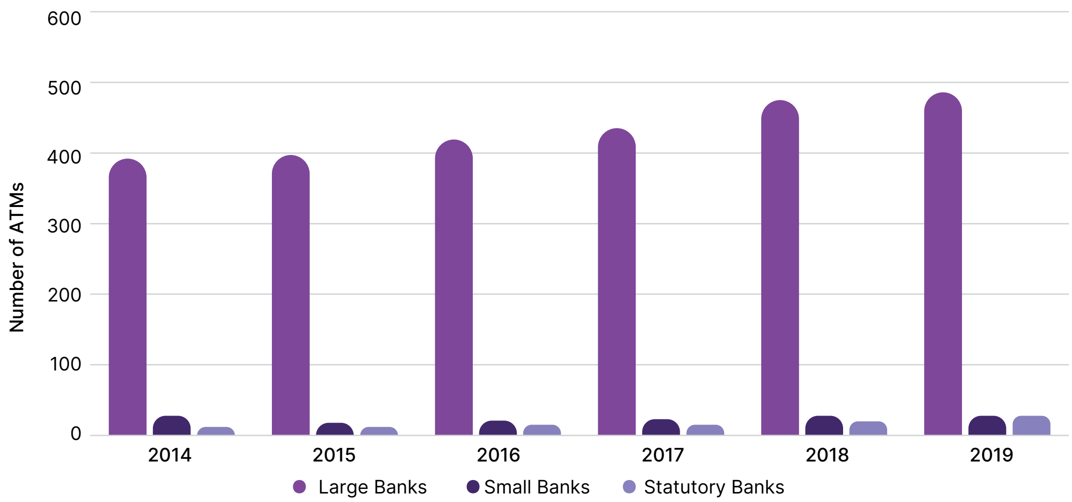


Figure 34: ATMs (2014-2019)

Source: Bank of Botswana Banking Supervision Annual Report 2019

were a total of 135 commercial bank branches and over 514 ATMs across Botswana in 2019. However, ATMs and branches were largely concentrated in the urban areas with the South East District and Central District having 65 and 35 branches respectively. The Central Bank of Botswana reports that ATMs increased from 523 to 542 during the 2019 financial year. However, There is a lack of ATM expansion in Botswana with the number of ATMs per 100,000 adults dropping from 33.6 to 33.3 between 2018 and 2019.[2] In terms of financial performance, the banking sectors' asset base has increased to P91.3 billion up from P68 billion in 2014 (growth of 34.3%). Non-performing loans made up 4.8% in 2019.[3] As such, it appears that infrastructure has marginally increased to keep up with population growth.

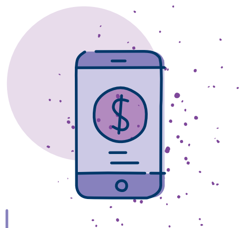
Table 6: Access points per 100,000 adults (>18 years)

	2017	2018	2019
Bank Branches per 100,000 adults	10	9,2	8.8
ATM per 100,000 adults	33	34.1	33.3
Mobile Money Agents per 100,000 adults	91	76.9	130
POS per 100,000 adults		187.1	204
Total Access Points per 100,000 adults	134	307.3	376

Source: Bank of Botswana Banking Supervision Annual Report 2019

From a financial inclusion perspective, access to banking services has slightly improved with the number of depositors increasing by 5.3% from 2018 to 2019. This is further illuminated by the ratio of the number of depositors to adult population increasing from 70% to 72% between 2018 and 2019.[4] The increase in the number of depositors and the volume of deposits fostered an increase of 7.6% in the number of loans and advances. Although an improvement, it only represents a marginal increase since the first MAP study. According to Finscope 2020 data, an estimated 56% of the Botswanan population are banked.

Banks have also increased their options for unbanked and underbanked consumers through the provision of a new range of products including cross-border services as well as arrangements with money-transfer service providers to the unbanked segment of society. Since the last MAP study there has been an increase in digital options provided by banks. This includes e-wallets (Absa's 'Cashsend' and FNB's e-wallet) as per the MAP target. This includes offerings that allow bank customers to transfer money based on cell phone numbers. Another option for low-cost customers is prepaid cards discussed further on in this section. Overall, there has been an increase in the number of banking channels (internet, mobile apps, mobile phones, ATMs) available to customers in Botswana.



Since the last MAP study there has been an increase in digital options provided by banks.

There are now a greater range of online options for customers. App-based banking is increasing options for a subset of customers, though this seems presently more focused on banked customers with access to data and devices. Numerous banks have offerings that allow customers to engage in a range of banking transactions online including sending money and transferring funds between their bank account and wallet. For example, Absa has enabled bank-to-wallet transactions for Myzaka, Orange Money and Smega while SCMB allows for transfers to SMEGA and Orange Money.[5] Some banks are experimenting with remote account opening.

For example, in September 2020, Standard Chartered Botswana introduced an app that allows a customer to open an account with the bank in under 15 minutes and with the promise of a bank card delivery within 48 hours[6]. In terms of KYC, the bank requires proof of address (latest utility bill) and proof of income (certified employment contract or latest payslip) which can be an impediment for individuals in rural areas. Although it seems to be targeted towards a more affluent client as opposed to making it more convenient for the unbanked population to own a bank account it does suggest that there is scope for more experimentation around branchless services in remote areas. The previous MAP study recommended a tiered KYC framework, with less regulation for low value accounts and stricter regulations for high value accounts, to help those with low or irregular incomes get access to financial services.

Challenges still exist in terms of digital onboarding due to KYC requirements. The need to verify KYC documentation including ID documents, proof of address and income in-branch has complicated the rollout of more digital options. Furthermore, the strict KYC requirements for banks that require evidence of proof of income, typically in the form of a payslip or proof of employment, is not well tailored to those informally employed and this has limited their ability to create digital bank accounts. Furthermore, even proof of address could be challenging. As shown below, Finscope shows that while most adults surveyed had an ID document, many do not have documents that would be used as proof of address. However, most banks allow alternatives including letters from authorities in tribal areas and banks interviewed did not believe that this was a significant barrier.

Table 7: Documents in the name of an individual

DOCUMENTS IN YOUR NAME	PROPORTION OF THOSE SURVEYED THAT HAVE DOCUMENT
Electricity bill	18%
Water bill	21%
Bank statement	33%
Council rates invoice	5%
Telephone account	3%
Tax return	11%
ID/Omang	95%
Passport	53%
Lease or rental agreement in your name	13%
Long-term or short-term insurance policy doc	17%
TV/DSTV agreement in your name	19%
Other	2%
None	1%

Source: Finscope 2020

Secondly, mobile wallets can now be used to make 'cardless' cash withdrawals from ATMs in Botswana. For example, FNB allows users to make deposits and withdrawals from particular ATMs (FNB cash plus agent) using their cell phone. It does require the customer to be registered for Cell phone banking and the FNB app. The introduction of mobile banking services will capacitate individuals residing in rural areas to have access to financial services without having to travel to traditional "brick-and-mortar" branches. While advances are being made with mobile banking, it is imperative that customers, especially lower-income and rural customers, have access to mobile devices. Stanbic is introducing a new platform called Unayo, which is a mobile digital wallet linked to a bank account. In many ways it offers similar capabilities to mobile money in terms of allowing for cash in, cash out and transfers to bank accounts, and via voucher to emails or cell-phone numbers. Furthermore, access to ATMs or the ability to cash out through an agent is also a necessity to enable digital accounts in rural areas.

There has been an increase in online payments (such as EFT payments) and use of EFTs at point of sale as well as ATMs. There has also been a decline in traditional payment streams such as cheques.

There has been an increase in online payments (such as EFT payments) and use of EFTs at point of sale as well as ATMs.

To cater for lower-income customers, selected banks have introduced lower cost bank accounts as well as prepaid cards. This is aligned with the Roadmap recommendation to revisit bank charges for sustainable rural provision to reduce overall bank access costs". For example, BancABC have introduced a P5.67 account for entry level customers with a salary under P5,000. They also offer the Fresh Payroll account which operates like a normal current account but carries no cheque book. The Fresh Payroll account is targeted towards individuals making a salary of between P750 and P1500. These individuals are unlikely to qualify or meet the requirements for a standard current account.

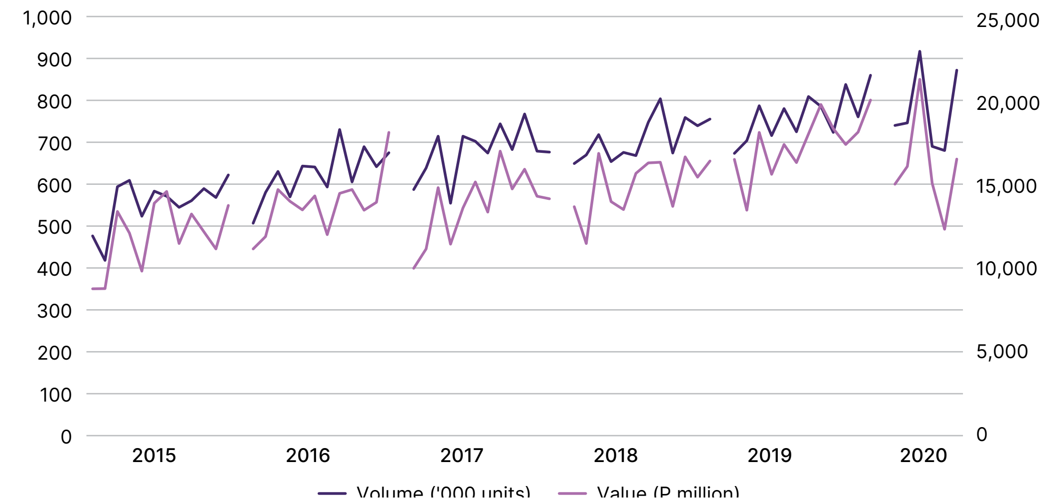


Figure 35: EFT transactions

Source: Bank of Botswana

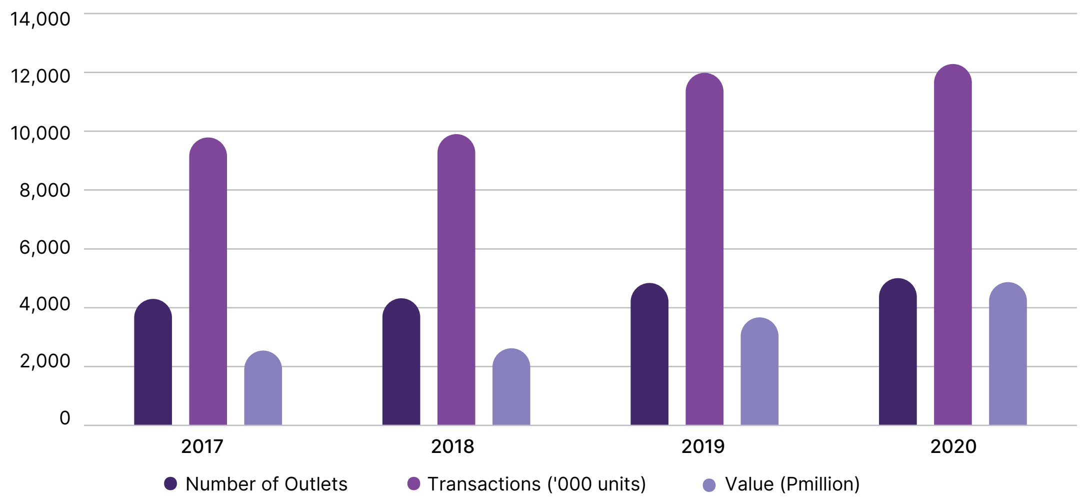


Figure 36: Electronic Funds Transfer at Point of Sale (EFTPOS) Payment System

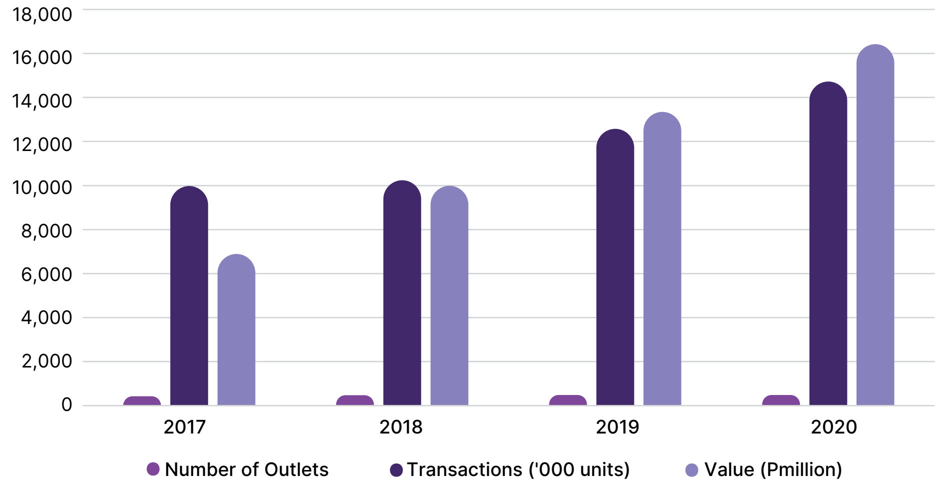


Figure 37: Automated Teller Machine (ATM) Payment System

ABSA, in partnership with Manual Workers Union has introduced a debit card. Botswana Life offer a prepaid card (Liferewards) to Botswana Life clients. The card, which is underwritten by BancABC, can have up to P50,000 loaded onto it and can be used at ATMs and POS machines as well as in internet transactions. Liferewards allows Botswana Life clients to receive their benefits and claims into the card which can then be used to transact as one would normally do so with an ordinary debit card. Lastly, BancABC in collaboration with the Botswanan government have launched the Pula Card which allows grant beneficiaries to have access to a prepaid visa card preloaded with cash.

BancABC also offers a prepaid card to customers and non-customers which does not require any link to a BancABC account. Absa has created a corporate prepaid card which allows businesses to disburse funds to recipients. Absa has also introduced an informal banking product, the Remmodo Current Account in partnership with CEDA. This onboards beneficiaries of the Informal Sector Stimulation Programme, providing a channel for loan disbursements and banking services beyond the program.

In the 2015 MAP report, Finmark concluded that further expansion of financial inclusion was likely to come from non-bank financial institutions.[7] The extension of new bank products including e-wallets and prepaid cards and a greater online range of products suggests that banks are making an effort to enhance financial inclusion though this is often targeted at existing customers.[8] Some banks noted that the regulatory turnaround time on new products (around a month) can serve to delay innovative products coming to market.

The extension of new bank products including e-wallets and prepaid cards and a greater online range of products suggests that banks are making an effort to enhance financial inclusion though this is often targeted at existing customers

There is limited interoperability between banks and mobile money providers based on bilateral agreements. Specifically, several banks have introduced functionality for transfers from bank accounts to a customer's own wallet. However, the ability to transfer money from bank accounts to other customers wallets or from wallets to bank accounts appears to be limited. For example, ABSA allows for bank to wallet transactions for all three mobile money operators, SCMB allows it with two operators and FNB with one. This means that bank account holders can transfer funds from their own bank account to their own wallet. Once the funds have been transferred to the wallet, these funds can be transferred further to other customers using the wallet. However, not all banks offer this and some have noted that developing bilateral agreements with each mobile operator separately is complex to manage and expensive to implement. This is due to a lack of a central interoperable payment system that works across providers.

There may be movements towards a payment switch across instruments in the future. The National Payment System Strategy 2020 to 2024 suggests that the introduction of a National Retail Payment Switch should be considered.

> "The payments market players should consider the introduction of the National Retail Payments Switch (NRPS) for all domestic card and electronic payments, including through Automated Teller Machines (ATMs) and point-of-sale, internet banking, proprietary cards, fuel cards, travel cards, mobile payments, and any new instruments that would become available in future. The objectives are: to attain full interoperability through a neutral and seamless working platform; to achieve greater economies of scale and thus service cost reduction to users; to overcome dependence on foreign entities; and use the infrastructure for all existing and future payment instruments. The Bank will ensure that the new infrastructure design will be consistent with international standards."

This will be beneficial in promoting new payment technologies and allowing for expansion of technologies that reach the underbanked such as mobile money. At present the Bank of Botswana is in the early stages of understanding the requirements for a switch. As such, while there have been movements to upgrade bank services, increase channels and some products that are targeted at lower income consumers, there is still considerable progress that can be made in terms of enhancing access, particularly in terms of improving interoperability.

Digital financial services

A range of building blocks are necessary to develop a robust digital financial services market. Overall these fall into three categories:

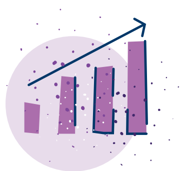
Digital infrastructure

Competition in digital financial services requires suitable infrastructure to encourage provision. This includes ICT connectivity and coverage, a robust payments backbone with a combination of suitable agent networks, and a strong payments architecture and systems that allow for efficient KYC and onboarding.[9] The latter implies, at the minimum a national ID system, but can also include simplified means of ascertaining a proof of address.

A dynamic and competitive market:

A competitive market enhances innovation, and price competition can be a driver of efficiencies enhancing affordability. There are two key forms of competition:

- Intra platform competition: Competition between mobile operators for mobile money services and between banks for e-money services plays an important role in enhancing competition within that channel. In instances in which there is existing market power or concentration, features such as interoperability and controls on exclusivity arrangements (for agents or merchants) need to be monitored and in some instances, regulated. Where there is vertical integration which changes the incentives for access to an input (for example, where a dominant mobile operator charges competitors for access to USSD and competes downstream on mobile money) this also may need to be regulated in the interests of stimulating competition.
- Inter-platform competition: Competition between types of services such as between digital banking services (such as e-wallets), mobile money services, and fintech services is also important to minimise market power and stimulate innovation and price reductions. In order to maximise this, interoperability across platforms (such as through switches), and careful regulation to ensure a level playing field across products (for example, having similar risk rated regulation for banks and telcos), are important.



Competition between mobile operators for mobile money services and between banks for e-money services plays an important role in enhancing competition within that channel.

Products and services that drive uptake:

In order to have a high take-up, the products provided need to be suitable for the market in terms of affordability and providing for particular needs and gaps in the market. In addition, partnerships that assist in rolling out the offering such as the subsidised payment of grants through digital services is also supportive to increasing access and introducing people to the digital ecosystem.

Based on these preconditions, Botswana is in a good position with respect to the provision of digital financial services. ICT infrastructure is relatively good, though expensive. There appears to be the underpinnings of efficient payments ecosystems (with no agent exclusivity and a national ID system that is currently being upgraded to a biometric system), though there is room for improvement, the market shows some intra-platform competition and some inter-platform competition and there has been an increase in products aimed at improving affordability and servicing a broader range of customers. However, there is room for much growth and development. These factors will be discussed in more detail in what follows.

Digital financial services in Botswana have increased in terms of variety and penetration since the last map study. Digital financial services are becoming increasingly important in a globalised, technology-driven world. The 2015 MAP Roadmap prioritised the development of mobile money services and e-money to influence a greater level of savings and enhance the ease at which payments are conducted. According to FinScope data, mobile money usage increased from 22% in 2014 to 54% in 2020. From a financial inclusion perspective, the provision of digital financial services remains critical to ensuring individuals have access to formal financial services. Africa has more digital financial services deployed than any other continent. There have been several key developments in the digital financial services ecosystem since the last MAP study.

Electronic Payment Services are now under the regulatory umbrella of the Bank of Botswana. As discussed previously, a key legislative change was the introduction of the Electronic Payment Services Regulations of 2019. This allowed for the licensing of 17 electronic payment services providers. This ranges from money transfer service providers (including mobile money and app-based providers) to those providing the back end infrastructure for these services.

There are various forms of digital financial services offered in Botswana including but not limited to mobile money and e-wallets. The four main mobile money service providers are Orange Money, MyZaka, Posomoney and SMEGA. Posomoney has entered the market recently.

1. Orange money offers a host of digitised financial services such as cash-in and cash-out, money transfers and bill payments. Orange Money is the largest digital financial service provider in Botswana with 657,573 subscribers in 2020.
2. MyZaka by Mascom, allows for money transfers, payment of certain services (prepaid electricity, DSTV sucrpition, Mascom Postpaid Bills) and the purchasing of airtime. Critically, It also allows for transfers to non-registered customers. Trailing Orange Money in terms of subscriber base, but growing at a rapid rate, they had 554,465 subscribers as measured in March 2020.
3. SMEGA by BTC has a considerably smaller subscriber base with 39,256 subscribers registered in March 2020, increasing sharply from previous years. SMEGA provides the platform for money to be transferred to other wallets, money transfers from wallet to bank account as well as from bank to wallet (but only for a customers own bank). It also allows for utility payments and wage payments. Motshelo group club allows an administrator to administer a group fund that club members can borrow. The maximum balance for a SMEGA account is R4,000.
4. Posomoney which is a newer offering provided by BotswanaPost, can be used across mobile networks and allows for money transfer from any bank. Specifically, it allows for transfers to any number (account), receipt of monies from Posomoney customers, prepaid services and money withdrawal, utility payments and payment for goods and services at registered merchants. Posomoney can be accessed through various channels including kiosks, mobile apps, online banking and a hardcoded chip that is applied to an existing SIM card to allow the user access to the PosoMoney suite of services. It works on any phone, on any GSM network and requires no mobile data connection or Wi-Fi. Money can also be deposited into a wallet via an authorised Posomoney agent. While Posomoney is a new entrant, it has potential to drive volumes as a channel for grant disbursement as will be discussed later.

In addition, some digital financial services are being offered by banks via e-wallets as discussed in the section above.

The number of mobile money accounts have risen. As shown below, the variety and number of mobile money subscribers has risen significantly in the period since the last MAP.[10]

Table 8: Mobile money subscriptions from 2015-2020 ('000) as at March

	2015	2016	2017	2018	2019	2020
Mascom	142.91	174.733	204.864	228.614	397.459	554.465
Orange	266.785	381.471	466.378	620.606	751.974	657.573
BTC	2.431	2.499	2.499	2.499	240	39.256
Botswana Post						7.888
Total	412.126	558.703	673.741	851.719	1389.433	1259.182

Source: Botswana Communications Regulatory Authority.

Mobile money can now be purchased from a variety of retailers. Mobile money services in Botswana can be accessed through a range of outlets including, depending on the product, through large supermarkets (Choppies, Sefalana and Spar), Furnmart, BotswanaPost services. Agent exclusivity is not allowed and as such larger retailers are able to service multiple providers. In addition, mobile money providers also have a few smaller distributors and agents. For example, the Orange Money website lists eight smaller agents, while MyZaka lists six additional agents. Mobile money accounts can be opened through agents as KYC requirements include the presentation of an ID document in person.

Agent exclusivity is not allowed and as such larger retailers are able to service multiple providers.

However, there is potential scope to facilitate the expansion of agent networks. In 2019, there were 130 mobile agents per 100,000 adults in Botswana, up from 31 in 2015. While this is an increase, there still appear to be a low number of agents relative to the number of registered mobile money users at present. This may be due to regulatory barriers such as the requirement to apply for authorisation. In order to appoint an agent an application needs to be made to the Bank of Botswana with criteria including location, reports, risk assessments, security measures, revenue structures and manuals. The extensive criteria is stipulated to ensure the safety of monetary transfers in Botswana. However, it may have an efficiency cost as it takes time to satisfy each criterion thereby slowing down the whole process. As such, there is the potential to simplify agent authorisation and thereby stimulate growth in agent networks.

There is now some ability to send funds across operators but it is still limited. In order to stimulate the digital financial services landscape and enhance the scope for competition between providers, it is essential that ensuring interoperability across different payment wallets is considered from a regulatory perspective. At present it appears that customers are able to send money to customers without a mobile wallet with a code that allows them to cash out, but not to tranfer directly between wallets of different operators.

This is problematic as it could lead to increase in dominance of larger mobile money providers that have more customers due to network effects. As such, consideration should be given to regulation that supports true interoperability between mobile money providers. At present, there is some interoperabilty between mobile money providers and banks. This means that mobile money users are able to cash-out at bank ATMs and selected banks can accept mobile money deposits. However, this is not uniform and is bilaterally negotiated. The development of a National Payment Switch which is forthcoming is essential to enhancing interoperability.

Mobile money is being used for disbursement of grants. A significant change to digital financial services in Botswana was the introduction of mobile money as a channel for grants through Posomoney. This has great potential for furthering inclusion, particularly if beneficiaries utilise the digital financial services ecosystem as opposed to cashing out. However, there are benefits even if they are cashed out. Mobile money is now an option for the disbursement of grants through Posomoney. Beneficiaries will receive messages on their phones to notify them of the deposit of funds. If they wish to cash out they can do so through one of the 131 Post office branches as well as through the paypoints of Choppies' stores which act as an agent for Posomoney and as of 2020 had 91 stores across Botswana and other agents.[11] It can be noted that this extends the agent footprint further into rural areas and outside of key urban environments.

MSME agents for Botswana Post can engage in certain services including registration, cash-in and cash-out.This is likely to have a significant impact on stimulating mobile money usage. However, in the future, greater interoperability of mobile money operators or a choice to allow disbursement throught other mobile money operators should also be facilitated from a competition and efficiency enhancing perspective.

Mobile money is also being used for cross-border remittances. As is discussed in more detail in the section on remittances, in addition to being used for in-country remittances, mobile money is now being used as a channel for cross border remittances to Zimbabwe.

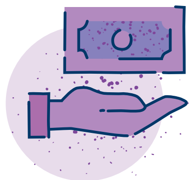
Mobile money and DFS is predominantly P2P focused and there is room for improvement. Mobile money and DFS is currently focused on P2P transfers. This is in contrast to the experience in other countries in which a sizeable proportion of transactions would include P2B (such as merchant payments or bill payments), B2P and B2B. A recent report shows that in sub-Saharan Africa about 10% of mobile money users use it to make a merchant payment and 19% to pay bills, though this may be higher in certain countries.[12] As such, it is surprising that there is little use by merchants at point of sale. Furthermore, there is currently no microfinance or deposit services offered to the underserved through mobile money. The introduction of policy changes including the National Payment Switch, and further regulations on electronic payments are likely to be key contributors to increasing merchant payments and proliferation of different mobile products.

While the original MAP study had suggested movements towards interoperability with respect to airtime payments between mobile money operators, this does not appear to have developed, though airtime can be purchased for other customers on the same network.

> There is scope for further innovation in mobile money in Botswana.
>
> Stimulating payments at retailers through mobile money is underutilised in Botswana relative to other markets. In Botswana mobile money is focused on transfers but is typically not used to purchase products or in business to business transactions. By creating the framework for payment acceptance through better interoperability this would enhance usage. There is scope for the creation of new mobile products including the following:
>
> 1. Savings through savings wallets.
> 2. The provision of credit services using mobile phones and for selling insurance and other similar products.

Provision of credit

The provision of credit is vitally important to fostering greater financial development. In Botswana, credit is provided through a range of providers from formal institutions (banks), semi-formal institutions ('MFIs', credit cooperatives) as well as informal methods (borrowing from friends and/or moneylenders). Household debt in Botswana by value is predominantly held by banks (88.6% in 2019), with a smaller amount held by microlenders (9.4% in 2019), hire purchase credit (1.3%) and SACCO loans (0.6% in 2019). However, if measured by borrowers' banks account for 65.7% while hire purchase stores comprise 17%, microlenders 16% and SACCOs 1.4%.[13]



54.8% of those borrowing are government employed and 43.2% privately employed, indicating high levels of borrowing is available to those in formal employment.

Banks make up a considerable share of household lending and lend predominantly to those in formal employment. Given the majority of those borrowing are government employed (54.8%) or privately employed (43.2%) this indicates high levels of borrowing is currently available to those in formal employment. A large amount of lending to households is in the form of unsecured personal loans (63% in 2019), residential property (31% in 2019) with a smaller amount of vehicle loans (5%) and credit cards (2%). The share of residential property loans has fallen marginally over the period since the last MAP study while the amount of unsecured personal loans has risen.[14]

There are structural factors that impact on credit provision. It can be noted that on a macro level Botswana is in a low interest rate environment with real interest rates that have been negative from 2015 (with the exception of a short period in mid-2020) and prime interest rates falling from 9% in 2015 to 4.75% in 2020.[15] As a result, while there was historically sufficient liquidity the environment is now one that is characterized lower levels of liquidity. It can be noted that savings in Botswana as a share of GDP have been declining in recent years (from USD 6.6 billion in 2014 to USD 4.44 billion in 2019) which does impact on credit availability. As bank deposit lending spreads have compressed profitability of lending has also fallen. This has impacted on institutional appetite for risky loans. Credit to the private sector by banks in Botswana in 2019 was 32.7% which is lower than neighbouring economies such as South Africa (66.7%) and Namibia (57.7%).

For the most part, access to credit in Botswana appears to be predominantly tailored to formally employed individuals. Credit applications require documentation including payslips and bank statements. Other KYC documentation includes letters of employment and in the case of married individuals, spousal consent and marriage certificates. This is exclusionary to the unbanked and more informal sector and suggests the gap in provision remains since the last MAP study though there are some attempts at resolving this.

The microlending industry is still a relatively small sub-sector of the financial system in Botswana but also seem largely focused on the employed. The prominent MFIs and credit institutions in the private sector in Botswana include Letshego, Bayport, Blue and Afritec. In the second quarter of 2020, the "loan book" of the top 20 microlenders grew by 27% from P3.5 billion in 2017 to P4.7 billion.[16] The MFI sector is concentrated.

- Letshego Financial Services, the dominant MFI that accounts for almost 65% of the industry, provides finance to customers by advancing loans between the value of P5,500 and P660,000. It advances these loans through the deduction at source model as well as through loans to small and micro-enterprises. Based on Letshego's financial results reported in December 2019, the company had a loan book value of P2.6 billion.[17]
- Bayport also provides personal finance solutions but only to customers working for the government and contracted employees of the government.
- Afritec, in partnership with Furnmart Group, focuses on providing accessible credit to select government, parastatal and corporate employees. It advances loans between the value of P2,000 and P400,000 giving customers up to 72 months to pay. Afritec has 30 branches spanning across Botswana, is easily accessible and can be located in selected Furnmart stores. As such, the MFI business models appear to be focused on the formally employed.

As such, the microlending industry has remained focused on stable employed individuals and do not appear to be contributing significantly to financial inclusion.

There are also consumer protection concerns over the microfinance industry: It is also worth noting a concern that the microfinance industry is exposing households to untenable levels of indebtedness while simultaneously recording annual asset growth of 10%.[18]

Loans are also provided by various development finance institutions ('DFIs') such as the Botswana Development Corporation (BDC), National Development Bank (NDB) and the Citizen Entrepreneurial Agency (CEDA). The NDB and the BDC are the two primary development finance institutions.

- The NDB is a state-owned enterprise that has a mandate of providing loan financing for the development of local business in Botswana. Loan financing

is provided in agricultural, commerce, industrial, real estate and human development sectors. Despite the sectoral diversity, there is a focus on developing agriculture with 37% of the NDB loans provided going to the sector. The total value of NDB approved loans has been steadily increasing. In 2016, the value stood at P47 million. This increased to P167.5 million in 2017 and increased further to P243.1 million in 2018.[19] As such, given commercial bank credit to September 2020 was P68.3 billion, it is fairly small.
- BDC offers financial services to finance viable investments that drive the industrialisation of the country. Much like the NDB, the BDC offers finance across a wide range of sectors excluding large-scale mining. Between 2018 and 2019, the total assets of BDC grew 28.1% from P2.8 billion to P3.6 billion.[20]
- CEDA provides financial and technical support for businesses through a range of products and interventions. This includes loans for agribusiness, service businesses, property, trade financing (short term loans) and structured financing. They also provide microfinance through the Mabongo Dinku product for small micro entrepreneurs which is a group guarantee scheme which has funded 3,000 individuals since 2016. Since 2016, CEDA has supported investment of P2.343 billion. CEDA has also partnered with commercial banks to provide loans to the informal sector.

There are also alternative forms of credit for specific uses. There are a range of Savings and Credit Co-operatives (SACCOs) active in Botswana. SACCOs are generally workplace-based, hence members are in formal employment, generally in the public sector, but a few are community-based (i.e., villages), all for the purposes of saving. SACCOs lend money only to their members and the security for the loan is the members savings.[21] Various retailers also provide credit to customers through hire purchase agreements.

There are a range of Savings and Credit Co-operatives active in Botswana that are generally workplace-based, hence members are in formal employment.

Credit information sharing through credit bureaus occurs for both banks and MFIs but is still limited in reach. Credit information sharing assists in the provision of credit to riskier individuals and minimising moral hazard and over indebtedness. Credit risk is typically assessed using a combination of bank data and credit bureau checks. There are a range of reference bureaus in use in Botswana including the Credit Referencing Bureau predominantly used by banks, and Experian (previously Compuscan) was historically used more by microlenders but in 2019 was acquired and now serves credit and non-credit industries in addition, and Transunion which is used by all credit providers.

The World Bank Ease of Doing Business Index classifies the depth of credit information index at seven out of eight. They note that positive and negative data is captured, as well as data from retailers and utility companies, more than two years of historical data, and data on loan amounts of below 1% of income per capita. This is higher than the benchmark for OECD high income countries (6.8) and sub-Saharan Africa (3.9). They also estimate 54.4% Credit Bureau coverage of adults at 780,000 adults and 13,500 firms covered. At this stage while reporting is quite widespread, primarily negative data (people in arrears) is reported rather than both positive and negative data. However, some banks report both. It is expected that the new credit information sharing bill will help to further improve credit information sharing, while the operationalisation of an industry credit information sharing association could also help improve sharing and the quality of information shared.

Various loan guarantee schemes are offered by the government. At present there are a range of loan guarantee schemes offered by the Government of Botswana to assist in stimulating the credit market.

Agricultural Credit Guarantee Scheme (ACGS):

The Government of Botswana, through the Ministry of Finance and Development Planning, has had an ACGS for dry land farming since 1986. This scheme is meant to assist farmers with debt obligations in the case of crop failure due to drought, floods, frost and hail. The scheme covers seasonal inputs and working capital, farm and field development and farm machinery and equipment.[22] Each year, the Inter-Ministerial Drought Assessment Committee make assessments and recommendations for certain interventions to be implemented. These interventions can take either the form of drought relief or contributions to instalments for loans taken under the ACGS.[23] The ACGS is prone to moral hazard resulting in excessive borrowing, especially in a situation where it is likely for the loan to be written off.[24] As stipulated by the NDB, the scheme offers coverage of between 0% and 85% of the instalment falling due in the cropping year. This is in line with Nigeria's Agricultural Credit Guarantee Scheme Fund (ACGSF) which offers up to 75% of the amount in default.[25] According to IFAD, general challenges facing loan guarantee schemes such as the ACGS include high, unsustainable operating costs, inadequate capitalisation, inadequate recoveries and distortions caused by domestic and international donors.[26]

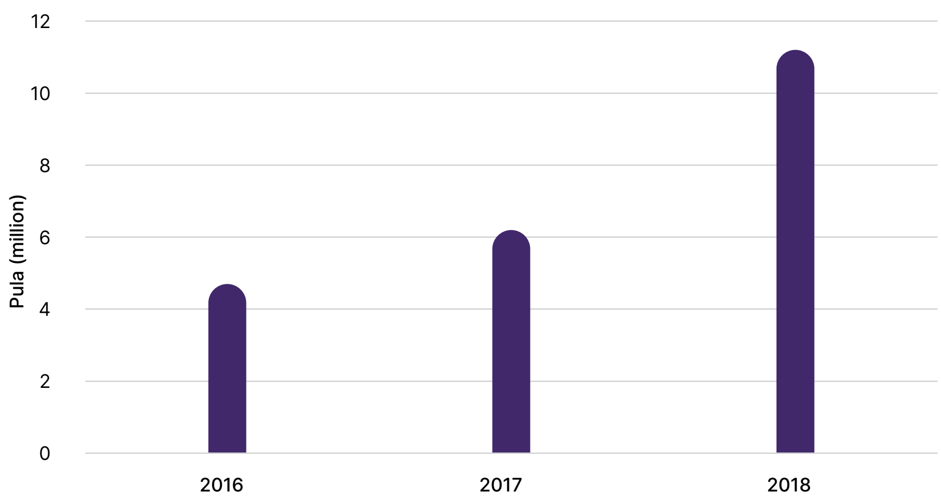
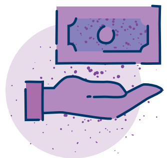


Figure 38: NDB's Agricultural Credit Guarantee Scheme Liabilities

Botswana Export Credit Insurance and Guarantee company (BECI):

BECI is owned by the Botswana Development Corporation Limited. Its offers various products and services. The loan guarantee scheme was developed as a response to the COVID-19 pandemic. It is implemented through the banks and has an 80% government guarantee.[27] However, it is not easy for small and microenterprises to access absent a strong banking history. As such it is of limited use to smaller businesses. The post-COVID recovery plan notes that it may be necessary to provide a more accessible product with a higher (for example 100%) government guarantee to support a wider range of businesses.[28] Banks have noted that government guarantees have supported credit extension.

While a collateral registry has been discussed it has not yet been set up. One of the key initiatives proposed by the government and announced in the 2018 State of the Nation Address to enhance access to credit is the establishment of a collateral registry. This is focused on allowing households to register movable assets such as vehicles, equipment, inventory and livestock which can be used as collateral to borrow against. However, this does not appear to be in place as yet. At this stage banks find accessing data on collateral to be costly and time consuming. As such, a government aided registry would be of assistance.



Botswana does not rely on remittance income as heavily as some of its sub-Saharan African counterparts.

Digitalisation may enhance the ability for institutions to lend and safe data sharing should be encouraged. Understanding lending risk generally relies on the underlying data. The ability to understand the risk of borrowers who have no credit record is often limited. However, in other countries alternative forms of data such as mobile transaction data, social media data etc is also being used to assist in risk-profiling for credit purposes. Subject to safeguards on privacy and consumer protection data sharing that enables credit extension to the unbanked should be encouraged.

Remittances

Botswana does not rely on remittance income as heavily as some of its sub-Saharan African counterparts. Instead, the country has a high degree of outward remittances flowing from Botswana to other countries with the primary corridor being Botswana-Zimbabwe. This is due to the high number of migrants, especially from Zimbabwe, domiciled in the country.[29]

Real-time gross settlement across SADC is being rolled out. There are several formal channels through which individuals can remit income in Botswana. The most prominent of these is through the various banking institutions across the country. The SADC SIRESS system which allows for real-time gross settlement across banks in the region is being rolled out. At present, two banks in Botswana are participating and others have indicated interest.

Mobile money is increasingly being used for international transfers. In addition to this, all three mobile money providers are licenced to provide cross-border services. Botswana Post, and Mukuru also offer remittance services.[30] One of the key developments since the 2015 MAP has been the growing trend towards the use of mobile money as a medium through which individuals can remit income. A 2018 study by Finmark showed that the preferred methods for remittances into Zimbabwe were through Western Union and mobile phone.[31] From 2018, Orange Money and EcoCash have had a partnership that allows individuals to use their Orange Money wallet to send money to an EcoCash mobile wallet. This is based on the TransferTo model.[32]There are also new mobile offerings from banks. For example, the NovoF application run by Absa allows for and facilitates cross-border payments.

Mobile money offers cheaper transfer fees. The cost of remittances is particularly high in Botswana, averaging 11.6% (average percentage cost), which is greater than the total average cost of 9.4% for Sub-Saharan Africa (SSA), which is the costliest region to send money to. The cost of remitting via a bank is the most expensive with an average cost of 10.57%. To remit income to the value of P500 via a Bank or the Botswana Post, the cost is between P50 and P79 with MoneyGram– a money transfer company the highest at P89.[33] In contrast, Orange and Mukuru offer the most affordable rates with Mukuru charging P35 and Orange Money charging P25. This likely explains the shift in usage.

Remittances could potentially fall as a result of global developments which would increase vulnerability. It can be noted that falling remittances are a possible result of the COVID-19 pandemic. The World Bank has forecast a 19.9% drop in global remittance flows and higher decline in remittances to Africa. This is in line with the recent FinScope (2020) data as remittances over the period 2014 to 2020 decreased by 13%.

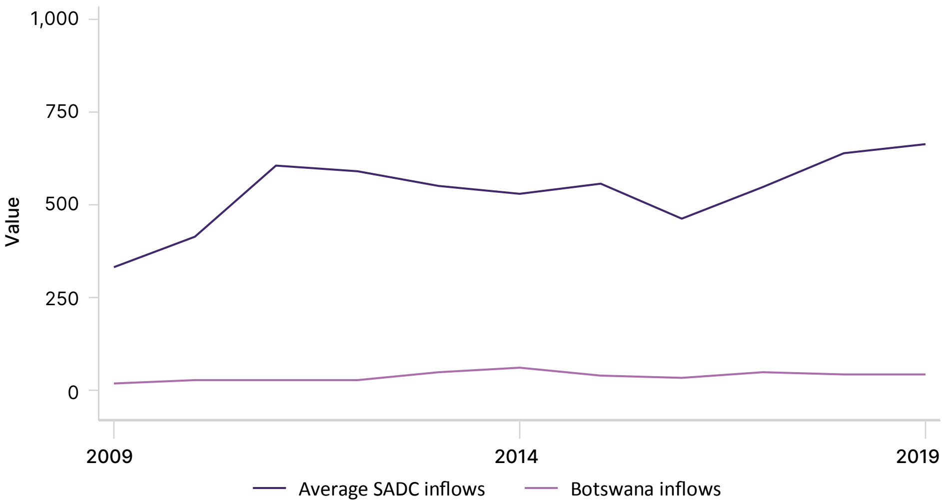


Figure 39: Remittances prices and value in Botswana (World Bank)

Sources: The World Bank, Remittance Prices Worldwide, available at http://remittanceprices.worldbank.org and World Bank staff calculation based on data from IMF Balance of Payments Statistics database and data releases from central banks, national statistical agencies, and World Bank country desks.

Savings

There has been a decline in savings overall in Botswana since the last MAP study.

Gross savings as a percentage of GDP declined by 9.2% between 2015 and 2018.[34] In 2015, the World Bank estimated that gross savings constituted 35.8% of GDP, while in 2018, it was estimated to 32.5%.[35] Statistics Botswana confirm the downward trend with the annual percentage changes in gross savings going first from 10.7% in 2016 to 7.3% in 2017 and dropping further to 4.4% in 2018.[36] Gross domestic savings as a share of GDP have shown the opposite trend, increasing from 27.4% in 2015 to 32.4% in 2018. According to CEIC data, savings in Botswana have decreased dramatically in response to the outbreak of COVID-19. In June 2020, the gross savings rate dropped to a record low of 19.8%.[37]

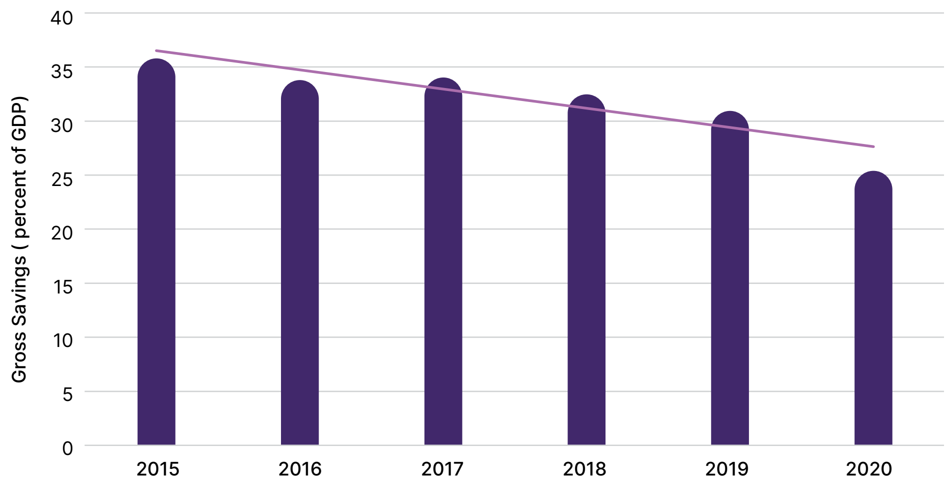


Figure 40: Gross Savings (2015-2020)

Source: World Bank. (2021). Development Indicators database and CEIC. (2021). Botswana

Figure 41: Household Savings (percent of total household outlays)

Source: Statistics Botswana. (2015/2016). Multi-topic Household Survey

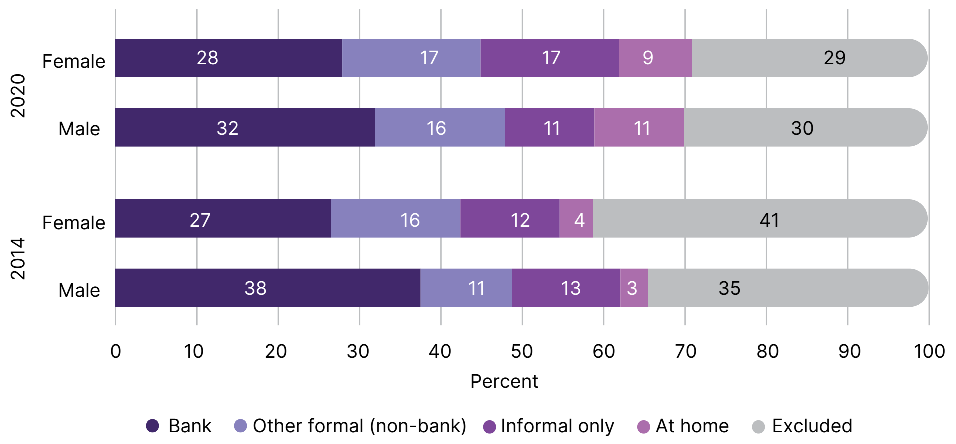


Figure 42: Means of saving by gender

Source: Finscope 2014 & 2020

At the household level, there has also been a decline in the propensity to save. In 2009/2010, total savings as a percentage of total household outlays was estimated at 16.7%, which decreased to 14.7% in 2015/2016.[38] This is also disparate across regions in Botswana with cities and towns recording the largest drop in savings, highlighted by the graph below. There are a wide range of factors that could explain this worrying trend such as low interest rates. Informal saving channels seems to be predominant.

Savings patterns appear to have changed between 2014 and 2020. In particular, more individuals appear to be saving at home than previously. Females have increased overall savings through informal means and at home. Males appear to have shifted some savings from banks to home. This may be a result of the COVID-19 pandemic where people were hesitant to enter physical branches.

Savings are promoted by the government owned Botswana Savings Bank. On the supply side, the Botswana Savings Bank (BSB) has attempted to provide Batswana with saving products in line with their mandate of encouraging a higher degree of saving in the country. The BSB offers five different savings accounts with interest rates ranging from 1.52% (Fixed deposit) to 3.25% (Sesigo Savings and Letlole National Savings Certificate). However, annual average inflation for 2020 was 1.9%, providing a negative real return on a fixed deposit paying 1.52% interest, which might discourage people from saving. The separate and differentiated savings accounts offered by the BSB are a positive step towards increasing the propensity to save in the country.

Recent research suggests that having separate savings facilities can increase saving and improve downstream outcomes for consumers.[39] The commercial banks in Botswana also offer a host of savings accounts although it seems these products are targeted toward the middle and upper-income markets. However, there are limited offerings for the underserved population.

Deposits have been simplified through ATMs. The introduction of 'digital deposits' allows customers to deposit cash at selected cash deposit ATMs. FNB was the first bank to launch the deposit-taking ATMs in the country in 2014. Standard Chartered unveiled their plan to introduce this service in June 2020 and are presently rolling them out across Botswana. The intention is to have at least 15 cash deposit ATMs spanning the country with six in Gaborone, six in several Towns and Villages and three in Francistown. Stanbic has this service in operation with 27 deposit taking ATMs around the country.

Savings products are also offered by NBFIs. Apart from the traditional channels offered by commercial and statutory banks, there are also non-bank financial institutions (NBFIs) that provide alternative avenues for savings. For example, Savings and Credit Cooperative Society Limited (SACCOS) which also makes small loans to its members. According to the International Co-operative Alliance (ICA), there are 83 registered SACCOS in Botswana.[40]

Savings via mobile money is limited. Mobile money services can also be used to promote savings, but this service is nascent in Botswana and interest is not provided on these accounts. SMEGA by BTC launched a digital savings service – the Motshelo Club – in 2019. Motshelo Club allows a number of individuals to collectively contribute to a group savings wallet. The funds in this wallet are then used on a rotational basis. However, there remain concerns over the lack of differentiation in the products offered. As such, there is significant potential for enhanced products focused on incentivising savings for the underserved.

Mobile money services can also be used to promote savings, but this service is nascent in Botswana and interest is not provided on these accounts.

Insurance

There are 23 licenced insurers in Botswana. Of the 23 licenced entities, eight companies provide long-term (life) insurance, while 12 provide short-term (general) insurance.[41] The remaining three companies operate as reinsurers. Botswana Holdings Limited (BIHL Group) is the dominant firm in the insurance sector having a market share of 83.1% in 2018. There are also a large number of South African companies that compete. The contribution of the insurance sector to GDP remains high at 3.5% with gross written premiums at P5.4 billion.[42] Compositionally, life insurance continues to dominate the insurance industry. However, the total gross written premium for life insurance increased from P3.9 billion in 2018 to P4.1 billion in 2019.[43] The general insurance industry, by contrast, experienced an increase in gross written premium from P1.4 billion to P1.5 billion (growth of 7%).[44]

Although the sector contributes significantly to GDP, the market for insurance in Botswana remains relatively small. According to NBFIRA's 2020 annual report, insurance penetration remained low at 2.7% in 2019. Poverty and unemployment are cited as two factors inhibiting the growth of the sector as premiums, especially for short-term insurance coverage, become unaffordable. Moreover, the findings of the 2015 Botswana Financial Inclusion Roadmap and Strategy suggest that affordability is a primary barrier affecting insurance.[45] This has resulted in insurance companies targeting the emerging middle-class and upper income segments of the population with bespoke life insurance coverage that can rise to P15 million.[46] With a few exceptions detailed later, this implies that there has been little change over the review period in financial inclusion with respect to insurance in Botswana.

There are limited options targeted at the lower income market. It is important that more types of insurance are provided to the lower income market, and in particular, insurance that enables SMME and smaller businesses. In Botswana, the microinsurance industry, which offers tailored products to lower-income households, is dominated by funeral coverage that is offered through banks and insurance companies. Several banks including FNBB, Absa, Stanbic and BancABC offer funeral insurance that includes benefits (grocery benefit, tombstone benefit and double-accident benefit).[47] The premiums within the microinsurance industry vary between P15 and P85 per month.[48] Based on the last roadmap diagnostic, Finmark noted that short-term insurance in Botswana is characterised by high premiums that discourage low value consumers.[49] This suggests that there has been very little change over the MAP period in terms of increasing access to the lower income market for insurance which is problematic from a risk reduction perspective.

There have been some innovative entries in other products more recently. Alpha Direct, for example, has brought at a range of insurance products at low prices. This includes third party insurance for uninsured vehicles at P50 a month (targeted at low-cost grey imported vehicles), accidental death cover at P49 per month and device insurance for laptops and electronic devices. These policies are limited to fixing devices and cars which limits fraud. It can be noted that these policies are very new and as such have increased, but are still limited in volumes.

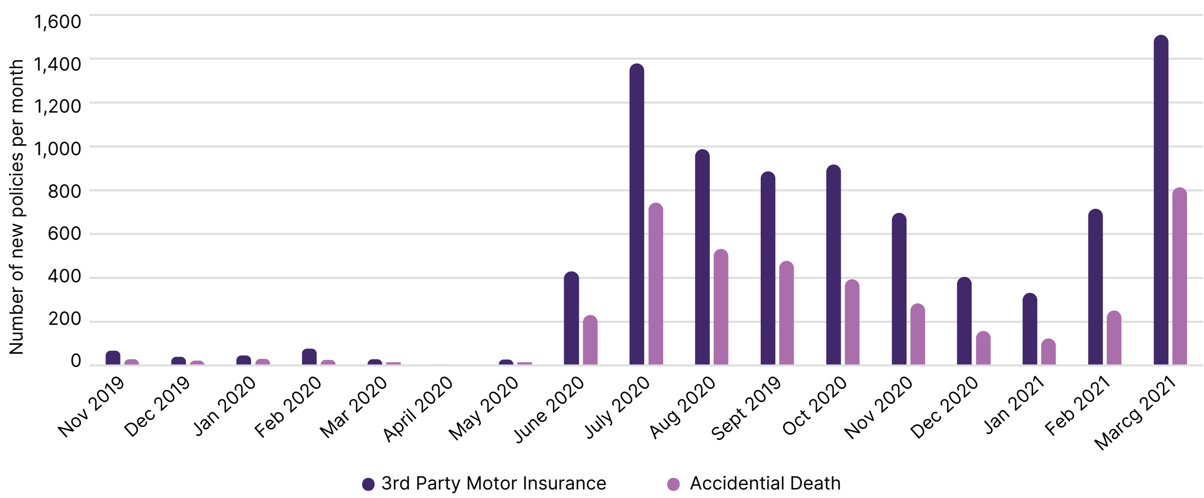


Figure 43: Alpha Direct growth in low-cost insurance products

Source: Alpha Direct

Channels used for sales are changing. Companies are now using different channels for sales. This includes agents situated in Choppies' stores, filling stations and outlets. They provide customers with boxes with the key information and some sign-up can occur online. KYC requirements can be a challenge when utilising novel distribution channels as customers need to return to show their identity documents.

There are some regulatory challenges. Interviewees have noted that approval for new innovative products from regulators takes time and there is limited flexibility in trialling new products. Furthermore, there are concerns that approvals for how products are sold are also cumbersome to experimentation.

Therefore, it seems as though little has changed with respect to the level of financial inclusion and insurance in Botswana though with the introduction and take-up of new products this may change.

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4

Economic sectors that can drive growth and employment

4.1 Introduction

In order to increase the focus on the real economy within a context of stagnating growth, a declining formal sector and the destructive impacts of the COVID-19 pandemic, the MAP refresh project involved selecting three sectors for close analysis.

The sectors were chosen based on their (i) contributions to GDP (ii) NDP priority sector, (iii) inclusion in policies developed through the political process and (iv) contribution to employment (iv) role of MSMEs (v) links to UN sustainable development goals.

Table 9: Links between sectors selected and contribution to GDP, value add, contribution to employment, Economic recovery plan and NDP11 Priority sector.

	CONTRIBUTION TO GDP (PERCENT)	CONTRIBUTION TO EMPLOYMENT (PERCENT)	ECONOMIC RECOVERY PLAN	NDP11 PRIORITY SECTOR
Agriculture	1,9%	7%	Yes	Yes
Mining	15,2%	1%	Yes	Yes
Manufacturing	5,2%	7%	Yes	Yes
Water & Electricity	1,0%	1%		
Construction	6,8%	8%		
Trade, Hotels &Restaurants	19,7%	21,6%*		Yes
Transport & Communication	6,1%	4%	Yes	
Finance & Business Service	14,2%	4,5%*		Yes
General Government	15,1%	19,20%	Yes	
Social & Personal Services	5,5%	16,1%*	Yes	

Based on these indicators we have highlighted mining, manufacturing, tourism, and agriculture for further analysis.

42

Tourism

Context

Botswana has an abundance of wildlife and areas of unique natural beauty with 38% of its land area forming national parks, reserves and wildlife management areas. Botswana is thus highly attractive to international tourists. As such, tourism is an important part of the economy in terms of its contribution to the balance of payments and is the second largest source of export earnings after diamonds.[1] According to the World Travel and Tourism Council (WTTC), travel and tourism in Botswana contributed 12.6% to GDP in 2019 and 10.9% of total employment (92,300 jobs). There were 1,830,274 tourists that visited the country in 2018.[2] Tourists typically contribute through spending on accommodation, restaurants and meals as well as activities (including guided excursions and adventure) and excursions and shopping. As such, there are linkages with other parts of the economy too.

Tourism also provides a source of industry in a wide range of geographical locations including more remote areas such as near the Okavango Delta and Chobe River plains. However, there are various challenges with tourism in Botswana. This includes reliance on international markets which can vary depending on events such as recession, public health concerns (such as COVID-19) and concerns over terrorism which are outside of the control of the country.

In addition, there are infrastructural issues such as the need for enhanced transportation links and improved infrastructure such as gravel roads. Difficulties in internet access and online marketing capability are also seen as concerns. The COVID-19 pandemic has also had a large impact on the tourism industry leading to a sharp decline in tourist arrivals due to restrictions on international travel. A survey of SMMEs in the tourist sector in March 2020 showed a 72% revenue loss that month as a result of restrictions.[3]

However, there are many potential benefits from tourism. This can include increasing sales across the value chain (such as through agriculture, artisans and additional services), the fact that it is generally labour intensive and has low barriers to entry and geographic dispersion. As tourism in Botswana is usually located in more remote and rural areas it has great potential for increasing rural employment.

Tourism has the potential to support employment and currently the tourism industry is estimated to support over 90,000 jobs. It is also estimated that in northern areas of the country tourism provides 32% of jobs.[4] In order to enhance

Tourism also provides a source of industry in a wide range of geographical locations including more remote areas such as near the Okavango Delta and Chobe River plains.

citizen participation in tourism the government has engaged on various initiatives. This includes reserving certain categories of tourism enterprises for citizens (e.g. Guest houses, bed and breakfasts, mobile safaris, camp and caravan sites). Tourism provides a range of opportunities for SMMEs in a wide range of areas including accommodation services, water based and adventure activities, local transport services, local foods and artifacts.

Government support in tourism includes the development of tourism clusters. This is being piloted through the Ngamiland Tourism Cluster.

Link to financial inclusion

While the formal sector within the tourist industry is included and has access to financial services there is scope for far greater intervention in the SMME and less formal segment of the market. This includes the following: (i) Access to credit to invest in equipment to facilitate tourism businesses (such as vehicles or boats) and capital to start a new venture such as accommodation or a restaurant and working capital. Collateral registry could potentially help with this (ii) Payment mechanisms for restaurants and artisanal and craft providers is also important. Access to low cost POS devices or applications that facilitate card-based payments also enhances the ability for businesses to increase sales of higher value items. (iii) Efficient online payment mechanisms that can integrate into websites and online marketing materials would also assist in allowing for pre-bookings. (iv) Training on record keeping and business development could assist SMMEs in getting financing and growth.

With digitalisation there is greater scope for directly marketing to and communicating with, potential guests in an industry which has historically been mediated by agencies.

The digitalisation inherent in more formalised payment systems also provides data which can assist with managing cash flows in the long term. Digital records from POS and mobile money payment systems and other digital management processes can assist a less sophisticated business to provide potential lenders with a record of cash flows. This may in time also open financing options up to fintechs and other investors who can innovatively use these records as a measure of business feasibility. Higher speed data services at low cost in rural and remote tourist areas is essential to enabling SMMEs in those areas to enhance marketing and communication, listing on digital platforms and the provision of digital payment systems.

With digitalisation there is greater scope for directly marketing to and communicating with, potential guests in an industry which has historically been mediated by agencies.

43

Agriculture

Context

Agriculture is a sector of great strategic importance to Botswana. While agriculture makes up a small part of the GDP of Botswana at only 2%, it plays a strong role in employment and contributes to 7% of employed. Importantly, it provides employment or income potential in rural and remote areas. It further plays a role in food security for rural dwellers and has the potential to improve food security for the country more generally. It also contributes to a small amount (2%) to exports primarily through beef, hide and skin. Historically there have been a range of government interventions to protect and support agriculture. However, there have been criticism of some of the support programmes with concerns arising that substantial resources have been wasted with no significant increase in productivity. Recent policy rather seems to be more focused on assisting larger scale farmers who are able to contribute more effectively to food security.[5] There are various categories of farming:

Crop production is volatile in Botswana and is subject to climatic conditions. Drought is frequent and this provides a significant challenge to farming.

Livestock

Botswana has holdings of cattle, goats and sheep. The key agricultural export in Botswana is beef which was historically through a beef export monopoly the Botswana Meat Commission. Beef has been identified for development and a cluster development initiative focused on commercial and communal farms for grass fed and organic beef production has been implemented.[6] This has been supported through various projects under the Livestock Management and Infrastructure Development Programme (LIMID).

Crops

Crop production is volatile in Botswana and is subject to climatic conditions. Drought is frequent and this provides a significant challenge to farming. There is a deficit in the production of staple food products such as maize. As such, imports are required. Other products are often seasonal. However, crop production is important for food security. The Integrated Support Programme for Arable Agriculture Development (ISPAAD) which has a range of components has been used to assist the sector and includes loan guarantees.

Horticulture

Botswana has a small but growing horticulture sector. However, this appears to be driven by larger farms as opposed to small farms (which are often insufficiently resourced and unprofitable). These farmers often lack sufficient finance and have difficulties in accessing the supply chain. Supplier development programmes have some potential in intervening to supply credit to farmers, assist with technical assistance, etc. A new government programme post-COVID is the Horticulture Impact Accelerator Subsidy, which will be based on a 50:50 cost sharing model and may assist in some of these constraints.

Food security is of importance from a national perspective. A lot of produce sold in Botswana is imported from South Africa raising concerns for food security. The COVID-19 pandemic brought this into sharp focus as borders were closed and supermarkets were unable to access products that they usually imported. As such, Choppies, for example is placing a new emphasis on supplier development locally.[7] The economic recovery plan notes the need for increased funding for horticulture and food grain production. It notes that the National Development Bank should be used for funding of medium and large-scale projects and suggests encouragement of farming associations, and the development of downstream activities such as packaging and preservation. It is argued that grain production needs a minimum scale, and the focus should be to invest in high output projects.

A lot of produce sold in Botswana is imported from South Africa raising concerns for food security.

Links to financial inclusion

There are various ways in which agriculture is linked to financial inclusion and in which financial inclusion can assist.

Access to credit

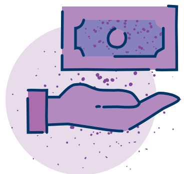
In agriculture, capital is required for a range of investments. This can range from the cost of payment for better inputs (such as feed, seed, fertilizer and chemicals) to investment in equipment to enable higher levels of productivity (such as tractors). It is also essential for agro-processing equipment which would allow farmers to vertically integrate and increase the value add of their products. At present, indications are that despite existing programmes access to credit in rural areas and for smaller farmers is limited.

There are various forms of support for farmers to access credit. As discussed in the section on credit, there is an agricultural credit guarantee (ACGS)[8] aimed at assisting farmers in the event of drought, hail, flood and frost. Agricultural loans are also provided by various banks including the National Development Bank. However, studies have suggested that concessionary finance for smaller producers is often difficult to access. There are various reasons why small farmers do not readily get access to credit. This includes a lack of collateral, and unaffordability. For example, cattle are rarely accepted as collateral though this may be changing due to the introduction of an animal traceability system. While there are loan guarantee schemes that has been set up to assist in the agricultural sector the efficacy in enhancing credit extension is not clear. Banks that we interviewed noted that in general credit guarantees did assist to some extent.

The government's Youth Development Fund which aims to promote youth participation in the socio-economic development of Botswana, has been shown to be the primary means after self-funding by which young farmers get started in horticulture.[9] However, due to a lack of business experience and sector specific knowledge business sustainability among these start-ups can be an issue.

As such, there is scope for intervention to assist farmers in seeking credit from more formal sources through means of reducing barriers to application on the demand side and reducing risk to banks on the supply side. For example, the introduction of more entry level, simplified products targeted at farmers may increase take-up. Consideration should be given to means of barriers for farmers by reducing onerous documentary requirements. For example, this may include means of using digital means such as satellite imagery to assess planted area and utilising mobile money credit history to assess risk. However, this requires good telecommunications infrastructure and low-cost data.

Use of cattle as collateral through BAITS identification could also play a role. Support for alternate financing mechanisms for farming equipment such as leasing should also be considered. In horticulture, partnerships with retailers and support for supplier development programmes which allow retailers to assist in credit provision and funding technical assistance. At present large retailers such as Choppies are assisting through bulk buying agreements and temporary advances.[10] The UNDP currently has a programme running which can be supported.



At present large retailers such as Choppies are assisting through bulk buying agreements and temporary advances.

Risk reduction

An additional challenge facing farmers in Botswana is means of reducing risk from shocks. This can include the risks to production from death or illness, crop failure or other catastrophic harm. One of the most common mechanisms used for risk reduction is insurance. While there are certain forms of agricultural insurance in the market through commercial insurers such as Aon and Agrinsure Botswana (a joint effort of the South Africa Farmers Technical Insurance Services company and Alexander Forbes.[11,12] and that have been developed by the Botswana Insurance company, these are also focused on commercial farmers. There do not appear to be index-based insurance products.

From Finscope, more than half of households with short-term insurance that engage in farming and other work insured their farms, while only a fragment insured farming equipment.

Consideration should be given to the creation of simplified cover for farmers through mobile money and retail channels and the use of group insurance schemes where there are natural collections of farmers (for example, through a particular scheme or project). However, a key issue is data. One insurer interviewed noted that they had tried to develop a financial inclusion insurance product for horticulture. A software platform to assist in making decisions was needed but unfortunately there was limited buy-in from agencies that could partner with them to assist in generating data.

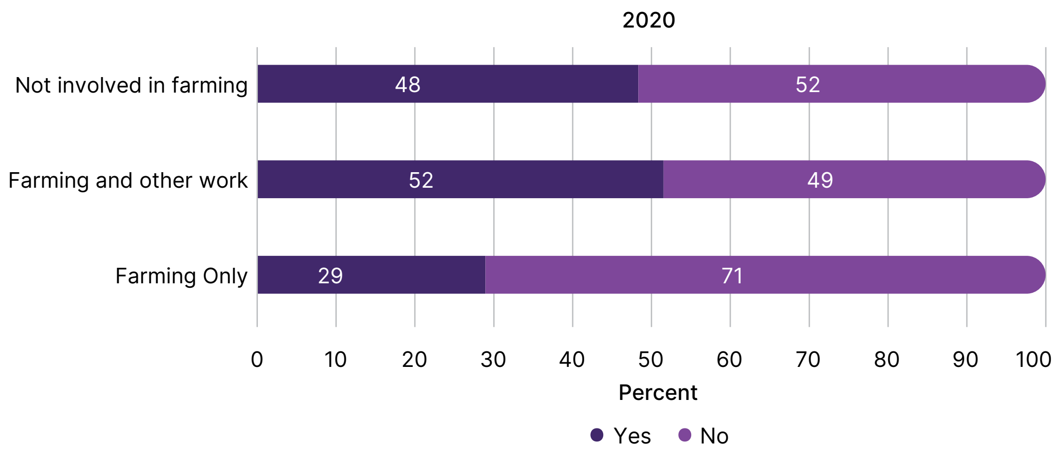


Figure 44: Those that have short-term insurance: Insuring of farms by household involvement in farming

Source: Finscope 2014 & 2020

Use of digital tools

Digital inclusion in rural areas should be supported as it could provide a range of benefits. This includes using technology to increase awareness of prices, and to support financial and agricultural management which would also reduce risk to lenders. For example, satellite imagery can be used to assess whether there are planted areas that are underirrigated etc. Digital information can also assist in risk reduction which would allow for targeted provision of insurance. Partnerships in these areas between financial service providers, and development projects should be supported and encouraged.

Going forward, the development of a diamond and minerals beneficiation value chain will require some financial inclusion components. However, this is likely to become more relevant as the value chain expands and greater downstream components growth. Junior diamond exploration requires finance through loans. Sectoral investment in smaller companies can include impact investment. Digital processes for verification and records such as blockchain will also become important, particularly given the focus on ethical diamonds. Increased e-commerce and online platforms for sales may require additional integration with payment platforms. However, at this stage the links between mining and minerals and financial inclusions strategies appear to be fairly limited.

4.4

Manufacture

The manufacturing industry in Botswana includes a range of products including downstream processing of meat and leather products, beverage production, diamond beneficiation and textiles. Manufacturing as a share of GDP has decreased over the last decade from 6.4% in 2010 to 5.2% in 2019 . The industry is fairly labour intensive and as such contributes 7% to employment.

Government support for manufacture includes programmes from the Botswana Investment and Trade Centre (BITC) which has programmes including exporter development programes. The post-COVID recovery plan includes targeted large-scale industrial projects for the Botswana Development Corporation and SEZA. This includes a Leather Park, a dairy project, glass manufacturing project (which was abandoned but will potentially be reassessed) and food processing projects.[13] Apart from large manufacture the strategy also notes that there is some light manufacture and fabrication by informal sector businesses. These businesses have challenges faced by SMMEs in general including a lack of funding.

Botswana is facing a challenge of a shrinking manufacturing sector contribution to its gross domestic product.

Despite the various policies formulated to advance the sector, Botswana is facing a challenge of a shrinking manufacturing sector contribution to its GDP. Possible explanations to this problem are that Botswana's manufacturing sector was dominated by the Botswana Meat Commission (a parastatal processing beef) which has not done well over the years. Secondly, the exceptional performance of the mining sector swamped the growth of other manufacturing activities in the country for many decades.[14] However, the greater governmental focus on local supply and the related policies (such as tariffs on particular products) may present opportunities for entrepreneurs. However, the manufacturing industry is small at present and the key challenge is stimulating local manufacture.

Manufacturing often requires capital for equipment. Going forward potential avenues for financial inclusion related to manufacture includes access to finance for manufacturing SMMEs. Furthermore, linkages with upstream value chains may offer opportunities for growth. For example, financial access for SMMEs entering the diamond support service and diamond beneficiation space including access to finance and working capital as well as insurance may be important.

PART 4 NOTES

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3 Local Enterprise Authority (2020), Snap Survey.

4 https://www.mmegi.bw/index.php?aid=82124&dir=2019/august/09

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6 National Development Plan 11 Mid-term Review (2018)

7 Choppies (2020) Annual Report

8 Agriculture Credit Guaranteed Scheme (ACGS) cover is meant to assist dry-land farmers in reducing their debt obligations in case of crop failure due to drought, floods, frost and hailstorm. This scheme started in 1986. However, to date, the scheme has solely covered droughts. The interventions that follow a presidential declaration are as follows: Drought Relief Interventions and contributions to instalments for loans taken arable farmers under the ACGS. These interventions are performed only if a presidential declaration of drought has been made. Historically, criticisms have been that the scheme has placed an unsustainable financial burden on Government because it is not based on sound actuarial principles. This is because farmers pay a flat rate (premium) regardless of what crops they are growing.

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5 Conclusions and recommendations

5.1

Conclusion and recommendations

Botswana is a middle-income country with a small population and a high income relative to neighbouring countries. While there has been substantial progress in various areas that impact on growth and development including improved health outcomes, better infrastructure and education there are still some challenges.

In particular, there are high levels of unemployment and limited opportunities, particularly in rural areas and for women and the youth. As such, while there has been substantial progress over the period since the last MAP study in terms of financial inclusion, it is necessary to consider means of linking financial inclusion objectives to the real economy in a manner that supports employment generation and opportunities, while also focusing on the depth of access – giving people access to more than one type of formal financial service. Over the period of review from 2014-2018 there have been a range of developments in financial inclusion.

Payment services

Access to payment services have improved through banks and digital channels. Banks have introduced a range of products and channels including products aimed at the unbanked such as e-wallets and prepaid cards. There are also various digital options that have been or are being introduced which will potentially increase inter-platform competition with MNOs and provide consumers with greater choices. This provides an important avenue to inclusion alongside non-banks institutions which were expected to drive inclusion. Banking products targeted at lower income consumers is an area that has the potential to enhance inclusion in innovative ways going forward. However, this will require a regulatory playing field that allows for innovation from banks when serving lower income customers. For example, strict interpretations of KYC documentation currently limits the incorporation of the unbanked who do not have proof of income.

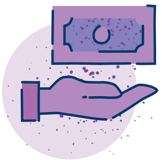
Mobile money has increased significantly in terms of volumes, variety and product type and has played a significant role in improving financial inclusion across the board. The higher levels of take-up by women and youth holds promise in providing a channel to financial inclusion that can be expanded and built on. The growth in mobile money is in part due to the fact that Botswana has good 'building blocks' for digital financial services such as good ICT infrastructure, a national ID system which assists in KYC and non-exclusive agents including large retailers. The range and footprint of agents for mobile money is also large and expanding and includes large retailers. However, digital financial services are still used primarily for P2P transfers and there does not appear to be any merchant payment, credit or savings options that are being introduced. Introduction of a national payment switch and consideration of regulations governing interest on mobile wallets, as well as the requirements for offering micro-credit through mobile money will assist in expanding this.

Credit

There are limited credit products for lower income consumers in Botswana at present. Furthermore, credit extension has contracted and is very limited. This may be in part due to low incentives to save due to the low interest rate environment and compressed margins as a result which makes retail credit extension less attractive from a bank's perspective. Microfinance institutions have focused on formally employed individuals and while development finance institutions are providing some access for MSMEs they are not significantly expanding access. Regulatory assistance in terms of collateral registries and better credit reporting by non-banks may assist to some extent. The efficacy of loan guarantee schemes should also be considered. Given the role of digitalisation in enhancing an institution's ability to assess risk it is important to encourage information sharing. This can occur through fostering partnerships with agencies (for example in agriculture) and encouraging collaboration across institutions in terms of sharing transaction data with a view to improving the ability to lend to lower income households. This would ideally be focused on credit aimed at unlocking economic opportunity through allowing small business development and education savings.

Insurance

The development of the retail insurance market in Botswana could be beneficial for domestic capital mobilisation, which can also alleviate capital constrains in the credit market. Novel insurance products for lower income consumers have recently been introduced. However, these have limited reach. It is essential that efforts are made to build up data that will assist with the introduction of better products targeted at agricultural insurance in order to extend services. This could be done in collaboration with agricultural products.



Remittances

Remittances have improved and prices of remittances has fallen with the growth in mobile money as a channel for cross-border remittances due to partnerships that have been formulated.

Over the period under review there have been some important regulatory changes made. In terms of payments this includes the regulation of mobile money through the Electronic Payment Systems regulations, the development of a National Payments System Strategy which is building towards the development of a National Payment Switch, and developments in regional remittances through the regional settlement service SIRESS. Credit provision is also benefiting from some changes including movement towards a collateral registry to allow movable assets to be registered and used as collateral for credit and the Credit Information Sharing Bill. However, there are a range of additional interventions and regulations that will assist in driving inclusion further.

Based on the findings of this diagnostic, the following recommendations can be made across financial product markets and areas:

EXPAND THE PAYMENTS ECOSYSTEM:

- Encouraging better interoperability between providers (such as through a national switch) including having interoperability between banks and mobile money and across mobile money providers.
- Encouraging non-bank participation and innovation in the payments space through regulations that expand the potential role of products in areas such as merchant payments and savings.

EXPAND THE DEPTH OF USE OF DIGITAL FINANCIAL SERVICES:

- Expanding electronic payment regulations to facilitate merchant payments through mobile money.
- Expanding regulations to facilitate new products such as mobile micro-credit or micro-savings products.

EXPAND THE REACH OF FINANCIAL SERVICES PROVIDERS:

- Assessing the documentary requirements for proof of employment and proof of income across all accounts from a KYC perspective
- Continuing to encourage distribution through retailers and other channels
- Creating greater integration and partnerships with SACCOs and informal providers that have reach within these populations (particularly for women).

DEVELOP LINKAGES TO THE AGRICULTURE AND TOURISM SECTORS:

- Developing credit and insurance products servicing MSMEs in agriculture and tourism
- Linking financial inclusion to government and other development projects (including particular agricultural projects) and mechanisms (such as loan schemes) as well as private sector initiatives (such as supplier development programmes from supermarkets)
- Providing training and potentially subsidising payment channels for SMMEs in tourist areas

- Supporting digitalisation projects that would provide a database for risk assessment to leverage fintech
- Create better links between financial inclusion groups and line ministries for agriculture and tourism
- Facilitating the rollout of low cost, high speed data services in rural areas.

IMPROVE CREDIT REPORTING AND ENCOURAGE USE OF DIGITAL INNOVATION:

- building up the reporting of both positive and negative information by stakeholders such as utilities, SACCOs and mobile money operators
- developing means of using data such as mobile money transaction data to generate behavioural inputs that can be used for credit scores for individuals as well as MSMEs.

SUPPORT MECHANISMS TO DEEPEN USAGE OF PRODUCTS AND TO FACILITATE SAVINGS AND RISK REDUCTION BY:

- The creation of low-cost insurance products such as hospital cash plans,
- Providing incentives to save and earn interest on mobile money and e-wallets
- The creation of specific products to target microsavings which will assist lower income markets with financial inclusion. These can be targeted to areas such as education or healthcare savings
- Facilitating the collection of data that can be used to create financial instruments for agriculture through encouraging collaborations between projects and the financial sector
- Actively considering the impact of low savings on credit provision when considering monetary policy such as interest rate changes.

SUPPORT INFRASTRUCTURE DEVELOPMENT IN ORDER TO DELIVER FINANCIAL SERVICES AND DEVELOP THE ECONOMY:

- The lack of electricity in rural areas makes using digital services difficult Support for off-grid electrification solutions such as pay-as-you-go solar electricity systems should also be supported at the intersection of energy and financial services
- Encouraging sufficient regulation and competition to lower the cost of mobile data and services, particularly in rural and remote areas
- Continuing to encourage partnerships and expansion of the agent network to petrol stations and retailers.

EASING POLICY AND REGULATORY BARRIERS:

- Increase regulatory flexibility for the trial and introduction of low income products.
- Enhance national co-ordination by re-assessing priority area co-ordinators.

These recommendations and the specific recommendations outlined in the next section will assist in supporting financial inclusion with a focus on enhancing growth and development and alleviating social and economic issues highlighted in this report such as low levels of employment for women, youth and people in rural areas.

5.2

Implementation and evaluation

Roadmap areas for implementation

1. Development of a payments ecosystem	
Leverage Bank reach	2015 Recommendations outstanding or relevant • Partnerships to develop infrastructure – ATM, POS and agency networks • Evaluate potential for self-stocked and cash accepting ATMs housed with retailers • Third party service provider potential to reduce costs • Interoperability with MNOs • Revisit bank charges for sustainable rural provision to reduce overall bank access costs 2020 additions • Evaluate cashback at retailers • Focus on interoperability between MNOs and banks through a switch rather than bilaterally • Revisit KYC documentation on proof of income for informal sector
Mobile money effectiveness	2015 Recommendations outstanding or relevant • Improve interoperability – with banks and between MNOs • Improve agent management approach for liquidity and consumer value • Consider broader mobile money benefits to drive internal business case, including reviewing mobile money fee structures 2020 additions • Develop policy for interest on mobile money accounts or savings wallets • Develop incentives and regulatory structures for micro-credit using mobile and digital services • Incentivise use of mobile money for merchant payments
Re-energize post office	Given the increased role of the post office in financial inclusion it is a key roleplayer. However, reconsider whether this should be maintained as a separate activity or combined as activities under other objectives.

Develop retailers and petrol stations as alternative channels	2015 Recommendations outstanding or relevant • Extend mobile money agent and super-agent role and banking agency functions • Partner with banks to extend card value proposition and increase footfall • Partner with cross border remittance providers to send and receive 2020 additions • Support extension of agency partnerships to petrol stations • Consider cashback at retailers and petrol stations • Facilitate mobile money usage within retail ecosystem rather than cashing out
Regulation, policy and financial sector development	2015 Recommendations outstanding or relevant • Develop a rural payment distribution strategy including incentives for rural roll out (e.g. use of BOCRA grants to incentivise private sector participation) • License third party service providers to provide service for banks • Leverage SIRESS to reduce cross border payment costs • Evaluate sustainability and targeted design of government grants and subsidies to develop digital use case • Provide a framework for payment and settlement service providers to expand services beyond transactions (e.g. extend functionality of Poso card, and similarly mobicash, Real Pay, Smart Switch) 2020 additions • Facilitate development of National Payment Switch
2. Facilitate low cost, accessible savings products	
Enhance bank and payment provider products	2015 Recommendations outstanding or relevant • Product development for targeted savings (e.g. saving wallets) – bank and mobile 2020 additions • Facilitate mobile wallet savings options including through facilitating interest on mobile money
Strengthen provision by other formal institutions	2015 Recommendations outstanding or relevant • Regulate and expand SACCOs, manage and ensure stability • Monitor savings market to encourage access and use • Improve returns: capital market development and macro-economic change required 2020 additions • Consider mobile option for existing products such as Botswana Post savings books
Improve retirement provisions	2015 Recommendations outstanding or relevant • Extension of pensions to unserved employees, potentially through a new statutory scheme (under consideration)
Regulatory and policy interventions	2015 Recommendations outstanding or relevant • Remove barriers on deposit taking including tiered microfinance licenses to enable new entrants e.g. deposit taking MFIs and SACCOs • Policy level review to position mobile money as a savings instrument, including reviewing maximum wallet balances (currently P4,000), reviewing notification limits (currently P10,000), and potentially paying interest on consumer balances to encourage use as a savings instrument. • Encouraging savings by allowing cash-ins to Poso card balances • Consider impact of real interest rates on savings when determining monetary policy

3. Develop accessible risk mitigation products	
Improve products and distribution partnerships	2015 Recommendations outstanding or relevant • Explore partnerships with MNOs, general dealers, SACCOs and others for distribution of insurance products • Expand payment options (e.g. mobile) • Flexibility / innovation in product design e.g. to cater for non-regular incomes • Improved disclosure of product terms and conditions 2020 additions • Consider means of pooling and collecting data (such as agricultural) to assist in provision of products such as low cost agricultural insurance in partnership with agencies and commercial entities.
Regulatory and policy interventions	2015 Recommendations outstanding or relevant • Micro insurance framework potential (consider the SADC guidelines to flesh out the new Insurance act) • Monitor Insurance data to encourage value to customers (e.g. claims ratio) • Review new product approval requirement and processes • Review potential for compulsory 3rd party insurance for property damage • Electronic sign up of services • Customer education and awareness 2020 additions • Investigate compulsory 3rd party motor insurance • Consider regulatory framework that allows for trialling of new lower income products
4. Improve the workings of the credit market	
Enhance Bank credit provision	2015 Recommendations outstanding or relevant • Increased partnership for credit provision to target appropriate recipients, such as with CEDA • Support credit information sharing initiatives 2020 additions • Consider means of pooling and collecting data (such as agricultural) to assist in risk assessment for the provision of credit. • Develop a regulatory framework to clarify the process for the provision of nanocredit using digital means
Build and strengthen MFIs	2015 Recommendations outstanding or relevant • Attract additional MFIs through capacity building and improving coordination and policy environment for MFIs • Investigate alternative sources of capital to development partner funding/ debt (e.g. crowd sourcing) • Operational support to innovate on services to SMMEs (currently focused on consumer payslip model)
Alternative support mechanisms for SMMEs	2015 Recommendations outstanding or relevant • SMME skills development, mentoring (potential for programs targeted at women) • Alternative capital opportunities beyond debt given cost (e.g. venture capital and private equity) • Leveraging Metshelo (savings groups) and others as a conduit for the provision of formal credit

Regulatory and policy support	2015 Recommendations outstanding or relevant • Credit information sharing (Positive and Negative) – while there are improvements in this area, not all institutions report in and not all report positive information • Mandatory credit reporting and look-up • Improved enforcement in micro lender market to manage risks • Collaborate with SMME development committees • Develop capital market and improve macro-economic environment to reduce cost of credit • Credit monitoring to effectively supervise for targeted access, abuse and indebtedness • Housing finance strategy potential given urbanisation • Increase financial and credit literacy including addressing lack of understanding of obligations and risks of debt; managing debt; over-indebtedness, accompanied by more effective systems of credit burden assessment • Leverage customer profiles from e-money transaction records as basis for small scale credit, e.g. Poso card records to unlock credit from BSB, Mobile money records • Developing an MFI policy / regulatory framework that will encourage the emergence of deposit-taking MFIs- in process • Reform of government credit provision (CEDA/YDF) to establish a more sustainable basis that does not undermine commercial players • Improving agricultural credit guarantees
5. Consumer empowerment and protection	
Formal financial service provider led initiatives	2015 Recommendations outstanding or relevant • Research target audience and train sales team for improved communication during teachable moments • Make statements inexpensive and simple to obtain to encourage usage and trust (first time financial service users check balances often)
Consumer protection framework	2015 Recommendations outstanding or relevant • Ombudsman across all services to reduce cost and improve access to fair treatment (ideally within existing structures e.g. Consumer protection unit) • Empower traditional judicial structures to deal with minor financial service cases • Strengthen legislation, bearing cost in mind (don't protect consumers out of the market)
Targeted Financial literacy initiatives	• Targeted initiatives needed for impact, appropriate design critical (school, radio etc.) • Strengthen financial literacy in education system
6. National Coordination Consider reassigning co-ordination of priority sectors where institutions are having difficulty collecting data from industry participants