FINANCIAL INSTITUTIONS AS FACILITATORS OF ECONOMIC GROWTH: CASE STUDY OF BOTSWANA

*Prof. Bonu, N.S. & Palaelo, S.P.**

Abstract: This paper assesses the impact of financial institutions on the economic development of Botswana. As it is not sensible to depend on a single mineral (diamonds) for long-term economic development, the Government of Botswana is shifting its economic emphasis towards the development of financial institutions. It is apparent that the influence of financial institutions is more on household than development activities. Hence, the Government of Botswana entered into banking activities. Government's realisation of the need to separate its banking functions prompted the establishment of the Botswana Stock Exchange to float the capital market and the Banking Act. In spite of all these actions, the much-needed assistance is not forthcoming from financial institutions. Hence the development of a suitable legal framework to channel deposits for the development purpose is suggested.

Keywords: Africa, Botswana, Banking, Finance, Capital market, and Economic development.

INTRODUCTION

Background

A financial institution is any institution doing banking business such as receiving and using funds (Financial Institutions Act 1986, p. 105) in financing business, consumer and corporate bodies. In today's global economy characterised by the fast development and rapidly changing technology, financial institutions are increasingly playing a major crucial role in national economies. Schumpeter (1949, p.122) was the first to recognise a definite link between economic development and financial institutions when he said:

> "Capital is nothing but the lever by which the entrepreneur subjects to his control the concrete goods which he needs, nothing but a means of diverting the factors of production to new uses or of dictating a new direction to production."

During the Second World War (1939-45) many underdeveloped countries tried to foster their economic growth through accelerated industrialisation. They faced economic and non-economic problems. The shortage of capital, limited technology and the absence of institutions specialising in industrial finance were some of the economic problems faced. Many developing countries are still facing these problems today. A few countries tried to mitigate the effects of these problems by importing capital and technology from other countries. However, the strings attached to imports led to insufficiency and continued dependency. Hence many developing countries, especially Third World countries, have been struggling to develop their financial institutions to meet the capital needs of their own countries. In addition to the provision of capital for industrial development, financial institutions render other services such as consultancy, market research and entrepreneurial education.

After realising the importance of its own financial institutions and money supply, the Government of Botswana left the Rand Monetary Area (linkage with the Republic of South Africa) in August 1976 and issued the Pula as Botswana's currency (Ministry of Finance and Development Planning, 1979-85:31). The Government then encouraged commercial banks "to take a positive view of their role in the development of the economy" (Ministry of Finance and Development Planning, 1985-91,

* Faculty of Business, University of Botswana, Private Bag 0022, Gaborone, Botswana.

p. 348). As commercial banks were reluctant to lend long-term loans out of their short-term deposits, the Government made necessary long-term deposits with these banks. It also undertook the function of providing finance for development purposes by establishing its own financial institutions such as the Botswana Development Corporation, Botswana Savings Bank, etc. and thereby almost becoming a banker by such involvement.

Based on the recommendations of the combined study of the World Bank[1] and Bank of Botswana, the Government of Botswana adopted five broad policy issues in its National Development Plan 7. These policy issues involved reducing the role of Government in the financial sector; improving efficiency and soundness of commercial banking; promoting the effectiveness and development of financial institutions; promoting the development of domestic money and the capital market; and the integration of domestic financial systems with external asset/liability management (Ministry of Finance and Development Planning, 1991-97, pp. 146-150). The Government was of the opinion that the financial system and the financial sector play a "crucial role in ensuring the growth of economic activity." (Ministry of Finance and Development Planning, 1997/98-2002/03, p. 121).

In Botswana financial institutions can be broadly classified into two major areas, namely: banking institutions and non-banking institutions. The banking institutions are the central bank (Bank of Botswana) and five other commercial banks (ANZ Grindlays Bank, Barclays Bank of Botswana Ltd., First National Bank of Botswana Ltd., Stanbic Bank of Botswana Ltd. and Standard Chartered Bank of Botswana Ltd.). The non-banking financial institutions comprise investment/merchant banks, the Botswana Stock Exchange, two stockbroking firms, pensions funds, finance & leasing companies, informal money lenders and credit unions, Botswana Insurance and Guarantee Company, Collective Investment Undertakings, Botswana Development Corporation, National Development Bank, Tswelelo (Pty) Ltd., Postal Savings Bank, Botswana Building Society, etc.

STATEMENT OF THE PROBLEM

Despite having regulated financial institutions, both banking and non-banking, the economic growth of Botswana is largely influenced by the mineral wealth of the country. The mining sector contributed 51.0% of the Gross Domestic Product (GDP) of the nation in 1998/99. As mining is an exhaustive industry and the prices of mineral are controlled by international agencies, it is risky to depend on mineral wealth for the economic growth of the country. Hence the Government of Botswana is seriously considering the development of other sectors such as financial institutions to facilitate economic growth. In this context, it is important to study their impact on the economic growth of the country.

OBJECTIVES OF THE STUDY

- To assess the overall impact of mineral wealth on the economic development of the country;
- To study the development of financial institutions in Botswana;
- To explore the impact of financial institutions on the economic development of Botswana;
- To study the interrelation between financial institutions and the development of the capital market in Botswana.

ASSUMPTIONS

It is Assumed That:

- Mineral wealth played a major part in the economic growth of Botswana in its early stages of development;

[1] World Bank (1989) *Botswana: Financial Policies for Diversified Growth.* Report No. 7690 - BT, Washington, DC: The World Bank.

- The Government has realised that dependence on mainly mineral wealth is dangerous for the financial health of the nation and hence it is gradually shifting its emphasis to other sectors, especially financial institutions;
- The outcome and growth of the financial institutions are well planned on the basis of economic needs;
- The financial institutions' rendering of good service has contributed to the economic growth of the nation;
- The financial institutions are springboards for the development of the capital market in Botswana.

METHODOLOGY

In order to have an insight into the influence of mineral wealth on the economic development of the country and to trace the development of the financial institutions in Botswana along with their impact on capital market growth and economic development, an in-depth study of Botswana's National Development Plans since 1966 (independence), the National Budgets and Budget Speeches and Bank of Botswana (Central Bank) Annual Reports is imperative. Various other financial institutions and foreign investor institutions also need to be analysed.

SIGNIFICANCE OF THE STUDY

Most economists believe that the financial sector is to be left to the market forces and there should be no regulations restricting the freedom of banking and non-banking institutions. This philosophy is more applicable to developed countries where the "competitive market, availability of reliable information, transparent behaviour and lack of externalities" (Bank of Botswana, 1998, p. 100) direct the smooth functioning of the financial sector. However, in developing countries such as Botswana, financial institutions require regulation. Banks and other non-banking institutions secure finance mostly as short-term deposits. Although the economic development of a country needs long-term finance, financial institutions in general fear giving long-term loans to finance development projects. Botswana's economic development therefore will be influenced by the development of long-term projects that require long-term finance. In this context this study is significant in the sense of identifying the part played by financial institutions in meeting the development needs of the country. If financial institutions are found to play a minor role in the development of the economy, then suggestions will be offered to bridge the gap between the free and regulated financial institutions.

LITERATURE REVIEW

Financial markets provide the mechanism through which business firms can raise funds (Campbell, 1982, p. 1). Financial markets consist of money markets and capital markets. Money markets deal with financing projects of a period of less for than one-year whereas the capital markets cover finance over a one year period. Generally the majority of financial institutions deal with money markets whereas specialised financial institutions cover capital markets. The main function of a financial institutions is to bridge the gap between people lending their savings and people who need money. Financial institutions work as shock absorbers between these parties. They are providers of key services such as "mobilising resources; allocating credit; pooling, pricing and trading risk; and monitoring and supervising borrowers "behaviour" (Long, 1993, p. 159).

Generally, financial institutions are the backbone of any country's economic development, especially in Africa. Here the majority of financial institutions are Development Finance Institutions that render the service of financing projects, at the same time providing the technical know-how for development. It was noticed that many Development Finance Institutions that were set up in Africa as statutory corporations failed due to excessive government interference thus preventing using these institutions proper sound banking principles. The exception cited was Botswana Development Corporation, which proved to be a success (Roe, 1993, p. 21).

Brief Historical Growth of Financial Institutions in Botswana

During the 1950s and 1960s, many Asian and African countries inherited colonial financial systems most of their functioning banks were being controlled by foreign banks. They had a limited network of banks and most of the branches had been opened near ports, mines and other traditionally important places to cater for short-term finance but not for long-term development finance. No financial institutions were set up for serious economic development in the country. Even the local banks were not cooperating with the Government in the economic development of the nation; hence many countries resorted to nationalisation of these banks. In 1969, the Government of India nationalised 14 major banks and added 6 more commercial banks in 1980 (Government of India 1987, p. 289). Although Botswana inherited the colonial system of banking, and banks were reluctant to lend long-term development finance, the Government of Botswana did not resort to nationalisation. Banks were given freedom of decision-making in advancing economic development. During the period 1980 to 1990 there was great need to nationalise banks in Botswana but the Government managed to restrain itself and instead provided funds to parastatal (public sector) bodies through the Public Debt Service Fund and Revenue Stabilisation Fund for national infrastructure development. Botswana's Government has of late shifted to the policy that parastatals have to look for their own sources of funds and hence the demand from parastatals for credit from commercial banks is growing (First National Bank of Botswana, 1998, p.9). The historical growth of financial institutions in Botswana highlights the colonial influence in the financial sector, the growth of financial institutions, Government's gradual and indirect influence in the financial sector and Government's policy of weaning parastatals off state funding.

The development of financial institutions in Botswana prior to independence (1966) was very slow. Only "two commercial banks were in operation, and both of these banks were incorporated outside the country with only four branches between them. In addition, the South African Post Office Savings Bank had operated through the local post office system since 1911" (Bank of Botswana, 1993, p.11).

CENTRAL BANK

The Bank of Botswana was incorporated in 1976 as a central bank of the country under the Bank of Botswana Act, 1975. The main function of this Bank is to act as an agent, banker and financial advisor to the Government of Botswana. One of the principal objectives of the Bank is to assist in the attainment of national economic development goals (Sec. 4 (c), Bank of Botswana Act, 1975). In 1991 it introduced the system of issuing its own certificates to citizens and companies of Botswana so that its excess liquidity could be absorbed. The rate of these certificates was to guide commercial banks in varying their interest rate structure and encourage the development of the capital market in Botswana (Ministry of Finance and Development Planning, 1997/98-2002/03, p. 127). Of late, in 1999, it introduced *Letlole National Savings Certificates (NSC)* with the sole object of creating saving habits among the low-income group (Gaolathe, 2000, p. 9).

BANKING FINANCIAL INSTITUTIONS

Standard Chartered Bank of Botswana Ltd.

The origin of this bank in Botswana can be traced to 1897 when a branch of Standard Chartered Bank of Africa, a subsidiary of Standard Chartered Bank of London, was opened in Francistown, a town that was then famous for gold mining. Finally the Bank was incorporated in Botswana in 1975 under the Bank of Botswana Act 4, 1975, headquartered in Gaborone.

Barclays Bank of Botswana Ltd.

The first agency operations of this bank started in 1950 in Lobatse (a town where the Botswana Meat Commission is located), under the marketing branch of Barclays Bank International Ltd. Group, London. In 1953 a sub-branch was opened in Francistown under the Bulawayo branch. It was locally incorporated in 1975.

First National Bank of Botswana Ltd. (FNBB)

The First National Bank of South Africa was established in Gaborone in 1991. It took control of the Bank of Credit and Commerce (Botswana) Ltd. in September 1991. The Financial Services Company (FSC) of Botswana Limited, the only citizen-owned registered financial institution in Botswana (FSC, AR, 1992, p.1), merged in 1993 with FNBB which later acquired Zimbank in 1994 (FNBB AR 1998, p. 3).

ANZ Grindlays Bank of Botswana

ANZ Grindlays Bank was incorporated in Botswana and came into operation in 1991.

Stanbic Bank of Botswana Ltd.

It was locally incorporated and started its operations in 1992.

OTHER NON-BANKING FINANCIAL INSTITUTIONS

The National Development Bank (NDB)

The National Development Act, 1963, established NDB in 1964 with the object of promoting economic development of Botswana (Sec. 3 of NDB Act, 77:05). NDB works as an agent of the Government of Botswana in the evaluation of projects and disbursement of funds such as the Financial Assistance Policy, Micro Credit Scheme and Botswana Enterprises Development Unit and Citizen Contractors Fund (CCF).

Botswana Building Society (BBS)

BBS was established under the Botswana Building Society Act, 1977, (42:03). Its main objective is to receive funds as share values and savings accounts from members of the public and advance them as short and long-term loans for economic development through infrastructural development and the promotion of commercial and industrial development.

Botswana Savings Bank

It was established under the Botswana Savings Bank Act, 1982, (56:03) with the main objective of receiving deposits from the public and lending the same for economic development.

Botswana Development Corporation (BDC)

BDC was incorporated in 1970 as a public limited company with the object of developing businesses, both commercial and industrial, in Botswana by rendering financial and technological assistance (BDC, 1998). Because of its status as the commercial arm of the Government, BDC is able to readily provide development finance with a strict commercial orientation (Roe, 1993, p. 21) and supplement the facilities provided by commercial banks in the economic development of the country (Lemisa, 1991, p. 22).

Botswana Insurance Holdings Ltd.

The major role of the Botswana Insurance Holdings Ltd, formally known as Botswana Insurance Company (Pty) Ltd., was to pool the funds, human resources and assets of Botswana General Insurance Ltd., the underwriters of all classes of general insurance business, Botswana Life Insurance Ltd., the underwriters of individual and group life insurance business, and Botswana Insurance Fund Management Ltd., the managers of investments of life insurance, pension and other funds.

Schaba Investment Trust Company (SIT)

SIT was incorporated in 1984 as a Trust Company to attract public interest in equity investments in a diversified portfolio of equities of various companies.

Insurance and Pension Funds

Insurance Industry Act (1986) and Pensions and Provident Funds Act (1988) regularised the activities of these funds

Tswelelo (Pty) Ltd.

Incorporated in 1984 with the main objective of helping small entrepreneurs with short and long-term loans.

Botswana Stock Exchange

Came into existence in 1994 to provide a regulated place to deal in capital funds, shares, bonds, etc., of the country.

Botswana International Financial Services Centre (IFSC)

IFSC encompasses any person or business carrying out an approved financial operation with persons outside Botswana. The main objective of the establishment of this centre (1999) was to create a financial centre through which international communities could invest in neighbouring southern and central African states (Bank of Botswana, 1998, p.60). IFSC is empowered to collect foreign investment and reinvest in neighbouring countries or it may entrust this business to its arm "Collective Investment Undertakings" which will spread investment risk and giving its members, shareholders or unit holders the benefit of the results from the management of its funds (Income Tax Amendment Act, 1999, p. A.100). The income derived through IFSC from activities is exempt 15% of corporate tax and withtholding tax. Even though IFSC activities are in a formative stage, it is noted, that "IFSC is receiving considerable interest from reputable institutions from within the region and beyond" (Gaolathe, 2000, p.17).

FINANCIAL INSTITUTIONS AS FACILITATORS OF ECONOMIC GROWTH OF BOTSWANA

Influence of Mineral Wealth in GDP

Table 1 reveals that during a ten-year period, GDP increased by 352%. Within that period, mining increased in absolute terms by 259%

Table 1: *Influence of Mineral Wealth on GDP*

Year	Total GDP		Minerals		Financial Institutions		Others	
	P million	%	P million	%	P million	%	P million	%
1989	5803.5	100	2969.3	51.2	351.2	6.1	2483.0	42.7
1990	6490.7	100	2896.1	44.6	453.0	7.0	3141.6	48.4
1991	7496.5	100	3074.8	41.0	557.0	7.4	3864.7	51.6
1992	8298.6	100	3125.9	37.7	654.4	7.8	4518.3	54.5
1993	9045.4	100	3042.3	33.6	861.1	9.5	5142.0	56.9
1994	10972.2	100	3921.5	35.7	1106.1	10.1	5944.6	54.2
1995	12252.0	100	4075.2	33.3	1346.1	11.0	6834.7	55.7
1996	14201.8	100	4845.7	34.1	1553.6	10.9	7802.5	55.0
1997	17502.9	100	6469.1	37.0	1816.1	10.4	9217.7	52.6
1998	20428.4	100	7682.2	37.6	2068.6	10.1	10677.5	52.3

Source: Compiled from Bank of Botswana, Botswana Financial Statistics, January 2000, Vol.7, No.1, Table 1.2, p. 2.

but its contribution to GDP decreased from 51.2% to 37.6%. In other words mining influence was reduced by 27%. Compared with 1989 figures, 1998 registered an increase in financial institution activities by 589%. The share of GDP from financial institutions increased from 5.1% to 10.1%, almost double. The analysis clearly indicates that the contribution of mining to economic development is gradually decreasing and the influence of financial institutions is gradually increasing.

Of the financial institutions, banks are to play the major role in lending for economic development. Further analysis of commercial bank loans and advances (Table 2) indicates that out of an average of P3727.0 million in assets, commercial banks lent on average only ten-year P1889.0 million during the period, which is only 50.7% of total assets. There was a gradual increase in lending from 1990 up to 1992 a gradual decline until 1997. Of late there are positive signs of lending growth.

Further analysis of the deployment of assets is necessary in examining the low lending and advances of Botswana's commercial banks. As a test case, in November 1999, the latest figures available reveal that the commercial banks, out of their total assets of P7798 million, deposited P1385 million (17>76%) in Bank of Botswana Certificates, P134.7 million (1.72%) in the Bank of Botswana as a legal requirement, P129.7 million (1.66%) in bills purchased and discounted, and P1860.3 million (23.86%) in foreign banks (Bank of Botswana, 2000, p.16). In other words, commercial banks looked for safe bases and deposited nearly 45.0% of their assets in such areas.

It has been shown, that commercial banks' advances average around 50% of assets. However, it is important that one goes further in determining the advances/lending for whether/were economic development or not, and to identify their influence on the economic growth of the country. Table 3 gives the overall distribution of loans and advances to the different sectors of the economy. Of the total

Table 2: *Loans and Advances by Commercial Banks*

End of	Total Assets		Loans and Advances	
	P million@	%	P million*	%
1990	1354	100	755	55.8
1991	1914	100	1041	54.4
1992	2280	100	1398	61.3
1993	2617	100	1563	59.7
1994	3027	100	1847	56.6
1995	3151	100	1779	61.0
1996	3842	100	1800	46.9
1997	4778	100	1900	39.8
1998	6508	100	2965	45.6
1999	7798	100	3830	49.1
Total	37268		18878	
Average	3727		1889	50.7

Source:

@ Data taken from Table 3.9, p. 16 of Botswana Financial Statistics, January 2000, Bank of Botswana, Vol. 7, No. 1. (Except for 1999, data extracted from December of the year and for 1999 from November).

* Data taken from Table 3.17, p. 24 of Botswana Financial Statistics, January 2000, Bank of Botswana, Vol. 7, No. 1. (Except for 1999, data extracted from December of the year and for 1999 from November)

advances, business share is only 56% while the rest is lent to central, and local government and households. 50% of the assets go to advances of which only 56% is for development purposes. That is to say only 28% of the total assets of commercial banks is used for development purposes.

Further analysis of the period of lending (short-, medium- and long-term) indicates that commercial banks are more inclined towards short-term rather than long-term lending. Short-term loans reached a maximum of 60% in 1990 while long-term loans a maximum of 20% in 1997 (Table 3). Sector-wise analysis indicates that loans and advances by commercial banks favour household activities over economic development (Table 3). The manufacturing sector, which is the backbone of economic growth and development, has been given fifth place by commercial banks in their lending policy. As commercial banks were

Table 3: *Commercial Banks: Loans and Advances by Sector (P million)*

Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	199
Central govt.	-	-	-	-	2	-	-	-	-	
Local govt.	1	2	2	3	2	3	2	2	15	1
Parastatals	57	60	76	94	148	95	71	61	267	41
Households	228	329	491	604	647	782	850	943	1380	191
Agriculture	27	29	47	38	33	25	35	34	29	1
Mining	46	78	79	68	77	55	50	16	59	5
Manufacturing	75	105	134	146	165	145	138	147	192	27
Elec. & Water	2	10	5	9	6	11	7	8	16	8
Construction	34	72	98	92	107	90	60	54	135	8
Trade	124	161	193	201	195	163	175	189	261	29
Transport	29	32	29	34	37	60	82	90	145	20
Finance	16	27	37	36	9	26	9	6	2	
Busi's services	105	113	190	196	360	277	284	292	387	38
Business total *	**515**	**686**	**886**	**913**	**1137**	**945**	**909**	**896**	**1493**	**181**
Others	11	24	19	44	59	49	38	58	78	8
Total	**755**	**1041**	**1398**	**1563**	**1847**	**1779**	**1800**	**1900**	**2965**	**383**
Percentage share of Business out of total advances	**68**	**66**	**57**	**58**	**62**	**53**	**51**	**47**	**50**	**4**
Percentage share	@	@	@	@	@	*	*	*	*	
Short-term (1 to 12 months)	60	56	55	55	50	46	45	38	51	5
Medium-term (1 to 5 years)	33	34	33	32	34	36	37	42	41	3
Long-term (Over 5 years)	7	10	12	13	16	18	18	20	8	1
Total	100	100	100	100	100	100	100	100	100	10

Notes:

1. Business Total includes all rows, except Central and Local Government and households.
2. Figures are approximated to the nearest round figure; hence the total of the figures may not agree with the total shown.

Source:

@ Bank of Botswana Annual Report, 1998, Table 3.18, p. S32.

* Botswana Financial Statistics, January 2000, Research Department, Bank of Botswana, Vol. 7, No. 1, Table 3.19, p. 26

reluctant to lend on a long-term basis due to the inherent risks of inflation, bad debts, foreign exchange fluctuation, etc., the Government of Botswana established various non-banking financial institutions with the main aim of providing finance for development. Presently, the Botswana Development Corporation (BDC) is the major non-banking financial institution in the country.

Table 4 indicates that BDC gave more importance in 1994 to the estates sector and then shifted its focus to industrial development. Out of its 104 investment companies in 1998, investment in the industrial sector was P575 million out of a total investment of P929 million (61.8%). In other words, BDC has achieved its primary objectives of infrastructural and industrial development of the nation and creation of employment by providing capital to fund investment and economic growth in Botswana (Botswana Development Corporation, 1998, p. 10). In 1998, out of its total investment, BDC participated in equity at 41.58% and the remaining 58.42% as loans and guarantees. Further analysis of investment by equity indicates that BDC holds 100% equity in 26 companies, more than 50% but less than 100% in 9 companies and less than 50% in 21 companies (Botswana Development Corporation, 1998, pp. 82-85). Analysis of investment trends over the five years of study indicates an overall increase of 227.71%. It is interesting to note that participation in equity, as well as in loans and guarantees combined, almost registered the same percentage (227%). BDC's involvement in the industrial sector increased by 317.5% in equity and 581.2% in loans and guarantees (Table 4).

Table 4: *Investment by Botswana Development Corporation (P million)*

Year/Type of Finance	Agriculture	Estate	Finance	Industriail	Commerce.	Hotel & Tourism	Trans-port	Total
1994: Investment	8.221	67.180	5.279	54.607	7.920	24.242	1.300	168.749
Loans	5.500	111.813	5.611	69.085	21.664	25.414	0.278	239.365
Total	13.721	178.993	10.890	123.692	29.584	49.656	1.578	408.114
No. of Companies	(14)	(21)	(4)	(55)	(6)	(9)	(3)	(112)
1995: Investment	6.916	70.602	2.500	235.901	9.945	26.667	1.300	353.831
Loans	5.643	111.933	5.047	80.340	22.975	28.366	0.226	254.530
Total	12.559	182.535	7.547	316.241	32.920	55.033	1.526	608.361
No. of Companies	(14)	(22)	(3)	(55)	(6)	(11)	(3)	(114)
1996: Investment	7.203	103.697	7.489	170.337	7.900	23.086	0.753	320.465
Loans	5.581	115.920	5.189	127.486	21.779	20.931	0.198	297.084
Total	12.784	219.617	12.678	297.823	29.679	44.017	0.951	617.549
No. of Companies	(13)	(26)	(4)	(59)	(2)	(12)	(3)	(119)
1997: Investment	7.937	127.580	13.607	179.176	10.747	23.086	0.194	362.327
Loans	6.011	108.135	4.748	179.457	21.390	4.790	0.141	324.672
Total	13.948	235.715	18.355	358.633	32.137	27.876	0.533	686.999
No. of Companies	(13)	(27)	(5)	(44)	(3)	(9)	(2)	(103)
1998: Investment	9.171	149.848	9.662	173375	20.847	23.494	—	386.397
Loans	11.021	101.747	2.287	401493	21.828	4.475	0.082	542.933
Total	20.192	251.595	11.949	574868	42.675	27.969	0.082	929.330
No. of Companies	(15)	(27)	(4)	(46)	(3)	(8)	(1)	(104)

Source: Botswana Development Corporation Annual Reports, (1994, pp. 76-78), (1995, pp. 71-73), (1996, pp. 78-80), (1997, pp. 85-87), and (1998, pp. 82-85).

Another non-banking financial institution is the National Development Bank. It works as a government agent to the Small Borrowers' Fund, Financial Assistance Policy, Botswana Enterprises Development Unit, Citizen Contractors' Fund and Micro Credit Schemes. As indicated in Table 5 the National Development Bank has gradually increased its involvement in providing finance for development on its own and as an agent of Government. Total advances doubled in five years from P111 million to P246 million. It especially played a major role through the agency of the Financial Assistance Policy Fund where it trebled its advances in a five year period. It distributed P128 million and P119 million in 1998 and 1999 respectively to small-, medium- and large-scale industrial establishments compared with only P42 million in 1995.

Other major non-banking financial institutions such as Botswana Building Society, Botswana Savings Bank, Hire Purchase and Leasing Companies and Twelelo (Pty) Ltd. advanced loans for the economic development of the country. Table 6 highlights their involvement in this area. Of all other non-banking institutions, Botswana Building Society played a leading role in rendering financial help for infrastructural development by lending from P104 million (1990) to P242 million (1999). Botswana Savings Bank also increased its lending from P22 million to P63.2 million during the same period. Hire Purchase and Leasing Companies increased their lending until 1993 but had a sudden decline from P265 million in 1993 to P57 million in 1994. This could be attributed, as earlier stated, to the merging of the Financial Services Company in 1993 with that of FNNB.

Table 5: *Investment by (through) National Development Bank (P million)*

Year	National Development Bank	Small Borrowers Funds	Financial Assistance Policy Fund	Botswana Enterprises Development Unit	Citizen Contractors Fund	Total Advances of the year
1995	*36.202	▼31.153	▼42.465	▼1.648	-	11.468
1996	*58.353	◆28.668	◆58.985	◆2.139	-	148.145
1997	@38.061	◆25.491	◆87.524	◆2.236	-	153.312
1998	@31.780	⁘24.356	⁘128.108	⁘2.142	⁘38.853	225.239
1999	#56.796	⁘14.017	⁘119.042	⁘2.517	⁘54.091	246.463

Source: National Development Bank, Annual Reports and Financial Statements, (*1996, pp. 14, 20; @1998, p. 26; #1999 p. 31), ▼1996, p. 29, 32,36; ◆1997, p. 35, 38, 42

National Development Bank Agencies, Financial Statements, (⁘1999, p. 5; 9, 14 and 21)

Botswana Stock Exchange (BSE)

Out of the 15 companies listed on the Botswana Stock Exchange, 4 companies originate from the financial institutions sector (Barclays Bank of Botswana Ltd., First National Bank of Botswana Ltd., Standard Chartered Bank of Botswana Ltd. and Schaba Investment Trust Company). The stocks of these financial institutions performed well and contributed to the overall rise in the BSE. Market capitalisation stood at P3225 million at the end of December 1998, up from P2336 million in December 1997 (Bank of Botswana, 1998, p. 62).

CONCLUSIONS

Compared with 1997/98 non-mining sector economic growth of 7.35%, 1998/99 non-mining sector registered a growth rate of 9%

Table 6: *Assets of Other Non-Bank Financial Institutions (P million)*

End of	Botswana Building Society (a)	Botswana Motor Vehicle Insurance Fund (b)	Botswana Savings Bank (c)	Hire Purchase & Leasing Companies (d)	Tswelelo (Pty) Ltd. (e)
1990	103.9	----	22.0	125.3	8.3
1991	184.6	----	25.4	207.9	10.3
1992	237.0	33.3	26.8	250.3	13.8
1993	255.5	50.5	26.5	265.1	16.3
1994	246.5	66.2	25.6	57.2	16.5
1995	231.2	76.3	30.5	62.7	17.6
1996	207.9	89.9	35.7	70.8	17.5
1997	213.3	157.7	47.4	76.6	11.9
1998	216.2	n.a	63.2	91.0	5.4
1999	*241.9	n.a	@58.3	*103.9	*1.5

Note: *September data, @June data, n.a = not available

Source: Bank of Botswana, Botswana Financial Statistics, January 2000, Volume 7, No. 1,

(a) Table 5.1, p. 40
(b) Table 5.3, p. 42
(c) Table 5.4, p. 43
(d) Table 5.5, p. 44
(e) Table 5.7, p. 46

of which the financial sector's contribution was 11.9%. As stated by Gaolathe (2000, p. 7) in the National Assembly while delivering his Budget Speech, "a growth rate of 11.9% in the financial sector (Banks, Insurance, and Business services) is encouraging."

- The influence of mineral wealth on GDP gradually decreased from 51.2% (1988/89) to 37.6% (1997/98) (Table 1). Further analysis of GDP sector-wise for 1997/98 reveals that the trade, hotels and restaurants sector influenced the economy (GDP) by 17.3%, followed by the government sector with 14.5% influence; banks, insurance and business services sector with 10.1% influence, construction sector with 5.6% influence and manufacturing with only 4.8% influence on GDP. Given that the manufacturing sector, one of the major contributing factors to economic development in any developing country, had only a 4.8% influence on the GDP, one cannot expect miracles in the economic development of Botswana.

- The impact of financial institutions on GDP is increasing. In 1988/89 a 11.9% growth rate was registered compared with 10.1% in 1997/98. An impressive growth rate of 6.1% in 1998/99 in the financial sector was also confirmed (Gaolathe, 2000, p. 7). In spite of this so-called impressive growth, the financial institutions, especially banks, are playing it safe by lending short-term finance mainly for household purposes. That is to say, the financial institutions are developing consumer activities rather than productive ones. The manufacturing sector was fifth in receiving advances from commercial banks followed by sectors such as household, parastatals, business services and trade (Table 3). In 1990 the banks issued more short-term loans (52%) and medium-term loans (38%) than long-term loans (10%). This negligible percentage of long-term lending will further hinder industrial development, thereby impacting negatively on the economic development of the country.

- Commercial banks in Botswana increased their lending in absolute figures from P755 million in 1990 to P3830 million in 1999, an increase of almost 5. In real terms, after applying the average inflation factor of 10% per year during the decade, the increase is only P1476 million, only double (i.e., P3830 x 0.3855).
- Botswana Development Corporation Limited, the largest financial institution of Government, assisted 104 companies by equity participation (P386 million) and loan guarantees (P543 million) (Botswana Development Corporation, 1998, p. 85, Table 4). The largest amount of the Corporation was invested in industries, followed by estates, commerce, hotels & tourism, agriculture and transport. Total advances increased from P169 million in 1994 to P929 million in 1999, an increase of 5 times, yet in real terms only 3.4 times (P929 million x 0.6209), taking into account a 10% average inflation factor. Advances to the industrial sector increased 10 times yet in real terms 6 times which is still very impressive.
- The Government of Botswana has been rendering financial assistance through the agency of the National Development Bank. Around P119 million was advanced to the large, medium and small-scale industries in 1999 through the Financial Assistance Policy Schemes.
- Botswana Building Society is the leading lender of finance compared with Botswana Motor Vehicle Insurance Fund, Hire Purchase & Leasing Companies, Botswana Savings Bank and Tswelelo (Pty) Ltd. Tswelelo mainly advances small-scale industrial loans but its effect has gradually decreased from lending P17.6 million in 1995 to P5.4 million in 1998 (Table 6).
- The value of market capitalisation through the services of the Botswana Stock Exchange increased from P255.1 million at the end of 1989 to P3225 million in December 1998, (Stockbrokers Botswana Ltd., July 1999) an increase of 1264%.
- The emergence of the proposed International Financial Centre, with the object of diversifying the economy of Botswana away from its dependence on mining, is a welcome sign of financial institutions as facilitators of economic growth (Bank of Botswana, 1998, p. 60).

Although there is an increasing trend in the influence of the financial sector on the GDP, (advances by the commercial banks and other financial institutions) the largest influence of the country's economy is still on mineral wealth with a major dependence on a single mineral (diamonds). Government realised that depending on one mineral for economic development is risky; hence it is shifting towards the development of financial institutions in Botswana. The noteworthy financial institutions (Bank of Botswana; five commercial banks; one investment bank/merchant bank; one stock exchange; two stockbroking firms; three insurance companies; around 140 pension funds; one finance leasing company; asset management companies and fund administrators; one building society, two financial parastatals) are considered meagre for a population of 1.611 million, 29 public limited companies, 7545 proprietary limited companies, 9046 establishments registered with local authorities, Registrar of Societies, etc. These available financial institutions are not sufficient for economic development.

The development of financial institutions in Botswana is tardy due to the lack of proper a legal framework. It is correctly stated that the development of financial institutions will depend "upon having an appropriate legal framework which ensures that adequate accounting and reporting practices are adhered to by the institutions involved in marketing financial instruments..." (Ministry of Finance and Development Planning, 1997/98-2002/03, p.

148), so that public confidence on these institutions will increase. Financial institutions are the vehicles to drive the savings habit of the small and medium-sized income group (96% of its population) of Botswana.

SUGGESTIONS

Supervision of Financial Institutions

Although there are the Insurance Industries Act, the Collective Investments Undertakings Act and the Stock Exchange Act, they do not provide a effective supervisory infrastructure (Bank of Botswana, 1998, p. 101). These Acts are to be amended to bring into their fold such institutions as credit unions, stockbrokers, investment advisory services and informal moneylenders.

Separation of Supervisor and Owner

The owner and supervisor of the financial parastatals such as Botswana Development Corporation, Botswana Building Society and Botswana Savings Bank is the Ministry of Finance and Development Planning. It is suggested that ownership and supervision be handled by different institutions so that there will be total transparency and effective control.

Need for Public Disclosure

The audited accounts of financial institutions are to be widely published in local newspapers to inform the general public of the current financial position and soundness of these institutions. This improves public confidence, awareness and education.

Need for Effective Legal Mechanism

A separate legal institute needs to be developed to settle disputes quickly between the public and financial institutions. The old and outdated Companies Law, Criminal Law, Bill of Exchange Act and the Bankruptcy and Insolvency Acts should be suitably amended in tune with the changed economic conditions of the country.

Internal Controls

Financial sector regulations and supervisory practices should provide proper incentives for the financial institutions to enhance corporate governance. It is the duty of Government as well as shareholders, boards of directors, management and internal and external auditors to institute proper internal controls in receiving and investing public funds while keeping in balance the security and economic development of the country.

Introduction of Effective Early Warning System

Just like a Weather Bureau giving early signals of impending cyclones, it is the duty of the supervisory mechanism of the country to identify the problems of financial institutions at an early stage and alert them to the balance. This will assist financial institutions in exercising caution in their dealings and early checking of spill-over, to avoid such incidents as that of the Bank of Credit and Commerce[2], which caught the public of Botswana unawares.

Deposit Protection Schemes

If one financial institution in the country is liquidated and the depositors are affected, then the whole financial sector of the country will be shaken. In order to protect depositors, the introduction of the "deposit insurance scheme" is suggested, which may increase the cost of deposits, but is worth implementing with new legislation or the amendment of the Banking Act, 1995.

Creation of Central Supervisory Authority

At present the Bank of Botswana is entrusted with the supervisory work of the financial institutions. The Bank of Botswana, being the central bank of the country, is already overburdened with many duties such as the

[2] Bank of Credit and Commerce of Botswana liquidated in 1991.

issue and management of currency, issuing Bank of Botswana Certificates, lender of last resort, control of market mechanisms, custodian of Government funds and diamond accounts, advisor to Government, etc. It is therefore suggested a separate institution such as "Financial Institutions Regulatory Authority" be created with legal powers to regulate receiving deposits and deployment of deposits for the economic development of the country.

Creation of Industrial Development Bank of Botswana

This bank should be the financial institution in Botswana that provides credit and other facilities for the development of large and medium-scale industries in Botswana. Botswana Development Corporation should be merged with this specialised institution.

Creation of Finance Corporation of Botswana

This institution should serve the needs of the small-scale industries in Botswana. This corporation should have at least one branch in every district of the country. Each branch should know the conditions, problems and financial needs of its district.

Regulated Freedom of Financial Institutions

While the market economy should be allowed to control the functioning of financial institutions in Botswana, the Governement must regulate them through legislation in order to channel deposits for industrial and economic development. It is suggested that Government, if necessary, guarantee the lending of long-term development finance by banks. There should be re-channelling of household consumer activities into development activities. If necessary, tax concessions should be extended to those institutions lending for development.

Financial Institutions as Vehicles of Privatisation

The Government of Botswana has adopted the need for privatisation of parastatals. Once the shares are quoted on the Botswana Stock Exchange, there should be people available to purchase shares. All citizens may not have sufficient savings to purchase them. The financial institutions should come forward to lend long-term loans to people who are interested in purchasing shares which may then be allowed as collateral security for the financial institutions. Government should issue a policy directive in this regard.

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