Making Access Possible

Botswana

Deepening access, extending financial services to the farthest corners of Botswana

Financial Inclusion Roadmap

2014–2020

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PARTNERING FOR A COMMON PURPOSE

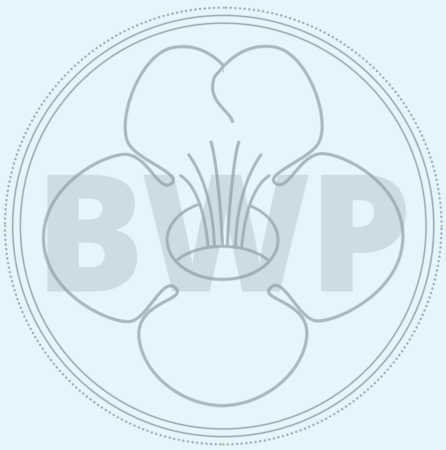
Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended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

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

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

The cover symbol

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



ABOUT MAP BOTSWANA

This roadmap document is produced as part of a series of documents in the Making Access Possible (MAP) Botswana initiative.

Preparation for MAP Botswana was announced by the Minister of Finance and Development Planning in the February 2015 Budget Speech, and a Steering Committee consisting of government, private sector, and civil society representatives set up to govern the process. The programme has been developed by FinMark Trust in close cooperation with the Centre for Financial Regulation and Inclusion (CENFRI) and the United Nations Capital Development Fund (UNCDF).

The key research findings from the MAP diagnostic in Botswana are captured in the country diagnostic report, Making Access Possible: Botswana Country Diagnostic Report, 2015 produced by Econsult Botswana with the support of CENFRI. The diagnostic covers the demand-side, supply-side and regulatory analyses. The supply-side analysis covers payments, savings, credit and insurance, and therefore provides an understanding of financial inclusion in a broad context. The demand-side component includes an analysis of access, usage, perceptions and attitudes of financial services by target groups, and draws from quantitative data provided by the Botswana FinScope Survey 2014 and qualitative research in the form of Home Visits and Key Informant Interviews.

Documents produced as part of the MAP Botswana initiative include: (1) Making Access Possible: Botswana Synthesis Note 2015. (2) Making Access Possible: Botswana Country Diagnostic Report 2015. (3) Summary presentation - Botswana FinScope Survey 2014. A summary presentation of the Botswana MAP Diagnostic Report findings, presented to a Stakeholder Workshop in July 2015, and the FinScope dataset are available on request.

The roadmap summarises the main findings and recommendations from the comprehensive diagnostic report and presents a way forward on the recommended priority areas for financial inclusion in Botswana.

MAP Botswana is funded by FinMark Trust.

The MAP methodology and process has been developed jointly by UNCDF, FinMark Trust and the Centre for Financial Regulation and Inclusion (CENFRI) to improve financial inclusion to improve individual welfare and support inclusive growth.

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List of Abbreviations and Acronyms

ATM	-	Automated Teller Machine
AML	-	Anti- Money Laundering
B2B	-	Business to business
BAB	-	Bankers Association of Botswana
BBS	-	Botswana Building Society
BDC	-	Botswana Development Corporation
BoB	-	Bank of Botswana
BOCRA	-	Botswana Communications Regulatory Authority
BPOPF	-	Botswana Public Officers Pension Fund
BPS	-	Botswana Postal Service
BSB	-	Botswana Savings Bank
CEDA	-	Citizen Entrepreneurial Development Agency
CENFRI	-	Centre for Financial Regulation and Inclusion
CPA	-	Credit Providers Association
EU	-	European Union
FI	-	Financial Inclusion
FNB	-	First National Bank
FSDS	-	Financial Sector Development Strategy
GDP	-	Gross Domestic Product
HLCC	-	High Level Consultative Council
ID	-	Identification
IT	-	Information Technology
KYC	-	Know Your Customer
MAP	-	Making Access (to Finance) Possible
MFDP	-	Ministry of Finance and Development Planning
MFI	-	Microfinance Institution
MLAB	-	Micro-lenders Association of Botswana
MNO	-	Mobile Network Operator
MTC	-	Ministry of Transport and Communications
MTI	-	Ministry of Trade and Industry
MVAF	-	Motor Vehicle Accident Fund
NBFI	-	Non-Bank Financial Institution
NBFIRA	-	Non-Bank Financial Institutions Regulatory Authority
NDP	-	National Development Plan
NPS	-	National Payment System
P2P	-	Person to Person
POS	-	Point of Sale
SACCOs	-	Savings and Credit Cooperatives
SADC	-	Southern African Development Community
SIRESS	-	SADC Integrated Regional Electronic Settlement System
SMME	-	Small, Medium and Micro Enterprises
UNCDF	-	United Nations Capital Development Fund
YDF	-	Youth Development Fund

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EXECUTIVE SUMMARY

The Botswana Financial Inclusion Roadmap 2015 – 2020 lays out the national priorities for the enhancement of financial inclusion in Botswana, in order to help improve citizen's welfare and support national objectives. The Roadmap is based on the diagnostic findings contained in the Making Access Possible: Botswana Country Diagnostic Report, 2015, which in turn draws on in-country research and interviews, demand-side analysis from quantitative data provided by the Botswana FinScope Survey 2014 and qualitative research.

The Making Access Possible (MAP) Botswana research and programme has been conducted at the formal request of the Government of Botswana through the Ministry of Finance and Development Planning (MFDP), in order to inform the financial inclusion agenda in Botswana.

The research demonstrates that the issue of basic access in Botswana has been largely resolved: formal access stands at 68%, with most segments having broad access to financial services – 46% of adults use more than one product category (i.e. savings, credit, insurance and payments). However access is still a challenge in certain segments, and 24% are completely excluded, mainly in the lower income, rural and remote populations. Men have a slightly higher level of formal access (71%) compared to women (65%).

This duality in the financial inclusion realities of Botswana is reflected in the main opportunities identified to improve financial inclusion, being (1) assisting the excluded and often vulnerable communities to get access, which will need to build on social welfare and subsidised provision as most financial institutions do not see profit-making opportunities in these mainly rural, often poor, and remote locations, and (2) deepening financial inclusion for the included population through improved efficiencies and value for money products. These two opportunities are reflected in the policy goal chosen to provide a vision and direction for financial inclusion, which is as follows:

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

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

The Roadmap proposes six priorities to support this goal, namely (1). Developing the payment ecosystem (2). Facilitating low cost savings, (3). Developing accessible risk mitigation products, (4). Improving the working of the credit market, (5). Consumer protection and empowerment, and (6) National coordination.

These priority areas of action have been identified based on the most urgent customer needs and barriers identified in the MAP research, and will further inform the financial inclusion agenda over the next planning cycle, and inform broader sector strategies as these are developed, i.e. the Financial Sector Development Strategy and the National Development Plan (NDP11). It is envisaged that the proposed interventions will result in an increase in depth and quality of financial inclusion in Botswana, in order to enhance citizen welfare, create economic growth, and hence support national goals.

1 Background

1.1 Botswana Financial inclusion Roadmap - Introduction

Financial inclusion can aid national growth and welfare in a number of ways, notably by helping generate employment (by supporting farmers and SMMEs), developing human capital (financial services for access to education and to mitigate health risks), and by directly improving household welfare (products to support household needs, new technologies that reduce cost and improve access, financial services to mitigate households risks, and by aiding asset accumulation).The purpose of the Botswana Financial Inclusion Roadmap is to assist the government and stakeholders to identify and implement actions that best improve financial inclusion in support of these goals, based on the research as documented in the diagnostic report.

The diagnostic is based on the application of the MAP diagnostic and programming framework, which explores the linkages between financial inclusion and the real economy so as to impact people's welfare. It is set apart from other diagnostic exercises in that it: (i) sets a detailed understanding of the target market and their needs at the core of the analysis; and (ii) is fundamentally linked to a multi-stakeholder process towards the implementation of a roadmap for financial inclusion.

The key research findings from the diagnostic are captured in the comprehensive demand-side, supply-side and regulatory analyses ("Making Access Possible: Botswana Country Diagnostic Report'', 2015) prepared by Econsult Botswana with support of the Centre for Financial Regulation and Inclusion (CENFRI). The diagnostic report and the accompanying summary (MAP Botswana Synthesis Report, 2015) include a comprehensive study of four product markets: credit, payments, savings and insurance, and therefore provide an understanding of financial inclusion in a broad context. The demand-side component includes an analysis of access, usage, perceptions and attitudes of financial services by target groups. The demand-side analysis draws from quantitative data provided by the Botswana FinScope Survey 2014 and qualitative research in the form of Home Visits and Key Informant Interviews. The research was supplemented by information from the national Population and Housing Census of 2011, and the 2009/10 Botswana Core Welfare Indicators Survey (BCWIS). The sampling framework and weighting for FinScope is based on the 2011 census data, and was developed in close collaboration with Statistics Botswana.

This roadmap summarises the findings of the diagnostic, and presents a way forward on the recommended priority areas. It is unique in that it is based on a comprehensive diagnostic, has been developed in a stakeholder intensive process, and has a strong implementation focus.

MAP Botswana was requested by the Government of Botswana as input towards the development of a financial inclusion strategy for Botswana. The Ministry of Finance and Development Planning has set up a steering committee for the MAP project to guide the process.

1.2 Roadmap approach and methodology

Schematically the roadmap approach is shown in Figure 1. The roadmap is founded on priority areas identified in the research, representing gaps and opportunities in the market which can have the largest positive impact on consumer welfare if appropriately addressed. Within the diagnostic report framework, each of the highlighted gaps and issues is analysed from the perspective of the user or potential user of the financial product or service, using the Making Markets Work for the Poor (M4P) approach. This approach identifies the stakeholders, structures, laws, regulations and customary relationships that underpin the product or service.

In order to provide a vision and direction, a policy goal (vision) is proposed towards which supportive intervention logic can be organized and monitored, indicating how the proposed interventions will contribute to the achievement of the goal and outcomes.

The final stage of the process is to build consensus from the key stakeholders for the interventions, and to place it in the format of a road map, including responsibilities and accountabilities and activities. Costs, timeframes and targets will be firmed up at the beginning of the implementation phase.

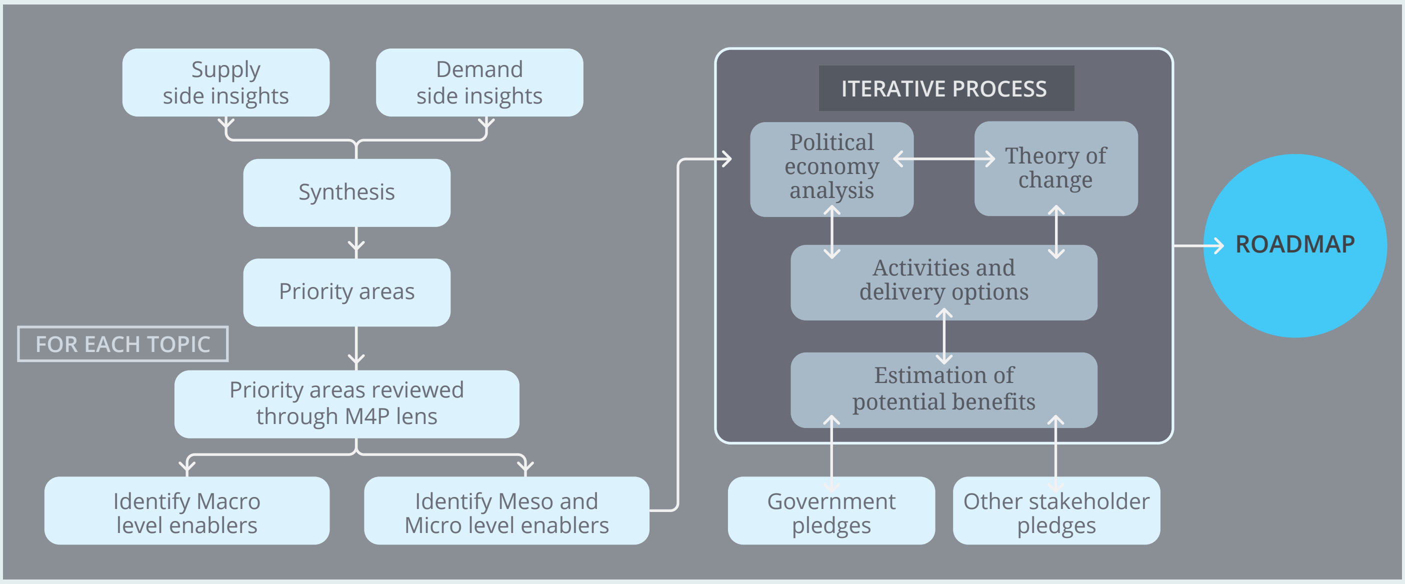


Figure 1: Roadmap approach

2 Botswana Financial sector context

2.1 Country and Regulatory Context

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

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

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

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

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

Falling poverty rate. Poverty levels in Botswana are not excessive by the standards of comparable countries. The percentage of Batswana living below the Poverty Datum Line

(PDL) decreased from 47% in 1993 to 31% in 2003 and 19% in 2010. The poor are most likely to be rural, in large families, in female-headed households, unemployed, with low education, or children (especially 6 – 14 age group).

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

Unemployment remains a challenge: Unemployment is high, with official statistics recording 20%. This is especially a concern amongst the youth, with 61% of the unemployed being in the 15-29 age group. Age cohorts below 30 experience above-average unemployment rates. A further challenge is the high dependence on public sector employment, with 140,000 people (out of a labour force of 800,000) being employed in the Public sector.

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

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

Generally enabling regulatory environment, but more dynamism is needed to extend inclusion. The regulatory environment is generally supportive of financial sector development. However, there are gaps, and in some respects the regulatory and policy environment is lagging behind financial sector development and innovation.

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

2.2 Status of Financial inclusion in Botswana

Overview

More than two-thirds (68%) of Botswana adults are formally served – a number that is relatively high in regional terms. A further 8% use informal services only and 24% are totally excluded.

These statistics rank Botswana in the top quartile in terms of formal access, and in the top half in terms of banked access in the African countries where FinScope has been conducted (Figure 3).

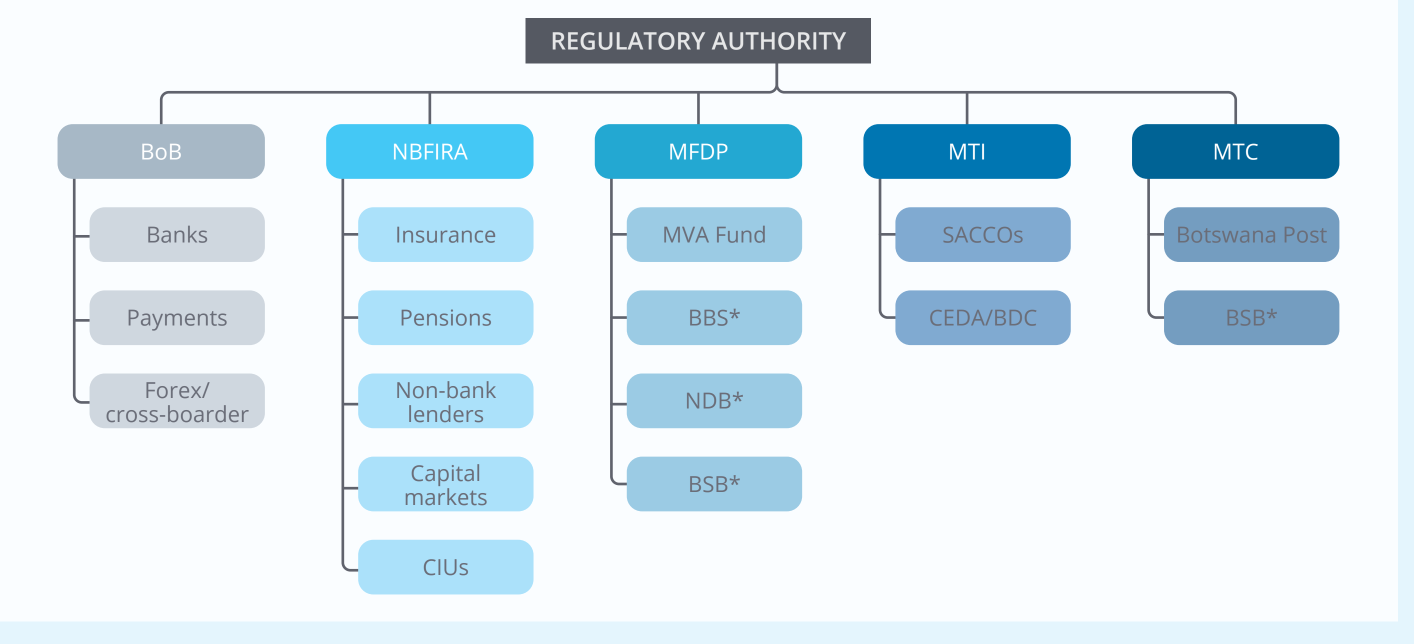


Figure 2: Financial sector regulatory institutions
Source: MAP Botswana Country Diagnostic Report, 2015

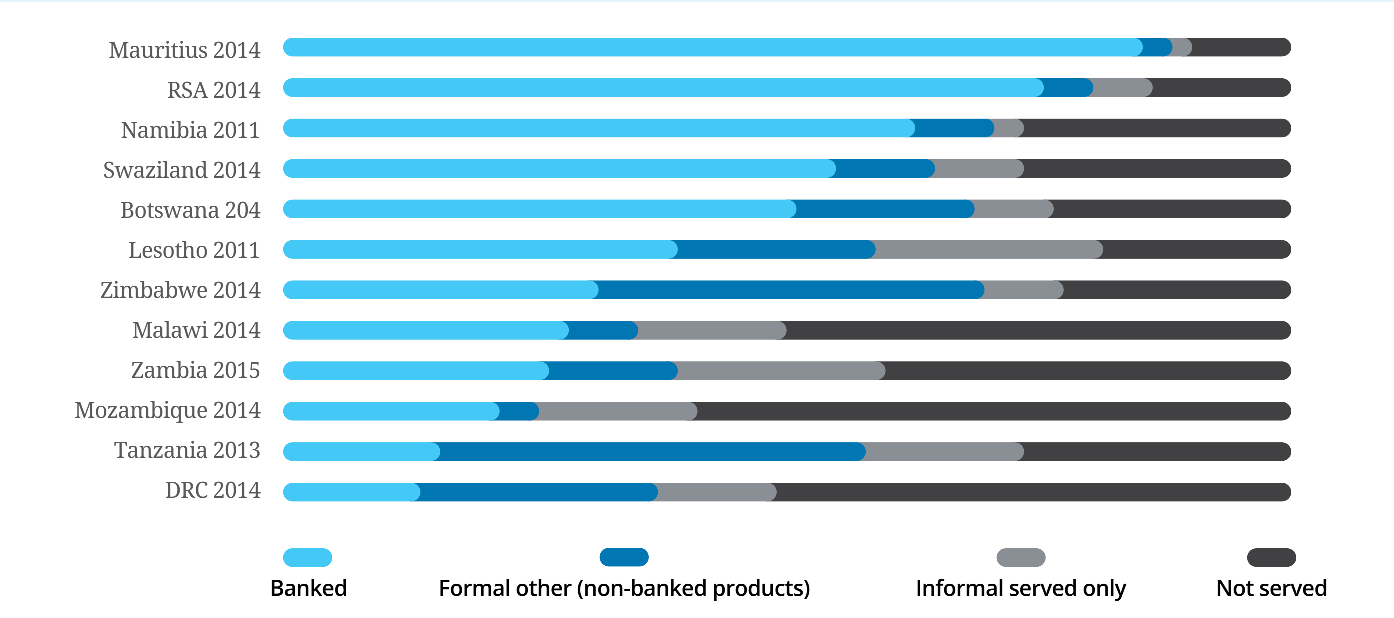


Figure 3: FinScope Regional Comparison
Source: FinScope research 2011 – 2015

The previous FinScope in Botswana was conducted in 2009 and the overall change between 2009 and 2014 has been modest, with the level of formal access growing from 62% to 68% over the 5 years which in population numbers reflects a growth from 730,000 to 900,000 adults. There was however a significant growth in uptake of formal non-bank products which increased by 19 percentage points from 37% to 56% of adults, and uptake of banking products from 45% to 50%.

Disparities by gender, rural / urban and by product
Access for females lags that of males, with female formal access standing at 65% versus males at 71%. Females have a significantly higher uptake of formal non-bank products. Females comprise 52% of the population.

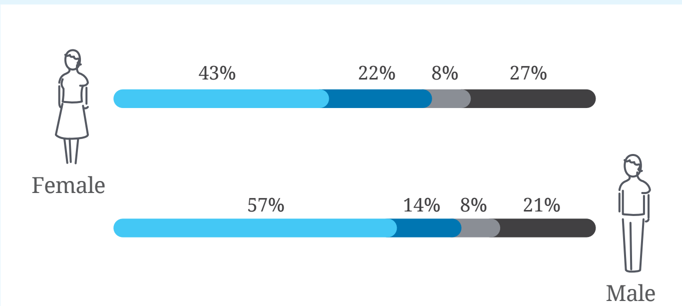


Figure 4: Financial inclusion by gender
Source: FinScope 2014

Adults in rural areas (who comprise 32% of the total) have limited access to banking services and only 26% are banked. This is in contrast to the urban and urban village areas, in which banks are much more accessible, with 71% and 54% of adults being banked respectively compared to the 26% in the rural areas and a national average of 50%. There is a higher uptake of 'other formal' financial services in rural areas (23% versus a national average of 18%), attributed to the use of funeral policies, and Poso cards for the previously excluded (destitutes and state pensioners).

Overall access in rural areas lags the national levels, with formal access of 49% compared to the national figure of 68%.

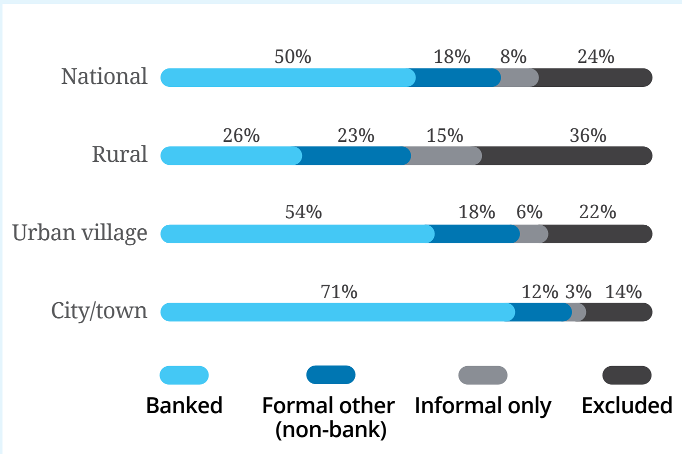


Figure 5: Access to financial services - Rural versus urban
Source: FinScope 2014

Across products categories savings and transactions are the formal products that reach deepest into the adult population (formal access of 55% and 44% respectively) while lower penetration is observed for insurance and credit (26% and 18% respectively). More than 70% of adults do not use any credit. A similar proportion are also without any risk cover although the 26% of adults using formal insurance is fairly high compared to many other developing countries. Most remitters send money through non-bank formal channels while 60% of adults do not send or receive remittances.

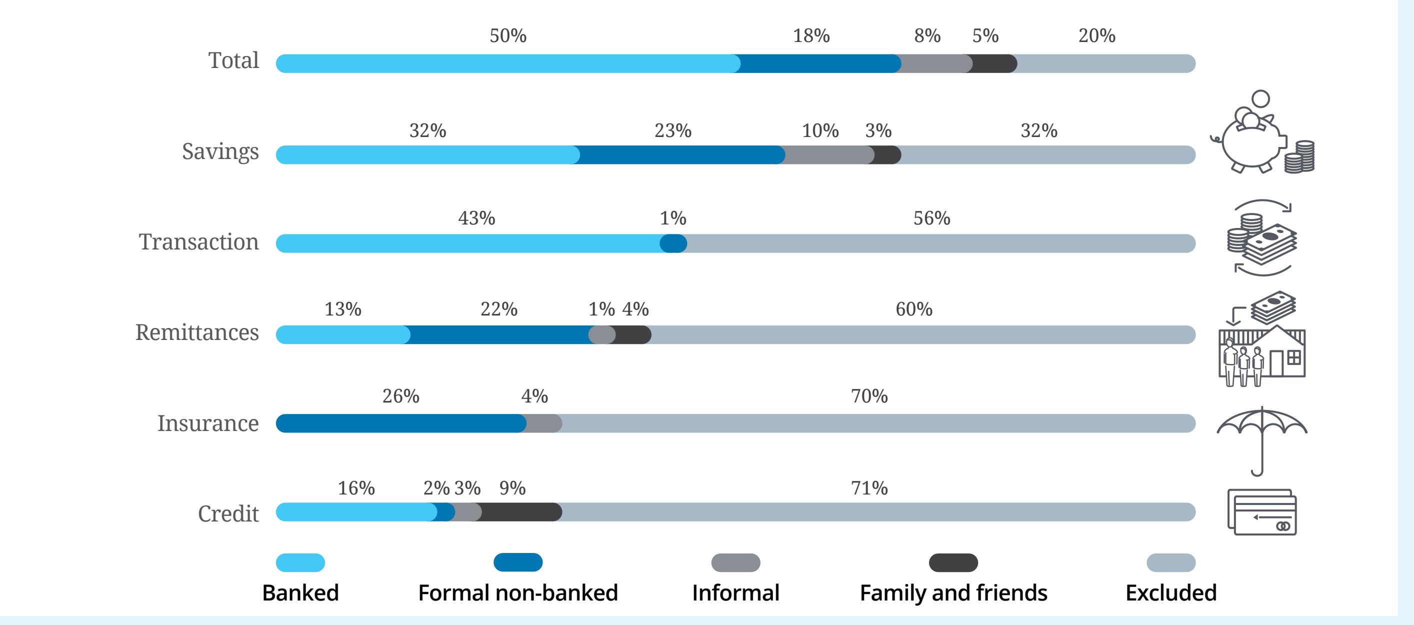


Figure 6: Financial services access across product categories
Source: FinScope 2014

As noted earlier 24% of the adult population are excluded, meaning that they do not currently have or do not currently use any form of financial products or services, whether formal or informal. These 24% are more likely to be female (27% of females are excluded compared to 21% of males), rural (36% of rural adults are excluded compared to the 24% excluded nationally), and are more likely to be found in the three lowest income market segments[1] which have the highest exclusion rates i.e. family dependents - 28%, informally employed - 23%, and state dependents - 16%.

Breadth and depth of access

Access in Botswana is in general quite broad, and of those who use formal financial services, the majority are broadly served, meaning they have a formal financial service across more than one product market. This is further illustrated on Figure 7 where it is seen that 46% of adults use more than one product category (i.e. savings, credit, insurance and payments). 22% of the adult population are "thinly served", meaning that they only use one product category.

Figure 7: Depth of financial inclusion in Botswana
Source: FinScope Survey 2014

The Informal sector plays an important role even among the formally served segments – 31% of those that are financially included use a combination of formal and informal mechanisms to manage their financial needs. The informal sector also continues to play a strong role in the rural areas where usage of informal product/services is relatively high, and which makes use of community based type of products and services.

2.3 Barriers to financial inclusion in Botswana

The most important perceived barrier is that people do not have enough money, or their income is too low, to use formal financial services. There are also problems of lack of appreciation of the attributes of financial products, and a lack of understanding of how they operate. These and other barriers to financial inclusion in Botswana are outlined below:

1. Lack of sufficient income: Lack of excess income was cited as the primary reason for adults not to save by the 31% of adults who do not save. In addition the most common reason cited for being denied bank credit was low incomes.

2. Proximity - limited distribution footprint: Physical proximity is a problem especially in rural areas. Only 54% of the population live in settlements with bank branches. In addition an estimated 30% of the population live in settlements that are not financially served by any formal institution (banks, post offices or mobile money agents). Both BSB (through the post offices) and mobile money have extended footprint in rural areas but come with affordability barriers for low-income savers through account fees (BSB) and withdrawal fees. The post offices deliver a limited range of financial services.

3. Affordability / cost. There remains poor perception and complaints about banking costs in Botswana, but in addition banking remains unaffordable for the low-income when fees are taken as a percent of household income. Mobile money has not significantly lowered costs as it is relatively expensive compared to similar bank products and by international standards. The Poso card has extended access but it is currently limited to the 150,000 government grant recipients, and has restricted functionality (basic payments and savings). Affordability also inhibits insurance and 62% of people without insurance cite affordability as the main barrier. High cost is particularly noticeable in the short-term space where insurers have high minimum premiums to discourage low value consumers. There are also hidden costs for consumers such as travel and failed debit order charges. Medical aid is cited as unaffordable by all target groups except the formally employed.

4. Eligibility. The majority of unbanked adults cite not having a job or an income as the reason for not having a bank account, a combination of eligibility, door step and appropriateness concerns. Banks generally do not offer products that are suited to those on low and irregular incomes. Lack of payslips impede access to credit while requirements stipulating the need for regular income are a barrier in insurance especially for life and medical aid products.

5. KYC: KYC makes it difficult for some people to open bank accounts or to access credit. This is especially the case for low income employees, where the requirements for documented proof of income can be difficult to fulfil. The overarching regulatory problem has been the sometimes unnecessarily strict KYC requirements.

6. Appropriateness. Irregular income is not always appropriately catered for by formal credit and insurance providers. Most formal products have relatively inflexible repayment terms, leaving a lot of Batswana excluded.

7. Alternatives to credit being available to most farmers. The Integrated Support programme for Arable Agriculture Development (ISPAAD) provides grants to small farmers (with 5 hectares of land or less) for almost all input requirements, including seeds, fertiliser, ploughing and fencing. Hence these small, quasi-subsistence farmers have little need for credit. Larger farmers get partial subsidies.

8. Limited need for insurance given the collective functioning of the society and other methods of managing risk. The community usually rallies around a member of the community when there is a loss and contribute in cash and in kind e.g. contribution when a death occurs. However it is worth noting that collective community structures may be slowly falling away, and suitable products especially insurance will be required to meet the needs.

9. Literacy: There is in some market segments a limited of understanding of the attributes of financial products and how they operate. Low understanding of insurance products is for example perceived to be a key barrier by product providers. However the need for financial literacy is across all segments to ensure products are understood and used effectively.

Mortgage finance faces some unique challenges in addition to affordability, such as most housing being informal or semi-formal and not compliant with modern building regulation, built on an incremental basis, unclear / semi-formalised titles, and low marketability in the event of foreclosure. The properties also frequently have low collateral values, especially outside of urban areas. Titles are typically problematic in plots allocated informally by village headmen, or against customary leases and certificates of rights.

In addition to the above barriers a number of regulatory bottlenecks were identified in the research, and these need to be addressed in order to advance the financial inclusion agenda in Botswana. These include:

- CEDA has reduced the scope for commercial institutions to enter the SMME credit space as its loans at interest rates of

5-8% p.a. which make it difficult for commercial entities to compete.
- Insufficient regulation/supervision of SACCOs by the Department of Co-operatives presents a potential risk, particularly for bigger SACCOS (e.g. can go for years without being audited)
- Lack of a central credit bureau reduces the supply and increases the cost of credit.
- Lack of a regulatory framework for deposit-taking MFIs limits the potential to extend credit to more SMMEs, as it prevents conventional deposit-taking MFIs from being established. The existing deposit-taking MFI, the Women's Finance House Botswana, is not allowed to lend out deposits.
- Lack of incentive to save on mobile money accounts as there is no interest paid on deposits, and the accounts have a low monetary cap on value of accounts (maximum of P4,000).
- Non-bank payment service providers operate in a regulatory vacuum: The National Clearing and Settlement System (NCSS) Act of 2003 touches on payments service providers, but does not provide a regulatory framework for them. Mobile money and money transfer service providers have been given permission to operate, but there is no clear policy framework governing their activities, while Botswana Post is exempt.
- Inability to complete insurance contracts online (website, mobile phone or call centre) increases costs. It is anticipated that once the necessary regulations are promulgated, providers will be able to provide insurance online or over the phone.
- Need for NBFIRA approval for new insurance products introduces delays for providers.
- Need for BOCRA to approve insurance premiums paid by means of an SMS inhibits take up of this payment gateway for simple, pre-underwritten insurance products like funeral insurance.
- There is currently no legal framework for micro-insurance. It is anticipated that the subsidiary regulations to the Insurance Industry Bill of 2014, once promulgated, will provide the necessary framework to stimulate the micro-insurance sector.

2.4 Market drivers

As measures are put in place to unlock the barriers to financial inclusion, there are broader trends / drivers that need to be taken into account. These include the following:

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

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

Further extension of access is likely to come more from non-bank providers than banks. The banks have not shown appetite in extending products beyond their current target markets, apart from a few products such as mobile phone-based eWallets[2]. Meeting financial inclusion priorities is likely to be driven more by non-bank financial service providers than by banks.

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

Greater dynamism is needed to extend inclusion. The regulatory environment as noted earlier is generally supportive of financial sector development, however it needs to be more dynamic and evolve fast enough to support new innovations, and also to avoid being a drag on financial inclusion.

These factors have been taken into consideration in developing the priority areas of action.

3 Enhancing Financial Inclusion in Botswana

3.1 MAP Prioritisation process

In defining and prioritising measures to improve financial inclusion, six target market segments were identified, namely (1) Formal employees, (2) Farmers, (3) Informal SMMEs, (4) Informal employees, (5) State dependents, and (6) Private dependents. The description and needs for each of these segments from the research are shown below.

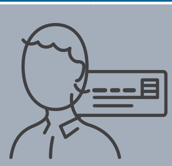
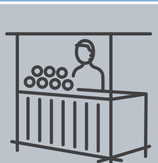
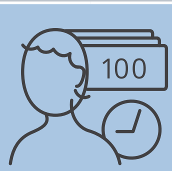
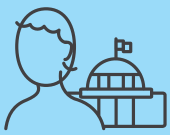
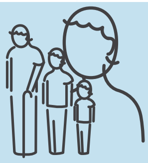
Segment	Estimated size	Characteristics	Identified needs
 **Formally employed**	375,000	• *Largest group, highest average income, urban* • *High level of inclusion* • *Wide spread between top and bottom of income spectrum* • *Concerns about over-indebtedness*	• *Supporting extended families, hence need for low-cost remittances / transfers* • *Low use of insurance, need financial education* • *Lack of provision for income in retirement for lower-income sub-segment*
 **Farmers**	38,000	• *Small group whose main income source is farming* • *Mostly in villages* • *Second highest income amongst the six segments.*	• *Savings for agricultural inputs, assets* • *Targeted agricultural credit* • *Highest users of cheques, need alternatives*
 **Informal SMMEs**	85,000	• *Small group, predominantly female (entrepreneurial culture not widespread)* • *60% live in urban areas* • *Mainly transact in cash*	• *Need for non-cash means of receiving and making payments, short-term store of value* • *Limited access to credit outside of government schemes (CEDA/ YDF). Need for MFIs* • *Asset insurance (housing, vehicles)*
 **Informal employees**	270,000	• *Large group, low income, mostly paid cash.* • *Over 40% of this group live in rural areas* • *Regular and irregular income* • *A priority segment for financial inclusion*	• *Need alternative means of receiving payment, facilities for saving (consumption smoothing)* • *Asset insurance (esp. housing).* • *Opportunity to improve services through reduction of costs, and a tiered KYC system* • *Opportunity to formalise savings currently held through family/friends*
 **State dependents**	170,000	• *Low income. More rural than other groups.* • *Dependent upon post offices.*	• *Payments and remittances, low cost savings*
 **Private dependents**	290,000	• *Large group, low income.* • *Mainly urban* • *Dependent on household / extended family transfers.* • *Currently served informally / at community level*	• *Main needs: low-cost, convenient payments and remittances, for receiving grants especially through the Poso card* • *Low cost savings mechanism*

Table 1: Market segments and needs by market segment

Given that a financial inclusion roadmap will not be able to bridge every gap and realise every opportunity, financial inclusion interventions have been prioritised according to those that best meet the national objectives for growth and improved livelihoods. This in turn is linked to how closely a particular intervention meets each of the segments' needs, and hence its potential reach given the number of people and average income of each segment.

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

It should be noted that these are not the only opportunities to enhance financial inclusion in Botswana. However, these strategies present targeted interventions likely to have the greatest impact.

3.2 A Proposed Goal for financial inclusion in Botswana

In order to provide a vision and direction for financial inclusion, the following policy goal has been chosen:

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

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

The Roadmap proposes six priorities to support this goal, namely (1). Developing the payment ecosystem, (2). Facilitating low cost savings, (3). Developing accessible risk mitigation products, (4). Improving the working of the credit market, (5). Consumer protection and empowerment, and (6) National coordination.

In order to achieve these objectives and priorities, two important overarching preconditions need to be addressed, namely the political will and coordination that need to be in place, and a reality check on the long term role of the government in the provision of financial services. These will need to be addressed by stakeholders during the implementation process.

4 Implementation Priority Areas

Key interventions proposed under each of the priority areas identified above are shown in Figure 8 below. The interventions directly support the proposed national financial inclusion goal. They are now discussed in further detail in this Chapter.

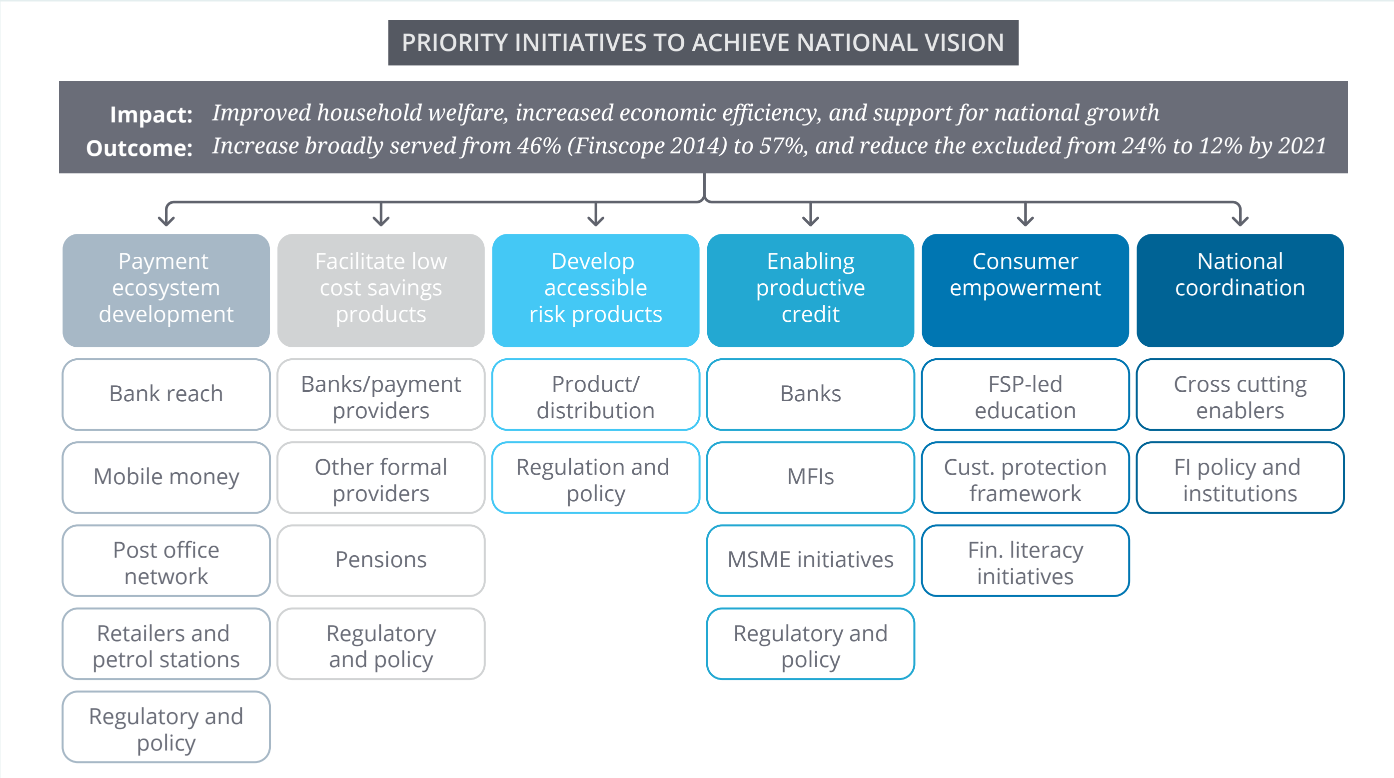


Figure 8: Summary of proposed financial inclusion priorities

4.1 Priority 1 *– Development of Payment Ecosystem*

The payment system in Botswana is established but there is scope for further development. The main objective proposed is to use the payment ecosystem to extend financial services to lower income households especially those that are currently less well served. A pervasive, low cost payment ecosystem provides much needed remittance and payment services to these target groups but also provides the potential to roll out additional financial services such as savings and potentially insurance.

The payments ecosystem refers to all of the institutions and networks involved in processing transactions and remittances, domestic and cross-border. There has been a great deal of development and innovation in this area in recent years, but there is scope for much more, if the opportunities offered by technology are taken up. The impact is potentially very wide, as everybody transacts (even if in cash) and many people send or receive remittances. Payments products can easily be linked to the other three product areas, of savings, credit and insurance.

The main challenges to be addressed include the lack of incentive for roll out of distribution infrastructure by banks in low income areas, liquidity and business case challenges for mobile money agents, and the high fees charged by mobile operators that are limiting its potential to provide much needed competition.

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

Extending the functionality of Poso cards and other payment mechanisms can also have important impact in increasing access. The use of the Poso card can be significantly extended by allowing the public to access the card, allowing transfers to other cards and cash top-ups, and ensuring inter-operability with bank accounts and other payments mechanisms.

Cross-border remittances and payments can be made easier and cheaper through cross-border mobile money transfers and participation in a regional initiative such as SIRESS. Extending the payments system will be helped by a number of policy and regulatory developments such as promoting interoperability, considering the establishment of a local switch, and introducing a regulatory framework for retail payments and mobile money that is supportive of innovation and broadening access. Government can also utilise the mechanisms used for welfare grant payments to promote financial inclusion more generally.

The potential actions to realise opportunity are further described in Table 2 below.

This priority will be coordinated by the National Payments System (NPS) department of the Bank of Botswana. The NPS will need to work closely with banks, post office, retailers, MNOs and the telecommunication sector regulator (BOCRA) to ensure that the necessary enhancements are made by the private sector. It will also be necessary to address the post office related interventions in tandem with the post office and its line ministry (MCT).

Intervention	Activities
Leverage Bank reach	• *Partnerships to develop infrastructure – ATM, POS and agency networks* • *Evaluate potential for self-stocked and cash accepting ATMs housed with retailers* • *Third party service provider potential to reduce costs* • *Interoperability with MNOs* • *Revisit bank charges for sustainable rural provision to reduce overall bank access costs* • *Prepaid card (e.g Poso card) potential for salary, grant, harvest payments*
Mobile money effectiveness	• *Partner with banks, Botswana Post and super-agents to leverage distribution network and for rebalancing* • *Improve interoperability – with banks and between MNOs* • *Improve agent management approach for liquidity and consumer value* • *Consider broader mobile money benefits to drive internal business case, including reviewing mobile money fee structures*
Renergize post office	• *Partner with MNOs for distribution* • *Re-evaluate the cost of domestic and international remittances especially at the lower bracket*
Develop retailers and petrol stations as alternative channels	• *Extend mobile money agent and super-agent role and banking agency functions* • *Partner with banks to extend card value proposition and increase footfall* • *Partner with cross border remittance providers to send and receive*
Regulation, policy and financial sector development	• *Develop a rural payment distribution strategy including incentives for rural roll out (e.g. use of BOCRA grants to incentivise private sector participation)* • *License third party service providers to provide service for banks* • *Leverage SIRESS to reduce cross border payment costs* • *Evaluate sustainability and targeted design of government grants and subsidies to develop digital use case* • *Provide a framework for payment and settlement service providers to expand services beyond transactions (e.g. extend functionality of Poso card, and similarly mobicash, Real Pay, Smart Switch)* • *Potential of Agency banking model* • *Consider a business case for a national switch to facilitate linkages between banks and with non-bank financial service providers* • *Formation of a national payments association to amongst tasks lead the national switch process.* • *E-money licensing*

Table 2: Proposed activities to develop the payment ecosystem

4.2 Priority 2 – *Facilitate low cost, accessible savings products*

The objective of this priority is to encourage low cost savings to help consumers smooth consumption, mitigate risks and accumulate capital to invest in productive activities.

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

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

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

The key actions to realise the savings opportunity are further detailed in Table 3 below.

It is proposed that this be coordinated by the MFDP with strong support of BOB, Bankers Association of Botswana and NBFIRA.

4.3 Priority 3 – *Develop accessible risk mitigation products*

It is proposed to increase access to well-designed, cost-effective risk management products.

Outside of funeral policies, insurance take up is limited, especially in segments other than the formally employed. This is across all products including vehicle insurance and property insurance. Insurance lacks an effective distribution mechanism outside of major centres, faces affordability issues, and there is a limited product range for low-value asset insurance. There is also a lack of consumer awareness and understanding of insurance products, and consumer attitudes being impacted by cases of abuse, including fraud and the sale of policies on the basis of inadequate customer information, leading to poor understanding of terms and conditions. The roll-out of policies suitable for low income consumers has been further impacted by the lack of a supportive regulatory framework, slow processes for product approval by the regulator, and a reliance on paper-based processes, with no facility for electronic sign-up for policies.

Future priorities for maximising the potential impact of improved risk mitigation include the introduction of micro-insurance products which requires the completion of micro-insurance regulations, with appropriate pricing and flexible arrangements for premium payments, improved consumer

Intervention	Activities
Enhance bank and payment provider products	• *Product development for targeted savings (e.g. saving wallets) – bank and mobile* • *Banks to improve customer communication to direct clients to appropriate products* • *Savings bank potential, given interest margin*
Strengthen provision by other formal institutions	• *Post office saving account potential given reach* • *Regulate and expand SACCOs, manage and ensure stability* • *Monitor savings market to encourage access and use* • *Improve returns: capital market development and macro-economic change required*
Improve retirement provisions	• *Leverage mandatory pensions to allow productive access to credit, e.g. collateral for housing finance* • *Extension of pensions to unserved employees, potentially through a new statutory scheme (under consideration)*
Regulatory and policy interventions	• *Remove barriers on deposit taking including tiered microfinance licenses to enable new entrants e.g. deposit taking MFIs and SACCOs* • *Policy level review to position mobile money as a savings instrument, including reviewing maximum wallet balances (currently P4,000), reviewing notification limits (currently P10,000), and potentially paying interest on consumer balances to encourage use as a savings instrument.* • *Encouraging savings by allowing cash-ins to Poso card balances*

Table 3: Proposed activities to facilitate low cost, accessible savings products

education and disclosure of product conditions. There are also opportunities for improved processes for approval of products, allowing of electronic processes for sign-up to insurance policies, and potential for third party motor vehicle insurance for risks not covered under the MVAF such as damage to other vehicles.

Partnerships and distribution innovation (e.g. through mobile, MFIs, SACCOs, pharmacies / clinics, agro dealers etc.) will help to extend reach, as should product innovation and bundling to help raise take up.

Potential actions to maximise impact of insurance are further detailed below (Table 4).

Intervention	Activities
Improve products and distribution partnerships	• *Explore partnerships with MNOs, general dealers, SACCOs and others for distribution* • *Expand payment options (e.g. mobile)* • *Flexibility / innovation in product design e.g. to cater for non-regular incomes* • *Improved disclosure of product terms and conditions*
Regulatory and policy interventions	• *Micro insurance framework potential (consider the SADC guidelines to flesh out the new Insurance act)* • *Monitor Insurance data to encourage value to customers (e.g. claims ratio)* • *Review new product approval requirement and processes* • *Review potential for compulsory 3rd party insurance for property damage* • *Electronic sign up of services* • *Customer education and awareness*

Table 4: Proposed activities to develop accessible risk mitigation products

Insurance activities are proposed to be coordinated by the regulator, NBFIRA, with the support of the Botswana Life Offices Association and other actors in the insurance sector.

4.4 Priority 4 – *Improve the working of the credit market*

The primary objective of this priority is to increase access to credit to consumers for consumption smoothing, risk management and investment in productive activities, and enterprise credit for investment focused on SMMEs (there is currently no bottleneck in Agricultural finance given the level of credit already available).

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

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

In all segments the efficiency of lending, the management of credit risk and loan pricing is constrained by a lack of credit information and restrictions on sharing such information.

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

There are also opportunities to re-evaluate the costs of borrowing, and closer coordination with broader SMME development strategies.

The actions proposed to realise this opportunity are further outlined in Table 5.

The proposed activities are proposed to be coordinated by the NBFIRA with strong support of BOB, the Bankers Association, the Micro Lenders Association, and the Microfinance Association. Insurers will also contribute to the intervention given that insurance costs are a significant proportion of total cost of credit.

4.5 Priority 5 – *Consumer Empowerment and protection*

It is critical to empower consumers through education and protection so that they fully benefit from finance, bearing in mind the need to maintain a cost effective approach.

The need for improved consumer protection can be met through the introduction of a financial ombudsman, and reorganisation of prudential regulation and market conduct responsibilities across relevant regulators.

Lack of understanding of insurance was identified as a specific barrier to access by both consumers and product

Intervention	Activities
Enhance Bank credit provision	• *Increased partnership for credit provision to target appropriate recipients, including with CEDA* • *Improve disclosure of product information (eligibility, costs and terms)* • *Support credit information sharing initiatives*
Build and strengthen MFIs	• *Attract additional MFIs through capacity building and improving coordination and policy environment for MFIs* • *Investigate alternative sources of capital to development partner funding/debt (e.g. crowd sourcing)* • *Operational support to innovate on services to SMMEs (currently focused on consumer payslip model)*
Alternative support mechanisms for SMMEs	• *SMME skills development, mentoring (potential for programs targeted at women)* • *Alternative capital opportunities beyond debt given cost (e.g. venture capital and private equity)* • *Leveraging Metshelo (savings groups) and others as a conduit for the provision of formal credit*

Regulatory and policy support	• *Credit Act*
	  • *Consumer credit legislation to empower consumers*
	  • *Credit information sharing (Positive and Negative)*
	  • *Mandatory credit reporting and look-up*
	• *Improved enforcement in micro lender market to manage risks*
	• *Collaborate with SMME development committees*
	• *Develop capital market and improve macro-economic environment to reduce cost of credit*
	• *Credit monitoring to effectively supervise for targeted access, abuse and indebtedness*
	• *Housing finance strategy potential given urbanisation*
	• *Increase financial and credit literacy including addressing lack of understanding of obligations and risks of debt; managing debt; over-indebtedness, accompanied by more effective systems of credit burden assessment*
	• *Leverage customer profiles from e-money transaction records as basis for small scale credit, e.g. Poso card records to unlock credit from BSB, Mobile money records*
	• *Developing an MFI policy / regulatory framework that will encourage the emergence of deposit-taking MFIs*
	• *Reform of government credit provision (CEDA/YDF) to establish a more sustainable basis that does not undermine commercial players*
	• *Improving agricultural credit guarantees*

Table 5: Potential actions to help improve the working of the credit market

providers. This leads to mid-selling (consumers being sold unsuitable products, or not being aware of the “small print” of products), and provides an environment for fraud (especially by brokers). There is, thus, a need for the government to increase financial literacy and education in this area in particular, but more generally across all product areas to increase understanding of products, and to ensure products are used effectively. There is scope for service providers and intermediaries to provide more information and training on their products to prospective customers especially during teachable moments, as the proportion of adults currently seeking financial advice from financial institutions and financial advisers is notably low. Most adults either go to friends and family (49%), or do not get any financial advice (38%), compared to 4% who go to a financial institution and 2% to a financial planner / broker. Other areas of need identified in the research include a lack of understanding of obligations and risks of debt, managing debt, over-indebtedness, role of insurance in risk management, and general understanding of how financial products can improve the life of consumers.

These improvements should be complemented by a strengthened financial literacy programme in the education system, clearer disclosure of credit obligations, and more effective systems of credit burden assessment.

The proposed focus areas are further illustrated in Table 6 below.

This priority will be coordinated by the MFDP.

Intervention	Activities
Formal financial service provider led initiatives	• *Research target audience and train sales team for improved communication during teachable moments* • *Make statements inexpensive and simple to obtain to encourage usage and trust (first time financial service users check balances often)*
Consumer protection framework	• *Clarify lead authority to implement* • *Ombudsman across all services to reduce cost and improve access to fair treatment (ideally within existing structures e.g. Consumer protection unit)* • *Empower traditional judicial structures to deal with minor financial service cases* • *Strengthen legislation, bearing cost in mind (don't protect consumers out of the market)*
Targeted Financial literacy initiatives	• *Targeted initiatives needed for impact, appropriate design critical (school, radio etc.)* • *Strengthen financial literacy in education system*

Table 6: Consumer empowerment and protection activities

4.6 Priority 6 – *National coordination*

A number of overarching and cross cutting recommendations have also emerged from the research process, and these will need to be reviewed and acted upon by the MFDP and other stakeholders. These overarching recommendations include:

- Introduction of tiered licenses for microfinance institutions to further enable existing players and increase competition in the bank sector
  - A 5-tier model has been proposed to allow more institutions to offer savings and transactions services
  - The tiered approach will help strengthen key players, especially MFIs and SACCOs, as well as Botswana post to play a stronger role in financial inclusion
- Payment platforms such as Poso card are currently underutilised - they could be quickly deployed as simple banking platforms
- Tiered KYC to cater for low income customers
- Unemployment is a key issue that should be addressed by the Roadmap (addressed under credit for SMME growth)
- Length of time between FinScope surveys (2011 to 2014) hides movements / trends – ideal to have regular FinScope including for M&E data

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

At a policy and implementation level it is also essential to remain sensitive to the needs of the vulnerable or potentially vulnerable groups, notably women, the rural and the extreme poor. These groups were noted to be below other groups in terms of their access to formal financial services, but more particularly to bank services. This is potentially due to environmental barriers for example lower incomes, less likelihood to be formally employed, and limited bank reach in rural areas as discussed earlier. It is proposed that within each priority area, opportunities need to be sought to encourage and enable these and other vulnerable groups to access formal financial services, embedding interventions within each area's implementation activities.

It is proposed that during implementation locally grown solutions should be complemented with international best practices where possible, learning from successful models elsewhere.

It is also essential to ensure sufficient capacity for the MFDP in ensuring policy harmonisation and introducing pre-emptive policies to enable financial inclusion, in driving financial inclusion, and in coordination and measurement of financial inclusion. Sufficient funding should be ensured for implementing the financial inclusion Roadmap. There is also potential for a financial inclusion policy to be developed, which should be based on the research findings and the proposed Roadmap.

The policy makers and regulators are anticipated in this roadmap to play a leadership role, including setting the rules of the game, but more broadly to encourage market innovation and development through facilitation, provision of relevant data, mobilisation, incentivising, and strategy development.

An appropriate tracking and monitoring framework needs to be developed by the stakeholders to help drive implementation, and to create momentum around the Roadmap implementation.

5 Roadmap to reform

5.1 Anticipated benefits

FinScope (2014) indicates that 24% adults remain without access to any type of formal or informal financial service. This limits their ability to effectively manage their financial lives. It limits their capacity to mitigate against risks, smooth their consumption, accumulate assets and invest in productive activities.

Even among the broadly served, there is room for improvement, by providing more affordable and appropriate products, as well as through customer education and protection. This will help deepen financial inclusion in Botswana. Access to financial services can also help to deliver on the fundamental policy objective of economic growth and employment generation.

The Botswana financial inclusion roadmap will help policy makers and stakeholders focus attention on these issues and help build a more inclusive society.

The Roadmap will help contribute the following benefits:

- Improving household welfare by extending financial inclusion to households that are currently less well served, as a result of the emergence of products and channels that more efficiently serve them, such as expanded digital payments which will enable individuals to affordably transact, pay bills and send long distance remittances, affordable and appropriate savings products that provide the tools to build up savings that can be used to smooth consumption and mitigate risks, and increased options for risk mitigation.
- Supporting economic diversification by facilitating well targeted credit to productive enterprises and for investment in assets. Enabling financial institutions to better serve SMMEs through more relevant products and new service providers (MFIs) will help them become more efficient. SMMEs will benefit from additional credit but also from a widened range of products and capital sources.
- At the macro level improvement in overall economic efficiency by enhancing financial sector infrastructure, encouraging competition, improving regulation and reducing risks. The Roadmap will enable an enhanced legal and regulatory framework that allows for market players to more effectively deliver services to the poor.
- At the micro level the growth of new and existing institutions to better serve the low income including the new partnerships between various players, growth of MNOs as players in financial services, as well as retail chains and others.
- A measurement framework to quantify and track financial inclusion, and to ensure that the program of action remains relevant to national objectives.

From a macro economic standpoint financial inclusion will have a potentially positive impact in Botswana, through its support for national growth, helping reduce inequality, and potentially even helping increase financial and economic stability . Greater access by firms and households to financial services is growth friendly, particularly for smaller and young firms where access to finance is associated with innovation, job creation, and growth. Additionally sectors dependent on external finance grow more rapidly in countries with greater financial inclusion. However, the benefits for growth may wane as both inclusion and depth increase but Botswana is still some way below this threshold. From a stability perspective financial stability risks can increase when access to credit is expanded without proper supervision as non-performing loan ratios increase, and strong supervision is needed to prevent this as access to credit grows. Increasing access to other types of financial services is generally positive, for example promoting savings, diversity in the depositor base and closing gender gaps.

Overall the program will result in the growth, deepening and higher quality of financial inclusion, especially by addressing some of the access barriers observed in the research. Such improvements will be beneficial to the economy..

5.2 Financial Inclusion Roadmap in the Financial Policy Context

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

The Financial Sector Development Strategy (FSDS), finalized in 2011 was a broad-based strategy covering all aspects of financial sector development. The FSDS proposed several initiatives related to financial inclusion including:

- Enhancing the commercial bank contribution to improving access to finance;
- Catalysing the establishment of an MFI subsector focusing on small clients;
- Commercialising the operations of relevant government financial institutions to increase effectiveness and impact;

- Supervising large micro-lenders effectively;
- Establishing a robust cell phone "banking" system;
- Establishing an effective credit information system; and
- Enhancing housing finance.

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

However implementation has been slow. The FSDS has not been formally adopted, and there has been no decision regarding which of the FSDS recommendations will eventually be implemented. Although some of the recommendations have been implemented, there is effectively no official, formal, overarching strategy in place for the promotion of financial inclusion.

The MAP Steering committee has therefore recommended that the Financial Inclusion Roadmap 2015 – 2021 should provide such an overarching strategy, with the view that any revival of the FSDS process should incorporate the MAP research and Roadmap recommendations. Similarly the National Development Plan (NDP11) process is about to be launched, and it is anticipated that the financial inclusion strategy emanating from the Roadmap process should duly inform the NDP11 process.

As such the financial inclusion Roadmap has been completed at an opportune time and will form the basis for the policy and strategic framework for financial inclusion in Botswana during 2015 - 2021, to be anchored within NP11 and FSDS as these become finalized. The Roadmap is well suited to do so as it is based on a comprehensive diagnostic which pinpoints those priority areas that will provide the greatest return on resources invested, and has been developed in a stakeholder intensive process.

The Roadmap will therefore need to be formally approved (or endorsed or adopted) at a suitable level, recommended to be the MFDP Executive level, and a Cabinet memorandum issued.

In addition it has been recommended that the sectoral High Level Consultative Council (HLCC) forum should also review and endorse the national financial inclusion Roadmap .

5.3 Financial Inclusion Roadmap in the Context of other financial inclusion work

While not having an overarching strategic framework for financial inclusion, Government remains a key player in financial inclusion with two critical state owned banks and building societies (BSB, BBS), and the post office serving a significant proportion of low income customers especially in rural areas. The state is also currently involved in additional initiatives that will directly impact on financial inclusion, notably the Credit Providers Association (Credit Bureau), AML / CFT, and a microfinance policy draft currently with MFDP. These existing initiatives are generally complementary to the priorities identified in the Roadmap.

Additional activities are carried out by development partners however there are currently few that are active in Botswana:

- The European Union (EU): the main cooperation areas with Botswana under the 10th European Development Fund are education, public finance management, civil society and private sector. New programmes to be financed from the 11th European Development Fund are being formulated and will remain in these focal sectors. In the short term opportunity exists to support financial inclusion initiatives through a technical assistance arrangement, subject to strong interest and commitment by Government. In the medium – long term there might be opportunity to finance some activities related to private sector development, also subject to strong interest and commitment by Government.
- FinMark Trust: FinMark's support is subject to new funding arrangements in 2016. However FinMark remains committed to the enhancement of financial inclusion across SADC, including in Botswana. FinMark has been a lead funder of the Roadmap development process.
- GIZ: GIZ has some limited funds to support Botswana country programmes

Coordination with development partners is carried out by MFDP in the framework of the Development Partners Forum, which takes place twice a year. The roadmap will provide a platform to coordinate efforts in financial inclusion more closely in the future, and is well suited to do so as it is continues to involve multiple stakeholders during implementation, and should help guide future initiatives as it in principle outlines the immediate priorities for financial inclusion given the customer needs and stakeholder views.

The Roadmap is not a static document and will be updated over time as new research becomes available, and as the financial inclusion landscape in Botswana evolves.

5.4 Implementation and evaluation

The Steering Committee under the chairmanship of MFDP will continue to be responsible for the MAP process, championing and providing leadership and coordination during the implementation phase of the financial inclusion Roadmap. Actual implementation will be the responsibility of the respective stakeholders, and particularly the regulators, the financial service providers, ministries as well as development partners active in financial inclusion. Sector associations will assist to coordinate providers in their respective sectors, ensuring that sector positions emerge that support financial inclusion in a sustainable manner.

The key stakeholders identified for implementation are shown in Figure 9 below.

	Categories	Institutions	Roles & Responsibilities
1	**Regulatory authorities**	• *Bank of Botswana* • *NBFIRA* • *MFDP* • *BOCRA*	*1. Regulatory and supervisory support* *2. Advice, leadership, facilitation, strategy to achieve Financial Inclusion targets.*
2	**Ministries and agencies**	• *MFDP* • *Trade and Industry* • *Transport and communications* • *Agriculture* • *Social services* • *Local government*	*1. Coordination of Initiatives* *2. Budget* *3. Ensure that initiatives comply with Policy statements and with best practice*
3	**Associations & networks**	• *Bankers association* • *Botswana Life Offices Association* • *Micro lenders association* • *Microfinance Association* • *Consumer representatives*	*1. Represent members' ideas in Financial Inclusion committees meetings* *2. Encourage best practice among members*
4	**Sector entities**	• *Banks, MNOs, Post office, MFIs, SACCOs, payment/settlement service providers, Insurers, Retailers, agro dealers, SMMEs*	*1. Implementation of best practices* *2. Feedback to coordinating bodies*
5	**Development partners**	• *FinMark Trust, EU delegation, UNDP, GIZ*	*1. Financial and Technical support* *2. Coordinate amongst each other and with Government*

Figure 9: Financial inclusion stakeholders in Botswana

MFDP will lead the Steering Committee in making key decisions, as well as in appointing and running Technical sub-groups for various work areas. It will also be responsible for development partner coordination and M&E functions. As such it is important to ensure sufficient capacity within the MFDP, by ensuring that the ministry's principals allocate staff time and align the departmental balance score cards, and where possible through development partner resources. MFDP will engage active development partners at a strategic level, especially the EU and FinMark Trust.

Successful implementation is contingent on engagement with, and the role played by the private sector, especially the banks, insurance companies, retailers and MNOs. It will be important to get the firm commitment of the private sector players through tailored engagement with sector associations, regulatory processes, as well as with individual players to resolve specific issues for the purposes of enhancing financial inclusion. It is proposed that the Steering Committee and its structures will meet with the private sector early on in order to clarify their role in the Roadmap, obtain buy in, as well as clarify actions that the private sector expect Government to put in place for them to play their role in enhancing financial inclusion.

Industry associations will be particularly important in discussing with the regulators and advancing private sector propositions that will facilitate the further extension of services to the low income. It will also be an important conduit for the Steering Committee to communicate its objectives to the service providers, guided by national frameworks and objectives.

Given the limited number of development partners in Botswana, there is a need to investigate alternative funding models in order to successfully implement the Roadmap. These may include:

- Potential to leverage subscription fees of associations in the financial sector (e.g. micro lenders and bankers associations)
- Potential for a Universal Service model in financial services to pay for access to the excluded populations, supporting specific initiatives or underpinning currently subsidised models e.g. the post office

5.5 Measurement

Successful implementation partly depends on being able to measure progress, as well as communicating the outcomes of the interventions. The MFDP will monitor and evaluate the proposed outcomes, and provide regular report backs to various government organs.

Activity based tracking is recommended, complemented by the tracking of outcome and output based targets including Access, Usage, Affordability, Appropriateness, Financial literacy, and Consumer protection.

Secondary indicators will be proposed through the work planning process where necessary, to report on the progress or impact of specific stakeholder initiatives.

A draft set of indicators is included as Annexure 2.

5.6 Risks

Some of the risks to implementation include:

- Lack of implementation capacity. Mitigation: The Steering committee as part of its short term action plan will focus on development partner and private sector mobilisation and coordination. Development partners and the private sector will be mobilised to support the Roadmap implementation process.
- Lack of buy-in, particularly by private sector stakeholders. Mitigation: The Steering committee as part of its short term action plan will develop a private sector engagement strategy and plan. Regulators will be involved in this process, and where necessary legal and regulatory amendments will be made to support the process.
- Lack of infrastructure to support proposed interventions in rural areas. Mitigation: MFDP in conjunction with other stakeholders will prioritise infrastructure development, particularly in bottle neck areas.
- Time frames for legislative reform may be long. Mitigation: MFDP to coordinate and ensure timelines are shortened where possible.
- Limited number of development partners despite need for subsidised provision in certain segments. Mitigation: Investigate potential for alternative funding models.

The Steering Committee will work with the stakeholders to ensure that these and other risks are tracked and mitigated.

6 Conclusion

While the issue of basic access in Botswana has been largely resolved, with many consumers having broad access to financial services, access is still a challenge for 24% of Botswana adults who are currently excluded from accessing financial services. There also remain quality challenges within the included segments. The main opportunities to improve financial inclusion therefore lie in (1) assisting the excluded and often vulnerable communities to get access, and (2) deepening financial inclusion for the included through improved efficiencies and value for money products.

MAP Botswana proposes to deepen financial inclusion and reach additional pockets of the excluded vulnerable groups through six priority initiatives, which are based on the most urgent customer needs and barriers identified in the MAP research. These initiatives will further inform the broader sector strategies, i.e. the Financial Sector Development Strategy and the National Development Plan as these are developed. It is envisaged that the proposed interventions will result in an increase in depth and quality of financial inclusion, in order to increase citizen welfare, create economic growth, and hence support national goals.

The immediate next steps in the Roadmap process include:

- Research findings and Roadmap to be approved by the Steering Committee and the MFDP;
- Capacity building at MFDP;
- Development of action plan including implementation matrix showing actions and responsible implementer;
- M&E framework including targets to be developed to mobilise stakeholders and monitor outcomes;
- Immediate implementation of areas where resources are available; and
- Roadmap adoption by all stakeholders.

Implementation of the Roadmap will most visibly contribute to financial inclusion through the development of products and business models that deliver better value to low income customers.

7 Annexure 1:

Roadmap Imperatives

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

8 Annexure 2:

Draft set of financial inclusion indicators

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