

AFRICA RISK CONSULTING

Country briefing – Botswana

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Summary

Possible changes to the Southern Africa Customs Union revenue distribution model will have drastic consequences for Botswana's national fiscus and the other member states' economies. Rand Merchant Bank (RMB) launches in Botswana. The launch signifies the expansion of the First Rand Group's financial services in an economy perceived as rapidly growing. South Africa-based Mining, Oil and Gas Services plans to build a multi-billion dollar fuel pipeline linking Beira in Mozambique to Botswana and two other southern African states.

1.1 End to customs union looms

Botswana faces a future cash crunch if **South Africa** succeeds in radically revising the **Southern African Customs Union's (SACU)** revenue distribution model. SACU remittances contribute more to Botswana's tax revenue than diamonds. The 102 year-old union links member states Botswana, **Lesotho, Namibia, Swaziland** and South Africa to a single, blanket tariff on non-SACU imports with no customs duties between member states.¹ South Africa collects customs duties on members' imports from outside the SACU and the resulting revenue is allocated to member countries in quarterly installments.

The revision of SACU remittances will significantly affect the economy. The total revenue contributions for the 2013 budget are SACU (31 %), diamonds (30%), income tax (20%) and Value Added Tax (6%).² President **Ian Khama's** (2008-present) government faces the perennial challenge of growing and diversifying the economy to mitigate the potential loss of some of SACU remittances.

¹ SACU Website

² The Sunday Standard, 11 April 2013

*“It’s not a certainty but (finance minister **Kenneth**) **Matambo** has been looking at alternatives in anticipation that Botswana’s share is scaled back. In the meantime they are engaging with the South Africans and lobbying in **Windhoek** (where the SACU office is located).”*³

The current customs revenue distribution model disproportionately benefits BLNS countries (Botswana, Lesotho, Namibia and Swaziland), while South Africa accounts for 92% of the union’s gross domestic product.⁴ South Africa gets a smaller percentage of revenue because it imports little from other SACU members. It makes annual payments of R48.3 billion (approx. \$4.8 billion) to BLNS states, which it can no longer afford.⁵ The **International Monetary Fund**, **COSATU** and South African finance ministry are the main lobbyists against the continuation of SACU saying that it subsidises bloated public services in Lesotho, Swaziland and Botswana.⁶ However, BLNS states depend on SACU revenue transfers for a significant portion of their budget revenue: Swaziland, 60%; Lesotho, 70%; and Namibia, 40%.⁷ A radical recalculation of the remittances will cause serious economic and political challenges in these states.

South Africa has expressed an intention to discontinue payments due to its budget deficits. Suggested alternative reform includes the development of a **Southern Africa Development Community (SADC)** free trade area, border integration, and the creation of a development union constituted by equal state parties.⁸ South Africa’s revival of bi-lateral agreements through bi-national commissions with Botswana, Lesotho, Swaziland and Namibia are seen as preparation for a SACU exit.⁹ It has called for an urgent February 2014 meeting with SACU members to discuss the radical revision of the Union. However, South Africa’s threat to pull out of the SACU appears to be saber rattling rather than a viable solution. South Africa would have to bear the brunt of massive economic migration following the serious economic challenges that the end of SACU remittances would cause.¹⁰ Nonetheless, inevitable revisions to the revenue sharing agreement spell revenue shortfalls for BLNS countries.

³ Botswana based economist and former Central Bank employee

⁴ Mail & Guardian Online, 29 November 2013

⁵ ibid

⁶ ibid

⁷ ibid

⁸ ibid

⁹ ibid

¹⁰ ibid

1.2 Rand Merchant Bank market launch

FNB Botswana launched its rebranded corporate and investment banking activities as **Rand Merchant Bank (RMB)** on 19 November.¹¹ RMB will offer corporate finance, trading solutions, infrastructure and project finance.¹² Trade and industry minister **Dorcas Makato-Malesu** urged the bank to continue financial aid to various public and private projects which are pivotal to the country's industrial development.¹³ RMB's expansion boosts the country's stature as one of the most competitive investment environments in Africa offering political stability, good governance and protection of investor assets.¹⁴ **Transparency International's** most recent **Corruption Perceptions Index** ranked Botswana 33rd out of 177 countries with a score of 64.¹⁵ The country is ranked as the sixth best investment destination in Africa and second in **Southern Africa** due to its strong infrastructure base, efficient legal system, low corruption, low taxes and an efficient financial services sector.¹⁶

First Rand CEO **Sizwe Nxasana** indicated that the expansion of its FNB subsidiary is also due to Botswana's rapid economic growth, with a year on year GDP growth of 7.4% in the second quarter of 2013.¹⁷ This was an improvement from 3.3% in the first quarter.¹⁸ RMB has expertise in copper, nickel, diamonds, coal and platinum minerals which contribute to Botswana's wealth and allure for mining companies.¹⁹ RMB plans to invest in infrastructure and power development which will accompany mineral-based growth.²⁰

RMB's expansion outside South Africa has faltered, mainly due to a deliberately conservative approach to African markets.²¹ Failed ventures include the falling through in July 2013 of a \$750m deal to acquire **Merchant Bank of Ghana**, which failed after parties disagreed on a price; the 2011 failure to buy **Nigeria's Sterling Bank** after disagreement on terms; and the reversal of a \$5.5m merger deal in 2011 with **Finance Bank of Zambia**.²²

¹¹ Botswana Gazette, 28 November 2013

¹² *ibid*

¹³ *ibid*

¹⁴ The Botswana Daily News, 24 November 2013

¹⁵ Transparency International Corruption Perceptions Index 2013

¹⁶ The Botswana Daily News, 24 November 2013

¹⁷ The Botswana Daily News, 24 November 2013

¹⁸ Engineering News, 20 November 2013

¹⁹ *ibid*

²⁰ *ibid*

²¹ Shaheeda Davids, Nedbank Private Wealth equity analyst quoted in Business Day Live, 11 September 2013

²² IOL Business Report, 12 July 2013

While Botswana is a relatively small market with only 13 licensed banks, RMB will face stiff competition from established players **Standard Bank** (which trades as **Stanbic**), **Barclays Africa (ABSA)** and **Standard Chartered**.

1.3 Regional oil pipeline mooted

South African-based **Mining, Oil and Gas Services (MOGS)** plans to construct a multi-billion dollar fuel pipeline in **Southern Africa**. The pipeline will start in **Beira, Mozambique**, run through **Harare** and **Bulawayo** in **Zimbabwe**, then Botswana, **Zambia** and the **Democratic Republic of Congo**.²³ This is a positive development for Botswana, a landlocked country importing nearly all its petroleum products from South Africa.²⁴ Botswana depends on petroleum products for more than half (57%) of its energy needs, while coal and electricity supply 28% and 15% respectively.²⁵ This pipeline will potentially improve the supply of oil into the region in general.

“Now, in Mozambique, anything seems possible. But the gas isn’t flowing and won’t for at least another five years, the infrastructure isn’t there. In theory (the pipeline) is a feasible plan, but the politics required to build multi-jurisdictional pipeline is no small feat.”²⁶

MOGS is owned by **Royal Bafokeng Holdings**, the investment company that manages the assets of the **Royal Bafokeng Nation (RBN)**. The RBN owns the land with the largest reserve of platinum group metal and chrome in the world in South Africa’s **North West Province**.²⁷ The RBN leases some of the land to, and conducts joint mining operations with, some of the world's largest mining companies, including **Impala Platinum Limited (Implats)**, **Anglo Platinum** and **GlencoreXstrata**.²⁸ MOGS is an infrastructure company and does not trade in oil and gas.

2 Implications

The eventual revisions to the SACU revenue sharing model will impose serious fiscal challenges on Botswana and the other smaller member states. However, South Africa is unlikely to withdraw or terminate the SACU agreement. Instead South Africa’s renewed interest in bi-national commissions

²³ Botswana Gazette, 28 November 2013

²⁴ Mbendi Information Services

²⁵ ibid

²⁶ Mozambique development economist

²⁷ Royal Bafokeng website

²⁸ Royal Bafokeng Holdings website



appears to be a stopgap measure to mitigate against effects of the expected radical reform of the model on BLNS states' economies.

The launch of RMB in Botswana is a positive indicator of the current and projected rate of economic growth in the country. It also shows investor confidence in its infrastructural capacity to sustain and service high economic growth rates. Mineral revenue is likely to remain the main driver of economic growth. Resources and expertise from RMB's South African operations are likely to have a positive influence on its progress in Botswana. There is little additional information about the planned regional oil pipeline but the development of Mozambique's offshore gas reserves will spur any major infrastructure development.