

Travel, Tourism and Leisure (TTL) industry – Poised to be the growth engine of Botswana economy

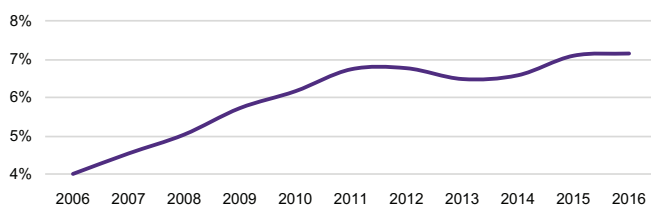
Factors behind sustained growth and investments in the TTL industry

Being the 4th largest sector in the economy of Botswana in terms of growth as well as contribution to Gross Domestic Product (GDP), the hotels and restaurants sector is expected to thrive in the future, primarily driven by:

- better economic activity in Botswana and its neighboring countries (mainly South Africa and Zimbabwe) resulting in higher business and leisure travelers,
- continued investments by international, regional and local players in the industry,
- emergence of burgeoning middle class and middle aged population with higher disposable income and access to technology platforms driving hospitality industry, and
- stabilization of economies in Eurozone and United States of America (USA) providing higher international leisure travelers.

As per the latest available report, this BWP 6.4 billion industry currently contributes over 7.1% of the country's GDP, in real terms as compared to 4% in 2006. Over the last decade, this industry has grown at an impressive Compounded Annual Growth Rate (CAGR) of 15%, outperforming the economy in all years, except 2013.

Hotel and restaurant industry - contribution to GDP



Source: Statistics Botswana

Botswana is a small but growing tourism market in the competitive Southern Africa region, and is expected to grow steadily in the medium term. The country is highly reliant on Zimbabwe and South Africa for tourist arrivals, but has gradually diversified to Europe and USA as well, attracting visitors from wealthier markets by promoting its reputation as a luxury safari destination.

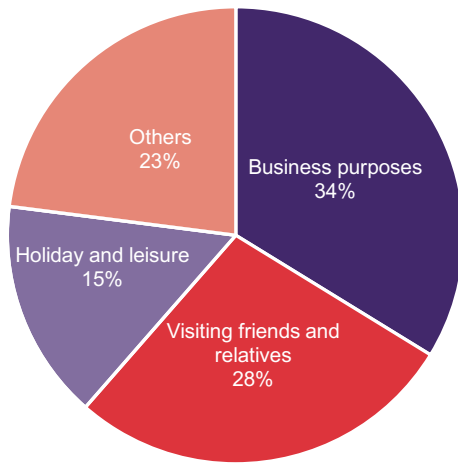
The Botswana Tourism Organisation was awarded with the prestigious "Tourism Tomorrow Destination Award" by the World Travel and Tourism Council. Moreover, the country was recognised for its extraordinary efforts in sustainable tourism, particularly in safari destinations. This improves the country's credibility in attracting investment into the sector.

The country is experiencing investment from major international hotel chains, which will boost the quality of the country's hospitality and tourism offering. Some of these groups include: Cresta (Zimbabwe), Wilderness (South Africa) and Hilton (US) – including home-grown giant, Chobe Holdings. Whilst Wilderness and Chobe Holdings derive a greater extent of their business from safaris and wildlife lodges, Cresta generates revenue from conferences and business events.

There are mainly three categories of tourists, namely those visiting friends and relatives (VFR), leisure tourists, and business travelers. As per the latest available Tourism Statistics Annual Report 2015 published by Statistics Botswana, the country recorded 92% of tourists as overnight visitors and 8% as same-day visitors. This corroborates with the number of arrivals at the Okavango Delta, the main tourism attraction near Maun.

Moreover, most visitors at 33.8% came for business purposes, making this the leading reason for travelling to Botswana. Those visiting friends and relatives accounted for 26.7%, while those who came for holiday / leisure made 15.6% of total tourists. These are promising figures that can surely be improved in the future.

Purpose of visitors travelling to Botswana in 2015



Source: Statistics Botswana

Growth in corporate travel is improving primarily driven by domestic economic activities, and conditions are expected to strengthen over the next two years. The growth outlook for many of Botswana's key trading partners also remains solid. USA and Eurozone appear to be on a stable growth path, and the impact of Brexit is expected to be limited over the medium term. Thus, a steady flow of holiday / leisure tourists can be expected from these regions.

Key macroeconomic drivers of the TTL industry

Positive prospects for the mining sector could lead to relatively higher GDP growth rates in the medium-term. Reforms regarding public sector compensation need to be accelerated to protect public finances against any adverse developments, and maintain the country's track record of sound fiscal management. The inflation rate remained low, close to the lower band of the Bank of Botswana's inflation objective range of 3 – 6%.

Mining

As per BMI Research's latest available report, Botswana's mining sector will continue to attract global investment through to 2019, which will help the country's mining sector to grow despite a decline in contribution of real GDP from 15.8% in 2014 to 12% in 2016 (Source: Statistics Botswana).

Diamonds are the main source of revenue for Botswana's mining sector, with coal anticipated to be a key part of the wider mining sector and forecast production expected to see a rise in the coming years since Botswana possesses the largest coal reserves in Africa which are largely undeveloped. Output forecast is expected to increase at double-digit rates over BMI's 2015 – 2019 outlook period.

The government is planning to develop production of non-core minerals, such as copper, gold and nickel. Yet there is reason to believe that this diversification may

prove difficult due to a weakness in global metal prices. The impact of these developments on the tourism and hospitality sector is that hotel occupancy is likely to show a corresponding increase as diamond market prospects improve, resulting in sight holders as well as miners and various specialists coming into the country on a regular basis.

Trade

The Botswana retail sector has grown at a phenomenal pace since 2011, with attractive growth across sub-sectors such as clothing, accessories, food, home and kitchen appliances. This sector contributes 13.4% to the real GDP of Botswana as per the latest available report (Source: Statistics Botswana). The growth of retail in Botswana has been attributed to Botswana's stable economic growth over the past 15 years, rising disposable incomes, stable political environment, and business friendly regime. The addition of new malls in the country and ever-changing consumer preferences and spending patterns continue supporting growth of this sector. This expansion has also benefitted the hospitality sector by increasing the range of inputs available to them, and is expected to continue doing so in the future too.

Construction

The construction industry has provided infrastructure support to the national economy, which has powered the country's sustained and accelerated modernisation drive. With the construction of highways within the country, to Maun, Kasane and other major tourist destinations, connectivity has improved. The private sector is also gradually breaking into the construction sector. As per the latest available report, in 2016, contribution of the construction industry to Botswana's real GDP was 7.5% (Source: Statistics Botswana). The growth of this sector is expected to further attract tourists into the country and drive its growth in the coming years.

Positive industry outlook

Business travelers

Key demand drivers of this segment include:

- **Demographic changes in Botswana:** Domestic economic growth and an expanding middle class means that domestic travel will expand in the near future. Overall growth potential is relatively limited due to Botswana's small population size and widespread economic inequality, which can be balanced out by attracting inbound travelers.
- **Higher arrivals:** Sir Seretse Khama International Airport experienced large volumes of business travelers at 92.2% out of total business air travel (Source: BTO). This is partly due to the increased frequency and scale of high profile conference events held in Botswana in the recent years, and the increased viability of international travel.
- **Economic growth prospects:** Positive macroeconomic trends are expected to substantially benefit the hotel and restaurant industry.

Key supply side drivers include:

- **Technology:** Technology continues to have a multifaceted and substantial impact on the hotels and restaurants industry. Social networks help plan trips and share experiences, attracting more people, especially those aged 35 and under, to the exotic wildlife that Botswana has to offer. Consequently, the use of big data by social media networks allows for personalisation to cater to each potential customer's needs.
- **Trade:** Rapid emergence of organised retail and shopping malls with varying formats providing greater and better space for innovation into different cuisines in the food service industry. This will have a positive effect on the overall travel, tourism and leisure industry in Botswana.

Tourists from the SADC region

As per Tourism Statistics Annual Report, out of all tourists entering Botswana, tourists residing in the SADC region account for 88.6%. For purposes of visiting friends and relatives, tourists from the SADC region accounted for 97.1% of tourists entering Botswana. With regards to tourists entering the country for the purpose of holiday / leisure, those residing in the SADC region accounted for 42.9% of all tourists entering the country. Therefore, the tourism and hospitality sector, is closely linked not just to the macroeconomic developments (most importantly, growth rates) in Botswana, but also to those in the SADC region – especially neighbouring countries such as Zimbabwe, South Africa, Zambia, Namibia and Mauritius. Recent political changes in South Africa and Zimbabwe are expected to foster economic growth resulting in

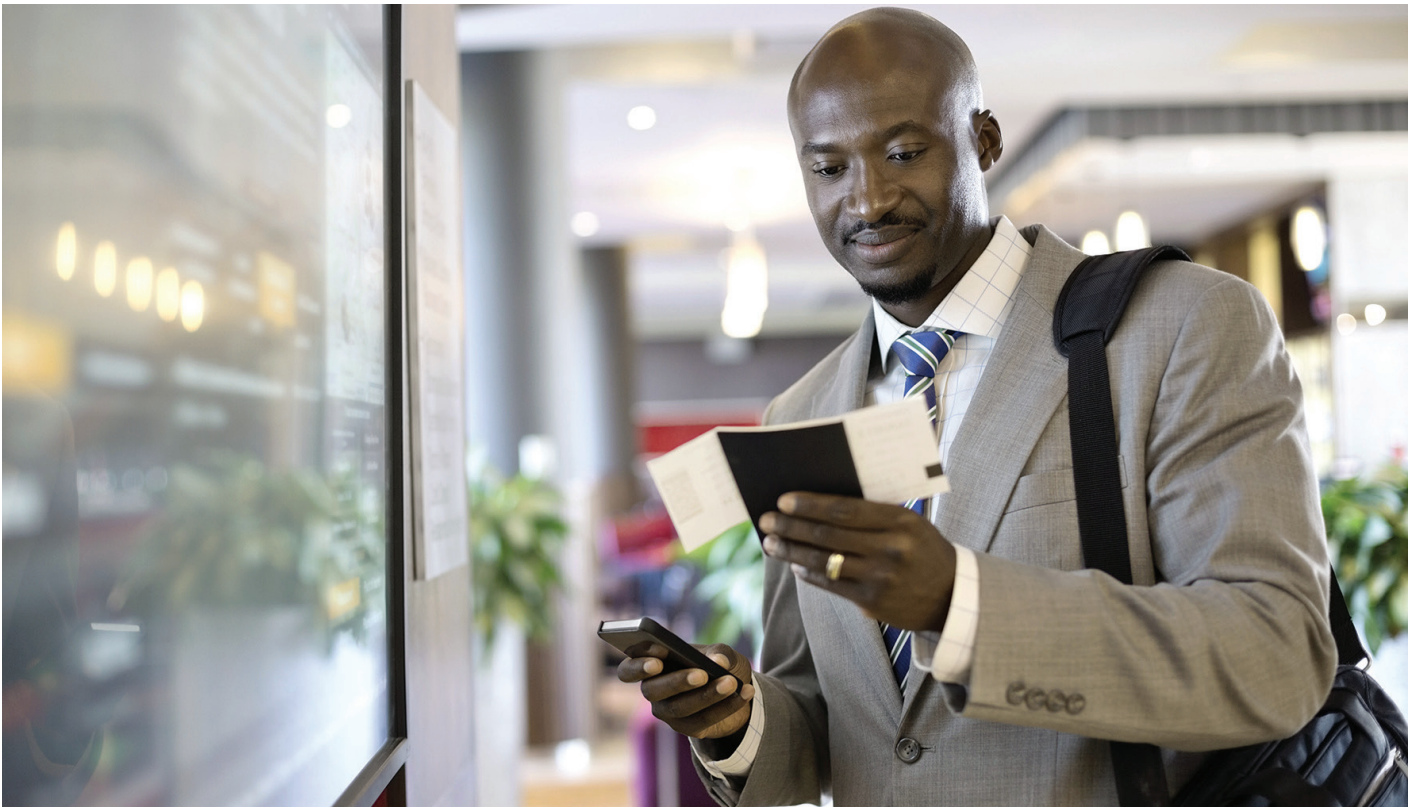
higher disposable income and reduced unemployment – all of which point to increased number of visitors to Botswana.

Holiday / leisure tourists

As per the latest available report Europe dominates the top ten leading overseas countries that supplied holiday / leisure tourists to the country during 2015, with six out of the top ten countries. The top ten leading overseas countries together accounted for 32.2% of holiday / leisure tourists. Of these, USA accounted for 28.1% and the UK and Germany supplied 17.8% and 17.1% respectively (Source: Statistics Botswana). Economic and political uncertainty in the US failed to affect the number of tourists to Botswana from the country. This bodes well for the local tourism sector.

Europeans are spending on international travel despite sluggish economic growth. This increase could be due to increased visibility of Botswana in Europe driven by greater promotion. Overall, tourists residing in Europe accounted for 6.2% of all tourists entering the country during the year under review. These numbers are set to grow in the future as the Government of Botswana is making concerted efforts in the direction of product diversification in the tourism sector.

Spending on international travel is expected to benefit from continued, though slowing, employment gains and stronger wage growth on the back of economic stability in Europe and USA.



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Contact us

Gaborone

Acumen Park, Plot 50370
Fairgrounds, Gaborone
P O Box 1157
Gaborone, Botswana
T +267 395 2313
F +267 397 2357


Francistown

Botswana Life House
Plot 13993/4, Francistown
P O Box 101
Francistown, Botswana
T +267 241 8961
F +267 241 8962

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