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REPUBLIC OF BOTSWANA

FINANCIAL SECTOR ASSESSMENT

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Prepared By

Finance, Competitiveness, and Innovation Global Practice and Africa Regional Vice Presidency

A joint IMF-World Bank mission visited the Republic of Botswana during October 24 – November 2, 2022 and 16 January – 1 February, 2023 to update the findings of the Financial Sector Assessment Program (FSAP) conducted in 2007.[1] This report summarizes the main findings of the mission, identifies key financial sector vulnerabilities, and provides policy recommendations.

[1] The team was led by Harish Natarajan (WB) and Thordur Jonasson (IMF) and included Rinku Chandra (WB Claney Lattie (IMF) and) as Deputy Mission Chiefs, Dan Cheng, Ian Stuart, Yuan Rollinson, and Adrian Wardzynski (IMF), Krishnamurti Damodaran, Fiona Stewart, Peter Lohmus, Ivor Istuk, Francesco Di Salvo, Claudia Meek, and Wuraola Fanimokun (WB), and Timo Broszeit, David Parker and Christopher Wilson (all IMF Experts).

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GLOSSARY

AIM	Aide-Mémoire
BA	Banking Act, 1995
BBS	Botswana Building Society
BBO	Botswana Banking Ombudsman
BCP	Basel Core Principles
BDC	Botswana Development Corporation
BoB	Bank of Botswana
BoBAA	Bank of Botswana Amendment Act, 2022
BOCA	Botswana Cooperative Association
BOCRA	Botswana Communication Regulatory Authority
BPOPF	Botswana Public Officers Pension Fund
BSB	Botswana Savings Bank
BSD	Bank Supervision Department
BSEL	Botswana Stock Exchange Limited
BWP	Botswana Pula
CAR	Capital Adequacy Ratio
CBDC	Central Bank Digital Currency
CEDA	Citizen Entrepreneurial Development Agency
CI Act	Credit Information Act
CIRT	Computer Incidence Response Team
CP	Core principle
CPSD	Country Private Sector Diagnostic
CRS	Credit Reporting System
DIS	Deposit Insurance Scheme
DISR	Deposit Insurance Scheme Regulation
DFS	Digital Financial Services
DMO	Debt Management Office
DRBA	Draft Revised Banking Act
D-SIBs	Domestic Systemically Important Banks
ELA	Emergency Liquidity Assistance
ERTP	Economic Recovery and Transformation Plan
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
ESG	Environmental, Social and Governance
FATF	Financial Action Task Force
FI Act	Financial Intelligence Act
FIA	Financial Intelligence Agency
FSC	Financial Stability Council

FSR	Financial Stability Report
GWP	Gross Written Premiums
IFRS	International Financial Accounting Standards
HH	Households
HIC	High Income Country
IRRBB	Interest Rate Risk in Banking Book
LCR	Liquidity Coverage Ratio
LEA	Local Enterprise Authority
MNO	Mobile Network Operator
MoE	Ministry of Entrepreneurship
MoF	Ministry of Finance
MoPR	Monetary Policy Rate
MSME	Micro, Small, and Medium Enterprises
MTPL	Mandatory Third-Party Liability
MVA	Motor Vehicle Accident Fund
MVTS	Money Value Transfer Services
NBFIs	Non-bank financial institutions
NBFIRA	Non-bank Financial Institutions Regulatory Authority
NDB	National Development Bank
NDP	National Development Plan
NOP	Net Open Position
NPLs	Non-performing loans
NSFR	Net Stable Funding Ratio
PCA	Prompt Corrective Action
PCG	Partial Credit Guarantee
PD	Probability of Default
POS	Point of Sale
PRR	Primary Reserve Requirement
RAM	Risk Assessment Matrix
RFA	Retirement Funds Act, 2022
SACCOS	Savings and Credit Cooperatives
SCD	Systematic Country Diagnostic
SME	Small-and Medium Enterprises
SOFI	State-Owned Financial Institutions
SRA	Systemic Risk Analysis
WFHB	Women’s Finance House Botswana

PREFACE

IMF and World Bank (WB) teams visited Gaborone, Botswana during October 24 – November 2, 2022, and 16 January – 1 February 2023 to conduct assessments under the Financial Sector Assessment Program (FSAP). The team was led by Thordur Jonasson (IMF) and Harish Natarajan (WB) and included Claney Lattie (IMF) and Rinku Chandra (WB) as Deputy Mission Chiefs, Dan Cheng, Ian Stuart, Yuan Rollinson, and Adrian Wardzynski (IMF), Krishnamurti Damodaran, Fiona Stewart, Peter Lohmus, Ivor Istuk, Francesco Di Salvo, Claudia Meek, and Wuraola Fanimokun (WB), and Timo Broszeit, David Parker, and Christopher Wilson (all IMF Experts). The mission assessed financial sector risks and vulnerabilities, the quality of financial sector supervision, and the management of systemic liquidity, financial safety nets and their arrangements, crisis preparedness and management, and covered aspects related to financial inclusion and digital financial services, access to finance for MSMEs, long-term development finance, and the role of the state in the financial sector, as well as conduced a targeted review of the AML/CFT regime.

The mission met the Minister of Finance, the Governor of the Bank of Botswana, the Chief Executive of the Non-Bank Financial Regulatory Authority, the Director of the Financial Intelligence Agency, and technical staff in these agencies. Fruitful discussions were held with other official agencies, financial sector representatives, and other stakeholders.

The last FSAP took place in 2007. The status of implementation of its key recommendations can be found in Appendix II.

The team would like to thank the authorities for the hospitality, excellent cooperation, and fruitful discussions.

EXECUTIVE SUMMARY

The current growth model that is driven by extractives and a large public sector is reaching its limits. Botswana has utilized wealth from diamonds and political stability to lay the foundation for strong growth over several decades that has transformed it from among the world's poorest countries into a stable upper-middle income country. However, average growth is currently on a downward trend, with annual GDP growth averaging 5.1 percent from 2002-2009, 3.2 percent between 2009-2015, and 2.3 percent between 2015-2021. This weak level of growth will put the Government's aim of reaching High Income Status (HIC) by 2036 out of reach unless bottlenecks to growth are urgently tackled.

The need for a shift in the growth model driven by private sector growth has long been a government priority, however progress on this has been limited and, in this regard, furthering financial sector development is critical. Botswana's National Development Plan 11 (NDP 11), 2017-2023, along with Vision 2036, focused on achieving HIC status by 2036 through refocusing the current development model towards an export-oriented, labor-intensive, and private sector driven model. These policy priorities are consistent with the 2015 World Bank Systematic Country Diagnostic (SCD) and the forthcoming update[2]. The 2023 World Bank Country Private Sector Diagnostic (CPSD)[3] identified three cross-cutting constraints that need to be addressed to diversify the economy and attract private investment: 1) increasing competition through state-owned enterprise (SOE) reform and reduction in state presence in competitive markets; 2) addressing cross-cutting constraints on competitiveness, including access to finance for small and medium enterprises (SMEs); and 3) stimulating private investment in enabling sectors and export sectors. Further development of the financial sector will be critical to achieving these policy priorities, and in particular to developing a competitive private sector, raising the productivity of microenterprises and increasing private investment in key sectors of the economy.

Despite significant progress in financial sector development, opportunities exist for further financial deepening. The financial system in Botswana has expanded in the last decade, increasing coverage of the population as well as adding new products and providers. However, Botswana still lags several regional peers in both financial inclusion and digital finance and there are opportunities in both areas. Reliable time-series data on SME access to finance does not exist, but it is widely acknowledged that there has been limited progress in improving access to finance. There has also been limited progress in improving the availability of long-term finance in the market despite Botswana having a relatively large retirement and pension fund sector. The state also continues to play a significant role in the financial system, through ownership of several Development Finance

[2] The SCD identified five priority intervention areas: 1) develop a competitive, export oriented private sector, leveraging regional integration; 2) raise productivity of smallholders and microenterprises; 3) increase human capital for employment, productivity, and inclusion; 4) improve resilience and adaptation to shocks and climate impacts; and 5) sustainably manage scarce natural resources and build on key comparative advantages. The SCD also identified a cross-cutting priority intervention area related to closing the gap between policy aspiration and implementation with efficient and accountable institutions.

[3] The Botswana CPSD can be found at: https://www.ifc.org/en/insights-reports/2022/cpsd-botswana

Institutions (DFIs) and commercial banks, and despite significant public resources deployed to them, there are questions about their performance and effectiveness.

Recent progress in financial inclusion is driven by digital financial services (DFS), though there is scope for further progress. The number of adults with an account increased from 68 percent in 2014 to 82 percent in 2020 driven by mobile money account ownership from 22% (2014) to 54% (2020), and Botswana performs well compared to regional peers and its level of economic development. However, it lags behind regional leaders—South Africa (90 percent) and Mauritius (88 percent). The large majority of lending to households is directed at employees of public sector (53.4 percent) and large corporates. Irrespective of the intended end-use (e.g., housing, education) the loans are unsecured personal loans but with a salary deduction at source repayment arrangement. The salary deduction at source introduces some opacity in the fees and process inefficiencies. Consequently, micro, small and medium enterprise (MSME) employees and self-employed are underserved. Whereas account-to-account transfers between banks are possible, there is limited interoperability for retail payments and mobile money services have not been fully integrated into the national payment system. Responsibly harnessing innovation, notably through facilitating market entry of new providers and business models, introduction of fast payment services, open banking, and digital ID are critical to achieve further progress. Modernizing deduction at source lending and strengthening the Botswana Banking Ombudsman would also help to increase usage and trust in the financial system. The upcoming 2023-2028 Financial Inclusion Roadmap provides an opportunity to address the constraints to financial inclusion in a holistic manner and should be accelerated and supported by a robust Monitoring and Evaluation (M&E) framework.

MSME development is a core priority, but access to finance is constrained due to deficient public sector programs and limited and expensive private sector credit. Past surveys indicate significant gaps in financing and coverage. There are demand-side challenges, such as high level of informality of MSMEs, low levels of financial literacy, unreliable financial management and financial reporting by MSMEs and dominance of cash as a preferred means of payment. The supply-side challenges are three-fold: (i) lack of motivation by banks to finance MSMEs; (ii) lack of viable competition for this market from non-bank's due to restricted capacity and resources; and (iii) crowding out by poorly targeted and subsidized lending from state-owned DFIs, notably the Citizen Entrepreneurial and Development Agency (CEDA). Moreover, early-stage financing also remains limited and a substantial percentage of start-ups focus on securing government contracts rather than pursuing innovation and meeting market gaps.

Increasing access to finance for MSMEs will require enhancing competition in the financial sector, better targeted and designed public sector programs, crowding-in of private finance, and improving financial infrastructure. The regulatory framework for non-bank lenders and digital finance needs to be upgraded in order to position them to compete in the market and motivate banks to innovate. Public sector programs could also be redesigned to incentivize the private financial sector to increase finance to MSMEs, including through well-designed credit enhancement mechanisms like a public partial credit guarantee. It is also crucial for the authorities to continue with the implementation of collateral and credit infrastructure and collateral registration and rights reforms to enable effective credit risk assessments, address information asymmetries and enable orderly exit of unviable businesses. Efforts should also be made to increase early-stage finance, including channeling risk capital to crowd in private sector financing, public sector support programs, and tax incentives.

Citizen Entrepreneurial Development Agency (CEDA), which is the largest source of financing to entrepreneurs and MSMEs in Botswana, has achieved limited results, is financially unsustainable, and will need to be reformed. CEDA receives substantial support from the government budget, but due to its poor financial performance with NPLs exceeding 70 percent, its capital is now negative and the majority of the ongoing budget support that it receives supports its operating expenses and financial losses. This limits its ability to provide financing for MSMEs. In line with the overall government strategy to rationalize the role of the state in competitive sectors, the government should move away from direct lending to MSMEs and wholesale facilities for on-lending should be developed.

The capital markets are small and illiquid and could benefit from a development plan and a dedicated 'champion'. The annual turnover to market capitalization stands at 2.9 percent[4] and debt securities outstanding lagging regional peers at 11.1 percent of GDP compared to 63.6 percent and 48.1 percent for South Africa and Namibia, respectively[5]. Regulatory, policy and strategy actions aimed at deepening the listed and unlisted debt market and supporting the development of alternative asset classes (such as PPPs and Mortgage-Backed Securities) could help increase and diversify the long-term investment options available. Both the regional asset managers and local institutional investors need a committed, consistent, sizable project pipeline to move 'out of their comfort' zone and build capacity to invest in alternative asset classes, such as infrastructure.

The substantial source of long-term, local currency financing from retirement funds and insurance companies is not being channeled to meet the country's long-term investment needs, in part due to the small and illiquid capital markets. The assets of the pension funds and life insurance companies amount to around 60 percent of GDP and 51 percent of financial sector assets, which is significantly higher than peer countries. The pension sector is fragmented and inefficient - with recent legislative changes not supportive of market development. The imbalance between the size of local investor assets and the size/ absorption capacity of the local markets will be exacerbated by the increase in domestic investments of retirement funds following the changes to the Retirement Funds Act, which require reducing cross-border investments. Further, addressing the fragmentation and inefficiencies in the pension fund industry will help improve value for members and support the creation of more expert and engaged market participants.

The government's interventions to support entrepreneurship, agriculture, and strategic sectors through DFIs is not delivering corresponding results. The government has devoted significant financial resources to support three DFIs (CEDA, National Development Bank - NDB, and Botswana

[4] as at 2022, Botswana Stock Exchange Market Performance Report

[5] World Bank Data

Development Corporation - BDC). CEDA's mandate is to support entrepreneurship primarily through subsidized loans. NDB's mandate is to promote economic development in Botswana and has been recently directed to focus on agriculture lending. BDC was established to facilitate the development of commercially viable projects in new industries and value chains. The financial performance and results of CEDA and NDB is poor, and both have high levels of non-performing assets. BDC, while better performing and managed, is constrained in its ability to grow and scale up its activities due to their funding model and business approach of holding investments on their balance sheet for excessive periods of time. The government recently announced specific plans for these institutions, including directing NDB to become an agriculture development bank, without adequate analysis on their feasibility or adequately consulting their management and board. The government should revisit these decisions and formulate a holistic plan to revamp the strategic framework for DFIs and strengthen their prudential oversight and governance. There are also gaps in the regulatory framework for DFIs, and a common framework should be developed. As indicated earlier, direct lending at below market rates should be replaced with alternatives, such as wholesale funding and partial credit guarantees.

A well-coordinated financial sector development strategy (FSDS) is, therefore, necessary to deepen the sector and channel resources. The previous FSDS adopted after the FSAP 2007 expired in 2016. A new FSDP, encompassing all the above-mentioned themes is needed with clear monitoring and evaluation frameworks and implementation arrangements. To support these efforts, financial sector authorities and relevant government ministries need a clear mandate for supporting financial sector development, for example, NBFIRA for the non-bank sector to capitalize on the progress that has been in financial stability and resilience.

The financial system has remained broadly resilient since the last FSAP (2007), and notable progress has been made in strengthening the financial supervisory and regulatory frameworks. The financial sector withstood the pandemic well owing, in part, to forbearance measures and the sector's strong financial position. Banks hold adequate capital and maintain ample liquidity, while they show moderate profitability. The banking system remains highly integrated with a sizeable share of non-bank financial institutions assets. Banks exhibit a high concentration of lumpy short-term deposits from retirement funds and insurance companies. Other main risks to financial stability are high volatility in diamond prices, geo-political developments, and the tightening of global financial conditions. Realization of risks could delay economic recovery and fiscal stability, weaken the external position, and depreciate the national currency – Pula. However, the financial system appears resilient to a wide range of shocks and most banks would withstand severe stress.

Further steps are warranted to strengthen the financial stability framework. The authorities have implemented most previous FSAP recommendations (Appendix I), key elements of the Basel III Framework are at an advanced stage of implementation and Domestic Systemically Important Banks (D-SIBs) have been identified, and the AML/CFT framework has been upgraded since the last FATF assessment. Several measures highlighted in Table 1 would further strengthen the financial stability framework, including related to the banking supervision and regulation framework and financial safety net and crisis management framework.

Table 1. Botswana: FSAP Key Recommendations[6]

Recommendation	Time	Agency
FINANCIAL SECTOR DEVELOPMENT		
Financial Inclusion and Digital Financial Services		
Fasttrack adoption of financial inclusion roadmap 2023-28 and incorporate M&E framework and implementation arrangements.	ST	MoF, BoB, NBFIRA, BOCRA
Prioritize development of fast payment services as part of the implementation of payments switch, alongside adoption open finance and development of Digital ID.	MT	BoB, Bankers Association, National Payment council, Government
Implement innovation facilitators and targeted regulatory changes to foster development of DFS and competition across bank and non-bank sectors and DFIs.	ST	NBFIRA, BoB
Access to MSME Financing		
Introduce a well governed independent wholesale fund and partial credit guarantee scheme available to non-bank lenders and banks.	MT	MoF
Enforce reporting of both positive and negative data from credit providers in line with the Credit Information Act.	ST	BoB, NBFIRA
Implement MSME demand side recommendations in the CPSD.	MT	MoE, MTI, MoF
Develop a concerted public-private initiative to accelerate the development of early- stage finance including covering risk capital to crowd in private sector financing, public sector support programs, and tax incentives.	MT	MoE and MoF
Revise the Non-Bank Lenders Bill to: (i) create a multi-product non-bank lender category; (ii) clarify role of microfinance; (iii) harmonize definitions pertaining to credit across banking and non-bank regulations; and (iv) facilitate development of new products (e.g., crowd-funding).	MT	NBFIRA
Promoting Long-Term Finance		
Grant NBFIRA an explicit mandate to develop non-banking sectors/ capital markets in the revised NBFIRA Act, and correspondingly enhance staffing and skills	ST	MoF/ NBFIRA
Develop investor interest through new models for institutional investor participation and adopt measures to incentivize foreign and retail participation	ST	NBFIRA, MoF
Increase the share of long-term investments through: (i) reforms to the bond market, (ii) updated PPP policy, (iii) a regulatory framework for securitization, and (iv) SOE reforms to incentivize new issuance	MT	MoF, NBFIRA
Streamlining the Role of the State in the Financial Sector		
Strengthen line-ministries oversight of DFIs by including improvements to the performance monitoring and governance and strengthening the M&E framework	ST	MoF, MTI, MoE
Introduce a regulatory framework for DFIs and common prudential oversight framework.	ST	MoF, MTI, MoE
Improve asset quality in CEDA, NDB, and BDC and halt direct lending by CEDA and redirect MSME lending support through loan guarantee-schemes and wholesale funding models	ST	MoF, MTI, MoE
Revisit the recently announced plans for the DFIs and develop a new long-term plan for the DFIs underpinned by robust analysis taking into account current market context	ST	MoF, MTI, MoE

[6] Recommendations included in this table should be considered high priority without exception. Additional recommendations in the various FSAP topic areas are included in the corresponding Technical Notes.

I: Immediately; ST: short term = less than 1 year; MT: medium term = 1–5 years

Table 1. Botswana: FSAP Key Recommendations (continued)

Recommendation	Time	Agency
Systemic Risk Analysis		
Introduce the Basel III liquidity standards to strengthen systemic liquidity monitoring	MT–LT	BoB
Conduct regular stress testing of large insurers' and retirement funds' concentrated bank exposures to monitor and detect financial stability risks	MT	NBFIRA, BoB
Implement data management systems for stress testing and interconnectedness; updated and standardized reporting frameworks for both banks and non-bank financial institutions	ST	BoB, NBFIRA
Develop data quality and granularity to enhance stress-testing framework to include sensitivity tests for credit risk, including to household debt and corporate indebtedness	ST–MT	BoB
Strengthen the liquidity management framework to include upgraded forecasting tools, streamlined access to refinancing facilities and comprehensive collateral schedule	ST	BoB
Develop the interbank repo market by ensuring the legal framework supports enforceability and title transfer of securities under relevant Master Agreement	MT	BoB
Financial Sector Oversight		
Align prudential requirements for corporate governance and management of risks with Basel principles, and improve offsite and onsite tools	ST	BoB
Revise risk-based supervision approach and bank rating methodology, making them more forward-looking and adaptive to emerging risks	MT	BoB
Establish legal basis and set-up regulatory and supervisory frameworks to implement consolidated supervision for banks and banking groups	MT	BoB, MoF
Enhance supervisory methodologies and build capacity for covering Pillar 2 risks in the Supervisory Review and Evaluation Process	MT	BoB
Augment supervisory resources and strengthen supervisory capacity by increasing the number of risk specialists	MT	BoB
Operationalize AML/CFT risk-based toolkit for banks and NBFIs, including for covering novel risks from virtual assets	MT	BoB, NBFIRA
Impose tailored Pillar II capital buffer requirements for banks with low capital and high dividends payout ratios	ST	BoB
Enhance macroprudential tool kit to address liquidity vulnerabilities in financial institutions, to consider credit-based household sector tools, and to establish capital buffers	MT	BoB
Financial Safety Net and Crisis Management		
Establish the operational framework for emergency liquidity assistance once the Bank of Botswana Amendment Act comes into effect	ST–MT	BoB
Elevate Botswana Deposit Insurance Regulation to a law and address gaps in the regulatory framework to develop strategic and operational plan for implementation of an effective deposit insurance	ST–MT	BoB, MoF
Expand supervisory memoranda of understanding with all home country regulators to include resolution plans and issues, and prepare a contingent resolution plan for foreign subsidiaries	MT	BoB
Expand the remit of the Financial Stability Council to coordinate and develop the framework for crisis preparedness and management; oversee recovery and resolution planning, to conduct stress testing and simulations, develop contingency planning, and implement a communications strategy	ST–MT	FSC, MoF, BoB

INTRODUCTION

A. Country Context

1. **Over the past 30 years, sound macroeconomic policies and structural reforms on the back of diamond and mineral wealth have contributed to robust economic growth and poverty reduction in Botswana.** The country has long been a top performer on the African continent in terms of GDP growth, macroeconomic management, and democratic governance. As a result, Botswana has met the WBG's criteria for upper middle-income countries since 2004, a position it maintained in 2021 with a GDP per capita at US$7,347. Poverty declined steadily from around 30 percent in the 2000s to 15 percent in the mid-2010s (based on the US$ 2.15 poverty line).

2. **Although having developed into an upper middle-income country, Botswana faces several development challenges similar to those of other countries in sub-Saharan Africa**. In particular, limited economic diversification, high unemployment and poverty. As a large, land-locked, sparsely populated country, the country also faces infrastructure limitations with significant implications for private sector development. Although the mining sector's contribution to GDP has fallen to 11.5 percent in 2020 from 31.7 percent in 2005, the mining's capital-intensive nature and weak linkages with other sectors of the economy have limited the sector's impact on value chains and job creation, as it employs only about 1.1 percent of the labor force. Once a dominant sector, the share of agriculture has declined to less than 2 percent of GDP, but it is still vital to the livelihood of many citizens who operate subsistence farms.

3. **The current growth model, propelled by extractives and a large public sector, is fast reaching its limits to sustain robust growth while not being structurally inclusive.** NDP11 along with the Vision 2036 and ERTP, focused on achieving high income status by 2036 through refocusing the current development model towards an export-oriented, labor-intensive, and private sector driven model. This is consistent with the forthcoming World Bank Systematic Country Diagnostic (SCD) that argues that Botswana needs to attain four country-specific High Level Outcomes (HLOs) that reflect sustained improvement in the wellbeing of its people over the next 10 years with the ultimate aim to eradicate extreme poverty and ensure higher standards of living: 1) accelerated private-sector job creation (through more robust and stable growth); 2) strengthened human capital formation (to increase productivity and inclusion); 3) higher resilience to shocks; and 4) improved public service delivery (by closing gaps between policy aspiration and implementation). With this framework in mind, the diagnostic finds that the most binding constraints to achieving the HLOs can be addressed via six priority intervention areas (Figure 1).

4. **The comprehensive policy package that was implemented at the onset of the pandemic has remained in place and has buttressed economic recovery.** Fiscal measures protected the most vulnerable by keeping firms afloat to sustain employment. The regulatory forbearance measures supported credit growth, facilitated by the generally accommodative monetary policy stance.

Figure 1. World Bank SCD Policy Priority Intervention Areas to Achieve Twin Goals in Botswana

WBG Twin Goals	**End Extreme Poverty and Boost Shared Prosperity in a Sustainable Way**				
High-Level Outcomes	**HLO1: Accelerated private-sector job creation**	**HLO2: Strengthened human capital formation**	**HLO3: Higher resilience to shocks**	**HLO4: Improved public service delivery**	
Priority Intervention Areas	Develop a competitive, export-oriented private sector, leveraging regional integration	Raise productivity of smallholders and microenterprises	Increase human capital for employment, productivity, and inclusion	Improve resilience and adaptation to shocks and climate impacts	Sustainably manage scarce natural resources and build on key comparative advantages
Cross-Cutting Priority Intervention Area	Close the gap between policy aspiration and implementation with efficient and accountable institutions				

5. **Botswana's strong economic recovery continues, with expected real GDP growth of 5.8 percent in 2022.** The upturn in the global economy supported robust growth in diamond exports, enabled a narrowing of the current account deficit, and allowed the Bank of Botswana (BoB) to stabilize the foreign reserves import coverage ratio. Although rebuilding fiscal buffers to pre-COVID levels is some way off, the projected narrowing of the fiscal deficit in 2022 – and going to a balance budget over the medium term, augurs well for stabilizing government's financing need. Public debt to GDP is expected to decline below 20 percent over the medium-term. The macroeconomic environment remains conducive to continued expansion in private sector credit, which grew by 5.4 percent (y-o-y, Q2 2022) and compares favorably with regional peers and other emerging markets for 2021 (text chart). While economic recovery is underway, inflation risks are tilted to the upside, and it remains outside the desired inflation range of 3-6 percent.

6. **The pandemic emphasized the urgency to diversify the economy and promote growth.** Financial sector characteristics have historically been shaped by the strong current account and fiscal surpluses based on diamond exports. Initiatives aimed at increasing domestic resource mobilization, deepening financial markets, strengthening the regulatory and supervisory framework, and leveraging technology to increase efficiency and inclusiveness are under way. In addition, policies to improve medium- and small enterprises' access to finance, developing options for long-term financing and streamlining the role of the state generally should enhance the viability of inclusive private sector growth. The government recently adopted a transitional development plan for 2023-2025 and the authorities have indicated that development of the financial sector will be critical to the success of the transitional plan.

B. Structure of the Financial System

7. Botswana's financial sector accounts for close to 130 percent of GDP and comprises commercial banks and non-bank financial institutions that are well integrated (see Table 1). The banking model in Botswana is centered on intermediation of domestic deposits for credit provision and the non-bank sector includes retirement funds and insurance companies. The banking sector comprises eight commercial banks, with the three largest banks accounting for 64 percent of banking sector assets, of which, two are designated as Domestic Systemically Important Banks (D-SIBs) that accounted for 46 percent of banking sector assets as of June 2022. Banks are largely foreign-owned subsidiaries of pan-African banks that operate as conglomerates and hold subsidiaries in non-bank financial institutions. Domestic ownership of banks is mainly through the largest pension fund that has equities amounting to 22 percent of bank shares. The bulk of the non-bank financial sector consists of retirement funds (43 percent of financial system assets). The remainder of the financial system accounts for 15 percent of financial sector assets, comprising insurance companies, microlenders, and brokers.

Table 1. Botswana Financial System Structure

Financial Institutions	Number of Institutions (as of June 2022)	Total Assets in P 'Million		Percent of Total Assets		Percent of GDP	
		2008	2022 June	2008	2022 June	2008	2022 June
Banking Sector	**11**	**47,452**	**120,573**	**61.0**	**43.2**	**64.8**	**55.8**
Commercial Banks (1)	8	45,395	112,333	58.3	40.2	62.0	51.9
Statutory Banks	2	485	4,531	0.6	1.6	0.7	2.1
Building Societies (2)	1	1,572	3,710	2.0	1.3	2.1	1.7
Non-Bank Sector	**247**	**30,370**	**158,561**	**39.0**	**56.8**	**41.5**	**73.4**
Life Insurance (3)	9	14	18,357	0.0	6.6	0.0	8.5
General Insurance (3)	12	1	1,772	0.0	0.6	0.0	0.8
Re-Insurer	6	n/a	899	n/a	0.3	n/a	0.4
AUM for Retail and Private (4)	n/a	n/a	7,346	n/a	2.6	n/a	3.4
Pension Funds	87	28,326	115,079	36.4	41.2	38.7	53.2
o/w BPOPF	*1*	*n/a*	*82,284*	*n/a*	*29.5*	*n/a*	*38.1*
Capital Markets (5)	36	n/a	635	n/a	0.2	n/a	0.3
Microlenders (6)	97	n/a	7,610	n/a	2.7	n/a	3.5
Others (Estimate) (7)	n/a	2,029	6,864	2.6	2.5	2.8	3.2
Grand Total	**258**	**77,822**	**279,135**	**100.0**	**100.0**	**106.2**	**129.1**

Sources: NBFIRA, BOB

Notes: (1) Commercial Banks include merchant banks in 2008. See Table 3 for asset distribution of banks as of June 2022.

(2) Botswana Building Society (BBS) changed to a commercial bank in October 2022.

(3) Insurance data is based on 2009 financial statistics.

(4) Assets managed by investment institutions on behalf of retail and private client, data is based on 2021 from NBFIRA Annual Report

(5) Capital markets reflect only own company assets for Securities Brokers, Stock Exchange, Central Securities Depository, Asset Managers and Management Companies

(6) Includes 97 reporting micro lenders.

(7) Others include Botswana Development Corporation(BDC), Citizen Entrepreneurial Development Agency (CEDA) and the Motor Vehicle Accident (MVA) Fund.

8. The regulatory architecture for Botswana's financial sector comprises: the BoB that regulates and supervises deposit-taking activities, exchange bureaus, credit bureaus and clearance and settlement systems, electronic payment service providers; the Non-bank Financial Institutions Regulatory Authority (NBFIRA) that regulates and supervises non-bank financial institutions; and the Financial Intelligence Agency (FIA) that oversees anti-money laundering activities. The mandates for supervising financial institutions are within their respective laws, the BoB Act, and the BA for the supervision of deposit-taking activity, the Bureaus de Change Regulations (2004) ,the Credit Information Act (CI Act), 2021, the National Clearance and Settlement Systems (NCSS) Act, and Electronic Payment Service Regulations, 2019. Amendments to the BoB Act were passed in the Parliament in August 2022, but the BoB Amendment Act (BoBAA) becomes effective only by the Notice of Announcement by the Minister of Finance. The NBFIRA Act, 2022, establishes the context and oversight for the safety, soundness, and stability of NBFIs. The FIA is empowered under the Financial Intelligence Act (FI Act), 2022. Additionally, the agencies issue supporting directives, policies, and guidelines to discharge functions under respective laws and have direct reporting lines to the Ministry of Finance (MoF).

9. The banking model in Botswana is centered on intermediation of domestic deposits for credit provision. Assets are mainly denominated in Pula and constitute approximately 62 percent in loans and advances. The largest exposures are to unsecured household loans and the real estate sector. Bank loans to households account for 27 percent of GDP—while corporate loans account for 10 percent of GDP as of June-2022. The share of household debt in total debt in Botswana is significantly higher than regional peers, though credit to non-financial corporates has grown more rapidly than to households in recent months.

10. The retirement funds sector has been a key driver of financial sector growth. Retirement funds' assets represent 54 percent of GDP and is largely concentrated in the Botswana Public Officers Pension Fund (BPOPF) which accounts for 30 percent of financial system assets. The largest share of pension fund assets is invested in offshore equities that account for 61 percent of total assets[7] as of May 2022. One-third of pension fund assets are invested in the domestic economy, 40 percent of which in domestic bonds (of which, approximately 55 percent in outstanding government bonds). Revisions to the Retirement Funds Act passed in 2022 require 50 percent of pension assets to be invested on-shore by 2027 (estimated BWP18 billion needing to be repatriated). The capital markets have limited primary issuances and secondary market trading. The small insurance market in Botswana is dominated by the annuity products of life insurers. 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. Total gross written premiums (GWP) amount to ~US$500 million (3 percent GDP). Life insurance constituted 73 percent of GWP as of March 2022, made up mostly of annuity business, with some investment/ savings products.

[7] Up until Q3 2022, pension funds could invest up to 70 percent of assets offshore. However, changes in the Retirement Fund Act (2022) require retirement funds to onshore a portion of those assets to bring the maximum offshore investments down to 50 percent.

11. The non-bank credit sector is dominated by micro-lenders (233); finance companies (56), leasing companies (3) and pawn broking businesses (53)[8]. The six largest microlenders dominate the microlending industry with a 94 percent market share at the end-March 2022. These firms predominantly target government and large corporates employees and offer term loans with a deduction at source arrangement. This practice shapes the market leaving self-employed and SME employees largely underserved, having access to other more expensive credit products. 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.

12. The three Mobile Network Operator (MNO) in Botswana also offer mobile money services. 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 conduct basic Customer Due Diligence (CDD) measures. 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 and merchant acceptance of mobile money is limited due to gaps in product design and lengthy settlement times.

13. There are three state-owned development finance institutions that support access to finance for small businesses and microentrepreneurs. These are the National Development Bank (NDB), the Citizens Entrepreneurial Development Agency (CEDA) and Botswana Development Corporation (BDC). The NDB is fully owned by the state and sits under the Ministry of Finance. It provides development finance throughout the agricultural value chain and it is in the process of transitioning to become an "agri-bank". BDC was established in 1970 to facilitate the development of commercially viable projects in new industries and value chains. It provides debt and equity financing to all sectors of the economy except for mining and is overseen by the Ministry of Finance. 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.

14. 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

[8] NBFIRA, 2022

of 315 registered Cooperative Societies)[9]. There are 33,600 financial cooperative members. Motshelo, or informal savings groups, are an essential component of the informal financial sector. Each Motshelo 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 in 2022.

C. Recent Trends in Financial Sector Development

15. There has been significant progress in implementing the financial sector development policy recommendations in the last FSAP (2007). As outlined in Appendix 2, which provides an update on the implementation status of the 2007 FSAP recommendations, progress has been made in developing an overall financial sector development strategy (expired in 2016), strengthening the oversight of NBFIs, and support for the development and deepening of pensions, insurance, cooperatives, and capital markets in Botswana. The only financial sector development recommendation from the 2007 FSAP that was partially implemented relates to the rationalization of the state-owned financial institutions.

16. Botswana has accordingly made significant progress in financial sector development. However, significant opportunities exist for financial deepening. The number of adults with an account has increased from 68 percent in 2014 to 82 percent in 2020. This has partially been driven by the significant increase in digital financial services (DFS), as mobile money account ownership increased from 22 percent of adults in 2014 to 54 percent in 2020. However, Botswana still lags several regional peers in both financial inclusion and digital finance and there are opportunities in both areas. Reliable time-series data on SME access to finance does not exist, but it appears that there has been limited progress in improving access to finance in recent years. There has also been limited progress in improving the availability of long-term finance in the market even though there is significant potential. There also has been limited progress in developing the capital markets and the insurance sector in recent years.

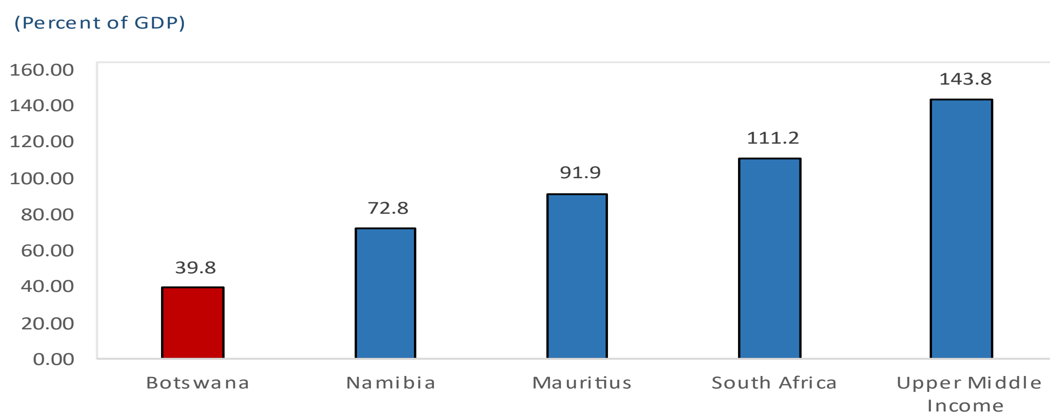
17. The authorities have devoted a great deal of effort and resources to deepening the financial sector, but there is a need to improve coordination and develop an overall strategy. The authorities have prioritized financial sector development as a key part of their overall national development strategy and have devoted significant financial and technical resources aimed at supporting the development of the financial sector. Despite this, progress in several areas (including those related to SME access to finance and long-term finance) has been limited. In addition, significant public resources have been devoted to Development Finance Institutions (DFIs) that aimed to address market gaps for SMEs, agriculture, and other priority sectors. However, these have achieved limited results relative to the resources allocated. The last financial sector development strategy was from

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

2012-2016 and there is a need to develop a new strategy, responsibly harness DFS, and identify a "champion" to support these reform efforts.

18. Despite the large number of providers, the credit market is still relatively shallow compared to upper-middle income peers. The ratio of domestic credit to private sector[10] was 39.8 percent of GDP in 2020 (see Figure 2).[11] The ratio was higher than in most neighboring countries but lower than the global average for upper-middle-income countries (143.8 percent) and some upper-middle-income peers such as Namibia (72.8 percent), Mauritius (91.9 percent), and South Africa (111.2 percent). This coincides with the World Economic Forum ranking of Botswana as 69th out of 138 countries in financial market development in 2018, placing it behind South Africa, Namibia, and Mauritius.

Figure 2. Domestic Credit to the Private Sector



Source: The World Bank

19. The FSAP focused on high priority reform areas for financial sector development in the country. Long-Term Finance and SME Access to Finance were prioritized considering the limited progress made in recent years and the importance of these areas to the overall development of Botswana. Renewed focus on financial inclusion and DFS is needed to extend the gains in access to accounts, to other financial services notably savings, credit, and investment. Finally, considering the significant resources devoted to support financial sector development through DFIs, the FSAP also focused on the Role of the State in the financial sector.

[10] Domestic credit provided by the financial sector, as a proportion of GDP, is a commonly used indicator of the relative size of the financial sector.

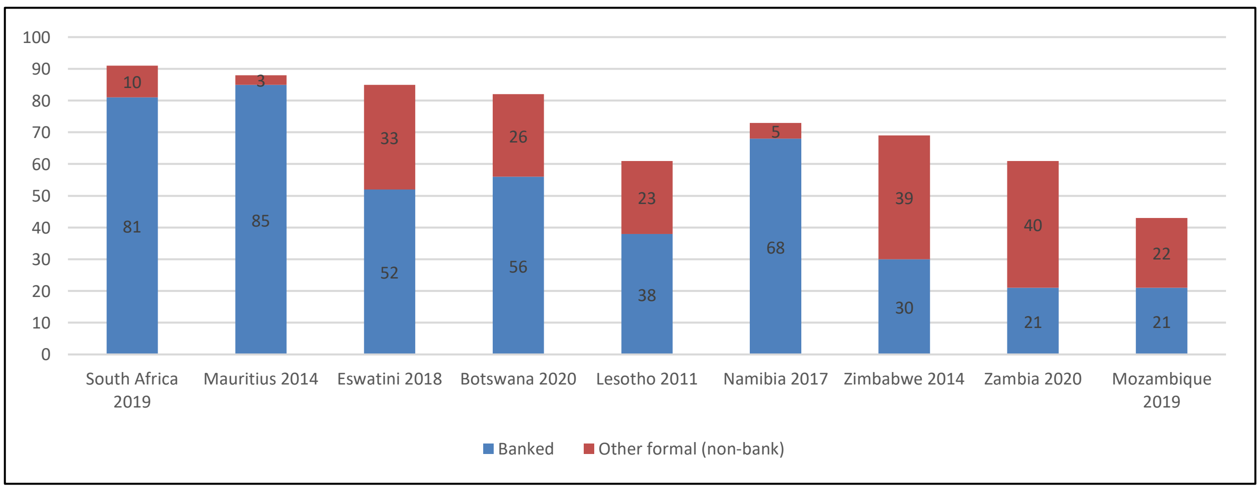
[11] World Bank, "Domestic Credit to Private Sector (% of GDP)," https://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS.

FINANCIAL INCLUSION AND DIGITAL FINANCE

20. MoF has the mandate for advancing financial inclusion and the regulatory authorities play a supporting role. The Ministry of Finance leads the policy development on financial inclusion and the country-wide digitization process. The BoB and the NBFIRA actively advance innovation in the financial sector through policies and regulation in line with their respective mandates. Among these, BoB published the National Payment System Vision and Strategy 2020 – 2024[12]. Moreover, a new overarching National Payment System Act has been proposed, with a draft produced and undergoing review. The proposed act will replace the National Clearance and Settlement Systems Act. Implementing this Act will need a concurrent expansion of BoB payment oversight capabilities.

21. Transaction account ownership has increased on the back of broader adoption of digital financial services (DFS); slightly lagging regional peers and with notable gaps in coverage and usage. The number of adults with an account[13] increased from 68 percent in 2014 to 82 percent in 2020. 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 percent of men and 19 percent of 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. Botswana performs well versus regional peers and is in line with its economic development (see Figure 3), however, it lags behind regional leaders South Africa (90 percent) and Mauritius (88 percent). Around 46 percent of individuals in Botswana save using regulated financial products, while in total 70 percent of adults reported some form of saving. Motshelo (informal savings groups) play a significant role in savings in rural communities.

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



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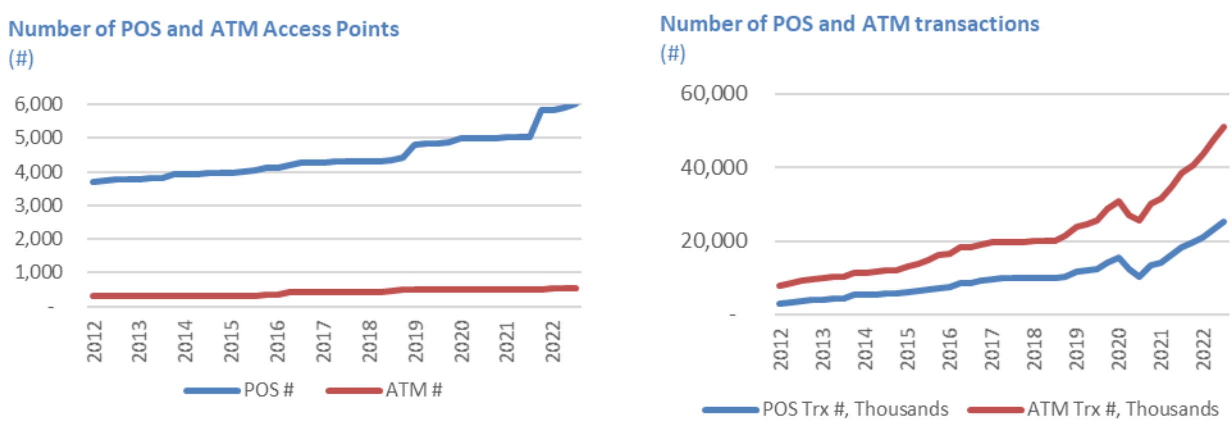
[12] Source: Bank of Botswana website.

[13] *Botswana Finscope, 2020*

22. There has been significant uptick in mobile money account ownership, but usage remains limited and overall, the DFS market is incipient. 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. Female mobile money account ownership increased from 19 percent in 2014 to 54 percent in 2020, while for men it increased from 26 percent to 54 percent over the same time. However, mobile money is currently largely used for person-to-person transfers with limited use for payments at physical or ecommerce merchants, payment cards are the only available payment instrument for these now. The number of Point of Sale (POS) access points and number of POS and ATM transactions have grown since 2020 (see Figure 4). Further there is limited interoperability between mobile money accounts and with bank accounts. Aside from momentum in the adoption of mobile money, there is limited development of DFS in the market. DFS constructs like open APIs, use of alternative data, super-apps, and platform-based business models have not yet emerged.

Figure 4. Growth of POS and ATMs in Botswana, 2012-2022



23. Simplified and proportionate Customer Due Diligence (CDD) measures are allowed but have been unevenly adopted. The Financial intelligence Act, 2022, defines the requirements for performing CDD and clarifies the operational requirement for enhanced and Simplified Due Diligence (SDD). However, 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 for account opening, others the standard CDD process. The market could benefit from the drafting of guidelines for remote customer onboarding, by defining standards and practices for remote customer identification, and electronic/digital signature, so to ensure that financial institutions consistently implement solutions vis-à-vis the customers. Botswana has a near universal coverage of official ID issued by the Government – Omang. Banks and non-banks can access the ID system as part of CDD, but the process is not fully digitized and differs between banks and non-banks. The ID system is currently being enhanced and is envisioned to transform into a full-fledged digital ID system.

24. The BoB and NBFIRA have taken very limited steps to further the development of DFS. The regulatory changes to enable SDD and the launch of mobile money has yielded results. The BoB has recently setup an internal Fintech Monitoring and Strategy Group and is currently researching on Central Bank Digital Currency (CBDC) and fintech more broadly. The NBFIRA has established a regulatory framework for crypto-assets. Aside from these, there have been no further intervention by the BoB ad NBFIRA to foster the development of DFS.

25. Crypto-assets are regulated by NBFIRA under a recently adopted law – "Virtual Asset Service Provider (VASP) law". This law provides a regulatory framework for crypto-assets and a crypto-exchange and crypto-wallet company (Yellow Card) has been licensed. Yellow card has 54,000 registered users, of which 600 are active, with monthly trade of around BWP 2 million in Bitcoin and USDC (a US$ denominated stablecoin). The VASP law is ambiguous about the use of crypto-assets for domestic and cross-border payments. Further there is no delineation of the roles of BoB and NBFIRA with respect to use of crypto-assets for payments and the services banks and other institutions regulated by BoB can offer to the crypto-assets market. As such, the law needs further articulation through appropriate regulations from both BoB and NBFIRA.

26. Banks are the main providers of credit to households (90 percent) which accounts for 66 percent of total bank lending and is predominantly unsecured and for productive investment. 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)[14]. As of June 2022, 67 percent of all bank credit was personal loans, 27 percent was property loans, 3.9 percent was motor vehicle loans and 1.4 percent was credit card debt[15]. The majority of this (72.5 percent) was in unsecured credit in – much higher compared to regional peers (24.4 percent in South Africa and 30.8 percent in Namibia). According to the Finmark Trust's Finscope Survey, which only considers a limited portion of the population, the predominant reason for borrowing (68 percent) is for investment[16] - 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, personal loans are used because customized loan products for education, land and housing are limited. 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 only 1.2 percent of household borrowings. In the survey, 80 percent of borrowers reported having only one debt commitment[17].

27. The share of NPLs relative to household debt is lower than total NPLs, given the practice of using salary deduction for unsecured loans. Around 75.3 percent of the total household loan portfolio of banks is serviced through deduction-at-source loan schemes based on arrangements between the public sector, large corporates, and lending institutions. The ratio of household NPLs to

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

[15] Botswana Household Indebtedness Survey, 2021/22, Bank of Botswana 2

[16] Buying a vehicle is the second most cited reason (25 percent), followed by paying off debts and buying furniture and electrical goods. (Botswana Finscope, 2020)

[17] 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.

total household credit was 3.2 percent in March 2022, a decrease from 3.5 percent in March 2021 and is better than the industry average of 4.2 percent.

28. The penetration of insurance is limited. 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)[18]. The uninsured cite lack of income, understanding, or need. The bulk of retail and household loans have credit life protection, mortgage repayment policies, and retrenchment cover policies.

29. The BoB and NBFIRA have established grievance redressal processes, though there is scope for further strengthening. The financial institutions bear the primary responsibility for handling customer grievances and unresolved grievances can be raised for banking products with Botswana Banking Ombudsman (BBO) – housed at the Bankers Association, and through a dedicated NBFIRA website for non-bank products. Financial institutions are required to report consumer protection complaints with their respective regulator. The consumer protection related regulatory and supervisory measures would need further articulation considering DFS developments. In addition, the capacity of BBO and NBFIRA division handling consumer protection will need to be enhanced.

30. "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 reduce the financially excluded from 15 percent in 2022 to 5 percent in 2028 and increase the depth of usage from 50 percent to 60 percent over the same period, ii) implement legislative reforms that will bolster innovation and increase 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. This strategy will guide the future financial inclusion approach and goals.

Recommendations

31. The adoption and implementation of the 2023-2028 Financial Inclusion Roadmap should be accelerated and supported by a robust M&E framework. The roadmap should be published with a clear M&E framework which holds each implementing agency to account. The current draft of the roadmap is consistent with the recommendations below and as such provides an overarching framework to formulate and implement necessary reforms. Policymakers should also prioritize improving data collection infrastructure so that there is a comprehensive collection of both demand-side and supply-side data, and sex-disaggregated data.

32. Expanding 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 wallets top-up and those payment cards that are issued by mobile money operators themselves. The BoB is

[18] Botswana Finscope 2020

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. In parallel, the BoB should also start preparing to strengthen oversight arrangements considering the new system, including clarifying governance expectations. As part of this project, the BoB should encourage prioritizing the development of a comprehensive fast payment service 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 National Payment Council, once operationalized, can play a relevant role in this space by including a broad set of stakeholders in the project. Moreover, 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.

33. 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 creditworthiness, and lowering the cost of onboarding and servicing customers could lead to greater availability of credit to the under-served segments. In this regard, innovation facilitators[19] could jumpstart innovation. Introduction of open banking[20] will enable seamless data exchange across the financial system based on customer consent, and would spur competition, enhance digital interactions, and improve provider efficiency.

34. To strengthen consumer protection the authorities could take a series of measures aimed at facilitating competition, increasing transparency, and promoting grievance redress mechanism use. While innovative developments may support financial inclusion, they also come with risks to participating consumers and the financial system. Financial and digital literacy activities are a cornerstone in the strategy to mitigate these risks.

35. Further targeted regulatory reforms on digital onboarding could bring in new processes, products, and market players. An open access framework for Omang services could be developed alongside the planned evolution of system capabilities, which would need to encompass citizens' authentication. Such open access framework should consider the developments related to the implementation of Botswana's Data Protection Act. Specifically, system accessibility should be granted evenly to the financial sector players and could be further facilitated through a standard technical integration process. 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.

36. 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

[19] 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.

[20] Framework for customer consent-based mandatory sharing of banking data.

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.

37. 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 Bankers Association and does not have an independent board of directors, sufficient budget, legal capability, or independence.

MSME ACCESS TO FINANCE

38. Botswana has a diversified set of credit providers to MSMEs, though the market is under-served. The eight commercial banks, microlenders and finance and leasing companies provide credit to MSMEs. Additionally, National Development Bank (NDB) and Botswana Development Corporation (BDC) and Citizen Entrepreneurial Development Agency (CEDA) also service MSMEs. Despite the large number of providers, the credit market is still relatively shallow compared to upper-middle income peers (see para 18). Data on MSMEs and their access to credit is incomplete due to lack of consistent application of a standard definition of MSMEs.financial service providers. However, some facts emerge from recent surveys by international agencies which are presented below.

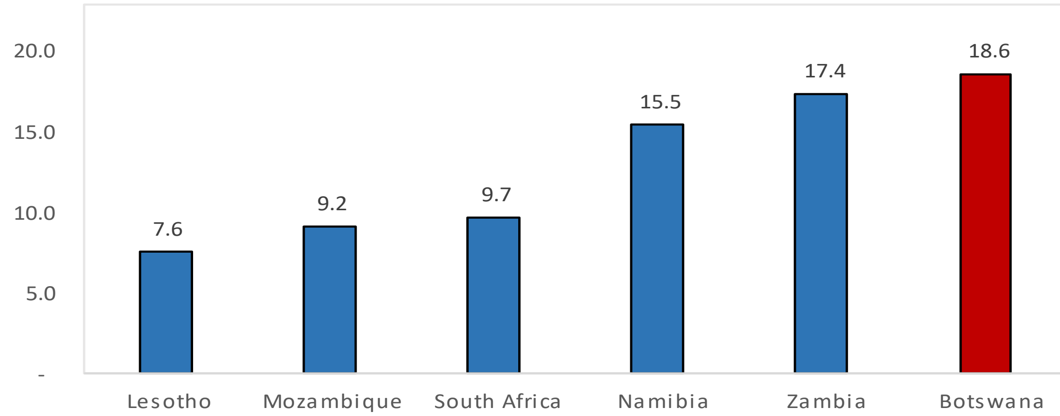
39. Access to credit by micro, small and medium enterprises (MSMEs) remain challenging due to demand and supply side challenges as well as due to the failure of the state to efficiently use state interventions to correct for the market failures. In 2017, MSME financing gap was estimated to be 18.55 percent of GDP, mostly in line with neighboring countries (see Figure 5).[21] An estimated 55 percent of MSMEs in 2019[22] did not receive any credit. Only a small number of SMEs receive bank financing (8 percent of respondents to a survey in 2019[23]), with development financial institutions (20 percent) and targeted government programs (13 percent) taking precedence. This is in spite of the fact that commercial banks are dominant providers of finance in the market. Available credit comes with high price tag because banks charge MSMEs more than 5 percent over their prime rate and non-banks charge even more since non-banks struggle with accessing cheaper funding.

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

[22] International Trade Centre, "Promoting SME Competitiveness in Botswana".

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

Figure 5. MSME Financing Gap, Percent of GDP



Source: The IFC

40. Several demand side challenges increase the perception of risk of lending and constrain access to finance. These include a high level of informality among businesses, lack of business acumen and unreliable financial management and reporting. This ultimately leads to perception of higher risk of lending to MSMEs. Lack of clear definition of MSMEs, heterogeneity of the sector and the lack of the decent sector wide data seriously hampers demand side diagnostics. As recognized by the Botswana Systematic Country Diagnostic Update (SCD) authoritative data on the informal sector is lacking, making it difficult to inform effective policymaking. Reliable, consistent, and up-to-date official statistics on MSMEs are lacking in general. This is true both for domestic and international sources of data. There has been no MSME dedicated Finscope surveys and the World Bank Enterprise Survey dates back to 2010. In 2021 the Finmark Trust estimated the number of MSMEs in Botswana[24] to be140,000 but a proper mapping exercise is recommended.[25] The majority of formal businesses in Botswana are microenterprises. The SCD recognizes that despite high levels of secondary education Botswana experiences skills mismatches that limit productivity growth and limit employment. According to the latest Country Private Sector Diagnostic, in addition to access to finance and skills support, the growth and productivity of SMEs should also rely on improved management capabilities, technology adoption, and entrepreneurial capacity.

41. Banks lack motivation and competitive pressure to incentivize them to invest in MSME finance which they see as very risky. Commercial banks are the largest suppliers of formal private sector financing in the country – estimated to be 99 percent[26] - mostly to large corporates, in 2019, only 8 percent of MSMEs receiving banks loans[27]. There is little motivation for banks to take risks and expand to MSMEs with new products or delivery methods. MSMEs are perceived as risky, it is more

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[24] "SMME Finance Scoping: Services and Light Manufacturing", Finmark Trust 2021, https://finmark.org.za/Publications/Services%20and%20Light%20Manufacturing.pdf

[25] The total number of limited liability companies registered with CIPA is around 125 000.

[26] World Bank, "Domestic Credit to Private Sector by Banks (% of GDP)," https://data.worldbank.org/indicator/FD.AST.PRVT.GD.ZS?locations=BW.

[27] International Trade Centre, "Promoting SME Competitiveness in Botswana".

labor intensive to bank MSMEs and developing needed skills requires investments. Instead, the banks pursue relatively safe and lucrative markets of salaried individuals and corporates. In December 2021, 66 percent of aggregate loans and advances by banks were to households with only 28 percent going to private businesses of all sizes. Past partial credit guarantee schemes run by CEDA were not successful in attracting banks to take more risk with MSMEs, due to design weaknesses. The requirement to price loans at sub-market levels, offering only net coverage, and inefficacy of the claims procedure made the CEDA scheme unattractive for participating financial institutions. CEDA limits pricing of the loans to a submarket level interest rate. This requirement pushes the banks away from relying on the scheme. Moreover, banks have had negative experiences with an inefficient and slow claim management process.

42. As a result, there is little to no focus on developing innovative products and lending techniques better suited to meet the needs of MSMEs. The available private sector credit is largely purchase order financing on the back of the government policy requiring local procurement from the public sector. There are several innovative financial products largely missing from the market that could help bridge the existing financing gap. These products are accounts receivable finance, financial leasing for productive assets, payment card receivable finance for working capital of merchants, as well as investment-based crowdfunding to compensate for the lack of longer term and/or equity finance. None of these, except financial leasing, have significant presence in the market. Lack of electronic invoicing, late payment practices and lack of skills in the market to develop supply chain finance products undermine development of factoring.

43. Non-banks, especially MFIs, financial leasing and finance companies have no capacity - funding to develop business lending, innovate and create competition pressure to banks. Microlenders[28] focus primarily on providing consumer lending, nano loans and short-term loans of relatively small size to salaried individuals. Larger financial leasing and financing firms through their microfinance licenses also primarily focus on retail with business lending, based on anecdotal evidence, averaging up to 10 percent of their entire loan portfolio.

44. Saturation in the retail lending market is pushing some of the non-banks towards MSMEs but the lack of affordable funding is a constraint. The source of funding for non-bank lenders is either their own capital, borrowing from abroad or from the local banks. Some of the larger ones were able to tap into the local capital market but this is very limited. Non-banks are currently not allowed to take deposits and accessing capital markets is not realistic for great majority of them due to their size. There is also no available wholesale funding which could serve as a source of cheaper capital for these lenders. This constricts their growth potential to evolve into full-service MSME financial institutions capable of providing a broader range of financial services. The majority of nonbank business financiers provide purchase order finance against MSME's purchases orders from the government, priced at up to 20 percent per month.

[28] Non-Bank Finance Institutions Regulatory Authority, "2020 Statistical Bulletin, vol. 1" (NBFIRA, Gaborone, 2020), https://www.nbfira.org.bw/sites/default/files/STATISTICAL%20BULLETIN%20final%2016042021.pdf.

45. Government funds channeled through DFIs which in turn are the main source of credit for MSMEs are crowding out private sector and not helping to correct for market failures which are preventing banks and non-banks to lend more to MSMEs. In 2019, 44.4 percent[29] of MSMEs that received formal funding received it from government agencies (e.g., CEDA, NDB, and BDC). Targeted government programs for increasing access to finance, including for youth, gender, and poverty reduction, contributed to another 28.9 percent. Credit offered by public sector lenders is subsidized, unsustainable and is competing for the market usually served by the non-bank lenders**.** CEDA lending has been attractive for smaller companies and startups due to subsidized below market level rates despite the slow decision making and onerous administrative procedures businesses complain about. Such lending is crowding out the private sector that cannot compete with such low rates. Moreover, the gaps in the credit underwriting and operational processes makes it unsustainable and with very uncertain development impact (see section on role of state).

46. The Botswana Stock Exchange introduced a specialized SME Board and an accompanying training program to facilitate access to the capital market for SMEs however there hasn't been a single issue yet. The cost-benefit ratio of small-size issuance has been a deterrent for SMEs accessing capital markets globally. Alternative options such as investment based crowdfunding platforms seem much better placed to provide this venue and should be considered going forward.

47. Early-stage finance is in its nascent stage and is almost non-existent in the market. Limited pre-seed grants are available for start-ups under certain incubation programs including the one offered by the Botswana Digital Innovation Hub, but these are very recent. A network of private angel investors has made a total of 7 investments.

Recommendations

48. To fully facilitate the development of alternative and innovative credit products amendments of certain laws and regulation should be considered to create facilitative environment in parallel with development of skills and financing capacity of interested financial services providers. Some of these measures include increasing reliability of invoices through digitization, improving efficiency of enforcement of creditors' rights and deepening secondary market for repossessed collateral and creating legal and regulatory framework for investment-based crowdfunding.

49. In parallel the regulatory framework for non-bank lenders needs to be updated and modernized. Financing firms and financial leasing companies should be regulated by a specific regulation and not operate using regulatory exemptions. The upcoming Non-bank Lenders Act presents a chance to introduce the needed regulatory changes. The new act could recognize and enable modern financial services and products such as peer to peer lending, investment-based crowdfunding as well as digital credit. Authorities should also consider clearly defining the role microfinance institutions should play. Creating siloes in the non-bank lending services should be avoided by introducing a single type of a non-bank lending company with a possibility to apply for

[29] International Trade Centre, "Promoting SME Competitiveness in Botswana".

multiple product-based licenses. Authorities should also consider introducing a specific regulatory approach to financial technology (fintech) innovation (see discussion on this in the Financial Inclusion section).

50. To help with correcting market failures and avoid crowding out of private sector the Government should move away from the subsidized direct lending model towards second-tier support through efficient PCGs and wholesale funding. In addition to well-designed partial credit guarantee schemes which could help nudge the banks to take more risk on their books**,** wholesale facilities should be available to non-banks lenders to expand their lending to MSMEs**.** Both of these could be offered by the government instead of direct subsidized lending that is being offered now. The authorities should explore the possibility of establishing a wholesale facility initially dedicated to supporting regulated non-bank lending institutions. Access to wholesale facilities would allow non-deposit taking non-bank lenders to offer more competitive prices and bank more MSMEs. In parallel the same funding source could be used to support bank lending to the sector in times of lower liquidity in the system. Such a fund could replace current direct lending programs such as the CEDA (see section on Role of State). The fund would have to be set up according to the best principles of independence, governance, transparency, pricing, and prudent decision making among others and with positive track record could over time replace public funding with issuing debt instruments on the local capital market.

51. It is also crucial for the authorities to continue with the implementation of credit infrastructure reforms to enable effective credit risk assessment, addressing information asymmetries, and enable orderly exit of unviable businesses. Credit infrastructure is currently undermined by the outdated secured transactions framework, the existing gaps in the credit reporting system (CRS) and inefficient insolvency procedures. The secured transactions system for movable assets is being reformed and the new law was recently enacted. The authorities now need to focus on establishing a modern electronic movable collateral registration system and conduct market sensitization activities. The CRS is developing with one credit bureau currently operating in Botswana (Trans Union). Further efforts are needed to increase data depth and coverage. The BoB needs to implement the new Credit Information Act which will help to legitimize the industry in front of potential partners that can offer valuable data. These include utilities companies (water, power) as well as public sector registries such as Deeds Office. In addition, the BoB should focus on getting all the supervised entities to comply with the obligation to share the positive data on borrowers. Moreover, the insolvency legislative framework is outdated, fragmented, and unwieldy. The framework lacks a specific, accessible, and cheap liquidation and restructuring pathway for small businesses. Such a pathway should include cheaper and simpler restructuring and liquidation processes for small business debtors, favorable conditions for debt discharge, and fresh-start provisions for natural person entrepreneurs. There is no effective restructuring system to help preserve viable businesses nor is there an out-of-court workout system.

52. Early-stage finance would benefit from a concerted public-private initiative. To create a facilitative ecosystem for early-stage finance and start-up development going forward the authorities should ideally focus on linking public sector support programs and grants with private sector investors' activity. These could take shape of co-investments or matching grants crowding in private sector investment and benefitting from their business acumen. Further, authorities should also consider tax incentives for investment in start-ups, including the ability to deduct investment from the income tax as well as introducing zero rate capital gain tax when exiting such investments.

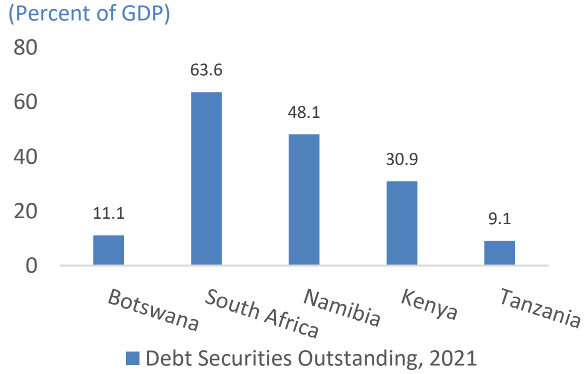
53. In addition to addressing the supply side constraints identified above, policy makers should also implement the recommendations to address the demand side constraints and the economic diversification pathways identified in the CPSD. This CPSD found that a private sector led diversification pathway requires addressing cross cutting constraints and attracting private investment to key sectors through:

- *Increasing competition through SOE reform and reduction in state presence in competitive markets.* This involves (i) reducing excessive state presence and influence in the private sector, (ii) privatizing SOEs in sectors with strong private sector investment potential, (iii) and improving the performance of those SOEs for which there is a strong rationale.
- *Addressing cross cutting constraints on competitiveness.* Diversification can be better stimulated by enabling private investment in high potential sectors through stronger fundamentals for competitiveness. This includes improving access to finance for SMEs, upgrading transportation and electricity infrastructure, and strengthening product standards and certification systems, among others.
- *Stimulating private investment in enabling sectors and export sectors.* There is significant untapped potential for private investment in enabling sectors such as energy and water which would attract capital and skills into the market while improving important factors for private sector competitiveness. In addition, the government can do more to catalyze and attract investment in high-potential export sectors such as tourism.

DEVELOPING DOMESTIC MARKETS FOR LONG-TERM FINANCING

54. Botswana has a significant source of long-term, local currency financing to support economic growth and development – but is unable to absorb these productively. The non-bank sector is regulated and supervised by NBFIRA, which has a reporting line to the MoF. The assets of the pension funds and life insurance companies amount to approximately BWP 140 billion (~US$11 billion), around 60 percent of GDP and 51 percent of financial sector assets. However, the domestic capital markets are small and illiquid, with annual turnover to market

Figure 6: Debt Securities Outstanding
(Percent of GDP)



Source: World Bank data

capitalization at 2.9 percent[30] and debt securities outstanding lagging regional peers at 11.1 percent of GDP compared to 63.6 percent and 48.1 percent for South Africa and Namibia, respectively[31] (see Figure 6). The size, concentration and state-dominated nature of the economy limits domestic investment opportunities for the institutional assets, which two-thirds are invested offshore. This imbalance will be exacerbated by the change to the Retirement Funds Act in 2022 which requires pension funds to increase their domestic investments from 30 percent to 50 percent (necessitating an estimated BWP18 billion to be repatriated).

55. Domestic debt issuance is constrained despite Botswana enjoying an investment grade rating abroad. Public debt peaked at 24.5 percent of GDP in 2021–22, of which domestic debt made up slightly less than half. Domestic debt issuances have been challenged by a strong fiscal position that only allowed for occasional small issuances that kept markets shallow. Domestic investors hold over 50 percent of government paper, mostly to maturity. The limited secondary market trading is conducted over-the-counter (OTC). There are ongoing plans to consolidate trading and settlement for all bonds at the BSE trading platform and Central Securities Depository (CSD). The money markets are particularly underdeveloped, with the regulatory framework for the repo markets lacking clarity and derivative products rarely offered.

56. The non-government debt market is particularly under-developed. The total outstanding non-government debt traded at the BSE in 2022 was BWP124 million (US$9.7 million, 0.05 percent of GDP)[32]. A significant private debt market of unknown size also operates. Some state-owned enterprises do issue bonds (notably Botswana Housing Corporation (BHC)), but weak balance sheets prevent many of them from accessing the market. Tax harmonization for corporate bond investors vs. other financial products is also needed to support market development.[33] As with government bonds, there is almost no secondary market.

57. The BSE have been engaging in market development, but low liquidity remains a major challenge. Local Institutional investors constitute the bulk of investors, with foreign ownership between 30-40 percent, and a very small retail market (~5 percent). There are currently 31 equities listed from a range of sectors, 24 local and 7 dual listed. There have been no IPOs since 2018, and 4 companies have delisted. The total domestic market capitalization of BWP67 billion (US$5.3 billion – 20percent of GDP) is concentrated in 5 stocks, with a turnover of under US$100 million in 2022.[34] There is a 'Serala' Board for emerging companies which has one listing (BBS) and has never taken off, despite BSE's attempts to incubate potential issuers. The recent introduction of exchange traded funds (ETFs) and commercial paper trading has been more successful. The BSE has drafted sustainable

[30] as at 2022, Botswana Stock Exchange Market Performance Report

[31] World Bank Data

[32] Botswana Stock Exchange, Market Performance Report 2022

[33] Private investors (individuals) pay interest coupons at their marginal tax rate, which is likely to be 25% vs. bank interest (10% WHT which is a final tax) and on other payers of interest, e.g. money mutual funds, where the 10% WHT is not a final tax, simply an advance tax payment. This creates a distortion as well as a windfall gain for banks.

[34] The numbers exclude the dual listing of mining company Anglo America, which constitutes 83% of total market cap, but these stocks do not trade in Botswana.

securities regulations (to be approved by NBFIRA). Few companies have a credit rating and there are no local rating agencies. The retail savings market is particularly small and under-developed – with savings in Collective Investment Schemes (CIS) -authorized in 2021- amounting to only ~ BWP450m (US$35 million).

58. **Infrastructure financing has traditionally been provided by the public sector – the need to crowd in private investment is increasingly recognized.** Estimated investment in the energy and transport sectors alone to meet the countries 2030 Nationally Determined Contribution (NDC) stands at US$18 billion[35]. Historically, funding for infrastructure projects has been overwhelmingly funded by government surpluses. Although a PPP Policy was passed in 2009 (which being updated) and a PPP unit is in place within the MoF, projects have been subject to delays and no projects have as yet come to market (3 projects form a pipeline of 17 are close to market tender). Renewable energy, particularly solar, has been recognized as having a huge potential[36]. IPPP projects are directly managed by the Ministry of Energy. Only 1.3MW of solar PV are currently installed, with 135MW under procurement, and 485MW of total renewable expected to be procured by 2024 and installed by 2030.

59. **The housing market in Botswana is currently undergoing a structural change – which should increase the demand for more formal housing finance instruments.** The housing market in Botswana has traditionally been based on urban rental housing (largely for government employees) and rural self-build on land provided by the government with construction financed by personal loans. Demand for purchase of homes is growing in urban areas but still only 2 percent[37] of the stock of homes owned were financed using mortgages in 2018, compared to 24.8 percent and 17.9 percent in South Africa and Namibia, respectively[38]. Total residential mortgages offered by commercial banks reached P14 billion (US$1.29 billion) in March 2021, approximately one-quarter of total bank credit (~16,000 mortgages outstanding in total). FNBB is the largest residential mortgage provider with 33.3 percent, followed by BBS Bank at 27.6 per cent (June 30, 2022). BBS is the largest provider with ~30 percent market share. The average loan size is P1.1 million (~US$100,000) in 2020, with tenors between 7-25 years and loan to value rate (LTV) on average 90 percent - though commercial banks have been offering 100 percent or higher. The average NPL is ~6 percent, but this includes guaranteed lending to government employees. The mortgage market has grown following the amendments of the Deeds Registry and Tribal Land Acts in 2017, however, affordability and lack of serviced land are challenging market development. BSE has introduced some guidance for asset backed securities, including mortgage-backed securities, but there is no regulatory framework and a market for the product does not yet exist.

60. **The pension sector, covering around one-quarter of the workforce, is dominated by a large public sector fund and is otherwise highly fragmented with many inefficient small**

[35] UN NDC Registry - submitted to the United Nations in 2016

[36] IRENA Renewables Readiness Assessment – Botswana, 2021

[37] 2% refers to mortgages outstanding in 2018 relative to purchased stock of homes and not cumulative purchased homes. Statistical update required for latest cumulative mortgage numbers

[38] Centre for Affordable Housing Finance (CAHF) Year Book, 2021

schemes. The pension system in the country covers ~300,000 active members[39], two-thirds with the Botswana Public Officers Pension Fund (BPOPF). The rest of the sector is made up of 7 'umbrella'/ multiemployer funds, with a tail of ~80 very small standalone funds that are highly inefficient. Almost all schemes are now defined contribution in nature[40]. Funds are required to outsource their administration and fund management (there are 5 licensed administrators and 9 licensed manager, mostly regional firms from South Africa). Contrary to international practice- pension funds themselves can offer full annuity products at retirement (not subject to insurance solvency requirements). Recent amendments to the Retirement Funds Act 2022 allow for easier access to funds (increase in lump sum payments, lowering of allowed early retirement age to 45, some access by deferred members to cover debts etc.). The changes will likely have negative impacts on coverage, replacement rates and investment patterns.

61. Total pension fund assets under management (AUM) constitute over BWP 120 billion[41] (~ 50 percent of GDP) – which is high for a developing economy, resulting in two-thirds invested offshore due to a lack of domestic opportunities. One-third are currently invested on-shore, split around one-third each between local government bonds, local equities, cash and alternative investments (property, PE etc.). Two-thirds of assets are currently held off-shore, (~80percent of off-shore in international equity). Revisions to the Retirement Funds Act passed in 2022 requiring this to be reduced to 50 percent over an unspecified period (estimated BWP18 billion (US$1.4 billion) needing to be repatriated), which could increase concentration and raise systemic risks.

62. The relatively small insurance market in Botswana is dominated by the annuity products of life insurers, with (largely reinsured) corporate cover making up a large part of the general insurance market. Total gross written premiums (GWP) amount to ~US$500 million (3percent GDP). Life insurance (~60% with Botswana Life) constitutes ~80 percent, made up mostly of annuity business, with some investment/ savings products. Total assets of US$ 1.4 billion (~7.5 percent GDP) are held in government bonds (~50%) and other fixed income**.** The general insurance market is more fragmented across 12 companies and its BWP 2.4 billion of assets (US$187.9 million, ~1 percent GDP) held mostly in fixed income instruments. Due to limited requirements for mandatory Motor Third-party Liability (MTPL) coverage, corporate cover dominates the overall market. This results in almost 50 percent of premiums being reinsured, with local companies having first refusal of business. Since minimum credit requirements for reinsurance companies were removed, several licenses have been granted, raising some concerns over quality of provision. Insurance is distributed via multiple channels (brokers, agents, bancassurance, direct digital channels). Some insurance companies have exited the

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[39] NBFIRA's total membership numbers include some 'double' counting of individuals in more than one scheme. The state also provides a universal, noncontributory old-age pension for all citizens over 65 years. However, at P 530 per month, the pension represents a replacement rate of only 9 percent of the average monthly salary in Botswana. Approximately a quarter of the total labor force is covered by the pension sector.

[40] Total contributions rates are generally 20 percent of salaries excluding allowances (mostly paid by employers, for BPOPF split 5 percent employees, 15 percent employer). Pension funds are governed by a Board of Trustees elected by employer / scheme sponsor and scheme members, with a new requirement to have 2 independent trustees.

[41] ~ 75% held by BPOPF

market since the challenging pandemic period, with two currently working on restructuring plans with NBFIRA.

Recommendations

63. **The capital markets suffer from an overall lack of planning and 'champion' for market development, concerning given upcoming repatriation of excess offshore holdings.** Though the BSE has a good reputation in the region and has been introducing new products, non-government securities market development requires support from a broader range of stakeholders. Without a clear action plan, the repatriated pension funds will likely flow into the banking system, exacerbating concentration and systemic risk. The risk of mismanagement, asset bubbles and ultimately reduced investment returns will also increase. International experience shows that market development needs to be championed and coordinated, by policy makers and regulators, large local investors and industry participants alike. An explicit mandate for capital market development should be included in the revised NBFIRA Act, with the regulator taking responsibility for developing an overarching market development plan.

64. **NBFIRA's front-line supervisors should take on more of a market oversight and development role**. Whilst the regulatory framework for the non-banking sector has improved in recent years, supervisory oversight remains resource constrained. The NBFIRA Act is being revised, including to give the authority more enforcement powers. The authority is relatively under-resourced, given the large pension and insurance sectors, as well as the diverse capital market entities. Staff strength should be increased alongside systems upgrades to prioritize on-site inspections. Focus on the regulatory reform agenda, along with complaints handling being the responsibility of the front-line teams, has left limited resources to dedicate to market analysis and oversight. Carving out complaints handling to a central team would also help to free up sector supervisors' time. NBFIRA should adopt a market development mandate.

65. **Improvements in planning, communication and legal frameworks will enhance efficiency of government market and support local investor needs.** The Debt Management Office (DMO) should start with providing an updated Medium-term Debt Management Strategy and a more detailed annual borrowing plan, which would assist investment planning by local investors – particularly important given the repatriation of assets. Communications with investors should also be improved – including developing an investor relations (IR) capacity and improving the DMO website portal. Primary Dealer Agreements need to be revised to alleviate critical bottlenecks to market development (including loosening obligations, introducing a rules-based approach to accepting bids in auctions and accepting market-based pricing within a revised PD Agreement). Finally, issuance could be better matched to investor needs through the introduction of switch auctions and the potential introduction of index-linked and zero-coupon bonds, allowing particularly insurance companies to better match their liabilities. Moreover, hedging instruments – including foreign exchange – are limited in country (institutional investors generally operate unhedged portfolios, whilst local banks arrange swaps and contracts within their regional groups).

66. The repo market is dysfunctional, partly due to a lack of legal certainty or universally accepted documentation. For the future development of this market segment, the legal framework to support the repo market should be clarified – including improving enforceability of contracts (e.g., via GMRA) and clarification of systemic resolution processes in the event of insolvency. Positive changes were made in the recently passed new Banking Act, but further efforts are needed including revisions to the Bankruptcy Law and/or Law on Financial Collateral. Further, introduction of close-out netting will improve confidence of market-players.

67. Accelerating ongoing efforts to tackle financial and corporate governance norms of SOEs will support new issuances. The local market does support the provision of capital to SOEs (e.g., BHC, BSB) and BTCL is an example of a successful part-privatization IPO. More issuances could be supported if the balance sheet of other key SOEs were strengthened. This would in turn provide increased local investment opportunities for the domestic institutional investors, well matched to their risk/ return profile. Issuance by other entities which traditionally support infrastructure financing and development could also be explored (e.g., municipal bonds, which are a major asset class for pension funds in the USA).

68. Efforts to diversify the investor base are needed to tackle the market liquidity challenges. In order to meet the authorities' goal of attracting non-resident investors and improving their tax structures to align with international best practices there should be an effort to reform the withholding tax (resident – 10%, and non-residents 15%). Linking the BSE to international clearing systems could also further incentivize their participation, as would allowing them to hold all stocks[42]. Though there is not as yet any great appetite for green or sustainable investments from domestic investors (though 'ESG' practices are gradually introduced), such thematic /labeled issuance has been shown to attract new, overseas investors to EMDEs. The BSE draft guidance on these topics should be adopted and measures taken to identify potential issuers. Retail investment could be encouraged via tax incentives.

69. The local general insurance industry could be supported and strengthened through the introduction of minimum mandatory products and improvements in reinsurance quality. Botswana is an outlier not having full MTPL insurance (third party property / damage is covered but no liability for health/ injury). Introducing the product, along with minimum household insurance coverage, would provide needed protection for the population and support the insurance industry overall. A review of the domestic reinsurance industry, including licensing requirements, is recommended to ensure that quality of the coverage provided is robust.

70. The fragmentation and inefficiencies in the pension fund industry need addressing – to improve value for members and foster creation of expert and engaged market participants. A small market such as Botswana cannot efficiently support such a large number of funds. NBFIRA could publish costs and fees benchmarks across the industry and to provide guidance on the types of fees allowed. The small funds could be required to undertake a 'value to money' exercise and encouraged to join pooled funds. NBFIRA is recommended to review the regulatory framework for the provision

[42] BTCL, one of the main listings is still restricted to domestic ownership

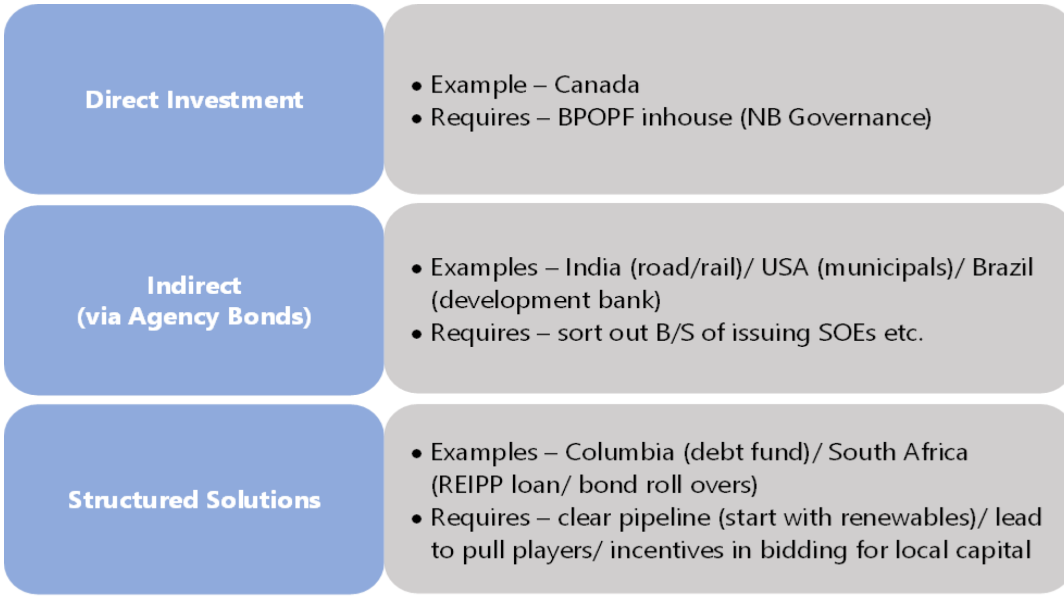
of pension benefits, with annuity provision with longevity risk shifted to life insurance companies[43]. The introduction of a 'lifecycle' approach to investment and some (well regulated) choice for members could help increase the turnover in funds. The regulations increasing access to funds should also be reviewed the light of their long-term impact on replacement rates and elderly poverty.

71. Local asset owners could play a more active role in the creation of local investment opportunities though in-house asset management – subject to expert and independent governance. Asset management is dominated by regional firms, for which Botswana makes up a small part of their overall business. Though they have much expertise to draw on from within the region, there is little incentive for them to drive local market development. Local asset owners can play a more active role through in-house asset management. If this were to be introduced, it must be stressed that it is extremely important to ensure very strong, independent governance the funds (including a transparent appointment process, for example via a nomination committee) to safeguard fund assets and make sure they are invested in member interest.

72. Both the regional asset managers and local institutional investors need a committed, consistent, sizable project pipeline to move 'out of their comfort' zone and build capacity to invest in alternative asset classes, such as infrastructure. Individual projects, some at size and some in commercially viable sectors, are being signaled and tendered in the market. For local financial institutions to commit to building up the capacity to enter a new asset class, a line of sight to a stable pipeline is needed. The transport and renewable energy sectors offer investment opportunities for local institutional investors. Institutional investors participation in infrastructure models can take three different forms (see Figure 7), (i) direct investment, where investors make independent assessment of projects and invest at the project level, (ii) indirect, via investment in agency bonds which are issued to fund investment opportunities identified by the government agency, and (iii) structured solutions, such as infrastructure funds or infrastructure programs. Global examples exist for each model, all recording success in their varied country contexts. Furthermore, as the mortgage market is starting to grow, the legal and regulatory structure for asset (mortgage) backed securities/ securitization should be reviewed to ascertain how a new asset class could be securely developed. The MoF should continue to work on finalizing the PPP framework and feasibility studies on a wider pipeline of projects.

[43] Pension funds can continue to provide program withdrawals

Figure 7: Models for Institutional Investor Participation in Infrastructure



Source: Authors

ROLE OF THE STATE IN THE FINANCIAL SECTOR

73. As with the overall economy, the state continues to play a significant role in the financial sector, especially in the market for MSME lending. Traditionally, state intervention in financial sector is justified by market failures that constrain supply of financial services to certain economic sectors/activities. All state-owned financial institution (SOFIs) in Botswana were established with a clear intention to address perceived market failures in financing of SMEs, agriculture, and housing. These SOFIs were mostly setup before or shortly after Botswana's independence in 1966 and the financial sector was underdeveloped. The combined asset size of the four most relevant SOFIs covered by FSAP is BWP 10.4 billion, or about 8.5 percent of the size of the banking sector. Three of the institutions –NDB, BDC[44], and CEDA – are operating as DFIs, although with some overlapping mandates. Lastly, BSB is a statutory bank that was set up to promote household savings.

74. The SOFIs are accountable to their respective line ministries, which represent the government in exercising ownership. The MoF is the line ministry of BSB and NDB, CEDA is accountable to the Ministry of Entrepreneurships and BDC to Ministry of Trade and Industry. The line ministries are consulted by SOFIs for guidance and approval for strategic and business planning. The respective ministers are responsible for the nomination and appointment of the Board of Directors, subject to Cabinet approval. The CEOs are selected by the Board of Directors but nominated by the respective line Minister after they are advertised. The Board Chairmen report to the Permanent

[44] BDC includes a subsidiary that is the Botswana Export Credit Insurance and Guarantee Company (BECI).

Secretary of each respective line ministry on a quarterly basis. The performance of the SOFIs is guided by the Shareholder Compact Agreements, which includes key performance indicators that are reviewed annually and are subject to external review.

75. The government directly intervenes in selected operational and strategic decisions for the DFIs. Even though the government plays a role in selecting the Board and management of the DFIs, major decisions about the DFIs are still determined by the government without approval by the Board or management of the DFIs. This includes the subsidized pricing policies for CEDA and the recent strategic decisions for the individual DFIs that determined that they would exit certain business lines.

76. There is a lack of a common regulatory framework for SOFIs, and BoB supervises NDB and BSB while CEDA and BDC lack any independent oversight. As the BSB and NDB are authorized to conduct limited banking business in accordance with their specific statutes, they are supervised by BoB under delegated powers of the MoF with respect to business prudential matters only. Although the Banking Act also empowers BoB to consult with the MoF to determine prudential requirements for different classes of banks, none have been established. Given the modest size of the statutory banks, they are subject to on-site inspection by BoB every 4-6 years following its risk-based approach, although the BoB is conducting quarterly follow-ups on most recent recommendations, sharing the reviews with MoF. On the other hand, CEDA and BDC are not overseen by any independent regulator.

77. Weak financial performance by CEDA is a concern and should be tackled immediately. CEDA provides mostly loans to MSMEs but is also engaged in equity investments and provides partial credit guarantees (PCG) and letters of credit. The size of its balance sheet was BWP 1.7 billion as of 2021 (USD133million), or 1.3 percent of banking sector assets. CEDA provides lending well below market rates as its interest rates are capped by Government, which has led to some market distortions. However, CEDA's weak risk management framework and poor underwriting standards have resulted in very high NPLs (~75 percent). At the same time, CEDA is also facing issues with limited uptake of its PCG, partially related to the caps on interest rate of the underlying loans. CEDA cumulative loss (which excludes government grants as income) for the last three years is only slightly below the amount government grants to CEDA during the same period (BWP 763.9 million and BWP 801 million, respectively). CEDA revenues - mostly interest income - have been well below operating expenses and staff costs, rendering its business model clearly unviable. For example, in FY 2021/22, CEDA unaudited revenues were BWP 92.8, whereas operational and staff cost reached BPW 225 million; in FY 2021/20 the respective figures were BWP 92 and 248.4 million. Similar financial weaknesses were also evident before the COVID-19 severely impacted the loan book as total impairments for 2020-2022 reached BWP 393.5 million. Although there are no obvious signs, it is not clear whether part of the NPLs could be related to "moral hazard" from the part of borrowers who could be more prone on defaulting on government-provided subsidized lending. There are no clear plans to address financial weaknesses and managing NPLs. Also, there is a lack of good-quality information about CEDA's performance, impact and achievements while its financial reports have remained unaudited for several years due to the ongoing disagreements with external auditors.

78. NDB's mandate is to promote economic development in Botswana, and it is authorized to engage in providing broad-scale financial services, including credits, equity participation and operate savings scheme or any combined life assurance and savings scheme. The total assets of the NDB were BWP 1.1 billion as of March 2022 (USD 86 million), or 0.9 percent of banking sector assets. Although not provided explicitly by the NDB Act, the NDB's primary target segment has been agriculture, with an ultimate goal to ensure food security by developing the full agriculture value chain and growing the MSME sector and employment. The NDB is currently funded mostly by the government, and it is managing several government agricultural programs.

79. NDB has also been underperforming in recent years. To shore up NDB's capital, the government injected BWP 200 million in 2020, in addition to BWP 47.5 million provided in 2018. Additional steps are currently being considered to alleviate NDB capital and funding pressures. NDB's cumulative loss for the last six FYs (since FY2016/17), has been BWP 300 million, while the current NPL ratio is at around 23 percent. The NPLs are stemming not only from agricultural lending but also from mortgages the NDB has started to provide recently. The NDB external audits have been qualified in recent years due to deficiencies IFRS 9 in Estimated Credit Loss (ECL) models. Although NDB is in no immediate danger of bankruptcy as the very high level of the bank's capital provides a substantial "cushion" for operating losses, the high level of overdue loans indicates that a large share of the loan portfolio is producing no cash income and no repayments of principal.

80. BSB was established in 1992 with a specific mandate to mobilize nation's savings as well as providing inclusive financial services. It is a successor of the Post Office Savings Bank. As of March 2022, BSB's total assets stood at BWP 3.4 billion (USD 265 million), about 3 percent of the total banking sector assets in Botswana. BSB's loan book is currently at around BWP 2.7 billion, mostly in mortgages extended to government sector employees, and it has about 20,000 clients. BSB has no trading book at this stage. The bank is not a member of the Botswana Interbank Settlement System, and it is prohibited from engaging in foreign exchange transactions. On the other hand, the interest earned on BSB deposits are not subject to government taxation, giving the BSB an advantage for attracting deposits at effectively lower cost.

81. Although the bank has reported profits in recent years, it has been supported by government grants in the recent past. In FY 2021/22, BSB recorded a profit of BWP 34.3 million, higher than BWP 5.2 million in FY 2020/21. However, BSB financials have been supported by government grants without which the bank would have made losses in FY 2019/20. For example, the government grant of BWP 141 million was extended to fund selected key projects, including the launching of new branches, in line with their purpose to reach and bank the under-served. Its CAR was 13.7 percent in 2022, above the regulatory minimum of 12.5 percent, and it has not required recapitalization from the government. BSB profitability has been hampered by high operating expenses and its cost to income ratio has been constantly elevated (74 percent in 2022). BSB has a high loan-to-deposit ratio (102 percent) and a high concentration of large depositors (20-largest depositors consist of about 60 percent of total deposits). Nevertheless, it announced plans to issue BWP 1 billion bonds to diversify its funding profile and, recently, BWP 129 million has been issued under a private placement. BSB's NPLs reflect system averages (2.2 percent as of 2022), although the ratio was partly driven down by the relatively rapid increase in loan portfolio in 2022 (10.8 percent).

82. BDC was established in 1970 to facilitate the development of commercially viable projects in new industries and value chains. It provides debt and equity financing to all sectors of the economy except for mining. It also has an added role of encouraging citizen participation in business ventures. Its assets are BWP 4.2 billion (USD 328 million), or about 3.4 percent of total banking sector assets. (4.4 billion on a group basis) in 2021. It has been mostly profitable but reported losses of BWP 106 million in FY2020/21 (BWP 217 million on a group basis). Its NPL ratio deteriorated to 20.5 percent in 2021, partly due to the pandemic. BDC gets its funding from local commercial banks and multilateral development institutions; and has had no government intervention in the last decade. It has also access to debt capital markets, having recently tapped BWP 600 million out of its BWP 1 billion bond program, without using government guarantee.

Recommendations

83. The government should revisit the recently announced strategic plans for each of the DFIs. The plans that were developed were not underpinned by a market assessment or consider the financial viability of the institutions without ongoing government support. They also did not fully involve the management and boards of the institutions in the decision making. A holistic strategy, including reviewing their scope, capacity, financial viability, governance, prudential oversight, and institutional arrangements should be developed. These should also be seen in the context of addressing the demand-side constraints affecting private sector development as identified in the CPSD and SCD.

84. The authorities should reconsider CEDA's modus operandi as soon as possible, including by ceasing its direct lending operations. Given the inherent weaknesses in its loan portfolio, CEDA should cease its direct lending operations. The government should consider possible alternative models for supporting SMEs rather than direct lending, including wholesale funding or partial credit guarantees. The government also has plans to merge Local Enterprise Authority (LEA), which provides support for business plans, with CEDA. However, this needs to be studied carefully as LEA provides support to the market as a whole and not just CEDA.

85. The government should reconsider the plans to transition NDB into a full-fledged agricultural lender ("agri-bank") as the decision lacks any underlying viability studies. Although the scope of an "agri-bank" has yet to be defined, the current intention of the government is to move all loans related to the agricultural sector (including for agribusinesses) from CEDA and BDC to NDB. However, despite its long-standing mandate to support agriculture and engagement with the Ministry of Agriculture, the NDB still lacks sufficient expertise to transition into an agricultural bank. The current plans include engaging consultants to restructure the NDB's businesses and fill the skills gap have not yet materialized. The longer-term plans to become a fully-fledged commercial bank with an agricultural focus, by involving a "strategic partner" in the form of a reputable foreign financial institution (which could change into strategic equity partner), are untenable at this stage due to their financial performance.

86. The authorities are advised to identify possible sources to expand BDC's capital base and funding capacity, while ensuring the long-term financial viability of the company. BDC's expansion is currently limited by a relatively tight 1:1 leverage limit implicitly set by their commercial lenders. It's currently working on divesting from projects which have reached maturity (mostly real estate). Nevertheless, the process, which is almost always taking place through IPOs, is taking longer than anticipated; partly because of the requirement to release the assets into the hands of Botswana citizens. This has inhibited BDC to tap into their pipeline of new lending, standing currently at about BWP2.1 billion. In addition, some stakeholders also reflected views to move BDC mandate towards resembling a government-owned investment company, creating value for Botswana.

87. The authorities are considering turning BSB from a statutory bank into a fully-fledged commercial bank but should first determine whether BSB continues to serve a market gap. Although the BSB Transition Act which allows BSB to be converted into a public company was passed in 2012, the decision has been deferred until further notice. It is understood that this step - after the BSB has applied for and granted a banking license - would bring the BSB under a full BoB supervision. The transition should also end the current favorable tax treatment of capital gains on BSB deposits. To this end, however, it is not clear whether the BSB continues to have a role as a SOFI by filling any market gaps, although the authorities have argued that there is a strategic need for a domestically owned commercial bank (even though the recently demutualized Botswana Building Society fills this niche). More importantly, however, the question remains whether BSB has a sufficiently strong franchise value to compete in an already highly contested banking market.

88. The oversight of SOFIs by the government and respective line ministries should be strengthened. There are no dedicated support structures at the ministries to provide analytical underpinnings for government oversight functions in respect to SOFIs. It is recommended that the MoF create a unit with adequate capacity and authority in order to more effectively represent the shareholder, with a particular focus on OECD guidelines on corporate governance of SOEs (including on the selection process for the Board and management). The government should also refrain from directly intervening in operational decisions for the DFIs and leave these functions to the Board and management. There is also a need to systematically review SOFI performance agreements to ensure that KPIs are fully aligned with their individual mandates and financial sustainability.

89. All SOFIs should be subjected to an independent oversight, subject to proportionality rules, either by BoB or NBFIRA. The separation of regulation and supervision from the ownership function and respect of the independent judgment of the prudential supervisor are essential to realize the benefits of prudential supervision. For prudential supervision to be meaningful, SOFIs will need to operate on a financially sustainable basis with properly defined objectives and mandates. It is important to preserve the independence of a supervisor by minimizing political interference to achieve financially unsustainable policy objectives. In this context, the authorities may also consider introducing a regulatory framework for SOFIs, including for licensing, regulation and supervision.

ASSESSMENT OF FINANCIAL SECTOR RISKS AND VULNERABILITIES AND POLICIES FOR ADDRESSING FINANCIAL STABILITY, RESILIENCE, AND INTEGRITY

A. Systemic Risk Assessment

90. Credit risk forms the largest risk in Botswana's banking system. Risk-weighted assets (RWAs) of credit risk account for 89 percent of total risk-weighted assets. The largest part of total assets comprises loans (83 percent).[45] Loans are concentrated in the household sector (41 percent of commercial bank assets), followed by the non-financial corporate (real) sector. Bank loans to households are largely personal loans (70 percent), mainly in the form of unsecured consumer credit, for which a large share of lenders collect repayments through direct salary deduction, contributing to generally low level of non-performing household loans. Mortgages comprise 23 percent of household loans.

91. Banks are vulnerable to liquidity and funding risks due to concentrated funding profiles—short-term deposits of corporations and NBFIs. Total deposits of NBFIs in the banking sector account for 23 percent of deposits and comprise sizeable deposits from a few large depositors. The largest banks hold close to 68 percent of total household and corporate call and savings deposits, [46] leaving smaller banks to rely largely on price-sensitive fixed-deposits or access interbank funding from larger banks.

92. NBFIs are increasingly exposed to the banking sector with related liquidity risks. Recent regulatory changes to the Retirement Funds' Act, 2022 (RFA)[47] may amplify financial stability risks as the reduction in the cap on foreign assets could raise concerns about the capacity of domestic capital markets and banks to absorb repatriated investments. Additionally, retirement funds' liquidity could come under pressure—already, the share of payments upon retirement have reached 80 percent of all payouts; out of which, around 40 percent are paid as a lump-sum.[48]

[45] Loans are defined as gross loans, advances, and balances due from other banks.

[46] Deposits of the top seven insurance companies account for approximately one third of their capital and deposits from retirement funds account for close to 46 percent of the banking sector total capital (NBFIRA 2022 Annual Report and Banking Sector Financial Statistics, 2021 data).

[47] The new RFA requires retirement funds to reduce the maximum share of offshore investments from 70 percent to 50 percent of total assets. Additionally, the regulations will allow members 'early access' to pensions (before retirement) and raise the lump sum payout upon retirement from 30 percent of accumulated savings to 50 percent and additional (lump-sum) withdrawal options for beneficiaries, transferring liquidity from retirement funds to households, and potentially compromising the ability to accumulate long-term retirement savings.

[48] Numbers differ considerably between retirement funds, depending inter alia, on the age and salary of members and the cyclicality of the employer's industry. For smaller funds—and those where benefits already exceed contributions—a robust liquidity risk assessment will be critical.

93. Banks may face financial exposures to interest rate risks in the banking book (IRRBB) due to interest rate and maturity mismatches. Over 65 percent of bank assets are floating rate, while approximately 35 percent of liabilities are fixed rate and are subject to administered rates that typically lag policy rate changes. Bank assets also have significantly shorter maturities than liabilities. However, in an environment of rising interest rates banks may experience a spike in net interest income (NII) and positive IRRBB exposures.

94. The financial sector systemic risk assessment covered:

- **Bank solvency stress tests, which assessed bank capital adequacy using a balance sheet approach to identify recapitalization needs.** Sensitivity analysis complemented scenario stress tests, targeting the concentration of credit risk in the household sector and changes in the pass-through of policy rates to loan rates. The banking system remains broadly profitable and appears resilient to severe macro- financial shocks. Risks could arise due to a homogenous structure of concentrated exposures to household loans. Assuming 20 percent of household performing loans transit into non-performing loans,13 some banks would encounter a significant capital shortfall, resulting in the aggregated CAR falling below to minimum capital requirements. Nevertheless, the majority of the banks possess robust total capital buffers and would remain unaffected by severe shocks to household loans.
- **Liquidity stress tests for banks using cash flow analyses and assessed banks' observance of a proxy-liquidity coverage ratio (LCR) under stressed assumptions, for pula currency positions.** Stress tests were supplemented by sensitivity analyses. All banks demonstrated strong liquidity positions under the baseline scenario, but some banks were vulnerable to liquidity shocks under adverse scenarios. Under an extreme scenario of aggregated inflow and outflow shocks—Peer 1 and Peer 2 banks fell below the 100 percent LCR ratio. Peer 3 banks were resilient under all scenarios.
- **Solvency assessment for the insurance sector and the vulnerability of future pension values to changing asset values.** For the insurance sector, a sensitivity assessment to interest rate, currency shocks and the default of the largest banking counterparty was conducted. Incomplete reporting and limited data hampered a comprehensive assessment of financial stability risks among NBFIs, highlighting gaps in the supervisory and oversight framework. Asset valuations of insurance companies were largely unchanged even under an adverse scenario. The low sensitivity to market rates can be attributed to large cash holdings of short-term insurers and a depreciation of the pula increasing the value of foreign assets. The risk analysis did not indicate capital shortfalls. Pension values of retirement fund members decline under an adverse scenario.[49] Retirement funds are defined contribution schemes and the risk analysis identified that fund members with less than 10 years to retirement could face a reduction in excess of 15 percent (pre- retirement stage)—switching these members to a more conservative asset allocation would be recommended. The findings of the risk analysis also highlight the need for NBFIRA to monitor vulnerabilities..

[49] The risk analysis focused on future pension values, for representative members 10 and 30 years to retirement.

95. Financial system intersectoral linkages are significant. Financial networks among banks and NBFIs identified common exposures among financial institutions that could lead to contagion, particularly for insurance companies that place large deposit holdings compared to their capital. In the absence of complete data on the bilateral exposures, measuring potential spillovers across the financial sector was not possible. The BoB and NBFIRA should enhance data quality and granularity to monitor intersectoral contagion risks and set appropriate limits for intermediation and deposit concentration ratios.

B. Supervision and Bank Regulation

96. Financial regulation has strengthened since the 2007 FSAP. Financial sector oversight is shared across multiple agencies, comprising: the BoB, NBFIRA and the Financial Intelligence Agency (FIA) that oversees anti-money laundering activities. The mandates for supervising financial institutions are within their respective laws, the BoB Act,[50] and the Banking Act, 1995 (BA) for the supervision of deposit-taking activity, the Bureaus de Change Regulations (2004), and the Credit Information Act (CI Act), 2021. The NBFIRA Act, 2022, establishes the context and oversight for the safety, soundness, and stability of NBFIs. FIA is empowered under the Financial Intelligence Act (FI Act), 2022. Additionally, the agencies issue supporting directives, policies, and guidelines to discharge functions under respective laws and have direct reporting lines to the MoF.

97. Implementing the BoBAA and prioritizing the planned revisions to the BA should aim to strengthen supervision and financial stability. The BoBAA will establish legal basis for key components for effective financial safety nets, oversight, and operations for ensuring financial stability, e.g., emergency liquidity assistance (ELA), deposit insurance, crisis management and resolution. The planned revisions for the outdated BA are expected to address supervisory gaps identified in graded Basel Core Principles (BCP)[51] and resolve the legal limitations on the BoB's power to implement effective crisis preparedness, crisis management, and emergency response and resolution.

98. Yet, the BoB's operational independence in supervisory matters could be enhanced in line with Basel norms. The current allowances for Ministerial representatives on the BoB's Board, and the involvement of the Minister in licensing and supervisory appeals could undermine BoB's operational independence. Moreover, remaining provisions suggest that the BoB has to refer to the MoF in order to exercise direct control over some regulatory matters, e.g., interest rate and credit regulations. Though there is no evidence that the current allowances under the law have been tested, the material gap in the operational independence of the BoB, relative to Basel norms may require additional legislative changes to safeguard BoB's operational independence in supervisory oversight.

[50] While the BCP assessment references the BoB Act,1996, the BoB Amendment Act, 2022 (BoBAA) contains important provisions for strengthening financial stability oversight with Section 3 of the BoBAA indicating that objectives have been prioritized to have a primary objective of price stability, with other secondary objectives, including to contribute to stability of the financial system.

[51] This is the first graded assessment of banking supervision under the 2012 standards, as the last BCP assessment was conducted in the 2007 FSAP.

99. Additionally, the planned revisions to the BA are important to strengthen bank supervision and align the framework with Basel norms; and should be considered alongside upskilling for staff in specific areas. Key next steps include:

- Strengthening the supervisory approach and tools to develop a risk-based, forward-looking framework that is implemented by supervisors and risk specialists that can identify emerging risks among banks and banking groups that are becoming more complex.
- Instituting an integrated risk management framework. The BoB should articulate the regulatory requirements, limits, and supervisory expectations, including reviewing financial models used by banks in internal risk modeling, liquidity risk, and interest rate risk in the banking book. It also needs to develop guidance for banks in other areas, such as credit concentration by industry and geographic location, collateral concentrations, and prudential limit for exposure to single counterparty or group of an inter-connected counterparty.
- Establishing corporate governance standards to include regulations that facilitate ongoing oversight of board accountability for promoting corporate culture and values through codes of conduct and conflict of interest policies; and an upscaled regulation for transactions with related parties.
- Introducing consolidated supervision. Planned legal reforms that give powers to the BoB for consolidated supervision (2007 FSAP recommendation) supported by enhancements to internal procedures for monitoring the financial conglomerates would be beneficial. Once the revised BA comes into force, the planned circulation of Guidelines on Supervision of Financial Conglomerates should proceed as a priority.
- Establishing collateral valuation, problem assets, and provisioning requirements. Guidelines need to provide clarity to banks and supervisors on collateral treatment and valuation for different types of assets. Additionally supervisory tools/methodologies and more granular offsite data is needed to improve supervisory effectiveness and support periodic system- level analyses of trends and concentrations in banks' problem assets.
- Developing the framework for country and risk transfer. To effectively manage country and transfer risks, a comprehensive approach to measure these risks is needed.

100. Efforts to improve the effectiveness of the AML/CFT regime should continue. The regime has undergone significant improvements that led to the removal of Botswana from the FATF gray listing in October 2021 and the European Union blacklist of high-risk third countries in January 2022. Yet, operationalizing the risk-based supervisory toolkit and implementing a framework to oversee novel AML/CFT risks from virtual asset service providers (VASPs) should be prioritized to improve supervisory effectiveness. Clarifying reporting requirements of the new AML/CFT implementation framework under the revised legal framework should be complemented by increased public awareness and capacity building to ensure consistency in interpretation.

C. Macroprudential Policy

101. Steady progress has been made in implementing operational changes, and these should be complemented with the planned legal reforms to set a good foundation for systemic risk oversight. Once the BoBAA is in force, the status of FSC that operates as a key touchpoint for collective identification and consideration of risks across the regulatory spectrum will be elevated to a statutory committee.[52] The statutory FSC has a specific legal mandate, helpful for establishing strong *willingness to act* within its expanded remit using semi-hard powers. The FSC's membership that comprises the chief technical heads for respective regulatory agencies with oversight for the financial sector should facilitate the smooth activation of policies as needed— enhancing its *ability to act*. Emphasizing the role of this now statutory FSC by publishing the memorandum of understanding that sets the scope for collaboration across regulatory agencies[23] and their use of macroprudential tools in stemming vulnerabilities, should rouse the focus on financial stability.

102. The BoB's financial stability report (FSR) plays a central role in macroprudential risk analysis through its consolidated assessment from all FSC members. The report could however benefit from a more forward-looking analysis on key systemic risks that may be latent in the real estate sector; NPLs across business sectors; and for the homogenous credit exposures to households; which may warrant a broader use of credit-based household sector or corporate sector macroprudential tools.

D. Systemic Liquidity Management

103. Enhancing the BoB's liquidity management framework and liquidity regulations could encourage banks to use the primary reserves requirement (PRR) actively in their liquidity management strategy. With banks' core funding sources skewed to short-term wholesale deposits, liquidity uncertainty is mainly managed using large liquidity buffers. Volatile excess reserves and limited funding options in the underdeveloped interbank market potentially raise the cost for liquidity shortfalls. Furthermore, although there is full reserve averaging of the PRR, banks typically front-load or retain fixed reserve balances throughout the reserve maintenance period. Improving liquidity forecasts would enable the BOB to calibrate its liquidity operations and stabilize system wide liquidity.

104. Streamlining the refinancing operations would improve banks' liquidity management. Initially, the BoB should simplify the numerous refinancing operations. Other refinements—adjusting the penalty rate for shortfalls on the PRR and allowing access to the standing credit facility (SCF) after the closure of interbank market trading—[53]can better support the operational objective to maintain stable short-term interest rates. The BoB should also use the credit facility (CF) for daylight credit to

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[52] The FSC was instituted in 2019 and includes MoF, BoB, NBFIRA, FIA and Deposit Insurance Scheme of Botswana (DISB), with the Botswana Stock Exchange Limited (BSEL) as an observing member.

[53] The rate for under fulfillment of reserve requirements should not be punitive because (i) it can result in reserve hoarding and (ii) it mixes liquidity management with supervisory objectives. Repeated infractions of the RR fulfilment could reveal a need for supervisory actions and possible need for ELA.

support ongoing settlement in the Botswana Interbank Settlement Systems. A master repurchase agreement would support the development of the money markets.

105. Streamlining the refinancing operations and the modernized monetary operating framework would also help bank liquidity management. Initially, the BoB should rationalize the numerous refinancing operations to provide clarity. The recommended refinements to refinancing operations to better support the operational objective and to maintain stable short-term interest rates include: (i) adjusting the penalty rate for shortfalls on the PRR unfulfillment to the rate attached to the credit facility (CF) for overnight usage, which is higher than the rate for its standing credit facility (SCF) but is less punitive[25]; and (ii) allowing access to the SCF after the closure of interbank market trading as this represents the marginal rate at which a bank can fund a liquidity shortfall when all other options are exhausted. Finally, the BoB should transform the CF for use for only daylight credit to support ongoing settlement in BISS. Continuing the work to adopt a master repo agreement suitably adapted for Botswana's financial market could support development of a the interbank and repo market.

106. The management of the collateral for accessing monetary refinancing facilities should be simplified. Banks' holdings of short-term government treasury bills and bonds appear adequate to meet liquidity needs on a short-term basis. However, current arrangements for BoB's monetary refinancing facilities require banks to hold different collateral pools of liquid assets, with a portion of securities permanently pledged to the BoB. Under this arrangement, pledged securities cannot be easily redeployed for immediate access to other financing options such as the interbank market. Further, the BoB should publish a comprehensive haircut schedule[26] for eligible collateral to allow banks to compare various funding options.

E. Financial Safety Nets, Crisis Management and Bank Resolution

107. Implementing legal reforms to provide the mandate for the BoB to fully oversee financial safety nets and crisis management should be a priority. The revised laws—BoBAA and DRBA—should pave the way for the BoB to operationalize the crisis management and bank resolution frameworks through: (i) establishing a special bank resolution regime, including expanded resolution powers for the BoB; (ii) instituting the Deposit Insurance Scheme for Botswana (DISB); and(iii) allowing the BoB to conduct emergency liquidity operations. In the interim, the BoB needs to build related capabilities and has so far drafted a Botswana Deposit Insurance Regulation (BDISR). Establishing an effective DISB, however, requires the elevation of the BDISR to a law to ensure alignment with good international practices. Developing other regulations, manuals, and procedures for the operationalization of remaining safety nets is yet to start.

108. Advancing the reform process for operationalizing safety nets and crisis preparedness and management can proceed with the implementation of the BoBAA. Pursuant to that, key building-blocks include:

- Improving the DRBA by addressing identified deficiencies, mainly to ensure preemption in bankruptcy matters, and then push for prompt enactment;
- Developing policies and procedures and manuals for bank intervention and resolution;

- Implementing a suitable law for the DISB and preparing the action plan for its operationalization, including clear funding arrangements through bank contributions and a public backstop. Importantly, the operational independence of the BDIS should be assured by establishing a separate and independent unit that reports directly to the BoB Board, with the Board overseeing the fund's activities and ensuring that resources are used as prescribed in a future DISB law;
- Establishing technical working groups within the FSC to develop the framework for crisis preparedness, including stress testing, simulations, development of contingency plans, and an effective communication strategy;
- Expanding supervisory MOUs with all home countries that include alternative options of bank resolution; and
- Developing policies and procedures for the ELA framework. ELA should be reserved as a funding source of last resort for solvent but temporarily illiquid banks that are adequately regulated by the BoB. Solvency assessments should be forward-looking accompanied by anticipated funding plan; with the BoB having a sufficiently wide range of eligible collateral with a suitable risk management framework. Recommendations from the 2007 FSAP and past IMF technical assistance remain relevant.

109. Developing these safety nets that characterize good international practices in the financial regulatory architecture will require the FSC to prioritize work over the near- to medium-term. The FSC is uniquely positioned to engage in crisis preparedness and management activities and should develop an effective and comprehensive implementation framework, including for communicating on these activities.

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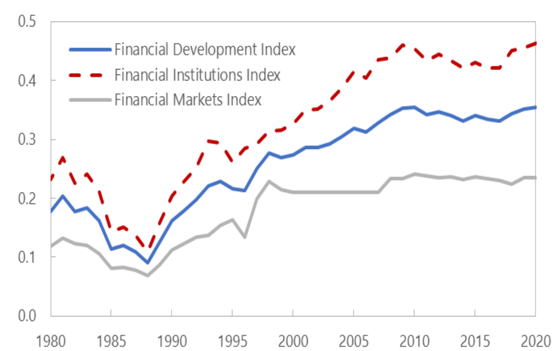
Appendix 1: Figure 1. Botswana: Financial Development Indicators and Cross-Country Comparison, 2020

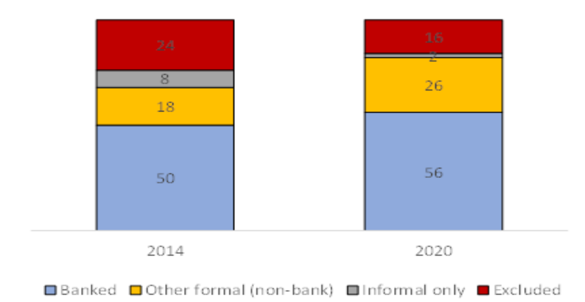
Reforms introduced in late-80s boosted the development index, especially of financial institutions…

Botswana: Financial Development Index



…providing Batswana greater access to formal financial services.

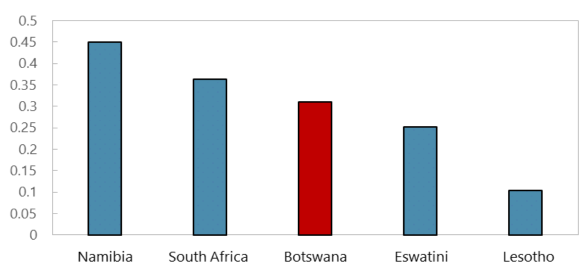
Access to Financial Services
(Percent)



Source: Finscope, 2020

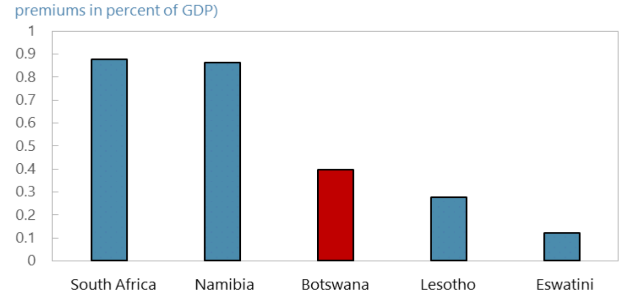
Access to banking services is comparable to other front-runners in the region…

Financial Institutions Access Index
(index number based on bank branches and ATMs per 100,000 adults)



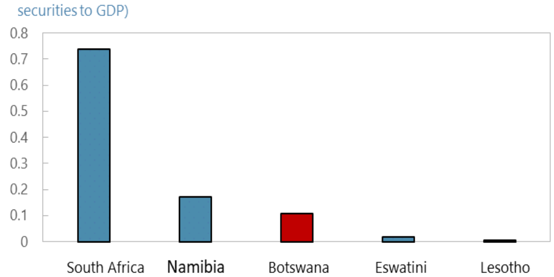
…although financial institutions' depth lags regional peers.

Financial Institutions Depth Index
(index number based on bank credit, assets of pension and mutual funds, insurers' premiums in percent of GDP)



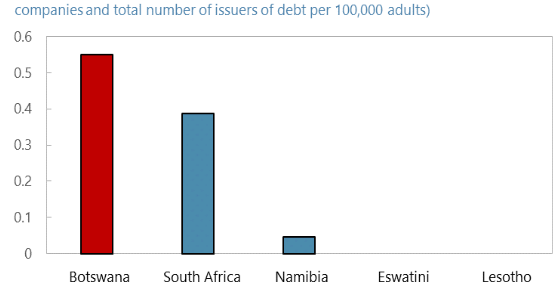
Overall market development lags peers…

Financial Markets Depth Index
(index number based on stocks traded and market capitalization to GDP, international debt securities of government to GDP, and total private sector debt securities to GDP)



…yet Botswana outperformed its peers in the region in terms of financial market access.

Financial Markets Access Index
(index number based on percent of market capitalization outside of top 10 largest companies and total number of issuers of debt per 100,000 adults)

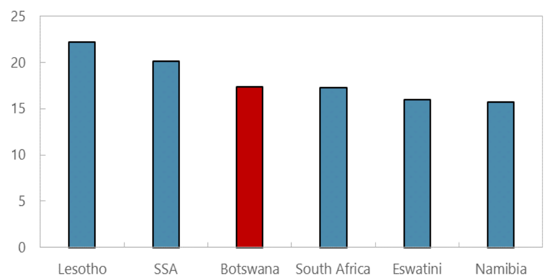


Sources: IMF Financial Development Index Database, Finscope, and staff calculations.

Appendix 1: Figure 2. Botswana: Financial Soundness Indicators, Cross-Country Comparison, 2021

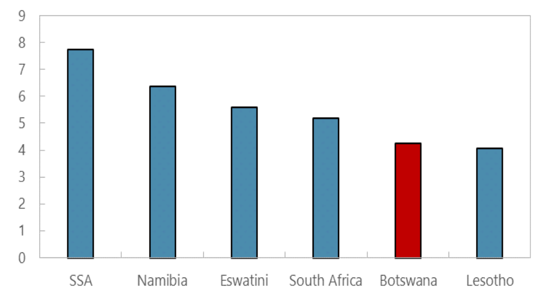
Botswana's banking system is relatively well-capitalized…

Regulatory Capital to Risk-Weighted Assets
(percent)



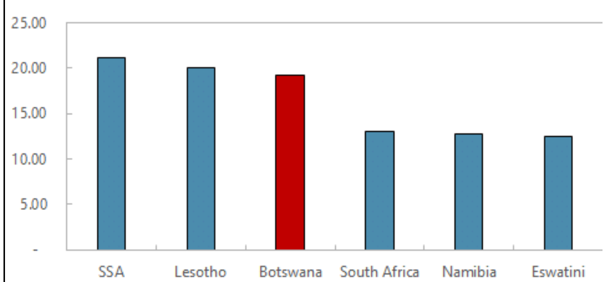
…with good asset performance.

Nonperforming Loans to Total Gross Loans
(percent)

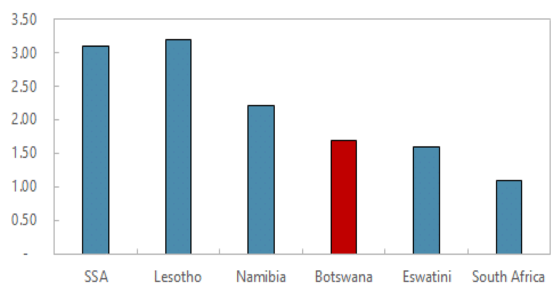


Profitability indicators suggest modest outcomes that reflect…

Return on Equity
(percent)

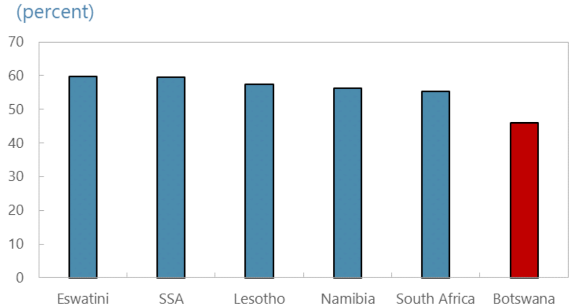


Return on Assets
(percent)



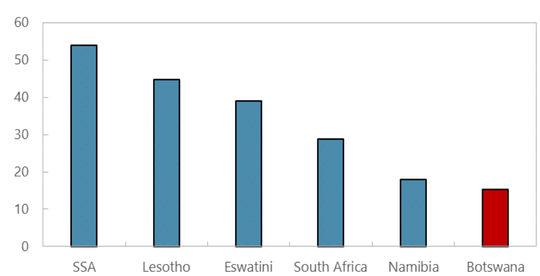
…small interest margins…

Interest Margin to Gross Income
(percent)



…and weak liquidity.

Liquid Assets to Short-term Liabilities
(percent)



Note: SSA includes Botswana, Ghana, Guinea, Kenya, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, Uganda, Zambia. Ratios are calculated as simple average.
Source: IFinancial Soundness Indicators database, IMF.

Appendix 1: Table 1. Botswana: Core Financial Soundness Indicators, 2018–September 2022

	2018	2019	2020	2021	Sep-22
	(Percent, unless otherwise indicated)				
Banking Indicators					
Capital Adequacy					
Capital to Assets	9.4	9.3	9.4	8.9	8.7
Regulatory capital to risk-weighted assets	17.9	18.5	20.0	17.3	17.2
Regulatory tier 1 capital to risk-weighted assets	13.2	13.4	13.8	12.5	12.4
Nonperforming loans net of provision to capital	16.2	14.9	9.2	10.2	7.4
Asset Quality					
Large exposure to capital	112.7	83.4	72.2	85.1	82.4
Nonperforming loans to total gross loans	5.4	4.8	4.3	4.3	3.4
Bank provisions to nonperforming loans	…	…	…	…	…
Earnings and Profitability					
Trading income and total income	3.6	4.2	5.3	6.3	6.3
Return on assets	2.6	5.1	1.8	2.1	2.8
Return on equity	23.3	33.5	17.3	21.3	29.2
Interest margin to gross income	57.2	58.0	55.7	51.8	52.5
Noninterest expenses to gross income	58.5	55.7	61.6	62.0	57.8
Personnel expenses to noninterest expenses	44.4	45.4	45.2	46.4	45.4
Liquidity					
Liquid assets to total assets	6.1	6.0	5.4	6.1	3.9
Liquid assets to short-term liabilities	7.2	7.0	6.5	7.2	4.6
Customer deposits to total (non-interbank) loans	118.8	120.6	122.9	122.4	125.5
Exposure to Foreign Exchange Risk					
Net open position in foreign exchange to capital	8.1	5.1	4.3	2.4	2.5
Foreign currency-denominated loans to total loans	7.8	6.2	4.9	3.5	4.5
Foreign currency-denominated liabilities to total liabilitie	26.1	23.0	12.6	19.4	30.9

Sources: Bank of Botswana and IMF staff calculations.

Appendix 2. Implementation of 2007 FSAP Recommendations

Number	Recommendation	Status
1	Draw up a comprehensive financial sector strategy reform plan under the guidance of a High-Level inter-agency committee	**Implemented.** A 2012-2016 Financial Sector Development Strategy was prepared under the guidance of a high-level inter-agency coordinating committee.
2	Develop a strategy for lowering the stock of BoBCs, in a manner consistent with maintaining the monetary policy stance and the price stability objectives of the BoB	**Implemented.** Abolishing of the 91-day BoBC; introduction of the 3-month and 12-month Treasury Bills and increase in the Government note programme from P15 billion to P30 billion.
3	Pending full implementation of the NBFI RA Act, introduce measures mentioned below in pension and insurance sectors	**Implemented.** (See #13)
4	Develop, publish, and implement a strategy for building the capacity of the NBFIRA within the framework of the NBFI RA Act.	**Implemented**. The Authority's first strategic plan was for the period 2010-2013 and it focused on the development of rules and regulations and also development and implementation of operating policies and guidelines. During this period the Authority also got the approval of the levy structure. The second strategic plan spanned the period 2013 to 2016 and it focused on the development of legal and regulatory frameworks and introduction of the risk based supervisory approach. During the period the Authority reviewed the NBFIRA Act which was enacted in 2016. The third strategic plan ran from 2016 to 2021 and it entailed the implementation of the new NBFIRA Act. The strategy also focused on ensuring financial stability as it pertains to the non-banking sector as well ensuring good market conduct.

		The fourth strategy which covers the period 2021 to 2026 is focusing on developing and implementing a robust regulatory framework and strengthening NBFIs resilience and Governance. The strategy also covers the enrichment of the stakeholder engagement. The Authority manpower over the period of fourteen years grew from 18 at the time of inception to just above 100 at present. This was to assist the Authority to effectively carryout its mandate. Moreover, NBFIRA mandate has since grown to cover regulation and supervision of virtual assets service providers over and above the capital markets, retirement funds, insurance and lending activities.
	Banking	
5	As a prelude to privatization, give full supervisory authority to BoB for statutory banks and license these institutions.	**Not Implemented**. BoB still does not have full authority over statutory banks. It does not have powers to license statutory banks but derives its power to supervise them from Section 3 of the revised Banking Act (BA).
6	Give powers to BoB to supervise banking groups on a consolidated basis. Set basis for improved cooperation domestically and cross-border and further develop relationships.	**In progress**. The BA is being revised to empower the Central Bank to supervise a banking group or conglomerate (Section 42 of the revised BA)
7	Amend the Banking Act so that the BoB has the powers to vet "significant" and "controlling" shareholders.	**In progress.** The BA is being revised to strengthen the BoB powers to vet the significant and controlling shareholders (Section 21).
	Pension	
8	Introduce licensing and on-going supervision of pension fund administrators, and asset managers under the new NBFI RA Act.	**Implemented**. Fund administrators regulation and supervision now specifically covered in the new Retirement Funds Act 2022. Asset managers specifically licensed and supervised under Securities Act 2014

9	Expand the range of information collected by the registrar, such as foreign asset holdings, including "non-traditional" assets.	**Implemented**. PFR2 (2012) – Pension Funds Investment Rule provides the spilt between traditional and non-traditional assets, off-shore and on-shore split
10	Develop and implement broad investment, governance, and custodian guidelines.	**Implemented.** In terms of pension funds governance and investment, PFR2 and PFR10 were implemented from 2012
	Insurance	
11	Develop an on-going supervision plan and prudential requirements, such as risk assessment and management, and liability management.	**Implemented.** Following the establishment of NBFIRA, entities licensed under the insurance industry Act would submit limited information as required then by the Insurance Industry Act 1987. To address the shortfalls of the Act 13 prudential rules were issued from March 2012 and beyond as follows; 1. Classes of Business – defined 2012 2. GR2 – Financial Condition Report General Insurance 2012 3. GR3 Approved Person's Annual Report General Insurance 2012 4. IICR – Intermediary Conduct Rule 2014 5. IPR1G - Prescribed Valuation Method General Insurance Liabilities 6. IPR1L – Prescribed Valuation Method Long Term Insurance Liabilities 7. IPR2G – Prescribed Valuation Method & Admissibility Restrictions General Insurance Assets 8. IPR2L - Prescribed Valuation Method & Admissibility Restrictions for Long-Term Insurance Assets 2012 9. IPR3G Prescribed Capital Target General Insurance 2012 10. IPR3L Prescribed Capital Target for Long Term Insurers 2012 11. LR2 Financial Condition Report 2012 12. LR3 Valuator's Annual Report Long Term Insurance

		13. PPR Policyholder Protection Rules 2012 The above was premised on the Risk Based Supervision (RBS) Model that was adopted replacing the prior compliance-based monitoring system. The introduction of risk-based supervision was in response to a growing industry supervised with limited resources. RBS caters for the continuous monitoring of licensed entities under the Insurance Industry Act and further assists with the allocation of resources to the entities and areas where they are most needed.
12	Collect and analyze statutory returns and analyze relevant information on solvency, detailed re-insurance, claims, and expenses for off-site monitoring.	**Implemented.** The introduction of Prudential Rules brought about receipt of both annual and quarterly statutory returns from insurers as with the previous regulatory regime NBFIRA was only receiving statutory returns from insurers and insurance brokers. The returns are received through an online based system, the Risk Based Supervision System (RBSS) and also analyzed on the same platform.
13	Implement regulations on intermediaries and issue guidelines on market conduct.	**Implemented.** NBFIRA introduced the Insurance Intermediaries Conduct Rules in 2014 which focus on market conduct issues for intermediaries where a lot of misconduct issues arise. Further, Policyholder Protection Rules were introduced to improve disclosure requirements and to better protect policyholders from unfair practices in the industry.
	Financial and Capital Markets, Financial Infrastructure	
14	Establish a group to consider the issuance of government and parastatals securities.	**Implemented.** The Bond Auction Technical Committee (BATC) comprising officials from the Ministry of Finance

		and Bank of Botswana (BoB) spearheaded the reforms. Consequently, the Government note issuance programme increased from P15 billion to P30 billion following approval by Parliament in September 2020. Government also introduced the 3 month in October 2020 and 12 months Treasury bills in January 2021.
15	Assess the costs and benefits of supporting OTC trading in government securities.	**Implemented.** A hybrid model adopted for trading of Government securities, i.e., use of both OTC and ATS.
16	Conduct a review of the legislative and regulatory framework to identify reforms needed to promote securitization.	**Not Implemented**
17	To address shortfalls in the BISS-RTGS, define the type of actions that would warrant penalties and the specifics of the penalties to be levied.	**Not Implemented**
18	Formalize and publicize the BISS system governance arrangements.	**Not Implemented**
	Systemic liquidity	
19	Enhance coordination and transparency of monetary and exchange rate policy.	**Implemented**. The crawling band exchange rate regime is implemented through continuous and gradual adjustment (crawling) of the trade weighted NEER of the Pula to correct for any misalignment of the exchange rate. The rate of crawl is based on the forecast inflation differential between Botswana and her trading partner countries. The rate of crawl is thus determined using a forward-looking approach and is revised annually. In this forward-looking arrangement, the authorities periodically determine the rate of crawl for the subsequent period. The rate of crawl is determined based on comparison of the mid-point of Botswana's medium-term inflation objective range of 3 – 6 percent and the mid-point of the forecast of trading

		partners' inflation. This is an ideal approach that recognises the need to use monetary policy to achieve the inflation objective, rather than accommodate the inflation outcome/path and resultant rate of crawl (inflation differential). The Bank of Botswana's current monetary policy framework was adopted in 2008. Prior to 2008, the Bank's price stability was specified in terms of a range to be achieved over the coming year. However, from 2008, it has been defined as a range to be achieved over a medium-term horizon and is currently set at 3-6 percent. In this framework, the policy horizon is a rolling 3-year period, which is considered appropriate given the long lags in the transmission of monetary policy decision to affect price developments. The medium-term horizon satisfies three conditions for the effectiveness of monetary policy; it anchors inflation expectations around the objective; it is consistent with the period covered by the inflation forecast; and it is a reasonable period for policy action to take effect.
20	Streamline the structure of policy interest rates and further encourage market-determined interest rates	**Implemented.** Reforms to monetary operations were introduced on April 28, 2022. The reforms, among others, introduced the adoption of the yield on the main monetary operations instrument (currently the 7-day BOBC) as the anchor policy rate, called the Monetary Policy rate; established an interest rate corridor with a 200-basis points margin and allowed commercial banks to independently determine their own prime lending rate (PLR).

21	Strengthen systemic liquidity forecasting and undertake and disseminate analytical work on monetary transmission channels.	**Implemented.** New liquidity forecasting Unit established and resourced with relevant staff, i.e., Assistant Manager and Supervisor. New analytical and forecasting tools in use, which were developed with the help of the IMF TA missions. The Monetary Policy Statement is published at the beginning of the year and specifies the framework, some instruments and targets used to pursue the primary objective.
	Enhancing Access to Financial Services	
22	Update the legislation from the Cooperative Societies Act to ensure their safety and soundness.	**In progress.** The revised Cooperative Societies Act is currently undergoing review within the Ministry of Entrepreneurship. It is expected to be submitted for legal drafting in 2023 and to become law in 2024. In addition, the re-drafted Banking Bill has given BoB powers in terms of Sections 3 and 4 of the Bill to grant authority to any person to transact banking business or engage in deposit taking activities. This provision therefore extends to SACOOs a s deposit taking institutions.
23	Proceed with the privatization of government-owned financial institutions.	**Partially Implemented.** BBS Limited was granted a commercial banking licence by BoB in 2022 while Botswana Savings Bank (BSB) Lesedi 2022-2025 strategy is premised on the expected implementation of the BSB (Transition) Act, 2012 or possible review of the BSB Act. The Transition Act is perceived as a legal instrument that will result in the transformation of BSB into a company with a banking licence issued by BoB. NDB is being transformed into an Agribank following the pronouncement by government in April 2022.
	AML/CFT	

24	Intensify implementation of the existing framework, including the setting up of a FIU, and involving active coordination and information sharing.	**Implemented.** The FIA was established by Section 3 of the Financial Intelligence Act, 2009 that came into force in March 2010. Terrorist financing was criminalized in 2014 by the Counter Terrorism Act, 2014.
25	Criminalize terrorist financing by law.	**Implemented.** Terrorist financing is criminalized under Section 5 of the Counter Terrorism Act, 2014.
	Crisis Management and Resolution	
26	Issue guidelines for the management of problem financial institutions and a financial crisis, and a framework for the provision of emergency liquidity assistance (ELA).	**In progress.** Guidelines on Managing Financial instability at a Macro Level is developed, and these guidelines are continuously reviewed. Regarding ELA, Section 38 A of BoBAA provides that BoB may act as Lender of Last Resort for a bank by providing ELA.

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