

AFRICA RISK CONSULTING

Botswana Monthly Briefing March 2023

Botswana Summary 6 March 2023

President Mokgweetsi Masisi (2018-present) threatens to walk away from a 50-year partnership with United Kingdom-headquartered diamond giant De Beers if new talks for fresh sales and mining rights deals do not deliver favourable terms for the country. The Bank of Botswana's Monetary Policy Committee leaves interest rates unchanged at 2.65% at its first sitting of the year. The bank says it will adopt an accommodative monetary policy stance in 2023 to support economic growth. The finance ministry takes the function of setting the medium-term inflation objective from the central bank as part of amendments to the Bank of Botswana Act. Botswana and Namibia sign an agreement to allow the use of national identity cards instead of passports to cross borders between the two countries in a first-of-a-kind arrangement in Southern Africa. Botswana sees lower demand for diamonds this year owing to softer global macroeconomic conditions leading to a flat growth of the mining sector in 2023.

Masisi threatens De Beers as deadline for talks looms

President **Mokgweetsi Masisi** (2018-present) has upped the stakes in the contract talks with **United Kingdom**-headquartered diamond giant, **De Beers** regarding the joint venture between the two, **Debswana Diamond Company**. Masisi has threatened to cut ties with the company if the country does not get a better share of the revenues. Masisi did not elaborate on how he plans to get a bigger share of the revenues but with the country already getting 80% of the revenues from the mining operations of Debswana, it appears the president wants higher revenues from the trading of the stones.

Addressing a political rally on 12 February, Masisi said negotiating with De Beers was like shaking a giant but that **Botswana** was prepared to walk away if it doesn't get satisfactory terms.¹ Botswana and De Beers equally own the mining operations of Debswana, but through dividends, taxes and royalties the state gets 80 cents from every dollar worth of stones mined.² On the sales and marketing side, the 10-year 2011 rough diamond sales agreement, which has been temporarily extended three times and is now due to expire in June, Debswana sells 75% of its output to De Beers with state-owned **Okavango Diamond Company (ODC)** getting the balance. Before the 2011 deal, all of Debswana's rough production was bought by De Beers.

Speaking during a media briefing in January, Masisi said the government has realised it is possible to earn more from the diamonds if sold more through the ODC versus selling them through De Beers. Botswana's negotiating team is reportedly asking De Beers for an even split in the allocation of Debswana production.

Running concurrently with the talks for a new sales deal are negotiations for the Debswana mining rights which are due to expire in 2029, and there is speculation that Botswana could be leveraging on the mining rights to get a better sales deal.³

Whether Masisi's comments were just political rhetoric to his constituency ahead of next year's general elections or if Botswana has indeed challenged De Beer remains to be seen, with only four months left before the deal expires.

¹ [Africanews](#), 13 Feb 2023

² [Debswana](#)

³ [Reuters](#), 17 Feb 2023

Adding further speculation is Masisi's comments that he is in favour of a business model implemented by **Belgian** large diamond specialist **HB Antwerp** where it shares profits with miners from the final polished stone price instead of paying producers rough prices.⁴ However, Botswana and De Beers' relationship is more complicated as the two are both involved in the mining of the stones which requires heavy capital investments especially as the mines are deeper and more expensive to mine. Debswana is currently undertaking a plan to convert its flagship mine **Jwaneng Mine** to an underground mine for \$6 billion, an expense that would have to be covered by both shareholders.⁵

A deal is critical for both parties as Botswana earns approximately two-thirds of its foreign exchange earnings and a third of total revenues from rough diamonds while De Beers gets 70% of its total supply from Botswana. De Beers has also sold almost all of its stones out of **Gaborone** since 2013, where its handpicked international buyers, known as **Sightholders**, travel ten times a year to buy rough stones.

Central bank holds rates, adopts accommodative policy stance for 2023...

The **Bank of Botswana (BoB)** (central bank) held the monetary policy rate steady at 2.65% at the Monetary Policy Committee's (MPC) first sitting of the year on 23 February, a day after central bank governor **Mosses Pelaelo** announced that BoB will implement an accommodative monetary policy stance in 2023 as inflationary pressures, though skewed to the upside in short term, are favourable in the medium term.⁶

Annual inflation has generally been trending downwards since it peaked at 14.6% in August, but it remains way above the central bank's 3-6% objective. The central bank forecasts inflation to drop significantly in 2023 from an average of 11.2% in the first quarter to 7.3% in the fourth quarter before it falls within the 3-6% objective range by the third quarter of 2024.⁷ In addition to the base effects, the projected decrease in inflation into the medium term is also due to subdued domestic demand, current monetary policy posture, and an expected decrease in global inflation.

The bank noted in its announcement that the risks for higher inflation than currently projected on the domestic front relate to possible annual adjustments in administered prices not included in the forecast. This includes short-term consequences of import restrictions as well as prospective fiscal developments, namely the implementation of the two-year **Transitional National Development Plan (TNDP)** and the possibility of a higher than the projected impact of the resumption of the 14% value-added tax, up from 12%, in the second quarter of 2023.⁸

Civil servants' 5% salary adjustment, effective April 2023, is also seen exerting some upward pressure on wages while there is also a likelihood of an upward adjustment in domestic fuel prices, in response to an increase in international oil prices.

... as the government takes over function of setting inflation target

The finance ministry has taken over the function of setting the inflation target from the central bank as part of the amendment to the **Bank of Botswana Act**, which came into effect on 14 February.⁹ Parliament passed the **Bank of Botswana (Amendment) Act** last year which introduces new provisions to enhance the bank's powers to achieve price and financial stability mandates. Other changes as part of the amendments include that the central bank will adopt the ranked dual mandate with its primary mandate of maintenance of domestic price stability. Subject to attaining its primary

⁴ Africa Intelligence, 7 Apr 2022

⁵ [Bloomberg](#), 23 Apr 2021

⁶ Monetary Policy Statement 2023

⁷ Monetary Policy Statement 2023

⁸ Monetary Policy Committee

⁹ Monetary Policy Statement 2023

mandate, the bank shall contribute to the stability of the financial system and foster and maintain a stable, sound and competitive market-based financial system.¹⁰

The new law also takes away the function of setting the inflation objective, currently at 3-6%, from the central bank and gives it to the government. The finance minister will determine the medium-term inflation objective and the new statutory MPC will have de jure operational autonomy to conduct monetary policy as appropriate to achieve the inflation objective determined by the minister. The new law also changes the composition of the MPC, which shall now comprise nine members, four of which shall be independent external members, appointed by the minister.

Government and central bank officials insist the changes will give the BoB legal operational autonomy to conduct monetary policy that is also in line with international best practice, citing the **United Kingdom** as an example where the government sets the inflation target and not the central bank. But in Botswana, the changes have come at a time when the government is on an expansionary fiscal policy which the central bank itself admitted could induce inflationary pressures into the economy. The government will likely adjust the inflation target up.

Botswana and Namibia do away with passports to cross borders

Masisi and his **Namibian** counterpart, **Hage Geingob** (2015-present) signed an agreement on 24 February to free up the movement of people between their countries by allowing citizens to travel using only their national identity cards instead of passports.¹¹ Botswana and Namibia have been on a path to improving political and economic cooperation in recent years, putting the disputes of the past that caused a deterioration of bilateral relations behind them. Relations were shaken in 2020 when the Botswana army shot and killed four Namibians on the Botswana side of the **Chobe River** on suspicion of being poachers, but Namibia condemned the killings insisting the four were just fishermen.

The agreement to remove migration barriers between the two countries will not only aid the free movement of people but that of goods and services, thereby strengthening trade between the two countries. As member states of the **South African Development Community (SADC)**, they will also contribute to the objectives of the SADC Treaty which calls on member states to develop policies aimed at the progressive elimination of obstacles to the free movement of people, goods and services.¹²

Botswana and Namibia, also both members of the **Southern African Customs Union (SACU)** and the **African Continental Free Trade Agreement (AfcFTA)**, are looking at enhancing trade further, building on the progress already seen - Botswana's exports to Namibia have increased from \$5,7m in 2000 to \$64,9m in 2020 while the **World Bank** estimates that Namibian exports to Botswana were worth an estimated \$498m as of 2020.¹³ The main products that Namibia exported to Botswana were diamonds, refined petroleum and electricity.

In terms of people movement, **StatsBots**, the national statistics agency, estimates that about 190,000 Namibians crossed into Botswana annually in the pre-Covid years of 2018/19. Following the signing of the agreement, Masisi said Botswana will introduce an electronic identity card as an electronic document that contains the biometric information that can be used to verify and authenticate the identity of travellers through a computer scan.

¹⁰ Bank of Botswana (Amendment) Act 2022

¹¹ Voice of America, 24 Feb 2023

¹² [Newera](#), 5 Sep 2023

¹³ [The Namibian](#), 28 Feb 2023

Mining sector to stagnate in 2023 on gloomy diamonds outlook

The mining sector's growth is expected to stagnate largely due to the softening in global macroeconomic conditions which could see a contraction in consumer spending and weaker demand for diamond jewellery.¹⁴ Debswana, which produces almost all of Botswana's diamond production, registered an 8% growth in output in 2022 to 24.1 million carats while diamond trading recorded a 41% growth in the year as Botswana also benefitted from the shunning of **Russian** stones by western buyers. However, Botswana does not see a similar sparkle in the diamond industry with the sector forecast to record negative growth of -1% in 2023.

The drop in diamond demand is set to be balanced by the expected high production from the new copper mines as well as the high demand for coal with **Cupric Canyon's Khoemacau** copper mine in the **Kalahari Copperbelt** ramping up production to its nameplate capacity of 60,000 tonnes.¹⁵ Another new mine in the Kalahari Copperbelt, **Motheo Mine**, owned by **Australia's Sandfire Resources** is also in the process of commissioning.

In the coal sector, state-owned **Morupule** mine and **Minergy's Masama** mine expect the high exports in 2022 to continue this year on the back of the current high global demand for coal following the energy crisis caused by the war in **Ukraine**. Despite these developments, real GDP growth is forecast to fall to 4% this year from an estimated 6.7% in 2022 with non-mining activities anchoring growth.

Planner

27 – 28 Apr **Gaborone (Botswana)** Bank of Botswana's Monetary Policy Committee (MPC) meeting

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

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

Nov 2023 **Gaborone (Botswana)** 2023/24 supplementary budget

2024 **(Botswana)** Presidential elections.

Chronology

2 Mar 2023 **Gaborone (Botswana)** *Africa Intelligence*. **Botswana Oil** has hired law firm **DLA Piper** to help it raise funds in the **United States** to build a \$2.5 billion coal liquefaction plant;

1 Mar 2023 **Barcelona (Spain)** *Huawei*. **Debswana's Jwaneng** deposit becomes the world's first '5G-orientated' diamond mine, with the company planning to launch the technology at other sites across the country, using network technology from **Chinese** telecommunications giants **Huawei**;

1 Mar 2023 **Gaborone (Botswana)** *Mmegi*. Finance minister **Peggy Serame** announces that as of 31 January, approximately 65.4% of the P16 billion (\$1.23 billion) development budget approved for the 2022/23 financial year had been spent as the challenge of project

¹⁴ Reuters, 1 Mar 2023

¹⁵ Miningweekly, 8 Feb 2023

implementation within the government continues. As of this date, four ministries had spent less than 20% of their development budgets;

24 Feb 2023 **Gaborone (Botswana)** *Mmegi*. The **Botswana Congress Party (BCP)** says it has not yet formally withdrawn from the **Umbrella for Democratic Change (UDC)** coalition with a decision set to be made at the party's national conference addressing the media, but BCP secretary-general **Goretetse Kekgonegile** says the central committee has made a recommendation that it leaves;

24 Feb 2023 **Gaborone (Botswana)** *Mmegi*. **Bank of Botswana** (central bank) plans to give central banks the freedom to set their prime lending rates from 1 April;

24 Feb 2023 **Gaborone (Botswana)** *Mmegi*. **Kenamile Badubu**, the Deputy director-general of operations of the **Directorate of Intelligence and Security Services (DIS)** is fired for unknown reasons;

24 Feb 2023 **Gaborone (Botswana)** *Mmegi*. **Botswana Revenue Service (BURS)** forecasts revenue collection to jump 25% to over P61 billion (\$4.7 billion) in the 2023 financial year on the back of higher customs revenues, potentially overtaking mineral taxes as the country's biggest tax receipts earner;

22 Feb 2023 **Gaborone (Botswana)** *Mmegi*. Finance ministry gazettes amendments that will zero-rate Value Added Tax (VAT) for salt, sanitary pads, vegetables, cooking oil, infant formula, condoms, baby diapers and Liquefied Petroleum Gas (LPG) from 1 April, while private health services will be exempted from the tax in a bid to support low-income households;

22 Feb 2023 **Gaborone (Botswana)** *Sunday Standard*. Trade and industry minister **Mmusi Kgafela** tells parliament that the **Competition and Consumer Authority** is investigating allegations of restrictive business practices through collusion on pricing by some industry players in the manufacture and supply of poultry feeds with findings expected in August;

20 Feb 2023 **Gaborone (Botswana)** *Xinhua*. Botswana becomes the 45th **African** country to ratify the **African Continental Free Trade Area (AfCFTA)** agreement, moving one step closer to allowing the country and its businesses to freely access a market of 1.2 billion with a value of more than \$2.6 trillion;

20 Feb 2023 **Gaborone (Botswana)** *Voice of America*. Tourism minister **Philda Kereng** tells parliament that Botswana has suffered a huge spike in rhino poaching between 2018 and 2022, translating to about a third of its population, or 138 rhinos;

17 Feb 2023 **Gaborone (Botswana)** *Mmegi*. State diamond trader, **Okavango Diamond Company**, announces it earned all-time high revenues of \$ 1,1 billion in the 2022 calendar year, nearly 15% higher than the previous year;

15 Feb 2023 **Gaborone (Botswana)** *Mmegi*. Finance ministry is visiting a fiscal rule under which future recurrent budgets would be solely funded from non-mining revenues while 60% of mineral earnings would be reserved for projects and skill development and 40% saved for future generations, through investment in the **Bank of Botswana** managed **Pula Fund**;

15 Feb 2023 **Gaborone (Botswana)** *Mmegi*. The newly published Delimitation report shows that there will be four new constituencies in the 2024 general election from the current 57;

14 Feb 2023 **Cape Town (South Africa)** *The Monitor*. State minerals company, **Minerals Development Company Botswana (MDCB)** is assessing possible investment opportunities in the country's critical minerals and rare earth metals, as part of a strategy to diversify its portfolio;

10 Feb 2023 **Gaborone (Botswana)** *Mmegi*. State airline, **Air Botswana** is in line for another P165.8 m(\$12.75m) cash injection from the government as it struggles to keep its planes in the skies despite perennial losses;

10 Feb 2023 **Dhaka (Bangladesh)** *Daily Star*. **Bangladesh** and **Botswana** sign an agreement on visa exemption for holders of diplomatic and official passports and a memorandum of understanding (MoU) on bilateral political consultations;

10 Feb 2023 **Cape Town (South Africa)** *Reuters*. Energy and minerals minister **Lefoko Fox Moagi** says **African** governments must be wary of the risks created by rising global competition for the continent's minerals, as world powers seek new sources of metals needed for the transition to a lower carbon economy.

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