

# BOTSWANA



**\$41.3 Bn**  
Equity Market  
Capitalization

**\$1.5 Bn**  
Debt Market  
Capitalization

**35**  
Number of  
listed  
companies

**49**  
Number of  
issuers  
(bonds)

**22.1%**  
Domestic  
Equity Market  
Cap/GDP

**217.4%\***  
Total Equity  
Market Cap/  
GDP

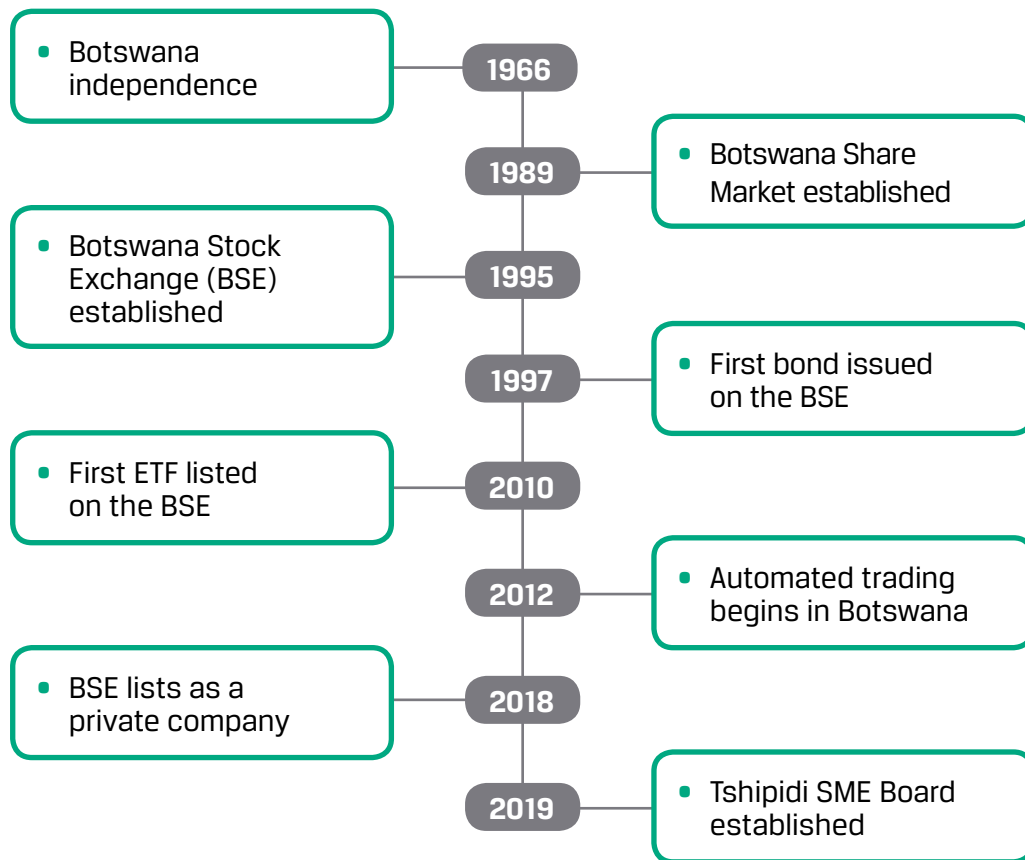
**7.9%**  
Domestic  
Debt Market  
Cap/GDP

**582,518,113**  
Equity Market Share Volume Traded

**1,955,800,000**  
Debt Market Instrument Volume Traded

\*Includes cross-listed stocks and/or ETFs.

## BOTSWANA



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The formation of the capital markets in Botswana can be traced back to 1989, with the introduction of the Botswana Share Market (BSM). At the time, there was no formal stock exchange, and the BSM operated as an informal market with five listed entities and a single brokerage firm that was charged with facilitating trading. In September 1994, the legislation to transform the BSM into a stock exchange was passed, and trading opened on the Botswana Stock Exchange (BSE) in November 1995. Historically, the BSE was owned by its members or brokers through ownership of proprietary rights and by the government of the Republic of Botswana. The BSE has since demutualised; 81.3% is owned by the government, and the four members of the BSE own the other 18.7%.

Over the years, the domestic stock market has grown tremendously, and as the regulatory environment has improved, new products have been introduced and various outreach programs implemented to attract issuers and investors. The BSE currently lists equities, fixed-income instruments, and exchange-traded funds (ETFs) in local<sup>5</sup> and foreign currencies. The exchange operates a tiered market composed of the Main Equity Board, the Venture Capital Market

Board, the Tshipidi<sup>6</sup> SME Board, and an OTC Board. At the end of 2018, the BSE had 35 companies (26 domestic and 9 foreign), 3 ETFs, and 49 bonds listed.

**Table 1** shows a snapshot of the Botswana capital market.

The BSE plays host to the most preeminent companies doing business in Botswana, Africa, and the world. These companies represent a spectrum of industries and commerce—agriculture, banking, financial services, wholesaling and retailing, tourism, property, security services, energy, mining, and telecommunications. Mining represents the biggest share (85.2%) of the BSE's total market capitalisation, followed by financial services (6.2%) and banking (3.2%). As a percentage of GDP, the domestic market size has been shrinking, from 34% in 2015 to 22% in 2018. Over the same period, market returns and trading activity have consistently declined in line with softening economic growth.

In 2010, the BSE became the first stock exchange outside of South Africa to list ETFs in Africa. To date, Botswana remains second only to South Africa in terms of trading levels of ETFs. The exchange has listed gold, platinum,

<sup>5</sup>Botswana's local currency is the pula, which means "rain" in Setswana.

<sup>6</sup>Tshipidi is the Setswana word for hand-holding a child who is learning to walk.

**TABLE 1. BOTSWANA CAPITAL MARKET**

	2014	2015	2016	2017	2018
Equity market capitalisation (USD billions)	41.8	42.1	42.1	41.8	41.3
Debt market capitalisation (USD billions)	1.0	1.0	1.2	1.4	1.5
Number of listed instruments	75	74	77	82	87
Domestic equity market cap/GDP (%)	31.5	34.2	27.5	24.4	22.1
Total equity market cap/GDP (%)	286.3	288.3	246.2	232.2	217.4
Domestic debt market cap/GDP (%)	6.8	6.9	7.1	7.9	7.9

Sources: BSE, Statistics Botswana.

and fixed-income ETFs, as well as an equity ETF, which ultimately delisted in 2018.

The BSE has undertaken several initiatives to promote broad-based development of the market. In 2019, it revised the equity listings requirements to align with international best practices and to promote regional cross-listings within the SADC.<sup>7</sup> These requirements increased the free float from 20% on the domestic main board to 30% and from 5% on the foreign venture market board to 10%. The exchange also introduced market-making in equity instruments in order to improve tradability, mainly in dual-listed stocks.

Botswana is a net exporter of capital because pension funds are allowed to invest up to 70% offshore and 30% onshore. The deeper pools of liquidity in Botswana—particularly from contractual long-term pension fund savings—have motivated a trend of dual listings of companies from other exchanges in the region and from across the world.

Public education has been the biggest driver of investor participation in the stock market with tailored initiatives for students and for the

<sup>7</sup>The SADC is composed of 16 southern African countries, including South Africa, Namibia, Botswana, Zimbabwe, and Mauritius. See [www.sadc.int/member-states/](http://www.sadc.int/member-states/).

broader population. The BSE won the “Best Educational Initiative Award” at the Structured Retail Products (SRP) Africa Awards in 2019 as a result of its flagship high school finance and investment competition that has been running since 2014. Just over a decade ago, retail investors accounted for 3% of total turnover; that number grew to a level around 12% before stabilising at 5% of total turnover. At the end of 2018, the bourse had just over 90,000 registered investor accounts, compared with just over 20,000 in 2013. The privatisation of Botswana Telecommunications Corporation Limited (BTCL), a state-owned enterprise, in 2016 played a significant role in raising awareness and onboarding investors on the exchange. BTCL is by far the largest IPO in terms of equity capital raised and number of investors—an indication that privatisation can go a long way in promoting economic empowerment among the citizenry. Nevertheless, the pace of privatisation in Botswana has been slow. The BTCL remains the only government-owned entity to have been privatised through a public offer and subsequent listing on the stock exchange.

In 2019, the exchange launched its SME-focused board, Tshipidi, which has less stringent listing requirements compared with the existing boards. The BSE has also undertaken a mentorship program commencing with 18 small and

**TABLE 2. NUMBER OF LISTINGS**

	2014	2015	2016	2017	2018
New listings	1	1	2	3	2
Delistings	1	4	0	2	2
Domestic companies listed	23	22	24	24	26
Foreign companies listed	12	10	10	11	9
Total	35	32	34	35	35

Source: BSE.

medium enterprises (SMEs) to develop a pipeline for this board.

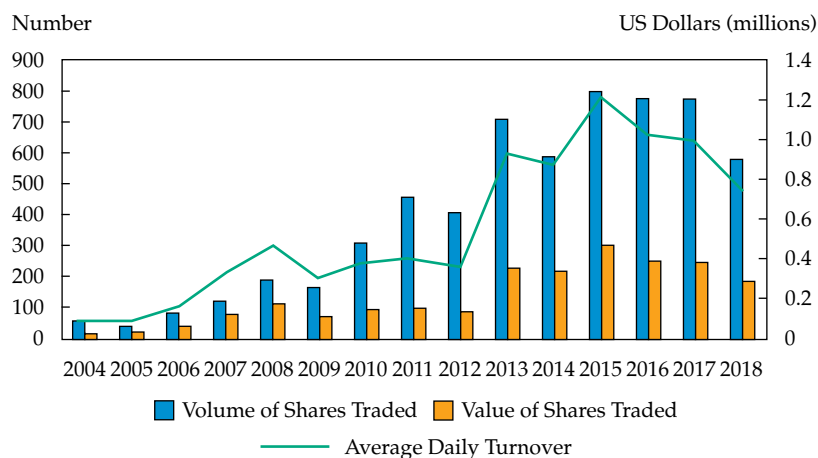
Markets like Botswana have become attractive to international and regional companies as well as larger corporates within the country. Half of the domestic companies on the exchange have a pan-African footprint, and the majority of foreign listings are dual listings from London, Australia, Toronto, and Johannesburg that are tapping into the local pension funds to develop their local assets.

Table 2 shows the number of listings over the past five years.

The BSE has been extensively visible in the international arena. The BSE is an affiliate of the World Federation of Exchanges (WFE), a partner exchange of the UN’s Sustainable Stock Exchange (SSE) initiative, a member of the African Securities Exchanges Association (ASEA), a member and secretariat of the Committee of SADC Stock Exchanges (CoSSE), and a Recognised Stock Exchange under Her Majesty’s Revenue & Customs in the United Kingdom.

The BSE has consistently improved market liquidity, as shown in Figure 1, stimulated by (a) the introduction of the Central Securities

**FIGURE 1. EVOLUTION OF LIQUIDITY ON THE BSE**



Source: BSE.

Depository (CSD) system in 2008, which commenced the dematerialisation of paper share certificates, and (b) the introduction of the automated trading system (ATS) in 2012, which phased out the floor-based method of trading that had constrained trading to just under one hour per day. These developments phenomenally improved efficiencies in trading and settlement and helped to attract foreign investors. At present, foreign investors account for just over 40% of equity trading activity on the BSE.

Nevertheless, liquidity remains a challenge because the market is characterised by deeper pools of institutional savings and a limited number of securities. The local pension fund industry is estimated at close to USD9 billion as of 2018. Local institutional investors, who account for over 53% of trading activity, tend to buy and hold for the long term. Efforts to attract retail investors and attract listings and various forms of instruments are necessary.

## THE BOND MARKET

The development of the bond market in Botswana began in 1997 with issuance by a state-owned enterprise. By 1999, three more bonds (one of which was corporate) were floated on the BSE. However, the development of a risk-free curve commenced in 2003, when the government issued its first three bonds and subsequently sold its loan book to a special purpose vehicle (SPV) that issued and listed seven bonds out of the vehicle. The presence of the government in the bond market was not motivated by funding requirements because the Government of Botswana has consistently run surpluses for many decades. The government debt listing was solely to strengthen the bond market by establishing a benchmark—a move that progressively spurred private sector issuances (see **Table 3**).

Over time, the government established note issuance programs for domestic borrowings and is currently issuing from its USD1.5 billion note programme. Botswana's statutory limit on borrowings amounts to 40% of GDP, and as of 2018, total government debt amounted to USD2.5 billion, which represented about 13% of GDP. Of this amount, total external debt represented 58% whereas domestic debt was 42%. It is also noted that 80% of the external debt was a loan from the African Development Bank (AfDB) and that 90% of total external debt was USD denominated. On the domestic front, 93% of the debt is composed of bonds and treasury bills make up 5.7%. Although the government has been issuing bonds for many years, the number of domestic-issued bonds has been low; even with an increased note program, domestic debt to GDP has remained flat over the years, averaging 5% of GDP. The limited presence of the government on the bond market remains a challenge for the foreseeable future.

The shallow debt market explains the low volume of trading activity, dominated by government bonds. On average, government bonds account for 65% of the bond market and over 90% of trading activity. Institutional investors, such as pension funds, insurance companies, and banks, are the main investors and typically have buy-and-hold strategies in bonds. Participation by foreign investors in the bond market is also low because of unattractively low yields compared with other markets.

The Botswana yield curve, shown in **Figure 2**, has gaps in the maturity profile because the government has focused on a small number of tenors, limiting the ability to price other debt securities off the yield curve. There is need for issuance in the 2-, 3-, 5-, 7-, 10-, 15-, and 20-year maturities, and beyond. Because the government bond yield curve is the building block of

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**TABLE 3. GOVERNMENT DEBT STATISTICS: PUBLIC DEBT OUTSTANDING**

Debt (BWP millions)	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013
Total external debt	2,263.6	9,288.2	12,572.9	14,290.1	15,556.4
Total domestic debt	3,600.0	4,649.9	6,217.1	7,486.0	6,358.0
Total government debt	5,863.6	13,938.1	18,790.0	21,776.2	21,914.4

Debt (BWP millions)	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018
Total external debt	15,776.1	17,981.3	18,344.9	16,659.3	14,147.7
Total domestic debt	7,018.3	7,468.1	7,811.3	10,323.2	10,324.5
Total government debt	22,794.4	25,449.4	26,156.1	26,982.6	24,472.1

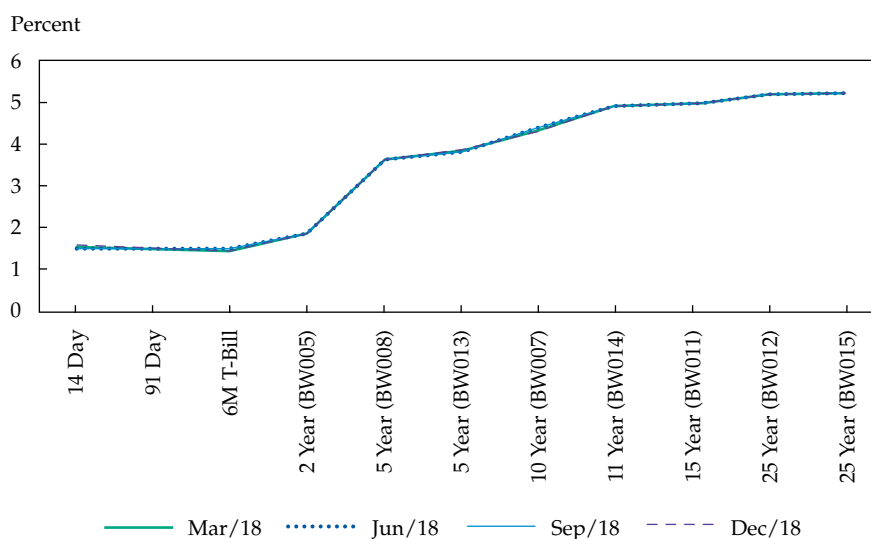
Source: Bank of Botswana.

the domestic bond market, the maturity gaps have had an adverse impact on the issuance or pricing of corporate bonds in those missing tenors.

The fragmentation of the bond market between the BSE and the commercial banks overseen by

the Bank of Botswana is being addressed by the BSE, Central Bank, Ministry of Finance, and Non-Bank Financial Institutions Regulatory Authority (capital market regulator) by way of centralising the trading, clearing, and settlement of bonds at the BSE. Fragmentation has had an

**FIGURE 2. BOTSWANA'S GOVERNMENT YIELD CURVE**



Source: Bank of Botswana.



adverse impact in the overall development of the debt market because it affects information dissemination, price formation, price discovery, computation of bond indices, transaction costs, perceived riskiness of the market, retail investor access, and international investor participation.

## FUTURE DEVELOPMENTS

In 2016, brokerage commissions effectively increased following the introduction of a floor of 0.60%, and trading levels began to decline. The BSE has proposed a tiered fee structure and a removal of the old brokerage fee structure (currently being assessed by the regulator), and this change is expected to incentivise trading and promote equitable levying of commission charges across the retail and institutional investor categories.

Historically, the reach of the exchange has not been satisfactory, which could explain the difficulty in getting domestic listings prior to 2016. The Tshipidi Mentorship Program will be an important contributor to listings in the medium to long term. The BSE's increased visibility, accessibility, and education for entrepreneurs are the right ingredients for attracting domestic companies to the market.

In 2019, it is expected that the exchange will submit its rules for listing depository receipts (DRs) to the regulator for approval. In the current environment, where domestic output is subtle and is adversely impacting stock market returns, DRs are a necessary addition to broaden investor exposure to international securities. In the same vein, private equity has taken shape in Botswana, with bigger pension funds now making substantial allocations to emerging private equity firms. In the long run, private equity will potentially drive listings because exchanges are usually the preferred exit mechanisms.

The exchange is presently pioneering sustainable investment among issuers and is extensively leading capital market development throughout Africa through its stewardship of the Market Development Working Group of ASEA.

Botswana's bond market is moving toward centralisation of trading, clearing, and settlement of government bond trades at the BSE and CSDB. This is expected to unlock capacity, increase efficiencies, and improve compliance with the IOSCO Principles for Financial Market Infrastructure, improving the attractiveness of the domestic bond market to international investors. The BSE and CSDB are procuring a new clearing and settlement system that will connect to real-time gross settlement (RTGS) and use central bank money for settlement to eliminate counterparty risk. Furthermore, revised debt listing requirements intended to reduce the prevalence of unlisted bonds and improve access to information, custody, and safety of currently unlisted assets are being considered by the regulator.

In 2019, the Bank of Botswana outlined its intention to re-examine the debt ceilings and increase the government's domestic issuances to 15% of GDP so that the market would be optimally developed to allow the private sector to price its instruments. Similarly, there is commitment from the BSE and BBMA<sup>8</sup> to encourage state-owned enterprises to issue and reduce dependence on the fiscus. The debut Botswana issuance by the International Finance Corporation (IFC) and the first ever eurobond, both in 2017, are viewed as critical milestones that have placed Botswana's

<sup>8</sup>BBMA stands for Botswana Bond Market Association – a non-profit association of capital market practitioners whose mandate is to lobby for reforms and complement the BSE in undertaking the development of the bond market.



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debt capital market on the international scene, signalling the strength of the regulatory environment and the trading and settlement infrastructure and an avalanche of institutional funding. Progressively, it is expected that the increased debates around diversifying fixed-income offerings—to include infrastructure bonds, retail savings bonds, and inflation-linked bonds—will gain momentum.

Botswana is capitalising on the benefits of being a developing market by exploring untapped capacity, mobilising industry participants, and collectively rectifying the impediments to the development of the capital markets. Increased competitiveness, activity, and liquidity and a regulatory environment continuing to embrace best practices can only improve participation and protect investor interests.