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TECHNICAL NOTE

FINANCIAL INCLUSION AND DIGITAL FINANCIAL SERVICES

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This Technical Note was prepared by Francesco Di Salvo and Claudia Carlisle Meek in the context of the World Bank's Financial Sector Assessment Program mission in Botswana in November 2022, led by Harish Natarajan and Rinku Chandra, World Bank, and overseen by the Finance, Competitiveness & Innovation Global Practice, World Bank. The note contains technical analysis and detailed information underpinning the financial sector assessment program (FSAP) findings and recommendations. Further information on the FSAP program can be found at www.worldbank.org/fsap.

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Glossary

ACGS	Agriculture Credit Guarantee Scheme
ACH	Automated Clearing House
AI	Artificial Intelligence
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
API	Application Programming Interface
ATM	Automated Teller Machine
BAB	Bankers Association of Botswana
BACH	Botswana Automated Clearing House
BISS	Botswana Interbank Settlement System
BoB	Bank of Botswana
BOCA	Botswana Cooperative Association
BOCRA	Botswana Communications Regulatory Authority
BSB	Botswana Savings Bank
BSEL	Botswana Stock Exchange
CDD	Customer Due Diligence
CEDA	Citizen Entrepreneurial Development Agency
DFS	Digital Financial Services
DLT	Distributed Ledger Technology
EBA	European Banking Authority
EC	European Commission
EU	European Union
FATF	Financial Action Task Force
FSB	Financial Stability Board
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GNI	Gross National Income
GOB	Government of Botswana
GSMA	Global System for Mobile Communications Association
ICO	Initial Coin Offering
IMF	International Monetary Fund
IP	Internet Protocol
IT	Information Technology
ITU	International Telecommunication Union

LEA	Local Enterprise Authority
KPI	Key Performance Indicator
KYC	Know-Your-Customer
M&E	Monitoring and Evaluation
MBPS	Mega Byte Per Second
MFI	Micro Finance Institutions
MOF	Ministry of Finance
MNO	Mobile Network Operator
MSME	Micro, Small, and Medium-sized Enterprises
NBFIRA	Non-Bank Financial Institutions Regulatory Authority
NDB	National Development Bank
NFIS	National Financial Inclusion Strategy
NFITT	National Financial Inclusion Task Team
NPL	Non-Performing Loans
NPSA	National Payment System Act
OAG	Office of the Accountant General
OTC	Over The Counter
P2P	Peer-to-Peer
PAFI	Payment Aspects of Financial Inclusion
PFMI	Principles For Financial Market Infrastructure
POS	Point Of Sale
PSD2	Second European Union’s Payment Services Directive
PSDA	Public Service Delivery Agency
PSP	Payment Service Provider
QR	Quick Response
Regtech	Regulatory Technology
RTGS	Real-time gross settlement
SACCO	Savings and Credit Cooperatives
SME	Small, and Medium-sized Enterprises
SSB	Standard-Setting Body
Suptech	Supervisory Technology
UNCDF	United Nations Capital Development Fund
UNSGSA	United Nations Secretary General’s Special Advocate for Inclusive Finance
WFHB	Women’s Finance House Botswana
WB	World Bank

1. Executive Summary

1. **This technical note (TN), prepared as part of the Financial Sector Assessment Program (FSAP), analyzes the financial inclusion and digital financial services (DFS) landscape in Botswana.** The Bank of Botswana (BoB) and the Ministry of Finance (MoF) requested the World Bank and IMF to undertake the FSAP and confirmed the start of the preparation in May 2022. The last FSAP for Botswana was completed in August 2008.

2. **The financial system in Botswana has expanded in the last decade, increasing coverage of the population as well as adding new products and providers. Botswana has seen a step change in financial inclusion with the number of adults with an account increasing from 68 percent in 2014 to 82 percent in 2020.**[1] 56 percent of the adult population have bank accounts, 26 percent are formally financially served with non-bank financial institutions, two percent make use of informal financial services and 16 percent remain excluded. Access to finance for micro, small, and medium enterprises (MSME) is constrained. The International Finance Corporation (IFC) estimates that the MSME financing gap in Botswana is 18.55 percent of the gross domestic product (GDP), slightly higher than in most neighboring countries[2].

3. **Mobile networks cover up to 90 percent of the population[3], however, only 49 percent are active mobile broadband users.[4]** In connecting citizens to markets and services, improving productivity, reducing transaction costs, and bridging information gaps, the use of digital channels unlocks the potential of digital economy. Mobile and broadband internet connectivity, jointly with IT technology adoption consistently developed in Botswana and supports the growth of digital financial services.

4. **The national identity card (Omang) has a coverage of over 90 percent among the eligible adult population.**[5] Its planned functionalities can facilitate financial sector development, supporting Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regulation compliance during the customer due diligence process and enable the use of digital financial services.

5. **The financial sector in Botswana comprises of different types of institutions selling a diverse offering of financial services for retail and business customers.** There are currently nine commercial banks operating in Botswana, all foreign-owned subsidiaries except for BBS Bank Limited. The four largest banks are dominant in Botswana's banking sector owning 79.1 percent of the banking system's assets, down from 90 percent a decade ago. The non-bank credit sector is dominated by micro-lenders (233); finance companies (56), leasing companies (3) and pawn broking business (53)[6]. The six largest microlenders dominate the market with a 94 percent market share at end-March 2022. Moreover, there is one small deposit-taking microfinance institution. Finally, there are three telecom operators with mobile money products. There has been significant uptick in mobile money account

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[1] Botswana Finscope, 2020

[2] SME Finance Forum, "MSME Finance Gap," https://www.smefinanceforum.org/data-sites/msme-finance-gap.

[3] GSMA Intelligence

[4] World Bank 2022 based on Mobile broadband capable connections (GSMA, 2022), SIMs per unique subscriber (GSMA, 2022) and Total population (UN Population Prospect, 2019).

[5] World Bank, Identification for development, 2017, Source: https://databank.worldbank.org/source/identification-for-development-(id4d)-data

[6] NBFIRA, 2022

ownership. Mobile money account ownership has increased from 22 percent of adults in 2014 to 54 percent in 2020 and is a core driver of the recent improvements in financial inclusion overall.[7] Female mobile money account ownership increased from 19 percent in 2014 to 54 percent in 2020, while men increased from 26 percent to 54 percent over the same time**.**

6. The retail payment infrastructure comprises of the real-time gross settlement (RTGS), a cheque clearing house, an Automated Clearing House for electronic fund transfers and uses international card switches to process card transactions. Whereas account to account transfers between banks are possible, the payments system currently has limited levels of interoperability for retail payment transactions, especially between wallets, and between wallets and accounts. In fact, bank to mobile wallet and inter-mobile wallet transactions are enabled only by commercial bilateral agreements. Card issuers and acquirers are connected via international card schemes, and interoperability between Point of Sale (POS) and Automated Teller Machines (ATMs) is in place. Electronic fund transfers are generally settled in T+1, considering this, their use for in-store purchases is limited. An interoperable retail payments infrastructure that supports instant payment functionalities is currently lacking in Botswana**.** Its realization is critical for furthering the growth of digital financial services while maintaining competition amongst all players in the market.

7. The regulatory framework for DFS in Botswana is dynamically evolving with increasing guidance from authorities in several areas. A new Banking Bill was gazetted in January 2023,[8] and the Bank of Botswana (BoB) and the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) are active in advancing innovation in the financial sector through policies, regulation, directives and acts. For example, NBFIRA issued the Virtual Asset Act and Regulation in 2022,[9] the Retirement Fund Act in 2022,[10] and several guidance notes for lenders.[11]. The Ministry of Finance and the Ministry of Transport and Communications lead the regulatory policy development in financial inclusion and the broader digitization process in the country.

[7] The market witnessed a large take up of mobile money accounts, with over 1.6 million registered mobile money accounts in March 2022 (BOCRA, https://www.bocra.org.bw/telecoms-statistics), a value that more than doubled since 2017.

[8] Banking Bill 2023, Source: https://www.bankofbotswana.bw/sites/default/files/publications/Banking%20Bill%202023%20-%20Gazetted%2013th%20January%202023.pdf

[9] Virtual asset act, 2022. Source: https://www.nbfira.org.bw/virtual-assets-act-2022

[10] Retirement Fund act, 2022. Source: https://www.nbfira.org.bw/retirement-funds-act-2022

[11] NBFIRA Acts and notes related to lending activities are available at: https://www.nbfira.org.bw/documents-library?title=&field_document_type_tid=16

8. **A list of recommendations is proposed in Table 1. These recommendations suggest policy and regulatory reforms necessary to achieve an acceleration of financial inclusion and digital financial services development.**

Table 1. Key recommendations

	Recommendations	Agency	Priority
	PUBLIC AND PRIVATE SECTOR COMMITMENT		
1.	**Adopt and implement the draft National Financial Inclusion Strategy** - Government should require sex-disaggregated data for project appraisal and reporting - Assess market distortion issues on the savings market deriving from differentiated fiscal rulings. Set limits on maximum deposits.	MoF, BoB, NBFIRA, BOCRA	N
	LEGAL AND REGULATORY FRAMEWORK		
2.	***Strengthening legal and regulatory framework for mobile money*** - The BoB should ensure that MNOs implement a consistent risk-based approach for CDD by Mobile Money providers. - Gaps in the legal protection and safety nets for safeguarding customer funds held with mobile money issuers should be addressed.	NBFIRA, BoB	N
3.	***Foster innovation with dedicated regulatory frameworks*** - Develop and implement a regulatory framework to facilitate innovation and devote adequate resources - Evaluate potential for and regulatory treatment of emerging fintech models - Limit non-supervised crypto-asset-based payment systems solutions, as the current regulation allows payment activity based on crypto solutions. - Consider increased usage of SupTech solutions and create a Suptech roadmap - NBFIRA should develop the regulatory framework to encourage entry-level insurance products through lower capital requirements, less strict prudential standards, and a proportional CDD process for customer onboarding for these providers. - Authorities to manage a single window to provide regulatory guidance to new entrants - Create guidelines to perform alternative credit scoring mechanism for low income, financially excluded consumers	NBFIRA, BoB	N
4.	Promote the adoption of business process automation and technology to improve processes for grant and public loan program disbursement	CEDA - Ministry of Youth	N
5.	***Strengthen consumer protection*** - In relation to loans to salaried consumers, review the minimum take home income level, and index its evolution to inflation to prevent over indebtedness	MoF, DPSM, Competition and Consumer	N

	- Assess the opportunity to define a limit for usury rates on loans. - Assess the balance transfer/loan portability charges and standard notice period to ensure a competitive loan market. - Improve disclosure norms on sales and management fees for insurance and asset management to ensure consistent and transparent information is available to consumers. - Create and fund a single ombudsman office for the financial sector and establish new reporting requirements for the complaints raised by consumers into a consolidated system - Implement the data protection law and ensure the swift processing of exemptions related to foreign data storage.	Authority (CCA). NBFIRA	
7.	Ensure that SACCOs are appropriately regulated to drive financial sustainability and good management practices.	BoB, DTI	H
	FINANCIAL AND ICT INFRASTRUCTURE		
9.	**Expanding usage of digital payments would require a concerted effort to develop the acquiring ecosystem and improve interoperability.** - Development of a switch in collaboration with the industry. - Within the switch project, the BoB should encourage prioritizing the development of a fast payment service that includes new acceptance modes, new processing flows and enable market entry of new players - The BoB should consider driving and funding the system if the industry cannot finance its development.	BoB, Bankers Association, National Payment Council	H
10.	**Develop and enhance payment market infrastructure monitoring, accessibility, and use** - Monitor prices charged to BISS-BACH indirect participants. - Expand direct participation to BISS-BACH - Create a BISS - RTGS performance dashboard and promote further system upgrades. - The BoB payment oversight team should expand its footprint, in particular to steer the work of the National Payment Council to be established with the New Payment System Act. - Ensure interoperability between existing credit bureaus and registries.	Bankers Association, BoB NBFIRA	N
11.	Provide clear guidelines on Omang identity verification service offering to all financial sector entities, and expand digital ID offering (data collected and services offered, e.g., authentication)	DCNR	N
12.	Assess the creation of an open finance data sharing framework and a sharing mechanism.	BoB, NBFIRA	N
	TRANSACTION ACCOUNT AND PRODUCT DESIGN		
13.	Assess and modernize the deduction at source loan repayment process, focusing on accessibility to all credit providers and small businesses, and the related disclosure practices.	BoB, NBFIRA, MOF	H

14.	Consider the expansion of the Agriculture Credit Guarantee Scheme (ACGS) to additional sectors (livestock, horticulture) and potential coverage of private sector loans. Adopt subregional coverage, based on local conditions and issue guidelines for the development of index-based insurance.	NDB, MoF, NBFIRA, MADFS, NDB	N
16.	**Review financial products characteristics and requirements** - The BoB should develop a policy to mandate all banks to introduce a basic transactional bank account. - Regularly assess and review the limits related to mobile wallets (linked to inflation) and promote expansion to merchants with higher limits. - For retail financial services, create a single repository for pricing product information and publish information to promote price comparability. - Issuance of guidelines to promote the creation of bundled products between partner financial players.	BoB, NBFIRA	N
	ACCESS POINTS		
17.	Develop a geospatial map of financial sector access points which could facilitate consumers in identifying and accessing cash in-cash out services, and financial service providers to manage investment decisions related to branch network expansion.	MoF, BoB, NBFIRA	B
	AWARENESS AND FINANCIAL LITERACY		
18.	Implement a public-private coordinated approach to financial education.	MoF, BoB, BAB, NBFIRA etc.	B
19.	Provide financial education to consumers who have the option of choosing between a severance benefit and annuities.	NBFIRA, BoB	N
	LARGE VOLUME AND RECURRENT PAYMENT STREAMS		
20.	Provide alternative payment options for grant beneficiaries to receive the benefit.	Ministry of Local Government, MoF	N
21.	Consider the expansion of the destitute person's grant closed-loop system to a broader set of retailers and evaluate the possibility of transition to an open-loop instrument.	Ministry Local Government	B
22	Expand the number of public services that could be paid with digital payments.	MoF	N

Legend: Priority: B: Basic level; N: Normal level; H: High level

2. Introduction

9. **This technical note, prepared as part of the Financial Sector Assessment Program, analyzes the financial inclusion and digital financial services landscape in Botswana.** The note considers developments in the fintech ecosystem, as far as they relate to the provision of digital financial services, with a focus on payment services and the accompanying infrastructure to build other value-added products. The technical note attempts to describe the existing initiatives of the authorities and: (i) provides a high-level description of the financial sector, the state of financial inclusion in Botswana, and the digital financial service market; (ii) conducts an analysis of the issues and gaps observed; and (iii) recommends measures that could be considered by the authorities for achieving various public policy objectives. The note was developed as part of the Botswana Financial Sector Assessment Program, conducted by the World Bank during October and November 2022. The information used in the assessment includes relevant national laws, regulations, rules, and procedures governing financial services, available as of the 1st of November 2022.

10. **The mission used existing guidance notes and good practice documents to provide a framework for the analysis in this Technical Note.** In particular, these include the Payment Aspects of Financial Inclusion (PAFI) framework, jointly developed by the World Bank and the Committee on Payments and Market Infrastructure (CPMI), and the Bali Fintech Agenda of the World Bank Group and the International Monetary Fund**.** Other key documents used include the 2017 Good Practices for Financial Consumer Protection[12] and the National Financial Inclusion Strategy[13] framework. For analysis of gender gaps in financial inclusion, the team has referenced a newly developed World Bank toolkit for the financial and economic empowerment of women.[14] While these documents vary in their approach, they have several elements in common. They are based on global insights and data, with an emphasis on country experiences. They also all offer a structured way to analyze gaps, key drivers for change, and policy options and discuss ways to coordinate among stakeholders for improved collaboration and implementation.

11. **Following the structure within the Payment Aspects of Financial Inclusion (PAFI) framework, we are evaluating the financial sector against a set of principles, the report is organized as follows:**

- **Executive summary**
- Introduction of the financial inclusion landscape; overview of providers of financial services
- Guiding principle 1: **Public and private sector commitment:** Commitment from public and private sector organizations to broaden financial inclusion is explicit, strong, and sustained over time.
- Guiding principle 2: **Legal and regulatory framework:** The legal and regulatory framework underpins financial inclusion by effectively addressing all relevant risks and by protecting consumers, while at the same time fostering innovation and competition.
- Guiding principle 3: **Financial and ICT infrastructures**: Robust, safe, efficient, and widely reachable financial and ICT infrastructures are effective for the provision of transaction accounts services, and also support the provision of broader financial services.
- Guiding principle 4: **Transaction account and payment product design [all products]**: The transaction account and payment product offerings effectively meet a broad range of transaction needs of the target population, at little or no cost.

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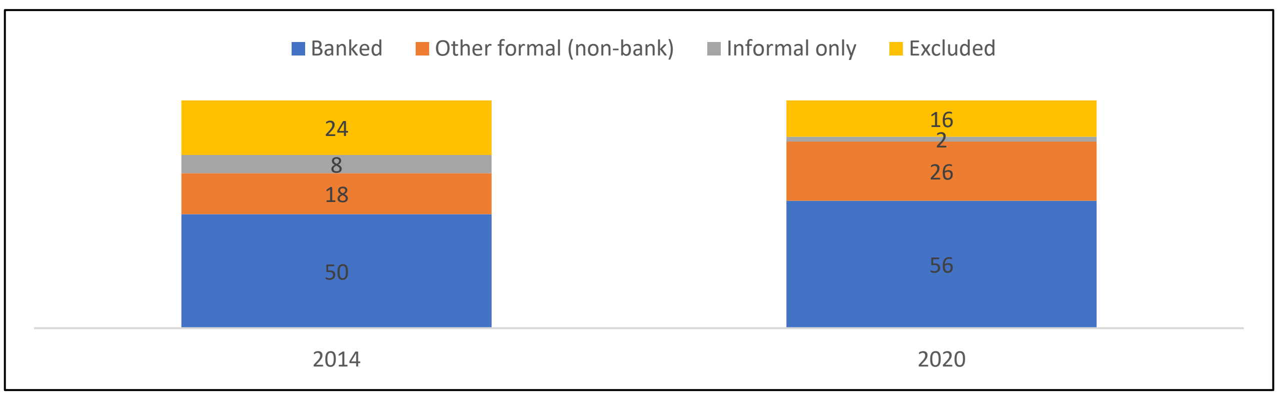
[12] Good Practices for Financial Consumer Protection 2017
https://www.worldbank.org/en/topic/financialinclusion/brief/2017-good-practices-for-financial-consumer-protection
[13] Developing and Operationalizing a National Financial Inclusion Strategy: Toolkit, 2018
https://www.worldbank.org/en/topic/financialinclusion/brief/financial-inclusion-strategies-resource-center
[14] Using Digital Solutions to address barriers to female entrepreneurship: A Toolkit, 2021, World Bank (forthcoming)

- Guiding principle 5: **Readily available access points**: The usefulness of transaction accounts is augmented with a broad network of access points that also achieves wide geographical coverage, and by offering a variety of interoperable access channels.
- Guiding principle 6**: Awareness and financial literacy:** Individuals gain knowledge, through awareness and financial literacy efforts, of the benefits of adopting transaction accounts, how to use those accounts effectively for payment and store-of-value purposes, and how to access other financial services.
- Guiding principle 7: **Large-volume, recurrent payment streams:** Large-volume and recurrent payment streams, including remittances, are leveraged to advance financial inclusion objectives, namely by increasing the number of transaction accounts and stimulating the frequent usage of these accounts. G2P

3. Financial Inclusion Landscape

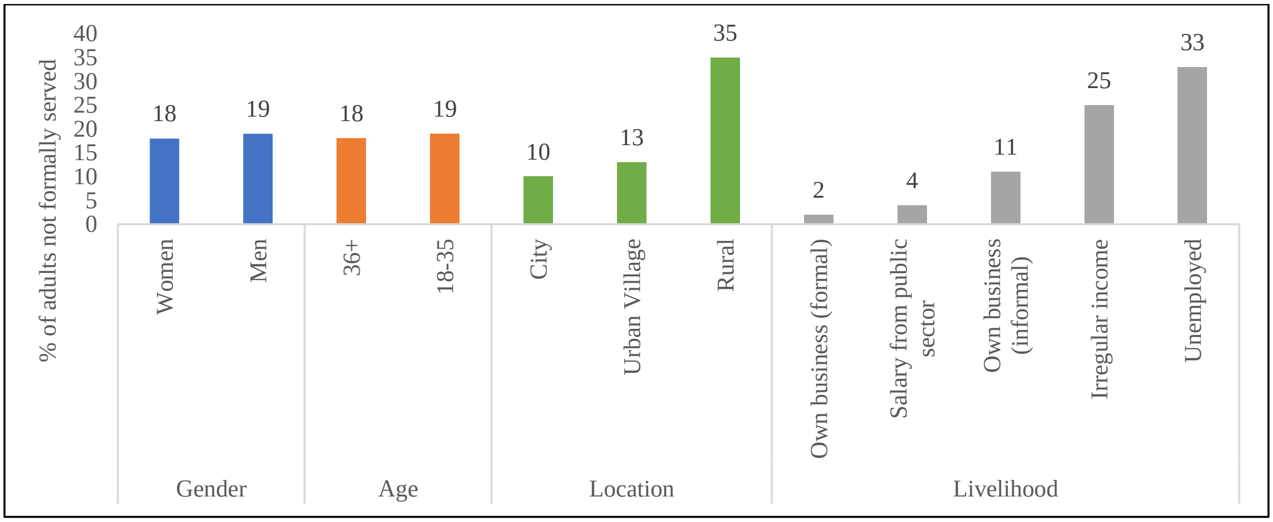
12. Botswana has seen a significant increase in financial inclusion with the number of adults with an account increasing from 68 percent in 2014 to 82 percent in 2020. 56 percent of the adult population have bank accounts, 26 percent are formally financially served only with non-bank financial institutions services, two percent make use of informal financial services and 16 percent remain excluded. The financially excluded adults are predominantly unemployed or irregular earners and live outside of cities and towns. Gender is not a key determinant of financial exclusion with 18 and 19 percent of men and women not served by formal financial services, respectively. However, men are more likely than women to have a bank account: 60 percent of men have a bank account versus 52 percent of women. While Botswana has made a significant improvement there is still a challenge with including rural, irregular earners and the unemployed that remain unserved. For those individuals who are financially included, more could be done to deepen their inclusion through more frequent account usage, improved financial capability and adoption of digital channels.

Figure 1: Financial Access Strand, percentage of the adult population, percent



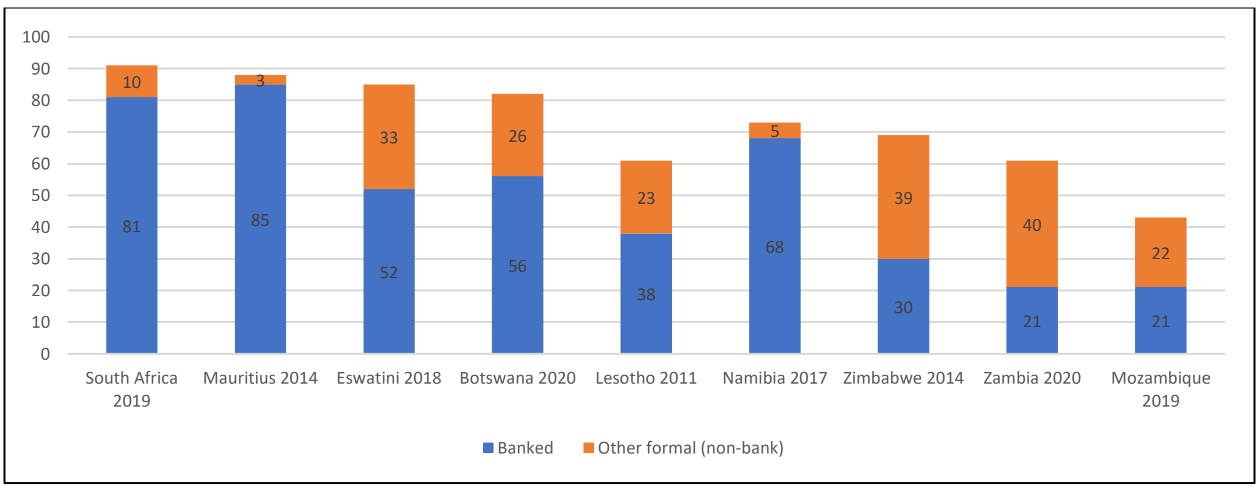
Source: Botswana Finscope, 2020

Figure 2: Botswana's financially excluded are mostly rural, irregular earners or unemployed, gender and age is not a major determinant.



Source: Finscope, 2020

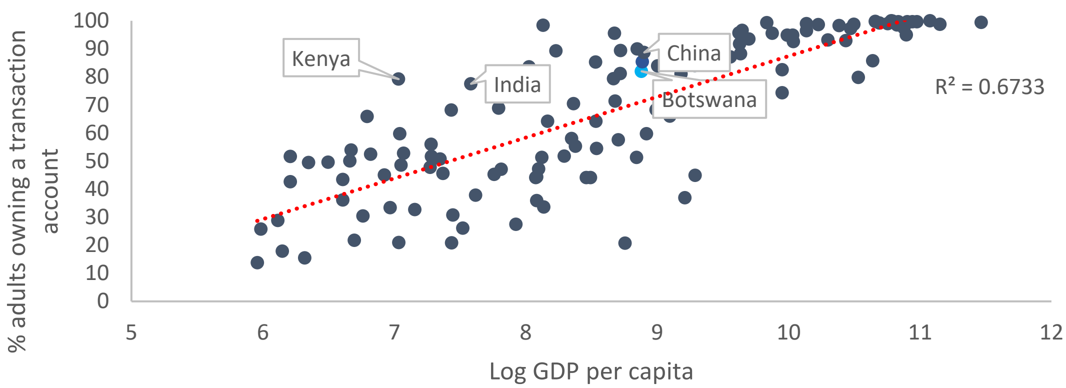
Figure 3: Financial inclusion versus regional peers, percentage of the adult population.



Source: Botswana Finscope, 2020

13. Botswana performs well versus regional peers with 82 percent of adults formally served, slightly lagging regional leaders South Africa (90 percent) and Mauritius (88 percent) according to Finscope. Globally, there is a strong correlation between economic development and account ownership, where economic development, measured by GDP per capita, accounts for approximately 67 percent of the variation across countries. While the post-pandemic Global Findex data on Botswana has not yet been released, the Finscope data from 2020 indicates that Botswana's financial inclusion is in line with its level of economic development. Some comparator countries have also managed to outperform the trendline and this can usually be attributed to their innovative policy approaches, e.g., regulatory support to grow mobile money in Kenya and the rollout of the Indian Aadhaar digital national ID system.

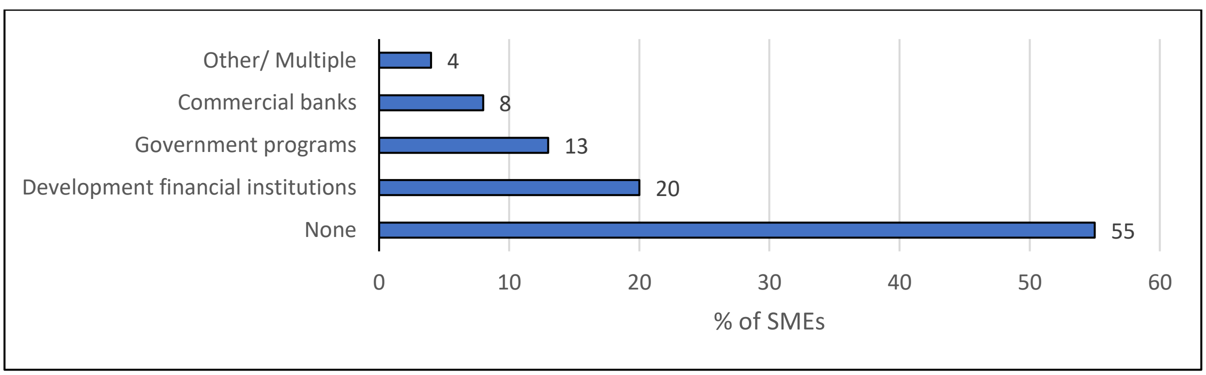
Figure 4: Financial Inclusion in Botswana is in line with its peer group, considering its overall economic development.



Source: World Bank Global Findex (2017); World Bank World Development Indicators (2017), Finscope 2020

14. Access to finance for micro, small, and medium enterprises (MSME) is constrained. The International Finance Corporation (IFC) estimates that the MSME financing gap in Botswana is 18.55 percent of the gross domestic product (GDP), slightly higher than in most neighboring countries[15]. A 2019 survey of SMEs in Botswana found that 55 percent indicated that they had not accessed any finance in the last three years[16]. The SMEs that did access finance mostly made use of development financial institutions (20 percent) and government programs (13 percent). Only 8 percent of SMEs borrowed from banks - a relatively low figure considering that the banks are the primary providers of credit in the market. Recent legislative developments, including the Credit Information Act, 2022 and the Movable Property Securities Interest Act, 2021 should facilitate improvements in SME lending by combatting information asymmetry and allowing the usage of movable collateral to access finance. The FSAP Technical Note on MSME access to finance will cover this topic in greater depth.

Figure 5: SME source of finance, percent of surveyed firms



Note: Respondents were asked: 'Referring to the last three full calendar years, did this establishment access funding from any of the following types of institutions?'
Source: International Trade Centre, 2019; based on SME competitiveness data collected by LEA in Botswana

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[15] SME Finance Forum, "MSME Finance Gap," https://www.smefinanceforum.org/data-sites/msme-finance-gap.

[16] International Trade Centre, "Promoting SME Competitiveness in Botswana: A Bottom-Up Approach to Economic Diversification" (ITC, Geneva, 2019).

4. Overview of the financial providers' ecosystem

15. There are currently nine commercial banks operating in Botswana, all foreign-owned subsidiaries except for BBS Bank Limited. The smallest bank exited the market in June 2021 and in October 2022 BBS was granted a commercial banking license by BoB. The four largest banks are dominant in Botswana's banking sector owning 79 percent of the banking system's assets, down from 90 percent a decade ago.

Table 2: Types of financial service providers in Botswana, 2020

Financial Institution	Number of Institutions	Assets (In millions, Botswana Pula)	Assets (In millions, US Dollars)[17]
Banking Sector	**12**	**111,446**	**9,820**
Commercial Banks	9	103,259	9,098
Statutory Banks	2	4,078	359
Building Societies	1	4,109	362
Non-Bank Sector	**786**	**129,136**	**11,378**
Life insurance	8	18,041	1,590
General insurance	12	2,417	213
Re-insurer	4	536	47
Retail and Private	…	7,346	647
Retirement Funds	87	91,823	8,090
Capital Markets	37	721	64
Microlenders (Top 20)	20	6,352	556
Others[18]	618	1,936	171
Total	**799**	**240,582**	**21,197**

Source: BoB, NBFIRA

16. There is one small deposit-taking microfinance institution, Women's Finance House Botswana (WFHB) or *Thusang Basadi*, that sits under BoB supervision, although it operates through a regulatory exemption. WFHB runs a saving-lending program and business training for women in MSME businesses. They serve women who are not currently supported by financial institutions and provide them with basic business training, financial management and record keeping skills. Small, self-selected groups of three-to-five women in the program are expected to save small amounts daily for three months before applying for a loan. WFHB pays an annual interest rate of 8 percent on savings and charges 5 percent of the total value of the loan in interest (these loans last from 5 months to 8 months).

[17] Conversion rate 0.9446

[18] Does not include 83 SACCOS, Botswana Department for Co-operative Development, 2020

17. The non-bank credit sector is dominated by micro-lenders (233); finance companies (56), leasing companies (3) and pawn broking businesses (53)[19]. The six largest microlenders dominate the microlending industry with a 94 percent market share at the end-March 2022. These firms predominantly target government employees and offer term loans with a deduction at source arrangement. They typically charge interest rates of 2-4 percent per month. The remaining 227 microlenders have a 6 percent market share. Most of these firms do not have easy access to deduction codes (which provide access to government paycheck deductions) and predominantly offer pay day loans at a 25-30 percent interest rate[20].

18. There are three Mobile Network Operator (MNO) mobile money operators in Botswana. Growth in the take up of mobile money has been driven by women and younger adults, demonstrating its importance for financial inclusion. Uptake has also been supported by foundational levels of data connectivity, and the national ID system that allows agents to verify customers and conduct basic Know-Your-Customer (KYC), meanwhile, the solutions developed within the extant electronic signature framework seems scarcely used for remote onboarding. Mobile network coverage sits at 97 percent. 3G and 4G coverage are prevalent in urban areas, while the rest of the country is covered by 2G. Mobile money is typically used for person to person (P2P) payments as merchant acceptance of mobile money is limited as merchant accounts are yet to be developed and also because of lengthy settlement time.

19. There are two state-owned development finance institutions that support access to finance for small businesses and microentrepreneurs. These are the National Development Bank (NDB) and Citizens Entrepreneurial Development Agency (CEDA). The NDB is fully owned by the state and sits under the Minister of Finance and Development Planning. It provides development finance throughout the agricultural value chain and it is in the process of transitioning to become an "agri-bank". The Citizen Entrepreneurial Development Agency (CEDA) is the newest among the state-owned development finance institutions and was established in 2000. It aims to support entrepreneurship through financing projects and entrepreneurs that would not normally be funded through commercial banks. It also has a group-lending microfinance product. It is overseen by the Ministry of Entrepreneurship.

20. The Botswana Building Society (BBS), previously a state-owned development finance institution, recently obtained its commercial banking license. BBS was initially structured as a mutual society and has since de-mutualized and has now established itself as a commercial bank. While they are now a private commercial bank, the government continues to retain a 15 percent stake. BBS recently launched their Visa card, and they are ramping up their digital capability with opening customer accounts using their new core-banking system. Banking was previously conducted using "pass books."

21. The Savings and Credit Cooperatives (SACCOS) are currently managed under the Department of Cooperative Development under the Ministry of Trade and Industry in accordance with the Cooperatives Societies Act. According to the Botswana Cooperative Association (BOCA) which is the Apex organisation, there are 83 financial cooperatives (out of a total of 315 registered Cooperative Societies)[21]. There are 33 600 financial cooperative members. The Department of Co-operative development indicates that financial cooperatives should provide a 6 to 8 percent annual interest on savings and charge 12-14 percent annually on loans. Given their status as cooperative institutions, members are not taxed on their interest earnings from savings.

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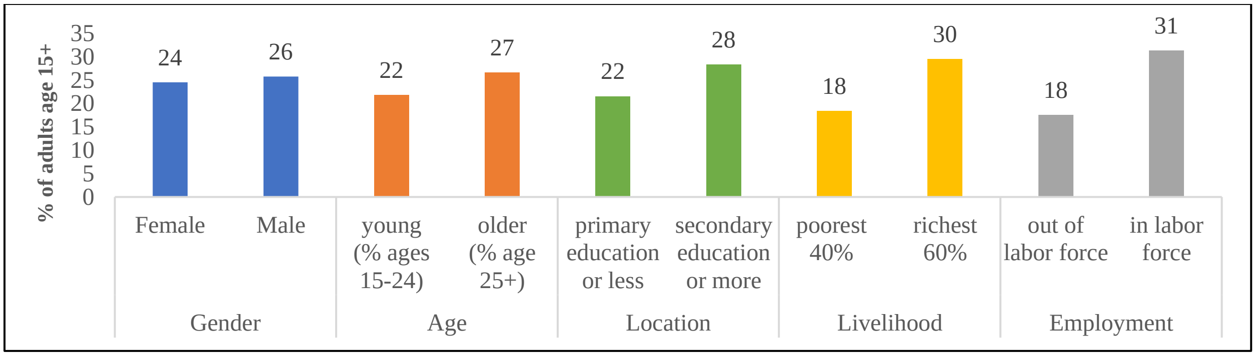
[19] NBFIRA, 2022

[20] NBFIRA 2022

[21] Department for Co-operative Development, Highlights for Botswana Co-operative Movement and Calendar of Events for the Year 2019/2021, 15 January 2020

22. **Metshelo, or informal savings groups, are an essential component of the informal financial sector.** A motshelo is an informal savings group where each member adds to the pool of money on a monthly basis. This money is then lent out, usually to one of the members, and an interest fee is charged to the borrower. The World Bank Global Findex survey found that 25 percent of adults (15 years and older) saved using a savings club or a person outside the family. Men (26 percent) and women (24 percent) are broadly in line with each other in terms of usage. Older, more educated and employed adults are more likely to use a savings group than younger, less educated, unemployed adults.

Table 3: Saved using a savings club or a person outside the family, percent



Source: World Bank Global Findex, 2017

23. **In addition to creating a culture of savings and an informal avenue for borrowing, metshelo also play an important financial literacy role.** This is particularly important for groups that are financially excluded, less educated or residing in rural areas. The system is operated on a trust basis and is unregulated. Metshelo are used across the different income groups in Botswana and are considered to be both customary and practical. Often, the members of these metshelo have limited digital and financial capabilities. However, they could also benefit from digitization, and the adoption of digital technologies could allow members to learn from one another and improve record-keeping and social cohesion. Many formal financial sector players have developed products to facilitate these arrangements. Some commercial banks have created dedicated motshelo accounts that can have multiple members and signatories for the account. MNOs have also started to develop and market motshelo group savings accounts.

Box 1: The benefits of digital savings groups

Informal savings groups are often established by individuals who cannot easily access formal financial institutions. These groups provide an opportunity for members to save and borrow. Studies have found that the digitization of informal savings groups, through digital bank or mobile accounts, information sharing or bookkeeping, has many benefits. Digitizing savings groups can improve access to credit. This is because most low-income informal savings groups are capital constrained. By digitizing, these groups will have a record of their savings behavior and could have the option of borrowing a larger line of credit against their savings, as was the case in Rwanda, where a product called SAVE by Exuus can be used for this purpose[22]. In Tanzania, the use of a digital ledger, Dreamsave, helped informal savings groups to automate their loan repayment, savings, and balance calculations. This, in turn, helped members to significantly reduce the time it takes to conduct meetings while maintaining the trust and social cohesion of the group. Digital automated reminders generated by the app helped to meet and maintain savings targets. The digitization also reduced disputes over the accuracy of bookkeeping by the group – decreasing

[22] Digital Savings Groups, Mark Staehle, SEEP Network, 2020

conflict by 63 percent[23]. They found that this digital bookkeeping also deepened the curiosity and interest of members to develop digital skills through smartphone usage.

24. **The insurance industry in Botswana has grown rapidly since 2008, primarily driven by the life segment, which has grown at about 20 percent per year.** There are 23 insurance companies, including 8 life insurers, 12 general insurance, and 3 reinsurers. There are also 5 medical aid funds and 193 intermediaries. The life segment has been driven by low-cost funeral coverage as well as credit-life coverage, which is driven by loans from microlenders. Meanwhile, the nonlife segment has grown at a slower rate of 10 percent per year. There is currently no microinsurance regulatory framework. There are also no dedicated agriculture insurance players, although the Agriculture Credit Guarantee Scheme does provide some cover for dry-land farmer debts.

25. **In regard to retirement funds, Botswana has one of the highest pension assets-GDP ratios in the world.** Despite this, retirement fund uptake in Botswana is relatively low, with only 14 percent of adults indicating that they saved for old age versus the developing country average of 19 percent[24]. The retirement funds subsector accounts for 70 percent of household wealth and comprises provident funds, pension funds, and annuity funds. The sector includes 90 pension funds, 7 umbrella funds, and 5 fund administrators. The Government of Botswana also provides a universal noncontributory old-age pension. This pension is for all citizens who are 65 years old or older. The pension allowance is P 530 per month.[25] The pension can be collected at any Botswana Post office or deposited directly into the bank account of the beneficiary.

5. Public and private sector commitment

26. **The Botswana authorities have prioritized having a clear strategic direction for financial inclusion.** The 2015-2021 Financial Inclusion Roadmap reporting period has concluded and the national strategy for financial inclusion is being reworked for the next strategic period. The Making Access Possible Botswana Financial Inclusion Refresh was published by the United Nations Capital Development Fund (UNCDF) in 2021, to reflect on the achievements and shortcomings of the previous financial inclusion roadmap. The 2015-2021 roadmap had targeted reducing the percentage of financially excluded adults from 24 percent to 12 percent during the period. During this time, the number of financially excluded adults decreased to 16 percent, a noteworthy achievement despite falling slightly short of the target. While many of the targets were achieved, particularly in mobile money and remittance space, financial access, usage and capability in savings, insurance and credit fell short.

27. **The new strategy, "The 2023-2028 Financial Inclusion Roadmap" is expected to be published in 2023, with the vision that "all Batswana regularly use financial services to transact, build local productive capacity and mitigate shocks".** The top-line financial inclusion targets identified in the strategy include: i) to decrease the financially excluded from 15 percent in 2022 to 5 percent in 2027 and increase depth[26] of usage from 50.1 percent to 60 percent over the same period, ii) implement legislative reforms that will bolster innovation and increase

[23] Digitizing Savings Groups: Evidence from Tanzania, Understanding the impact of digital ledgers on women's savings groups, Julia Arnold, International Center for Research on Women (ICRW), 2020

[24] World Bank Global Findex, 2017

[25] It provides a monthly payment of P 530 that is funded through government revenue. Between 2009 and 2016, the benefit cost 0.3 percent of GDP per year. Over 98 percent of the elderly are registered for the program.

[26] The proportion of adults using more than one formal financial product type (i.e., insurance, credit, savings and payments)

financial services especially for the low income, low education and rural adult groups; and iii) to support local productive capacity development by increasing MSME specific products. The Roadmap will be carried out by multiple stakeholders and the Ministry of Finance has established the National Financial Inclusion Task Team (NFITT) to develop policy, coordinate, implement and monitor the strategy. It is essential that the NFITT is constituted with sufficient budget and capacity.

28. The new financial inclusion roadmap should be adopted, and a monitoring and evaluation (M&E) framework and rigorous progress review methods should be assumed to ensure appropriate implementation tracking. Policymakers should also prioritize improving data collection infrastructure so that there is a comprehensive collection of both demand-side and supply-side data. The collection of demand-side data through the Finscope Survey is enlightening, but more can be done to drive supply-side data, e.g., geospatial-linked data on financial access points and loan data disaggregated by firm size. The World Bank "Toolkit for the Developing and Operationalizing a National Financial Inclusion Strategy" can also guide the next strategic period.

Box 2: Key Success Factors for NFIS Development and Operationalization

The World Bank's Toolkit for Developing and Operationalizing a National Financial Inclusion Strategy identifies ten success factors based on the NFIS experiences of dozens of countries:

1. Early and sustained engagement of relevant stakeholders—including the private sector—to create broad buy-in and align efforts across financial and nonfinancial policy areas

2. Investment in data and diagnostics work to ensure that the NFIS is grounded in a robust evidence base and accurately identifies constraints and opportunities relevant to the achievement of greater financial inclusion

3. Identification of high-level champions within key institutions who can integrate relevant NFIS actions into institutional work plans and advance their implementation

4. Clear articulation of NFIS objectives and targets to ensure a shared understanding of expected outcomes

5. Prioritization of forward-looking NFIS actions that emphasize digital approaches, proportionality, and the needs of financial consumers

6. Establishment of inclusive but efficient governance arrangements to facilitate collaboration and consultation throughout the NFIS implementation period

7. Mobilization of resources prior to NFIS launch—including those needed for "quick win" actions and Secretariat staff—to build momentum and demonstrate credibility

8. Effective communication and branding of the NFIS, including the signaling of early implementation successes

9. Flexibility to adapt NFIS elements during implementation to reflect market developments and emerging policy priorities

10. A well-resourced and robust monitoring and evaluation (M&E) system to track implementation progress, identify bottlenecks, and inform course corrections

Source: World Bank, 2018. Toolkit for the Developing and Operationalizing a National Financial Inclusion Strategy.

29. Sex-disaggregated data are important in order for the authorities to understand, and address inequalities as the economy recovers from the COVID-19 pandemic. Sex-disaggregated data are lacking to evaluate government and private sector initiatives and programs. Such data are essential to identifying challenges and opportunities to drive deeper financial inclusion and economic development. This data can then be used by regulators to develop policies through evidence-based financial inclusion policymaking[27]. This data could be gathered by the public sector through its financing schemes for individuals and small businesses as well as the private sector through appropriate tracking and reporting by the financial services sector. While the banking sector is often well placed to collect sex-disaggregated data, other financial service providers, including mobile payment providers, microlenders, insurers, retirement funds and others will also be able to provide insightful data. The outcome of this effort would be to develop a more gender-inclusive financial sector that decreases the financial inclusion gender gap. To do this, the government should require sex-disaggregated data for project appraisal and reporting and the BoB and NBFIRA should consider requesting gender-disaggregated data from the financial institutions that they supervise.

30. Investments placed with Botswana Savings Bank (BSB) are tax-free and have the potential to distort the market. BSB is a statutory bank under the 1992 Botswana Savings Bank Act. The bank was established to encourage a culture of savings in the country by offering attractive savings products, often in hard-to-reach areas. 97 percent of BSB's customers are civil servants, and 80 percent of their loan book is issued with a repayment modality of deduction at source, thus meaning the installment is deducted from debtor's salary. They also offer save-as-you-earn options where customers can opt for deduction at source savings. Their distribution network was historicallybolstered by their partnership with Botswana Post, although this partnership has now been terminated. They made use of 125 Botswana Post offices which were an interface for customers to cash in and out. While the business activities of BSB support the financial inclusion agenda, they could lead to potentially harmful market distortions. The savings deposits of customers who save with BSB receive a tax exemption on their interest earnings. While it is an encouraging incentive for low-income earners, it could be abused by high-income individuals who may attempt to avoid tax.

31. Citizen Entrepreneurial Development Agency (CEDA) offers a microfinance product, Mabogo-Dinku, which is a short-term group-loan product for micro-enterprises. Micro-enterprises can use these funds for operational expenses, working capital or capital expenditure for equipment. A group of 5-15 members is required to qualify for the loan where each member is willing to co-guarantee their fellow members. Each member should be a micro-entrepreneur. Members are also expected to save on a monthly basis and these savings are deposited in an Absa Motshelo account. These groups meet on a regular basis to ensure that the loans are being repaid by members. Currently, this product has around 5000 members. CEDA also launched a microfinance product for individuals operating in the informal sector in 2020. The product, *Letlhabile*, was initially set up to support informal microenterprises during the COVID-19 pandemic. However, CEDA is looking to extend this program going forward. CEDA microfinance lending is constrained by a lack of capacity and the heavy administrative burden required to execute a group community-based microfinance product.

32. The Government and its agencies could consider the use of business process automation and innovative technologies to reduce the timing between the application for a grant or a loan its disbursement. Nowadays the evaluation and processing of grant requests and program loans offered by public institutions for different programs is reported on average to have a lead time above five business days. Meanwhile, the processing time for commercial loans could be as fast as intra-day. Such rapid consumer loan application processing is made possible by extensive use of technology and process automation. The most advanced practices observed in the market embedded the use also from alternative data sources for consumer credit scoring.

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[27] Sex-disaggregated data narrows the financial inclusion gender gap, AFI, Dr. Settor Amediku and Taty Azman, 2020

6. Legal and regulatory framework

33. The Bank of Botswana is entrusted with the responsibility to ensure that the country's payment system be efficient and that the national credit and financial system is functioning properly. The Bank of Botswana Act, 1996, as amended, established the BoB as the central bank of the country, and attributed to BoB as its primary function "*to promote and maintain monetary stability, an efficient payments mechanism and the liquidity, solvency and proper functioning of a soundly based monetary, credit and financial system in Botswana*" (art. 4(1)(a)).

34. The Bank of Botswana has the sole right to issue notes and coins. The Bank of Botswana Act also establishes that the monetary unit of the country is the Pula (art. 20). The BoB has the sole right to procure the printing of notes and the minting of coins denominated in Pula (and Thebe) and to issue them into circulation. No person other than the BoB or an entity duly authorized by the BoB is thus permitted "*to issue in Botswana notes or coins, or any documents or tokens payable to bearer on demand, having the appearance of, or purporting to be, or which are likely to pass as or be confused with legal tender*" (art 22). Notes and coins issued payment of any amount; (b) in the case of coins, for the payment of an amount not exceeding P100.

Box 3: Differentiated banking licensing framework to enable innovation and inclusion

A few countries created a wider set of banking licenses to facilitate the financial service providers to operate a specific set of services, mostly related to the provision of transaction accounts.

- Payment Banks – Nigeria and India. A licensing framework for smaller-scale operations banks, focusing on the sales and operation of transaction accounts. and the absence of credit risk and foreign exchange operations.
- Small Finance Bank – India. A framework for licensing small banks and other differentiated banks. Differentiated banks serving niche interests, local area banks, payment banks etc. are contemplated to meet credit and remittance needs of small businesses, unorganized sector, low income households, farmers and migrant work force
- Digital Bank – Singapore, Malaysia, Georgia. A licensing framework for digital banks that aims to enable the innovative application of technology to uplift the financial well-being of individuals and businesses and foster sustainable growth. This includes expanding access to and promoting responsible usage of suitable financial solutions to unserved and underserved segments.

Source: Malaysia: https://www.bnm.gov.my/documents/20124/938039/20201231_Licensing+Framework+for+Digital+Banks.pdf; Nigeria: https://www.cbn.gov.ng/Out/2020/CCD/APPROVED%20REVIEWED%20GUIDELINES%20FOR%20LICENSING%20AND%20REGULATION%20OF%20PAYMENT%20SERVICE%20BANKS%20IN%20NIGERIA-27AUG2020.pdf; India: https://rbi.org.in/scripts/bs_viewcontent.aspx?Id=2901; Singapore: https://www.mas.gov.sg/regulation/banking/digital-bank-licence

35. Banks are licensed and supervised by the Bank of Botswana. No specific mention is made in the Banking Law of payment services. The Banking Act, 1995 allocates the power to license and supervise banks to the BoB. However, the definition of 'bank' does not specifically refer to payment activities, but rather to the sole activity of deposit-taking and lending. According to Article 2, 'banking business' means "*(i) the business of accepting deposits of money repayable on demand or after fixed periods or after notice, as the case may be, by cheque or otherwise; and/or (ii) the employment of deposits in the making or giving of loans, advances, overdrafts or other similar facilities and in the making of investments or engagement in other operations authorized by law or under customary banking practice, for the account of, and at the risk of, the person or persons accepting such deposits, and includes the discounting of commercial paper, securities, and other negotiable instruments, to extend loans or other credit facilities*". The Banking Act, of 1995 foresees only one type of banking license, and clear requirements are expressed on how to open and manage physical branches. Several non-banks expressed a need for more differentiated licensing requirements that enables them to expand their product portfolio in a safe and sound manner without the cost and operational implications of a commercial bank license. Non-banks will need to assess whether the newly introduced Banking Act[28] creates more favorable conditions.

36. Non-bank financial institutions are regulated and supervised by the Non-Bank Financial Institutions Regulatory Authority (NBFIRA). The Non-Bank Financial Institutions Regulatory Authority Act, 2016 (NBFIRA Act) established the constitution of NBFIRA as the supervisory authority of non-bank financial institutions, charged *inter alia* to ensure financial stability and protect against financial crime (Art. 4). Non-bank financial institutions under the NBFIRA Act are: asset manager; administrator of a retirement fund; central counterparty; central security depository; collective investment undertaking, custodian; finance or leasing company; friendly society; insurance agent; insurance broker; insurer; international insurance firm; investment adviser; management company for collective investment undertakings; market maker; microlender; retirement fund; securities broker or dealer; securities exchange; transfer agent or transfer secretary; pawnbroker; medical aid fund; trustee of a collective investment undertaking or retirement fund; securities institution; financial group; micro-lending agent; participant; pawnshop; trustee; any other entity so declared by the Minister of Finance (Art. 2).

37. The NBFIRA Act, 2016 provides the primary legislation for non-bank lenders. Micro Lending Regulations, 2012 provide the legal foundation for non-bank microlenders in Botswana. A draft NBFIRA Non-Bank Lenders Bill is being developed as a consolidated primary legislation that is to set out the regulatory framework for all Non-Bank Lenders falling under the regulatory framework of NBFIRA. The current regulatory landscape only provides regulations for microlenders, whereas the proposed Non-bank Lenders Bill would also provide regulation for finance companies, leasing companies and pawn shops. The draft Bill will revise the definition of reckless lending, giving NBFIRA the power to determine a maximum interest rate and put guardrails in place to minimize over-indebtedness. While consumer protection is embedded in NBFIRA mandate, the Competition and Consumer Authority (CCA) is the main custodian for supervision of consumer rights.

38. The securities market is also regulated by the Securities Act, which defines *inter alia* institutions for post-trading such as 'central counterparty,' 'central security depository' and 'custodian.' Before the enactment of the NBFIRA, the Securities Act, 2014 established principles and rules for the working of the securities market and the provision of financial services. In particular, central securities depositories (defined as 'a facility for the deposit of securities, clearing and settlement of securities transactions, whether physically, electronically or otherwise': art. 2) are required to establish requirements for the deposit of securities, clearing, settlement, and transfer of securities in dematerialized form (Art. 19). These must be compliant with both the Securities Act and the National Clearance and Settlement System Act (*below*) and be approved by the BoB and the NBFIRA. 'Central counterparty' is defined as 'an entity that legally interposes itself between the counterparties to the securities traded within one or more financial markets, becoming the buyer to every seller and the seller to every buyer, while 'custodian' is defined as 'a person who holds securities or cash on behalf of another person for safe keeping' (art. 2). Finally, the Securities Act contemplated dematerialization of securities, defined as a process through which the ownership of securities held in the form of certificates are converted into electronic form' (art.2).

39. Payment, clearing, and settlement systems are overseen by the Bank of Botswana through a mechanism of 'recognition.' Non-recognized systems are outside the scope of the BoB oversight and the provisions of the National Clearance and Settlement System Act do not apply to them. The National Clearance and Settlement

[28] Banking Bill, 2023, Bill No 1, 2023 Botswana Government Gazette dated 13th January 2023.

System Act, 2003 establishes the rules and procedures under which a payment, clearing and settlement system, relating to both payments and securities/financial instruments' transfers, is recognized by the Bank of Botswana. The finality of payments is protected for recognized systems, whereby any settled transaction shall be final and irrevocable and shall not be reversed or set aside for any reason, including in the event of bankruptcy or insolvency of the payer provided the transaction entered the system prior to declaration of insolvency or bankruptcy. Recognition criteria and oversight are based upon the Bank of Botswana Policy Guidelines on Recognition of Clearance and Settlement System Operators, 2009. While the provisions embedded in the Act, as well as the Guidelines, are generally consistent with international best practices, the evaluation procedure to be followed for the recognition according to the Guidelines imposes the request by the Bank of Botswana of the recommendation in respect of the recognition of the service provider of the country's Clearing House and its participants.[29] This specific requirement grants incumbent payment service providers and operators to have a say over the entry into the market of new entrants. This might represent an obstacle to the competitiveness of the market and, thus, its development.

40. Electronic payments and e-money are regulated by the Bank of Botswana, and entities providing such services are licensed by the Bank of Botswana and subject to its oversight. Based on its powers under the Bank of Botswana Act, 1996 to ensure "*an efficient payments mechanism*" (art. 4(1)(a)), the Bank of Botswana issued in 2019 the Electronic Payment Services Regulations, establishing standards and conditions for the licensing of entities intending to provide electronic payment services, i.e., issuance of e-money, its deposit on payment accounts, and execution of electronic transfers. Electronic transfers include in turn: direct debits, payments through cards, credit transfers, money, and remittance transfers, and issuing payment instruments. Protection of customers' funds as well as rules on outsourcing and agents, are also provided.

41. The Credit Information Act was passed on August 31, 2021, and it provides for the regulation of the credit reporting system as well as the licensing and supervision of credit bureaus by the BoB. This Act provides the legal framework within which borrowers positive and negative financial information will be made available to improve access to credit by borrowers. Once established, the national registry should ensure high-level data interoperability between credit bureaus or registries in Botswana. The new act will need to be communicated clearly to financial institutions as well as consumers ensuring that there is a common understanding of its benefits, purpose, obligations, and use.

42. The Financial intelligence Act, 2022,[30] defines the requirements for performing customer due diligence (CDD). The Act clarifies the operational requirement for enhanced and simplified due diligence (SDD), and specifies the cases of application, it also prohibits anonymous accounts, set the requirements for record keeping, the reporting obligations and how the authorities should supervise with the financial sector. The SDD requirements foresee that the institutions can: (a) verify the identity of the customer and the beneficial owner after the establishment of the business relationship; (b) reduce the frequency of customer identification updates; (c) reduce the degree of on-going monitoring and scrutinizing of transactions; and (d) not require specific information or carry out specific measures to understand the purpose and intended nature of the business relationship, but shall infer

[29] Art. 4, of the Policy guidelines for the Recognition of Clearance and Settlement System Operators. Source: https://www.bankofbotswana.bw/sites/default/files/Policy%20Guidelines%20on%20the%20Recognition%20of%20Clearance%20and%20Settlement%20System%20Operators_1.pdf

[30] Financial Intelligence Act, 2022: https://www.bankofbotswana.bw/sites/default/files/Financial%20Intelligence%20ACT%20No%202%20of%202022.pdf

the purpose and nature from the type of transaction or business relationship established. To note that NBFIRA already issued guidelines on SDD in 2021.[31]

43. The market could benefit from the drafting of guidelines for remote customer onboarding, by defining standards and practices for remote customer identification, and remote contract signature, so to ensure that financial institutions consistently implement solutions vis-à-vis the customers. Market participants reported inconsistencies in the interpretation and the application of CDD requirements for mobile money customers onboarding. Whereas some providers use the SDD process, others the standard CDD process. The different interpretation of the onboarding process creates distortions in the convenience of mobile wallet sales.

Innovation

44. Virtual asset business has been recently regulated by law and entities providing such services are now subject to the supervision of the NBFIRA. The Virtual Assets Act was adopted in 2022, applying to a) providers of virtual asset business and b) any operator involved in the formation, promotion, maintenance, organization, sale, or redemption of an initial token offering (ICO). A virtual asset is 'a digital representation of value that (i) may be digitally traded or transferred, and may be used for payment or investment purposes, or (ii) is distributed through a distributed ledger technology where value is embedded or in which there is a contractual right of use and includes virtual tokens. The definition excludes digital representation of legal tender and securities/other financial assets that are regulated under the Securities Act (Art. 2). Virtual asset business in turn includes a trade or business (a) that operate as an issuer of initial token offerings; (b) that provides services related to a virtual token exchange; (c) that operates as a payment service provider utilizing virtual assets; (d) that operates as a virtual asset service provider, including providing a distributed ledger platform which facilitates the (i) exchange between virtual assets and fiat currency, (ii) exchange between one or more forms of virtual assets, and (iii) transfer of virtual assets; or (iv) that participates in and provides financial services related to an issuer's offer or sale of a virtual asset as may be prescribed (Art. 2). Non-fungible tokens and electronic representations of fiat currency, security or any other financial asset under the Bank of Botswana Act or Securities Act (Art. 3(2)).

45. The NBFIRA, in some cases together with the BoB, has various regulatory and oversight functions and powers. According to the Virtual Assets Act, the NBFIRA is tasked with (a) licensing virtual asset service providers and issuers of initial token offerings; (b) regulating, monitoring and supervise the issuance of virtual assets and persons conducting virtual asset business in Botswana; (c) developing rules, guidance and codes of practice in connection with the conduct of virtual asset business and initial token offerings; (d) advising the Minister on all matters relating to virtual assets business; (e) promoting investor education and other conditions that facilitate innovation and development of virtual asset businesses within Botswana; (f) publishing notices, guidelines, bulletins and policies regarding the interpretation, application and enforcement of the Virtual Assets Act; (g) giving directions to, and take enforcement action against, a license holder. Further, (g) in collaboration with the Central Bank, it ensures the financial soundness and stability of the financial system in Botswana in respect of virtual assets. Also duly licensed banks need to apply for a specific license under the Virtual Assets Act to provide virtual assets business (Art. 10(3)).

46. Custodians of virtual assets must ensure segregation and protect customers' assets. According to the Virtual Assets Act, a license holder that has custody of one or more virtual assets for a customer must (a) maintain, in its custody, a sufficient amount of each type of virtual asset in order to meet the license holder's obligations to

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[31] NBFIRA Application of simplified due diligence on customers and related parties, 2021: https://www.nbfira.org.bw/sites/default/files/Guidance_Note_Simplified_Due_Diligence_2021.pdf

the customer; and (b) meet all financial requirements, as may be prescribed. The virtual assets must be held by the license holder for the customer entitled to the virtual asset, not be the property or virtual asset of the license holder, and not be subject to the claims of creditors of the license holder (Art. 20(1)).

47. Holders of a virtual assets business license must comply with professional conduct rules. The holders of a license must respect a number of conduct obligations established by the Virtual Assets Act, including confidentiality of customers' information (Art. 27), and data protection (Art. 28).

48. To improve consumer protection and reduce risk related to the use of crypto-assets for performing payments, the authorities may consider different – not mutually exclusive – lines of action. These include containment or regulation of the crypto sector or an outright ban of selected activities. In relation to the domestic acceptance of crypto-assets for as a mean of payment, currently the payee is not bound to accept crypto assets.

49. The Virtual Assets Act establishes conditions and procedures to grant a license. BoB and NBFIRA need to carefully evaluate the implications of crypto-assets being used for domestic and cross-border payments and clarify policy and regulatory framework. The Act contains various provisions on the criteria and conditions to obtain a license, details are described in the box below. Policies considerations should reflect on the opportunity to allow crypto assets to function as payment solution in the market. Virtual assets have exhibited a high degree of volatility and are considered an immature asset class given the lack of standardization and constant evolution. The use of virtual assets might present a number of risks, including liquidity risk, credit risk, market risk, operational risk, money laundering and terrorist financing risk, legal and reputation risks. In light of these risks, and the complexity that might stem for the authorities to monitor the functioning of virtual asset-based payment solutions, and the fact that the NBFIRA and the BoB should jointly monitor and address the activities of a virtual asset provider active in offering payment solutions, a thorough analysis of the crypto-asset-based implication of companies that intend to operate payment solutions is needed.

Box 4: Licensing requirements for virtual assets businesses

An applicant must submit (i) a business plan, including financial and operational projections, setting out the nature and scale of the virtual asset business activities proposed to be carried out, technological requirements and where applicable, staffing requirements, (ii) particulars of the applicant's arrangements for the management of the virtual asset business, (iii) policies and measures to be adopted by the applicant to meet the obligations under this Act and the Financial Intelligence Act, (iv) particulars and information relating to customer due diligence of each organizer, issuer, founder, investor, beneficial owner, security holder, director and officer of the virtual asset business (Art. 10(1)). The NBFIRA may *inter alia* take into account when granting a license: (i) the virtual asset business activities proposed to be carried out by the applicant; (ii) the capacity of the applicant to carry out the business activities; (iii) any international standard relating to a virtual asset business; (iv) any information obtained from a competent authority or comparable body; and (v) whether the granting of a license to the applicant may pose a risk to purchasers, investors or the public (Art. 11(3)).

50. Although both clearing and settlement systems, on the one side, and (electronic) payment services, on the other, are regulated, no overarching statutory act exists covering the National Payment System (NPS) and ensuring consistency across institutions and sectors. Innovative financial services emerging in other countries, often provided by non-financial third-parties institutions, such as information aggregation or payment initiation services, are currently not covered. Rules on interoperability, exchange of information, and protection of customers' data would be required in light of innovative emerging business models, modern technologies and new players.

51. A draft National Payment System Act (NPSA) was elaborated in 2021 to holistically regulate the national payment system and permit fully-fledged oversight by the BoB over the national payments system. The draft National Payment System Act (NPSA) establishes an overarching framework for the regulation and oversight of the national payment system by (a) attributing regulation, supervision, and oversight powers to the BoB over systems and service providers, (b) mandating a licensing/authorization mechanism for any systems in the country, as well as the provision of payment services. The BoB is charged with the task of regulating, supervising, and overseeing the operations of payment, clearing and settlement systems and payment services to ensure their safety and efficiency, as well as promoting the soundness, safety and efficiency, integrity, and reliability of payment, clearing and settlement systems in Botswana. To that end, it authorizes systems and licenses service providers, as well as issuers of payment instruments (Art. 10). Participants in systems also need authorization by the BoB (Articles 11 and 12).

52. In the draft NPSA, the BoB also promotes stability of the National Payment System (NPS) through cooperative and consultative governance arrangements with stakeholders, domestic regulatory authorities, and regional and other international authorities (Art. 6). The Act mandates the constitution of a National Payment Council 'provid[ing] direction and guidance' to the BoB on the modernization of the NPS, operational and technical standards for the NPS, and 'any other matter affecting payment services, clearing and settlement systems' (Art. 9). Third-party providers are defined as '*a person who as a regular feature of that person's business, accepts money or payment instructions from any other person for purposes of making payment on behalf of that other person to a third person to whom that payment is due, and is authorised or licensed to do so under this Act*' (Art. 4) and regulated: only duly authorized payment service providers or participants to a system, in addition to banks, can play as a third party provider and is subject to some obligations (Art. 20). The NPSA also includes provisions for the establishment and authorization of sandboxes (Art. 19-23). The NPSA when issued will repeal the National Clearance and Settlement System Act.

53. However, the draft NPSA as drafted requires some upgrading and some streamlining. The choice to draft an overarching statutory act on the NPS is highly commendable. Furthermore, the choice to include in such Act only high-level provisions and give the mandate to the relevant authorities (primarily, the BoB) to implement such high-level provisions through secondary measures adequately addresses the need for flexibility in regulating a dynamic market. However, the current draft should streamline the procedures and obligations of various providers as suggested in the Box below.

Box 5: Suggested upgrades for the NPSA draft

It is suggested that the draft NPSA be upgraded following the below guidelines:

First, payment systems should be licensed/authorized, while participants should not. Usually, when applying for a license, the payment system operator also submits the conditions for access to the system. The central bank thus authorizes the individual participants. Moreover, the current mechanism for designation of systemically relevant systems in the National Clearance and Settlement System Act should be preserved to permit the application of stricter standards to systemically relevant systems (following in particular the Principles of Financial Market Infrastructure (PFMI)). Designated systems are defined in the current draft, but it is unclear what role such a qualification implies within the structure of the NPSA.

Second, the draft should not prohibit an expansion of the automated clearing house (ACH), or settlement systems (BISS), participation to non-banks. As per the World Bank Global Payment System survey, the number of countries where supervised Non-Bank Financial Institutions (NBFIs) have direct access to the RTGS is 30 percent of the cases in 2020. Supervised NBFIs RTGS direct access is more common in high-income economies. In contrast, unsupervised NBFIs typically do not have direct access to RTGS systems. In only four cases, direct access was reported – all of them without access to central bank credit.[32] As well, the CPMI performed a survey focused on access on payment systems, this survey included 81 payment systems in CPMI jurisdictions and 103 payment systems in non-CPMI jurisdictions. The results embedded in its recent report[33] show that the majority (63%) of reported payment systems allow for formalized indirect access. Moreover, the report describes an increased interest in recent years from non-bank PSPs and/or foreign entities in having access to the payment system.

Third, payment services should be better defined, following a functional approach: activities should be qualified based on their economic function and risk, so those specific requirements can be applied according to circumstances. This should also include services provided by third parties, such as initiation service providers and aggregators. Such activities might be licensed as a category of payment services or autonomously regulated within the same framework, provided that they are covered.

Fourth, payment instruments should be regulated under a technology-neutral approach. Business models should not be affected by regulatory arbitrage. Some specific provisions (especially in terms of the protection of customers' funds) should be included for e-money products. On (Art. 39) it is currently unclear how the market can achieve the envisaged interoperability between different instruments in different systems; the provision of further guidance would be beneficial.

Fifth, it should be clarified that the National Payments Council is an advisory body to the Bank of Botswana and the proposed composition might incorporate a wider representation from the demand side like corporates, public administration, and consumer associations. As an example, the Euro Retail Payment Board, the governance body established by the European Central Bank, has a composition that reflects both the supply and the demand side of the payment market.[34] Whereas the supply side is represented by banks, payment service providers, e-money and payment institutions, the demand side is represented by retailers, internet retailers, business and corporates, SME association and national public administrations. In addition, the Eurosystem central banking community is also represented.

Finally, a number of specific issues could be addressed in the draft NPSA law: i) on (Art. 17), it may be considered to add an exemption based on the size of the system. For example, limited closed-loop systems like food stamps or loyalty schemes that allow the use of the account balance to purchase items; ii) on (Art. 27) on agent banking, it could be considered adding a definition of permissible activities, list agents' eligibility criteria, and introduce the concept of aggregator of an agent network manager or "super-agents",[35] that could simplify the scale-up of agency networks; and iii) on (Art. 22) the indication of a person that operates a sandbox shall be revised and clarified as it would be the BoB to operate the sandbox, and the application would allow operating into it, a definition of the regulatory sandbox is also needed.

[32] World Bank, Summary outcome of the fifth global payment system survey June 2020: https://documents1.worldbank.org/curated/en/115211594375402373/pdf/A-Snapshot.pdf

[33] BIS - CPMI: Improving access to payment systems for cross-border payments: best practices for self-assessments, 2022, https://www.bis.org/cpmi/publ/d202.pdf

[34] https://www.ecb.europa.eu/paym/groups/erpb/html/index.en.html

[35] Agent Management Toolkit, CGAP, 2011, https://www.cgap.org/sites/default/files/CGAP-Technical-Guide-Agent-Management-Toolkit-Building-a-Viable-Network-of-Branchless-Banking-Agents-Feb-2011.pdf

54. **The regulatory framework in Botswana misses specific provisions related to innovation management in the financial sector. The BoB and NBFIRA should define and implement a sound framework to facilitate innovation. The framework might include several innovation management approaches and devote adequate resources to support it.** Whereas the draft NPSA plans for the creation of a sandbox, a regulatory sandbox with a broad scope, covering all financial services, might better serve innovation. Several countries have identified a strategy for managing innovation and this encompasses several aspects, including the introduction of a regulatory sandbox, the creation of innovation hubs, accelerators, or innovation networks. The Box 6 presents information on the innovation process. Meanwhile, the creation of an

Box 6: Innovation Management in financial services

Authorities have several options to manage and promote innovation in their market. Whereas implementation differences are in place, three macro-approaches seem the most common.

Innovation Hub

- An innovation hub provides support, advice, guidance and even, in some cases, physical office space. The Botswana Innovation Hub is a live example of it.
- Usually, it allows entrepreneurs to have a single point of contact to identify opportunities for growth, and potentially navigate the regulatory, supervisory, policy or legal environment.

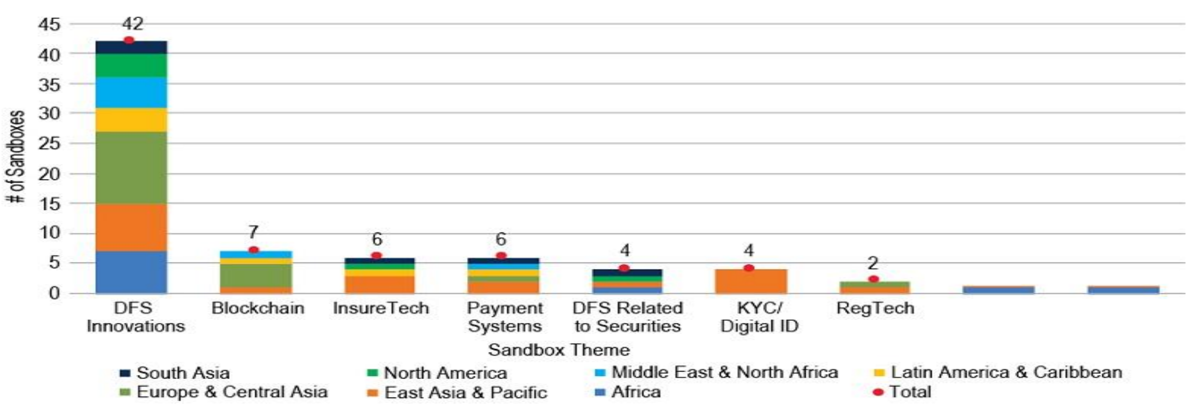
Innovation accelerator

- Accelerators often enable partnership arrangements between innovators / Fintech firms and government authorities or established companies / financial institutions to 'accelerate' growth, innovate on shared technologies, or develop use cases.
- Accelerators are often inward-focused in terms of solution development for SupTech and Regtech.

Regulatory sandbox

- A sandbox enables the testing of new products or services in the market through a controlled testing environment.
- The sandbox can monitor the innovations of regulated or unregulated firms, under specific limits or parameters, and can include tailored advice or guidance.

Figure 6: Number of Sandbox themes by region and focus area, 2020



Source: World Bank Global Brief on Regulatory Sandboxes, 2020

innovation department by the NBFIRA, with a focus on fintech and new business models, is commendable. The Bank of Botswana, through the December 2022 restructuring exercise, established a new Department, Strategic Planning and Risk Management Department, which is home to a Digitalization and

Innovation Hub whose mandate is threefold. It aims to facilitate innovation through regulatory sandboxing in collaboration with other financial services regulatory authorities, eliminate barriers to market entry, and facilitate the assessment of emerging innovative fintech under regulatory supervision. Further, the Digitalization and Innovation Hub Division is tasked to facilitate drafting an Inclusive Fintech Strategy that will enhance access to financial services and inclusion by 2028. The Fintech Strategy's drafting will leverage the establishment of a National Fintech Working Group comprising key market stakeholders representing both the demand and the supply side. Finally, the division is mandated to coordinate fintech matters at a national level.

55. In supervising the regulated entities, the NBFIRA and the BoB should consider performing an assessment of the current technologies used to carry over the supervisory and oversight functions and develop a roadmap for the adoption of supervision technology (**SupTech) solutions.** The use of SupTech refers to the use of technology to facilitate and enhance supervisory processes from the perspective of supervisory authorities. However, suptech implementation is about more than just using technology to gather, process, store, analyze and display data. It is an all-encompassing review of the supervisory processes, using modern technology, aimed at Increasing operational efficiency and enhancing supervisory effectiveness. Additional information in the box below.

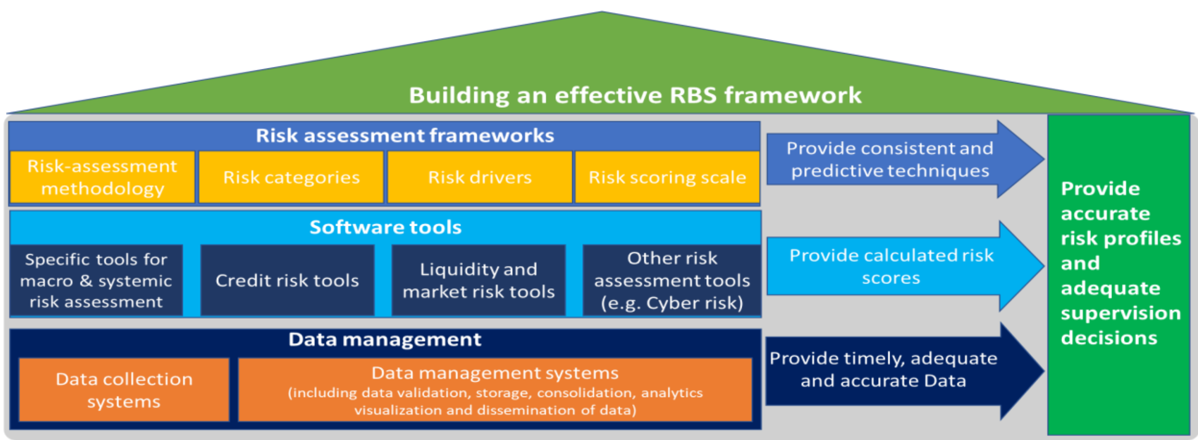
Box 7: SupTech and Regtech

Financial supervision technology (SupTech) refers to using advanced digital solutions to enhance the monitoring and regulation of financial institutions and markets. Several supervisory agencies are already using innovative ways to effectively implement a risk-based approach to supervision. Technological progress and data availability offer the potential to radically improve existing supervisory tools or develop better ones through Suptech applications. Standard-setting bodies published reports highlighting financial Suptech's evolution and its importance to effectively perform the supervisory activities.

Financial Suptech can help regulators and supervisors efficiently collect and analyze large amounts of data from financial institutions. SupTech can help identify potential risks and vulnerabilities and enable prompt and effective intervention to prevent or mitigate crises. However, its implementation should be carefully managed. Using advanced technology can create new risks, such as cyber threats, privacy breaches, and data biases. Regulators should, therefore, work closely with financial institutions and technology providers to ensure appropriate safeguards are in place. One useful approach to organizing Suptech solutions and technologies is through technology generations in relation to its data management function within any supervisory processes (data collection, processing, storage, analytics, and visualization).

SupTech can be a component to enhance and implement a strategic framework to build an effective risk-based supervision (RBS), by enabling efficient data management and tools to supervisors.

Figure 7: SupTech tools for a risk-based supervision (RBS) framework



RegTech, short for regulatory technology, refers to using advanced technological solutions to help financial institutions comply more efficiently and effectively with regulatory requirements. RegTech solutions can cover various regulatory areas. The goal of RegTech is to streamline compliance processes, reduce costs, and enhance the overall quality of compliance. As such, RegTech is an important tool for financial institutions to maintain regulatory compliance and manage risks associated with non-compliance.

The supervisory authorities could support the financial institutions in defining a roadmap for the implementation of RegTech solution, that could interlink with the SupTech ones.

56. **Innovation facilitators and targeted regulatory changes would bring more tailored financial products matching the intended end-use and reaching MSME employees and self-employed.** The development of tailored products like mortgage and education loans, alternative means to assess credit worthiness, and lowering the cost of onboarding and servicing customers could lead to greater availability of credit to the under-served segments. The

potential for P2P lending and crowdfunding to expand access to finance for individuals and entrepreneurs in a safe and sound manner could be evaluated. Especially considering that the culture of metshelo is ingrained in the financial culture of the citizens. Meanwhile, the fintech association reported that startups encounter funding challenges at the initial stages of development; entrepreneurs then usually leverage their own funds or “family and friends” network support to raise capital. Further targeted regulatory reforms on digital onboarding, and open banking[36] could bring in new processes, products, and market players.

Licensing

57. **The revised Banking Bill 2023 (Gazetted on 13 January 2023) includes additional provisions for the licensing of differentiated banking offerings.** The new Bill intends to accommodate and support innovation in the banking system and will do so through the licensing of banks including internet banking and deposit taking institutions. Several countries have in place a banking licensing system that foresees multiple types of banking licenses, for example regulators in Korea, Singapore and Hong Kong have created special tiers for digital banks. Such arrangements may have been motivated by broader policy considerations, rather than a strict analysis of risk profiles stemming from the range of permitted activities.

58. **The regulatory framework is perceived to be complex for potential new entrants to the financial sector.** Additionally, some market participants indicated that there is a lack of clarity in understanding the steps required for a financial institution to move from one licensing category to another. Licensing, whether this is for deposit-taking institutions or lenders, is opaque. This can constrain financial service provider diversification, innovation, and competition. The authorities could provide a single window for new market entrants. Such a single window could provide an interface between the different authorities regulating the market. The single window could be a component of the innovation management framework.

59. **The Department of Cooperative Development has identified three overarching challenges that are being experienced by the Savings and Credit Cooperatives (SACCOs).**[37] First, there have been cases of poor governance of the Management Boards and staff of Co-operative Societies. While some training and capacity building activities have been conducted by the Botswana Co-operative Training Centre, governance remains an issue. Second, specific financial cooperative regulations are lacking as the current Cooperative Societies Act applies to all cooperative societies, including non-financial ones. This can, in some instances, lead to the mismanagement of members' funds and abuse of office by the board and management teams. The Department of Cooperative Development has indicated that they expect the cooperative’s regulation to be updated soon. However, there is still a risk that this regulation will not deal directly with financial cooperatives. The new regulations should ensure that SACCOs and cooperatives active in the financial space are appropriately regulated to drive financial sustainability and good management practices. Finally, there have been instances of mismanagement of Co-operative funds which has led to the collapse of some Co-operative businesses. This has undermined the reputation of the financial cooperatives sector. Additionally, there is no clear graduation path for SACCOs that have grown their membership and wish to provide an extended service offering for their clients. This could be resolved with the creation of a new cooperative banking license by the Bank of Botswana or a tiered licensing system for banks.

[36] Open banking as a framework for customer consent-based sharing of banking data. Open Banking design can promote financial inclusion.

[37] Department for Co-operative Development, Highlights for Botswana Co-operative Movement and Calendar of Events for the Year 2019/2021, 15 January 2020

60. The Department of Cooperative Development has developed and launched a Cooperative Management System which is being phased in with the various financial cooperatives in the market. This should support financial cooperatives in managing their accounts, clients, and employees. However, additional training and capacity-building activities will need to be conducted to increase the adoption and correct usage of the system. The Financial Intelligence Act (FIA) compliance requirements have also been applied to SACCOS and in this regard, the proportionate application of standards should be considered.

Consumer Protection

61. The existing Botswana Banking Ombudsman (BBO) provides an important alternative dispute resolution (ADR) mechanism for banking customers; however, it could benefit from being professionalized and expanded. The BBO, previously the "Office of the Banking Adjudicator" was established in 2002 as an initiative of the Bankers Association Botswana (BAB). While the BBO does provide an important free service to consumers, the reach and authority of the BBO is limited and has scope for further development. The BBO logged 5326 complaints in 2022, of which 266 were converted into cases. Governance of the BBO has been highlighted as a concern. This concern arises as BBO is currently located within the BoB and does not have an independent board of directors, sufficient budget, legal capability, or independence. Looking forward, the governance framework of the ombudsman should be reviewed to foresee the independence of the body, a board of directors, a funding mechanism, and a budget, and the terms and conditions should be independently determined by the board. The BBO only considers disputes within the banking sector. It would, therefore, also be useful to evaluate the benefit of establishing a broad-based ombudsman's office to serve a wide range of financial services (for example, the insurance sector does not have an ombudsman). Operationally the ombud would benefit from a free-call number supported by a light-touch "call center" that would be able to field daily complaints. The ombudsman should also consider leveraging retired judges for its operations to ensure the appropriate resolution of complaints.

62. Reporting on complaints within non-bank financial institutions (NBFIs) is opaque and could be strengthened. NBFIRA has established a complaints portal where customers can lodge their complaints and has stipulated clear complaint procedures. Consumer complaints, if unresolved by the financial institution in question within 30 days, should be escalated to NBFIRA by that financial institution. The BoB and NBFIRA could improve consumer protection by establishing reporting requirements related to the number of complaints raised directly to financial institutions. The newly developed requirements would allow the authorities to automatically receive copies of all customer complaints, correspondence, and information regarding the stage of resolution. These requirements might require establishing new reporting requirements for the complaints raised by consumers into a consolidated system.

63. The Data Protection Act, 2018[38] was promulgated in 2021. However, its commencement has been delayed by at least 12 months. The Act regulates the protection of personal data and ensures the privacy of individual data. The new Act stipulates that sharing of personal data requires the consent of the individual. Data warehousing has been highlighted as a concern by some institutions. The Data Protection Act states that personal data should be housed within the borders of Botswana. However, many of the large financial institutions operating in Botswana are subsidiaries of foreign institutions. Therefore, data is often sent to and stored in the country that the group/ head office resides in. Art. 48 and Art. 49 outline how the cross-border sharing and processing of personal data to third countries shall be handled The Act states that "The transfer of personal data from Botswana to another country is

[38] The data protection act is available at:
https://www.bocra.org.bw/sites/default/files/documents/DataProtectionAct.pdf

prohibited"; however, exemptions can be made by order of the Commissioner of the Information and Data Protection Commission if the third-party country has adequate levels of data protection. To commence, the new data protection regime, it would be important for the Commissioner to ensure the swift processing of exemptions. The Act does not foresee specific rules for the financial sector. During the interviews, the financial sector expressed concerns about the cost associated with the implementation of data storage, maintenance, and accessibility requirements.

64. PSP-licensed entities' customers' funds should be ringfenced appropriately to protect consumers. The PAFI report highlights that the protection of e-money customer funds should be a priority and that this can be achieved through appropriate design and risk management features which could include deposit insurance or similar mechanisms. Holders of e-money are exposed to two risks: first the possibility of their e-money operator going bankrupt, and the second risk of the deposit taking institutions that holds the trust account with the e-money float going bankrupt. The Financial Stability Committee (FSC) has approved the policy framework for Botswana's Deposit Protection Fund (DPF). Industry consultations are ongoing as to how the DPF will be operationalized. Currently, the DPF would only cover individual retail depositor deposits. It is yet to be determined if the DPF could also be used to protect the customer funds held with mobile money operators. Most of the users of mobile payments are the unbanked, economically vulnerable members of the population. The current payment service act indicates that funds should sit with commercial banks as long as the funds do not breach 20 percent of the deposit base of that bank. These funds can earn interest when invested in Government Bonds. The interest can then be used by mobile payment operators in financial inclusion activities.

65. NBFIRA should improve disclosure norms on sales and management fees for insurance and asset management to ensure consistent and regular transparent information is available to consumers. NBFIRA should regulate the provision of transparent information to the consumer regarding the remuneration of the insurance and asset managers brokers for the sales of the policy. The insurance market is broker driven. Insurance broker commission for sales can be as much as 30 to 40 percent of the value of the premium. Such information should be communicated every time the policy is renewed and at least yearly. In addition, price transparency provisions should be introduced in relation to the asset management fees, where the consumer should be informed of at least the following components before the sale of the security: i) the commission paid to the issuer of the security if any and ii) the commission paid to the broker intermediating the transaction, that holds the position for the consumer. Finally, periodical information, at minimum yearly, should be provided to the consumer as a summary of the costs sustained vis-à-vis the earnings or losses, with the detail of the remuneration for the broker and the issuer of the security.

7. Financial market infrastructure

Payments

66. Foundational financial market infrastructures to support the evolution of digital financial services are present in Botswana. Notable developments include the Botswana Interbank Settlement System (BISS), the real-time gross settlement (RTGS) system, owned and operated by BoB; the Botswana Automated Clearing House (BACH), owned by the Bankers Association of Botswana and comprised of a cheque clearing system[39] and an electronic funds

39 Cheques will be withdrawn at the end of 2023 as per the BOB public notice of the 21st of February 2022. Source: https://www.bankofbotswana.bw/sites/default/files/press-release-files/Discontinuation%20of%20Cheques%20in%20Botswana%20-%20February%2022%202022.pdf

transfer (EFT) system, the central securities depository, and other retail payment systems, like card processors are active in Botswana. The BoB drafted the National Payment System Vision and Strategy 2020 – 2024 (see box below), this outlines the characteristics of the Botswana's future payment system. In addition, a brief description of the financial market infrastructure supporting the capital market is in Annex 4.

67. **Among the financial sector players, direct access to the BISS and BACH is restricted to licensed commercial banks**; the only financial institutions permitted to hold settlement accounts at the central bank. Indirect access to BISS and BACH is offered from commercial banks to other financial institutions. Several interviewed indirect participants reported their need to have direct access to the systems. Currently, indirect participants reported charges for the system use that are higher than the ones they are able to pass to their retail customers. The BoB and market participants have consultations for participation of non-bank financial institutions in the BISS and BACH systems.

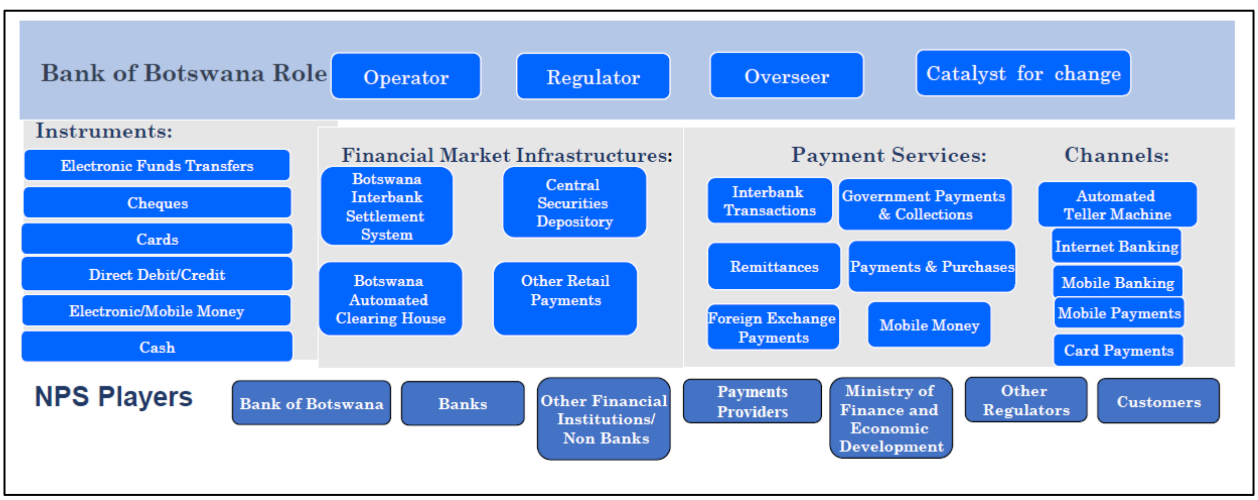
Box 8: The National Payments System Vision and Strategy 2020 – 2024

The National payment system vision and strategy 2020 -2024 outlines the essential characteristics of Botswana's future national payment system, reflecting the way forward and identifying key strategic actions in the continued development of the country's payment system.

Ten pillars compose the strategy, and the BoB leverages the National Payment Task Force, a group of experts, to coordinate and monitor the execution of the strategy. The pillars are: the payment and securities settlement infrastructures; sound legal framework; government payments; retail payments; oversight of the NPS; cooperation; access criteria and participation; risk management; public education and outreach programs; and financial technologies developments.

The vision defines strategic actions for implementation for each pillar; it identifies the responsible institutions and defines the implementation timing.

Figure 8: Payment Systems Architecture



Source BOB:

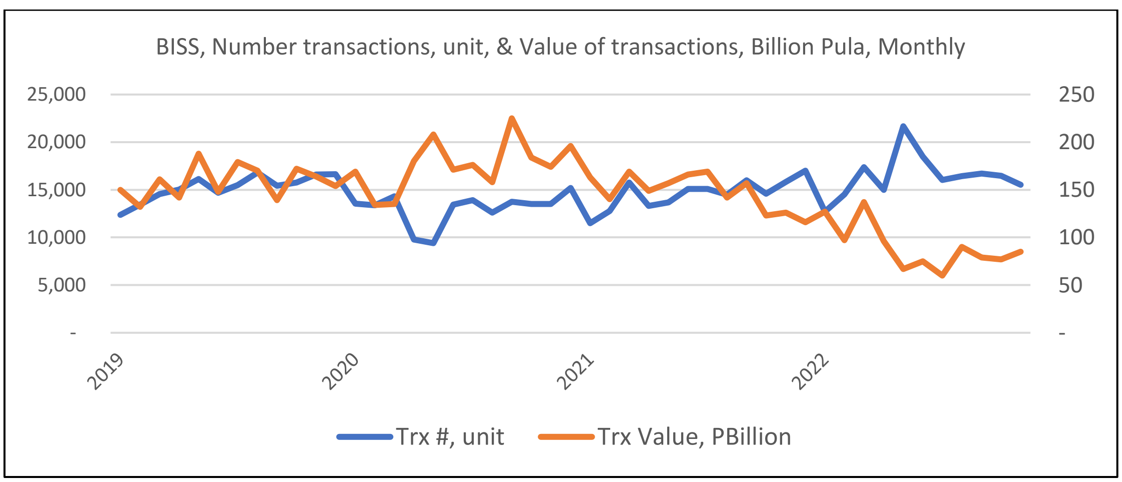
68. While the BISS system is functioning steadily and processing a growing number of transactions, the last system upgrade took place in June 2016. The BoB envisions RTGS enhancement in "The National Payment System Vision and Strategy - Vision 2020 - 2024", among which the participation in regional initiatives. For the purpose of routing payments in BISS, each Participant is required to have a single SWIFT Bank Identifier Code (BIC) on which all BISS payments are routed to. The BoB is already working toward the BISS messaging upgrade to manage ISO 20022 messages, with a project end date set in November 2023. BISS operates during the day from 7:45 AM to 17:30. BISS uses a gridlock resolution management tool for queuing management. The payee's bank has one hour to credit the funds to the payee's account after successful processing of the transaction. This timeline reduces to thirty minutes when the transaction is processed in the last hour of the RTGS operations. Most RTGS's require the payee receiving funds in near real-time. Whereas the BoB does not have a dashboard with standard metrics to measure the performance of the system, the BoB team conducted a BISS self-assessment versus the PFMI in 2019.

Box 9: Summary of the BOB BISS self-assessment versus the Principle for Financial Market Infrastructures

The 2019 BoB BISS self-assessment attributed the following ratings:

- The BoB rated "observed" the PFMI principles: 1 Legal basis, 2 Governance, 3 Framework for the comprehensive management of risks, 4 Credit risk, 5 Collateral, 7 Liquidity risk, 8 Settlement finality, 9 Money Settlement, 15 General business risk, 16 Custody and investment risks, 17 Operational risks, 20 FMI links, 21 Efficiency and effectiveness, 22 Communication procedures and standards, and 23 Disclosure of rules, key procedures and market data.
- The BoB rated "broadly observed":
    - Principle 13 Participants default rules and procedures. The BoB team envisaged strengthened cooperation between the payment system department and banking supervision, so to ensure prompt handling of risks in case of default of a BISS participant.
    - Principle 18 Access and participation requirements. The BoB team envisaged promoting transparency related to BISS rules and procedures, anticipating future accommodation of other non-bank participants in the system.
- The BoB considered as not applicable: Principles 6 Margin, 10 Physical deliveries, 11 Central Securities Depositories, 12 Exchange of value settlement systems, 14 Segregation and portability, 19 Tiered participation arrangements, and 24, Disclosure of market data by trade repositories.

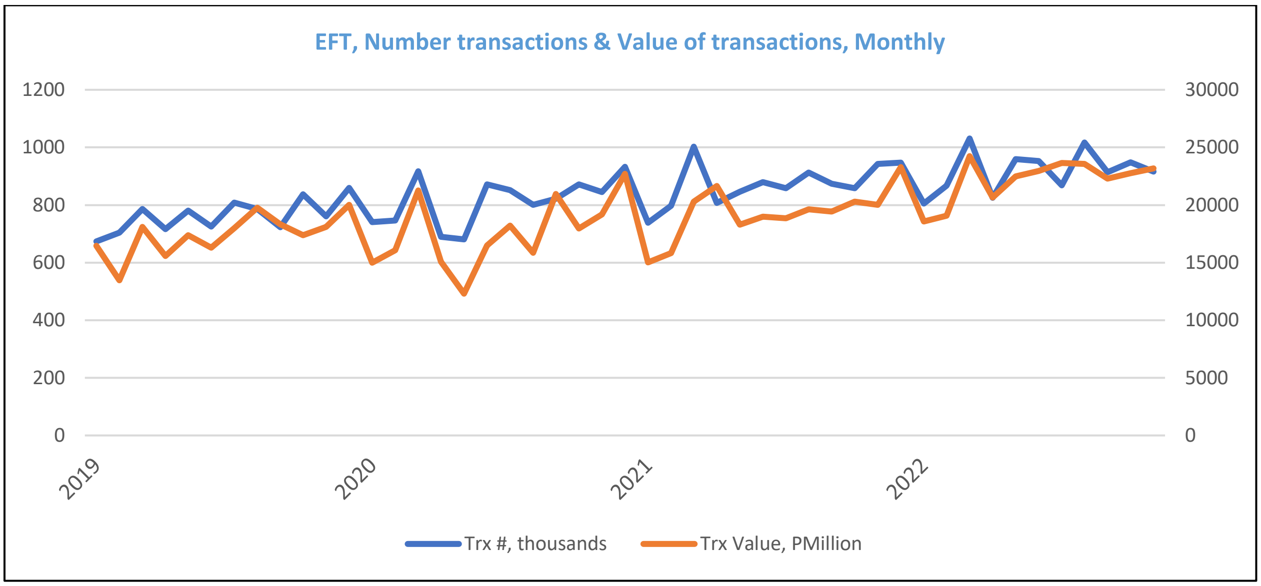
Figure 9: BISS Transaction Volume and Value, Monthly



Source: BoB

69. The ACH system is managed by the Bankers Association of Botswana. The direct participants are the banks. Meanwhile, the banks provide access to microlenders and other financial players as indirect participants. The number of transactions in the system has grown constantly over the past years. Although the advent of the COVID pandemic did not halt the growth of transactions, the average amount per transaction decreased from 22.180 in 2019H1 to 20.630 in 2020H1, notwithstanding the inflationary pressure on prices. The BISS is interfaced with the BACH for the settlement of Net Settlement Instructions emanating from the clearing sessions. Clearing at BACH takes place three times a day (9 am, 11 am, and 3 pm). It is the responsibility of each participant to ensure that they have sufficient funds in their BISS settlement account or reserves to allow the BACH Net settlement instruction to settle as soon as it is received by BISS.

Figure 10: BACH Transaction Volume and Value, Monthly

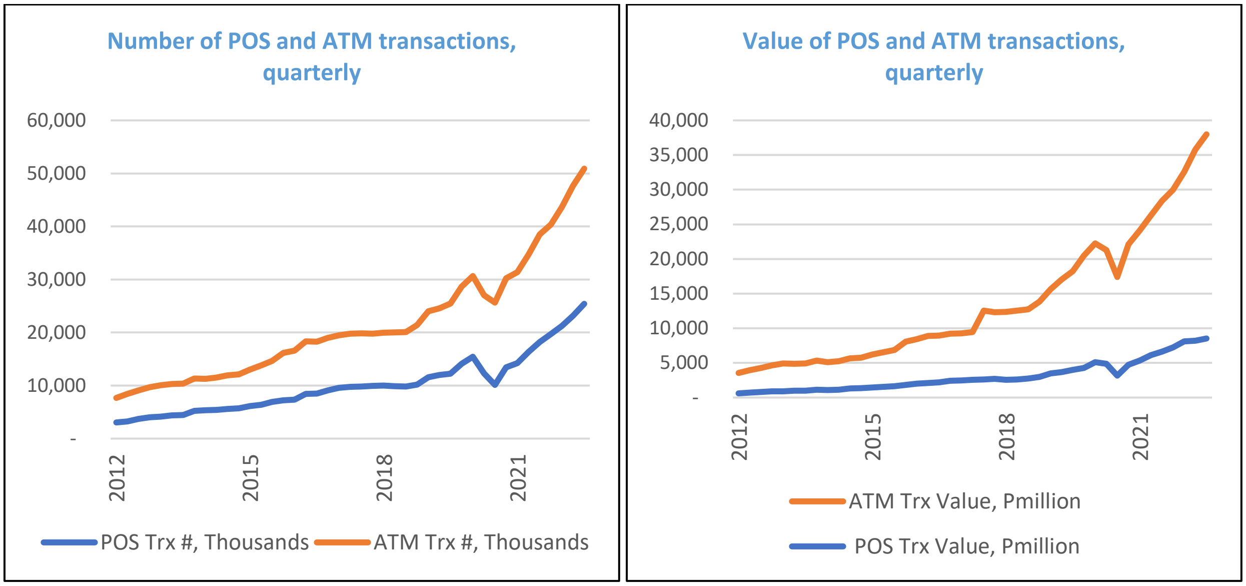


Source: BoB

70. Mobile wallets are increasingly used by consumers to perform P2P and cash out through agents. However, the lack of interoperability between payment instruments, thus meaning that it is not possible to transfer funds between wallets issued by different financial sector players, and the lack of interoperability between bank accounts and wallets hampers both DFS development and the general efficiency and convenience of financial services. To overcome the interoperability issue, several payment wallet providers issued payment cards associated with the wallet. The envisaged National Fintech Working Group, to be established in 2023, will comprise players from both the demand and the supply side. Its mandate about promoting stakeholders coordination should facilitate innovation and remove exiting barriers, such as lack of interoperability.

71. International payment card schemes act as a processor of card transactions both domestically and internationally for banks and non-banks. Payment cards are a common payment instrument associated with bank accounts and mobile wallets.

Figure 11: EFT POS and ATM transaction Volume and Value, Quarterly



72. **The BoB has in place a comprehensive oversight framework for payments.** The BoB collects on a monthly basis information reported by regulated financial market infrastructure operators. The data frequency allows the BoB oversight to observe market trends. Data collection comprises statistics on the number of transactions and their value, divided by instrument and system used. However, the value of financial fraud on payment instruments is currently not collected, as well as details on digital transactions authentication.

73. **No multilateral open finance data sharing framework or technical mechanism to enable it is currently present in the Botswana financial sector.** Banks and mobile network operators have in place partnerships. Several banks leverage fintech solutions developed abroad that are incorporated into their own offering. The local fintechs would welcome the opportunity to have incumbent financial players to create data sandboxes to allow fintech testing and developing innovative solutions. Meanwhile, the authorities should assess the opportunity to develop an open finance framework that would promote innovation on the supply side.

74. **Three credit registries operate in Botswana, while one provider recently announced the withdrawal from the market.** The authorities should ensure high-level data interoperability between credit bureaus or registries that are part of the register established by the BoB under the Credit Information Act, 2021. The BoB should carry out awareness and education activities for lenders participating in credit registries on key aspects and advantages of information sharing, such as benefits, purpose, obligations, and use.

75. **In terms of systems supporting credit issuance, Credit Reference Bureau Africa, in partnership with the Bankers Association of Botswana, operates one of the major credit bureaus in Botswana.** The bureau operates under a closed user group model, providing both positive and negative data for the bank-only credit reference bureau. The bureau sees an increasing amount of loan records, with over 1,1 million records, of which less than 10 percent are non-performing loans.

Table 4: ***Bankers Association of Botswana Credit Reference Bureau Statistics***

	Absolute value per year				YoY Growth		
	2018	**2019**	**2020**	**2021**	**2019/ 2018 %**	**2020/ 2019 %**	**2021/ 2020 %**
# of loan records - Total	732,828	880,725	1,037,629	1,195,553	20%	18%	15%
of which non-Performing	43,745	53,370	54,041	83,993	22%	1%	55%
of which Performing	671,832	802,608	952,225	1,063,167	19%	19%	12%
of which Written Off	17,251	24,747	31,363	48,393	43%	27%	54%
# of inquiries made - Total	143,135	165,766	152,518	172,856	16%	-8%	13%
of which individuals	137,728	160,165	147,394	167,224	16%	-8%	13%
of which corporate	5,407	5,601	5,124	5,632	4%	-9%	10%

76. The BoB should consider advancing the plans for the BISS system upgrade, in line with the national payment system vision. The BoB should consider extending business hours, expanding system access to non-banks, defining a framework for indirect participation, and exploring the opportunities that a richer data format like ISO 20022 could offer to the industry.

77. The BoB should identify and monitor the RTGS performance in line with the metrics indicated with CPMI-IOSCO Principles for Financial Market Infrastructure. The realization of the monitoring system should consider projecting system volumes for the future, in light of the realization of the payment system vision 2021-2024 objectives and perform system stress testing activities related to transaction processing and liquidity management jointly with BISS participants.

78. For both the BISS and BACH systems, the BoB should run an assessment to determine the current charges to indirect participants and monitor possible excessive charges applied to indirect participants. The access criteria and the application process for becoming a direct or indirect participant of the BACH should be assessed and further direct participants' expansion should be considered. Technical elements related to the system participation should be available before the licensing process takes place.

79. In line with the National Payment System Vision and Strategy 2021 -2024, the BoB should take a leading role in the creation of national payment switch, liaising with the newly created National Payment Council. The switch implementation creates interoperability between interbank accounts EFT, mobile money, and card transactions, and enable digital channels QR code use. The authorities should promote the development of a multilateral interoperability framework for financial payment providers to allow the transfer of funds between bank accounts and mobile money accounts and define a clear timeline for the market to deliver. In doing so, the switch should support the realization of a fast payment solution, enhance digital payments adoption, and improve access to finance. The project for the implementation of a National Retail Payment Switch (NRPS) is still at the market requirements mapping stage.

Box 10: Global experience on ownership and operation of retail payment systems

The ownership and operation of retail payment systems vary widely worldwide and are divided into three main models: government-owned, privately-owned, and mixed ownership.

The government or a central bank owns and operates retail payment systems in many countries. For example, the Central Bank of Brazil owns and operates PIX in Brazil.

In other countries, retail payment systems are owned and operated by private companies or associations of financial institutions. For example, Visa and Mastercard at the global level, EBA clearing in Europe, and Alipay and WeChat Pay in the People's Republic of China are owned and operated by private companies like Ant Group and Tencent, respectively.

Finally, some countries have mixed ownership models, with ownership of payment systems shared by government and private entities. For example, in India, the National Payments Corporation of India (NPCI), a not-for-profit company led by the Reserve Bank of India and whose ownership reflects payment market participation in the country, operates a range of retail payment systems.

Overall, there is no one-size-fits-all approach to the ownership and operation of retail payment systems. The adopted model will depend on factors such as the market competition level, the regulatory environment, the needs of consumers and businesses, and the evolution of the business environment. The table below provides insights into the payment switch ownership arrangements.

Figure 12: Payment switches ownership structure, WB GPSS, 2021

Global		By Region							By Region			
		East Asia & Pacific	Europe & Central Asia	High Income OECD	Latin America & Caribbean	Middle East & North Africa	South Asia	Sub-Saharan Africa	Low income	Lower middle income	Upper middle income	High income
Consortium of a few large banks	21% (26/126)	13% (1/8)	22% (4/18)	5% (2/40)	52% (13/25)	17% (2/12)	14% (1/7)	19% (3/16)		15% (4/26)	40% (17/43)	10% (5/52)
Consortium of banks in the country (e.g. 80% or more of all banks)	21% (26/126)	38% (3/8)	17% (3/18)	23% (9/40)	12% (3/25)	17% (2/12)	29% (2/7)	25% (4/16)	60% (3/5)	12% (3/26)	16% (7/43)	25% (13/52)
Central Bank	13% (17/126)	25% (2/8)	28% (5/18)	3% (1/40)		42% (5/12)	14% (1/7)	19% (3/16)	20% (1/5)	23% (6/26)	19% (8/43)	4% (2/52)
Other Government bodies.	2% (2/126)	13% (1/8)						6% (1/16)		8% (2/26)		
e. Other private sector entities.	48% (61/126)	25% (2/8)	39% (7/18)	70% (28/40)	40% (10/25)	42% (5/12)	57% (4/7)	31% (5/16)	20% (1/5)	46% (12/26)	40% (17/43)	60% (31/52)

80. Once assessing the market capability to deliver a modern payment infrastructure with fast payment capabilities within the envisaged timeline, the BoB in its catalyst role as an overseer of the Botswana NPS should champion the implementation of fast payments solutions in the country. There are several options ranging from fostering private sector players to develop and implement FPS to the BoB taking a more direct role in the implementation and operation. The World Bank report on the governance of retail payment systems presents and analyzes several approaches on central bank role in retail payment systems globally.[40] Beyond regulation and oversight, public authorities, most often central banks, play a direct role in retail payment systems. They not only influence the governance arrangements of specific institutions, but also may be a part of them through a role in their creation, financing, ownership, and operation. The World Bank Global Payment System Survey (Table above) shows how the ownership of a payment switch can take place with different models. Meanwhile, both public-sector ownership (most often by the central bank) and private-sector ownership of fast payment arrangements are common, with an overall prevalence of the latter. In some cases, there is co-ownership of the central bank with commercial banks or other private-sector entities. The ownership structure may change over time, often driven by the needs of the market, the broader objectives of the owners, and regulatory requirements.[41]

[40] World Bank, Governance of Retail Payment Systems-Keeping Pace with Changing Markets, 2021: https://documents1.worldbank.org/curated/en/539601630306074694/pdf/Governance-of-Retail-Payment-Systems-Keeping-Pace-with-Changing-Markets.pdf

[41] World Bank Fast Payment Toolkit, 2021: https://fastpayments.worldbank.org/sites/default/files/2021-11/Fast%20Payment%20Flagship_Final_Nov%201.pdf

Box 11: Fast Payment Systems

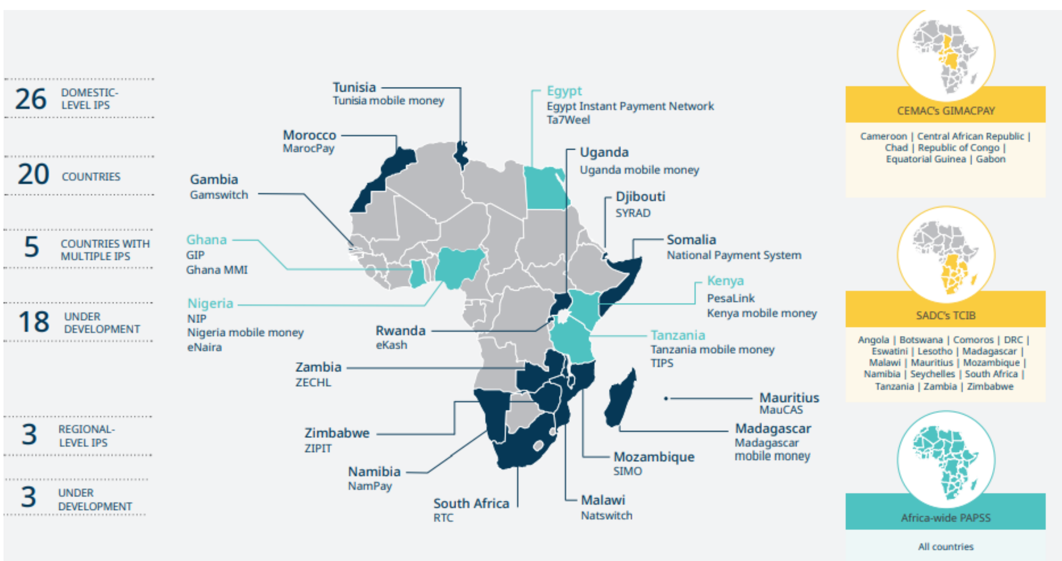
FPS uses advanced payment technologies to process transactions instantly. Transactions are completed in real-time, with funds transferred from the sender's account to the receiver's account. In addition, FPS allows participants to make payments 24/7 regardless of the type of beneficiary.

FPS are important because they enable quicker and more efficient transactions between individuals, businesses, and financial institutions. Fast payments enable face-to-face retail commerce, a space that is currently unserved by electronic fund transfers (EFT). The technology behind many fast payment arrangements supports developing and launching of multiple value-added functionalities and services for end users (payers and payees). The WB has developed a toolkit with country cases and deep dives on selected topics. Additional information is available in Annex 3 and the toolkit is available at https://fastpayments.worldbank.org/resources.

Meanwhile, a payment switch is a technology that facilitates the routing and processing of electronic payment transactions between different payment systems, payment solutions, or networks. Payment switches act as intermediaries between payment providers, banks, non-bank financial institutions, and merchants, enabling them to connect and communicate to complete payment transactions. In summary, while FPSs focus on enabling real-time payments between users, payment switches facilitate the routing and processing of payment transactions between different payment systems and networks.

FPS implementations occur at an increased pace globally and over 60 countries have implemented FPS. In the African continent, the landscape of domestic and regional FPS shows 26 domestic-level systems that are live and 18 that are being built. Moreover, three regional-level FPSs are under development (CEMAC, SADC, PAPSS),

Figure 13 Landscape of domestic and regional fast payment systems in Africa



Source: "The state of instant payments and inclusive payment systems in Africa" 2022, Africanenda, https://www.africanenda.org/uploads/files/EN_SIIPS_Report_web.pdf

Several factors are necessary for achieving a successful FPS development, including an enabling regulatory framework and public support; clear governance; wide coverage and openness of the system; collaboration between different stakeholders during development; robust infrastructure; standardization of processes and messaging formats; a system design that ensures safety and security; convenient value-added services and user experience for the end-users; and a market context where ICT technology adoption is high.

81. The BoB is monitoring global developments related to the issuance of central bank digital currencies (CBDC). The BoB formed a working group tasked to monitor the global developments in the area of CBDC and develop policy considerations on the issue. The members of the working group considered yet premature to actively develop a policy stance vis-à-vis the issuance of CBDC in Botswana or experiment with the issuance of digital Pula in a pilot. Therefore, the BoB will continue monitoring developments in this area to gather insights and build an informed policy stance. The Digitalization and Innovation Hub, created during the BoB restructuring exercise in December 2022, is mandated to undertake research on CBDC developments, provide expert advice on the impact on CBDCs introduction on currency design, and on the feasibility of CBDC issuance. The Department is working on two Issues Papers, the first on the impact of CBDCs on currency design, and the second on CBDCs Issuance and Design Considerations. These two papers which should inform subsequent policy decisions on CBDC issuance.

Identity

82. A national identity registry was established in Botswana in 1986[42] and implemented in 1988. Registration is compulsory for every citizen of Botswana within thirty days of attaining the age of sixteen, or within 30 days of acquiring Botswanan citizenship. Currently, no penalty for late enrollment is levied. Birth registration establishes the identity of an individual or citizen and the additional enrolment in the national registration and the issuance of the National ID card, confirm his or her legal identity. Birth registration is estimated to cover 98% of newborns.

83. The Ministry of Nationality, Immigration, and Gender Affairs manages the 'Omang,' or National Identity Card. Thirty-five service points process the citizen's requests to issue the ID card. The following information is obtained at the time of enrollment: (i) name; (ii) date of birth; (iii) sex; (iv) residential and postal address; (v) place of birth; (vi) marital status; (vii) occupation; and (viii) information on parents or other family members. Biometric data, mainly a photo and fingerprints (two thumbs) are also captured at the time of enrollment. The original source images are stored in the registry and are not stored as encrypted templates, to note that the practice of keeping unencrypted images increases security risks. Upon registration, a card is issued to the citizen, and it has a validity length of 10 years. Address verification does not take place during enrollment.[43]

84. The national identity system enables citizens to access public services and companies to perform clients' identity verification through API services. Public institutions, like the Botswana Unified Revenue Service (BURS), and banks, through the Bankers Association of Botswana, have access to verification services. The verification services provided to selected counterparts differ from each other in terms of the information that is provided to the applicant institution, as the competent ministry performs a need assessment for the connected institutions to ensure citizens' data appropriate confidentiality and protection.

85. An open access framework for Omang services could be developed notwithstanding the planned evolution of system capabilities, which would need to encompass citizens' authentication, ideally through biometric identification. Such open access framework should consider the developments related to the implementation of Botswana's Data Protection Act.[44] Specifically**,** system accessibility should be granted evenly to

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[42] Botswana National Registration Act 26, 1986,

[43] Additional information on the Omang is available within the ID4D Country Diagnostic: Botswana, 2016: https://documents1.worldbank.org/curated/en/864651486101539760/pdf/Botswana-ID4D-DiagnosticWeb040418.pdf

[44] Act 32, 2018, https://www.bocra.org.bw/sites/default/files/documents/DataProtectionAct.pdf

the financial sector players and could be further facilitated through a standard technical integration process.[45] Moreover, the development of authentication functionality would allow the financial sector players to authenticate customers in person and remotely with a greater security assurance level than now. Such a framework with all the described functionalities entails the realization of a digital ID, that enables several use cases.[46]

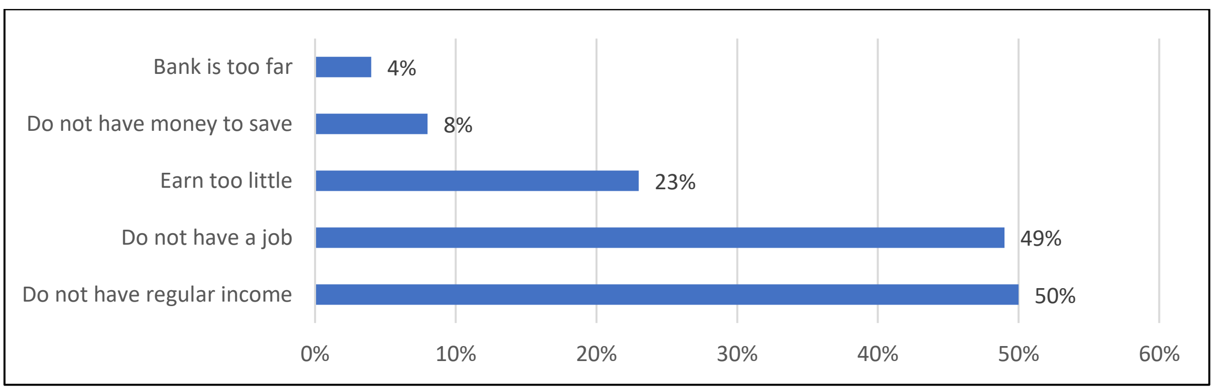
8. Product design

Transaction accounts

86. The number of bank accounts has increased, but there is room for financial deepening. The commercial banks have a wide and complete offering of financial services for retail customers including transactional accounts, savings, loans, cards, and insurance. SME and Corporate banking are also growing. Digital channels including card payments, mobile banking, banking apps, and e-wallets are available at all major banks, several banks shared plans to further focus the development of a digital value proposition. However, digital solutions for asset management (e.g., online trading desk) seem not to be marketed by banks for retail customers.

87. The banking sector is not offering a basic transaction account with simple and low pricing, no minimum deposits, reduced onboarding requirements, and limited transactional capabilities. The BoB should develop a policy to mandate all banks to introduce a basic transactional bank account. Such accounts should have reduced or no-account maintenance fees, no minimum deposit requirements and simplified CDD requirements. In line with the extant risk-based approach the accounts should have reduced operational limits. One of the biggest barriers to opening an account is the KYC requirement applied by banks that an individual should provide proof of income or proof of employment. Unbanked adults cite not having a job or a regular income as the two biggest reasons for not opening a bank account. This banking regulatory requirement means that individuals that earn an irregular income, receive social benefits, are students or are unemployed are excluded from the banking system.

Figure 14: Barriers to opening a bank account



Source: Botswana Finscope 2020

[45] Currently, the financial sector players connect to the Omang system via the Bankers Association of Botswana. Meanwhile, mobile network operators can also leverage a service offered through BOCRA for SIM verification. The services offered differ substantially, regardless of the operating entities. Whereas the BAB has access to a broad set of data as a return to the inquiry for an OMANG ID, the service offered by BOCRA returns a reduced data set. In light of this, the BAB service is preferred.

[46] Information on digital ID: https://id4d.worldbank.org/research

88. The MNOs have a compelling offering of transactional services that serve the unbanked and are increasingly making inroads among banked customers. Mobile money account usage has increased from 22 percent of adults in 2014 to 54 percent in 2020 and is a core driver of the recent improvements in financial inclusion overall. 33 percent of the unbanked make use of mobile money accounts[47]. The impact of mobile money has been very significant for women who have caught up with their male counterparts when it comes to mobile money accounts. Female mobile money accounts increased from 19 percent in 2014 to 54 percent in 2020, while men increased from 26 percent to 54 percent over the same time period. There are three MNO mobile money operators in Botswana, although other financial institutions (e.g., banks and bureau de change offering remittance services) also offer mobile payment and mobile wallet products.

89. Mobile money accounts can be opened with a lighter KYC approach that is not as stringent as for the banks. However, different mobile money operators apply differing levels of tiered KYC, with some applying overly strict requirements given the risk profile of their clients. For example, a player requires only the provision of the Omang ID, other players require the client to bring the proof of residence documentation (utilities bills), or an affidavit related to their residence. The authorities should ensure that MNOs implement a consistent risk-based approach during the performance of CDD activities for mobile money customers. NBIFIRA and BoB should create guidelines for remote customer onboarding by defining standards and practices for customer identification and remote contract signature. Such guidelines could inform the financial sector providers on how to structure in a consistent way the customer experience.

90. The use of mobile wallets as an alternative to bank accounts is constrained by regulatory operational limits set to prevent excessive use of the payment instrument and reduce consumer risks. However, the limits set in the electronic payment service providers regulation (Art. 28, Schedule 3) remain at the same level since 2019[48]. These limits were reviewed with input to the market in 2022 and the amendments to the regulations are yet to be approved. The authorities should regularly assess and review the limits related to mobile wallets and potentially ensure these are indexed to inflation. Moreover, limits for registered companies should substantially differ from the one set for retail clients, to promote the expansion of the mobile payments ecosystem through enabling merchant retail payment acceptance with wallets.

Savings

91. Individuals who are not saving have decreased significantly between 2014 and 2020 from 37 percent to 30 percent. The increase in savings was driven largely by an uptick in non-bank savings alternatives including non-bank saving, and informal savings saving at home. Savings are the farthest reaching formal financial product with 46 percent if adults indicating that they save (credit is only 17 percent)[49]. Informal savings groups, known as metshelo, play a significant role in driving financial education and uptake of savings in rural communities. When making savings decisions trust is the most important consideration for consumers (58 percent) followed by customer service (49 percent), interest rates (39 percent) and convenience (32 percent). Currently there are no interest-linked savings products that can be accessed through mobile money accounts.

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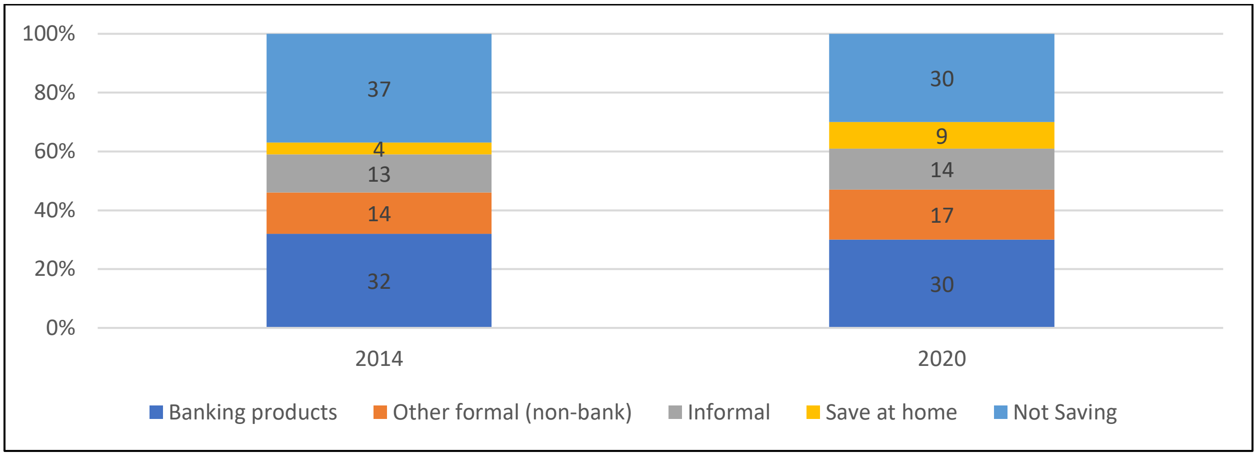
[47] Botswana Finscope, 2020

[48] The monthly aggregated limit for a Tier Two account is 30,000 Pula, and for a registered company is 50,000 Pula

[49] Botswana Finscope, 2020

Figure 15: Savings and investments, percent of adults

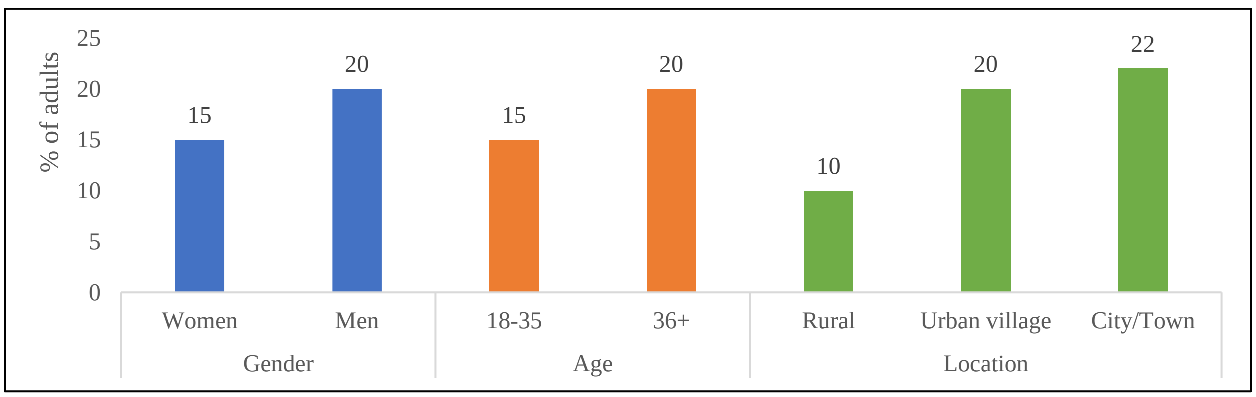


Source: Botswana Finscope 2020

Lending

92. **According to a Finscope study conducted in 2020, consumer borrowing decreased from 26 percent of adults in 2014 to 18 percent in 2020[50].** This decrease was driven by lower levels of bank credit and decreases in borrowing from family, friends, and informal sources. Only non-bank lending increased from 2 to 7 percent during the same period. Both men and women have seen a decrease in credit usage, with women borrowing less than men (15 percent of women borrow versus 20 percent of men). Borrowers are also older and mostly located in urban villages, towns, and cities.

Figure 16: Borrowing by gender, age and location, percent of adults, 2020



Source: Botswana Finscope, 2022

93. **Almost 90 percent of household debt in Botswana is provided by banks (88.6 percent), followed by microlenders (9.4 percent), hire purchase credit (1.3 percent) and SACCOs (0.6 percent)**. The large majority of lending to households is through unsecured personal loans for salaried employees with a deduction at source arrangement. As of June 2022, 67 percent of all bank credit was personal loans, 27 percent was property loans, 3.9

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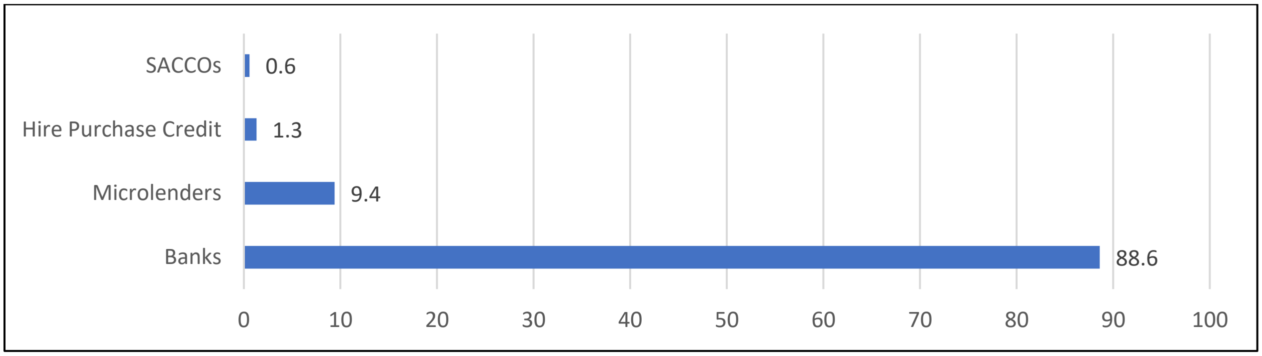
[50] The Finscope survey results indicate around 275k household borrowers (18% of 1.53m adults), but this this about half what the BoB Household Indebtedness Survey reveals (545k borrowers).

percent was motor vehicle loans and 1.4 percent was credit card debt[51]. Currently banking credit products are not offered through mobile money platforms although this type of product may be available in the near future.

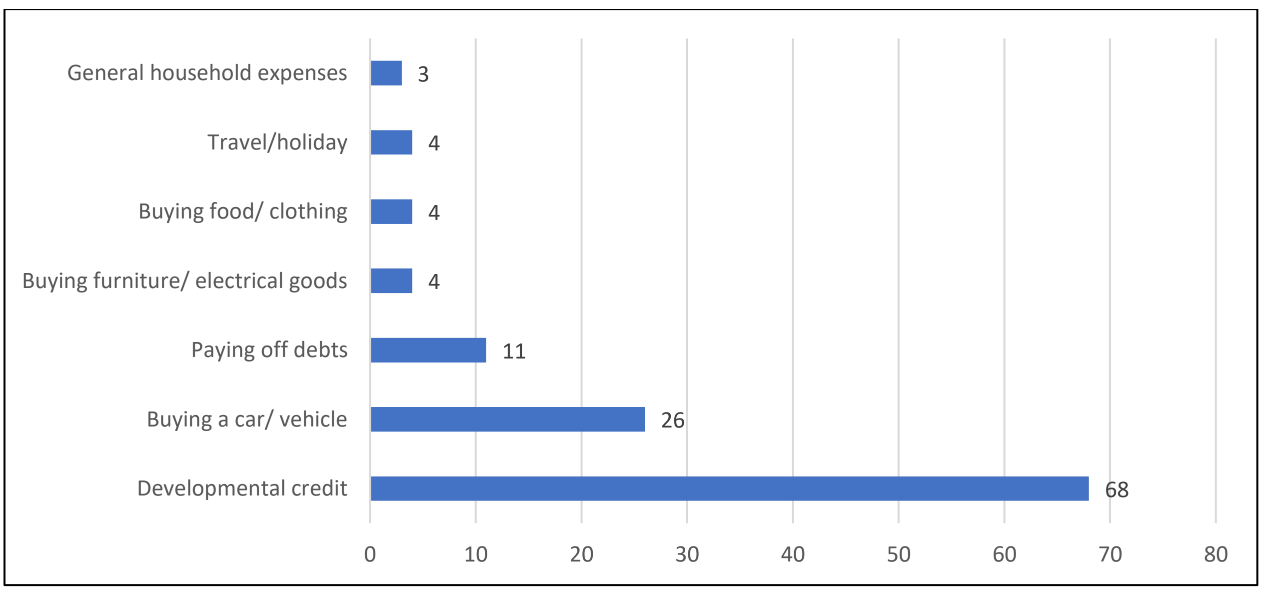
Figure 17: Value of household debt in Botswana by institution type, percent, 2019



Source: Household Indebtedness survey Bank of Botswana, 2022

94. The predominant reason for borrowing (68 percent) is developmental, and consumers indicated that they use these borrowings for education (10 percent), expanding a business (9 percent), buying land (8 percent), building, or extending their house (35 percent) or buying a house (10 percent). In most cases consumers make use of a personal loan product as tailored education, land and housing debt products are limited. After developmental credit, buying a vehicle is the second most cited reason (26 percent) followed by paying off debts and buying furniture and electrical goods.

Figure 18: Reason for borrowing, percent of adult borrowers, 2020



Source: Finscope 2020

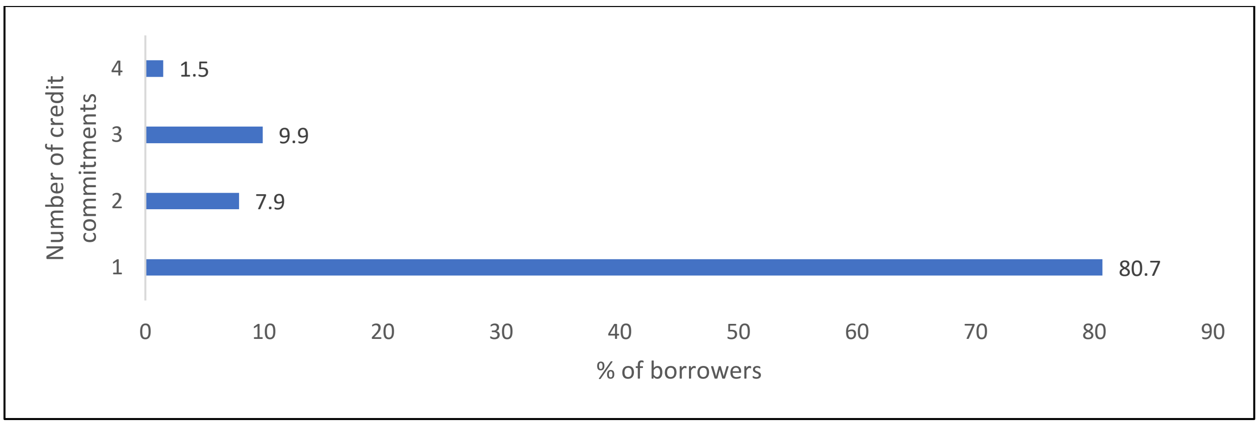
[51] Household Indebtedness survey Bank of Botswana, 2022

Trends in consumer credit:

95. Consumer credit is dominated by bank loans (88.5 percent of value), followed by micro-lender loans (11 percent), and finally purchase credit (0.5 percent)[52]. Household credit accounted for 66 percent of total lending as of March 2022, and the majority of this (72.5 percent) was unsecured credit. The ratio of unsecured lending to total lending is much higher in Botswana compared to regional peer countries (24.4 percent in South Africa and 30.8 percent n Namibia).

96. Household credit is predominantly issued to government employees (53.4 percent), followed by those working in the private sector (44.7 percent), with self-employed individuals accessing 1.2 percent of household borrowings. Government and private sector salaried employees are perceived to be low risk and attractive for consumer lending for banks, microlenders and hire purchase stores. 75.3 percent of the total household loan portfolio of banks is serviced through deduction at source loan schemes. Over 80 percent of borrowers reported having only one debt commitment, 8 percent indicated that they have two commitments, 10 percent had three and only 1.5 percent had four- although some smaller debts may not have been recorded in this analysis.

Figure 19: Number of credit commitments by borrower, % of borrowers

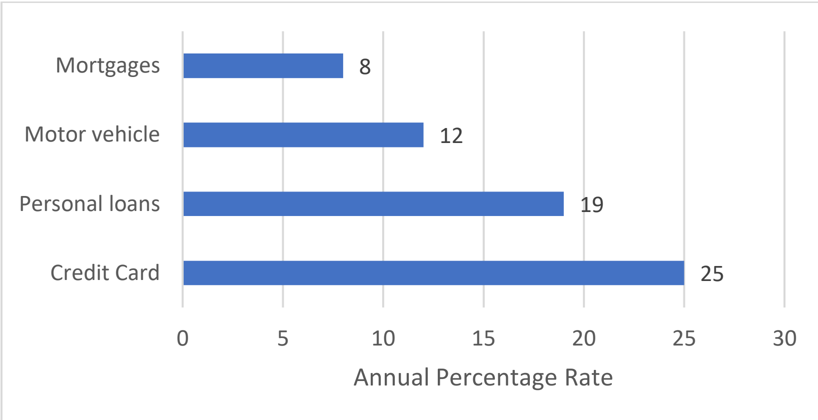


Source: Botswana Household Indebtedness Survey, 2021/22, Bank of Botswana

97. The BoB and NBFIRA do not have an interest rate cap for lending products. Credit card debt is the most expensive across the banking sector (25 percent average), followed by personal loans (19 percent average), asset/vehicle finance (12 percent average) and finally mortgages (8 percent average). While many products in the market are sustainably priced, there are some lenders that charge exorbitant interest rates, up to 30 percent per month in some cases. In addition to the licensed non-bank lenders, there are also said to be a large number of informal, small-scale lenders or "machonisas" that are operating illegally. NBFIRA and BoB should assess the opportunity to define a limit for usury rates on loans. The draft amendments to the Banking Bill and the draft Non-Bank Lenders Bill give the BoB and NBFIRA the power to determine the maximum interest rate that may be charged.

[52] Botswana Household Indebtedness Survey, 2021/22, Bank of Botswana

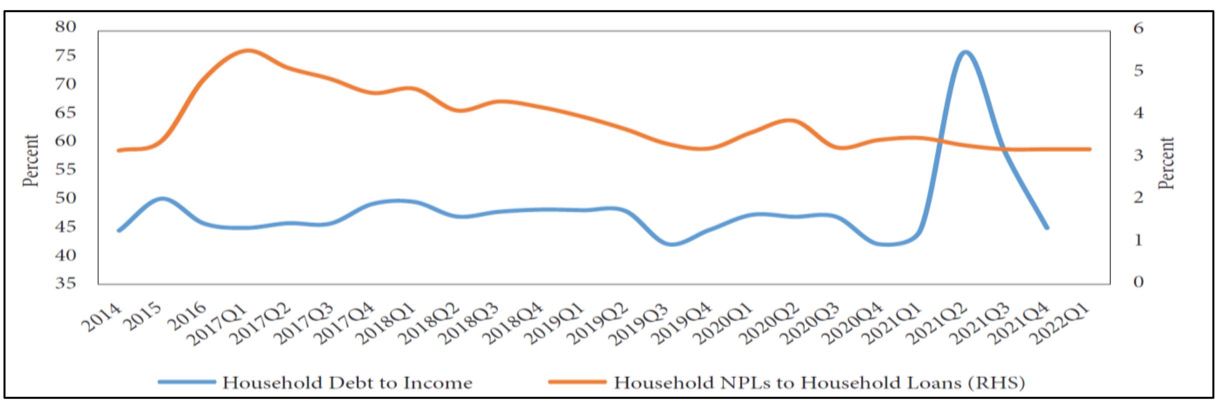
Figure 20: Average Annual Percentage Rate (APR) as of December 31, 2021



Source: Botswana Household Indebtedness Survey, 2021/22, Bank of Botswana

98. While household credit is significant, NPLs remain below the market average. The ratio of household NPLs to total household credit was 3.2 percent in March 2022, a decrease from 3.5 percent in March 2021 and better than the industry average of 4.2 percent in March 2022. Household credit therefore poses minimal risk to the stability of the banking sector. High public wages have historically sustained and supported the capacity of households to borrow. Loans to households are, according to the BoB, relatively spread out across households and mostly serviced through direct payroll deductions, mitigating some of the risks associated with unsecured lending. Household debt as a proportion of total income has decreased in recent years, from 58.6 percent at end-2020 to 45 percent at the end of end-2021.

Figure 21: Household debt to income and NPLs



Source: Statistics Botswana and Bank of Botswana

99. The use of alternative credit scoring mechanisms for consumer lending can combat the lack of credit information for the financially excluded. Alternative data can help some consumers establish a credit score or improve their existing one by adding information to their credit files. This could in turn, improve their chances of receiving a loan and lower the amount of interest they pay on a loan. However, the use of alternative data could also pose risks to consumers. This data could result in discrimination and could create data privacy risks. Currently, the use of alternative credit scoring seems to be limited to players that use more advanced technologies in their operations. The authorities should monitor the development in this area and create financial sector guidelines on how to perform alternative credit scoring mechanisms for low income, and financially excluded consumers. Such guidelines should be drafted taking into consideration the evolving privacy law landscape and should be revised periodically.[53]

100. Whereas loan portability and balance transfers are offered in Botswana, consumer loans foresee penalty fees for early loan repayment. These fees are generally waived if the consumer provides sufficient notice to the lender. However, the notice period that grants no penalty ranges between forty-five and ninety days. A practice reported by different lenders is a balance transfer that includes the penalty fees into the new loan principal amount. The authorities should assess the market practices in this regard and promote the setting of a standard notice period, being cognizant that reductions in its length would benefit market competition and consumer protection.

101. The unsecured lending repayment process benefits from an arrangement between the public sector, large corporates and lending institutions that facilitate credit collection. From a payment process standpoint, in Botswana, the lending repayment process consists of three main practices: i) repayment from the debtor via cash deposit or fund transfer, ii) repayment from the debtor account with a direct debit, and iii) repayment with a deduction at source from salary, this option is available for public and private sector employees. Loan repayment with a deduction at source is common in Botswana, to the extent that these loans are commonly named "deduction at source loans." 75.3 percent of the total household loan portfolio of banks is serviced through deduction at source loan schemes[54] and the figure is even higher for microlenders. Most of the interviewed lenders claim this to be the preferred repayment option. For public sector employees, the process of performing deduction at source is managed by the MoF, via the Office of the Accountant General (OAG).

102. The OAG system that manages salary deductions is working at its maximum technical capacity; accessibility to the system is currently constrained. The system that performs the deduction on salaries was originally created to facilitate payment-specific services, e.g., union subscription fees and taxes. However, the system usage evolved, and the OAG uses its system to manage payments related to a multitude of parties, especially lenders. The system is able to prioritize the deduction on the available salary of a person. OAG reported that the system reached its technical capacity in terms of parties that can be embedded into the process. Whereas the system reached its capacity and the number of parties accessing the system was determined, some system participants initiated an intermediation service for processing fees and a one-off connection fee. Such practice entails the creation of a secondary market for the service. Several interviewed financial institutions reported that the processing cost for the usage of deduction at source repayment is equal to 2.5 percent of the value of the installment. Of which, they reported that 1,5 percent goes to the processing entity that has the deduction code registered (i.e., the microlender) and 1 percent to the OAG as an administrative processing fee.

103. The authorities should assess the deduction at source loan repayment process regarding competition, customer treatment, over-indebtedness, and information sharing aspects and cost. As contractual obligations are present between the OAG and the parties using the system for managing deduction at source, the authorities should develop a roadmap for the modernization of the service, that would allow operational improvements, and define guidelines and priorities for the division of the funds available on consumer salaries. The realization of a renewed process should be complemented by the issuance guidelines related to the loan repayment information communicated to the consumer. Ideally, every time an installment is due, the consumer should be informed of the

[53] Credit Scoring Approaches Guidelines, World Bank, 2019: https://thedocs.worldbank.org/en/doc/935891585869698451-0130022020/original/CREDITSCORINGAPPROACHESGUIDELINESFINALWEB.pdf

[54] *Botswana Household Indebtedness Survey, 2021/22, Bank of Botswana*

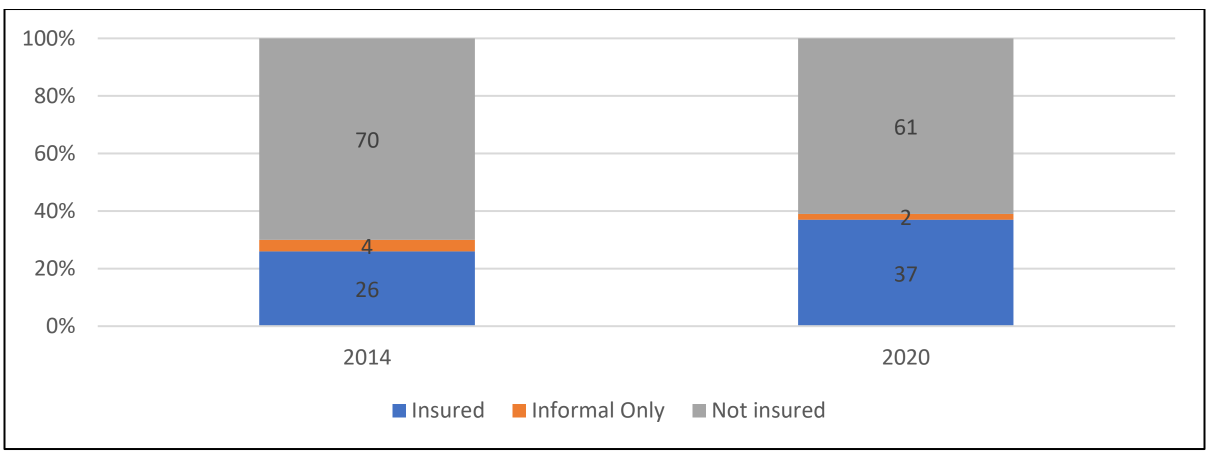
detail of how the installment amount is paid into the different components (principal amount, interest, processing fees, transactional deduction fees, and others) and the different lenders.

104. Some deduction at source loan consumers may not receive sufficient income to fulfill basic living necessities. In terms of borrower protection, there is no prescribed debt service ratio that is enforced, and financial institutions are given room to apply their own credit guidelines to their clients. 81.8 percent of banks make use of credit rating models (including credit history information) to assess their customers[55]. For deduction at source lending, where the loan principal and interest payments are deducted directly from the customers' salary before the salary is paid into their bank account, there is a minimum take-home requirement of BWP1650 (USD128) for couples and BWP1500 (USD116) for individuals. It is left to the employer's payroll team to determine that the minimum take-home requirement is observed. However, in some cases, there is not full visibility as different lending institutions (microbanks, banks, SACCOS) make use of different deduction codes, and information is not readily shared. Credit information may become easier to access once the credit information system is implemented as a result of the recent passing of the Credit Information Act. To ensure the sustainable livelihood of salaried loan consumers, the minimum take-home income level should be reviewed, and potentially indexed to inflation.

Insurance

105. The insurance sector in Botswana is sizable, with a total gross written premium of P 6.1 billion in 2021. There has been an increase in insurance coverage from 30 percent to 40 percent from 2014 to 2020. The most popular insurance product is funeral insurance (56 percent of insured adults) followed by medical aid (28 percent), burial societies (23 percent) and life insurance (17 percent)[56]. For those adults who remain uninsured, they indicate that they are not insured due to lack of income, lack of understanding, or that they do not need it. Insurance companies also play a significant role because the bulk of retail and household loans have credit life protection, mortgage repayment policies, and retrenchment cover policies. Agricultural insurance is also limited, with some livestock and horticultural insurance offered on an indemnity basis. The government-led Agriculture Credit Guarantee Scheme (ACGS) offers some relief to dry-land farmers by guaranteeing a portion of their debt in the event of a drought or other climatic disaster.

Figure 22: Insurance take-up, percentage of adults

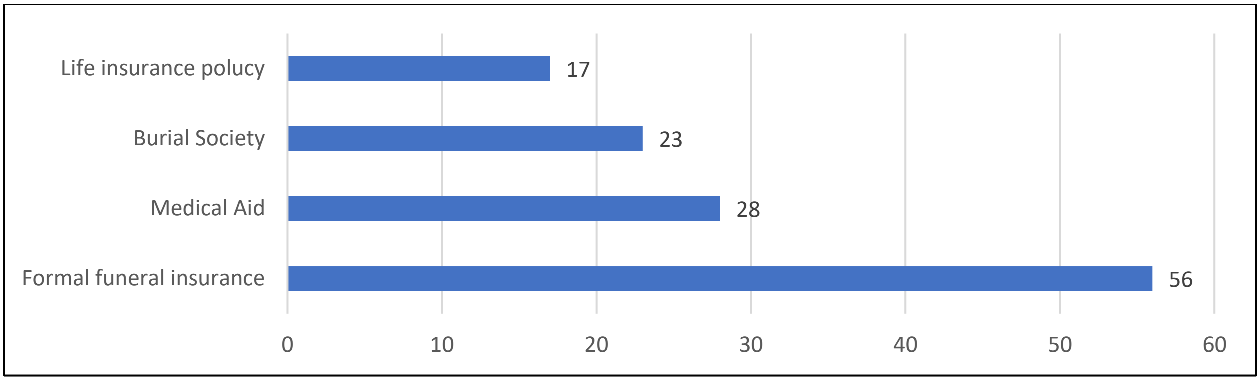


Source: Finscope 2020

[55] Household Indebtedness Survey Report, Bank of Botswana, 2021/22

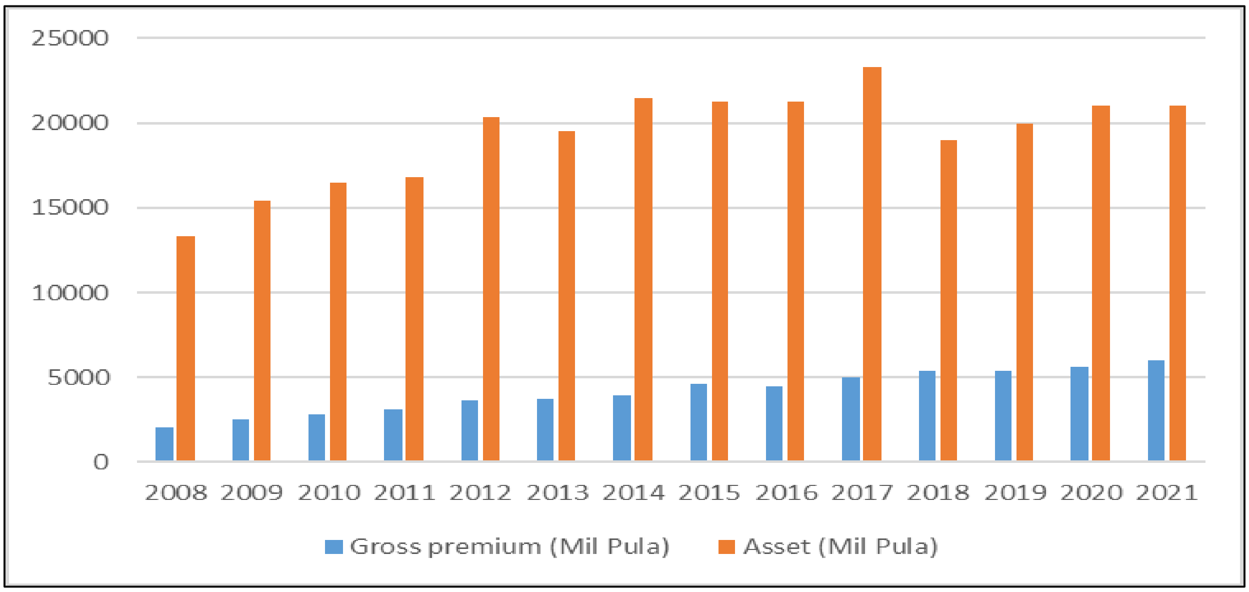
[56] Botswana Finscope 2020

Figure 23: Insurance product uptake, percentage of insured adults



Source: Finscope 2020

Figure 24: Insurance Premiums and Assets, 2008-2021



Source: NBFIRA

106. The authorities should evaluate whether compulsory motor third-party property liability (MTPL) insurance should be adopted. The current environment only sees coverage for motor third-party body injury liability through the tax-funded Motor Vehicle Accident Fund. This is only applicable for bodily harm resulting from motor vehicle accidents. Approximately 80 percent of the 550,000 registered in Botswana are uninsured and this could be attributed to a lack of "coercion." NBFIRA and the Department of Transport are considering this change. If the MTPL cover was mandatory, it could vastly increase the potential pool of insurance, thus bringing down premiums. MTPL insurance is compulsory in most countries as a measure to protect the public. NBFIRA should consider undertaking a detailed evaluation of the vehicle accident and damage insurance landscape to establish whether MTPL insurance would be beneficial. The effect of MTPL could potentially protect the public, grow the insurance pool, spread risks and ultimately reduce costs to policy holders. Potential synergies between the existing Motor Vehicle Accident Fund, which provides automatic third-party coverage through the payment of a fuel levy, and the MTPL should be explored for additional benefit.

107. There are no dedicated agricultural insurers, and the take-up of agriculture insurance is low. The Agriculture Credit Guarantee Scheme (ACGS) supports dry-land crop framers to repay their debts in the event of drought, floods, frost, or hailstorms. The ACGS is only for those farmers that have loans from the National Development Bank (NDB) and CEDA. The ACGS is triggered upon the declaration of a national drought by the President of Botswana. Premiums are paid to the scheme by both the farmer and the NDB who each pay 5 percent of the loan installment to the government of Botswana. The scheme can cover up to 85 percent of the loan installment value that is due in that year. The final coverage level is determined by the Inter-Ministerial Assessment Committee that conducts an evaluation of drought and other climate factors to determine the coverage amount. The Committee also suggests additional drought recovery interventions which could include feeding schemes for children, seed and feed subsidies, or the maintenance of firebreaks.

108. Changes should be considered for the ACGS to make it more financially sustainable, and far reaching. The ACGS is not based on sound actuarial principles and has the potential to expose the government of Botswana to contingent liabilities. The payment of premiums and allocation of risk do not take crop type or crop season into account, both of which have very specific associated levels of production and seasonal risk. The coverage level of the scheme is not informed by sub-regional climate damage but is rather considered at a "national" level, even if some farming areas were more prone to drought than others. The government should consider adopting subregional coverage of the ACGS, based on local conditions and issue guidelines for the development of index-based insurance. This index-based agricultural insurance could be developed as a public-private partnership. Access to data would encourage private sector insurers to develop appropriate agriculture insurance products that are appropriately priced, and market led. The ACGS only covers dry land farmers. In order to provide greater insurance coverage for the agricultural sector, the ACGS should consider expanding into additional sectors, i.e., livestock, or horticulture. There is also potential to crowd-in private sector agricultural lenders by expanding coverage of the ACGS to private sector loans issued to farmers.

109. Simple entry-level insurance products could have the potential to provide a cost-effective insurance model for lower income adults. In the short-term insurance market, high costs can be a big deterrent as insurers adopt high minimum premiums to discourage low-value consumers. According to Finscope, unaffordability and low levels of financial literacy significantly constrain the use of insurance. Policy makers should consider more cost-effective insurance models and more robust financial education programs. Given the small population size in Botswana, it isn't easy to achieve economies of scale, and this drives up the price of premiums. Currently, there is no legal framework for microinsurance, although the Insurance Industry Act of 2015 provides an interpretation of a funeral policy which could be considered a type of microinsurance given its small ticket size. The development of insurance regulations to support simple entry-level insurance products could provide for lower capital requirements and simplified prudential rules to reduce operational costs and increase affordability for consumer. These regulatory developments could be supported by flexible arrangements for premium payments, improved consumer financial education, disclosure of product conditions.

Product Information

110. The financial sector leverages the sale of services through partnership and product constructs that are the result of a bundled offering of different components. Product partnership brings the advantage of enabling the integration of specialized competencies. For example, partnership framework across financial institutions to promote the creation of structured products like mobile money accounts and interest-linked savings accounts managed by deposit-taking institutions and a mobile wallet. Meanwhile, the authorities are recommended to support the development that should provide clarity on how to present the product to the customer, inform them what to do in case of issues or complaints, and present an adequate level of pricing transparency.

111. While banks are required to advertise their products using a standard template that can be downloaded off their website, it is still difficult for consumers to easily compare the pricing of the transaction, savings, loan, insurance, and retirement products. This means that consumers may not fully understand the price that they are paying or if the product that they have chosen is the most appropriate for them. In order to facilitate comparability, the authorities should consider developing a single repository for pricing product information for retail financial services. This could be a user-friendly website where consumers can easily search and compare financial products and providers. Initially, this could include information on specific comparable products, e.g., entry-level bank accounts across the banks; or personal loans of the same tenure. The data should be displayed in a manner that is easy to read and compare. This information should be regularly updated and to promote price comparability. This could be done using a website. A price comparability website like this would also drive competition and transparency in the market. The website could also be a useful tool for authorities to track pricing and feature trends across the market, and the data could be used to support national financial inclusion efforts. To note that today the BoB already collated this type of data, as there is a reference in the yearly supervisory report.

9. Access points

112. Whereas the number of ATMs and branches increased in the last two years, mobile money providers and selected banks developed a network of agents. Most of the banks only use a network of financial access points composed of branches and ATMs. The number of ATMs per 1000 square kilometers and per 10,000 adults was constant at one and 3.4 between 2020 and 2021, respectively. There was one branch per 10,000 adults and less than one branch per 1,000 square kilometers in 2021, indicative of the sparse population distribution in the country. Meanwhile**,** the footprint of financial agent networks is rapidly expanding. Such development is coupled with increasing digital channel presence in terms of services offered via web and mobile interfaces.

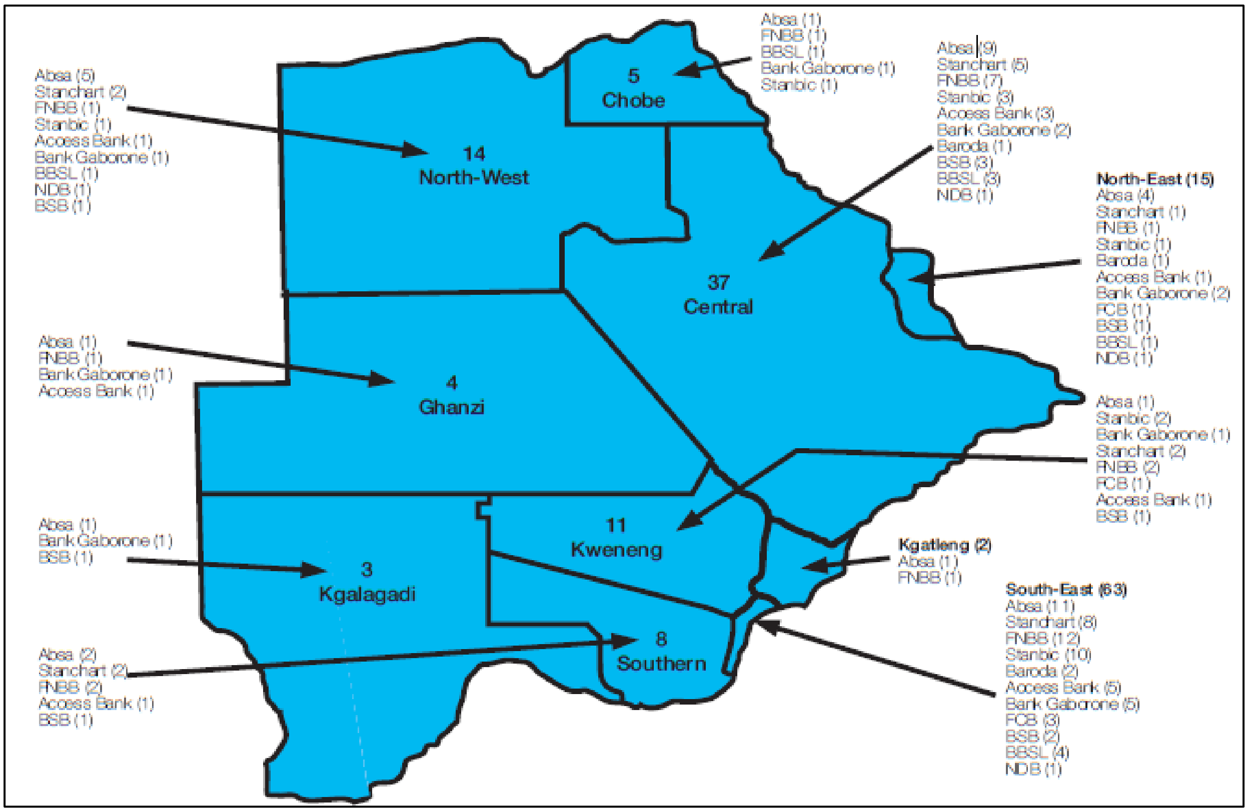
Table 5: Branches and ATMs by bank

		Branches and Sub-branches			ATMs		
		2019	2020	2021	2019	2020	2021
Large Banks	Absa	35	35	36	113	114	114
	Stanchart	19	22	20	70	76	76
	FNBB	28	28	28	233	233	236
	Stanbic	17	18	18	56	70	80
	Sub-total	**99**	**103**	**102**	**472**	**493**	**506**
Small banks	Access Bank	13	13	13	14	14	19
	Baroda	4	4	4	6	7	7
	Bank Gaborone	13	14	14	16	17	21
	FCB	5	5	5	6	5	5
	Bank SBI	1	1	-	-	-	-
	Sub-total	**36**	**37**	**36**	**42**	**43**	**52**
Total for Commercial Banks		**135**	**140**	**138**	**514**	**536**	**558**
Statutory Banks	BSB	6	7	10	14	14	16
	BBSL	10	10	10	14	14	9
	NDB	4	4	4	-	-	-
Total for Statutory Banks		**20**	**21**	**24**	**28**	**28**	**25**
Overall total		**155**	**161**	**162**	**542**	**564**	**583**

Source: Bank of Botswana

113. The creation of a geospatial financial access mapping would allow policy makers to develop appropriate, data-led solutions for the financially excluded. Financial inclusion can be improved by bringing financial access points such as bank branches, ATMs and banking or mobile money agents into previously unserved areas. While most private sector institutions have readily available data on the locations of their branches, ATMs and some agents, this information has not been combined to provide a full picture of financial access points across the country. The BoB publishes a bank branch distribution map at the district level; however, this does not include state-owned financial institutions, ATMs, or agents (mobile money or banking). By overlaying financial access point data with population and telco data, even if it is at a ward or district level, policymakers can start making informed decisions on how best to remove the barriers to financial access to underserved individuals. This would also help to inform the optimal combination of policy reforms to drive the greatest impact. If this data is shared publicly, it could provide an incentive for banks or MNOs to target underserved communities, which could provide them with a viable consumer base.

Picture 1: Bank Branches distribution network by district, 31st December 2021

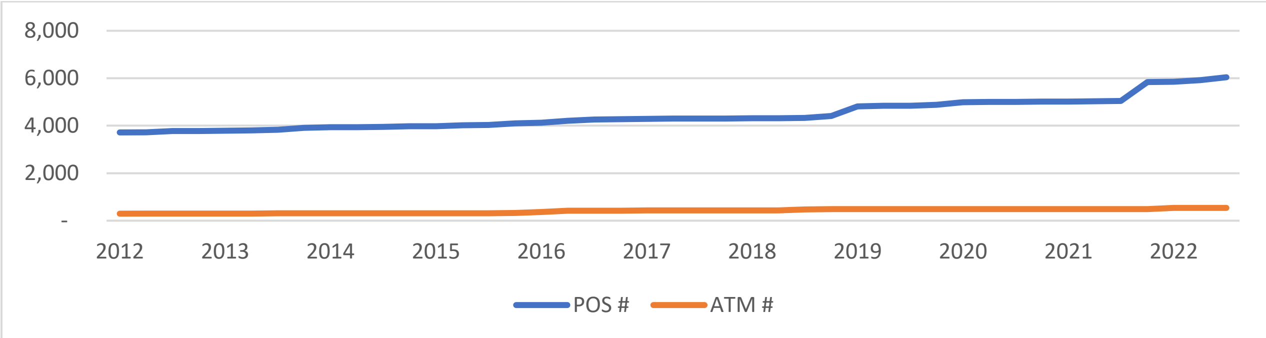


Source: Bank of Botswana

114. The growing number of POS terminals is a positive development in terms of DFS retail acceptance. It potentially reflects the investment made by banks in card product issuance. At the same time, informal shops do not accept cards, smart POS, or light POS solutions. Mobile wallet providers reported that the development of mobile wallet use for purchases is at its inception.

115. Botswana Post mandate foresees to offer a universal postal service. Currently, there is a post office for every 17.000 citizens, and Botswana Post aims to decrease this ratio to one post office for every 10.000 people. However, the security requirements for managing financial services in remote areas reduce the viability of rapidly expanding the financial access point network.

Figure 25: Number of EFT POS and ATM Access points, Quarterly



Source: Bank of Botswana website, statistics

KEY RECOMMENDATIONS

- Develop a geospatial map of financial sector access points

10. Awareness and Financial Literacy

116. Financial capability is an essential element of deepening financial inclusion. This contributes to the access and usage of financial products and services which serve customers and maximize their wellbeing. Informed financial consumers have a clear understanding and skills to evaluate the product that is in their best interests. This, in turn, drives financial inclusion as consumers have greater trust in financial products, particularly those delivered through digital channels. This is particularly impactful for hard-to-reach customers in rural areas that would benefit from products and services delivered on mobile channels. Botswana has a high literacy rate at 90 percent of the population, however, improved financial literacy and financial awareness could be driven through greater coordination between public and private sector initiatives. Of the unbanked population, 54 percent have secondary education, which could signal that financial literacy programs should be relatively easy to adopt.

117. Financial literacy programs are conducted by both private and public sector institutions, although coordination is lacking. Initiatives include financial education programming on frequency modulation (FM) radio, school-targeted programming for youth (BAB), formal programming in remote, rural areas (BSB, Post Office), financial literacy training for microfinance groups (CEDA), public education campaigns (NBFIRA) and company targeted financial education for salaried employees (banks). These financial education efforts are driven by each institution in parallel, without consistent messaging or common goals. Additionally, the education system does not formally include financial literacy. The school curriculum, or targeted learning activations, could be leveraged to drive deeper financial literacy. This could be supported by financial sector stakeholders such as banks, non-banks, and the government. For adults, specific programing related to preventing or reducing over indebtedness would be a useful focus. Leveraging the national social assistance programs to drive financial literacy for grant beneficiaries would support the most vulnerable members of society. The reach and impact of financial education efforts would be improved through the implementation of a public-private coordinated high-level approach that promotes consistent, common goals within a discreet time horizon.

118. The recent amendments to the Retirement Funds Act are in place, these allow pension fund members to cash out up to 50 percent of accrued savings upon retirement. It will also allow pension fund members to cash out their funds as security for mortgages and to pay back loans that are in default. While this can provide relief for individuals who find themselves unemployed and in need of an immediate cash injection, it can also be detrimental to long-term retirement savings, which can determine the financial viability and sustainability of these consumers in the future. It would therefore be important for the authorities to launch a financial education effort to support consumers who have the option of choosing between a severance benefit and annuities so that they can plan appropriately for their longevity.

11. Large-Volume and recurrent payment streams

Salaries

112. **Salaries payments from the government, other public sector institutions and corporates are paid on bank accounts.** Bank account related salary payments allow the consumer to prompt the financial sector for the issuance of loans, with instalment paid with deduction directly at the source, or debited on the account. Yet, cash in hand salary payments is reported to be common among MSMEs and the informal sector.

113. **The mobile wallet operators offer corporate and SMEs solutions for salary payments.** These solutions are appealing to enterprises and consumers as the employee do not need to enroll in a bank account. Moreover, the solution offers generally a convenient interface for disbursing to multiple accounts.

Pension and Social protection benefits

114. **Government grants have seen some recent innovations, although cash remains the preferred method of receiving a benefit.** A recent development is that pre-paid cards and mobile money accounts are now available for grant beneficiaries. The pre-paid "Pula" card operates as an e-wallet where funds can with withdrawn from ATMs or used for payments in-store. The Botswana Post PosoMoney mobile money account is also an option. Despite these recent developments, 72 percent of grants are paid to beneficiaries in cash[57], while 20 percent use a bank account (mobile money payments are not currently tracked). The social protection payments system would also benefit from a unified G2P payments architecture and future development of the fast payment system.

115. **Government to Person (G2P) payments could be an important lever to boost financial inclusion.** The Department of Local Government and Rural Development administers eight social grants, including the National Old Age Pension (124 023 beneficiaries), the Destitute Persons Grant (40 519 beneficiaries), the Disability Cash Allowance (36 908), the Needy Student Grant (27 162 beneficiaries) and the Orphan Grant (20 201 beneficiaries). Social protection grants are largely administered in cash through the Botswana Post network. The Botswana Postal Services have 131 Post Office branches across the country as well as 20 kiosks, many of which are in rural areas. The Botswana Post services 200 000 beneficiaries of social security benefits with cash every month, equivalent to about 12 percent of the population[58]. Cash is often preferred because it can be used at local shops and grsocery stores without needing local mobile network coverage that would be required by a card. ATMs are also not readily accessible or well-stocked in rural areas and this further incentivizes the reliance on cash.

Table 6: Elderly and Social Benefits Programs in August 2022

Program name	Number of beneficiaries supported
Old Age Pensions	124 023
Destitute Persons	40 519
Disability Cash Allowance	36 908
Needy students	27 162

[57] Making Access Possible, UNCDF, 2021

[58] Botswana Post Integrated Report, March 2021

Orphans	20 201
Destitute Cash Transfer	7 978
Other (Children in need of care, Community Home Based Care, World War II Veterans)	5 557

Source: Ministry of Local Government

116. **While beneficiaries have reservations about the adoption of digital financial services, they would benefit from this if the digital payment ecosystem were further developed**. The social protection system can be used as a lever to promote financial inclusion and digital financial services if grant benefits are paid using digital means. However, this would require a step-change in the digital payments' ecosystem, particularly in rural areas where digital payment acceptance is a challenge and mobile network coverage can be patchy. The current cash-based system is costly for Botswana Post and, in light of this, they are further developing their POSO money app, which is a network-agnostic mobile wallet. This can be integrated with their POSO Card. The POSO card is being developed to have ATM functionality and grant disbursement capability, which would be a welcome development for the digital finance ecosystem. This would provide greater payment choice for beneficiaries. Expanding the option of digital grant payments beyond the post office to other mobile wallet, e-wallet, and bank account providers would enhance optionality even further. The creation of dedicated product types from market players might incentivize usage at the point of sale vs. cash withdrawal.

117. **The old age pension is the largest social protection program paid to all citizens over the age of 65, it reaches 124 023 beneficiaries per month.** Pension beneficiaries have the option of receiving their benefit into their bank account, however, most still choose to collect it in cash. This reliance on cash is driven by an aversion to adopting technology and the social benefit of visiting the post office. Pension beneficiaries view the post office pension collection points as an opportunity to connect with their community and, in some cases, meet with their motshelo informal savings group.

118. **The destitute persons grant could be disbursed in a way that provides more convenience and efficiency for beneficiaries**. Currently, the destitute persons grant is disbursed in two parts: a P650 food benefit that can only be used through a closed-loop card payment at designated small grocers, and a P300 cash benefit that can be collected in cash at a Post Office. The food benefits card acceptance is determined by the program management unit and is limited to designated small grocers. Beneficiaries could benefit from the expansion of the grant's closed-loop system to a broader set of retailers. This could allow them to access cheaper groceries at a larger number of locations. The authorities should also consider the possibility of transitioning in the future to an open-loop payment instrument.

G2B - P2G Payments

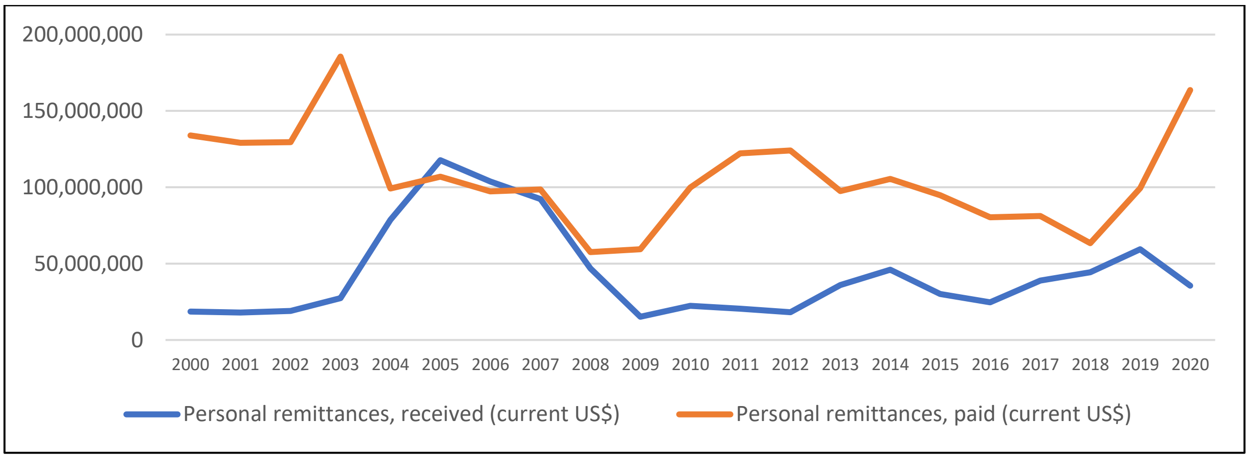
119. **The GOB has established the SmartBots initiative, which seeks to move the country toward a digitally enabled knowledge-based economy.** The World Bank Global Findex found that 39 percent of adults who pay utilities did so using an account in 2017, this is up from 27 percent in 2014. Amongst other priorities, Smartbots aims to digitize government processes to enhance service delivery for citizens. Many government services can be paid for online including the Botswana Unified Revenue Service (BURS) tax payments, water, electricity, and rates. This initiative could support additional P2G payment use cases such as the renewal of drivers' licenses. SmartBots also has a village connectivity stream with the objective of bringing free internet connections to rural village schools, clinics, and Kgotlas (traditional community councils). This should enhance the ability of the rural population to make use of digital financial services such as mobile money to transact with each other and with government institutions (both G2P and P2G payments). The GoB should continue expanding the number of public services that could be paid for digitally.

120. **The GoB, through the Office of the Accountant General (OAG) at the MoF, pays the invoices. The GoB uses a treasury single account and two separate accounts for investment purposes.** The payment process generally starts with ministries submitting payment order batches, these are processed in 48 hours, and then payments are delivered. The OAG reported an average processing time of 10 days from when the invoice is received until the payment is sent. The OAG uses the RTGS, the ACH, VISA pula cards, cheques[59], and cash. The use of cash is decreasing, and the OAG is considering adding disbursements to mobile wallets.

Remittances

121. **Botswana is a net remittance sender as a country, with over 163 million US$ sent in 2020 and 35 million US$ received.** The countries of destination of the remittances are mostly the neighboring ones, especially Zimbabwe. Several remittance providers developed digital solutions and channels, like WhatsApp interface, to support the remittance flows. Interviewed remittance providers reported increasing security concerns related to cash management physical security. Botswana Post reported that remittances are mostly intermediated in cash regardless of the increasing presence of digital wallets.

Figure 26: Value of remittance paid and received, yearly (Current US$)



Source: World Bank Data: https://data.worldbank.org/indicator/BM.TRF.PWKR.CD.DT?locations=BW

Bill payments

122. **Bill payments are available through banking and mobile wallet.** The most common services to be paid for are electricity, digital cable television (DSTV), and phone airtime. Payment gateways facilitate the integration of different services provided. Regarding electricity, the Botswana Power Corporation, the wholesale provider of electricity in the country, has over 580.000 residential customers that use prepaid meters and around 30.000 commercial clients that are post-paid. The prepaid meters are not using smart technology yet and would need to be updated to enable online functionalities.

Transportation

123. **In addition to private cars, individual transportation takes place via buses.** The railroad transport for individuals is temporarily suspended. The payment of bus fares within the city mostly takes place in cash, as the

[59] Cheques in Botswana will cease to be used by December 31, 2023

businesses are generally informal, and the fares payment for long-distance tickets is also served with card POS. Fuel stations accept card payments from international card schemes, and also closed-loop fuel cards.

12. Recommendations to address the constraints and challenges identified

Legal and regulatory framework

124. **Innovation facilitating arrangements and targeted regulatory changes can bring tailored financial products, matching the intended end-user needs, and reaching MSME employees and self-employed.** The development of tailored products like mortgage and education loans, alternative means to assess creditworthiness, and lowering the cost of onboarding and servicing customers could lead to greater availability of credit to the underserved segments. Further targeted regulatory reforms on digital onboarding, and open banking could bring in new processes, products, and market players. In addition, an open-access framework for Omang (ID) services alongside the ongoing enhancements would provide a fillip to further development of DFS. For example, the creation of guidelines for remote customer onboarding, defining standards and practices for remote customer identification and remote contract signature, can inform the market on providing a similar experience to the public, and enhancing digital and financial literacy.

125. **The BoB should ensure that MNOs implement a consistent risk-based approach during the performance of CDD activities for mobile money customers.** Market participants reported inconsistencies in the interpretation and the application of CDD requirements for mobile money customers onboarding. Whereas some providers use the SDD process, others the standard CDD process. The different interpretation of the onboarding process creates distortions in the convenience of mobile wallet sales.

126. **The development and implementation of a regulatory framework to facilitate innovation, encompassing innovation facilitators arrangements[60] could jumpstart innovation on the supply side**. Establishing arrangements like a regulatory sandbox[61] or an innovation accelerator require adequate support from authorities in terms of resources devoted to dialogue and support innovative firms. Already several countries created regulatory sandboxes to implement innovative approaches in the regulatory domain. To supervise an increasing number of market players with increased effectiveness, authorities should consider developing a roadmap for promoting the adoption and usage of modern supervisory solutions (SupTech). A vibrant pace of innovation is taking place in the SupTech domain.[62] Furthermore, the ongoing review of the regulatory framework concerning payments, with the draft National Payment Systems Act, could benefit from a series selected amendments. The BoB and NBFIRA should assess the creation of an open finance data sharing framework and a sharing mechanism to promote financial sector

[60] Innovation hubs are structured engagement between regulators and industry on innovation; and regulatory sandboxes are used to enable market launch of innovative services in a controlled manner.

[61] World Bank Data from Regulatory sandboxes. Source: https://www.worldbank.org/en/topic/fintech/brief/key-data-from-regulatory-sandboxes-across-the-globe

[62] World Bank, The Next Wave of Suptech Innovation : Suptech Solutions for Market Conduct Supervision. Source: https://openknowledge.worldbank.org/handle/10986/35322 and

innovation, as this might also positively impact financial inclusion.[63] The development of a regulatory approach could benefit from the analysis of the work done in countries.[64] The recent data protection law should be consistently implemented, in doing so authorities should ensure the swift processing of exemptions related to data localization, as this might represent a constraint on the implementation of digital services that use cloud-based IT infrastructure. Finally, the BoB and NBFIRA need to carefully evaluate the implications of crypto-assets being used for domestic and cross-border payments and clarify policy and regulatory framework.

Licensing

127. **Authorities should establish a single window to provide regulatory guidance to new entrants to support their licensing process.** While the revised Banking Bill 2023 (Gazetted on 13 January 2023) which includes additional provisions for the licensing of differentiated banking offerings is welcomed, market participants have indicated that they perceive the regulatory framework to be complex, especially for potential new entrants to the financial sector. Further clarity is required on the understanding of the steps that a financial institution would need to take in order to move from one licensing category to another. To support financial service provider diversification, innovation, and competition, the authorities could provide a single window for new market entrants.

128. **The authorities should ensure that SACCOs are appropriately regulated to drive financial sustainability and good management practices.** Regulations should promote the cooperative nature of SACCOs, while also protecting member funds from mismanagement. A clear graduation path for SACCOs should be developed so that larger SACCOS can provide value added services to their members. This could be resolved with the creation of a new cooperative banking license for larger SACCOs by the Bank of Botswana or a tiered licensing system for banks.

Consumer protection

129. **The existing Botswana Banking Ombudsman (BBO) activities could be professionalized and expanded.** The BBO currently provides an alternative free dispute resolution mechanism for banking customers with a very limited staff, limited reach and authority. The BBO is currently located within the Banker's Association and does not have an independent board of directors, sufficient budget, legal capability, or independence. The authorities should also evaluate the benefit of establishing a broad-based ombudsman's office to serve a wide range of financial services, beyond banking. Operationally the ombud would benefit from a free-call number supported by a light-touch "call center".

130. **Gaps in the legal protection and safety nets for safeguarding customer funds held with mobile money issuers should be addressed.** PSS-licensed entities' customers' funds should be ringfenced appropriately to protect consumers. This could be achieved through appropriate design and risk management features which could include deposit insurance or similar mechanisms. Holders of e-money are exposed to two risks: first the possibility of their e-money operator going bankrupt, and the second risk of the deposit taking institutions that holds the trust account with the e-money float going bankrupt. Both of these risks should be addressed to protect consumers.

131. **NBFIRA should improve disclosure norms on sales and management fees for insurance and asset management to ensure consistent, and regular transparent information is available to consumers.** Fee transparency for insurance brokers and asset managers would ensure that pricing in the market is competitive and consumers are aware of charges. Customers should be informed of the commission paid to the issuer of the security

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63 Open Banking : How to Design for Financial Inclusion, World Bank, 2020, Source: https://documents1.worldbank.org/curated/en/351881625136775280/pdf/Open-Banking-How-to-Design-for-Financial-Inclusion.pdf

64 Technical Note on Open Banking, Comparative Study on Regulatory Approaches, World Bank, 2022, Source: https://elibrary.worldbank.org/doi/epdf/10.1596/37483

and the commission paid to the broker. Finally, periodical information, at minimum yearly, should be provided to the consumer as a summary of the costs sustained vis-à-vis the earnings or losses, with the details of the remuneration for the broker and the issuer of the security.

Market infrastructures

132. **Expanding the usage of digital payments would require a concerted effort to develop the acquiring ecosystem and improve interoperability.** The foundational financial market infrastructures to support the evolution of DFS are present. However, there is no interoperability between mobile money and payment cards, besides bilateral agreements that support mobile wallet top-up and those payment cards that are issued by mobile money operators themselves. The BoB is playing a convening and catalyst role in the development of a switch in collaboration with the industry under the leadership of the Bankers Association of Botswana. As part of this project, the BoB should encourage prioritizing the development of a comprehensive fast payment service (additional information of Fast Payment System is available in Annex 4) that includes new acceptance modes (e.g., QR code), new processing flows (e.g., request to pay and alias-based payments), and enable market entry of new players (e.g., third party payment initiation). The switch can be considered a "public good". The BoB should consider driving and funding the system if the industry cannot finance its development. In parallel, the BoB should also start preparing to strengthen oversight arrangements considering the new system, including clarifying governance expectations.

133. To provide clear guidelines on Omang identity verification service offering to all financial sector entities, and to expand digital ID offering (data collected and services offered, e.g., authentication). The Omang ensures the uniqueness of individuals in the database. The unique ID number issued at birth is the same one used for the "Omang" at age 16 years. This provides an organic link between the birth register, the National Identification System, and the Death Register. Furthermore, biometrics are used to de-duplicate at the time of enrollment. The financial sector can further benefit from the expansion of the services offered by the Omang system, particularly expanding authentication services.[65]

134. The payment financial market infrastructure capabilities and accessibility should be enhanced and the monitoring of the usage and functioning of these systems should be strengthened by enhancing the capacity of the BoB payment oversight. Interviewed indirect participants claimed their interest in gaining direct participation into BISS and BACH, to reduce the costs that they sustain. The BoB should monitor prices charged to BISS-BACH indirect participants to assess the current market practices. Moreover, the BoB should consider whether expanding direct participation into the financial market infrastructures, accordingly to the World Bank Global Payment System Survey, supervised non-bank financial institutions have direct access to the RTGS in 30% of the jurisdictions surveyed, despite in only 15% of the jurisdiction they have access to credit.[66] Furthermore, the BoB payment oversight, should consider creating a performance dashboard to monitor the system performance and promote the implementation of further upgrades of the system. Finally the BoB should enhance the capacity of its payment oversight department to perform the abovementioned activities.

Product design

135. **The BoB should develop a policy to mandate all banks to introduce a basic transactional bank account with reduced fees and no requirements in terms of minimum deposits.** The banking sector is not offering a basic

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Additional information on ID systems and the evolution of their functionalities: Technology Landscape for Digital Identification. World Bank, 2018, https://thedocs.worldbank.org/en/doc/199411519691370495-0090022018/original/TechnologyLandscapeforDigitalIdentification.pdf

[66]World Bank Global Payment System survey, Table Section 2, 18, Source: https://www.worldbank.org/en/topic/financialinclusion/brief/gpss

transaction account with simple and low pricing, no minimum deposits, reduced onboarding requirements, and limited transactional capabilities. Such accounts should have reduced or no-account maintenance fees, no minimum deposit requirements and simplified CDD requirements. In line with the extant risk-based approach the accounts should have reduced operational limits. One of the biggest barriers to opening an account is the KYC requirement to provide proof of income or proof of employment. Unbanked adults cite not having a job or a regular income as the two biggest reasons for not opening a bank account. This banking regulatory requirement means that individuals that earn an irregular income, receive social benefits, or are unemployed are excluded from the banking system.

136. **The authorities should continue to regularly assess and review the limits related to mobile wallets (linked to inflation) and promote expansion to merchants with higher limits.**[67] The electronic wallet is becoming a widespread financial instrument. In light of the issuing process and inherent characteristics, its use is limited, to reduce risks related to ML and TF. However, product limits should be reviewed over time, to maintain an appropriate level of functionality. In addition, the authorities should assess and consider issuing dedicated limits for wallets issued to business clients, that use them to intermediate their sales.

Credit

137. **Authorities should prioritise efforts to ensure responsible lending to financial consumers to ensure that they are able to access the benefits of access to financial services.** The deduction at source loan repayment process should be modernized, focusing on accessibility to all credit providers and small businesses, and the related disclosure practices. Smaller businesses and the self-employed, and smaller credit institutions are unable to participate in the loan deduction at source. The authorities should develop a roadmap for the modernization of the service in terms of operational capacity and openness. Such development should be complemented by the issuance of guidelines related to the information communicated to the consumer during the deduction process. In relation to loans to salaried consumers, the minimum take home income level should be reviewed, and the authorities should consider indexing its evolution to inflation. Loan balance transfer or loan portability charges and standard notice periods should be assessed to encourage competition between lenders. The opportunity to define a limit for usury rates on loans could also be assessed to prevent exorbitant charges. Guidelines should be created to perform alternative credit scoring mechanisms for low-income, financially excluded consumers.

Insurance

138. **To protect farmers from climate disasters, the authorities should consider the expansion of ACGS to additional sectors (livestock, horticulture) and potential coverage of private sector loans although this would require significant restructuring and investment.** The ACGS is currently for those farmers that have loans from the NDB and CEDA and is only triggered once a declaration of a national disaster has been announced by the President of Botswana. The scheme would benefit from a review of the actuarial principles and the potential adoption of subregional coverage based on local conditions. The authorities should issue guidelines for the development of index-based insurance.

139. **NBFIRA should consider improving the insurance regulatory framework to support simple or basic insurance products.** These products would have lower capital requirements, less strict prudential standards, and a proportional CDD process for customer onboarding and during customer lifecycle. Currently, there is no legal framework for simple insurance or microinsurance, although the Insurance Industry Act of 2015 provides an interpretation of a funeral policy which could be considered a type of entry-level insurance given its small ticket size. These developments could reduce operational costs and increase affordability for consumers. Such regulatory developments could be supported by flexible arrangements for premium payments, improved consumer financial education, and disclosure of product conditions.

[67] *Limits were revised upwards in 2020, and the second review done in 2022. Source BoB*

140. **Authorities should issue guidelines on the roles and responsibilities of the different providers involved in the delivery of products under a partnership model between different financial service providers.** Partnership between established financial services providers is a modality to innovate by bundling and embedding financial products between each other or within other services. The authorities can provide guidance to innovative financial players that are interested in entering the market. Moreover, the authorities should consider creating a single repository for pricing product information from different financial institutions to promote price comparability. To promote consumer awareness, the clear representation and comparability of product pricing is a key component of product pricing fee details.[68]

Access points

141. **The authorities should develop a geospatial map of financial sector access points.** This map could facilitate consumers in identifying and accessing cash in-cash out services such as ATMs, bank branches, post offices and agents. It would also support financial service providers to manage investment decisions related to branch network expansion. This information would support the data infrastructure to develop and monitor financial inclusion in Botswana. Advances in data-collection would improve the ability of government authorities to identify financially underserved areas and develop the appropriate comparative, time-sensitive strategies for greater access and usage of financial services.

AWARENESS AND FINANCIAL LITERACY

142. **Financial literacy and capability could be improved through the implementation of a public-private coordinated approach to financial education.** These efforts should be targeted and evidence-based to promote safe and responsible financial inclusion. Financial education messaging should be consistent across the private and public sectors so that financial consumers are able to improve their financial understanding, skills, and behaviors in order to improve their financial well-being overall. Additionally, financial education should be extended to consumers who have the option of choosing between a severance benefit and annuities in line with the recent amendments to the Retirement Funds Act. These amendments allow pension fund members to cash out up to 50 percent of accrued savings upon retirement. While this can provide an immediate cash injection for those that need it, it can also be detrimental to the financial viability and sustainability of these individuals in the future as their long-term savings are depleted.

Recurrent payments

143. **The Department of Local Government and Rural Development should work with other stakeholders in the government to provide alternative, non-cash payment options for grant beneficiaries to receive benefits.** Authorities should also consider expanding the destitute person's grant closed-loop system to include a broader set of retailers and evaluate the possibility of transition to an open-loop instrument. This could provide greater convenience and optionality to beneficiaries; this work could benefit from international approaches developed in this space. The government should promote the adoption of business process automation and technology to improve processes and efficiency for grant and public loan program disbursement. The authorities should also look to expand the number of public services that could be paid for digitally to include, for example, the renewal of drivers' licenses**.**

68

Good Practices for Financial Consumer Protection, World Bank, 2017, https://openknowledge.worldbank.org/bitstream/handle/10986/28996/122011-PUBLIC-GoodPractices-WebFinal.pdf?sequence=5&isAllowed=y

Annex 1 - Guidance documents used in this Technical Note

144. **The PAFI framework provides the "foundations" of a national payment system that fosters financial inclusion, as well as the "catalytic pillars," which drive access and usage of digital payments and products.** The foundational elements comprise (i) commitment from stakeholders; (ii) legal and regulatory framework; and (iii) financial and ICT infrastructure, which are important for access to and usage of transaction accounts. Based on these foundational elements, the catalytic pillars (i) payment product design; (ii) readily available access points; (iii) awareness and financial literacy; and (iv) leveraging high-volume recurrent payment streams form the drivers for access and usage.

145. **The Bali Fintech Agenda, being the most recent of the guidelines referenced in this document, focuses on the role of modern technologies and disruptive business models in fostering stable and inclusive financial systems.** At its core are twelve elements that should guide policymakers, regulators and standard-setting bodies in approaching fintech: (1) embrace the promise of fintech; (2) enable new technologies to enhance financial service provision; (3) reinforce competition and commitment to open, free and contestable markets; (4) foster fintech to promote financial inclusion and develop financial markets; (5) monitor developments closely to deepen understanding of evolving financial systems; (6) adapt regulatory framework and supervisory policies for orderly development and stability of the financial system; (7) safeguard the integrity of financial systems; (8) modernize legal frameworks to provide an enabling legal landscape; (9) ensure the stability of domestic monetary and financial systems; (10) develop robust financial and data infrastructure to sustain fintech benefits; (11) encourage international cooperation and information sharing; and (12) enhance collective surveillance of the international monetary and financial system.

146. **The 2017 Good Practices for Financial Consumer Protection offers a common methodology for evaluating financial products and services (credit, savings, insurance, pensions, and securities) as well as guidance for retail payments, credit reporting and financial capability.** Key topics covered for the product verticals include: (i) the legal and supervisory framework; (ii) disclosure and transparency; (iii) fair treatment and business conduct; (iv) data protection and privacy; and (v) dispute resolution mechanisms.

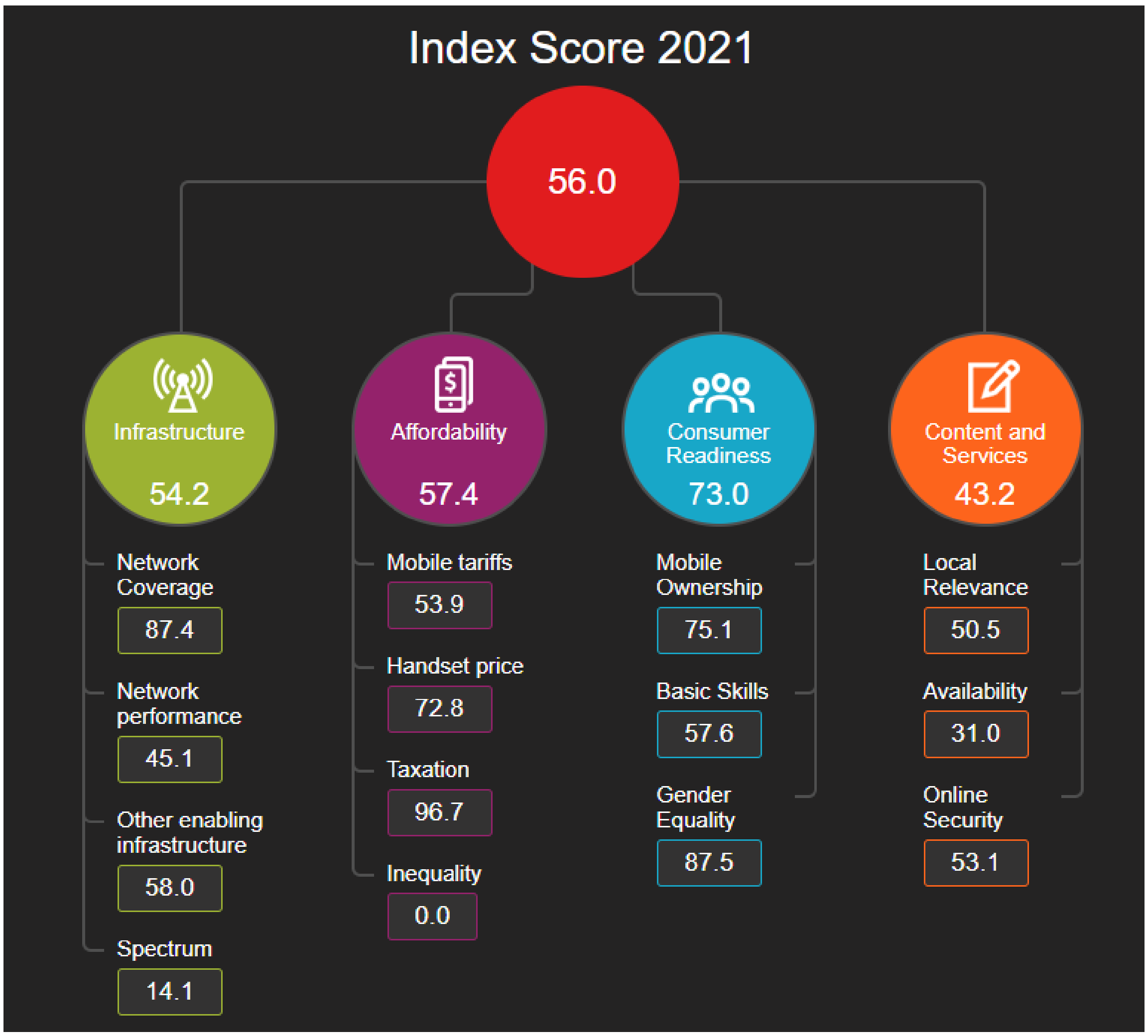
147. **The Toolkit for National Financial Inclusion Strategies (NFIS) provides practical guidance on developing and operationalizing an NFIS.** The toolkit covers three key areas: (i) the process of developing an NFIS; (ii) the key content of an NFIS document and strategy; and (iii) the operationalization of an NFIS. The toolkit includes detailed operational tips as well as country examples from over 20 countries.

148. "Using Digital Solutions to Address Barriers to Female Entrepreneurship: A Toolkit" is a new World Bank report that provides a systematic approach to strengthening policies and programs to support women in the private sector and includes financial inclusion. While the overarching objective is to support women business owners, one of the four main pillars focuses specifically on finance, with two others addressing issues that also impact finance – the legal and regulatory framework and training, skills, and information.

Annex 2 - ICT infrastructure in Botswana

119. **Up to 90% of the population is covered by mobile networks[69], and only 49 percent are active mobile broadband users.[70]** In connecting citizens to markets and services, improving productivity, reducing transaction costs, and bridging information gaps, these channels unlock the digital economy. Being a land-locked country, Botswana is connected via a backbone telecommunication network with the neighboring countries, mainly through South Africa. The GSMA intelligence connectivity index [71] provides insights into the areas of development and the strength of the digital connectivity, encompassing both hard and soft KPIs. The index measures the performance of 170 countries against the key enablers of mobile internet adoption. Countries are scored within a range of 0 to 100 across a number of indicators, with a higher score representing stronger performance in delivering mobile internet connectivity. Botswana has a score of 56 (Picture 1),

Picture 2, GSMA connectivity index 2021



[69] GSMA Intelligence

[70] World Bank 2022 based on Mobile broadband capable connections (GSMA, 2022), SIMs per unique subscriber (GSMA, 2022) and Total population (UN Population Prospect, 2019).

[71] https://www.mobileconnectivityindex.com/#year=2021&zoneIsocode=BWA&analysisView=BWA

120. The International Telecommunications Union (ITU) price monitoring of the connectivity service baskets shows that in Botswana, the prices are higher (expressed as a percentage of GNI per capita) than in other low-middle-income countries. This is due to the fixed broadband cost. Moreover, the prices are above the 2 percent of GNI per-capita target identified by the Broadband Commission for Sustainable Development's target for 2025.[72]

Figure 27: ITU price basket % of GNI, 2021

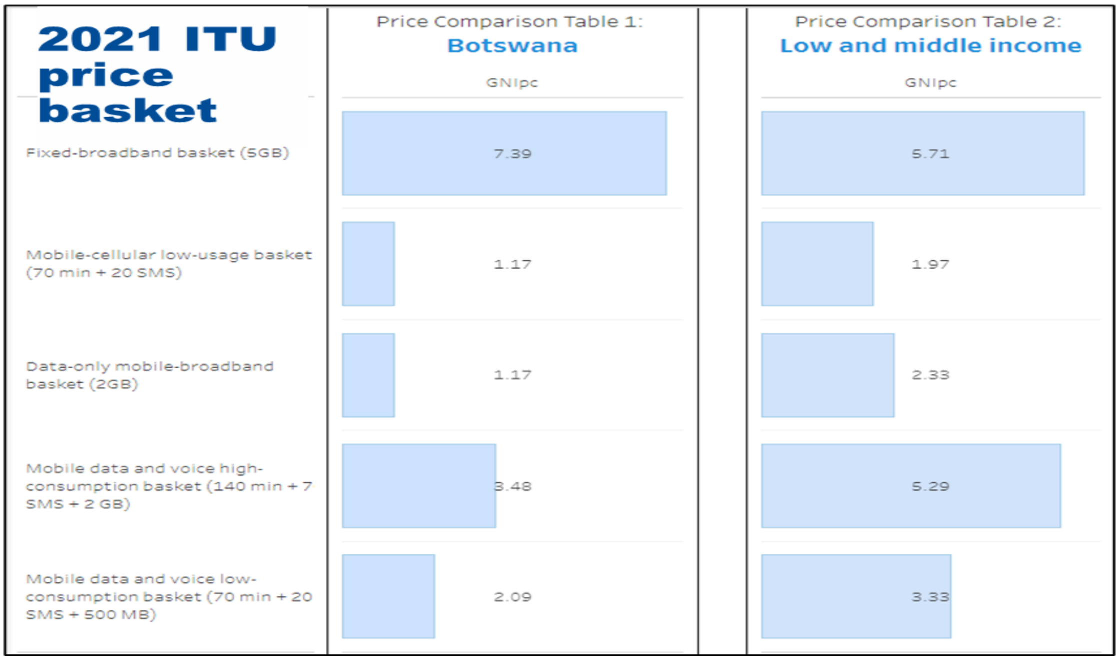


Table 7: Broadband cost, country comparison, 2022

Rank	Name	Continental region	Packages measured	Currency	Average package cost per month (local currency)	Average package cost per month (USD)	The cheapest broadband package measured (USD)	Most expensive broadband package measured (USD)	Sample date
101	Tanzania	SUB-SAHARAN AFRICA	13	TZS	100,000.00	$43.10	$21.55	$114.51	03/03/2022
112	Mauritius		5	MUR	2,000.00	$45.10	$27.06	$146.59	14/02/2022
113	Kenya		19	KES	5,199.00	$45.23	$15.59	$182.69	04/02/2022
117	Cape Verde		5	CVE	4,645.83	$46.89	$8.53	$126.63	28/01/2022
119	Gambia		4	GMD	2,583.33	$48.06	$34.11	$54.26	02/02/2022
126	Togo		7	XOF	29,916.67	$50.76	$26.01	$86.67	01/03/2022
130	Gabon		9	XOF	31,045.00	$52.67	$26.11	$259.16	13/02/2022
142	**Botswana**		**15**	**BWP**	**649.00**	**$56.83**	**$20.22**	**$113.75**	**01/02/2022**
144	Somalia		9	USD	59.17	$59.17	$24.17	$304.17	26/02/2022
150	Saint Helena		3	SHP	46.23	$60.55	$31.33	$120.33	25/02/2022

[72] Source : ITU database, https://www.itu.int/en/ITU-D/Statistics/Pages/ICTprices/default.aspx

153	Madagascar		1	MGA	249,000.00	$61.72	$61.72	$61.72	14/02/2022
154	Zambia		5	ZMK	1,112.50	$62.30	$28.70	$115.50	10/03/2022
156	Burkina Faso		2	XOF	36,950.00	$62.69	$42.25	$83.13	23/01/2022
161	Seychelles		2	SCR	936.96	$65.26	$5.22	$125.30	23/02/2022
164	Eritrea		3	ERN	1,000.00	$66.66	$21.06	$166.65	31/01/2022

Source: Cable.co.uk

121. The empirical test of the fixed internet broadband speed in Botswana shows that it would need to be further improved. In 2022, Botswana ranked 159th of 220 countries for broadband download speeds. For this period, Botswana's broadband download speed was 9.36 Mbps, considerably slower than the average world speed of 34.79 Mbps. At the same time, the average monthly cost for a broadband package is 649 Pula, among the most expensive in Sub-Saharan Africa.[73]

Table 8: Internet speed testing country comparison, 2022

Rank	Country	Region	Mean download speed (Mbps)	Unique IPs tested	Total tests	How long it takes to download a 5GB movie (HH:MM:SS)
88	South Africa	SUB-SAHARAN AFRICA	28.62	1937740	18220409	0:23:51
109	Madagascar		19.29	33811	200207	0:35:23
122	Nigeria		15.37	114652	1120626	0:44:25
124	Seychelles		14.89	1021	3207	0:45:51
130	Mauritius		13.44	9827	64001	0:50:48
131	Burkina Faso		13.43	2600	33689	0:50:50
137	Kenya		12.42	426705	6432698	0:54:58
142	Ghana		11.24	33811	354055	1:00:44
144	Uganda		11.01	42487	526388	1:02:00
146	Lesotho		10.68	346	615	1:03:55
148	United Republic of Tanzania		10.52	35697	304217	1:04:54
150	Cote D'Ivoire		10.14	5655	17189	1:07:19
159	**Botswana**		**9.36**	**1906**	**20252**	**1:12:56**
160	Namibia		9.28	4092	13667	1:13:34
161	Cape Verde		9.08	1607	3146	1:15:11
162	Zimbabwe		8.94	6059	21849	1:16:22

Source: Cable.co.uk

[73] Source: Cable.co.uk

Annex 3 - Fast Payment Systems[74]

122. Fast payments are payments where the transmission of the payment message and the availability of final funds to the payee occur in real-time or near real-time, and as near to 24 hours a day, seven days a week (24/7). Fast payments are also referred to as "instant payments," "real-time payments," and "immediate payments". The associated service offered by payment service providers is referred to as a fast payment service, and the underlying scheme and system are referred to as a fast payment scheme and fast payment system. FPSs come in various flavors. Some are newly purpose-built systems; others are part of an existing payment system and are simply a new scheme (enhancement using the existing system) or service.

123. The characteristic features of fast payments are the real-time availability of funds to the beneficiary and the possibility to make payments 24/7 or close enough, regardless of the amount and type of beneficiary. Other payment systems, such as RTGS, already give the possibility to credit an end user's account in real-time. The materialization of this depends largely on the technical interfaces developed by RTGS participants between the system and their internal core banking systems. In contrast, most RTGS systems are not able to fulfill the other feature of offering round-the-clock availability for ordering and executing real-time payments. Indeed, the round-the-clock availability of real-time payments is a clear differentiator between fast payment arrangements versus other payment systems.

124. The technology behind many fast payment arrangements supports the development and launch of multiple value-added functionalities and services for end users (payers and payees). Those new functionalities promote and facilitate increased uptake and regular usage of fast payments for multiple purposes. This is a significant difference between them and RTGS systems, as most of the latter were built to cater solely to the needs of banks—and, eventually, other participating PSPs.

125. For operators and overseers/regulators, real-time availability of funds to beneficiaries and round-the clock availability of systems to execute payments also raise some unique challenges. Robust management of operational risks, including business continuity, is more important than ever to ensure ongoing trust in fast payments. Moreover, possibilities for committing fraud seem to have expanded, as there is no lag between when a payment is initiated and when the funds are transferred to the beneficiary, coupled with settlement finality offered by most fast payment arrangements.

126. In accordance with WB research, the primary drivers for fast payment implementation are the digitization of payments, promoting and leading innovation in the jurisdiction, and enhancing the consumer experience. Moreover, financial inclusion served as an additional driver in countries like Bahrain, India, and Mexico, where the public sector drove the fast payment development agenda. In contrast, when the project is led by other stakeholders, or when the project is to enhance the basic infrastructure and functionalities already implemented, some of the drivers differ or are expanded—for example, toward enhancing customer experience and convenience to incentivize customer usage of digital financial services further.

127. Both public-sector ownership, most often by the central bank, and private-sector ownership of fast payment arrangements are common. In some cases, there is co-ownership of the central bank with commercial

[74] Extract from the World Bank Fast Payment Toolkit. Link: https://fastpayments.worldbank.org/resources

banks or other private-sector entities. Moreover, the ownership structure may change over time, often driven by the needs of the market, the broader objectives of the owners, and regulatory requirements. For example, some systems have moved from public ownership to cooperative user/membership-based organizations, and in some cases from there to other corporate arrangements like privately owned or publicly listed companies. Regardless of the ownership model, it is highly desirable that the owner/operator involve all relevant stakeholders of a fast payment system in its governance arrangements.

128. Central bank ownership of fast payment systems is often observed in cases where the central bank also operates some of the traditional key infrastructures for retail payments, such as the check clearinghouse and/ or the automated clearinghouse for credit transfers and direct debits. This may be an indication that the central bank considers this arrangement as a natural continuation of its role as an operator of retail payment systems. Other reasons for central bank ownership can include trying to ensure the universal participation of eligible payment service providers and the notion that ownership control is critical for truly enhancing financial inclusion in a particular country context. Public-sector ownership of retail payments infrastructure may raise pricing issues that need to be carefully considered. In some cases, the costs of developing the infrastructure are absorbed by the central bank in pursuit of its public policy objectives. In other cases, the central bank may be subsidizing operational costs, and therefore pricing of services to participants may not be reflecting the true costs of operating the fast payment system. In this regard, if those subsidies are kept beyond the short-term, central banks ought to consider the implications for long-term competition and efficiency. Another aspect that needs to be considered is the potential conflict of interest that may arise between the central bank's role as an operator of the retail payments infrastructure and its role as an overseer.

129. **Private ownership of fast payment systems might entail potential concerns.** When these systems are owned solely by large participant banks closely tied to the market, they may be less willing to open the system and provide access to smaller banks or to non-bank PSPs. Also, a fast payment system entirely owned by the private sector is likely to require high upfront investment and transaction pricing consistent with a target investment recovery period, usually medium-term. High per transaction prices may deter participation, especially for PSPs that cater to low-income customers.

Annex 4 - Financial market infrastructures for the capital market

130. A centralized trading platform, Central Securities Depository (CSD), is in place with a single integrated trading, clearing, and settlement infrastructure that covers the full spectrum of securities, including government bonds (secondary trading), corporate bonds, notes, and equities. The CSD system came into implementation on September 23, 2022. The implementation of the new CSD system has commissioned the settlement of market transactions on the Botswana Stock Exchange Limited (BSEL) at BoB through the BISS, which is linked to the swift network. The new CSD system comprises new functionalities and capabilities that expand its services and products, such as the centralized custody for all securities in the market, including government securities. In addition, BSEL also has an Automated Trading System (ATS) in place that is integrated with the CSD. The features of the ATS were also upgraded to include an improved request for a quotation mechanism, which is popular for the trading of government bonds, and a bond calculator.

131. The BSEL is overseen by the NBFIRA but has some characteristics of a Self-Regulating Organization (SRO). It was demutualized in 2018. It operates three capital-raising boards: the Main Equity Board, the Venture Capital Board, and the Tshipidi SME Board. The latter was launched in 2019. The three products that can be listed on the BSEL are equities, bonds, commercial papers, exchange-traded funds (ETFs), depository receipts, and investment funds. In addition, there is a separate over the counter (OTC) board – Serala – to provide a trading venue for unlisted securities.