

AFRICA RISK CONSULTING

Botswana Monthly Briefing February 2019

Botswana Summary 16 February 2019

Finance minister Kenneth Matambo says the government's decision to increase civil servants' salaries will widen the country's budget deficit. Botswana Railways enters into joint venture with South Africa's state-owned rail company, Transnet, to construct a coal export rail link. United States-based non-profit organisation Global Financial Integrity reveals widespread mis-invoicing in Botswana, which cost the Botswana Unified Revenue Services (BURS) over \$800m in taxes. South Africa-based consulting firm FTI Consulting says officials from the state-owned Botswana Power Corporation (BPC) conspired with the China National Electric Company (CNEEC) to defraud the government during the construction of the Morupule B power plant. Botswana's score and ranking remain unchanged in Transparency International's 2018 Corruption Perceptions Index (CPI) from its 2017 CPI results.

Public deficit to widen as civil servants' salary increases...

Finance minister **Kenneth Matambo** warned in his budget speech on 4 February that **Botswana's** budget deficit will increase from the current \$624m to \$682m in the 2019/2020 financial year, if the government proceeds with its planned increase in salaries for civil servants.¹ This puts President **Mokgweetsi Masisi** (2017-present) in a quandary, since the ruling **Botswana Democratic Party (BDP)** will become increasingly unpopular ahead of the upcoming general election this year if his government rescinds the decision to increase civil servants' salaries.² Matambo's statement came after the government had reached a deal on 4 February with Botswana's **Trainers and Allied Workers Union (TAWU)** and the **Botswana Government Workers Union (BOGOWU)**, in which it agreed to increase civil servants' salaries by 20%.³ The finance ministry cautioned that the increase in civil servants' salaries would necessitate several trade-offs, which include reducing budgets or cutting off competing projects altogether.⁴ The finance ministry noted that the government would have to finance the budget deficit through domestic and external borrowing, and withdraw from its cash balances that the **Bank of Botswana (BoB)** (central bank) holds.⁵

Matambo said economic growth would slow down to 4.2% in 2019, compared to 4.5% in 2018.⁶ The projected decline in growth largely emanates from reduced revenues from diamond exports.⁷

"The projection of lower growth is a reflection of what we expect to happen in the global economy, whose growth is slowing. One of the biggest contributors to our economy is the

¹ The Southern Times, 4 Feb 2019.

² The Southern Times, 4 Feb 2019.

³ Journal du Cameroun, 4 Feb 2019.

⁴ The Southern Times, 4 Feb 2019.

⁵ The Southern Times, 4 Feb 2019.

⁶ Political Economy South Africa (PESA), 5 Feb 2019.

⁷ Political Economy South Africa (PESA), 5 Feb 2019.

minerals sector, and this is highly dependent on what happens in the global economy.”⁸

Matambo indicated that the finance ministry plans to return to a budget surplus in 2020:⁹

“We have had three years of budget deficits... through a combination of expenditure control and expansion of revenue sources, including widening of the tax base, we plan to return to modest surpluses in the financial year beginning 2020.”¹⁰

Matambo said Botswana would borrow funds from **China**, which it would invest in income-generating activities:

*“[Although] we have not signed yet, they [the Chinese government] has agreed to lend us the money, which will be useful when it comes. Concerns have been raised about **African** countries getting loans from China, but I want to clearly say that I have got no issues with getting money from China, so long as the terms are right.”¹¹*

Matambo’s economic growth projection for 2019 is higher than the **African Development Bank (AfDB)**’s 3.8% forecast for Botswana’s growth.¹² The AfDB also projects Botswana’s economy to grow 4.1% in 2020.¹³ Despite the lower projection for 2019, the AfDB gives a largely positive outlook for both the mining and non-mining sectors. It indicates that the mining sector will experience growth, mainly because of expected demand for diamonds, which account for three-quarters of Botswana’s mineral export revenue.¹⁴ The AfDB also expects the non-mining sector to improve because of the government’s structural reforms, such as amendments to the immigration law that provide for quicker processing of work and residence permits, and reduced utility pricing for domestic manufacturing companies.¹⁵ However, it indicates that high unemployment, income inequality, risk emanating from international trade disputes, drought, and lower revenue from the **Southern African Customs Union (SACU)** still threaten Botswana’s economy.¹⁶

Botswana Railways inks rail deal with South Africa’s Transnet for coal export

State-owned rail companies **Botswana Railways** and **South Africa**-based **Transnet** announced on 7 February that they have formally engaged in talks to construct heavy goods rail infrastructure that will connect the two countries.¹⁷ This will provide a boost for Botswana’s coal industry through opening new markets and increasing revenue from coal exports.¹⁸ The deal will allow the two corporations to jointly transport and market coal for domestic use, and regional and foreign export.¹⁹ The announcement followed a meeting between the Botswana Railways and Transnet chairpersons, **Adolf Hirschfeld** and **Popo Molefe** respectively, during the **Investing in African Mining Indaba** in **Cape Town** (South Africa).²⁰

⁸ Finance minister Kenneth Matambo, quoted by Reuters, 7 Feb 2019.

⁹ Reuters, 7 Feb 2019.

¹⁰ Finance minister Kenneth Matambo, quoted by Reuters, 7 Feb 2019.

¹¹ Finance minister Kenneth Matambo, quoted by Reuters, 7 Feb 2019.

¹² Africa Development Bank’s African Economic Outlook Report, February 2019.

¹³ Africa Development Bank’s African Economic Outlook Report, February 2019.

¹⁴ Africa Development Bank’s African Economic Outlook Report, February 2019.

¹⁵ Africa Development Bank’s African Economic Outlook Report, February 2019.

¹⁶ Africa Development Bank’s African Economic Outlook Report, February 2019.

¹⁷ The Citizen, 7 Feb 2019.

¹⁸ The Citizen, 7 Feb 2019.

¹⁹ The Citizen, 7 Feb 2019.

²⁰ News24, 7 Feb 2019.

The two state-owned companies began talks to develop the project in 2009 following a concept study which showed that the rail link would provide a channel for marketing Botswana's estimated 212 billion tonnes of coal in the region and to export markets.²¹ The memorandum of understanding between the two companies provides for the transportation of up to 80 million tonnes of coal a year from Botswana to South Africa, and for export through **Maputo (Mozambique)** and South Africa's **Richards Bay** port.²² Transnet and Botswana Railways have since begun executing the project:

*"This particular programme, which is in construction phase, is a step towards unlocking both **Waterberg** and Botswana coal. The Botswana coal reserves are estimated 212 billion tons... Other projects in support of this programme include the upgrade of the electrical infrastructure on the coal heavy haul system, and the construction of the second tunnel at **Overvall** in **Mpumalanga**, among others."*²³

This agreement is a positive development for Botswana's coal industry because it improves its transport to overseas markets.²⁴ The country's coal is mainly fit for coal-fired electricity development, which developing economies mainly use.²⁵ Demand for Botswana's coal is highest in overseas markets, especially **India** and **China**.²⁶ The improved access to the ports in South Africa and Mozambique will also provide Botswana with opportunities to expand its markets, thus realising more revenue from the coal industry.²⁷

Report exposes large-scale tax evasion in Botswana

A report on illicit financial flows by **United States**-based non-governmental organisation, **Global Financial Integrity (GFI)** revealed on 28 January that the **Botswana Unified Revenue Service (BURS)** lost at least \$885m to tax evasion in 2015 through under-invoicing.²⁸ This is one of the world's worst cases of under-invoicing and is likely to result in the BURS and central government conducting a review of its tax collection infrastructure.²⁹ The report also indicated that companies and individuals in Botswana diverted a further \$610m through fraudulent export invoices in 2015.³⁰ Mis-invoicing refers to a practice where companies manipulate the value of their goods or services in invoices submitted to customs or tax authorities, which allows them to fraudulently reduce their tax obligations.³¹ The GFI report revealed that the average rate of mis-invoicing in Botswana amounted to 32%, which is almost double the global average of 18%.³² The GFI uses data from the **United Nations (UN)** and **International Monetary Fund (IMF)** to produce the world's leading reports on tax evasion, especially in international trade.³³

The GFI also indicated that trade mis-invoicing is mostly prevalent in **sub-Saharan African** countries.³⁴ Several loopholes in the global financial regulation infrastructure enable tax

²¹ News24, 7 Feb 2019

²² Mining Weekly, 7 Feb 2019.

²³ Excerpts from Joint Statement from Transnet and Botswana Railways, 7 Feb 2019.

²⁴ Source, analyst, London

²⁵ Source, analyst, London

²⁶ Source, analyst, London

²⁷ Source, analyst, London

²⁸ Mmegi, 1 Feb 2019.

²⁹ Mmegi, 1 Feb 2019.

³⁰ Mmegi, 1 Feb 2019.

³¹ Mmegi, 1 Feb 2019.

³² Mmegi, 1 Feb 2019.

³³ Mmegi, 1 Feb 2019.

³⁴ Mmegi, 1 Feb 2019.

evasion and facilitate money laundering. This includes the use of tax havens, secrecy jurisdictions, anonymous trusts, and shell companies.³⁵ It suggested several mechanisms for stemming the practice, which mainly entail governments demanding more transparency from multinational corporations.³⁶ Botswana's finance ministry has in the past sought to improve corporate governance as part of improving its ease of doing business standards. This includes requiring companies to re-register on a new, online public system where information on all shareholders is disclosed.³⁷ The finance ministry has also prohibited the registration of dormant companies, requiring that all companies registered in the country are either active or deregistered.³⁸

The government has been working to shed the image of being a tax haven after the **European Union** placed Botswana on a list of tax havens in 2012 and 2016.³⁹ This mainly follows from its relatively lax regulations governing business activities under its **International Financial Services Centre (IFSC)**, which it established in 2003 aiming to attract new business into the country.⁴⁰ The government had removed controls on profit repatriation and offered various tax incentives to attract investors to Botswana whose business activities would contribute to diversification of the economy.⁴¹

The GFI report complicates the Botswana government's strategies for attracting new capital to the country.⁴² Tightening regulations governing the conduct of business may reduce its attractiveness to new investors.⁴³ The government would need to take part in injecting fresh capital into the country, mainly through setting up joint venture projects with private partners.⁴⁴ The government generally relies on foreign capital because of the relatively small size of the country's economy, and fewer sources of institutional and individual investors.⁴⁵

Forensic investigation reveals \$95m fraud at Morupule B power plant

An investigation by South Africa-based consulting firm **FTI Consulting** reported on 11 February that staff members from the national power utility, the **Botswana Power Corporation (BPC)**, colluded with the **China National Electrical Engineering Company (CNEEC)**, which was contracted to build the **Morupule B** power plant, to defraud the government.⁴⁶ The revelation will undermine Botswana's reputation for low levels of corruption in the public sector and bring attention to the conduct of China-based contractors operating in Botswana.⁴⁷ CNEEC built the coal-fired Morupule B plant at an initial budget of \$905m, but the final cost rose to \$1.6 billion in 2014, when the government eventually ended its contract with CNEEC.⁴⁸ The plant failed to reach full working capacity after being commissioned in 2012 because of ongoing technical problems.⁴⁹

³⁵ Mmegi, 1 Feb 2019.

³⁶ Mmegi, 1 Feb 2019.

³⁷ Mmegi, 1 Feb 2019.

³⁸ Mmegi, 1 Feb 2019.

³⁹ Mmegi, 25 May 2018.

⁴⁰ Mmegi, 25 May 2018.

⁴¹ Mmegi, 25 May 2018.

⁴² Source, analyst, London

⁴³ Source, analyst, London

⁴⁴ Source, analyst, London

⁴⁵ Source, analyst, London

⁴⁶ Sunday Standard, 11 Feb 2019.

⁴⁷ Sunday Standard, 11 Feb 2019.

⁴⁸ Sunday Standard, 11 Feb 2019.

⁴⁹ Sunday Standard, 11 Feb 2019.

The audit report implicates former BPC chief executive officer **Jacob Raleru** and his staff of misappropriating the funds through fraudulent payments, mis-invoicing, overpayments, and other forms of collusion with the CNEEC.⁵⁰ The BPC reportedly paid CNEEC over \$65m as part of constructing the power plant, despite CNEEC not having provided requisite base-load guarantees for the plant.⁵¹ The BPC also reportedly dismissed the former project manager for the power plant in 2015 after he refused to approve sub-standard equipment and designs that CNEEC supplied as part of the process of constructing the power plant.⁵² The report indicates that the BPC hired another plant manager, **Glen Black** from **Debswana Ltd.**, who allegedly colluded with the CNEEC to supply sub-standard equipment, and unapproved designs and services, while bypassing the government’s engineering team:

*“Indications of a preferential treatment relationship between [Glen] Black and the CNEEC are evident in the process followed in the appointment of CNEEC to provide operations and maintenance (O&M) services at the Morupule B power station... Due to non-performance in terms of the O&M services, BPC cancelled the agreement with CNEEC and appointed (Germany-based) **STEAG Energy Services GmbH** who took over on 1 January 2014. The Chinese contractor has however presented a \$32,405,638 invoices for claimed O&M services provided. The forensic audit carried out by us indicates that the claim could possibly be made on the strength of a contract entered into by individuals representing BPC during the period when the O&M contract evaluation and adjudication process was still ongoing. The validity of the contract is therefore questionable.”⁵³*

The revelations explain the power plant’s failure to achieve full operational capacity since its commissioning.⁵⁴ Although the high-profile corruption case occurred during the tenure of former president **Ian Khama** (2008-2017), the response of President Masisi’s government to the case would considerably influence foreign investors’ perception of his commitment to combat public sector corruption and improving the business-operating environment in Botswana.⁵⁵ Botswana’s ranking in **Transparency International’s 2018 Corruption Perceptions Index (CPI)** remained unchanged from its performance in the 2017 CPI survey.⁵⁶ The index, which is designed to give a sense of public sector corruption, rates countries on a scale of zero (highly corrupt) to 100 (very clean). With a score of 61 out of 100 and a ranking of 34 out of 180 countries, Botswana came second only to the **Seychelles** among **sub-Saharan African** countries.

TI CPI Rankings for Botswana ⁵⁷					
	2018	2017	2016	2015	2014
Ranking	34/180	34/180	35/176	29/168	31/175
Score (out of 100)	61	61	60	63	63

⁵⁰ Sunday Standard, 11 Feb 2019.

⁵¹ Sunday Standard, 11 Feb 2019.

⁵² Sunday Standard, 11 Feb 2019.

⁵³ Excerpt from the audit report by FTI Consulting, quoted in Sunday Standard, 11 Feb 2019.

⁵⁴ Source, analyst, London

⁵⁵ Source, analyst, London

⁵⁶ www.transparency.org

⁵⁷ www.transparency.org

Botswana's relatively high score in Africa is consistent with its overall standards of political governance and stability. Despite having more cases of corruption and state-sanctioned attacks against opposition figures during his tenure, Khama's government pursued a concerted anti-corruption policy across all government departments. However, corruption concerns during Khama's presidency, which largely influence the current scores, include multiple accusations of corruption against Khama's close associate and former director of the **Directorate of Intelligence Services (DIS), Isaac Kgosi**, as well as Khama's personal investments in tourism, in tandem with his brother and former tourism minister, **Tshekedi Khama**, and the **Directorate on Corruption and Economic Crime (DCEC)**'s susceptibility to political influence in conducting investigations on corrupt public officials.

TI CPI Rankings 2018: Regional comparison ⁵⁸					
	Botswana	Namibia	South Africa	Zambia	Zimbabwe
Ranking	34/180	53/180	73/180	105/180	160/180
Score	61	52	43	96	22

⁵⁸ www.transparency.org

Planner

26 March 2019 **(Botswana)** Canada-Africa Business Conference
 21 May 2019 **(Botswana)** Mining Investment Conference and Exhibition;
 10 Jun 2019 **(Botswana)** Botswana Resource Sector Conference
 10 Sep 2019. **(Botswana)** Electra Mining Botswana event;
 Oct 2019 **(Botswana)** Scheduled general elections;

Chronology

15 Feb 2019 **Gaborone (Botswana)** *Construction Review*. **Botswana's** transport ministry awards three **China**-based companies (**Zhong Gan Engineering and Construction, China Jiangsu International Botswana and Unik Construction Engineering**) a tender for road interchange project;

14 Feb 2019 **Gaborone (Botswana)** *Newsday*. Finance minister **Kenneth Matambo** says the government plans to reach a budget surplus in 2020 after having three consecutive years of deficits;

13 Feb 2019 **Addis Ababa (Ethiopia)** *Journal du Cameroun*. President **Mokgweetsi Masisi** says **Botswana** supports the removal of sanctions against the government of **Zimbabwe**;

12 Feb 2019 **Gaborone (Botswana)** *Journal du Cameroun*. Former energy and minerals minister **Sadique Kebonang** implicates President **Mokgweetsi Masisi** in ongoing **Capital Management Botswana (CMB)** corruption case;

11 Feb 2019 **Gaborone (Botswana)** *Southern Times*. Chief justice **Terrence Rannowane** calls for peaceful elections, as political tensions escalate in the ruling **Botswana Democratic Party (BDP)**;

7 Feb 2019 **Cape Town (South Africa)** *Moneyweb*. **Botswana's** rail utility, **Botswana Railways**, and **South Africa's** state-owned rail company, **Transnet**, enter into agreement to jointly construct a coal-export rail link from Botswana to South Africa;

7 Feb 2019 **Gaborone (Botswana)** *The Independent*. **Statistics Botswana (SB)** reports that mobile internet usage has increased in **Botswana**;

4 Feb 2019 **Gaborone (Botswana)** *Moneyweb*. Finance minister **Kenneth Matambo** says Botswana's economic growth rate will decline to 4.2% in 2019, down from 4.5% in 2018;

4 Feb 2019 **Gaborone (Botswana)** *Journal du Cameroun*. The government agrees to give a 10% salary increase to civil servants;

1 Feb 2019 **Gaborone (Botswana)** *Mmegi*. **United States**-based non-governmental organisation **Global Financial Integrity (GFI)** reveals that the **Botswana Unified Revenue Service (BURS)** lost at least \$885m to tax evasion in 2015 through under-invoicing;

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)