

FinScope Micro, Small and Medium Enterprises Survey Botswana 2024



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A podcast summarising the report for easy listening.

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Gaborone CBD aerial view

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Glossary of Terms

Term	Definition
Access Strand	A measurement of financial inclusion across the formal-informal institutional provider continuum
Adults	People aged 18 years or older
Banked	Individuals who use one or more traditional financial products supplied by commercial banks
Credit	Obtaining funds from a third party with the promise of repayments of principal and, in most cases, with interest and arrangement charges in exchange for money
Demand-side barriers	Demand-side barriers to accessing financial services relate to characteristics inherent to individuals that prevent them from using financial services, such as perceived insufficient income, low levels of financial literacy and lack of trust in financial institutions
Enumeration Area (EA)	A well-identified territorial unit with the prescribed population size (usually about 80 to 120 households) in which enumeration is to be carried out by a single enumerator within a specified period of enumeration
Other formal	Financial products or services supplied by formal financial institutions that are not banks
Formal products	Products provided by government-regulated financial institutions such as commercial banks, insurance companies and microfinance institutions
Formally included	MSME owners use formal financial products supplied by institutions governed by a legal precedent of any type. This is not exclusive usage, as these individuals may also be using informal products.
Financial Access Landscape	A measurement of usage of both formal and informal products across the four main product groups: transactions, savings, credit and insurance
Financially served	MSME owners using one or more formal and or informal financial products or services
Financially excluded	MSME owners who are not using any formal or informal financial products or services
Financially included	The extent to which the adult population in the country engages with financial products and services, such as savings, transaction banking, credit and insurance, whether formal or informal
Informal products	Financial services provided by individuals and or associations that are not regulated by the government, such as savings clubs and private moneylenders
Informally served only	MSME owners who are not using any formal financial products but who are using one or more financial products or services offered by an informal source, such as a savings club or informal moneylender
Informally served	MSME owners who make use of informal financial products (regardless of whether or not they use formal financial services and products)
MSMEs	Micro, Small and Medium Enterprises (MSMEs) are defined by the number of employees who employ fewer than 50 employees and have an annual turnover of up to P12 million. For the study, only the number of employees was used to segment the sector into individual (0 employees), micro (1-5 employees), small (6-20 employees) and medium (21-50 employees).
Insurance	Payment of a premium for the risk of an event happening, where the payout is made if or when the event occurs
Supply-side barriers	Supply-side barriers to access to financial services are related to factors inherent to financial service providers that prevent individuals from using their services, such as the location of access points and the cost of using their services.
Transactional	Financial services that use cash or other means (such as cheques, credit cards, debit cards or other electronic means) to send or receive payments
Formal MSME	MSME owners who have registered their business with an authority such as the Registrar of Companies, are licensed with the Ministry of Commerce, Industry and Trade, or have a permit to operate from an authority such as the municipality.
Semi-formal MSME	MSME businesses that have some form of registration or licensing but do not have the full suite required for formal status.
Informal MSME	MSME owners have not registered their business with an authority such as the Registrar of Companies, are not licensed with the Ministry of Commerce, Industry and Trade, and do not have a permit to operate from an authority such as the municipality.



MSME selling products



Carpenter

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- SADC Secretariat
- Ministry of Finance
- Bank of Botswana
- Ministry of Higher Education
- Ministry of Child Welfare and Basic Education
- Ministry of Communications and Innovation
- Ministry of Labour and Home Affairs
- Ministry of Environment and Tourism
- Ministry of Local Government and Rural Development
- Ministry of Defence and Security
- Ministry of State President
- Ministry of Trade and Entrepreneurship
- Ministry of Youth, Gender, Sport and Culture
- Statistics Botswana
- FinMark Trust
- Banking Ombudsman
- Business Botswana
- Competition and Consumer Authority
- Citizen Entrepreneurial Development Agency
- Local Enterprise Authority
- Botswana Communications Regulatory Authority
- Non-Bank Financial Institutions Regulatory Authority
- Microfinance Association
- Insurance Institute Botswana
- Bankers Association of Botswana
- United Nations Development Program

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Botswana baskets



Executive Summary

Micro, Small and Medium Enterprises (MSMEs) are a critical driver of Botswana's economy, contributing significantly to employment and entrepreneurship in the country. An estimated 9% of Botswana's adult population (18 years and older) own MSMEs, owning 138,260 businesses, and the estimated number of employees within the sector totals 175,000 employees. The objective of the survey was to determine the size and diversity of MSMEs in Botswana, as well as the extent of formal and informal financial product and service access, drawing on the data.

The key findings show that the MSME sector is highly formalised. Over 50% of MSMEs are formally registered with various entities, but only 11% are registered with the Companies and Intellectual Property Authority (CIPA), which raises a question about the consistency of formalisation standards. The sector is predominantly composed of women-owned businesses, although they are mostly concentrated in individual and micro-level enterprises. Women also earn four times less on average compared to men, revealing a significant gender income gap.

MSMEs are heavily concentrated in the wholesale/retail and community and household sectors, which generate the highest monthly turnovers but show lower profits per business due to the prevalence of micro-enterprises within these sectors. The community and household sector is the largest contributor to full-time employment; however, sectors like natural resources, mining and tourism show potential for greater economic impact through job creation.

According to data 53% of MSMEs are formally registered and/or licensed with various entities. However, this partial formalisation signals inconsistencies in standards and gaps in the ecosystem. A comprehensive MSME 360 diagnostic study is essential to uncover barriers, harmonise registration processes, and drive full formalisation for improved access to finance, markets, and growth opportunities.

MSME business owners span a diverse age range, with a high presence of middle-aged entrepreneurs (18-35 years) who collectively account for 55% of all business owners. Youth (18-35 years) make up only 35% of business owners, with fewer than 10% under the age of 25. Many MSMEs are in the start-up phase, with a greater failure rate after this stage. The start-up phase has more female owners (59%), but this figure declines as the business moves into the growth and established phases. Business sophistication across the sector remains low, as most enterprises lack formal financial record-keeping, marketing strategies, and technology adoption, which limits business efficiency and growth. Segmenting survivalist businesses from growth-oriented MSMEs could improve the ability to distinguish enterprises with scalability potential.

Formal financial inclusion is high; however, this is mainly led by personal bank accounts and mobile money access, with usage mainly focused on transactions and savings. Among MSMEs that are both banked and use mobile money, digital financial service usage is also high; however, payments to suppliers and employees are still largely made in cash. Access to finance is a key operational and growth barrier. A closer look at their financial needs reveals that business owners require a range of financial instruments to manage their cash flow and cost of finance, like alternatives to credit, such as leasing.

Despite its vibrancy and contributions to employment and local economies, the MSME sector faces significant challenges. This includes limited access to affordable financing, regulatory complexities, and low financial health levels, as well as difficulties obtaining funding, managing cash flow, marketing their services or products, and applying technology to improve work efficiency or productivity. These barriers restrict growth, especially for women-owned micro-enterprises, and limit the sector's ability to fully contribute to Botswana's economic development.

Introduction

The FinScope MSME Survey Botswana 2024 provides insights into the size, challenges and financial access of small businesses, building on earlier studies to inform evidence-based policies. Aligned with SADC’s regional strategy, it supports efforts to strengthen MSMEs and promote inclusive economic growth.

In 2020, the Ministry of Finance and Economic Development commissioned the FinScope Consumer Survey Botswana to understand the adult population’s financial behaviours, needs and access to financial services. This survey provided insights into livelihoods, financial perceptions and the demographic distribution of financial service usage among adults in Botswana.

Early in 2021, FinMark Trust, with support from the Foreign, Commonwealth & Development Office (FCDO), conducted a telephonic Business Pulse survey and qualitative interviews to understand the effects of the Covid-19 pandemic on micro, small and medium enterprises (MSMEs) in Botswana.

These studies have highlighted key challenges MSMEs face in Botswana, including limited access to finance, low levels of business formalisation, and the need for enhanced financial literacy. The FinScope MSME Survey Botswana 2024 aims to build on these findings by providing a more comprehensive and detailed analysis of the MSME sector, thereby informing targeted interventions to promote financial inclusion and support the growth of small businesses in Botswana.

This survey seeks to assess financial inclusion levels among MSMEs, identify constraints to business growth, and provide evidence-based insights to inform policy interventions. The survey is part of the broader effort to enhance financial access, particularly for small businesses, and support the development of inclusive financial strategies. It will generate statistically significant data on business characteristics, access to financial services, sources of funding, barriers to growth, and the impact of external factors such as digital finance and economic shifts.

The Southern African Development Community (SADC) plays a pivotal role in fostering regional economic integration and financial inclusion. Established in 1980 and formalised as SADC in 1992, the organisation promotes economic cooperation among its 16 member states, including Botswana. The FinScope MSME Survey aligns with SADC’s Strategy on Financial Inclusion and SMEs Access to Finance 2023-2028, which aims to

expand financial access and promote digital payment systems and credit markets. Through initiatives like the Support to Improving Investment and Business Environment (SIBE) Programme, funded by the European Union, SADC facilitates research and data collection to support investment-friendly policies and enhance the MSME sector across the region.

The FinScope MSME Survey is a research tool that measures MSMEs’ size, characteristics and financial behaviours. It has been implemented in various SADC member states, offering valuable insights into small business ecosystems and financial service usage. In Botswana, the government has recognised the need for comprehensive data to inform targeted interventions and improve access to finance for MSMEs.

This report outlines the role of the MSME sector in Botswana’s economic growth and development endeavours. It highlights the legal and institutional framework required to ensure a sustainable MSME sector based on a review of strategic documents prepared by different government departments. The survey addresses data gaps in business formalisation, financial product usage, and digital transformation trends by benchmarking Botswana’s MSME sector against regional counterparts. The findings will contribute to shaping policies that foster sustainable economic growth and entrepreneurship.



Business district, Gaborone

Methodology

The FinScope MSME Survey Botswana 2024 was conducted in line with standard approaches adopted for the sub-regional FinScope MSME surveys in terms of i) organisational structures, ii) survey target population, iii) survey topic scope, iv) fieldwork, and v) data processing protocols. Standardising processes was important in ensuring comparability across countries.

The FinScope MSME Survey is a nationally representative survey developed by FinMark Trust focusing on MSME owners and their financial service needs. The specific objectives of the survey were to:

- Assess the size and scope of MSMEs in Botswana
- Describe the landscape and levels of access to financial products and services (both formal and informal)
- Identify the most binding constraints to MSME development and growth with a focus on access to financial markets
- Identify and describe different market segments with specific development needs to stimulate segment-related innovation
- Propose recommendations regarding financial assistance to MSMEs and financial policies.

The FinScope MSME Botswana survey was designed to engage a broad range of stakeholders in a comprehensive and intensive consultative process. This process aimed to enrich the survey and ensure that the results contributed meaningfully to members who have a common interest in developing the sector. A Steering Committee (SC) was set up and chaired by the Ministry of Finance and comprised of representatives from FinMark Trust, Bank of Botswana, Non-Bank Financial Institutions Regulatory Authority, Insurance Institute of Botswana, Competition and Consumer Authority, Statistics Botswana, the Citizen Entrepreneurial Development Agency (CEDA) and the Local Enterprise Authority (LEA), among others. All stakeholders involved played an integral role in the design of the survey instruments and provided valuable insight into the sector and the unpacking of the results.

Sampling frame

FinMark Trust, in collaboration with Statistics Botswana (SB), developed the sampling frame for the survey. A stratified multi-stage random sampling design was employed to ensure national representativeness. All administrative districts were included to enable district-level analysis and support targeted policy interventions. Sample allocation to districts followed the probability proportional to size (PPS) method, where districts with

more EAs received a larger share of the sample. To enhance MSME concentration estimates, the predictive model identified EAs with higher MSME densities, ensuring these were prioritised during sampling.

Within each selected EA, a systematic random sampling method was used to select businesses and households with business owners. A Kish Grid was employed to randomly select one business owner in households with multiple eligible members. In EAs with fewer than 12 eligible businesses, oversampling was conducted in similar EAs with higher densities.

The selection process for the survey carefully considered various factors to ensure a representative sample of MSMEs in Botswana. To achieve this, the process:

- Focused on medium and small businesses, given the overrepresentation of micro-enterprises
- Prioritised businesses with a larger workforce for more in-depth insights
- Ensured diverse sector representation, including less common ones
- Strived for gender balance and a mix of formal and informal enterprises.

The survey targeted both formal and informal enterprises. To capture informal enterprises comprehensively, a sample was drawn, using census EAs and households, rather than relying solely on the Statistical Business Register (SBR) as the sampling frame. Suffice it to say that the SBR would ordinarily be the most appropriate sampling frame to use for surveys of this nature. However, a major challenge with the SBR is that it does not include informal, unregistered business entities.

The inclusion criteria comprised all enterprises owned or operated by individuals aged 18 years or older within the sampled EAs. The survey excluded institutional dwellings (e.g. hospitals, prisons and army barracks) and industrial areas. Nationwide coverage ensured representation of all districts in Botswana.

Strata	Business units	Household with a business	Household without a business	Null (vacant)	Total
Cities & towns	2,344	1,213	149	17,112	20,818
Urban villages	266	456	36	7,202	7,960
Rural	41	79	11	1,633	1,764
Unspecified location (GIS missing)	9	4		66	79
Total	2,660	1,752	196	26,013	30,621

Table 1: Listing distribution of structures

Questionnaire design

An interactive and collaborative process was followed in the questionnaire development process, involving the technical team and stakeholders. The Short-term Expert (STE) team reviewed the questionnaire provided by FinMark Trust and recommended appropriate refinements and additions to customise it to the country's context. After refinement, the questionnaire was presented to FinMark Trust and the stakeholders for their review and ultimate sign-off.

Following the stakeholders' sign-off on the questionnaire, it was translated from English into Setswana. A private consultant was contracted to carry out the translation, ensuring that the language used in the resulting instrument was clear, unambiguous and easily understood by potential respondents. To perfect the process, back translation was employed from Setswana to English to ensure that the translation of the materials from the English version produced no bias. Local STE members of the STE team carried out back translation, making comparisons with the original. Observed discrepancies were investigated and corrected accordingly.

Although the plan was to pre-test the questionnaire in the field, the prolonged back-and-forth corrections and approval processes were completed too close to the training. Notwithstanding the foregoing, the fieldwork training provided a good opportunity for questionnaire pre-testing. The pilot also provided an important opportunity for the refinement of the final questionnaire.

Fieldwork and quality control

The FinScope MSME Survey Botswana 2024 entailed

direct interviews with business owners across the country, which required the recruitment of supervisors and enumerators with the relevant skills and experience for effective data collection. Enumerators were required to have at least a Form 5 or BGCSE with prior fieldwork experience, or graduates with a certificate, diploma, or degree were also eligible. Supervisors were graduates with a class B driver's licence.

Intensive training was conducted for supervisors and enumerators over a five-day period to equip field personnel with the necessary skills for successful data collection. This was conducted by STEs and focused on the MSME survey objectives, contextualising processes and instruments to the Botswana situation. Steering Committee members were invited to the training for an appreciation of the process, which some members attended.

Data submission, cleaning and weighting

After completing the fieldwork, the collected data went through a rigorous processing phase. Initially, the data was formatted for compatibility with the Statistical Package for Social Sciences (SPSS) software, followed by a thorough cleaning and coding process. The resulting dataset was submitted to FinMark Trust for further refinement, specifically focusing on weighting and validation. To address potential biases from non-response, the weights were precisely adjusted. Additionally, the data was meticulously benchmarked against the most recent estimates provided by the SB to ensure that the final dataset accurately represented the characteristics of the adult population aged 18 years and older.

Description	Details
Methodology	Computer Assisted Personal Interviews (CAPI)
Definition of MSME owners	Survey of MSME owners, defined as individuals who are: <ul style="list-style-type: none"> • 18 years or older • Perceive themselves as business owners/generating an income through some business activities • Employing fewer than 50 employees, including independent entrepreneurs without any employees
Sample size	n=2,390 A nationally representative sample including urban, peri-urban and rural areas
Sampling frame	Stratified random sampling methodology
Sample area selection	250 EAs were selected
Questionnaire length	70 minutes
Fieldwork	November 2023 to January 2024
Data management	Weighting was done by FinMark Trust and SB

Table 2: Overview of the methodology

Background on the Botswana Economy

Botswana is a landlocked country in Southern Africa and has a relatively small population of about 2.5 million (Census 2022). The country has been recognised as one of the most stable economies on the African continent¹. Botswana's economy has come a long way since its independence in 1966, transforming from being one of the poorest nations in the world into an upper-middle-income economy, with a Gross Domestic Product per capita of BWP 103 885.74 (USD 7 695.24) (World Bank, 2024). This transformation has been driven mainly by the diamond mining industry, which has provided significant government revenues and fuelled economic growth. However, despite its impressive economic achievements, Botswana faces challenges such as unemployment, income inequality and limited economic diversification.

In recent years, the country has focused on diversifying away from diamond dependency and has recognised the MSME sector's role in job creation, economic diversification, poverty alleviation and enhancing financial inclusion. The Government of Botswana (GoB) has introduced several policies and programmes to improve access to finance

for MSMEs. Institutions such as the Botswana Enterprises Development Unit (BEDU), the Botswana Development Corporation (BDC), the National Development Bank (NDB), and the Financial Assistance Policy (FAP) have been instrumental in funding MSMEs. The FAP aimed to create employment and diversify the economy, particularly focusing on rural areas. The Citizen Entrepreneurial Development Agency (CEDA) later replaced FAP and continues to address access to finance for MSMEs through credit guarantees.

This report provides a comprehensive overview of Botswana's MSME landscape, drawing on nationally representative data to uncover key demographic characteristics of MSME owners, including gender, age, education and geographic distribution, and connects these to various enterprise-level indicators. The report goes beyond description to interrogate the structural factors that limit MSME growth and inclusion. These insights are intended to guide policymakers, stakeholders and private sector actors in designing responsive strategies that not only expand access but also deepen impact.

The role of MSMEs in economic development

UNECA (2023) showed that a 2019 Botswana survey revealed that of all formal businesses, 90% were micro, small and medium-sized enterprises. MSMEs are, therefore, common and represent nearly all enterprises. In addition, the study revealed that among all the MSMEs in Botswana, 66% were micro-enterprises, and the remaining 34% were small or medium-sized. Gaetsewe (2020) has shown that informal sector businesses grew by 161% from 40,421 in 2007 to 105,445 in 2016, hence the belief that MSME businesses in Botswana are experiencing phenomenal growth.

Botswana's economic landscape has focused on diversifying away from diamond dependency, significantly enhancing the financial inclusion of MSMEs. Over the past decade, the government has made considerable strides in promoting financial inclusion for MSMEs, recognising their critical role in job creation, economic diversification and poverty alleviation. With a GDP growth rate averaging 4.5% per annum, MSMEs contribute approximately 35% to GDP and employ about 30% of the workforce, spanning agriculture, manufacturing, services and retail trade.

However, MSMEs often face challenges in accessing financial services due to their size, lack of collateral and limited financial literacy. Therefore, promoting financial inclusion for MSMEs is essential for fostering inclusive economic growth and development.

Financial inclusion can be achieved through various means such as providing tailored financial products, improving financial literacy, enhancing digital financial services and creating an enabling policy environment. Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs, including transactions, payments, savings, credit and insurance delivered responsibly and sustainably. This kind of financial inclusion has been identified as an enabler for seven of the 17 Sustainable Development Goals (SDGs).

To promote financial inclusion of MSMEs in Botswana, key opportunities include investing in digital infrastructure, exploring alternative financing models like crowdfunding and peer-to-peer lending, strengthening support ecosystems through mentorship programmes and business incubators, and implementing policy reforms aimed at reducing regulatory barriers and improving access to finance. These initiatives can collectively drive financial inclusion and support the growth and sustainability of MSMEs in Botswana.

It is worth noting that Botswana has made significant strides towards a financial inclusion strategy for MSMEs. Efforts have included the establishment of various policies and institutions, such as the CEDA, the NDB and microfinance institutions that provide tailored financial support. However, despite these advances, challenges remain, particularly in accessing credit, regulatory barriers and limited financial literacy. Addressing these issues requires developing alternative collateral options, expanding government-backed credit guarantee schemes, promoting digital financial services, and simplifying regulatory processes. Strengthening support ecosystems and exploring alternative financing models will further enhance MSMEs' access to finance, fostering sustainable growth and economic development in Botswana.

Notwithstanding the foregoing challenges, the opportunities for growth and development are substantial. By continuing to prioritise MSME development, Botswana can achieve its goals of diversifying its economy, creating jobs for its citizens, reducing poverty in the country and ultimately contributing to a more inclusive and sustainable economy. Furthermore, enhancing financial literacy and business management skills among MSME owners is crucial.

Key developments in financial inclusion

Policy and regulatory frameworks

The Botswana government has implemented several policies and regulatory frameworks aimed at enhancing financial inclusion for MSMEs. The National Financial Inclusion Roadmap and Strategy (2015-2021) was a significant milestone, outlining key actions to improve access to financial services for MSMEs. The strategy emphasised creating a supportive regulatory environment, expanding financial infrastructure, and promoting financial literacy.

Access to finance

Development financial institutions (DFIs)

Institutions such as the CEDA and the Botswana Development Corporation (BDC) have played crucial roles in providing financial support to MSMEs. CEDA, in particular, offers low-interest loans and credit guarantees to promote entrepreneurship and business growth.

Commercial banks

Over the past decade, commercial banks in Botswana have increased their engagement with MSMEs by offering tailored financial products, including loans, overdrafts and trade financing. For instance, the introduction of mobile banking and digital financial services has further improved access to finance for MSMEs, particularly in rural areas. First National Bank of Botswana (FNBB) Limited's comprehensive suite of MSME products and services has significantly impacted Botswana's business landscape. By addressing the specific needs of MSMEs through innovative financial solutions, FNBB has facilitated growth, innovation and sustainability within this vital sector. The bank's ongoing commitment to supporting small businesses aligns with national economic diversification and development priorities, positioning FNBB as a key partner in Botswana's economic future.

Commercial banks such as FNBB provide some facilities to support MSMEs, including a flexible transactional account that offers a pay-as-you-use model with no fixed monthly fees. This account also provides online and mobile banking access, debit card facilities, overdraft options, and tools for efficient cash flow management and real-time transaction monitoring. This alone has eased the financial management of MSMEs and reduced the risk of loss because of theft. In addition, FNBB provides MSMEs with overdraft facilities that offer businesses flexible borrowing limits, charging interest only on the amount used to manage short-term cash flow gaps, unexpected expenses, and seasonal cash flow fluctuations, offering quick financial relief without the need for formal loan applications.

Stanbic Bank Botswana also provides various support services to MSMEs, focusing on financial products and capacity-building initiatives to foster their growth and sustainability. Some of these products include tailored transactional accounts with online and mobile banking, low fees, and access to essential financial services, as well as loans and overdraft facilities to meet short-term and long-term financial needs. They also provide trade finance solutions such as import and export financing, letters of credit, and guarantees to help MSMEs manage trade operations efficiently and enhance their credibility with trading partners.

Microfinance institutions

The growth of microfinance institutions has provided additional financial avenues for MSMEs, offering small-scale loans to entrepreneurs who may not qualify for traditional bank financing.

Absa Bank Botswana Limited

As an example of private sector participation in MSMEs' access to finance, Absa Botswana's microfinance facilities are instrumental in supporting MSMEs by providing them with the financial resources and support they need to grow, innovate and contribute to the country's economic development. Absa Botswana also provides tailored business loans to MSMEs to meet their financial needs, enabling them to expand operations, increase productivity, and invest in new technologies or markets. Absa also plays a crucial role in MSME development in Botswana by offering trade finance solutions to mitigate risks and enhance market credibility, and providing capacity-building programmes like the Micro-enterprise Development Fund to empower MSMEs with essential skills and knowledge for sustainable growth.

Citizen Entrepreneurial Development Agency (CEDA)

CEDA in Botswana is pivotal in supporting MSMEs to ensure financial inclusion and foster economic growth. CEDA provides a range of financial products and services tailored to the unique needs of MSMEs, including affordable loans, grants and credit guarantees. By offering these financial solutions, CEDA helps to overcome the traditional barriers to financing that MSMEs often face, such as a lack of collateral and credit history. Additionally, CEDA provides business development services, including training and mentorship programmes, which equip entrepreneurs with the skills and knowledge necessary to manage and grow their businesses effectively. This holistic approach enhances the financial stability of MSMEs and promotes sustainable entrepreneurship and economic diversification in Botswana. Through its dedicated efforts, CEDA significantly contributes to the financial inclusion of MSMEs, empowering them to thrive in a competitive market.

CEDA also offers several products aimed at enhancing financial inclusion for MSMEs. One of the notable products is the Chema Chema Fund, which provides affordable short-term loans to informal businesses, helping them finance and expand their operations. This fund also offers credit for cash flow needs and startup capital for new businesses. CEDA's trade finance facilities also include options like invoice discounting and factoring, enabling businesses to manage their cash flow more effectively.

CEDA also has the Mabogo-Dinku programme, which offers subsidised loans to micro-entrepreneurs, promoting citizen participation in enterprise. Moreover, the agency provides structured finance options, such as equity funding, to support the development of viable business ventures. Beyond financial products, CEDA plays a crucial role in business development through training and mentoring services, ensuring that entrepreneurs have the necessary skills to succeed.

National Development Bank (NDB)

The National Development Bank (NDB) of Botswana was established with the mission to provide financial and advisory support to stimulate economic development for MSMEs, among others. NDB focuses on empowering MSMEs as a key strategy for diversifying Botswana's economy and reducing its dependency on the diamond industry. The Bank also plays an indispensable role in facilitating the growth and development of MSMEs by providing access to finance, offering advisory and support services, enhancing market access, and promoting risk management.

Through its targeted initiatives and sector-specific support, the NDB contributes significantly to the economic diversification and sustainability of Botswana's economy. By empowering MSMEs, the NDB fosters entrepreneurship and innovation, enhances employment opportunities, and reduces poverty, aligning with the broader national development goals.

The NDB provides a range of tailored financial products designed to meet the unique needs of MSMEs, such as business loans with competitive interest rates and flexible repayment terms, enabling MSMEs to access the capital needed for expansion, operational costs and capital investments. In addition, the NDB provides specialised financing options for agricultural enterprises, which include loans for purchasing equipment, seeds, fertilisers and livestock. To cater to the smallest enterprises, the NDB offers microloans requiring minimal collateral and simplified application processes, making it easier for startups and informal businesses to access funds. The NDB also focuses on providing development finance aimed at long-term projects that can significantly impact the growth of MSMEs, such as infrastructure development and technological upgrades.



Capacity-building and support programmes

The government and various stakeholders have initiated numerous capacity-building programmes to enhance the capabilities of MSMEs. These programmes focus on business development services, financial literacy training and entrepreneurship development. Initiatives such as the Local Enterprise Authority (LEA) provide mentorship, training and advisory services to MSMEs, helping them navigate the financial landscape. LEA advises clients on best practices in business, resource management, product costing and legal matters. The authority also assists with product packaging, labelling and care to make products stand out. LEA undertakes to understand the challenges of running a business in Botswana and offer coaching and advice on mitigating those challenges and growing each business.

Regulatory institutions

Bank of Botswana

The Bank of Botswana (BoB) plays a significant role in facilitating the financial inclusion of MSMEs through various initiatives and policies. By maintaining a stable macroeconomic environment and promoting robust financial infrastructure, including payment and credit information systems, BoB creates a conducive environment for MSME growth. It also fosters a regulatory framework that encourages banks to extend services to MSMEs and supports credit guarantee schemes to reduce lending risks. Additionally, BoB enhances capacity-building and technical assistance programmes, promotes financial inclusion initiatives like digital financial services and mobile banking, and conducts research to inform targeted policy decisions, all aimed at improving MSMEs' access to and use of financial services.

The BoB has undertaken several key initiatives to enhance the financial inclusion of MSMEs, significantly supporting their growth and contributing to the country's economic development. By modernising the national payment system, the BoB has facilitated faster and more secure transactions, providing MSMEs with reliable and efficient payment solutions. The establishment of a credit information system improves the availability of credit history data, enabling financial institutions to assess the creditworthiness of MSMEs better, leading to more favourable lending terms. Additionally, the BoB supports financial literacy programmes aimed at educating MSME owners on financial management, the benefits of formal financial services, and how to access credit and other financial products. Through these and other initiatives, the BoB plays a pivotal role in fostering the financial inclusion and success of MSMEs.

Non-Bank Financial Institutions Regulatory Authority (NBFIRA)

NBFIRA plays a crucial role in supporting the financial inclusion of MSMEs in Botswana by regulating and supervising non-bank financial institutions (NBFIs) to ensure a stable and fair financial environment. This fosters the growth and development of MSMEs.

Additionally, by promoting financial innovation, NBFIRA encourages NBFIs to develop and offer a range of financial products and services, such as microfinance, leasing and factoring, tailored to the needs of smaller businesses. NBFIRA facilitates the financial inclusion of MSMEs in Botswana by ensuring that NBFIs adhere to consumer protection standards, which builds trust through transparent pricing, fair treatment and effective grievance redressal. Additionally, NBFIRA supports financial literacy initiatives, helping MSMEs understand and use financial products and services effectively, thereby enhancing their financial management and decision-making capabilities. By regulating the non-bank financial sector, NBFIRA also incentivises MSMEs to transition from the informal to the formal sector, providing them with better access to financial services and legal protections. Although NBFIRA plays a pivotal role in fostering a conducive environment for the financial inclusion of MSMEs in Botswana by regulating and promoting the non-bank financial sector, its impact is constrained by its limited scope, resources and the broader challenges faced by MSMEs in accessing financial services.

Technological advancements

Technology advancements in Botswana have significantly contributed to the financial inclusion of MSMEs, providing numerous benefits. The expansion of digital financial services, including mobile banking and fintech solutions, has improved MSMEs' access to financial resources. The adoption of digital technologies has been a significant driver of financial inclusion for MSMEs in Botswana. Mobile money platforms and digital payment systems have enabled entrepreneurs to manage transactions more efficiently, reduce costs, and reach broader markets. Additionally, initiatives like digital literacy training and online business registration platforms have empowered MSMEs with the knowledge and tools to leverage technology for growth and sustainability. Mobile money services, such as Orange Money and Mascom's MyZaka, have expanded rapidly, providing MSMEs with convenient and affordable financial transaction options. These platforms have facilitated greater access to financial services, especially for businesses in remote areas.



MSME Owner Profile

The profile of MSME owners was analysed based on age, level of education, gender and location, among others. This analysis helps to understand the entrepreneurial concentration, business performance and access to financial services across these categories. These characteristics provide insights into the profile of MSME owners, identify areas with high numbers of entrepreneurs, the distribution of entrepreneurial activity among various demographic segments and serve as a guide for focused support programmes.

Definition of MSMEs

According to the National Entrepreneurship Policy (NEP) for Botswana (2019), MSMEs are defined as businesses that employ up to 100 people and generate an annualised turnover of up to P15 million.

Businesses within the MSME sector are classified using the same set of criteria. Accordingly, micro-enterprises are those engaging up to six people and have a turnover of up to P200,000.00. The majority of micro-enterprises fall under the informal sector. Small enterprises are mostly formalised activities engaging between six and 25 people and have a turnover of up to P5 million. Medium enterprises employ between 26 and 100 people and have a turnover of between P5 million and P15 million.

In addition, there is a formal and professional classification for micro-enterprises. This can be found in areas such as consultancy, sales and marketing, accountancy and law. Individuals in these and other fields may operate as self-employed entrepreneurs.

Where the definition is in conflict, the number of employees should be used as the governing criterion. For example, a business with a turnover of P5.5 million but employing seven people will be defined as a small rather than a medium business. In addition, owner-operated independent MSMEs are considered substantially different from those of the MSME subsidiary firm of a large organisation.

Due to the low accuracy of turnover, FinScope only uses the number of employees to determine business size. These classifications are used throughout the report.

Figure 1: Defining MSMEs

Age

Analysing the age distribution of MSME owners provides a better picture of the age groups represented in business ownership. As shown in Figure 2, the data reveal that MSME ownership is concentrated among individuals aged 36-60 years, who collectively make up 55% of business owners, while younger (below 25 years) entrepreneurs make up only 9% of MSME owners. The dominance of the middle-aged business owners suggests that experience plays an important role in business growth. However, the relatively low participation of young entrepreneurs highlights the need for targeted support, such as youth entrepreneurship programmes and mentorships for business owners.

Most MSME owners rely on their personal funds to finance both the start-up phase and the subsequent growth of their businesses. Therefore, younger entrepreneurs who are in the early stages of their careers may face challenges in securing adequate resources for investment. This scenario underscores the importance of government support

in creating innovative financing options tailored to the needs of youth entrepreneurs. The factors of finance, business type (whether formal or informal), growth and overall success represent distinct attributes that can affect any business. The age of the business owner appears to significantly influence the degree to which each of these attributes is present.

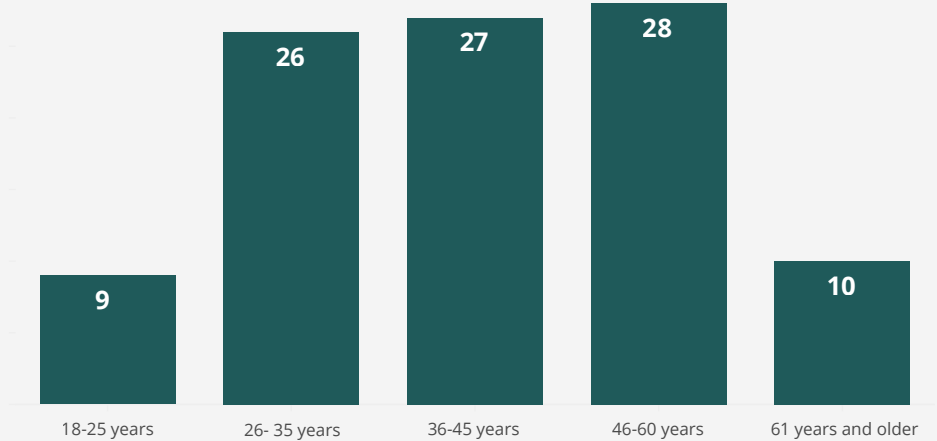


Figure 2: Age of MSME owners (% of MSME owners)



Gender

Like other sister countries in the SADC, the gender distribution of business owners in Botswana reveals that there are more women business owners than men, with 53% (largely micro – 97%) of businesses being women-led. In comparison, businesses led by men account for 47%. According to the FinScope Consumer Botswana Survey 2024, the gender split of the adult population in Botswana is 52% female and 48% male; therefore, females have a higher propensity to own a small business. This highlights the significant role that women play in the MSME sector and their contribution to economic activity and job creation. However, despite the higher presence that women have, they still face unique challenges that affect the growth and sustainability of their businesses.



Figure 3: Gender of MSME owners (% of MSME owners)

Looking at the gender-turnover split among Botswana business owners, female business owners average a lower profit of BWP 180 million monthly. In contrast, male business owners earn more than four times that amount, averaging BWP 731 million monthly. This result may be due to social and work-life balance barriers whereby women entrepreneurs, as the main caregivers of their households, often have to balance business responsibilities with household duties, which may restrict their ability to expand their businesses.

Level of Education

Although people can have a natural inclination towards entrepreneurship, running a successful business in the current technologically advanced age requires business management skills acquired through formal education or specialised training. Education influences the entrepreneur’s ability to manage finances, adopt technology and be better positioned to take advantage of opportunities and circumvent threats. A deeper understanding of the educational profile of MSME owners provides insights into their business capacity, financial decision-making and prospects for growth.

As shown in Figure 4, 93% of MSME owners in Botswana have at least a primary education. About 60% of the MSME owners have completed secondary education, and a commendable 20% have earned tertiary qualifications.

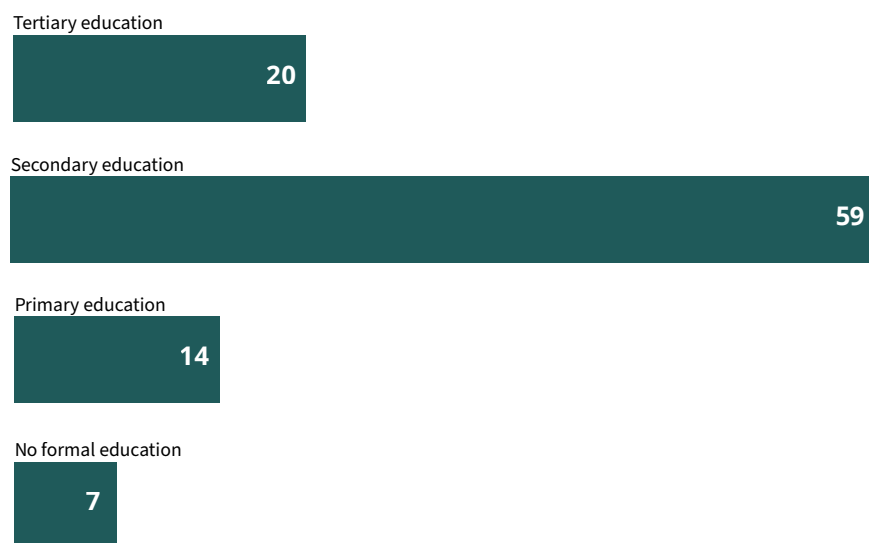


Figure 4: Level of education of MSME owners (%)

Educated entrepreneurs are more likely to understand and navigate regulatory requirements, which leads to higher compliance and formalisation within the sector. They are generally better equipped to grow and sustain their businesses and are more likely to engage in potentially more profitable sectors. In contrast, lower education levels may confine business owners to traditional sectors with limited growth prospects.

Table 3 provides insights into the dynamics that shape the business based on the level of education. These results highlight the importance of education in growing and scaling up businesses and can be used to guide strategies for entrepreneurship training and programmes that promote formalisation and growth.

Size	Formal businesses (%)	Medium-sized (%)	Technology adoption (%)
No formal education	5	0	7
Primary education	15	1	12
Secondary education	60	18	58
Tertiary education	20	81	23

Table 3: Education distribution insights (%)

Foreign-owned businesses

In Botswana, the MSME sector is predominantly driven by Batswana business owners, who own 115,862 businesses, representing 93% of the total MSME landscape, while foreign business owners own about 8,937 MSMEs, making up the remaining 7%. Foreign-owned enterprises collectively generate an estimated monthly profit of BWP 276 million, which highlights their economic impact despite their smaller share compared to Batswana-owned MSMEs. As shown in Figure 5, foreign-owned businesses are mainly urban-focused and operate in wholesale/retail and manufacturing

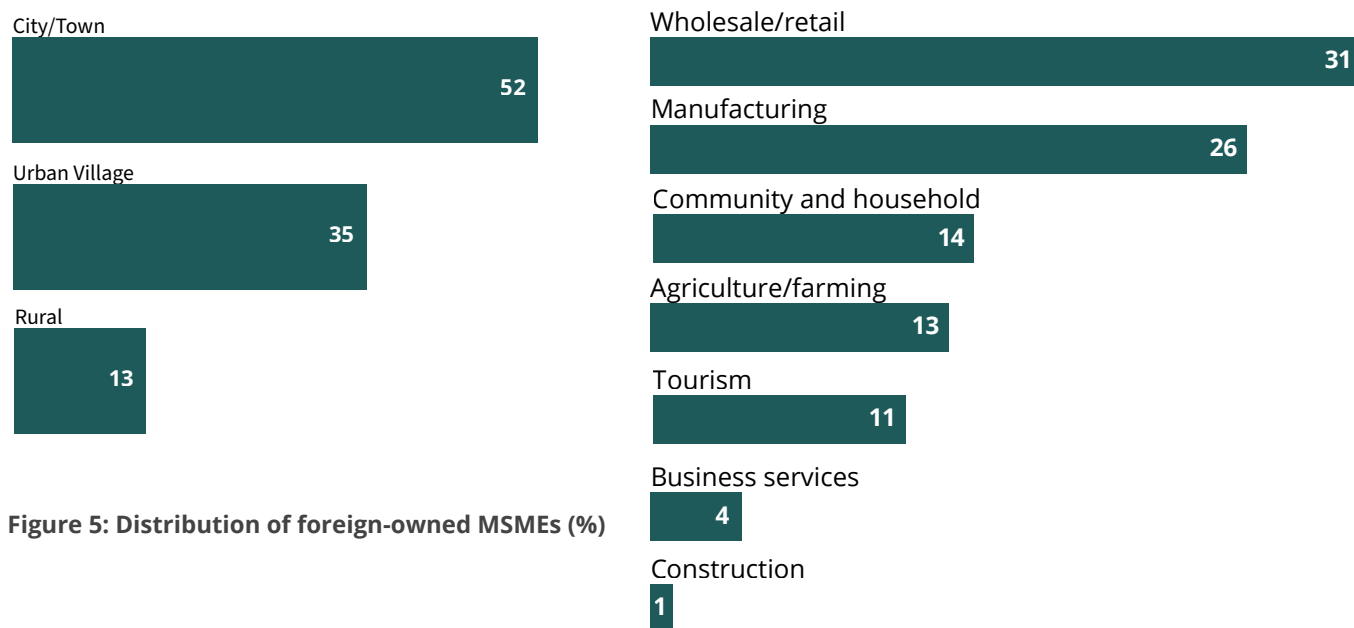


Figure 5: Distribution of foreign-owned MSMEs (%)

Motivation for starting a business

Individuals embark on business ventures for a range of reasons, which influence the nature and the trajectory of their businesses. These reasons can be classified into three main categories: entrepreneurial, desperate and others. Research has reported that entrepreneurial orientation has an important role in small business survival and growth. Businesses established by individuals with entrepreneurial intentions tend to perform better than those founded by people seeking to make a living through a small business.

Entrepreneurial individuals are those who start their businesses in response to identifying an opportunity, being passionate about a specific product, or desiring to use their skills. Conversely, those classified as desperate/survivalist are those who started their businesses due to unemployment and the challenge of providing for their families. Their circumstances differ from those of the former group, as they are compelled to run a small business due to limited job market opportunities. The rest of the small business owners are those who inherited their businesses from family or started their own businesses for various reasons, including wanting to make more money, becoming their own boss, or responding to family pressure.

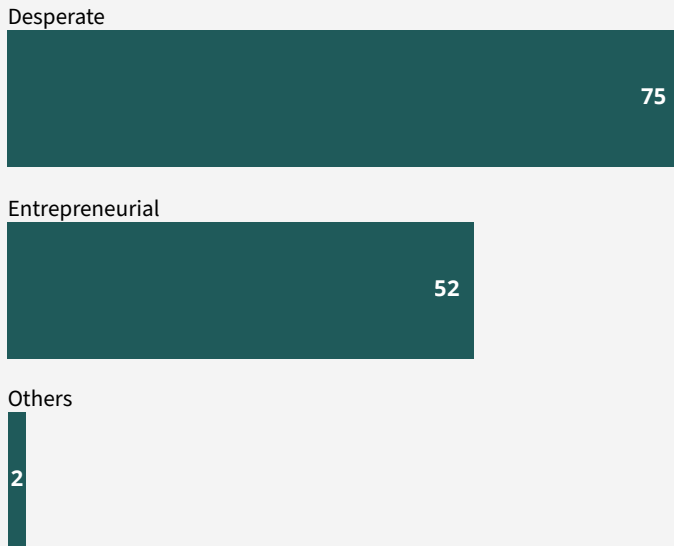


Figure 6: Reasons for starting a small business (% of MSME owners)

Location and business premises

The geographical location of a business can shape everything from its customer base to its access to financial services and infrastructure. Businesses tend to be concentrated in urban areas where they can better access the market for their products and services. As depicted in Figure 7, the distribution of MSME owners is relatively balanced across cities and towns, urban villages and rural areas. Urban villages are slightly higher, accounting for 37% of MSME owners. This is expected, as their location allows them to effectively bridge the gap between towns and rural markets, effectively serving as intermediaries for both markets.

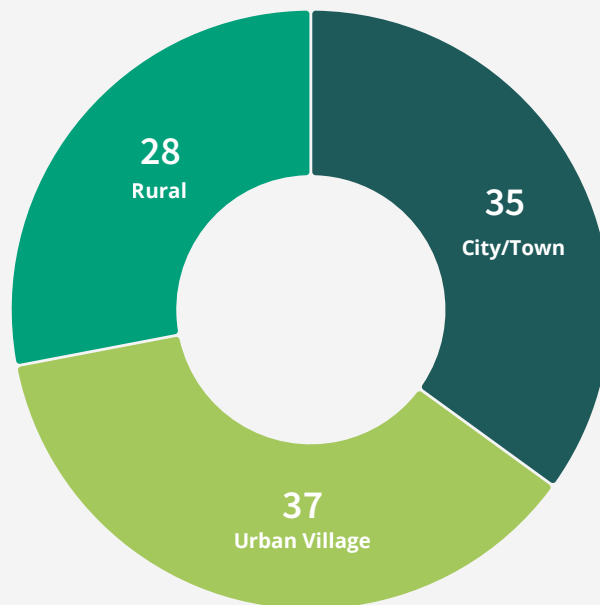


Figure 7: Location of MSME owners (%)

Table 4 shows the distribution of MSME owners at a granular level across districts. As one would expect, Gaborone, being home to the capital city, takes the lion's share in the concentration of MSME owners. The city is home to 11% of the adult population of Botswana, yet it hosts 28% of MSME owners. This demonstrates Gaborone's role as the economic hub, which empirically meets the conditions for a conducive environment for entrepreneurial activity.

District	(%)	District	(%)
Gaborone	27,6	Serowe	1,4
Francistown	7,6	Tonota	1,1
Boteti	6,1	Ramotswa	1
Palapye	5,3	Tlokweng	0,9
North West	5,1	Ghanzi	0,8
Mahalapye	5	Moshupa	0,7
Kanye	4,6	Charleshill	0,6
Bobirwa	4,4	Tsabong	0,6
Kgatleng	4,2	Letlhakeng	0,6
Selibe Phikwe	4	North East	0,6
Mogoditshane	4	Lobatse	0,5
Kweneng	3,8	Chobe	0,4
Okavango	3,2	Jwaneng	0,3
Tutume	3,1	Hukunsi	0,3
Goodhope	1,8	Orapa	0,2
		Mabutsane	0,2

Table 4: MSME by district (%)



Personal income

Although income and turnover can be subjective measures that are sometimes understated, they are important indicators of a sector's performance (income) and size (turnover). Over 80% of all MSME owners earn less than P5,000 per month. As shown in Table 5, personal income increases significantly as businesses progress from individual entrepreneurs to medium-sized enterprises. All medium-sized businesses report personal incomes exceeding P5,000.

Personal monthly income (Pula)	Total	Individual entrepreneur	Micro business	Small business	Medium business
Refused/don't know	5	5	6	13	16
Less than 500	20	25	6	5	-
Between 501 – 2,000	41	45	30	12	-
Between 2,001 – 5,000	21	17	34	31	-
Between 5,001 – 10,000	7	7	8	6	3
Between 10,001 – 20,000	3	1	11	15	3
Between 20,001 – 50,000	2	-	4	17	76
Between 50,001 – 100,000	0.4	-	1	1	2

Table 5: Personal monthly income by business size (%)

When examining personal monthly income in relation to average business turnover, we can observe that lower turnover leads to lower personal income. As businesses grow and can afford to hire additional employees, it indicates that their turnover is sufficiently high to cover these extra expenses associated with wages and salaries. Consequently, Table 6 shows that medium-sized enterprises have the highest average monthly turnover, which is more than four times the total turnover of all the other categories combined.

Size	Mean Monthly Turnover (P)
Independent entrepreneurs	4,588.67
Micro-business	18,085.88
Small business	106,790.52
Medium business	613,967.55

Table 6: Mean monthly turnover by business size

Sources of start-up capital

Access to start-up capital is one of the factors that determine the survival and growth potential of MSMEs. The ability of businesses to secure funding influences the scale of operations, initial investments in equipment and inventory, and long-term business sustainability. However, MSME owners often face challenges obtaining formal financing, leading many to rely on personal savings or informal sources.

The type of start-up capital source can also shape the business's financial well-being. Entrepreneurs who finance their businesses out-of-pocket may have greater control but limited expansion capacity. In contrast, those accessing loans or investor funding may have more capital but higher financial risks, due to the repayments of credit to which they may be subjected.

As illustrated in Figure 8, most business owners fund their ventures using their personal savings and with the help of family and friends. A significant number of entrepreneurs rely on personal income, such as salaries, to start their businesses. There is a noticeable lack of formal credit being used for this purpose, which highlights a gap in access to credit needed to support small businesses.

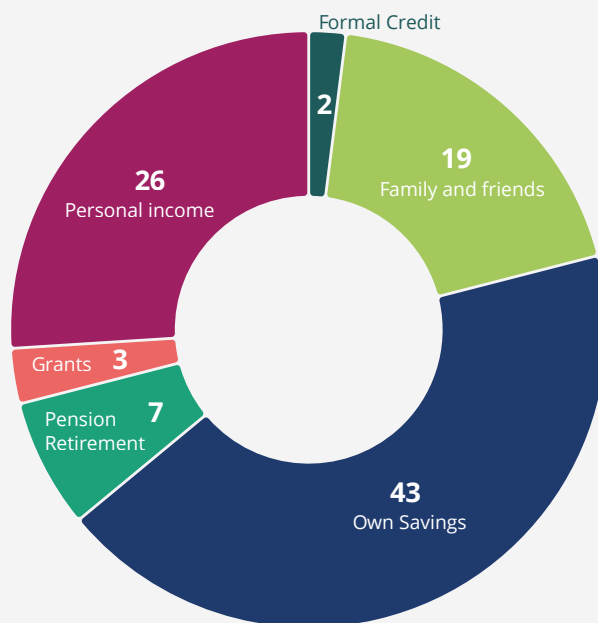
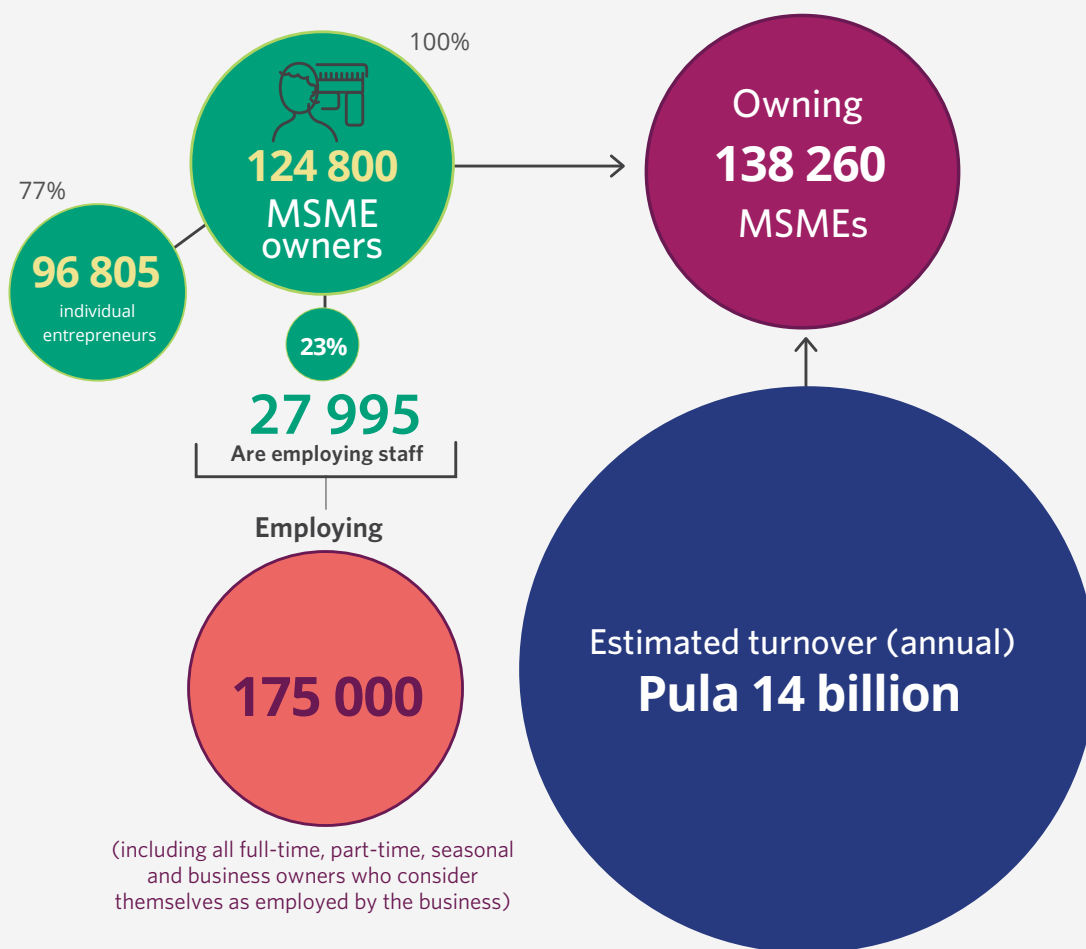


Figure 8: Source of start-up capital (%)

The MSME Sector in Botswana

The SADC countries have relatively similar economies characterised by high unemployment rates. MSMEs are not just numbers on a page; they are the local shops, service providers and small manufacturers that create jobs and drive innovation daily. In this section, we take a closer look at what the MSME landscape in Botswana really looks like. We explore the mix of business sectors in which these enterprises operate, their sizes, and how they contribute to employment. We will also examine the support they receive, how they manage economic shocks, their journey toward becoming formalised businesses, and the typical paths they follow over time.



The Botswana MSME sector has an estimated total of 124,800 owners, the majority of whom are individual entrepreneurs and survivalist business owners. Among these owners, 7% operate more than one business, totalling approximately 138,260 MSMEs, indicating a diverse and active ownership landscape. The sector has around 175,000 employees, comprising of 91,637 full-time employees, 10,656 part-time employees, 22,515 seasonal employees, and 49,953 business owners who pay themselves as employees. In terms of contribution to GDP, the sector generates an estimated monthly turnover of P1.6 billion (USD 121 million), which underscores its substantial impact on the overall economy of the country.

In the region, the SADC Secretariat, through its various programmes, such as Support to Industrialisation and Productive Sectors (SIPS) and Support to Improving the Investment and the Business Environment (SIBE), is an example of programmes that support regional growth and development. The aforementioned are aligned with the Regional Indicative Strategic Development Plan (RISDP) 2020-2030. The RISDP prioritises industrial development and market integration, and places industrialisation at the centre of the regional integration agenda, which seeks to front-load and accelerate industrialisation in the SADC region. The regional comparison has a bearing on ensuring the region can share learnings to achieve its common vision.

Among other key objectives, one of the main goals of the study was to provide a thorough description of the sector's landscape to understand its depth and breadth better. The business sector, source of start-up funding, awareness and utilisation of the support infrastructure, and employment across business sectors are the primary areas covered in this section's discussion of MSMEs' attributes.

A comparison of MSME ownership in Botswana against South Africa, Eswatini, Lesotho, Zimbabwe and Malawi, presented in Table 7, shows that MSME ownership in Botswana is in line with most of its neighbouring countries. It also leads the region with the largest formal MSME sector.

Indicator	Botswana (2024)	South Africa (2024)	Eswatini (2023)	Lesotho (2023)	Zimbabwe (2022)	Malawi (2019)
Business owners	18 years and older	16 years and older	18 years and older	18 years and older	18 years and older	18 years and older
	50 employees or less	250 employees or less	50 employees or less	50 employees or less	75 employees or less	100 employees or less
Estimated adult population	1,6 million	44,7 million	800 000	1,4 million	9,3 million	8,7 million
Estimated % of the adult population that owns MSMEs	9%	7%	10%	8%	46%	13%
Number of MSME owners	124,799	3 million	68,000	107,753	2,8 million	1,1 million
Number of MSMEs they own	138,260	3,9 million	94,000	138,723	2,8 million	1,6 million
% of MSME owners with registered/licensed businesses	54%	44%	43%	24%	15%	11%
Number of employees	175 000	13,7 million	92 750	255 420	2,9 million	1,8 million
% of independent entrepreneurs	77%	29%	75%	71%	71%	88%
% of businesses with employees	23%	71%	25%	29%	29%	12%
Average number of employees per MSME	1.3	1	1.4	2	6.9	1.1

Table 7: A cross-country comparison of MSMEs in Botswana vs other countries

Business sector

The kinds of businesses MSME owners run can tell us a lot about the shape and direction of the economy. In most developing countries, entrepreneurs generally gravitate toward sectors with fewer barriers to entry, those that require less start-up capital, fewer regulatory hurdles, and offer immediate demand. Understanding which sectors MSMEs operate in gives valuable insight into the structure of Botswana's informal and formal enterprise landscape. It sheds light on where economic activity is concentrated, which types of businesses are most accessible to aspiring entrepreneurs, and where the biggest opportunities and vulnerabilities lie. This section breaks down the key sectors where MSMEs are active and explores what this means for opportunities, risks and potential for growth within the broader small business ecosystem.

As shown in Figure 9, the MSME landscape is heavily concentrated in a few sectors, with the wholesale and retail sector dominating the space. According to the data, more than half of MSMEs operate in this sector, which is unsurprising given that this sector is characterised by low barriers to entry. The community and household sector ranks second at 17%. This category includes businesses like hair salons, day-care centres and car washes, typically operated from home or small rented spaces with consistent customer demand.

Although the agriculture/farming sector is often seen as central to rural livelihoods, it makes up only 11% of MSMEs. Most agricultural enterprises are small-scale and subsistence-based, though some engage in commercial production. This sector holds growth potential, particularly with better access to inputs, technology and markets. The fact that only a tenth of MSMEs operate in the manufacturing sector means the MSME sector's contribution to the government's industrialisation effort is marginal. The overall picture reflects a sector that is vibrant but still concentrated in low-margin and informal areas. Encouraging MSME growth in underrepresented sectors could help unlock new jobs, boost productivity, and build resilience in Botswana's economy.

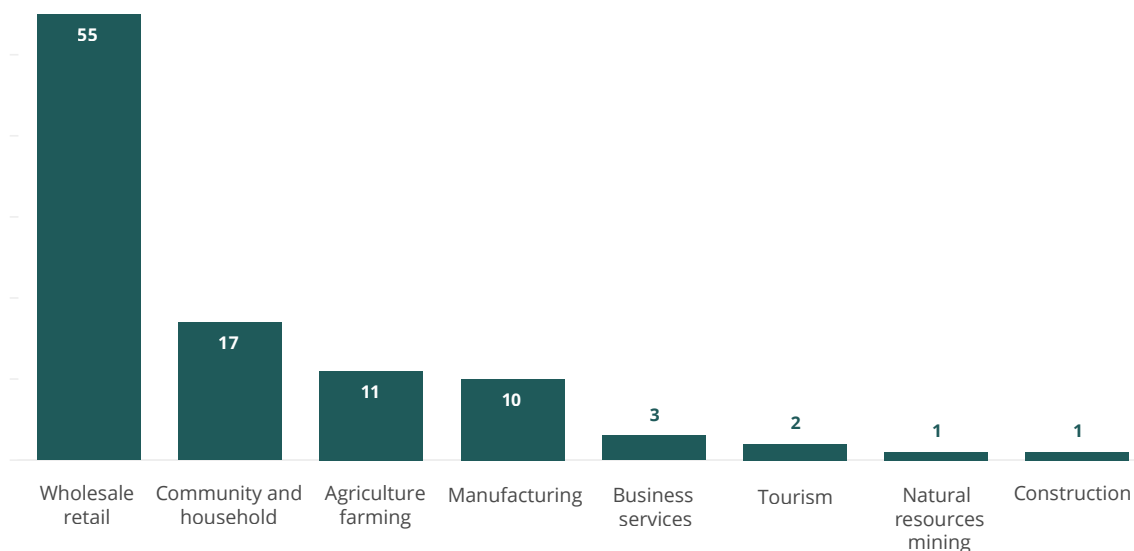


Figure 9: Business sector in which MSMEs operate (%)

Business size

The size of a business can be measured using different parameters such as annual turnover, total assets or number of employees. Each of the parameters has its own limitations. For instance, fluctuations in annual turnover may inadvertently lead to a misclassification of a medium enterprise into a small business during periods of decreased turnover. Perception-based surveys are limited by inaccurate reporting of income or turnover, which is further weakened by human bias and memory inaccuracies.

Furthermore, sectoral differences in the capital intensity of operations make using total assets as a basis for classifying businesses by size problematic. Businesses that use capital-intensive processes will be classified into higher-size categories, while those that use less capital-intensive processes are likely to be classified into lower-size categories. A similar issue arises when using the number of employees as a basis for size classification, which leads to small businesses that use labour-intensive processes being classified into higher size classes, while those with less labour-intensive processes are classified into lower size classes.

In this report, the study classified businesses into different size categories using a combination of the number of employees and turnover to allocate business size. Three categories were created, with the first category consisting of micro-enterprises, which are businesses with zero to five employees. The second category comprises small enterprises that employ between six and 20 workers, while the third category consists of businesses that employ between 21 and 50 workers and are classified as medium businesses.

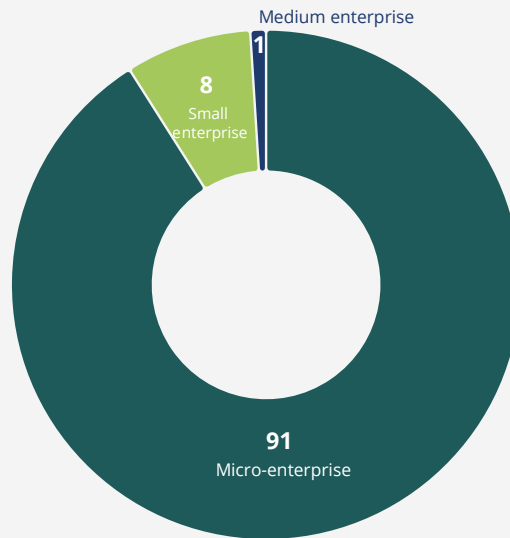


Figure 10: Business size (%)

Figure 10 shows that Botswana’s MSME sector is largely made up of micro-enterprises, which account for 91% of all businesses. The majority of these are businesses where the owner is the only employee. Micro-enterprises tend to operate informally, rely heavily on personal or family labour, and have limited access to capital, infrastructure or support services. While they may not individually contribute large amounts to GDP, their collective role in income generation and self-employment is significant. Small enterprises make up just 8% of the MSMEs, and only 1% of MSMEs fall into the medium enterprise category.

Further analysis of business size by the owner’s level of education provides interesting insights. As shown in Figure 11, ownership of a micro-enterprise decreases as one moves up the education ladder, from those who do not have formal education to those with tertiary education. The size of the MSME increases with the level of education. Interestingly, both small and medium enterprises are more likely to be owned by those with a tertiary education. The most prominent educational attainment for most MSME owners is secondary schooling.

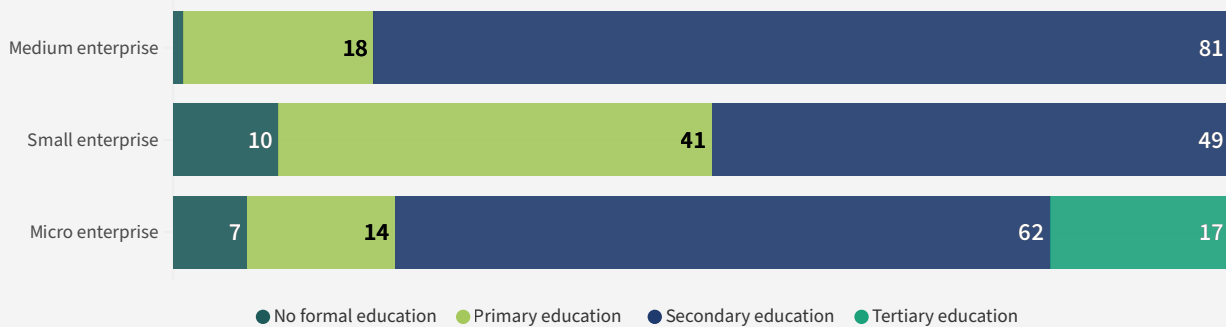


Figure 11: Business size by sector (%)

MSMEs job creation

Beyond income generation for owners, one of the most important contributions of MSMEs is their role in creating jobs. In a country like Botswana, where formal private-sector employment opportunities remain limited and unemployment, particularly among youth and women, continues to be a pressing issue, MSMEs act as a buffer. They absorb labour that might otherwise remain outside the formal economy, and in doing so, they contribute to poverty reduction, household stability and economic resilience. Analysing employment creation within the MSME sector gives us insight into more than just the number of jobs; it helps us understand the employment potential across different sectors.

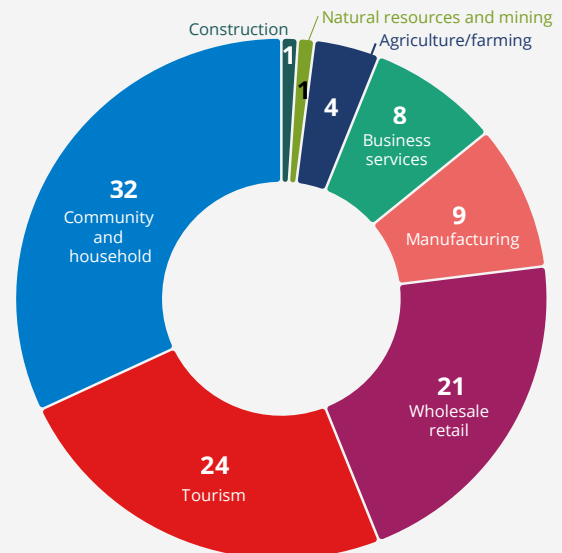


Figure 12: Share of full-time employees by sector (%)

Employment within the MSME sector is male-dominated; 64% of business owners have male employees. As shown in Figure 12, MSMEs in the community and household (32%) and wholesale/retail sectors (21%) have among the highest shares of employees, reflecting the breadth of these sectors. However, the same sectors are dominated by informal businesses, accounting for more than half of the total informality in the MSME sector. Tourism (24%) also accounts for a high share of employment, suggesting that focusing on tourism can significantly boost job creation.

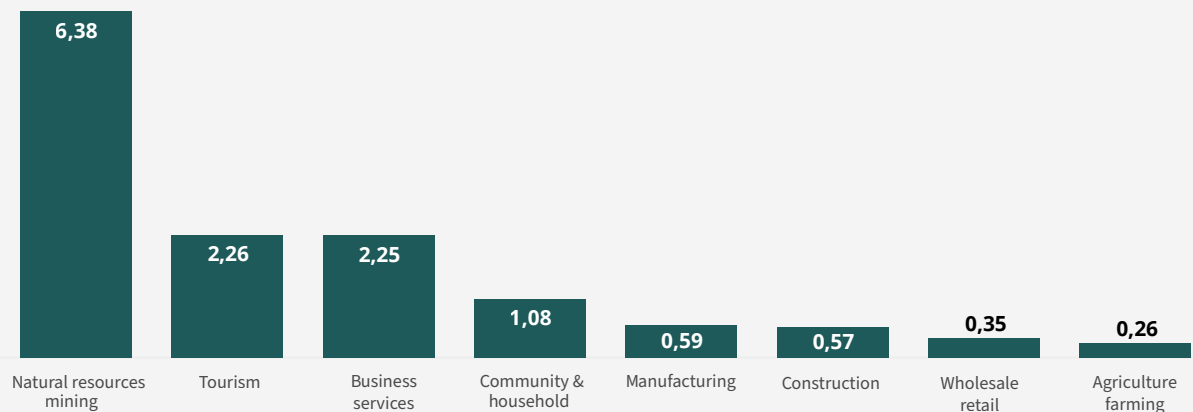


Figure 13: Average number of employees (FTE) (%)

When looking at the average number of employees per business in each sector, the data reveals some interesting dynamics in labour distribution within the MSME sector. At one end of the spectrum, sectors like agriculture/farming and wholesale/retail have the lowest average employment figures, at 0.26 and 0.35, respectively. This suggests that the vast majority of businesses in these sectors are independent entrepreneurs. The shift becomes more pronounced in community and household services, which average 1.08 employees per business. More structured sectors like business services (2.25) and tourism (2.26) show significantly higher employment averages. These businesses are typically more formal, skill-based and service-oriented, and are more likely to employ staff in various roles.

Business support and impact of shocks

MSMEs face unique challenges due to their limited resources and capacity, and they require targeted support to build resilience. A comprehensive approach to business support for MSMEs may include access to finance, mentorship programmes, access to technology, incubation hubs and similar. In Botswana, a diverse array of support mechanisms, from government programmes to private initiatives, are involved in providing business support to the MSME sector. These institutions offer support services designed to help MSMEs grow, formalise their businesses and improve their access to markets and finance.

The extent to which MSME owners can take advantage of the existing support infrastructure is influenced mainly by their awareness of these resources and their capacity to leverage them effectively. As a result, the report explored the level of awareness among MSME owners regarding the availability and usage of the support infrastructure. It also delved into the MSME owners' perception of the usefulness of the support services.

A collective 76% of business owners are aware of organisations that assist or offer advice to MSMEs. However, only 32% of business owners claimed to have received helpful support from these organisations. The analysis suggests that increasing awareness about the support infrastructure does not translate to higher usage of these institutions. Support initiatives need to be closely aligned with the existing needs of the business owners. Encouraging MSME owners to use the services should demonstrate how these institutions address the specific challenges that they are facing and what the enterprises are likely to benefit from.

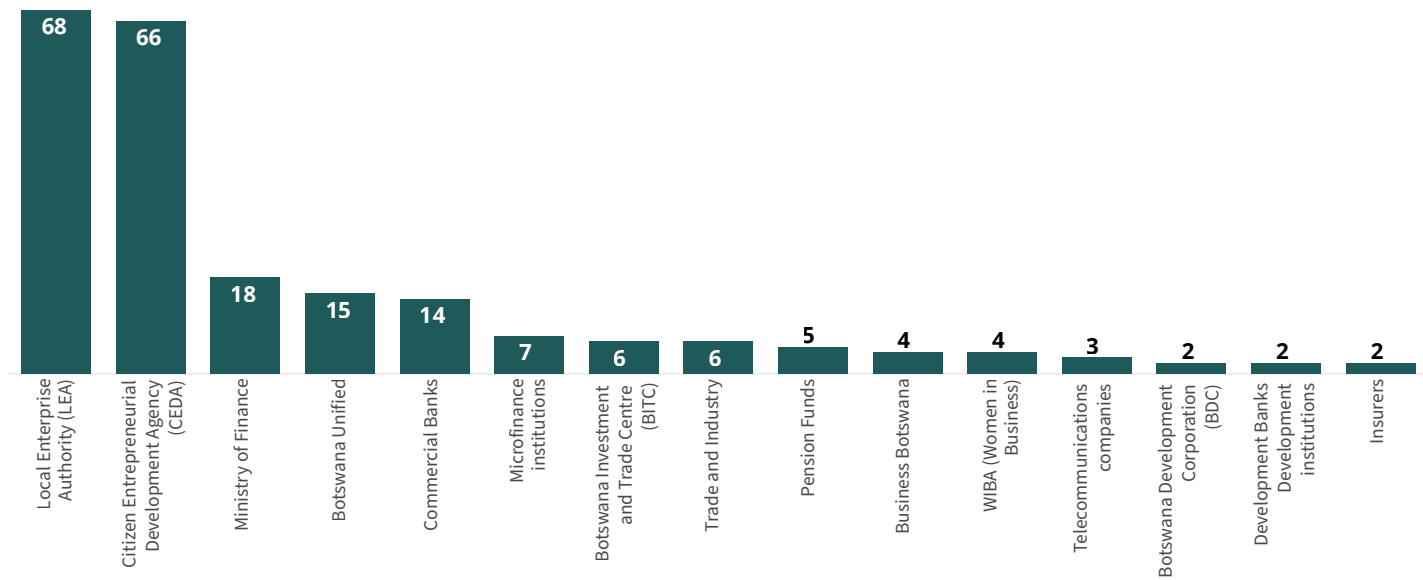


Figure 14: Awareness of business support organisations (%)

Formalisation (business registration or licensing) among MSMEs

Formalising a business enables entrepreneurs to access formal financial services, reducing vulnerability to economic shocks as they become eligible for targeted government support in cases of global events like the Covid-19 pandemic, natural disasters, and similar events. A formal business can also increase its competitiveness in the market because it enables entrepreneurs to participate in tendering and to build trust with customers and suppliers. These businesses are also more likely to comply with laws and regulations like tax payments, the Employment Act, and Pay As You Earn (PAYE), which reduces the risk of penalties and fines.

In Botswana, a business must register with the Companies and Intellectual Property Authority (CIPA) and with the Botswana Unified Revenue Service (BURS), followed by acquiring licenses and/or permits from various government departments. For example, if a business is a bar, it must obtain a liquor license, which requires the business to adhere to the regulations within the specific sector.

In this report, a formal business is defined as one that is either registered with the CIPA and BURS/or licensed with the relevant authority. A semi-formal business is one that is only licensed by a relevant authority. The report shows that 53% of businesses are formal enterprises (both registered and licensed), of which 34% are only licensed (semi-formal), and 47% remain informal.

As can be expected, the proportion of formal enterprises increases with business size. As a business employs more people, moving from one business size group to the next, the chances of formalising increase. Figure 15 shows the proportion of business owners by business size, with about half of micro-enterprises being informal. Looking at gender, a slightly higher proportion of female business owners (51%) are informal compared to male business owners (49%).

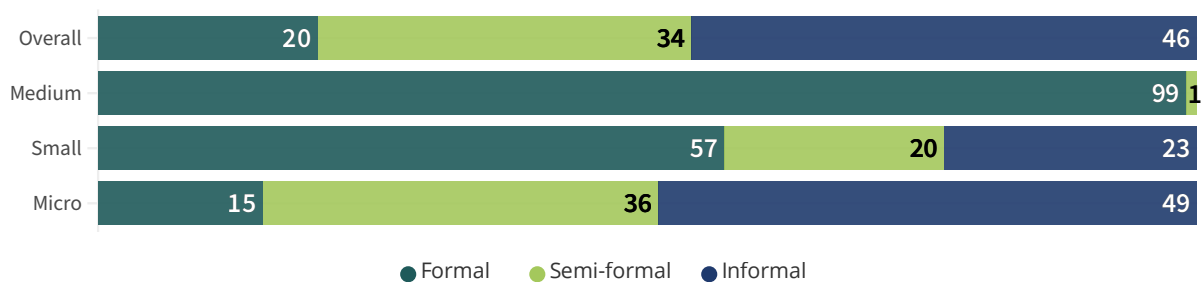


Figure 15: Business registrations (%)

When compared to its sister countries in SADC, Botswana has the lowest informality within MSMEs. However, challenges to formalising MSMEs remain prevalent. MSME owners often perceive their businesses as too small (27%) to be registered, and many of them do not have the money to register (24%). Formalisation costs, such as registration fees and taxes, can deter small businesses from registering. Interestingly, 14% of entrepreneurs claim they are in the process of formalising their businesses. Figure 16 shows the barriers to formalisation in detail.

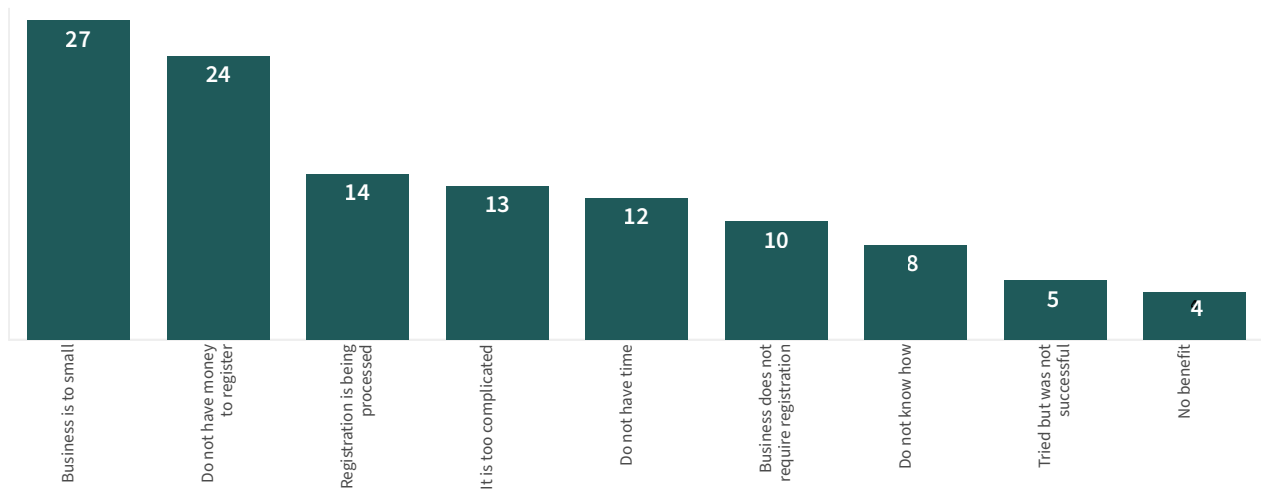


Figure 16: Barriers to formalisation (%)

Business lifecycle (business age)

The average age of most MSMEs in Botswana is approximately six years. However, Figure 17 indicates that the majority of MSMEs are still in the early stages of development, with 40% of MSMEs in their start-up phase (operational between 0 and 2 years) and 28% in the growth phase (operational between 3 and 5 years). Most start-ups are owned by women, and similar to the overall number of MSMEs, the proportion of businesses that are women-led declines as businesses move into the mature phase (11 years and older).

The distribution of businesses across various stages of their lifecycle highlights an important consideration for the necessity of support systems that are specifically designed for each phase. Start-ups typically benefit from seed capital, training and streamlined registration processes. In contrast, growing and established businesses might find greater value in access to scale-up financing, export connections and resources that enhance productivity. For mature enterprises, support may be more beneficial in areas such as innovation, digitisation, or integration into broader value chains.

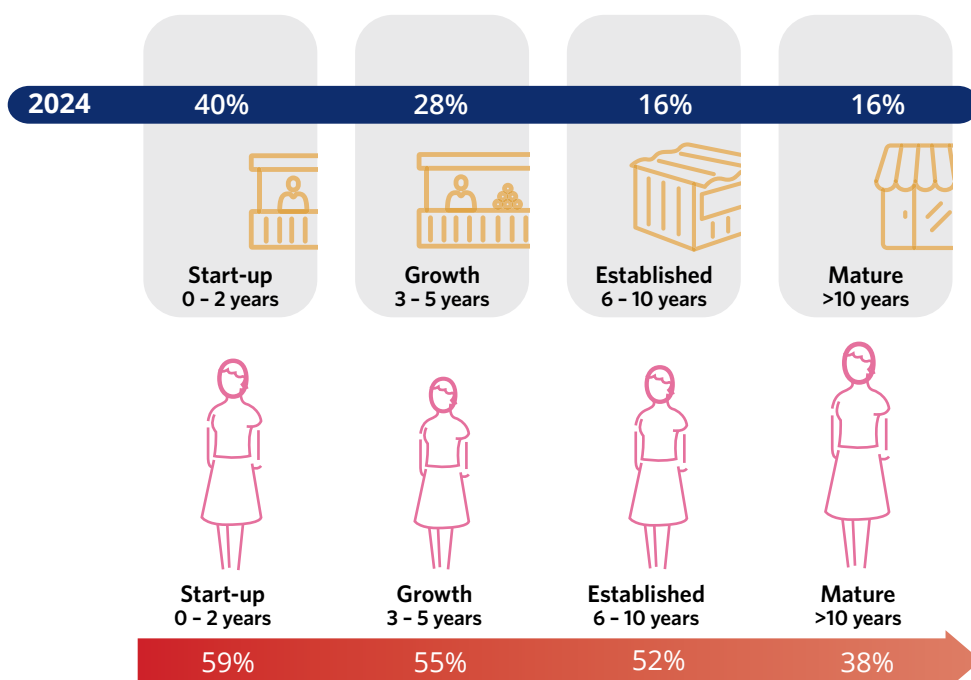


Figure 17: Business lifecycle (%)

Business support and impact of shocks

Access to and usage of financial services allow MSME owners to manage their resources more effectively. This is particularly important for the sustainability of the business. The ability to save, access credit, make digital transactions, and insure against risks can significantly impact a business's growth potential. While there is a uniform improvement in financial inclusion in many regions, the extent to which MSME owners actively use financial products varies widely.

For many small business owners, having access to financial services does not always translate into usage. Some entrepreneurs may open a bank or mobile money account but still rely heavily on cash transactions. Others may qualify for loans but hesitate to borrow due to high interest rates, collateral requirements, or limited trust in financial institutions. Factors such as business size, location and education level influence the extent to which financial products are adopted.

Figure 18 shows how the analysis of financial inclusion was conducted using the FinScope methodology. The framework categorises the business owner population into different segments based on the products that they have or use. Central to this approach is the concept of financial inclusion, which underpins the entire FinScope methodology. By examining the usage and ownership of financial products, we segment the population of business owners into two key groups: those who are 'financially excluded' and those who are 'financially included'. This nuanced understanding allows for targeted interventions to enhance access to financial services for all.

Financially excluded business owners (BOs) are those who manage their financial affairs without using any financial products or mechanisms outside of their relationships. They often rely on borrowing from family or friends and saving money at home. This group also includes those who choose not to use or access financial products and those without financial products or services in their name. They may also, for example, access banking services through another person's account or benefit from insurance coverage provided by family members, such as extended family funeral cover.

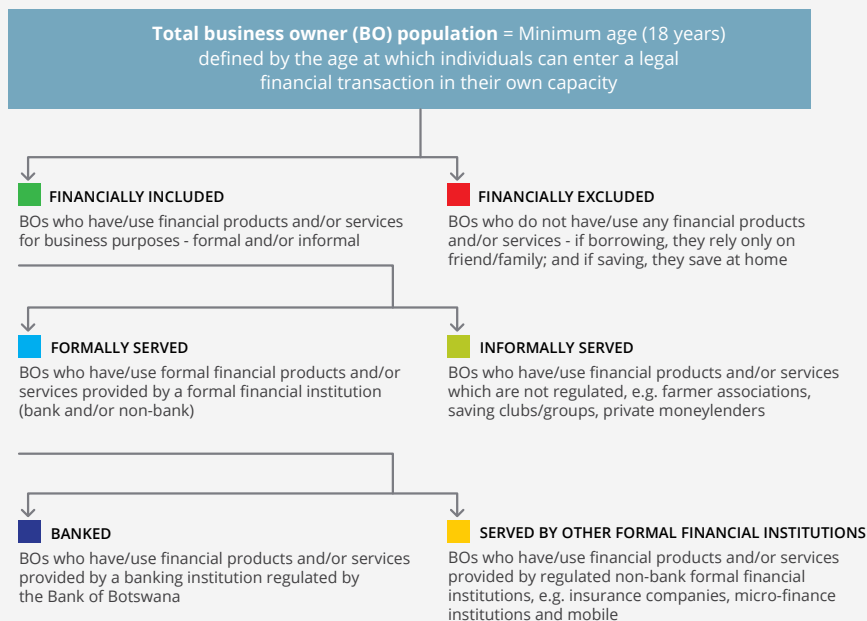


Figure 18: Financial inclusion framework

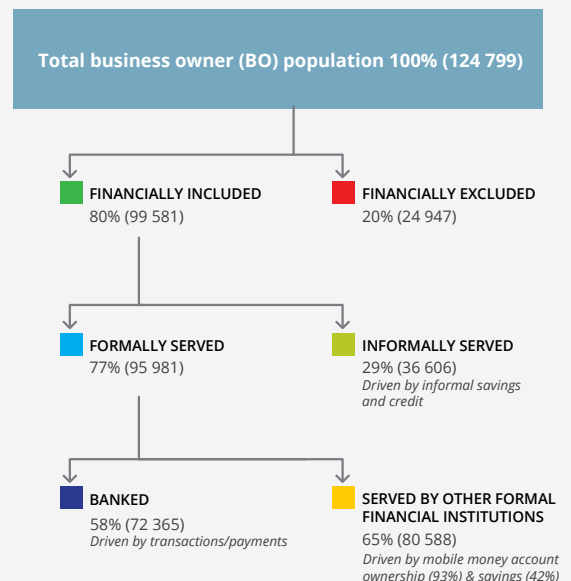


Figure 19: Financial inclusion among MSME owners

A clearer picture can be painted by unpacking the pattern of financial inclusion among MSMEs. As shown in Figure 19, banks, other formal, and informal institutions play a comparable role in the provision of financial services and products to MSMEs.

Overlaps and the Financial Access Strands

MSMEs employ a variety of financing strategies to grow or even reduce their daily operations. The FinScope framework for financial inclusion enables the identification and integration of various mechanisms that are used by business owners. This framework enhances our understanding of how MSMEs access financing for the day-to-day needs of the business on a deeper level, ranging from payments to mitigation measures. An overview of the utilisation of financial products across different categories is illustrated in Figure 20.

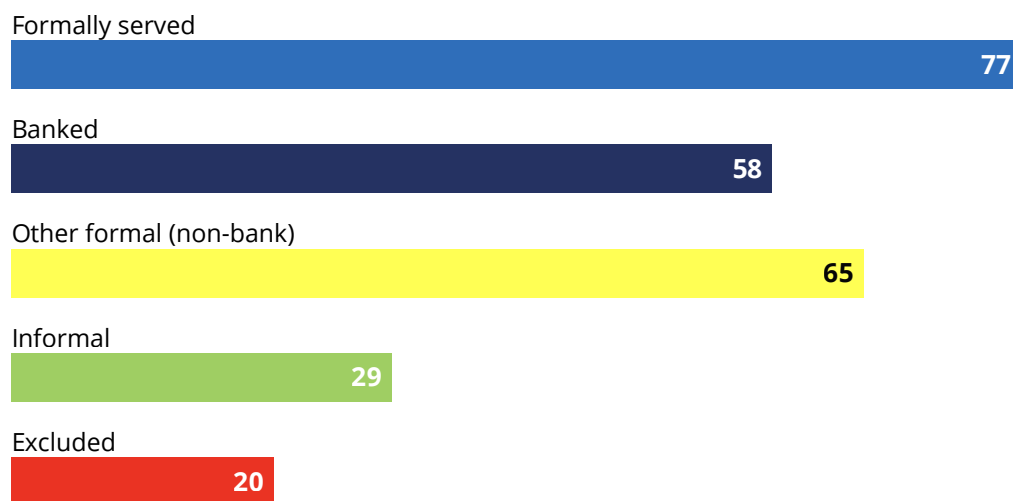


Figure 20: Overview of financial uptake (with overlaps)

The following observations can be made based on Figure 20:

- 77% of MSME owners are formally served, but only 58% are banked. This suggests that many entrepreneurs rely on non-bank financial institutions (65%), such as microfinance, mobile money or SACCOs, rather than traditional banks.
- Despite the high formal financial inclusion, nearly one-third of business owners still use informal financial services.
- One in five MSME owners (20%) are completely excluded, meaning they do not use any form of financial services or products (formal or informal).

The insights presented above are explored in detail across institutions and products in the sections that follow.

Financial Access Strand

A more detailed examination of the overlaps illustrated in Figure 21 reveals that MSME owners generally prefer to use financial services from a variety of sources, including banks, formal financial institutions and informal lenders. This inclination may be influenced by the differing suitability of financial services provided by each sector. For instance, those in need of a small, quick working capital loan might find informal lenders to be more accommodating, whereas individuals requiring larger loans may feel more inclined to approach banks and formal institutions. Furthermore, factors such as collateral requirements, KYC regulations and complex application procedures can present challenges to accessing formal financial products and services. Gaining a comprehensive understanding of these barriers might benefit from a supply-side study.

As indicated in Figure 21, business owners use a myriad of financial products in differing combinations. About 46% of MSMEs use both formal and informal products. The Access Strand reveals that a substantial proportion of MSME owners, at only 58%, are reliant on banks. However, looking at businesses from medium to micro-enterprises, the proportion of bank usage decreases.

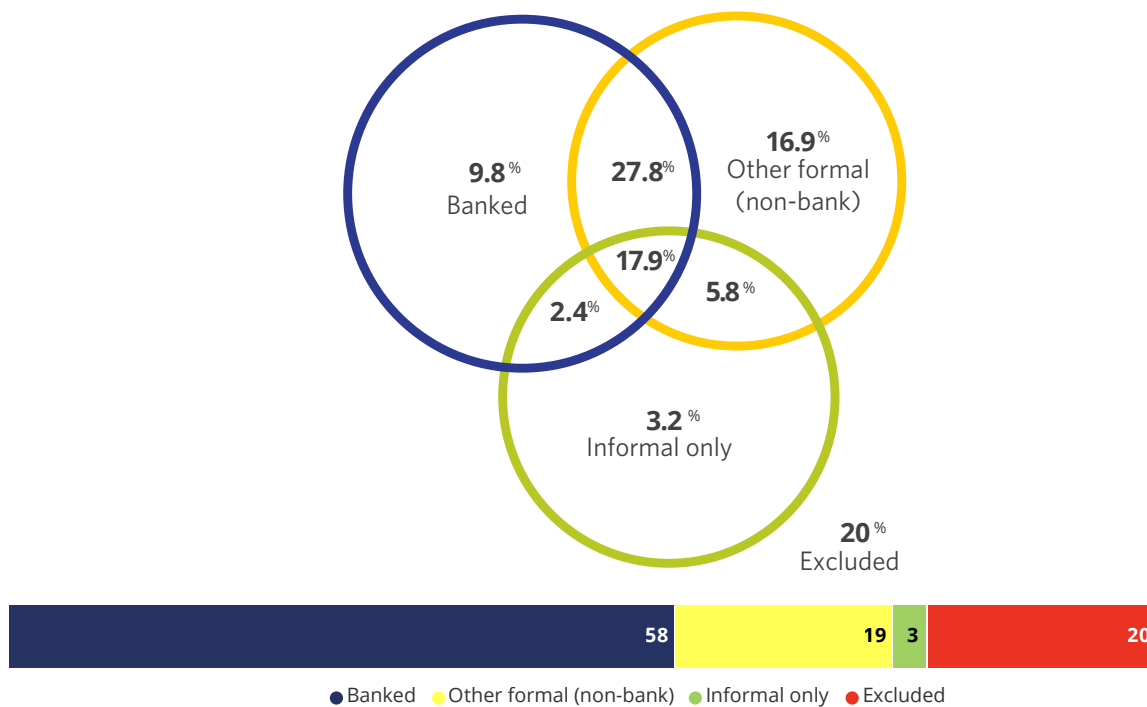


Figure 21: Overlaps and Financial Access Strand (%)

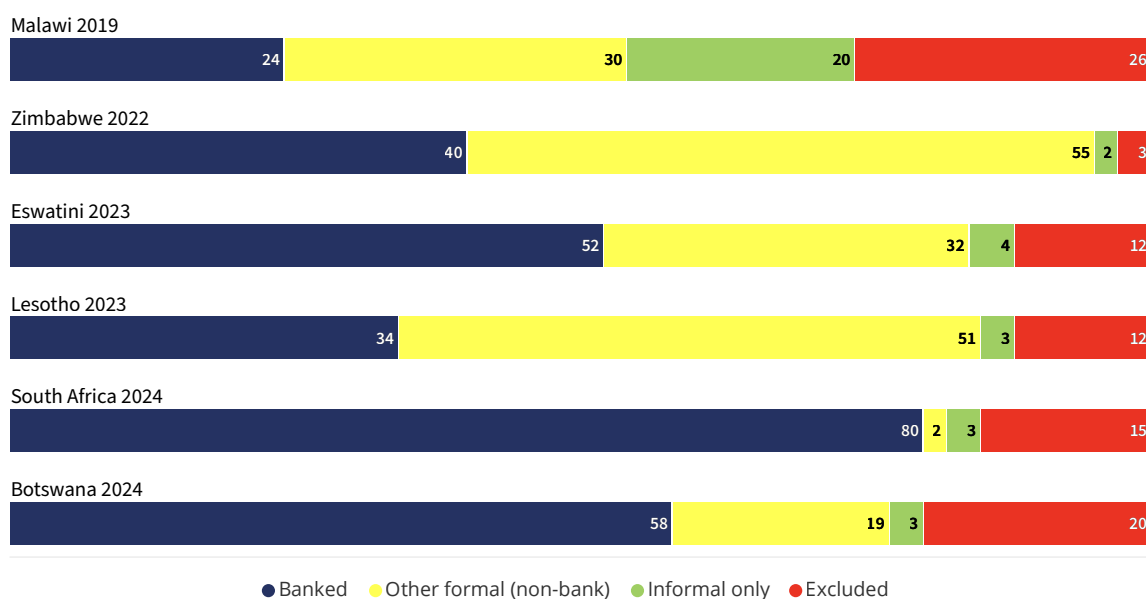


Figure 22: Cross-country comparison of MSME Financial Access Strand (%)

Although Botswana MSMEs have a slightly higher financial exclusion compared to neighbouring countries in the SADC region, they still enjoy a high proportion of banked businesses. As shown in Figure 22, more than half of the MSMEs in Botswana rely on bank services, and a further 19% rely on other formal services.

Bank account: Access and usage

Traditionally, banks have served as the leading providers of financial products and services. Nonetheless, the rise of mobile money platforms and microfinance institutions has significantly transformed the financial landscape. As a result, business owners are increasingly accessing a variety of financial products from both established banks and other formal non-bank sources.

The availability of financial resources tends to vary by sector, influenced by the differing demands for financial services that correspond with the complexity of various businesses. This variation can be attributed to inherent factors such as the sector's development levels and the specific life cycle phase of each business. Even though banked businesses may also use other formal (non-bank) services and or informal services, our strand analysis removes overlaps, ranking from banked and other formal (non-bank) services to informal, with the excluded separate.

As shown in Figure 23, sectors that are more formally oriented (requiring registration or licensing), such as the services and construction sectors, tend to have a higher proportion of banked businesses. Interestingly, as we move from agriculture/farming to natural resources/mining sectors, we observe a decrease in banking and an increase in formal (non-bank) services, indicating that these sectors rely more on other formal (non-bank) services, such as mobile money. As expected, with lower bank penetration, there is a higher uptake of other formal (non-bank) services/products, showing the willingness of entrepreneurs to substitute traditional banks for other formal financial services.

Access to and use of formal products depend on the business ecosystem. For instance, the use of formal products like Point of Sale (POS) can greatly enhance transactional efficiency. However, it can be expensive for the business owner if customers and input suppliers conduct business mostly using cash. Developing tools that enhance how business owners receive and process payments, as well as manage and secure their cash flow, will be made easier with an understanding of the business ecosystem.

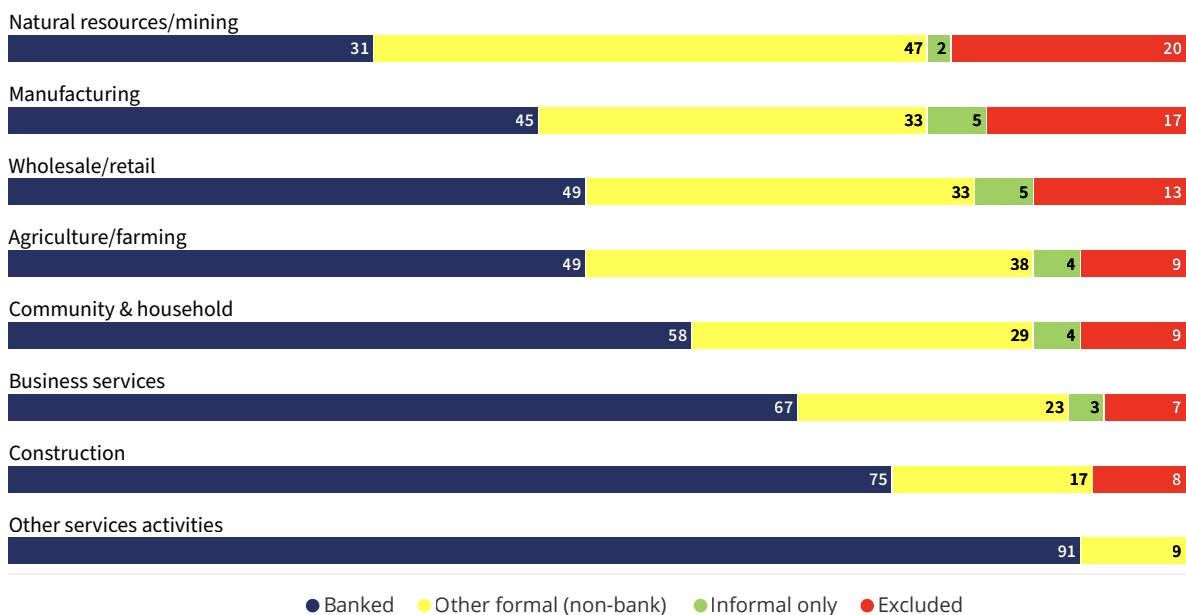


Figure 23: Financial Access Strand by sector (%)

Bank account ownership and usage

Having a bank account is important for business owners. A dedicated business account allows MSME owners to manage their financial resources more efficiently. Keeping cash in multiple places may lead to loss and increase the risk of theft and misuse. In addition, a small business owner with a bank account can trade with customers by sending goods through an agent, who can then deposit the payment into the business's bank account from their location.

Despite the advantages of having a bank account, only 10% of banked MSMEs use business accounts (in the name of the business), while 90% use personal bank accounts. Furthermore, only 54% of micro-enterprises use bank accounts compared to 100% of medium enterprises. This clearly indicates that bank access increases as the business grows.

Figure 24 shows a comparison of bank account ownership among different business size categories. Medium enterprise owners have the highest access to bank accounts, with 100% of them owning one, followed closely by small enterprises at 98%. There is a positive correlation between business size and access to bank accounts, with micro- and independent enterprises showing the lowest levels of access. Independent entrepreneurs, micro-enterprises and small businesses use other formal financial institutions and informal institutions as alternative sources for financial services. According to the access strand, independent entrepreneurs have the highest usage of other formal services, potentially using mobile money as a substitute for traditional banking services. Smaller businesses experience higher levels of exclusion.

Interestingly, the maturity of the business does not show a clear pattern relating to financial inclusion. One might expect that more mature businesses would have higher levels of financial inclusion, as they tend to be more formalised and developed. However, as illustrated in Figure 24, businesses in the growth and established phases actually demonstrate higher levels of financial inclusion. The highest proportion of banked business owners comes from these categories.

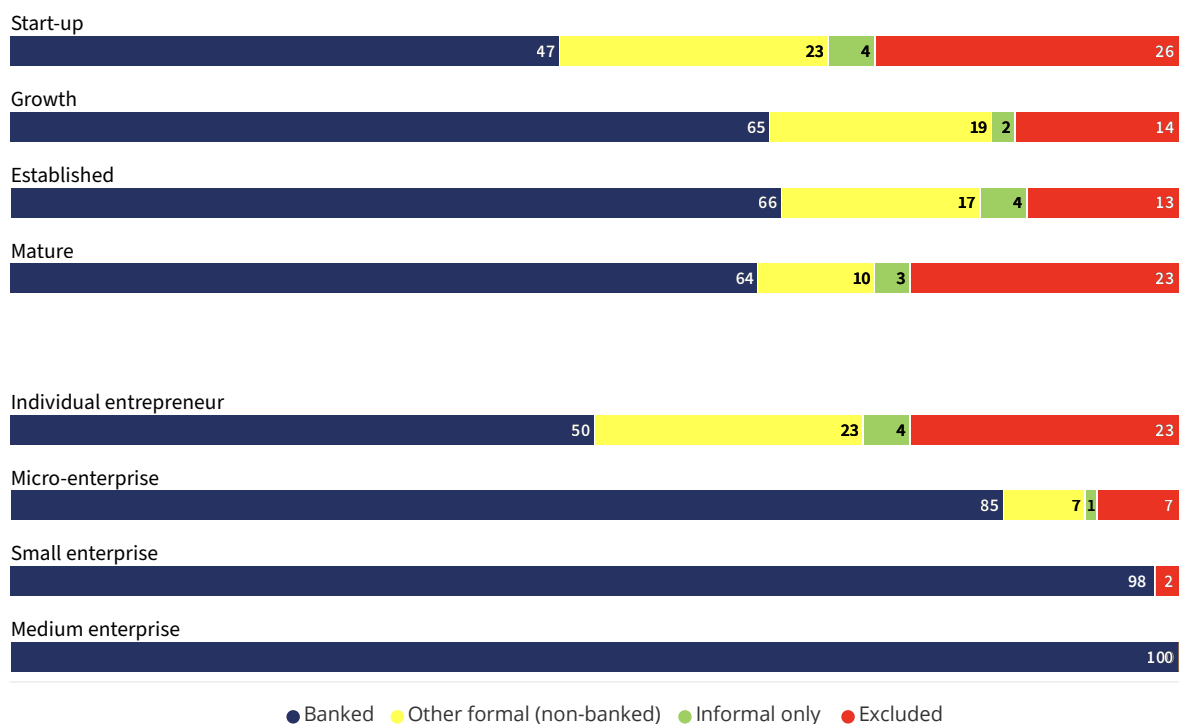
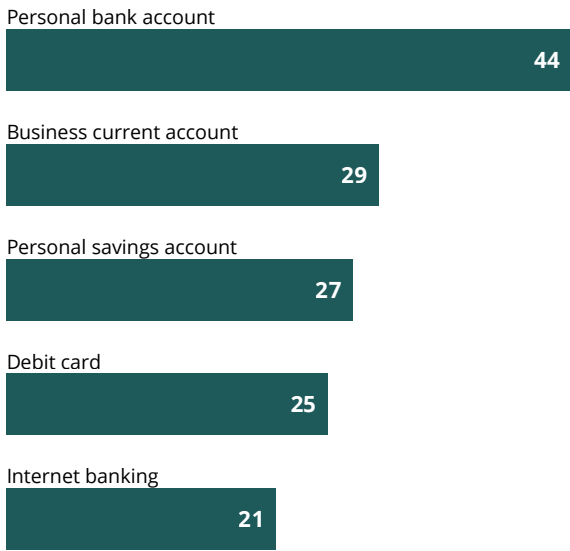


Figure 24: Financial Access Strand for MSMEs across size categories (%)

Main bank products (%)



Main transactions performed in 2024 (%)

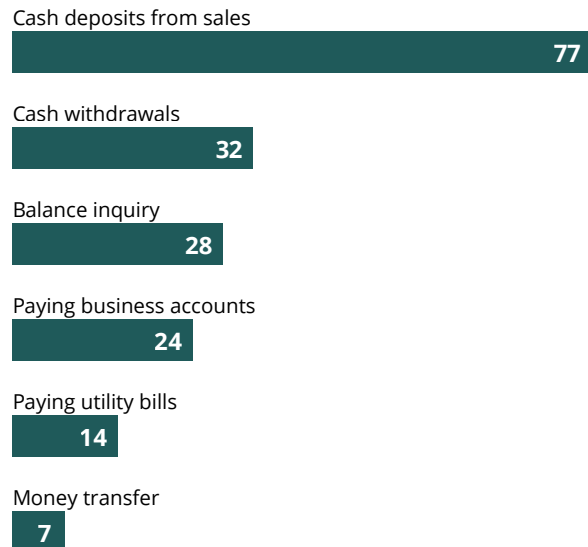


Figure 25: Banking drivers and needs (%)

Among banked business owners, the majority (96%) use digital financial services, such as electronic transfers and online banking, to make and receive payments, despite the low ownership of POS machines. Bank penetration is largely through personal bank account access rather than dedicated business bank accounts.

Mobile money account ownership and usage

The recent surge in formal financial inclusion in SADC can be attributed to mobile money, which has increased financial inclusion by expanding access to active mobile money accounts. The introduction of mobile money has not only provided an alternative for financially excluded individuals but also stimulated the use of mobile money for the payment of goods and services.

The MSME sector is no stranger to using mobile money accounts for business purposes. Mobile money services allow individuals to access financial services using their mobile phones, which is particularly beneficial in areas with limited access to conventional financial services.

As shown in Figure 26, mobile money is more popular among micro-enterprises and small business owners than medium-sized business owners. In terms of mobile account usage, a similar pattern is observed. Smaller businesses show a higher tendency to use their mobile money account, at 59% for micro-enterprises and 55% for small enterprises.



Figure 26: Mobile money usage among MSME owners (%)

Access to credit

While significant strides have been made in financial inclusion, access to finance for entrepreneurs continues to be a major impediment to entrepreneurship and private sector development in the SADC region. This is well recognised by the government, and easing access to finance is among the most important measures needed to promote MSME development.

To qualify for credit within formal institutions, businesses must be registered, which only accounts for 51% of registered or licensed businesses in Botswana. The study compared MSME owners' access to credit across the sector categories. A comparison is made on access to credit from banks, other formal institutions, informal sources, family, and friends.

As shown in Figure 27, bank credit uptake is generally low across all sectors, peaking at just 15% in business services. Most MSME owners do not borrow at all. This points to either a risk-averse nature in Botswana or barriers to access. Where credit is used, family and friends are a common fallback, especially in agriculture and natural resources. Sectors like business services and mining show relatively higher engagement with formal lenders, potentially reflecting better education levels or formalisation.

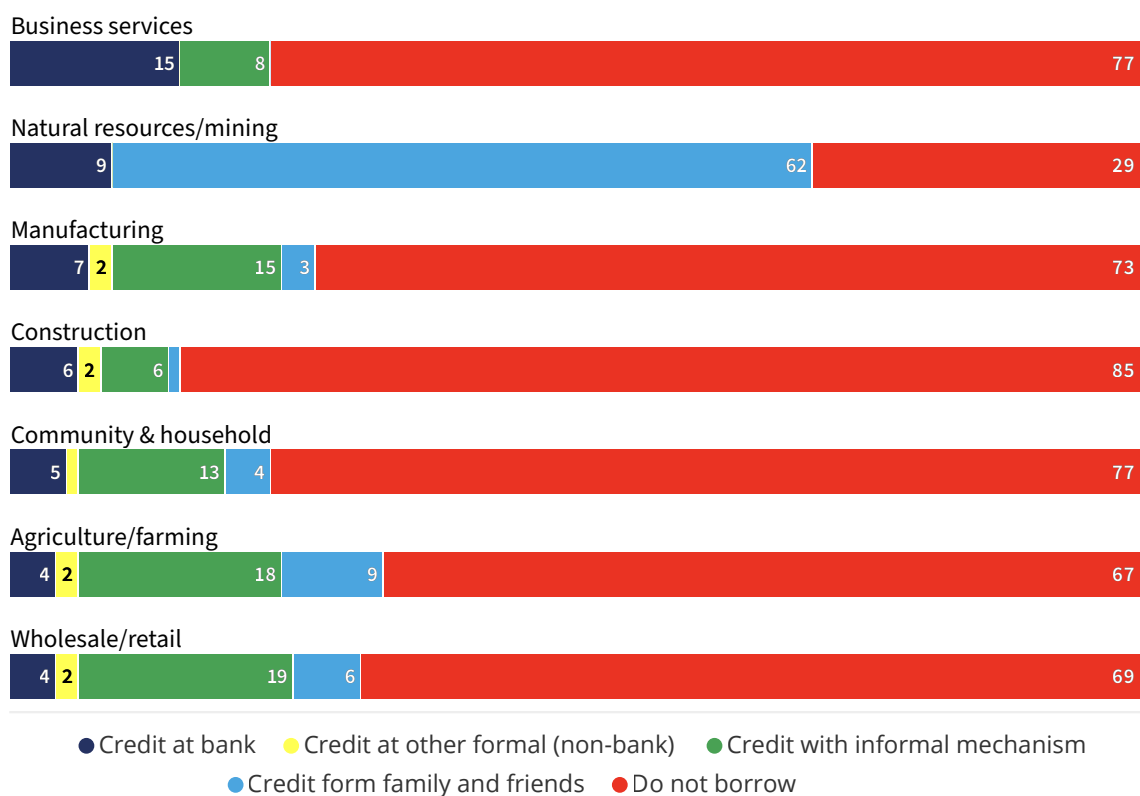


Figure 27: Credit Strand by sector (%)

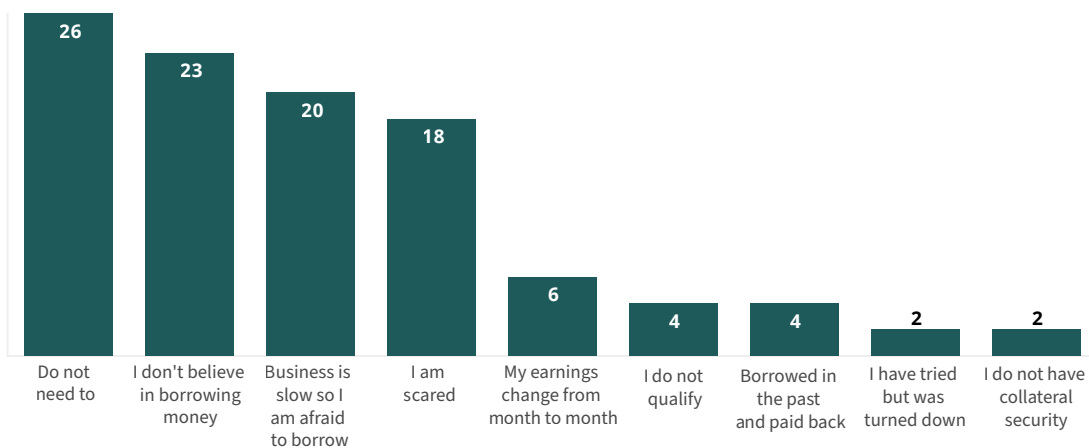


Figure 28: Barriers to credit (%)

Figure 28 shows that demand-side barriers, such as lack of need, fear and uncertainty, are more common reasons for not borrowing. These findings highlight the need to address demand-side barriers through financial education, risk mitigation and promoting a culture of responsible borrowing, which could be a key strategy for increasing access to finance through credit.

Savings and investment

Access to capital markets and formal savings and investment platforms, such as Savings and Credit Cooperative Organisations (SACCOs) and stock exchanges, enables MSMEs to reinvest their retained earnings into their businesses. This capacity for reinvestment can significantly enhance the funds available for further investment or credit.

It is worth noting that many businesses are often viewed primarily through the lens of investment opportunities. Given that a substantial number of MSMEs depend on self-funding to support their growth and working capital, their access to diverse savings and investment products is essential for ensuring they are well-prepared to meet future financial needs.

As highlighted in Figure 29, 40% of MSMEs engage in saving with formal financial institutions, with 18% of them choosing to save solely with banks. The remaining MSMEs either pursue informal saving methods or do not engage in saving at all.

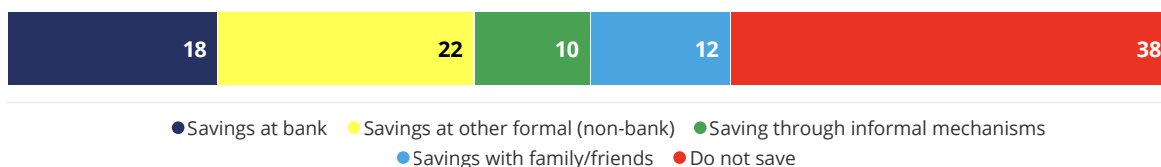


Figure 29: Savings Strand (%)

Insurance and risk mitigation

Managing risk is essential for the sustainability and resilience of MSMEs, especially in environments where businesses are vulnerable to income shocks, theft, natural disasters or health emergencies. Yet, many business owners operate without formal risk mitigation tools such as insurance. Instead, they rely on informal safety nets or absorbing losses themselves. While co-ownership and using diversified sources of financing can help distribute risk, most MSMEs are owned by individual entrepreneurs, and the owner is the only source of capital. Consequently, the owner would absorb the risk alone, and this can easily lead to the collapse of a business. Therefore, insurance plays an important role as part of the risk management mechanism in MSMEs. As shown in Figure 30, only one in five MSME owners in Botswana is insured. The high level of uninsured MSMEs signals a critical gap in the financial protection ecosystem.



Figure 30: Insurance Strand (%)

Figure 31 reveals that even when insurance is available, many business owners either do not understand it, cannot access it, or do not see its value in relation to their business risks. The most cited reason for not having insurance is the perception that it is too expensive. There is also a lack of perceived need (28%); more than a quarter of MSME owners do not see the need for insurance, possibly because they have never experienced a major business shock or because they rely on informal mechanisms.

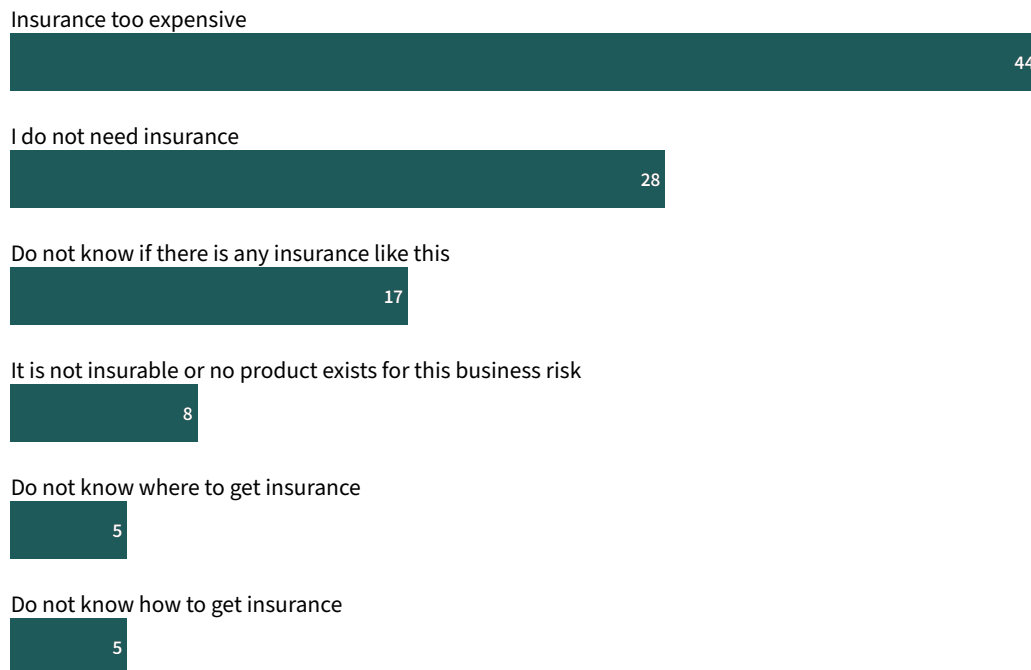


Figure 31: Barriers to insurance (%)



Financial Health and Botswana MSMEs

The financial health of MSMEs includes all aspects of the stability, viability and efficiency of the financial affairs. The business owner's capacity to meet short-term obligations, generate profits, manage debt and sustain long-term growth contributes to the health of the business's financials. Economic shocks are more likely to be resisted by financially resilient MSMEs, which are also better positioned for expansion and innovation, and are more likely to attract funding.

Financial health is a complicated notion that goes beyond 'healthy' and 'not healthy', and it is receiving increasing global attention. It encompasses a range of financial circumstances and vulnerabilities. Since most MSMEs are run by individuals, there is a significant overlap between consumer and business owner financial health.

For individuals and households, financial health means managing present commitments and spending, while maintaining confidence in future financial situations. Defining and measuring financial health for consumers and households is relatively straightforward; however, for enterprises, it becomes more complex.

FinScope Consumer can compute consumers' financial health based on their capacity to manage daily financial transactions, take advantage of opportunities, be resilient to shocks, and regulate their financial decisions. Financial health indices examine these indicators to provide a full knowledge of individuals' financial well-being, enabling targeted improvements and financial stability.

In light of the above, the financial condition of a business is frequently assessed by its liquidity, solvency, profitability, and operational efficiency. In small businesses, short-term profitability may be less important than liquidity². Small business financial health includes stability, revenue potential, and the business context, beyond profitability. While it can be challenging to run a financially healthy small business without strong commercial activity, a business can still operate functionally yet remain financially unhealthy. Due to their concentration on financial achievement, standard financial indicators would not indicate these underlying issues.

MSME financial health indicator measurement

At present, the report recognises that the concept of 'MSME financial health' is a novel concept and does not yet have a universally accepted definition. FinMark Trust has made substantial progress in studying the concept of financial health as it applies to MSMEs, despite the absence of a universal definition. FinScope surveys have developed modules on entrepreneurial attitudes, business owners' financial capability and resilience, cash flow and debt management, business growth drivers, and performance indicators, learning from the Framework for Understanding the Financial Health of MSME entrepreneurs.

Despite the progress made thus far, the work still has shortcomings because a significant portion of business performance cannot be based on demand-side data, which is largely unverified and necessitates a qualitative element to comprehend the quality of financial standing that contributes to financial health.

The FinScope Botswana MSME 2024 survey adopted the Financial Health Network (FHN) framework³, which defines 'financial health' as a situation whereby the daily systems of a small business help it build resilience and seize opportunities. This definition encompasses two crucial aspects of financial health: the ability to withstand adverse conditions and survive tough times, and the ability to grow and expand in response to market opportunities. According to FHN, a small business is financially healthy when it effectively manages its financial matters, maintains sound financial systems, plans and manages cash flow, takes measures to protect against risk, and has access to diverse financial resources (see Figure 32).

² A Framework for Understanding the Financial Health of MSME Entrepreneurs

³ <https://mfc.org.pl/wp-content/uploads/2019/02/SME-FINANCIAL-HEALTH-SCORECARD-SUMMARY.pdf>

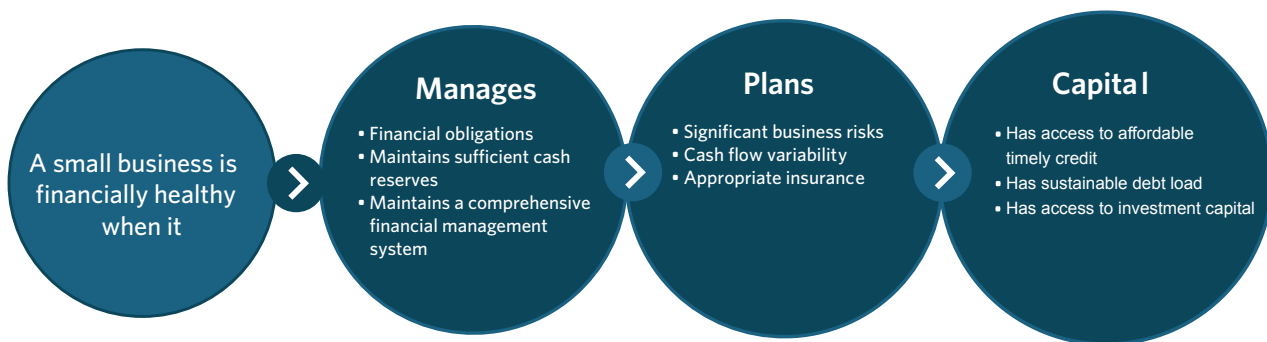


Figure 32: MSME Owner Financial Health Framework

Computing the FinHealth index

The financial health indicator is developed in two stages, with the score being calculated by aggregating all scores and converting them to percentages using the following steps:

- $\text{Manage} + \text{Plan} + \text{Capital} = \text{Financial Health Score}$
- $\text{Financial Health Index} = \text{FHS} \text{ multiplied by } 100 * \text{FHS}$

The financial health indicator is derived from 11 behavioural indicators, which include the management of financial obligations, the maintenance of cash reserves, the implementation of a financial management system, the analysis and reporting of financial information, the management of working capital, the planning of significant business risks, the variability of cash flows, the availability of affordable and timely credit, the sustainable debt load, and the access to investment capital for small businesses. The allocation of scores, the extent of the segments, and the definition of segments are illustrated in Figure 33.

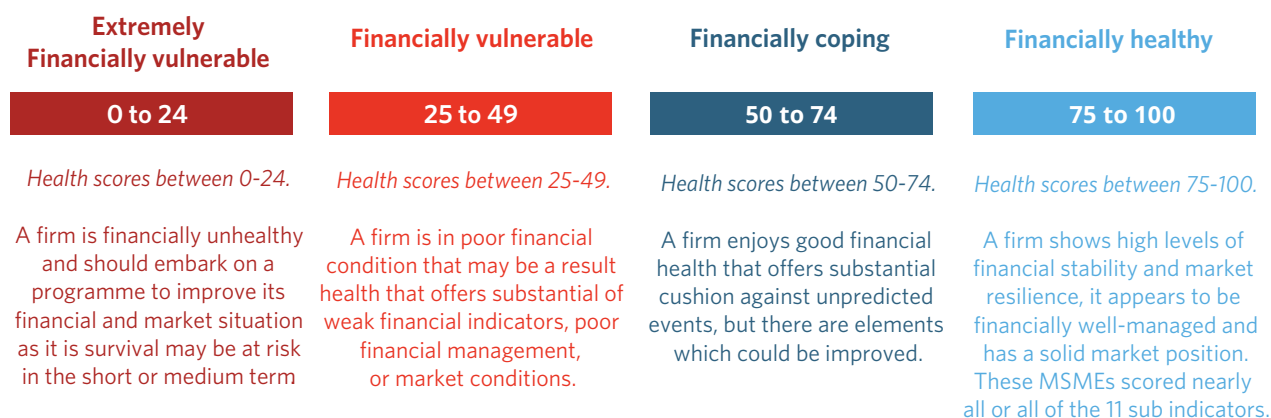


Figure 33: MSME Financial Health scoring and segments

The indicator and its segments distinguish between healthy and unhealthy business owners. The inclusion of exogenous and endogenous success determinants can help these entities identify areas where MSMEs require assistance.

Segmenting the financial health business indicator could help financial services providers offer the most beneficial products to MSMEs. A simple segmentation would be to identify stability- and growth-oriented entrepreneurs using the framework's opportunity and goals questions. Stability-oriented entrepreneurs may benefit most from an insurance product that ensures their resilience to economic shocks, whereas growth-oriented entrepreneurs are more likely to require funding (among other resources) to build their enterprises.

Batswana business owner financial health

The findings show that four out of five business owners are financially vulnerable. Figure 33 depicts a troubling financial health landscape for MSME owners, with a distribution comparable to that in Lesotho (2023) but significantly larger. Nearly a quarter of MSMEs (24%) are extremely vulnerable, while an additional 56% (about 70,000) are financially vulnerable. Only 20% (approximately 25,00) of MSME owners are financially coping or healthy, having met most or all of the 11 financial health indicators, which include debt management, risk planning, and access to investment capital.

There are considerable variations across demographics and business formality. Women-owned MSMEs are more financially vulnerable (83%) than men-owned (76%), owing to high proportions of women owning smaller businesses and higher informality. Informal business owners are more financially vulnerable (93%) than formal enterprise owners (69%). These findings emphasise the need for targeted support and interventions to address the financial health determinants that contribute to these disparities among MSMEs, particularly those owned by women and operating informally.

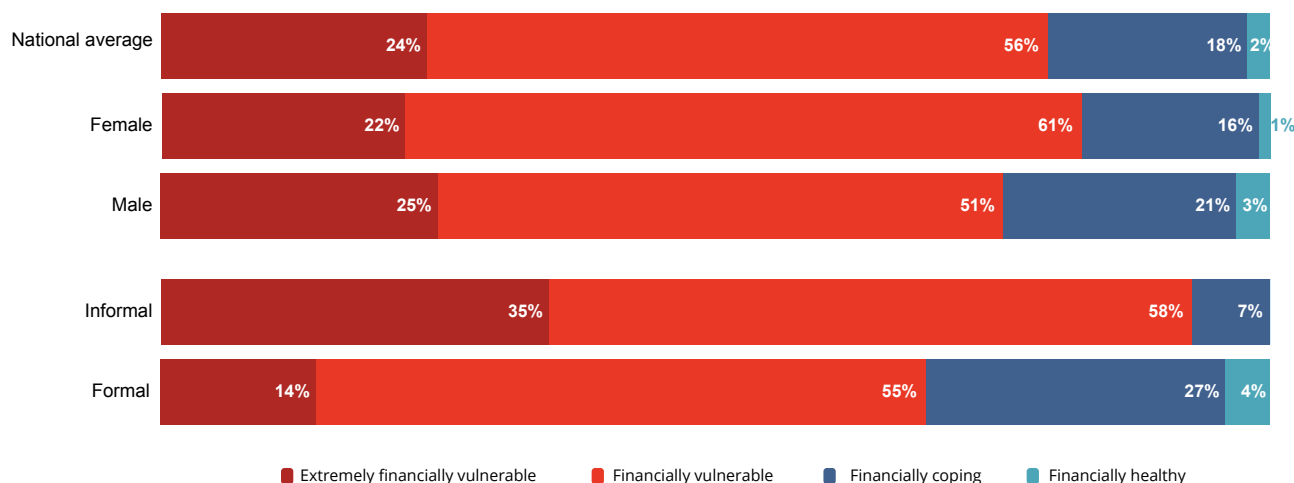


Figure 34: MSME owners' financial health levels



Conclusions and Implications for Stakeholders

Botswana's MSME sector is essential to the country's achievement of SDGs 3, 8, and 9, as well as other sustainable development goals, including poverty reduction. Carefully considered actions can help the nation's MSME sector realise its potential by tackling the challenges outlined in this study. This report highlights examples of several interventions that can address these challenges, especially those facing the sector's female-led enterprises, and promote youth employment by reducing the sector's barriers to accessing capital. This section presents the study's conclusions and implications for stakeholders.

Conclusions

In conclusion, the report offers a comprehensive view of Botswana's MSME owners' profiles, financial system and the general public's interactions with it.

The following section highlights key aspects of financial inclusion and suggests priority areas for the next MSME financial inclusion strategy.

- Women-owned businesses are the majority of Botswana MSMEs; however, they comprise mostly individual and micro-enterprises. They also earn four times less on average compared to men-owned enterprises.
- Business sophistication is low; most businesses do not keep financial records, market their services or products, or apply any technology to improve work efficiency or productivity. Segmenting the sector from survivalist businesses can show a different lens for identifying MSMEs that are more likely to grow.
- A high proportion of MSMEs are in the wholesale/retail and community and household sectors. These sectors also have the highest monthly turnovers, but much lower profits per business. This is primarily due to a higher proportion of enterprises in this sector being micro in nature.
- High 'formally registered' MSMEs with other entities (over 50%), and only 11% registered with MTE (CIPA) – the acceptability of formal registration may need to be reviewed, unless only CIPA registration is recognised as formal and registered.
- The highest full-time employment-generating sector is the community and household sector. However, to boost employment, focusing on natural resources and mining, as well as tourism, will have a multiplier effect.
- Access to finance is a key operational and growth barrier. Unpacking the financial needs shows that business owners require additional financial instruments to manage cash flow and finance-related costs that are not packaged as credit, such as leasing.
- Formal financial inclusion is high but mainly led by personal banks and mobile money access (transaction and savings-led). There is a high use of digital financial services (DFS) for both banked and mobile money MSMEs, although payments to suppliers and employees are largely in cash.

Implications for stakeholders

The insights emerging from this report hold significant implications for a broad spectrum of stakeholders engaged in Botswana's MSME development landscape.

For development partners, the findings point to the importance of moving beyond generic MSME programming to more tailored interventions. A one-size-fits-all approach risks leaving behind those who need support the most, especially start-ups and survivalist entrepreneurs with limited capacity to navigate complex systems. There is a need to invest in platforms that **provide MSMEs with stage-specific support** from registration to growth, formalisation, resilience-building and scaling up.

Capacity-building organisations, including NGOs and training institutions, have an opportunity to align their offerings with the real-world challenges that MSMEs face: informal operations, low financial literacy, and lack of exposure to structured business development services. Entrepreneur support programmes must take into account the socio-economic realities of business owners, many of whom are young, female, and operating with limited resources.

For financial institutions, the data restates a long-standing access gap. While financial inclusion levels may be rising at the access level, usage remains low, with uptake of credit and insurance products being particularly low. This calls for **innovation in product design solutions** that reflect cash flow irregularities, risk aversion, and documentation barriers that informal and micro-businesses face.

Recommendations for policymakers

The findings offer clear signals to policymakers on the strategic shifts needed to enable MSMEs to transition from informal and micro-enterprises into vibrant drivers of inclusive economic growth.

First, the dominance of micro-enterprises and the concentration of businesses in early lifecycle stages call for a **stronger enabling environment for businesses** to evolve and mature. This includes reducing regulatory barriers and simplifying business registration, licensing and tax compliance processes through a one-stop digital portal to reduce costs and encourage MSME formalisation.

Second, the **mismatch between financial access and actual usage** highlights the need for policy frameworks that incentivise inclusive financial innovation. Policymakers may benefit from establishing a **government-backed MSME credit guarantee scheme** that incentivises banks to offer affordable loans with flexible credit scoring models and repayment terms, and has tailored micro-finance offerings. Strengthening the credit information infrastructure and alternative data systems can also widen access to affordable finance.

Third, given the clear potential for employment creation in sectors like tourism, services and light manufacturing, there is **scope for sector-specific industrial policies** that actively support MSME development. These could include cluster development strategies, local procurement policies that favour small businesses, and targeted capacity-building tied to value chain integration.

Furthermore, the vulnerability of MSMEs to shocks, whether economic, environmental, or health-related, calls for integrated resilience strategies. These could involve **establishing MSME-focused contingency funds**, integrating small enterprises into social protection frameworks, and developing early warning and crisis response mechanisms tailored to small business needs.

Additionally the data highlights the importance of **taking a gendered and youth-focused lens** in MSME policy. With women and young people dominating the sector, support programmes must be designed with their specific constraints in mind, such as access to collateral, social norms and caregiving responsibilities.

Lastly, **Strategic inclusion of MSME indicators in the National Financial Inclusion Strategy (NFIS) and Roadmap.**

Recommendations for the private sector

The private sector in Botswana has a critical role to play in unlocking the growth potential of MSMEs. The insights from this report offer actionable entry points for engagement and innovation.

- Financial institutions need to **rethink the design** of their financial products. They should move beyond conventional credit and savings models and create offerings that align with the cash flow patterns, risk profiles, and the informal nature of the MSME sector. **Implementing flexible repayment structures, mobile money savings tools, microinsurance products, and financing options for informal businesses** could significantly increase meaningful usage and open opportunities for underserved entrepreneurs.
- Large corporations can play a transformative role by **intentionally integrating MSMEs into their value chains**. This can be achieved by sourcing from local producers, providing supplier development programmes, and supporting quality assurance and certification efforts. By creating stable markets, larger companies can reduce the risks for MSMEs and enhance their opportunities for growth and survival.
- **Investing in skills and market access is essential for MSME growth**. Beyond financial support, these businesses benefit significantly from initiatives aimed at enhancing their business acumen, elevating product quality, and facilitating entry into new markets. Private sector partners, especially those with regional or global reach, are well-positioned to contribute significantly through mentorship, incubation, co-working spaces, and digital skills training. Moreover, **fostering collaborations with local accelerators and entrepreneur support organisations** can effectively enhance the collective impact of these efforts.
- **Expanding digital infrastructure and services** – access to digital tools is increasingly non-negotiable for small businesses. Mobile payment platforms, e-commerce marketplaces, cloud-based accounting tools, and digital logistics services can help MSMEs operate more efficiently and competitively. Private sector players in the digital space can partner with government and development actors to **bridge the digital divide** for small businesses, especially in rural areas.

Way forward

The study underscores a notable contribution from the MSME sector, emphasising its importance in driving economic progress, despite the challenges faced by the sector. The conclusions presented above are crucial for enhancing the understanding of the sector, particularly in revealing the breadth and depth of the informal economy, which has largely been misinterpreted. The report presents high-level data; however, the dataset permits more in-depth analysis, including segmentation of MSMEs to pinpoint high-growth SMEs and demographic analysis, among other aspects.

The primary limitation lies in comprehending the supply-side dynamics of the market concerning financial services and products, business support services, as well as regulation and policy, which would provide a definitive perspective on the MSME sector. The MSME360 diagnostic, developed and carried out by FMT in Malawi and Eswatini, addresses this limitation by examining the MSME ecosystem to identify gaps, bottlenecks, or duplications in efforts aimed at promoting the growth of the MSME sector by looking at the supply side, canvassing both regulatory and policy environments. This process results in a comprehensive roadmap and action plan targeting key segments of the sector. It is recommended that the Botswana Government align this study with the recommendations provided in the following section, which are tailored for policymakers, the private sector, and a wider range of stakeholders.

Methodologically, the next iteration of the FinScope MSME Botswana will include a richer sample to cater for the differentiation of high-growth MSME by sector to allow sufficient statistical reporting power and inferences. For more advanced application and evidence based interventions, financial access mapping ought to be done to overlay where financial access points are vis a vis, where MSMEs are concentrated. From the survey questionnaire, there ought to be modules that tap into MSME digital usage, MSME readiness for compliance and formalisation. A deeper understanding of the informal MSMEs is crucial, while also understanding the usage of social capital. This means, the next iteration of the FinScope MSME will build on the learnings from this process and insights gained.

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