

AFRICA RISK CONSULTING

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Opposition MPs accuse the Botswana Defence Forces (BDF) of wasteful spending and corruption in weapons procurement. Allegations of fraud and nepotism also date back to 1980, when the president, Ian Khama (2008-present), was the army commander. Botswana needs to revamp its external and internal tax collection infrastructure in order to curb revenue losses. The main causes include flaws in the current customs legislation and poor customs and excise infrastructure at its borders. The government has intensified efforts to export coal through Namibia, Zimbabwe and South Africa in order to tap into the growing global coal market. Although the global coal market is set to expand due to increased demand from East Asia, analysts caution its long-term viability.

Botswana Defence Forces in arms procurement fraud allegations

The **Botswana Defence Forces (BDF)** reportedly intends to spend \$105m on importing **Russian** T90 tanks, despite already having approximately \$200m worth of tanks that are relatively new but unserved.¹ The BDF has a practice whereby new commanders import their own preferred armoured vehicles instead of inheriting those procured by their predecessors.² This practice imposes a substantial financial cost while increasing opportunities for fraud in the notoriously secretive arms industry. President **Ian Khama** (2008-present) appointed the current BDF commander, Lt. General **Gaolathe Galebotswe** to the position in August 2012. Galebotswe replaced Lt. General **Tebogo Masire**, who retired in July of the same year.

Gaolathe's intention to purchase the Russian tanks will potentially undermine Botswana's relationship with the **United States (US)** and the **European Union (EU)** due to Russia being under EU sanctions.³ The **United Nations (UN)** has raised concerns about Botswana's arms procurement practices, particularly its culture of secrecy and lack of transparency that leads to corruption.⁴ Botswana has also not registered its arms imports with the **UN Register of Conventional Arms (UNROCA)**, to which member states are required to register imports and exports of small and light weapons on a voluntary basis annually.⁵ The **UN Office for Disarmament Affairs (UNODA)** manages UNROCA, which was established in 1991 as the main international mechanism for official transparency on arms transfers.⁶

Opposition **Umbrella for Democratic Change (UDC)** members of parliament questioned defence, justice and security minister **Shaw Kgathi** in December 2014 and February 2015 about the army's weapon supplies tender processes.⁷ They focused primarily on contracts awarded to **Seleka Springs**, a weapons procurement and supply company that President Ian Khama's brothers **Anthony Khama** and **Tshekedi Khama** own.⁸ Former BDF deputy commander and UDC MP **Pius Mokgware** alleged that the company was the sole government weapons supplier when Ian Khama was the BDF commander between 1980-1998 and that none of the supply contracts went through public tendering processes.⁹ It held agency licences for major **Israeli** and European military suppliers such as Israel's **Tadiran**, **Austria**-based **Steyr** and **Britain's** **Thales**

¹ Sunday Standard, 15 Mar 2015.

² Sunday Standard, 15 Mar 2015.

³ Sunday Standard, 15 Mar 2015.

⁴ Botswana Gazette, 19 Mar 2015.

⁵ Botswana Gazette, 19 Mar 2015.

⁶ Stockholm International Peace Research Institute

⁷ Star Africa, 27 Feb 2015.

⁸ Star Africa, 19 Feb 2015.

⁹ Star Africa, 19 Feb 2015.

Group.¹⁰ The company supplied the BDF with a variety of weapons and equipment, including armoured vehicles, small arms training software, surface to air missiles and unmanned aircraft used for reconnaissance and communications relay.¹¹

Kgathi denied these allegations, arguing that Seleka was not a supplier but an agent for some of BDF's suppliers between 1980-1998. In a statement delivered to parliament on 16 February, Kgathi stated that the army only made contractual agreements with suppliers, not agents like Seleka Springs and thus it could not be argued that Seleka supplied the BDF with weapons.¹² Kgathi's denial did not refute the existence of a potentially fraudulent relationship and conflict of interest between the army and Seleka Springs, but focused on a technical distinction between the roles played by agents and suppliers. The UDC demanded that the minister resign over the denials.¹³

*"The army operates like a parallel state, and this is based on President Khama's military background. Since he came into power, there has been a superficial separation of the presidency and the army. The security sector is directly accountable to the Executive, and its practices are beyond scrutiny because they are deemed to be issues of national security. This is used as an excuse to shield the security sector and arms industry from parliamentary oversight. Although the government is reputed for being democratic, Botswana is in fact at the mercy of an oligarchic elite led by the Khama family and their associates."*¹⁴

The military occupies a dominant position in Botswana's politics because of the president's history of having been its commander between 1980-1998. As president, he is also its commander in chief and thus maintains considerable influence over the army and security sector in general. The claims of corruption, fraud and wasteful spending in the military reflect an entrenched tradition of personalised governance, which has characterised Khama's rule since 2008. The security sector is minimally accountable to the parliament, and this negates Botswana's image as having a strong culture and institutions of democratic governance.

Revenue losses prompt review of tax and revenue collection infrastructure

The **Botswana Unified Revenue Services (BURS)** tax authority is losing revenue through mis-invoicing, weak border control and internal revenue collection systems, and out-dated legislation.¹⁵ Mis-invoicing occurs when importers deliberately declare a lower value on their goods entering Botswana, resulting in the payment of lower custom duties and taxes, thus depriving the government of revenue.¹⁶ In a statement, BURS revealed that it had lost approximately \$50,000 in 2014 alone through this practice.¹⁷ Importers would also declare goods as being in transit through Botswana in order to avoid paying tax, while they would in fact be sold and consumed in Botswana.¹⁸ BURS' 2013 annual report also shows that the authority lost close to \$100,000 to cigarette smuggling and non-declaration alone, while it also recovered \$200,000 from seized goods.¹⁹ The authority admitted to being unable to cope with the increased volume of trade, particularly at **Tlokweng**, its border with **South Africa**, which is also its busiest.²⁰ The border's \$4.3m scanning system, which was installed in 2014 following the discovery of weapons and drug smuggling into Botswana, is also inefficient due to the lack of trained personnel to operate it.²¹

¹⁰ APPERI, 13 Apr 2012.

¹¹ APPERI, 13 Apr 2012.

¹² Daily News, 18 Feb 2015.

¹³ Star Africa, 27 Feb 2015.

¹⁴ Source, analyst

¹⁵ Botswana Gazette, 26 Feb 2015.

¹⁶ Botswana Gazette, 26 Feb 2015.

¹⁷ Botswana Gazette, 26 Feb 2015.

¹⁸ The Monitor, 26 Jun 2014.

¹⁹ The Monitor, 26 Jun 2014.

²⁰ The Monitor, 16 Jun 2014.

²¹ Botswana Gazette, 31 Jul 2014.

Out-dated legislation and poor internal revenue collection competency also undermine BURS' revenue collection capacity. The tax authority's **Internal Revenue Division** commissioner, **Segolo Lekau**, stated that the government adopted the current **Customs and Excise Duty Act** in 1964.²² Despite several amendments since then, it does not cover all aspects of present-day trade. For instance, it is silent on transfer pricing and capital gains regulation, which results in BURS' failure to impose taxes on such transactions.²³ Transfer pricing occurs when two companies that are part of the same multi-national corporation trade with each other, and capital gain is a profit that accrues from the disposition of a capital asset such as a stock, bond or real estate.²⁴

Lekau also indicated that BURS faces a shortage of skilled personnel, such as tax auditors who can work with complex modern commercial and tax systems.²⁵ BURS introduced the **e-Filing** system in June 2014 to improve the country's tax collection system. The online-based software facilitates efficient submission of value added tax (VAT) returns, income tax notice of assessment, withholding debit acknowledgement (WHT), customer assessment notice and tax compliance summary reports through the internet.²⁶ However, taxpayers have not been using the facility due to limited internet accessibility and poor understanding of the system.²⁷ Thus the system has neither decisively guaranteed efficiency nor improved the government's internal revenue collection capacity. As a result, the **World Bank's 2014 Doing Business Report** ranked Botswana 158/189 on the "trading across borders" criterion due to its weak trade infrastructure.²⁸ The report shows the extent to which the country's domestic environment is conducive for businesses to be established and operate.²⁹ This will have negative effects on the country's economic image.

BURS has begun to amend the Customs and Excise Duty Act in order to match global trends in customs and revenue collection. Customs and excise commissioner **Philiso Valashia** stated that the authority will complete the process on 20 April, then pass on its recommendations to the attorney general for subsequent drafting of a new customs bill which would facilitate more efficient clearing and releasing of goods at its borders, simplify internal revenue collection processes and expand its tax base.³⁰ Finance and development minister **Kenneth Matambo** also stated in parliament that businesses with an annual turnover of \$100,000 and above should register for VAT unless otherwise exempted.³¹ He said BURS would routinely monitor compliance by all eligible businesses to ensure compliance with VAT registration and payment requirements.³²

In its 2014 **Article IV Consultation** the **International Monetary Fund (IMF)** recommended that Botswana broaden its tax revenue base. It also indicated that the new eFiling system would allow policy makers to measure its tax collection capacity and make essential reforms, especially regarding tax incentives.³³ Botswana still needs to proactively match its internal tax collection infrastructure to its demographic and economic changes. Its implementation of the e-Filing system may alleviate this problem although it is yet to substantially increase the government's tax collection capacity mainly because of the system's complexity and lack of broad-based internet access across the country.

Increased efforts to establish rail infrastructure for coal export

The government has intensified efforts to establish rail infrastructure for the export of coal to global markets. Minerals, energy and water resources minister **Kitso Mokaila** travelled to **Zimbabwe** in February

²² Mmegi, 27 Feb 2015.

²³ Mmegi, 13 Nov 2014.

²⁴ Mmegi, 13 Nov 2014.

²⁵ Mmegi, 4 Mar 2015.

²⁶ Mmegi, 20 Jun 2014.

²⁷ Mmegi, 13 Nov 2014.

²⁸ Mmegi, 13 Nov 2014.

²⁹ Mmegi, 4 Mar 2015.

³⁰ Mmegi, 27 Feb 2015.

³¹ Daily News, 18 Mar 2015.

³² Daily News, 18 mar 2015.

³³ Global Tax News, 17 Jul 2014.

to discuss the logistics of coal exports through Zimbabwe and **Mozambique**.³⁴ In 2011 Mozambique and Botswana signed a memorandum of understanding to develop 1,100km of railway to transport coal through Zimbabwe to a deep-water port at **Ponto Techobanine** in Mozambique.³⁵ The three countries' current rail infrastructure cannot sustain large volumes of rail goods freight, thus necessitating the integration and expansion of their rail systems for improved access to the ports. **Botswana Railways (BR)** made successful feasibility tests for its intended route to Mozambique in 2013. It moved a 44-tonne wagon in October 2013, and in November a 34-wagon, 1,300-tonne train made up of 17 BR wagons and 17 **National Railways of Zimbabwe** wagons.³⁶

The government also intends to invite bids for the construction of an \$11 billion rail line connecting its largest coal-mining region in **Mamabula** to **Walvis Bay** in **Namibia**.³⁷ **Botswana Chamber of Mines** CEO **Charles Siwawa** said in a media interview that the government will issue tenders before September for constructing the 1,500km rail line to Namibia.³⁸ The railway line will facilitate the export of over 40m metric tonnes of power station coal annually, and this may potentially grow to 115m within seven years.³⁹ BR CEO **Dominic Ntwaagae** said that the government granted the parastatal \$300,000 to fund its re-fleeting programme, which allowed the parastatal to secure 562 specialised wagons to support coal and other commodity exports in 2013.⁴⁰ It also secured a three-year **Rail Safety Regulator Licence**, which allows it to cross into **Transnet Freight Rail Services** in South Africa.⁴¹ In addition to coal exports, the government plans to export soda ash and copper from its **Bamangwato Concessions Ltd (BCL)** and **Mowana** mines.⁴² It also intends to import fuel, grain, cement, and sugar from regional and global markets.

Diversification from diamonds is driving infrastructure investment for coal exports. **China, India** and **Japan** are a lucrative coal market for southern Africa's thermal coal. The **International Energy Agency's** December 2014 report indicated that coal will come close to surpassing oil as the world's top energy source by 2017 in every region of the world except the US, where natural gas usage is gradually overtaking coal usage.⁴³ This makes it a potentially lucrative export commodity that will facilitate the much-needed diversification from diamonds, although it may not be a long-term investment.

*"Botswana's estimated 212 billion tonnes of coal reserves are a viable alternative, both for internal power generation and export markets. However, the latter will depend on consistent global demand, which may not be sustained. This is because the current and projected global demand and viability is based on emergent Asian economies, in need of cheap energy sources. This makes it a volatile commodity because prices will drop in the event of economic slowdown in China, India or Japan. Due to abundant supply, prices are unlikely to increase. Botswana will need to consider its investment in coal as a short to medium term since long term investment may not be entirely sustainable."*⁴⁴

Integration of the region's rail and logistical networks will also potentially boost regional trade, and facilitate the transfer of alternative commodities onto the global market.

Implications

The military's secretive weapons procurement processes depict the security sector's lack of accountability, and it also negatively influences Botswana's global image as a transparent democracy. Its intended weapons deal with Russia will also upset its relations with the EU and the US, who have been its leading economic

³⁴ New Zimbabwe, 25 Feb 2015.

³⁵ New Zimbabwe, 25 Feb 2015.

³⁶ Mmegi, 26 Apr 2013.

³⁷ Bloomberg, 12 Mar 2015.

³⁸ Bloomberg, 12 Mar 2015.

³⁹ Bloomberg, 12 Mar 2015.

⁴⁰ Mmegi, 26 Apr 2013.

⁴¹ Mmegi, 26 Apr 2013.

⁴² Mmegi, 26 Apr 2013.

⁴³ Bloomberg, 12 Mar 2015.

⁴⁴ Source, analyst

and political allies. It also reflects the dominance of a military oligarchy in the country. President Khama's brothers' preferential access to weapons supply deals also reveals the underbelly of patron-client politics in Botswana.

The country needs to regularise its revenue collection systems to match global standards and to capture the tax proceeds of its increased economic activity. This will facilitate the expansion of its domestic revenue base, thus reducing its dependence on export revenue, especially from diamonds. A weak and inefficient monitoring system at the border will also facilitate the growth of transnational crime.

Although initial predictions point towards growth in global coal demand, Botswana needs to follow a cautious strategy since cheaper, renewable energy tends to replace fossil fuels in developed economies. The coal export rail infrastructure will facilitate trade in goods beyond coal, and improve domestic and regional logistical networks that will also support regional trade.

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