

AFRICA RISK CONSULTING

Botswana Monthly Briefing February 2023

Botswana Summary 8 February 2023

The finance ministry postpones plans to pull the country's finances out of the red and instead announces an expansionary 2023/24 national budget on 6 February with a forecast of a 3.06% of gross domestic product (GDP) deficit up from earlier plans of a 0.1% deficit. Debswana, a joint venture between the government and United Kingdom-headquartered De Beers, posts its highest sales in history with a 48% jump in rough diamond sales in 2022 as Botswana benefits from the sanctions on Russian diamonds. Talks for a new diamond sales agreement between De Beers and the government remain protracted with the June 2023 deadline looming. However, a recent scandal has seemingly put the diamond company on the back foot in the negotiations after three local newspapers in late January publish headlines accusing De Beers of tax malpractices in Botswana. The Kalahari Copper Belt, touted as the world's next prime copper district, will have a second operating mine from the June quarter when Sandfire Resources begins production.

Government defers plans to balance the budget

The finance ministry tabled an expansionary budget on 6 February to fund major investments in infrastructure developments and civil servants' salary adjustments, postponing earlier plans to return to budget surpluses in 2023 after six straight years of deficits.¹ The finance ministry said in September 2022 that plans were afoot to return to a balanced budget in 2023, as diamond revenues hit an all-time high. Finance minister **Peggy Serame** told parliament on 6 January when presenting the 2022/23 national budget, that economic growth projections have been pushed to 6.7% in 2022 from an earlier forecast of 4.2%, a result of the strong performance by the diamond sector.² The fiscal balance also benefited from the strong diamond market with the forecast deficit for 2022/23 trimmed from an earlier estimate of 3.4% to 2.1%.

However, Serame announced a change to the diamond funds-backed plans to return to a budget surplus in 2023 and said that instead of just a 0.1% of gross domestic product (GDP) budget deficit, the country will now post a 3.06% deficit largely due to 28% jump in the development budget. The big jump in the development budget is largely to finance a major drive in infrastructural developments under the **Transnational Development Plan (TNDP)** approved by parliament in December (*see ARC Briefing Dec 2022*). Under the TNDP, which analysts say has been set up to become President **Mokgweetsi Masisi's** (2018-present) vehicle to justify huge spending ahead of the 2024 general elections, the government plans to spend P64.1 billion (\$4.96 billion) in the next two years, injecting significant investments into roads, land, water infrastructure development and support to key state-owned enterprises.³

Botswana normally sets its medium-term development agenda through 5-year national development plans (NDPs), the last of which, NDP11 was to end in March 2023 and be succeeded by NDP12 (from April 2023 to March 2028). Masisi postponed the beginning of NDP12 and put in place the TNDP to run from April 2023 to March 2025, just a few months after the 2024 general elections.

Apart from the major infrastructure development drive, which is seen as a job creator and economic growth enabler, the recurrent budget is also poised for a 13% jump. Serame noted the growth in this

¹ Botswana 2023/23 National Budget, 6 Feb 2023

² 2023/34 Budget Strategy Paper, 10 Sep 2022

³ Transitional National Development Plan (TNDP), December 2022

budget is necessitated by the obligation to pay a 5% adjustment of salaries and allowances to government employees, increase the revenue support grant for councils and land boards as well as rationalisation of state-owned enterprises.

Revenues are forecast to increase from P71.53 billion (\$5.54 billion) in the current financial year to P79 billion (\$6.12 billion) in 2023/24, while expenditure will rise from P76.41 billion (\$5.93 billion) to P87.38 billion (\$6.77 billion) resulting in the 3.06% of GDP deficit.

Serame specified that the budget deficit will be financed through a combination of financing options including the issuance of domestic government securities in the form of bonds and treasury bills amounting to P3 billion (\$232.5m), external borrowing of P2.7 billion (\$209m) and drawdown from the **Government Investment Account (GIA)** for P2.2 billion (\$162m).

Botswana's net financial position, which is equal to its savings minus its public debt, stood at an equivalent to 40% of GDP in 2008 but after many years of budget deficits, it has deteriorated to an equivalent to -20% of GDP in 2021, especially as the GIA was substantially drawn down and borrowing increased.

Debswana diamond sales reach record high

Rough diamond sales at **Debswana**, a partnership between the government and **United Kingdom**-headquartered **De Beers** reached an all-time high in 2022, driven by a healthy demand for jewellery in the face of shortages caused by sanctions on **Russian** diamonds.⁴

Data published by the **Bank of Botswana** (central bank) on 31 January shows that sales of diamonds from Debswana stood at \$4.6 billion in 2022 compared to \$3.5 billion in 2021. In pula terms, the jump in rough sales jumped at an even higher 48% to 57 billion pula, due to the effects of a stronger dollar in the period - the pula lost ground by 8.1% against the dollar in 2022.

Russian diamonds in their raw form (rough) are still banned by the US, the biggest consumer of diamonds in the world, but Russia's **Alrosa** stones are still finding their way into the market after being mixed with stones from other miners at global cutting and polishing centres.⁵ In a bid to enhance the traceability of its diamonds, because of the US ban on Russian rough diamonds, De Beers unveiled its blockchain technology platform in 2022 which enables retailers to trace all the company's diamonds path through the supply chain as some consumers demand proof of origin of the stones.⁶

Production at Debswana, which sells 75% of its product to De Beers and 25% to state-owned **Okavango Diamond Company (ODC)**, rose marginally by 8% to 24.1 million carats in 2022 but prices firmed by a larger margin with the De Beers rough diamond price index rising by 23% driven by overall positive consumer demand for diamond jewellery and supported by De Beers' proposition of provenance-assured diamonds.⁷

On the back of the firm performance of the diamond market, the finance ministry recorded a 66% jump in minerals revenues in the first six months of the fiscal year ending March 2023 leading to a 0.55% budget surplus in the period.⁸

...but new deal talks with De Beers remain protracted

Botswana is hoping to conclude talks with De Beers for a new sales agreement before the June deadline as the two partners aim to avoid another postponement which might make the market nervous. The 2011 rough diamond sales agreement in which the venture, Debswana, sells 75% of its

⁴ Botswana Financial Statistics-December 2022, 31 Jan 2023

⁵ [Intellinews](#), 22 Sep 2022

⁶ [Reuters](#), 22 May 2022

⁷ Anglo American 2022 annual production report, 2 Feb 2023

⁸ [Bloomberg](#), 9 Jan 2023

output to De Beers expired in 2020 but has been extended three times temporarily with the latest ending in June 2023.⁹

Talks remain protracted with both sides trying to get the best deal for themselves, but a recent scandal has seemingly put the diamond company on the back foot in the negotiations. Three local newspapers in late January published headlines accusing De Beers of tax malpractices in Botswana, alleging that De Beers has been avoiding paying tax in Botswana using ‘accounting tricks’, to lower their tax liability in the country by as much as P4 billion (\$310m) between 2014 and 2020.¹⁰

The leaked report, which was compiled by a tax consultant on behalf of the **Botswana Unified Revenue Service (BURS)**, alleges that De Beers lowered its tax liability in Botswana by paying ‘ridiculously’ large amounts of tax-deductible marketing expenses and royalties to its parent UK company, **Anglo-American**.

De Beers moved its sales unit, **De Beers Global Sightholder Sales (DBGSS)** from **London (UK)** to **Gaborone (Botswana)** in 2013 as part of the 2011 sales agreement and now the BURS report alleges that the Botswana-based DBGSS, through which the global mining giant sells 90% of its rough diamonds, is paying high amounts of licence and marketing payments to the UK company to reduce its tax bill in Botswana.

One newspaper, the **Sunday Standard** went as far as alleging that the tax issues are the matter that is holding up the negotiations, with De Beers refusing to settle the tax bill and the office of the president having to intervene and order the cancellation of the tax debt.¹¹ De Beers has vehemently denied the tax malpractice allegations, saying they are committed to compliance with relevant tax laws in all jurisdictions in which they operate and to paying the right amount of tax. De Beers said it was open to a debate on whether it is paying the right amount of tax in Botswana, noting that since 2014, the group’s total tax contribution to Botswana amounts to \$6.32 billion and it was the highest tax contributor in the country

The government's official position on the talks is that the bulk of the issues has been agreed on except for a few material items which are still outstanding. Minerals minister **Lefoko Moagi** told the media in January:

"The deal has to be done as one package and we are hopeful this can be done before the deadline as both parties fully understand the consequences. It's understandable when markets get jittery about the delay as diamonds are traded the world over."¹²

Moagi was asked specifically by the media if he was hoping that the deal will go through by the new deadline, but he was non-committal and only went as far as saying both parties understood well the importance of agreeing on a new deal.

A deal is necessary for Botswana as rough diamonds provide the country with around two-thirds of its foreign reserves and a fifth of its GDP. For De Beers, a deal would provide another long period of clarity in the terms of its revenue from the source of 70% of its diamonds and 90% of its sales. Both parties have declined to divulge the specific terms being negotiated in the talks, but Botswana will be hoping to extend the gains in the existing deal signed in 2011, which included the transfer of De Beers sales office from London to Gaborone as well as the formation of ODC. Botswana has a long-term plan to transform itself from just being a producer of rough diamonds to an active participant in the industry activities such as trading, cutting and polishing, and other support services such as tourism and hospitality, transport, diamond banking, gemmological functions and laboratories.

⁹ Reuters, 28 Jun 2022

¹⁰ Mmegi, 27 Jan 2023

¹¹ Sunday Standard, 29 Jan - 4 Feb 2023

¹² Ministry of Minerals and Energy briefing, 24 Jan 2023

Kalahari Copper belt flourishes

Australian Stock Exchange (ASX)-listed **Sandfire Resources** is in the process of commissioning its new **Motheo** copper mine boosting the fast burgeoning **Kalahari Copper Belt** to become one of the most sought-after copper mining regions in the world. Construction is nearing completion on the 3.2 million tonnes per annum (mtpa) mine with production expected from the June quarter. Works have already started to expand operations through a new processing plant and a new open pit mine (A4 deposit), 8kms west of the mine under development.¹³ With the expansion, the company will move to process 5.2 mtpa, taking its production of copper in concentrate to 55,000 tonnes per annum. Since construction started in 2021, Sandfire has so far spent over \$200m in developing the copper mine with the total development cost of the expanded mine estimated at \$397.4m.

The Kalahari Copper Belt, which extends for nearly 1,000km from northeast Botswana to western **Namibia**, is seen as one of the world's emerging but mostly under-explored copper-silver regions. Sandfire's Motheo copper mine is the second copper mine to be developed in the copper belt with US-headquartered **Cupric Canyon's Khoemacau** copper mine having started production with 3.6 mtpa at the end of June 2021.

In parallel with this development, Sandfire is also continuing a major exploration campaign both in the near-mine area as well as across its extensive landholding in the Kalahari Copper Belt, aimed at defining additional ore sources that can feed into its expanded processing hub at Motheo or support the development of new production centres across the region.

Botswana sees the Kalahari Copper belt as a new mining hub that could help reduce reliance on diamonds, which contribute about 70% of export revenues. The Motheo mine, over its initial 12.5-year life, is projected to deliver royalties to the Botswana government totalling \$70m and corporate income tax in excess of \$200m.

Planner

Feb 2023 **Gaborone (Botswana) Bank of Botswana** governor announces 2023 Monetary Policy Statement;

Feb 2023 **Gaborone (Botswana) Bank of Botswana** Monetary Policy Committee announces first policy rate decision of 2023;

Jun 2023 **(Botswana)** End of current **De Beers**-government diamond sales deal;

July 2023 **Gaborone (Botswana)**15th **United States-Africa** Business Summit;

2024 **(Botswana)** Presidential elections.

Chronology

3 Feb 2023 **Gaborone (Botswana) Daily News.** **Botswana** will host the 15th **United States-Africa Business Summit** between 11-14 July which is expected to strengthen the country's investment and trade relations with the US;

3 Feb 2023 **Gaborone (Botswana) Mmegi.** Local trade negotiators believe they have found solutions that can resolve a four-year stalemate that has kept Botswana as one of the few countries that are yet to ratify the **African Continent Free Trade Agreement (AfCFTA)**;

3 Feb 2023 **Gaborone (Botswana) Mmegi.** **South African**-headquartered **Chlor-Alkali Holdings (CAH)** process to dispose of its 50% shareholding in Botswana's only salt and soda ash producer, **Botash**, will start early in March, amid reports that various international suitors are interested in the equity;

¹³ Sandfire Resources, 3 Feb 2023

2 Feb 2023 **Gaborone (Botswana)** *Sunday Standard*. A quarterly **Business Expectation Survey** carried by the **Bank of Botswana (BoB)** (central bank) shows companies expect to borrow more from lending institutions in 2023 to finance operations despite them seeing higher interest rates in the year;

2 Feb 2023 **Gaborone (Botswana)** *Daily News*. **Switzerland** president **Alain Berset** undertakes a three-day state visit to Botswana at the invitation of President **Mokgweetsi Masisi** to strengthen bilateral relations;

1 Feb 2023 **Gaborone (Botswana)** *diamonds.net*. **United Kingdom**-headquartered **De Beers** sees a slowdown in rough sales in January, bringing \$450m, a decrease of 32% compared to the same period in 2022, as clients were hesitant to buy at the start of the year;

1 Feb 2023 **Gaborone (Botswana)** *Business Weekly*. **Minergy Coal** anticipates global coal prices to remain elevated, though at lower levels than what was experienced over the last 12 months;

31 Jan 2023 **Gaborone (Botswana)** *Transparency International*. Botswana's rank in **Transparency International's 2022 Corruption Perception Index** improves from 45 in 2021 to 35 in 2022;

30 Jan 2023 **Gaborone (Botswana)** *Botswana Stock Exchange*. **Shumba Energy** says it has chosen its preferred partners for the **Tati** 100 MW solar photovoltaic project after receiving various formal funding offers/term sheets in the form of equity, debt and mezzanine;

30 Jan 2023 **Gaborone (Botswana)** *Mmegi*. Opposition **Botswana Congress Party (BCP)** announces that it will not be part of the **Umbrella for Democratic Change (UDC)** electoral coalition in the 2024 general election, making the next election a three-horse race between the UDC, the ruling **Botswana Democratic Party** and the coalition with **Alliance for Progressives (AP)** and **Botswana Labour Party (BLP)**;

26 Jan 2023 **Gaborone (Botswana)** *Daily News*. Government raises a budget support loan of approximately \$100m from the **Organisation of the Petroleum Exporting Countries (OPEC)** to fund the strengthening of the government's pandemic and crisis response as well as building the foundation for a sustainable green economy;

25 Jan 2023 **Gaborone (Botswana)** *Mmegi*. **European Union (EU)** foreign policy chief **Josep Borrell** will meet with Botswana's foreign affairs minister, **Lemogang Kwape**, and **Southern African Development Community (SADC)** executive secretary **Elias Magosi** in Gaborone on 28 January to promote the relationship between Botswana and the EU and to focus on advancing green and digital transformation, as well as sustainable development and EU investment;

22 Jan 2023 **Johannesburg (South Africa)** *Daily Maverick*. There is a scramble for **oil, gas and coal** in **Botswana**, much of it centred on the **Central Kalahari Game Reserve (CKGR)**, with about half the surface area of the 52,800 square-kilometre parks has been allotted into blocks for exploration for oil, gas, coal, coalbed methane, and other minerals and metals;

20 Jan 2023 **Gaborone (Botswana)** *Mmegi*. **Indian** company **KGK Diamond Botswana** is opening a jewellery manufacturing factory in Botswana, adding diamond cutting and polishing operations to its operations, noting that the demand for precious stones and jewellery exists both internationally and locally;

20 Jan 2023 **Gaborone (Botswana)** *Mmegi*. Data maintained by the **Companies and Intellectual Property Authority (CIPA)**, the main online platform where companies operating in Botswana are required to register, on beneficial owners of companies are expected to go public in August;

18 Jan 2023 **Gaborone (Botswana)** *Daily News*. **Botswana Unified Revenue Service (BURS)** surpasses its set revenue collection target of P34.8 billion (\$2.70 bn) for 2022, collecting P31.5 billion (\$2.44bn) by 31 December;

13 Jan 2023 **Gaborone (Botswana)** *Reuters*. A **Botswana** court dismisses an application by former president **Ian Khama** to have an arrest warrant against him struck down;

13 Jan 2023 **Gaborone (Botswana)** *Mmegi*. The new **African Growth and Opportunities (AGO)** trade deal between Africa and the **United States** is expected to feature stricter requirements for climate-sensitive production and sourcing, a demand that could weigh on business volumes from some countries. BusinessWeek has learnt that on top of the existing tight protocols on governance required of African governments to remain as AGOA beneficiaries, the US also wants more adherence to **Environment, Social and Governance (ESG)** standards from the African corporates wanting to do business with the world's richest market;

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