



Botswana Stock Exchange NEWS

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BUILDING A WORLD CLASS SECURITIES EXCHANGE



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Launch Edition



Your Partner in **Wealth Creation**





We have made headway in the much anticipated conversion of the BSE from being a statutory body to a company through the process of demutualisation...

It is my pleasure to welcome you to the first ever edition of our publication, the *BSE News*. This publication is part of our strategy to educate the public about the stock market while sharing news that touch on the financial sector in Botswana and abroad. Through this initiative, we affirm our belief in the development of the financial market in Botswana and Africa, as well as its importance to economic growth and stability. If you are reading this edition, we welcome you to the *BSE News* family of readers.

A lot has taken place at the Exchange in the last few months and it is safe to say the Botswana Stock Exchange (BSE) is an organisation in transition. Armed with a new strategy, 2017 – 2021, the team is hard at work to promote overall growth in the ratio of the BSE's market capitalization to Gross Domestic Product (GDP), the number of listed equities, bonds and exchange traded products, the number of asset classes and the number of investors. We also want to increase the average daily turnover levels, and all of our targets are expected to be achieved by the end of the strategy period in 2021.

We have made headway in the much anticipated conversion of the BSE from being a statutory body to a company through the process of demutualisation. As I write this, the valuation of the Exchange has been completed pending the awarding of shareholding by the Minister of Finance and Economic Development. This milestone will officially separate ownership and trading rights of the Exchange, a practice that is aligned to the evolution of stock exchanges worldwide.

Liquidity is one of the factors that stock exchanges around the world need to continuously improve. Allow me to express my delight at the milestones that we have been able to achieve in 2017; in March, we successfully hosted the 2nd Annual Listings and Investment Conference; in July, we recorded the highest turnover in a single day at P484.6 Million, the first in 2017, and the second highest turnover ever recorded in the history of the BSE, after the recorded turnover of P494.3 Million in June 2016; on the equity side, Minergy Limited and CA Sales listed in April and November respectively. We continue to engage issuers and investors to explore the various opportunities that exist at the BSE. In 2018, we will draw our attention to the technology that we utilize in the stock market and introduce stock market Apps, data-display screens and a new website, among other things.

Lastly, we will be glad to receive feedback from you regarding the new publication through our various communication channels.

'Your Partner in Wealth Creation'

Thapelo Tsheole
Chief Executive Officer



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Know Your Stock Market Terms



Securities • Financial instruments that can be bought or sold on a stock exchange or other prescribed platforms, products such as notes, bonds, stocks, Exchange Traded Funds (ETFs).



Shares • Also known as equities or stocks. Are a right to the assets of a company. The investor becomes a part owner of a company with the right to vote in the company.



Bonds • A financial instrument that is similar to a loan agreement between a borrower and a lender. The borrower promises to pay the lender some interest after a certain period of time at varied dates in the future, as well as the principal at the maturity date.

ETF • This is a security that tracks an index, price of a commodity or basket of assets but trades like a share on an exchange. In short, these are managed funds that are traded on the stock market.

Principal Amount • This is the face value of the bond and can be referred to as sekoloto in Setswana.

Coupon Rate • Rate of interest and can be referred to as morokotso in Setswana.

Maturity Period • The amount of time till the issuer will repay the borrower the principal amount with interest.

Main Board, Venture Board

• The BSE has a multi-tier market that is designed for enterprises that fall within different stages of growth, and of different sizes and risk profiles. These are the 2 boards that exist at the BSE. The Tshipidi SME Board will be introduced soon.

Listing • This is a process where a privately held company becomes public by making its shares listed and traded on a Stock Exchange.

Liquidity • The degree to which an asset or security can be quickly bought and sold in the market.

Market • A place that is electronic or physical, where buyers and sellers meet to exchange goods and services. It also represents the actual or potential demand for a product or service.

Bear Market • A market in which stock prices are falling or expected to fall (pessimism).

Bull Market • A market in which stock prices are rising or expected to rise (Optimism).



THE EVOLUTION OF THE BOTSWANA STOCK EXCHANGE (BSE)

1989 • Known as the Botswana Share Market (BSM), the exchange started operations in June with only a listing of 5 companies and 1 brokerage firm.

1994 • Statutory Legislation passed by Government and BSM was now Botswana Stock Exchange (BSE).

- Member of the SADC Committee of Stock Exchanges (CoSSE)
- Member of the African Securities Exchange Association (ASEA)
- Affiliate member of the World Federation of Exchanges (WFE)
- Member of the UN Sustainable Stock Exchanges initiative
- Signatory to the Marrakech Pledge on fostering green capital markets in Africa
- The Central Securities Depository Botswana (CSDB) is a member of the Africa Middle East Depository Association (AMEDA)
- CSDB is a member of the World Federation of CSDs (WFC)

2008 • Central Securities Depository (CSD) was established.



2010 • The BSE lists its first ETF in July, the NewGold ETF.



2011 • Coreshares EWT40 (formerly BettaBeta) lists on the BSE in May. This made it the 2nd ETF to list on the BSE.



2012 • Implementation of the Automated Trading System (ATS).

2014 • The BSE lists its 3rd ETF in August, the NewPlat ETF.



2013 • Launch of the Bond Index

2015 • The NewFunds Inflation-linked Bond Index ETF list on the BSE in November to become the 4th ETF to list on the exchange.



2016 • The BSE registers a record turnover of P3.0 billion, translating into P12.2 million worth of shares traded daily.

2016 • BSE hosts the Inaugural BSE Listings and Investment Conference in March

ONE - ON - ONE WITH THE CHAIRMAN OF THE BSE MAIN COMMITTEE



Lt. General Tebogo C. Masire

At the BSE,
It's not just
one man
behind it,
but a strong
ethos woven
with great
minds...

In March 2018, Botswana Stock Exchange's decade long metamorphosis will draw to its close. The bourse will, following that, speak of its existence both in the former and in the latter.

One could, at the present moment, attempt to fathom the new identity the bourse will morph into. It is one which will without a doubt demand a combination of bold leadership and an unapologetic execution; not forgetting a sprinkle of magic.

Almost certainly boardroom meetings typically take on the air of seriousness which the hard furniture asserts inside the room. But then entered BSE Chairman, Lt. General Tebogo Masire, whose somewhat casual demeanor immediately softened the air. He sat an arm's distance away from the boardroom table, a posture that didn't appear to impose itself into the space. I sat adjacent to him and when the exchange of pleasantries was done, then began a conversation of where he and his team are taking the BSE.

This interview is taking place 10 years later after Edward Nathan Sonnenberg offered his expert advice to the Government of Botswana that the BSE be made into a private company and become a commercial entity. Masire described this anticipated change as though he had been in the same room with Sonnenberg that decade ago and today looks to putting it behind him to make way for the new. "Operating under the current regime of being a parastatal is quite restrictive, to me it stifles ingenuity and creativity. As soon as we transition, we'll be able to do much better and it will make it easier for us to achieve our strategy" he mused. He described it to be a change close to his heart. Masire announced that the long drawn process of demutualisation, of which, the bulk involved establishing a mutual agreement of all parties, is expected to come to the fore by March.

With his enthusiasm set on fire by the future possibilities, Masire acquired the confidence to make what another person may call half-crazy predictions, especially looking at where the BSE currently is. One is to grow the contribution the bourse makes to the economy from the current 34 percent of GDP to a target range of 40 to 45

“As the Board we give strategic guidance, but as the Chairman I make sure that everybody pulls along, that everybody does their bit and I give assistance where players are having problems.”

percent, which he expressed will show the extent to which BSE has influence the development of the country. The second task is to increase the participation of domestic companies listed in the stock exchange to between 30 and 35, Masire admitted that this will be a giant leap. Three is widening the variety of the classes of investments. Four is to increase the number of investors participating in the stock exchange. “In the past year or two we’ve managed to list three companies. We want in the next five years to do two or three a year which apparently under stock exchange practices or standards would be phenomenal achievement. I think we have the potential,” he said. The target is to list at least three companies this year.

To take the bourse through its next life is akin to crafting a kind of orchestra whose rendition calls for a raucous ovation when it is done. Such is the stuff of legends but Masire strongly hinted at taking on this challenge along the bourse’s stride. He particularly made mention of his team, recognizing their invaluable contribution to fulfilling the bigger picture of the bourse. “I think the BSE has had a new lease of life, not only because I am there. I think the good thing that happened to BSE is that there was a change of leadership, both at CEO and Chairman level, hence a new breathe. We feel that

we’re taking it somewhere,” he said. Masire describes Thapelo Tsheole, the bourse’s Chief Executive Officer (CEO) as young, dynamic and with the knack for guiding his on- the-ground team to where the stock exchange is going.

With Tsheole on the ground, Masire shared insight into his job as Chairman as one of steering the bourse in the course set by strategy. It is within the ends of the five year strategy set to be achieved by 2021 that Masire plays his role. “As the Board we give strategic guidance, but as the Chairman I make sure that everybody pulls along, that everybody does their bit and I give assistance where players are having problems,” he said. Because of the wide engagements that come with his job, he could on one day be talking to government, on another talking to influential business people, and a different day talking to the regulator. “At Chairman level I am not going to be calculating ratios, but if there’s a policy that government wants to introduce then that’s where I come in, in terms of engagement.”

Desiring change is one thing, but an earnest seek of it is quite another, and when Masire joined the Board of the bourse as its Chairman, he sought to ripen the environment for change to thrive in. “I saw the need to craft a new strategy and the next

important thing in my opinion was improvement of working conditions of our staff. It gives them motivation to pull together and deliver,” he said.

Masire sees the stock exchange as more than an economic player, but also an important political yardstick. “One thing that people tend not to realize is that the stock exchange itself is a barometer for measuring political stability. That’s why when politicians mess up, the stock exchange reacts violently” he said. His take is that the stronger and more efficient the stock exchange is, the better leverage and role it can play in political stability.

BSE is currently the third largest stock exchange in terms of market capitalization in Southern Africa, and one of Africa’s best performing stock exchanges, but even that doesn’t make it rest on the laurels. Until such a point that the ordinary folks interact with bourse as they do with grocery shopping, will BSE be allowed to take a moment to breathe and celebrate its achievement but while the man on the street is still distanced from it, it means Masire and his team are only just beginning.

IMARA INVESTING IN AFRICA

Imara Capital Securities

COMPANY SUMMARY

Imara Capital Securities (ICS), (formerly Capital Securities) is one of four registered stockbroking companies operating under the auspices of the Botswana Stock Exchange (BSE). It was established in 1999 and started stockbroking operations in March 2000 as part of the Capital Group of companies. Capital Securities became a part of the Imara Group of companies following Imara Holdings Ltd – the Pan- African financial services provider's purchase of a majority stake in the company. This merger offers our clients access to those markets that our sister brokers operate in. We also have a wide reach in global markets through broker partners in markets like the TSX, ASX and AIM. At ICS, we recognize that teamwork is essential for a successful stock broking company and as a consequence all departments are closely integrated. Our institutional broking department is one of Botswana's most successful institutional broking teams advising and helping institutional fund managers. Our comprehensive research is fundamental to the provision of this service.

Sponsoring Broker Role

ICS has been involved in several corporate actions ranging from share

splits, capital raising exercises which include listings by way of initial public offerings (IPOs), Placings, debt issuances as well as listings by way of introduction. We also work with listed companies on an on-going basis to ensure that all regulatory requirements relating to securities listing are met. We have been instrumental in the development of the resource sector on the BSE with our involvement as sponsoring broker on 99% of the listings in the sector.

Compliance and regulation

As a member of the Botswana Stock Exchange, ICS is directly regulated by the Exchange as well as the Non-Bank Financial Institutions Regulatory Authority (NBFIRA), who also act as the licensing authority. The two carry out annual inspections of our offices, operations and records. To date we have been deemed to be compliant by both regulators.

Our Services

We deal with all of Botswana's major institutions, including banks, fund managers and parastatals, as well as large overseas institutions with considerable investments in Botswana's economy. The institutional broking team is actively involved in capital raisings for a diverse range of companies and organizations. We assist them with the most appropriate strategy to meet both their short and long term capital requirements.

PROFILES

Advisers in our Private Clients Department are continuously briefed and updated on listed stocks as researched by ICS. This enables them to provide relevant, up to

date information as well as making informed recommendations to clients as to the most appropriate stocks to trade in so as to build their share portfolios.

Trade Execution

Our dealing desk is one of the busiest and has executed the most trades on the BSE by turnover in the past two consecutive years. Our traders are adept at trading on the ATS, the electronic platform employed by the BSE for deal execution.

Research

ICS publishes both daily and weekly market reports which are distributed to all clients. These reports provide a review of market events with an emphasis on Financial and Resource sector stocks. In addition our research team publishes company specific reports. These are published periodically and usually follow key announcements from the listed companies. Research is the basis of all our recommendations. We believe that we have the best quality Research - as produced by our research unit in the Imara Group as well as in-house by our analysts, focused on the Botswana equity market. The ability for clients to access a large range of research recommendations gives us a significant competitive edge.

Our analysts make regular visits to companies and this accords them the opportunity to stay in close contact with the company and to ascertain its future outlook. Our relationship with Imara also gives us access to Group research material which we are then able to offer to our clients, in addition to our in-house research.

MISSION

To position ourselves as the go-to-broker in Botswana by engendering excellence, professionalism and efficiency in what we do.

KEYS TO SUCCESS

- Knowledgeable and skilled workforce
- Service Excellence
- Professionalism

PRODUCTS

The range of services offered by ICS is impressive and caters for the needs of clients, large or small. Principal areas of business in securities include:

- Securities dealing (Shares, Bonds, ETFs)
- Corporate broking including sponsoring broking for new listings (capital raisings), standing sponsoring broking for listed entities, rights issues

and share splits

- Disposals

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COMPANY SUMMARY

African Alliance Botswana Securities is part of the African Alliance group of companies. It provides local and on the ground stockbroking and research services for the Botswana market.

We are an outcome driven organization with an operating philosophy of creating innovative financial solutions for our clients based on an experienced skill set. Our driving force is the constant need to add value to our clients by exploring financial solutions previously unrecognized.

Client Relationships

We seek to develop long-term client relationships based on trust, delivery and service excellence.

We believe in listening to our client, as an understanding of our client's specific needs is integral to the successful delivery of world-class service.

We always execute trades in the best interest of our clients, in a price sensitive and confidential manner.

Our clients benefit from the personalized service of our dedicated investment professionals. Our investment team continuously evaluates company research and performance to determine opportunities for all client portfolios.

Our services

Stockbroking - We aim to provide the most effective and efficient service available, tailor-made to meet the individual needs of our institutional and high net worth clients. Our objective is always to create an environment in which our clients can achieve strong performance from their investment funds.

Advisory - As a registered Sponsoring Broker and member of the BSE, our Advisory division is able to provide assistance with the listing of both equity and debt

instruments (such as shares, bonds and medium terms notes) as well as any subsequent corporate actions and continuing obligations thereafter. African Alliance also provides a full array of advisory and M&A services both within and outside of the listed environment.

Research - We provide clients with strategic advice of the highest quality. Our extensive local and regional network of research analysts and economists work together to devise trading ideas and strategies to cover all African financial markets.

International Sales Desk - We also offer clients an international sales desk that provides execution capability on any stock exchange across the African continent.

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motswedisecurities
(pty) Ltd

A Member Of The Botswana Stock Exchange



COMPANY SUMMARY

Motswedi Securities (Pty) Limited is a leading Botswana citizen-owned stockbrokerage firm and with a reputation for excellence in creating wealth for our clients. Indeed, we believe this is the very reason for our existence, an inherent desire and expertise to create wealth for those whom we have the privilege of working with. A member of the Botswana Stock Exchange (BSE), we offer quality service to individuals and institutions who seek to gain wealth by;

- Acting for, and assisting institutions and other companies raise capital by accessing capital markets both locally and internationally.
- Trading of listed equities, primarily on the Botswana Stock Exchange.
- Trading of other BSE listed securities such as corporate and Botswana Government bonds and ETF's.
- Providing our clients with research of the highest quality.
- On the primary issuance side, we pride ourselves in having brought many quality listings onto the BSE, and continue to do so at present.

Formerly known as Investec Securities (Botswana) (Pty) Limited, Motswedi Securities is the first stock broking company in Botswana to

be set up as a 100% wholly citizen owned, managed and controlled broking house, and remain so to-date. We have a firm commitment towards helping develop the capital markets in Botswana and we consistently top the leader board chart in terms of market share.

To safeguard against any potential trading risks, Motswedi is supported in some key areas by industry leading institutions that are market leaders in their respective fields. For example, Standard Chartered, FNBB and Stanbic Custodial Services all serve as both custodial and settling agents. With a firm belief in the importance of strong governance, Motswedi is audited by Ernest & Young.

We pride ourselves on the incredible talent of our team, spearheaded by our CEO, Mr. Martin Makgathe who is an economist by training and a 27-year stock exchange veteran who has spent all his working life in the stock market.

We have a clear and focused Vision

To be the securities company of choice, providing exceptional service to investors by being their partner, and helping creating wealth for them.

Our business philosophy is simple

From the day we first opened our doors for trade, we have maintained a simple philosophy for our existence: to create wealth. We do this by

leveraging our extensive Insight on appropriate investment opportunities on the BSE and on other exchanges around the world. Our work and efforts are tailored to allow our clients to achieve their goals of wealth creation and success through a philosophy we call "WIIAS."

1. Wealth
2. Insight
3. Investment
4. Achieve
5. Success

WIIAS = "why-us" = "Why us?" Our WIIAS philosophy guides our every action, as we ask this of ourselves at every turn, every step, and every effort, ensuring we remain firm in our mandate, our conviction, and our Vision.

Motswedi Securities Trust

We established Motswedi Securities Trust, which is independent of Motswedi Securities (Pty) Ltd, its shareholders and its Board. The Trust has been set up to ring-fence clients' assets from those of Motswedi Securities (Pty) Ltd.

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STOCKBROKERS
B O T S W A N A L T D

Introduction

Stockbrokers Botswana Ltd (“SBB”) is a leading securities house in Botswana. Established in June 1989, the company was instrumental in the establishment of the Botswana Stock Exchange (“BSE”), conducting the informal Botswana Share Market until the formal introduction of the Botswana Stock Exchange (BSE) in 1994. SBB has been involved in every main board equity listing on the BSE since inception, and has championed the inclusion of private and institutional investors, both local and foreign, into the BSE as a means of creating future wealth for all stake holders.

Our Vision

Stockbrokers Botswana aspires to be the leading reputable securities institution in the Botswana capital markets.

Our Mission

To create wealth for our clients and shareholders, and attract investments into Botswana by facilitating the trading of securities and the provision of reliable and objective financial market intelligence to retail and institutional investors locally and internationally.

Our Core Values

In all our internal and external dealings, we will demonstrate the values of:

- Integrity

- Reliability
- Professionalism
- Passion for Service Excellence

What Is Core Business?

Equity, Bonds and Exchange Traded Fund trading in the BSE is the heart of our business.

Stockbroking

SBB is a registered member of the Botswana Stock Exchange and operates primarily as agent. SBB acts as agent for both buyers and sellers and derives its income from commissions set by the Botswana Stock Exchange. SBB has established relationships with a wide number of individual, institutional and corporate clients, both locally and internationally. SBB services both private and institutional clients. The retail private clientele has always been a strong focus of the company consistent with our history as pioneers of the BSE and our mission to assist all Batswana create wealth through the BSE.

FIXED INCOME DEALING

We trade both listed and unlisted bonds, as well as corporate and government bonds, offering our clients a full range of potential investments.

SPONSORING BROKER

This is corollary of, and derived from our experience in the Botswana Capital markets and the listed securities particularly. This includes sponsoring brokership for existing

corporate clients, new listings, rights issues, and capital raisings. Allied to this is the placement of equity, locally and international for listed and unlisted corporates.

INDEPENDENT RESEARCH and ANALYSIS

It is the intention of SBB to continue to enhance our research and market intelligence. The company has always produced quality research on the companies and the market for clients and potential clients, scoring consistently in analyst rankings by international bodies.

Research concentrates on bottom up corporate analysis of the listed companies on the BSE, but also includes top down economic coverage and strategic recommendations. The department also conducts research in support of the company’s sponsoring broker function.

Through the company’s website, our clients are able to gain access to the latest market prices, corporate announcements, and a complete database of the department’s research publications.

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STOCK MARKET: A CRITICAL COMPONENT OF ECONOMIC DIVERSIFICATION

Botswana has over the years tried albeit unsuccessfully to diversify the economy away from the volatile mining sector which has blown hot and cold in recent years, in the process exposing the economy to several risks.

Government's efforts to diversify the economy have been largely driven by several policies and initiatives and their success have lacked in several ways. Nonetheless, there have been some notable achievements in the country's economic diversification efforts. Away from labour intensive factories and pick and shovel in the country's mineral sector, the local stock market has emerged as one of the major players in the diversification of the country's economy, although this feat has remained largely unnoticed by many.

The transformation of Botswana Share Market (BSM) to what is now called Botswana Stock Exchange (BSE) in 1994, marked a critical milestone in the country's economy. Since it was formed from unassuming beginnings, the BSE has and continues to offer both government and the private sector an opportunity to use various instruments to raise capital which is subsequently ploughed back into the economy for several purposes.

Capital raised from the domestic bourse has over the years, been used to fund a number of projects which are diverse in nature, which in due course, help the landlocked country in its economic diversification drive. Economic analysts polled by *BSE News* magazine argue that the stock market holds key to the country's economic diversification process, since it offers a platform for exchange of funds, which are ultimately used for expansion and creation of the much-needed jobs. Available literature also proves the importance of the stock market in the economy.

Writing in the *International Journal of Economics and Financial Issues*, Najeb Masoud was on point when he stated that 'it can be observed how important a stock market is for the economy, since it allows movement of funds from persons who possess them and have no investment opportunities to those who enjoy these opportunities, by using the stock market function to increase production and to achieve economic efficiency and improve the level of prosperity in society'.

In a recent interview with *BSE News*, Motswedi Securities Head of Research and Executive Director, Garry Juma said, 'to understand better the importance of the stock market in the economy, one has to look at the countless number of listed companies and how they have grown over the years to become established brands'. Sefalana Holdings Limited, Letshego Holdings Limited, Choppies Enterprise Limited, Turnstar are some of the firms which have grown rapidly since they became public

The stock market has played, and continues to play a significant role in the diversification of the domestic economy

corporations. "These companies have been able to expand both in Botswana and Africa largely because the stock market has helped them to access funding which they could not have otherwise been able to obtain if they were not listed," argued Juma.

"The growth of BSE-listed companies has contributed to Botswana's economic diversification activities," pointed out Juma. Choppies, which was established in the late 1980s in Lobatse, has grown to become a well-known retail brand, which employs thousands of employees in Botswana and the continent at large. Zimbabwe, South Africa, Kenya are some of the countries which Choppies

has presence in. In November, Choppies announced it has concluded an agreement to purchase eight Arizona wholesalers and butcheries stores located in KwaZulu-Natal, following approval from the Competition Commission of South Africa on 1 November 2017.

Turnstar, a property titan, which owns Game City mall, has also expanded its assets here and abroad. “The BSE has offered the company (Turnstar) a chance to raise money through rights issues which have been successful,” said Juma as a matter of fact. The company which employs hundreds of Batswana has expanded to Tanzania and most recently Dubai, United Arab Emirates. The first company to list in the domestic bourse, Sefalana has also grown tremendously over the years, thanks to the platforms offered by the BSE. The company is now available in Lesotho and Namibia. The company has now partnered with others to gain entry into Africa’s most advanced economy, South Africa. All things being equal, Sefalana will be in South Africa anytime from now. According to Juma, a former economist with the central bank of Zimbabwe, the stock market has allowed local companies an opportunity to broaden their product offerings, in the process expand their production range a plus for job creation.

Writing in the BSE 2016 annual report, BSE main committee Chairman, Lieutenant General Tebogo Masire said, “The bourse offers companies an opportunity to expand and broaden their offerings’. For example, Sefalana, which is primarily in the Fast Moving

Consumer Goods (FMCG) sector, has also branched into property, manufacturing, vehicle dealership among others. In a written response to *BSE News*, Portfolio Manager at Kgori Capital, Tshagofatso Tlhong said, “The stock market is one of the sources of capital within an economy that companies can use to tap into institutional and retail pools of capital to invest in their growth and expansion.”

According to Tlhong, the stock

Letshego, Sefalana and Choppies are prime examples of local companies that have tapped into this pool of capital by listing on the BSE and have since been able to fund expansion locally and across the continent.

market is also an integral part of the financial system ‘because through it companies can raise permanent equity capital, as an alternative or a compliment to debt, and it provides an avenue for retail investors to build passive wealth by investing in listed companies’.

Like Juma, Tlhong also stated that Letshego, Sefalana and Choppies are prime examples of local companies that have tapped into this pool of capital by listing on the BSE and have since been able to fund their expansion locally and across the continent. “Investors have participated in the successes of listed companies through share price appreciation as well as dividend payouts,” added Tlhong. On another matter, Tlhong said the BSE needs to be commended for educating and engaging stakeholders in the effort to increase public awareness and

participation.

Juma said what is also striking about the local bourse is that, most of the dominating companies are from the non-mining sectors, sending a clear message that the BSE has indeed offered a chance for companies to list and diversify in the economy in the process.

“The BSE has done a lot to allow non-mining sectors to list and contribute meaningfully to the economy,” noted Juma. The listing of non-mining

companies such as First National Bank Botswana, Chobe Holdings, BIHL, further boost government’s endeavor diversify away from mining, especially diamonds.

Government has also benefited from the existence of the stock market. Through Bank of Botswana (BoB), government has issued a number of bonds which run into billions of Pula through the stock exchange. The money raised has been used to fund budget deficits, electrify rural communities, build schools, health facilities, just to name but a few.

The BSE is indeed a major player in the domestic economy’s diversification agenda. At the close of 2016, the market capitalization of all listed companies at BSE stood at well over P421 billion, nearly three times the country’s Gross Domestic Product (GDP).

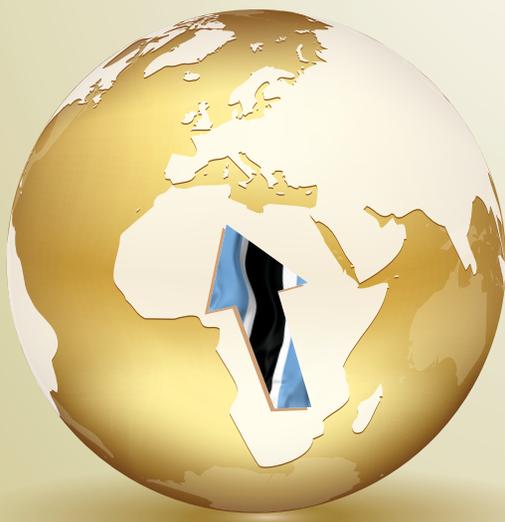
SAVE THE DATES

BSE CALENDAR	
8th February 2018	Botswana Stock Exchange Open Day Jwaneng and Kanye
8th March 2018	3rd Botswana Stock Exchange Listing and Investment Conference Gaborone
5th April 2018	Botswana Stock Exchange Open Day Tsabong
12th April 2018	Botswana Stock Exchange Open Day Mahalapye
18th October 2018	Botswana Stock Exchange Open Day Gaborone

To attend the above events contact the Market Development Department on marketdev@bse.co.bw or call +2673674400

THE RISE OF BOTSWANA-BRED MULTINATIONALS

With its ever increasing youth population, Africa has become a promising long-term growth market and fertile ground for investment for many Botswana multinationals.



A number of Botswana Stock Exchange (BSE) listed companies, mostly in retail and financial services, have shown an aggressive appetite to expand to international markets and some are already making their presence felt. Their foray into the diaspora will bring good tidings for Botswana's capital markets as they will pay more taxes, pay more dividends and boost Botswana's capital markets.

Economists are of the view that the value that Botswana derives from indigenous companies that have morphed into multinational corporations, such as Letshego Holdings Limited, Choppies Enterprises, Sefalana Holdings Company Limited and Botswana Insurance Holdings Limited (BIHL), is highly dependent on their footprint and performance in foreign markets. Garry Juma - Head of Research at brokerage firm Motswedi Securities believes Botswana will always remain a key market for these multinationals as it is where their headquarters are domiciled. 19 years ago, Letshego Holdings Limited was a small company with a staff complement of 30 people, nestled in a stand-alone office in Gaborone. Now led by Chris Louw, the financial services group is the most liquid company on the BSE and also the bourse's largest indigenous business. Of all the listed domestic companies Letshego has the largest footprint by far; with operations in Botswana, Namibia, Kenya, Lesotho, Mozambique, Nigeria, Rwanda, Swaziland, Tanzania, Uganda and Ghana through which it offers a mix of consumer, microloan and deposit-taking services. Its head office now retains over 350 staff members, while many more are employed throughout the value chain. Overall, the company estimates that it employs over 2000 people. Analysts believe a lot of value trickles down to Botswana's diamond led economy as more and more local companies expand their footprint into Africa and beyond.

"As these companies grow through expansion to foreign markets, their market value increases, which has a positive impact on their market capitalization and that of the Botswana Stock Exchange and consequently the economy of Botswana," said Juma. *Continue to page 16*

COMPANIES

Because of their diversified portfolio, multinationals are generally attractive to investors and often improve liquidity of the local bourse. Letshego's expansion is almost emblematic to that of mega pan-Africa retailer Choppies, led by Ramachandran Ottapathu - a Chartered Accountant who boasts of over 25 years' experience in retail, manufacturing, packaging, milling, real estate and medical distribution. The Fast Moving Consumer Goods (FMCG) retailer has a presence in South Africa, Zimbabwe, Zambia, Kenya, Tanzania and Mozambique. While Letshego is acknowledged as the largest indigenous company by assets, Choppies holds the enviable title of fastest growing retailer in Africa.

Depending on the efficiency of the business models they adopt in the different markets within which they operate, analysts believe that these companies will generate more profits as they expand. These profits will result in more dividend payouts to shareholders, who are mostly Batswana and institutional investors like pension funds in Botswana. "As these multinationals expand to bigger markets their corporate taxes will also increase. This also improves the country's revenue, trade balance and balance of payments," said Juma.

Founded in 1974, Sefalana Holdings Company Limited was the first

company in Botswana to list. While it remains a major player in the FMCG sector, the Chandra Chauhan led group has over the years diversified its investments to include property portfolios in Botswana, Zambia and Namibia; motor dealerships, industrial and agricultural equipment, grain milling and milk production. Compared to Choppies, Sefalana has been a bit conservative in its Africa expansion. It entered the Lesotho market last year after taking over the country's largest cash 'n carry outlet, TFS Wholesalers. Sefalana also has operations in Namibia and Zambia, which include its flagship Shoppers stores and property investments.

Sefalana recently announced its entrance into South Africa with a R250 million investment into a consortium of companies in the FMCG sector, with the objective of acquiring a number of supermarket and wholesale chains across the country. The largest participant in this consortium is the well-established buying-group, Unitrade Management Services (UMS). The investment is expected to generate returns that will significantly boost Sefalana's profitability and increase shareholder value. To date, Sefalana remains the only listed company without a controlling shareholder, which allows it to remain a truly Botswana company. Therefore any value generated from expansion

into Africa will be enjoyed by shareholders back home.

The Africa voyage by BSE listed companies was sparked by the need to reduce reliance on the local market. Retailers Choppies and Sefalana have previously reported that they were hit hard by limited government spending and eroding purchasing power in a Botswana economy that was growing at a very slow pace. With its ever increasing youth population, Africa has become a promising long-term growth market and fertile ground for investment for many Botswana multinationals.

Ishmael Radikoko, a finance lecturer at the University of Botswana (UB) believes that the growth experienced by Botswana multinationals in the Africa market will hedge the greater impact of a downturn in Botswana.

"Growth from outside hedges against, for example, job losses here. Profits from outside can boost local operations and help them become sustainable. Again, the economy will benefit as these companies remit their taxes back to Botswana," he said.

While Choppies wants to maintain its position as the fastest growing retailer in Africa, rival Sefalana is looking to dominate the continent with its supermarket and wholesale chains. On the other hand, micro lender Letshego is going full steam

The Africa voyage by BSE listed companies was sparked by the need to reduce reliance on the local market. Retailers Choppies and Sefalana have previously reported that they were hit hard by limited government spending and eroding purchasing power in a Botswana economy that was growing at a very slow pace.

ahead with its strategic agenda to become Africa's leading inclusive finance group.

Premier financial services provider Botswana Insurance Limited Holdings (BIHL) is also implementing its new strategy that will catapult it to dominance as the leading financial service provider in the region. Led by Group Chief Executive Officer (CEO) Catherine Lesetedi-Letegele, the diversified financial service provider has a presence in a number of African markets. It owns a stake in Malawian insurance and asset management company Nico Holdings, which has additional operations in Zambia, Tanzania, Uganda and Mozambique. BIHL has equity in Funeral Services Group (FSG), which is invested in Zambia and neighbouring South Africa. It is also a major shareholder in Letshego Holdings, which has a huge presence in Africa. Last year, Lesetedi-Letegele announced that BIHL will harness its collective strength to expand into attractive markets and explore in-country opportunities in a bid to dominate the regional financial services industry.

Moatlhodi Sebabole - Market Strategist at First National Bank of Botswana (FNBB) – believes that the multinationals' ambitious Africa voyage will create employment and spark local investment in infrastructure. "Obviously these companies will need to create more room for other functions as they expand. So they will employ more people, build bigger headquarters and purchase more land," he said.

He added that as retailers standardize logistics they tend to capacitate local FMCG operations by opening up value chain opportunities in packaging and canning. The multinationals' dominance at continental level will also put Botswana on the map and attract foreign investors.

Letshego, Choppies, and BIHL are among the most valuable listed companies on the domestic bourse. Their

expansion into Africa will increase sustainability and profitability, eventually boosting liquidity in the BSE.



Chris Louw, CEO
Letshego Holdings Limited



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- No foreign exchange controls; remittance and full repatriation of profits and dividends
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TRYING TIMES FOR BOTSWANA'S FISCAL SUSTAINABILITY

Botswana's fiscal deficit is expected to rise up to almost P20 billion from the financial periods 2015/16 up to 2019/20. While Botswana's debt to Gross Domestic Product (GDP) ratio remains one the lowest globally, economists have warned government to widen its source of revenue by diversifying and broadening its tax base, adding that any deficit is bad for the economy.

When presenting the 2018/19 Budget Strategy Paper at the recent Budget Pitso, Minister of Finance and Economic Development, Kenneth Matambo told the nation that Botswana will have a budget deficit of P8.5 billion. Government's total revenues and grants for the financial year 2018/19 are estimated at P58.81 billion while proposed total expenditure and net lending are estimated at P66.87 billion, resulting in a deficit of P8.06 billion or minus 4percent of GDP.

According to Matambo, the consecutive deficits are a result of slow growth in revenues coupled with increasing expenditure pressures from additional budgetary requirements by government ministries. Matambo cautioned against misuse of resources and reckless spending; further encouraging public servants to deploy government's limited resources effectively and efficiently. Albert Zeufack - World Bank Chief Economist for Africa shared the same sentiments, calling for a thorough review of public investment efficiency.

"Most African countries invest a lot on their fiscus, but that does not benefit the economy because of inefficiencies. We need to review our procurement procedures, project implementation as well as quality of projects," he said. Matambo promised that government will henceforth closely monitor expenditure and exit funds to ensure that resources are put to good use.

"There is need to focus on prudent management of expenditure in order to achieve goals envisioned under national priority areas identified in the National Development Plan 11," said Matambo. Botswana recorded a significant budget deficit of P4.03 billion (2.6 percent of GDP) in 2015/2016. It was the first deficit in four years, occasioned by weak global demand for diamonds. Another deficit of P6 billion was recorded in 2016/17, while a higher deficit of P8.06billion was recently foretold by Matambo for the 2017/18 fiscal year. The deficit is expected to fall to P500

Continue to page 20





Mining remains an important sector to Botswana's economy

million in the 2018/19 financial year. This means that by the end of the 2017/18 financial year, the cumulative deficits for the past four consecutive years will stand at P18.5 billion. The budget deficit will be funded from foreign reserves as well as domestic and external debt.

However, economists have called for calm, saying the situation is not as bad as it seems. Garry Juma - Head of Research at Motswedi Securities said in an interview that deficits are not necessarily bad for Botswana's economy, given the fact that the current debt to GDP ratio stands at around 20 percent. He pointed out that Botswana still has opportunities to solicit debt because by global standards healthy debt can go as high as 40 percent of GDP. Botswana has a credible credit rating that will enable it to attract lenders and negotiate cheaper interest rates on the basis of its ability to repay.

"It is less risky to lend Botswana money than most counties in Africa," said Juma. However, Tshepang Loeto of Investec holds a different view. While he acknowledges Botswana's good credit rating and low debt to GDP ratio, Loeto maintains that a

budget deficit is bad for any economy regardless of its ability to fund it.

"Funding a deficit could increase debt to GDP ratio and eventually affect the country's credit rating and its ability to borrow further," he said. Loeto is an investment analyst at Investec, an investment management firm in Botswana.

The continuous budget deficits are viewed as a call to arms for Botswana to widen its revenue base and reduce reliance on mineral revenue; which are vulnerable to volatile commodity prices and economic headwinds. Sustained weakness in the diamond market has seen diamond prices softening and output targets being trimmed. Because of sluggish market sentiment, global mining giant De Beers and Botswana's Okavango Diamond Company (ODC) recorded a 20 percent plus fall in sales in the first half of 2015. Any improvements in revenue inflows will be highly dependent on a rebound in diamond prices. Around P19.67 billion, or 33.4 percent of the total revenues expected during the 2018/19 fiscal period are to be accounted for by minerals. At 14 billion or 23.8 percent of GDP, customs and excise is projected to account for the second largest share

of total revenue during the 2018/2019 financial year.

Interestingly, The World Bank recently cautioned against reliance on extractive commodities, saying that because of their volatility, countries that depend on them will always have fiscal shortfalls in cases of global economic challenges. Albert Zeufack - World Bank Chief Economist for Africa urged Botswana to drive towards deriving more value from its commodities before export, diversifying away from commodities and reviewing frameworks that could broaden fiscal gain. Zeufack was addressing journalists from 13 sub-Saharan countries through a teleconference during the launch of Africa's Pulse, a bi-annual analysis of the state of African economies published by the World Bank. "A country like Botswana should invest most of its diamond proceeds in other sectors like agriculture so as to diversity revenue streams," said Zeufack.

He further urged African countries to embark on Domestic Resource Mobilisation (DRM), which simply means increasing the flow of taxes and other income into government

treasuries. According to Zeufack, this will help them reach their Sustainable Development Goals (SDGs) and consolidate their fiscus. He also called on Botswana and other African countries to expand their tax base because very few people are actually paying taxes. Further, said Zeufack, African countries should develop tax codes that allow government to capture tax in sectors like land, property and real-estate, which are high-end yet untaxed. The World Bank and the International Monetary Fund (IMF) are assisting African countries to develop new tax codes and expand their tax bases. Because its economy is largely dependent on mineral revenue, Zeufack believes Botswana should come up with ways to extract more taxes from minerals. One such way would be reviewing the structure of corporate tax to ensure efficiency and minimize loopholes.

Gaitswe Motsewabagale - General Manager: Research and Reporting at Botswana unified Revenue Services (BURS) said recently that the tax collection agency is aware that a number of corporations employ devious means such as transfer pricing and tax mis-invoicing to over

inflate their operational expenses and declare reduced profit margins. A Joint research by the African Union Commission and the United Nations Economic Commission found that large corporations and financial entities in Africa use loopholes in national laws to engage in illicit financial flows, which cost the region billions of dollars annually.

“To counter this practice, we are currently capacitating auditors to specialize in transfer pricing. We have also proposed legal amendments that will strengthen anti-avoidance provisions in the Income Tax Act by introducing specific transfer pricing legislation and guidelines,” said Motsewabagale.

It is envisaged that BURS transfer pricing audits will be able to thoroughly examine management fees and all intragroup transactions to ensure that they are arm’s length transactions. Some local corporates have a tendency of inflating fees for management services acquired from their parent companies (normally foreign based) as a way of ensuring that much of the revenue generated locally is shipped outside.

“We will check if such fees are charged at market rates,” he said. Furthermore, the World Bank has urged African governments to offer tax incentives in return for huge investments in significant economic sectors as a way of attracting Foreign Direct Investment (FDI) and stimulating employment creation, which will result in an increase in Pay as You Earn (PAYE).

Meanwhile, domestic output in Botswana is projected to grow at around 4.5 percent in 2017 - almost double the 2.9 percent recorded in 2016 - driven by a rebound in commodity prices. A gradual rise in appetite for extractive commodities has resulted in an upward trajectory in commodity prices. The non-mining sector, mostly services and financial sector, is also expected to significantly contribute to the growth. Botswana’s projected growth is on par with the rest of sub-Saharan Africa, which is expected to grow by a modest 2.4 percent in 2017 from 1.3 percent in 2016. The rebound in sub-Saharan Africa is led by larger economies, mostly South Africa and Nigeria.



BURS head office, Gaborone

BOTSWANA STEPS FORWARD IN GLOBAL COMPETITIVENESS



Photo courtesy of Information Services

His Excellency, the President of the Republic of Botswana Dr. Seretse Khama Ian Khama with Sir Richard Branson

Botswana's positive looking global competitiveness could help boost domestic production, but it also places the country in a better position to compete in the global economy.

Sir Richard Branson, a British business tycoon and investor, urged Botswana entrepreneurs to think globally in terms of starting and growing their businesses out of Botswana. "If you can make it in Botswana, then Africa offers you a bigger market," he said, adding further that Botswana businesses can also play in a larger pool of the global market. He was speaking at the Global Expo Botswana, in Gaborone on November 2, 2017.

"With the internet and technology, you can do a lot more to reach the

global market and fairly compete." Sir Richard Branson, founder and owner of the Virgin Group, a global conglomerate consisting of over 400 companies with an estimated net worth of US\$5.6 billion in 2016, said through competing globally, Botswana can expand, address youth unemployment and spike GDP growth.

The British investor was only striking a familiar chord. Botswana has been receiving good rankings from the World Economic Forum (WEF), placing the diamond led economy on a good position to compete in the global market. In the past decade, Botswana's Global competitiveness ranking has averaged 69.67 points, with record lows averaging 56 points in 2009, soon after the economic meltdown, impacting on the public's

confidence of financial institutions.

In 2012 however, Botswana was ranked at an average position of 80th, climbing to 74th in 2013, out of 148 countries. The World Economic Forum (WEF) defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country. The forum says the level of productivity in return, sets the sustainable level of prosperity that can be earned by an economy. In other words, they elaborate that more competitive economies tend to be able to produce higher levels of income from their citizens.

In the most recent global competitiveness report for the year 2017, Botswana has been ranked 64th. This was an 8 points

improvement from the previous report of 2016, although the report only assessed 138 countries this time. The report looks deep into Botswana's infrastructure development, institutions, health, primary education and macro-economic environment, relative to other countries.

Infrastructure development in Botswana has improved from 94th place to 90th globally, according to the report. The WEF reckons that extensive and efficient infrastructure is critical for ensuring the effective functioning of the economy, as it is an important factor determining the location of economic activity and the kinds of activities or sectors that can develop in a particular economy. In addition, the quality and extensiveness of infrastructure networks significantly impact economic growth and affect income inequalities and poverty in a variety of ways.

Since independence, Botswana has made significant strides in as far as development of infrastructure is concerned, though some observers note with dismay that more can be done. Most say resources have been fairly spread while others argue that a lot more needs to be done. Property expert, Tshetlho Ramaologa previously said Botswana's development is heavily concentrated in the eastern part of the country. Before independence, Botswana used to have negligible kilometers of tarred roads which today covers almost every breadth of the country. At the end of 2017, when delivering the state of nation address, outgoing President Ian Khama said government remains committed to transforming the

local construction industry for greater competitiveness. As such, he says government introduced the Engineers Registration Board, Architects Registration Council and the Quantity Surveyors Registration Council to ensure professionalism in the sector. "The Building Control Act is currently under review to align it with modern industry trends within the built environment. An Industry Authority Bill which will regulate all contractors that want to practice in the country is also being drafted.

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Unfortunately, the problem has been with power and water distributions. There is still a problem moving water, producing and transmitting electricity, Ishmael Radikoko, Financial expert at University of Botswana observes.

In terms of Education, as a lecture, he says Botswana has done well given that education is free. "The only problem is tertiary is selective."

Khama said there was progress in the realization of the Millennium Development Goal of universal access to Primary Education, with 96 percent of children now entering Primary School while there has been

a significant increase in local tertiary education enrolment, which has risen from 31,129 in 2007/08 to 56,447 in 2016/17. The problem most experts have with Botswana's education is that it is too academic than practical. Further, some argue that Botswana's education system tends to produce half-baked graduates who struggle to adapt to working conditions. The private sector has advised government to consult with them when making academic curriculum.

The global economy takes into

consideration secondary and tertiary enrollment rates as well as the quality of education as evaluated by the business community. The extent of staff training is also taken into consideration because of the importance of vocational and continuous on-the-job training—which is neglected in many economies—for ensuring a constant upgrading of workers' skills.

Government is currently implementing the Education Sector Strategic Plan (ESSP) (2015-2020) designed to transform the education sector for the better. Economists say it's ambitious but too early to gauge the benefits.

COMPETITIVENESS

In the recent rankings, the competitive report says Botswana's Health and primary education improved from 119th last year to 113th. World Economic Forum (WEF) says a healthy workforce is vital to a country's competitiveness and productivity. "Poor health leads to significant costs to business, as sick workers are often absent or operate at lower levels of efficiency. Investment in the provision of health services is thus critical for clear economic, as well as moral, considerations."

Government promised to continue improving access to health care by constructing clinics and hospitals through the Economic Stimulus Programme (ESP). Further, to address the problem of shortage of skilled health professionals, government says a five year training strategy and yearly training plans have been developed for the training and maintenance of professional skills.

Macro-economic stability, dropped from 9th position previously to 10th this year. WEF reckons that the stability of the macroeconomic environment is important for business and, therefore, is important for the overall competitiveness of a country. Although it is certainly true

that macroeconomic stability alone cannot increase the productivity of a nation, they say it is also recognized that macroeconomic disarray harms the economy.

The macroeconomic stability, according to Radikoko involves monetary policy, fiscal policy, human capital, and political institutions. The Bank of Botswana (BoB) oversees the monetary policy which experts say has thus far been better managed. BoB weapons go as far as affording stable exchange rate, conducive interest rates and a containing national inflation rate which is currently 3.4, within the target band. Over the years BoB has dragged interest rates to record lows. "We have done well. The BoB has intervened," he said.

Radikoko is however not as convinced by government fiscal policy. "We can do better by channeling money to the right resources that will bring value to Botswana." Government allocated P2.2 billion from for the much hyped up Economic Stimulus Package (ESP) which so much spending channeled to the construction industry. During the time, veteran economist, Keith Jefferies warned that projects constituted small scale project that would not have any significant value to Botswana.

Further, to address the problem of shortage of skilled health professionals, government says a five year training strategy and yearly training plans have been developed for the training and maintenance of professional skills.



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KNOW YOUR BSE BOARDS AND LISTING REQUIREMENTS

There are two major boards on the BSE, the main board and the venture capital board. Depending on the company's level of compliance with the minimum listings requirements, a company will be admitted and listed under one of these boards described below;

The Main Board

The main board comprises of the domestic main board which is for companies incorporated in Botswana, and the foreign main board comprises of foreign companies. Some of the conditions for listing on the main board, either domestic or foreign are:

- Subscribed capital of at least P1,000,000.00;
- Trading history of at least five (5) years. They must have been a satisfactory profit history in the last three (3) financial years including a profit of at least P1,000,000.00 before taxation reported in the most recent year;
- 20% of all the different classes of equity shall be held by the public;
- Minimum initial price of each share cannot be less than 100 Thebe; and
- Minimum of 300 public shareholders.

The Venture Capital Market Board

The venture capital market board is primarily dedicated to companies, even start ups who are still in their phases of growth and may not have grown well enough to meet the listing requirements on the main board, as such the venture capital market board has less stringent listing requirements. The following are some of the conditions that companies must meet in order to list on the venture capital market board:

- Subscribed capital of at least P500,000.00;
- Mode of operation and business plans with credible returns on capital forecasts. No profit history is necessary;
- At least 5% of each class of shares shall be held by the public;
- Initial price of each share shall not be less than 50 thebe;
- The number of public shareholders shall be at least 75 for equity shares and 25 for preference shares;
- Directors and Managers have successful records of achievement in their respective roles; and
- Listing prospectus must clearly bear a warning about the speculative nature of the investment in such a company.





Companies which register equity and equity related securities on the Serala OTC Board shall only be allowed to remain on the board for a maximum of five (5) years.

For a listing on the aforementioned boards, applicant companies should have at least 1,000,000 shares in issue. Companies who do not wish to list their securities, but do require to create a secondary market and tradability for their securities can utilise the BSE trading and settlement infrastructure by registering on a BSE board designed for this purpose without additional regulation, this board is called Serala Over-The-Counter (OTC) Board.

The Serala OTC Board

The Serala OTC Board is where companies that are not ready to list on either the Main Board or the Venture Capital Market Board register (not list) securities with the BSE. The Serala OTC Board was primarily designed to house companies while they prepare for listing, and get acquainted to the regulatory environment. It also provides registered companies with a platform to trade securities thus discovering their true open market value.

Companies which register equity and equity related securities on the Serala OTC Board shall only be allowed to remain on the board for a maximum of five (5) years. Thereafter, the BSE will review the continued trading of the securities on this board and may require that the registered company should apply for listing at the end of

the five (5) year period.

For a company to register on the Serala OTC Board it must fulfil the following requirements:

- Be a Public Interest Entity (PIE) as per the Financial Reporting Act (and BAOA Rules – Botswana Accountancy Oversight Authority). PIEs are entities that are listed on the BSE, regulated by the Bank of Botswana (BoB) such as banks and deposit taking institutions, any non-bank financial institution supervised by the Non-Bank Financial Institution Regulatory Authority (NBFIRA) or satisfy at least two (2) of the following thresholds:
 - Annual revenue of P300 million;
 - 200 Employees;
 - P200 Million in total assets; or
 - P100 Million in total liabilities.

To register on this board, the applicant must;

- Fully dematerialize its securities; and
- Sign a registration agreement with the BSE.

LISTING

Over 30 companies are listed on the BSE, some of which include the following;





WHAT ARE THE ADVANTAGES OF LISTING?

Ability to raise to capital	Listing gives companies the opportunity to raise funds from a large pool of diverse investors for on-going business expansion.
Owner equity release	Founders of a company can disinvest or "cash-in" by selling a portion of their shareholding in the business.
Enhanced corporate governance practices	Listed companies have to adhere to listings requirements on a continuing basis and these include high standards of corporate governance, disclosure of information to investors and regulators, provision of audited financial statements, etc.
Improved liquidity and marketability of securities	Listing eases the buying and selling of securities in a public market, thus shareholders can liquidate their holdings with relative ease.
Enhanced credibility	By virtue of being a listed company, a company's stakeholders such as banks, suppliers and other entities become more amicable to doing business due to good governance practices.
Increased public awareness	A listings leads to increased corporate profile and brand visibility.
Employee retention/attraction	Opportunity to create Employee Share Option Plans (ESOPs) that can help retain and attract high caliber employees.
Price revelation and price discovery	Trading of listed shares unlocks and reveals the true value of the share by promoting price discovery. As such, a listed company can determine its worth by referring to the market price of its share.
Technology and infrastructure	Trading of securities is electronic and conducted through the Automated Trading System (ATS). The clearing and settlement of securities is done through the Central Securities Depository (CSD) system.
Investor base	There is access to a broad base of investors ranging from various institutional and retail investors, both local and international.
Large pool of capital	Botswana has a large pool of long term contractual savings especially by pension funds.
Internationalization	In the case of the BSE, the Exchange continually pursues strategies to align with international best practice in the global securities and exchange industry and adapt to the evolving and fast changing global investment environment.



BOTSWANA CAN BE AFRICA'S HUB OF COMMODITIES

...The making of an effective commodities market...

Being one of Africa's stable economies in politics, credit rating as well as fiscal policy, capital market pundits believe that Botswana is the right country to become Africa's hub for the trade of commodities.

To Garry Juma, Head of Research at brokerage firm, Motswedi Securities, commodity traders in Botswana, in conjunction with relevant stakeholders should facilitate for Botswana to become the headquarters of a regional commodities exchange.

"Regional commodity traders would like the idea of trading in Botswana because they will minimize risks of exchange rate losses, as well as unstable currencies and political instabilities across the African region, we must take advantage of that," said the veteran stock broker.

As a regional hub for the trade of commodities, Juma believes that not only would it benefit regional players but would also seriously upscale Botswana's producers in the mining, agricultural and other sectors that

produce commodities.

To the capital market guru, having a commodities exchange here in Botswana would allow for producers in Botswana to be able to realize meaningful value and returns from trading with commodities. "It will create an easy and direct link between commodities producers and buyers, which will in return maximize earnings for the commodity producers," he added. Without a united commodities market, the Motswedi Securities Head of Research believes that the market is open for exploitation especially by middlemen who will undercharge for commodities so as to benefit from middlemen fees.

As a bloc, producers can through the formalized commodities market create a direct link with retailers, with a strong bargaining power that allows them to charge fair market prices and fairly benefit from meaningful prices of economies of scale.

What needs to be done here, is for the commodity traders, or even a private company to establish a formalized platform, which will have rules that allow for a regulated

institution, with transparent systems. At Botswana Stock Exchange (BSE), Chief Executive Officer (CEO) Thapelo Tsheole concurs with Juma that a commodities and derivatives exchanges can go a long way in boosting trade here. However, he says that in order to build an effective commodities exchange, ground work and a proper foundation needs to be build which will develop and ready the market for such a new development here.

"There is a lot of potential in a commodities exchange, but we need an organ that has a proper structure," he opined. Firstly, Tsheole said what the market should establish is a proper infrastructure and warehouses that would be able to house the commodities with which the market will be trading.

The BSE boss said that Botswana has an advantage of abundance of commodities which can trade in the commodities market especially under agriculture and mining. "We produce a lot of grain, maize and beans which can trade in the commodities market. However we need first to construct large storage silos which can store a bulk of these commodities especially

if we are to create in the long term, a regional commodities hub, to accommodate regional players” Tsheole said. Further, he added that under Botswana is a cattle breeding country, and if the country was to trade with cattle, proper storage facilities and feedlots should first be built to carry the capacity needed. Agriculture contributes about 2 percent to Botswana’s national output. Tsheole and Juma believe that a commodities market here could strengthen the agricultural value chain and maximize returns of the sector, which will in turn increase its input in the GDP, diversifying the economy in the process. As a mining led economy, Botswana has an abundance of mining commodities like copper and coal, with the latter having an estimated 210 billion tonnes of unexploited resources underground. Tsheole believes that such commodities can play a big role in a commodities market, but infrastructure is needed first. “Most importantly, we need to first create awareness and public education on what the commodities market is, how it works and how it can benefit both the citizenry and the economy at large,” he explained.

According to Juma, the commodities market is purely a physical or a virtual space, where traders and investors can buy, sell or trade various commodities like beans, grain, coal, gold, copper and many others at a current or future date. One can also do commodity trading using futures contracts. A futures contract is an agreement between the buyer and the seller, wherein the buyer promises to pay the agreed-upon sum at the moment of the transaction when the seller delivers the commodity

at a pre-decided date in the future. It appears according to him that a farmer can thus buy wheat futures to fix a price at which he would sell a certain amount in future.

Similarly, a trader might buy or sell wheat futures for delivery on a future date at a price decided now. Like a stock, one can invest in a commodity through the commodity bourses.

India has six commodity exchanges Multi Commodity Exchange (MCX), National Commodities and

Exchanges.’ The academic paper reveals that commodity exchanges have significant, well-documented development benefits, making economies more inclusive, boosting the links between agriculture and finance, and making the commodity sector more efficient and competitive.

Africa was home to one of the world’s first commodity exchanges – in Alexandria, Egypt over 150 years ago. The importance of bringing commodity exchanges to the region was recognized by



Sorghum is the livelihood to most Batswana in rural areas

Derivatives Exchange (NCDEX), Indian Commodities Exchange, National Multi Commodity Exchange, ACE Derivatives Exchange as well as the Universal Commodities exchange. According to a research paper compiled by scholars at the African Development Bank (AfDB), commodity exchanges are highly efficient platforms for buyers and sellers to meet; primarily to manage their price risks better, but also to improve the marketing of their physical products. The research, published in 2014 is titled ‘Guidebook on African Commodity and Derivatives

policy makers in the Abuja Treaty of 1991. Further endorsements came in resolutions adopted by African Ministers and Heads of State. These resolutions were clear in their intent: governments should, in partnership with the African business sector, develop and support commodity exchange initiatives; identify and remove barriers to the establishment and operations of commodity exchanges; and procure government requirements across the trading floors.

The first “modern” commodity exchanges created in the continent

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COMMODITIES

were in Zimbabwe and Zambia in 1994 and in South Africa in 1995. The second, wave started in Ethiopia in 2008. The Ethiopian Commodity Exchange (ECX) which was mainly driven by government and donor support has built a reasonable volume, and has shown that a commodity exchange can be successful in spite of infrastructure and commodity sector development challenges.

reasons. Bourse Africa Limited operates an international multi-asset class exchange that offers trading on commodity derivatives, African and global currency derivatives, African equity index derivatives, and contracts for difference (CFDs) on commodities and currencies. The company serves as a hub for Africa centric risk management, trading, investing, and capital raising. It offers a trading platform that enables brokers and their clients to trade

region to exchange food. EAX is regional commodity exchange offering commodity trade services in East Africa Community (EAC) common markets (173 million consumers) in key staples food crops such as Maize, Beans and Soya. EAX deals with high quality products meeting the requirement of EAC standards. Key value proposition is guaranteed quantity and quality of farmers' grains, reliability of trade and settlement services and high level of risk mitigation. The company was created in 2013 to further strengthen EAC regional integration by developing a common and coherent financial sector in agriculture, energy and mining. EAX links deprived rural farmers to financial markets. It offers financial product development to its members and facilitates trades regionally and worldwide. EAX is a private capital investment injected by Nicolas Berggruen (Berggruen Holdings, USA), Tony Elumelu (Heirs Holdings, Nigeria) and Jendayi Frazer (50 Ventures, USA). Rwanda has ownership through Ngali Holdings Ltd. Formally launched in July 2014 by 3 Heads of State (Kenya, Uganda and Rwanda), EAX has its head office in Kigali, Rwanda. The company registration has been also completed in Kenya, Uganda, Tanzania and Burundi.

Japan also has an established commodities market through, operated through the Central Japan Commodity Exchange, which was established in 1996 from the merger of Toyohashi Dry Cocoon Exchange, the Nagoya Grain and Sugar Exchange and the Nagoya Textile Exchange. Commodities traded are Eggs, Gasoline Aluminum, Nickel Rubber to mention but a few.



While Botswana is still lagging behind in the development of a commodities market or an exchange, efforts were made by an institution called Bourse Africa, which wanted to establish regional headquarters of a commodities exchange here in Gaborone.

Bourse Africa - the pan-African commodities and derivatives exchange, intended to set up its regional headquarters in Gaborone and once operational Botswana was likely to see countries doing trade that exceeds \$20 billion on a daily basis, thus boosting the economy to the maximum. However, the project never took off for undisclosed

on various commodities, including gold, silver, and crude oil futures and CFDs; and several currencies. In a previous engagement a few months back, Capital Market Authority (CAM) Executive Director Robert Mathu in Rwanda's capital Kigali said that East African Community (EAC) common markets have already put in place a legal framework for sub-regional stock exchanges and commodities exchange. He said the commodities exchange, East African Exchange (EAX) is already operational. The commodities exchange trades in agricultural products mainly maize, beans and grain. The exchange was meant to also boost food security and allow the

NARROWING THE GAP BETWEEN SMEs AND THE BOND MARKET



SMEs are important to the domestic economy

At the time of writing, the local bond market, conducted primarily via the Botswana Stock Exchange (BSE) infrastructure, boasts 42 bonds with maturities ranging over one year to 22 years and face values of up to P2 billion.

There are a few facts the market agrees on. One is that the local capital market is surfeit with liquidity and in fact, for several years the scenario has been one of capital chasing opportunities. By some estimates, a blue-chip issuer could comfortably raise between P500 million and P1 billion right now in the local capital market. Another fact all market participants agree on is that one of the biggest challenges for Small to Medium Enterprises (SMEs) is access to capital.

The natural solution appears to be the removal of whatever barriers there are between SMEs and the capital market. However, the matter is far trickier than the agreed “facts” would suggest. Bonds are one area of the capital market where corporates and government have over the years been able to secure funding at negotiated rates, to varying levels of success.

At the time of writing, the local bond market, conducted primarily via the Botswana Stock Exchange (BSE) infrastructure, boasts 42 bonds with maturities ranging from over one year to 22 years and face values of up to P2 billion. The majority of bonds in terms of value are government and quasi-government paper, although several corporates have also been able to successfully raise funds from the market, over the years.

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All the players with outstanding bonds on the market are far from the SME variety and in fact, in the bond market's brief history in Botswana, no SME has come close to an issuance. The BSE in recent years, has led several high level industry discussions focussed on understanding the issues around market entry for various categories of economic players. From these discussions, market participants have generally been agreed on the barriers hindering SMEs from participating in the bond market.

According to market participants, the first major hindrance for SMEs and many other would-be issuers, is the cost of floating a bond. Most of these costs revolve around the professional services which include the legal, arranger and regulatory fees, which include the annual and trading fees associated with a bond listing.

For many SMEs at the various fora where the issue has been discussed, the average fees being charged around bond issuances at the moment have been set by and for the larger corporations and entities that are presently active in the market. Unfortunately for SMEs, even if an issuance is small, the amount of work that has to be done by professional advisers and others is still the same, meaning the costs remain high.

Service providers however have a different take on the matter. Michaela Powell – Rees, Senior Manager – Deal Advisory, KPMG, says a lot of these costs can be cut down by companies handling more of the preparatory work, before approaching professional advisers.

“There is a lot of preparatory work that goes on behind the scenes, including working with management and analysis, leading to the listing,” she explained at the Botswana Bond Market Association Roundtable in June 2017. “In terms of controlling the fees, there is work that can be done to reduce these which is generally a function of educating those who want to list about how to prepare internally for the listing. “Many potential issuers come forward for professional advisory services and the more unprepared they are, the more costs they incur.

“In addition, potential issuers should also ensure that they avoid duplication of professional services being provided and also watch for what they can do internally in the process, as opposed to handing this over to advisers.”



Mr Mbako Mbo,
Chief Financial Officer
Botswana Development Corporation

Also, at the Roundtable, Siphon Ziga, a partner at Armstrongs Attorneys noted that there was a direct correlation between professional fees and regulation, in that fees are based on the time it takes for a transaction to be completed. “If the regulations are complex and require many steps, it follows that fees will be high as well. If the regulations are simple and straightforward, the professionals advising on the listing will have less to do. Any discussion on the level of professional fees must involve improving the clarity of the regulations around listing,” he said.

The BSE has revised its regulations and fees around the listing of bonds and a draft document/position paper is circulating through the market for feedback. BSE Head of Product Development, Kopano Bolokwe says the Exchange is also trying to find a way to benefit from an African Development Bank (AfDB) initiative which subsidises the work that professional advisers do especially with respect to documentation, as a way of encouraging small issuers.

There are other considerations the BSE has been advised to look at, to help SMEs enter the bond market. One of these is a suggestion that the BSE's fees should speak to the issuance and not the programme memorandum. At present, the BSE charges based on the size of the programme memorandum, then annually on issue tranches.

“The fees should speak to the issuance e.g. an issuer with a P2 billion programme memorandum is unlikely to list it

all at once due to the conditions in the market,” said Mbako Mbo, the Botswana Development Corporation Chief Financial Officer at the Roundtable. “It would therefore be more prudent to have the fees target the issuance, rather than the size of the programme memorandum.”

Ultimately, however, the issue comes down to risk and return. Even if all barriers are cleared allowing SMEs to approach the market for funding, it is doubtful that many would have successful issuances as investors would harshly interrogate their numbers, track record, projections, calibre of management and governance.

Few asset managers would want to take the risk of exposing their portfolios to an SME. Many fund managers argue that the same reason they will not invest in SMEs, is the same reason banks generally decline to fund SMEs. Investors and in the case of banks, depositors, would be irate if they found out their funds had been invested in an SME of unknown calibre.

For fund managers whose portfolios are invested on carefully laid down principles and margins for risk, most SMEs are simply beyond their scope. Katlego Ramatlhare, a Research Analyst with Investec South Africa explained the matter this way. “Across the continent historically, funding has always been viewed in this manner: at an initial simple stage, a venture is funded by family and friends, then later, banks provide support. The bond market comes in when the venture is bigger and stronger,” he said at the Roundtable.



Pottery business also has potential for Botswana

All is not lost however. In other markets, SMEs approached banks or the bond market with a guarantee from a supranational organisation. Therisanyo Masuga, Coverage Manager, Rand Merchant Bank Botswana, imagines a situation where local SMEs could secure guarantees from the African Development Bank (AfDB) and approach the bond market with that, which would give investors comfort that a percentage of their risk is underwritten.

According to Bolokwe such an idea is already being discussed within the working group for the African Stock Exchanges Association (ASEA) in which he sits. Supranationals such as the AfDB could also subsidise the cost of bond issuances for SMEs. In other jurisdictions, pension funds are also allocating small percentages of their portfolios to fund SMEs and to act as anchor investors in issuances by SMEs.

In Botswana, the Citizen Entrepreneurial Development

Agency (CEDA) is the contact point for most SME funding and within this, bond market participants see an opportunity. CEDA, a parastatal with access to government guarantees, should consider approaching the bond market for funding and passing that along via its own processes to SMEs.

For Boikanyo Kgosidintsi, Letshego Holdings Group Head of Investor Relations, that would be a preferable arrangement to expecting asset managers to evaluate many different small proposals. Opportunities exist for the development of an environment in which SMEs can approach the bond market and various market participants are working on those. SMEs in the meantime, will have to work on restructuring their organisations, particularly around governance and accountability, to ensure that they are market-ready for the inspection of potential bondholders.

OVERVIEW OF THE BOTSWANA BOND MARKET ASSOCIATION



Ati Mannathoko
Chairman of the BBMA

About the Botswana Bond Market Association

The Botswana Bond Market Association (BBMA) is a national non-profit association comprising of financial market participants, investment management institutions, investment management professionals, capital market intermediaries, and issuers of investment securities, service providers within the bond market, related capital market practitioners as well as experts and scholars.

Mandate and Scope of the Association

The mandate of BBMA is focused on the development of the bond market in Botswana. The Association serves to collaborate and complement the bond market development initiatives undertaken by Botswana Stock Exchange. The Association seeks to contribute to policy issues affecting the bond market, contribute to addressing and undertaking reforms supporting bond market development, speak

with one voice and act as a lobby group for implementation of bond market development initiatives and to promote liquidity and broad based activity in the domestic bond market.

BBMA was conceived in 2010 and officially registered with the Registrar of Societies in September 2013. The Association's Secretariat is BSE.

In 2010, the Association, through the input of bond market participants, compiled the BBMA strategy. The strategy has since been adopted by BSE for implementation. Some of the initiatives already implemented by the BSE include the formulation of standard bond pricing formulae and bond market conventions that were completed in 2012 and the development of benchmark bond indices comprising Government Bonds (GovI), Corporate Bonds (CorpI) and the Composite Bond Index (BBI) which were launched in 2013. The Association, together with the BSE hosted the Inaugural Bond Market Conference in October 2016, and subsequently the Bond Market Roundtable in 2017.

Objectives of the Association

The Association seeks to protect and promote the common interests of bond market participants the following ways:

- To promote the legitimate interests of its members and raise their concerns, proposals and requests in respect of the development of the bond market;
- To act as a mouthpiece for members at various forums and represent members at all relevant forums;
- To facilitate open, competitive and efficient interaction within its

members and the global capital market;

- To educate members and the public and enhance their awareness and adherence to legislative frameworks within the bond market;
- To promote skills development, information dissemination and investor participation in the bond market;
- To organize researches and exchanges among members of the Association on the development of new products and promote visibility of the domestic bond market;

Botswana Bond Market Association Membership

Afena Capital Botswana • African Alliance Asset Management Botswana • Alexander Forbes Asset Consultants • Allan Gray Botswana • BancABC • Barclays Bank of Botswana • Botswana Development Corporation Limited • Botswana Insurance Fund Management • Botswana Life Insurance Limited • Botswana Stock Exchange • Desai Law Group • Ecsponent Botswana • Investec Asset Management Botswana • Ishmael Radikoko • Kelobang Godisang Attorneys • Khan Corporate Law • KPMG • Letshego Holdings Limited • Liberty Life Botswana • Motswedi Securities • National Development Bank • Rand Merchant Bank Botswana | Stanbic Bank Botswana Limited • Standard Chartered Bank Botswana • STANLIB •

For more information contact:

Botswana Bond Market Association Secretariat, productdev@bse.co.bw
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HISTORY AND STATUS OF THE BOTSWANA BOND MARKET



Kopano Bolokwe
Head of Product Development, BSE

Between 1999 and 2000, Botswana Development Corporation (BDC), Botswana Telecommunications Corporation (BTC) and Botswana Building Society (BBS) were among the first public entities to issue and list bonds on the BSE, preceding the issuance of bonds by Government.

The existence of Botswana's bond market dates back to the late 1990s and has grown steadily, in both size and liquidity, over the years. As at the end of 2015, the bond market accounted for 7.5 percent of Gross Domestic Product (GDP), a modest improvement from 7.2 percent in 2009. Liquidity amounted to 8.5 percent in 2015 compared to 5.0 percent in 2009. The number of issued bonds has risen phenomenally since the late 1990's at which time there were only 3 bonds listed.

Not only do we see solely bonds issued by parastatals as was the case in the late 1990's, but we also see increased issuance of government bonds and corporate bonds as well as greater diversity of issuances from the private sector ranging from retail, financial services, property to banking. In some peer markets, the bond market is largely skewed towards greater dominance by Government bonds in terms of the quantity of bonds listed unlike in Botswana where the majority are corporate bonds.

Looking back over a decade, the establishment of the bond market in Botswana was not out of necessity to borrow from the public through the bond market but rather out of intent by Government to develop the bond market to maintain presence in the bond market, facilitate and promote issuances by the corporate sector. This was largely because Botswana has enjoyed a history of fiscal surpluses, a situation where funds available far exceeded the spending requirements. The surplus revenues were mainly accounted for by revenues from sales of diamonds.

In 1973, the Government created the Public Debt Service Fund (PDSF) to ensure that Government would always have a source of funds to service its debt. However, as the country grew richer in terms of revenues, the fund started lending out part of its reserves. To this end, the Government has ceased to make new loans out of the PDSF, which has since been converted into a Special Purpose Vehicle (SPV), thus encouraging parastatals to look for funding from the public through the bond market by issuing and listing bonds on the BSE.

Between 1999 and 2000, Botswana Development Corporation (BDC), Botswana Telecommunications Corporation (BTC) and Botswana Building Society (BBS) were among the first public entities to issue and list bonds on the BSE, preceding the issuance of bonds by Government. Other parastatals like Water Utilities Corporation

(WUC), Botswana Vaccine Institute (BVI), National Development Bank (NDB) and Botswana Housing Corporation (BHC) also currently have their bonds listed on the BSE.

The issuance of bonds by parastatals and the private sector gathered momentum following the Government's two major decisive initiatives which were announced in the 2002 Budget Speech. Firstly, it was announced that the Government will implement a bond issuance programme of its own, under which Government subsequently issued its first three bonds in 2003 and these were BW001 (2 years), BW002 (5 years) and BW003 (12 years). Secondly, it was revealed that in an effort to further the development of the domestic capital market, Government will sell part of its PDSF loan book. Consequently, the loan book was sold to the Debt Participation Capital Funding (DPCF) Limited, a Special Purpose Vehicle (SPV) backed by the future interest and principal payments on outstanding PDSF loans that was created to sell the PDSF loan book to the public. The SPV has since issued and listed its bonds on the BSE since 2004.

In March 2008, Government launched a P5 Billion note issuance programme which was exhausted in September 2010, prompting an increase of the Government's domestic debt limit to P15 Billion. Since March 2008, Government has sustained its issuance with the introduction of bonds ranging from BW004 to BW012, with maturities ranging between 3 years to 25 years. Unlike in the earlier years of fiscal surpluses, the bonds issued under the P15 Billion note programme

were, and are being, used to help finance the budget deficits and were also a token of commitment by Government to maintain presence in the bond market. The foregoing set the tone for a faster pace of issuance of bonds by several entities, which contributed to the elevation of the size of the domestic bond market to what it is at present.

The commencement of the issuance of bonds by Government was an

that has facilitated the pricing of already existing corporate bonds of such longer maturities. To the investors, particularly pension funds and insurance companies, the bonds provided the much needed longer dated assets for matching the duration of their longer term liabilities (pension fund contributions, annuities and insurance policies).

Undoubtedly, Botswana's bond



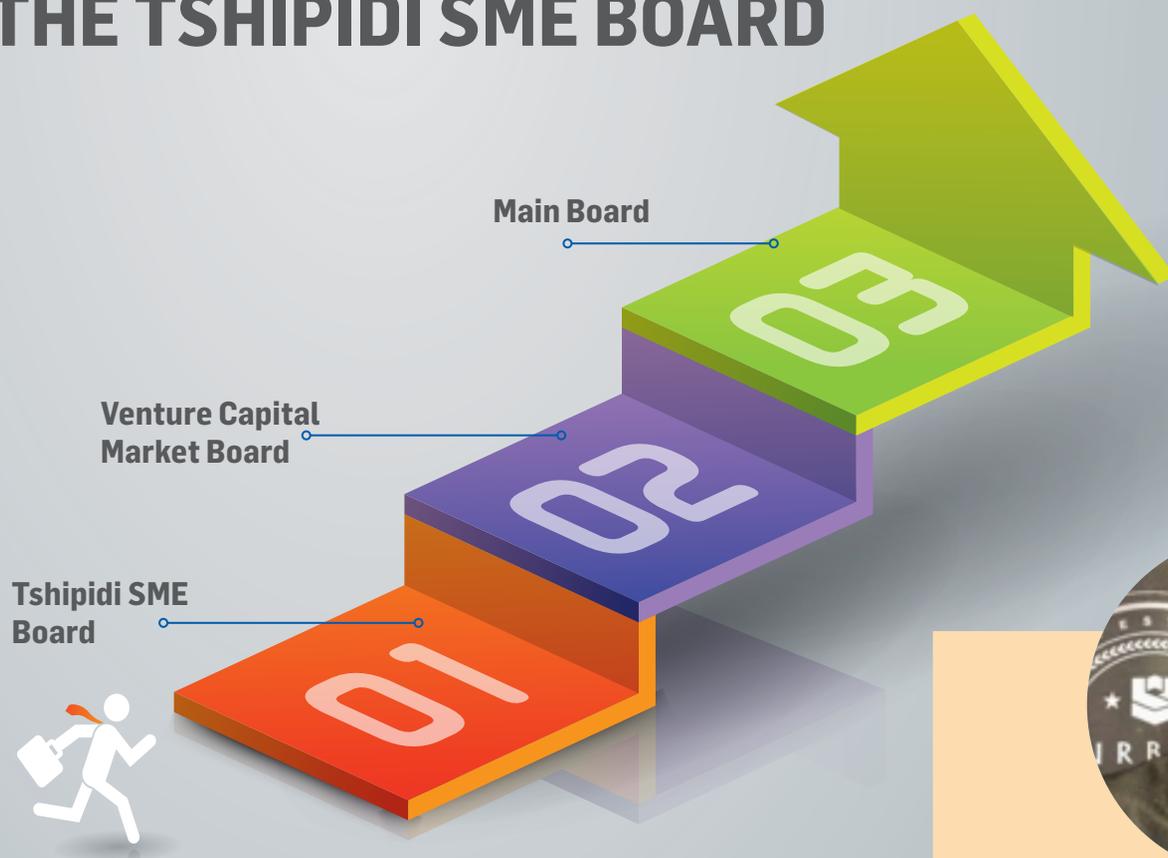
Bonds are critical to Botswana's economic growth

important milestone for developing a risk free yield curve that could be used to price corporate bonds. Prior to 2003, there was no yield curve to price corporate bond issuances and the available reference points were the Consumer Price Index (CPI), Bank of Botswana Certificates (BoBCs) rate, the bank rate and the prime rate. The continued presence of Government bonds has thus ensured competitive pricing of corporate bonds across various maturities.

Under the P15 Billion note programme, Government has issued bonds with maturities as long as 18 years and 25 years. This has been a welcomed move

market has grown in respect of size, quantity, diversity and even in terms of other important building blocks such as market infrastructure. The world over, bond markets are an integral part of the development of any economy as they continue to play a meaningful role of promoting capital efficiency and mobility, facilitating the movement of funds to economically viable opportunities whilst generating investment returns for long term savers. However, it is without a doubt that the domestic bond market needs to be further developed and nourished to reach higher levels of growth and economic significance.

THE BSE TO INTRODUCE THE TSHIPIDI SME BOARD



Small and medium enterprises (SMEs) have a major role in contributing towards long-term economic growth and employment. However, SMEs often face limited access to financing due in part to the relatively higher risks associated with investing in them. The SME financing challenge has been exacerbated following the introduction of significant financial regulatory reforms in the aftermath of the global financial crisis, heightening banks' risk aversion when extending loans. Capital markets therefore have an imperative role in bridging this financing gap through the provision of alternative funding sources for SMEs,

particularly as their needs evolve over the different phases of their life cycle', (OICU-IOSCO Report, 2015)

The Botswana Stock Exchange (BSE) has a multi-tier market that is designed for enterprises that fall within different stages of growth, and of different sizes and risk profiles. Only two boards, the Main Board, and the Venture Capital Market Board have been catering for enterprises that list on the exchange, with the Venture Capital Market Board having less stringent requirements to those of the Main board. The BSE has now decided to launch the Tshipidi SME Board to satisfy the capital-raising needs of Small Medium and Micro Enterprises (SMMEs) by providing a direct financing platform for enterprises with a growth potential. This will address



Molefi Nkwete

Founder & Managing Director,
Urban Soul

"The introduction of SME Board is a great development by BSE and we commend them as this will give young companies with potential an opportunity to list on the stock exchange. This board is coming at the right time when entrepreneurs are constantly searching for growth funding for expansion of their operations. We are hopeful that this board will open an opportunity for SMEs in Botswana as this will enable them to raise their companies to be able to compete regionally. The board will be ideal since its requirements won't be as stringent or taxing as for the venture and main board. We commend BSE for this development."

SMME BOARD



Boikhutso Kgomanyane

Director, Corporate and Stakeholder Communications, LEA

the challenge of access to capital that SMEs face. The Tshipidi SME Board will cater for the enterprises that are not able to meet the requirements of the existing boards by providing less onerous listing rules that are appropriate for their stage of development, while at the same time maximizing market efficiency, facilitating risk control and developing the capital market.

It is worth noting that as the BSE we have the responsibility to develop the market and we continually review the current infrastructure and its suitability to act as a catalyst for growth, particularly that of SMEs given that Botswana is predominantly an SME dominant economy. The Tshipidi SME Board will be launched in early 2018 as the rules have been completed.

The Local Enterprise Authority (LEA) welcomes the development of the Tshipidi SME Board within the BSE. The Tshipidi SME Board will offer more relaxed requirements as compared to the Main Board and the Venture Capital Board. This will enable the SMEs in Botswana to participate and raise capital that will further grow their businesses into competitiveness and sustainability. The SME sector

has potential to contribute towards the diversification of the economy of Botswana, hence at LEA we continue to capacitate and empower the entrepreneurs to start and grow their businesses, by offering various interventions as per the enterprises' needs. The introduction of the Tshipidi SME Board therefore complements efforts of enhancing this growth within the SME sector.

FUELING THE FUTURE

Sustaining the Country's
Economy



Botswana Oil Limited (BOL), a company wholly owned by the Government started its operations in July 2013. It was officially Launched by His Excellency the President Lt. General Dr. Seretse Khama Ian Khama in October 2014.

BOL was established to support the Botswana Government achieve broader economic objectives of ensuring security and efficiency of petroleum products supply to Botswana as well as facilitating active citizen involvement in the petroleum industry. The BOL product range includes petrol (ULP 93 and 95, diesel (50 and 500 PPM) and paraffin. In addition to providing customers with petroleum products in bulk, BOL creates opportunities for supplying/importing petroleum products into Botswana. BOL also leases storage facilities to citizen owned companies to store petroleum products for sale to their customers.



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INVESTOR EDUCATION

Understanding Stock Markets EDUCATION IN THE AIR WAVES



To increase outreach and investor education, the BSE has been hosting a weekly educational radio show to sensitise and educate the public about the stock market and the role it plays in the Economy. This show, which has been running since February 2016, also acts as an interactive platform as the public is availed an opportunity to call in and engage in discussion with BSE experts. From investment opportunities, issues of listing, product diversification and new technological advances, the show has been able to deliberate on a number of key issues that affect our local capital markets. Moreover, the BSE has also utilised this platform to invite listed companies to showcase their product and service offerings as well to share their experience of listing on the BSE, the challenges they faced and the benefits that ultimately derived from the listing.

Understanding Stock Markets is aired live every Thursday on RB2 at 1830hrs.

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BSE PARTNERS WITH UNIVERSITY OF BOTSWANA FINANCE SOCIETY



Thapelo Moribame
Head of Market Development, BSE

Existing trends continue to demonstrate that the low youth participation in the stock market has been solely hinged on a lack of knowledge and comprehension to navigate through the ever-changing financial environment.

In order to improve financial literacy in Botswana, and indeed among the youth, the BSE has partnered with the University of Botswana Finance Society (UBFS) to work on raising awareness about capital markets, and educate the youth about the importance of investing in the stock market. The BSE views youth development as a strategic initiative and through the partnership the BSE aims to bridge the existing gap in youth participation in the stock market.

In order to make the tertiary student community aware of the investment opportunities that exist at the BSE, the UBFS utilises a campaign to encourage students to open Central Securities Depository (CSD) accounts and invest part of their monthly allowance in BSE listed securities.

Existing trends continue to demonstrate that the low youth participation in the stock market has been solely hinged on a lack of knowledge and comprehension to navigate through the ever-changing financial environment. Through this collaboration a long-term culture of investing will be cultivated.

The President of UBFS, Andrew Kgorane, expressed gratitude to the BSE for facilitating this partnership. He said 'UBFS will impart financial literacy on the student community by providing information on the investment opportunities that exist at the BSE and why it is important to start investing at a young age.'

The BSE launched the 2017–2021 strategy in January 2017, and a robust partnership plan that involves the various segments will be used to positively impact on the delivery of the mandate.

BSE ROAD TO TECHNOLOGICAL TRANSFORMATION



Kopano Mogorosi
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One of the greatest advantages of electronic trading is the speed of execution. With the manual outcry method trading, the number of orders that the BSE could execute was very limited because humans were in control of the trading session. With automation, the BSE is able to receive tens of thousands of orders every second, and match these into thousands of trades every second.

Before August 24th 2012, the BSE conducted a single trading session every business day at 1100hrs. The trading session was open to authorized dealers from the 4 BSE brokerage houses, and each brokerage could bring more than one dealer at a time. The trading session lasted anything from 20 minutes to 1 hour depending on the number of deals that brokers executed among each other. A trading administrator from the BSE supervised the trading session and recorded deals being agreed by the brokers, one listed instrument at a time. Trading session was open to the public and from time to time, members of the public would attend and observe the trading session.

But one thing was wrong with this picture. The method of trading that was used on that trading floor was very outdated. Exchanges around the world have been ditching the open outcry method of trading since the 1980s and the BSE definitely had plans to move forward to more modern methods of trading in order to achieve its mission of being a “world class” exchange.

This is the primary reason that on Friday 24th August 2012, the BSE introduced, for the first time in Botswana, the electronic matching engine and the Central Limit Order Book (CLOB). These two technologies are the central pieces of what the BSE calls the Automated Trading System (ATS). In addition to the CLOB, the ATS implements an order driven auction engine, as well as a quote based auction engine. The BSE procured its Automated Trading System from Millennium Information Technologies, a subsidiary of the London Stock Exchange.

With the ATS, brokers do not need to come physically to the BSE. Rather, they connect to the ATS from their respective offices, which can be from anywhere in the world, and access to the order book is via trading terminals in their offices. The order book is democratically visible to all connected brokers and order matching (the process of executing submitted orders into trades) is controlled by computer algorithm. The details of this algorithm is contained in the BSE’s Equity and Debt trading rules.



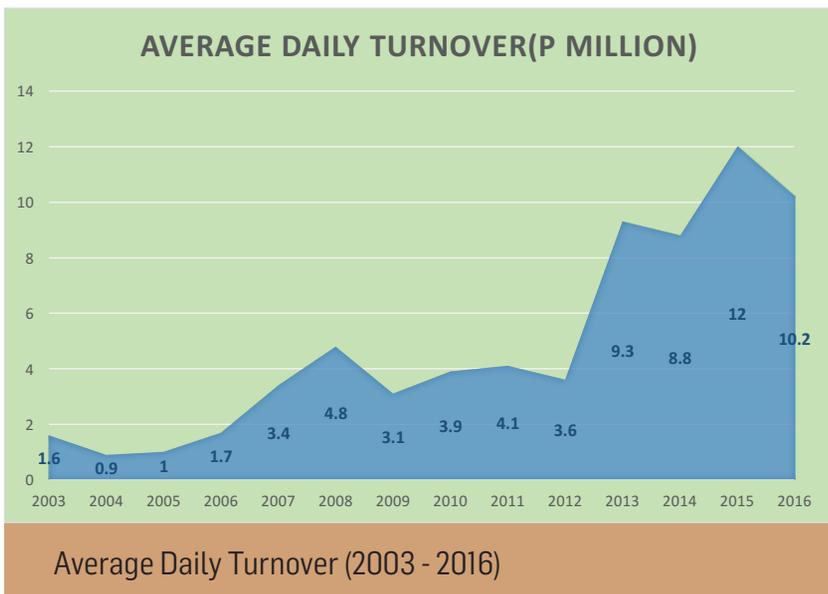
Manual trading session in progress

But why did the BSE automate?

One of the greatest advantages that Botswana holds over other African economies is that Botswana is a net exporter of capital. The country has a stable economy and a stable political environment. Botswana has no exchange controls and has one of the best credit ratings in Africa. So, since the capital market is one

to improve its operations in order to increase the productivity of capital raising and investment. This means that with the ATS, it should be easier for companies to come to Botswana to raise capital and for investors to access those investments in an efficient manner. In a nutshell, the ATS was implemented with a view of aligning the BSE’s strategy to

enabling environment for economic diversification and privatization. This has largely worked, given that on introduction of the ATS, the average daily turnover in the BSE increased from P3.6 million per day in 2012 to P9.3 million in 2013. The average daily turnover has remained high, peaking at P12million per day in 2015.



Average Daily Turnover (2003 - 2016)

of the key infrastructures in any economy, it made sense for the BSE

Botswana’s competitive advantages, with emphasis on creating an

One of the greatest advantages of electronic trading is the speed of execution. With the manual outcry method trading, the number of orders that the BSE could execute was very limited because humans were in control of the trading session. With automation, the BSE is able to receive tens of thousands of orders every second, and match these into thousands of trades every second. The BSE built its trading infrastructure with scalability in mind and these capabilities could be scaled easily with hardware and software upgrades on the trading infrastructure. In short, the BSE has the fundamental

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TECHNOLOGICAL TRANSFORMATION

building blocks in place that enables it to scale to the execution capabilities of any stock exchange in the world. Of course, up to this point, this still remains a capability and it has not been fully exploited due to the limited number of tradeable instruments in our market, and the buy and hold strategy that most investors in our market employ, what pundits call

institutions. With automated trading, traders are more likely to make their trading decisions less on emotion and more on common sense, facts and strategy, which increases consistency in trade execution.

With the ATS, the market opens from 0955hrs to 1400hrs every business day. Order entry and trade execution

In the continuous trading sessions, orders are matched using the Price-Capacity-Time matching algorithm. In the auction sessions, a volume maximization algorithm is used to match orders. In the CPX session, no price discovery takes place and orders are matched at the day's closing price. The ATS allows limit orders, market orders and stop orders. Each of these order types can be further refined with order qualifiers like iceberg orders, minimum fill and Time In Force (TIF) qualifiers. Some of the allowed TIFs are Good Till Cancel (GTC), Good Till Day (GTD), Good For Auction (GFA), Fill or Kill (FOK), Immediate or Cancel (IOC), to name but a few. The ATS has 3 order books; Normal order book, block trade order book and All or None (AON) book. The block trade order books is reserved for orders that are more than P2m or more than 5% of the issued capital of an instruments. The AON book is reserved for orders that are valued at more than P5m or 10% of the issued capital of an instrument. The ATS is configured to trade Equity, Debt, ETFs, GDRs and CFD instruments.

	Session Name	Start Time	End Time
1	Start of Day	09:50	09:55
2	Market Open	09:55	10:00
3	Pre Trading	10:00	10:10
4	Opening Auction Call	10:10	10:25
5	Regular Trading 1	10:25	11:55
6	Intraday Auction Call	11:55	12:05
7	Regular Trading 2	12:05	13:20
8	Closing Auction Call	13:20	13:30
9	Closing Price Publication	13:30	13:40
10	Closing Price Cross	13:40	13:50
11	Post Close	13:50	14:00
12	Market Close	14:00	14:00
13	End of Day	14:00	14:00

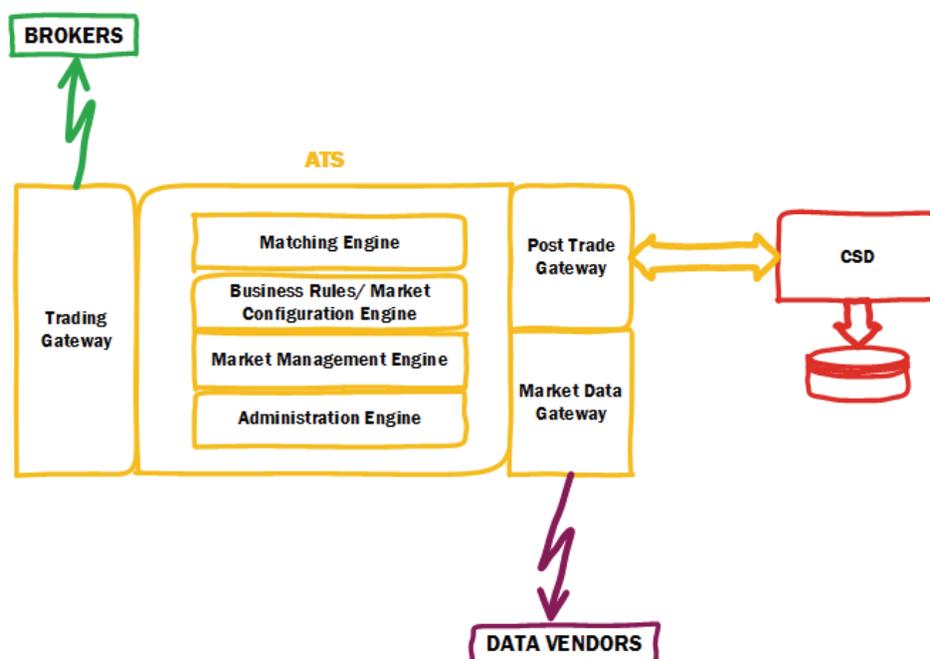
Daily Market Sessions

illiquidity.

The implementation of the ATS is a fantastic opportunity for brokers to modernize their business models and to automate their value chains. Brokers are now able to implement their own Order Management Systems (OMS) and to facilitate Algorithmic Trading by buy-side

happens continuously throughout the trading day. There are 6 trading sessions being 3 auction sessions (Opening Auction, Intraday Auction and Closing Auction), 2 continuous trading sessions (Regular Trading 1 and Regular Trading 2) and one crossings session (Closing Price Cross or CPX).

As with most technological innovations, the ATS introduces a lot of possibilities for the stakeholders and participants of the system. One of the notable positives is the enablement of location irrelevance in as far as connected systems are concerned. In the past, for example, brokers needed to be located in



High-Level Diagram of the ATS.

Gaborone for them to participate in trading sessions at the BSE. With the ATS, a broker's office, infrastructure, traders or clients can be located anywhere in the world and still have the same level of access as a broker who is located in Gaborone. From a business development perspective this is huge! Local brokers are now able to globalize their operations and still enjoy access to the local economy in the same manner that multi-national brokers are able to join in and participate in the local bourse.

Traditionally, the main sources of revenue for stock exchanges has been member subscription fees, listing fees, trading fees and settlement fees. With the implementation of automated trading, company news,

quote/order data and trading data have increasingly played a big role in diversifying revenue streams of stock exchanges. With the ATS's Market Data Gateway, it is now possible for the BSE to disseminate real-time market data to traders, investors and analysts throughout the world. To take advantage of this capability, the BSE has embarked on an ambitious project to create a tick by tick data repository, codenamed Data Analysis and Reporting System (DARS) that takes advantage of the real-time data disseminated by the ATS and transforms this data in multiple ways, like creating a historical order book, a historical market replay database, real-time index calculation and other data analysis capabilities. This project is

intended to create a world-data mart for the BSE, which can be analyzed and transformed in real-time using modern technologies like big data and analytics. It is also intended to diversify the revenue streams of the BSE and also make Botswana's real-time trading data readily available to global investors and analysts.

Going forward, the BSE is going to continue to build technological capability around the ATS infrastructure and bring in such systems as real-time surveillance, internet/mobile based trading etc., as part of the strategy to transform the BSE into a world-class securities exchange. Other asset classes like derivatives are also being considered.

A SIT DOWN WITH **THOBO KHATHOLA**

Winner of the BSE sponsored category on **Best Youth Owned Business** at the Botswana Youth Awards

Firstly, can you briefly explain what your entry was about?

Lion Tutoring was nominated for the Best Youth Owned Business category, which we topped with the most votes of 304. (The next candidate got 200 votes). We then won the award. This was a rather challenging group because there were many strong business owners from different business backgrounds and industries. Lion Tutoring, however, managed to come out victorious.

Congratulations on winning the award! How did it feel when you found out you had won?

Thank you very much and for sponsoring our award. We felt really great when we found out we won the award. It was a joint effort between myself and my staff of 62 and growing. We were up against businesses that were operating for more than double the years we started. We only started operation in 2015. We felt really great and motivated to continue our line of business and hopefully penetrate other markets locally and internationally.

What did you hope to achieve when you decided to enter the awards? Lion Tutoring is all about educating students from primary to tertiary levels. We hope this award would sensitize our market of our existence. We now operate in 5 major locations in Botswana and South Africa. Lion Tutoring maintains a pass rate



Lion Tutoring CEO and Founder, Thobo Khathola

above 90% year on year for all examinations written by our students. We also give back to the community by supporting entities such as Childline, SOS, government schools by offering tuition to students who are less privileged. Our clients include students from private primary schools such as Rainbow, Legae, Thornhill; High Schools such as Maruapula, Legae Academy, Al-Nur, Westwood International, etc. We also service students from government schools such as Moamongwa Primary, Mogonye Primary, Maoka CJSS, Nanogang CJSS, Naledi Senior, St. Josephs Senior etc. Lion Tutoring has active branches in University of Botswana (UB), Botswana

Accountancy College (BAC), Limkokwing and Ba Isago. Tutors are equipped with teaching qualifications such as Post Graduate diplomas in Education and Bachelor's degrees in education. We have an average of 5 years tutoring experience locally and across border. Please check our website www.liontutoringinternational.com for more information. Our website allows tutors to apply online for vacancies, but also allows students to book to get a tutor online. The students can then select an option of the tutor coming to their house, the student coming to our center, or the session running online via Skype.

Tell me about your business Lion Tutoring is a private tutorial service provider that offers students with academic support at the comfort and luxury of their homes. Lion Tutoring also makes use of technology such as online tutorials and e-learning platforms. We also offer tuition at our center in Extension 4 Gaborone. Lion Tutoring is owned fully by Thobo Khathola. Our mandate is to educate the nation of Botswana and beyond.

What inspired you to start your business? After working in the private tutoring industry from 2012 in South Africa, I couldn't ignore the niche in our market for such services. My passion for students' academics and the low pass rate we have in our country motivated me to start Lion Tutoring.

Any advice for new business owners just getting started? Having had no funding to start my own entity, I would advise aspiring business owners to just get started. Start little and work your way to the top. No one owes you nothing; after you start and become big, everyone will be excited to part take in your vision. I started with zero employees. Then I employed my brother and cousin, now I provide 62 sustainable jobs and prospective business partnerships.

What challenges did you have to overcome to get your idea completed? I had to overcome a major obstacle of no funding. My business could only grow at the rate of which we could afford to penetrate the market, so we had to work harder than any other business. I had to sometimes render services myself during the day, and at night, when everyone is sleeping I would have to do administrative tasks (replying emails, marketing on social media, making online payments, and keeping company books). The other major challenge as a young person was to convince my market that Lion Tutoring is the best above all other competitors. This was difficult but with hard work and consistency we managed to show Botswana that young people can be better than organizations that have been operating for more than 20-30 years.



What are you hoping to do next? Lion tutoring has now launched an amazing website which allows us to source tutors all over the world. The website also allows online tutorial services through Skype. We can now tutor clients cross border. We are now investing on a payment system that will cost us a little fortune, but will return our investment in less than two years.

Are you looking towards listing your company on the Botswana Stock Exchange one day? We definitely have the desire to list Lion Tutoring on the BSE in order to attract investors that will not only support us financially, but will be strategic partners for a mutually benefiting relationship. Thank you very much, once again for the amazing platform. We would love to extend a special thank you to the BSE for holding our hand from the stage of the Botswana Youth Awards to where we are, and where we are going. Masego le Matlhogonolo.

Lion Tutoring maintains a pass rate above 90% year on year for all examinations written by our students. We also give back to the community by supporting entities such as Childline, SOS, government schools by offering tuition to students who are less privileged.

PROMOTING SUSTAINABILITY PRACTICES AT THE BSE



To emphasize the importance of sustainability, the BSE in mid 2017, met with compliance officers of domestic listed companies to discuss the Environmental, Social and Governance (ESG) reporting and how it affects their business as a whole.

In April 2016, the Botswana Stock Exchange (BSE) joined the United Nations (UN) Sustainable Stock Exchange (SSE) Initiative pledging to promote sustainability practises, performance and transparency in capital markets. This initiative is a peer-to-peer learning platform for exploring how exchanges, in collaboration with investors, regulators, and companies, can enhance corporate transparency – and ultimately performance – on ESG issues and encourage sustainable investment. When joining the initiative, stock exchanges make a public commitment to advancing sustainability in their market.

In the context of the BSE, their commitment was buttressed in the Marrakech Action Proclamation in November 2016 where Africa's heads of state recommitted themselves to the aspirations of sustainable development. On its part, the BSE signed the Marrakech Pledge to promote green capital markets in Africa.

The private sector is increasingly perceived as one of the key drivers for sustainable development. Customer loyalty, public credibility and investor confidence are gained by companies perceived to be doing things right for the people, for the environment and in their business conduct. There is a global tendency towards acceptance of sustainability concepts and reporting. Many companies have greatly benefited from integration of sustainability in their operations.

Consequently, several market-based instruments have been developed in stock markets to support sustainable development and green finance, such as green bonds, sustainability indices and modification of requirements offering a special dispensation to companies in the green finance space.

To emphasize the importance of sustainability, the BSE in mid 2017, met with compliance officers of domestic listed companies to discuss the Environmental, Social and Governance (ESG) reporting and how it affects their business as a whole. The BSE and its partners are currently assessing the extent to which domestic listed companies are adopting and integrating sustainability practices in their businesses. This assessment looks at the practices that companies are undertaking in the ESG aspects of their business.

BSE ADOPTS KANNGWE PRIMARY SCHOOL



Adopt-a-School handover ceremony on the 8th September 2017

The Government of Botswana introduced the Adopt-a-School Initiative to facilitate Public/Private sector participation in the delivery of quality education across the country. Through the "Adopt - A- School" initiative, the public and private sector have been encouraged to work jointly with schools to provide financial or material support in a bid to create a conducive and

enabling learning environment for the students. This includes, but not limited to, furnishing of schools with computers and laboratory equipment, maintenance of buildings, provision of air conditioning, paving of sporting grounds and provision of transport for students based in rural areas that are forced to walk for long distances to reach the schools. As an adoptee, organizations derive benefits from serving the community as you assist in the development or provision of services to the school.

The year 2017 saw the BSE continue to play its part and thus adopting Kanngwe Primary School for a period of three years. Through this initiative, the BSE aims to afford students a better learning environment and thus giving them better opportunities, while simultaneously affording teachers better tools to execute their job.



The role of the **Central Securities Depository Botswana (CSDB)**

The BSE introduced the Central Securities Depository (CSD) in 2008 to deal with efficient clearing and settlement. The Automated Trading System (ATS), which was later introduced in 2012, was brought forth to complement the CSD by automating the trading of securities on the Exchange. This was to revolutionize the way in which securities are to be traded on the Botswana Stock Exchange. In addition, the implementation of the CSD also paved the way for the elimination of paper certificates and the dematerialization of securities.

The Central Securities Depository Botswana (CSDB) is mandated by the Bank of Botswana (BoB) to operate a clearing settlement system in accordance with the provisions enshrined in the National Clearance and Settlement Systems Act (No. 5 of 2003). Hence, the central bank regulates funds settlement processes whereas Non-Bank Financial Regulatory Authority (NBFIRA) is responsible for the securities market processes.

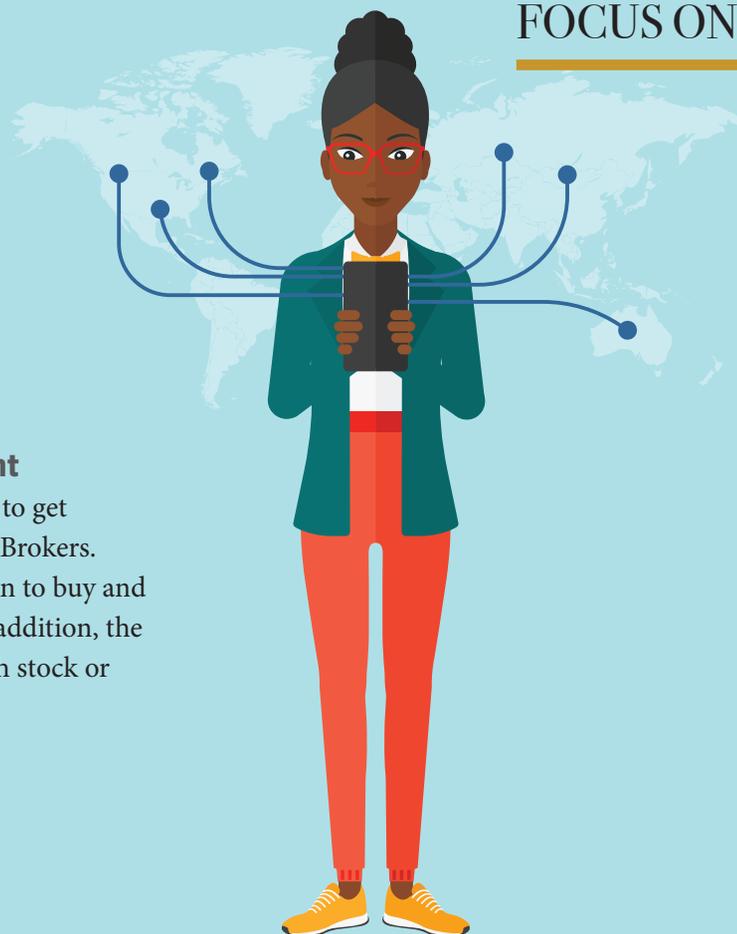
What is a CSD?

In essence, the CSD is a computer system that facilitates the holding of securities in electronic accounts in contrast to paper certificates. The CSD is very similar to a bank and an account in the CSD operates in a similar manner to a bank account.

Comparisons between a bank and the CSD:

Bank	Depository
Holds funds in accounts	Holds securities in accounts
Transfers funds between accounts on the instruction of the account holder	Transfers securities between accounts on the instruction of the account holder
Facilitates transfer without having to handle money	Facilitates transfer of securities without having to handle paper certificates
Facilitates the safekeeping of money	Facilitates the safekeeping of securities
Gives monthly statement of funds in accounts	Gives monthly statement of securities in the CSD

Individuals looking to invest in BSE listed securities will not be able to do so without a CSD account.



Prerequisites of opening a CSD account

To open a CSD account, individuals will have to get in touch with any one of the four (4) licensed Brokers. Brokers are licensed agents given authorization to buy and sell listed securities on behalf of investors. In addition, the Brokers also provide financial advice on which stock or listed security one can invest in.

The four (4) licensed Brokers are:

- African Alliance Botswana Securities
- Imara Capital Securities
- Motswedi Securities
- Stockbrokers Botswana

However, prior to account opening, individuals/companies will be required to provide certain documentation. The table below outlines all the necessary documents required to open a CSD Account;

These documentations are required by Brokers as prescribed by the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) through their “Know Your Customer” (KYC) guidelines which came into effect in July, 2015.

CSD Statements

The CSD periodically sends statements to clients every six (6) months, through post mail, to inform them of their current holdings. However, information held in the CSD such as clients’ e-mail addresses, allows the CSD to send monthly statements if a client included that information in their CSD account-opening form. Therefore, clients are encouraged to keep updating their information with the CSD or their broker.

Individual	Body Corporate
Copy of ID/Copy of valid Passport	Copy of Certificate of Incorporation and copies of ID/Passport of Directors
Proof of Residence (Utility Bill/Lease Agreement/Affidavit)	Proof of Residence (Utility Bill/Lease Agreement/Affidavit)
Proof of Income (Payslip and/or Bank Statement)	Proof of Income Bank Statement)
	Constitution or Resolution/Letter of Consent from the Board of Directors

STOCK EXCHANGE AS A WAY OF PROMOTING CITIZEN ECONOMIC EMPOWERMENT



Thapelo Tsheole

Chief Executive Officer, BSE

The National Development Plan 10 (NDP 10) stated “it would be of great benefit if firms were to have access to the market in equities, as a way of raising capital relatively cheaply, and as a way of sharing risk with investors.”

From a social perspective, the notion of Citizen Economic Empowerment (CEE) reverberates well with promoting preferential inclusion of marginalized communities in the business value chain. More often, many people tend to view this from a procurement and reservation standpoint. However, from a free market perspective this can potentially distort efficiency.

Inherently, financial markets are mandated to democratize finance through financial intermediation and inclusion. As such, the dimension from which financial markets play a CEE role is primarily by broadening access to finance. At the epicenter of financial and capital market is the Stock Exchange, a strategically placed institution that facilitates mobilization of capital, access to investments as well as broad-based wealth generation opportunities. In the context of CEE, the role that Stock Exchanges play continues to evolve with time especially that empowerment schemes come in many shapes and forms.

Ordinarily, well-functioning Stock Exchanges enable growth and development of enterprises by bringing together those who need capital to innovate and grow, with those who have resources to invest. They do this within an environment that is regulated, secure, efficient, transparent and equitable. Stock Exchanges also seek to promote good corporate governance amongst their listed issuers, encouraging transparency on information disclosure, accountability and respect for the rights of shareholders and key stakeholders.

Although Exchanges have existed for centuries in one form or the other, their role in promoting economic empowerment of individuals and Small, Medium Enterprises (SMEs) has been critical in the 21st century. With reference to Botswana’s Economic Diversification Drive (EDD), as an example, the competitiveness of Botswana’s private sector is seen as being driven by “access to investment finance” in order for Botswana to become an investment destination of choice for a globally competitive private sector. Unpacked, this largely says that the Botswana Stock Exchange (BSE) must, and continue to, provide a gateway to raising capital for the growth and development of the private sector. Fair enough, the revitalized five year Strategic Plan of the BSE recognizes this mandate in its description of its fundamental purpose as a Stock Exchange.

Still on the role of the BSE in promoting economic empowerment, the National Development Plan 10 (NDP 10) stated “it would be of great benefit if firms were to have access to the market in equities, as

a way of raising capital relatively cheaply, and as a way of sharing risk with investors". The NDP, in its varying tenures, acknowledges the need for economic empowerment, of individual shareholders and entrepreneurs, in ways that range from firms accessing capital, to privatisation of State Owned Enterprises (SOEs) and to individual Batswana accessing economic empowerment opportunities on the BSE on the back of the public listings and through other listed instruments. These (the Plans) underpin the primary role of the Exchange in promoting citizen economic empowerment – the fact that it is accessible to all and operates in a manner that is secure, transparent and equitable.

Practically, companies often adhere to a hierarchy of sources of financing ranging to internal equity, to debt and to external equity primarily through the Stock Exchange. In this perking order, one can argue that company A that is listed on the Exchange was able to unlock ample value for shareholders through equity financing. Further, such company A was able to promote inclusion of the general public in its prospects of economic success. However, the catalyst in this set up was the Exchange. Perhaps what is of great emphasis is the utilization of the Exchange to explore growth and development, in the process extending prosperity and empowerment to the broader citizenry. This has been more discernible in companies that are able to use the BSE as a springboard into African and international markets. One renowned economist would have summarized this kind of growth trajectory by saying "there could be many innovations in terms of where to invest and what to invest in but

these are only made possible by liquid capital markets" (Hicks, 1969). According to the World Bank, SMEs provide at least 45 percent of the jobs and contribute about 33 percent of the Gross Domestic Product (GDP) in emerging economies alone. Despite their important role in the economy, SMEs still face significant constraints such as access to finance. The World Bank further suggests that 70 percent of SMEs in emerging markets lack access to credit. It therefore follows that nurturing SMEs is the noblest means of ensuring citizen economic empowerment and sustainable economic growth. It was with this realization, many years ago, that Government set up Development Finance Institutions (DFIs) to fund SMEs. However, access to finance is not the sole stumbling block in the success of SMEs. A joint study by the Milken Institute and the World Federation of Exchanges (WFE) found that the most popular (69 percent) reason SMEs gave for listing on an Exchange was not only to access financing but that of exploring prospects for growth. Growth is driven by a combination of access to finance and the improved corporate governance that comes with listing on an Exchange.

It was in this light that the BSE formulated the Tshipidi SME Board. The Board is characterized by less stringent listing requirements in comparison to the Main Equity and Venture Capital Boards. It is worth noting that during an exercise to diagnose the drivers of the cost of listing on the BSE, it was realized that the overarching challenge and driver of costs in the listing process was "the state of corporatization". Hence, the Tshipidi SME Board not only aims to enable small companies to access finance, but it is structured in such a way that it helps

them to acclimatize to a corporate stature and environment to become institutionalized in terms of robust corporate governance structures and practices.

Most emerging and frontier markets present abundant evidence that privatization through issuing and listing shares on the Stock Exchange has contributed immensely to the broadening and deepening of capital markets, improvement in liquidity and diversity of investment offerings as well as broad citizen economic empowerment. Therefore, privatization through listing on a Stock Exchange is a form of citizen economic empowerment. A case in point is the listing of Botswana Telecommunications Corporation Limited (BTCL) on the BSE subsequent to its privatization. It is not questionable that this historic event has expanded the reach of the capital market to far away communities in Botswana. It is not disputable that it has broadened the availability of economic empowerment instruments, such as shares, that most Batswana explored for the first time. Without a doubt, and based on publicly available information, BTCL has generated significant wealth for Batswana in stock performance from the time it listed to date, inclusive of dividend payouts. Reflecting on Botswana's first privatization transaction (by public offer) provides an impetus for Government to continue to use the BSE as an exit mechanism from SOEs for the purpose of advancing its CEE mandate. This is even more relevant given the number of investors such a transaction is able to attract and the increasingly high level of interest and participation on the BSE by individual Batswana.

THOUGHT PIECE BY **AFRICAN ALLIANCE**



Electric Truck produced by Tesla

"I believe the auto industry will change more in the next 10 years than it has in the last 50."

Mary Barra
(CEO and Chairman of General Motors)

"We are on the cusp of a mobility revolution."

Mark Fields
(Former Chief Executive Officer, Ford Motor Company)

"When true self-driving is approved by regulators, it will mean that you will be able to summon your Tesla from anywhere."

Elon Musk (Chief Executive Officer and Product Architect of Tesla Inc.)

The Automotive Revolution: It's Electrifying

The automotive industry's move to electrification and self-driving is a well-reported topic often described as one of the new market disruptors, innovation so pioneering that it could significantly affect the lives of ordinary citizens at many levels. Some of the comments around the auto-revolution from big players in the relevant industries gives some insight to the rapid change we can expect in the near future.

It is our belief that the potential impact of this revolution will be wide-reaching, having a profound effect not only on financial markets, but economies and countries world-wide. We would potentially liken this revolution to that of the smart- phone over the last two decades. This product has been a catalyst to an extreme change in consumer behavior and led to a seismic shift in how businesses operate.

So what is an Autonomous Vehicle?

The Autonomous Vehicle technology quite simply describes the ability of a

vehicle to drive itself independently of the owner. The fact that this control ranges from Level 0 (the human driver being in complete control of the vehicle) to Level 4 (the car is in complete control) probably explains the slow, but steady progress that the industry has made to this point.

The driving force

Many of the predicted benefits of the autonomous vehicle to date focus on safety, reduced traffic volumes, fuel saving and pollution reduction. However, these benefits encapsulate the positives based on how the consumer currently uses their car. What if the autonomous vehicle revolutionizes consumer behavior in a comparable manner to the smartphone? We believe one thing for sure is that the autonomous vehicle will not only change how we get from A to B, but will revolutionize what we do while travelling.

Certain impacts of this evolution are easy to quantify and are well documented. The incumbent auto industry is set to be unrecognizable

in the not too distant future; combustion engine supply chains, gas stations and car dealerships potentially all face a structural decline. In the commodity space, given the many changes in the design of the vehicle, a lot less steel will be needed to produce electric cars.

Likewise a decline in the demand for fuel could potentially redefine the geo-political landscape. With gasoline responsible for up to 45 percent of refinery output, and one

to fund domestic projects. In the UK for example, nearly 5% of total government tax receipts are from the oil industry which employs 65,000 people either directly or indirectly.

This drop in revenue is especially pertinent to those countries that have limited alternatives to oil production due the less developed nature of their economy and is forcing some to seek alternatives to mitigate their fiscal deficits.

the equation, that deaths on the road could be reduced by 90%.

That's almost 300,000 lives saved each decade in the US, and a saving of US\$190 billion each year in healthcare costs associated with accidents. The life-saving estimates for driverless cars are on par with the efficacy of modern vaccines, which save 42,000 lives for each U.S. birth cohort, according to the Centers for Disease Control and Prevention (CDC).



of the highest profit-margin fuels, a slowdown or fall in demand will have far reaching implications. Energy consultancy, Wood Mackenzie, estimated last year that U.S. gasoline demand could fall by 5%—and as much as 20%—over the next two decades.

Naturally, governments are not immune to the potential tax revenue impact. Whilst the tax take has been reduced by some to reflect the fall in prices, it is still material and has implications for governments ability

Dealer networks will be impacted as cars could require less maintenance (full on servicing) and could reduce dealer's profitability by 50%. Charging stations will emerge in places not viable for petrol stations.

One of the most anticipated benefits of the autonomous vehicle is the rapid decline in accidents. A report published in late 2015 analysed the impact of driverless cars on the incidence of fatal traffic accidents, and indicates that by simply taking human emotions and errors out of

Equally, there will be some challenging moral dilemmas faced by the programmers of car crash software. For example, if a car is in an unavoidable collision (say) between an elderly person and a woman pedestrian with a child in a pram, how will it (the car) decide which is the worst outcome?

Given that car insurance has historically been a key revenue generator for major insurance companies how will this impact their revenue streams? Tesla has quietly

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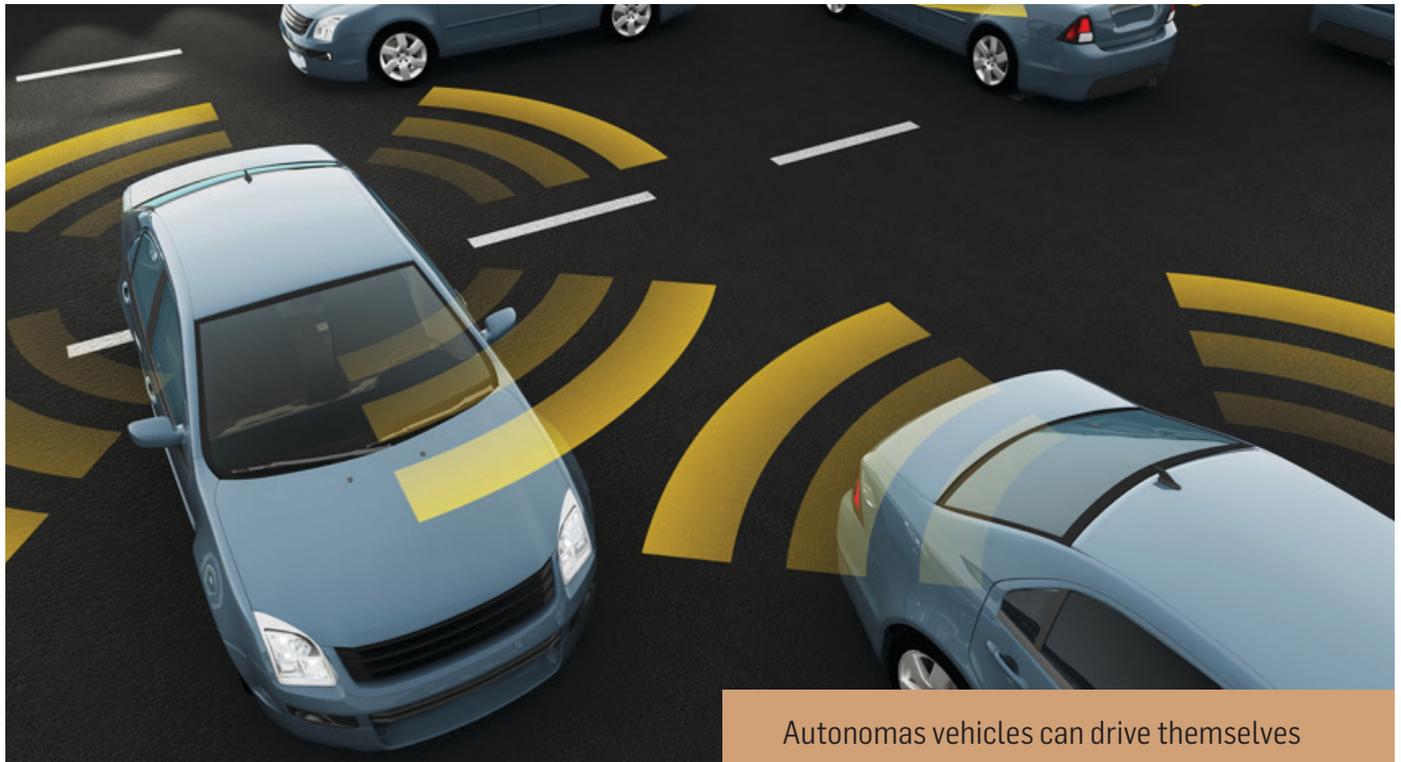
been selling car insurance with its vehicles in Asia as part of its vision to one day include insurance in the final price of its vehicles. The National Highway Traffic Administration found that crash rates for Tesla vehicles have plummeted 40% since autopilot was first installed in 2015.

example, shareholders of Mobileye, a leading image sensing company in the automotive sector, benefited significantly as the company was purchased for a hefty premium.

Certain commodity producers have also risen on this initial wave - such as cobalt and lithium. Will Tesla

identify the next round of winners. Those companies who benefit as we transform how we go from A to B.

Power industry: Businesses that provide the 'new fuel'; power generators and industrials that innovate/manufacture the electric grid infrastructure required to charge



Autonomous vehicles can drive themselves

Tesla's quiet experiment shows how the insurance industry will need to change as self-driving cars hit the road. The general consensus is if self-driving cars reduce the number of collisions, there should be a reduction in the risk premium. That's going to hit the insurance industry hard. The personal auto insurance sector could shrink to 40% of its current size within 25 years as cars become safer thanks to self-driving technology, according to a report by the global accounting firm KPMG.

Disruption also presents opportunity. The meteoric rise of Tesla and companies pioneering technology in batteries, sensors and navigation systems have been a few of the immediate beneficiaries. As an

remain the pioneer in this vehicle space or be displaced in a similar manner to Nokia in the mobile space? The first mover is sometimes not the eventual winner, as evidenced by Kodak's initial foray into the digital photography arena in 1975. And, who remembers Netscape, the web browsing pioneer that went from dominance to decline in less than a decade?

Finally, as Warren Buffet likes to point out, most investors got burnt from investing in the auto industry: of the 2,000 US car companies at the start of the 20th century only three endured.

The road ahead

Moving forward, we are looking to

vehicles. As electric/autonomous vehicle penetration continues to increase, current grids will require an extensive overhaul and upgrade.

Technology industry: Companies who are providers of the key smart systems and provide vehicle connectivity. Display systems, internet-of-things sensors, semi-conductors, super-capacitors and next generation batteries.

We believe that trying to predict a specific winner in the autonomous vehicle space is akin to spinning the roulette wheel. Gartner research have stated recently that "there are at least 46 different companies building software to control autonomous vehicles, including automakers".

However, what we can identify, and invest in with more certainty, are the companies that benefit at the margin.

Furthermore, what about what **we do** from A to B? With the advent of self-drive, media providers and mobile-shopping enablers are clearly set to further cement themselves as future winners. The productive amongst us could use that time for work instead of leisure which could have a telling and long-lasting macroeconomic impact. Could this be a solution to declining total factor productivity levels?

What about when we are at our destination?

Could autonomous vehicles relieve us of mundane tasks like collecting dry cleaning or picking up parcels from the post office? Again this increases time spent in productive or leisure activities.

What that means for African Alliance and the funds that we manage?

Being a style agnostic investor, we are aware of the potential pitfalls of placing excessive emphasis on financial fundamentals when analyzing an investment. Financials are by definition backward looking. A stagnant and mature incumbent would naturally have more impressive financials than a new entrant with disruptive ambitions. It is with that in mind that we actively seek out investment opportunities that offer Transformational Earnings Streams, are Cyclically Mispriced or are Pioneers in Structural Growth. The latter is how we view the electric vehicle revolution, a structural trend with long-term impacts on economies and investments. Overlook or underestimate the impact of the automotive revolution at your peril!



WE NURTURE THE GROWTH OF YOUR INVESTMENT SO THAT YOU CAN REAP THE REWARDS

African Alliance Asset Management is a pioneering African wealth manager, providing unique investment solutions to institutions, public sector and retail investors



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“ Our biggest challenge in Botswana is the financial literacy gaps that currently exist among Batswana, this challenge is also predominant in many other African countries. We advocate for the inclusion of more financial market courses in the school curriculum. ”

Thapelo Tsheole
Chief Executive Officer, BSE

(BSE Gaborone Open Day, October 12th, 2017)



FUTURE DEVELOPMENTS AT THE BSE



DEMUTUALISATION OF THE BSE



Setting up of the BSE Academy



Introduction of the BSE App



Introduction of the data display screens



Revamped Website



Launch of the Tshipidi Board for SMMEs



More products to be launched



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