## Part 1 – History and Status of the Botswana Bond Market

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 in comparison to 39 bonds listed on the Botswana Stock Exchange (BSE), by 15 different issuers, at present.

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 6 of the 39 bonds are government bonds, 3 are quasi-government bonds and 30 are corporate bonds. At present the total market capitalization of bonds listed on the BSE stands at P11.0 Billion.

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 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 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 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.

In light of this, the BSE and the Botswana Bond Market Association (BBMA) has convened a Bond Market Conference that is scheduled for 6 October 2016 at the Gaborone International Convention Centre. The conference seeks to bring together relevant stakeholders and participants in the bond market to engage in discussions on a wide range to topical issues covering the building blocks of a robust bond market, opportunities for infrastructure funding through the bond market, promoting an efficient regulatory environment, efficiency and liquidity of the secondary market, developing the repo market, among other issues.

Further, the conference intends to provide an opportunity to evaluate the status of Botswana's bond market and to make commitment to reforms and practises that can unlock the potential and the liquidity of the domestic bond market. Furthermore, as it is the first of its kind in Botswana, the conference aims to forge relationships between domestic and international stakeholders in the bond market for purposes of capacity building, benchmarking and harmonization of debt market related developmental strategies and also create value for members of the BBMA with a view to solicit continuity of their support towards the bond market strategies of the BSE and BBMA.

A series of educational articles will follow in the build-up to the conference to sensitive the public about the existence of the domestic bond market, the commitments to developing it and the opportunities available to the bond market participants, among others.

**This article was written by BSE Product Development Manager, Mr Kopano Bolokwe, as a build up to the 2016 Botswana Bond Market Conference and was published during the week of 26 August 2016.**