

## COMMENTARY ➔

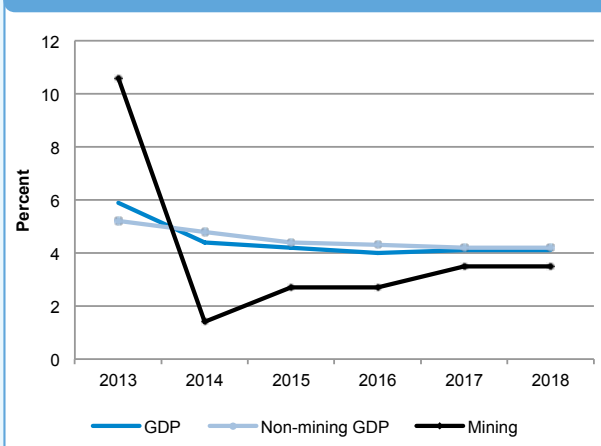
## No significant economic surprises in second quarter of 2014

The second quarter of 2014 did not contain any significant economic surprises or developments and was largely “business as usual”. Economic growth figures for the year to March 2014 were released, and showed annual GDP growth of 5.9%, a respectable figure and largely unchanged from December 2013. Growth was largely driven by increased diamond production, although on a less positive note, the growth of the non-mining private sector slowed further. Other somewhat troubling developments reported on during the second quarter were a sharp slowdown in exports resulting in a balance of trade deficit, and a jump in non-performing loans in the banking sector.

Perhaps the most interesting development during the quarter was the annual IMF Article IV surveillance mission, and subsequent report (published just after the end of the quarter). The IMF conducts Article IV surveillance on all member states – even developed countries – and it provides an opportunity for policy discussions between the IMF and the government, IMF commentary on positive and negative economic developments, and the identification of potential risks to economic growth.

The IMF report praised Botswana’s good economic growth performance over the years. However, it drew attention to a deteriorating underlying growth trend, with the prospect of lower growth rates going forward, due to the declining growth of total factor productivity. As Figure 1 shows, the IMF sees Botswana’s GDP growth rate gradually declining to around 4% a year.

Figure 1: IMF Growth Forecasts



A number of risks were identified in the report, highlighting short to medium term issues that need to be moni-

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## COMMENTARY ↘

tored, addressed or mitigated. In the financial sector, the report raised concerns about the rapid growth of household credit, and rising arrears on bank lending, although from a low base. The second quarter showed a welcome slowdown in household credit growth, but a very disturbing spike in NPLs to the private business sector.

The IMF is generally supportive of Botswana's fiscal policy and the measures included in the 2014 budget, although it reaffirms earlier concerns about the size and sustainability of the public sector wage bill. As we pointed out in the last issue of the Review, government spending on wages and salaries has continued to rise steadily, despite minimal formal salary increases and restrictions on hiring. The IMF also agrees with the position that the government should be attempting to run budget surpluses, with the view to rebuild of the financial reserves that were run down during and following the global financial crisis.

The IMF also points out, as we have done previously, that ongoing water and power shortages are likely to constrain non-mining economic growth, both directly (causing disruptions to production) and indirectly (by undermining investor confidence).

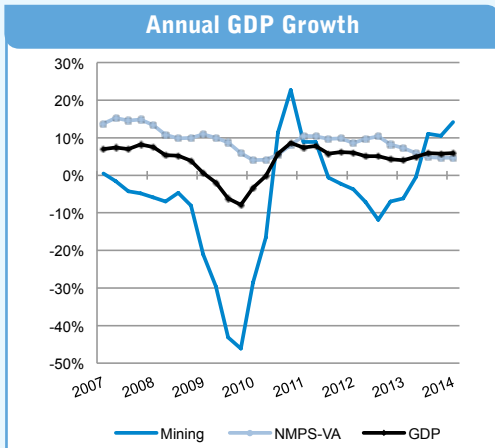
In terms of external sector risks, the main concern is that of a slowdown in mineral exports should global

growth – particularly emerging market growth – disappoint. As we note in this review, exports (including mineral exports) experienced a substantial slowdown in Q1 of 2014; while this may be a temporary blip, it illustrates the vulnerability of the balance of payments to an export weakening, and the overriding priority of diversifying Botswana's export base.

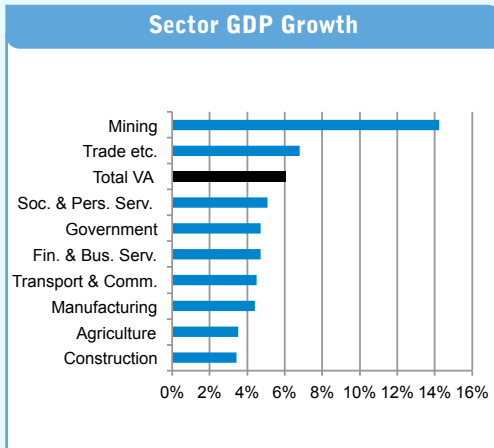
The Article IV Report also identifies factors where Botswana performs relatively badly compared to its peers, which may inhibit investment (see our feature on FDI inflows later in this issue for further discussions). The report compares Botswana with a range of other middle-income countries (MICs) (rather than just African countries, as is often the case). The list of impediments includes: low rankings (amongst MIC peers) on ease of doing business measurements; relatively poor access to electricity and to banking, low use of the internet; uncompetitive labour costs; and excessive bureaucracy.

Overall the IMF Article IV Report is positive about Botswana's economy. It notes the success in bringing down inflation to historically low levels, and the country's low levels of domestic and foreign debt, while concluding that more efforts are necessary in addressing inequality and to removing the structural bottlenecks to sustained future growth.

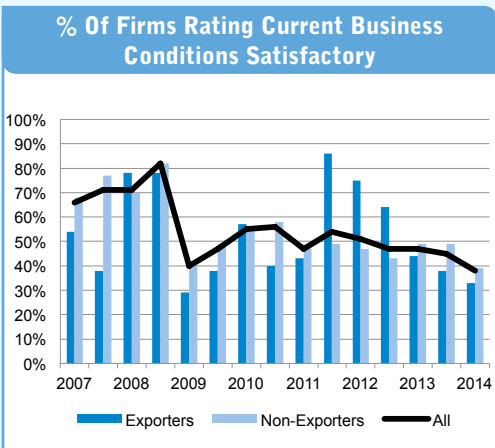
## KEY ECONOMIC VARIABLES ↘



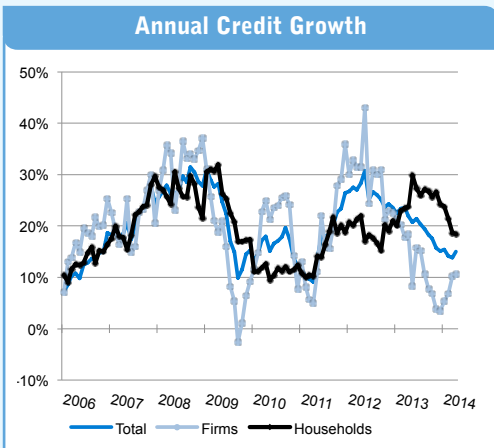
During the year to March 2014, Botswana's GDP grew by 5.9%, up from 5.8% experienced in 2013. This is largely attributable to the 14.2% growth realised in the mining sector during the year to March 2014. The non-mining private sector (NMPS) continued its downward trajectory as its growth fell marginally from 4.7% during 2013 to 4.6% during the 4 quarters to March.



In line with the slower growth of the NMPS, services sectors continued to slow during the year to March 2014. Finance & Business services and Social & Personal services grew by 4.7% and 5.1%, respectively, a slowdown from 5.5% and 6.0% growth during 2013. The water and electricity sector (excluded from the figure) continued to realise negative value-added and growth.

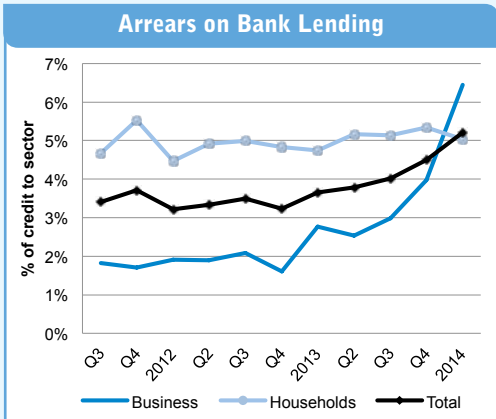


The Bank of Botswana's H1 2014 Business Expectations Survey (BES) showed that overall business confidence deteriorated to 38% from 45% in H2 2013. Well under half of local exporters and non exporting firms rate current business conditions satisfactory. This is despite the pick-up in overall growth, which is primarily related to recovery in diamond mining. The deterioration of business confidence is explained by the sluggish growth experienced in the non-mining private sector. Despite the low current business confidence, an overwhelming 64% and 68% of local firms are optimistic about business conditions in 6 months and 12 months time, respectively.

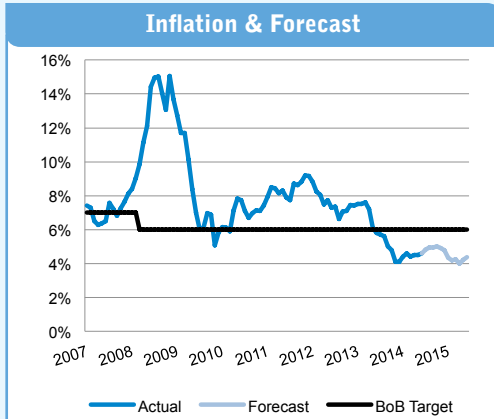


Annualised credit growth stood at 15.0% in April 2014, compared to 15.4% in January. The growth rate of credit to firms increased from 5.3% in January to 10.6% in April. Conversely, the growth rate of credit to households declined from 23.8% in January to 18.4% in April. These trends are encouraging, as there has been a concerns about high levels of unsecured household debt and slow growth in business credit.

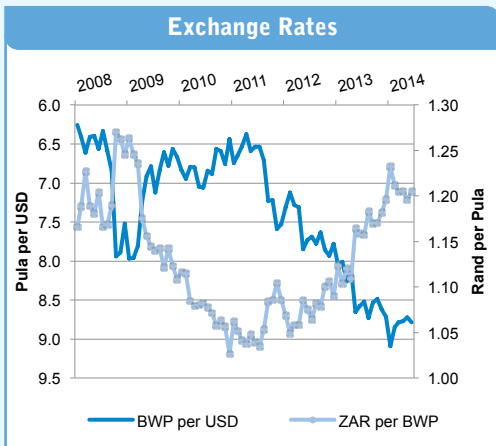
## KEY ECONOMIC VARIABLES ↘



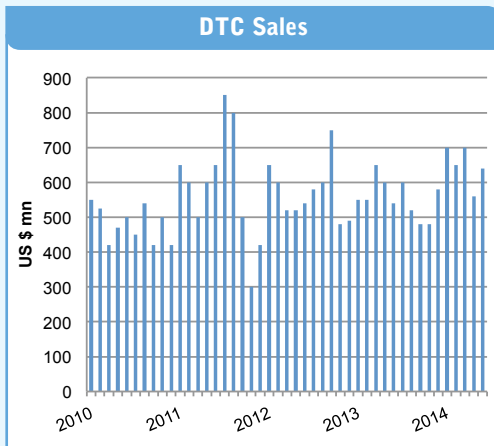
Total arrears as a proportion of outstanding bank credit increased from 4.5% at the end of Q4 2013 to 5.2% as at the end of Q1 2014. This increase is attributable to a large increase in arrears on credit to firms, while arrears on household credit decreased. The increase in arrears on credit to firms is alarming as it indicates a further deterioration in business conditions.



Headline inflation increased slightly during Q2 2014, from 4.4% in March 2014 to 4.6% in June. Inflationary pressures generally remain benign, with the main drivers of inflation being tax increases (on alcohol) and prices of non-tradeables (health and education). Barring any shocks from fuel prices, we expect inflation to increase marginally and end the year at about 5.0%, before falling back in the first half of 2015.

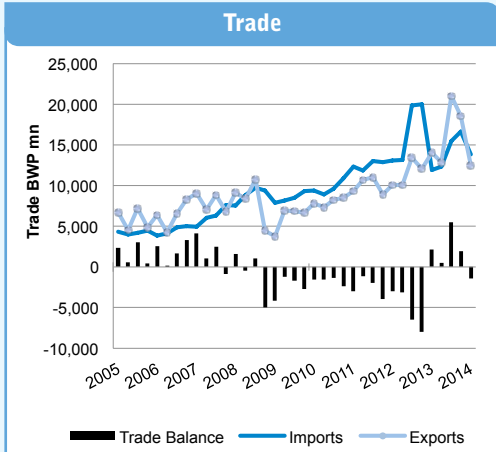


The Pula exchange rate was largely unchanged against the South African Rand (ZAR) and US dollar (USD) between March 2014 and June 2014, reflecting stability in the ZAR/USD exchange rate. We expect the Pula to remain around 1.20 ZAR and 8.8 to the USD during Q3.

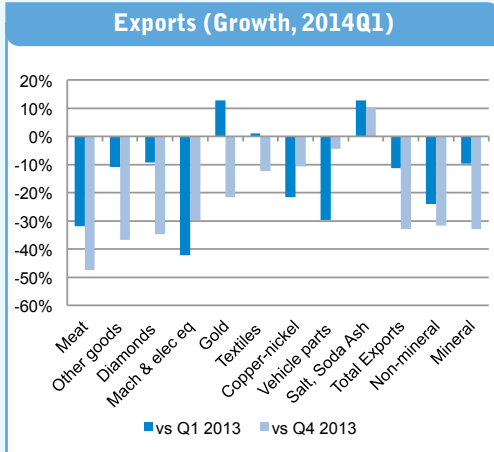


During the second quarter of 2014, De Beers had 3 global diamond sights in Botswana, during which diamonds estimated at US\$ 1900 million were sold. This was an improvement from US\$ 1790 million cumulative sights in Q2 2013. Moreover, the quarter saw the price of rough diamonds increases by about 3% in the April sight. However, prices were fairly stable during the May and June sights.

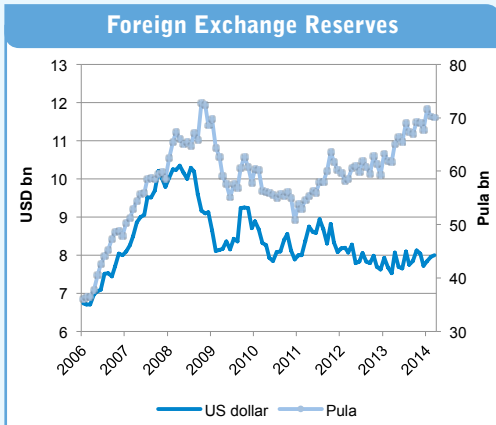
## KEY ECONOMIC VARIABLES



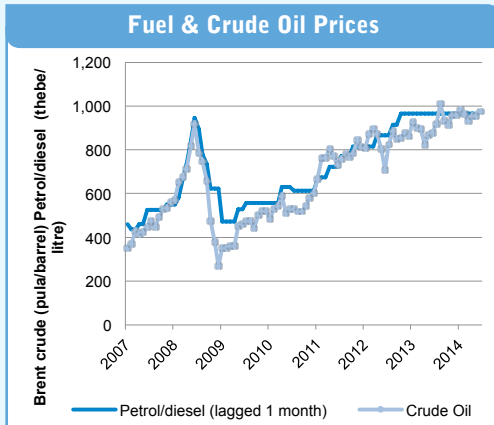
Following four quarters of trade surpluses in 2013, Botswana slipped back into a trade deficit in Q1 2014. The P1.4 billion deficit is largely attributable to a larger drop in exports than imports in Q1. Exports contracted by 32.9% between Q4 2013 and Q1 2014 while imports contracted by 16.6% during the same period.



The disappointing export performance in Q1 2014 was driven by lower diamond exports, but the deterioration was apparent across almost all categories of exports. Apart from soda ash and gold, all exports were lower in Q1 2014 than in the same quarter in the previous year (Q1 2014) and in the most recent prior quarter (Q1 2014). Given the importance of export growth to the economy, it is to be hoped that this is just a short-term aberration.



The first quarter of 2014 saw the foreign exchange reserves increase by 3.4% in both Pula and US\$ terms, to P70.1 billion and US\$7.99 billion, respectively. In US dollar terms, however, the reserves remain well below their peak of over \$10 billion, reached before the global financial crisis in 2008-9.



International fuel prices increased during Q2 of 2014, and in mid-June reached almost their highest ever level, in pula terms, before dropping back slightly. The driver was rising tensions in key oil-producing countries (Libya, Iraq) coupled with limited excess production capacity. The pullback in oil prices at the end of June has reduced the pressure for an immediate increase in domestic fuel prices.

NEWS HIGHLIGHTS 

1st April	New York hedge funds bail out Discovery (MiningNews.net)	Discovery Metals has announced a fresh US\$105 million recapitalisation proposal with Montsant Partners. Discovery is set to use US\$65 million to repay debt and US\$40 million for working capital purposes, including the advancement of the Zeta underground at the Boseto mine in Botswana.
2nd April	Regus opens new Gateway into Africa with launch of first centre in Botswana (Wall Street Journal)	Regus is creating new opportunities to do business in Sub-Saharan Africa with the opening of its first centre in Botswana. Located at the Gaborone iTowers in the capital's new central business district, the business centre features offices, meeting spaces, walk-in business lounge, virtual offices, and high-speed Wi-Fi throughout.
3rd April	Firestone delists from Botswana exchange (Mining Weekly)	Firestone Diamonds exited the Botswana Stock Exchange (BSE) after the completion of its share sale facility and delisting on March 28. The group has since shifted its focus to its Lesotho assets.
4th April	Construction of Botswana coal rail link to start next year – Gama (Mining Weekly)	Transnet Freight Rail (TFR) CEO Siyabonga Gama said that the construction of the coal rail link between Botswana and South Africa will start next year, thus enabling junior coal miners to access markets. This is part of a R300 billion investment programme by TFR to expand its capacity.
10th April	Lucara Diamond Corp. completes another exceptional tender (Mining Weekly)	Lucara Diamond held its first exceptional stone tender of the year and garnered gross proceeds of \$50.47 million. The miner sold 20 diamonds in single lots totalling 1,191 carats, which resulted in an average price per carat of \$42,347.
10th April	Botswana copper mine gets okay to go underground (Mining Weekly)	The Ministry of Minerals, Energy and Water Resources amended the mining license of the Boseto copper-silver mine to include the Zeta underground mine, enabling Discovery Metals to commence the new development.
14th April	Over P350 million to be invested in innovation hub (Mmegi)	The Vice President of Botswana, Ponatshego Kedikilwe, revealed that a further investment in excess of P350 million will be made available for the construction of Botswana Innovation Hub (BIH) headquarters icon building.
24th April	De Beers' Output Up 18% in Q1, Anglo American Reports (IDEX Online)	Anglo American indicated that De Beers' output increased by 18% year on year in the first quarter of 2014 to 7.532 million carats. Anglo American attributed the rise to the impact of planned plant maintenance at Orapa in Q1 2013 and recovery from the 2012 sidewall failure at Jwaneng.
25th April	STEAG gets two-year Morupule B deal (Mmegi)	German energy services company, STEAG secured a two-year operation and maintenance (O&M) deal to run the troubled Morupule B power plant. This will follow the current interim contract it has.
9th May	Walvis Bay Dry Port first phase complete (Mmegi)	The development of the Botswana's dry port facility at Walvis Bay, Namibia, is making good progress. This follows the completion of phase 1 (1 of 2) of the project - construction of palisade fencing. Upon completion, the dry port will diversify Botswana's trade routes away from South Africa.
12th May	Jindal Botswana Mmamabula Energy Project to curb SADC power shortage (Sunday Standard)	Jindal Botswana's Business Head, Tony Zerbet, said that in view of the major power shortage in Southern Africa, they are engaged with the Botswana Government to establish the Jindal Mmamabula Energy Project (JMPEP) for Power Supply. This project would provide an additional 300MW for the SADC region from 2015-16.

NEWS HIGHLIGHTS 

15th May	First underground gold mining begins in Botswana (African Manager)	Galane Gold has kicked off ore mining from its Tau deposit in the northern part of Botswana. The Canadian miner indicated that mining commenced in the fourth quarter of 2013.
20th May	Lack of diversification constrains Botswana ratings (Mmegi)	Rating agency, Standard and Poor's (S&P), released the results of its annual review of Botswana's sovereign credit rating for 2014. It affirmed the 'A-' and 'A-2' long-term and short-term ratings, respectively. The stable economic outlook has also been retained. As previously, S&P pointed out that the ratings are constrained by the country's narrow economic base, despite efforts towards diversification.
28th May	Innovation Hub gets international recognition (Mmegi)	The International Association of Science Parks and Areas of Innovation (IASP) has conferred full member status on Botswana Innovation Hub.
1st June	BoB imposes selection criteria for local banks' board of directors (Sunday Standard)	Bank of Botswana (BoB) has issued a directive to all banks barring them from appointing politically exposed persons to sit in their boards of directors. The directive stipulates that politically exposed persons would include, but is not limited to, elected officials at national or parliament level, cabinet and council or local authority level.
2nd June	Kimberley Diamonds to restart Botswana project, withdraws E4 funding (Mmegi)	Kimberley Diamonds has approved AU\$14.7 million to recommission the Lerala diamond project, which the previous owner, Mantle Diamonds, placed on care and maintenance in 2012. Commissioning of the Lerala mine is expected to start in the first half of 2015.
19th June	FNBB launches deposit-taking ATMs (Mmegi)	First National Bank Botswana (FNBB) recently launched the Automated Teller Machine (ATM) Advanced. The machine, referred to as ADM, enables 24-hour self-service functions such as cash deposits. The ADM will enable users to make real-time cash deposits of up to P40,000.
19th June	Morupule B phase II to cost P8 billion (Mmegi)	After spending about P11.5 billion on the construction of the 600 MW Morupule B, Government has committed another P8.0 billion to construct the second phase of the power plant and the refurbishment of Morupule A. The second phase of Morupule B consists of the construction of units 5 and 6, which are expected to contribute 300MW to the national electricity supply.
24th June	Government ups efforts to monitor mega-projects (Mmegi)	The Ministry of Minerals, Energy and Water Resources (MMEWR) have set up a Programme Management Office (PMO) to manage government projects and ensure compliance with policies. The launch of the PMO comes on the backdrop of numerous bungled government mega projects with some of the delays and poor delivery blamed on lack of skilled project managers, inability to attract and retain skilled project engineers and lack of project management processes.
24th June	Moolman to axe jobs at Tati Mine (Mmegi)	Mining contractor at the Tati Nickel Mine, Moolman Mining Company, has announced plans to retrench part of its workforce due to low production.
27th June	Alosa-supported firm identifies targets "believed to be kimberlites" (Mining Weekly)	A Joint Venture (JV) between Alosa and Botswana Diamonds has identified two targets believed to be diamond kimberlites in the Orapa region of Botswana. The JV partners say they are using "proven Russian technology" in Botswana for the first time. Drilling is scheduled to be launched in the target areas this year.



## MACROECONOMIC DATA

Key Economic Data									
	unit	2011	2012	2013	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2
<b>Annual Economic Growth</b>									
GDP	%	6.2	4.3	5.8	5.0	6.0	5.8	5.9	..
Mining	%	-2.3	-7.0	10.6	-0.5	11.0	10.6	14.2	..
Non-mining private sector	%	9.8	8.2	4.7	6.0	4.8	4.7	4.6	..
GDP current prices	P mn	105,071	110,763	124,180	32,528	31,677	31,621	32,710	..
GDP 2006 prices	P mn	70,663	73,712	78,019	19,413	19,484	20,145	19,958	..
<b>Money &amp; Prices</b>									
Inflation	%	9.2	7.4	4.1	5.8	5.0	4.1	4.4	4.6
Prime lending rate	%	11.0	11.0	9.0	10.0	9.5	9.0	9.0	9.0
BoBC 14-day	%	4.5	4.6	3.1	3.5	3.2	3.1	3.1	3.1
<b>Trade &amp; Balance of Payments</b>									
Exports - total goods	P mn	39,992	45,599	65,250	12,875	20,983	18,531	12,437	..
Exports - diamonds	P mn	30,248	36,143	55,443	9,970	18,211	15,863	10,348	..
Imports - total goods	P mn	49,978	61,968	58,758	12,342	15,473	16,602	13,840	..
Balance of visible trade	P mn	-9,987	-16,369	6,493	533	5,510	1,928	-1,403	..
Balance of payments	P mn	3,430	-862	1,340	2,772	114	-1,621	..	..
<b>Foreign Exchange</b>									
Exchange rate BWP per USD	end	7.524	7.776	8.718	8.576	8.532	8.718	8.787	8.787
Exchange rate ZAR per BWP	end	1.086	1.090	1.196	1.159	1.170	1.196	1.204	1.205
FX reserves	\$ mn	8,082	7,628	7,726	7,647	7,842	7,726	7,992	..
FX reserves	P mn	60,271	59,317	67,772	65,362	67,024	67,772	70,102	..
<b>Financial Sector</b>									
Deposits in banks	P mn	43,505	47,216	48,512	48,941	48,458	48,512	48,778	..
Bank credit	P mn	27,968	34,555	39,763	37,409	38,544	39,763	40,928	..
BSE index		6,970.9	7,510.2	9,053.4	8,688.5	8594.9	9053.4	8955.9	9133.9
<b>Business Indicators</b>									
Diamond production (a)	'000 cts	22,903	20,619	23,134	6,462	5,541	6,473	5,870	..
Copper production	tonnes	22,319	26,736	41,753	11,776	10,999	9,760	7,304	..
Nickel production	tonnes	15,675	17,942	22,848	6,358	6,000	5,287	2,715	..
Business confidence index		54%	47%	45%	..	45%	..	38%	..
No. of companies formed		11,788	16,561	14,190	2,773	4,071	3,942	3,616	3,989
Crude oil (Brent)	\$/bar	108.09	110.80	109.95	102.49	109.45	109.95	105.95	111.03
<b>Employment (formal)</b>									
Government		130,196	131,033	..	..	..	..	..	..
Parastatals		16,992	17,484	..	..	..	..	..	..
Private sector		187,986	188,531	..	..	..	..	..	..
Total		335,174	337,045	..	..	..	..	..	..
<b>Govt Budget</b>									
		2012/13	2013/14 Revised	2014/15 Budget					
Revenues	P mn	41,658	45,426	50,183					
Spending	P mn	40,736	45,039	48,857					
Balance	P mn	922	386	1,326					
Public debt & guarantees	P mn	29,585	30,922	32,574					
Govt deposits at BoB	P mn	20,611	..	..					
GDP	P mn	112,730	127,227	136,140					
Revenues	%GDP	37.0%	35.7%	..					
Spending	%GDP	36.1%	35.4%	..					
Balance	%GDP	0.8%	0.3%	..					
Public debt & guarantees	%GDP	26.2%	24.3%	..					
Govt deposits at BoB	%GDP	18.3%	..	..					



# | Botswana's business climate and FDI inflows

## Introduction

For a long time, Botswana has been in many respects the shining example of Africa. The country has invariably ranked above most in the region in international assessments of business climate and competitiveness. The 2013/14 Global Competitiveness Report ranked Botswana the 74th most competitive country out of 148 in the world, which was the 4th highest ranking in Africa behind Mauritius (45th), South Africa (53rd) and Rwanda (66th). Similarly, the 2014 World Bank Doing Business report ranked Botswana 56th out of 189, and 4th in Africa, on the ease of doing business. Furthermore, the Foreign Policy Group ranked Botswana the most attractive country to generic foreign investment on their 2014 Baseline Profitability Index (BPI). On the face of it, Botswana should be one of the most sought after investment destinations in Africa.

Most developing countries aim to attract inflows of the flow of Foreign Direct Investment (FDI), partly because of the financial resources that it brings but more generally because it aids economic development and integration into global markets. FDI can be loosely defined as primary investments made by an economic agent based in one country, into a new (or expanding) entity in another country. As such, entities making direct investments

typically have a significant influence on how the company into which the investment is made does business. However, FDI excludes indirect investment flows to secondary capital markets such as investing in securities listed on stock exchange or buying government bonds.

## Country Performance on FDI

There is an array of reports available that track trends in international investment flows as well as outline emerging opportunities and threats. Notably, there is the United Nations Conference on Trade and Development's (UNCTAD) World Investment Report 2014 and Ernst and Young's (EY) Attractiveness Survey Africa 2013 report. The former outlines global trends while the latter is focused on trends and perceptions about Africa. Although these reports use different methodology and data sources, their conclusions converge: FDI flows into Africa are steadily increasing. Moreover, FDI into Africa is diversifying away from the extractive sector towards the manufacturing and services sectors. Africa still receives very little of the world's total FDI, accounting for about 4.1% and 3.9% of global FDI inflows in 2012 and 2013, respectively – although on the positive side, this is greater than Africa's share of global GDP.

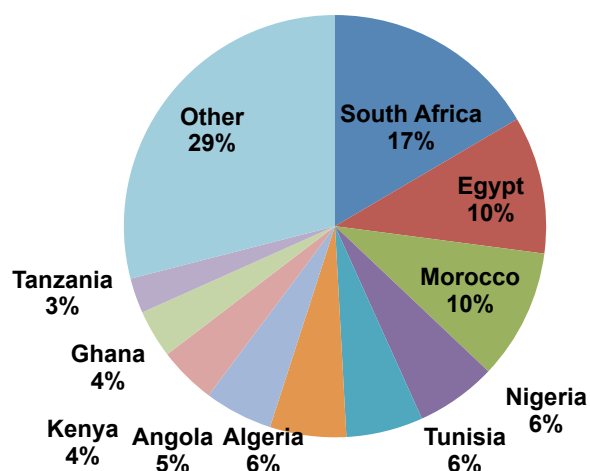
In spite of increasing FDI flows into Africa, not all African countries are experiencing an influx of FDI. The EY Africa Attractiveness Survey Africa 2013 report indicates that 10 countries accounted for about 71% of Africa's new FDI projects since 2003 (see Figure 1). Moreover, South Africa attracted the most FDI in Africa since 2003, being the destination of some 977 new projects. The remaining 29% of FDI projects were shared amongst the remaining 44 African countries, including Botswana.

<sup>1</sup> The name of the Baseline Profitability index is perhaps misleading as it makes no assessment of the profitability of investments in a particular country

<sup>2</sup> UNCTAD

## SPECIAL FEATURE ↘

FIGURE 1: Top 10 FDI destinations in Africa since 2003 (by number of projects)



Source: Ernst &amp; Young, Econsult Botswana

Data from UNCTAD suggest that in the recent past Botswana has not attracted as much FDI compared to other countries in the region. Table 1 shows that in 2012 Botswana's absolute FDI inflows and FDI stock were dwarfed by those South Africa, Mozambique, DRC, Tan-

zania and Kenya. However, these are much larger countries, and it is perhaps of more relevance to measure FDI inflow and stock as a proportion of GDP. On these measures of FDI Botswana still ranks low, although higher than Kenya and South Africa on FDI inflows.

TABLE 1: Country comparison of FDI inflow

	FDI inflow (US\$ mn) 2013	FDI inflow as % of GDP (5 yr average 2008-12)	FDI Inflow Stock (US\$ mn) 2013	FDI inflow Stock as % of GDP 2013
Angola	-4285.0	-1.5	2347.7	1.9
Botswana	188.0	3.3	3336.7	22.5
DRC	2098.0	14.3	5630.7	29.9
Lesotho	44.0	6.1	1237.0	54.3
Madagascar	838.0	10.3	6487.7	57.9
Malawi	118.0	2.5	1285.3	33.7
Mauritius	259.0	3.4	3529.6	29.6
Mozambique	5935.0	16.4	20966.9	136.8
Namibia	699.0	6.0	4277.3	34.7
Seychelles	178.0	14.0	2256.2	161.4
South Africa	8188.0	1.6	140046.2	39.9
Swaziland	67.0	2.7	838.1	23.2
Tanzania	1872.0	5.9	12715.2	39.1
Zambia	1811.0	6.7	14260.0	63.6
Zimbabwe	400.0	2.7	3001.0	23.2
Kenya	514.0	0.6	3390.2	7.5
Rwanda	111.0	1.8	853.9	11.5

Source: UNCTAD, Econsult Botswana

SPECIAL FEATURE 

Ernst & Young asked 503 respondents to rank African countries by their attractiveness to do business in. An overwhelming 41% of the respondents perceived South Africa as the most attractive. Botswana barely made it into the list of the top countries, with only 2% of the respondents rating it as the most attractive. Of the nine countries that are perceived as more attractive to do business in than Botswana, only South Africa boasts superior business climate and competitiveness rankings (see Table 2). Interestingly, 2 of the most “corrupt” and “business unfriendly” economies, Angola and Nigeria, are perceived to be more attractive to do business in than Botswana.

It is striking that Botswana has not attracted as much FDI as its business climate rankings would suggest. This is in spite of Government’s efforts to improve competitiveness and the ease of doing business, and its investment promotion efforts through BITC. But this is not just a conundrum for Botswana: other African countries – nota-

bly Rwanda and Mauritius - find themselves in a similar position of having a good business climate but receiving low FDI. This suggests that good business climate rankings are no magic bullets for FDI.

**FDI inflows over time**

UNCTAD data is generally seen as the primary international source on FDI. However, UNCTAD does not collect FDI data directly, and relies mainly on national sources. In Botswana, FDI data is compiled by the Bank of Botswana (BoB) as part of the balance of payments and published in the BoB Annual Report. FDI data is difficult to collect and is often revised, which can lead to differences in reported FDI depending on the data source. FDI flows can also vary considerably from year to year, depending on whether there are big investment projects – in Botswana an example of this would be Debswana’s Jwaneng Cut 8 project. As figure 2 shows, FDI inflows into Botswana varies from year to year, but the underlying trend seems to be downward.

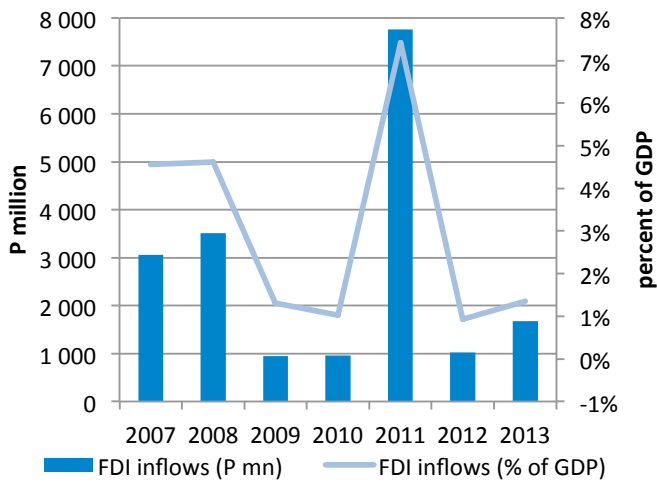
TABLE 2: Top 10 FDI Attractive African countries and their latest business climate rankings

Most attractive African country to do business in	Proportion of respondent that ranks it most attractive in Africa	Global Competitiveness Index 2013/14 rankings (out of 148)	Doing Business 2014 Ranking (out of 189)
South Africa	41%	53	41
Morocco	8%	77	87
Nigeria	6%	120	147
Egypt	5%	118	128
Kenya	4%	96	129
Algeria	4%	100	153
Angola	3%	142	179
Tunisia	2%	83	51
Ghana	2%	114	67
Botswana	2%	74	56

Source: Ernst & Young’s 2013 Africa attractiveness survey, Global Competitiveness Report 2013/14, Doing Business 2014

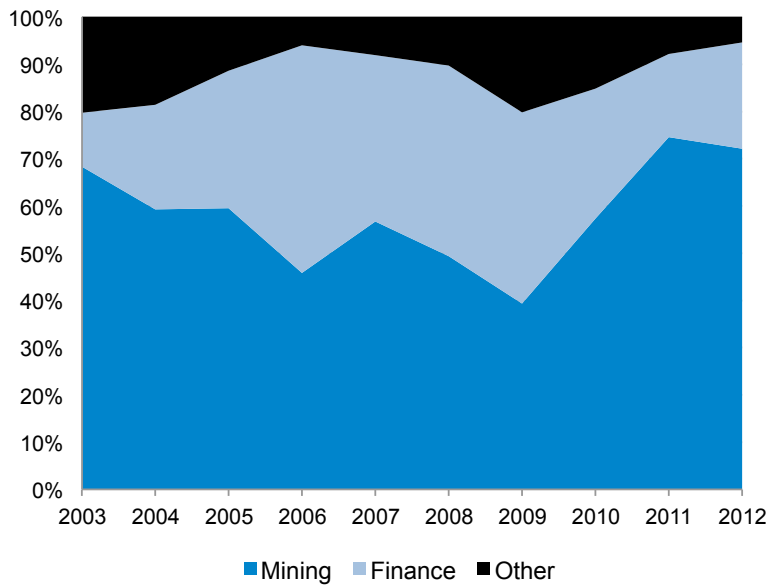
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FIGURE 2: Inflows of FDI



Source: Bank of Botswana, Econsult Botswana

FIGURE 3: Sector share of FDI



Source: Bank of Botswana, Econsult Botswana

BoB data also provides an interesting picture of the economic sectors that receive FDI; it is clear that FDI has been mainly directed towards the mining and finance sectors. The share of total FDI of the two sectors grew from 79.8% to 94.9% between 2003 and 2012 (see Figure 3).

**Possible reasons for low FDI inflows**

Why does Botswana appear to have been relatively unsuccessful in attracting FDI inflows, especially in recent years? There are several possible explanations. Historically, Botswana has always realised surpluses on the current account of the balance of payments. This in turn means that the economy has a surplus of savings over investment, and does not – in macroeconomic or financial terms – need inflows of foreign capital. Indeed, the necessary counterpart of a current account surplus is a capital account deficit, which means that there is (by definition) an outflow of capital from the country. Nevertheless, domestic financial surpluses do not mean there is no need for FDI; rather, Botswana needs the externalities that come with FDI - links to markets, new technologies, business expertise etc. - all of which are absolutely crucial in developing essential new export activities.

Furthermore, Botswana's low FDI may also be due to the high costs of doing business. It is important to recognise that “competitiveness” reports do not measure competitiveness, in terms of whether Botswana firms can produce goods and services at a lower cost than firms in other countries. More work is needed on cost comparisons and profitability in Botswana and elsewhere, but initial work suggests that certain costs are high in Botswana, such as labour costs (both skilled and unskilled) relative to productivity, transport, and internet connectivity. If Botswana is to attract the FDI that it requires, more attention needs to be paid to the costs of doing business, and not just improving the business climate.

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