

AFRICAN DEVELOPMENT BANK



**Non –Bank Financial Services Regulatory Authority of Botswana
(NBFIRA)**

**MIC GRANT TO SUPPORT
NBFIRA IN IMPLEMENTING A RISK BASED REGULATORY FRAMEWORK**

April 2010

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CURRENCY AND MEASURES

Currency Equivalents

(April, 2010)

1 UA	=	10.2723 BWP
1 UA	=	1.51824 USD
1 US\$	=	6.76593 BWP

LIST OF ABBREVIATIONS AND ACRONYM

AfDB / ADF	=	African Development Bank / African Development Fund
BSE	=	Botswana Stock Exchange
BWP	=	Botswana Pula
CEO	=	Chief Executive Officer
CIU	=	Collective Investment Undertakings
CMP	=	Capital Market Participant
CSP	=	Country Strategy Paper
EDSL	=	Economic Diversification Support Loan
GDP	=	Gross Domestic Product
GoB	=	Government of Botswana
GECL	=	Legal Department of the African Development Bank
ICB	=	International Competitive Bidding
IFSC	=	International Financial Services Centre
IT	=	Information Technology
MIC	=	Middle Income Country
MFD	=	Ministry of Finance and Development Planning
NBFIRA	=	Non-Bank Financial Institutions Regulatory Authority
NBFI	=	Non-Bank Financial Institutions
NDP10	=	National Development Plan 10
OSGE	=	Governance, Economic and Financial Reforms Department of AfDB
RBRM	=	Risk Based Regulatory Model
RoB	=	Republic of Botswana
SRO	=	Self-Regulatory Organization
TOR	=	Terms of Reference
UA	=	Unit of Account
VAR	=	Value At Risk

HIERARCHY OF OBJECTIVES	EXPECTED RESULTS	REACH/ BENEFICIARIES	PERFORMANCE INDICATORS, SOURCE, PERIODICITY	INDICATIVE TARGETS AND TIME FRAME	RISKS, MITIGATION MEASURES
<p>GOAL:</p> <p>Botswana becomes a financial services hub for Southern Africa</p>	<p>IMPACT:</p> <p>Botswana's environment for non-banking financial services is competitive and recognized as world-class, dynamic and attracting non-banking financial firms. Its performance contributes to the development of the financial sector as a whole.</p>	<p>The population of Botswana</p> <p>Potential foreign and local investors in the non-banking financial services sector</p> <p>The labor force employed in this industry</p>	<p>Size of assets managed by the pensions industry, as a percentage of GDP</p> <p>Size of assets managed by the insurance, as a percentage of GDP</p> <p>Market value of assets listed on the Botswana Stock exchange, as a percentage of GDP</p> <p>Number of Botswana staff in financial services</p> <p>Source: Central Bank reports, Regulator's Annual Report</p>	<p>Target size: 39%, 2015¹ Baseline: 33%, Nov. 2009</p> <p>Target size: 17%, 2015 Baseline: 14%, Nov. 2009</p> <p>Target size: 465%, 2015 Baseline: 395%, Nov. 2009</p> <p>Target: growth > 7% / year² Baseline January 2010: tbd by the MFDP</p>	<p>The environment for Non banking financial institutions remains uncompetitive, in particular compared to South Africa</p> <p>Mitigation: NBFIRA is developing a results framework to continuously compare key indicators of competitiveness with relevant competitors and identify appropriate actions.</p>
<p>OBJECTIVES:</p> <p>NBFIRA is equipped with and effectively implements a risk based regulatory model, in line with world class standards</p>	<p>OUTCOMES:</p> <p>The risk based regulatory model is effective and properly used, which should contribute to:</p> <ul style="list-style-type: none"> - the Regulator achieving administrative efficiency - Consumers achieving a fair deal and being protected against fraud - Markets being efficient, orderly, and fair 	<p>NBFIRA</p> <p>Buyers of Financial Services Products</p> <p>Investors and industry players</p>	<p>Administrative effectiveness % of firms monitored using the risk based regulatory framework</p> <p>NBFIRA's number of staff</p> <p>Maximum turnaround time for communication on monthly returns for CIUs</p> <p>Consumers achieving a fair deal % customers satisfied in the survey</p> <p>Ratio of the number of cancelations of licenses to the number of active licenses</p> <p>Source: Satisfaction survey, RBRM, Central Bank reports, Regulator's Annual Report</p>	<p>100% of the firms for which the RBRM is developed by December 2012 Baseline: 0%, March 2010</p> <p>Target: below 60³, May 2012 Baseline: 28, March 2010</p> <p>Target: 2 weeks, May 2012 Baseline: 6 weeks, March 2010</p> <p>Target: tbd as baseline is clarified Baseline: tbd in 2011, first customer satisfaction survey</p> <p>Target: tbd as baseline is clarified Baseline: tbd when the RBRM is implemented</p>	<p>NBFIRA is unable to implement the system because of lack of financial resources.</p> <p>Mitigation: this project would allow NBFIRA to deliver quality services, which contributes to justifying fees collected from the industry. Implementation of the provision of the NBFIRA Act on self-financing is a priority for the Government and NBFIRA's top management. AfDB will closely monitor progress in its policy dialogue. In the meantime, NBFIRA has identified priority focus areas, on which available resources will be concentrated.</p>

¹ In the absence of quantitative targets in the national strategy, the target was calculated assuming the growth rate of the industry above GDP growth between 2008 and 2009 would remain constant. The growth rate of the pensions industry was 7%, against a GDP growth of 4%

² The growth target for Botswana staff is equal to the growth target for the size of the sector (7%)

³ This is a ceiling target, based on NBFIRA's business plan. One benchmark was the number of staff in the Financial Supervisor of Mauritius, which has comparable mandate and regulated industries, adjusted for the difference in the size of the market

HIERARCHY OF OBJECTIVES	EXPECTED RESULTS	REACH/ BENEFICIARIES	PERFORMANCE INDICATORS, SOURCE, PERIODICITY	INDICATIVE TARGETS AND TIME FRAME	RISKS, MITIGATION MEASURES								
<p>INPUTS</p> <p>UA 410,000 for the development of support for the implementation of a risk based regulatory model</p> <p>UA 165,000 to set up an IT system to facilitate the implementation of a risk based model.</p> <p>UA 57,000 for contingencies</p> <table border="1" data-bbox="109 758 300 938"> <thead> <tr> <th colspan="2">UA '000</th> </tr> </thead> <tbody> <tr> <td>AfDB</td> <td>600</td> </tr> <tr> <td>NBIFIRA</td> <td>32</td> </tr> <tr> <td>Total</td> <td>632</td> </tr> </tbody> </table>	UA '000		AfDB	600	NBIFIRA	32	Total	632	<p>OUTPUTS</p> <p>A risk based regulatory model (RBRM) for Insurance, Pensions and Capital Market Participants</p> <p>Procedure manuals for the implementation of the risk based regulatory model</p> <p>A curriculum and training manuals to skill new staff on the risk based regulatory system</p> <p>Training on the risk based regulatory model – in-class and on-the-job</p> <p>An IT system to facilitate the implementation of a risk based model</p> <p>Recommendations for supervisory and prudential legislation, regulations for the regulated industry</p> <p>Recommendations for the improvement of the operations of NBFIRA</p>	<p>NBFIRA would increase efficiency</p>	<p>Completion of the documentation of systems, processes, training manuals</p> <p>People/Hours of in-class training</p> <p>Number of on-site inspections</p> <p>Commissioning of the IT system</p> <p>Completion of report on recommendations for supervisory legislation, regulations and prudential for capital markets</p> <p>Source: Project progress reports</p>	<p>System documentation ready by March 2012</p> <p>At least 3000 man-hours trained by May 2012 (to be adjusted based on the proposals by prospective consultants)</p> <p>At least 150 on-site inspections completed by July 2012 (to be adjusted based on the proposals by prospective consultants)</p> <p>IT commissioned by February 2012</p> <p>Report completed by January 2011</p>	<p>The model is overly sophisticated and does not reflect market realities</p> <p>The system is not easily adaptable to changing conditions</p> <p>There is a misalignment between the legal framework, the regulatory model and the IT system</p> <p>Mitigation: the ToRs explicitly request from prospective consultants to address the risks above in their proposal</p>
UA '000													
AfDB	600												
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Total	632												

EXECUTIVE SUMMARY

Economic diversification has been a central objective of Botswana's development policy, in recognition of the excessive dependence of Botswana's economy on diamonds (Government Paper No 2 of 1984). Results to date have however been mixed: Botswana achieved an impressive average growth rate of 8% since the 1980s and the share of mining in Botswana's GDP declined from 48% in 1990 to 34% in 2008 – services, including financial services have grown from 34% to 49% over the same period. However, other sectors, identified as strategic, have stagnated or declined. For example manufacturing has decreased from 5% to 3% over the same period. As a result, accelerating economic diversification remains an important Government agenda.

Economic diversification has become even more relevant in the wake of the recent global economic crisis. Indeed, the decline in diamond prices has weakened Botswana's fiscal position and negatively affected the performance of the economy as a whole. In response to the crisis, the African Development Bank provided in 2009 to the Government of Botswana an Economic Diversification Support Loan (EDSL) of US\$ 1.5bn to bridge the revenue gap and support economic diversification reforms, of which 66% has been already disbursed.

The development of financial services, including the non-banking financial sector, plays a key role in the country's economic diversification strategy. National Development Plan 10 aims at positioning Botswana as the financial services center of Southern Africa. As part of this strategy, the Non-Banking Financial Institutions Regulatory Authority of Botswana (NBFIRA) was established in 2008; NBFIRA regulates pensions, insurances and capital markets and aims at fostering the stability, fairness and efficiency of the non-bank financial sector, and hence enhance its attractiveness.

The objective of the proposed project is to enable NBFIRA to deliver first class regulation by setting up a Risk Based Regulatory Model (RBRM). Risk based regulation is recognized as the international best practice. One of its key benefits is to help the regulator focus its attention on systemic risks, while allowing for limited and necessary failures to occur, as part of normal market dynamics.

The risk based regulatory model is key for NBFIRA to achieve financial sustainability and independence. The Government is currently funding NBFIRA but is forced to reduce its support as a result of the recent economic crisis. The RBRM would enable NBFIRA to provide effective regulation and services, and thus position it to negotiate adequate fees with the regulated industry.

The proposed project complements the EDSL reform program. It provides critically needed capacity building to deepen one of the key reforms supported by the EDSL program: the improvement of financial sector governance and the strengthening of the regulation of non-bank financial institutions.

The project provides consulting services for the design of a RBRM, and the development of the necessary operational procedures, IT systems and training. The total cost is estimated at UA 632,000, out of which it is proposed that UA 600,000 be financed through a grant from the MIC trust fund, and the balance by NBFIRA's training budget. The proposed project includes recommendations to adjust NBFIRA's operations and revise the legal, institutional and regulatory environment in order to adequately implement the RBRM. The assignment is expected to be carried during the period 2010-2012.

1. INTRODUCTION

The objective of the proposed project is to support Non-Bank Financial Institutions Regulatory Authority (NBFIRA) in implementing a Risk Based Regulatory Model (RBRM) in line with the international best practices (Box 1 below). This is done by providing assistance to design the model, providing the necessary operational procedures, training and IT systems, proposing adjustments to relevant other relevant aspects of NBFIRA's operations, and making recommendations to align relevant aspects of the legal, institutional and regulatory environment with the RBRM.

The development of financial services, including the non-banking financial sector, plays a key role in the country's economic diversification strategy. NBFIRA is the Botswana's regulator for pensions, insurances and capital markets. It was established in 2008, in the framework of the National Development Plan 10, which aims at positioning Botswana a financial services hub of Southern Africa. Setting up a modern and efficient regulator for Insurances, Pensions and Capital Market Participants is a critical step towards achieving the Government's economic diversification plans in the financial sector.

In setting up a RBRM, the proposed project will play a key role in helping NBFIRA achieve financial sustainability and independence; effective regulation is a prerequisite for NBFIRA to provide high standard services to the industry and hence negotiate adequate fees. NBFIRA has benefited from the support of the Government and a number of development partners to become operational in compliance with international standards. The World Bank provides support in the upgrading of critical laws for Pensions, Insurances and Capital Markets. However, the Government has seen its revenues negatively impacted by the recent economic crisis, and is forced to reduce its support. In addition, the current assistance by Development Partners does not address the key operational challenge that NBFIRA faces: putting in place a risk based regulatory model that meets international standards.

2. THE NON-BANK FINANCIAL SECTOR INDUSTRY

In line with the current National Development Plan (NDP10), Botswana's development vision is to become the financial service hub of the region. The development of the Non-Bank Financial Institutions (NBFI) Sector plays a central role in this endeavour. The Non-Bank Financial Services industry consists of the Pensions Industry, Insurance Industry and Capital Markets Participants.

The NBFI Sector has grown rapidly over the last five years. A breakdown of the major industries in the Non Banking Financial Services Sector is presented in Annex IV.

- Pension funds have become one of the most important segments of the financial system, following the creation of one fund, the Botswana Public Officers Pension Fund (BOPF). Pension Funds grew by 7% in 2009, 3% above GDP growth (4%). The Pensions industry consists of some 103 Funds with total assets of some US\$4.5 billion. It is worth noting that the Public Service Pension Scheme is responsible for some 80% of the Pensions Industry's assets. The asset management industry is roughly about 40% of all the assets of the various non-bank financial services industries and is estimated at around US\$ 4 billion.
- The Insurance industry is gaining prominence. It consists of the Life Insurance Industry also known as the Long Term Insurance business, the General Insurance industry also known as the Short Term

Insurance Industry and the Medical Aid Funds Industry. The Life Insurance industry (Long term Insurance Industry) consists of some nine or so companies with total gross annual premiums of some US\$200 million with assets of some US\$1.5 billion. The General Insurance Industry (Short Term Insurance industry) consists of some eleven or so insurance companies with gross annual premiums of some US\$1 billion with assets of some US\$1.5 billion.

- The Botswana stock exchange had a market capitalization as at December 2009 of US\$54 billion. Capital market participants, regulated by NBFIRA, include financial stock exchange, commodities exchanges, investment managers, CIUs, investment advisors, custodians, central securities depositories, securities dealers, trustees of CIUs, IFSC companies, micro-lenders.

3. NBFIRA

3.1. *Institutional Framework*

The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) was established as an independent regulatory agency for non-bank financial institutions in April 2008. The principal objective of NBFIRA is to regulate and supervise non-bank financial institutions so as to foster: (i) safety and soundness of non-bank financial institutions; (ii) highest standards of conduct of business by non-bank financial institutions; (iii) fairness, efficiency and orderliness of the non-bank financial sector; (iv) stability of the financial system, and; (v) reduction and deterrence of financial crime (Section 8, NBFIRA Act).

NBFIRA is run by a six member Board appointed by the Minister of Finance. It is organized into three line departments: capital markets, insurance and pensions, and corporate services. Because the Non-Bank Financial Services Industry was previously regulated by the Ministry of Finance and the Reserve Bank, the Permanent Secretary in the Ministry of Finance and the Governor of the Reserve Bank are both automatically members of the NBFIRA Board to ensure continuity. The Board is guided by a Chairman and a deputy Chairman appointed by the Minister of Finance. The Chief Executive of NBFIRA who is not a member of the Board is appointed by the Minister of Finance on the recommendation of the Board.

3.2. *Legal Framework*

The NBFIRA Act approved in 2006 is the legal framework for the regulation of non-bank financial institutions for the purpose of enhancing the safety and soundness of the NFBI sector. In line with international standards, the Act contains sections related to the operations, responsibilities and accountabilities of NBFIRA including staffing, finances, corporate governance and reporting to stakeholders. It also provides a comprehensive licensing regime for supervised entities and provides NBFIRA with the powers to remedy imprudent practices, unethical practices and contraventions of the law through the issuance of notices, the issuance of orders, the issuance of directions, the acceptance of undertakings, the imposition of civil penalties and the application to the courts in the most serious cases involving offences. NBFIRA also has significant powers with respect to information gathering, the conduct of on-site inspections and the conduct of investigations.

Box 1: What is risk based regulation and why?

What is risk based regulation?

Risk based regulation is based on a cycle of risk identification, measurement, mitigation, control and monitoring for both individual companies and the entire industry. The cycle is designed so as to reflect the regulator's statutory objectives (such as market stability, fairness, efficiency...) and risk appetite. By measuring and classifying risk, each company is monitored individually and a regulation project based on each company's risk profile is designed. The regulator's efforts and resources are allocated based on the level of risk associated with the company, with the most effort and resources allocated on the basis of the level of risk and its likely impact on both the industry as a whole and the individual company. The process works on the basis of:

1. **defining the risks the regulator would like to monitor and measure** – a process often loosely described as understanding and categorizing the firm's risk profile, something which may be done implicitly or explicitly;
2. **identifying the risks which it runs** – to capital, to reputation, to earnings, to brand, and the activities or events which can give rise to those risks: credit risk, market risk, operational risk, event risk;
3. **agreeing methods of measuring those risks** – loan grading for credit risk, value at risk for market and associated credit and operational risk, stress testing for event risk. Each of these presents a host of technical problems; correlations, "fat tail" distributions, the validity of continuing model relationships in times of liquidity pressure, the absence of any clear intellectually justified basis for deciding how much stress to test against;
4. **designing and installing systems** to produce the information to enable those risks to be measured;
5. **setting and operating controls** to manage those risks – typically through limits (on VAR, or credit exposure, or other dimensions) or through delegated authorities;
6. **allocating responsibility to managers** for managing the risk. This has two components, the business managers who run individual businesses or functions who have the primary responsibility within a firm for managing the business including keeping its risks within previously agreed levels; and independent risk managers whose task it is to provide challenge as to how risk is being identified, measured and controlled.

Why risk based regulation?

Risk Based Regulation provides a common approach applying to all industries regulated, resulting in a more efficient management of systemic risks. This is more effective than merely bringing together various approaches from different industries, each of which has its own methodologies, explicit or implicit, and its own practices.

It provides the regulator with means of distinguishing which risks are desirable and which are not, and within which limits. The guiding principle of risk based regulation is the explicit objective of a non-zero failure approach – that is, the regulator does not try to prevent the failure of all financial institutions it regulates. Failure is both unavoidable and indeed it is desirable that some should fail – unavoidable because no regulator can control the entire industry that he regulates; and undesirable because reward and risk are linked, and an attempt to prevent all financial failure would unreasonably constrain financial institutions. The regulator however is not indifferent to significant failures, which could set at risk the discharge of its objectives. The method allows the regulator to supervise the industry in a way that does not impede innovation and progress.

The method improves the efficiency of the regulator by automatically allocating its attention and resources on the most unstable companies and the most serious risks within these companies. Each risk is regulated on the basis of the measure of damage that would result if it were to occur and the probability of it happening with the most significant risks being prioritized. Financially sound companies would receive much less of the regulator's attention while those companies which pose the biggest risk to the financial system getting most of the regulator's attention.

In conjunction with development partners, NBFIRA is advancing the implementation of the NBFIRA's Act. With the support of the World Bank, NBIFIRA has already commissioned a South African Consultant to modernize the Insurance and Pension Funds Act (covering Pension Funds, Provident Funds, and Annuities etc). A draft copy of the Insurance and Pension Funds Act has been

circulated and is awaiting comments from Industry. The Prudential Rules which outline the guidance to industry on how the regulator will supervise industry are still being drafted and will need to be implemented. While the NBFIRA Act is modern and broad and provides that these are prudentially regulated NBFIs, the licensing and filing regulations with respect to asset managers; central securities depositories; custodians; securities dealers; securities exchanges; trustees for CIU; finance and leasing companies; investment advisors; micro lenders and IFSC entities are still to be promulgated. For this purpose NBFIRA has approached the World Bank to assist in the creation of a Regulatory Regime for Capital Markets Participants (CMP), in the review and amendment of the Regulatory Regime for Self-Regulatory Organizations (SRO), and in the review and amendment of the current Collective Investment Undertakings Act (“CIU Act”). The funding has been approved by the World Bank. It will be noted that drafting of the licensing and filing requirements regarding micro lenders has been done (by NBFIRA) and it is planned that the drafting of the same regarding the finance and leasing companies would be done through an independent consultant as was the case with micro lenders regulations

3.3. Governance

The office of a Financial Services Ombudsman is being envisaged; the appeal system needs to be completed. The small size of the market in Botswana means that a number of these specialized Offices have to be combined into one office of the Financial Services Ombudsman which will cover the entire NBFi sector. In South Africa for example, there are separate offices for the Pension Funds Adjudicator, Life Insurance Ombudsman and Short term Insurance Ombudsman where the public can raise complaints free of charge. There is currently no appeals tribunal to review any rulings of NBFIRA. Normally when a regulator issues a ruling, the applicant or complainant should have access to an appeals tribunal headed by a retired judge or legal expert to hear and make a call regarding the correctness of the Regulator ruling. As the regulatory system stands, if anyone wants to challenge the actions of a regulator for example they have been denied a license or have been fined, there is no obvious safety valve before the courts. There are no Expert Advisory Boards (e.g. Pensions Advisory Board or Insurance Advisory Board) to assist Departmental Heads in understanding what is happening on the ground. Advisory Boards normally act as a link between the Regulator and the private sector. The Private sector which is regulated by NBFIRA does not seem to have any obvious forums where it could advise or assist the regulator. Expert advisory Boards made up of industry experts are an excellent way for the regulator to tap into the collective expertise of the private sector.

3.4. NBIFIRA’s 2010-2013 Business Plan

In the absence of a risk based supervision, NBFIRA has mainly concentrated on compliance based supervision and market conduct. Since inception, NBFIRA’s focus has been on the Insurance and Pension industries, which were previously regulated by the Ministry of Finance and Development Planning. Micro Finance and Capital Markets have been the other focal areas for the Authority in the formative stages. NBFIRA has initiated the formulation, review and amendment of pertinent regulatory frameworks that could enhance effective NBFi regulation and supervision in the long-term.

NBFIRA’s 2010-2013 business plan has the following objectives:

- Create a safe, fair, stable and efficient NBFi sector, which involves developing a RBRM and developing sound relationships with policy makers, enforcement agencies and other regulators.

- Achieve financial sustainability
- Promote knowledge of NBFIR regulatory issues by sensitizing the regulated industry on the need to pay levies and fees and developing a stakeholder and consumer education strategy by 2011
- Implement an effective regulatory framework for; (i) Pensions by end 2010; (ii) CIUs, SROs, asset managers, investment advisors, custodians, trustees, medical aid by 2011, and; (iii) Finance and leasing companies by 2013.

3.5. Skills Audit

A preliminary skills audit of NBFIRA indicates that the current headcount may be sufficient for NBFIRA to deliver on only part of its mandate. The preliminary skills audit was conducted for the purpose of this project; its key findings are (see Annex VI for further information):

- NBFIRA currently employs 28 people. There are seven people employed in the Capital Markets Department with a cumulative total experience of 64 years in experience. Of this total experience, only 8 years divided between two people was earned in the private sector that is related to the industry supervised. The total regulatory experience in this department is 23 years, of which some five years were earned in NBFIRA and 11 years was earned in the Ministry of Finance and Development Planning and six years at the Botswana Stock Exchange. There are twelve people employed in the Insurance and Pensions Department with a cumulative total of 140 years in experience. Of this total experience, only 6 years was earned in the private sector that is related to the Industry supervised. The total regulatory experience in this department is 48 years, of which some 1 year were earned in NBFIRA, 35 years in the Ministry of Finance and Development Planning, and 5 years in the Namibian regulator, 2 years with Swaziland regulator and 6 years with Kenya regulator.
- An analysis of the general qualifications seems to suggest that NBFIRA has an acceptable base of qualifications with some specialist skills in actuarial and statistical qualifications.
- There is a shortage of private sector and regulatory experience conducted from an independent body. This shortage is particularly acute in the Capital Markets Department. The Carmichael report recommended a staffing complement of 54 employees, but budgetary constraints have forced NBFIRA to review and in some cases delay implementation of the staffing plan. Each Departmental head is negotiating a revised staffing structure with the CEO, which if agreed will be taken to the Board for approval.
- The absence of a strong standalone Legal Department currently poses a challenge for an institution tasked with the supervision of several legal statutes.

3.6. Main challenges facing NBFIRA

Need to unlock independent funding from the private sector. The NBFIRA Act indicates that it should be financed through fees levied on the regulated industries.

However, as agreement on a fee structure has not been reached yet, NBFIRA is currently fully funded by the government of Botswana. For the current Fiscal year, NBFIRA requested about R37 million, but could only get R17 million due to the budget constraints faced by Government of Botswana as a result of the financial crisis. The inability to secure adequate funding would seriously hamper the ability of NBFIRA to execute its mandate. The need for effective regulation normally increases in tight market conditions which implies that dependence on the Government funding is not conducive to the effective

regulation of the financial services sector. In addition, the impression that the decisions of the regulator can be influenced by political pressure in any form can have serious implications on the ability of Botswana to attract foreign investment.

NBFIRA was established with the intention to achieve self funding within a period of five years. The process of the regulator securing the necessary funding from the private sector has to be approved by the Ministry of Finance. An initial fee regime for the Insurance and Pensions Department proposed by NBFIRA has been rejected, chiefly as a result of concerns about the level of the fees and the sequencing of their application. Efforts are currently under way to negotiate these fees with the private sector before re-submitting an application to have them approved by the Ministry of Finance and Development Planning. The levy structure for Capital Market Participants is being formulated for consultation with the various industry players, which will then be presented to the Board of NBFIRA for approval. As this challenge poses the main risk to the project, mitigation measures are developed in the risk section.

Limited technical and regulatory expertise. From the inception of NBFIRA in April 2008, the lack of regulatory and technical expertise has always been an acknowledged handicap. The skills audit above provides more details. NBFIRA has started addressing this situation by identifying priority areas of focus on which the limited resources will be concentrated. In addition, ongoing effort to secure financing from fees levied on the industry aim at providing the funds to complement the current staffing. Finally, the training component of this project is designed to directly address this challenge.

Legal frameworks need to be created. Insurance and Pensions legislative review project funded by World Bank and undertaken by Quindiem Consultants commenced in September 2009. Draft laws of Insurance and Pensions (including draft Acts and Regulations) which are in line with international best practices and risk based supervision were distributed to the industry players for comments and are now being finalized for submission to Ministry of Finance and Development Planning. The draft Prudential Rules, Filing Returns, and Application Forms for both Insurance and Pensions that are in line with risk based supervision principles has been formulated in terms of Section 50 of the NBFIRA Act and will be issued to the industry during March for comments. These Prudential Rules are scheduled to be implemented in June 2010.

Capital Markets project funded by the World Bank was approved and the purpose is to provide technical assistance in the review of the CIU Act to bring in line with international best practices and risk based model. In addition, the authorization and filing requirements in a number of capital market participants would be developed including Prudential Rules.

The lack of Regulatory Systems, Processes and Procedures. NBFIRA is basically a new organization and as such needs to fully develop its systems, processes and procedures. NBFIRA has decided in its strategy to establish a risk based model of regulation, which is now the international best practice. This model does require a lot of technical skills on the part of staff in terms of being able to assess, measure and categorize risk, and the development of tailor made regulatory regime for every organization regulated. This project is designed to directly address this challenge.

The lack of an IT system for record keeping and Project Management. Risk based regulation requires a robust IT systems for information processing, record keeping and project management. Each industry player is regulated based on the perceived risk associated with it. All agreements between the regulated entity and the NBFIRA would have to be documented and stored on the IT system. The regulator's IT system is central to the risk based model in the sense that it stores all the information that

the regulator will use to formulate regulation projects for the various institutions and allows the monitoring of these regulation projects. Among the key functions of the IT system is the ability to track and catalogue all correspondence and documentation between the regulator and the regulated entities, to monitor all deadlines within the regulator's office and to act as a central repository for all the monitoring measures that the regulator will use. This project is designed to directly address this challenge.

4. PROJECT DESCRIPTION

4.1. *Project Objective*

The proposed project aims at helping Botswana to become a financial services hub for Southern Africa by equipping NBFIRA with an operational risk based regulatory model in line with world class best practices. This is done by providing assistance to design the model, providing the necessary operational procedures, training and IT systems, proposing adjustments to relevant other relevant aspects of NBFIRA's operations, and making recommendations to revise relevant aspects of the legal, institutional and regulatory environment.

4.2. *Strategic alignment*

The proposed technical assistance program:

- **Serves to implement pillar I of the Bank's Country Strategy Paper 2009-2013, which consists in "supporting actions to expand private sector investment"**. In addition, the CSP extends Bank's support to efforts aimed at strengthening critical capacities in both the public and private sectors. Under the non lending activities, the CSP emphasizes capacity building activities that will enhance the ability of the public sector to provide effective service delivery.
- **Deepens the EDSL reform program**, under the component three "improving financial sector governance and strengthening the regulation of nonbank financial institutions".
- **Aligns with the objectives of the MIC Trust Fund.** It fits fit into two of the priority activities identified in the Revised Guidelines for the Administration and Utilization of the Technical Assistance Fund for Middle Income Countries (ADB/BD/WP/2005/90), namely: (i) capacity building and institutional building and (ii) promotion of the private sector.

4.3. *Justification for the Use of the Resources*

The proposed technical assistance program:

- **Supports Botswana's objective to become the financial services centre of Southern Africa, as stated in the National Development Plan 10.** In order to meet this objective, Botswana needs to develop a sound, transparent and highly competitive non-banking financial sector. An efficient NBFIRA is expected to significantly contribute to this and create the investor confidence necessary for the growth of the sector.

- **Aims at equipping NBFIRA with the central tool required to deliver on its mandate.** It complements the actions already undertaken by NBFIRA and other partners, in particular the review of the legal framework for capital markets and pensions supported by the World Bank.

4.4. Inputs and activities

Activities are to be completed by two consulting firms:

- A Consulting Firm (hereafter called Consulting Firm A, or Consulting Firm) will be recruited to develop and support the implementation of a risk based regulatory model for pensions, life insurance, general insurance, the securities market, collective undertakings and all other capital market participants. Consulting firm A will calibrate the model for Botswana, propose changes in NBFIRA’s operations to implement the RBRM, make recommendations to guide the relevant legislation, document the systems, processes and procedures, train existing staff in class and on-the-job, and prepare training manuals, in particular for new employees. Consulting firm A will also support the development and commissioning of an IT system designed to support the implementation of the RBRM. This involves developing specifications for the IT system.
- A second consulting firm (Consulting Firm B) will be recruited to design and deliver the IT system.

Though the RBRM will be developed specifically for Pensions, General Insurance, Life Insurance, the Capital Market Participants, which currently constitute the bulk of NBFIRA’s regulated industry and its short term priority, it will provide a framework and an IT platform designed for easy inclusion of further developments in other specialist industries under the mandate of NBFIRA. The detailed activities are provided in the Terms of Reference in Annex III.

4.5. Risks and mitigation measures

The key risk to achieving the Outcome of the project and its mitigation measure is as follows (see the logical framework at the beginning of the document for the risks to achieving the Goal and delivering the Outputs of the project.):

Risk	Mitigation measure
<p>NBFIRA does not achieve full self-funding before 2012, the deadline it set itself (see details in chapter 3.6 on “Challenges”)</p>	<p>GoB has confirmed during the preparation of this proposal its intention approve industry fees and levies as soon as possible, subject to a suitable agreement with NBFIRA and the industry. A first fee structure for Pensions and Insurances was not accepted because of disagreement on the level and sequencing of the feed. NBFIRA has been since actively working on a revised fee structure. The tentative target date for approval of the fees by the Government is September 2010. NBFIRA conducted in January 2010 a road show to introduce new levies and fees to the insurance and pensions industry. Industry provided their comments and these will be passed on to MFDP for promulgation. Capital Markets levies are in final stages of being formulated and consultations with the industry should follow in the coming months. Importantly, the measures proposed herein will capacitate NBFIRA to provide high standard services, which plays a key role in justifying the proposed fees.</p>

5. COST AND FINANCING PLAN

The total cost of the plan is estimated at UA 632,000, financed from the MIC Trust Fund and the Republic of Botswana (RoB). It is broken down as follows:

Cost estimate and financing plan		in UA		Financing source:	
	Category		Cost	MIC TF	RoB
Risk based regulatory model (RBRM)	Services		409,000		
Team leader			80,000	80,000	
Experts (regulation, IT, legal, training)			329,000	300,000	29,000
IT system			165,000		
Consulting services	Services		165,000	165,000	
Contingency	Miscellaneous	10%	58,000	55,000	3000
Total			632,000	600,000	32,000

The cost estimate for the RBRM is based on the one hand on an extrapolation from similar projects (RBRM in Mauritius, Namibia and Bolivia) and on the other hand on a bottom up estimate of man days and ancillary costs.

6. PROCUREMENT

6.1. Procurement arrangements

Summary of Procurement Arrangements

Project Categories	[in UA]					
	ICB	NCB	Other*	Short List	Non-Bank-Funded	Total
1. Goods	N/A	N/A	N/A	N/A	N/A	N/A
2. Service Contracts	N/A	N/A	N/A	N/A	N/A	N/A
2.1 publications						
3. Consulting Services	N/A	N/A	N/A	N/A	N/A	N/A
3.1 Studies and Engineering						
3.2 Technical Assistance				[380,000]	29,000	409,000
Risk-Based Regulatory Model				[165,000]		165,000
IT system (software)						
4. Training	N/A	N/A	N/A	N/A	N/A	N/A
5. Miscellaneous	N/A	N/A	[55,000]	N/A	3,000	58,000
TOTAL			55,000	545,000	32,000	632,000

* Other may be National Shopping, Direct Purchase.

+Figures in brackets [] are amounts financed by the Bank Group.

The procurement in relation to the Bank's contribution includes consulting services and will be undertaken in accordance with Bank Group's "Rules and Procedures for Procurement of Goods and Works" (May 2008) and "Rules and Procedures for the Use of Consultants" (May 2008).

The procurement of consultant firm services will be undertaken on the basis of a short list of 6 firms prepared by the NBFIRA in compliance with Bank's rules of procedures and approved by the Bank. The letter of invitation, including the TORs will also be approved by the Bank before communication to the short-listed consultants. The selection method shall be Quality and Cost-Based. The expressions of interest will be advertized internationally.

The contribution of the Republic of Botswana covers accommodation and as needed flights, trainings and event services for workshops. Audit of the project will be conducted by the firm auditing NBFIRA at no additional cost. The audit method of the Bank will be used for the audit of the project. The procurement in relation to the contributions of Botswana will be undertaken using the procurement rules in place in NBFIRA.

6.2. Procurement plan

As part of the preparation of the project the Recipient shall prepare and, before negotiating/signature of the Financing Agreement, furnish to the Bank for its approval, a Procurement Plan acceptable to the Bank setting forth: (a) the particular contracts for the goods, works, and/or services required to carry out the project during the initial period of at least 18 months; (b) the proposed methods for procurement of such contracts that are permitted under the Financing Agreement, and (c) the related Bank review procedures. The Recipient shall update the Procurement Plan annually or as needed throughout the duration of the project. The Borrower shall implement the Procurement Plan in the manner in which it has been granted the approval by the Bank.

7. FINANCIAL MANAGEMENT

7.1. Disbursements

The disbursement of the MIC grant can be done using the following methods:

- Special Account method
- Direct Payment method
- Reimbursement method

The Special Account method will be the preferred method when possible. However, administrative and regulatory difficulties have been experienced in previous projects in Botswana with, on the one hand, obtaining comfort letters from commercial banks and, on the other hand, opening a special account with the Central Bank or the Treasury. Other methods of payment will therefore be used as appropriate.

The direct payment method will be used payment when there is no constraint on the turnaround time for payment. The reimbursement method can also be used for accelerated payment if needed and NBFIRA has the necessary liquidity.

All disbursements will subject to the Bank's disbursement rules, in particular the rules on suspension of disbursements.

7.2. *Financial Reporting Arrangements*

NBFIRA will maintain independent accounts for the Trust Fund financed activities in accordance with sound international accounting practices.

7.3. *Letter of Agreement*

Following the approval of the request by the Bank, the Bank's Legal Department (GECL) will prepare a Letter of Agreement using the format provided in Annex 3 of the Guidelines for Administration and utilization of the Technical Assistance Fund for MIC. The duly-mandated representatives of the Ministry of Finance and Economic Development, acting on behalf of the Government of Botswana, will be the signatories of the grant agreement in the Government's name

8. IMPLEMENTATION

8.1. *Executing agency*

NBFIRA will be the executing agency for the project and the CEO of NBFIRA will be the Project Coordinator and will take overall responsibility for final outcome of the project. He will form a Project Team that will be responsible for the implementation of project activities. The Project Team will include senior staff from the department of capital markets, insurance, pensions, and IT. It will also include the accountant of NBFIRA, responsible for administrating the procurement, disbursement and financial management related to the project. The Project Team will be lead by a Project Team Leader from the senior management of NBFIRA.

8.2. *Reporting and supervision*

The Board of Directors of NBFIRA will provide strategic guidance to the project, in particular with regards to its links with other Government entities, national developments and the industry. It will follow up the overall implementation of the project.

The project will be supervised for the African Development Bank by a Task Manager appointed by the Governance, Economic and Financial Reforms Department (OSGE).

Consulting Firm A (RBRM) and the Consulting Firm B (IT system) will report to the Project Team Leader.

The CEO of NBFIRA will be responsible for the reporting to the Board of NBFIRA and to the African Development Bank regarding progress of the project. The reports delivered by the Consulting Firms will be shared with the African Development Bank for Non Objection.

In addition, supervisions will be undertaken by the African Development Bank at an average frequency of 1.5 missions per year. They will be concluded by an aide-memoire jointly prepared by the Project Coordinator and the AfDB Task Manager, summarizing progress - measured against the logical framework, highlighting key issues and setting out actions to be taken.

Finally, an independent audit will be conducted at the end of the project and a completion report will be prepared by NBFIRA within 2 months after the closing of the project.

8.3. Work plan

The project will be carried out within 24 months the signing of the contract with the Consulting Firm in charge of the RBRM (Consulting Firm A). The tentative timing for the various project activities is summarised as follows:

Indicative workplan for the development of and support to the implementation of a risk based regulatory model for NBFIRA

Activity	Who	2010												2011												2012			
		3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4		
Project management																													
Submission to MIC Trust fund	NBFIRA / AfDB	■																											
Evaluation and approval by MIC trust fund	AfDB		■	■	■																								
Tendering of the consulting firm	NBFIRA				■																								
Final selection of the recruiting firm	NBFIRA / AfDB					■																							
RBRM for pensions and Insurances, and capital markets																													
Mobilization and inception							■																						
Due diligence	Consulting firm A						■	■	■	■	■																		
Development of the RBRM, including consultations	Consulting firm A							■	■	■	■	■	■																
Production of procedure manuals	Consulting firm A									■	■	■	■	■															
Development curriculum for new staff	Consulting firm A												■	■															
Training phase 1: RBRM design and implementation	Consulting firm A														■	■	■	■	■	■	■	■	■	■	■	■	■	■	
Update of procedure manuals with the IT system	Consulting firm A																									■	■	■	
Training phase 2: Implementation based on the procedures and the IT system	Consulting firm A																									■	■	■	
Recommendations for the revision of the legal framework NBFIRA's operations	Consulting firm A											■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
IT system																													
Detailed specifications for the IT system and tender documents	Consulting firm A																												
Tendering for the IT system	NBFIRA																												
Final selection	NBFIRA / AfDB																												
Development of the IT system	Consulting firm B																												
Commissioning of the IT system	Consulting firm B																										■	■	
Non project activities on the critical path																													
Recruitment of the consultant for the revision of the legal framework of the capital markets (financed by the World Ba										■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
Delivery of the draft legal framework for capital markets																													

9. CONCLUSION AND RECOMMENDATION

9.1. *Conclusion*

Setting up a modern and efficient regulator for the NBFIs sector is a critical step towards achieving the Government's economic diversification agenda, which has become even more relevant in the wake of the recent global economic crisis.

The Goal of the proposed project is to help Botswana become a financial services hub for Southern Africa. Its objective is to equip NBFIRA with an operational risk based regulatory model in line with world class best practices.

The risk based regulatory model is key for NBFIRA to provide effective regulation and achieve financial sustainability and independence. By providing high standard regulation and services, NBFIRA will be in a position to negotiate adequate fees with the regulated industry.

In addition the project is an essential to complement to the EDSL program, in that it provides critically needed capacity building to deepen one of the key reforms, in particular improving financial sector governance and strengthening of the regulation of non-bank financial institutions.

9.2. *Recommendation*

It is recommended that an amount not exceeding UA 600,000 be granted to NBFIRA from the resources of the MIC Trust Fund to undertake the project activities described hereto.

ANNEX I – Government’s request

TELEPHONE (+267) 3950187

TELEX (+267) 2401BD

FAX: (+267) 3900763



REPUBLIC OF BOTSWANA

MINISTRY OF FINANCE AND DEVELOPMENT PLANNING,

PRIVATE BAG 008,

GABORONE

REF: FDP 4/18 Vol. 52

16th November 2009

Mr. Abdirahman Beileh

Director, ORSA

13 Rue du Ghana

BP 323

1002 Tunis Belvédère

Tunisia

Dear Sir,

**REQUEST LETTER – CAPACITY BUILDING FOR BOTSWANA STOCK EXCHANGE ;
NON-BANK FINANCIAL INSTITUTIONS REGULATORY AUTHORITY and PUBLIC
ENTERPRISES EVALUATION AND PRIVITISATION AGENCY**

Reference is made to the African Development Bank Identification Mission of 5th to 16th October 2009, in which the mission staff held consultations with government and other relevant stakeholders to concretize the lending and non-lending activities to be implemented during the 2009 – 2013 Country Strategy Paper.

The mission amongst other things, identified, for possible financing by the Bank - Capacity Building activities for the Non-Bank Financial Institutions Regulatory Authority; the Botswana Stock Exchange; and the Public Enterprises Evaluation and Privitisation Agency.

We are in receipt of the three (3) Institutions requests letters, which we fully support. We therefore submit this request letter for your kind consideration. We understand that should the Bank grant approval, a Preparation/Appraisal Mission will subsequently follow to develop detailed proposals for further consideration.

Please find enclosed some background to the Institutions capacity building needs as per their letters of request.

Thank you.

Yours faithfully

A handwritten signature in black ink, appearing to be 'T. Nyamadzabo', written over a white background.

T. Nyamadzabo (Dr)
FOR PERMANENT SECRETARY

TECHNICAL ASSISTANCE FOR CAPACITY BUILDING TO THE NON - BANK FINANCIAL INSTITUTIONS REGULATORY AUTHORITY (NBFIRA)

CORPORATE PROFILE

ESTABLISHMENT

The Non-Bank Financial Institutions Regulatory Authority (NBFIRA/**Authority**) was established as an independent regulatory agency for non-bank financial institutions in April 2008. As outlined in Section 8 of the NBFIRA Act, the principal objective of NBFIRA is to regulate and supervise non-bank financial institutions so as to foster the:

- a) *“Safety and soundness of non-bank financial institutions;*
- b) *Highest standards of conduct of business by non-bank financial institutions;*
- c) *Fairness, efficiency and orderliness of the non-bank financial sector;*
- d) *Stability of the financial system; and*
- e) *Reduction and deterrence of financial crime.”*

LEGISLATIVE FRAMEWORK

The legislative framework governing the operations of both NBFIRA and supervised institutions is known as the “financial services law” and includes:

- The Non-Bank Financial Institutions Regulatory Authority Act;
- The Insurance Industry Act;
- The International Insurance Act;
- The Pension and Provident Funds Act;
- The Botswana Stock Exchange Act;
- The Collective Investments Undertaking Act; and,
- Part XVI of the Income Tax Act.

The NBFIRA Act is the main component of the financial services law in the sense that it is an umbrella statute that is intended to work with the other statutes that make up the financial services law. The Act is consistent with international standards and contains sections related to the operations, responsibilities and accountabilities of NBFIRA including staffing, finances, corporate governance and reporting to stakeholders. It also provides a comprehensive licensing regime for supervised entities and provides NBFIRA with the powers to remedy imprudent practices, unethical practices and contraventions of the law through the issuance of notices, the issuance of orders, the issuance of directions, the acceptance of undertakings, the imposition of civil penalties and the application to the courts in the most serious cases involving offences. NBFIRA also has significant powers with respect to information gathering, the conduct of on-site inspections and the conduct of investigations.

INSTITUTIONS COVERED

There are a wide range of entities that are defined as non bank financial institutions in Botswana. In a nutshell, any financial institutions that is not a deposit taker, is a non bank financial institution. This include medical aid schemes, capital market outfits, micro-lenders, insurers, pension funds, etc.

LINK WITH NDP 10/VISION 2016

The national vision statement is all about prosperity for all by the year 2016. This is expected to be attained through the vision pillars. Further, the country has been reliant on mining revenue for quite some time, and a drive to diversify the economy from minerals has been the order of the day.

With the pillar on safety and security, as well as the diversification drive, the country has seen itself moving into all sorts of entrepreneurial activities. At lower levels, these would include micro lending and insurance agencies. At higher level, these will include international financial services company under the banner of the country's International Financial Service Centre (IFSC). NBFIRA is tasked with regulating all these institutions with all the diversity of challenges that the different levels/sizes of institutions come with. In particular, the need to maintain a strong and healthy financial sector, even in the midst of encouraged diversity to the economy remains at the heart of NBFIRA activities.

CHALLENGES

Staffing Levels

The **Authority** has some 25 staff members against a suggested minimum of 50 as advised by a consultancy (Carmichael) which was funded by the World Bank some 2 years back. These staff members lack the skills around regulatory activities, and need to be tutored on same. This being the on-the-job training, secondments, mentoring/handholding, as well as other types of training.

Further, as capacity is lacking as evidenced by the number, let alone the experience levels, of staff, advisory (technical assistance) positions need to be created and funded to quicken the learning process for the staff. This will be in insurance, pensions, capital markets and/or related areas.

Governance

Further to the above, the **Authority's** Board is a regulatory one. Botswana as a nascent economy, does not have a pool of experienced regulators who can serve on the Board. This then calls for capacitating the well qualified, but not experienced Board. Assistance with governance issues and continuous development on same could highly benefit the Board.

Branding

Ordinarily, the new institution need to be launched and made known to the industry as well as the public. Financing aspects of communications and public/consumer education will be appreciated.

CONCLUSION

Informed by the above, NBFIRA through the Government of Botswana requests the AfDB to consider its request for technical assistance, in the form of a grant, to build capacity for its staff, core business and operations functions, Board and related needs.

The potential required assistance includes:

Organization and operations

- Continuous capacity development for Board members in regulatory, administrative and general governance issues
- Establishment of technical Board Committees and attachment of a Special Advisor (regulatory)
- Development of policies and procedures for corporate services and for the core business functions
- Development of continuous training program for all staff –
- Set up an IT system that will support the core functions of NBFIRA that involves various industries relating to licensing, on-site and off-site monitoring and enforcement; and a development of a risk-based supervisory systems - IT platform supported and customized to fit all different industries
- Technical training on core business functions including licensing, regulation and supervision of the entities regulated by NBFIRA
- Development of policy and research capacity
- Development of complaints handling capacity
- Development of communication and Information Dissemination Functions– this involve all marketing, branding, media campaigns as well as consumer education and protection campaigns

Regulatory frameworks

- Regulatory framework to be drafted for Finance Companies, Medical Aid Schemes/Funds, Collective Investment Undertakings, Exchanges (Stock as well as Commodities), Asset Managers and allied activities
- A Proper assessment of the market will be conducted to determine the viability and need for introducing regulatory framework for Leasing Companies, Financial Groups, Friendly Societies and others, basing on the Parato Theorem of the 80/20 rule.

ANNEX II – MIC Fund request form

MIDDLE INCOME COUNTRIES FUND REQUEST FORM **(to be completed by Recipient Country/Private Sector Entity)**

1.	Title of Project/Study or Programme	:	SUPPORT TO EQUIP THE NON BANK FINANCIAL INSTITUTIONS REGULATORY AUTHORITY OF BOTSWANA (NBFIRA) WITH A RISK BASED REGULATORY MODEL
2.	Country	:	BOTSWANA
3.	Executing Agency	:	
	a) Name	:	NBFIRA
	b) Address	:	First Floor, MVA House, Plot 50367, Show Grounds, Off Machel Drive – Private Bag 00314, Gaborone, Botswana
4.	Description of the activities	:	The project provides consulting services for the design of a Risk Based Regulatory Model (RBRM), and the provision of the necessary operational procedures, IT systems and training. The project includes recommendations to adjust NBFIRA's operations and revise the legal, institutional and regulatory environment in order to adequately implement the RBRM.
5.	Rationale for the activities	:	<p>The proposed technical assistance would equip NBFIRA with the central tool required to deliver on its mandate, and directly address most of the key challenges faced by NBFIRA (see the challenges section for details). In addition, it complements the actions already undertaken by NBFIRA and other partners, in particular the review of the legal framework for capital markets.</p> <p>It supports Botswana's objective to become the financial services centre of Southern Africa, as stated in the National Development Plan 10. In order to meet this objective, Botswana needs to, among other things, develop a sound, transparent and highly competitive non-banking financial sector. An efficient NBFIRA is expected to significantly contribute to this and create the investor confidence necessary for the growth of the sector.</p> <p>It serves to implement pillar (i) of the Bank's 2009 - 2013 Country Strategy Paper (CSP) for Botswana, which entails "supporting actions to expand private sector investment". In addition, the CSP extends Bank's support to efforts aimed at</p>

strengthening critical capacities in both the public and private sectors. Under the non lending activities, the CSP emphasizes capacity building activities that will enhance the ability of the public sector to provide effective service delivery.

It deepens the reform program under component three of the Economic Diversification Support Loan (EDSL) provided by AfDB, which aims at “improving financial sector governance and strengthening the regulation of nonbank financial institutions”.

The proposed program is in line with the objectives of the MIC Trust Fund. It fits into two of the priority activities identified in the Revised Guidelines for the Administration and Utilization of the Technical Assistance Fund for Middle Income Countries (ADB/BD/WP/2005/90), namely: (i) capacity building and institutional building and (ii) promotion of the private sector.

6. Project Cost Estimates:
- a) Foreign Exchange : UA 600,000
 - b) Local Currency : UA 32,000
 - c) Total amount : UA 632,000
7. Financing Plan
- a) ADB : UA, 600,000
 - b) Government : UA 32,000
 - c) Total : UA 632,000
9. Proposed Mode of Procurement :
- a) Services : Short list
 - b) Goods (if applicable) : Shopping
 - c) Others, including Training : Short list
of local staff
10. Implementation Plan :
- Schedule of implementation to be attached : 24 months

11. Evidence of Government Commitment to Implement the targeted Projects/Study or Programme (Inclusion in CSP) :


a) explain and rate the probability that the targeted project/study or programme is a Government priority: : This is a high priority for Government. The Government of Botswana recognizes the need for a stable and sound financial sector, and this project is one of those identified as contributing to the said stability.

b) provide name and designation of Government official who will sign the Letter of Agreement : Ms. Badumetse D. Hobona
Secretary for Development and Budget

c) provide name of Project Co-ordinator who will be in-charge of monitoring the activities and the use of the Trust Fund : Ms. Marcelina !Gaoses

12. Name of the Permanent Secretary of Ministry of Finance and Development Planning : Mr. Solomon M. Sekwakwa

13. Signature/Stamp of the Ministry of Finance of the MIC :



 Permanent Secretary, Ministry of Finance and Development Planning)

Date: 6/5/10

ANNEX III – Terms of reference

Terms of Reference for Consultancy Services

To develop and support the implementation of a Risk Based Regulatory Model (RBRM)

For the Non-Bank Financial Services Regulatory Authority of Botswana (NBFIRA)

I. Context and Objective

The Government of Botswana (GoB) has received financial assistance from the African Development Bank (AfDB) to improve the soundness and efficiency, reach and depth of the non-banking financial services sector in Botswana so as to enhance its contribution to economic growth and poverty reduction in the country. The project will contribute to develop the institutional capacity of the Non-Bank Financial Services Regulatory Authority (NBFIRA) by financing activities that will strengthen and modernize the regulatory and supervisory frameworks for non-bank financial institutions, including the insurance and pensions, and capital markets.

The overall objective of the project is to equip the Non-Banking Financial Services Sector with a Risk Based Regulatory Model (RBRM) in line with international best practices. A risk based approach to regulation creates a common basis of analysis and approach, to all industries regulated within the NBFIR sector.

II. Project Management Structure

NBFIRA is setting up a Project Team that will be responsible for the implementation of project activities. The Project Team will include staff from the department of capital markets, insurance, pensions, and IT. A Project Team Leader will be appointed to lead the work of the project. The computerization process involves software development and electronic linking of the regulator, NBFIRA and the several regulated entities that will eliminate inefficiencies in the regulation and supervision of the NBFIR sector.

III. Description of the Consulting Services

The Government of Botswana requires the services of a Consulting Firm (hereafter Consulting Firm or Consulting Firm A) to develop and support the implementation of a risk based regulatory model for pensions, life insurance, general insurance and capital market participants. Consulting firm A will calibrate the model for Botswana, propose changes in NBFIRA's operations to implement the RBRM, make recommendations to guide the relevant legislation, document the systems, processes and procedures, train existing staff in class and on-the-job, and prepare training manuals, in particular for new employees.

Consulting firm A will also support the development and commissioning of an IT system designed to support the implementation of the RBRM. This involves developing specifications for the IT system. A second consulting firm (Consulting Firm B) will be recruited to design and deliver the IT system.

Though the RBRM will be developed specifically for Pensions, General Insurance, Life Insurance, Capital Market Participants and SROs which currently constitute the bulk of NBFIRA's regulated industry and its short term priority, it will provide a framework and an IT platform designed for easy inclusion of further developments in other specialist industries under the mandate of NBFIRA.

The Specific tasks contained below are intended to serve as minimum requirements for the Consultant to undertake the assignment. Additional tasks, as resultant of good understanding of key issues of these Terms of Reference, may be addressed, when appropriate, and presented in the technical proposal. The specific tasks are to:

- i) **Conduct a detailed due diligence** of the current statutory objectives, strategy and operations of NBFIRA, relevant Government institutions, the Central Bank, the industry regulated by NBFIRA, the legal, regulatory and institutional framework.
- ii) **Develop a RBRM** allowing the regulator to attain its regulatory objectives, reflecting the regulator's risk appetite and the risks of the industry. The RBRM should, for each relevant industry and sub-industry, cover processes and systems for the full cycle of risk identification, measurement, mitigation, control and monitoring. The level of sophistication of the RBRM should reflect the level of development of the regulated industry in Botswana, and not merely transpose existing models in other countries. In particular, the risks thresholds should strike a balance between risk prevention and leaving opportunities to domestic financial service providers. The RBRM should, along with the corresponding IT system, should be designed so as to allow for easy adaptation to changing needs. As part of the preparation of the RBRM, the Consulting Firm should propose to the Project Team a consultation process, including all relevant stakeholders and support NBFIRA in its implementation on all technical aspects.
- iii) **Make recommendations for the modernization of the legislation and institutional framework**, including the necessary institutional adjustments, legal amendments and/or additions to the NBFIRA Act. A number of legislations, including the legislation for pensions, insurances, the stock market and the CIUs, are under review and development by projects financed by the World Bank. The analysis under this project will therefore mostly consist in a review of existing analysis conducted with the support of the World Bank and focus on providing recommendations to maximize alignment between the legislation – existing and under development - and the RBRM.
- iv) **Propose appropriate operational amendments for NBFIRA**, including strategy, policy, business plan, organizational structure, and staffing that would be able to effectively operate the risk based regulatory model. In particular, the Consultant will conduct a skills audit in order to support the recommendations on staffing.
- v) **Develop the procedure and training manuals** for the implementation of the RBRM
- vi) **Train NBFIRA staff in-class** on the rationale for the RBRM, principles for future adjustments and extension, its implementation.
- vii) **Train NBFIRA staff on the job**, accompanying and supporting each staff at least once during on site visits covering each industry and each step of the risk management cycle. Specific coaching will be provided to management staff, focused on strategic issues and operational management of the RBRM.
- viii) **Support the development of an IT system to implement the RBRM.** Consulting firm A will prepare detailed specifications and tendering documents for the IT system including the design of local networks and the specifications of the required equipment (servers, communication equipment, etc). The main role will be in technical aspects (specifications

related), while procurement related aspects (procedures) will be handled by NBFIRA. The Consultant will also offer support in deciding whether the module (software) is to be developed by a specialized company or can be found on the market and easily customized. The computerization process may include the management of data entry operations including conversion of data available in paper format into the computerized database. The IT system will be designed to facilitate the implementation of the RBRM, and flexibly accommodate its future revisions and expansions.

- ix) **Assist in the analysis of the offers for the supply of the IT system**, including supervising the installation and related services and training of end users and systems administrators.
- x) **Support NBFIRA for the commissioning and the reception of the system**. This includes in particular supporting the relation with the stakeholders involved in the computerization process, including the industry and other government entities.
- xi) **Update procedure and training manuals**, following the commissioning of the IT system,
- xii) **Provide training on the implementation of the RBRM using the IT system**. At this stage, the focus will be on aspects specific to the use of the IT system.

IV. Organization of the Assignment

The Consulting Firm reports to the Project Team Leader. The Consulting Firm would also be required to interact with the industry, the Bank of Botswana, the Botswana Stock Exchange and private institutions operating in the NFBI sector, and any other relevant organization.

V. Deliverables and Reporting by the Consulting Firm

The Consulting Firm will closely supervise the project implementation and ensure that the overall project deliverables are submitted timely. The Consulting Firm will also provide formal project progress reports, presentations to concerned stakeholders, and other support as requested. The assignment shall be conducted during a period of a **maximum of two-years** including the time needed for approval of the various reports by the Project Team. A maximum of 15 calendar days is provided for providing feedback or approval of the reports. Reports should be revised within 15 calendar days following receiving feedback. The timeline below is indicative and should amendments should be suggested by the prospective Consultant as appropriate. The consulting firm's work shall be implemented in phases whose deliverables include, but are not limited to, the following:

- Within 10 calendar days after the contract is effective, provide an **inception report**. It shall consist of the work plan of the consultant/s to carry out the assignment to set up the risk based regulatory framework. The consultant has to submit information about necessary pre-requisites to be able to complete the assignment within the timeframe in the inception report. The consultant/s should clearly indicate the methodology they will adopt and the means by which NBFIRA and the industry will be consulted during the course of the project. The above tasks would be refined and improved after consultations between the Government and the consultant/s, at the inception report stage.
- Within 45 calendar days after the contract is effective, provide a **due diligence report** featuring findings on the due diligence, strategic and operational principles for the RBRM (including strategy, procedures, and IT system), detailed implementation plans including training and expected deliverables at key milestones. The report should also identify the

laws and regulations that require amendments, propose guidance for the new laws and regulations, propose operational improvements for NBFIRA to implement the RBRM.

- Within 60 calendar days after approval of the due diligence report, provide the relevant **procedure manuals**.
- Within 20 calendar days after approval of the procedure manuals, provide the relevant **training manuals**.
- Within 60 calendar days after approval of the training manuals, conduct all necessary **in class and on the job training**.
- Within 45 calendar days after the approval of the procedure manuals, provide **detailed specifications for the IT system**.
- Within 15 calendar days after the approval of the detailed specifications, provide **Bidding Documents** in conformity with the African Development Fund’s Rules and Procedures for Procurement of Goods and Services.
- Within 15 days after opening of the bid for the IT system, provide an **evaluation report** including recommendation of award to the evaluation committee
- At the end of the commissioning period, provide a **recommendation for the reception of the IT system**.
- Within 60 calendar days after approval of the training manuals, conduct all necessary **in class and on the job training**.
- Within 60 calendar days after reception of the IT system, conduct all necessary **in class and on the job training**.
- Within 15 calendar days after the completion of the training, provide a **final report** covering the project implementation outcomes and that identifies unresolved issues, and proposes concrete actions going forward.

REPORTING REQUIREMENTS AND DELIVERABLES

#	Report/Deliverables Name
1	Inception Report
2	Due Diligence Report
3	Procedure Manuals
4	Training Manuals
5	In-class and on the job training phase 1: RBRM design and implementation
6	Detailed specifications for the IT system
7	Bidding documents for the IT system
8	Evaluation report for the IT system
9	Recommendation for the reception of the IT system
10	In-class and on the job training phase 2: RBRM with the IT system
11	Final report

Indicative workplan for the development of and support to the implementation of a risk based regulatory model for NBFIRA

Activity	Who	2010												2011												2012			
		3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4		
Project management																													
Submission to MIC Trust fund	NBFIRA / AfDB	■																											
Evaluation and approval by MIC trust fund	AfDB		■	■																									
Tendering of the consulting firm	NBFIRA				■																								
Final selection of the recruiting firm	NBFIRA / AfDB						■																						
RBRM for pensions and Insurances, and capital markets																													
Mobilization and inception								■																					
Due diligence	Consulting firm A								■	■																			
Development of the RBRM, including consultations	Consulting firm A									■	■	■																	
Production of procedure manuals	Consulting firm A										■	■	■																
Development curriculum for new staff	Consulting firm A											■	■																
Training phase 1: RBRM design and implementation	Consulting firm A												■	■															
Update of procedure manuals with the IT system	Consulting firm A																									■			
Training phase 2: Implementation based on the procedures and the IT system	Consulting firm A																									■	■		
Recommendations for the revision of the legal framework NBFIRA's operations	Consulting firm A											■																	
IT system																													
Detailed specifications for the IT system and tender documents	Consulting firm A																■	■											
Tendering for the IT system	NBFIRA																■												
Final selection	NBFIRA / AfDB																	■											
Development of the IT system	Consulting firm B																		■	■	■								
Commissioning of the IT system	Consulting firm B																					■							
Non project activities on the critical path																													
<i>Recruitment of the consultant for the revision of the legal framework of the capital markets (financed by the World Bank)</i>										■																			
<i>Delivery of the draft legal framework for capital markets</i>																													

VI. Profile of the Consulting Firm

This consultancy seeks to engage the services of a consultancy firm with relevant and proven track experience in Risk Based Regulation of financial services industries. To be considered qualified to perform the services, the firm/consortium must be able to demonstrate the ability to deliver all tasks specified in these terms of reference. Specifically the firm should be able to demonstrate:

- Experience in designing and implementing RBRM for NBFIs
- Experience in large computerization projects, specifically involving regulatory agencies
- Experience in legal reforms involving NBFIs regulation
- Experience in organizational reengineering projects
- Experience in developing countries, specifically in Africa

VII. Technical Team Profile

a) Key Personnel

- ✓ Team leader with deep knowledge and proven experience in the design and implementation of RBRM for NBFIs, computerization projects, project management, excellent communication and advocacy skills, experience in developing countries.
- ✓ Technical experts with deep knowledge and proven experience in the design and implementation of RBRM for insurances, pensions, stock markets and CIUs, training, including in developing countries.
- ✓ Legal expert with relevant experience in legal systems specifically related to the NBFIs sector.
- ✓ IT expert in systems analysis or business process with experience in large computerization projects
- ✓ IT expert in IT and communication infrastructure with experience in large (geographically) IT projects.
- ✓ Training expert with experience in designing and implementing large institution training programs in regulatory institutions.

b) Educational and Knowledge Requirements:

- ✓ Minimum a Master's degree in economics, Information Systems, legal, finance, business administration or any other field relevant to this project
- ✓ Five years of experience working in matters related to the assignment and area of expertise.

c) Language

- ✓ Working knowledge of English is expected for all team members. The final reports will be presented in English.

VIII. Administrative Arrangements

a) Obligation of the Consulting Firm

The selected consulting firm shall take all the necessary steps to ensure that the entrusted task is executed properly and on schedule in accordance with the established terms of reference. The selected firm shall:

- undertake to perform the task in accordance with the terms of reference and according to internationally accepted standards;
- work under the supervision Project Team, particularly to discuss matters relating to the consultancy; and
- Maintain a complete list of sources of information used, and surrender all documents to NBFIRA at the end of the consultancy.

b) Obligation of NBFIRA

NBFIRA shall provide the Consulting Firm with suitable office space and available documents and reports needed to carry out the consultancy. NBFIRA shall facilitate the consultant's visits, contacts as well as access to information essential to the proper implementation of the risk based regulatory system.

c) Budget and financial Support

The total budget is UA 632,000, including a provision of UA 165,000 for the design and commissioning of the IT system (excluded from the scope of this assignment).

This Consultancy Services will be financed by the African Development Bank, under the MIC Grant Facility.

ANNEX IV- Draft Procurement Plan

		3. CONSULTANTS															
1.	<i>Consultants (see Note 3)</i>																
	Procurement Method			Prior review Threshold (US\$equiv.)	Comments												
	1. Short List			200,000													
	2.																
	3.																
	4.																
	5.																
	6.																
2.	<i>Procurement Packages with Methods and Time</i>	Basic Data							Request for Expression of Interest		Terms of Reference		Short List		Request for Proposal		
	Description*	Plan/ Revised/ Actual	Date EOI Received	Date No-Objection	Selection Method	Lumpsum or Time-Based	Estimated Amount in UA (000)	Prior/Post Review	Bid Closing Date	Date Published	Closing Date	Date Received	Date No-Objection	Date Received	Date No-Objection	Date Received	Date No-Objection
	Risk Based Regulatory Model Consulting services	Plan	1-Jun-10	12-Jun-10	Short List	Lumpsum	409	200	6-Jul-10	1-Jun-10	8-Jun-10	1-Jun-10	3-Jun-10	10-Jun-10	12-Jun-10	14-Jun-10	16-Jun-10
Revised				Quality and													
Actual					Cost Based												
	IT system Consulting services	Plan	1-May-11	12-May-11	Short List	Lumpsum	165	200	5-Jun-11	1-May-11	8-May-11	1-May-11	3-May-11	10-May-11	12-May-11	14-May-11	16-May-11
Revised				Quality and													
Actual					Cost Based												
	Total Cost	Plan					574.00										
		Revised					0.00										
		Actual					0.00										

Procurement Packages with Methods and Time	(continuation)	Proposal Period		Bid Evaluation Technical (T) & Financial (F)					Contract Award			Contract Implementation			
		Plan/ Revised/ Actual	Issuance Date	Submission/ Opening Date	Submission Evaluation Report (T)	No-objection Evaluation Report (T)	Opening Financial Proposals	Submission Eval Report (T) & (F)	No-objection Eval Report (T) & (F)	Draft Contract Received	Date No- Objection	Contract Amount in UA (000)	Contract Award	Contract Signature	Start Date
Risk Based Regulatory Model Consulting services	Plan	16-Jun-10	6-Jul-10	13-Jul-10	20-Jul-10	22-Jul-10	24-Jul-10	26-Jul-10	28-Jul-10	30-Jul-10		1-Aug-10	8-Aug-10	8-Aug-10	30-Mar-12
	Revised														
	Actual														
IT system Consulting services	Plan	16-May-11	5-Jun-11	12-Jun-11	19-Jun-11	21-Jun-11	23-Jun-11	25-Jun-11	27-Jun-11	29-Jun-11		1-Jul-11	8-Jul-11	8-Jul-11	30-Dec-11
	Revised														
	Actual														
Total Cost	Plan										0.00				
	Revised														
	Actual										0.00				

ANNEX V- Regulated Industry

The Stock Exchange

The Botswana Stock Exchange is small but thriving and dynamic. The Botswana share market was established in 1989 and became the Botswana Stock Exchange (BSE) in 1995. It is governed by the Botswana Stock Exchange Act. As of to date, the BSE has about 35 market listings and 3 stock indices: the Domestic company index (BSE DCI); the Foreign company index (BSE FCI), incorporating companies which are dual listed on the BSE and another stock exchange; and the All Company Index, which is a weighted average of the DCI and FCI. As well as equities, BDC bond and Investec Floating Rate Notes are traded. Private investors are estimated to account for about than 10% of the total market capitalization. The licensing authority for brokers in Botswana is the Ministry of Finance. Membership may be corporate or individual. Total market capitalization as at December 2009 was P374.5 billion

The Pensions Industry

In November 2009, the total size of the Pensions Industry, in terms of assets, was P31,200 million – it amounted to P29,147 million in November 2008. The Botswana Public Officers Pension Fund with a fund value of P24,705 , accounting for 79% of the pension assets as of November 2009. The Total number of Pension Funds as of 30th November 2009 was 103, including 6 umbrella funds with 141 sub funds and a membership of about 140,000.

Pension Plan Assets as of 30th November 2009
(in millions of Pula)

Investment Asset	Amount	% of Total
Botswana Equities	6,404	21
Pula Bonds	3,967	13
Pula Cash / Near Cash	2,457	8
Botswana Property	181	1
Total in Botswana	13,008	42
Offshore Equities	15,491	50
Offshore Bonds	2,173	7
Offshore Cash / Near Cash	527	2
Total Offshore	18,192	58
Total Investments	31,200	100

The Insurance Industry

Total number of insurers as at December 2009 was 19, brokers 40 and agents 1,200. Insurance industry financial data as at 31 December 2008 is summarized as follows:

Insurers

	Nonlife insurers	Life insurers	Total
Total Assets	1156.4	12,175.4	13,331.8
Total Liabilities	720	10,956.4	11,676.4
Total Capital	435.8	1219	1654.8
Total Gross Premiums written	707.3	1391.2	2098.50
Total reinsurance	222.7	91.6	314.30

Brokers on the other hand received premiums on behalf of underwriters to the value of 983 millions of Pula. This shows that almost 53% of premiums are received directly by the underwriters thereby leaving the remainder for the brokers to earn commission on.

Brokers (in millions of Pula)

	amount
Total Assets	224
Total Liabilities	127
Total Capital	97
Total Gross Premiums handled	983
Commission revenue	112

ANNEX VI - NBFIRA preliminary skills audit

The preliminary skills audit was conducted for the purpose of this project. The proposed project will include a more detailed skills audit.

Department	Qualifications	Previous Experience	Private Sector	Regulatory Experience	Other Experience
Office of CEO	B Com (Accounting), MA (TRS), FCPA, FCMA	25yrs	2	2yrs 6 months (BoB)	21
Capital markets					
Director	LLB, Masters Law	12 years 8months	5	5yrs 6months Bots Stock Exch, 1yr NBFIRA	01
Manager Microlender	AAT, Masters professional Accounting	19		2 yrs Finance, 1.5yrs NBFIRA	15
Manager Capital Markets	BSc Finance, Msc Strategic Management	10			10
Senior Analyst	Bsc Engineering, MBA,	7	3		5
Senior Analyst	Bsc Accounting, MBA International Banking and Finance	8		8	
Anayst	BSC Commerce	3		2yrs Finance, 1yr NBFIRA	
Anayst	BSc Accounting	4		1yr Finance, 1yr NBFIRA	2
Insurance &Pensions					
Director	BSC Business Administration, Certificate Public Admin	18	9	1 NBFIRA, 5 NAMFISA, 2 Swaziland	9
Manager Insurance	BSc Commerce	18.5		7 yrs Finance, 1.5 NBFIRA	10
ManagerPensions	BSc Statistics, Chartterd Insurer	15		1.5yrs NBFIRA, 7yrs Finance, 6yrs Kenya	
Manager Insurance	BSC Acturial Science, MSC Acturial Management	10	1	8 yrs Finance 1yr NBFIRA	
Senior Analyst	BA Accounting, CIMA, EMBA	11		1NBFIRA, 3 Finance	7
Senior Analyst	BA Accounting, Diploma in Insurance	12		1yr NBFIRA, 9yrs Finance	2
Analyst	BA Accounting,	20		1yr NBFIRA, 3yrs Finance	17
Junior Analyst	BA Accounting	9		1yr Finance, 1yr NBFIRA	7
Junior Analyst	COP Insurance	25		1	24
Junior Analyst	BSC Accounting	2		1yr Finance, 1yr NBFIRA	
Corporate Services					
Director	Diploma in Secondary Education, MBA	18	6	1yr 6months	11
Manager HR	BSC Business Admin, M.Ed business &Workforce Development	19		1	18
Manager Finance	BSc Commerce, ACCA	12		1	11
Manager IT	BSC Pysics and Enviromental Science, MSC IT	19		1	18
Accountant	B.ACC, ACCA	7yrs 4months		4 months	7
PA to CEO	Diploma Secretarial Studies	13		1	12
Receptionist	Clerk Typist Course	6		1	5
Driver	Junior Certificate	6		6	
Staff Compliment		0			

ANNEX VII – Botswana – African Development Bank active portfolio

March 2010			
Project Title	Window	Year approved	Approved Amount (MillionUA)
Pandamatenga Agriculture Infrastructure Project	ADB	2008	38.6
MIC capacity Building for the Ministry of Agriculture	MIC	2007	0.29
AWF-Watercontrol and Management system	AWF	2007	1.08
Economic Diversification Support Loan	ADB	2009	949.19
MIC-Corporate Governance Code	MIC	2007	0.15
Institutional strengthening of local authorities	MIC	2008	0.28
Vision 2016	MIC	2008	0.25
Support for Education Quality	MIC	2010	0.6
Kanzangula Bridge (Multinational)	MIC	2007	0.6
Kanzangula Bridge (Multinational)	IPPF	2006	1.45
Morupule "B" Power Transmission Project	ADB	2009	139.9
Solar Energy Project	MIC	2009	0.6
Total			1,132.99

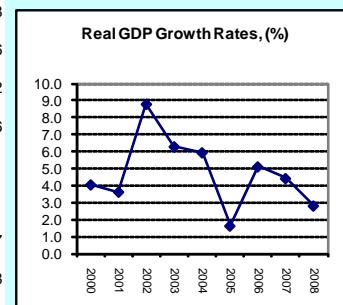
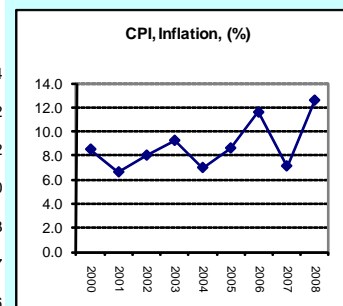
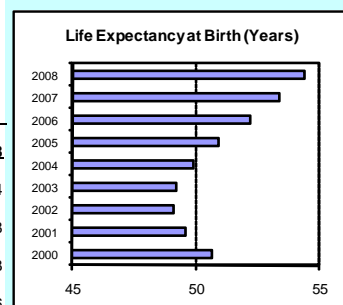
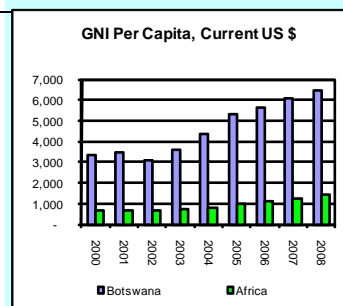
ANNEX VIII – Botswana - Country profile



Botswana - Country Profile



	Botswana		Africa		Developing countries
	Year	Value	Most Recent Year		
Social					
Population, mid-year (millions)	2008	1.9	986	5523	
Population growth (annual) (%)	2008	1.5	2.3	1.4	
GNI per capita (Atlas method, US\$)	2008	6,470	1,428	2,405	
Urban population (% of total population)	2008	60.0	39.1	44.2	
Life expectancy at birth (years)	2008	54.4	54.5	65.7	
Infant mortality (per 1,000 live births)	2008	36.5	83.9	53.1	
Child malnutrition (% of children under 5)	2004	5.9	130.2	80.8	
Access to an improved water source (% of population)	2006	96.0	68.0	62.0	
Illiteracy (% of population age 15+)	2007	82.9	38.0	21.0	
Gross primary enrollment (% of school-age population)					
Male	2005	107.5	101.7	112.0	
Female	2005	106.0	92.1	103.0	
Human Development Index	2007	0.694	0.514	0.679	
Macroeconomic indicators					
	1990	2000	2006	2007	2008
GDP (US\$ billions)	3.4	5.6	11.3	12.3	13.4
Real GDP Growth Rate (%)	5.5	4.1	5.1	4.4	2.8
Real Per Capita GDP Growth Rate (%)	2.5	2.3	3.7	2.9	1.3
Gross capital formation (% of GDP)	38.8	31.8	24.0	25.9	32.6
Gross national savings (% of GDP)	48.6	38.9	48.2	49.1	51.4
Inflation (%)	11.0	8.5	11.6	7.1	12.6
Growth of Money Supply, M2 (%)	-14.0	1.4	67.4	31.2	21.1
Export Growth of Goods, volume (%)	11.4	2.3	2.5	5.0	-15.1
Import Growth of Goods, volume (%)	-13.1	-8.1	-4.7	24.6	11.4
Terms of Trade (%)	-29.8	-4.4	-2.9	0.2	-1.2
Debt Service (% of Exports of G&S)	11.6	18.5	16.8	16.6	7.2
Current Account (% of GDP)	-0.5	9.7	17.2	14.3	7.0
Total external debt (% of GDP)	18.6	42.2	12.5	10.2	9.3
Average exchange rate (National Currency Per US \$)	1.860	5.102	5.837	6.139	6.827
Reserves including gold (US\$ millions)	3,331.5	6,318.2	7,992.4	9,789.7	9,118.6
Reserves (months of imports of goods & services)	20.1	32.6	27.7	26.3	19.4
STRUCTURE of the ECONOMY					
By sector (% of GDP)					
Agriculture	4.9	2.4	1.8	1.7	1.8
Industry	61.2	52.8	48.8	49.1	49.6
Manufacturing	5.2	4.4	3.3	3.2	3.2
Services	33.9	44.8	49.4	49.2	48.6
By sector (Annual growth rate)					
Agriculture	3.6	-11.5	-1.2	1.1	1.1
Industry	0.3	10.8	-1.5	4.7	4.7
Manufacturing	4.8	3.5	-0.9	-0.9	-0.8
Services	15.9	4.5	7.5	5.9	4.2

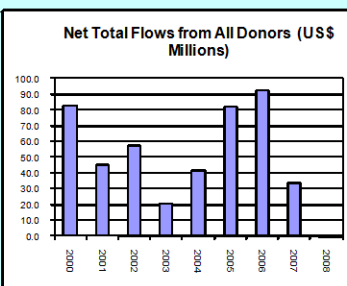
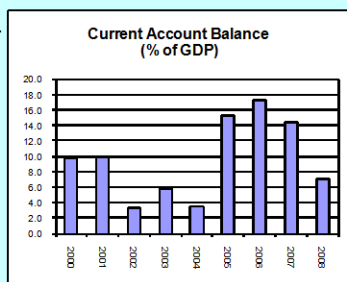
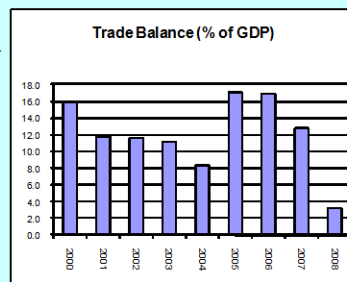
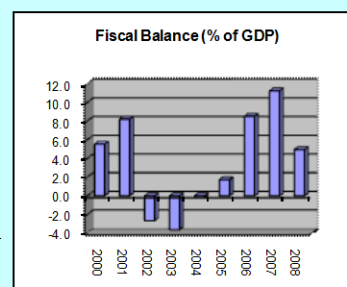




Botswana - Country Profile



	1990	2000	2006	2007	2008
Private sector development					
Time to start a Business (days)	...	...	108	108	78
Registering Property (days)	...	...	11	11	11
Paying Taxes - Payments (number)	...	...	19	19	19
Enforcing Contracts - Time (days)	...	...	987	987	987
Protecting Investors - Investor Protection Index (0-10)	...	...	4.3	4.3	6
Government finance (%GDP)					
Total revenue and grants	49.5	43.1	40.9	40.2	37.2
Total expenditure and net lending	39.2	37.5	32.4	28.9	32.3
Overall surplus/deficit (including grants)	11.6	5.5	8.5	11.2	5.0
BALANCE of PAYMENTS					
(US\$ millions)					
Trade balance	185.0	902.2	1,904.3	1,580.4	440.8
Exports of goods (fob)	1,801.0	2,675.4	4,520.8	5,024.8	4,903.8
Imports of goods (fob)	1,616.0	1,773.2	2,616.5	3,444.4	4,462.9
Services balance	-166.9	-222.7	-63.8	-179.8	-238.9
Net income	-106.2	-351.3	-772.6	-740.2	-275.7
Current account balance	-19.3	545.3	1,939.4	1,765.5	938.4
BALANCE of PAYMENTS					
(% of GDP)					
Trade balance	5.5	16.0	16.9	12.8	3.3
Exports of goods (fob)	53.3	47.5	40.2	40.7	36.7
Imports of goods (fob)	47.8	31.5	23.2	27.9	33.4
Services balance	-4.9	-4.0	-0.6	-1.5	-1.8
Net income	-3.1	-6.2	-6.9	-6.0	-2.1
Current account balance	-0.6	9.7	17.2	14.3	7.0
Financial Flows and External Debt					
(US\$ millions)					
Net Total Flows from All Donors	151.6	83.3	92.7	34.1	...
Net Total ODA (Official Dev. Assistance) from All Donors	145.2	30.6	65.6	101.8	...
Foreign Direct Investment Inflows from All Donors	95.9	57.3	488.8	494.9	...
Total debt outstanding at year-end	706.9	2,378.6	1,410.7	1,262.6	1,248.3
Total debt service	11.6	18.5	16.8	16.6	7.2

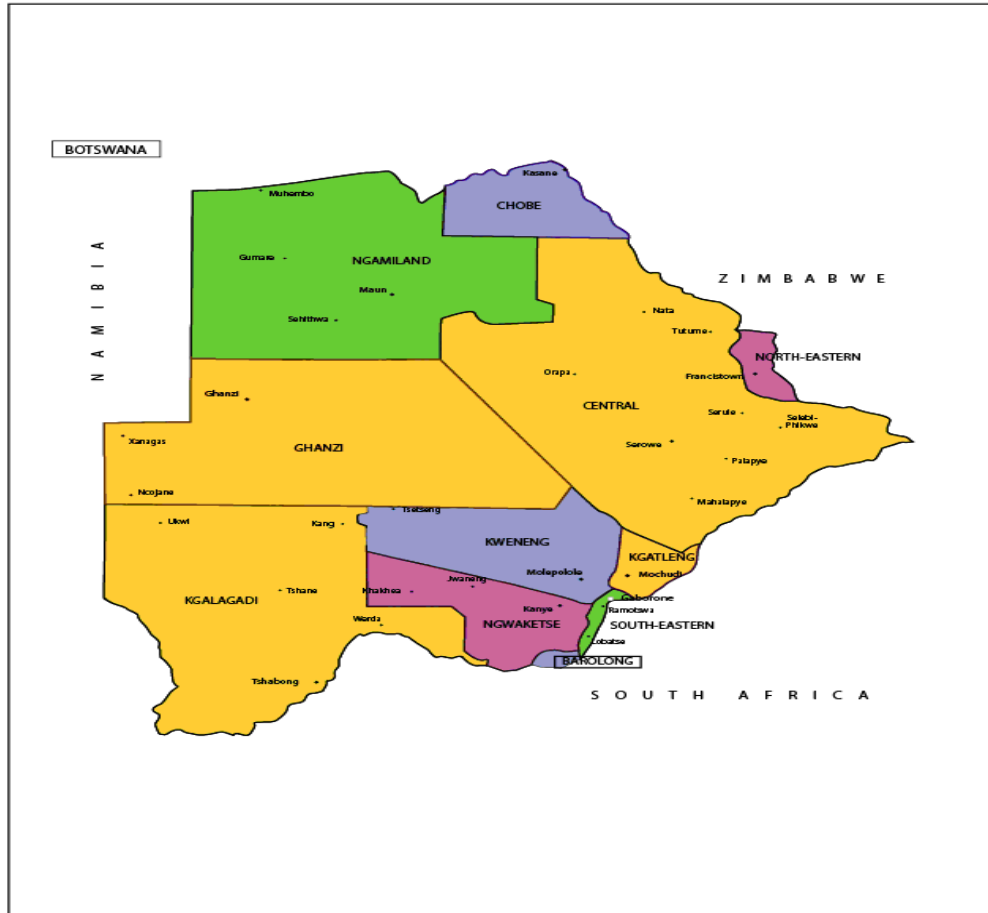


Source: ADB Statistics Department, IMF, World Bank and Regional Member Countries

Last Update: October 2009

ANNEX IX - Map of Botswana

REPUBLIC OF BOTSWANA
COUNTRY MAP



This map is provided exclusively for the use of the readers of the report to which it is attached. The names used and the borders shown do not imply on the part of the African Development Bank Group any judgment concerning the legal status of a territory nor any approval or acceptance of such borders.