Determinants of household saving and borrowing in Botswana

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Introduction

The paper examines trends in household savings in Botswana, including possible factors that influence savings. It further investigates the changing patterns of non-financial savings by households; for example, the switch from livestock to other assets, either physical or financial. Borrowing activities of the household, both in the formal financial sector and the non-formal sector, are also examined. This will, among others, address issues of traditional social arrangements where groups of people informally team up and engage in some savings/lending activities, which are mainly funded by household savings. In general, households in Botswana are net borrowers with respect to the banking system, but are net savers when contractual savings are included. Although not easily quantifiable, there appears to be significant use of informal savings and borrowing schemes by households. The paper finally outlines some statistical challenges associated with monitoring household savings in Botswana.

What are household savings?

The amount of household savings in any period is the current income put aside by a household for future spending. Households can also borrow to cover a foreseeable financial shortfall or in order to supplement their current income. Such borrowing can be to finance payments on a large investment such as residential property, buying a car or paying for school fees. Saving is important for any economy in that it builds up resources that will be available for investment, which adds to the capital stock of the economy. It is also a way of allocating the scarce resources from surplus to deficit units. It also contributes towards smoothing future consumption. Keynes (1936) came up with as many as eight reasons why households would prefer to put aside some income for future spending. These are reproduced below.

(i) To build up reserves against unforeseen contingencies

(ii) To provide for an anticipated future relationship between the income and the needs of individuals

(iii) To enjoy interest and appreciation

(iv) To enjoy a gradually increasing expenditure

(v) To enjoy a sense of independence and the power to do things, though without a clear idea or definite intention of specific action

(vi) To secure a “masse de manœuvre“ to carry out speculative or business projects

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(vii) To bequeath a fortune

(viii) To satisfy pure miserliness, i.e., unreasonable but insistent inhibitions against acts of expenditure

To the above eight reasons, Browning and Lusardi (1996) added a ninth, which is

(ix) To accumulate deposits to buy houses, cars and other durables

General factors determining household savings

There are several studies that address this topic and generally outline four basic reasons why households save: creating resources that can be used during retirement and/or as inheritance; creating resources that can be used to finance expected future large expenses (e.g., acquiring a house and educational expenses); providing for loss of income (precautionary saving); and maintaining a stable consumption pattern. Moreover, Callen and Thimann (1997), found that public saving, economic growth and demographic factors do influence household saving, while other economic variables, such as inflation, unemployment, the real rate of interest and financial deregulation, also have an effect. In addition, household saving is affected by income tax and social security systems, whereby high direct income taxes and government transfers to households have a negative effect on personal savings.

It is also observed that double taxation of savings similarly affects saving negatively, in jurisdictions that tax gross income, as well as interest on savings (Mitchell 1998). This system encourages immediate consumption, rather than saving, as households that decide not to save, but consume immediately, are not affected by the second-round of income taxes. Mitchell (1998), therefore, suggested that eliminating this kind of taxation, as well as that on capital gains and the estate taxes, can encourage saving.

Household saving in Botswana

The review below analyses households saving in Botswana using data for commercial banks and pension funds.

Theoretically, savings are positively related to the real interest rate and real income. Using the data from commercial banks in Botswana, it has previously been found that the main factor causing households to vary their savings is the interest rate paid on deposits (Bank of Botswana Annual Report 1997). However, the response of savings to changes in the deposit rate was very small, with an estimated elasticity of 0.14, which indicates that for every 10 percent increase in the rate of interest, savings would increase by only 1.4 percent. It has also been found in Botswana’s case, that there is a long-term relationship between nominal rates on deposits and the level of household deposits with commercial banks (calculated as a ratio of non-mineral non-government GDP), while the relationship with respect to the real interest rate was found not to be as strong as would have been expected a priori. This may be attributed to problems with measuring the real interest rate, which is the difference (at least to a very good approximation thereof) between the nominal interest rate and expected inflation. The difference, in research, has typically been proxied by actual inflation. Alternatively, the nominal interest rate can be a good estimate for the real rate, but only in cases where inflation is stable and low. It would not be a good proxy where inflation is high and unstable as it can vary considerably from the real interest rate.

While, a priori, it is expected that savings should be positively related to real income, for Botswana the short-run relationship was found to be negative; when real income or the rate of economic growth rises, household deposits fell (Bank of Botswana Annual Report 1997). This could be attributed to households expecting the increase in real income being permanent or long-term. For example, those in employment tend to increase their rate of consumption more than the increase in their real income. The other explanation may be that, as real income increases, to the extent that this leads to employment growth, this raises borrowing capacity (the newly employed may be more interested in borrowing). However, the extent to which this has been an important factor in the case of Botswana is doubtful given that, despite sustained rapid growth of the economy, employment creation has been more limited.

Various savings systems in Botswana

Formal financial systems

From July 1975 when the Bank of Botswana was established and August 1976, when the Pula was introduced (replacing the South African rand), Botswana's formal financial sector has grown substantially, but with added momentum from the early 1990s following significant sectoral liberalisation. Up to 1982 (when the Bank of Credit and Commerce Botswana (BCCB) came into the market), only two commercial banks - Standard Bank (subsequently Standard Chartered) and Barclays Bank - operated in the country, both as branches of the British parent banks' South African subsidiaries. Other formal financial institutions operating in the country included the Botswana Savings Bank, the Botswana Building Society, the National Development Bank and the Botswana Development Corporation, all owned by the Government and established to fill gaps in the financial sector with respect to small savings, housing finance and long-term agricultural and industrial funding. With significant financial liberalisation in the early 1990s, the number of commercial banks has increased over time; currently there are six commercial banks operating in the country together with one merchant bank, while there has been notable growth in financial instruments and improvements in the payments system. Total assets and liabilities of the commercial banks grew at an annual average rate of 19 percent from P125.7 million (approximately US$152 million) in 1977 to P828.9 million (approximately US$428 million) in 1988 and then at an annual average rate of 20.3 percent from P1,081.9 million (approximately US$578 million) in 1989 to P17,758.4 million (approximately US$3,220 million) as at the end of December 2005.

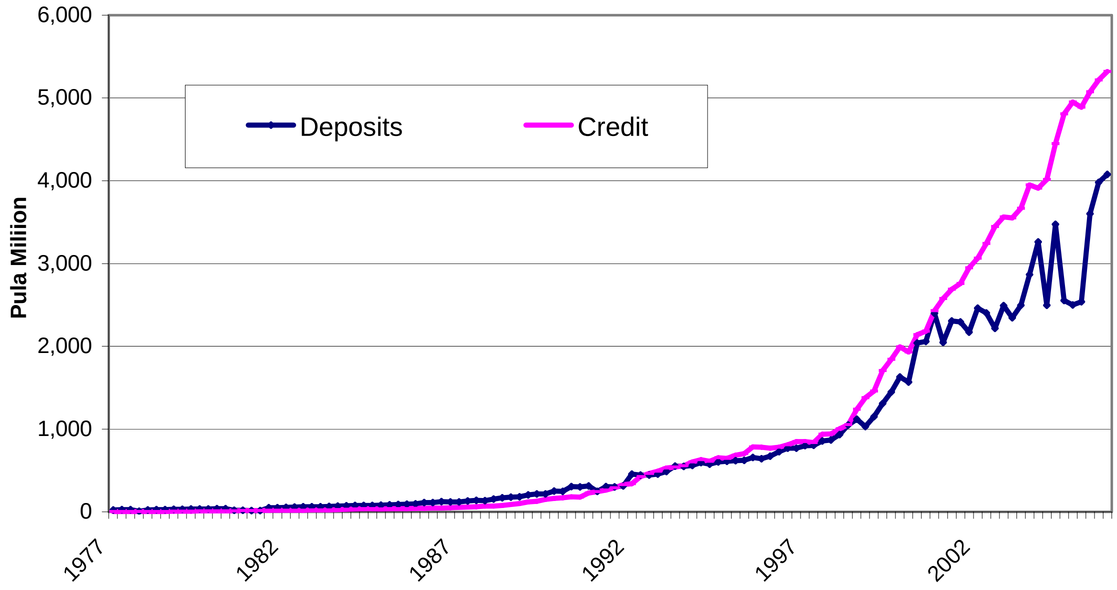
Invariably, the growth in the number of commercial banks was accompanied by the growth in household deposits, which rose from P22.4 million (US$26 million) in 1977 to P4,076.6 million (US$740 million) at the end of December 2005. However, this was not a smooth growth process as there were very high fluctuations in the rate of growth in the early years to the first half of 1982 due to a small base. Therefore, growth stabilised at an annual average of 21 percent to 2005.

Chart 1 indicates that the household sector in Botswana is a net borrower from the commercial banks. Initially, from 1977 to 1992, the household sector was marginally a net saver. From 1993, the household sector turned into a net borrower from the banking system and the gap has since been gradually widening. Though there may not be enough data to formally support this, it could be attributed to the changing lifestyle of Batswana that entails the need to own residential property, automobiles, durables and high quality education available in private schools, that is financed by borrowing rather than initial saving. While these needs should also encourage prior saving, this is a process which takes time, while the needs are perceived to be immediate.

With regard to deposits, the year-on-year growth rate averaged 26.4 percent between 1978 and 1988. After the liberalisation of the financial sector in 1988, the growth rate averaged 29.2 percent per annum over the next 17 years to 2005. The peak growth during this latter period from 1989 was 63 percent registered in 2005, while the lowest rate of growth was a negative 23 percent registered in 2004.

Chart 1

Commercial banks' total credit and deposits by households 1977-2005



Source: Bank of Botswana.

After the relaxation of controls on interest rates ceilings in 1988, there was a substantial increase in credit extended by the formal financial system (Moloi, 1996). This was evidence of some form of past "financial repression", where holding interest rates down affected borrowing negatively because banks were not willing to lend at the prevailing rates. The interest rate restrictions also resulted in real interest rates being negative, which may have discouraged savings too. The year-on-year growth in credit rose from 31 percent in 1987 to 48 percent at the end of 1988 and peaked at 60 percent in 1989, before falling to about 46 percent between 1990 and 1992. This occurred at the same time when water restrictions were lifted, which had affected the construction sector negatively. Hence, it could be concluded that the acceleration in credit growth was partly a result of the removal of the interest rates controls combined with the boom in the construction sector, which included the private housing development. Thereafter, credit growth slowed considerably to 7 percent in 1994.

A breakdown of household credit since 1992 (Chart 2) indicates that most of the credit goes to the "other" category compared to residential property and motor vehicles. The category would include financing of durables, small informal businesses, un-mortgaged homes and improvements, education and other social and consumption expenditure. Around 1992, the largest portion of credit went towards the purchase of motor vehicles, followed by the "other" category, while credit for residential property category was the third largest. However, from 1994, credit to the "other" category exceeded that for motor vehicles and the gap has been widening ever since. Nevertheless, motor vehicle credit continues to be significant partly due to the introduction of the motor vehicle financial assistance scheme for the public service, under which loans from commercial banks are 80 percent guaranteed[2] by the Government,

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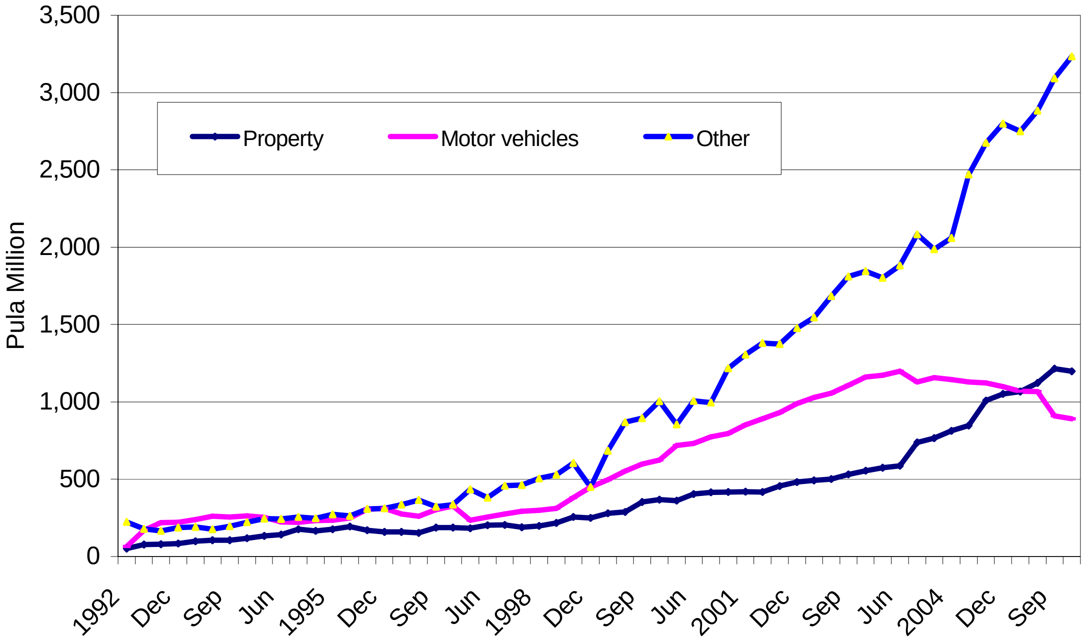
[2] In contrast, some employers lend to their staff directly for property, vehicle purchase and, especially, short-term loans, which will serve to reduce the level of borrowing from the commercial banks.

making it easy for civil servants to access commercial bank loans. Average annual growth in these loans was 25 percent between 1992 and 2005; loans for residential property also steadily grew by 27 percent, annually, over the same period, with the share in total credit to households increasing from 35.1 percent in 1992 to 58.5 percent by the end of 2005. The gap between credit towards purchase of motor vehicles and residential property widened between 1999 and 2004, after which credit towards residential property exceeded that for motor vehicles as the borrowing towards the purchase of motor vehicles declined. The recent decline in commercial bank motor vehicle lending could be attributed to the rise in imports of second hand vehicles from Asia, which cost less. Until very recently, formal financial institutions were not directly financing the purchase of such vehicles, and customers were then taking credit categorised under personal use and using it to buy such vehicles. This could be part of the reason for the substantial increase in the "other" category.

Chart 2

Commercial banks' credit to households 1992-2005



Source: Bank of Botswana.

Overall, the increase in the "other" category is possibly also due to the fact that as limits for personal loans increased, it became feasible to use this to finance construction of small residential properties, as well as to undertake home improvements, without the constraints and formalities of a mortgage, and to finance the purchase of durables and motor vehicles.

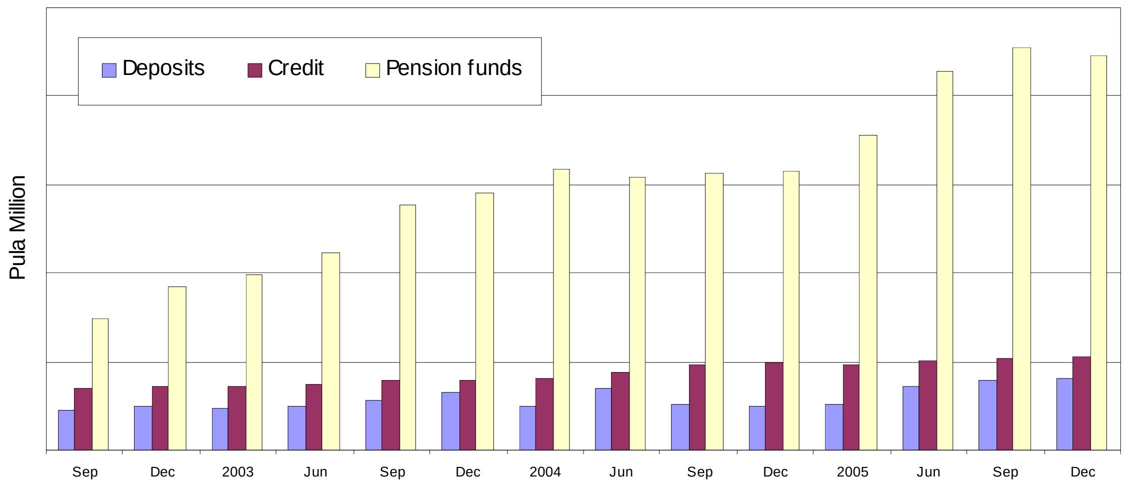
Pension funds

While households are net borrowers from the banking system, an analysis that includes pension funds[3] shows households to be net savers, see Chart 3. Most of these pension funds are institutional and operated through employers, where the contributions for employees are mostly involuntary. For example, permanent and pensionable Government employees (which constitute the largest sectoral group of employees) save for retirement through a contributory pension scheme, the Botswana Public Officers Pension Fund established in April 2001, which substituted for the previous pay-as-you-go defined benefit pension scheme. This explains much of the recent growth, averaging 49 percent per annum between 2003 and 2005.

A significant number of employees in the parastatal and private sectors are also members of contributory schemes in which both employers and employees contribute to the pension fund, with the former contributing a higher amount. A minimum amount is set for employee contributions, but they can go beyond this amount depending on how much they can afford. Despite households being substantial net savers when the pension funds are taken into consideration, these assets are not currently available to service debts, hence the net position of borrower's with respect to the commercial banking system remains a concern.

Chart 3

Household deposits & credit with banks and pension funds



Source: Bank of Botswana.

[3] Up to 70 percent of the pension funds assets can be invested outside the country, if returns and the range of investment opportunities are better. However, given the high prevailing rates of interest in Botswana, much less than 70 percent is invested abroad.

Informal financial systems

Some surveys have noted that the difficulty that households have in accessing the formal financial services (particularly in the rural areas) constitutes an obstacle to promoting savings by households. In the circumstances, households find alternative informal savings options and credit facilities. Apart from proximity, other hindrances to accessing the formal financial services include cost, the perceived low return of financial savings, and limits to accessing deposited funds.

Table 1

Comparison of main problems experienced with formal financial institutions across BLNS countries

Statement	Percent			
	Botswana	**Lesotho**	**Namibia**	**Swaziland**
Requirements				
They force me to keep a high minimum	52.3	76.6	37.5	63.6
I don't qualify for their services	57.2	57.7	40.4	51.8
I have to have credit references	25.8	47.2	24.3	32.5
I have to have a pay-slip	21.0	56.9	11.6	32.4
I have to fill in forms	14.9	39.5	10.3	27.0
I need a permanent address	6.2	12.7	13.6	8.1
I have to have an identity document	4.0	18.2	8.1	10.1
Access to the service				
I cannot get the money immediately if I need it	57.6	88.8	52.7	63.9
They are too far away for me and expensive to get to	45.6	77.6	48.4	57.2
I have to stand in queues for service	52.7	74.4	37.4	55.9
Their technology can be difficult to work with	46.6	68.6	23.8	38.4
Perceived value/benefit				
My money does not grow quickly	55.8	87.4	47.9	63.1
My money is taxed	42.7	81.4	40.0	63.3
They only offer a good return over a period of years	53.2	77.1	20.6	59.1
Their ATM machines are not always safe	39.2	84.6	40.1	38.5
The big institutions are not always safe	44.5	84.6	37.3	30.0
I have to pay to deal with them	34.2	66.7	23.3	41.6

[1] G:enesis Analytics is an economics consulting firm working in Africa and in other developing countries. The study was carried out at the initiative of FinMark Trust, and is the most comprehensive national household survey focussed on the financial services needs and usage across the entire South and Southern African population.

Source: G:enesis Analytics Survey 2004

Table 1 is re-produced from the G:enesis Analytics survey released in September 2004 and conducted in four countries - Botswana, Lesotho, Namibia and Swaziland (BLNS). The survey clearly shows that there are problems in accessing financial institutions in the BLNS countries. However, though Botswana may not have come out above the rest of other BLNS countries, it does reasonably well in that there are few constraints compared to Lesotho and Swaziland. In Botswana, 57.6 percent of the respondents noted that they are frustrated by the fact that once they have deposited their money with the formal financial system, it would be difficult for them to access it at the time they need it. This is followed by the 57.2 percent of the respondents who noted that they do not qualify for the services provided by the financial systems. Another disturbing factor is that many savers/investors feel that the returns on savings in the formal financial sector are relatively low (55.8 percent). This ties well with 53.2 percent who say that it takes time to get good returns in the formal financial systems. Such responses indicate that households would search for alternatives, which they feel would make their money grow faster. In the informal sector in Botswana, it is possible to get as much as 20 percent per month from lending although the risk of not being paid back is very high. However, this does not discourage the informal lenders when they compare that to saving and getting about 10 percent per annum on deposits in the formal sector, although there is virtually no risk.

A popular alternative to formal savings is in the form of households grouping themselves into informal financial arrangements based on families, friends/associates and workmates. In Botswana, such a grouping is called a motshelo.[4] In the literature, these are commonly known as rotating savings and credit associations (ROSCA) (Sephuma and Montagnoli, 2004) that are used as saving institutions and also extend credit to their members.

The members of the group decide how to lend amongst themselves depending on the existing group savings and the interest charged on the loaned amount is also agreed between the group members. This lending generates interest income for the group, while the obligation to repay is based on trust, as well as the commitment of an individual to the group. In other situations, because members want their savings to grow, there is compulsory borrowing by members within a given period. Failure to repay within an agreed period attracts a penalty over and above the normal interest charged. Group meetings are also compulsory to the extent that whoever fails to attend a meeting is penalised. These various charges are used to discipline the members as well as generate income for the group. The groups' "dividends" are usually declared annually.

Another source of credit to households are money lenders, some of whom may be the groups/metshelo described above. Some of these money lenders are well established businesses that have shareholders internationally (for example, in Botswana, Letshego[5] is listed on the Botswana Stock Exchange and has recently commenced operations in other countries - it is clear that this is hardly the traditional profile of a "money lender"). Money lenders, as long as they do not accept deposits from the public, are not regulated by the Bank of Botswana. Most of these money lenders charge very high interest rates compared to the formal financial institutions to cover for the higher risk of default, as well as running costs. Despite the high interest rates, households still find it easy to use such institutions because they require less information compared to the mainstream financial institutions. The majority of money lenders typically have clients that have a formal job as they require a salary advice

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[4] A motshelo is an informal grouping by people, the purpose of which is to generate money to assist each other within the group. Group members agree to contribute a certain amount per month towards one member or towards the groups' saving fund. In its original sense, the funds were only accessible to group members; but nowadays members can agree to advance credit to non-group members as long as they agree and trust that the person will pay it back with some interest. As such, the distinction between the traditional motshelo and more formal money lending is sometimes blurred.

[5] A trading name for Micro Provident Botswana (Pty) Ltd.

slip and a bank account as proof that the client is capable of repaying the loan. Some of the users of informal money lenders are those that have been rejected by the formal financial institutions. To try to reduce the risk of not being paid, the lenders attach the loan repayment to the borrower's salary (Sephuma and Montagnoli, 2004) and the borrower's ATM card is kept by the lender so that on pay day the money lender is the first to withdraw the period's instalment. Though it is difficult to collect data from such financing, it is believed that it is small, probably less than P1 billion, compared to P5.3 billion (as at December 2005) for the banking system, a large proportion of which is provided by Letshego.

Households saving in Botswana is also in the form of livestock rearing. From the 2001 census data, the proportions of households owning livestock were: goats 41 percent; poultry 41 percent; and cattle 39 percent (37 percent of households owned no livestock). These data indicate that a significant number of Batswana, including those in formal employment are farmers. While cattle ownership has perhaps become less widespread as compared to small-stock, cattle can also be a source of income to those who do not own them, but can be employed as herders. Non-cattle owners can negotiate a scheme whereby they are given a certain number of cattle by an owner to look after, a system known as mafisa.[6] They are allowed to use all the products from the animals, such as milk to feed their family, as well as using the animals as draught power to plough their fields. At the end of an agreed period, the caretaker is typically given a beast, normally female, as a form of payment. It is from this payment that the caretaker can start his/her livestock rearing and building his/her own assets.

Usage of financial products/services by households in Botswana

Table 2 is also reproduced from the 2004 G:enesis Survey Report and, like Table 1, covers the BNLS countries. The table shows how households in surveyed countries responded to the various questions on the usage of financial products/services in their respective countries. The survey categorised the products into four major groups - savings, transactions, credit and insurance services. Households in Botswana have come out clearly at the top as major users of the three classifications, except for insurance services, where they came second after Lesotho. But still the number of respondents was 47.6 percent. This suggests that Botswana, relative to other countries surveyed, is more integrated into the mainstream financial sector.

The majority of those interviewed in Botswana (79.6 percent) use the savings products that are available in the market (including 25.7 percent who admitted being members of a stokvel,[7] which is another name for motshelo). Forty-seven percent admitted operating some savings/transaction account from commercial banks and another 36 percent admitted operating a post office savings account. A further eleven percent admitted belonging to a form of saving group. Fifty percent of respondents also admitted having some form of credit, the majority of which was with the non-financial institutions, including store accounts, many of which are with South African chain stores (many consumers shop at stores in South Africa where they have credit facilities). This should be an indication that households are buying goods, such as furniture and clothing, through credit from stores that provide such facilities.

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6 Mafisa is an arrangement between large cattle owners and very small cattle owners or those with no cattle, whereby the latter party could be given a certain number of cattle to look after. The two parties can agree on how the person who keeps/looks after the animals can be paid, normally a beast after an agreed period of time.

7 Originally a South African word, but now widely used in Southern Africa.

Table 2

Usage of financial products/services by BLNS countries

Respondents with one or more of the product/service	Percent			
	Botswana	Lesotho	Namibia	Swaziland
Savings	**79.6**	**33.3**	**48.5**	**46.2**
Post office savings account	35.5	0.6	19.9	0.2
Savings/transaction account from bank	47.0	17.0	28.4	35.3
Current/cheque account	17.7	0.9	8.3	4.1
Transaction/transmission account	7.9	0.0	4.6	2.3
Fixed deposit account	11.5	2.6	9.3	3.6
Call account with bank	3.2	0.0	2.2	0.3
Membership of stokvel	25.7	11.1	0.9	19.5
Loan/saving from NGO	0.6	0.4	1.9	2.0
Loan/saving from saving and credit coop	1.5	0.4	1.1	6.5
Member of a savings group (yes only myself)	10.9	3.0	3.6	6.1
Retirement annuity/provident fund/pension fund	22.3	4.1	22.5	17.2
Endowment/investment policy	8.5	1.3	8.0	2.5
Education insurance cover	2.6	1.5	8.9	1.2
Transaction	**43.6**	**6.7**	**26.8**	**17.7**
Savings/transaction accounts and ATM cards	36.8	6.2	22.1	14.2
Current/cheque account	2.3	0.9	8.3	4.1
Debit card	5.3	0.0	2.7	0.2
Credit card	12.5	0.4	6.2	1.8
Garage card	0.4	0.0	0.9	0.5
Transaction/transmission account	7.9	0.0	4.6	2.3
Credit	**49.6**	**12.6**	**26.8**	**27.7**
Mortgage bond or housing loan from bank	2.3	0.0	6.9	2.2
Current or cheque account (assuming that individuals that qualify for this will also qualify for credit)	17.7	0.9	8.3	4.1
Credit card[1]	12.5	0.4	6.2	1.8
Transaction/transmission account (assuming that individuals that qualify for this will also qualify for credit	7.9	0.0	4.6	2.3
Vehicle finance from a bank	6.2	0.0	2.0	0.7
Loan from a bank	11.7	0.0	5.3	4.1
Personal overdraft with a bank	1.1	0.2	4.1	0.2
Business overdraft with a bank	0.2	0.2	1.2	0.0
Loan from registered microlender	4.2	1.1	1.4	2.8
Loan from unregistered microlender	3.6	5.6	0.6	4.0
Loan/saving from NGO	0.6	0.4	1.9	2.0
Store account	29.1	6.0	15.2	16.1
Loan/savings from savings and credit coop	1.5	0.4	1.1	6.5
Insurance	**47.6**	**56.0**	**36.5**	**19.2**
Membership of burial society	21.2	51.7	10.3	12.6
Funeral policy	20.9	10.3	30.6	9.4
Life insurance policy	26.0	2.4	19.6	6.3

[1] Credit/charge card used at a gas/fuel/petrol filling station.

Source: G:enesis 2004

Much of this will not show up in any measure of domestic borrowing in Botswana, unless such stores financed their trade credit with loans from Botswana banks.

Contrary to the common belief that a large number of Batswana use micro lenders to get credit, the survey found that as few as 4.2 percent of Batswana households admitted having obtained credit from the registered micro lenders, while 3.6 percent got credit from the unregistered micro lenders. While coming top on obtaining credit from the registered micro lenders, households in Botswana were third on obtaining credit from the unregistered micro lenders. Therefore, from the survey, Batswana do not use micro lenders as much as is generally believed. However, these results need to be interpreted with some caution, as the survey itself suggests that there might be some under-reporting in an area where respondents may be reluctant to reveal their involvement.

From the results of the survey, one can confidently conclude that the majority of Batswana are major users of financial products that are available in the market, particularly in the formal sector. They are also either promoting some form of saving or obtaining some form of credit, regardless of whether they are formal or non-formal. However, despite the belief that they use micro lenders a lot, this does not seem to be the case.

Statistical challenges

Generally, getting accurate statistics is not easy, and this is certainly the case when trying to get a full picture of household savings and credit in Botswana. Looking at the information on household deposits and credit from the commercial banks, one could confidently say there is generally good coverage. The major problem lies in the categorisation of credit data, with a large proportion of household borrowing reported under "other". This groups all the items that are difficult to classify from the category of household credit. There is scope for under-reporting on both credit for residential property, as well as that for motor vehicles borrowing, as some of the financing for these assets is lumped under "other". Households may borrow describing their borrowing as for personal use, when, in fact, it is used either to develop or improve their homes, buy automobiles and to fund some small businesses. Indeed, in 2005, household credit figures had to be revised downward after one of the banks re-categorised some of its lending into the business category. Also trade credits to consumers may be shown as business credit of the banks.

As well as classification, under-reporting could also be due to the fact that it is not only the commercial banks that provide financial services to households. Other companies provide credit to their staff in the form of housing, motor vehicle or personal loans; and such facilities, if in the form of direct credit to employees rather than employers' guarantees of bank lending, will not be captured in the commercial banking statistics, at least not in a format that is readily identifiable as household borrowing. It may show up as credit to the business who then on-lend to their employees.

A major challenge lies with the micro lenders, which are not easily accessible institutions. For instance, while there is a perception that activities of money lenders are widespread in the country, information on such activities suggests that they may not be that important, after all. Nevertheless, they do provide the household sector with some financial services that should be recorded. But the challenge is how to collect these very important data. The extent to which Batswana are also accessing credit in very large numbers through store accounts may be even more important, but there is virtually no information on this (not least because of the extent to which this activity is based in South Africa). All these are challenges to the accuracy of the household statistics in the country.

Despite the challenges mentioned above, the Bank of Botswana is looking at opportunities for improving compilation of statistics. There is a monthly publication, the "Botswana Financial Statistics" (BFS), which is posted on the Bank's website (www.bankofbotswana.bw).

For the financial sector, the main focus is on monthly data from commercial banks. Relevant information is also included from the balance sheets of other financial institutions, including those that both accept deposits and lend to households. There are various improvements that are being made on the data compilation, including the recent move from the monetary survey to the depository corporations' survey format. The Bank plans to produce and publish a full-scale financial sector survey in future.

Conclusion

This paper looked at the form of household saving and borrowing in Botswana, drawing on a range of information, including comprehensive financial reporting, survey data and anecdotal evidence. Botswana households save in two types of financial institutions - formal and non-formal financial institutions. In the formal financial institutions they save because the prevailing deposit rate is higher, hence they expect high returns from their savings. However, while theoretically it is expected that when the real interest rate rises, savings should also follow, this relationship is found not to be that strong in Botswana.

Another main reason for saving is to help spread the cost of funding the acquisition of durables, education and home improvements. However, it is found that household use credit to fund these, hence the increase in the growth of credit. This, alongside the rapid development of the country, both economically and socially, supported the increase in borrowing. Consistently upward trends in nominal wages have also encouraged a preference for borrowing. Looking at the credit figures from the commercial banks, Batswana are net borrowers but when the pension funds and life assurances systems are considered as saving, households are net savers. It is clear that rather than saving through financial institutions such as banks, they tend to save through pension funds and life insurance for retirement, albeit through mostly contractual and involuntary savings schemes.

An alternative way of savings is through groupings, known as metshelo. Through these, households group themselves and form schemes where they contribute towards informal savings. There is a belief that through these schemes, money can multiply faster than at the formal financial institutions. Also the requirements for accessing credit from such schemes, are not as cumbersome as those offered by formal institutions.

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