

# Focus on: *Botswana*

Grant Thornton International Business Report 2013





# Introduction

Botswana is an emerging economy of around 2m people. In 2012, its GDP was approximately US\$18bn, making it the 110th largest economy in the world.

Drawing on data sources such as the Economist Intelligence Unit (EIU), the International Monetary Fund (IMF) and the Grant Thornton International Business Report (IBR), this short report considers the outlook for the economy, including the expectations of 200 businesses interviewed in Botswana, and more than 12,500 globally, over the past 12 months.

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**200**  
business  
interviews



**US\$18bn**  
gross domestic product



**2 million inhabitants**



# Economy

Botswana has moved onto a slower growth trajectory since the global financial crisis as austerity and economic uncertainty in mature markets has weighed on demand for the economy's key export, diamonds, which account for around 75% of export earnings, 30% of GDP and 45% of government revenue.

The government has encouraged a lot of mining investments in the country in response to robust demand in emerging markets and has attempted to introduce more downstream, value-add activities

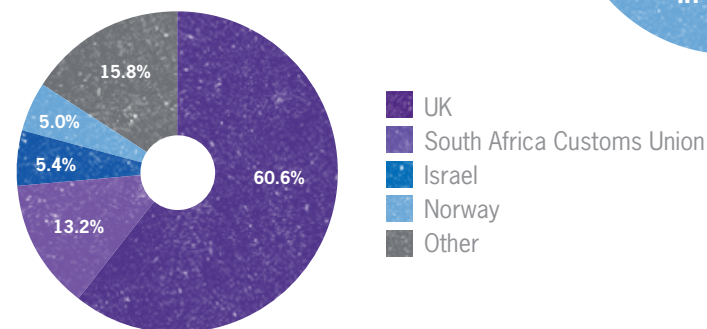
to boost the diamond mining industry. Efforts to diversify in recent years have focused on copper, coal and uranium extraction.

## Key indicators

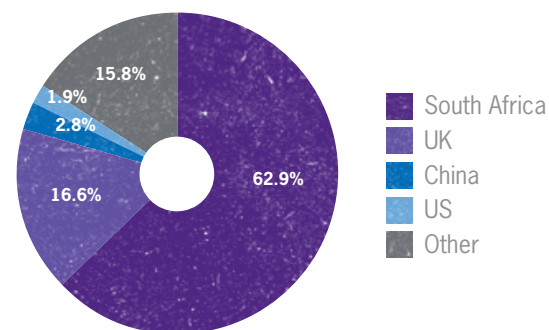
- the economy expanded by 7.4% in Q2 from the same period in 2012, up from 3.3% in Q1 and the fastest rate of expansion in close to three years
- growth was boosted by recovery in the mining sector which expanded by 15.6% on the back of higher diamond production in Q2
- however, diamond sector output is still around 33% lower than before the global financial crisis
- year-on-year growth in non-mining accelerated to 6.6% in Q2 from 4.0% in Q1
- inflation fell back to 5.6% in August, within its 3-6% target range; this allows for looser monetary policy to boost economic activity although the Bank of Botswana decided to hold rates steady in October.

Economy expanded by **4.2%** in 2012

Export markets



Import sources



Source: Economist Intelligence Unit (2012)

## Economic outlook

Recent improvements in diamond output should help the economy grow by 3.9% in 2013, down slightly from 4.2% in 2012. Growth is expected to continue at around the 4% level over the short to medium-term.

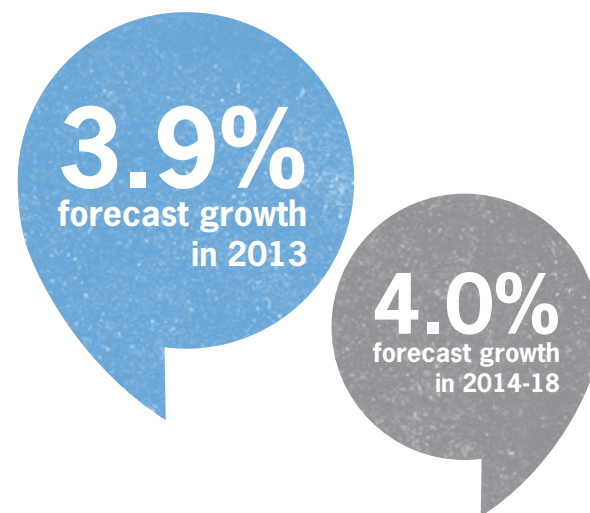
International demand for Botswana's key minerals – diamonds, followed by copper and nickel – is expected to pick up as global economic prospects improve. This should help a recovery in exports to growth of 2.1% in 2013 having contracted by 9.4% in 2012. Export growth is then expected to slow to 0.7% in 2014 before averaging 2.6% in the period 2015-18.

Global diamond supply remains fairly tight and new diamond mines have recently been commissioned in Botswana but output may not increase by too much due to subdued global demand for rough diamonds and technical constraints. New value-add sorting operations in Gaborone should help increase sector output and the new copper mine opened in 2012 could help Botswana become a major global player in the metal.

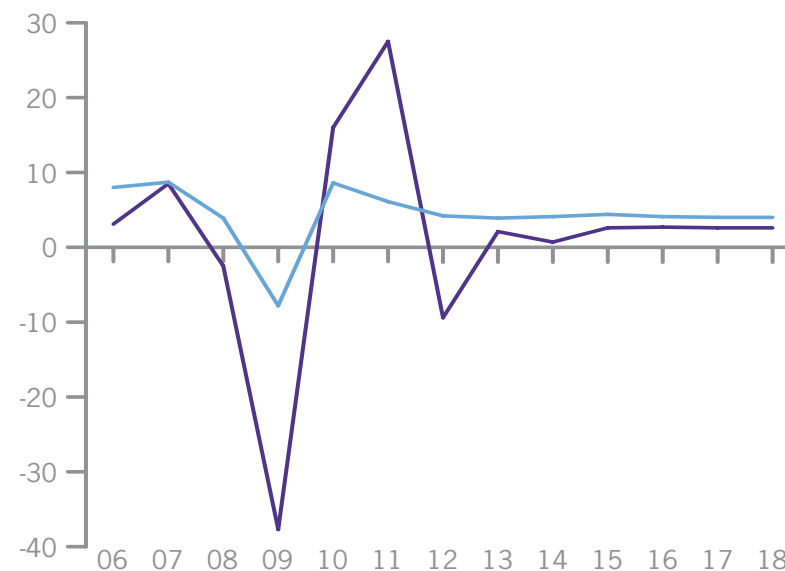
Any decline in international demand for diamonds or renegotiation in the Southern Africa Customs Union (SACU) transfer payments present a major downside risk to this forecast. The SACU (31%) is the major

contributor to the budget in 2013, ahead of diamonds (30%), income taxation (20%) and VAT (6%). If South African demands for a larger share of the SACU were agreed to it could have a major destabilising effect on the fiscal plan.

The government is expected to maintain fiscal stability and its policy of public pay restraint in the run-up to the election although this could be tested if the opposition start gaining ground in the polls.



GDP and export growth (%)



Source: International Monetary Fund (2013)

■ GDP growth  
■ Export growth

## Business growth prospects

Business optimism in the economic outlook in Botswana dropped to 30% in Q3, the lowest since Q4-2011. This mirrored a fall in neighbouring South Africa where business leader optimism for the year ahead fell to 18% – the lowest in IBR history and down from 45% in Q2.

However, Botswana’s business leaders are more positive about the growth of their own operations with net 67% expecting to see revenues rise over the next 12 months (this is in line with the 2013 average) and up from 53% in 2012. Although the result is slightly below the South Africa 2013 average of 70%. Profitability expectations fell to 44% in Q3, from 76% in Q2, but the 2013 average (58%) is above that of 2012 (48%) and marginally above South Africa (56%).

Net percentage of businesses expecting an increase (next 12 months)

### Revenue



### Profits



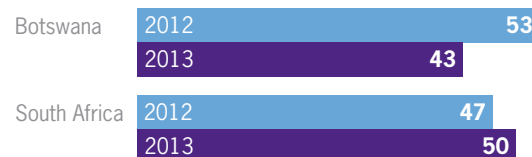
Source: Grant Thornton IBR 2013

**67%**  
expect  
revenues  
to rise

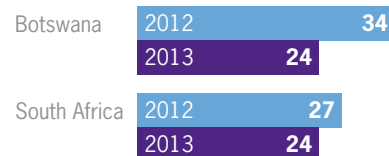
Investment indicators have come down over the past 12 months. Across 2013, 43% have indicated an expectation to increase investment in plant and machinery, down from 53% in 2012, and below the South Africa 2013 average (50%). Similarly just net 24% expect to increase R&D spend, down from 34% in 2012, although this is in line with the South Africa result.

Net percentage of businesses expecting to invest (next 12 months)

### Plant & machinery



### R&D



Source: Grant Thornton IBR 2013

**43%**  
are planning  
to invest in  
plant and  
machinery

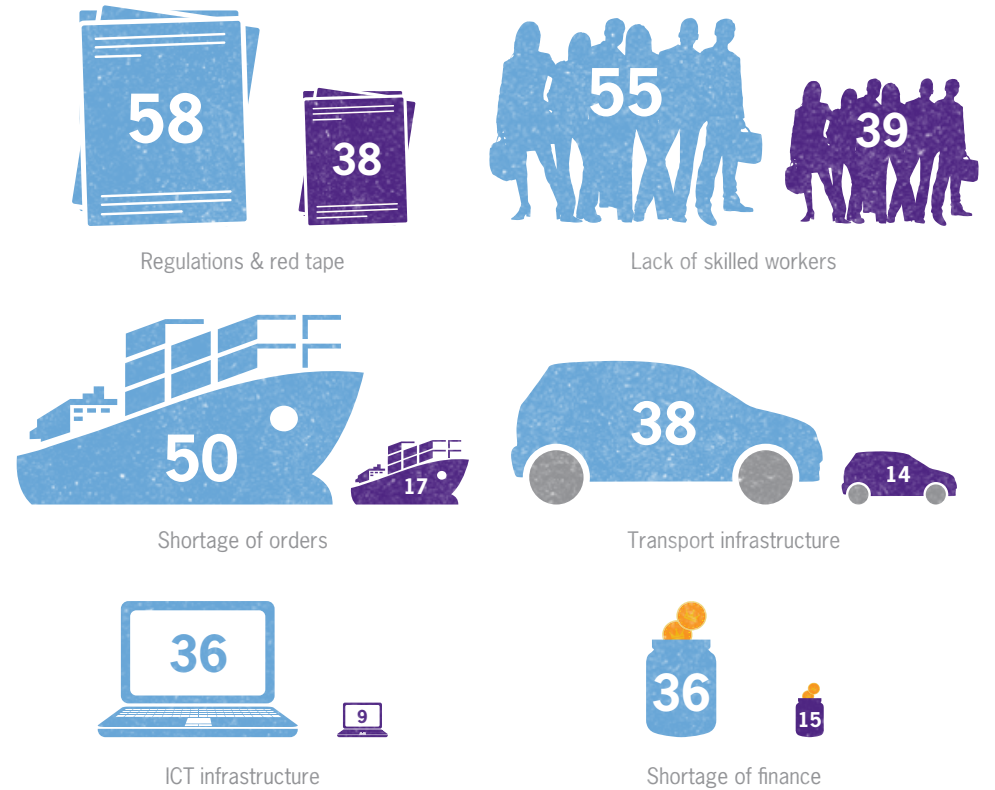
## Constraints on expansion

Business leaders in Botswana report much higher levels of business growth constraints compared with peers in South Africa. Regulations and red tape is the most pressing concern, cited by 58% of businesses compared to 38% in South Africa. This is up from 48% in 2012 and 42% in 2011 and is a record high in IBR history for Botswana.

A lack of skilled workers (55%) is the second major constraint (see next slide) followed by a shortage of orders (50%) – this is up from 39% in 2012, 35% in 2011 and 26% in 2010. By contrast just 17% of business leaders in South Africa cite a lack of demand as a constraint on expansion.

Funding growth is an issue for more than a third of businesses in Botswana; 36% cite a shortage of finance as a constraint on expansion plans, well above peers in South Africa (14%). And business leaders are also concerned that poor quality infrastructure is holding back their growth plans: 38% cite transport and 36% ICT as constraints on expansion, compared with 14% and 9% in South Africa respectively.

Net percentage of businesses citing issue as a constraint on growth (next 12 months)



Source: Grant Thornton IBR 2013

■ Botswana  
■ South Africa

**bureaucracy  
constraining  
business  
growth  
plans**

**a lack of  
talent is a  
challenge**

## The labour market

Research has found that the dominant cause of declining economic expansion is a slowing in total factor productivity growth. This is a particular problem for middle-income economies which need to increase the productivity of their workers – through upskilling and encouraging those with advanced education into innovation activities – to avoid the so-called ‘middle-income trap’.

Botswana is certainly suffering from a lack of talent. More than half of Botswana businesses say that a lack of skilled workers is weighing on their ability to grow their operations. And this is not something new: this proportion has remained fairly constant – and above levels since in South Africa – since 2008. This is feeding into employment numbers: over the past 12 months, just a third of businesses in Botswana have taken on more people, well below the pre-crisis peak of 50% in 2008, although slightly above South Africa (29%).

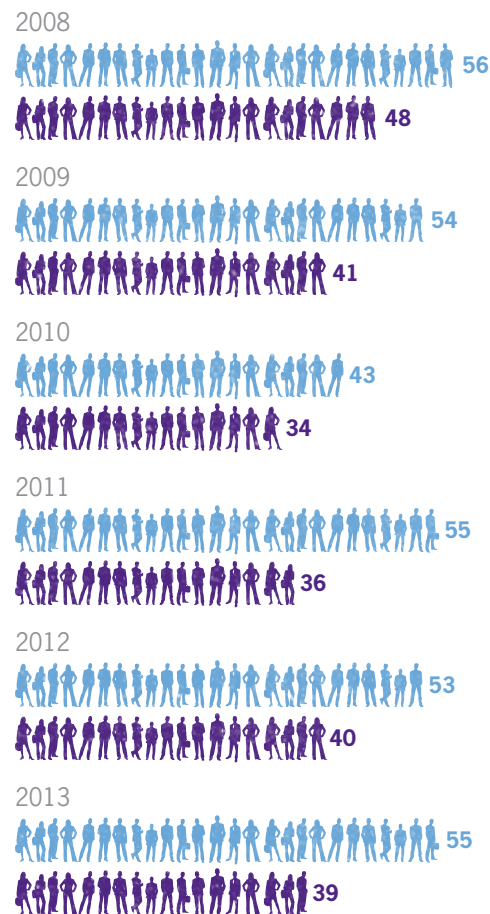
If businesses are battling for the best workers, then these workers can demand a premium in terms of wages. It follows therefore that the proportion of businesses offering salary rises has risen from 69% in 2011 to 88% in 2013, just behind South Africa (93%) but well above the global average of 67%. However, with inflation in check at below 6%, just 18% plan to offer salary increases above inflation – well down on the rate in South Africa (27%).

However, Botswana does perform strongly in terms of levels of women in senior management. Almost a third of top roles are held by women (32%), placing the country tenth out of 45 economies on this measure and above South Africa (28%).

**88%**  
planning  
salary  
increases

**18%**  
above  
inflation

Percentage of businesses citing a lack of skilled workers as a constraint on growth



Source: Grant Thornton IBR 2013

■ Botswana  
■ South Africa

## IBR 2013 methodology

The Grant Thornton International Business Report (IBR) is the leading mid-market business survey in the world, interviewing approximately 3,300 senior executives every quarter in listed and privately-held businesses all over the world. Launched in 1992 in nine European countries, the report now surveys more than 12,500 business leaders in 45 economies on an annual basis, providing insights on the economic and commercial issues affecting companies globally.

The data in this report are drawn from interviews with chief executive officers, managing directors, chairmen and other senior decision-makers from all industry sectors in businesses with 25-199 employees in Botswana and 100-399 employees in South Africa. Q3 data is drawn from 3,300 interviews globally (50 in Botswana, 150 in South Africa) conducted in September 2013. 2013 data is drawn from over 12,500 interviews (200 in Botswana, 600 in South Africa) conducted between November 2012 and September 2013.

To find out more about IBR, please visit: [www.internationalbusinessreport.com](http://www.internationalbusinessreport.com).

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