



**GOVERNOR'S OPENING REMARKS ON THE BREAKFAST MEETING WITH
POTENTIAL BONDS AND EQUITY ISSUERS HELD AT MPIOLO BOTIQUE
HOTEL**

31ST AUGUST 2017

***Theme: Capital markets for business growth and sustainability –
Relevance of Maseru Securities Market***

INTRODUCTION

- 1.1 I wish to welcome you to this breakfast meeting and thank you for accepting our invitation to come and join us in this event aimed at prompting your interest in the capital markets as an alternative source of finance. Your presence here, in this cold morning, is a clear indication of your desire to grow your businesses through capital markets.

- 1.2 I also want to thank our colleagues from Government, the Ministry of Finance, Ministry of Trade and Industry, Lesotho National Development Corporation and all corporations here represented for joining us. We know that the achievement of sustainable and inclusive economic growth requires close collaboration between government and private sector.

CAPITAL MARKET DEVELOPMENT IN LESOTHO

- 1.3 Though capital market is a global subject and fairly common in many developing countries, it is still a fairly new subject in Lesotho. The journey began in 2010 when the Government issued Treasury bonds to raise funds to fund some identified infrastructure projects. This was at the back of high exchange rate risk on foreign loans and tighter financing conditions on the traditional sources of financing. The bonds proceeds also assisted the Government to effectively manage the fall in SACU revenue in 2015/16. As we may also be aware. the Hon Minister of Finance in the current budget speech has proposed additional M450 million to be raised by the bonds. In general, the government side of the capital market development shows some strong signs of success.

- 1.4 Coming to the private sector, the Maseru Securities Market was launched in January 2016 as a platform for raising capital by local companies. The platform is currently being hosted by the Central Bank of Lesotho as preparations are being made to have it stand on its own.

- 1.5 To make companies realise the value of these initiatives, the plan is to continue raising awareness amongst company decision makers of the merits of capital markets as a source of long term capital to finance growth and expansion of businesses, either by issuing debt or equity securities. Through forums such as this one, we commit to do targeted investor education programs to make the people of Lesotho appreciate investing through diverse investment vehicles such as capital markets.

BANK FINANCING ALONE IS NOT SUFFICIENT

- 1.6 To date, the total private sector credit by commercial banks in Lesotho is approximately M5,6 billion which is about 23.7% of our GDP – the equivalent in Botswana is 32.3% of GDP while Swaziland is about 21.6% of GDP. M5,6 billion is not enough to drive growth of the private sector, yet there are viable businesses with strong growth potential which are unable to borrow from banks any further because they are highly leveraged.

Let me share with you a recent survey by African Investor in 2014 that revealed that, apart from business climate and infrastructure challenges, lack of financing constitutes 50% of the constraints to business growth across the African continent. Similar sentiments are also found the World Economic Forum report for 2017. It is my strong conviction that several businesses with competitive edge regionally are restricted to develop their strategic goals and aspirations beyond the borders of Lesotho because of lack of funding. These businesses have rather opted for a conservative or cautious stance preferring to grow slowly by ploughing back internally generated cash flows to avoid failures experienced by companies that attempted to grow rapidly through bank debt. It is indeed possible for

companies to expand faster but safely with the right mix of capital and management skills.

I should underscore, Ladies and Gentlemen that, capital markets are not a competition to bank financing but are a viable option and complementary for mobilising the much-needed long term capital. Banking is a necessity in business operations in any economy and the debate on the role of capital markets is not meant to replace the intermediary role of banks. I believe that our colleagues in the commercial banking industry will agree with me that they would be more willing to lend to companies with stronger balance sheets, and I am sure that this initiative is welcomed by banks as well. In any case, banks also participate in capital markets for long term financing, mostly through issuing of bonds.

- 1.7 Today I would like to invite you to consider the capital markets as a viable option for funding your businesses. This can be achieved through two ways, by either (i) selling a portion of your stake in the company to the public to raise capital – this effectively means carrying out an equity release or (ii) Issuing corporate bonds – that is borrowing directly from the public. The requirements and regulatory framework are in place to guide willing companies.

FURTHER REFORMS TO SUPPORT DOMESTIC INVESTMENT

It is my concerted view that companies which will kick-start the process will benefit from first-mover advantages within their specific sector. There is currently over M10 billion in contractual savings, that is in collective investment schemes and pension funds. With the introduction of new regulations in collective investment schemes and pension funds, a large

portion of these funds is expected to be invested in local instruments. In essence, the Bank has created demand for securities that needs to be met with the supply of securities. At such, companies from different sectors can issue medium to long term financial securities to finance their activities.

- 1.8 Currently our country is trying to develop strategic sectors, such as mining, which have potential to drive our economy. As we know, mining companies need huge capital investment to start operations before becoming profitable. Investors, both local and international can provide much of this capital in anticipation that increase in commodity prices could see them reap benefits in future.

CONCLUSION

- 1.9 Last but not least, I have already mentioned earlier that there is sufficient liquidity in the market and as such companies willing to raise capital through the Maseru Securities Market are likely to raise that amount with less difficulty. You may be asking yourselves whether floating your companies on the stock exchange may not reveal your company's unique trade secrets and strategies to your competitors because part of your company is now public; or whether control of the business will not be lost to other shareholders with different visions; or whether the exchange will be liquid enough to support effective price discovery and the right value of your company; or how much will it cost your company to float on the platform and other related benefits of listing on MSM. All these questions and related issues will be answered by the upcoming presentations.

I thank you,