



**MINISTRY OF FINANCE AND DEVELOPMENT PLANNING**

**BOTSWANA PENSION SOCIETY**

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**RETIREMENT FUNDS AND THE ECONOMIC DEVELOPMENT  
OF BOTSWANA**

**ROLE OF RETIREMENT FUNDS – GOVERNMENT PERSPECTIVE**

**29<sup>th</sup> February 2016**

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## **RETIREMENT FUNDS AND THE ECONOMIC DEVELOPMENT OF BOTSWANA**

### **ROLE OF RETIREMENT FUNDS – GOVERNMENT PERSPECTIVE**

1. The Chairman and Executive of the Botswana Pensions Society, Chairpersons and Trustees of various pension funds, principal officers, esteemed guests, industry movers and shakers, Colleagues, good morning.
2. I was browsing through the Report from the Registrar of Pension and Provident Funds for the period ended December 2001. Please allow me to share some statistics that were featured in that report.
3. There were 159 Pension and Provident Funds recorded, of which 70% were Defined Contribution; 22% were Defined Benefits and 8% were Provident Funds, that is 112 DC, 35 DB and 12PF serving 52 509 members. Colleagues will recall that 2001 was also the year when the largest fund in Botswana, the Botswana Public Officers Pension Fund was established, capitalized at P1.8 billion in an environment where funds invested by all pension schemes was P4.4 billion.

Also at that time, retirement funds had invested as follows:

Botswana equities	-	36%
Offshore equities	-	31%

Botswana cash	-	14%
Offshore bonds	-	10%
Offshore cash	-	5%
Botswana property, and bonds	-	4%

4. The Registrar of Pension and Provision Funds expressed concern regarding the low level of compliance by industry with the provisions of the Pension and Provident Funds Act and said, "The importance of the pension industry as an economy driver in Botswana warrants effective deterrents to maintain industry integrity as well as safeguard the future livelihood of funds and pensioners."

Now let's fast forward to March 2015.

5. The Annual Report of the Regulatory Authority reveals that at that date, there were 86 standalone funds and 5 Umbrella Funds, which comprised 225 sub-funds. As at December 2014 pension fund investment assets amounted to P59.4 billion, having shown steady increase over the years since 2001. Membership increased to 234,840 from 52,510 in 2001 - an increase of 347% and the spread of investments was:

Botswana primary listed equities	-	P11.4 billion
Botswana unlisted equities	-	P1.4 billion
Offshore equities	-	P27.3 billion
Bonds	-	P13.8 billion
Cash and non-cash	-	P4.6 billion

Apart from the obvious huge increase in funds invested, the NBFIRA report mentions an investment instrument not seen in 2001 – ETFs which captured P0.403 billion of the pie.

6. As at June 2015, 63% or P44 billion of total pension assets were invested outside Botswana with 37% or P26 billion invested in Botswana and this time, the Regulator acknowledges that there is increased understanding of the importance of good governance, but still decries the inadequacy of compliance with the law.
7. What has accounted for the increased placement of investment outside Botswana from 46% to 63%? The response that we have gotten to this question is that the retirement funds sector has grown faster than the market for long term debt.
8. In other words, the availability of **appropriate** long term debt instruments has not kept up with the demand for such instruments. The further question may be asked as to what is **appropriate**? In an environment where the great majority of pension funds are defined contribution funds, trustees bear the huge responsibility for the sound performance of these assets, such that replacement rates are meaningful to pensioners and sustainable to the fund. Therefore, the concept of **appropriateness** takes significant meaning. There is no doubt that domestic investment of pension funds

should be preferred over offshore placement, but once again, it is the trustees' responsibility to optimize investment yield, in the context of prudent management of capital. I believe that Colleagues will deal with such concerns extensively in the programme.

9. Having said that, should we be investing pension funds only in bonds? Should we be investing pension funds only through the Botswana Stock Exchange? Should pension funds be participating directly in infrastructure projects such as hotels, shopping malls and public buildings? What about financing green growth initiatives? Is there an appetite for low-carbon economic development? The Regulator commented on the increased level of awareness of governance matters. Does this extend to choice of investment instruments?
10. Whatever your answers to those questions may be, the bottom line is that in Botswana, at this point in time, there is inadequate supply of traditional investment instruments to absorb the funds available for long term investment by pension funds. I am referring here, to the traditional core-assets of pension funds; assets such as government bonds, listed equities and money market instruments. For some of us, infrastructure development **is** the best fit, due to the long term nature of such projects.
11. We are aware that the Regulator has provided guidelines for allocation of investment of pension assets and those

allocations were done in conjunction with the Ministry of Finance and Development Planning. We believe that the allocations provide a wide range of flexibility, suitable for a liberalized economy, cognizant of the importance of appropriate replacement rates and seeking to manage risk exposure of funds.

12. As a facilitator of business, Government acknowledges that the retirement funds industry is an important partner in the economic development of Botswana, on many fronts. The impact of the billions of Pula of retirement funds is significant in Botswana's investment landscape. The P69.9 billion referred to earlier must be made to work in the development of Botswana's economy. Furthermore, the social impact of retirement funds on the wellbeing of ordinary Botswana, cannot be ignored.
13. Colleagues, we are all aware that Return On Investment is of particular importance in the management of DC funds. Institutional investors are challenged by muted returns availed by the usual sources of investment and as a result they are increasingly turning to alternative investments.
14. Government's concern here is the risk exposure which is affiliated with some of these forms of alternative investments. Concerns regarding the use of unconventional strategies and investment in more risky ventures are associated with the human tragedies that can result, if ROI is not properly

managed and pensioners find themselves with inadequate provision for retirement.

15. You might ask, why are pension funds allowed to invest assets outside Botswana? The reason is simple - emerging markets such as ours need to piggy back on the knowledge, expertise and resources of global players. The challenge is to strike the right balance such that investment returns also benefit the Botswana economy, to a commensurate level. There is no doubt that pension funds must partner Government and other investors, in infrastructure development. There is no doubt that more pension fund money must be invested in the Botswana economy. Should government legislate lower levels of permitted external placements? Not unless the local market illustrates that it is able to absorb the potential inflows, particularly in the context of risk management and returns necessary to provide suitable living incomes for pensioners. Colleagues, we look forward to hearing more about how Government can facilitate the sound and stable growth of the retirement funds sector.

16. Colleagues, I need to end this presentation in the same way I began, by referring to the Registrar's report. The Registrar of Pension and Provident Funds said in 2001, that he was aware of the existence of the Botswana Pension Society, comprising of industry professionals and various stakeholders. He also said that the BPS is well placed to address the shortage of skilled resources in the area of

pensions, through the continued training of various participants in the industry. Colleagues, I am sure you will agree with me that BPS is making great strides in this direction. I therefore congratulate the BPS on holding this event and wish them only good things for the future.

17. Thank you.