

Focus on: *Botswana*

Grant Thornton International Business Report 2014



Introduction

Botswana is an emerging economy of around 2m people. In 2013, its GDP was approximately US\$15bn, making it the 116th largest economy in the world.

Drawing on official data sources, such as the Economist Intelligence Unit (EIU) and 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



2 million inhabitants

Economy

Botswana's growth is expected to remain robust, though somewhat slower in 2014 (4.7% expected) following a strong 5.9% increase in real GDP in 2013. Severe water shortages and electricity outages following a drought earlier in the year are likely to be contributing factors to the slowdown.

However, as the global economic recovery becomes more sustainable – especially in richer markets – demand for diamonds, Botswana's primary export is on the rise. In addition, the government continues its efforts to boost downstream, higher value-add activities in the diamond

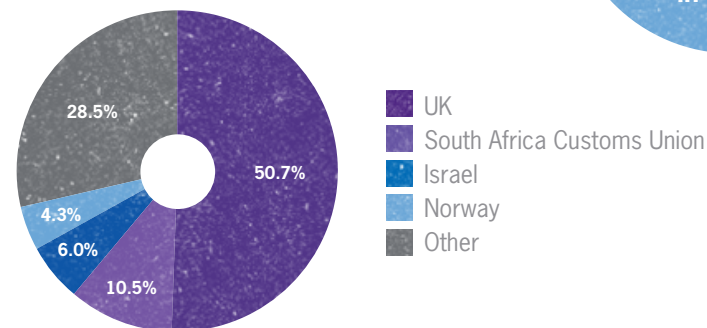
industry while attempting to diversify into other mineral resources with coal and the promise of uranium attracting interest from potential investors. South Africa and the United Kingdom remain the economy's key trading partners.

Key indicators

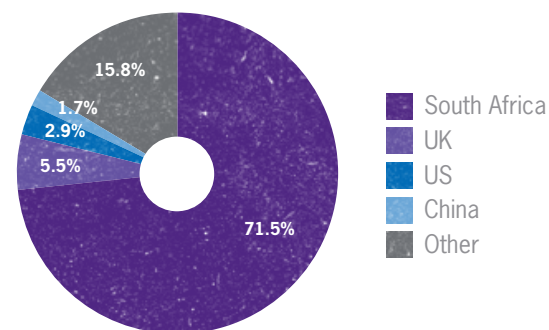
- the economy expanded 4.5% in Q2 2014, down from 7.4% compared with 12 months previously
- inflation fell to 4.6% in 2013 but remains within government targets of 3-6%, although this could rise due to the weakening pula.
- non-mining growth climbed to 6.1% from 4.4% year on year due to strong growth in the electricity and water industries
- the pula is expected to depreciate this year from an average of P8.4:US\$1 in 2013 to P8.9:US\$1 in 2014.

Economy expanded by **5.9%** in 2013

Export markets



Import sources



Source: Economist Intelligence Unit (2013)

Economic outlook

The outlook for the economy remains heavily dependent on international demand for diamonds. However, the global economy recovery remains relatively tepid with weakness and deflationary concerns in the eurozone and Japan; conflict and falling commodity prices dampening oil-producing countries growth prospects; and growth slowing sharply in major markets including Brazil and China.

That said, recent developments in power supply and rising global demand within the diamond market stemming from economic recovery in the west suggest a positive outlook for growth in the next 12-24 months. A slight civil service salary increase of 3% will improve domestic purchasing power while the relocation of DeBeers' diamond sorting operations to Gabarone from London and the opening of the Ghaghoo mine this year by Gem Diamonds should support growth expectations of approx. 5.8% in 2014.

The Economic Diversification Drive is looking to tap into other local resources, most importantly to an estimated 200bn tonnes of coal which largely remain untapped. Demand for key exports such as copper and nickel are also expected to increase. Plans to develop the new Trans-Kalahari railway (TKR) to provide a direct connection from Botswana to Walvis Bay, Namibia to transport coal are also underway with a bilateral agreement being signed in March. Uranium appears to be a possible future opportunity though unlikely to become a reality in the next decade.

Rising socio-economic concerns, particularly poverty, unemployment and the prevalence of HIV/AIDS represent a major downside risk to long-term economic growth prospects, although the government's commitment to macroeconomic reform, strong growth outlook and high foreign exchange reserves all bode well for economic stability in the short to medium-term.

5.8%
forecast growth
in 2014

Demand for coal, copper and nickel due to rise

GDP and export growth (%)



Business growth prospects

Business optimism in Botswana in Q3 rose sharply to 58%, compared to only 30% 12 months ago and more than double the African average of 27%.

The positive outlook is reflected in the views held by the country's business leaders with 80% expecting to see revenue growth in the next 12 months. Profitability expectations are also extremely high as 88% of leaders predict an increase in profits – the highest figure for Botswana in 7 years and the highest in the 34-economy survey. Export expectations also shot up in Q3 to 26%, following single digit expectations in the three previous quarters (Q2 2014 – 2%, Q1 2014 – 4% and Q4-2013 – 6%).

Following predictions of economic growth in the short and longer term, Botswana's business leaders are prioritising investment in a number of growth initiatives. Investing in marketing appears to be the route chosen by most (76%), while 50% plan to develop or launch a new product and over one-third (36%) aim to expand their businesses domestically.

Investment indicators remain relatively stable in Q3 2014 – 50% of leaders indicated an expectation to increase investment in new buildings, consistent with figures from the previous quarter (50%). Expectations of investment in plants and machinery climbed to 60%, a 14pp year on year increase, figures for research and development achieved similar results, up 16pp year on year.

Percentage of businesses planning to launch following growth initiatives (next 12 months)

Increase investment in marketing



Develop and/or launch a new product or service



Expand your business domestically



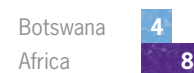
Improve salesforce effectiveness



Access new sources of funding



Merge with or acquire another business



Incentivise productivity improvements



Expand your business overseas



Recruit specialist talent



Source: Grant Thornton IBR 2014

Constraints on expansion

Business leaders in Botswana cite a lack of skilled workers as the biggest constraint to their growth prospects (40%) although this is down on the figures reported in in 2013 (55%) and is in fact the lowest reported figure since 2007, but is still higher than the global average (35%).

Regulations and red tape also continue to constrain business growth however the number of business leaders reporting it as a restraint has reached a 5 year low (32%), lower than neighbouring South Africa (37%) and the African average (37%).

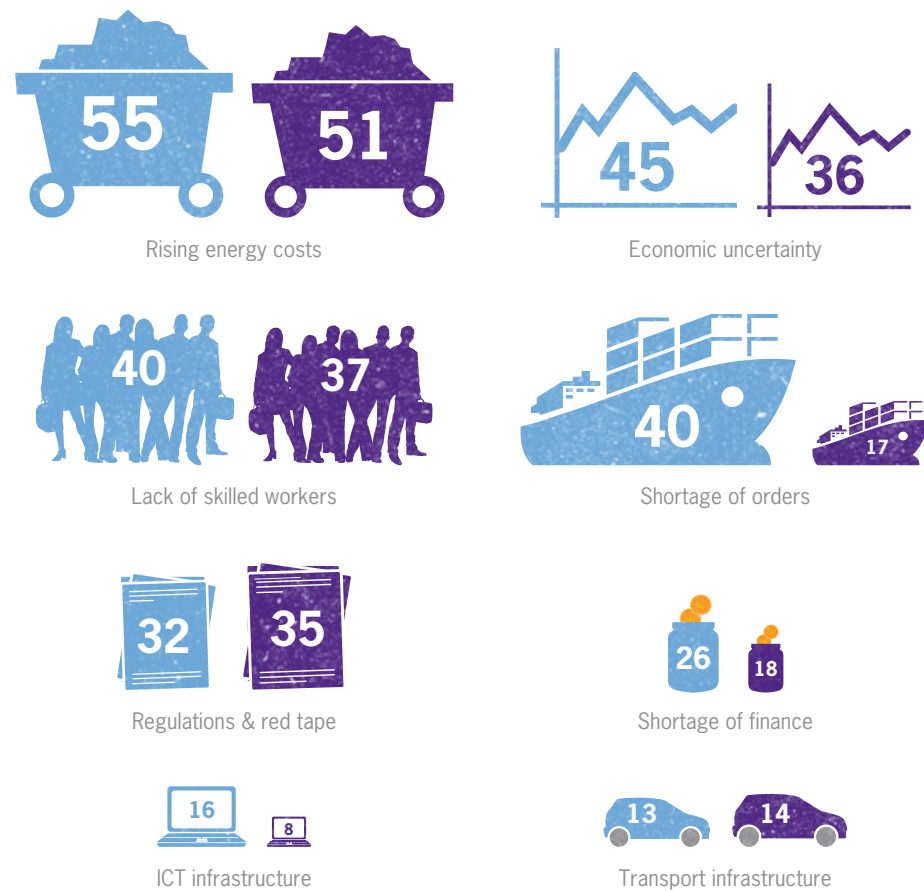
Rising energy costs are problematic for more than two-thirds (44%) of businesses in Botswana but this is a significant decrease from Q2 2014 (66%), Q1 2014 (56%) and Q4 2013 (54%) figures. This is likely to reflect the stabilisation of recent power supply problems in the country.

ICT infrastructure was highlighted as a significant growth constraint in 2013 – 33% of businesses leaders stated it was an issue for their business however this figure has been halved in 2014 to 16%, just below the global average of 19%. Improvements have also seen in transport infrastructure with just 13% of businesses citing it a growth restrictor in 2014 , down from 31% the previous year.

Energy costs
constraining
business
plans

a lack of
talent is a
challenge

Percentage of businesses citing factor as a constraint on growth



Source: Grant Thornton IBR 2014

■ Botswana
■ South Africa

The labour market

Talent is recurring issue for Botswana’s businesses. 40% cite a lack of skilled workers as restraining growth of their operations. However, 48% plan on increasing the size of their workforce in the next 12 months compared with just 17% in neighbouring South Africa and 34% globally.

The female talent pool could be a huge source of opportunity for Botswana. Already, close to a third of senior managers are women (32%), well above the global average (24%). Further, 84% of businesses leaders say they would support quotas for the number of women on executive boards and 52% plan on promoting women in 2014 – more than double the 2013 figure (25%). In addition, over half of Botswana’s business leaders either have or are considering implementing a specific programme to mentor or support women in their firms.

Taking time out for motherhood is one the main global reasons women are thought to struggle to reach the boardroom. In Botswana this is being addressed with flexible working initiatives in 84% of businesses, while 79% offer parents the opportunity to buy extra holiday or take additional unpaid leave. However, there is still work to be done as only 1% of firms reserve job roles during maternity leave of less than one year.

48%
plan to
increase
workforce

84%
to offer
flexible
working

Women as a percentage of all graduates hired



Source: Grant Thornton IBR 2014

■ Botswana
■ South Africa

IBR 2014 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. Q3 data is drawn from 2,500 interviews globally (50 in Botswana) conducted in September 2014. 2014 data is drawn from over 10,000 interviews (200 in Botswana) conducted between November 2013 and September 2014.

To find out more about IBR, please visit: www.internationalbusinessreport.com.

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