



## **SME FINANCING THROUGH THE BOTSWANA STOCK EXCHANGE: BSE TSHIPIDI INVESTMENT FORUM:**

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### **Background-**

Small and Medium Enterprises (SMEs) play a vital role in fostering economic growth, innovation, and job creation. However, one of the significant challenges faced by SMEs is accessing adequate financing to support their business operations and expansion plans. While traditional forms of financing, such as bank loans, remain essential, SMEs can greatly benefit from accessing financing through the stock market.

In addition to financial constraints stifling the growth of SMEs, one (1) of the key challenges facing SMEs in Botswana today is the lack of 'corporatization' on various levels. As a corporation, SMEs can have greater access to various sources of capital, such as equity financing, bank loans, venture capital, and even public investment through stock offerings. Investors are often more willing to invest in a corporation than in an unincorporated business due to the legal protections and transparency associated with a corporate structure. Without adopting best business practice, SMEs in Botswana are at a risk of failing or never growing beyond SME status due to business processes inefficiencies, lack of transparency which may prohibit investor participation, limited execution of company strategy due to lack of oversight from governance structures, and so forth. To address these issues, the Botswana Stock Exchange (BSE) took a deliberate decision to establish and introduce the ***BSE Tshipidi Mentorship Program (TMP) in 2019.***

The TMP was introduced primarily to sensitize and educate the private sector on the listings value proposition and process. In addition, this Program was established to address the lack of corporatization from SMEs with aspirations of accessing equity or debt finance from the market. Hence, it serves as a way of grooming companies that could potentially raise capital, improve governance and leverage from the BSE as a springboard for growth. The objective of the Program is to provide practical training through a comprehensive and interactive program that covers the key themes necessary to prepare and position a company to list on the BSE. This training is offered by industry experts (advisors in the listings ecosystem) with regards to key elements of corporatization, capital structure, financial reporting, commercial law, listing requirements and corporate governance. In terms of facilitation, the TMP is conducted over a three (3) months period, with each month allocated a single day of facilitation.

Since the establishment of the Program, the BSE has hosted a total of forty-seven (47) companies - seventeen (17) companies in 2019, eleven (11) companies in 2021 and twenty (20) companies in 2022. These companies represent a host of sectors that have included energy, financial services, property, mining, manufacturing, agriculture, education, ICT, retail, amongst a few.

### **BSE Tshipidi Investment Forum:**

Despite the success of the TMP, in recent times, a number of TMP graduates have relayed their dismay at a lack of support exhibited by institutional investors in their bid to solicit equity or debt finance. This is attributed mainly to the risk perception associated with these enterprises as institutional investors often perceive SMEs as higher-risk investments compared to larger, more established companies. In most cases, SMEs may lack a proven track record, have limited financial resources, and face a higher likelihood of failure. Hence, institutional investors, who manage large funds and have fiduciary responsibilities, may prefer to allocate their capital to more stable companies & other forms of investments.

Due to this market problem, the BSE resolved to host the Tshipidi Investment Forum on 6<sup>th</sup> June, 2023 to facilitate these discussions by inviting all the key players in one (1) room to converse on challenges and opportunities for SME financing through capital markets in Botswana. Not only was the conversation centered on allocation of funds from institutional investors to support SMEs, but it also availed an opportunity to hear insights from the private sector on probable solutions at attaining equity or debt financing.

The facilitation of this Forum included a series of presentations, panel discussions and addresses. It was attended by over one-hundred (100) delegates who included previous cohorts of the BSE Tshipidi Mentorship Program, listed companies, market participants, government official and members of the media. The Guest of Honour was the Minister of Trade & Industry, Hon. Mmusi Kgafela, who officiated and delivered the Keynote Address. In his address, the Minister conveyed his support for the private sector and assured SME owners of Government's commitment in producing a nurturing landscape for growth, *"The role of Government in stimulating economic development remains a national priority. From my Ministry's standpoint, we will continue with our efforts to create a conducive environment for the promotion of investment and development of sustainable industries, with a view of diversifying and growing the economy, creating wealth and employment, so that there is prosperity for all. As such, we will continue to foster collaboration with relevant stakeholders to ease the process of doing business in Botswana. This will, evidently, not only serve to grow Botswana's private sector, but also promote Foreign Direct Investment."*

Subsequent to the Minister's address, the BSE conducted an engaging panel discussion with listed companies to share their experiences with respect to the listing journey and to highlight challenges and opportunities of soliciting financing from the market, titled, **'From Private to Public'**. This panel was moderated by the BSE Head of Listings & Trading, Mr. Tsametse Mmolai with the following panel;

- Ms. Lesego Keitsile, Head of Investments, Letlole La Rona Limited
- Mr. Ramachandran Ottapathu, CEO, Choppies Enterprises Limited
- Mr. Gulaam Husain Abdoola, MD, Turnstar Holdings Limited
- Chandra Chauhan, MD, Sefalana Holding Company Limited

As a general theme, the panelists mainly highlighted that the decision to list a company on the stock exchange brings significant benefits. It provides access to capital, enhances credibility, promotes liquidity, attracts talent, and strengthens brand recognition. However, it is important to carefully evaluate the associated costs, compliance requirements, and long-term strategic implications. A thorough analysis of the company's goals and objectives should be undertaken before embarking on this path. Nonetheless, for many businesses, the advantages of a stock exchange listing far outweigh the challenges, opening doors to new horizons of growth and success.

The second panel discussion that was conducted was titled, '**Private Sector Participation in Botswana's Capital Market**'. This panel discussion sought to unpack challenges facing SME financing in Botswana and was moderated by BSE Head of Market Development, Ms. Thapelo Moribame. This discussion consisted of the following panelists (TMP Graduates);

- Mr. Carlos Sebina, MD, Destiny Car Rentals
- Ms. Sandra Manhota, CEO, FIMA Enterprises
- Mr. Percy Raditladi, MD, Homec Investments
- Mr. Thabo Molefe, MD, Earth Vitamins
- Mr. Barolong Mouwane, Co-Founder, Kalafhi Group of Companies

In relaying their sentiments, the TMP graduates were of the view that institutional investors tend to prioritize larger and more established companies that offer higher returns and lower risks. SMEs, on the other hand, are perceived as riskier investments due to their limited track record and smaller scale. In addition, they also highlighted that Botswana's financial ecosystem may lack sufficient mechanisms to support SME financing. The infrastructure for assessing creditworthiness, collateral requirements, and regulatory frameworks might be perceived as inadequate or uncertain, leading to hesitancy among institutional investors.

To address this issue, it is crucial for Botswana's government and relevant stakeholders to work together to create a more supportive environment for SME financing. This could involve implementing policies and regulations that incentivize institutional investors to invest in SMEs, improving access to credit information, enhancing financial literacy among SMEs, and promoting public-private partnerships to provide alternative financing options.

For the last panel discussion, the BSE invited institutional investors (assets managers) to deliberate on "**SME Development Through the Stock Market**". This session was introduced to discuss the role of asset managers in Botswana's capital markets and it was moderated by the BSE Head of Product Development, Mr. Kopano Bolokwe, with the following panelists;

- Ms. Ntsoaki Rampa, Investment Analyst, Allan Gray
- Mr. Alphonse Ndzinge, MD, Kgori Capital
- Mr. Martinus Seboni, MD, Ninety-One
- Ms. Clair Mathe-Lisenda, CEO, BIFM

In deliberating on this matter, our panelists highlighted that generally, asset managers have to adhere to certain investment restrictions or mandates to ensure financial stability, protect investors, or achieve specific policy objectives. These mandates can be designed to guide the allocation of investments and manage risk within the financial system. In addition, these mandates typically cover areas such as risk management, investment strategies, disclosure requirements, and reporting standards. By enforcing these mandates, Botswana aims to maintain a robust and trustworthy financial system while safeguarding the interests of investors in the country. In closing, all panelists agreed that SME support through the capital markets is vital for the survival due to the lost cost of raising capital. Hence, they will continue to work with relevant stakeholders and the Government at large at proposing solutions to address this challenge. Thus, empowering Botswana and contributing towards the growth of Botswana's Economy.

In addition to the interactive panel discussions, two (2) presentations were delivered by the BSE CEO, Mr. Thapelo Tsheole and the Botswana Public Officers Pension Funds (BPOPF) CEO, Mr. Moemedi Malindah, on '**Capital-Raising at the BSE**' and '**Allocation of Funds with Asset Managers**'. Both presentations served to provide an overview of the opportunities that lay within capital markets from the perspective of the BSE and the largest pension fund in Botswana, BPOPF.

The other distinguished speakers included BSE Board Member, Mr. Norman Moleele, who delivered the Welcome Remarks and BSE Board Members, Mrs. Itumeleng Mareko, who delivered the Closing Remarks.



(Left to Right) Permanent Secretary to the Ministry of Trade & Industry, Ms. Malebogo Morakaladi, BSE Board Member, Mr. Norman Moleele, Minister of Trade & Industry, Hon. Mmusi Kgafela BSE CEO, Mr. Thapelo Tsheole and BSE Board Member, Mrs. Itumeleng Mareko.

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