Access to Financial Services in Botswana

FinMark Trust Research Paper No. 1

by
Genesis Analytics

March 2003

FINMARK TRUST
MAKING FINANCIAL MARKETS WORK FOR THE POOR

Foreword

This paper is one of a series of four, each of which focuses on access to financial services in one of the BNLS (Botswana, Namibia, Lesotho, Swaziland) countries of the Southern African Customs Union. The research was commissioned by FinMark Trust, and undertaken by Genesis Analytics over a period of four months in mid-2002. The work included in-country interviews and reference to extensive secondary materials to form the detailed overview presented in each paper. In each case, the draft paper was then presented to an in-country workshop of professionals from government, financial sector and NGOs, held during the latter part of 2002, at which discussants were specifically invited to critique and comment on the paper. The final version was prepared following comments obtained at these workshops or provided subsequently.

The BNLS research project of which this paper is a part aimed to establish some initial benchmarks around financial service access and usage in each of these countries from the supply-side (i.e. the main providers of these services), as well as to identify initiatives underway in each market against a general economic context. This was so as to inform FinMark Trust's own strategy of engagement in each country; however, the underlying information has not been collected or disseminated in this form before, hence the publication by FinMark Trust of the papers for wider readership. It must be noted that the intent was not to provide a comprehensive overview of each market in its entirety, since other publications perform this task; but rather to emphasise the angle of access to financial services, which is at the heart of FinMark Trust's mandate of "Making Financial Markets Work for the Poor".

The process of producing and refining these papers required considerable effort from a number of people during 2002, to whom we wish to record our sincere thanks and appreciation:

- The team at Genesis Analytics who were responsible for the project: led by Hennie Bester, the team also included Doubell Chamberlain who undertook the research and wrote the papers, and Krista Tuomi who coordinated the considerable logistical issues involved in the comprehensive workshop and visitation process;
- Anne Marie Chidzero of ICC facilitated the in-country workshops which were without exception productive and constructive;
- The well over 100 people around the region who attended the workshops, as well as others who gave time to meet and provide input on their view of the local financial markets.

These papers therefore represent a starting point for further research and support by FinMark Trust for broadening access to financial services throughout the SACU region. A process of initiating comprehensive demand side surveys of financial services needs and usage within each of the BNLS countries has recently begun, and will be an important initiative in 2003.

More about the mandate and work of FinMark Trust, including other research on themes related to access to financial services, can be obtained via our website www.finmarktrust.org.za.

David Porteous
CEO, FinMark Trust
6 February 2003

FinMark Trust
MAKING FINANCIAL MARKETS WORK FOR THE POOR

PO Box 61674 Marshalltown 2107 Republic of South Africa
7th Floor 17 Harrison Street Johannesburg
Tel +27 11 370 3565 Fax +27 11 836 5509
E-mail info@finmark.org.za
www.finmarktrust.org.za

Table of Contents

List of Tables

List of Charts

List of Abbreviations

ADF	African Development Fund
AMPS	All Media Products Survey
BDC	Botswana Development Corporation
BBS	Botswana Building Society
BCB	Botswana Cooperative Bank
BIDPA	Botswana Institute of Development Policy Analysis
BoBCs	Bank of Botswana Certificates
BSB	Botswana Savings Bank
BSE	Botswana Stock Exchange
BTC	Botswana Telecommunications Corporation
CCF	Citizens Contractors' Fund
CEDA	Citizens Entrepreneurial Development Agency
CEMAEF	Citizen Mortgage Assistance Equity Fund
EDU	Botswana Enterprise Development Units
FAP	Financial Assistance Policy
FNBB	First National Bank of Botswana
HIVOS	Humanistisch Instituut voor Ontwikkelingssamenwerking *(Humanistic Institute for Development Cooperation)*
KDT	Kuru Development Trust
KyT	Kgetsi ya Tsie
MCI	Ministry of Commerce and Industry
NBFI	Non Bank Financial Institutions
NDB	National Development Bank
NGO	Non Governmental Organisations
NORAD	Norwegian Agency for Development Cooperation
PDSF	Public Debt Service Fund
PERSAL	Payroll system used by the South African Government
SACU	South African Customs Union
SBPA	Small Business Promotion Agency
SIDA	Swedish International Development Cooperation Agency
SMME	Small, Medium and Micro Enterprises
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	US Agency for International Development

Executive Summary

1. Introduction

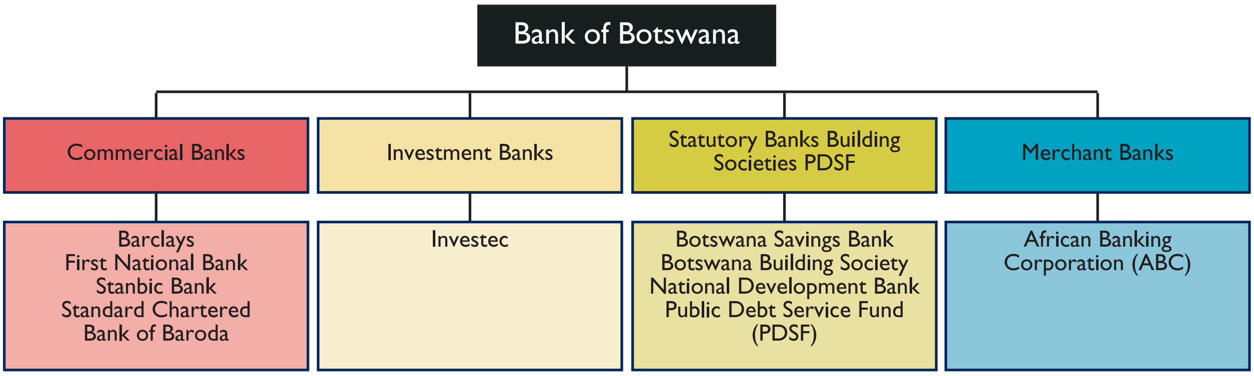
This report focuses on the level and trends in access to financial services in Botswana. Similar reports have been prepared for Namibia, Botswana and Lesotho. They were commissioned by FinMark Trust, an organisation with the mandate of promoting access to financial services in the above countries. As its slogan suggests, FinMark Trust aims to "Make Financial Markets Work for the Poor". It aims to promote the development of the retail and wholesale financial markets in southern African countries, allowing all income levels to access their services. This philosophy is evident in the reports.

In addition to evaluating the current levels of access to financial services and the institutions involved, the reports also document initiatives to promote access. The legislative and regulatory environments are also assessed in order to identify successful initiatives that could benefit from further support.

Botswana and Namibia are ahead of Lesotho and Swaziland in terms of current levels of access to financial services. Access is still fairly low, however, varying between 15% and 30% of the economically active population.

2. Banking sector

The diagram below provides an overview of institutions active in the Botswana banking sector.



In 2001, 39% of the economically active population used a savings account, 45,6% used time and call deposits, and 26 % had access to current accounts.

Financial intermediation analysis also indicates relatively healthy banking sector development. Despite these positive trends, however, the proportion of private sector loans going to businesses (in contrast to households) has declined significantly, decreasing from 70% in 1990 to 45% in 2001. This indicates a general shift of resources from productive investment to consumption and corresponds to the observed lack of local industries and high levels of consumption.

Banks have been highly profitable within the small segment of the market that they serve and there is little incentive for them to extend their lending to new market segments. They offer the standard range of loan, savings and transaction products with very little innovation in adapting these to local circumstances. There has been little direct pressure from government on the banks to expand coverage to lower income households and SMMEs. Instead, government opted to fill the gap by establishing several public financial institutions, a situation which has substantially crowded out private sector lending. Many of these institutions also require repeated restructuring, which may not be the most efficient use of government resources.

3. Contractual savings institutions: pension and insurance providers

Although small, the Botswana insurance industry is making steady progress. There are currently only three long-term life insurers operating in Botswana, namely Botswana Life, Metropolitan and Regent. Savings plans form the basis of the long-term insurance industry, although they also offer funeral and life cover. The short-term insurance market in Botswana consists of five companies, i.e. Botswana Eagle, Regent Insurance, Mutual & Federal, Botswana Insurance and GIB. These five insurers follow very similar business models and offer similar product ranges (e.g. all of them have about 50% of their business in vehicle insurance).

The pension fund industry has exhibited even stronger growth over the last decade and around the middle 1990's, surpassed bank deposits as the biggest pool of household savings. Pension funds are required by law to invest at least 30% of their assets locally. This may pose a problem in the near future when the Civil Service Pension Fund is capitalised, as it will lead to a dramatic increase in the funds under management and flood the local market. .

4. Non-bank financial services

Microlenders

The microlending industry is not explicitly regulated by the government and no Usury Act exists. No information is collected for monitoring purposes and very little is known of the size and characteristics of the industry. Although there are currently initiatives under way to impose some form of regulation, the indications are that this will still not include interest rate limits nor require microlenders to submit detailed financial information on their business. It is important that these issues are addressed as the microlending industry provides financial access to a significant number of citizens. A conservative estimate of the market would be about P400m (180 000 borrowers).

Non governmental organisations

In Botswana only five NGOs appear to be involved in the provision of financial services. Their combined loan book serves about 4000 borrowers and is estimated at about P1m (R1 700 000), which amounts to less than 0.01% of GDP. Although this sector is very small and unlikely to be a significant vehicle for credit expansion in future, it can still be a source of innovation and useful information on issues affecting the poor.

Other government initiatives

The Botswana government sought to address the problem of access to credit, and to diversify the economy, by initiating a series of credit schemes aimed at helping entrepreneurs and small businesses. The first attempts were the Financial Assistance Policy (FAP) and the Small Business Scheme. These were essentially grant systems. Following indications of mismanagement, the government terminated these schemes and created the Citizens' Entrepreneurial Development Agency (CEDA) in August 2001. CEDA centralised the provision of credit and tightened access requirements and control over repayments. These measures have significantly increased efficiency.

CEDA still faces a number of problems however. In many ways, the government does not have the capacity to evaluate projects and allocate resources. The fact that funding is provided at about a third of the commercial rate is also problematic, as it makes it impossible for commercial banks to compete. CEDA is also not readily accessible to smaller enterprises, due to the high cost entailed in the application and registration process. Moreover, CEDA does not have the capacity to monitor loans and the development of the funded businesses.

The Small Business Promotion Agency (SBPA) was the result of a SMME task force set up by the government in 1997. It falls under the Ministry of Commerce and Industry (MCI) and is responsible for reviewing the impact of government policy on SMMEs, and developing and monitoring initiatives in this area. The SBPA has made significant progress in implementing task force recommendations.

5. Money and capital markets

The Botswana Stock Exchange started operating in June 1989. Since then the number of locally listed companies has increased from 5 to 16 and the market capitalisation increased from P120m (R204m) to P 8,909m (R15,145m). Despite its increase in size, the BSE is still relatively illiquid. Low liquidity is attributable both to the small number of available stocks, as well as the buy-and-hold strategies of institutional investors, who are required to keep 30% of their funds locally.

6. Conclusion

In terms of access to financial services, Botswana is in a much better position than the other BLNS countries as a larger proportion of people have access to the various forms of financial services.

There is concern about the ability of the banking sector to optimally facilitate the development of the local economy. The government has launched several initiatives to address these constraints. Although these have achieved a measure of success, they may be unsustainable in the long-term. In order to foster development, government initiatives must be structured in a manner that allows commercial financial institutions to compete, rather than create permanent dependencies on subsidised funding.

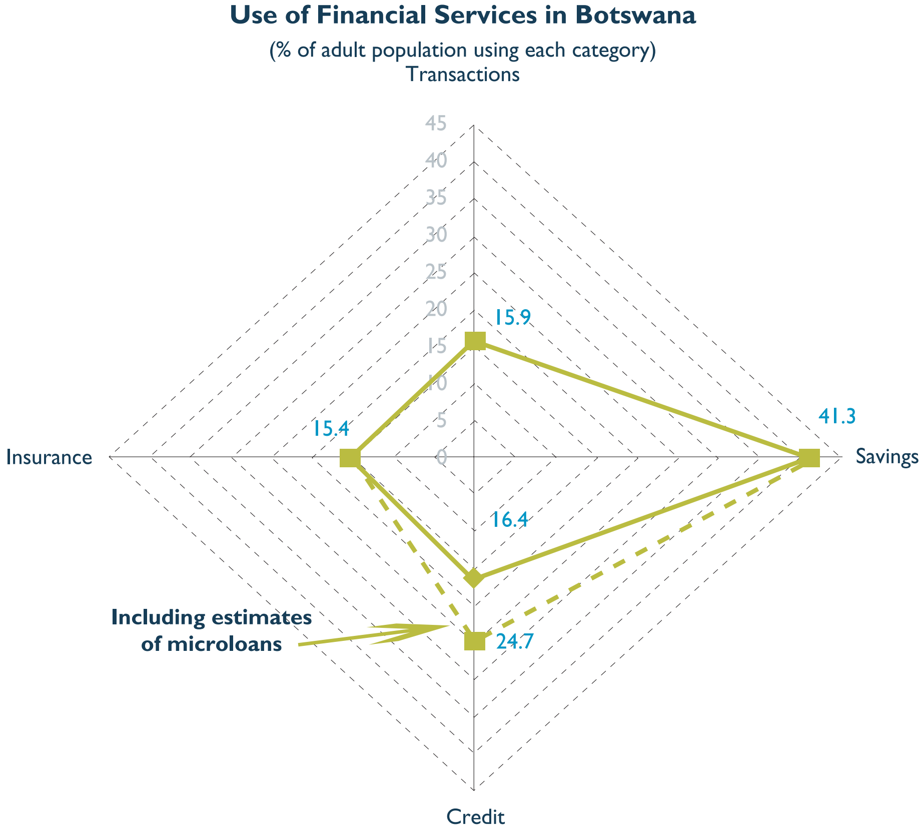
In response to this need, a fairly vibrant microfinance sector has developed, but it is largely self-regulated and information is scarce. Abuse of borrowers, especially in relation to exploitative interest rates, is therefore likely. A small number of NGO's serve niche markets, especially in rural areas. They seem to perform best using group lending methodology where there are common bonds between the group members.

Cooperation between the government and the private sector could significantly enhance access to financial services in Botswana. In particular they will need to jointly address a number of important issues. The impact of the cost distortions being created by government intervention needs to be analysed. If the impact is severe, alternative options need to be considered. It may be beneficial for the government to consider methods of enticing the private sector to extend their services to more sectors of the Botswana population. To do this will require better demand side information on the needs and patterns of usage of financial services generally. It may also be useful to examine successful NGO schemes, to determine what the best methodologies are for getting finance, especially for business and housing purposes, to rural and poor communities.

1. Introduction

The goal of this study is to evaluate the level of access to financial services in Botswana. It also aims to provide the necessary context within which the levels and trends in access to these services, can be evaluated and interpreted. The eventual purpose of this is to identify both possible barriers to access, as well as any initiatives currently operating to overcome these. For this purpose 'financial services' is defined as broadly as possible including bank lending, saving and transaction services, non-bank savings and lending, long-term savings in the form of pension funds and long- and short-term insurance.

The graph below shows a summary view of access to financial services. It is important though that (a) this graph should be seen in absolute terms as well as relative to other countries and (b) that the data should be interpreted in the proper context. In the remainder of this document, this context will be provided.



Botswana is ahead of the other BLNS (Botswana, Lesotho, Namibia, Swaziland) countries in terms of the use of credit, transaction and insurance services. However, there is still some way to go in the provision of financial services as access on every axis except savings are estimated to be below 30% of the adult population[1]. The axes represent the major categories of financial services and the estimates are made up as follows:

Savings: For savings the figure is the proportion of people (relative to adult population) that have a savings account. This includes bank[2] demand savings accounts as well as NGO savings 'accounts'. Notice and other longer term deposits were not included as there may be considerable overlap. Considering the basic level of access to savings products, the simple savings account is the most basic and most accessible. Most people that have one or more of the other deposit accounts will also have a savings account. Furthermore, while it is quite possible that people may have any combination of several of the other types of deposit accounts, most will only have one savings account. It was therefore considered to be an appropriate estimate of access to savings products in general. Details on the other savings products and the level of access to these are provided in the relevant sections. Data on savings and credit cooperative membership was not available for Botswana and was, therefore, not included here. Indications are that the cooperatives industry is very small in Botswana and would not have a significant effect.

In addition to the savings 'products' mentioned above, the Bank of Botswana also offers savings certificates that are sold through the Botswana Savings Bank (BSB), the Post Office and the Bank itself. Information on the number of people that own these was unfortunately not available and was not included in the savings figure. The amount kept in these certificates is, however, extremely small and suggests that the reach is still fairly limited.

[1] *Population aged sixteen and older.*
[2] *Including commercial banks and the Botswana Savings Bank (BSB).*

Transaction services: Ideally this measure should be a composite of the various transaction products available (i.e. current accounts, credit cards, debit cards and other transaction accounts). In the case of Botswana, the only data on transaction products available was the number of current accounts held. This was expressed as a percentage of the adult population to provide a proxy of access to transaction services. While it is possible that individuals may have more than one current account (perhaps with different banks), it is highly unlikely and therefore no adjustment is made for double counting. It can be argued that current accounts are not accessible to the poor (due to minimum salary requirements) and, therefore, do not reflect transactions services used by the poor. While this is certainly correct, it is also the case that the other savings-based transactions accounts are also not accessible to the poor. These accounts have may have lower requirements[3], but the transaction charges are prohibitive and will not be within reach of the poor. For comparative purposes, it was, therefore, decided to use current account information available as an indicator (relative to other countries) of transaction services offered.

Credit: This indicator should ideally be a composite of access to bank credit (number of people with overdrafts, credit cards or personal loans), microfinance (number of people that have access to cash or term loans) and the number of people with access to loans from NGOs and credit cooperatives. In Botswana, data on all except the last category was available. Of the bank credit products, only current account data was available and this was included in the credit figure. Once again, it can be argued that the number of current accounts does not reflect credit to the poor. Similarly, this argument also applies to personal loans offered by banks as the requirements are not within reach of poor households. For comparative purposes, it was decided to use the number of overdrafts as a proxy of bank credit (relative to other BLNS countries).

Estimates of both the cash and term lending microfinance market were available but it was decided to only include the cash lending, as significant overlap between bank credit and term credit can be expected. The non governmental organisations (NGOs) surveyed serve a market that is not served by the banks or the microlenders and were therefore included without any correction for double counting. Access to credit through the government Citizens Entrepreneurial Development Agency (CEDA) scheme was also included but this was small and did not have a significant effect on the total figure.

Including the estimates of microlending, about 16% of the adult population had access to credit. This estimate is close to the 21% of adults reported to be 'credit active' by the credit bureau TransUnion ITC.

Insurance: In this case the estimated number of people that have life insurance policies was used as a proxy. More details of the other types of insurance and the level of access to them are provided in the relevant section. As the information was not readily available, two methods of estimation were followed in order to get an accurate estimate. The first is based on the data provided by the life insurance companies from which it was possible to get a rough estimate of the number of life policies (and then also the number of people with life policies). The second method used the total number of life policies as provided in the annual report of the registrar of insurance companies, adjusted for double counting. The first estimate (18%) was significantly lower than the second (32%) and it was decided that an average (25%) of the two methods would be the best estimate, with the two values forming upper and lower bounds.

[3] *Although there are some with no minimum salary requirement, formal employment is still required for most transaction accounts. On the savings side, formal employment is not necessarily a requirement, but the transaction options on these accounts are very limited and expensive.*

2. General Economy

2.1. Overview

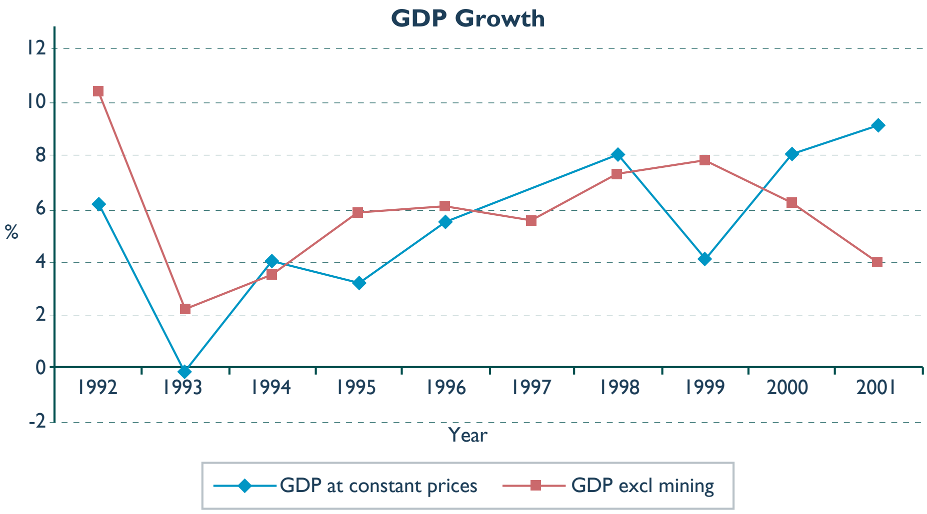
Botswana is a country of great contrasts and contradictions. Despite having achieved strong economic growth over the last decade and having a high GDP per capita (three times that of Swaziland), Botswana is still struggling with issues of unemployment. Furthermore, despite several attempts by government little success has been achieved in economic diversification.

Botswana at a glance (2001)	
Total Population	1,678,891
Formal Employment	272,811
Of which Central & Local Government	106,394
Average monthly Earnings of Citizens (Pula)	1,923
GDP per capita (Pula)	17,396
GDP per capita (excl. mining) (Pula)	11,300
Unemployment (1998)	21%
% of Population in Urban Areas	51.0%
Inflation (2001)	5.7%
Rand/Pula Exchange Rate[4]	1.7

The surface area is approximately half of that of South Africa, but at the last census in 2001, the population consisted of a mere 1.7 million people (less than that for the Johannesburg metropolitan area). The majority of this population is found in the urban centres along the eastern border with South Africa. The large areas towards the west are sparsely populated. Estimates from the 2001 census indicate that 51% of the population live in urban areas.

The small population provides both benefits and challenges to development. On the one hand the small market makes it difficult to foster a diversified and stable economy. On the other hand, the government is able to provide for the needs of a large part of the population from its income from diamonds. Since their discovery in 1966, they have become the mainstay of the Botswana economy, providing government with a large income stream from taxes and mineral rights (contributing about 30% to GDP and 75% to export figures over the last decade - Bank of Botswana Annual Report, 2001). The wealth created by the diamond industry has provided Botswana with a GDP per capita of P17,396 (R29,573)[5] in 2000/2001. Despite contributing this much to the economic bottom line, the diamond industry provides only about 4% of formal employment.

Over the last decade Botswana has experienced an average real growth rate of 5.2% translating into a per capita growth of 2.7%. The economy grew by 9.2 percent in real terms in 2000/2001 financial year. The stronger than expected growth was due to an exceptionally good year for the diamond industry, illustrating the sensitivity of the economy to changes in this industry.



[4] As at July 2002
[5] As at July 2002, the Rand/Pula exchange rate was approximately R1.70/1Pula

Non-mining GDP however, grew by only 4.0 percent. This drops to 3.1 percent when the government is excluded. Performance in the remaining sectors varied largely and only the Trade, Hotels and Restaurants sector did well, growing by 7.0 percent over the same period. Together with the Financial Services Industry, these two form the mainstay of government's hope of diversifying the economy. The Banks, Insurance and Business Services industry did not do well, with growth falling for three consecutive years and output only growing by 2.9 percent during the 2000/01 financial year.

It is expected that economic growth will slow down to 5.0 percent for the 2001/02 and 2002/03 financial years due to the expected slowdown in the rate of expansion of the mining sector.

Formal employment grew at 5.0% over the last financial year which, although slower than the previous year, was still above the population growth of 2.1%. Efforts have been made to reduce the role of government in the economy, but as at March 2001 government still provided 39% of all formal employment. As at March 2001 average monthly earnings were estimated at P1,701 (R2,892) per month for citizens and P1,923 (R3,269) per month if non-citizens are included (Central Statistical Office, 2001).

Contribution to GDP by sector (%)										
Industry	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Agriculture	4.8	5.4	4.5	4.1	4.3	3.5	3.6	3.2	2.8	2.6
Mining	41.1	37.1	38.0	35.4	35.4	40.6	39.7	32.7	35.2	37.0
Manufacturing	5.4	5.3	4.1	5.3	5.4	5.2	5.2	5.5	5.2	4.9
Water and Electricity	2.2	2.5	2.3	2.3	2.0	1.9	1.9	2.2	2.4	2.5
Construction	8.2	7.1	6.8	6.6	6.5	6.0	6.0	6.6	6.0	5.6
Trade (Excl.Hotels & Restaurants)	4.5	4.3	6.8	8.4	8.8	8.6	8.4	9.2	9.0	9.2
Hotels & Restaurants	1.5	1.5	1.6	1.7	1.8	1.9	2.0	2.3	2.4	2.3
Transport	3.6	4.0	3.9	4.0	3.8	3.4	3.5	4.0	3.9	3.9
Banks, Insurance & Business Services	8.9	10.7	11.0	11.5	11.9	10.4	10.8	11.8	11.6	11.4
General Government	15.5	17.2	16.4	16.1	15.6	14.6	15.1	18.3	17.2	16.7
Social and Personal Services	4.4	4.9	4.5	4.6	4.5	4.0	3.9	4.2	4.2	3.9

Source: Bank of Botswana, 2001

Although the composition of the economy has remained stable over the last ten years, there do seem to be gradual changes. Mining is still the dominant sector (contributing 37% to GDP in 2001), but its contribution has declined consistently since 1992. Agriculture has decreased from a small contribution of about 5% in 1992 to an even smaller contribution of 2.6% in 2001. These reductions may in part be due to governmental attempts to strengthen other economic sectors and provide a more sustainable base for future economic growth.

Although this move is understandable, it may be a little premature, as agriculture still directly or indirectly supports more than 70% of the population.

The Trade sector showed strong growth, increasing from 4.5% of GDP to 9.2% over the period. Banking, Insurance and Business Services have also increased consistently from 8.9% of GDP in 1992 to 11.4% in 2001. The financial sector is already contributing significantly more to GDP than the comparable industry in the other BLNS countries. Although General Government's contribution to GDP is smaller than in the other BLNS countries, it is still the second largest contributor to GDP in Botswana.

2.2. Problems relating to economic concentration

As mentioned earlier, the Botswana economy is primarily based on diamonds. The diamond industry also contributes the most to export sales, followed closely by the beef industry. Under normal circumstances the income and employment generated by these activities would trigger the development of a second level of industrial development that would typically consist of services and entertainment. In Botswana competition from South African firms has slowed the development of these secondary sectors. This translates into a loss of income and employment opportunities for Botswana citizens and a continuing dependency on beef and diamonds. Furthermore, the bias toward consumption expenditure is becoming entrenched. The declining investment in productive activities may also be due the substantial incidence of government handouts (land, materials, medical benefits, education, subsidised credit) which do not foster entrepreneurial spirit.

Government has attempted to address this slow development of local industry by providing finance for businesses at very low interest rates (about a third of commercial rates) through CEDA[6] . To date this has not achieved its goal of diversification, indicating that access to finance is a necessary, but not sufficient condition for development.

[6] *Sees discussion later*

2.3. HIV / AIDS

HIV/AIDS poses a large threat to the economy. Recently, government initiated research on the extent of HIV infections in Botswana as well as the characteristics of the affected individuals in order to formulate a strategy of addressing this concern. The study estimated HIV prevelance at 17% of the total population or 29% of adults aged the 15-49 (BIDPA, 2000: 32). A number of problems have been pointed out with the data available on AIDS infection, but these are the most accurate official figures available. Unofficially the infection rate is estimated to be as high as 40%. The BIDPA study showed, however, that there are indications that the infection rate has peaked and may decrease. This is similar to the finding of the insurers (discussed under the insurance section). More details of its effect on the various sectors of the economy will be discussed under the appropriate sections.

2.4. The role of NGOs and donor organisations

Similar to the experience in the other BLNS countries, there seems to be a general withdrawal of donor funded financial support in Botswana (as witnessed by several NGO contracts running to an end and not being extended or renewed). In addition to the general issues of 'donor fatigue', this seems to confirm the perception that Botswana does not have a shortage of funds (see section on CEDA) but rather a shortage of fundable propositions. The remaining donors are refraining from direct lending to entrepreneurs and efforts are rather focused on providing training to entrepreneurs and addressing barriers to development like discriminatory legislation.

There are several donor agencies supporting NGOs that provide financial services. These include the African Development Fund (ADF), UNDP, USAID, UNICEF, HIVOS, SIDA and NORAD. Some of these donor agencies also receive financial support from the government. ADF in Botswana is currently 50% government funded while government provides $3 for every $1 UNDP brings into Botswana. In addition to supporting these donor agencies, several government departments are also involved in direct financial support of NGOs (e.g., the Women's Affairs Department supporting Women's Finance House). More details of the specific support provided will be given under the discussions of the respective institutions.

This document proceeds to give an overview of the various institutions involved in providing financial services in Botswana. As the banking sector forms the basis of the formal financial services it is appropriate to start with this. An overview of the long- and short-term insurance and pension fund industries will then be provided, as these form the market for contractual savings. The document will then look at how the market has filled the gaps left by these institutions, focusing on the microlending and NGO sector. It concludes with an overview of other government initiatives in the financial services field.

3. Banking Sector

3.1. Overview and recent history[7]

The development of Botswana's financial sector was quite unusual. At independence (1966) it did not follow the lead of other SACU countries and create a Central Bank or issue its own currency. Instead, it remained part of the South African monetary system using the South African currency until about 1976, when the local Central Bank was established.

Before this, the banks lent out less than half of their deposits to local borrowers and placed the remainder in South Africa. Botswana was also subjected to a monetary policy dictated by South Africa. This policy was not designed with Botswana's interest in mind and as such, did not stimulate or contribute to local economic development (Harvey, 1998: 10).

Distribution network of commercial banks and government financial institutions

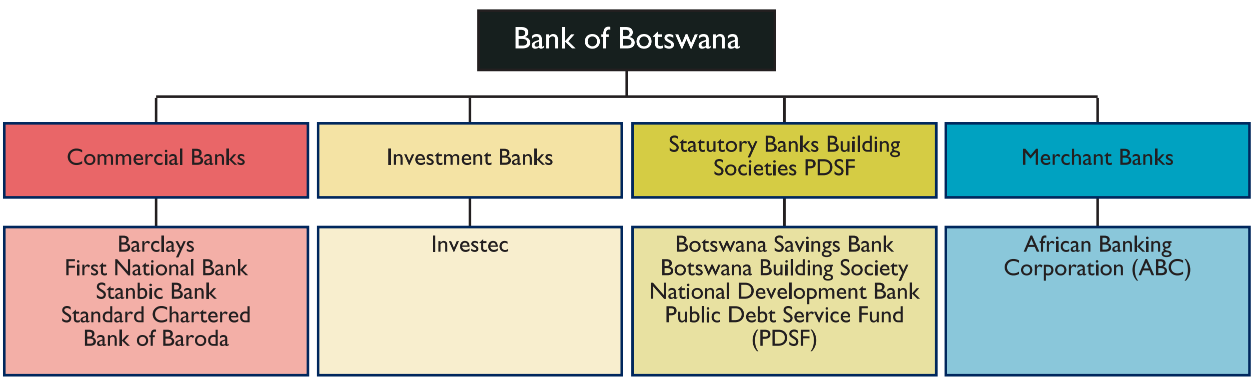
Bank	Branches	Business Locations[1]	ATMS
Barclays Bank	32	38	39
Standard Chartered	14	23	?
First National Bank of Botswana	12	12	34
Stanbic	6	5	?
Bank of Baroda	1	1	1
Investec	1	1	-
ULC	2	2	-
Botswana Building Society	9	9	-
Botswana Savings Bank[2]	1	1	n/a

Source: Banking Supervision Annual Report, 2000

1. Branches, sub-branches, agencies and encashment points (2000).
2. Botswana Savings Bank uses Post Offices (112) for provision of services to the public.

Up until 1990[8] there were only two commercial banks in Botswana, Standard Chartered and Barclays Bank, both of whom where controlled from regional head offices in Johannesburg. These two banks provided banking services to the Botswana public for over 40 years and enjoyed large oligopoly profits culminating in the eighties with returns on equity in excess of 50% (Harvey, 1998:26).

This changed dramatically in the nineties when the market was opened up for other competitors and the profits of these two institutions were greatly reduced through the increased competition. Since then, six commercial banks have entered the market of which three are still operating (First National Bank Botswana, Stanbic, Bank of Baroda) (The distribution network of the various banks are shown in the table above). In addition to the commercial banks, there are three other types of banks operating in Botswana: merchant banks (African Banking Corporation), investment Banks (Investec) and statutory banks (National Development Bank (NDB), Botswana Savings Bank and Botswana Building Society) (See diagram below and Appendix C for an overview of the financial system in Botswana).



Source: Central Bank, 2001:71

[7] Sees Harvey (1998) for a history of the financial sector in Botswana

[8] Sees Appendix D for more detailed timeline of events relevant to the financial sector

Closures, Mergers and Take-overs	
1991	Bank of Credit and Commerce (Botswana) Limited, a subsidiary of Bank of Credit and Commerce International, was taken over by First National Bank of Botswana Limited.
1992	Union Bank of Botswana Limited, a wholly owned subsidiary of Standard Bank South Africa Limited, took over ANZ Grindlays. The new entity was renamed Stanbic Bank Botswana Limited.
1993	National Development Bank was restructured. The restructuring included writing off bad debts, recapitalisation through a Government equity injection, staff rationalisation and revision of lending policies.
1993	Financial Services Company, a credit institution owned by BDC and NDB, was sold to First National Bank of Botswana Limited.
1993	Zimbank (Botswana) Limited, a commercial bank, was taken over by First National Bank of Botswana Limited.
1995	Botswana Cooperative Bank was put under provisional liquidation and was subsequently liquidated.
2001	ULC that was established in 1989 has its license changed from that of a credit institution to a merchant bank and is taken over by African Banking Corporation Bank (ABC Ltd)
	Source: Central Bank, 2001

Standard Bank South Africa entered Botswana in 1991 as Union Bank of Botswana and this entity was changed to Stanbic Botswana after Standard Bank SA took over the operations of ANZ Grindlays. The most recent entrants to the market were ABC Ltd (taking over the operations of ULC) and Bank of Baroda, both of which entered the market in 2001. Although there were several changes in ownership, the banking sector did not experience any real crises over the last decade. Where problems did occur there was no visible contagion effect. The take-overs that took place occurred when parents of local banks ran into problems with their international operations (e.g. BCCB) and sold off the local interests, or were taken over themselves (e.g. ANZ Grindlays). The Botswana Cooperative Bank was the only exception to this and its problems seemed to stem from poor management and the absence of effective supervision (Bank of Botswana, 2001: 74) (see discussion under Statutory Banks).

Total Banking Sector Assets

Pula Million	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Commercial Banks	1,354	1,914	2,280	2,617	3,027	3,151	3,842	4,778	6,508	8,161	8,554	10,353
Merchant Banks [1]	-	-	-	-	-	-	-	-	-	-	338	651
Hire Purchase Finance and Leasing Companies[1]	n/a	226	278	293	63	71	80	87	107	118	130	-
Total of Commercial and Merchant banks and hire Purchase Companies	**1,354**	**2,139**	**2,558**	**2,910**	**3,090**	**3,222**	**3,921**	**4,865**	**6,615**	**8,279**	**9,022**	**11,004**
% of GDP	20.7	28.3	30.5	31.9	28.0	26.3	27.6	27.4	32.8	38.5	35.6	37.5
% of GDP (Excl. Mining)	37.4	48.0	49.0	48.2	43.6	39.7	41.7	44.9	52.9	55.8	53.2	57.7
% of Total Banking Sector	Na	84.9	78.6	77.8	72.2	73.3	76.0	77.1	80.9	84.8	84.6	86.1
Botswana Savings Bank	Na	47	43	65	74	84	102	117	139	152	157	170
Botswana Development Corporation	Na	-	252	338	655	607	622	784	820	684	742	785
Botswana Building Society	Na	232	292	325	334	334	346	349	363	377	424	464
National Development Bank	Na	84.8	90.5	84.1	107.7	125.8	148.6	177.9	230	271	310.4	350.9
Tswelelo	Na	16.4	18.9	20.4	20.9	21.6	22.4	19.1	7.7	4.8	3.3	1.3
Total of Statutory Banks	**Na**	**381**	**696**	**832**	**1,191**	**1,172**	**1,241**	**1,447**	**1,560**	**1,489**	**1,636**	**1,771**
% of GDP	Na	5	8.3	9.1	10.8	9.6	8.7	8.2	7.7	6.9	6.5	6
% of GDP (Excl. Mining)	Na	8.6	13.3	13.8	16.8	14.4	13.2	13.4	12.5	10.0	9.6	9.3
% of Total Banking Sector	Na	15.1	21.4	22.2	27.8	26.7	24	22.9	19.1	15.2	15.4	13.9
Total Banking Sector	**Na**	**2,520**	**3,254**	**3,742**	**4,281**	**4,394**	**5,162**	**6,312**	**8,175**	**9,768**	**10,568**	**12,775**
% of GDP	Na	33.3	38.8	41.0	38.8	35.8	36.3	35.6	40.5	45.4	42.0	43.5
% of GDP (Excl. Mining)	Na	56.6	62.4	62.0	60.4	54.1	54.9	58.3	65.4	65.9	62.8	67.0
GDP at Mkt Prices	6,540	7,565	8,377	9,119	11,041	12,262	14,204	17,740	20,163	21,524	25,363	29,535
GDP at Mkt Prices (Excl. Mining)	3,618	4,453	5,217	6,037	7,085	8,117	9,404	10,832	12,498	14,831	16,973	19,066

Source: Central Bank, 2001

1. The only Hire Purchase and Leasing Company, ABC Ltd, converted to a merchant bank in 2001. The other merchant bank is Investec

The combined assets of the commercial and merchant banks and hire purchase finance and leasing companies were P11bn in 2001. This is equal to 38% of GDP (58% if mining activities are excluded[9]). This increased significantly from 21% and 37% respectively in 1990 and is an indication of strong growth of the financial sector relative to the rest of the economy. For reasonably developed banking sectors, this ratio normally comprises about 50% of GDP. If the statutory banks are included, this ratio increases to 44% of GDP and 67% of non-mining GDP respectively. Since 1994, the commercial and merchant banks and hire purchase companies have also grown relative to the statutory banks, increasing from 72% to 86% of total banking assets.

In terms of access to bank products, Botswana has similar levels to that of Namibia and much higher levels than Swaziland and Lesotho. In terms of savings accounts, 24% of the adult population had a demand savings account in 2001. This is significantly lower than the 44% for Namibia[10]. This figure underestimates the access to savings

[9] The comparable figure for South Africa was 10% at the end of 2001

[10] In addition it must be taken into account that the figure for Namibia is taken from the NAMPS 2001 survey and approximates the number of people with accounts. The figure for Botswana is simply the total number of accounts and may be double-counting where one person has more than one account. The incidence of this, however, seems to be fairly limited

products as it does not include estimates of the number of people that own National Savings Certificates[11]. The total value of certificates outstanding is, however, low and suggests that the reach is still fairly limited. In terms of transaction services in the form of current accounts, Botswana had a significant lead with 16% compared to Namibia's 10%.

Number of Accounts by Product Type for All Commercial Banks					
Account Type	**1997**	**1998**	**1999**	**2000**	**2001**
Number of Savings Accounts	**173,997**	**187,688**	**190,303**	**229,775**	**228,437**
% of total economically active population	n/a	33.6	n/a	n/a	38.7
% of formal labour market	75.7	77.7	74.0	86.6	83.73
TIme Deposits Accounts	**266**	**261**	**7,774**	**17,957**	**28,332**
% of total economically active population	n/a	0.05	n/a	n/a	4.8
% of formal labour market	0.1	0.1	3.0	6.8	10.4
Call Accounts	**5,681**	**5,395**	**6,634**	**9,641**	**12,557**
% of total economically active population	n/a	1.0	n/a	n/a	2.1
% of formal labour market	2.5	2.2	2.6	3.6	4.6
Number of Current Accounts	**n/a**	**n/a**	**114,994**	**144,064**	**151,625**
% of total economically active population	n/a	n/a	n/a	n/a	25.7
% of formal labour market	n/a	n/a	n/a	n/a	55.6
Total Population	**n/a**	**n/a**	**n/a**	**n/a**	**1,679,891**
of which: economically active	n/a	557,977	n/a	n/a	589,637
Formal Labour Market	**229,900**	**241,700**	**257,100**	**265,282**	**272,811**

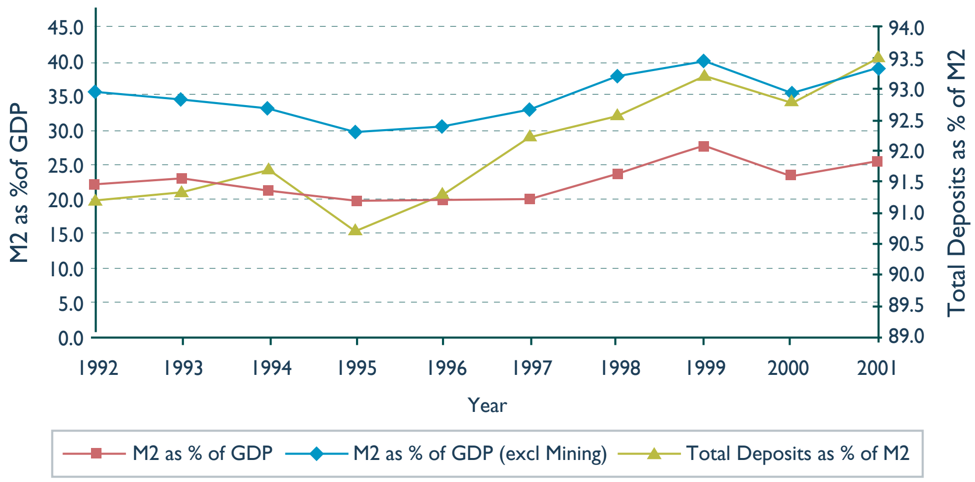
Source: Central Bank

It is also positive to see that access to the various types of savings accounts increased significantly from 1998 to 2001. Access to current accounts, however, has remained stable.

3.2. Financial intermediation

Total deposits as a percentage of broad money (M2)[12] is used here as an indicator of financial intermediation. This ratio should ideally be increasing as more people are exposed to the formal financial sector and decide to hold deposits with banks rather than cash. Another indicator of financial intermediation is monetary depth measured as the ratio of M2 to GDP (both including and excluding mining activities). This provides an indicator of the flow of loanable funds relative to the size of the economy and indicates a country's capacity to channel surplus savings into productive investment.

Indicators of Financial Intemediation



The above graph shows a clear increasing trend for all three variables, which is positive for the banking sector as this indicates that the sector is developing. Looking at the M2 as a percentage of non-mining GDP, the levels are comparable to that of Namibia. Similar to Namibia, there was a slight decline for all the indicators from 1999 to 2000, but unlike the case in Namibia, this trend was reversed in 2001 and returned to the positive trend that prevailed prior to 2000. This ratio was stagnant throughout the eighties fluctuating in a narrow band around 30% (Harvey, 1998: 23).

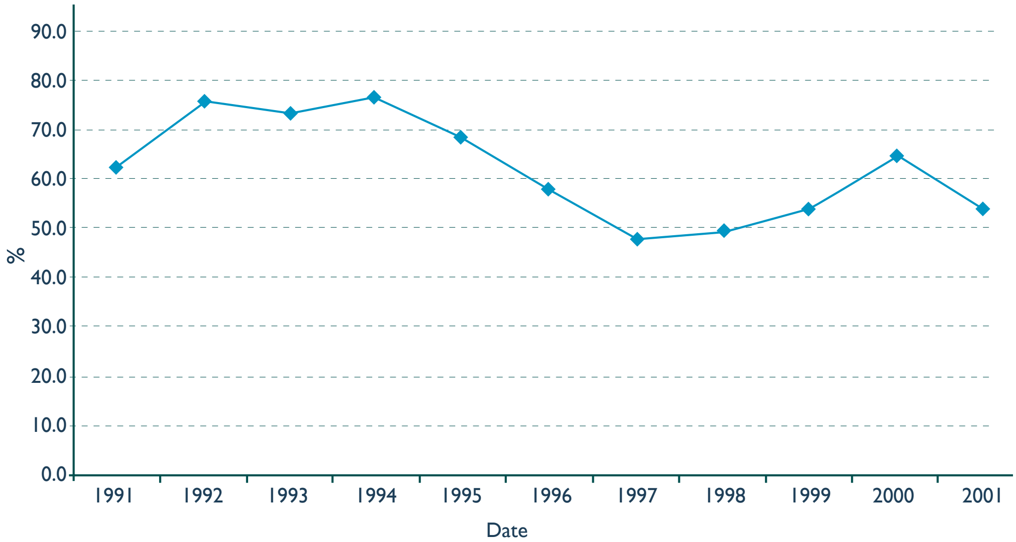
[11] See discussion in section5.3.5

[12] The figure for total deposits is often used as an indicator of financial intermediation, but this is not appropriate as deposits are a function of money supply, which, in turn, is a function of Net Foreign Assets and domestic credit

The deposits as a percentage of M2 showed a strong positive trend from 1995. The cash component of M2 declined from about 10% in 1995 to about 6% in 2001 indicating that more funds are being intermediated through the banking system.

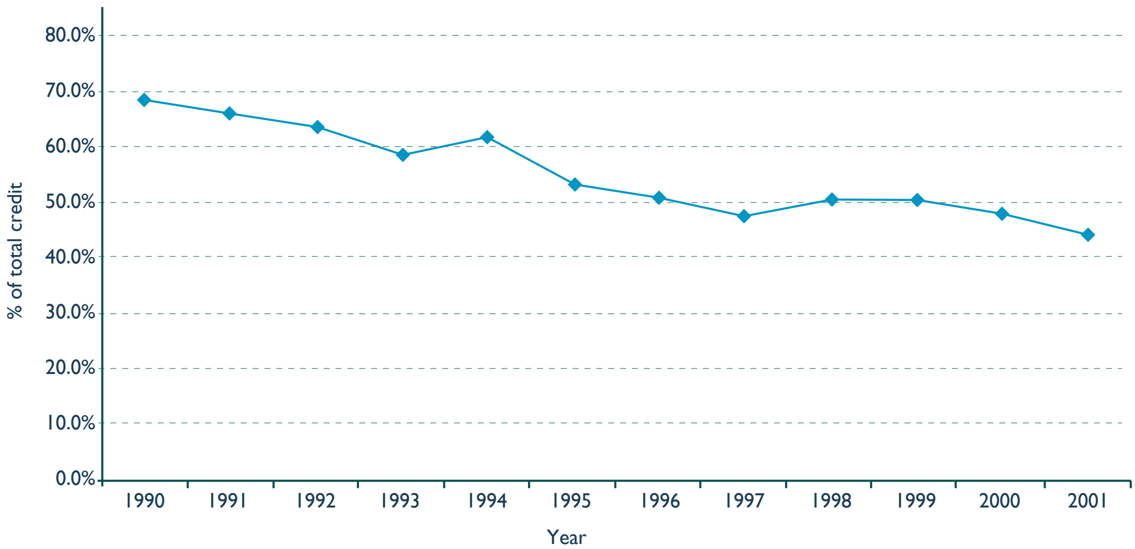
The graph below indicates that the proportion of deposits lent out by commercial banks decreased significantly from 75% in 1994 to less than 50% in 1997. This ratio increased again to 65% at the end 2000 falling back to 55% in 2001. This is comparable to the same ratio for Swaziland and Lesotho (at around 60% and 55% respectively at the end of 2001) and significantly less than Namibia at more than 100% at the end 2001. During this period, a significant proportion of deposits were held in Bank of Botswana Certificates (BoBCs) (about 20% in 2001) and the remainder was held in domestic liquid assets (including interbank loans).

Deposit Money Banks: Total Credit (excl Gov) as % of Total Deposits (Incl Gov)

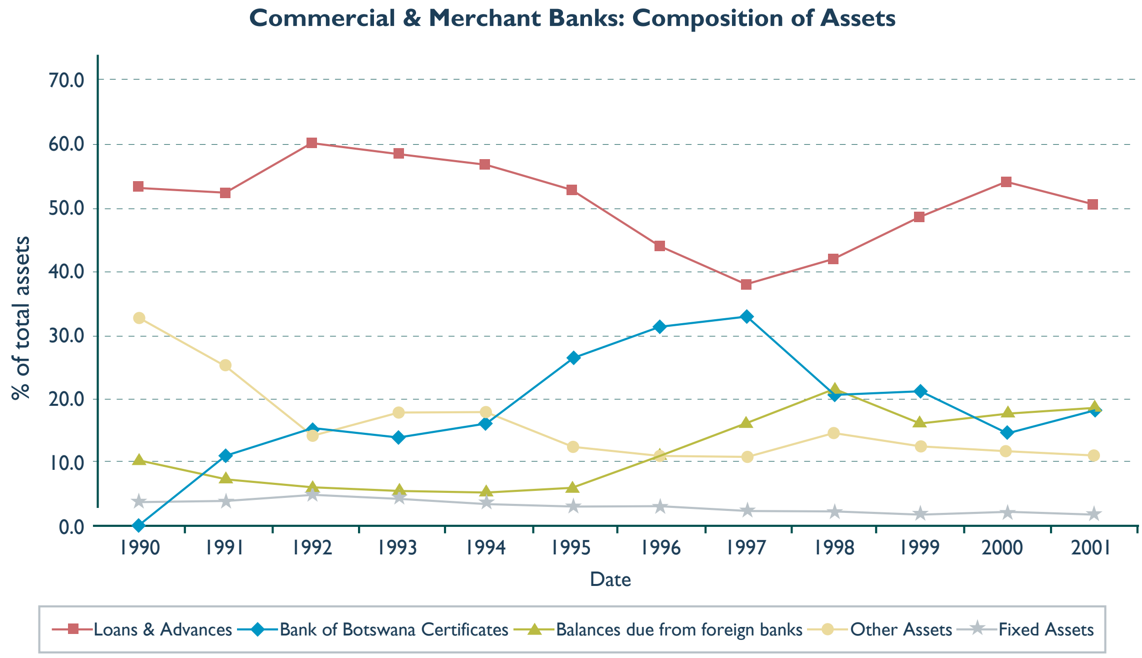


In addition to a decreased proportion of deposits lent out, the proportion of private sector loans going to businesses (in contrast to households) declined significantly over the same period decreasing from 70% in 1990 to 45% in 2001. Private sector credit therefore, is increasingly going to households rather than businesses. This indicates a general shift of resources from productive investment to consumption and corresponds to the observed lack of local industries and high levels of consumption.

Business Credit as Proportion of Total Private Sector Credit

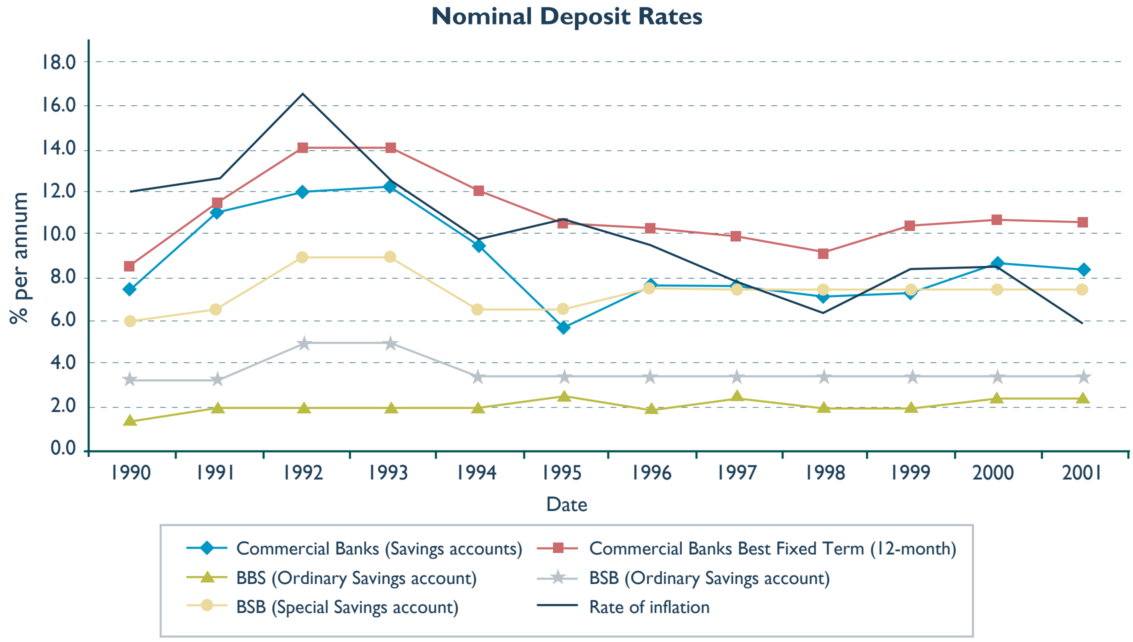


In terms of the composition of commercial and merchant bank assets, it is clear that they have been moving out of loans and advances and into BoBCs until about 1997. At this time the government started reducing its lending to parastatals through the PDSF, which enabled banks to increase their lending to these institutions (Central Bank, 2001: 97). This is a clear indication of the government lending crowding in private sector lending.

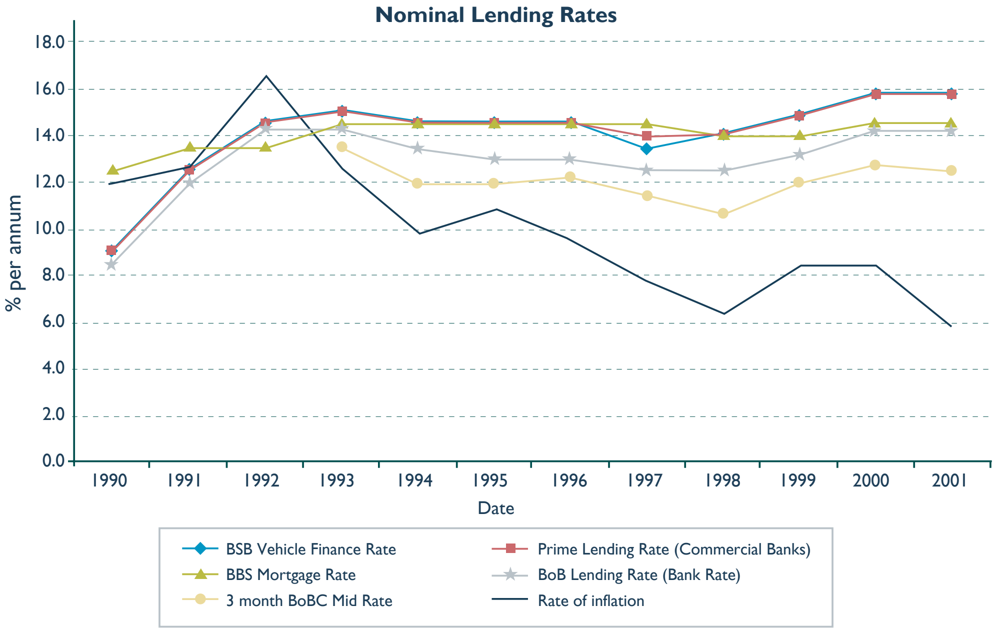


In the early nineties government decided to move away from direct intervention in the economy. Prior to this, government intervened in the credit market by setting an interest rate cap in the hope that lower interest rates will stimulate investment in and lending for business purposes. This did not have the desired effect. As interest rates could not adjust to local economic circumstances, it led to a situation where real interest rates were negative because of increased inflation.

In 1991, the Bank of Botswana introduced BoBCs with the purpose of mopping up excess liquidity and serving as an indirect tool to influence interest rates. Ironically, the rate of savings reduced dramatically in the nineties despite the change to positive real interest rates. This was mainly attributed to lower economic growth relative to the previous decade and supports the hypothesis that savings and credit behaviour is influenced more by level of income than the rate of interest.



It is clear from the above graph that negative real interest rates prevailed for most of the period. Commercial banks' deposits received the highest interest rates and their 12-month fixed term rates were the only ones that managed to outperform inflation over the period.



Botswana is the only case (amongst the BLNS countries) where even the real lending rates were negative (even if just for a short period). This situation was turned around by the introduction of BoBCs in 1991.

The experience over the last decade seems to suggest that household credit behaviour in Botswana is driven by government salary increases rather than supply issues, with strong increases in credit following the years of civil service salary increases.

Similar to the other BLNS countries, Botswana has experienced a situation of excess liquidity in the banking sector. Several possible reasons may have contributed to this:

- Strong economic growth generated more savings through higher income levels (not thrift savings). However, this growth stemmed predominantly from diamonds and there was no complimentary development of productive industries. Hence, few investment opportunities were created by the growth.

- BoBC's provide an easy risk-free investment for banks. They do not have to look for lending opportunities as they can get a fair return at no risk from the BoBC's.

- Negative real interest rates in the early 1990s discouraged banks from increasing their lending portfolio.

- The interest rate restrictions that were in place until 1986 prevented banks from costing their risk in lending and led to a restriction in credit provided. This established a pattern of lending that may have been institutionalised and the effect on the economy is still visible.

- Over the last decade, there has been very little direct pressure from government on the banks to expand the coverage to lower income households and SMMEs. Instead, government has opted to fill the gap by establishing several government financial institutions like the Botswana Savings bank, the National Development Bank and the Citizens Entrepreneurial Development Scheme (CEDA). As shown above, this has crowded out private sector lending.

- Banks have also been highly profitable within the small segment of the market that they are serving. Therefore, there is little incentive for them to take larger risks in, for example, lending to small business.

3.3. Products and services

The commercial banks offer the standard range of loan, savings and transaction products with very little innovation in adapting these to local circumstances (see Appendix A for examples of the products that are offered).

Credit and loan products are predominantly aimed at the middle and upper income class and definitely only at those with formal employment (see Appendix A for examples of products). Although less explicit, transaction services in the form of credit cards and cheque accounts are also aimed at the upper and middle-income group.

Savings products are more accessible to lower income households. However, banks are reluctant to operate low balance accounts due to high administration costs relative to potential income. Instead they are starting to increase the minimum balance requirements (currently P50[13]).

Following a brief survey of banking costs, the average monthly cost of using a savings account linked to a standard

[13] *This is the minimum balance to keep an account open. Several banks have additional required balances below which additional charges are levied.*

profile of usage[14] was calculated. For Botswana, the monthly cost for this profile was in excess of P80 up to as much as P150. It should be clear that poor households will not transact at such cost levels, but it illustrates the cost to obtain a basic level of functionality. This illustrates that although the services are available, it is not necessarily accessible to poorer households.

3.4. Regulation[15]

Local bank regulation was effectively only established in 1975 with the creation of the Bank of Botswana. Banking laws were enacted at the same time and were generally considered adequate for prudential purposes (Harvey, 1998: 31).

One of the shortcomings of the original banking legislation was that the Bank of Botswana was specifically excluded from supervising building societies, the Cooperative Bank, the Post-Office Savings Bank (predecessor of Botswana Savings Bank) and the National Development Bank, all of which were established under separate legislation.

Effective supervision of the Cooperative Bank and NDB may have prevented the problems at these institutions, but as the political support for institutional reform was only mustered in 1990, it would probably not have made much of a difference (Harvey, 1998: 31).

Legislation was revised in the 1980s, but did not extend the range of institutions to be supervised by the Central Bank. This only occurred in 1995, when the new banking law removed the previous exclusions and formalised the supervision of the non-bank financial institutions, which had begun informally in 1990 (Harvey, 1998: 33).

In addition, the new law created a more flexible system of bank regulation by allowing for the prescription of prudential requirements, through the issuance of regulations rather than by statute (Bank of Botswana, 2001: 76). This enabled banking supervision to adjust to changes in the market in a quick and efficient manner. The law also transferred the authority to grant banking licenses from the Minister of Finance and Development Planning to the Bank of Botswana.

Other new legislation includes the Bank of Botswana Act (1996), the Botswana Savings Bank Act (1992) and the Collective Investment Act (1999). The Building Societies Act and the National Development Bank Act both dates back to before 1966 and need to be addressed to allow for the effective regulation of these two institutions (Bank of Botswana, 2001: 76).

Currently, no distinction is made between the different types of banks. The minimum capital required is P5m for foreign banks and P1m for local banks P1m. The capital adequacy ratio is officially 8%, but banks are required to hold 15%. The liquidity ratio is set at 10% of deposits.

Banks are not allowed to be involved in non-bank activities, either directly or indirectly (e.g. property management). However, the legal framework for thrift institutions (Botswana Savings Bank) and some non-bank financial institutions (NDB and Botswana Development Corporation - BDC) gives these institutions the freedom to do banking business, directly through service provision within current structures or indirectly through equity ownership.

In this way, non-banks can offer products and services that compete directly with those of banks without having to submit to the same level of supervision as banks. An example of this is BDC's part ownership of Investec Bank.

There is no deposit insurance scheme in place

3.5. Statutory banks and building societies

As described above, the government has consistently chosen to provide financial services directly rather than putting pressure on the banks to expand access to their services. As is generally the case with such interventions, there have been many problems and several restructuring exercises.

3.5.1. Botswana Savings Bank

The Botswana Savings Bank (BSB) was established in 1963 to provide savings facilities especially to the rural and poor population that was not adequately served by the then two commercial banks. It originally operated as the Post Office Savings Bank. In 1982, the Post Office Savings Bank was transferred to the Ministry of Finance and Development Planning and was upgraded to a full specialised government department with the title, Botswana Savings Bank.

In 1992 Parliament passed the Botswana Savings Bank Act, which established the BSB as an independent, national financial institution, wholly owned by Government. The purpose of the BSB is to provide savings and other financial products to smaller, less affluent clients. The BSB have expanded their services to provide both savings and loan products.

The BSB is one of the Government institutions that have been mentioned as a possible candidate for privatisation. This can potentially have a dramatic effect on access to financial services as it can be expected that private management will take a much more conservative and profit driven view of the provision of financial services.

[14] *As it is very difficult to compare bank costs across different banks, the approach here was to calculate the cost associated with a standard profile of usage. This includes: 2 own bank ATM withdrawals, 1 other bank withdrawal, 2 debit orders, 2 electronic payments, 1 cash deposit over counter, 1 statement at counter and 1 statement at an ATM*

[15] *See Appendix B for an overview of legislation relevant to the financial sector*

The table below provides examples of the products offered by the BSB.

Products offered by the Botswana Savings Bank
Savings Products:
The Ordinary Savings Account: An Ordinary Savings Account can be opened at any Post Office with a minimum balance of P20. Subsequent deposits and withdrawals are possible at BSB or at any Post Office with a savings account counter. Withdrawals can be made at seven days' intervals.
Special Savings Account: A Special Savings Account can be opened at BSB or at any Post Office with a minimum balance of P200. Subsequent deposits and withdrawals are possible at BSB or at any Post Office. Withdrawals can be made at monthly intervals. This type of account earns a higher rate of interest than the Ordinary Savings Account
The Save-As-You-Earn Scheme: This is a stop-order-based savings scheme for a continuous period of 24 months. It can be opened with a minimum amount of P50 saved every month by means of a direct debit order from the salary. It pays the highest rate of interest with a 10% bonus added to the interest earned.
Loan Products:
Ipelegeng Loan Scheme: Personal loan scheme offered by BSB to Save-As-You-Earn and Special Savings account holders. The loan can be used for a variety of purposes with very liberal repayment terms. Loans of up to P 10 000 are repayable over 36 months and a loan exceeding P 10 000 and up to P 20 000 is repayable over 48 months.
Motor Vehicle and Residential Property Advance Scheme: Available to Public Officers to purchase vehicles or residential properties. The repayment periods are 4 years for old and 5 years for new vehicles, while Residential Property Loans are repayable over 10 years or more.

3.5.2. The Botswana Building Society (BBS)

The establishment of the Housing Corporation and the Civil Service Housing Purchase Scheme in 1970 led to an immediate increase in the demand for long-term finance. Initially the United Building Society of South Africa was asked to set up a local branch in order to provide for this increase in demand. In 1976, the assets and liabilities of this branch were taken over by the BBS.

The Society provides long-term housing loans and receives a high proportion of its funding from Government. It also offers a number of savings schemes to raise additional funds. These savings products include:

- Ordinary Savings Account: This account can be opened with a minimum deposit of P50. Withdrawals are permissible without any time restrictions.

- Special Savings Account: This account can be opened with P500 and allows two withdrawals per month.

- Subscription Share Capital Account: This account can be opened with a minimum deposit of P50. Withdrawals are not permissible within the investment period of 36-300 months. The holders of these accounts are the 'members' of the Society, they receive dividends and can vote on all matters at annual general meetings.

A savings account is not required in order to qualify for a mortgage loan.

3.5.3. Botswana Cooperative Bank (BCB)

The BCB was established in 1974 to accept deposits from and lend to cooperatives[16], which were also the bank's owners. This structure effectively forced the bank to lend to cooperatives, which led to high levels of bad debt and substantial losses. In 1990, the government tried to solve the problem by providing more resources so that the BCB could diversify its activities and lend to public sector employees for car and housing finance (with government guarantees). The bank also started taking deposits from the public. However, the BCB could not compete with the other banks as it did not provide all the banking services (e.g. foreign exchange) and only had one branch in Gabarone. The reforms failed to save the bank and it was liquidated in 1995.

3.5.4. National Development Bank

The NDB was established under the National Development Bank Act of 1963 to provide medium and long-term loans to the agricultural sector. As agriculture turned out to be a very difficult sector to operate profitably, the NDB has gradually expanded its portfolio to include the commercial and industrial sectors. In this sense, its business increasingly overlapped with that of the BDC. Unlike the BDC, it also focuses on small and medium enterprises and manages various projects for government on an agency basis (NDB, 2001: 3). These projects included, the Micro Credit Scheme (trading as Micro Business Finance), the now defunct Financial Assistance Policy (FAP), the Citizen Contractors' Fund (CCF) and Botswana Enterprise Development Units (BEDU). Following its establishment in 2001, CEDA took over the management of the Micro Credit Scheme and the Financial Assistance Policy (NDB, 2001: 10).

The Micro Credit Scheme was established as a result of the findings and recommendations of a task force set up by Government in 1997 to look into the issues affecting Small, Medium and Micro Enterprises. The NDB

[16] *A cooperative is an autonomous association of persons united voluntarily to meet their common economic and social needs through a jointly-owned and democratically-controlled enterprise*

managed this scheme since its establishment in June 1999. The scheme offers loans ranging from P500 to P20,000 with maximum repayment terms of 36 months and interest rates of 15% per annum. In the year ending March 2001, 9,200 loans amounting to P101.4m were disbursed. The performance of the portfolio has been quite poor and at the end of March 2001, 22% of the portfolio was in arrears.

The FAP was introduced in 1982 as an incentive scheme (grants) aimed at creating employment and promoting the diversification of the economy. Specifically, it was aimed at diversification away from diamonds and beef, the establishment of export industries, rural development, and the promotion of entrepreneurship amongst citizens, especially women (NDB, 2001: 11). During the year ending March 2001, the NDB disbursed P134.7m through this scheme.

The P50m Citizens Contractors' Fund (CCF) was set up by Government in 1997 to provide loans to citizen contractors. Loan terms could be up to seven years with interest charged at 9% per annum. These loans were available until December 1999 and no new loans are given by the fund (NDB, 2001: 12). At 31 March 2001, the fund had loans outstanding of P18m, of which P8.7m was classified as doubtful debt.

The BEDU fund was started in 1974 to provide financial and technical services to small and medium scale industrial projects. The fund gets most of its funding from the Government and does not accept deposits from the public. It provides seed capital to develop new enterprises. Loans are usually for longer periods than are provided by the commercial banks and carry a fixed rate of interest. Only P4,073 was disbursed in the year ending March 2001 and the fund is considered 'inactive'.

After a period of stagnation in the size of the loan book during the 1970s, the government gave the NDB the specific mandate to expand its lending operations. This led to unsound lending and consequently an increase in bad debts. Despite several policy statements recognising these problems, nothing was done to effectively address this and eventually the bank had to be bailed out and restructured in 1993 (Harvey, 1998: 21). The NDB is now run on a commercial basis and is a "viable self-sustaining Development Finance Institution".

4. Contractual savings institutions

4.1. Insurance

4.1.1. Long-term insurance

There are currently only three life insurers operating in Botswana, i.e. Botswana Life, Metropolitan and Regent. Of these three, only the first two are of significant size. Regent entered the market recently and is currently focused on credit-life insurance. At the end of 2000[17], total assets for the life insurance industry was P2234m, equal to 8.8% of GDP. Savings plans form the basis of the long-term insurance industry. Funeral and life cover have been added more recently. When new insurers enter the market, they typically start by issuing only savings plans and retirement annuities. As they get to know the market they gradually add life insurance and funeral benefits.

Until recently, it was still possible to get life insurance without taking an HIV test from one of the insurers. To cover their risks, the insurer issuing these policies excluded HIV from its death benefits. This was not regarded as 'fair business' by the public and the company has subsequently switched to including HIV under its death benefits, but does not issue policies without doing an HIV test. If the client is HIV negative on inception of the policy and then contracts the disease, the policy will be honoured. HIV positive individuals can get life insurance, but at a much higher cost in an attempt to price for the risk.

It is unofficially estimated that up to 40% of the total Botswana adult population may be HIV positive. This presents an enormous risk to the life insurance industry and it is surprising that they still cover HIV under their death benefits (if the client was not infected at inception). Their reasoning is that the population at risk is already infected and that for people not currently infected, the probability of becoming infected is significantly reduced. In addition to these products, the long-term insurance industry also offers credit life insurance on loans. This product is different to the others in that it is not initiated by the life insurer, but is issued in response to a loan granted by a bank or non-bank term lender, or even retail credit.

Banks, term lenders and providers of retail credit insist on this type of insurance when issuing loans. As credit life insurance also covers death from HIV related causes, this is extremely convenient for the lenders as they can issue loans without having to judge or cost these risks. Although this type of insurance is quite expensive, it does not seem to be a prohibiting factor relative to the other costs involved in getting access to a loan (judging by the number of people that take out loans). This therefore allows lenders to issue loans to individuals who would otherwise have been excluded (due to HIV status).

The obvious downside of this arrangement is that it leads to a situation of adverse selection. Firstly, there is no incentive for the lenders to control the risk of these policies. In fact, they have every incentive to totally ignore the risk and write as much of this 'bad' business as possible as they are assured of repayment. Secondly, as people that are HIV positive can easily get loans (if they are employed) that neither they nor their families would have to repay, they are incentivised to 'lend and spend'. This is confirmed by research done by one of the insurers indicating that the HIV infection rate for life policy holders is approximately 26% whereas the infection rate for credit-life policy holders is as high as 70%. The same insurer subsequently stopped issuing these policies. Although credit-life insurance increases 'access' to loans and credit, it is definitely not a sustainable situation and it can be expected that the other life insurers will also move away from issuing this type of insurance.

Life insurers are naturally biased towards targeting middle and upper income individuals, as these are lower risk individuals that can afford larger (and more profitable) policies. Only one of the life insurers explicitly exclude people at the bottom end of the scale by applying an 'affordability criteria' specifying that individual must earn at least P850 (R1,445) per month to qualify for the standard life insurance policies. However, the same company does have an 'industrial' product that is aimed at individuals below this threshold and operates on a 'savings book' principle in an attempt to reduce the administration costs.

In terms of the Insurance Industries Act of 1987:

- Insurers may not deal in both life and non-life businesses in Botswana.
- Insurers must be registered with the Registrar of Insurance and must have P2m in paid up capital to be registered as an insurer.
- Insurers must transfer 25% (long-term) or 15% (short-term) of their net profits (after taxation) to a Capital Reserve Account. These funds must be used (at least every five years) to increase the paid-up share capital of the insurer in line with current and projected liabilities.

4.1.2. Short-term insurance

The short-term insurance market in Botswana consists of eight companies. These are Botswana Eagle, Botswana Insurance, Export Credit Insurance & Guarantee Company, General Insurance Botswana, Mutual & Federal, Prefsure Botswana, Regent Insurance and Sesiro. Of these, Regent currently offers only vehicle insurance while the others have about 50% of their business in vehicle and short-term insurance respectively. At the end of 2000[19] the total assets for the short-term (non-life) insurance industry was P266m (R452m), 1.0% of GDP. If the same growth rate for 1999/2000 is applied as an estimate of growth for 2000/2001 this figure increases moderately to 1.1% of GDP.
The range of products available in Botswana is very similar to what is available in South Africa[19] and includes:

[17] *Data for 2001 not yet released by the Registrar of Insurance funds*
[18] *Data for 2001 not yet released by the Registrar of Insurance funds*
[19] *In fact, the South African insurers operating in Botswana offer exactly the same product range as they do in South Africa.*

- Vehicle insurance
- Fire insurance
- Workmen's Compensation/ Employer's Liability
- Personal accident and sickness insurance
- Marine and aviation insurance
- Credit & Suretyship (Trade).

At the end of 2001 there were an estimated 170 000 motor vehicles in Botswana (with an outstanding loan amount) of which approximately 50% were insured. This cannot, however, really be interpreted as a 50% 'coverage' as most people choose not to insure their vehicle once the loan has been repaid.

Given that the total base for coverage is all the possible vehicles in Botswana and that there are no restrictions on getting access to insurance (cost may be prohibiting factor), the true 'coverage' figure should be much larger. There is no information available on the number of people that have access to other types of short-term insurance.

The short-term insurance industry does not explicitly target a specific income group, but rather target those with the assets to insure. This, however, translates into indirectly targeting the middle and upper income groups. The regulatory environment and requirements for short-term insurance are the same as those for the long-term insurance market (see description above). The eight short-term insurers operating in Botswana are very similar in their business and the product range they offer (e.g. all of them have about 50% of their business in vehicle financing).

Although government is not directly involved in the provision/ underwriting of long-term insurance, it does have a motor vehicle insurance scheme for its employees. The management of this is contracted out to one of the insurers. There is also a compulsory "Workers Compensation Fund" that is administered by the department of labour (discussed later).

There is no deposit insurance in place.

4.2. Pension funds

The pension fund industry has shown strong growth over the last decade and around the middle 1990s, it exceeded bank deposits as the biggest pool of household savings. These calculations did not include the assets of the Civil Service Pension Fund, which was "unfunded", until recently. This meant that no contributions were made by either government or civil servants to build up a pool of funds able to cover the liability that is building up in the form of pensions to be paid. Government pays out pensions as part of the annual budget. In the last year they have started to move over to a contributory fund. As no funds were previously put aside, Government now has to provide the capital for the pension liabilities of the current fund members.

The Registrar of Pension Funds is in the process of auditing the figures on pension funds and membership in Botswana. These figures have not been finalised, but the early indicators are that the assets and membership of pension funds were previously underestimated. Current estimates put the number of pension fund members at about 52,509 (5.5% of adult population) with assets under management of about P4.1bn (13.8% of GDP; R7.0bn). With the capitalisation of the civil service pension fund that is currently underway, the membership is expected to increase by at least another 10 000 to 62509 (6.6% of economically active population) with the funds under management increasing by an estimated P10bn to P14.1m (47.9% of GDP; R24.0bn). This poses enormous problems for the investment of these funds.

Investment of Pension Fund Assets as at Dec 2001	Pm	% of total
Botswana Equity	1,594	39.3%
Botswana Property	96	2.4%
Botswana Bonds	106	2.6%
Botswana Cash	671	16.6%
Offshore Equities	1,068	26.4%
Offshore Bonds	360	8.9%
Offshore Cash	155	3.8%
Total Assets	**4,051**	
Estimated Capital to be Injected for Civil Service Pension Fund	**10,000**	
Estimated Total Pension Fund Assets	**14,051**	

Under the Pension and Provident Act of 1987, pension funds are required to invest at least 30% of their assets locally. From the above table, it should be clear that the capitalisation of the Civil Service Pension Fund will lead to a dramatic increase in the funds under management and will certainly flood the local market. Even if the maximum amount is invested offshore, this still means an increase in pension fund assets invested locally of about P1.8bn (R3.1bn). Considering that the total market capitalisation of the Botswana Stock Exchange is only about P9bn (R15.3bn), this increase can lead to serious distortions of the stock, bond and property markets.

To address the problem the government is considering several steps, including:

- Issuing bonds that the pension funds can invest in. The government does not need to raise money, but will do so just to give pension funds a place to put their money. As government is not regulated in where it may invest the money, they can then place the money offshore.
- Changing the minimum local assets legislation to allow pension funds to invest more money offshore.

Due to the size of the increase, it will probably be necessary to do both of the above.

In addition to the Civil Service Pension Fund government also provides an old age pension to all citizens aged 65 and older. This is currently still "unfunded". However, it amounts to about P110 (R187) per month and the decreased life expectancy due to the HIV pandemic will probably reduce the liabilities stemming from this obligation.

4.3. Other savings

Compulsory severance pay: Companies are required by law to provide severance pay to all employees who have been with the company for more than five years. After the first five years, the employee receives 1 day's pay for each month employed by the company (i.e. 60 days' pay for the 5 years). The employee does not have to leave the company to claim this pay and it is paid out every five years. After the first five years, the employee gets 2 days' pay for every month at the company. If the employee leaves after 7 years, he/she will receive the pro-rata payment for the 2 years.

This scheme was instituted by government to serve as a basic form of pension. Although this can be considered as a form of compulsory saving, the fact that it is paid out every five years means that very little of the savings actually remain invested until retirement and it is probably spent on consumption goods at regular five year intervals. If a company has an employee pension scheme, the severance pay falls away. For tax reasons, it is less expensive for companies to pay the severance pay than to contribute to a pension fund. This presents a barrier to increasing the coverage of pension funds.

5. Non-bank financial services

The non-bank financial services industry in Botswana consists of several different types of players. Some of these provide savings and credit services while others only provide credit services. The main players are:

5.1. Microlenders

The microlending industry falls under the jurisdiction of the Central Bank but is not explicitly regulated by them.

- No information is collected for monitoring purposes and very little is known of the size and characteristics of the industry. Unincorporated lenders are not required to report on their business and incorporated lenders only have to submit financial reports.
- Botswana does not have a usury act to cap the interest that may be charged on loans.
- No legislation exists to define or regulate microlenders. Although frowned upon, it is, therefore, still legal to retain the borrower's bankcard and PIN to withdraw loan payments as soon as the salaries are paid.
- Microlenders may fund themselves in various ways, notably loans (including bank loans), owner's equity and listing on the stock exchange. The only restriction is that they are not allowed to take deposits as this is a regulated banking activity (Banking Act, 1995).

There are currently initiatives under way to impose some form of regulation, but the indications are that this still will not impose limits on the interest rates that lenders may charge. Furthermore, it will probably not require the submission of detailed financial reports and information on their business.

The microlending industry can be divided into three categories with the following approximate characteristics:

- **Very small informal lending**
  - Lending to family members and close friends
  - Probably includes non-salary-based lending
  - No cap on interest rate
  - No information available on extent or characteristics
  - Not members of the Microlenders' Association
- **Cash lending:**
  - Salary-based (client must have bank account and be employed)
  - Up to 30% interest per month
  - Terms of less than one month
  - Amounts of less than P3,000 (R5,100)
  - Average loans between P500 and P1000 (R850 and R1700) depending on branch size and location
  - Largest cash lenders are members of a self-regulatory Microlenders' Association
- **Term lending:**
  - Salary-based (client must have bank account and be employed)
  - Have access to salary deduction codes (these codes are similar to those used in PERSAL - the automatic salary payment system previously used by the South African government)
  - Interest capped at 30% per annum
  - Term of less than 36 months
  - Average loan estimated at P 7,000 (R11,900)
  - Maximum loan P15,000 (R25,500)
  - Term lenders dis-associate themselves from cash lenders and are therefore not part of the Microlenders' Association. They do have an informal agreement amongst each other to cap interest rates at 30% per annum and have agreed not to lend to individuals that already have loans with other term lenders.
  - Insist on credit life insurance when issuing a loan

Term lenders

Term lenders operate through salary deduction codes and mainly focus on Government, parastatal and local authorities[20]. According to one of the term lenders, this represents a maximum market of about 130 000 potential borrowers earning an average income of about P2,000 (R3,400) per month.

Term lenders generally restrict loan amounts to translate into monthly repayments of no more than 30% of 'take-home' pay. On average, this translates into loans of about P6,000 (R10,200) but loans may go as high as P15,000 (R25,500) (maximum) and have a maximum term of 3 years (averaging approximately 27 months). Using this information, the total potential term lending loan book can be estimated as P780m[21] (R1,326m).

[20] *Mainly because salary deduction codes were granted for these, but also because most of the private companies are too small to profitably set up a salary deduction scheme*

[21] *In its prospectus for listing the management of Letshego estimated the potential market for non-bank personal loans (term and cash) to be around P1bn, which is higher than the estimate derived here (see Letshego Prospectus for details of calculation).*

There are currently only five term lenders in the market[22] and they are (ordered by size of loan book):

- Letshego
- First Funding
- Penridge Employee Benefits
- Peo Holdings
- Capricorn[23]

The largest two term lenders are estimated to have a combined loan book of about P200m (R340m) translating into at least 60 000 loans. Therefore, a conservative estimate of the total number of term loan clients would be around 100,000 and the total size of the market would be at least P 350m[24] (R595m).

All the lenders mentioned above have access to the Government payroll system through salary deduction codes. These codes are up for renewal in 2003 and will lead to significant problems for the lenders if it is not renewed as it forms a key part of their risk mitigation strategies.

The term lenders have an informal agreement not to lend money to a borrower that already has loans with the other lenders and insist on credit-life insurance before issuing a loan. The loans are paid directly into the borrower's bank account and a three-day 'cool-off' period applies (similar to South Africa).

Term lenders generally fund themselves through a combination of owner/shareholder equity and bank loans and one of them (Letshego) obtained a listing on the Botswana Stock Exchange in September 2002. Some of the larger shareholders in the industry include banks and long-term insurers.

There are currently discussions with Government to create a central loans registry that will help to prevent borrowers from borrowing from more than one lender.

Cash lenders

Although cash lenders may in some cases operate through salary deductions, this is not common. Generally they retain their clients' bankcards and PIN numbers and then insure payment by queuing at the ATMs on the day that salaries are paid. Unlike South Africa, the retention of a borrower's bankcard and PIN is currently still legal in Botswana.

Sources close to the industry estimate that there are about 220 cash lending branches operating in Gaborone. These consist of 60 larger branches (belonging to 35 members of the Microlenders Association), 60 fairly large non-member branches and about 100 other smaller non-member branches.

It is estimated that a typical 'larger' branch would have a loan book of between P 200 000 and P 300 000 (R340,000 and R510,000). An average client would have a net salary (before loan payments but after other tax and other deductions) of P2,000 (R3,400) per month and the typical loan would be between P500 (R850) and P1 000 (R1,700) with a term of 30 days and with interest rates as high as 30% per month. Using these averages, a conservative estimate of the total cash lending market would be about P50m (R85m) (representing an estimated 60000 - 80000 borrowers).

Even in this category, loans are still only available to salaried borrowers with a bank account. In general, cash lenders do not seem to have credit-life insurance on the issued loans.

The cash lenders that are members of the MLA have a limited information sharing agreement that allows them to see whether borrowers have loans with other members. As part of their code of conduct, they are not allowed to lend to someone that already has a loan from one of the other lenders.

5.2. Non governmental organisations

In Botswana there seems to be only four operational NGOs that are involved in microlending and the promotion of access to financial services. Based on the information provided by these NGOs, their combined loan book is estimated at about P1m (R1.7m), which amounts to less than 0.01% of GDP.

This loan book benefits approximately 4000 borrowers, which amounts to 0.7% of the economically active population and 1.5% of the (employable) population that is not formally employed and therefore cannot get access to bank and microlender credit. Despite the small size of these activities, each individual supported is someone who would not otherwise have had access to finance.

In the following section details of their various programmes is provided.

[22] *This is mainly because they were the ones granted salary deduction codes when government decided to limit the number of codes it was going to issue.*
[23] *A government salary deduction code has been granted to this organisation, but no loans have been issued to date. Sources close to the industry were of the opinion that Capricorn is trying to sell their salary deduction code to a South African based microlender*
[24] *In its prospectus for listing the management of Letshego estimated the current non-bank personal loans to be around P290m, which is lower than the estimate derived here.*

Overview of NGO Savings and Credit Activities in Botswana									
NGO	Loans	Savings	Group / Individual	Total Number of Loans	Nr of people in the case of group loans	Total Value of Loans	Total Number of Savings Accounts	Total Value of Savings	Funded by
Women's Finance House	y	y	Group	900	3,500	500,000	2,000	550,000	Government's Department of Women's Affairs, ADF, UNDP, HIVOS, SIDA, NORAD, USAID and UNICEF
Kgetsi Ya Tsie	y	n	Group	140	170	153914	-	-	PACT-IRCE (USAID), ADF
Kuru Development Trust	y	y	Unknown	500	-	Unknown	Unknown	Unknown	Unknown
Youth in Development	y	n	Group	15	25	Unknown	Unknown	Unknown	UNICEF, ADF, Government of Botswana (e.g. the Botswana National Youth Council)
Emang Basadi	y	n	Individual	30	-	Unknown	0	0	ADF

5.2.1. Women's Finance House

Women's Finance House is an NGO focused on the empowerment of women and provide their clients with business counselling as well as microloans for business purposes. Business counselling would include organising women into groups capable of tendering for larger and more lucrative projects, as well as training on how to bid for such contracts. The programme is focused on poor rural and peri-urban Botswana women who are already running a micro-enterprise or small business. The programme is designed for groups whose businesses suffer due to inadequate business management skills and lack of finance.

The microlending business is based on group lending methodology[25]. Initially groups started at 4 or 5 women. These large groups did not work well and it has since been decreased to 2 to 3 women per group. Although the loan is issued to the group, the women do not have to be partners in the same business and are free to apply the funds in different enterprises. In general the group methodology proved difficult to sustain, as local culture tends to be more individualistic. The smaller groups were seen as a fair compromise between risk diversification and the individualistic culture. However, this process is still under continual evaluation.

Women who take loans from WFH are required to take part in the savings scheme, but the scheme is open to non-borrowers as well. Only one loan disbursement is made and the group is responsible for the disbursement of funds among themselves. This is primarily to reduce the administration costs. The minimum balance is P75 and the aggregate of members' savings currently amounts to about P 550 000. This money is placed with a commercial bank.

Loans range from P1 500 to P 5 000 per group and average around P 3 000. Interest rates are similar to commercial banks. Currently the scheme has about 3500 clients with about 1000 loans and the total loan book is approximately P 500 000. Of these clients about 60% are estimated to be on their third or fourth loan cycle. The age limits are set at 21 to 65, but most of WFH's clients are between 35 and 50 with the average age being about 38.

An estimated 80% of loans are repaid without any problems and 10% are written off.
One of the causes of loan accounts being written off is HIV. In the last six months of 2001, five clients died due to HIV related illnesses. Considering the total number of clients, this is fairly low figure, attributable to the age profile of clients.

The scheme is funded both from revenues as well as grants from the Government's Women's Affairs Department, the African Development Foundation (operating as the "Action for Economic Empowerment Trust" in Botswana) and the United Nations Development Programme (UNDP).

5.2.2. Kgetsi ya Tsie

This organisation is a 'rural women's community trust based in the Tswapong hills in Eastern Botswana seeking to achieve economic and social advancement for its members. They focus on businesses based on natural resources and help members to formalise and manage their respective businesses. They also help to finance their efforts through a microfinance programme based on the Grameen bank group model[26]. The microfinance programme also allows members to expand into other businesses to overcome the seasonality of their original enterprises. Examples of products from these businesses are mopani worms and marula preserve. Currently about 700 women from 20 villages take part in the programme.

[25] The scheme started off by providing individual loans, but in an attempt to reduce the risk of lending the scheme later changed to group lending. Under 'group lending methodology', loans are given to groups whose members are jointly responsible for the loan. This is thought to encourage financial austerity and prompt repayment.
[26] The Grameen Bank Model is a pioneering group-lending philosophy where loans were provided without collateral or deposits, provided all group lenders continued to make repayments

The programme's biggest achievement thus far has been that KyT members have increased their annual cash income by 500%, from an average of P440 (R748) in 1996 to over P2, 500 (R4, 250), an increase of about 30% per annum. This has been achieved without significantly increasing production but rather by more effective storage, quality control and marketing.

KyT follows the example of Grameen bank by allowing for decentralised decision-making and responsibility. At base level, KyT consists of groups, each with five members. Within a village, groups organise themselves into Centres. Each Centre is represented on an Executive Council through a democratically elected representative. The Executive Council, together with the Board of Trustees decides on issues of policy and implements them.

Village Centres meet every two weeks and at these meetings loan payments are made and loans are issued. New business is also initiated and feedback is provided, which is then carried to the monthly Executive Council meetings through the representatives. This structure allows for a high degree of representation, feedback, accountability and responsiveness in decision-making.

The microlending procedure:
A KyT group consists of five women utilising natural resources and must be established for at least six months before it can apply for a loan. In this period, they go through an 'induction course' conducted by the Field Officer and the Centre. Members must be of the same village and within the same age group (maximum allowed age difference of 10 years). The size of the loan is determined as follows:

Loan Cycle	Maximum per Member	Repayment Period
1st loan	500	1 month grace plus 4 months
2nd loan	750	4 months
3rd loan	1,000	4 months for loans under P1000 and 6 months for loans over P1000
4th loan	1,250	
5th & subsequent loans	1,750	

Progress to the next level of loan is dependent on the group's repayment history. The Executive Council, at their discretion, may approve loans in excess of P1, 750 (R2, 975) per member. This will be based on the reason for the loan as well as the group's repayment history. Loan approval takes place on group and centre level and is also verified by the Field Officers before it is given over for disbursement. Both loan disbursements and repayments take place at the two-weekly centre meeting.

Interest is charged at a fixed rate of 17.5% per annum on all loan sizes. If the loan is repaid on time, 2.5% is given back to the group leading to an effective interest rate of 15% per annum. Late payments are fined at 3% of the value of the due payment. If part of the loan is still outstanding after the final repayment date, the 3% fine is payable on the full amount outstanding for each month after that date. Fines are added to the outstanding loan balance but do not accrue additional interest. In the event of early repayment, the group is credited with an amount equal to one month's interest for each full month by which the loan is repaid early.

KyT currently has a loan book of P153, 914 (R261,654) consisting of an estimated 140 group loans to approximately 170 individuals. As not all group members take loans every time, these numbers underestimate the coverage and the programme effectively provides access to loans for about 700 women.

5.2.3. Kuru Development Trust (KDT)

KDT is a development organisation focussing on the support and development of the San population group in Botswana. It was registered as a trust in 1996 and transformed itself into a "regional, people owned support programme" with the mandate to "assist marginalized communities in Botswana with the establishment and development of self-sustainable Community Self-Help Organisations, which will increase the capacity of these communities to gain control over their social and economic lives and which will be able to define, direct and implement the community's own development". Kuru is in the process of restructuring its initiatives, which will eventually lead to the unbundling of Kuru into several NGOs (Kuru, 2000).

One of the new NGOs that will be established is the Savings and Loans Group. This was initially established as one of the divisions of KDT in 1998. It operates in nine settlements in the Ghanzi district and had about 500 account holders in 2000. Usually an account-holder is linked to KDT through one or more of the projects they run (e.g. the production group that produces craft, agricultural products and art).

Kuru also had a micro-enterprise division that provided training and support to entrepreneurs.

5.2.4. Emang Basadi

Emang Basadi is an NGO focussed on the upliftment and development of women in Botswana. This is achieved through various projects including a loan scheme.

Loan terms vary according to the purpose:

- Loans for hawkers/ tuckshop usually have a repayment term of between 12 and 18 months.
- Loans for sowing/horticulture have a 3-month grace period and a repayment term of 12 months.

The maximum loan available is P5, 000 (R8, 500) and interest is charged at 25% per annum. They currently have about 30 outstanding loans of which 6 pay only when 'hassled' and one has passed away.

In addition to loans, they also provide business training to members. Their clients are between 18 and 50 years old, most of them being around 40. They charge a membership fee of P10 per annum.

5.2.5. Youth in Development

Youth in Development offers business training and microloans to younger persons between the age of 12 and 29 who want to start their own businesses. Loans can be up to P10 000 for group of 2 to 3 individuals[27] working on the same project/business. Repayment was initially over 12 months, but has since been changed to 18 months. There is a grace period of 3 months before repayment commences[28]. In addition to the loans, assistance is provided on the development of business plans and market research. A mentoring scheme is also in place to help their clients get their businesses off the ground[29].

Currently they have 15 loans on their books providing work for 25 people. All the loans were for P10 000 and interest is charged at 19% per annum. Only 2 of these loans are considered to be 'bad debt'. In addition to these loans, they also assist about 5 people per day with businesses that are not funded by them.

The organisation is currently re-evaluating its programmes and is considering discontinuing direct lending and rather providing support for entrepreneurs to get access to CEDA funding. The idea would be to provide training in the writing of business plans, marketing and assistance with the completion of forms. In order to be self-sustainable they will charge a fee for the training. To test this idea they are setting up a pilot programme with about 50 people.

Youth in Development receives funding from UNICEF, ADF, Government of Botswana and the Botswana National Youth Council.

5.3. Other government initiatives

5.3.1. The Citizens' Entrepreneurial Development Scheme (CEDA) and its predecessors.

One of the problems regarding access to financial services, is the inability/ unwillingness of the private financial sector to expand savings and credit access to poorer households and small businesses. With the increase in competition in the banking sector, this problem has increased. Banks, whose coverage in the rural areas was already deficient, withdrew completely from these areas and concentrated on gaining urban market share. (As mentioned before, 49% of the population still lives in rural areas.) They also increased minimum balance requirements on savings accounts in an attempt to get a more stable and profitable pool of deposits and lower administration costs.

To solve the problem of access to credit, Government opted not to pressure commercial banks to supply more credit, but instead initiated a series of credit schemes aimed at providing credit to entrepreneurs and small businesses on a concessional basis. The hope was that the increased access to finance would boost the small business sector and eventually help to build a more diversified economy.

The first attempts in the form of the Financial Assistance Policy[30] (FAP) and the Small Business Scheme failed to achieve the desired diversification. The main problem was that the schemes were run in the form of grants, without the necessary follow-up capacity to ensure that grants were used for the stated purposes. This led to wide scale abuse of this facility and the schemes were subsequently aborted in the middle of 2001.

Still facing the same problem of lack of credit access, Government once again opted to provide the credit themselves. Learning from their mistakes, however, the credit was to be provided in the form of loans, with stricter access requirements and better control over repayments. Loans are still, however, provided on a highly subsidised basis and current CEDA rates are about a third of commercial rates. The provision of credit was centralised into a single fund that would serve small, medium and large enterprises and this gave birth to the Citizens' Entrepreneurial Development Agency, which started operations in August 2001. In addition to CEDA, the government also established a trust fund, the Citizen Mortgage Assistance Equity Fund (CEMAEF).

The aim of this fund is to assist commercial and industrial property owners who are Botswana citizens and face loan foreclosures, therefore preventing property from being transferred to non-citizens. The main reason for this fund is the non-sustainability of many citizen enterprises, the majority of which were funded by the FAP, but did not survive beyond the period of financial assistance (Mogotsi, 2002: 18)

[27] A study commissioned by the Youth in Development group found that businesses with more than 1 person are less likely to fail as the members can help to motivate each other through difficult process of setting up a business. This is the motivation for the group methodology

[28] They have actually found that the grace period impacts negatively on repayment, as the borrower does not get into the discipline of repayment from the first month

[29] Research by Youth in Development has found that businesses perform better where there is a family member that are also involved in business and that can give advice. This is the motivation for the organisation's mentoring programme

CEDA is described as "an agency for the development of viable, sustainable citizen owned business enterprises that provides financial assistance in the form of loans at subsidised interest rates".

Currently there are three categories of lending:

- **Small enterprises:** Loans from P500 (R850) to P150, 000 (R255, 000) at 5% interest per annum with repayment over 5 years.
- **Medium enterprises:** Loans from P150 001 (R255, 001) to P 2m (R3.4m) at 7.5% per annum with repayment over 7 years.
- **Venture Capital:** Equity investments up to P20m (R34m).

The latter category is still being developed and will eventually also invest in joint ventures with foreign companies. The applicant will be required to provide at least 25% of the equity out of pocket.

There are several requirements to get access to the first two categories of loan funding. The applicant must:

- Be a Botswana citizen older than 18 years
- Register a local company and obtain the necessary permits for the line of business it wants to conduct
- Submit a detailed business and marketing plan

If these requirements are met, the proposals are evaluated on the viability of the project[31] (in terms of market, management and value added to the economy). Once funding is approved, the borrowers are included in training and mentoring programmes where advice and support are given on an ongoing basis on the management of their enterprises[32]. Borrowers are also required to provide regular financial reports on their businesses to CEDA.

The table below provides an overview of CEDA loan disbursement since August 2001. CEDA is funded by government on an annual basis and the funding for the current year is about P250m. With about three months remaining, only P160m of this has been allocated and about P70m has been disbursed. This indicates that large backlogs in both the evaluation of projects and the distribution of funds are building up and will need to be addressed.

CEDA: Applications for funding since inception								
Place	Applications Received		Applications Approved		Applications Rejected		Closed	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Maun	67	34,621,552	9	5,558,400	17	10,233,870	4	4,086,000
Francistown	196	100,786,237	23	15,446,955	15	5,746,440	27	13,311,786
Selibe Phikwe	117	48,671,316	24	9,585,107	20	8,337,728	3	3,350,000
Serowe	84	4,982,600	19	4,310,100	8	1,157,453	4	484,273
Mahalapye	100	49,583,000	20	6,689,000	31	9,836,000	4	3,256,000
Mochudi	99	53,032,526	26	11,498,545	55	28,585,848	6	5,019,984
Gabarone	723	447,273,937	96	80,758,196	221	99,346,285	13	6,105,850
Molepolol	165	51,056,629	12	5,357,000	52	6,277,290	8	2,257,883
Kanye	177	84,955,073	28	16,140,864	50	12,993,169	20	13,568,155
Tsabong	38	10,676,691	33	164,000	6	484,000	-	-
Gantsi	38	26,769,529	3	1,275,000	3	743,206	1	142,857
Letlhakan	70	22,740,180	7	3,747,000	3	2,190,000	7	2,025
TOTAL	1,874	935,149,270	300	160,530,167	481	185,931,289	97	51,584,813

If the only restriction on access to CEDA funding is the viability of business projects, it is in a position to provide an enormous amount of funding and can quite possibly start a process that will eventually lead to the diversification of the economy. However, there are a number of potential problems.

The first problem relates to the inherent inability and unsuitability of government to evaluate the commercial viability of projects (their evaluation will in the end determine whether funding is provided) and allocate resources in the economy. This is in all likelihood not a long-term solution and can only be justified if it is structured in such a way that the funding process can eventually return to being market driven.

CEDA currently provide funding at about a third of the commercial rate. This is intended to make the funding as accessible as possible and to include as many businesses as possible. However, this makes it is impossible for commercial banks to compete and therefore no parallel market system can be sustained while CEDA is in place[33]. This implies that the current system is not self-sustainable (cannot function without subsidies) and will

[30] *The FAP scheme was aimed at encouraging development in the manufacturing sector. Specifically, it was also aimed at creating employment and hence the grants were structured to favour projects that will create more jobs* [31] *This is judged by CEDA staff based on the business plan and market research done by the applicant.*
[32] *As part of the agreement with CEDA, applicants have to agree to 'be guided' on how to conduct their business* [33] *This is based on the assumption that there are no hidden barriers to getting access to CEDA and no reason why businesses will be willing to pay the much higher market rates if they can get cheap funding from CEDA.*

not gradually develop into a market-based allocation system.
The second problem is whether access to finance is sufficient to create the required diversification. Generally, the perception is that funding is not the biggest barrier to diversification, but rather the lack of viable business ideas. Without these, no increase in funding will lead to diversification.

A third problem is that there may be several reasons why CEDA is not readily accessible to smaller enterprises and may even be systematically biased against smaller borrowers. These are:

- Cost of registering and licensing a company: One of CEDA's requirements is that the applicant must register a company and obtain the necessary licenses for its proposed business. The cost of registering a company is said to be below P100 but in order to obtain the necessary business permits there may be other requirements that are difficult for small businesses to meet.
- Complicated application procedures: The same application process is followed for borrowers of all sizes and may exclude smaller borrowers that do not have the funds to pay 'consultants' to develop detailed business plans[34]. It is certainly possible (and more efficient) to require less detailed and simpler business plans from the small enterprises. In an attempt to make the process more accessible, CEDA has translated the forms into the native language, Setswana.
- Cost and burden of financial reporting: Although it is necessary to have this in place, CEDA must make sure that they provide the necessary assistance to smaller enterprises to ensure that the reporting burden can be carried without jeopardising the business.
- Long delays and backlogs are problematic for enterprises that do not have access to other types of funding to sustain them while they go through the CEDA process. Although CEDA aims at turnaround times of 1-2 months, this does not currently seem possible and may discourage people from applying for funding.
- No support is available for applicants that are turned down.

Considering that smaller enterprises have repeatedly been shown to be strong drivers of economic diversification and a very important component in the development of an economy, it will not benefit government if these enterprises are systematically excluded from getting access to funding. These are also the enterprises with the greatest need of subsidised funding as they usually do not have sufficient security or proven income flows to obtain funding from commercial banks.

Lastly, there are doubts as to whether CEDA will have the capacity to monitor loans and the development of the funded businesses. In the absence of proper controls, there is also significant potential for abuse. CEDA may still be perceived as a 'grant' system where bad debts can go unnoticed for long periods of time and are eventually written off.

5.3.2. International Financial Centre

Another attempt by government to promote diversification was to set up an international financial centre that provides tax exemptions for foreign industries opening plants in Botswana. The tax exemptions for specific foreign ventures managed to entice a few South African industries to set up shop in Botswana. However, this initiative has now been thwarted by South Africa's move to residency -based tax.

5.3.3. Botswana Development Corporation (BDC)

The BDC was established in 1970 to be the country's main financing agency for commercial and industrial development. It is wholly owned by Government. Specifically, BDC's role is to:

- Contribute to the development of Botswana's resources and overall economy.
- Produce products for export or to substitute imports.
- Add to the skills of the local workforce.
- Provide financial assistance to investors with commercially viable projects.
- Support projects that generate sustainable employment for Botswana.
- Encourage citizen participation in business ventures.

This is done through:

- Equity participation
- Loan financing
- Guarantees
- Provision of commercial, industrial and residential premises.

The BDC generally fund larger projects and commercial interest rates are charged.

5.3.4. The Public Debt Service Fund (PDSF)

This is not strictly a bank but receives deposits and gives out loans. It is a special fund which was set up under the Finance and Audit Act in 1973. It is unique to Botswana and has only one depositor - the Botswana Government.
It has many beneficiaries - parastatal bodies, district, town and city councils etc. Government receives significant income in the form of interest from loans issued by the PDSF. For many years, it was one of the largest financial institutions in the country. Since 1996, however, the government has dramatically reduced the

[34] *Although it varies with the size of the loan applied for, it is not uncommon for consultants to charge P2500 to prepare the application*

lending to parastatals through the PDSF.

5.3.5. National Savings Certificates

The Letlole National Savings Certificate (LNSC) Scheme was launched by the Minister of Finance and Development Planning on behalf of the Government in 1999 with the aim of encouraging savings (BoB, 2001). It was specifically aimed at diversifying the savings of rural communities away from cattle and is distributed through the Botswana Savings Bank, Post Offices and the Bank of Botswana. The minimum value of a certificate is P50 and it provides a secure (government backed), tax free investment instrument that can also serve as collateral for loans.

As at December 2001, the total value invested in LNSCs were P1,6m (less than 0.02% of total commercial bank deposits).

5.3.6. Credit Guarantee Scheme

In an attempt to facilitate access to credit for SMMEs the Government established a guarantee scheme in August 1999 that is administered by Botswana Export Credit Insurance and Guarantee Company (BECI) (a 100% owned subsidiary of the BDC).

Guarantees of up to 60% are provided and are administered through the commercial banks, NDB and Peo Holdings[35]. As at December 2002, the total value of loans guaranteed were P9bn with the largest guarantee portfolios being held by the NDB (P4.4bn) and Peo Holdings (P1.9bn).

To qualify for a guarantee, the business must be citizen owned with a bank account, employ fewer than hundred people and have an annual turnover of less than P5m. Loan sizes vary from P10,000 to P250,000 and the repayment term is up to five years. Interest is charged at prime plus 4% and in addition there is an application fee of 0.5% (min P500) and an annual guarantee fee of 0.5% (based on loan balance). The scheme also requires security of between 60% and 80% (increasing with loan size) to be provided by the borrower and in the event of default, the banks are first required to liquidate the security before claiming on the guarantee.

The scheme has an impressive record with only three claims on the fund since inception (with total loan value of P500,000). It is, however, experiencing problems to compete with the sub-commercial interest rates charged on CEDA loans. It is currently in the process of reviewing its prices and position relative to CEDA.

5.3.7. Policy on SMMEs in Botswana

This followed from the recommendations by the task force set up by Government in 1997 to look at the barriers to development of the SMME sector in Botswana. The report from the task force included a large number of recommendations of which several were accepted and a number were amended or deferred. Amongst the recommendations implemented were the establishment of CEDA (see above) and the establishment of the Small Business Promotion Agency (SBPA) under the Ministry of Commerce and Industry (MCI). The terms of reference for the SBPA require that it (Ministry of Commerce and Industry, 1999):

- Review the impact of Government policies and regulations on SMMEs and make recommendations as to policy and regulatory changes, in order to promote SMME development.
- Monitor the health, problems and needs of the SMME community.
- Develop proposals for new projects and programmes to strengthen SMMEs.
- Oversee the monitoring of all support programmes that impact on SMMEs.
- Oversee the implementation of the SMME policy.

Further recommendations of the SMME Task Force that were accepted by Government are:

- Business with turnovers of below P75, 000 need to be exempted from Sales Tax.
- The Companies Act needs to be amended to provide for simplified, less costly and less bureaucratic forms of incorporation.
- Land allocation procedures in both rural and urban areas need to become more efficient and business-like.
- The number of business courses available in secondary schools should be increased.
- Government should set in place a programme for accrediting SMME training providers who are accredited to offer subsidised short courses relevant to entrepreneurship (covering areas such as small business start-up, management and marketing).
- Government should subsidise the preparation of documentation necessary to obtain a small business loan, provided that consultants that are accredited by the SBPA do this.

Further issues that were deferred and are being investigated further, include:

- Changing corporate taxation laws to be more lenient towards small businesses.
- Appointing a consultancy to review all laws that discriminate against women.

[35] *A business development initiative established by De Beers Botswana and Debswana Diamond Company that provides loan and equity funding to new and expanding businesses in Botswana*

6. Money and Capital Markets

The Botswana Stock Exchange started operating in June 1989. Since then the number of locally listed companies has increased from 5 to 16 and the market capitalisation increased from P120m (R204m) to P 8,909m (R15, 145m).

Six corporate bonds were issued. Amounts raised through these issues however, are still relatively small compared to the amounts raised directly from banks and NBFIs.

Securities Issued on the Botswana Stock Exchange
BDC floated a P50m bond in November 1997.
Botswana Telecommunications Corporation (BTC) floated a P50m bond in November 1998.
Investec issued a P150m floating rate note in July 1998 with an additional P32m in November 1998.
BTC issued six-month paper as part of a 5 year programme of P50m per issue (first issue: Nov 1999) at 0.5 percentage points above the 6-month BoBC yield (total programme to be P200m).
Stanbic Bank Botswana issued a fully subscribed P30m floating coupon rate bond at 125 basis points above the three-month BoBC rate in December 2001 (mature on December 2013). This issue of sub-ordinated debt forms part of the bank's tier II capital for the purposes of calculating capital adequacy.

The securities issued by the banks were used to supplement capital and were not directed for on-lending. Non-bank Financial Institutions (NBFIs) are free to raise capital on the stock exchange and in September 2002 Letshego was the first microlender to do so.

Despite its increase in size, the BSE is still relatively illiquid. Low liquidity is attributable both to the small number of available stocks, as well as the buy-and-hold strategies of institutional investors, who are required to keep 30% of their funds locally (Bank of Botswana, 2001).

7. Conclusion

In terms of access to financial services, Botswana is in a better position than the other BLNS countries as a larger proportion of people have access to insurance, credit and transaction services. Only in the savings category does it lag behind Namibia. In addition, the economy is still growing strongly. Despite slowing down significantly from the levels in the 1980s, the current levels of growth seem to be sufficient to support the development of the country.

However, the economy is heavily concentrated in a few sectors and at least one of these is a primary commodity with a limited supply. There is, therefore, a concern about the capacity of these sectors to fuel future growth. There is also concern that the banking sector is not able or willing to fulfil its role as intermediary in the financial system and that this will impose barriers on further development.

Despite the strong growth, local industry is not developing and the economy remains concentrated in diamonds and beef. Government has launched several initiatives to promote the diversification of the economy and fill the gaps left by the commercial banks. These mostly involve providing finance directly on a subsidised or grant basis and have been largely unsuccessful in achieving the desired outcomes. This illustrates the point that the availability of finance is not the main constraint to development and diversification.

In their effort to fill the gaps left by the commercial banks, Government is also crowding out the commercial banks in these sectors. This is not due to Government's involvement as such, but rather the way in which it is structured (e.g. subsidised loans or grants). In order to foster development, these initiatives need to be structured in a manner that allows commercial banks to compete. In this way, government's efforts will map out territory for the banks to eventually occupy, rather than create permanent dependencies on government structures and subsidised funding.

The main problem seems to be the absence of two main drivers of economic activity: "need" and "greed". Firstly, the government provides a large amount of financial and other support in the form of building materials and land, free medical support, free education, free cattle vaccinations and in some cases even informal unemployment benefits as government is still also the largest employer.

This removes the need for people to provide for themselves and leads to the so-called 'culture of entitlement' where government is expected to take the lead in the economy. Secondly, where local entrepreneurs have emerged, the large foreign business component has suffocated any attempts from local entrepreneurs to start and grow their own businesses. While these factors remain in place, it is difficult to see how any amount of funding will succeed in diversifying the economy. This calls for more than just a simple withdrawal of support, but rather for an alignment of government initiatives on broader economic and private sector development.

Reading List

Bank of Botswana, 1999. Annual Report 1999.
Bank of Botswana, 2000. Annual Report 2000.
Bank of Botswana, 2001. Annual Report 2001.
Barclays Bank, 2001. Annual Report 2001.
BDC, 2001. Annual Report 2001.
BIDPA, 2000. Review and Evaluation of HIV/AIDS Related Data for an Expanded National Response to the HIV/AIDS Epidemic in Botswana.
Central Statistical Office, 2001. Stats Update Dec 2001.
Harvey, C., 1998. Banking Policy in Botswana: Orthodox but Untypical, in Brownbridge, M. & Harvey, C., 1998. Banking in Africa. First Africa World Press. Oxford.
Kuru Development Trust, 2000. Activity Report for 2000 & Plans for 2001.
Matsheka, T.C., 1999. Savings Mobilisation and Economic Diversification in Botswana. Bank of Botswana Research Bulletin, December 1999.
Ministry of Commerce and Industry, 1999. Policy on Small Medium and Micro Enterprises in Botswana.
Mogotsi, I., 2002. Citizen Empowerment: Scope for Success, in Barclays Bank Economic Review - March 2002.
NDB, 2001. Annual Report 2001.
Standard Chartered, 2001. Annual Report 2001.
Stanbic Botswana, 2001. Annual Report 2001.

Appendix A: Examples of products offered by commercial banks

Examples of Bank Products in Botswana	
Product	**Description**
Barclays	
Bank Account	No minimum balance, but have to earn a specified minimum monthly net income.
Barclays Current Account	No minimum balance, but have to earn a specified minimum monthly net income to open account. Can set up stop orders.
High Value Current Account	Access via your chequebook. Overdraft and term deposits available. Account is available in all major international currencies. No minimum balance is required and interest is paid on credit balances.
Barclayloan	Clients don't have to currently bank with Barclays to apply. Repayment starts one month after client draws on the loan, with equal installments every month. Minimum repayment period is 12 months. Up to 4 years to repay. Automatic credit protection scheme.
Prestige Banking	For monthly fee client will benefit from a number of special services, including longer opening hours, free standing orders, free money transfers, a reduced tariff, a Barclays payment card and access to Prestige Banking Centres.
Instant Savings Account	Minimum opening balance on this account and a minimum operating balance. Should client drop under that balance, a monthly fee may be charged until the balance is topped up to be above the minimum balance. Will also receive no interest payments during this period.
Barclays High Rate Savings Account	Minimum opening balance on this account and a minimum operating balance. Should client drop under that balance, a monthly fee may be charged until the balance is topped up to be above the minimum balance. Will also receive no interest payments during this period. Interest increases as balance on account increases. No restriction on the amount client can withdraw as long as a minimum balance is maintained.
High Interest Bonus Savings Account	Interest increases as balance on account increases. Provided client maintained the minimum balance required to open the account and no withdrawals have been made in the previous three months, client will receive a quarterly bonus of interest paid.
High Rate Savings Account	Interest increases as balance on account increases. Minimum opening balance of P6000. However, minimum operating balance is P1200. If this is maintained (P1200), there are no service charges. If account goes below P1200, a monthly fee may be charged until the balance is topped-up to above the minimum balance. Client will also not receive interest in this period.
Telephone Banking	Check on balance of current/savings accounts, order statements, cheque books and paying-in books, transfer funds between accounts, stop cheques and find out about foreign exchange and money market rates, pay most bills, confirm payments into and out of your account, enquire about existing direct debits, arrange, amend or cancel standing orders, order travellers cheques and foreign currency and report lost or stolen cards.
Money transmission	Current accounts in both Pula and all major international currencies including the Euro. Call and term deposits in both Pula and international currencies including the Euro.
Cash management	Electronic banking though BusinessMaster International.
Business finance	Overdrafts, Letters of credit, Medium-term loans (in Pula or foreign currency) and Leasing facilities.
International trade	Foreign currency accounts, foreign currency transfers and negotiation of non Pula instruments.
Structured finance	Design, arrange and lead syndicated credits and provision for specific projects.
First National Bank of Botswana	
FirstLoan	Client must be permanently employed or receive a regular monthly income. Don't have to bank at FNB to be able to apply. Maximum loan period of 36 months and monthly repayments should not exceed 30% of net disposal income. Can sign a stop order on either a BOB2000 or FirstCheque account. Monthly payment will be debited to operative account and credited to loan account. Required to take out credit settlement insurance. A management fee will be charged on all successful applications.
Credit Card: Firstcard	All-purpose Pula based credit card. Can pay the minimum payment due on monthly statement. Interest free provided client pays the full amount due within 25 days of statement date each month. Debit order and FirstCard monthly payments will automatically be drawn from FirstCheque account each month. Automatic travel insurance when purchasing local or overseas travel tickets with FirstCard.
Credit Card: Business Card	All-purpose Pula based credit card issued in name of a business. To be used locally and internationally. Can have debit orders. Business Card account monthly payments will automatically be drawn from FirstCheque.
Call Deposit	May deposit funds and make withdrawals on demand, but a written instruction is required. Minimum opening deposit of P1 000 and balances less than P1 000 do not attract interest. Any individual, Company, Association, society etc. can operate this account.
Fixed Deposit	Fixed sum of money is invested for a definite period of time, at a fixed rate of interest. Periods ranging from six months to twenty-four months. Minimum deposit of P100-00 and funds cannot be withdrawn before maturity without incurring a penalty. On maturity the sum plus interest could be paid to the customer or the capital sum could be reinvested and interest paid to the customer or the capital sum plus interest could be reinvested.
Notice Deposit	Client can specify the notice of withdrawal period e.g. 32, 60 or 88 days. The minimum amount is P1 000 and maximum amount is P100 000.
Personal Firstcheque	Customers can deposit salary or other income and withdraw these funds via cheque. Account can be accessed by chequebook, FirstDebit (Visa Electron) Card, videobank, debit orders or stop orders. No minimum balance required. Daily maximum limit or P2 000.
Company Cheque Account	Account can be accessed by chequebook, VideoBank, CAMS, Debit and Stop Order. No minimum balance is required. The account is not card based.

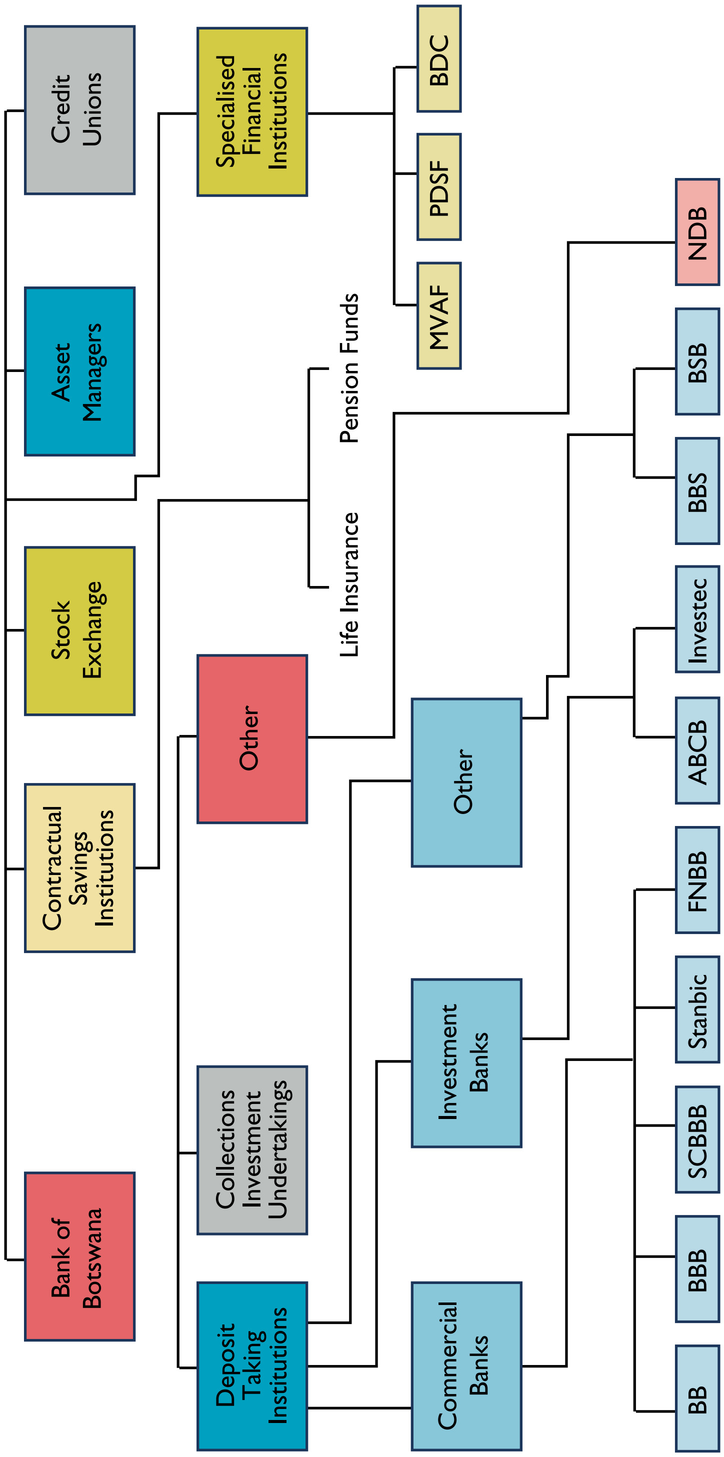
Examples of Bank Products in Botswana	
Product	**Description**
BOB 2000	For 18 years and above who earn a salary. Allows debit and stop orders. No minimum balance required, maximum of P2 000 can be withdrawn through ATM per day.
Junior BOB	Under 12 year old, minimum balance of P20.00 required. Maximum ATM withdrawal of P1 000 per day. Four free withdrawals, thereafter charged.
BOB T	Teenagers between ages 12 - 17. No charges levied on this account. Minimum balance P20.00. Maximum ATM withdrawal of P1 000 per day. Balances over P500 attract a P0.85 withdrawal charge. Four free withdrawals, thereafter charged.
BOB Save	18 years and above. Minimum balance of P100 is required. Maximum ATM withdrawal of P1 000 per day. Two free withdrawals thereafter P10 is charged per withdrawal
Poloko	The rates are linked to prime. Minimum balance of P500. Only 1 free withdrawal per month, thereafter a P20 charge per withdrawal.
Vehicle Finance Made Easy	Wesbank offers three types of motor vehicle sale agreement options: Installment Sale Agreement, Lease Sale Agreement and Cash Sale Agreement. Assets have to be comprehensively insured for the full duration of the contract. Optional Adcover Insurance available: cover for any shortfall between the amount paid out on the comprehensive insurance policy and the amount owing on the finance contract. Personal Protection Plan through Wesbank: protect interests in the event of permanent disability or death. Optional AA Botswana.
First National Bank on Blue	WesBank and First National Bank now participate in the Government Motor Vehicle and Home Loan Scheme.
Foreign Currency Accounts	Interest paid on: United States Dollar: Above USD 1500-00. Pounds Sterling: Above GBP 1000-00. South African Rand: Above ZAR 15 000-00.
PULA (Domestic Deposit)	Minimum Balances Required: Call Account: P1000. BOB Save: P100. Poloko: P500. Junior BOB & BOB-T: P 20.00. Notice Deposits: 32 day, 60 day and 88 day, P1000. Fixed Deposits: (6 months and over), P100.
Wesbank Corporate Finance	Wesbank Corporate Finance will finance all types of equipment, which are critical to business development and growth. These include: Industrial plant and machinery, Aircraft, Trucks and commercial vehicles, company fleet schemes and employee car allowance schemes, Earthmoving and materials handling equipment, Printing equipment and computer hardware, Retail and office equipment. Through involvement in the FirstRand Group, can provide access to the Group's services: Personal and business banking and overdraft facilities, Electronic banking facilities, Investment facilities, FirstCard company and personal credit cards, Foreign exchange, Payroll facilities, Personal financing for staff, Insurance packages tailored to your company and Industrial property finance.
Wesloans	WesBank will re-advance P10, 000.00 on an existing Car Loan's subject to agreements with no arrear history, agreements must not be settled, agreements with a contract period longer than 36 months and half of the Agreement must be repaid. Agreement must have 12 months or longer to run.
StanChart	
Debit Card	Linked to current account. Accepted internationally as a Visa Card.
Current Account	Minimum Salary P2000, no minimum balance, withdrawals to zero balance.
Extra Value Savings Account	Minimum Balance P500, free Personal accident insurance cover if balance is +P5000, secured O/D/Loan facility for balance +P5000.
Call Account	Minimum balance of P25 000, sweeping arrangements, can be in Pula, Rand, USD, GBP and Euro. No restriction on withdrawal amounts.
Fixed Account	Minimum deposit P5000, flexible investment periods and choice of any major currency.
Foreign Currency Account	Account in major currencies: USD, GBP, Euro, and ZAR. Minimum Balances: USD 1000, GBP 500, Rand 5000, Euro 500. Option for Call, fixed accounts for periods 1, 3, 6 and 12 months. Flexible cash withdrawal.
No Mathata Personal Loan	Minimum loan BWP15 000. Max 6 x net monthly salary or P40 000 whichever is lower. Tenor 6 - 48 months, top up option when 50% has been repaid.
Kgatelopele Personal Loans	Loans of BWP 15 000 to BWP 90 000 available. Up to 36 months repayment terms and for amounts above P 50 000 up to 48 months. Monthly repayment should not exceed 45 % of net take-home pay.
Motswedi Personal Loans	No security, no deposit and no invoices required. Do not need Standard Chartered Bank account to qualify. Loan provides unsecured loans of amounts ranging from P15 000 to P150 000. Monthly repayment should not exceed 45% of borrower's net take-home pay.
Mortgage Loan	Minimum loan P20 000, maximum 70% of current market value or forced sale value maximum P500 000. Tenor 20 years or up to age 60 whichever is lower. Interest rate currently P + 1% - 3%. Flexible repayment period.
Auto Loan	Minimum loan P25000-00, maximum loan P500000-00. Tenor: 5 years new cars, 4 years 1 year old cars, 3 years 2 - 4 years old cars, 2 years 5 years old cars. Interest rate - Minimum P + 5.5% - Maximum P + 10%. Car and credit life insurance cover available, flexible repayment period.
Secured Overdraft / Loan	Personal overdraft facility, minimum loan P3000-00. Tenor - 12 months or on demand.
Botswana Building Society	
Mortgage Lending	Interest at 14.50% and 15.00% for loans up to P100 000 and above P100 000 respectively. Maximum repayment period of 25 years for individual borrowers and 20 years for companies. Loan should be fully repaid by the time the individual reaches the age of 65. Maximum loan depends on borrowers gross income, the assessed value of property to be purchased or developed and the age of the applicant.
Ordinary Loans	To purchase an existing house from any seller or bond an existing property to the Society.

Examples of Bank Products in Botswana	
Product	**Description**
Building Loans	Loan to develop or extend an existing property. Wish to build a house on a plot: purchase price between 5 500 and 250 000, the loan deposits and costs (in total) can vary from 0 to 30 335. Monthly repayments should not exceed one quarter (25%) of borrower's monthly gross earnings. If the purchase price exceeds P20 000, citizen borrowers are liable for Transfer Duty at the rate of 5% of the price in excess of P20 000. For non-citizen borrowers, the transfer duty accrues at the rate of 5% on the entire purchase price of the property.
Further Advance/Equity Loans	Provided as an additional loan for the extension of an existing property or bond the same property. Money to be used for other property developments.
Industrial Loans	To develop or acquire an industrial property. Requirements for industrial loans are the same as those of commercial loans. Required to convert their plots from customary rights to common law by obtaining a Tribal lease on the property and having the piece of land surveyed by registered land surveyors. Lends to both citizens and non-citizens. In the case of non-citizens, the Society can only lend a maximum amount of the 75% of the securing property's open market value. In the case of citizens, the normal maximum loan is 75% of the securing property's open market value, but this can be increased to 90% in the case of the citizen borrowers initial loan.
Commercial Loans	Provided for the purchase or development of a commercial property. Payment of valuation fees which depends on the value of property to be purchased or developed.
Short Term Loan	A Botswana Building Society share account (either Subscription Shares or Indefinite period Paid Up Shares). A short-term loan is NOT a withdrawal of shares - shares still belong to client and are committed to their long-term income earning potential. The minimum loan amount is P250.00. Shares will continue to earn dividends for the whole period that they are securing the loan.
Savings Accounts	Any person over the age of 16, clubs, associations, partnerships, deceased estates, trust funds and others. No handling
Ordinary Savings Accounts	Can withdraw and deposit as often as preferred, provided client makes an initial deposit and maintain a minimum balance of P50. The income is taxable and interest rate at 50%.
Special Savings Accounts	Offer a higher interest rate. Balance must be maintained at P500 or more and the number of withdrawals per month is limited to two. Income is taxable, with interest rate at 8.50%.
Fixed Deposit	Interests rates payable are fixed and guaranteed for the term of investment and will not fall. Varied interest rates, with a range of amounts and with an investor having choice of investment period. Interest received depends on the amount invested and the period of investment and ranges from 8.0% to 9.5%.
Subscription Shares	individuals over the age of 16, as well as associations, clubs, certain trusts and similar bodies. From P50 upwards, to a maximum of paid-up value not exceeding P200 000 per account, excluding dividends. Client can choose the investment period - from 36 to 300 months. Shares may be redeemed prior to maturity subject to three months notice. In an emergency, they can be used as security for loans of up to 75% of their value. They can also be used as collateral. Can be redeemed immediately in the event of death of the shareholder. Interest is at 7.50% and it is a Tax Free Dividend.
Indefinite Period Paid-up Shares	Companies, institutions, associations and individuals over the age of sixteen. Shares can be redeemed on application at the discretion of the Society, subject to three months notice after an initial period of fifteen months. In an emergency, they can be used as security for loans of up to 75% of their value. Transferable to third parties on application. Can be used as collateral security for mortgage loans. Can be redeemed immediately in the event of death of the shareholder. Initial deposit of P100 is required to open account and thereafter, subsequent deposits of P100 or more. No limit to the number of deposits. Interest of 10.00% - Tax Free Dividend.
National Development Bank	Offer loans between P 20 000 and P 33.5 million for the following: all agriculture including game farming; Commercial/service industry and tourism sector; all Industrial, manufacturing, Processing and Mining; Property Purchase (commercial) and Property development. Repayment on monthly, quarterly, bi-annually or annual basis. Repayment period flexible and range from one to 15 years.

Appendix B: Legislation

Selected Legislation Relevant to the Financial Sector
The Bank of Botswana Act, 1975 and the Amendment Acts, 1996 and 1999
• Establishes the Bank of Botswana as a central bank and mandates it to ensure efficiency and soundness of financial markets
The Banking Act, 1995 and Banking Regulations,1995
• Apply to the banking industry, including commercial banks, credit institutions, investment banks and discount houses. Provided for the prudential regulation and supervision of banks, as well as timely exit of failing institutions. • Banks are generally prohibited from engaging, directly or indirectly, in the merchandise wholesale or retail business, including import or export trade; acquiring or holding, directly or indirectly, any part of the share capital of any financial, commercial, agricultural, industrial or other undertaking; buying, acquiring or taking a lease, whether directly or indirectly, on immovable property.
The Botswana Savings Bank Act, 1992
• Establishes the Botswana Savings Bank and regulates the conduct of its operations. While the Act empowers the bank to issue financial instruments, such as bonds, certificates and notes, or offer other viable banking and financial services, it is silent on specific prohibitions.
The Building Societies Act, 1961
• Provides for the establishment of building societies, such as the Botswana Building Society. It empowers the BBS to invest in bills, bonds, certificates, debentures, stock and municipal loans. The Act is currently under review.
The National Development Bank Act, 1964
• Establishes the NDB and governs its operations. The Act empowers the bank to borrow money as necessary to meet its obligations, including bond issuance. It further empowers the bank to lend to and own equity in business undertakings across all economic sectors; manage, operate or control any property, enterprise or undertaking on behalf of any person in connection with any loan or guarantee given by it; and to operate any savings scheme or any combined life assurance and savings scheme approved by its board. However, the bank may not provide financial assistance for buildings or public works in Botswana.
The Botswana Development Corporation
• The BDC was set up under the Companies Act, 1959, as amended in 1995. Its Memorandum and Articles of Association guides its operations. The BDC has the widest investment and borrowing mandate of all NBFIs. It can engage in any business as sole proprietor, in partnership or joint venture, with local or foreign investors, in all kinds of activities across all economic activities; can provide financial and management assistance to subsidiaries and associated companies; can borrow in any manner it considers necessary, which could include issuing all kinds of securities.
The Collective Investment Undertakings Act 1999
• Apply to Collective Investment Undertakings, which include investment companies and unit trusts or mutual funds. The Act and Regulations compare very favourably with modern legislation for such undertakings found in other countries.
The International Financial Services Centre
• Provides for the establishment of IFSC companies in the following activities: exempt companies, trusts, registries of ship and aircraft, international banking and financing services (which includes deposit-taking, foreign exchange services, custodial functions), and investment business (including collective investment undertakings, personalised investment or private banking management and captive insurance.
Insurance Industry Act, 1987
• Applies to insurance business (life and non-life) and reinsurance. The Act prohibits simultaneous transacting of both general (short-term) and life (long-term) insurance business by a single company.
Pension and Provident Fund Act, 1987
• Applies to approved private Pension and Provident Funds. The public service has a separate act, the Pensions Act, for its pension arrangements. During 2001, the Government transformed the civil service pension arrangements from a non-funded defined benefit scheme to a defined contribution scheme operating under the Pension and Provident Funds Act. • A fund may not engage in or carry on any business undertaking licensed under the Trade and Liquor Act or any other business unless approved by the Registrar and (ii) invest more than 5% of the aggregate value of its assets in Botswana in the business of a participating employer or of an associate of a participating employer, unless exempted by the Registrar. A fund may invest up to 55% of its moneys accruing from contributions made in Botswana in Government or other securities.
Botswana Stock Exchange Act, 1994, Botswana Stock Exchange Regulation, 1995, Botswana Stock Exchange Listing Requirements, 1999, Botswana Stock Exchange Members' Rules, 1996
• Apply to the Botswana Stock Exchange

Appendix C: Financial institutions in Botswana (Source:(Central Bank, 2001:71))



BB Bank of Baroda
BBB Barclays Bank of Botswana
FNBB First National Bank of Botswana
SCBB Standard Chartered Bank of Botswana

BBS Botswana Building Society
BDC Botswana Development Corporation
NDB National Development Bank
BSB Botswana Savings Bank

ABCB African Banking Corporation Botswana
Stanbic Stanbic Bank Botswana
MVAF Motor Vehicle Accident Fund
PDSF Public Debt Service Fund

Appendix D: Botswana time line

Botswana Time Line		
	1960	
	1961	
	1962	
Post Office Savings Bank established	1963	
National Development Bank established	1964	
	1965	
Botswana achieves independence	1966	Barclays network = 4 branches
	1967	
	1968	
	1969	
Government established the Botswana Housing Corporation and the Civil Service Housing Purchase Scheme	1970	The United Building Society of South Africa asked to set up a branch in Botswana to satisfy the need for long-term finance created by the creation of the Housing Corporations
	1971	
	1972	
Public Debt Service Fund established under the Finance and Audit Act in 1973	1973	
Botswana Cooperative Bank established to accept deposits from and lend to cooperatives.	1974	
Bank of Botswana Act (no 7 or 1975)	1975	Standard Chartered Bank incorporated locally under Financial Institutions Act (no. 8 of 1975) (bank existed since 1950 - Before that it operated in Botswana for a few years at a time in 1897 and again 1934) Barclays incorporated locally (but operated as an autonomous, wholly owned subsidiary of Barclays Bank Plc of the United Kingdom
Pula introduced	1976	Botswana branch of the United Building Society taken over by the Botswana Building Society
	1977	
	1978	
	1979	
	1980	
	1981	
Bank of Credit and Commerce Botswana (BCCB) a wholly owned subsidiary of Bank of Credit and Commerce International (BCCI) opens in Botswana	1982	Financial Assistance Policy (FAP) introduced.
	1983	
	1984	
	1985	
Bank of Botswana removes controls on interest rates	1986	Barclays issues limited number of shares to Botswana public
	1987	
	1988	
ULC (Proprietary) Limited incorporated under the Companies Act	1989	Establishment of Stock Market
Bank of Botswana liberalises its policy for licensing new banks. Licensing of new banks not related to size of market any longer but based on whether the new banks was sufficiently capitalised and had the necessary skills and resources to ensure sound banking operation	1990	Zimbank establishes operations in Botswana.
Introduction of BoBCs. First National Bank of South Africa invest in retail Banking Operation in Botswana to be known as First National bank of Botswana (FNBB). FNBB takes over Bank of Credit and Commerce in September.	1991	Parliament passed the Botswana Savings Bank (BSB) Act, which established the BSB as an independent national financial institution, wholly owned by Government. Union Bank of Botswana licensed. At the end of December 1991, the commercial banks had 42 branches and sub-branches, 60 agencies and 14 encashment points throughout the country.
ANZ Grindlays enters banking market in the first half of year	1992	Stanbic Bank Botswana Limited formed by merger of ANZ Grindlays and Union Bank of Botswana in October
FNBB acquires Financial Services Company of Botswana Limited	1993	
FNBB takes over Zimbank of Botswana	1994	
Banking Act (amendment of 1975 act) Botswana Cooperative Bank liquidated.	1995	At the end of December 1995, the number of branches and sub-branches had increased to 49, and the number of encashment points also whilst the agencies were drastically reduced to 25 reduced to 11
Government starts to wind down parastatal borrowing from the PDSF	1996	
	1997	
Investec Bank (Botswana) receives a banking license (joint venture between Investec South Africa and Botswana Development Corporation)	1998	BSB operates through special Savings Bank counters at the Postal Services network (112 Post Offices)
Bank of Botswana issues National Savings Certificates to encourage savings (can be purchased at an post office, commercial banks or the Bank of Botswana)	1999	Standard Chartered network = 15 branches Barclays network = 36 branches FNBB network = 11 branches Stanbic network = 3 branches
	2000	
ULC has its license changed from that of a credit institution to a merchant bank and is taken over by African Banking Corporation Bank (ABC Ltd)	2001	Bank of Baroda established in March 2001
	2002	

FINMARK TRUST

MAKING FINANCIAL MARKETS WORK FOR THE POOR

PO Box 61674 Marshalltown 2107
Republic of South Africa
7th Floor 17 Harrison Street Johannesburg
Tel +27 11 370 3565 Fax +27 11 836 5509
E-mail info@finmark.org.za
www.finmarktrust.org.za