

CHAPTER TWO: THE ADEQUACY OF THE REGULATORY FRAMEWORK FOR DIGITAL FINANCIAL INCLUSION IN BOTSWANA

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ABSTRACT

The expansion of mobile money, the rise of Financial Technology (FinTech), super platforms and artificial intelligence have changed the face of financial services. The evolution of financial services from traditional channels of brick and mortar institutions to digital financial services meant greater financial inclusion for the hitherto unbanked and underbanked persons in Botswana. Consequently, digital financial inclusion is expected to boost economic development and reduce poverty in Botswana. The chapter found that although Botswana is often viewed as a success story in sub-Saharan Africa due to prudent macroeconomic overlook and political stability it has enjoyed for over five decades, however, it is still struggling to have universal financial inclusion for its people. The Botswana Ministry of Finance estimated that the financially excluded persons are 24 percent of the population in 2020. Thus, the chapter examines some statutes that regulate financial inclusion in Botswana. This is done with a view to investigate the adequacy of the legal regime in combating the exclusion of poor households and disadvantaged groups in Botswana. The chapter discusses the supply and demand side impediments to financial inclusion in Botswana such as distance, low population density, limited access to banking infrastructure and the absence of specific financial inclusion statute. Further, the chapter discusses the adequacy of relevant statutes such as the Bank of Botswana Act (Chapter 55 of 2001), Banking Act (Chapter 46 of 2004), Banking Regulations of 1995, and Bureaux de Change Regulations of 2004 to foster financial inclusion in Botswana. The chapter advocates legislative and policy strengthening mechanisms, with a firm commitment to financial inclusion, supportive of innovation and competition, and protective of the consumers at the same time. The chapter concludes that there is a need for the Southern African Development Community (SADC) regional cooperation and harmonization on financial inclusion statutes for the benefit of Botswana in particular and the SADC region in general.

Keywords: Financial inclusion, financial exclusion, legal framework, disadvantaged groups, FinTech.

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1 INTRODUCTION

Financial inclusion entails all initiatives that make formal financial services accessible and affordable, to everyone, but primarily to low-income earners and disadvantaged people in the society.¹ Financial inclusion entails the development and provision of affordable financial services – transactions, payments, savings, credit and insurance – to the disadvantaged groups in a responsible and sustainable way.² The disadvantaged population with regards to financial inclusion in Botswana includes the poor, rural population, the unemployed, the young, the elderly, and illiterates.³ This implies that

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- ¹ H Chitimira and M Ncube, 'Overview of the Legislative Flaws Hampering the Promotion of Financial Inclusion for the Poor and Low Income Earners in South Africa' (2021) 10(1) *Interdisciplinary Journal of Economics and Business Law* 67-68; K Lechani, (2020) 'Effects of Financial Inclusion on Poverty Reduction and Income Inequality in Botswana' Department of Economics, University of Botswana <<http://publication.aercafricalibrary.org/bitstream/handle/123456789/1282/Kgangyame%20final%20dissertation.pdf?sequence=1&isAllowed=y>> accessed on 25 May 2021; H Chitimira and M Ncube, 'The Role of Regulatory Bodies and Other Role-Players in the Promotion of Financial Inclusion in South Africa' (2020) 16(1) *Acta Universitatis Danubius Juridica* 8; S Mago and S Chitokwindo, 'The Impact of Mobile Banking on Financial Inclusion in Zimbabwe: A Case for Masvingo Province' 2014 5(9) *Mediterranean Journal of Social Sciences* 222; E Barruetabeña, 'Impact of New Technologies on Financial Inclusion' (2020) 1 *Economic Bulletin* 1-2; D Mhlanga, SH Dunga and T Moloi, 'Financial Inclusion and Poverty Alleviation among Smallholder Farmers in Zimbabwe' (2020) 8(3) *Eurasian Journal of Economics and Finance* 178-179; J Lotto, 'Examination of the Status of Financial Inclusion and Its Determinants in Tanzania' (2018) 10(8) *Sustainability* 1-2; KB Ajide, 'Determinants of Financial Inclusion in Sub-Saharan Africa Countries: Does Institutional Infrastructure Matter?' (2017) 8(2) *CBN Journal of Applied Statistics* 70; R Singh and S Roy, 'Financial Inclusion: A Critical Assessment of its Concepts and Measurement' (2015) 5(1) *Asian Journal of Research in Business Economics and Management* 12-13; AR Onaolapo, 'Effects of Financial Inclusion on the Economic Growth of Nigeria (1982-2012)' (2015) 3(8) *International Journal of Business and Management Review* 11-28; MM de Sousa, 'Financial Inclusion and Global Regulatory Standards: An Empirical Study across Developing Economies' (2015) Centre for International Governance Innovation New Thinking and the New G20 Series Working Paper 7 (26 March 2015), <<https://www.cigi-online.org/sites/default/files/new-thinking20no7.pdf>> accessed on 22 June 2021; World Bank, 'Global Financial Development Report 2014: Financial Inclusion' (World Bank 2014) 1; Bank for International Settlements and World Bank, 'Payments and Market Infrastructures: Payment Aspects of Financial Inclusion' (World Bank 2016) 4; T Botlhole and FN Okurut, 'Informal Financial Markets in Botswana: A Case Study of Gaborone City' (2009) 26(2) *Development Southern Africa* 255-256; and I Massa, 'DFIs Support to Financial Inclusion in Africa' in T Triki and I Faye (eds), *Financial Inclusion in Africa* (African Development Bank 2013) 116.
- ² Chitimira and Ncube (2021) (n 1) 67-68; T Durai and G Stella, 'Digital Finance And Its Impact On Financial Inclusion' (2019) 6(1) *Journal of Emerging Technologies and Innovative Research* 122-124; and T Arun and R Kamath, 'Financial Inclusion: Policies and Practices' (2015) 27 *IIMB Management Review* 267.
- ³ O Evans, 'The Effectiveness of Monetary Policy in Africa: Modeling the Impact of Financial Inclusion' (2016) 20(3) *Iranian Economic Review* 327-328; Arun and Kamath (n 2) 267; A Gardeva and E Rhyne, *Opportunities and Obstacles to Financial Inclusion: Survey Report* (Center for Financial Inclusion 2011) 1; K Jefferis, *Enhancing Access to Banking and Financial Services in Botswana* (Finmark Trust 2007) 15; and A Demirgüç-Kunt and L Klapper, 'Financial Inclusion in Africa: A Snapshot' in T Triki and I Faye (eds), *Financial Inclusion in Africa* (African Development Bank 2013) 43.

financial inclusion is achieved when appropriate financial products and services are available to all members of the society without any form of discrimination at a fair price, at the right place and time. Financial inclusion aims at drawing the ‘unbanked’ and ‘under banked’ population into the formal financial system so that they have the opportunity to access financial services.⁴ Financial services include financial advice, savings, credit and investments, insurance and transactions such as transferring money, paying taxes and disbursing social payments.⁵ Financial inclusion is generally measured in three dimensions, namely, access to financial services, usage of financial services, the quality of the products and service delivery.⁶ The segment of the society not able to access timely and appropriate financial products and services from the formal sources are financially excluded creating a concern for policy makers all over the world including Botswana.⁷ Financial exclusion is often blamed for inequalities (including access to economic opportunities), lack of security, and an aggravated exposure to financial risk.⁸ The expectation underlying financial inclusion is that greater access to financial services will create poverty-alleviating and empowering effects; and have the effect of transforming

⁴ G Siwela and T Njaya, ‘Opportunities and Challenges for Digital Financial Inclusion of Females in the Informal Sector through Mobile Phone Technology: Evidence from Zimbabwe’ (2021) 9(3) *International Journal of Economics, Commerce and Management* 62; O Nkuna, AF Lapukeni, P Kaude et al, ‘The Role of Commercial Banks on Financial Inclusion in Malawi’ (2018) 6 *Open Journal of Business and Management* 812-813; and A Hannig and S Jansen, ‘Financial Inclusion and Financial Stability: Current Policy Issues’ (2010) Asian Development Bank Institute (ADB) Working Paper 259 (December 2010), <<http://www.adbi.org/working-paper/2010/12/21/4272.financial.inclusion.stability.policy.issues/>> accessed on 24 June 2021.

⁵ Singh and Roy (n 1) 12-13.

⁶ S Jahan, J De, F Jamaludin, et al, *The Financial Inclusion Landscape in the Asia-Pacific Region: A Dozen Key Findings* (2019) IMF Working Paper No. 19/79 (19 April 2019) <<https://www.imf.org/en/Publications/WP/Issues/2019/04/19/The-Financial-Inclusion-Landscape-in-the-Asia-Pacific-Region-A-Dozen-Key-Findings-46713>> accessed on 26 June 2021; and M Sarma and J Pais, ‘Financial Inclusion and Development’ (2011) 23 *Journal of International Development* 614.

⁷ TTH Nguyen, ‘Measuring Financial Inclusion: A Composite FI Index for the Developing Countries’ (2021) 23(1) *Journal of Economics and Development* 77; R Nizam, ZA Karim, AA Rahman et al, ‘Financial Inclusiveness and Economic Growth: New Evidence Using a Threshold Regression Analysis’ (2020) 33(1) *Economic Research* 1465-1466; Chitimira and Ncube (2021) (n 1) 68; G Ofori-Abebrese, ST Baidoo and E Essiam, ‘Estimating the Effects of Financial Inclusion on Welfare in Sub-Saharan Africa’ (2020) 7(1) *Cogent Business and Management* 2; A Zins and L Weill, ‘The Determinants of Financial Inclusion in Africa’ (2016) 6(1) *Review of Development Finance* 46 and JI Mohammed, L Mensah and A Gyeke-Dako, ‘Financial Inclusion and Poverty Reduction in Sub-Saharan Africa’ 2017 19(1) *The African Finance Journal* 2.

⁸ United Nations Capital Development Fund (UNCDF), *Botswana Financial Inclusion Roadmap: Deepening Access, Extending Financial Services to the Farthest Corners of Botswana* (UNCDF 2016) 8; and S Carbo, E Gardener and P Molyneux, *Financial Exclusion* (Palgrave Macmillan 2005) 5-7.

lives of the disadvantaged groups.⁹ Exclusion may be caused many factors. These factors include, inter alia, high charges of financial services, barriers to opening accounts, over-indebtedness and marketing activities that are restricted to profitable groups.¹⁰ Another factor is the lack of a specific statute which deals with financial inclusion of the disadvantaged groups in sufficient detail.¹¹ On the demand side, people may ‘self-exclude’ from financial services because they have a low or irregular income,¹² problems with physical access to banks or Automated Teller Machines (ATMs). Other factors include religious or cultural beliefs which may depict that mainstream products are not appropriate for the disadvantaged groups; or an inability to comprehend the product information due to low financial capability or general education levels or language barriers.¹³ Thus, the disadvantaged groups in Botswana are dependent mainly on informal sources of credit from moneylenders on exploitative terms.¹⁴

FinTech is used in this chapter in its broadest sense as any new technology, software and innovation used to support or which enable easy access to financial services, typically via mobile phones and automatic teller machine (ATM) in Botswana, which facilitates

⁹ CM Menyelim, AA Babajide, AE Omonkhanlen et al, ‘Financial Inclusion, Income Inequality and Sustainable Economic Growth in Sub-Saharan African Countries’ (2021) 13(4) *Sustainability* 1-10; T Beck, A Demircuc-Kunt and R Levine, ‘Finance, Inequality, and Poverty: Cross-Country Evidence’ (2004) World Bank Policy Research Working Paper No 3338 (June 2004), <https://openknowledge.worldbank.org/handle/10986/1403819> accessed on 24 June 2021.

¹⁰ P Ozili, ‘Financial Inclusion Research around the World: A Review’ (2020) *Forum for Social Economics* 5; S Lewis and D Lindley, ‘Financial Inclusion, Financial Education, and Financial Regulation in the United Kingdom (2015) ADBI Working Paper 544 (September 2015) <<http://www.adb.org/publications/financial-inclusion-financial-education-and-financial-regulation-united-kingdom>> accessed on 25 June 2021; and A Ikdal, E Naidoo, A Portafaix et al, ‘Improving Financial Inclusion in South Africa’ (2017) Boston Consulting Group (BCG) (April 2017) <<https://www.bcg.com/en-us/publications/2017/globalization-improving-financial-inclusion-south-africa>> accessed on 24 June 2021.

¹¹ Chitimira and Ncube (2021) (n 1) 67-83.

¹² A Zins and L Weill, ‘The Determinants of Financial Inclusion in Africa’ (2016) 6(1) *Review of Development Finance* 52-53; Ikdal (n 10) 4.

¹³ Lewis and Lindley (n 10) 5; Zins and Weill (n 12) 52-53.

¹⁴ K Molefhi, ‘Financial Inclusion and its Impact on Employment Creation in Botswana’ (2019) Botswana Institute for Development Policy Analysis Working Papers 60 (March 2019), <https://media.africaportal.org/documents/Financial_inclusion_and_its_impact.pdf> accessed on 23 June 2021; T Beck and R Cull, ‘SME Finance in Africa’ (2014) 23(5) *Journal of African Economies* 583; L De Koker and J Jentzsch, ‘Financial Inclusion and Financial Integrity: Aligned Incentives?’ (2013) 44(C) *World Development* 277; Botlhole and Okurut (n 1) 257-270; Anderson K, ‘Microcredit: Fulfilling or Belying the Universalist Morality of Globalizing Markets?’ (2002) 5(1) *Yale Human Rights & Development Law Journal* 92; See also *Kgolesego Financial Company v Bame Ketshotseng* 226 (2008) 2 BLR HC 202; and *Barclays Bank of Botswana v Mokopotsa t/a Small General Dealer* (2002) 1 BLR 419 at p 424.

digital financial inclusion.¹⁵ Advances in technology¹⁶ facilitates the introduction of new products, such as instant payments, new modes of accessing the new products by means of electronic wallets, online banking, open banking and super apps in Botswana.¹⁷ Interest on mobile money wallet guidelines have also been adopted in Botswana to encourage uptake and usage of digital services, hence digital financial inclusion for the disadvantaged groups.¹⁸

According to the Botswana's Minister of Finance, the percent of Botswana who are financially excluded from accessing basic financial services was 24 percent in 2020 and the Ministry of Finance stated that there is a plan in place to bring it down to 12 percent by the end of 2021.¹⁹ This figure is an improvement from 41 percent, which constitute the financially excluded in 2009 in Botswana.²⁰ Similarly, exclusion figure was 49, 31, 20 and 45 percent for Botswana, South Africa, Namibia and Zimbabwe respectively in 2017.²¹ It is apparent from the above figures that Botswana had the highest exclusion figure among the selected contemporaries in SADC in 2017 and that the continual reduction in the excluded population in Botswana may not be unconnected to the adoption of digital devices for the inclusion of the disadvantage groups. In this regards, this chapter analyses statutes such as the Bank of Botswana Act (Chapter 55 of 2001), Banking Act (Chapter 46 of 2004), Banking Regulations of 1995, Bureau de Change Regulations of 2004 and other relevant statutes, and their effect on financial inclusion in Botswana.

¹⁵ PK Ozili, 'Impact of Digital Finance on Financial Inclusion and Stability' (2018) 18(4) *Borsa İstanbul Review* 331; L Mochankana, 'Financial Technology at a Glance' (2020) 1 *Tsa Tuelano* 6; and N Joseph and T Nanjunga, 'The Fourth Industrial Revolution and Financial Inclusion in the Age of Fintech' (2020) 1 *Tsa Tuelano* 9-10.

¹⁶ Such as application programming interfaces (APIs), big data analytics, biometric technologies, cloud computing, contactless technologies (including quick response (QR) codes), digital identification, distributed ledger technologies and the internet).

¹⁷ Bank for International Settlements and World Bank, 'Payments and Market Infrastructures: Payment Aspects of Financial Inclusion' (Bank for International Settlements 2020) 6.

¹⁸ United Nations Capital Development Fund (UNCDF), 'Measuring Progress of Financial Inclusion in Selected SADC Countries' (UNCDF 2019) 4.

¹⁹ O Kologwe, 'Botswana on Course to Reach Financial Inclusion Target– Matsheka' *Sunday Standard* (23 November 2020) 6; UNCDF, 'Botswana Financial Inclusion Roadmap and Strategy 2015 – 2021' (UNCDF 2020) 8, 13; and UNCDF (n 18) 26-27.

²⁰ M Andrianavo and K Kpodar, 'Mobile Phones, Financial Inclusion and Growth' (2012) 3(2) *Review of Economics and Institutions* 2.

²¹ African Union/OECD, 'Africa's Development Dynamics 2021-Digital Transformation for Quality Jobs' (AU/OECD 2021) 123.

This is done to investigate the extent to which the selected legislation has been effective in fostering financial inclusion in Botswana.

2 LITERATURE REVIEW

Financial inclusion has gained increasing attention in development circles and international organisations given both the theoretical underpinnings of the benefits of financial inclusion as well as the actual positive experiences in many jurisdictions including Botswana.²² Additionally, the increased prominence of financial inclusion on the global policy agenda includes reference to financial inclusion under Special Development Goal (SDG) number eight which encourages the promotion of inclusive economic growth and access to banking, insurance and financial services for all.²³ Financial inclusion is one of the policy tools used to improve welfare and alleviate poverty for the disadvantaged groups in low-and middle income countries, including Botswana.²⁴ In addition, as the disadvantaged groups become financially included and their income grows, this development might increase tax revenue to government treasury from these hitherto

²² DH Vo, NT Nguyen and LTH Van, 'Financial Inclusion and Stability in the Asian Region using Bank-Level Data' (2021) 21(1) *Borsa Istanbul Review* 36-40; A Sanderson, L Mutandwa and PL Roux, 'A Review of Determinants of Financial Inclusion' (2018) 8(3) *International Journal of Economics and Financial Issues* 1; A Wardhono, CG Qori'ah and Y Indrawati, 'The Determinants of Financial Inclusion: Evidence from Indonesian Districts' (2016) 10(4) *International Journal of Economic Perspectives* 472-473; Zins and Weill (n 12) 46; de Sousa (n 1) 2; B Rasheed, SH Law, L Chin et al, 'The Role of Financial Inclusion in Financial Development: International Evidence' (2015) *Abasyn Journal of Social Sciences* 29-44; O Chiwira, R Tadu and B Muyambiri, 'Financial Inclusion and Financial Stability: The Important Role of Financial Regulation in Explaining the Relationship- Empirical Review' (2013) 3(4) *Journal of Research in International Business and Management* 139-140; World Bank, *Financial Inclusion Strategies Reference Framework* (International Bank for Reconstruction and Development /The World Bank 2012) 7; and AR Hurtado, AM Torres and ML Hayem, 'Financial Inclusion: Lessons from Latin America and Caribbean' in T Triki and I Faye (eds), *Financial Inclusion in Africa* (African Development Bank 2013) 139.

²³ SB Naceur, RC Chami and M Trabelsi, *Do Remittances Enhance Financial Inclusion in LMICs and in Fragile States?* (IMF 2020) 3-5; Ozili (n 10) 1-3; Jahan, De, Jamaludin, et al (n 6) 4; and P Calice, 'The Trade-off between Financial Inclusion and Financial Stability' in T Triki and I Faye (eds), *Financial Inclusion in Africa* (African Development Bank 2013) 131-133.

²⁴ Ofori-Abebrese, Baidoo and Essiam (n 7) 2; Jahan, De, Jamaludin, et al (n 6) 4; AF Tita and MJ Aziakpono, 'The Relationship between Financial Inclusion and Income Inequality in Sub-Saharan Africa: Evidence from Disaggregated Data' (2017) 9(2) *African Review of Economics and Finance* 52; and V Swamy, 'Bank-Based Financial Intermediation for Financial Inclusion and Inclusive Growth' (2010) 5(4) *Banks and Bank Systems* 63.

disadvantaged groups.²⁵ Scholars such as Beck, Demirgüç-Kunt, and Honohan posited that there is a positive and significant relationship between financial inclusion and social inclusion, and reduction in poverty.²⁶ Thus, the benefits of financial inclusion for the disadvantaged groups are extremely significant. Indeed, access to and the use of formal financial services, such as access to credit facilities enable poor households to increase their ability to consume and improve their investment ability in tangible assets, health and education.²⁷ For instance, lending to farmers and small, micro and middle level enterprises (SMMEs), could generate employment and directly improve household welfare (products to support household needs, new technologies that reduce cost and improve access such as mobile phones and by aiding asset accumulation).²⁸

Financial inclusion interventions include the range of broad products meant to expand the financial systems and deliver financial services, such as loans, savings, insurance or payment services to a wider part of the population, in particular to the disadvantaged groups, who are not traditionally served by the regular banking sector and the formal service providers. These service providers commonly include microfinance institutions, commercial banks, non-bank financial companies, credit card companies, government programmes, cooperative banks, mobile network operators and Fintech companies. In recent years, the delivery of financial services through digital service

²⁵ B Al-Own and T Bani-Khalid, 'Financial Inclusion and Tax Revenue: Evidence from Europe' (2021) 12(2) *International Journal of Financial Research* 27-40; G Oz-Yalaman, 'Financial Inclusion and Tax Revenue' (2019) 19(3) *Central Bank Review* 107; N Ndung'u, 'Taxing Mobile Phone Transactions in Africa: Lessons from Kenya' (2019) Africa Growth Initiative Policy Paper (August 2019), <https://media.africaportal.org/documents/Taxing_mobile_transactions.pdf> accessed on 25 June 2021; FM Ajide and O Bankefa, 'Does Financial System Influence Tax Revenue? The Case of Nigeria' (2017) 5(3) *African Journal of Economic Review* 15-23; and K Mitchell and RH Scott, *Public Revenue, Financial Inclusion and Value-Added Tax in Argentina* (Springer International Publishing 2019) 33-58.

²⁶ World Bank, 'Finance, Competitiveness, and Innovation Global Practice Enhancing Financial Capability and Inclusion in Angola- A Demand-Side Survey' (World Bank 2020) 1-2; AB Uzoma, KA Adetiloye, OE Adegbite et al, 'Social Integration and Financial Inclusion of Forcibly Displaced Persons in Sub-Saharan African Countries' (2020) 18(3) *Problems and Perspectives in Management* 173; Molefhi (n 14) 1; AU Ibrahim and A Olasunkanmi, 'Financial Inclusion: Prospects and Challenges in the Nigerian Banking Sector' (2019) 11(20) *European Journal of Business and Management* 40; A Demirgüç-Kunt, L Klapper, D Singer et al, 'Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution' (World Bank 2018) 2-4; and T Beck, A Demirgüç-Kunt and P Honohan, 'Access to Financial Services: Measurement, Impact, and Policies' (2009) 24(1) *The World Bank Research Observer* 120-121, 131-134.

²⁷ Ajide (n 2) 70; UNCDF (n 18) 5; and M Taylor, 'The Antinomies of 'Financial Inclusion': Debt, Distress and the Workings of Indian Microfinance' (2012) 12(4) *Journal of Agrarian Change* 601- 610.

²⁸ Molefhi (n 14) 1; and UNCDF (n 18) 5.

provision has been increasingly emphasised by governments and service providers in Botswana.²⁹

Financial inclusion in recent years has been unusually driven by new technologies and communications infrastructure, developing enabling legislation; and business opportunities for the disadvantaged groups. Financial institutions have been driving this revolutionary expansion through innovative products and delivery channels such as banking correspondents, digital payments; insurance, pension and e-money solutions to the disadvantaged segments of the population. Beck, et al suggest that improved access to finance is not only pro-growth but also pro-poor, thus, reducing income inequality and poverty.³⁰ Beck et al also posited that countries with developed financial intermediaries experience faster decline in poverty and income inequality than those without such intermediaries.³¹

Hannig and Jansen identified six solutions which are particularly effective in fostering financial inclusion, these are agent banking, mobile payments, diversification of providers, and state bank reforms.³² The other two solutions are consumer protection and financial identity policies. Agent banking refers to policies that enable banks to contract with nonbank retail agents as outlets for financial services.³³ Mobile payments are payments made through mobile phone. The subscription of mobile phone in Botswana in January 2021 was 3.89 million - a figure, higher the country's population and this subscription has greatly enhance digital financial inclusion in Botswana.³⁴ Diversification of providers refer to situations where policymakers have adopted various regulatory and supervisory

²⁹ Molefhi (n 14) 1.

³⁰ Beck, Demirgüç-Kunt and P Honohan (n 26) 119; and UN, 'United Nations Technology and Innovation Report 2018: Harnessing Frontier Technologies for Sustainable Development' (UN 2018) 86.

³¹ Beck, Demirguc-Kunt and Levine (n 9) i, 19.

³² Hannig and Jansen (n 4) 10-14; SA Ouma, TM Odongo and M Were, 'Mobile Financial Services and Financial Inclusion: Is it a boon for Savings Mobilization?' (2017) xxx(xxx) *Review of Development Finance* 1-6.

³³ Hannig and Jansen (n 4) 10-14; and TO Ogbemor, 'Enhancing Financial Inclusion in Nigeria through Agent Banking; Benefits, Prospects and Challenges' (2014) 4(2) *African Journal of Microfinance and Enterprise Development* 23-24.

³⁴ S Kemp, 'Digital 2021: Botswana' (11 February 2021) Datareporter <<https://datareportal.com/reports/digital-2021-botswana>> accessed on 3 July 2021. See also Botswana Communications Regulatory Authority (BOCRA), 'Telecoms Statistics- Mobile Phone Subscription' (2020) <<https://www.bocra.org.bw/telecoms-statistics>> accessed on 23 June 2021; Ozili (n 15) 331-332 and WO Lesitaokana, 'Key Issues in the Development of Mobile Telephony in Botswana (1998-2011): An Empirical Investigation' (2013) 16(5) *New Media and Society* 841-852.

strategies to manage the risks of licensing a wider range of institutions to offer deposit and insurance products. Such diversification strategies include licenses for specialized institutions dedicated to taking micro-deposits, granting deposit taking licenses to Non-government organization (NGOs), or nonbank financial institutions.³⁵ There is also the reform of state banks to offer specialized products to disadvantaged groups. Additionally, consumer protection is generally considered to be a regulatory response to market failure. Lastly, financial identity policies refers to the documentation and the identification threshold needed to access financial services. Botswana policymakers are addressing the barriers to access financial services by narrowing the gap between the documentation threshold associated with bank accounts and the quality of documentation prevalent among the disadvantaged groups.³⁶

Institutions and organisations with an interest in financial inclusion, such as the World Bank have emphasised the potential of FinTech for deepening financial inclusion, while recognising that it also comes with new challenges.³⁷ Thus, FinTech improves and endangers financial inclusion in Botswana at the same time, especially with the advent of COVID-19. The lockdown, social distancing and the associated measures meant to curtail COVID-19 encouraged the adoption of digital financial inclusion. However, COVID-19 induced risks such as the late repayment of loans and an increase in bad debt portfolio due to sudden loss of income, might lead to aggressive debt collection practices and high default or late payment fees. In addition, the surge in, and significance of international remittances by migrants to the home nations has boosted digital financial inclusion for the disadvantaged groups in developing countries including Botswana; however, the advent

³⁵ Hannig and Jansen (n 4) 17. See also Ogbemor (n 33) 36-37.

³⁶ Hannig and Jansen (n 4) 3.

³⁷ Bank for International Settlements and World Bank (n 17) 4; and EB Anarfoa, JY Aborb and KA Osei, 'Financial Regulation and Financial Inclusion in Sub-Saharan Africa: Does Financial Stability Play a Moderating Role?' (2020) 51(C) *Research in International Business and Finance* 1-2.

of COVID-19 pandemic has imparted negatively on financial inclusion in Botswana, with regards to foreign remittances.³⁸

FinTech payment system also poses regulatory challenges for African Central Banks because their promotional role in expanding financial inclusion may potentially give rise to tension with the traditional objective of financial stability.³⁹ A key challenge for African regulators is therefore how to harness the potential of financial inclusion while ensuring that the stability of the financial system is not compromised.⁴⁰ Another challenge is that digital banking may involve several regulatory agencies, each agency with different overriding objectives. For instance, mobile money is at the crossroads of several regulatory domains that include banking, telecommunications, payment system and anti-money laundering agencies.⁴¹ Similarly, there are FinTech related risks such as agent fraud, system failure, weak data security, and questionable safety of customers' funds, particularly where non-bank players are involved, security risk issues, privacy risks and limited digital financial literacy. Thus, these FinTech and COVID-19 induced risks necessitate the provision of adequate legal and regulatory framework in Botswana.⁴² The Group of 20 as well as the Botswana Government have identified the need to provide an

³⁸ AT Chuc, W Li, NTM Phi et al, 'The Necessity of Financial Inclusion for Enhancing the Economic Impacts of Remittances' (2020) 30(40) *Borsa Istanbul Review* 1-8; HB Saydaliyev, L Chin and Y Oskembayev, 'The Nexus of Remittances, Institutional Quality and Financial Inclusion' (2020) 33(1) *Economic Research—Ekonomika Istraživanja* 3528-3544; JB Ajefu and J Ogebe, 'Migrant Remittances and Financial Inclusion among Households in Nigeria' (2019) 47(3) *Oxford Development Studies* 1-15; Demirgüç-Kunt, Klapper, Singer et al (n 26) 1-15; GEJ Mogomotsi and PK Mogomotsi, 'Regional Integration and Migrant Labour as Poverty Alleviation Strategies in Southern Africa: A Case Study of Zimbabwe' (2018) 11(1) *Botswana Journal of Business* 18-26; J Bouoiyour and A Miftah, 'Why Do Migrants Remit? Testing Hypotheses for the Case of Morocco' (2015) 4(2) *IZA Journal of Migration* 4-5; R Chami, A Barajas, T Cosimano et al, *Macroeconomic Consequences of Remittances* (IMF 2008) 1-9. See also REB Lucas and O Stark, 'Motivations to Remit: Evidence from Botswana' (1985) 93(5) *Journal of Political Economy* 901-918.

³⁹ DW Arner, DA Zetsche, RP Buckley et al, 'FinTech and RegTech: Enabling Innovation while Preserving Financial Stability' (2017) 18(3) *Georgetown Journal of International Affairs* 47-52. See also Calice (n 23) 130-131.

⁴⁰ Calice (n 23) 131.

⁴¹ J Greenacre, 'Regulating Mobile Money: A Functional Approach' (2018) Oxford University/ Pathways for Prosperity Commission Background Paper Series 4 (September 2018), <https://pathwayscommission.bsg.ox.ac.uk/sites/default/files/2018-10/jonathan_greenacre-mobile_money.pdf> accessed on 20 June 2021; and N Hughes and S Lonie, 'M-PESA: Mobile Money for the "Unbanked" Turning Cellphones into 24-Hour Tellers in Kenya' (2007) 2(1-2) *Innovations: Technology, Governance, Globalization* 63-64.

⁴² R Sahay, UE von Allmen, A Lahreche et al, 'The Promise of Fintech Financial Inclusion in the Post COVID-19 Era' (IMF 2020) 35-36.

appropriate legal and regulatory framework for digital financial inclusion as one of the principles for digital financial inclusion.⁴³

3 METHODOLOGY

The research method adopted is doctrinal. Reliance was placed on the analysis of the statutes and regulations intended to foster financial inclusion in Botswana such as the Bank of Botswana Act (Chapter 55 of 2001), Banking Act (Chapter 46 of 2004), Banking Regulations of 1995, Bureaux de Change Regulations of 2004 and other relevant statutes in order to examine its adequacy in promoting digital financial inclusion in Botswana.

4 BOTSWANA FINANCIAL SECTOR: AN OVERVIEW

Botswana is geographically large but with a small population of 2.37 million in January 2021,⁴⁴ hence a very low overall population density but highly with an urbanised population.⁴⁵ The small population constrains scope for growth and economies of scale for financial services, while the large size of the country adds to distribution costs.⁴⁶ Mining and government expenditure dominate the economy and economic diversification is a high policy priority for the Government of Botswana. The percentage of Botswana living below the Poverty Datum Line decreased from 47 percent in 1993 to 31 percent in 2003 and 19 percent in 2010.⁴⁷ The poor in Botswana are most likely to be rural, in large families, in female-headed households, unemployed, with low education, or children (especially 6 –14 age group).⁴⁸ Unemployment in Botswana is high and remains a challenge with official statistics putting it at 20 percent.⁴⁹ The aforementioned issues create challenges for financial inclusion in Botswana. Thus, the Botswana Financial

⁴³ Sahay, von Allmen, Lahreche et al (n 42 above) 39. See also Group of Twenty (G20), 'G20 High-Level Principles for Digital Financial Inclusion' (2016) <<http://www.g20.utoronto.ca/2016/high-level-principles-for-digital-financial-inclusion.pdf>> accessed at 2 April 2021.

⁴⁴ Kemp (n 34) 1. See also Republic of Botswana, 'Public Expenditure and Financial Accountability Report' (2020) <https://www.finance.gov.bw/images/publications/2020_PEFAAssessment%20Report_Final.pdf> accessed on 7 April 2021.

⁴⁵ UNCDF (n 19) 10.

⁴⁶ Ibid 10.

⁴⁷ Ibid 10.

⁴⁸ Ibid 10.

⁴⁹ Ibid 10.

Inclusion Roadmap 2015 –2020 lays out the national priorities for the enhancement of financial inclusion in Botswana.⁵⁰

Botswana's financial institutions include banks, and other credit granting, lease financing institutions and the Central Bank. Botswana has ten commercial banks, which are all foreign-owned and four are listed on the Botswana Stock Exchange.⁵¹ Non-bank finance institutions include micro-lenders, pawnshops, and insurance, pension, finance and leasing companies.⁵² With ten commercial banks, just over 500 ATMs and less than 200 branches serving an adult population of about 1.5 million people,⁵³ there seem to be opportunities for expansion of the facilities and financial inclusion of the disadvantaged groups. Botswana has a relatively well-developed and stable banking system that remains highly profitable but the fall in the price of diamond in 2015 brought issue about the diversification of the economy and financial inclusion to the fore. To remedy this dependence on diamonds, economic diversification is one of the main development goals for the Botswana government. The government therefore launched the 'Economic Diversification Drive', where one of the primary objectives is to diversify the economic and export base of Botswana into other sectors that will continue to grow even after the exhaustion of diamonds, which is a non-renewable resource.⁵⁴ To achieve this diversification objective, the government of Botswana sets out several specific goals, one of which is to develop entrepreneurship culture among the citizenry and enhance citizens'

⁵⁰ Ibid 10.

⁵¹ KK Mmolainyane and AD Ahmed, 'The Impact of Financial Integration in Botswana' (2015) 37 *Journal of Policy Modeling* 855; Business Wire, 'Banking Sector in Botswana 2020' (2020) <<https://apnews.com/press-release/pr-businesswire/4cab157905aa4785b2057913d333dd7f>> accessed on 4 April 2021; and G Thornton, 'Botswana's Banking, Financial Services and Insurance (BFSI) Industry at Inflection Point' (2019) <[https://www.grantthornton.co.bw/global assets/1.-member-irms/botswana/insights.pdf/2019grant_thorntons_insight_on_botswanas_banking_financial_serviceandinsuranceindustry.pdf](https://www.grantthornton.co.bw/global%20assets/1.-member-irms/botswana/insights.pdf/2019grant_thorntons_insight_on_botswanas_banking_financial_serviceandinsuranceindustry.pdf)> accessed on 4 April 2021.

⁵² Non-Bank Financial Institutions Regulatory Authority Act 3 of 2016, section 2.

⁵³ Research and Markets, 'Botswana Banking Industry Report 2020 Featuring Comprehensive Profiles of 19 Companies' (2020) <<https://www.globenewswire.com/news-release/2020/02/07/1981646/0/en/Botswana-Banking-Industry-Report-2020-Featuring-Comprehensive-Profiles-of-19-Companies.html>> accessed on 25 April 2021. See also Mmolainyane and Ahmed (n 51) 854.

⁵⁴ Botswana Ministry of Trade and Industry, 'Economic Diversification Drive Medium to Long-Term Strategy 2011 – 2016' (Botswana Ministry of Trade and Industry 2011) 13; Mmolainyane and Ahmed (n 51) 854 and FN Okurut, Y Olalekan and K Mangadi, 'Credit Rationing and SME Development in Botswana: Implications for Economic Diversification' (2011) 8(12) *Botswana Journal of Economics* 63.

participation in the economy.⁵⁵ As part of the strategy to realise this diversification objective, the government offers several services and incentives such as offering of professional services to entrepreneurs, in order for their sector to grow.⁵⁶ This is supported by the presence of government initiatives aimed at providing credit and financial advice such as the Citizen Entrepreneurial Development Agency (CEDA) and the Local Enterprise Authority (LEA) and micro lenders in Botswana. CEDA was established by the Government of the Republic of Botswana to provide financial and technical support for business development with a view to promote viable and sustainable citizen owned business enterprises. CEDA was incorporated as a company limited by guarantee on the April 12th 2001 and commenced operations in June 2001.⁵⁷ LEA provides advisory and mentoring services to Botswana entrepreneurs.⁵⁸

5 THE ADEQUACY OF LEGAL FRAMEWORK FOSTERING FINANCIAL INCLUSION IN BOTSWANA

The financial industry is dominated by four banks, three of which are subsidiaries of South African firms and one British.⁵⁹ Botswana's financial system can generally be demarcated into the banking and the non-banking financial sectors and the regulation system is tailored along that line.⁶⁰ We shall therefore analyse legislation dealing with financial inclusion in the banking, non-banking financial institution and those regulating FinTech.

⁵⁵ Botswana Ministry of Trade and Industry (n 54) 14. See also L Sekwati, 'Botswana: A Note on Economic Diversification' (2010) 7(11) *Botswana Journal of Economics* 79-85.

⁵⁶ Botswana Ministry of Trade and Industry (n 54) 14-56; F Mutenheri, 'Primary-Resource Dependence: An Examen of Economic Diversification Policy and Poverty Eradication Strategy in Botswana' (2019) *Texila International Journal of Academic Research* 1- 9. See also Okurut, Olalekan and Mangadi (n 54) 63.

⁵⁷ G Themba and J Josiah, 'Entrepreneurship Development in Botswana Lessons for Other Developing Countries' (2015) 8(1) *Botswana Journal of Business* 12. See also Sekwati (n 55) 81; and CEDA, 'CEDA-An Overview' (2020) <<https://www.devex.com/organizations/citizen-entrepreneurial-development-agency-ceda-103348>> accessed 3 April 2021.

⁵⁸ Themba and Josiah (n 57) 12.

⁵⁹ S Theobald and S Zwart, 'Banking in Southern Africa' in D Revoltella (eds), *Banking in Africa: Delivering on Financial Inclusion, Supporting Financial Stability* (European Investment Bank 2018) 133.

⁶⁰ GEJ Mogomotsi, 'An Examination of the Financial Intelligence Act of Botswana' (2019) 44(4) *Africa Development* 5-27; Mmolainyane and Ahmed (n 51) 854; and KN Bojosi, 'An Appraisal of the New Legal Framework for the Regulation of Non-Banking Financial Institutions in Botswana' (2012) 15 *University of Botswana Law Journal* 29.

5.1 *The Bank of Botswana Act and Related Acts*

The Bank of Botswana (BoB) Act was primarily enacted to promote and maintain monetary stability, efficient payments mechanism and proper functioning of the monetary, credit and financial system in Botswana.⁶¹ BoB is the sole authority charged with the function of issuing legal tender, fixing the exchange rate for the national currency, Pula, and the maintenance of international reserve for Botswana.⁶² BoB is also charged with the regulation of applicable interest and credit rate and the maximum amount which any financial institution in Botswana may hold or maximum indebtedness which it may incur in foreign currencies.⁶³ BoB acts as banker and financial advisor to, and fiscal agent of the Government of Botswana.⁶⁴ BoB may also open accounts for domestic and foreign financial institutions.⁶⁵ A related Act is the Banking Act,⁶⁶ which provides that the BoB is the sole authority charged with issuing of license to commercial and merchant banks thus, no person shall transact banking business in Botswana without a valid license issued by the BoB.⁶⁷ The BoB has the power to vary the condition of licenses, order the conditions for surrendering or revoking the license to banks in Botswana.⁶⁸ It is also the prerogative of the BoB to prescribe the capital structure, financial requirements and limitation for all licensed banks in Botswana.⁶⁹ The BoB prescribes the financial records and statements that the licensed banks must keep and also supervises and audit the accounts and procedures of the banks.⁷⁰ Sections 29-32 of the Banking Act, 1995 enunciate the responsibilities of the directors and other officers of banks, the fit and proper persons to hold offices and those disqualified from holding office as principal officers or directors in

⁶¹ BoB Act [Chapter 55:01] Laws of Botswana, section 4. See also T Kayawe and A Amusa 'Concentration in Botswana's Banking Sector' (2003) 6(4) *South African Journal of Economic and Management Sciences* 825-827.

⁶² BoB Act, sections 20-35; and Kayawe and Amusa (n 61) 825-827.

⁶³ BoB Act, sections 41-42; and Bank of Botswana, *Money and Banking in Botswana* (Bank of Botswana 2001) 9-11.

⁶⁴ BoB Act, sections 54-65. See also Bank of Botswana (n 63) 10.

⁶⁵ BoB Act, sections 36-43. See also Bank of Botswana (n 62) 12-13.

⁶⁶ Banking Act 13 of 1995, sections 1-54.

⁶⁷ Banking Act 1995, sections 3-4. See also Mmolainyane and Ahmed (n 51) 854; and Government of Botswana, *Botswana: National Development Plan 9* (Government of Botswana 2002) 92-93.

⁶⁸ Banking Act 1995, sections 10-11. See also Bank of Botswana (n 63) 12.

⁶⁹ Banking Act 1995, sections 13-17. See also Kayawe and Amusa (n 61) 826-827. Committee of Central Bank Governors, *SADC Financial Systems: Structures, Policies and Markets* (The Secretariat of the Committee of Central Bank Governors 2012) 27.

⁷⁰ Banking Act, 1995, sections 18-28. See also Committee of Central Bank Governors (n 69) 26.

banks. Similarly, Banking Regulations⁷¹ deals with the requirements and processes for applications for banking licences in Botswana.

Notwithstanding the important roles that the Bank of Botswana Act, Banking Regulations and the Banking Act play in regulating banks and banking relations in Botswana, there is no specific provision for fostering financial inclusion for the disadvantaged groups in Botswana. Although the BoB Act, Banking Regulations and the Banking Act make elaborate provisions for the safety of depositors' fund and the stability of the financial system it failed to make any robust provision for digital financial inclusion for the disadvantaged groups in Botswana.

Similarly, the Bank of Botswana National Payments System Oversight Policy was made pursuant to section 3(3)(c) of the National Clearance and Settlement System (NCSS) Act⁷² to regulate clearing and settlement systems, operation, and licensed electronic payment service providers. The NCSS Act is simply an Act that regulates and supervises the systems for the clearing of transfer instructions between financial institutions and the discharge of indebtedness arising from such settlements.⁷³ The NCSS Act provisions, although enable for an orderly settlement of indebtedness between financial institutions, hence aiding the proper functioning of the Botswana financial system, it does not directly impact on financial inclusion for the disadvantaged groups. Electronic Payment Services Regulations of 2019⁷⁴ a policy made subsequent to the Bank of Botswana Act provides generally for the regulation of the operations of electronic payment service providers (ESP), this includes application, surrender and revocation of license to ESP.⁷⁵ The Electronic Payment Services Regulations regulate the relationship between ESP, which allows for interoperability between commercial banks and mobile money operators. The Electronic Payment Services Regulations allow the Bank of Botswana (BoB) to take over the regulation of mobile money services, which was

⁷¹ Banking Regulations- Banking Subsidiary Legislation (Previously "Financial Institutions") Index to Subsidiary Legislation [Chapter 46:04] of 1995, sections 1-25.

⁷² National Clearance and Settlement System Act 2003 [Chapter 46:06] Laws of Botswana, sections 1-27.

⁷³ NCSS Act, sections 1-27. See also KPMG *Payment Development in Africa: Emerging New Technologies Volume 3* (KPMG 2019) 9-11.

⁷⁴ Electronic Payment Services Regulations Statutory Instrument 2 of 2019, sections 1-37. See also KPMG (n 73) 9-11.

⁷⁵ Electronic Payment Services Regulations of 2019, Sections 4-14, 33-37.

previously under the Botswana Communications Regulatory Authority (BOCRA).⁷⁶ Electronic Payment Services Regulations also provide for the infrastructure and the capital requirements for the ESP as well as providing for safeguarding the funds received through the electronic platform.⁷⁷ Electronic Payment Services Regulations of 2019 also provides for the regulation of electronic money transaction such as the maximum limit allowed, the currency by which the payment is denominated etc.⁷⁸ The authors submit that the Electronic Payment Services Regulations, though, does not directly provide for digital financial inclusion of the disadvantaged groups, it however facilitate the provision of infrastructure, the regulation of the conduct of the ESP and of electronic money transactions.

In other words, the Bank of Botswana National Payments System Oversight Policy and Electronic Payment Services Regulations of 2019 are basically to regulate the conduct of licensed electronic payment service providers and do not have any specific provision for financial inclusion for the disadvantaged groups in Botswana. Although, the Bank of Botswana National Payments System Oversight Policy⁷⁹ and Electronic Payment Services Regulations of 2019⁸⁰ prevent the loss of depositors' funds, it make no specific provision for financial inclusion of the disadvantaged groups in Botswana. However, the Bank of Botswana National Payments System Oversight Policy, the NCSS Act and the Electronic Payment Services Regulations indirectly promote financial inclusion in Botswana because it recognize digital financial inclusion. Thus, the disadvantaged groups in Botswana made active use of point of sales (POS) devices, which increased from 184 to 204 between September 2018 and 2019.⁸¹ The disadvantaged groups in Botswana also utilize the services of mobile money agents.⁸²

⁷⁶ UNCDF (n 18) 26.

⁷⁷ Electronic Payment Services Regulations of 2019, sections 15-25.

⁷⁸ Electronic Payment Services Regulations of 2019, sections 26-29. See also Sikalao-Lekobane O and Kgwaneng L, 'Electronic Money (E-Money) Developments in Botswana' (2015) 1 *Tsa Tuelano* 5-6.

⁷⁹ Bank of Botswana National Payments System Oversight Policy, sections 1-14.

⁸⁰ Electronic Payment Services Regulations of 2019, Sections 18-24. See also National Clearance and Settlement Systems [Chapter 46:06] Laws of Botswana, sections 3-23.

⁸¹ UNCDF (n 18) 26.

⁸² Ibid.

5.2 *The Bank of Botswana [Bureau de Change Regulations] of 2004*

The BoB is the sole authority charged with the responsibility of issuing licenses to Bureau de Change, the latter is authorized to deal in foreign currency in Botswana.⁸³ The BoB may revoke, suspend or request for the surrender of the license held by any Bureau de Change in Botswana.⁸⁴ The Bank of Botswana [Bureau de Change Regulations] prescribe that all licensed Bureau de Change operating in Botswana observe certain anti-money laundering measures.⁸⁵ The Bank of Botswana [Bureau de Change Regulations] impose transaction limits, charged the Bureau de Change to maintain register and receipts of transactions, accounts and audit its accounts every year end.⁸⁶ The BoB may inspect the premises and the books of any Bureau de Change and may impose penalty for any infraction of the prescribed rules.⁸⁷ Apart from the fact that the Bank of Botswana [Bureau de Change Regulations] regulate the procurement, buying and selling of foreign currencies in Botswana, it offers no provision for the financial inclusion for the disadvantaged groups.

5.3 *Non-Bank Financial Institutions Regulatory Authority Act (NBFIRAA)*

Non-Bank Financial Institutions Regulatory Authority Act (NBFIRAA) ⁸⁸ establishes the Non-Bank Financial Institutions Regulatory Authority.⁸⁹ The main objective of the NBFIRAA is to provide for the regulation of non-bank financial institutions for the purpose of enhancing the safety and soundness of non-bank financial institutions.⁹⁰ Other objectives of NBFIRAA include setting high standards of conduct of business by non-bank financial institutions, improving the fairness, efficiency and orderliness of the non-bank financial sector and the stability of the financial system and reducing and deterring

⁸³ Bank of Botswana [Bureau de Change Regulations] of 2004, sections 4 and 6.

⁸⁴ Bank of Botswana [Bureau de Change Regulations] of 2004, sections 9-11.

⁸⁵ Bank of Botswana [Bureau de Change Regulations] of 2004, section 12.

⁸⁶ Bank of Botswana [Bureau de Change Regulations] of 2004, sections 13-18.

⁸⁷ Bank of Botswana [Bureau de Change Regulations] of 2004, sections 19-23.

⁸⁸ Non-Bank Financial Institutions Regulatory Authority Act 3 of 2016, sections 1-63.

⁸⁹ Non-Bank Financial Institutions Regulatory Authority Act, section 3; and PA Dogbe 'Developing a Conducive Environment for Micro-finance in Botswana' (2020/21) *Non-Bank Financial Institutions Regulatory Authority Research Bulletin* 19.

⁹⁰ Non-Bank Financial Institutions Regulatory Authority Act, section 4. See also B Lekone and J Mukuna 'Statutory and Corporate Governance Concerns on Investments by Pension Funds in Botswana' (2014) 10(19) *European Scientific Journal* 193-194.

financial crime.⁹¹ Non-Bank Financial Institution was defined in section 2 of the NBFIRAA to include insurance, leasing companies, securities exchange, friendly societies, pension funds, pawnshops and their subsidiaries. The Non-Bank Financial Institutions Regulatory Authority is responsible to the Minister,⁹² and may levy supervisory fee and other charges on the non-bank financial institutions and services.⁹³ The Non-Bank Financial Institutions Regulatory Authority may designate some institutions as self-regulatory organizations and prescribe the reporting format for such entities to the Regulatory Authority.⁹⁴ The NBFIRAA establishes a tribunal for reviewing the decisions of the self-regulatory organisations and the Non-Bank Financial Institutions Regulatory Authority.⁹⁵ The Non-Bank Financial Institutions Regulatory Authority may temporarily close the business or freeze the account of any of the Non-Bank Financial Institutions suspected of flouting any of the provisions of the NBFIRAA.⁹⁶ The Non-Bank Financial Institutions Regulatory Authority may also impose administrative penalties if the Regulatory Authority is satisfied on reasonable grounds, that a person has contravened or breached a financial services law.⁹⁷ The Non-Bank Financial Institutions Regulatory Authority may on reasonable suspicion inspect and/ or investigate the premises, activities and transactions of a Non-Bank Financial Institutions.⁹⁸ The Non-Bank Financial Institutions Regulatory Authority may also impose administrative penalties if the Regulatory Authority is satisfied on reasonable grounds that a person has contravened or breached a financial service law.⁹⁹ Notwithstanding that the NBFIRAA is an important Act that regulates the operation of Non-Bank Financial Institutions, it seems that the NBFIRAA is mainly interested in the

⁹¹ Non-Bank Financial Institutions Regulatory Authority Act, preambles, section 4. See also Mmolainyane and Ahmed (n 51) 854.

⁹² Non-Bank Financial Institutions Regulatory Authority Act, section 6. See also TF Khumalo, 'A Critical Examination of Developments in the Regulation of the Insurance Industry in Botswana' (2016) *University of Botswana Law Journal* 180.

⁹³ Non-Bank Financial Institutions Regulatory Authority Act, sections 21 (1)(c), 24-25. See also Khumalo (n 92) 183-184.

⁹⁴ Non-Bank Financial Institutions Regulatory Authority Act, sections 36-45. See also R Nzaro, K Njanike and E Jaravani, 'The Impact of Regulation Policy on Product and Service Delivery of Micro-Financial Institutions: A Case of Zimbabwe' (2012) 2(9) *Global Advanced Research Journal of Management and Business Studies* 429-430; and Khumalo (n 92) 182-184.

⁹⁵ Non-Bank Financial Institutions Regulatory Authority Act, sections 50-53.

⁹⁶ Non-Bank Financial Institutions Regulatory Authority Act, section 57.

⁹⁷ Non-Bank Financial Institutions Regulatory Authority Act, section 60.

⁹⁸ Non-Bank Financial Institutions Regulatory Authority Act, sections 46-49. See also Lekone and Mukuna (n 90) 198.

⁹⁹ Non-Bank Financial Institutions Regulatory Authority Act, section 60.

orderly operation of these prescribed institutions and the safety of the depositors' funds. In this regard, there is no robust provision for financial inclusion of the disadvantaged groups in Botswana.

5.4 *Financial Intelligence Act*

The Financial Intelligence Agency (FIA) is established in terms of Section 3(1) of the Financial Intelligence Act,¹⁰⁰ which further provides that the FIA shall be headed by a director and other officers required for the proper performance or execution of the functions of the agency. The FIA provides for the establishment of the National Coordinating Committee on Financial Intelligence (hereinafter 'the Committee') under section 6(1) of the Financial Intelligence Act. The Committee which is comprised of the Director General of FIA and members from various ministries and agencies including the representatives of the BoB, the Non-Bank Financial Institutions Regulatory Authority, the Botswana Police Service, other agencies and ministries, serve as the governing council of FIA.¹⁰¹ The Botswana Police Service is responsible for the investigation of all other crimes in the country, while the Director of Public Prosecution (DPP) holds the exclusive right to prosecute against the commission of any crime in Botswana.¹⁰² However, a private party may prosecute in instances where the DPP have failed or refused to prosecute.¹⁰³ The FIA is mandated to supply financial information to the supervisory authority, investigatory authority or comparable body, such as the Botswana Police. The financial information supplied to investigatory authorities must relate to suspicious transactions,¹⁰⁴ required to counter financial crime¹⁰⁵ and information concerning the financing of terrorism.¹⁰⁶ In order to fulfil the functions detailed in Section 4(1), the FIA shall collect, process, analyse and interpret all the information before it is obtained, in

¹⁰⁰ Financial Intelligence Act 11 of 2019, sections 1-59.

¹⁰¹ Financial Intelligence Act, sections 6, 8 and 9.

¹⁰² Crime Procedure and Evidence Act [Chapter.08:02] Laws of Botswana, section 7. See also Mogomotsi (n 60) 10.

¹⁰³ Crime Procedure and Evidence Act [Chapter 08:02] Laws of Botswana, section 16.

¹⁰⁴ Financial Intelligence Act, section 4(1)(a); and PK Mogomotsi, GEJ Mogomotsi and WL Hambira, 'Illicit Capital Flows and Money Laundering in Botswana: An Institutional Economic Analysis' (2020) 45 (1) *Africa Development* 125.

¹⁰⁵ Financial Intelligence Act, section 4(1)(b).

¹⁰⁶ Financial Intelligence Act, section (4)(1)(c). See also Mogomotsi (n 60) 10.

terms of the Act, from specified parties obliged to submit information.¹⁰⁷ The Act further provides that the FIA shall forward financial intelligence reports to investigatory or supervisory authorities.¹⁰⁸ The essence of enacting this Act is basically is to ensure that financial crimes, terrorism and money laundering is kept at bay,¹⁰⁹ rather than to ensure financial inclusion for the disadvantaged groups in Botswana. Thus, the Financial Intelligence Act, although provides for the exclusion of illicit funds from the Botswana financial system, it makes no provision for the inclusion of the financially excluded disadvantaged groups in Botswana.

5.5 *Botswana Communications Regulatory Authority Act*

Botswana Communications Regulatory Authority is established by virtue of the Communications Regulatory Authority Act, 2012.¹¹⁰ The Act regulates tele communications, broadcasting, and postal services and ensure widespread availability of the service to everyone.¹¹¹ Botswana Communications Regulatory Authority protects and promotes the interests of consumers, purchasers and other users of the services of the sector, particularly in respect of prices, availability, quality and variety of services and products that will meet reasonable demands throughout Botswana.¹¹² Although, the Botswana Communications Regulatory Authority (BOCRA) is not directly involved in digital financial inclusion in Botswana however, the pivotal role played by BOCRA in the provision, maintenance and regulation of mobile phone, internet and the enabling network, which is the platform by which the majority of the disadvantaged groups access digital financial facilities is instructive. In this regard, there were 1.09 million internet users in Botswana in January 2020, which accounted for an increase of 23 thousand (+2.1 percent) between 2019 and 2020. The number of mobile connections in Botswana in January 2021 was equivalent to 150 percent of the total population.¹¹³ The authors

¹⁰⁷ Financial Intelligence Act, section 4(2)(b).

¹⁰⁸ Financial Intelligence Act, section 4(2)(c). See also Mogomotsi, Mogomotsi and Hambira (n 104) 125.

¹⁰⁹ Financial Intelligence Act, section 9; and Mogomotsi, Mogomotsi and Hambira (n 104) 125.

¹¹⁰ Communications Regulatory Authority Act 19 of 2012, section 3(2).

¹¹¹ BT Balule, 'Diversity and Pluralism Compromised: From the Botswana Broadcasting Act 1998 to the Communications Regulatory Authority Act 2012' (2013) 34(3) *Statute Law Review* 189.

¹¹² Communications Regulatory Authority Act, section 6.

¹¹³ Kemp (n 34) 1; S Kemp, 'Digital 2020: Botswana Data Portal' (2020) <<https://datareportal.com/reports/digital-2020-botswana>> accessed on 25 February 2021.

suggest that the high mobile and internet connection figures may augur well for digital financial inclusion of the disadvantaged groups in Botswana because these facilities may translate to a better access to digital financial inclusion for the disadvantaged groups. In addition, the Botswana Postal Service because of its ubiquitous presence, even in remote areas, offers digital inclusion services such as payment of remittances to Botswana including the rural dwellers.¹¹⁴ The Botswana Post Office provides deposit and withdrawal services through its subsidiary –the Botswana Savings Bank.¹¹⁵ Similarly, the Botswana Post Office provides agency service to the Botswana Housing Corporation and the Botswana Power Corporation by collecting revenue on its behalf from clients and subscribers.¹¹⁶ The Botswana Post Office also offer the following digital financial inclusion services to the public in real time- online vehicle licence renewal, postal box renewal, water bill payment, prepaid electricity purchases, online money transfer, insurance premium payment and Kwese TV subscription payments.¹¹⁷ Provision of financial inclusion services by the post office is in line with SADC Financial Inclusion Strategy (2016 –2021), which posited that post offices should be involved in the National Financial Inclusion Strategies.¹¹⁸

5.6 *Electronic Records (Evidence) Act and Electronic Communications and Transactions Act*

Electronic Records (Evidence) Act ¹¹⁹ provides for the authentication and admissibility of electronic records in legal proceedings. Similarly, Electronic Communications and Transactions Act 2014¹²⁰ provides for the facilitation and regulation of electronic

¹¹⁴ International Fund for Agricultural Development, 'Remittances at the Post Office in Africa: Serving the Financial Needs of Migrants and Their Families in Rural Areas' (IFAD 2016) 15-52; and Andrianaivo and Kpodar (n 20) 1-11.

¹¹⁵ Government of Botswana, 'Payment System in Botswana' (Botswana Government Press 2019) 22.

¹¹⁶ Ibid.

¹¹⁷ Botswana Post, 'Annual Report 2017/2018' (Botswana Government Press 2019) 30.

¹¹⁸ SADC, SADC Postal Financial Inclusion Guidelines (2019) Section 4(3)(3) (26 April 2019), <[https://www.crasa.org/commonup/crasa-setup/26-04-2019_Postal%20Financial%20Inclusion%20Guidelines%20\(R%20Rev1%20-%202019\)%20.pdf](https://www.crasa.org/commonup/crasa-setup/26-04-2019_Postal%20Financial%20Inclusion%20Guidelines%20(R%20Rev1%20-%202019)%20.pdf)> accessed on 3 April 2021; SADC, 'SADC Financial Inclusion Strategy (2016–2021)' (2016) <<https://finmark.org.za/system/documents/files/000/000/207/original/FI-strategy-SADC.pdf?1601978334>> accessed on 8 April 2021. See also N Clotteau and B Measho *Global Panorama on Postal Financial Inclusion 2016* (Universal Postal Union 2016) 11-22, 57-61.

¹¹⁹ Electronic Records (Evidence) Act 13 of 2014, sections 1-16.

¹²⁰ Electronic Communications and Transactions Act 14 of 2014, sections 1-47.

communications and transactions. It provides for the legal recognition of electronic communication and signature.¹²¹ Electronic Communications and Transactions Act, 2014 provides also for consumer protection.¹²² The Electronic Records (Evidence) Act and Electronic Communications and Transactions Act though do not directly promote financial inclusion, however it indirectly promotes digital financial inclusion in Botswana because electronic records are recognized and could be tendered in legal proceedings whenever there are disputes involving electronic financial transactions. Moreover, the Electronic Records (Evidence) Act¹²³ and Electronic Communications and Transactions Act¹²⁴ provide for consumer protection which is one of the principles of financial inclusion, however, it make no robust provision for digital financial inclusion in Botswana.

5.7 *Competition Act*

Competition Act, 2018¹²⁵ promotes transparency in business practices; investigate report and try unfair trade practice.¹²⁶ It establishes the Competition and Consumer Authority.¹²⁷ Competition Act also provides for the establishment of a Tribunal to adjudicate breaches of the provisions of this Act, including appeals from the decision of the Tribunal for a judicial review to the High Court.¹²⁸ Competition Act provides for the prevention of, and redress for, anti-competitive practices in the economy, and the removal of constraints on the free play of competition in the market. Although Competition Act makes no provision for financial inclusion of the disadvantaged groups in Botswana, however, the prevention of anti-competition practices may lead to the fall in prices of financial products such as banking products, internet and mobile services thereby indirectly fostering the inclusion of the disadvantaged groups in Botswana.

¹²¹ Electronic Communications and Transactions Act 2014, sections 4-6.

¹²² Electronic Communications and Transactions Act 2014, sections 33-38.

¹²³ Electronic Records (Evidence) Act, sections 5-7.

¹²⁴ Electronic Communications and Transactions Act, sections 32-37.

¹²⁵ Competition Act 4 of 2018, sections 1-97.

¹²⁶ Competition Act, 2018, sections 5, 25-32, 36-61 and Bertelsmann Stiftung, *BTI 2020 Country Report-Botswana* (Gütersloh: Bertelsmann Stiftung 2020) 17-18.

¹²⁷ Competition Act, 2018, section 4.

¹²⁸ Competition Act, 2018, sections 62-84.

6 CONCLUDING REMARKS

It is undeniable that Botswana has a robust legislative and regulatory framework to manage and regulate its financial sector comprising of the banking and non-banking financial institutions. As stated above, the BoB Act, NBFIRAA, Financial Intelligence Act, Electronic Records (Evidence) Act, Communications Regulatory Authority Act, Competition Act, Electronic Communications and Transactions Act were enacted to regulate varied aspects of the Botswana financial sector.¹²⁹ These Acts have been amended on several occasions to meet the exigencies of the Botswana economy and to align with international best practice.¹³⁰ In spite of some laudable effort by the government of Botswana in fostering financial inclusion, the effort falls short of promoting financial inclusion for the disadvantaged groups in Botswana. For instance there is no separate statute that robustly deal with promotion of financial inclusion for the disadvantaged groups in Botswana. Likewise, the regulatory and enforcement measures at fostering financial inclusion seem inadequate and it seems as if the issue of financial inclusion is only a tangential byproduct of prudent regulation of the financial sector. Thus, the authors submit the following recommendations for consideration in order to enhance financial inclusion of the disadvantaged groups in Botswana. First, a separate legislation with the aim of promoting financial inclusion especially digital financial inclusion for all Botswana, with specific attention to the disadvantaged groups should be enacted. The said statute should establish and empower a regulatory agency to promote financial inclusion for the disadvantaged groups by introducing new measures and coordinating the disjointed efforts at promoting financial inclusion of the disadvantaged groups in Botswana. For instance, it could be deduced from our discussion above that there is no coordinated effort at fostering financial inclusion for the excluded groups in Botswana financial sector. The proposed Act of Parliament should amend the BoB Act, NBFIRAA, Financial Intelligence Act, Communications Regulatory Authority Act, Competition Act and other relevant Acts,

¹²⁹ K Jefferiss and A Tacheba, *Botswana Financial Sector: Overview 2009/2010* (Capital Resources 2009) 6-17.

¹³⁰ Mogomotsi (n 60) 5-27; Chitimira and Ncube (2021) (n 1) 81; and Botswana Institute for Development, *A National Trade Policy for Botswana: Zero Draft and Consultations* (Botswana Institute for and Development Policy Analysis 2006) 55-69; TIT Magang and VG Magang, 'Corporate Governance Compliance in Botswana: Issues and Challenges' (2016) 7(1) *Journal of Research in Business, Economics and Management* 1041-1053.

hence mandate the appropriate agencies such as the BoB to corporately promote financial inclusion for the disadvantaged groups in Botswana. Secondly, the government of Botswana is determined to eradicate poverty among the disadvantaged Batswana,¹³¹ reduce dependence on diamond¹³² and embrace SDG number eight which encourages the promotion of financial inclusion for the disadvantaged groups.¹³³ In line with the objective above, we recommend that the proposed specific statute on financial inclusion should mandate financial institutions to create specialized products which are affordably priced and customised to the need of the disadvantaged groups in Botswana. This measure could significantly reduce financial exclusion of the disadvantaged groups in Botswana. Thirdly, the proposed regulatory body on financial inclusion should be mandated to enlighten and educate Batswana, especially the disadvantaged groups on digital financial inclusion. Financial education and financial literacy are important preconditions for ensuring financial inclusion and this should not be underestimated.¹³⁴ There is a limited understanding of the attributes of financial products and how they operate in some sectors in Botswana.¹³⁵ For instance, low understanding of insurance products by the consumers is perceived to be a key barrier to its purchase and adoption in Botswana. Thus, the need for financial literacy across all segments of the society to ensure that products are understood and used effectively is essential.¹³⁶ Fourthly, the proposed statute should be diligently enforced by the relevant agencies to protect the customer from digital fraud and cybercrime, without compromising the inclusion of the

¹³¹ Botswana Ministry of Trade and Industry (n 54) 13; World Bank (n 26) 1-2; Menyelim, Babajide, Omankhanlen et al (n 9) 1-3; Beck, Demirguc-Kunt and Levine (n 9) 19; Ofori-Abebrese, Baidoo and Essiam, (n 7) 2; Jahan, De, Jamaludin, et al (n 6) 4; Tita and Aziakpono (n 24) 52; Swamy (n 24) 63; and C Chibango, 'Mobile Money Revolution: An Opportunity for Financial Inclusion in Africa' (2014) 2(2) *The International Journal of Humanities and Social Studies* 60.

¹³² Botswana Ministry of Trade and Industry (n 54) 13; and Okurut, Olalekan and Mangadi (n 54) 63.

¹³³ Naceur, Chami and Trabelsi (n 23) 3-5; Jahan, De, Jamaludin, et al (n 6) 4; and Calice (n 23) 131-133.

¹³⁴ G Solomon, T Nhete and B Sithole, 'The Case for the Need for Personal Financial Literacy Education in Botswana Secondary Schools' (2018) *Sage Open* 1-9; EL Nanziri and M Leibbrandt, 'Measuring and Profiling Financial Literacy in South Africa' (2018) 21(1) *Journal of Economic and Management Sciences* 2-3; A Wentzel, 'Financial Literacy in South Africa' in C Aprea, E Wuttke, K Breuer et al (eds), *International Handbook of Financial Literacy* (Springer 2016) 329, 332; and M Motlhabane, 'Botswana Financial Literacy Key to Debt Reduction' *Botswana Daily News* (22 July 2020) <<https://all.africa.com/stories/202007230278.html>> accessed on 13 April 2021.

¹³⁵ UNCDF (n 19) 15-17.

¹³⁶ Ibid.

disadvantaged groups in Botswana. In addition, there is a need for regional cooperation¹³⁷ in order to prevent, arrest and control cybercrime and digital fraud. Moreover, the authors suggest regional cooperation and harmonisation of financial inclusion statutes with the aim that it will reduce digital fraud, poverty and economic induced migration.

¹³⁷ O Chiwira, M Bakwena, C Mupimpila et al, 'Integration, Inclusion, Development in the Financial Sector and Economic Growth Nexus in SADC: Empirical Review' (2016) 11(4) *Journal of Economics, Management and Trade* 5-15.

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