

# Trade in financial services: GATS, EPAs and complementary policies

March 2007

Dirk Willem te Velde and Massimiliano Cali\*

Botswana has not committed the financial services sector in GATS (General Agreement of Trade in Services), despite the existence of non-discriminatory legislation and an already important presence of foreign banks. Banks in Botswana are amongst the most profitable in the world with a 40% average return on assets. Some large banks have a profit ratio as high as 100%. This suggests that more competition may well be needed and commitments in both GATS and possibly EPAs (Economic Partnership Agreements with the EU) help to signal this. It is also possible that high profits are a reflection of limited competitive pressures due to the relatively high entry costs in small markets, as banks emphasise. Policy should then focus on lowering the fixed costs of entry. Extending GATS commitments to financial services would need to coincide with a good regulatory framework. And this differs between insurance and banking.

The supervision in the banking sector is relatively advanced and as in most other countries it is in the hands of the central bank (not a ministry). While the supervisor may not be carrying out extensive checks, there are at least some checks on banks. A revised banking Act has brought banking legislation in line with changes in the global industry's norms for regulation, supervision and payments. Botswana seems ready for further GATS commitments in banking services to signal a move towards more competition. Such move would not penalise the local industry in any way.

The supervision of the pension and insurance industry is less well advanced and is inside the Ministry of Finance and Development Planning. The latter has been devising a Non-Bank Financial Institutions Regulatory Authority (NBFIRA) framework. Because some changes still have to take place, it seems better to wait until the new authority is working before Botswana can make any commitments in GATS negotiations on the non-banking financial services sector.

A different but real constraint to trade in financial services is the weak conditions for back-office operations. Two main types of complementary policies are required: developing skills and developing an appropriate IT infrastructure. Without these, even a favourable incentive framework cannot keep companies in Botswana. The relatively poor quality of general IT infrastructure including poor data exchange processes is believed to have been a major cause of Barclays' decision to relocate part of its back-office operations away from Botswana (via IFSC). Barclays were not able to get the right calibre of staff on an ongoing basis and the IT infrastructure did not match the requirements of the company. Small standalone units without appropriate support services do not work. The skills and IT framework needs to comply with international standards. Other banks also listed the lack of skilled labour as one of their primary concerns; an issue worsened through the strict immigration regime. The Standard Chartered back-office services for Africa are located in Kenya. Hence, while GATS commitment should be considered, it should go hand in hand with complementary policies.

*\*Dirk Willem te Velde and Massimiliano Cali are researchers at the Overseas Development Institute. This paper forms part of a series supported by the BIDPA, through the DFID funded Botswana Trade and Poverty Programme which is managed by Imani Development; the opinions expressed in the papers are those of the authors and do not necessarily reflect those of the BIDPA.*