EVALUATION OF RETIREMENT SYSTEMS OF COUNTRIES WITHIN THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

Country Profile: Botswana

OPM

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Abbreviations

BBS	Botswana Building Society
BPOPF	Botswana Public Officers Pension Fund
BURS	Botswana Unified Revenue Service
CSO	Central Statistics Office
IMF	International Monetary Fund
ISSA	International Social Security Association
LFS	Labour Force Survey
NBFI	Non-Bank Financial Institution
NBFIRA	Non-Bank Financial Institution Regulatory Authority
OAP	Old Age Pension
OPM	Oxford Policy Management
SACCO	Savings and Credit Cooperative Organisations
TB	Tuberculosis
WB	World Bank
WDI	World Development Indicators

1 Country and retirement system overview

Box 1.1 Country overview

Population 2008:	1.9
Proportion of population above 60 – 2006:	5.41%
Proportion of population above 60 – 2031:	7.96%
Proportion of population rural 2006 (Demographic Survey):	40.4%
Proportion of 65+ rural (LFS page 3):	66.8%
Proportion of 65+ male (LFS Table H8):	40.4%
GDP 2008 (CSO):	P 91,206.4 million
GDP 2008 (World Development Indicators 2009)	US$ 12.97 bn
GNI per capita 2008 (WB Atlas method) (WDI, 2009):	US$ 6,470
Proportion of population below poverty line ($2/day) 2005:	30%
Labour force (LFS Table L1):	653,191
Labour force participation rate (LFS Table L1):	56.6%
Unemployment % (LFS Table L1):	17.5%
Employment in formal sector (% of total employment):	48%
Emp. in subsistence agriculture (% of total employment) (LFS Table M4):	24.0%
HIV/Aids prevalence (% of population 15-49) (WB, CPS page 46)	23.9%

Box 1.2 Retirement systems overview

Formal systems

Social assistance

A universal old age pension is provided for all citizens aged over 65 residing in Botswana. As at October 2009, there were 90,639 registered old age pensioners, comprising 88% of the population aged 60 and over. The benefit is entirely funded from general government revenue. In 2009, total expenditure amounted to P 239 million, equal to 0.7% of total expenditure and 0.3% of GDP. The benefit level is P 220 per month. This amounts to 12% of median national incomes, but is sufficient to keep the recipient above the poverty line. GDP per capita/average or median earnings

National social insurance

None

Civil service occupational retirement schemes

The largest occupational scheme is the Botswana Public Officers Pension Fund. This was reorganised as a DB scheme in 2001.The scheme is registered in terms of the Pension and Provident Funds legislation. The scheme covers all public servant workers and the military; eligibility for retirement benefits occurs at the age of 60. As at 31 March 2009, there were 94,020 active members; 4,025 deferred members; 4,572 pensioners; and 206 spouses/orphan pensioners. Members contribute 5% and the government contributes 15%. The total net assets as at 31 March 2009 were P 24,083 million.

Private occupational schemes and voluntary schemes

All occupational schemes are conducted under the regulatory authority of the Registrar of Pension and Provident Funds (now NBFIRA) and the Unified Revenue Service. Occupational pension plans are usually established by medium-sized and large employers. Plan rules often specify the maximum age of eligibility for membership to be no greater than the retirement age. Estimates indicate that 28,000 formal sector employees are enrolled in pension schemes. Another 152,000 employees are potentially eligible for some gratuity benefits under the Employment Act. Pension plans are financed both by employers and employees. Contributions depend on plan rules. The total employer and employee contribution rate under an average plan is between 10% and 15% of contributory salary (typically, 5% in employee contributions, 5–10% in employer contributions).

Informal retirement systems

There were 36 Savings and Credit Cooperative Organisations in 2006, although the study team found no data with regard to coverage of the elderly. Asset accumulation, particularly through urban formal housing (especially in Gaborone), commands high rentals so formal property ownership has great potential to provide a secure income after retirement, especially through housing ownership.

2 Country background

2.1 Demography

The most recent population census was conducted in 2001 (and preparations are underway for the next decennial census in 2011). A resident population of 1,680,863 was enumerated, of whom 813,583 (48.4%) were male and 867,280 were female (51.6%). There were 60,716 non-citizens and 28,210 Batswana were recorded as residents abroad.

Using population census data, the Central Statistics Office has estimated that life expectancy has fallen from 65.3 years in 1991 to 55.6 years in 2001 as a result of the impact of HIV/AIDS.

Population projections indicate that the total will increase to 1,826,022 by 2011 (+8.6%), to 2,082,106 by 2021 (+14.0%) and to 2,362,023 by 2031 (+13.4%).

Inter-censal data is available from the 2006 Demographic Survey (published in 2009). The majority (60%) live in towns and cities or in urban villages with only 40% in rural areas (this decline from 45.8% in 2001 indicates that there is continuing rural-urban internal migration). The Total Fertility Rate is 3.17, somewhat lower than 3.27 recorded in 2001. Life expectancy at birth is estimated to have declined from 55.6 years in 2001 to 54.4 in 2006 (with males falling from 52.0 to 48.8 while females improved from 57.4 to 60.0).

2.2 Labour market

The most recent Labour Force Survey was conducted in 2005/06 (and published in 2008). The population aged 12+ was 1,153,227, of whom 94,989 were aged 65+. There were 365,266 not economically active (principally homemakers and students), of whom 60.7% were female, and 134,770 were not working and were discouraged from attempting to find work. Currently employed persons totalled 539,150 (52.3% male) (of which 326,110 were in paid employment and the remainder self-employed, unpaid family workers or in subsistence agriculture) while 114,042 were unemployed but actively seeking work (yielding an unemployment rate of 17.5%)[1]. Of the currently employed, 232,555 were in the private sector, 131,280 in the public sector (central and local government and parastatals) and 129,486 in subsistence activities.

More recent employment surveys indicate that formal sector employment continued to grow at least until March 2009. The 3% increase in 2008/09 was driven by the public sector (+5%) whereas the private sector only achieved 2% (the mining sector recorded -9%).

2.3 Socio-economic

The 2005/06 Labour Force Survey recorded 514,804 households, of which 266,191 (51.7%) were male-headed and 248,613 (48.3%) were female-headed. 45% of all households were in rural areas. Nearly 60% of households did not have any member in paid employment.

[1] These numbers do not allow formal quantification of the Labour Force (defined as the population aged between 12 – 64 years that is either employed or unemployed but actively seeking and available for work), as they include people aged 65+ who are economically active.

The impact of HIV/AIDS has been responsible for the deterioration of key health indicators: infant mortality is up from 45 per 1000 live births in 1990 to 56 in 2006; under-5 mortality has risen from 58 in 1990 to 124 in 2007; the number of new TB cases has increased by 211% since 1990. However, other social indicators have remained strong: both male and female gross primary school enrolment ratios are around 110; adult literacy is above 80%; 95% of the population have access to an improved water source and 42% to an improved sanitation facility; and 75% of the population have mobile phones[2].

The average household size is 4.2 persons (slightly less at 3.5 in urban centres and higher at 4.4 in rural districts). Approximately 53% of households are male-headed and the other 47% are female-headed.

The poverty headcount is about 30% and it is significantly higher in rural areas. Income distribution remains highly skewed, with a Gini coefficient of 60.5.

The Human Development Index 2009 (based on data for the reference year 2007) is 0.694 and results in a ranking of 125 out of 182 countries. The index shows a steady increase on nearly 1% a year from 0.539 in 1980. The index is based on life expectancy at birth of 53.4 years, adult literacy of 82.9%, combined gross enrolment rate of 70.6% and GDP per capita of PPP US$13,604. The Human Poverty Index is 22.9%, with Botswana ranked 81 out of 135 countries. The Index is calculated from the probability of not surviving to age 40 (31.2%< the adult illiteracy rate (17.1%), people not using an improved water source (4%) and children aged under 5 who are underweight (13%). The emigration rate is less than 1%, suggesting that most Batswana consider they have good opportunities at home, and an immigration rate of 4.4%, reflecting demand for skilled personnel. Remittances of US$141 million are significant and equal $75 per capita.

2.4 Economy and finance

Botswana has long been seen as an African success story. Economic growth has been consistently high, averaging 9% per annum since Independence in 1966. Growth and the strong fiscal position has been built on the exploitation of diamonds (which contributed 60% of exports and 40% of revenue in recent years), backed by sound policies and strong institutions. However, the economy and the fiscal position have been hit by the global recession (which has adversely affected the sale of diamonds). Diamond production will gradually decline from the current rate and this will create serious adjustment problems as the economy adapts to a post-diamond future. The intention is to save a large portion of current revenue and build up a national asset fund that can generate a sustainable national income.

The Quarterly GDP Statistics produced by the CSO (December 2009) show that GDP was P91,206 million in 2008. The mining sector was hit very badly at the end of 2008 and in the first quarter of 2009 and, although there has been some recovery in the second and third quarters, the Budget Speech reported a decline of 4.6% in the annual figures.

2.5 Social protection

The Budget Speech 2010 states "As at the end of October 2009, there were 90,639 registered old age pensioners, 3,005 World War Veterans or their dependants, 3,557 registered Community Home Based Care patients, 42,381 registered destitute persons and

[2] Data extracted from the Annex A2 of the World Bank Country Partnership Strategy 2008.

46,833 registered orphans who have access to food, education, and other basic necessities." However, the Speech went on to say: "The increasing number of beneficiaries is economically unsustainable and has led Government to embark on a review of the National Policy on Destitute Persons in August 2008. Currently, an assessment is being carried out to ensure that only eligible persons benefit from the Destitution Programme. The aim of the review is to put more emphasis on rehabilitation as a people-centred development programme".

2.6 The elderly

The 2001 Population Census recorded 83,493 as being aged 65+ (5.0% of the total population) and the number is projected to rise to 129,459 by 2031 (5.5% of the total). In 2001, 48,861 of the 65+ were women (58.5%) and this is projected to rise to 82,402 by 2031 (63.7%).

3 Formal retirement systems – Social Assistance

3.1 Legal and institutional

The scheme commenced in 1996 (ISSA, 2009) and is overseen by the Department of Labour and Social Security and administered by the Social Benefits Division, Department of Social Services, Ministry of Local Government (International Social Security Association 2010).

3.2 Eligibility, access and coverage

All resident citizens aged 65+ with a valid identity card (excluding those serving a prison term or an extra-mural sentence). As at October 2009 there were 90,639 registered old age pensioners (Budget Speech 2010), comprising 88% of the population 60 and older.

All veterans of military service during World War II and their surviving spouses and dependent children aged 21 or under.

3.3 Financing

This benefit is entirely funded from general government revenue. In 2009, total expenditure amounted to P239 million, equal to 0.7% of total expenditure and 0.3% of GDP.

3.4 Contingencies covered

This scheme only pays an old-age pension.

3.5 Benefit type and levels

FinMark (2008) reported that the benefit amounts to Pula 220 per month, up from Pula 166 in 2007 (International Social Security Association 2010). This amounts to 12% of median national incomes but is adequate to keep the recipient above the poverty line.

3.6 Preservation, withdrawal and protection of rights

A beneficiary is required to make a “life declaration” once in three months, failing which their name will be suspended and payments withheld (to prevent fraud and false collection in respect of recently deceased pensioners). However, if they subsequently make an appearance, they will be entitled to arrears for up to 23 months.

3.7 Financial and social sustainability

The total cost is less than 1% of total public expenditure and the OAP appears to be relatively straightforward to administer and is an effective means of reducing poverty in old age.

3.8 Reform initiatives

There are no reform initiatives that we are currently aware of but the Minister’s Budget Speech indicated that the total cost of social assistance is becoming unaffordable.

4 Formal retirement systems – National Social Insurance

Botswana has no national social insurance scheme. In the light of the weaknesses of the current gratuity schemes in terms of the Employment Act (which could cover as much as one-third of the formally employed, consideration has been given to improving retirement provision but recommendations have shied away from a compulsory national social insurance scheme (FinMark 2008).

5 Formal retirement systems – Civil Service Occupational Schemes

5.1 Botswana Public Officers Pension Fund

The BPOPF was established with effect from 1st April 2001. It replaced the previous defined benefit pay-as-you-go scheme with a defined contribution scheme. As a registered scheme, the Fund and its members benefit from tax concessions. By end-2003, Government had transferred P10.5 billion to the BPOPF in respect of the accrued liabilities incurred under the previous unfunded scheme.

Concerns have been raised about fund management and an investigation was conducted in 2007 by Jacques Malan Consultancies and Actuaries.

5.1.1 Legal and institutional

The BPOPF is a pension fund established by the Government of Botswana and registered in terms of the Pension and Provident Funds legislation.

The Fund is managed by a Board of Trustees, with 9 employer representatives, 9 representatives of the various employee sections, and one pensioner representative. The Board has five main sub-committees (Investment, Benefits, Audit, Communication and Human Resources). There is a Chief Executive Officer and a Secretariat (restructured in 2009) and the Trustees are required to appoint an actuary, an auditor, investment managers and administrators (Alexander Forbes Financial Services were awarded a four-year contract with effect from 1st April 2009 after a tendering process). The rules of the Fund (13.4) require a triennial actuarial study but these are not available on the BPOPF website although the 2008/09 Trustee Report states that the actuarial valuation as at 31st March 2009 confirmed that "the Fund was found to be in a sound financial position".

5.1.2 Eligibility, access and coverage

All personnel recruited after establishment of the BPOPF in 2001 were required to join while all current public servants were given the option to become members by a specified switching date (originally 30 June 2003 but subsequently extended). The Trustee Report 2008/09 indicates that, as at 31st March 2009, there were 94,020 active members, 4,025 deferred members, 4,572 pensioners and 206 spouses/orphan pensioners.

Members may retire once they have reached the age of 50 (with the agreement of the employer) and must retire once they have reached their normal retirement age (which varies between the branches of the public service).

5.1.3 Financing

Members contribute 5% (and can make additional voluntary contributions up to 10% of their salary) and Government contributes 15%. Government established the fund by making capital transfers to cover the liabilities accrued under the former PAYG scheme. It also makes ad hoc payments (P198 million in 2007/08 and P179 million in 2008/09) but the basis for these amounts is not explained in the Trustee Reports. Total net assets as at 31st March 2009 were P24,083 million (down from P28,536 million at 31st March 2008 as a result of poor investment performance).

5.1.4 Contingencies covered

If the employer notifies the Trustees that an employee has become totally and permanently incapable of efficiently carrying out his duties, he shall retire before reaching his normal retirement age.

If a member dies while still in service, a lump-sum equal to the greater of his Fund salary or his Fund Credit shall be paid to his dependants or beneficiaries. The Trustees may decide to pay all or part of this benefit in the form of an annuity.

5.1.5 Benefit type and levels

The pension payable to a member on his retirement shall be the amount that can be purchased from his Fund credit (or, in the case of a deferred pensioner, his paid-up benefit). The member may choose to receive a lump-sum by commuting the whole amount (if his pension does not exceed a limit set out in legislation, currently P5,000) or up to one-third (if it exceeds this level).

On retirement, members can purchase an annuity either from a registered insurer or from BPOPF. BPOPF provides either a single-life annuity (the annual payment can be guaranteed for a specified time period, although the member will receive a lower amount) or a with-profits annuity from BPOPF but a joint-life annuity is not available. An amount up to one-third of his pension fund can be commuted and paid as a lump-sum on retirement. A benefit is paid to approved beneficiaries if the member dies in service. If a member leaves service prior to reaching retirement age and if he has completed at least five years of service, he will receive his accumulated funds in full.

5.1.6 Preservation, withdrawal and protection of rights

People can transfer savings from other funds upon becoming members of BPOPF and their funds can be transferred to other registered funds following a change in their employment. There are provisions to ensure that members receive their entitlement if the Fund should be terminated.

5.1.7 Administrative cost

Shortly after commencement of the BPOPF, the IMF (Selected Issues 2002) considered whether the introduction of a large funded scheme (replacing the previous PAYG defined benefit pension arrangements) together with an obligation to keep a significant portion of the assets onshore had had a significant impact on the price of financial assets. It concluded that the stock market had received a large infusion of capital relative to its size and that this had contributed to the rapid rise in stock exchange index. It also raised concerns that the minimum local investment rule (no more 70% of assets can be held abroad) might damage the interests of pensioners by increasing portfolio risk, restricting the ability of fund managers to pursue the highest risk-adjusted return and expose pensioners to increased domestic asset price volatility.

In financial year 2008/09, total administrative expenses were P166.5 million, representing 0.73% of assets. The bulk of this (0.6%) was incurred for investment management fees.

The investment strategy is set by the Trustees with advice from the Investment Committee. The Fund’s investments are managed on a fully discretionary mandate for both onshore and offshore investments with the objective “to obtain a long term return of 5% per annum in excess of inflation as measured by the Consumer Price Index". A number of fund managers (currently six) manage the active and deferred member fund portfolio, which is held mainly in equities and is currently 40% onshore and 60% offshore. Two firms manage the non-profit and the with-profit pensioner portfolio (which are wholly or predominantly invested onshore). "The Trustees review the investment performance of the managers regularly and the returns obtained by similarly invested funds; in the market and under the asset managers' management. Where the asset manager(s) experiences underperformances relative to the benchmark, the Trustees via the Investment Committee seek to understand what caused this underperformance."

5.1.8 Financial and social sustainability

The recent deterioration in the fiscal situation (and the long-run decline in diamond production) raises considerable concerns about the sustainability of the Government's contribution rate. It may have to be reduced and other measures taken (such as raising the normal retirement age).

5.1.9 Reform initiatives

There are no specific reform initiatives that we are currently aware of but BPOPF will obviously be affected by the changes to the regulatory and supervisory regime following the establishment of NBFIRA.

6 Formal retirement systems – Private Occupational and Voluntary Schemes

Since 1st April 2008, all funds must be registered and approved by the Non-Bank Financial Institutions Regulatory Authority (NBFIRA), established by Cap 46:08. Prior to that, all retirement funds were governed by the Pension and Provident Funds Act (Cap 27:03) 1987 and supervised by the Registrar of Pension and Provident Funds. Fund management arrangements also need to be approved by the Botswana Unified Revenue Service (BURS) in order to be a recognised retirement fund and to be eligible for tax relief under the Income Tax Act.

In 2005 there were 115 registered pension funds and they held assets totalling P29.02 billion (equal to 46.5% of GDP). The Budget Speech 2010 indicated that, at the end of September 2009, total pension funds assets were P30.8 billion compared to P30.4 billion as at September 2008.

Resident individuals are entitled to an allowance for contributions to approved pension funds or to approved retirement annuity funds or schemes, not exceeding 15% of earned income. The investment income of unapproved pension funds is taxed at 7.5%.

6.1 Occupational Schemes

6.1.1 Legal and institutional

As with BPOPF, all occupational schemes are conducted under the regulatory authority of the Registrar of Pension and Provident Funds (now NBFIRA) and the Unified Revenue Service. A typical example of these schemes is provided by the Botswana Building Society: "The Society operates a defined contribution pension fund for its permanent staff. This fund is registered under the Pension and Provident Funds Act (Chapter 27:03). The Society contributes to the fund 12% of the pensionable earnings of its members and the employees con tribute 7% of their pensionable earnings. The Society's contributions are charged to the income in the year in which they accrue. Other than regular contributions made in terms of the rules of the fund, the Society does not have any further liability to the fund." In effect, the participating firms have outsourced the administration of their pension schemes and have no direct involvement in the specific rules that govern the investment of the fund and the payment of benefits once members have retired.

The administrative and investment arrangements for the Debswana fund are similar to those of the BPOPF. The Board of trustees has established a Benefit Review committee and an investment Committee. It has approximately 9,000 active members and has approximately P 2 billion under fund management. The contributing employers put in 20% of each employee's salary per month. For 2003, administration expenses were P3.9 million (0.33% of total assets) and investment management fees were P3.0 million (0.26%). At the end of 2003, the Fund had 5,664 active members, 1,666 deferred members and there were 852 pensioners.

6.1.2 Eligibility, access and coverage

Occupational pension plans are usually established by medium-sized and large employers. Plan rules often specify the maximum age of eligibility for membership to be no greater than the retirement age. Plan membership is usually for the benefit of permanent staff (in midlevel and senior positions). Discrimination with respect to sex (such as different retirement ages and/or retirement benefits based on gender) is becoming less common.

Estimates indicate that 28,000 formal sector employees are enrolled in pension schemes. Another 152,000 employees are potentially eligible for some gratuity benefits under the Employment Act (see Section 5.3).

6.1.3 Financing

Pension plans are financed both by employers and employees. Contributions depend on plan rules. The total employer and employee contribution rate under an average plan is between 10 per cent and 15 per cent of contributory salary (typically 5% employee contributions, 5-10% employer contributions). Tax concessions are not available for contributions in excess of 35% of contributory salary. The contributory salary is defined in the plan rules, with no limits usually set on its amount. Contributions must be paid within 21 days of the end of the calendar month for which they are due. Employees may make additional voluntary contributions to the same and/or another plan in accordance with the plan rules.

Employee contributions are tax deductible up to 15% of salary and employer contributions are tax deductible up to 20% of salary. There is no ceiling on salary. Investment income is tax exempt. Any commuted amounts are payable as a tax-free lump sum. Pension benefits (both defined benefits and annuities purchased through defined contribution schemes) are taxed in the same way as salary. Cash withdrawals upon termination of employment before retirement are fully taxable.

6.1.4 Contingencies covered

This will depend on specific plan rules but usually includes a death benefit.

6.1.5 Benefit type and levels

The majority of registered pension plans are now defined contribution. All provident plans operate on defined contribution basis.

Benefit qualifying conditions, benefit structure and formula are defined in the plan rules. Retirement payments start at age 60 under a typical plan. Early retirement is allowed from age 50 or before normal retirement age if the member is totally or partially disabled. Pay-out of pension benefits in a form of lump sum is allowed where the annual pension amounts to less than P5,000. If the annual pension exceeds P5,000, one third of pension amount could be commuted and paid as a lump sum. If the annual pension would be less than P5,000, the entire pension amount can be commuted. Funds are used to purchase an annuity, either from the fund administrators or, more usually, from an insurance company. No legal rules apply with respect to benefit adjustment (pension are adjusted depending on plan rules).

6.1.6 Preservation, withdrawal and protection of rights

This will depend on specific plan rules but members are usually allowed to transfer their accrued fund amount to a different plan if they change employer.

The newly established NBFI Regulatory Authority has responsibility for ensuring that any compromises, arrangements and transfers affecting a prudentially regulated body and, where necessary, statutory management and winding up will be conducted properly. Detailed regulations on the procedures will be issued by NBFIRA.

6.1.7 Administrative cost

Pension funds are not permitted to invest more than 70% of their asset portfolio offshore. In practice, most funds remain below this threshold (having taken advantage of strong performance of the local stock exchange and property market). However, under certain plausible circumstances, this could result in a sub-optimal investment strategy as far as the interests of the pensioners are concerned.

6.1.8 Financial and social sustainability

The switch to defined contribution schemes generally ensures affordability and sustainability. However, employer contribution rates (other than BPOPF and Debswana) are frequently lower than required to deliver annuities equivalent to entitlements under typical defined benefit schemes. Relatively generous contribution rates in the public sector and mining may have a negative comparative impact and raise employment costs. In the long-term, this may make achievement of economic diversification and non-mineral growth more difficult.

In 2004, pension funds held 17.4% of total domestic assets (equal to 16.1% of GDP). This represented 43% of total pension fund assets, the remainder of which was held offshore.

6.1.9 Reform initiatives

Since 2008, all pension and provident funds, trustees and administrators are under the regulatory control of NBFIRA (Cap 46:08). Many other financial agents (responsible for most informal savings mechanisms) are regulated under this legislation. The law provides for: prudential regulations; transparent information; routine and special investigations; procedures for transfer, statutory management and winding up of an institution. The 2008 Financial Sector Assessment (IMF/WB) put strengthening of the regulation and supervision of the pension sector and other NBFIs as one of four priority areas. In particular, it was important to bring pension fund administrators and asset managers within the regulatory system and to ensure that adequate information is available to allow accurate risk assessments. This data should cover holdings of foreign assets and of “non-traditional” foreign and domestic assets such as infrastructure, private equities, investments in public-private partnerships and hedge funds. Updated investment guidelines should be issued to secure the benefits of diversification and prevent excessive risk-taking. The fiduciary responsibilities of trustees need to be clarified.

As indicated in the Budget Speech 2010, is exploring ways of increasing the effectiveness of the regulatory framework:

> **“**Because of the growth in the pension fund assets and the insurance industry, the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) has decided to develop an appropriate regulatory and supervisory framework. Negotiations started in March 2009, between NBFIRA and the World Bank for the provision of technical expertise to enhance the regulatory framework for the insurance and pension sectors. The review of the Insurance and the Pensions legislation started in September 2009. The review is necessary to inform the expected change in the basic regulatory mechanism from a compliance-based to a risk-based supervisory system. The risk-based system is more dynamic and more relevant to today’s financial environment. Both the revised Insurance Industry Act and the Pension and Provident Funds Act are scheduled to be tabled before Parliament in its July 2010 sitting”.

6.2 Gratuities in terms of the Employment Act

The Department of Labour and Social Security is responsible for enforcement of the Employment Act while the Commissioner of Labour and Social Security provides supervision. The law originally provided for a severance benefit under which employees not covered by retirement pension arrangements and with 60 months of continuous employment were entitled to a severance benefit from their employer if the employment was terminated (resignation, retrenchment or retirement). However, in order to address the risk that an employer might liquidate without paying these benefits, it was converted into a severance/gratuity scheme. Since 1992, the benefit must be paid every five years, irrespective of whether employment was terminated. At the end of the employee's first five years of employment, he is entitled to 1 day of pay for each month of service i.e. 60 days or approximately three months of pay. For each subsequent five year period, the employee is entitled to 2 days of pay for each month of service. This cost (which is approximately 10% of salary for long-serving employees) is borne by the employer. It is intended to cover all formal sector employees who are not enrolled in occupational pension schemes. On termination prior to an anniversary, a worker is eligible for a pro-rata cash benefit, as long as he has completed at least five years of service.

There are a number of problems with the gratuity/severance scheme:

- There is no requirement on employers to fund in advance their obligation to the employees. As a result, companies suffer cash-flow difficulties as their workers attain the thresholds for eligibility. This can be particularly acute for small companies, which may have employed key workers at roughly the same time, and for companies in financial difficulty, which have a financial obligation to workers they may be compelled to dismiss.

- There is an inconsistency in the level of the financial obligation for employers. Those firms focusing on long-term employment relationships rather than short-term contracts effectively bear a form of structural penalty for this loyalty.

- There is evidence that some employers are not complying with the legal requirements of the scheme. Many employment-related trade disputes are attributable to non-payment of the severance benefit or to unfair termination.

- Participation is mandatory only for workers with no formal pension cover through their employer, in practice, usually the lower-paid employees.

- The scheme at present does not meet any clear social need. It has compromised the original intention of meeting emergency needs on termination of employment, and benefits those in long-term stable employment more than those with a short working relationship with their employer.

These periodic payments may not generally be used to prepare for retirement. However, the FinScope Survey (2004) indicated that a significant number of recipients of lump-sums would save/invest the money (mostly in interest-earning savings accounts) while the majority is likely to purchase large items (e.g. property improvements and expansions, cars) that may provide long-term income benefits.

7 Informal retirement systems

7.1 Long-term savings vehicles

The 2004 FinScope Survey showed that Botswana has reasonably good access to the financial sector. Inevitably, access is concentrated on the relatively well-off, particularly those in formal sector employment and living in urban areas. The survey showed that 54% are financially included, with 49% using formal financial services, 27% using both formal and informal services and only 5% relying entirely on informal services. Thus, informal financial services are almost invariably utilised to complement access to formal financial services. The better-off use a larger number of financial instruments and they use them more frequently.

There were 36 Savings and Credit Cooperative Organisations in 2006. They operate as an alternative financial avenue for people already in formal employment and with access to the banking sector. There has been inadequate prudential regulation and supervision of SACCOs that provide financial services.

Regular savings schemes (including insurance policies) can contribute to income security in old age, even if the product is not a formal pension scheme. For example, funeral insurance will cover costs that would otherwise necessitate the sale of assets, thereby reducing future income. Approximately 25% of households have funeral insurance while 14% of the population aged 15+ have life insurance and only 2% have endowments (usually to cover education costs). Although there are several companies offering life insurance, the market is dominated by one company.

7.2 Asset accumulation

7.2.1 An inventory and conclusions about relevance to the elderly

Urban formal housing (especially in Gaborone) commands high rentals so formal property ownership has great potential to provide a secure income after retirement. However, the complexity of land title contributes to the limited availability of plots, planning regulations impose high unit costs and there are high transaction and financing costs.

The commercial banks and the Botswana Building Society are the only sources of conventional housing finance. Loans are concentrated in urban centres as there may be problems with land title and repossessions in rural areas. The vast majority (about 85%) of loans are to individuals and for residential property. There has been a rapid increase in lending for the acquisition of property and further growth could be undertaken by the financial sector, which has substantial liquid assets. However, most commercially available loans require household monthly income in excess of P4,000, which limits the potential market to the top quartile. Low income employees and those outside the formal employment sector (approximately 75% of households) are unlikely to meet eligibility requirements. Government does guarantee 25% of loans from BBS in order to increase accessibility to loans. Lower income earners can enter the property market through allocation of plots for plots and relatively cheap housing finance provided through the Self Help Housing Association. However, the stock of plots available for allocation is quite limited and there has been a high default rate.

The majority of households remain unable to access these formal schemes. Most of their investment in housing takes place in a piecemeal fashion, with extensions and improvements completed as finance (surplus income, sale of other assets, personal loans) allows. Approximately 80% of all housing is built using conventional bricks or blocks (only 12% with mud bricks) and 55% of housing is built by the owners who are also occupying them.

Some finance for asset accumulation may be mobilised term loans provided by micro lenders (which operate through salary deductions). The largest term lender has 40,000 members and 8 branches.

7.3 Other informal support mechanisms

The FinScope Survey (2004) indicated that 19% relied on transfers as a regular source of income and that 47% had received money within the past six months.

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