

AFRICA RISK CONSULTING

Botswana Monthly Briefing 15 February 2018

Botswana Summary 15 February 2018

Finance minister Kenneth Matambo delivers the 2018 budget statement. The government will withdraw a special tax incentives programme for private companies in Botswana to comply with international standards on corporate taxation. President Ian Khama (2008-present) hosts new Zimbabwe president, Emmerson Mnangagwa (2017-present) in a state visit. Zimbabwe and Botswana seek to reset diplomatic relations that soured during the administration of former Zimbabwe president, Robert Mugabe (1980-2017). Energy minister Sadique Kebonang announces the collapse of a deal to expand the Morupule B power station. Botswana Diamonds has raised fresh capital for exploration projects in Botswana and South Africa, reaffirming investor confidence in the global diamond industry.

Finance minister delivers budget statement...

Finance minister **Kenneth Matambo** delivered the 2018 budget statement to parliament on 5 February.¹ The budget statement set out key highlights of **Botswana's** economy in 2018, particularly several challenges ahead that include an impending drought season.² Matambo said that gross domestic product (GDP) would grow by a projected 5.3%, up from an estimated 4.7% in 2017.³ Projected economic growth will depend primarily on improved global diamond market, since diamonds are the main source of Botswana's revenue.⁴ Matambo said the government's budget deficit would increase to 3.59m pula (\$372m), or 1.8% of GDP in the 2018-2019 fiscal year, from P2.42 billion, (\$251m) or 1.3% of GDP in 2017.⁵

Matambo indicated that the government's fiscal position will remain weak despite an overall improvement in economic performance, which will necessitate strategic spending.⁶ The government will increase public spending by 13.6% in 2018, despite the projected increase in the budget deficit.⁷ The budget bill for 2018 foresees government spending of 63.6 billion pula (\$6.6 billion) in the 2018 fiscal year, starting in April.⁸ The government plans to direct the bulk of its spending towards education, health, defence, and security.⁹ Botswana-based economist **Keith Jefferis** said the government will also fund development-related projects, and this will have positive effects on both human livelihoods and the economy in general.¹⁰

¹ Reuters, 5 Feb 2018.

² Reuters, 5 Feb 2018.

³ Reuters, 5 Feb 2018.

⁴ Reuters, 5 Feb 2018.

⁵ Reuters, 5 Feb 2018.

⁶ Reuters, 5 Feb 2018.

⁷ Reuters, 5 Feb 2018.

⁸ Reuters, 1 Feb 2018.

⁹ Reuters, 1 Feb 2018.

¹⁰ Reuters, 1 Feb 2018.

Increased government spending will also support economic activity, through job creation and providing a market for services in the government's policy areas.¹¹

... and withdraws special tax incentive for local companies.

Minister Matambo indicated in the 2018 budget statement that the government will withdraw the discounted tax rates that it had provided to several local companies under an incentives package established in 2000.¹² This is likely to discourage new investors from investing in Botswana, and may result in existing companies scaling down operations or shutting down business altogether.¹³ The **International Financial Services Centre (IFSC)** incentives package had provided qualifying companies with a 15% corporate tax rate, lower than the standard 22%, and conditional exemptions on capital gains tax, withholding tax, and other rates.¹⁴ The government had aimed to incentivise economic diversification and growth of the financial services sector, through the package.¹⁵

A **London (United Kingdom)**-based Botswana analyst says the government's motivation is to avoid classification as a tax haven.

"International organisations such as Oxfam raised concerns with Botswana's corporate tax systems in 2016, indicating that this made Botswana a destination of choice for money launderers and tax evaders. This move demonstrates the government's willingness to undo this global reputation and avert sanctioning by the international community. The leakage of reports showing the scale of tax evasion has increased focus on the economically harmful, illegal and morally questionable practice of tax evasion, and this has resulted in the government acting more decisively on the issue, and with more urgency."¹⁶

Several companies such as **Letshego Holdings, Choppies, Motovac, Flotek** and asset management and financial services firms were accredited to the programme.¹⁷ Several IFSC-accredited firms have appeared in reports on global tax evasion, such as the **Panama Papers**, amidst other revelations that several of the accredited firms remain dormant, while the active ones have minimal employment and revenue impact within Botswana.¹⁸ The decision will act as a disincentive for new investments in Botswana, as the low tax rate facilitated the launch of new businesses in the country.

Khama hosts new Zimbabwe president

President **Ian Khama** (2008-present) invited the new president of **Zimbabwe, Emmerson Mnangagwa** (2017-present) for an inaugural state visit to Botswana, on 12 February.¹⁹ The two leaders sought to mend diplomatic relations between their countries, which had collapsed during former president **Robert Mugabe's** (1980-2017) rule.²⁰ Presidents Khama and Mnangagwa agreed to establish a new bi-national commission (BNC), which will convene at the level of the heads of state and government, and facilitate increased cooperation across

¹¹ Source, analyst, London.

¹² Mmegi, 9 Feb 2018.

¹³ Mmegi, 9 Feb 2018.

¹⁴ Mmegi, 9 Feb 2018.

¹⁵ Mmegi, 9 Feb 2018.

¹⁶ Source, analyst, London.

¹⁷ Mmegi, 9 Feb 2018.

¹⁸ Mmegi, 9 Feb 2018.

¹⁹ ZBC, 12 Feb 2018.

²⁰ ZBC, 12 Feb 2018.

various political and economic sectors.²¹ In a statement, President Khama welcomed Mnangagwa's visit, and expressed optimism that Zimbabwe-Botswana relations would improve under Mnangagwa's presidency.²²

*"Khama's invitation to Mnangagwa signifies a turning point in Zimbabwe-Botswana relations. Former Zimbabwe president Robert Mugabe and President Khama had well-known antipathy towards one another, mainly stemming from Khama's consistent criticism of Mugabe's policies. By inviting Mnangagwa, who has already been on a regional diplomatic offensive since assuming office, Khama is signalling the acceptance of Mnangagwa's government, given his questioned legitimacy [having come to power through a coup,] and readiness to re-engage with Zimbabwe both in politics and in the economy. It is noteworthy that Khama's successor, vice-president **Mokgweetsi Masisi**, was present throughout Khama and Mnangagwa's bilateral talks, which demonstrates that the two leaders both support Botswana's re-establishment of relations with Zimbabwe beyond Khama's term, which ends in April."*²³

Presidents Mnangagwa and Khama also began negotiations for the possibility of Zimbabwe sending its diamonds to Botswana for cutting and polishing.²⁴ Mnangagwa reportedly revealed this information during a tour of the **Diamond Trading Company of Botswana (DTC)**, at the end of his state visit in **Gaborone**, on 13 February.²⁵ Zimbabwe began commercial diamond production in 2010, and has been exporting diamonds in raw form because it lacks local cutting and polishing facilities.²⁶ The DTC is reputedly the world's most sophisticated diamond sorting and valuing centre.²⁷ The diamond cutting and polishing negotiations, and the BNC between Botswana and Zimbabwe, signal the intent by both countries to re-establish political, and economic integration. The state visit also lends credibility to Mnangagwa's government, which came to power through a military coup.

Morupule B expansion stalls over contract dispute

Energy security minister **Sadique Kebonang** indicated on 29 January that the planned extension of the **Morupule B** power plant has stalled because of a dispute between the government and the joint venture contractors, **Japan-based Marubeni Corporation**, and **South Korea-based Posco Energy**.²⁸ This will undermine the government's plans to achieve self-sufficient domestic power supply for Botswana.²⁹ Marubeni and Posco were scheduled to begin upgrades to the power plant in January 2017, which would have added 300 megawatts to the Morupule B plant, which currently produces 600 megawatts of electricity.³⁰ **China National Electric Equipment Corporation (CNOOC)** constructed the plant at a cost of \$970m, but it is yet to operate at full capacity because of constant technical problems since its completion.³¹

²¹ ZBC, 12 Feb 2018.

²² ZBC, 12 Feb 2018.

²³ Source, Analyst, London.

²⁴ Xinhua, 13 Feb 2018.

²⁵ Xinhua, 13 Feb 2018.

²⁶ Xinhua, 13 Feb 2018.

²⁷ The Herald, 13 Feb 2018.

²⁸ Engineering News, 29 Jan 2018.

²⁹ Engineering News, 29 Jan 2018.

³⁰ Engineering News, 29 Jan 2018.

³¹ Engineering News, 29 Jan 2018.

Kebonang indicated that the government failed to reach an agreement with Marubeni and Posco Energy over several contractual issues.³² This includes Marubeni and Posco Energy's request that the government of Botswana provides an \$800m guarantee to protect joint venture partners' investments.³³ Kebonang also said that the power purchase agreement that the government had signed with the joint venture partners had expired, because the project did not commence within a year from the date of signing, as required in the contract.³⁴

The contract dispute will delay the government of Botswana's plans to generate sufficient electricity from domestic sources, and transition from the use of diesel generators, and electricity imports from **South Africa**.³⁵

Botswana Diamonds raises capital for expansion projects in Botswana, South Africa

Australia-based mining company **Botswana Diamonds** announced on 14 February that it has raised \$695,060 to fund ongoing exploration projects in South Africa and Botswana.³⁶ The new capital reaffirms investor confidence in the profitability of the diamond market, which has been resurging in 2018, after experiencing a global depression since 2014.³⁷ Botswana Diamonds raised the funds through issuing 50 million shares to new and existing investors.³⁸ Botswana Diamonds is currently engaged in exploration for new diamond mines at the **Sunland Minerals** project in the **Central Kalahari Reserve** in Botswana.³⁹ Botswana Diamonds is conducting the exploration project through a joint venture with **Russia**-based **Alrosa Diamonds**.⁴⁰

Botswana Diamonds' new investment comes amidst reports by the **Bank of Botswana** (central bank) on 30 January that rough diamond exports from Botswana dropped by 17% in 2017, because of weak demand in the second half of 2017.⁴¹ Nevertheless, demand is expected to increase in 2018.⁴² Several drivers of this growth include anticipated increase in investment by **India**-based investor, **Anil Agarwal**, who is now the largest shareholder in **Anglo American**, the parent company of **United Kingdom**-based **De Beers**.⁴³ An anticipated weakening of the **United States** dollar in 2018 may also influence increased global demand for consumer goods, including diamonds.⁴⁴

³² Reuters, 29 Jan 2018.

³³ Reuters, 29 Jan 2018.

³⁴ Reuters, 29 Jan 2018.

³⁵ Reuters, 29 Jan 2018.

³⁶ Mining Weekly, 14 Feb 2018.

³⁷ Mining Weekly, 14 Feb 2018.

³⁸ Mining Weekly, 14 Feb 2018.

³⁹ Mining Weekly, 14 Feb 2018.

⁴⁰ Mining Weekly, 14 Feb 2018.

⁴¹ Mining Weekly, 30 Jan 2018.

⁴² Mining.com, 18 Dec 2017.

⁴³ Mining.com, 18 Dec 2017.

⁴⁴ Mining.com, 18 Dec 2017.

Planner

February 2018 **Gaborone (Botswana) Umbrella for Democratic Change (UDC)** inaugural annual congress;

22 Feb 2018 **Gaborone (Botswana) Africa Youth Entrepreneurship** Summit;

1 April 2018 **Gaborone (Botswana)** President **Ian Khama** to step down, deputy **Mokgweetsi Masisi** to replace him in acting capacity until elections in 2019;

9-11 Apr 2018 **Gaborone (Botswana) Mining Investment Botswana** strategic mining conference;

2019 **(Botswana)** Scheduled general elections;

Chronology

14 Feb 2018. (Botswana) *Mining Weekly*. **Botswana Diamonds** has raised \$695,060 in fresh capital for ongoing exploration projects in **Botswana** and **South Africa**;

13 Feb 2018. (Botswana) *Xinhua*. **Zimbabwe** president **Emmerson Mnangagwa** announces that his government plans to send diamonds to **Botswana** for cutting and polishing;

13 Feb 2018. (Botswana) *Reuters*. The **Bank of Botswana** (BoB) leaves its benchmark lending rate unchanged at 5%, indicating a positive outlook for price stability;

12 Feb 2018. (Botswana) *ZBC*. President **Ian Khama** hosts **Zimbabwe** president **Emmerson Mnangagwa** for his inaugural state visit to Botswana;

9 Feb 2018. **(Botswana)** *Mmegi* Finance minister **Kenneth Matambo** announces the government's decision to withdraw tax incentive facility for local companies;

8 Feb 2018. (Botswana) *Mining.com*. **Sotheby's** will sell **De Beers'** 102.34 carat white diamond, the world's largest and most valuable to be offered for private sale, for \$33m;

5 Feb 2018. **(Botswana)** *Reuters*. Finance minister **Kenneth Matambo** delivers 2018 budget statement;

2 Feb 2018. (Botswana) *Yahoo News*. Deputy director for crop production at agriculture ministry, **Thebe Nala** announces that Botswana is facing a drought season, with crop plantings dropping by 98%;

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