

# FinScope Botswana 2009

## Summary Report



Making financial markets work for the poor

# FINSCOPE

## ACCESS TO FINANCE

### BOTSWANA 2009

#### Introduction

Botswana's financial sector has grown a great deal over the past two decades. There are now more banks, more products and services and more technology than ever before. Many other aspects of the financial sector, such as the Botswana Stock Exchange, have also developed a great deal over this period. This is important, because the financial sector plays an important role in the economy. It provides a means for people to save, a mechanism for payments transactions, access to credit, and a means of insuring against risk.

However, it is also important that access to financial services is broadly based. If significant parts of the population are excluded, they will be unable to benefit from the advantages that access to finance can offer – a safe home for savings, an efficient means of making payments, access to loans for investments and to smooth consumption, and dealing with risk.

Most governments now see enhancing access to finance as an important policy objective. In Botswana, the importance of access to finance is highlighted in National Development Plan 10.

It is therefore important to have accurate information on how different segments of the population use financial products and services, or are unable, for whatever reason, to gain access. This helps to provide the basis for effective policy formulation and monitoring, as part of broader economic development and poverty alleviation initiatives.

The FinScope Survey is one mechanism for gathering information on access to finance, and concentrates on the demand for financial services and their use by households.

This booklet provides an overview of access to financial services, especially banking services, in Botswana. It summarises the results of the FinScope Botswana 2009 survey of the demand for banking and other financial services. This survey followed an earlier

FinScope carried out in 2004, which means that we have a chance to track changes in access to finance over time. The booklet also updates an earlier publication – Enhancing Access to Banking and Financial Services in Botswana – that was published by FinMark Trust and Econsult Botswana in 2007.

#### Access to Finance

Access to finance has become a topical issue in many countries in recent years, and the subject of a great deal of commentary and research. In Africa, the agenda has been led by FinMark Trust, whose motto is "Making Financial Markets Work for the Poor", and indeed FinMark has been a pioneer in the field globally. There is extensive interest in the topic from institutions such as the World Bank, CGAP, and donors such as DFID, USAID and the Gates Foundation.

Why the interest in access to finance? Access can be seen as a component of the broader concept of "financial development". It is increasingly recognised that the degree of financial development in an economy is important. More specifically, a higher level of financial development:

- supports economic growth, by boosting savings and investment;
- improves overall economic efficiency, by making financial intermediation more efficient;
- promotes more inclusive growth, with lower poverty and inequality, by enabling the poor to better manage their money;
- helps people to borrow to finance investment, and to insure against losses.

While there are many aspects of financial development, an important one is the level of access to financial services - whether geographically or across income groups. Countries vary a great deal according to whether access to financial services is broad-



based, or restricted to certain socio-economic groups or localities. Restricted access is both economically inefficient and, increasingly, politically untenable.

FinMark Trust has always promoted a market-led approach to improving access, but recognising that markets may need encouragement. In particular, the availability of information is crucial in helping markets to function. FinScope helps to provide information on the demand for financial services, and on the demographic, economic and social characteristics of consumers and potential consumers. By helping to fill the gaps in information availability, FinScope helps financial institutions to extend their products and services to under-served markets in a commercially viable manner.

The information generated by FinScope also helps policymakers to design appropriate policy measures that can help to support access to finance, to improve financial inclusion, and to contribute to the alleviation of poverty.

## Finscope® Survey Objectives

The specific objectives of the FinScope survey were:

- To document, benchmark, and profile levels of access to financial services by all residents in Botswana, rich and poor, located in rural and urban areas;
- To collect data that will allow stakeholders to benchmark current usage patterns across all types of providers in the formal and informal sector, and across the four categories of products, transactions, savings, insurance and credit; and
- To gather information on needs for financial services by looking at:
  - Household economic, financial and risk management;
  - Financial discipline and knowledge;
  - Attitudes and perceptions to, as well as preference for financial service providers;
  - Psychographics and lifestyles;
  - Remittances; and
  - Asset accumulation patterns (including livestock).

## Survey Sponsors

The study was funded and supported by the following entities:

- Government of Botswana
- Multi-sectoral Committee for Food Security and Poverty Reduction
- United Nations Development Programme, Botswana
- European Union Delegation to Botswana
- Barclays Bank of Botswana
- Stanbic Bank Botswana
- Botswana Life Insurance Limited

- First National Bank of Botswana
- Botswana Building Society
- Botswana Savings Bank
- FinMark Trust

## Methodology

### Introduction

FinScope is a nationwide household survey of adults 18 years and over. It aims to provide statistically robust results at the national level. The results can also be analysed at more disaggregated levels, whether geographically (e.g., urban areas), or demographically (e.g., females) or according to other criteria. However, as the unit of analysis becomes smaller, the margin of statistical error becomes wider and the results have to be interpreted more cautiously.

### Sampling

The sample size for FinScope 2009 was 1400 households across the country. The survey made use of the Enumeration Areas (EAs) used by the Central Statistical Office (CSO) for household censuses and surveys. A three stage sampling procedure was used.

First, 140 EAs were selected with probability proportional to the estimated number of households in the EA.

Second, all households within the EA were enumerated, and ten households were systematically sampled from each EA.

Third, all adult members of the selected household were listed, and one of those adults was randomly selected for interview.

### Questionnaires and Data Collection

The FinScope 2009 questionnaire comprised 50 questions covering a range of topics:

- Introduction
- Financial product awareness
- Banking
- Burial & funeral insurance
- Investments
- Credit & loans
- General insurance/assurance
- General money matters
- Psychographics/financial sophistication
- Access to technology
- Pensions
- Quality of life
- Demographics

Fieldwork took place in April 2009. Questionnaires were completed through face-to-face interviews. The average interview took around 90 minutes to complete.



### Weighting

The multi-stage sampling procedure means that all adults in the country do not have an equal chance of being selected. As a result, survey responses have to be weighted so that the results are nationally representative. Weights were applied representing the probability of selecting an EA within a stratum (broadly, an administrative district), and the probability of selecting a household within an EA. A further set of weights was applied to ensure that the survey results reflected the known gender composition of the adult population.

Consultation with the CSO took place throughout the design of the sampling and weighting procedures.

### Survey Benchmarking

The weighted survey responses gave an adult population of 993 854. This corresponded with an estimated adult population, based on CSO Population Projections<sup>1</sup>, of approximately 1 million adults in 2008.

The weighted survey responses also gave the following geographical breakdown of the adult population. This compares with the geographical breakdown (for the total population) derived from the 2006 Botswana Demographic Survey.

Geographical Area	FinScope 2009	Botswana Demographic Survey, 2006
City/town	31%	21.2%
Urban village	30%	36.2%
Rural	39%	42.6%

### Concepts

#### Measuring Access

The thrust of the survey was to measure access to different types of financial services by the adult population. Access is about the ability of an individual to get and use financial services that are affordable, usable, and meet their financial needs. The key dimensions of access include:

#### **Physical Access:**

How far must a person travel to access the financial service;

#### **Affordability:**

The financial service must be affordable to the user;

#### **Appropriate Features:**

The features of the financial service should be appropriate to the user and be able to meet the user's particular needs for financial services;

<sup>1</sup> Population Projections for Botswana, 2001-2031, Central Statistics Office, 2005

### **Appropriate Terms:**

There should be no terms that effectively exclude one category of user from utilising the service (for example minimum levels of income, formal employment or other insurmountable obstacles).

Understanding, measuring and tracking access is critical to determining how to make financial markets work especially for the poor. The FinMark Trust segmentation models of access focus on measuring usage and applying that as a proxy of access. The usage measure estimates the percent of the adult population that have access to four primary types of financial services:

- Transactions services;
- Savings;
- Credit/loans; and
- Insurance.

### Key Definitions

In the context of the FinScope 2009 study, the following definitions are adopted:

#### **Formal financial service providers:**

banks, insurance companies, and registered micro-lenders;

#### **Informal financial service providers:**

unregistered micro-lenders e.g. cash loan shops, metshelo/savings clubs, burial societies, and unregistered moneylenders.

#### **Financially included:**

those who use formal and / or informal financial products.

#### **Financially excluded:**

those who do not use either a formal or an informal financial product.

#### **Banked / un-banked:**

refers to the use or not of banking products.

## The Adult Population – Economic and Demographic Characteristics

The survey results were weighted to match the known gender distribution of the adult population, i.e. 53% female and 47% male (meaning that there are approximately 89 adult males for every 100 females). Geographically, the majority of the population (61%) is urbanised, with 39% living in rural areas. With regard to marital status, 64% of the adult population reported that they were single, with 20% married and 9% living together.

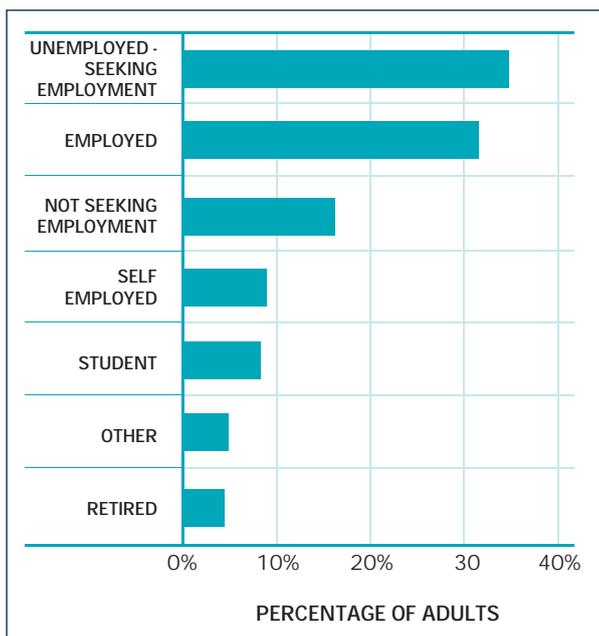
## Employment and Incomes

### Employment

Approximately one third of adults (34%) reported that they were unemployed but seeking employment, while 38% (30% employed, 8% self employed) reported that they were employed (in the public or private sectors, or were self-employed). The remaining 28% were retired, students or otherwise occupied.

These results are not comparable with other labour market surveys due to differences in definitions. However, they are largely consistent with the results of the 2004 FinScope survey.

Figure 1: Employment Status ▼



Source: Finscope Survey 2009

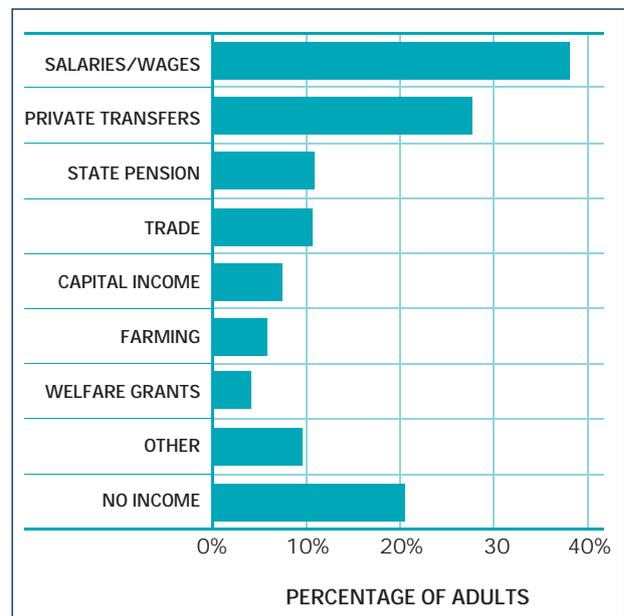
### Levels of Income

More than one quarter of adults (27%) reported that their income was zero. The median income level was approximately P500 per month (so half of the adult population had income of over P500).

### Sources of Income

Consistent with the results for employment, around one third of the adult population earn their main income through salaries or wages. The second major source of income – and presumably the most important for those who are not employed – is private transfers; this is likely to be mainly transfers from other household members or from extended family members. However, in contrast to the results for income levels reported above, only 20% of adults reported that they did not receive an income. Other important sources of income were trading of goods and services, and the state old age pension. It is notable that subsistence farming was the main source of income for only 3% of adults.

Figure 2: Main Sources of Income ▼



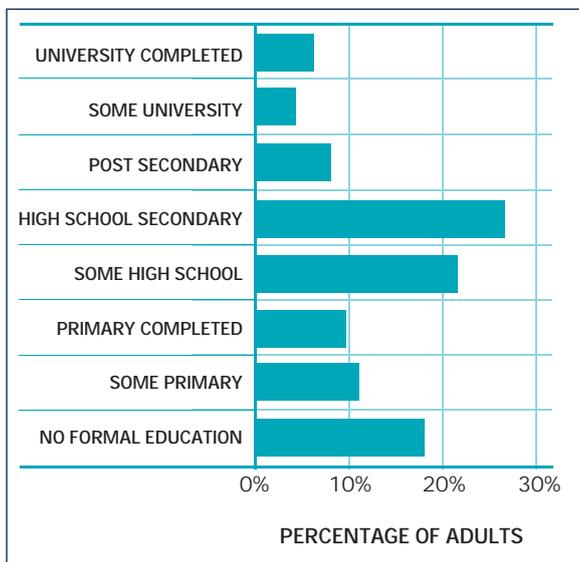
Source: Finscope Survey 2009



### Education

Most adults have secondary or higher education; 47% had been to secondary school (26% completed and 21% have some high school education) while 17% (7% completed university) had received some kind of tertiary education. 17% of adults have had no formal education.

Figure 3: Education ▼



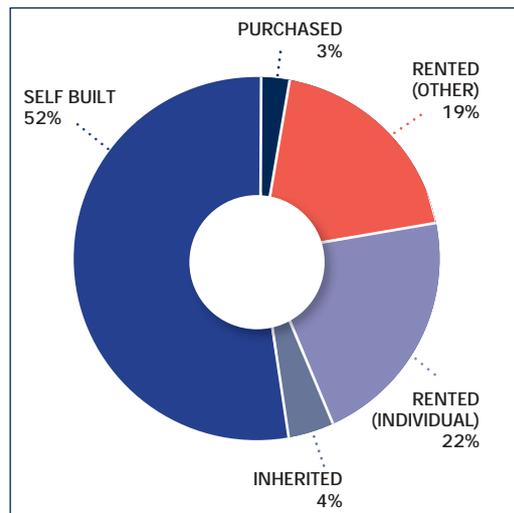
Source: Finscope Survey 2009

### Housing

The majority of adults live in houses that they (or their families) own, and almost all of these are self-built.

For many households, their house is likely to be their most important asset. However, this may be of little economic importance, as only 24% of home-owning adults consider their house to be a tradeable asset.

Figure 4: Type of Housing ▼

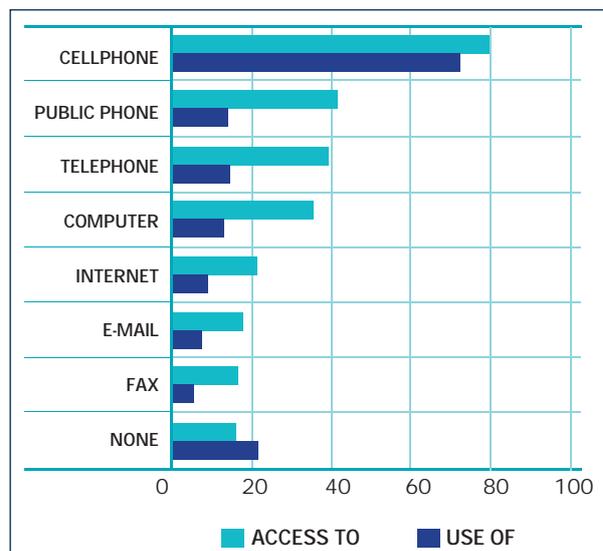


Source: Finscope Survey 2009

### Technology

Respondents were asked what types of technology they had access to and made use of. By far the most important form of technology is cellphones, which 78% of adults have access to, 73% make use of, and 70% own. Other forms of technology – telephones (apart from cellphones), internet, email and fax machines – are used much less.

Figure 5: Use of and Access to Technology ▼



Source: Finscope Survey 2009



## Access to Finance

One of the key segmentation tools used developed by FinMark is the Financial Access Strand. This measures the level of access to the various financial products: bank products, products offered by other formal financial institutions (such as insurance, pensions, etc.), and informal financial products.

The categorisation for the access strand model is as follows:

### **Banked:**

this is the percentage of the adult population who have access to any bank product (even if they also have access to other formal or informal financial products);

### **Other formal:**

these are respondents who have access to other formal financial products (excluding any informal financial products) but have no access to bank products;

### **Informal:**

these are respondents who have access to only informal financial products but no bank products and no formal other financial products;

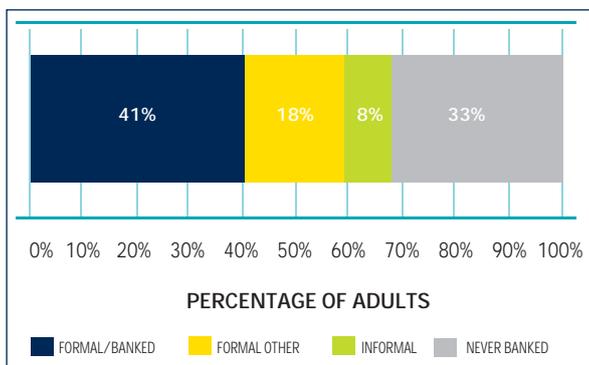
### **Excluded:**

these are respondents that do not have access to bank, other formal, or informal financial products.

### Access Strand

The FinScope 2009 access strand indicates that 41% of the adult population is banked, 18% use "other formal" products but are unbanked, 8% only use informal financial products and 33% are financially excluded (use no financial products other than cash).

Figure 6: Financial Access Strand ▼



Source: FinScope Survey 2009

### The Financially Included vs. the Financially Excluded

The adult population can be segmented into the financially included and financially excluded. The financially included are those who have access to banks, other formal financial products, or informal

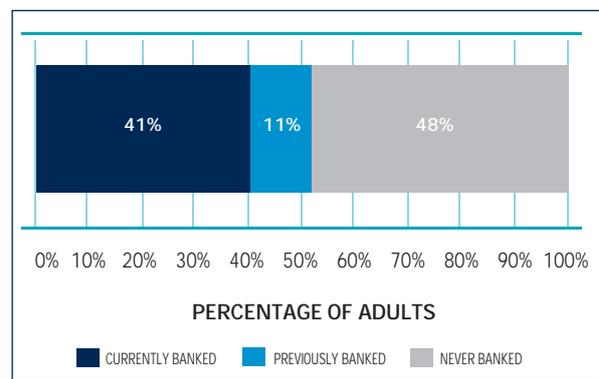
financial products. The financially excluded are those that have no access to any of the three types of financial products (bank, other formal, or informal).

Of the adult population, 67% were financially included in the FinScope 2009 study as compared to 54% in FinScope 2004. The significant growth of the financially included is explained by the growth of the "other formal" financial products, which increased from 6% in 2004 to 18% in 2009. The other formal financial products that showed significant growth as compared to 2004 include burial and funeral insurance, short-term insurance and long-term insurance.

### Banking Status

Banking status is a measure of the adult population that are currently banked (i.e. currently have access to any bank product), previously banked (i.e. those that have dropped out of the banking system), and the never banked. The FinScope 2009 results suggest that 41% of the adult population are currently banked, 11% were previously banked, and 48% were never banked. The corresponding figures for FinScope 2004 were: currently banked (43%), previously banked (10%) and never banked (47%). The results suggests that there has been no significant change in the proportion of the adult population that is currently banked between the period 2004 and 2009, as the small changes are within the margin of statistical error.

Figure 7: Access to Banking ▼



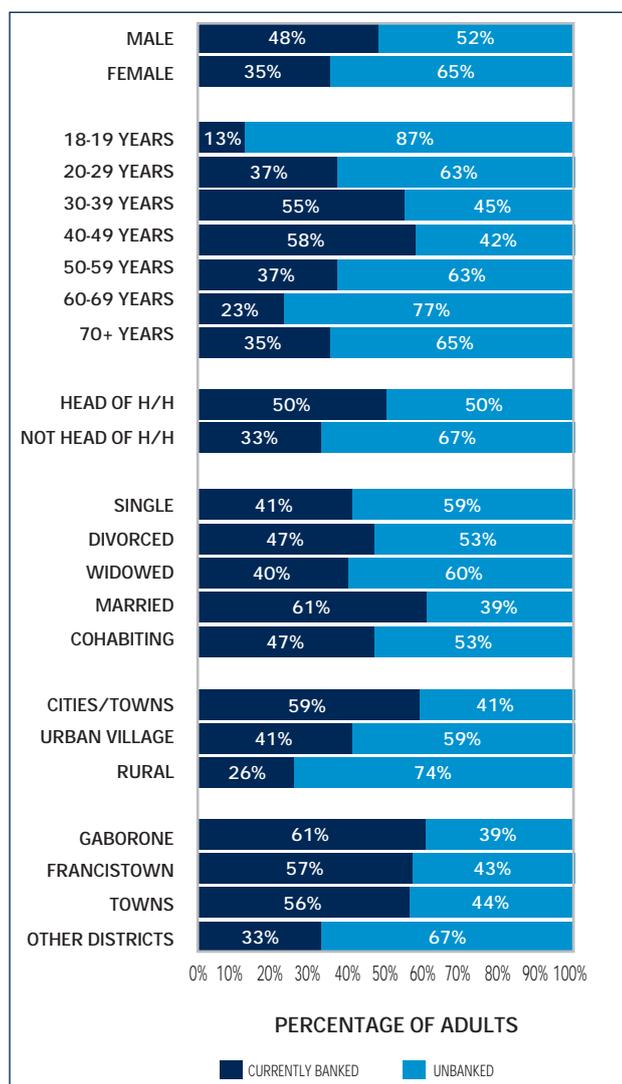
Source: FinScope Survey 2009

Access to banking varies according to a range of demographic, social and economic factors. Demographically, the results are largely as would be expected: males are more highly banked than females; middle-aged adults (30-49) are more highly banked than the young and the old; and heads of households are more banked than non-heads of households. Geographically, the majority of adults in cities and towns are banked, with lower levels of banked adults in urban



villages and most notably in the rural areas, where only 26% of adults are banked.

Figure 8: Banking & Demographic Status ▼

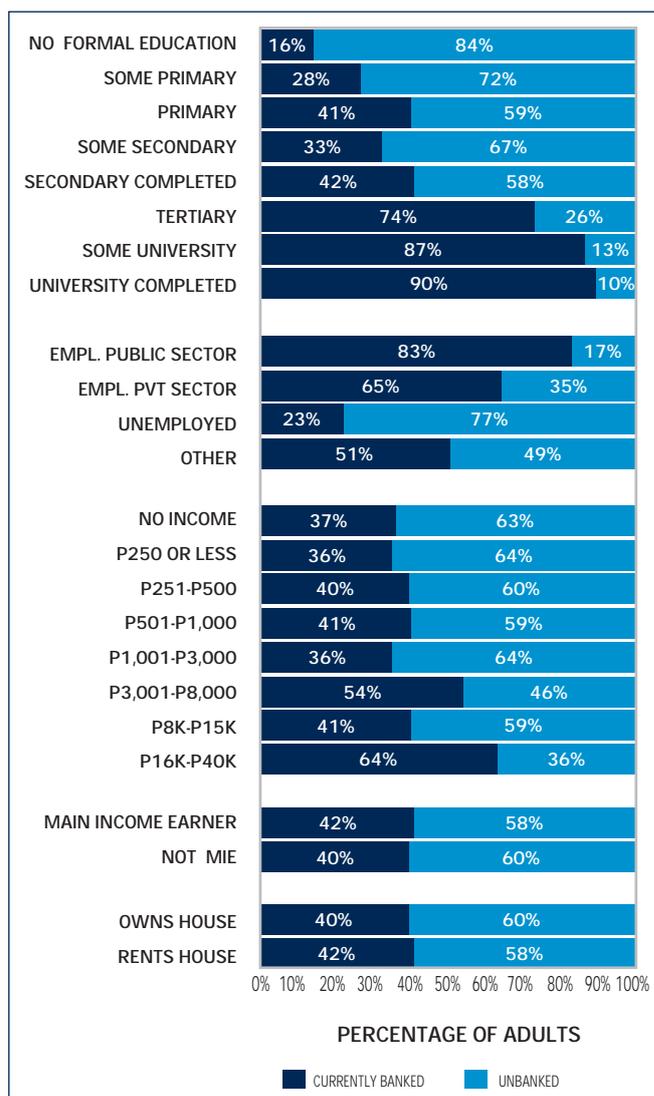


Source: Finscope Survey 2009

In terms of access to banking and economic factors, the results are also largely as would be expected. There is a very clear and direct relationship between education and being banked. The high level of banked status amongst those who have received tertiary education probably reflects the fact that students receiving government grants must have a bank account, plus the fact that employment levels are higher for those in tertiary education.

The majority of those who are in full-time employment are banked, especially those in the public sector who are almost all banked (due mainly to government's policy of paying most employees through bank transfers). Almost all of the results relating to banked status according to demographic and economic factors are substantively unchanged from FinScope 2004. The main recorded difference is that the higher level of banked status for Main Income Earners (MIE) and those who rent houses that was apparent in 2004 is much reduced in 2009.

Figure 9: Banking & Economic Status ▼



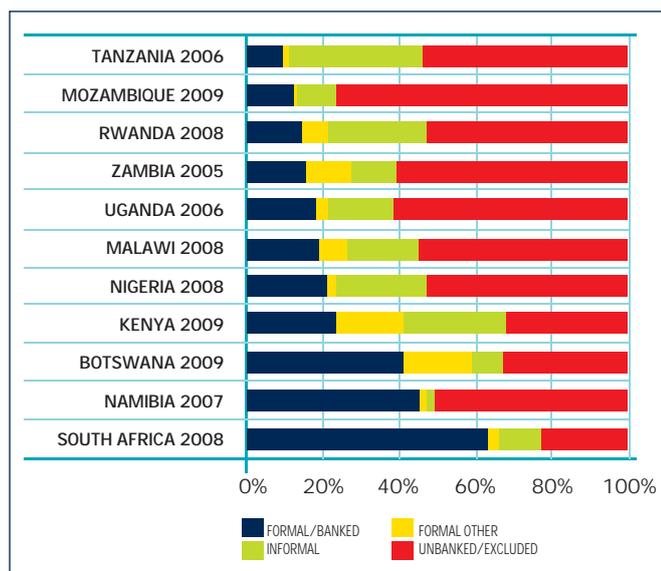
Source: Finscope Survey 2009



## International Comparisons

FinScope surveys have now been carried out in a number of countries across Africa, in some countries more than once. Results are available for South Africa, Namibia, Botswana, Kenya, Nigeria, Malawi, Zambia, Uganda, Mozambique, Rwanda and Tanzania. Because of the consistency of design and structure of FinScope surveys across countries, the results are directly comparable both over time and across countries.

Figure 10: Access Strand Africa ▼



Source: Finscope Africa

The key results of these international surveys are that:

- the high-income countries of Southern Africa (SACU members – South Africa, Namibia and Botswana) all have significantly higher levels of access to banking than the lower-income countries elsewhere in Africa;
- In Botswana the level of access to banking is similar to Namibia, but much lower than in South Africa, which has the highest level of access to finance; this may perhaps be driven by formal and informal pressure on the banks to improve access, resulting in new products such as Mzansi accounts that are specifically designed for the unbanked;
- The lower income countries have much greater reliance on informal finance – but this plays a small role in Botswana and the other SACU countries;

The role for “other formal” financial sector products is relatively high in Botswana – the only other country with such a large role for such products is Kenya, where mobile-phone based remittances have taken off in a big way.

## Changes in Access to Finance and Banked Status over time

Comparing the results of the 2009 FinScope survey with that of the previous survey in 2004 enables us to track changes over time. The key results are as follows:

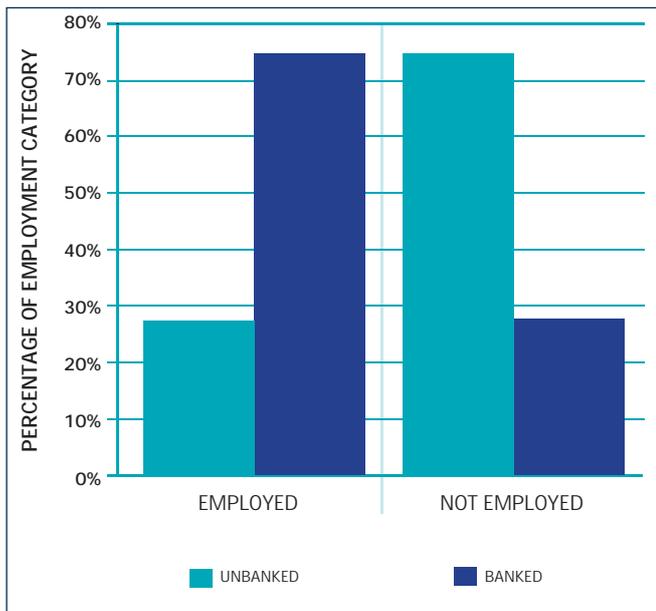
- Access to finance (financial inclusion) in Botswana has improved: whereas in 2004, 44% of adults were financially excluded, in 2009 this had fallen to 33%;
- The main reason for the improvement in financial inclusion is the increased use of “other formal” products, which is in turn mostly due to the increased use of funeral insurance products;
- Access to banking appears to have fallen slightly, from 43% to 41%, although in statistical terms the change is within the small margin of statistical error, and hence, access to banking is largely unchanged between the two surveys.

This last result is particularly surprising: the expectation would have been that as banks have expanded their operations, and new banks have become established, access to banking would have increased.

The explanation for this surprising result may lie with employment. Although Botswana’s economic growth has been reasonable (the growth in real GDP between 2004 and 2008 totalled 15%), formal employment growth over the same period was lower, at 9%. As a result, employment growth has barely kept pace with the growth of the adult population; it is estimated that in 2004, 32% of the adult population was formally employed, and in 2009 the figure was largely unchanged at 32.5%. As noted above, there is a close relationship between being banked and being employed: most of those in formal employment are banked. And as the chart below shows, most of those who are banked are in formal employment or are self-employed. Many – but not all – bank products are focused on those who are employed and/or have regular incomes. Hence the stagnation in the proportion of adults who have access to banking between 2004 and 2009 may reflect the slow growth of employment – and the stagnation in the proportion of adults employed – over this period.



Figure 11: Banking & Employment Status ▼



Source: Finscope Survey 2009

### Characteristics of the Unbanked

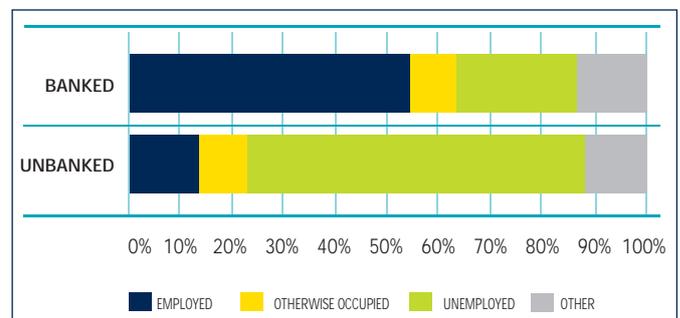
Why are the unbanked unbanked? The above discussion and the chart below illustrate one main reason – the unbanked are predominantly unemployed. This may cause exclusion from access to bank products, especially those offered by the commercial banks – although the basic products offered by institutions such as the Botswana Savings Bank do not require account holders to be employed or to have regular income.

The FinScope survey probes this issue by asking the unbanked why they do not make use of banks. The results show that non-use of banking is very closely tied to employment and income status – the most important reasons cited for not having a bank account are being unemployed or not having a regular income.

Nevertheless, there are a considerable number of unbanked adults who are employed – around 80,000 according to the FinScope results – and it would presumably be quite easy to extend banking services to them. However, any dramatic increase in the proportion of the adult population that is banked requires either a significant increase in the growth rate of employment – so that a greater proportion of adults have formal sector jobs – or a specific effort to design banking products and services suitable for the un-

employed. Their needs, however, are likely to be quite different to those of the employed population, and careful thought needs to be given to what type of banking services (or financial services more generally) would be most appropriate, a question that we return to later.

Figure 12: Employment Status of Banked & Unbanked ▼



Source: Finscope Survey 2009

## Use of Banking and other Financial Services

### Landscape of Access

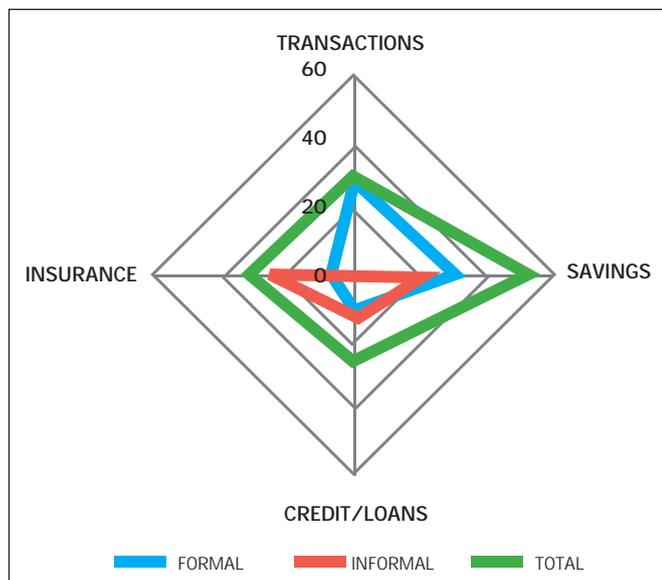
The Landscape of Access measures those who have access to key financial products: transactions, insurance, savings and credit/loans, from both formal (banks and other formal) and informal financial sectors.

- **Transactions** refer to use of financial transactions-related services (for example an ATM card, or sending or receiving money).
- **Insurance** refers to all types of insurance products (such as life assurance, medical aid, funeral policy, pension fund).
- **Savings** include all types of savings (such as savings books, savings accounts, national savings certificates, motshelo/savings clubs, or money put away for burial/funeral).
- **Credit/loans** refer to all types of loans (such as a bank loan or overdraft, loans from government schemes, loans from employer/family, and loans from money lenders).



The landscape of access is depicted below.

Figure 13: Landscape of Access ▼



Source: Finscope Survey 2009

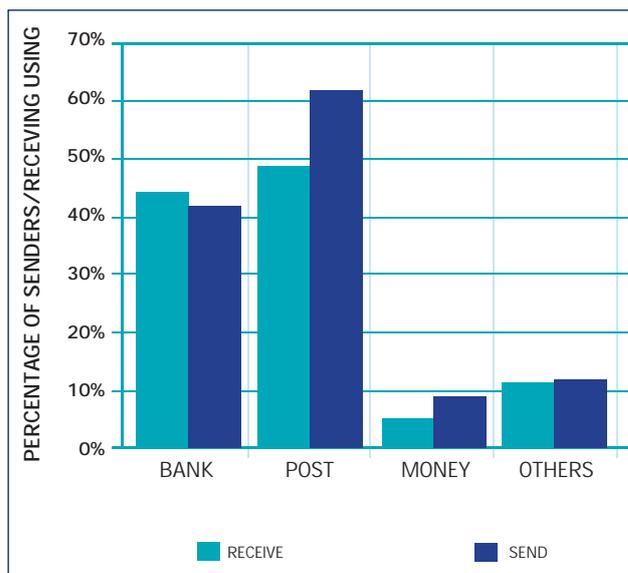
### Savings

Of the various financial products, savings is the most commonly used product - 54% of adults have some kind of financial savings product. Most of these (40%) save with a bank or similar financial institution, but 24% have some kind of informal savings product. These are predominantly *metshelo* or a similar savings club – 22% of adults are members of such an informal group scheme. A small proportion (10%) use both banks and informal savings, but the majority of users of informal products are unbanked. This suggests that informal savings mechanisms are important in pushing out the frontier of access and providing financial services to the unbanked.

### Transactions

Some 31% of adults engaged in transactions (sending or receiving money) during the six months prior to the survey. There were slightly more receivers (23% of adults) than senders (20%). The dominant means for transfer was the Post Office, which accounted for 61% of all sending transactions, with the remainder largely accounted for by electronic bank transactions. There was little recorded usage of informal cash transfers.

Figure 14: Transactions - Sending & Receiving Money ▼



Source: Finscope Survey 2009

### Credit and Loans

Credit is the least widely used of the four types of financial services, with 24% of adults engaging in some kind of borrowing from formal or informal sources.

Formal financial institutions (banks etc.) are the main source of loans, and are used by 16% of the adult population. As with savings, informal institutions are important sources of loans, with 14% of adults borrowing from informal sources.

Although credit is the least used of the four main types of financial service, it still appears that many households are over-indebted. Data from the Bank of Botswana<sup>2</sup> show that arrears on bank borrowing by households have been rising steadily during 2008 and 2009, and are at very high levels by historical standards.

FinScope 2009 gathered information on the purposes for which loans were taken. For loans from banks, the primary reason for borrowing was to buy a car, and the second most important was for housing (purchase or renovation etc.). Loans taken from non-bank sources (insurance companies, *metshelo*, micro-lenders,

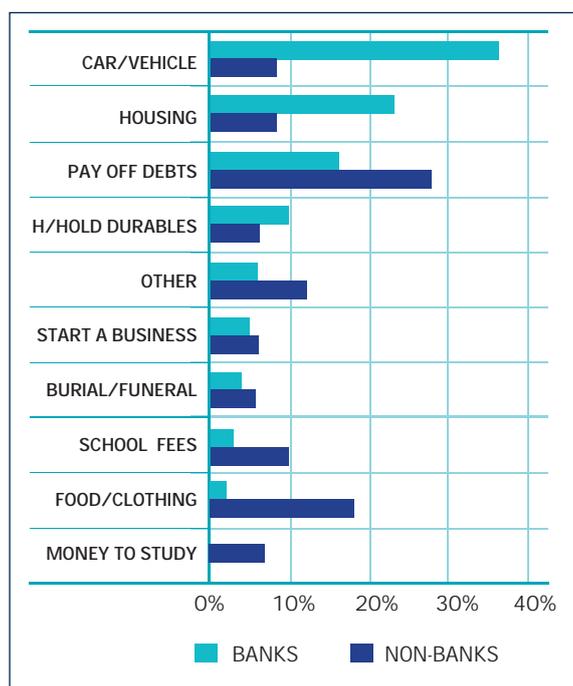
<sup>2</sup> Botswana Financial Statistics



employers, friends and family), the primary reason was to pay off debts, and the second most important was to buy consumables such as food and clothing. Bank loans were therefore used more to finance the purchase of assets, whereas loans from non-banks were used more to juggle indebtedness and finance consumption. The use of loans from non-banks suggests over-indebtedness, i.e. neither the servicing loans nor the financing of consumption can be achieved from current household income.

This is further illustrated by the fact that almost all (91%) of the borrowing from non-bank lenders is by people who are already banked, i.e., who may be taking out additional loans when they have exhausted their capacity to borrow from banks.

Figure 15: Purposes of Loans ▼

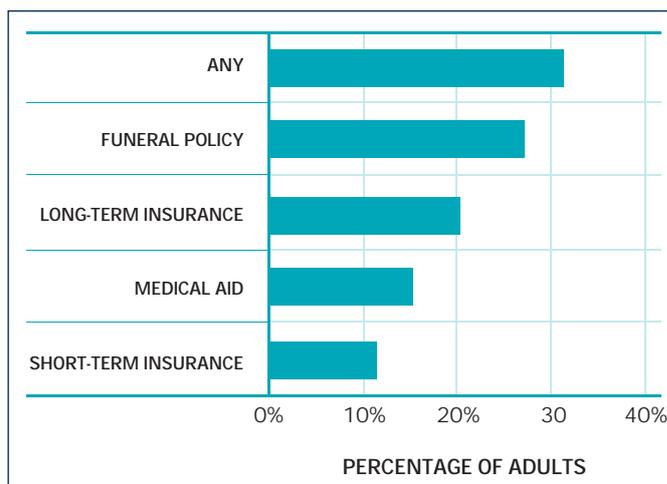


Source: Finscope Survey 2009

### Insurance

Insurance is widely used in Botswana, with 31% of adults having some kind of insurance product. The dominant type of insurance product is a funeral policy, which is held by 26% of adults, followed by long-term insurance products, medical aid and short-term insurance (e.g. car insurance).

Figure 16: Use of Insurance Products ▼



Source: Finscope Survey 2009

The FinScope results suggest that the way in which people deal with insurance is quite different to the way in which they deal with banking. A substantial proportion – around 50% - of people with insurance are unbanked, and the majority of people with insurance are unemployed. This is likely to be because insurance is taken on a household basis (e.g., if a working household member has medical aid, all family members are likely to be covered), whereas banking is conducted on an individual basis (if one family member is banked, this does not make other family members (directly) banked).

Long-term insurance is a form of savings. These results suggest that the “received wisdom” of Botswana not being savers may be wrong, or at least the true picture is more complex. Results suggest that many Botswana do save, in the form of contractual savings; it is discretionary savings that are low; in addition, savings are offset by high levels of borrowing so net savings are lower.

## Financial Awareness

### Perceptions of financial institutions

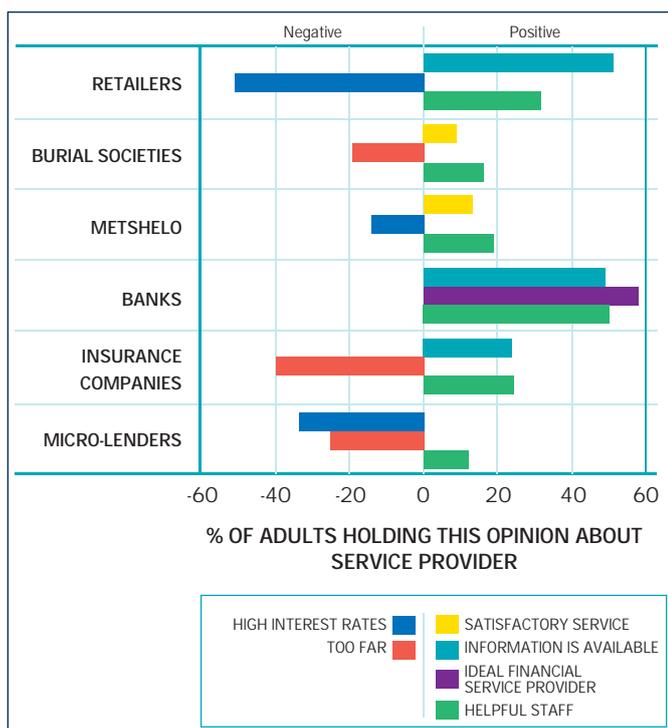
Respondents were asked to rate their perceptions of different types of financial service providers (banks, insurance companies, micro-lenders etc.). Perceptions could be factual (e.g., you need an identity document), subjective but positive (e.g., their staff are helpful), or subjective but negative (e.g., they are too far from where I live).

The highest-rated perception across all types of financial service providers was that you need an identity document to access their services. The figure below shows the top three rated subjective perceptions for each type of service provider. The banks are the



most highly rated service provider, in that they have the highest level of perceptions, and the most prominent perceptions are positive. All other types of service providers have a mixture of positive and negative perceptions. Retailers are the most prominent after banks, although one of the top three ratings is negative (interest rates are high). Insurance companies and micro-lenders are the next most prominent, but whereas insurance companies on balance have a positive perception, micro-lenders have a strongly negative perception. Metshele and burial societies are the least prominent, but are on balance perceived positively.

Figure 17: Perceptions of Financial Service Providers ▼



Source: Finscope Survey 2009

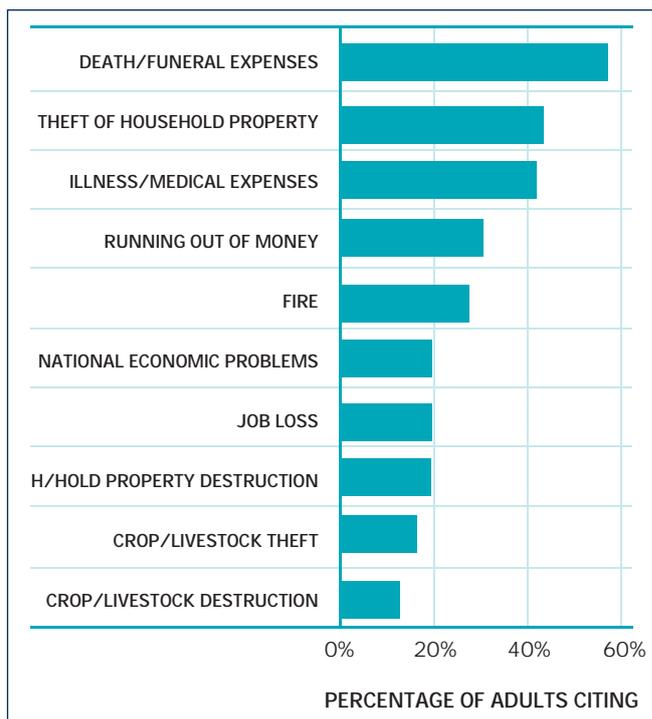
### Ways of saving a large sum of money?

Respondents were asked what they would do with a large sum of money that was received and not spent immediately. Responses were roughly split between those who would place the money in a bank (42% of those responding) and keeping it at home or asking a friend to look after it (38%). This suggests quite a high level of confidence in the banking system.

### Risks & coping strategies

Households face a number of potential unexpected financial events, which could have an adverse impact on household finances. The adverse events that were thought most likely to happen relate to illness or death, perhaps reflecting the impact that HIV/AIDS has had on the society, followed by loss of household property. Adverse economic developments are also a concern, relating to running out of money (lechono) and job losses. The impact of agricultural problems (loss or theft of livestock or cattle) was of less importance, perhaps reflecting the small contribution that agricultural activity makes to household incomes in Botswana.

Figure 18: Major unexpected events ▼



Source: Finscope Survey 2009

The most common ways of responding to such unexpected events include borrowing from family or friends, or using savings. A substantial proportion of the population report that their incomes are insufficient to regularly purchase basic consumption items. 38% of adults report that at some point over the past 12 months they have not had enough money to buy decent clothes and shoes, while 36% report that sometimes they do not have money to buy enough food to eat.



## Pensions/retirement

Having a decent income in retirement is an important part of financial security. However, the FinScope results show that most people do not make any direct financial provision for old age.

- 64% of adults are not doing any savings for retirement, which means that implicitly they intend to rely on the state old-age pension scheme (which provides a relatively small monthly income).
- 15% of adults have a pension or provident fund provided through their employment. If life assurance policies are included, 20% of adults have some kind of long-term savings or insurance product.
- Perhaps reflecting the low level of the state pension, 65% of adults report that they would be prepared to contribute towards a mandatory state pension scheme.

## Informal Financial products

As noted above, informal financial products play an important role in complementing the scope of banking and other formal financial products. The use of informal financial products in Botswana is quite widespread: according to FinScope 2009:

- Approximately 330,000 adults (33% of the total) used some kind of informal financial product;
- 236,000 adults (25%) used informal savings products;
- 141,000 adults (14%) borrowed from informal sources; and
- 254,000 adults (25%) used informal insurance products.

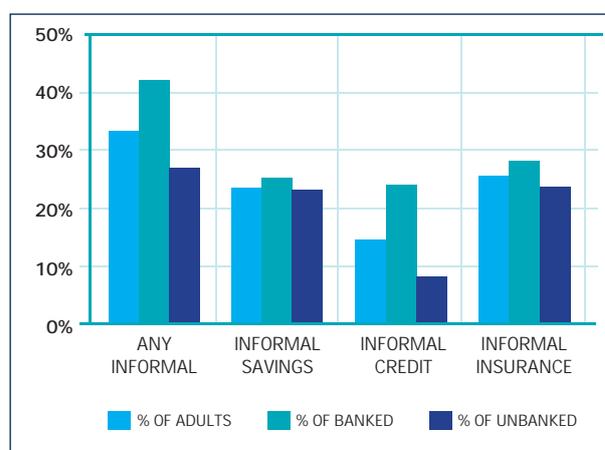
However, the landscape of access presented earlier shows that only 8% of the adult population relies solely on informal finance – a smaller proportion than in many other African countries. But this may obscure the important role of informal financial services, which in some cases complements formal financial service provision, and in others cases supplements it.

Informal insurance, for instance, seems to complement formal provision; of those with formal insurance products, some 76% also have an informal insurance product; similarly, 78% of those with informal insurance products also have a formal product. The informal sector therefore provides a channel for “double insurance”, rather than significantly extending access to insurance to those who would not otherwise have it.

The opposite is the case with informal credit: of those with a loan from a formal financial institution, only 37% also have an informal loan, and of those with an informal loan, only 42% also have a formal loan. Informal credit therefore seems to extend access to credit to those who otherwise be unwilling or unable to get a loan from a bank or similar institution.

Generally, however, use of informal financial products is greater among the banked than the unbanked.

Figure 19: Use of Informal Financial Products and Banking Status ▼

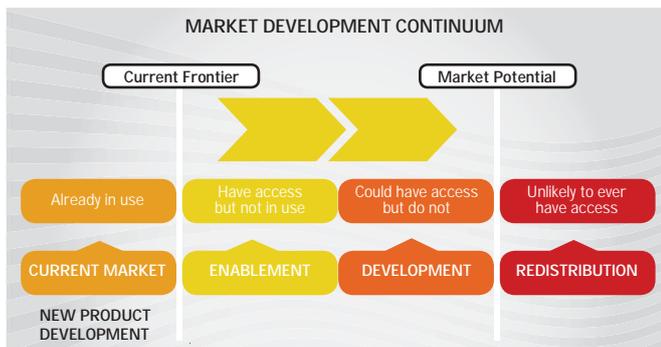


Source: Finscope Survey 2009

## Financial Access Frontier

An important tool that has been used to analyse the results of the FinScope surveys is the Financial Access Frontier. This divides the adult population into groups, depending on their actual or potential access to banking and other financial services. The tool is useful for a number of reasons:

- From a policy perspective, it divides the population into groups with different financial access characteristics, and which require different types of policy interventions to enhance that access;
- From a commercial perspective, it divides the market into segments with different potential for financial services, and with different risks and opportunities.
- The financial access frontier divides the market into four main segments:
- Current market (where people have access and use available products);
- Potential market – enablement zone (where people potentially have access but do not make use of it);
- Potential market – development zone (where access could be extended with appropriate product development);
- Redistribution zone (people unlikely ever to have significant access to financial services).



By analysis of the FinScope data, the magnitude of the different segments can be quantified. Classification is done in terms of the reasons that people give for not being banked.

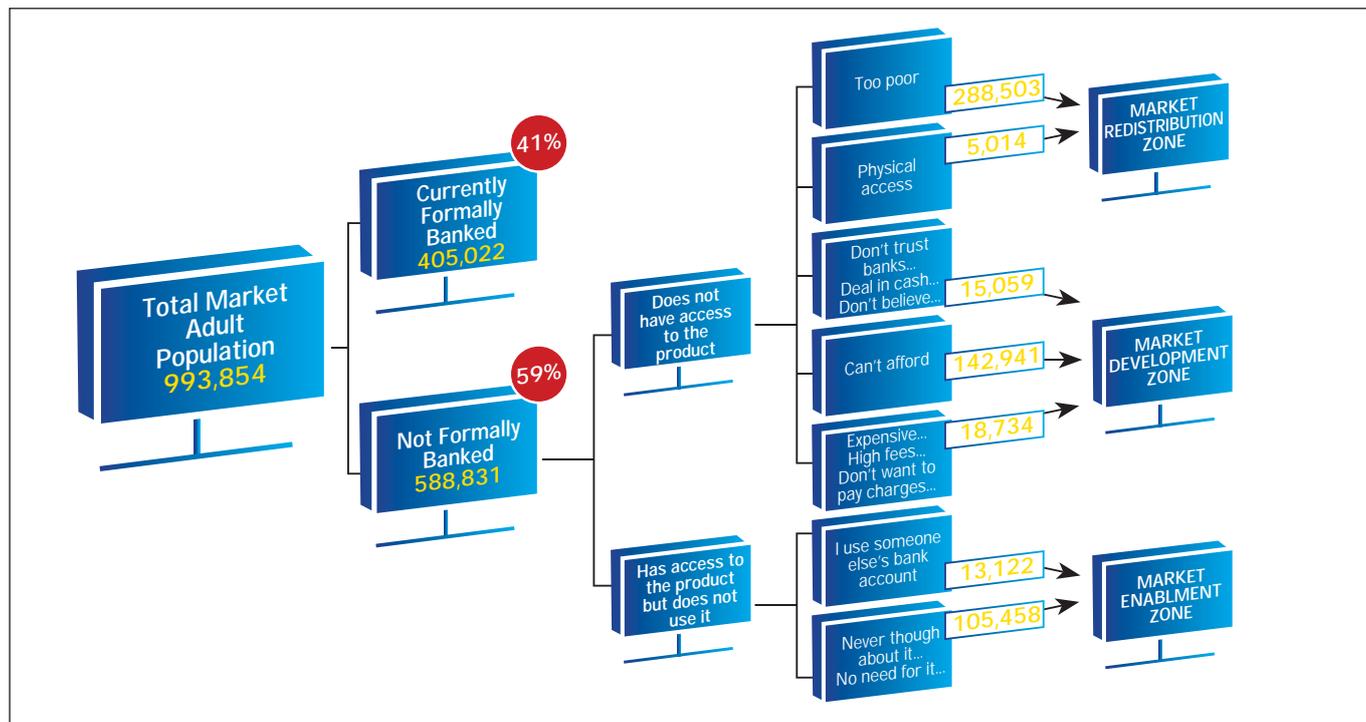
### Access Frontier in Botswana

As we have discussed earlier, 41% of adults are banked, leaving 59% unbanked – just under 600 000 people. Of these, the “mar-

ket enablement zone” comprises nearly 120 000 people, most of whom are employed or earn sufficient income that they would qualify for a bank account, but who either have never considered it or don’t consider that it would be useful. These adults have access to banking products, but do not use that access. This segment – about 20% of the unbanked market - could therefore be targeted through an appropriate financial literacy initiative.

The second major segment of the unbanked is the “market development zone”, comprising around 175 000 people, or around 30% of the unbanked market. These adults do not have access to banking as it currently stands, as products are not appropriately designed for their needs. However, with appropriate product design and lower fee levels, a substantial proportion of this segment could benefit from the use of banking or other financial services.

The third major segment of the unbanked is the “market redistribution zone”, comprising just over 290 000 people, or around half of the unbanked market. The incomes of these adults are too low for them to have much effective demand for banking and financial services, even with a new set of products. From a policy perspective, this segment is reliant upon broader social and economic policies to uplift their standard of living.





## Product Innovation and Access to Banking

What type of new products might be suitable for extending access to banking and financial services in the market development zone?

Much of the innovation taking place in the design and delivery of financial services is being driven by technology. Such innovation covers a range of products and services that fall under headings such as mobile money and branchless banking.

Mobile money refers to a range of money transfer and payments services undertaken using cellphone-based technology. The best known of these is the M-Pesa service established by Safaricom in Kenya, which is used by more than half of Kenyan adults, but there are similar services being rolled out in many other countries. When used for payments and transfers (such as remittances), mobile money is not banking as conventionally defined (i.e., deposit-taking).

Although mobile money is generally cellphone based, similar products are available based on smartcards. Since the FinScope survey, mobile money products have been introduced in Botswana by one bank (FNB) and two cellphone companies (Mascom and Orange). Branchless banking refers specifically to banking activities, such as the opening of accounts and deposit-taking, and related activities such as the granting of loans, but which are conducted outside of conventional bank branches. This can include cellphone banking products, where accounts are operated using a cellphone as the point of contact between the service provider and the customer. It can also include smartcard and point-of-sale (POS) machine based systems for opening and maintaining accounts. Branchless banking makes use of technology for the maintenance of accounts, and transactions that require person-to-person contact (such as, for instance, the opening of accounts), are handled by banking agents rather than directly by bank branches themselves. These agents can include retail stores, post offices or individuals with appropriate training and accreditation – the exact form varies from country to country.

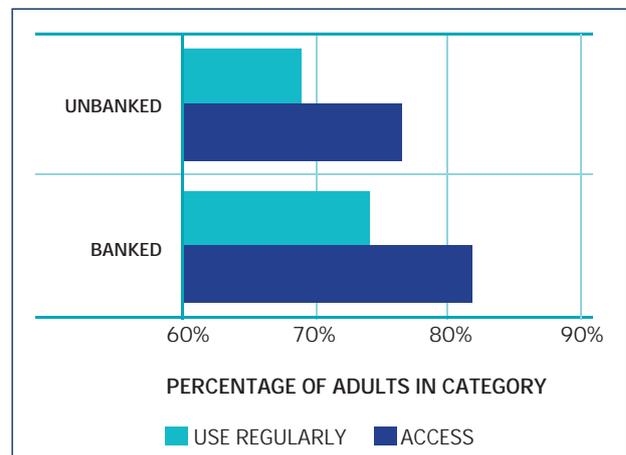
A related concept is that of *e-money*, which refers to money value stored electronically, typically on a smartcard or a cellphone simcard. E-money deposits could come from savings, or the payment of wages, or government welfare payments or pensions. Although e-money balances are analogous to deposits, they are generally limited to relatively small values.

The field of mobile money, agency banking and e-money is developing rapidly, with innovation generally being driven by technology companies and mobile network operators. In contrast to conventional branch-based banking, these products have low costs per customer and per transaction, which is well suited to providing low cost financial services to the poor and unbanked.

What could help the development of such financial and banking products in Botswana? First, it needs an appropriate regulatory structure that permits financial products to be provided by a range of service providers, which may not necessarily be banks. Second, government can help by using innovative methods to distribute old age pensions and welfare payments – such as credits to smartcards or cellphone based systems. This is already being piloted with card-based distribution of destitute allowances.

Third, widespread access to cellphones facilitates the rollout of remittance and money transfer schemes. This is the case in Botswana, where cellphone penetration is over 100 percent (i.e. there are more active simcards than there are people in the country). The FinScope survey shows that cellphone penetration is high even amongst unbanked adults, suggesting that there is great potential in mobile money products.

Figure 20: Access to Cellphones and Banking Status ▼



Source: Finscope Survey 2009



This report was prepared by Keith Jefferis and Bogolo Kenewendo of Econsult Botswana (Pty) Ltd on behalf of FinMarket Trust.

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