compiled by
KEITH JEFFERIS
SETHUNYA SEJOE
KITSO MOKHURUTSHE

econsult

ECONOMIC REVIEW

first quarter january-march 2019

in this issue ...

COMMENTARY

Growth recovery continues, but better reforms are needed to ensure sustainability

Economic Growth

The first quarter of 2019 has seen a mixed but broadly positive set of economic developments. Real GDP data for the fourth quarter of 2018 (and hence completing the picture for the year as a whole) showed an improvement in economic growth to 4.5% for the year. This was broadly in line with expectations, but was sharply higher than the previous year, when growth was only 2.9%. The recovery was driven by improved output in the mining sector, with higher output from Debswana and Botswana Ash. In addition, the impact of the closure of the BCL copper-nickel mine in 2016 dropped out of the annual growth calculations. The non-mining private sector also performed well in 2018, with the only major detractor being a slowdown in diamond trading activity (part of the wholesale sector of the economy) during the year, as total sales volumes through De Beers Global Sightholder Sales (DBGSS) were 4 percent lower in 2018 than in 2017.

Diamonds and Mining

Botswana continues to be affected by volatility in the global diamond industry. Prices for rough diamonds have been under pressure, with a downward trend over the past seven years, in contrast to previous decades when real diamond prices moved slowly upwards. However, this price pressure has not been uniform across the market, with prices for smaller, low value, diamonds suffering from the main reductions, especially due to competition from synthetic diamonds, which is more pronounced at the lower end of the market. The prices of larger, higher value stones, which are more important for Botswana, have been more resilient.

Debswana is likely to increase production further in 2019. Although production guidance for De Beers group mines as a whole is slightly lower at 31 to 33 million carats (mcts) in 2019, compared to 35.3 mcts in 2018, lower production at the Venetia mine in South Africa as mining moves underground is expected to be offset by higher Debswana production.

One positive sign in the Botswana diamond sector is an improvement in production and sales of polished diamonds. This segment, which is an important component of the country's diamond beneficiation strategy, expanded rapidly between 2011 and 2014, but contracted sharply in 2015 and 2016. This reflected adverse conditions in the cutting and polishing sector globally, and high costs in Botswana producers in particular. However, the sector has since recovered, with exports of polished diamonds reaching USD820 million in 2018, making up an estimated 14% of Botswana's total exports of goods and services in 2018.

On the diamond mining side, Debswana announced its decision to proceed with Jwaneng Cut 9, which will extend the life of the world's richest diamond mine to 2035, and ensure that Botswana's diamond exports continue at similar levels to today for many years into the future (although there is not projected to be any growth in exports). In the short term, however, Cut 9 will lead to a reduction in mineral revenues for government, given that the project will largely be internally funded by Debswana, which reduces its tax liability in the short-term.

Elsewhere in the mining sector, Khoemacau Copper confirmed that it will be proceeding with its new mine in northwest Botswana, expected to produce 62,000 tonnes of copper and 1.9 million ounces of silver a year at full capacity. This will be a large mine, and, to put it into perspective, the value of output – approximately P4.5 billion a year at current prices - will be as large as that of the BCL copper-nickel mine prior to its closure. MOD Resources are also completing a feasibility study for another large copper-silver mine in western Botswana (the T3 mine), at around half the size of Khoemacau. Minergy is developing a new opencast coal mine in eastern Botswana, to supply export coal to South Africa. Discussions are also continuing with regard to the expansion of Morupule B coal fired power station, and the nearby coal mine, to generate electricity for domestic consumption (units 5 and 6). However, this seems inconsistent with Botswana's international commitments and responsibility to reducing CO_2 emissions and combatting global warming, which would be better achieved by a shift towards renewable, solar energy.

Exports and the Balance of Payments

Trade data for the whole of 2018 show a small improvement in exports across most categories. However, imports increased faster, and as a result the balance of trade deteriorated. Overall balance of payments data for the year are not yet available. However, the foreign exchange reserves declined during 2018, which means that the overall balance of payments was in deficit. This reinforces the need to promote export-led growth.

Domestic Economy

Inflation has been stable and was 3.3% at the end of March 2019. However, it is likely to increase somewhat through the year, as there are still upward pressures on fuel prices, with international oil prices rising and a backlog of underpayments still owing by government to fuel importers. Nevertheless, inflation should remain below 4% and therefore within the lower half of the Bank of Botswana's inflation objective range. As a result, policy interest rates have been maintained at the same level.

Conditions in the financial sector have also shown some improvement. Credit growth has increased slightly, driven by lending to businesses rather than households. Arrears on bank lending have continued to fall, despite concerns about over-indebtedness amongst household borrowers. Banking sector liquidity has also improved, indicating less of a liquidity constraint on credit availability.

A disappointing development during the quarter was Botswana's inclusion on new lists issued by the European Union (EU) regarding Tax Co-operation and Anti-Money Laundering (AML). The EU issued two new lists. The first related to tax transparency and the exchange of information regarding tax compliance. Botswana was "greylisted" as a country that had made some improvements, but would have to implement more changes before the end of 2019 to bring tax transparency standards into line with international norms if the country is not to be blacklisted next year.

The second list relates to anti-money laundering and counter-terrorist financing frameworks (AML-CFT). Botswana has been included on the list of 23 countries identified as having strategic deficiencies in their AML-CFT frameworks. Banks and other entities covered by EU anti-money laundering rules are required to apply increased checks (due diligence) on financial operations involving customers and financial institutions from these high-risk countries to better identify any suspicious money flows. This may make such financial institutions reluctant to deal with Botswana, which has adverse implications for attempts to diversify and attract foreign investment. A prominent challenge is therefore to rectify the AML-CFT framework in order to ensure that Botswana is removed from the EU blacklist at the earliest possible opportunity.

A further disappointing development is the failure to issue more work permits for foreign workers and investors. The number of work permits in issue as at the end of 2018, 5,605, was 3% lower than a year earlier. So, despite the proclaimed intention to liberalise the issuance of work permits and be more responsive to the needs of firms, the actual impact has been limited. Whether this is due to a lack of applications for permits, or a continued high level of rejections is not known; the statistics published by Statistics Botswana do not include information on the numbers of applications and rejections.

There have also been a couple of policy mis-steps, due in part to a lack of proper analysis of proposals before being implemented. For example, the Income Tax Amendment Act, passed in December 2018, introduced a restriction on the amount of loan interest that firms could claim against taxable profits. The rationale for this measure was to reduce the potential transfer of profits out of the country through debt-financed "thin capitalization" companies owned by foreign investors; the measure is in line with OECD recommendations to avoid Base Erosion and Profit Shifting (BEPS). However, as introduced in Botswana, the restriction applies to all companies, whether domestic or foreign owned. Hence it goes way beyond BEPS prevention. Effectively, it makes start-ups more difficult, as they often have high levels of debt and low profits in their early years. Companies supported by the Citizen Entrepreneurial Development Agency (CEDA) would be amongst those affected. It also kills the Variable-Rate Loan Stock (VRLS) property company model, which was introduced to enable (tax-exempt) investors such as pension funds to invest in property through a fund model rather than directly, and therefore to benefit from professional property management expertise. Debt finance is penalised, even when the loans are from domestic financial institutions (which are taxable, so the issue of profit-shifting is not relevant).

Outlook

The outlook for 2019 is for growth at or slightly below the 2018 level. The IMF is projecting real GDP growth of 3.9% in 2019. Our view is that growth will be within the range of 3.5%-4.0%. The public sector pay rise to be paid in April 2019 will add somewhat to domestic demand, which will provide some relief for retailers and other service sectors that have been squeezed by slow real income growth in recent years.

The key challenge is to implement broad-based reforms that will reverse the decline in Botswana's rankings on business environment rankings that we highlighted in the last issue of the *Economic Review*. This requires the implementation of a coherent policy agenda, based on prior analysis of the likely impact of policy proposals, and ensuring that policy measures are in line with the Transformation Agenda laid out in Vision 2036, whereby Botswana will become more globally integrated, with growth driven by high productivity, innovation and competitiveness. Measures such as the tax limit on interest deductions make starting a business more difficult, not easier, and the proposal to make it more difficult for non-citizens to buy property, also discussed in the last issue of the *Review*, makes Botswana less globally integrated, not more. Similarly, Botswana should avoid populist measures such as import controls and border closures, which raise the costs of trade and make the country less competitive, not more.

The 2019 Budget

The 2019 Budget was presented to Parliament on February 4th by the Minister of Finance and Economic Development (MFED), Mr Kenneth Matambo. The Budget was particularly significant for two reasons. First, it was the first budget presented since His Excellency Mokgweetsi Masisi took office on 1st April, 2018. Second, it will be the last budget before the national election scheduled to take place later in 2019. Highlights of the budget include a small increase in total spending in the new financial year (2019/20), following a substantial increase in spending in the just-completed (2018/19) financial year, and substantial budget deficits in both years.

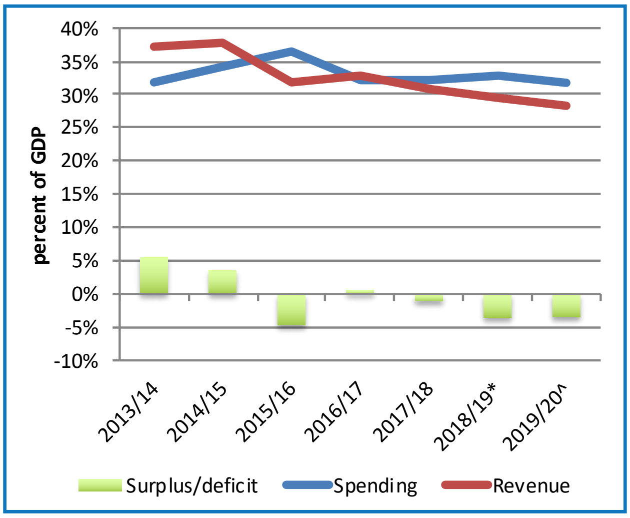
An important part of the Budget Speech was devoted to discussion of the outturn for the 2018/19 financial year, for which budget figures have been updated from the original figures presented a year ago. The main changes were on the revenue side of the budget, with revenues revised downwards substantially. Mineral revenues are now projected to come in at only 82% of the original budget, due to both weakness in the international diamond market in 2018, and capital expenditure to extend the life of major diamond mines. Non-mineral income tax revenues are also now projected at only 80% of budgeted receipts, suggesting that the original forecasts were over-optimistic. VAT, however, came in ahead of projections. Spending projections have also been revised downwards, although only marginally.

With revenues for 2018/19 nearly 10% below the original budget, and spending 4% below budget, the result is a substantial fiscal deficit, budgeted at P7.1 billion, or 3.6% of GDP, financed almost entirely by drawdowns of government deposits at the Bank of Botswana.

However, it is questionable whether the revised 2018/19 budget is likely to be a reliable guide to the eventual fiscal outcome for the year. Whereas the revised budget indicates an 11.8% increase in spending over the previous year, there is little or no sign of this appearing in practice. Information on actual spending is available for the first ten months of the fiscal year (April 2018 - January 2019), and total spending is only 2% higher than in the same period in the previous year. Most noticeably, development spending was down by 6%, in contrast to a budgeted 13% increase. So it seems that the 2018/19 budget, even after revisions, may be quite unrealistic relative to what could actually be delivered. To put this in perspective, total development spending over the ten months to January was P11.3 billion, compared to P16.6 billion budgeted for the fiscal year as a whole. This points to continued implementation problems with regard to the public investment programme.

Moving to the new (2019/20) financial year, revenue is set to decline further (as a share of GDP). In order to keep the budget deficit in check, overall spending is set to grow, only slowly, from P65.3 billion (in the revised 2018/19 budget) to P67.5 billion in 2019/20. That is a fairly modest increase, especially in an election year.

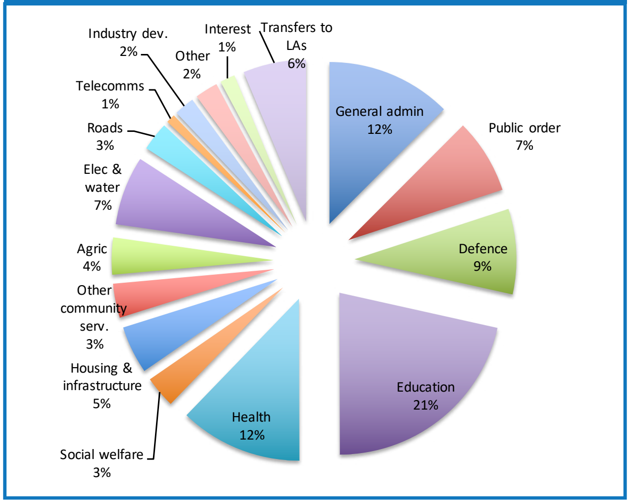
Figure.1:
Revenue, spending & budget balance (% of GDP)



Source: calculations based on data from MFED

The general shares of public spending remain largely unchanged, with education still the largest (21% of the total), followed by general public administration and health (both 12%). Nevertheless, there are increases and decreases in spending across different sectors. The largest reductions are for agriculture (-18%), roads (-15%) and telecommunications (-13%). There are significant increases in only two areas, promotion of commerce and industry (+31%), and public order (+18%) (police, courts, prisons). But with significant underspending likely in 2018/19, the budgeted spending in 2019/20 may not, in practice, entail any cuts. The new fiscal year has a projected budget deficit of P7.3 billion, or 3.5% of GDP. In contrast to the previous year, the deficit is projected to be financed in part by domestic bond issuance, which will be a welcome development for pension funds and asset managers.

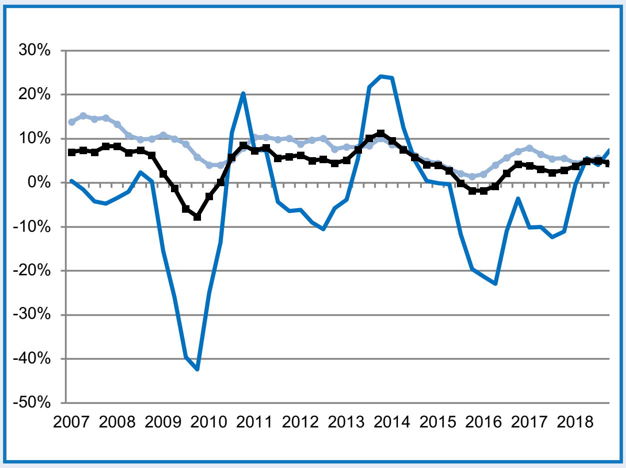
Figure 2:
Share of budgeted spending, 2019/20 (%)



Source: calculations based on data from MFED

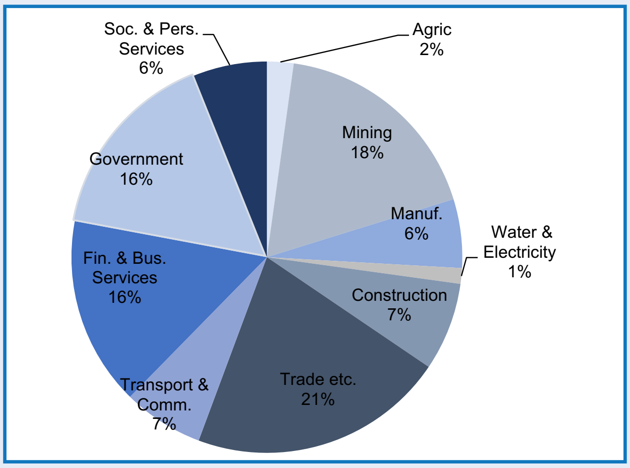
KEY ECONOMIC VARIABLES

Annual GDP Growth



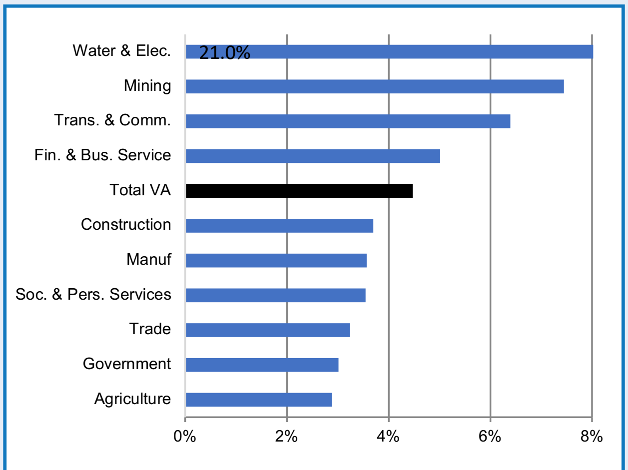
Annual GDP growth picked up pace in 2018. Year-on-year real GDP growth increased, within the expected range, to 4.5% in 2018, up from 2.9% in 2017. The mining sector experienced strong growth of 7.4% in 2018, significantly higher than the minus 11.1% y-on-y growth recorded in 2017. This is due to the effect of the closure of the BCL mine dropping out of growth calculations. However, non-mining private sector (NMPS) growth fell from 5.6% in 2017 to 4.3% in 2018. This was driven by a sharp contraction in the Wholesale sub-sector over the year, which includes activities related to diamond trading. If the wholesale sub-sector is excluded, NMPS growth rose to 5.4%.

Sectoral GDP Shares



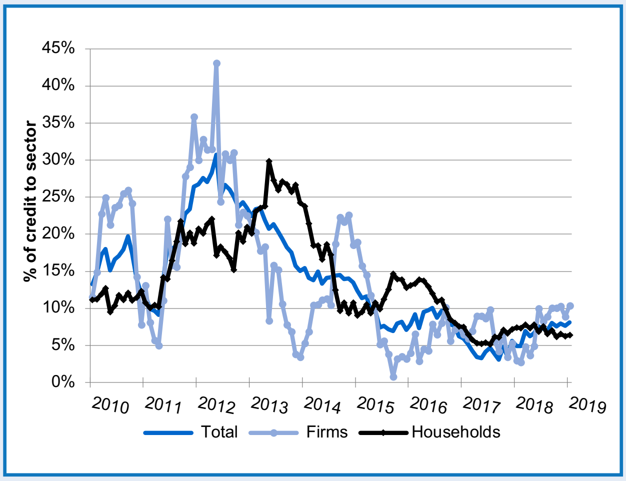
The composition of GDP by economic sectors has not changed much when compared to the previous year, 2017. Trade remains the largest sector of the economy accounting for 21% (at current prices) of output (value added). Mining is still the second largest sector in the economy even though its share of output has fallen to 18% in 2018, down from 20% in 2017. The rest of the sectors in the economy have only experienced marginal to no increases in their share of total output and their order/ranking has remained the same.

Sectoral GDP Growth



Economic performance has been fairly strong in 2018. All sectors apart from Trade and Water & Electricity recorded an increase in their growth rates when compared to the previous year. Growth in the Trade sector fell from 9.0% in 2017 to 3.2% in 2018. This reflects the large contraction in the Wholesale sub-sector, whose growth fell to minus 11.6% during 2018, down from 25.9% in 2017. The Mining sector experienced the greatest increase in growth rate when compared to the previous year, registering a growth rate of 7.4% in 2018 compared to minus 11.1% in 2017. Agriculture has maintained its position as the slowest growing sector in the economy in spite of an increase in its growth rate to 2.9% in 2018 from 2.2% in 2017.

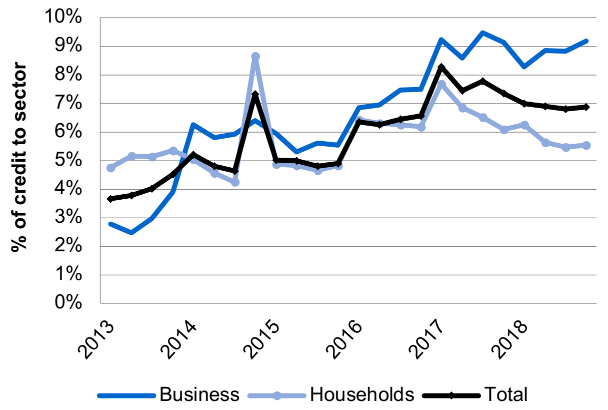
Annual Credit Growth



Bank credit reached its highest annual growth rate since 2016, rising from 7.6% in October 2018 to 8.1% in January 2019. The increase in bank credit growth is attributable to increases in credit to both firms and households within the economy. Growth of credit to firms rose from 10.0% in October 2018 to 10.4% in January 2019, whilst growth of household credit rose from 6.1% to 6.4% during the same period. The steady increases in annual bank credit over 2018 and into early 2019 are a reflection of the improved business environment.

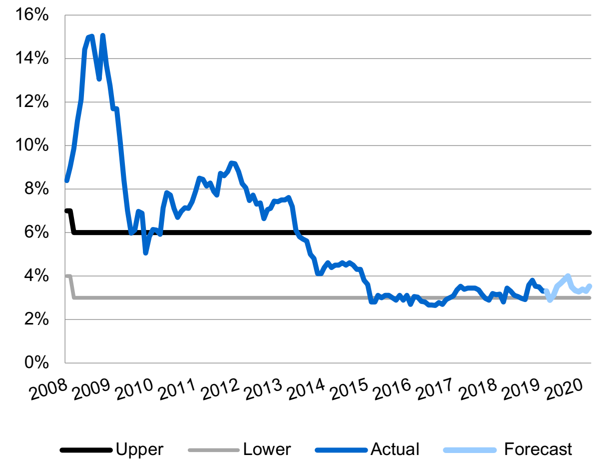
KEY ECONOMIC VARIABLES

Arrears on Bank Lending



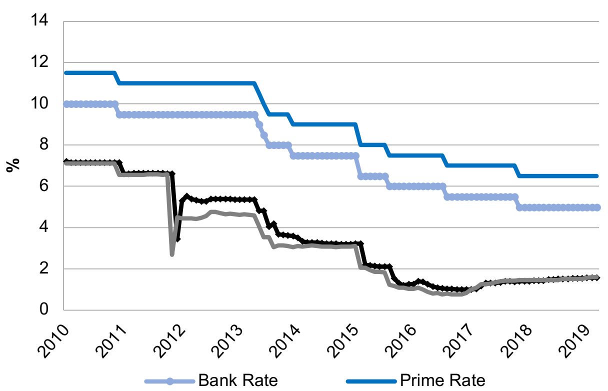
Total arrears as a proportion of outstanding bank credit rose from 6.8% to 6.9% between Q3 2018 and Q4 2019. However, total arrears declined during the year, falling from 7.3% in Q4 2017. The decline in arrears during 2018 has been driven by reduction in household arrears which fell from 6.1% in Q4 2017 to 5.5% in Q4 2018. Business arrears increased marginally, from 9.1% to 9.2% during the same period.

Inflation and Forecast



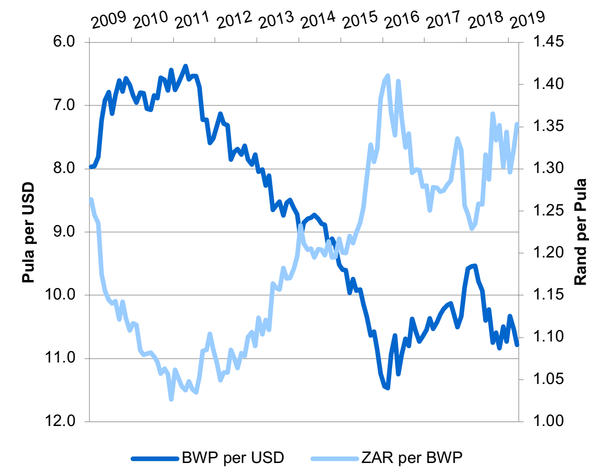
Annual inflation was 3.3% at the end of March 2019, down from 3.5% in December 2018. Inflation is forecast to peak at about 4% by the third quarter of 2019, remaining within the lower half of the Bank of Botswana's medium-term objective range of 3-6% during the year. In January 2019, the inflation series was rebased from September 2016 to December 2018. The basket of goods used to measure inflation was also reviewed and adjusted in order to capture changes in consumer spending patterns.

Interest Rates



The Bank of Botswana's Monetary Policy Committee (MPC) maintained the Bank Rate at 5.0% following their first meeting of 2019 held in February. This decision was taken due to the positive outlook on price stability in the medium term held by the Bank. Consequently, the commercial bank Prime Lending Rate also remained unchanged at 6.5%. However, money market rates increased marginally, with the 14-day BoBC rising from 1.52% in Q4 2018 to 1.6% in Q1 2019, the 91-day BoBC rose from 1.53% to 1.58% during the same period.

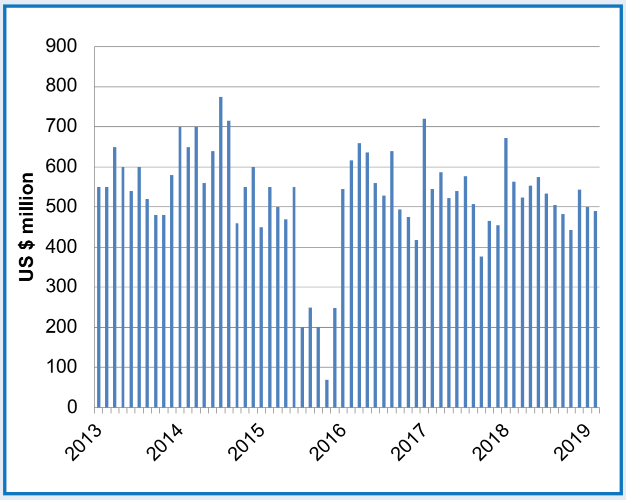
Exchange Rates



The Pula continued to depreciate against the USD and appreciate against the Rand during the first quarter of 2019, albeit marginally in both cases. The Pula appreciated by 0.7% against the Rand, ending Q1 2019 at ZAR1.3529, up from ZAR1.3441 at the end of Q4 2018. The Pula-US dollar exchange rate was 10.79 at the end of Q1 2019, down from 10.72 at the end of Q4 2018, representing a depreciation of 0.5%.

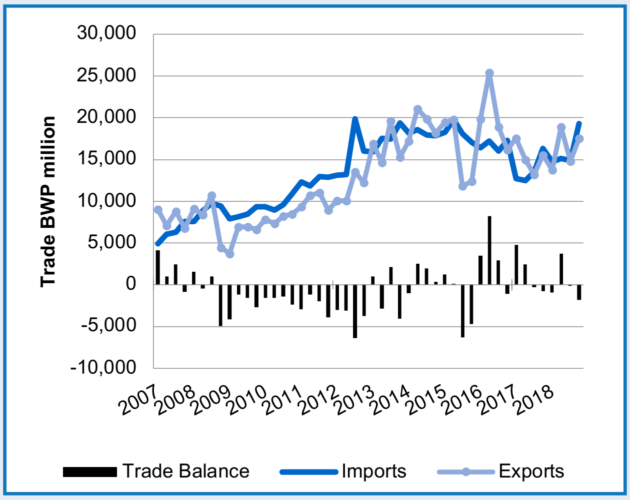
KEY ECONOMIC VARIABLES

De Beers Diamond Sales



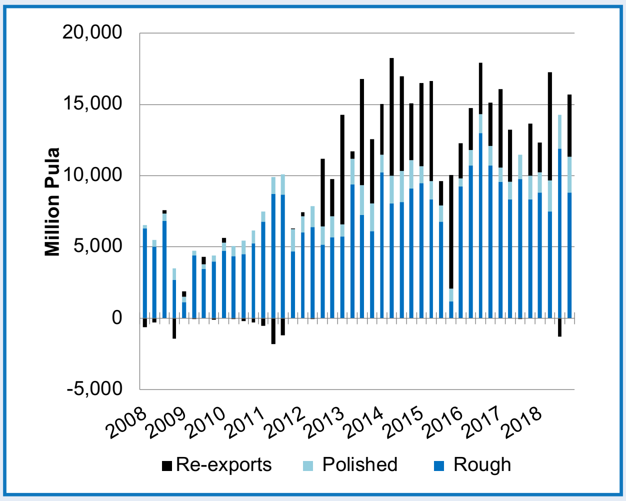
De Beers Global Sightholder Sales (DBGSS) recorded sales valued at USD990 million during Q1 2019. This is 32.6% lower than the value of recorded sales in Q4 2018, and 19.8% lower than those reported during the same period in the previous year. These are the lowest first quarter sales for the company since 2009 and are attributed to the subdued overall demand for lower-value rough diamonds in the market.

International Trade



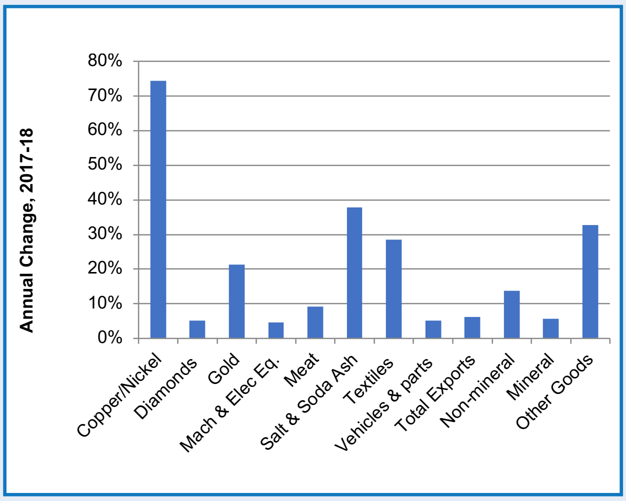
Total international trade picked up during the year to December 2018. Imports increased by 16.4% from P55.1 billion in 2017 to P64.1 billion in 2018 whilst exports rose by 6.3% from P61.2 billion to P65.1 billion. The greater increase in the value of imports over exports has resulted in a large decline in the trade surplus. The trade surplus fell by 85.1% to P0.91 billion in 2018 from P6.10 billion in the previous year. The increase in total international trade is reflective of the overall increase in economic activity and output growth in 2018 but also highlights the urgent need for the country to increase the value of exports.

Diamond Exports



Global demand for rough diamonds remained generally stable throughout 2018. Total diamond exports registered year-on-year growth of 7.2%, in Pula terms, between 2017 and 2018. This has been driven by a y-on-y increase in the value of polished diamond exports of 50.8% and a 2.2% increase in the value of total rough exports.

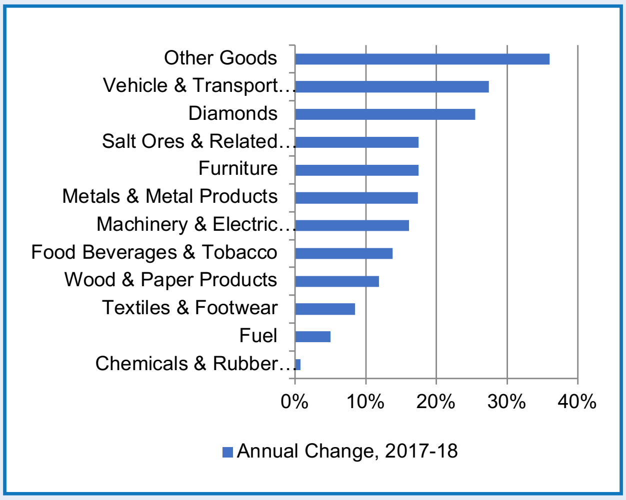
Export Growth



Overall export performance in 2018 was fairly strong with every export category experiencing positive growth. Mineral exports registered improved y-on-y growth of 5.6% in 2018. This was driven by large increases in copper & nickel, salt & soda ash and gold exports which grew by 75%, 38% and 21% respectively. Non-mineral exports performed very well, increasing by 14% during the year to December 2018. Textiles were the fastest growing non-mineral export, registering y-on-y growth of 29%. Although copper-nickel exports grew substantially, the absolute value was very low.

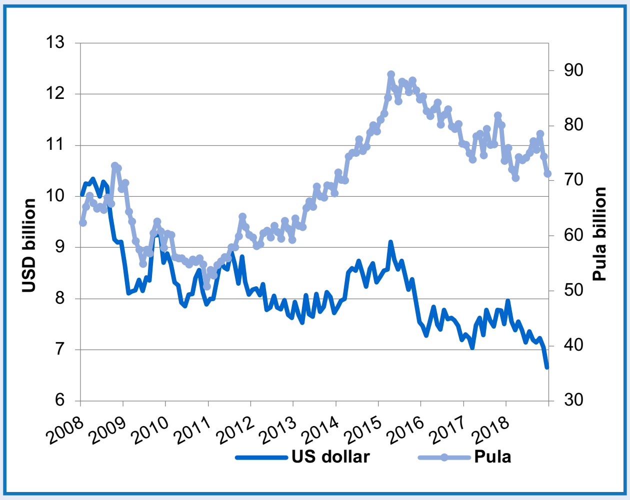
KEY ECONOMIC VARIABLES

Import Growth



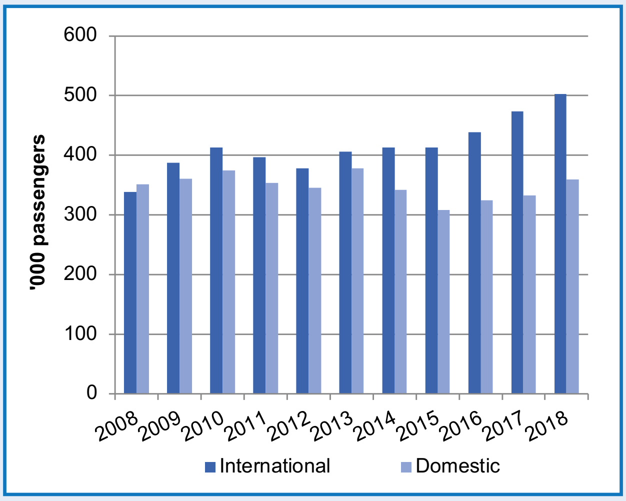
Imports registered increased year-on-year growth across all sectors in 2018. The positive growth of imports is expected given the increased economic activity/output reported in 2018. "Other Goods" and Vehicle & Transport Equipment were the fastest growing import categories, registering growth rates of 36.0% and 27.4% respectively.

Foreign Exchange Reserves



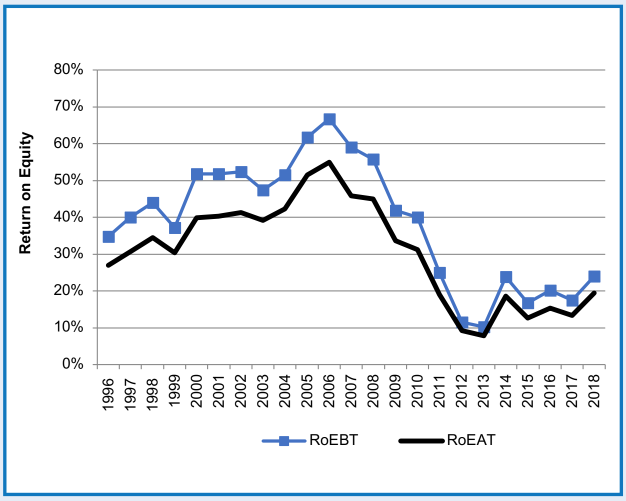
Foreign exchange reserves declined by 3.1% in 2018 to P71.4 billion, down from P73.7 billion in December 2017. This reflects a balance of payments deficit, in part due to the budget deficit and a draw-down on government savings during the year. Reserves declined by 11.3% in Dollar terms and by 9.0% in terms of the SDR.

Air Passenger Traffic



For the third consecutive year, air passenger traffic has grown robustly. The total number of passenger movements in Botswana airports increased by 6.9% in 2018, up from an increase of 5.6% in 2017. Domestic air passenger traffic increased by 8.1% whilst international air passenger traffic grew by 6.1%. This is the first time since 2013 that domestic air passenger movement has grown faster than international air passenger movement. Sir Seretse Khama International Airport (SSKIA) accounted for 51.8% of all air passenger movement in Botswana in 2018, down from 52.6% in the previous year.

Bank Profitability



Bank profitability, as measured by the return on equity (RoE) increased in the year to December 2018. The reduction in total arrears during 2018 coupled with the increase in total credit during the year have had a positive impact on bank profitability. Post tax (RoEAT) bank profitability rose to its highest level since 2010 of 19.5% in 2018, up from 13.3% in 2017. Although this is an improvement, it is still low by historical standards.

NEWS HIGHLIGHTS

1st January	Rate of Crawl Revised. (Bank of Botswana)	The Ministry of Finance and Economic Development (MFED), together with the Bank of Botswana, has maintained the Pula basket weights at 45 percent South African rand and 55 percent IMF Special Drawing Right (SDR). An upward rate of crawl of 0.3 percent per annum of the Pula against the basket has been implemented effective from 1 January, 2019.
24th January	De Beers lowers 2019 output guidance. (Mining weekly)	De Beers Diamond Corporation has lowered its production guidance for 2019 to between 31-million and 33-million carats, lower than the 35.3 million carats production in 2018. Increased production is expected to come from De Beers' joint venture partnerships, while the company's wholly-owned Venetia mine in South Africa will produce less as mining moves underground. Production in 2018 was in line with the company's production target of 35 to 36 million carats and 6% higher than 33.45 million carats produced in 2017.
28th January	Lucara recovers 240 carat diamond at Karowe mine. (Mining weekly)	Lucara Diamond Corporation's Karowe mine has unearthed a 240 carat top white gem diamond from the South Lobe kimberlite. The gem will be shown alongside the 127 carat top white gem diamond and other exceptional diamonds the company's upcoming diamond tender in March 2019. Karowe mine is known for its exceptional large stones, and the mine has produced 54 diamonds over 200 carats in seven full year years of operation.
29th January	De Beers sales slump amid market weakness. (Rapaport News)	De Beers' rough diamond sales slowed in January 2019 as a disappointing holiday season piled further pressure on the midstream. Sales were 25 percent lower compared to January 2018, down from USD672 million to USD505 million. The month of January is usually one of the biggest sales cycles of the year, with retailers and dealers restocking after the holiday sales. However, sales at the beginning of this year were hampered by sluggish polish diamond sales. It is reported that at the first cycle of the year, there were more rejections than normal including the normally sought-after large stones.
29th January	China's growing economic muscle no debt trap for Botswana – President Masisi. (Sunday Standard)	President Masisi has dismissed talks and concerns surrounding the possible Botswana loan from China, stating that the country would not fall into a debt trap. The President emphasised that there should be no concerns as the country has a good legal framework to manage government borrowing.
4th February	Botswana budget speech for 2019/20 delivered. (Orbitax)	During the delivery of the 2019/20 Budget Speech, the Minister of Finance and Economic Development noted that the bill seeking to amend the existing Transfer Duty Act which was published in November 2018 will be presented to Parliament for approval shortly. The proposed changes to the current Act include the introduction of an exemption from paying transfer duty where a citizen acquires residential property for the first time to be used as own home as well as increasing the exemption threshold for citizens from P200,000 to P500,000 for purposes of computing duty payable upon the transfer of property. Also relating to tax, the Capital Transfer Tax Act will be amended to align it with the Transfer Duty Act during the 2019/20 financial year. Total revenues and grants for the 2019/20 financial year are estimated at P60.20 billion, up from the revised P58.23 billion estimated for 2018/19, while total expenditure and net lending has been estimated at P67.54 billion, up from the revised P65.19 billion in 2018/19. Hence, the overall budget for 2019/20 financial year shows a budget deficit of P7.34 billion, up from the revised P6.96 billion budget deficit forecast for the 2018/19 financial year.

NEWS HIGHLIGHTS

7th February	South Africa and Botswana ink deal for 80m ton-a-year railway link. (fin24)	Consultation between Botswana Railways and Transnet to construct a railway line linking Mahalapye in Botswana and Lephalale in South Africa has commenced, and the two state-owned railway companies have signed a memorandum of understanding. The construction of the railway line is expected to further unlock the potential of coal reserves between in two countries, especially Botswana. The railway line is anticipated to transport up to 80 million tons of coal every year.
11th February	Chinese contractor builds western bypass P450 million interchanges. (Mmegi)	A contract to build three grade-separated interchanges at the remaining city's intersections of BTV circle, Rainbow circle and Game City circle has been awarded to Zhong Gan Engineering and Construction, for an estimated contract amount of P450 million. Where available, the contractor will source materials and manpower locally to support the Economic Diversification Drive (EDD). The project is expected to be complete within two years.
14th February	Botswana Court of Appeal rules in favour of Norilsk Nickel. (Mining Review Africa)	In the dispute between BCL Ltd mine and Norilsk Nickel over the failed sale of the Nkomati mine to BCL, Botswana's Court of Appeal has ruled in favour of Norilsk Nickel to move forward with taking the matter to the London Court of International Arbitration (LCIA). The LCIA will assess the dispute matter and determine whether all conditions precedent to the transaction had been fulfilled and assess the damages to be paid by the BCL Group to Norilsk Nickel.
19th February	Companies to provide CIPA with beneficial ownership information. (Botswana Gazette)	Pursuant to Section 21 and 345 of the Companies (Amendment) Act 2018 and in line with the Financial Intelligence Agency (FIA) Act, all registered companies in Botswana will be required to provide the Companies and Intellectual Property Authority (CIPA), with beneficial ownership information. According to CIPA, the beneficial ownership information will improve transparency of the companies register, help curb corruption and reduce incidences of money laundering and terrorism financing through identifying the real owners of registered companies.
15th February	Three in the race, as Pula Steel auction ends. (Mmegi)	According to the liquidator of Pula Steel, John Hinchliffe, only three bids have been submitted for the purchase of the plant as at the deadline of 31 January 2019. The bidders are a mix of local and international investors, and the selected bidder will be required to pay 20% of the winning bid within a stipulated time period of 30 days of the award.
25th February	Cupric Canyon's Khoemacau secures funding for Botswana copper mine. (Reuters news)	Cupric Canyon's Khoemacau Copper has secured USD565 million funds for the construction of a copper and silver mine in Botswana. The funding includes a USD275 million debt facility from Red Kite Mine Finance and USD212 million from Royal Gold for 80 percent of the silver produced from the Khoemacau mine. Construction of the mine is scheduled to commence soon with production of copper and silver expected in the first half of 2021. Initial annual output is projected at 62,000 tonnes of copper and 1.9 million ounces of silver. The original schedule anticipated that the construction of the mine would start in 2017, but was held up by delays in acquiring environmental permits.

NEWS HIGHLIGHTS

2nd March	Botswana extends credit line to Zimbabwe. (Mail & Guardian)	It is not common for an African country to offer a fellow African country a bailout, as most nations on the continent are dependent on international financial institutions for borrowing. However, Botswana has offered to extend a credit line of approximately P1 billion (USD 95 million) to Zimbabwe. Credit will be made available through private financial institutions to Zimbabwe's private sector businesses, with the two countries providing guarantees for the loans. The credit line offered by Botswana is intended for the private sector and revival of struggling industries. It is estimated that Zimbabwe needs in excess of USD10 billion for total economic recovery. However, due to the country's low credit worthiness and policy inconsistency, it is difficult for it to secure credit. For Botswana, the benefits will flow to local companies which will benefit from trade opportunities with Zimbabwe, while Zimbabwean firms will benefit from access to trade credit. It is stated that the credit facility will depend on the two countries' conclusion of the Bilateral Investment Protection Agreement and if implemented correctly, it would reduce Zimbabwe's risk perception and contribute to the recovery of Zimbabwe's economy.
4th March	Botswana rated best mining environment in Africa. (Mining Review Africa)	The Fraser Institute's Survey of Mining Company's 2018 have ranked Botswana among the best mining investment countries globally on policy, and the highest in Africa. The survey assesses how mineral endowments and public policy factors such as taxation and regulatory uncertainty affect exploration investment.
6th March	The Botswana Consumer Price Index (CPI) has been rebased to December 2018. (Statistics Botswana)	The Botswana Consumer Price Index (CPI) has been rebased to December 2018, based on the results from the 2015/16 Botswana Multi-Topic Household Survey (BMTHS). Until December 2018, the CPI had a base period of September 2016, with basket weights based on the 2009/10 Botswana Core Welfare Indicators Survey (BCWIS). The CPI rebasing was necessary to represent consumer spending patterns and reflect changes in household spending patterns. The CPI basket has increased the number of items from 393 to 400, changed the weights and adopted a wider coverage area. However, category groups and sections have not changed from the initial 12 groups and 51 sections. The best international practice is to rebase the CPI after every five years, to reflect current prices and changing lifestyles of the population.
7th March	Troubled NDB gets P200 million lifeline. (Sunday Standard)	The National Development Bank (NDB) has received P200 million from the government to keep the bank afloat. The NDB has been making losses since 2015, attributable to a high level of non-performing loans. Impairment costs have been on the rise as a result of a poor collections strategy compounded by weak risk management solutions. The Bank has undertaken a rationalization strategy by retrenching almost 40% of its staff as a way of reducing costs.
7th March	MTN sells Botswana unit. (Fin24)	MTN Group Ltd. has announced the disposal of its 53 percent share in Mascom to Econet Wireless Zimbabwe Ltd for an estimated amount of USD300 million. According to MTN Group, the sale of the group's stake in Mascom is a way of reducing risks and increasing returns.

NEWS HIGHLIGHTS

7th March	Botswana sees lower mineral revenues in 2019. (Reuters Africa)	Government mineral revenues are expected to fall by 4 percent to P13.6 billion in the 2019/20 financial year as a result of the decline in the royalties and dividends payable to the government. The global market for rough diamonds is also slow and rough diamond prices expected to remain subdued in the first half of the year. This is compounded by the impact of the Cut-9 project at Jwaneng, which will be largely funded internally by Debswana, which in turn will impact on payments to government.
11th March	Exporters Forum to boost local traders. (All Africa News)	The inaugural Exporters Forum, a partnership of Botswana Investment Trade Centre (BITC), Stanbic Bank Botswana and Econsult Botswana, has the potential to unlock opportunities that lie in the global value for local exporting businesses. According to the Minister of Investment, Trade and Industry, Ms Bogolo Kenewendo, export trade is crucial in the economy and should take the lead in Botswana's economic growth. Hence, it is important to have a vibrant export market and a diversified export sector to drive the economic diversification initiative. According to the Minister, the government is prepared to facilitate development of the sector and has already signed regional and international trade agreements to enable the local exporters access to regional and international markets.
15th March	Botswana's Debswana targets diamond output of 24 million carats in 2019. (Reuters Africa)	The Debswana Diamond Company expects to keep production at around 24 million carats in 2019 amid the slow international market for rough diamonds. However, the Managing Director of Debswana has stated that if market conditions change during the year, production target is subject to change so as to match supply with demand. In 2018, production at Debswana increased by 6 percent to 24.1 million carats.
19th March	Debswana announces Cut 9 project, to extend Jwaneng mine-life. (IDEX)	Debswana, a 50/50 joint venture between the Government of Botswana and De Beers Group, has launched the Cut-9 project to extend the life of the Jwaneng mine to 2035. The mine is expected to yield an estimated 53 million carats of rough diamonds from 44 million tonnes of treated material. Debswana will invest approximately USD2 billion over the life of the project, which is expected to create more than 1,000 jobs. A contract has also been awarded by Debswana to Majwe Mining, a joint venture between Bothakga Burrow Botswana and Thiess Botswana to provide diamond mining services at an estimated contract value of USD1.2 billion.
22nd March	Stalemate over Morupule B's USD800 million expansion goes to OP. (Mmegi)	The country's highest office has entered the four-year deadlock over whether government should go ahead with the USD800 million (approximately P8.6 billion) expansion of Morupule B by a further 300 MW. The tender was won by a joint venture between Marubeni (Japan) and Posco (South Korea) in 2015, and the delay has been caused by a dispute over a government support agreement required by the two firms to reach a financial close. The purpose of the agreement will act as government guarantee for the two firms to get funds from international banks. Marubeni and Posco argue that this is required due to the uncertainty of payment from the cash-strapped BPC
25th March	'Wheat' a minute, we got enough grain – BAMB. (Sunday Standard)	According to the Chief Executive Officer of the Botswana Agricultural Marketing Board (BAMB), Mr Leonard Morakaladi, grain supply in the country will be affected by the current drought afflicting in the 2018/19 ploughing season. He has stated, however, that the country's grain reserves are sufficient to meet domestic demand. The current grain stock level held by BAMB comprise of 48,000 metric tonnes of sorghum, 1,500 metric tonnes of white maize and 2,000 metric tonnes of pulses (peas and beans).

NEWS HIGHLIGHTS

25th March	BOFINET takes full control of national fibre. (Sunday Standard)	The Ministry of Transport and Communications is in the process of transferring its fibre network and broadcasting facilities to Botswana Fibre Networks (BoFiNet) for full management. According to the Minister, Ms Dorcas Makgato-Malesu, all broadcasting networks, Water Utilities Corporation (WUC) fibre networks and Botswana Power Corporation (BPC) fibre networks will be consolidated into one asset bundle and transferred to BoFiNet as per the recommendations of the approved National Broadcasting Strategy in July 2018. The separation and transfer of the facilities is scheduled to be completed at the end of 2019/20 financial year.
25th March	Barclays bank present first full year results after divorce. (Sunday Standard)	The financial results of Barclays Bank Botswana showed profit before tax of P587.9 million for the year ending 31 December 2018, representing year-on-year growth of 5 percent from P558.1 million in 2017. Loans and advances to customers increased to P11.8 billion in 2018, up from P11 billion in 2017, driven by growth in the Retail and Corporate segment of the bank. Operating costs during the year were well contained and achieved cost-to-income ratio of 55 percent, excluding cost related to the separation of Barclays Inc from Barclays UK. Total assets of the bank amounted to P17.0 billion in the 2018 financial year, up from P15.2 billion in 2017. The financial results for 2018 of Barclays Bank Botswana were the first following its separation from Barclays UK.
28th March	Botswana copper sector gets second boost after MOD unveils USD182 million T3 Project. (Miningmx)	Botswana's emerging copper industry received a second boost in two months after Sydney and London listed MOD Resources outlined proposals for a USD182 million mine producing 28,000 tonnes a year of copper as well as 1.1 million ounces of silver. The T3 Copper Project (the mine) is expected to start in 2022 and will produce 30,000 tonnes of copper in its first seven years of full operation.

MACRO-ECONOMIC DATA

Key Economic Data	unit	2013	2014	2015	2016	2017	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1
Annual Economic Growth											
GDP	%	11.3	4.1	-1.7	4.3	2.9	3.8	4.9	5.0	4.5	..
Mining	%	24.2	0.5	-19.6	-3.7	-11.1	-0.3	5.6	4.0	7.4	..
Non-mining private sector	%	10.1	4.9	1.4	7.1	5.6	4.5	5.1	5.6	4.3	..
GDP current prices	P mn	125,158	145,868	146,066	170,564	180,102	45,768	46,910	48,699	48,492	..
GDP 2006 prices	P mn	84,081	87,569	86,083	89,787	92,398	23,478	24,058	24,126	24,851	..
Money & Prices											
Inflation	%	4.1	3.8	3.1	3.0	3.2	2.8	3.1	2.9	3.5	3.3
Prime lending rate	%	9.0	9.0	7.5	7.0	6.5	6.5	6.5	6.5	6.5	6.5
BoBC 14-day	%	3.06	3.07	0.97	0.84	1.45	1.47	1.47	1.52	1.52	1.60
Trade & Balance of Payments											
Exports - total goods	P mn	66,404	76,261	63,484	80,336	61,093	13,795	18,900	14,830	17,528	..
Exports - diamonds	P mn	55,367	65,328	52,730	70,781	54,384	12,345	17,253	12,990	..	..
Balance of payments	P mn	1,340	11,404	- 57	2 843	61	- 958	3 754	-88	-1,798	..
Foreign Exchange											
Exchange rate BWP per USD	end	8.718	9.515	11.236	10.650	9.872	9.533	10.395	10.593	10.730	10.787
Exchange rate ZAR per BWP	end	1.196	1.217	1.383	1.279	1.256	1.235	1.317	1.334	1.344	1.353
FX reserves	$ mn	7,726	8,323	7,546	7,189	7,502	7,383	7,147	7,146	6,657	..
FX reserves	P mn	67,772	79,111	84,881	76,804	73,693	70,582	74,297	75,781	71,427	..
Financial Sector											
Deposits in banks	P mn	48,512	51,492	59,961	62,438	63,581	62,495	64,838	68,517	69,271	..
Bank credit	P mn	39,763	45,116	48,307	51,316	54,181	54,695	56,531	57,582	58,332	..
BSE index		9,053.4	9,501.6	10,602.3	9,727.7	8,860.1	8,589.6	8,402.7	7,837.3	7,853.5	7,885.6
Business Indicators											
Diamond production (a)	'000 cts	23,134	24,658	20,732	20,880	22,961	..	..	..	..	..
Copper production (b)	tonnes	49,448	46,721	23,050	16,878	1,239	..	..	..	..	..
Nickel production	tonnes	22,848	14,958	16,789	13,120	0	..	..	..	..	..
Business confidence index		45%	52%	44%	43%	46%	58%	..	..	..	..
No. of companies formed		14,190	16,300	19,134	17,133	20,707	5,327	..	..	..	..
Electricity consumption	GWh	3,502	3,990	3,974	3,929	3,772	960	992	1,004	..	..
Crude oil (Brent)	$/bar	109.95	55.27	36.61	54.96	66.73	69.02	77.44	82.72	50.57	67.93
Employment (formal)											
Government		130,175	129,918	130,220	129,216	129,009	129,118	130,817	132,386	..	
Parastatals		18,838	18,790	19,411	19,008	19,444	19,491	19,566	19,773	..	
Private sector		189,894	191,399	191,484	194,202	193,745	194,162	194,564	195,198	..	
Total		338,907	340,107	341,115	342,426	342,198	342,771	344,947	347,357	..	

Govt Budget		2015/16	2016/17	2017/18	2018/19 Revised	2019/20 Proposed
Revenues	P mn	47,420	57,398	56,411.05	58,229.40	60,198.63
Spending	P mn	54,411	56,275	58,392.94	65,308.34	67,537.96
Balance	P mn	-6,991	1,123	-1,981.89	-7,078.94	-7,339.33
Public debt & guarantees	P mn	35,342	36,864	45,542	46,012	52,980
Govt deposits at BoB	P mn	33,916	29,819	30,094	23,515	23,212
GDP	P mn	149,134	174,630	182,195	198,250	212,587
Revenues	%GDP	31.8%	32.9%	31.0%	29.4%	28.3%
Spending	%GDP	36.5%	32.2%	32.0%	32.9%	31.8%
Balance	%GDP	-4.7%	0.6%	-1.1%	-3.6%	-3.5%
Public debt & guarantees	%GDP	23.7%	21.1%	25.0%	23.2%	24.9%
Govt deposits at BoB	%GDP	22.7%	17.1%	16.5%	11.9%	10.9%

Sources: Bank of Botswana; MFED; Statistics Botswana; Department of Mines; Registrar of Companies; BSE; Econsult

Notes:

(a) From 2013, figures include production from Lucara Diamonds (Karowe mine) and Debswana. From 2016, figures also include production from Gem Diamonds (Ghagoo) and Lerala mines, which ceased in February 2017 and April 2017 respectively

(b) Copper production starting Q2 2017 for Mowana mine

(c) Numbers in Italics reflect revisions from the previous review

Tourism and the Economy

Introduction

Much has been written and spoken about the economic importance of the tourism sector in Botswana and elsewhere. Undoubtedly, tourism is very important in Botswana, especially in the context of the drive for diversification, employment creation, and export-led growth – tourism is one of the few economic sectors that ticks all three boxes. Tourism also brings economic activity to rural areas, and provides employment and earnings opportunities to communities that may have few alternatives. But the sector is often misunderstood, and much of what is said about tourism is misguided, or plain wrong. For instance, it is sometimes claimed that tourism is the second largest sector of the economy (which is not true), or that 70% of tourism earnings "leak" out of the country, which also does not appear to be true. In this article we explore the economic impact and importance of tourism in Botswana, present some data on the sector and its role in the economy, clarify some of the misunderstandings, and explore where future opportunities lie.

Definitions

We can start with some definitions. From an economic perspective, the tourism industry is defined in terms of the nature of the consumer (this causes complications when measuring its share of GDP, which we discuss below). *"Tourism is defined as the activities of persons identified as visitors. A visitor is someone who is making a visit to a main destination outside his/her usual environment for less than a year for any main purpose [including] holidays, leisure and recreation, business, health, education or other purposes …. this scope is much wider than the traditional perception of tourists, which included only those travelling for leisure*[1]*.*

The definition of visitors includes two main groups:

(1) *Tourists* who are visitors staying away from home for one or more nights for any of the purposes noted above (domestic, or from abroad).

(2) *Same Day visitors*, spending at least 3 hours away from home outside their usual environment for general leisure, recreational and social purposes[2].

Furthermore, visitors are generally divided into domestic and international tourists, depending on whether the visitor is a resident (domestic) or non-resident (international) of the country in question.

The definition of tourism activity in terms of visitors/tourists causes complications in the measurement of the tourism contribution to GDP. The most common approach to GDP measures the output of different industries, e.g. agriculture, mining, financial services. Hence the classification of an economic activity for measuring GDP by output is in terms of the *nature of the product* that is produced. Tourism does not fit into this classification. A *tourism industry* is one that provides products or services consumed by visitors, i.e. it is defined in terms of the *nature of the consumer* of the product, not the nature of the product itself.

So, for instance, if a resident of Gaborone goes for lunch at a local restaurant, this is not tourism or visitor expenditure, but if he or she shares that lunch with a visitor from outside of Botswana, then the cost of the visitor's lunch does form part of tourism expenditure. But in the national accounts, the production of both meals falls under the "restaurants" sub-sector of GDP. The result is that tourism activity cuts across a range of different industries in terms of GDP, including hotels, restaurants, retail, transport, social and personal services etc.

Tourism Satellite Account and Contribution to GDP

That is why tourism does not appear directly as a sector in the national accounts – because it is not defined in terms of the nature of the *product* itself, but by the nature of the *consumer* of the product. However, there is an established methodology for constructing Tourism Satellite Accounts (TSA), which aims to calculate visitor/tourist expenditure across the various economic sectors where it appears. The most detailed work on TSAs has been carried out by the UN World Tourism Organisation (UNWTO). The most recent TSA for Botswana, complied by the UNWTO and the Department of Tourism, was for 2016, and resulted in the figures shown in Table 1 below.

Table 1: Tourism Consumption Expenditure and Contribution to GDP, 2016

Consumption Products	Tourism percentage	Tourism value (P mn)	Share of total tourism value (%)
Accommodation services	73.1%	4,181.5	32.4%
Food & beverage services	21.7%	1,858.2	14.4%
Local transport (air and land)	28.8%	2,605.6	20.2%
Travel agencies, tour operators etc.	90.0%	908.8	7.0%
Other (e.g. retail)	1.2%	3,348.8	26.0%
Total		12,902.9	100%
Intermediate consumption		5,245.5	
Gross value added (tourism output)		7,657.4	
Share of economy (GDP at basic prices)		4.9%	

Source: Updating the Tourism Satellite Account for Botswana, 2016 (UNWTO)

[1] UN World Tourism Organisation Statistics Guidelines: 2010
[2] http://www.tourismsociety.org/page/88/tourism-definitions.htm

SPECIAL FEATURE

So what does all this tell us? The bottom line is that tourism expenditure accounted for 4.9% of GDP in 2016. As noted above, tourism is not directly comparable with other output sectors of the economy, but to put this in perspective, this would make tourism larger than agriculture and electricity & water, but smaller than all other sectors (the closest are manufacturing, transport & communications and construction, which are all in the range of 6-7% of GDP). So tourism is not the second largest sector of the economy, when measured by share of GDP. However, it is larger than the international average, where tourism accounts for just under 3% of global GDP[3].

These figures relate to the direct impact of tourism expenditure on GDP. There are also indirect impacts, resulting from the demand for the outputs of other sectors of the economy by tourism activities (e.g. demand for agricultural products by accommodation establishments and restaurants). The UNWTO 2016 TSA estimates this indirect impact to add 53% to the direct impact, so the total direct and indirect contribution of tourism to GDP would be 7.5% (this cannot be compared to the output of other sectors, as it includes part of that output).

Tourism Employment

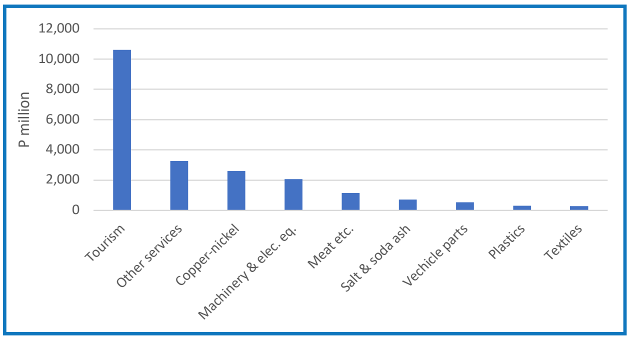
However, share of GDP is not the only way to measure the economic importance of an industry. A second key metric is the contribution to employment. Employment in tourism is not directly measured in the Formal Employment statistics published by Statistics Botswana, which largely follows the classification of GDP by output. We therefore have data on employment in Hotels & Restaurants, but not in Transport or Tour Operators. In 2016, formal employment in hotels and restaurants was 18,670.

A separate TSA is prepared by the World Travel and Tourism Council (WTTC). The WTTC TSA for 2018 has a smaller direct estimate of the contribution of tourism to GDP (3.9% in 2016) but a larger estimate of the indirect impact. The WTTC TSA also includes an estimate of the direct contribution of tourism to employment, which was 25,000 in 2016, or 7.5% of total formal employment. A higher contribution to employment than to GDP illustrates that the sector is relatively labour intensive.

Tourism Exports

A third important economic aspect of the tourism sector is its contribution to export earnings. Data on tourism exports (i.e. spending in Botswana by non-residents – visitors from other countries) is not measured directly and is subject to considerable uncertainties, frequent revisions, and discrepancies between different sources. The UNWTO TSA estimates total spending by foreign visitors (i.e. inbound tourism) at P10.6 billion in 2016. This is somewhat higher than the figures reported by the WTTC (P6.2 billion), which is the figure used by the Bank of Botswana for the balance of payments statistics, but for various technical reasons, we believe that the UNWTO figure is more accurate (and that the WTTC figures will in due course be revised to reflect this).

Figure 1: Non-diamond exports, 2016



Source: Statistics Botswana, Bank of Botswana, UN WTO

With this level of export earnings, the tourism industry is by far the second largest source of export earnings for Botswana, after diamonds (P70.8 billion in 2016). As Figure 1 shows, tourism export earnings dominate other non-diamond exports, accounting for around 15% of total exports of goods and services[4]. This may be the source of the (mistaken) claim that tourism is the second largest sector of the economy. However, being the second largest source of export earnings is nonetheless very important. As we have discussed elsewhere, Botswana has been quite successful in diversifying the economy away from diamonds, but has been much less successful in diversifying exports. Most of the fast-growing sectors of the economy are dependent on domestic demand, but are not exporting sectors. Given that diversifying exports is crucial to Botswana's long-term economic sustainability, from this perspective (export diversification) tourism is a major success.

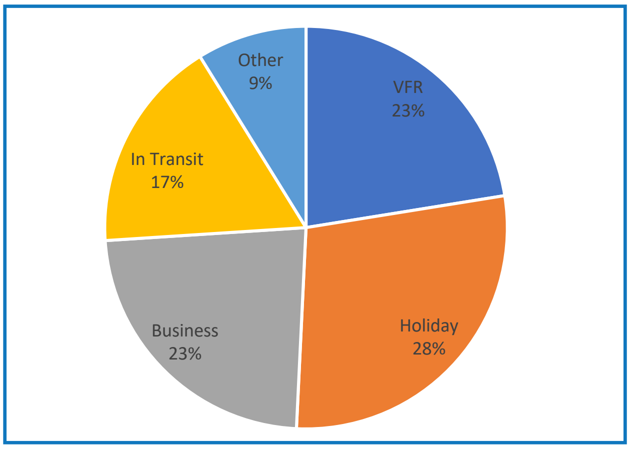
Of course, domestic tourism spending (by residents) is also important, although data on this is even weaker than data on inbound tourism spending. Indeed, very little is known about tourist activity by citizens and residents – Statistics Botswana's annual tourism statistics include information only on foreign visitors, and have no information at all on domestic tourism. The UNWTO TSA estimates domestic spending P3.9 billion in 2016 (based on data on household income and expenditure), or around 27% of total tourism consumption in Botswana.

[3] The Economist, October 27th 2018
[4] Excluding diamond re-exports

Who are the visitors to Botswana?

Tourism statistics cover all types of visitors to the country, including both overnight visitors and day visitors. There is a variety of types of visitors, not all of whom would meet the conventional conception of tourists, who might better be called holiday visitors. Other groups of visitors are those who are here for business, visiting friends and relatives (VFR) and those who are in transit. According to Statistics Botswana's Tourism Statistics 2017, those three categories accounted for 63% of total visitors in 2017, while holiday visitors accounted for 28%. In total, there were 1.8 million visitors to the country in 2017.

Figure 2: Visitors by purpose, 2017

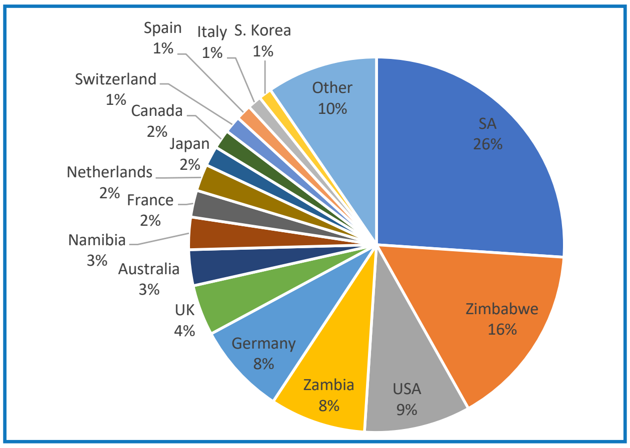


Source: Statistics Botswana, Tourism Statistics, 2017

Neighbouring states accounted for 82% of visitors: Zimbabwe (33%), SA (33%), Zambia (8%), Namibia (7%). After that, the main sources are the USA (3%), Germany (2.5%) and UK (1.6%). There are big differences in the purposes of visits by country: Zimbabweans and South Africans come mainly for business and VFR (both 57%); Zambians come mainly for business or transit (54%); while Namibians are mainly in transit (49%).

The distribution of holiday visitors is quite different, and is much more diversified. South Africa is the largest source (26%). While neighbouring states account for 82% of overall visitors, they only account for 53% of holiday visitors. Almost 40% come from the USA, Canada, Australia and Europe. It is striking that relatively few (4%) of holiday visitors come from Asia, despite this region comprising 60% of the world's population. Although holiday visitors are fewer in number, it is likely that they stay longer and spend much more on tourism services per visitor than VFR and business visitors. With rising travel expenditure by the Chinese and Indian middle classes, there should be an opportunity for Botswana to diversify the source of holiday visitors.

Figure 3: Origin of holiday visitors



Source: Statistics Botswana, Tourism Statistics, 2017

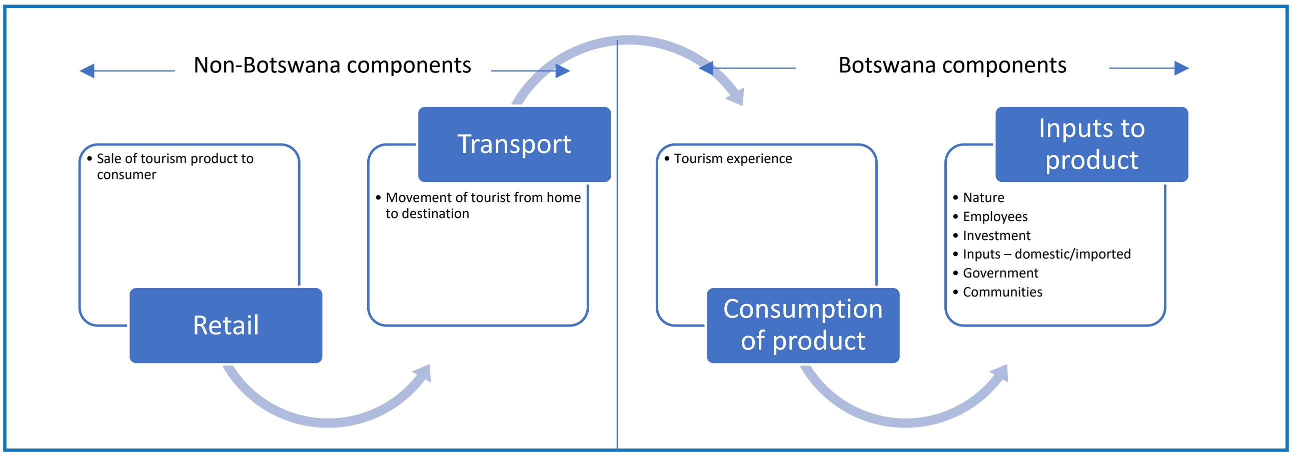
Tourism Earnings Retention

A major issue in discussion of the tourism industry is the supposed "leakage" of tourism receipts that flow out of the country (or never arrive in the country). A frequently quoted figure is that only 30% of remain in the country. The basis for this claim is difficult to pin down, but seems to emanate from a 1999 report[5], which is unfortunately not readily available.

However, from the way in which the figure is reported, it appears to be based on mistaken methodology. In order to understand this, it is necessary to understand the tourism value chain Figure 4.

[5] BTDP (Botswana Tourism Development Programme). 1999. Tourism Economic Impact Assessment. Gaborone: Department of Tourism.

Figure 4:
International Tourism Value Chain



As is well known, Botswana tourism is currently dominated by nature/wildlife based products in the northern part of the country (i.e. primarily in or around the Okavango Delta and the Chobe area). Most, but not all, of the consumers of these tourism products are from outside of the country. The major tourism companies sell their products in two ways. The bulk of tourism packages are sold on a wholesale basis to travel agents based in the countries from where the international tourists originate, and those travel agents offer Botswana packages alongside tourism packages from other destinations, in order to provide their clients with a wide range of options. It is important to understand that the majority of Botswana tourism packages are sold by the tourism companies that originate these packages on a wholesale basis – not directly to the final consumers. However, there are other, smaller channels. Some tourism operators sell their packages directly to final consumers on the internet, but this is, to date, relatively small. Most of the major tourism operators in northern Botswana also have "travel shops" located in Maun or Kasane, where they sell tourism products on a retail basis (in Pula) to Botswana-based customers.

Botswana's tourism earnings are measured at the point at which the product crosses the border – i.e. when there is a transaction between a resident (the tourism company) and a non-resident (the foreign travel agent). This is the wholesale transaction mentioned above, and is the amount included in the balance of payments (export earnings) and represents the earnings of the tourism operator.

To this wholesale commodity, other elements are added in determining the price that the final consumer pays. First, the cost of transportation between the tourist's home country and Botswana. Second, the retailer's margin or mark-up, which represents the costs of distributing the product in the consumer's country of residence. As Figure 4 shows, these amounts are earned and paid outside of the country, and in economic terms do not represent part of Botswana's GDP or earnings from the sale of tourism products (apart from a small amount that may be attributable to air transportation from a foreign country into Botswana). The problem with the 1999 report and the figure of 70% leakage is that it appears to include the costs of international travel and retail margins in the calculation of "leakage". This makes no sense economically and is invalid from a methodological perspective, not to mention that the number is twenty years out of date. So it is not useful as a guide to the state of the tourism sector in Botswana.

To illustrate the methodological error consider the example of a vehicle (e.g. a Land Rover) purchased from a motor dealer in Botswana. The purchaser pays the Botswana motor dealer, out of which the dealer earns his/her margin, and has to pay the wholesale/export price of the vehicle to Land Rover UK, as well as SACU import duties and the transport costs of getting the vehicle to Botswana from the UK. Applying the Botswana tourism leakage argument would say that Land Rover UK is suffering "leakage" because it is not receiving the full retail value of the vehicle, and that the "leakage" for the retail margin and distribution/transport costs are somehow "unfair". That is incorrect; Land Rover UK sells a product on a wholesale basis to a distributor, not a retail product to a consumer located on the other side of the world. The same is true of the Botswana tourism product. Now, Land Rover could decide to approach the business differently in order to secure a greater proportion of the value chain for itself. It could decide to own and run a shipping line to distribute its cars globally. It could also decide to own motor dealers all over the world. In that way it would earn the transport costs and retail margins within the company and not suffer "leakages". But it has taken a business decision not to do that. Presumably that is because Land Rover's expertise is in designing and making luxury vehicles, not in running shipping lines or motor dealer showrooms. So not participating in certain stages of the value chain is entirely rational, and presumably optimal for Land Rover.

But the question of "leakage" remains valid, as long as it is measured properly. There are several channels whereby Botswana's gross tourism export earnings (measured at the border) might "leak" out of the country. First, tourism products require the consumption on inputs (e.g. food) that may be sourced within Botswana, or imported. Second, some of the employees will be expatriates, who repatriate some of their earnings to the home countries. And third, a part of the ownership of tourism companies may be by non-citizens, who send profits out of the country. All three channels result in payments flowing out of the country (balance of payments debits) so that the net foreign exchange (forex) earnings are less than the gross forex earnings. It is this ratio – of net tourism forex earnings to gross forex earnings – that is important from an economic perspective, and is the appropriate measure of "leakage". The net forex earnings – those retained in the country – are used for various purposes, including taxes, royalties and concession fees to government and the community, wages of citizen staff, inputs sourced domestically, profits paid to local shareholders, and money retained in the business for reinvestment.

It should be noted that all exporting industries experience some "leakage" of this kind, and it would be unrealistic to expect otherwise. So tourism is not particularly different to other economic sectors.

Unfortunately the data are not available from public sources for the sector as a whole to calculate how gross earnings are distributed across different external and internal (domestic) parties – the information can only be calculated at individual company level. Most companies in the tourism sector are privately held, but in a few cases they are public, and information is more readily available We can therefore use the example of Chobe Holdings Ltd – a major tourism operators listed on the Botswana Stock Exchange – to explore this issue further.

According to the Chobe Holdings Annual Report for the year to 28th February 2018, total revenues of the company (almost entirely earned in Botswana) were P331 million (including net VAT). This makes it a sizeable player, responsible for 2-3% of Botswana's total tourism export earnings. The information in the annual report, supplemented by information from the company, shows how this revenue is used, in Table 2.

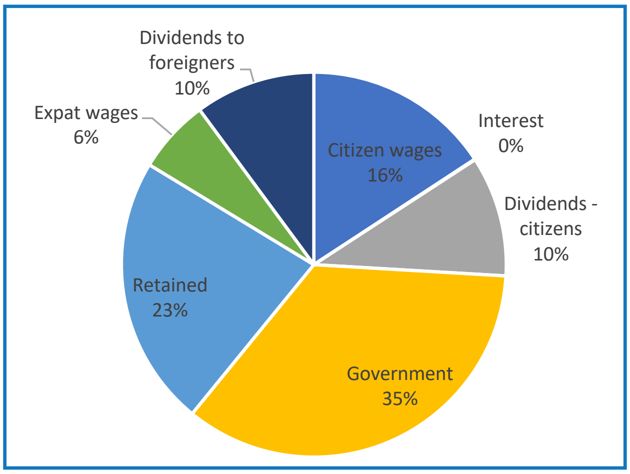
Table 2: Chobe Holdings - Distribution of Revenues Generated, 2017/18 (P'000)

Domestic		Foreign		Total
Local input expenses	58,897	Import expenses*	51,088	109,985
Net wages – citizens	34,852	Net wages – expatriates	13,704	48,556
Interest payments	121			121
Dividends to citizens	22,360	Dividends to foreigners	22,360	44,270
Payments to government	77,703			77,703
Retained in the business	50,832			50,832
Total	**243,915**		**87,152**	**331,067**

Source: calculations based on information from Chobe Holdings Annual Report, 2018, and management.
Note: * includes direct imports and estimated indirect imports.

The result shows that of the total revenue brought into Botswana by Chobe Holdings, an estimated 74% is retained in Botswana, and only 26% flows out of the country. It also shows how the value added created by the business is distributed (value added is equal to total revenues less inputs consumed). Here the contrast is even more striking, with an estimated 84% of value added retained within Botswana and 16% distributed externally. It is also clear that the largest single recipient of value added is the Government, with revenues in the form of VAT, PAYE, taxes on profits, and licences, royalties and concession fees accounting for 35% of total value added.

Figure 5: Chobe Holdings – Distribution of Value Added, 2017/18



Source: calculations based on information from Chobe Holdings Annual Report, 2018, and management

SPECIAL FEATURE

This is only for one company, and is not necessarily representative of the whole tourism industry. However, it is a large company, and is probably fairly typical of other large tourism companies, at least those offering accommodation and safari-based tourism holidays in northern Botswana.

Conclusions

What does this imply for the future of the Botswana tourism industry? One policy option is to try and secure a greater share of the value chain for Botswana, as has been successfully achieved in the diamond industry. This would imply trying to enter the "non-Botswana" components of the value chain in Figure 4. One option would be to try and extend Air Botswana's services, or to encourage other Botswana-based airlines, to provide more flights into the country, so as to earn a larger share of visitors' travel expenditure. Another option is to try and earn some of the retail margin, either by directly owning travel agents and tour operators in other countries, or through moving sales towards Botswana-based online platforms. These are certainly worth considering, but it is not automatic that they will be economically viable or beneficial – just as Land Rover does not own ships, or motor dealers in Botswana.

Other priorities should be related to the diversification of tourism: attracting holiday tourists to different parts of Botswana, reducing the concentration on the northern wildlife areas; attracting different holiday visitor types (not just high income visitors, for instance, attracting backpackers); developing tourism for meetings, conferences and events ("MICE" visitors); and attracting visitors from Asia. Tourism companies should also be encouraged to buy a larger proportion of their supplies and other inputs locally. These initiatives would help to further increase the contribution of tourism to export diversification and employment.

Finally, there is a serious need for much better data on the tourism industry. As we have noted, the availability of data to track the economic impact of the industry is poor, which is one reason why there is so much uncertainty over how big that impact is. Various parties have a role to play. The role of Statistics Botswana is central; they should be compiling annual tourism satellite accounts on the tourism contribution to GDP; collecting more information on spending by different categories of visitors to the country (through regular visitor surveys); collecting data on domestic tourism (as well as international visitors); and including both spending information and domestic tourism data in the annual Tourism Statistics. The Bank of Botswana needs to improve the quality of data on tourism foreign exchange earnings (tourism exports) as part of the balance of payments, so that the sector's role in export diversification can be tracked. The Botswana Tourism Organisation (BTO) and Department of Tourism also need to pay much more attention to the collection, analysis and publication of tourism sector data. All tourism companies could be required to submit annual data on different types of revenues and spending as part of their licensing conditions, as well as information on employment, ownership and community engagement. It is not possible to design and implement sensible tourism sector development policy without good quality information on the sector – to identify where the gaps are, and hence the opportunities for development. Similarly, the impact of tourism development policy cannot be tracked and evaluated without data.

PO Box 45016, Gaborone, Botswana

tel [+267] 390 0575
fax [+267] 390 0585

email keith@econsult.co.bw
sethunya@econsult.co.bw
kitso@econsult.co.bw
www.econsult.co.bw

The Econsult Economic Review is sponsored by BIFM, Botswana's largest asset manager. All content and commentary in the Review is produced by Econsult and should not be attributed to BIFM.