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The Dynamics of Savings in Botswana

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Abstract: This paper discusses the dynamics of savings in Botswana during the period 1960 to 2015 and seeks to enhance a contextual understanding thereof through an analysis of its savings composition, policy initiatives, saving trends, as well as challenges faced with respect to savings. The study finds that the gross domestic savings rate in Botswana is significantly high, averaging 26% between 1960 and 2015. Public savings are an important component of gross domestic savings compared to private savings. Just as in the case of many sub-Saharan African countries, Botswana has been facing some challenges with regards to savings. These include a low private savings rate, imported inflation (especially from its major trading partners), and high levels of unemployment, poverty and inequality. The study recommends, among other things, the strengthening of policy interventions that particularly promote private savings, while sustaining the current high public savings rates.

Key words: Savings; Private Savings; Public Savings; Botswana

JEL Classification: D14; E21

1. Introduction

A number of studies have been done on the role of savings in the economic growth process of a country.[3] More recently, Athukorala and Sen (2002) found that savings are essential for growth. This is consistent with economic theory that states that savings avail funds which would be borrowed by investors for investment (Matsheka, 1998). This investment, in turn, bolsters economic growth (Drakos, Kouretas, Stavroyiannis & Zarangas, 2016; Acemoglu, 2003; Solow, 1986; 1974). Adebiyi (2005) finds this to be true in his study of Nigeria, stating that saving drives the growth process through its positive effect on investment and thus growth. Agrawal and Sahoo (2009) find bidirectional causality between savings and growth, while Sajid and Sarfraz (2008) find unidirectional causality from growth to savings.

Despite this overwhelming evidence pointing to the importance of saving in economic growth, many of these studies were carried out in developing countries and other parts of Africa, with minimal coverage on Botswana (Amusa & Busani, 2013; Ahmed, 2007; Elbadawi & Mwega, 2000; Hope, 1997).

Against this backdrop, the objective of this study is to provide coverage on savings in Botswana – highlighting critical reforms, trends and challenges associated with savings in Botswana during the period from 1960 to 2015.

Botswana makes an interesting case study because of its high dependence on minerals in an era where high mineral dependence is regarded as a “curse” for developing countries. This has been the case in the Democratic Republic of Congo, Sierra Leone and Mozambique (Siakwah, 2017; Haglund, 2011; John, 2011; Weinthal & Luong, 2006; Sachs & Warner, 2001; Auty, 2001). Despite an increase in mineral dependency by 25% to 83.7% in 2010 (Haglund, 2011), Botswana, Chile and Malaysia are some of the few countries that have not been plagued by the “curse”, also known as the Dutch disease (Lewin, 2011; Weinthal & Luong, 2006). The dreaded Dutch disease is characterised by a country’s

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[3] See, among others (Aghion, Comin, Howitt & Tecu, 2016; Attanasio, Picci & Scorcu, 2000; Lucas, 1988; Romer, 1986; Solow, 1986; 1974; Domar, 1946; Harrod, 1939).

currency appreciating significantly due to mineral exportation, eventually hampering growth in other sectors of the domestic economy. Lewin (2011) adds that another vulnerability associated with this dependency is the negative effect of mineral price volatility in the global markets. Botswana, in particular, has evaded the Dutch disease due to superior institutional alignment, good governance characterised by a low corruption levels and efficient use of the country's resources culminating in a high gross domestic savings (Ahmed, 2007; Esterhuyse, 2012).

The rest of the paper is organised as follows: Section 2 provides an overview of savings in Botswana. Section 3 discusses the policy initiatives related to savings in the country of study. Section 4 discusses the savings trends and challenges in promoting savings in Botswana. Section 5 concludes the paper.

2. Overview of Savings in Botswana

2.1. Public Savings

Botswana obtains most of its revenue from mineral extraction and exportation (Ahmed, 2007; Esterhuyse, 2012). In addition, the government collects between 75% and 82% of the profit from the diamond industry through a combination of royalty payments, profit tax, withholding tax on remitted dividends, and dividends received by virtue of its 50% share-holding in the diamond mining company called Debswana (Hope, 1997). The revenue of these minerals is used for infrastructural investment, which is investment in another asset, following the Hartwick rule of thumb (Lewin, 2011). Theory states that a developing country dependent on mineral extraction as a core source of revenue should use the revenue for developmental infrastructure (asset accumulation) as opposed to consumption expenditure. This allows for the preservation of the country’s overall asset base while providing a generation of income that replaces revenue from minerals when it eventually declines (African Development Bank “ADB”, 2016, pp. 11-12; World Bank, 2006, pp. 46-60; Hartwick, 1977). Recurrent spending is then financed from non-mineral (recurrent) sources, which is interpreted as being sustainable (ADB, 2016). This is partly what led to Botswana escaping the Dutch disease (Weinthal & Luong, 2006; Haglund, 2011).

The Government of Botswana does not spend all of its mineral revenue. It saves a significant portion of it, about 40%. By March 2015, Botswana Pula (BWP) 44.0 billion (equivalent to BWP39.8 billion at 2012 prices) had been accumulated as net financial assets (gross financial assets less debt liabilities) by the government. This is about 10% of all revenue acquired by the country between 1983/84 and 2014/2015. As a result, the government of Botswana has accumulated significant financial savings and undertaken very little borrowing (ADB, 2016, p. 13).

According to the ADB (2016:18), these budget surpluses accumulate in the Government Investment Account (GIA). The reserves in the GIA are owned by the GOB, but are saved as a component of the Botswana Pula Fund. The management of the Pula Fund is executed by the Bank of Botswana (BOB). The reserves are readily available if there is need to increase government expenditure in the event of a crisis – as was the case during the global economic meltdown of 2008 (ADF, 2016, p. 19).

Furthermore, some of Botswana’s savings took the form of offshore investments, which directly limited real exchange rate depreciation and diversified the sources of future foreign exchange revenues (Lewin, 2011). Collier et al. (2010) posit that investing savings acquired during a boom would provide funds in the future when mineral revenue sources are lower due to resource depletion.

2.2. Private Savings

Domestic private savings consist of savings from households and private entities. Though there has been a rising trend in private savings, the private savings rates are still significantly lower than the rates for the public sector (Hope, 1997; Radipotsane, 2006). This is partly due to low financial development and access to financial services such as credit, transaction and insurance services (Genesis Analytics, 2003).

Private savings are made formally through deposits in banks and private companies. In addition, investments are also made through *motshelo* or cattle (Hope, 1997; Radipotsane, 2006; BOB, 2009). Botswana is described as having a healthy banking bank sector development. However, there is still high inequality regarding access to financial services in the country (Hope, 1997). Despite this, the banking sector is highly profitable within the small segment of the market that they serve. About 41.3% of adults use savings accounts, including bank demand savings accounts as well as NGO savings "accounts". Furthermore, it is positive to see that, in Botswana, access to the various types of savings accounts increased significantly from 1998 to 2001 (Genetics Analytics, 2003). According to Genesis Analytics (2003), in 2001, 39% of the economically active population used a savings account, 45.6% used time and call deposits, and 26% had access to current accounts.

The BOB also offers households savings certificates that are sold through the Botswana Savings Bank (BSB), the Post Office and the BOB itself. The amount kept in these certificates is, however, extremely small and suggests that the reach is still fairly limited (Genesis Analytics, 2003).

Radipotsane (2006) finds that the savings trend has been increasing notably since 1977 as people are becoming more attuned to the concept of savings in cash. Ahmed (2007, p. 205) finds that from the mid-1990s the private savings rate exceeded the public savings rate. Household deposits rose from P22.4 million (US$26 million) in 1977 to P4 076.6 million (US$740 million) at the end of December 2005. There is an upward trend in deposits in commercial banks from P30.5 billion in 2007 to P62.4 billion by the end of 2015. Of these, deposits into savings accounts apart from current account and fixed term deposits were to the value of P2 billion in 2007 and P4 billion in 2015 (BOB, 2016).

Even savings in non-commercial banks have been on the rise. In 2007, the Botswana Savings Bank (previously called the Post Office Bank) had savings deposits amounting to almost P271.2 million and then trebled to P1.8 billion by 2015. Savings deposits in the building society banks rose from P245.7 million to P896.8 million in 2015 (BOB, 2016). This shows an overwhelming transition towards financial savings.

However, savings through cattle is still the most preferred. Radipotsane (2006) adds that not only is cattle considered as a form of savings, but so is livestock generally. Statistics showed that savings in the form of goats to be 41%; poultry 41%; and cattle 39%. Only 37% of households owned no livestock. Collier et al. (2010) and Hope (1997) also find true the preference of savings through livestock. The National Development Plan 11 (Republic of Botswana, 2017) notes this as an area of improvement, increasing people's inclination towards financial savings as opposed to savings through livestock.

Similar to South Africa, Batswana also engage in informal savings with friends and family called *motshelo*, an equivalent to the South African "stokvel". There groups of friends save and lend each other money in turns (Radipotsane, 2006).

By 2003, there were only three long-term life insurers operating in Botswana, namely Botswana Life, Metropolitan, and Regent. Savings plans formed the basis of the long-term insurance industry, although they also offered funeral and life cover. The short-term insurance market in Botswana consisted of five companies, i.e. Botswana Eagle, Regent Insurance, Mutual & Federal, Botswana Insurance, and GIB. However, these five insurers follow very similar business models and offer similar product ranges (Genesis Analytics, 2003).

According to Genesis Analytics (2003), the pension fund industry has exhibited even stronger growth over the last decade and around the middle 1990s, surpassed bank deposits as the biggest pool of household savings. In Botswana, pension funds are invested in property and the development of the Botswana Stock Exchange, with institutional investors holding a significant amount of shares listed on the stock exchange (BOB, 2009). Radipotsane (2006) adds that rather than saving through financial institutions such as banks, Batswana tend to save through pension funds and life insurance for retirement, albeit through mostly contractual and involuntary savings schemes. The BOB (2009) states that the largest share of savings (65%) by households consists of pension funds, followed by commercial banks (31%). Only 4% is saved in the Botswana Savings Bank and the Botswana Building Society.

According to the Oxford Policy Management (2010), Botswana has a wide range of retirement schemes. Firstly, there is social assistance. This scheme is solely dependent on government resources. Householders do not contribute to these savings but only have to fit the criteria, such as being of retirement age and being a resident in the country. By October 2009, there were 90 639 registered old-age pensioners, comprising 88% of the population aged 60 and over. In 2009, total expenditure amounted to P239 million, equal to 0.7% of total expenditure and 0.3% of GDP. The benefit level is P220 per month. This amounts to 12% of median national incomes, but is sufficient to keep the recipient above the poverty line GDP per capita/average or median earnings.

Another savings scheme is the civil service occupational retirement schemes. The scheme covers all public servant workers and the military; eligibility for retirement benefits occurs at the age of 60. The largest occupational scheme is the Botswana Public Officers Pension Fund. By March 2009, there were 94 020 active members; 4 025 deferred members; 4 572 pensioners; and 206 spouses/orphan pensioners. Members contribute 5% and the government contributes 15%. The total net assets as at 31 March 2009 were P24 083 million (Oxford Policy Management, 2010).

Private occupational schemes and voluntary schemes also exist in the country. Occupational pension plans are usually established by medium-sized and large employers. Estimates indicate that 28 000 formal sector employees are enrolled in pension schemes. Another 152 000 employees are potentially eligible for some gratuity benefits under the Employment Act. Pension plans are financed both by employers and employees based on pre-set rules. The total employer and employee contribution rate under an average plan is between 10% and 15% of contributory salary, composed typically of 5% in employee contributions, 5–10% in employer contributions (Oxford Policy Management, 2010).

Informal retirement systems also exist. By 2006, there were 36 Savings and Credit Cooperative Organisations in 2006 (Oxford Policy Management, 2010). According to Hope (1997), about 75% of total national savings in 1995 were from the public sector (i.e. public savings) while 25% were from the private sector (i.e. private savings). Ahmed (2007) and Elbadawi and Mwega (2000) reported a rising trend in private savings rates, adding that the private savings rate is, however, still insufficient and needs to increase substantially without hindering public savings. Ahmed (2007) showed a chart indicating that from the mid-1990s, private savings exceeded public savings to 2003. However, finding public and private savings data for Botswana post- 2003 has been difficult.

3. Policy Initiatives Targeting Savings in Botswana

Financial Liberalisation and Increase in the Number of Banks

According to Harvey (1996) and Hope (1997), authorities in Botswana decided to promote financial liberalisation through the increase of real interest rates in the early 1990s. The objective was to improve economic efficiency and integration; and to promote competition within the commercial banking sector (Ahmed, 2007). This led to the number of commercial banks increasing over time. The increase in commercial banks led to notable growth in financial instruments and improvements in access to the payments system (Ahmed & Islam, 2010). With this improvement, there was an increase in both household deposits and borrowings. Between 1991 and 1993, four new banks were licensed, leading to an increase in quality new and modern services (Ahmed & Islam, 2010; Ahmed, 2007; Harvey & Lewis, 1990). The range of financial options and instruments also increased, leading to an overall increase in financial activity and thus savings (Jefferis & Harvey, 1995).

According to the Republic of Botswana (ROB) (2017), distribution of banking and financial services is higher in urban areas. Unfortunately there is limited access to financial services in rural areas. There is little incentive for commercial banks to extend their lending to new market segments – urban poor, rural folk, small to medium-scale businesses, due the high profits they garner in the current segment the service (Genesis Analytics, 2003, p. 11). Hope (1997) and Ahmed (2007) find that here has been little direct pressure from government on the banks to expand coverage to lower income households and small to medium-scale enterprises. Instead, government opted to fill the gap by establishing several public financial institutions such as the Post Office Bank, later known as the Botswana Savings Bank, a situation which has substantially crowded out private sector lending (Genesis Analytics, 2003; BOB, 2001). Many of these institutions also require repeated restructuring, which unfortunately may not be the most efficient use of government resources (Genesis Analytics, 2003).

Interest Rates

According to Ahmed (2007, p. 204) and Motsomi (1997, p. 80), after the post-liberation period, the BOB focused on maintaining a positive interest rate, leading to an increase in lending and deposit rates. However, this did not immediately translate into an increase in the private savings rate. Only later did the private agents start responding to the implementation of liberalisation and reform measures that began in 1991. There was evidence in the year 2000 that households were increasingly holding more of their savings in financial assets than before – again showing positive effects of the liberalisation reform (Ahmed, 2007, p. 205; BOB, 2000).

Bank of Botswana Certificates

In 1991, the BOB introduced Bank of Botswana Certificates (BoBCs) with the purpose of mopping up excess liquidity and serving as an indirect tool to influence interest rates (BOB, 2018; Genesis Analytics, 2003, p. 10). Ironically, the rate of savings reduced dramatically in the 1990s despite the change to positive real interest rates. This was mainly attributed to lower economic growth relative to the previous decade. The phenomenon supported the hypothesis that savings and credit behaviour is influenced more by level of income than the rate of interest (Genesis Analytics, 2003, p. 10).

Establishment of the Post Office Savings Bank

In 1963, the Post Office Savings Bank was established and administered under the Department of Posts and Telecommunications of South Africa and Bechuanaland in order to promote private savings, particularly household savings, no matter how small (BOB, 2001, p. 31).

In 1982, the Post Office Savings Bank was transferred to the Ministry of Finance and Development Planning and was renamed the Botswana Savings Bank. The purpose of the Botswana Savings Bank was to provide avenues for savings by the small saver and to provide financial services for all the people of Botswana under the supervision of the BOB. One advantage of this bank is accessibility. Services of the bank are available countrywide, including rural areas through the postal services network (Moffat & Valadkhani, 2011). Not only does the bank enable households to save through a variety of savings accounts, but it also provides them with small loans (BOB, 2001, pp. 32-33). This savings scheme has the highest rate of interest including a bonus to the interest earned incentivising private financial savings (BOB, 2001). A study by Moffat and Valadkhani (2011) finds the Botswana Savings Bank to be a very efficient bank despite the fact that it is a public bank. The Botswana Savings Bank ranks high with the First National Bank and Bank of Baroda which are both foreign banks.

Regulation of Pension funds

Since 1987, pension funds are required by law to invest at least 30% of their assets locally. Genesis Analytics (2003; Pension and Provident Act, 1987), however, felt that this law would most probably pose a problem in the near future when the Civil Service Pension Fund is capitalised, as it will lead to a dramatic increase in the funds under management and flood the local market.

More recently, according to the Debswana Pension Fund (DPF) (2015, p. 43), in October 2015, the Non-Banking Financial Institutions Regulatory Authority (NBFIRA) issued revised Pension Prudential Investment Rule (PFR2). The revised PFR2 provides the Retirement Fund Industry with revised quantitative limits on assets to be held by a retirement fund. This stipulated a 5% savings in private equity – an increase from 2.5% (Ashiagbor & Vidal, 2016). The result was lower than expected, a meagre 0.2% increase in private savings via private equity. This is because a few households have a capacity to invest in this asset class (Vidal, n.d.).

4. Savings Trends and Challenges in Savings Promotion in Botswana

4.1 Trends in Savings in Botswana

Figure 1 shows trends in gross domestic savings in Botswana.

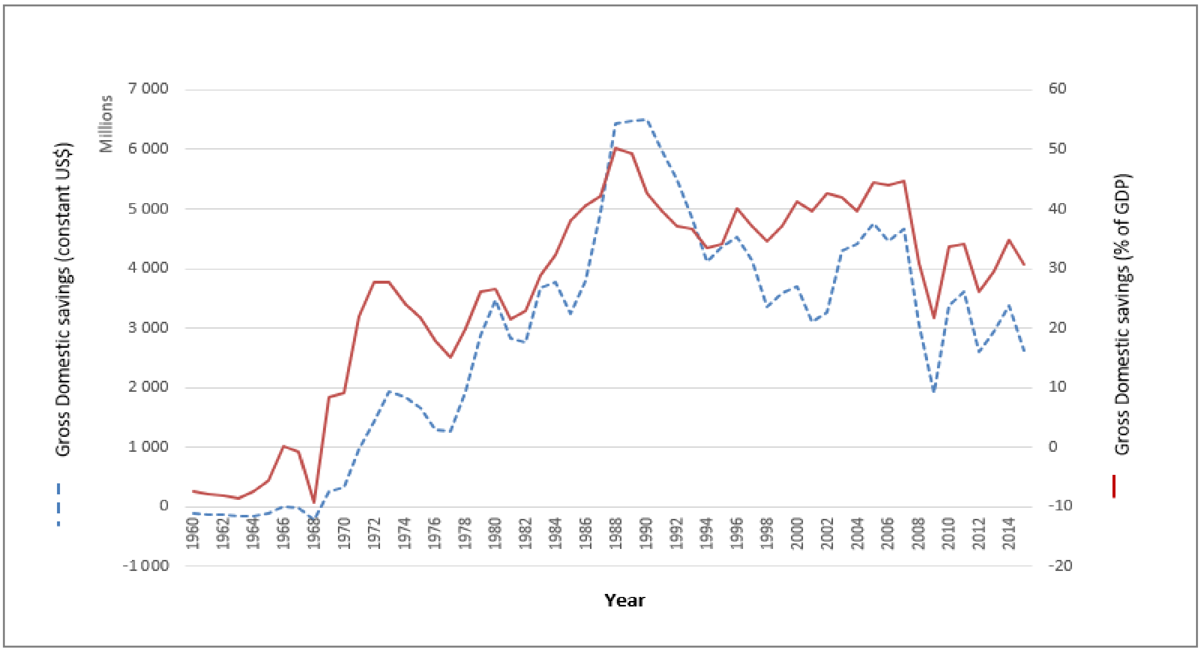

Figure 1. Savings Trends in Botswana (1960 – 2015)

Source: World Bank, 2017

Figure 1 shows slow increase in the gross domestic savings from 1960 to 1977 based on statistical data from the World Bank (2017). The gross domestic savings were actually negative from 1960 to 1965. In 1966, gross domestic savings were US$69.7 thousand. It plunged again into the negatives in the two consecutive years that followed, but has been positive since. The gross domestic savings started increasing faster from 1978 to 1989 where it shot up significantly from around 500 million to over US$1.5 billion (World Bank, 2017). From then, domestic savings remained high, but declined slightly from 1990 to 1993. Sharp increases were noted between 1993 and 1996 and also between 1998 and 2000. The longest period of rapid, uninterrupted increase in the domestic savings was from 2001 to 2007, where gross domestic savings rose from over US$2.2 billion to US$ 4.9 billion (World Bank, 2017). From then onwards, the increase in gross domestic savings was volatile, with an upward trend until 2015 (World Bank, 2017). The highest gross domestic savings figure of about US$6 billion was registered in 2014 (World Bank, 2017).

Analysis of World Bank (2017) data shows that the savings rate was negative between 1960 and 1968. Since then, it has only been positive, with an upward trend. The savings rate peaked to its highest level ever of 50.2% in 1988. Its lowest value since 1970 was 15.1%, recorded in 1977. Botswana's savings rate is generally high: 26.3% from 1960 to 2015. Apart from the years 2009 and 2012, the savings rate has always been above 30% since 1984 (World Bank, 2017). Figure 2 depicts the gross domestic savings growth rate fluctuations from 1960 to 2015.

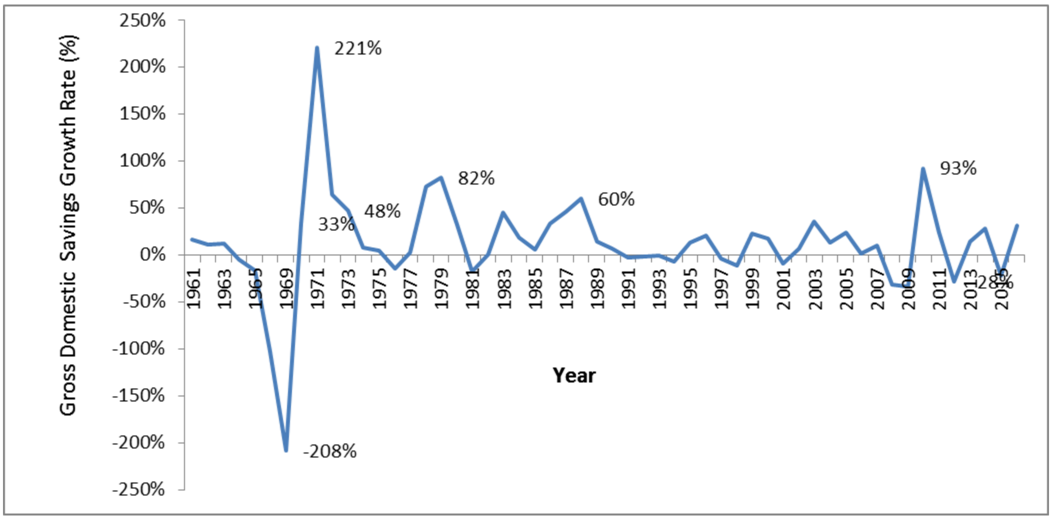

Figure 2. The growth rate of the gross domestic savings in Botswana

World Bank, 2017

The gross domestic savings growth rate ranged between a negative 700% (in 1967) and 1350% (in 1968). Excluding the outliers, the lowest gross domestic savings growth rate was a negative 208% in 1969. Similarly, the highest gross domestic savings growth rate was 221% in 1971. The second highest growth rate was 93% in 2010. The average gross domestic savings growth rate for the whole period (1960 to 2015) was 12.2%, with the outliers excluded.

Figure 3 is inspired by the work by Amusa (2013) and is an updated version of the comparison of the savings rate for Botswana, high-income economies, middle-income economies and Sub-Saharan Africa. What is outstanding is that Botswana's savings-to-GDP ratio is far greater than in advanced economies and Sub-Saharan economies from 1980 to 2008 (World Bank, 2017).

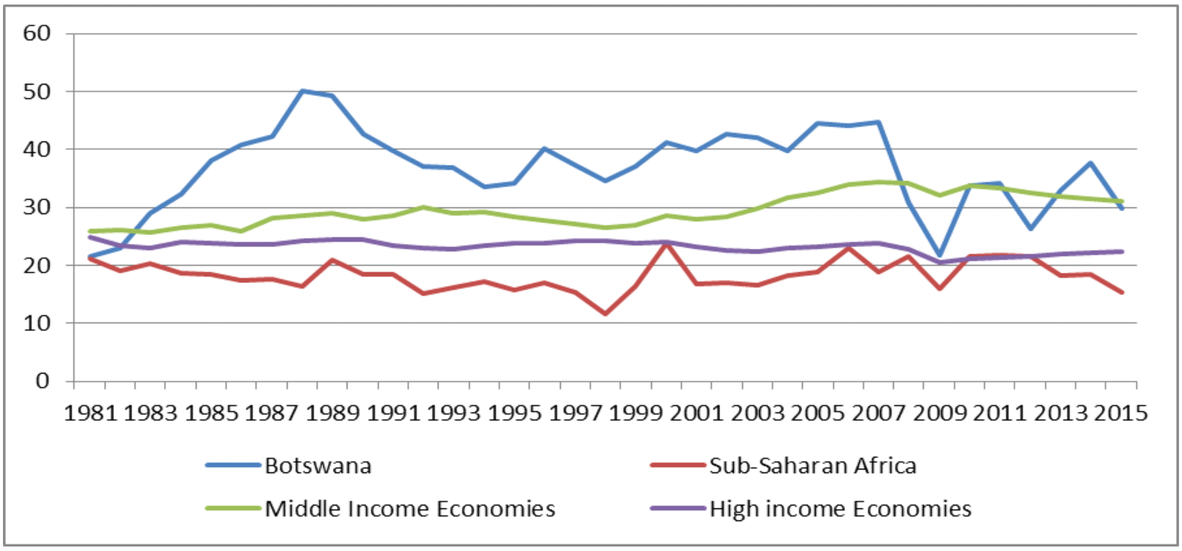

Figure 3. Savings to GDP ratio comparisons

Source: World Bank, 2017

The Sub-Saharan savings rate is shown as the lowest from 1980 to 2015. The savings rate for high income economies ranges between 21% and 25%. The savings rate for the middle income generally runs parallel to that of the high income economies, ranging between 25 and 34%. It is only in 1981 and 1982 that Botswana's savings rate was exceeded by the savings rates of high and middle income savings rates. The savings rates of middle-income economies then exceeded that of Botswana in

2008-2009 2012 and then again in 2015 (World Bank, 2017). Figure 4 shows the trends of public savings during the period 1996-2015.

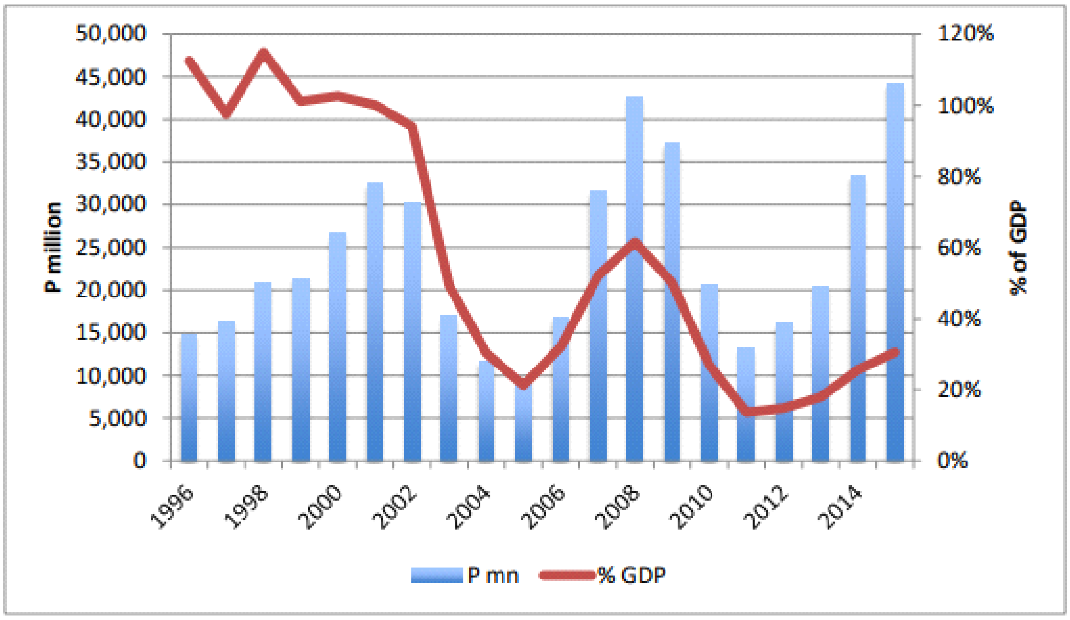

Figure 4. Public savings (1996-2015)

Source: Jefferis, 2016

According to the ADB (2016, p. 18), trends show that the Government of Botswana's net financial savings reached 115% of GDP in the late 1990s. The savings were then partially depleted by the establishment of a new pension fund for government employees, which involved financing the contingent liabilities accumulated under the previous, unfunded government pension plan (Jefferis, 2016). Net financial savings were partially rebuilt in the mid-2000s, although they had recovered to about 62% of GDP in 2008. These were substantively depleted, however, following the global financial crisis and several years of large budget deficits (financed by a mixture of drawdowns of savings and new borrowing). After reaching a low point of 14% of GDP in 2011, the GOB's net financial savings have since risen modestly, to reach 31% of GDP by early 2015 (Jefferis, 2016, p. 19).

Botswana's high fiscal saving has had its benefits, such as limiting domestic expenditure and consumption as well as reducing pressure on domestic price inflation, a typical problem in natural resource booms.

4.2 Challenges in Boosting Savings in Botswana

The challenges observed in Botswana regarding savings have to do with the very low private savings amidst a very high public savings rate (Ahmed, 2007). A substantial increase in domestic savings, especially through a growth in private savings, without necessarily reducing current public savings would be required. This would help to bridge the gap between the prevailing national savings rate and the welfare maximisation rate (ROB, 2017; Elbadawi & Mwega, 2000; Hope, 1997).

According to an analytical report by Genesis Analytics (2003), Botswana's low private savings rate is due to limited access to financial services such as access to savings, credit, transaction and insurance services. Only 41.3% of adults had access to savings products, while less than 30% of the adult population (people aged 16 and above) had access to credit, transaction and insurance services. This is due to the unequal distribution of financial services, with most of these being in urban areas, thus explaining the financial exclusion of urban poor and rural folk (ROB, 2017).

Hope (1997), Ahmed (2007), and the ROB (2017) concur that the other challenge faced in the country is the high unemployment, inequality and poverty levels in the country. These ultimately mean economic exclusion and therefore inevitable exclusion of the unemployed, poor and low-income families from financial activity. This means reduced private savings and thus total savings (Koo & Song, 2016; Kolasa & Liberda, 2015; Smith, 2001).

Botswana imports most of its consumption goods from South Africa. Hope (1997) identified Botswana's heavy reliance on South African consumption goods, while Modiba, Mofolo, Mwanza and Sandrey (2015) added that Botswana is highly dependent on South Africa for agricultural imports. In addition, South Africa has 90% market share in Botswana. This means that households are subject to South African inflation rates for basic goods. Rising inflation on consumer goods leads to an erosion of both savings and the will to save (Ahmed, 2007).

What further compounds the problem of low private savings is that in Botswana, according to Cooper and Palmer (2005) and Acemoglu *et al.* (2001), is the acquisition of cattle as the culturally preferred means of saving and wealth accumulation at the household level. The storage of wealth through cattle safeguards against the loss of financial savings due to inflation and/or fluctuations in interest rates (Peters, 1994; Hillbom, 2008).

In addition, a study by Shawa (2016) finds that a high public savings crowds out private savings in Sub-Saharan Africa, with Botswana was one of the countries upon which this conclusion was reached. This is not surprising, given the high public savings and low private savings levels as cited above. This is also is consistent with the findings by Kolasa and Liberda (2015).

Another obstacle faced in promoting savings in the country was the global economic crisis. This led to a decline of domestic savings to GDP ratio (Amusa, 2013).

5. Conclusion

Botswana's economy is dependent on the extraction and exportation of scarce mineral resources. However, due to good governance, Botswana has escaped what is commonly known as the Dutch disease, and instead, has used mineral proceeds to bolster its public savings. Nevertheless, further good governance is required to further augment the domestic savings in the country by means of pro-savings policy, more so, for private savings. The first step might entail diversifying the economy so as to gain an even larger base for revenue collection, ultimately boosting both private and public savings. While the high public savings rates need to be sustained, the private savings rate needs to be boosted. This could be achieved by increasing access to financial services for low income households, the rural population and small-scale businesses. Resources also need to be invested in education on saving for households to be informed on the benefits of storing wealth in the form of financial assets as opposed to livestock. Moreover, the high unemployment, inequality and poverty are significant impediments that need to be dealt with by increasing access of the marginalised to the formal education system. This should be coupled with entrepreneurial support to do away with structural unemployment. In addition, Botswana should consider beneficiation of its minerals so that it increases employment opportunities for its citizens. Gross domestic savings will definitely rise as more people are economically active. One limitation in the study was the unavailability of updated disaggregated data on private and public savings. This would have assisted in drawing a clearer picture on the extent to which private saving has improved since 2003.

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