

## AFRICA RISK CONSULTING

### Botswana Monthly Briefing April 2023

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#### Botswana Summary 5 April 2023

*President Mokgweetsi Masisi (2018-present) announces on 27 March that Botswana has taken a 24% stake in Belgian gem trader and manufacturer HB Antwerp. The move ups the stakes in the current negotiations with United Kingdom-headquartered diamond giant De Beers over its joint venture with the government, Debswana, for a new mining rights, sales and marketing deal. Masisi also announces the number of licenced diamond cutting and polishing firms has doubled in the past year as Botswana makes headway in beneficiating its diamonds. Statistics Botswana reveals on 31 March that real Gross Domestic Product (GDP) grew by 5.8% in 2022, driven by higher output in the electricity sector and improved diamond demand as Debswana sales hit a record \$4.588 billion in 2022. Botswana adopts a Development Manager model to ensure the delivery of infrastructure projects as the country embarks on a massive road, rail, water and housing infrastructure development under the two-year Transitional National Development Plan.*

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#### Masisi challenges De Beers with HB Antwerp deal

After 54 years of diamond mining and 10 years of diamond trading, **Botswana** has moved a notch downstream in the diamond business after acquiring a strategic but significant minority 24% stake in a **Belgian** diamond trading, cutting and polishing firm, **HB Antwerp**. President **Mokgweetsi Masisi** (2018-present) announced the deal on 27 March which he said was a culmination of negotiations that started three years ago.<sup>1</sup>

HB Antwerp says it is planning to build one of the world's largest and most technologically advanced diamond facilities in Botswana in the coming years as the Belgian company looks to take up bigger space in Botswana's diamond industry which has for decades been dominated by De Beers.

HB Antwerp is also promising Botswana up to 40% more revenue for its diamonds than it would get from selling the stones to **United Kingdom**-headquartered **De Beers** but analysts say this partnership with a relatively new entrant into the diamonds business, which doesn't have De Beers' century-old mining sales and marketing clout, appears to have some risky facets.

As part of the deal, HB Antwerp, which currently only gets rough supply from **Canada**-listed **Lucara Diamond Corporation**, will also get rough supply from state-owned **Okavango Diamond Company (ODC)**. Commercial terms of the deal are to be published, but ODC which posted revenues of \$1.1 billion in 2022, is entitled to 25% of **Debswana's** average 24 million carats annual production. Debswana is a 50/50 joint venture between the government and De Beers.

Lucara produces an average of 300,000 carats a year and all of its 10-carat and above stones are supplied to HB Antwerp. ODC on the other hand, is entitled to about 6 million carats a year from Debswana and Masisi has already indicated that they want this allocation to be significantly increased or else government will walk away from its talks with De Beers.

HB Antwerp claims Botswana has a chance to increase its revenues from diamond sales by as much as 40%, but critics are questioning the two-year-old company's ability to not only process the large quantities produced by Debswana but also its ability to market and sell them. However, HB Antwerp says its larger facility which they will start building at the iconic **Botswana Innovation Hub** premises will have a processing capacity that is 15-fold the size of the facility they opened in **Gaborone** on 27 March.

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<sup>1</sup> [Reuters](#), 27 Mar 2023

Questions are also being asked about how a relatively new company with a balance sheet of not more than \$20m will be able to sustain demand in a secretive and volatile diamond market where De Beers spends up to \$200m a year in marketing to sustain demand. De Beers also has several years of market intelligence and the capacity of selling and marketing diamonds, something which no other partner can develop quickly.<sup>2</sup>

The deal with HB Antwerp comes when Botswana and De Beers have three months left to agree on a new mining rights and sales deal, in addition to Masisi's demand that ODC's allocation increases from the current 25% of Debswana production. Analysts say the threats to walk away from talks with De Beers made by Masisi at a ruling **Botswana Democratic Party (BDP)** rally on 12 February have elements of populism ahead of next year's general election and could make investors wary of entering the market further limiting the government's ability to attract investment.<sup>3</sup>

### ... as number of licenced diamond cutting and polish firms doubles

Masisi announced on 27 March that the diamond industry now boasts 50 licenced diamond-cutting and polishing companies, of which 48 are operational, and that approximately 50% of the companies were licensed during the 2021-2022 period. The doubling in the number of licenced diamond manufacturers in the past year has been attributed to technological improvements, making Botswana more competitive.

The local industry was supplied with \$1.1 billion worth of rough diamonds in 2022 which is a 33% increase from the 2021 supply of \$728m. The increase in the number of licenced companies has also created increased employment, with 4001 employees registered as of 15 January 2023, compared to 2332 employees registered during the same period in 2022.<sup>4</sup> Botswana has long-term plans of becoming a diamond-cutting and polishing hub, in the mould of centres such as Antwerp (Belgium) and **Surat (India)** but the country has always lagged in terms of competitiveness.

Despite being the world's largest diamond producer by value, Botswana currently holds only a 12% share of global diamond exploration expenditure, a 2% of the global share of trading which is inclusive of cutting and polishing, and a 55% global share of local manufacturing - way below the agreed target of 80%. At the other end of the value chain is jewellery manufacturing in which Botswana's participation remains very limited as a few companies that were manufacturing diamond jewellery in Botswana, namely **Shrenuj Diamonds** and **Suashish Diamonds** both closed in the last few years.<sup>5</sup>

Under the government and De Beers 2011 agreement, local sight holders operating factories in Botswana are supposed to cut and polish 80% of their allocations from De Beers locally while they are allowed to trade the remaining 20% elsewhere. However, Masisi says local factories only cut and polished 55% of their allocations in Botswana in 2021, going against the agreement which is supposed to promote more jobs in the downstream activities.

As the licenced companies begin and expand operations, significant jobs are expected to be created going forward while the sector's contribution to Real GDP growth will rise. The latest figures from **Statistics Botswana** show that the manufacturing sector's real value added rose by 8.2% in 2022. The positive growth is attributed to the 36% increase in the real value added of the diamond cutting and polishing sub-industry with exports of polished diamonds increasing significantly by 92.1% during 2022.<sup>6</sup>

<sup>2</sup> [Bloomberg](#), 23 Apr 2021

<sup>3</sup> [EIU](#), 17 Mar 2023

<sup>4</sup> [The Monitor](#), 3 Apr 2023

<sup>5</sup> [Israelidiamonds](#), 27 Nov 2016

<sup>6</sup> [StatsBots](#), Mar 2023

## Economy grows by 5.8% in 2022 driven by higher power output, diamond sales

Real GDP figures released by Statistics Botswana on 31 March show that Botswana's economy grew by 5.8% in 2022, driven by the water and electricity sector, diamond traders, manufacturing, and mining and quarrying sectors. Despite the positive growth in a year marred by economic challenges, it is a sharp drop from the 11.9% growth recorded in 2021.<sup>7</sup>

The electricity sector recorded a positive growth of 48.6% in 2022, compared to 7% recorded in 2021, as generation from the fault-prone 600 megawatts (MW) **Morupule B** power plant improved leading to Botswana being temporarily able to export some of its excess power, particularly during off-peak periods.<sup>8</sup> The diamond sector recorded a growth of 17.6% during the period under review due to improved demand for diamonds from the global markets. Debswana's rough diamond sales jumped 32% in 2022 to reach a record high of \$4.588 billion, as Botswana profited from steady global demand for diamond jewellery as Western buyers shunned **Russian** stones.<sup>9</sup>

The manufacturing sector's real value added rose by 8.2% in 2022 with the positive growth attributed to an increase in the real value added of diamond cutting and polishing sub-industry by 36.% leading to exports of polished diamonds increasing significantly by 92.1% during 2022. The number of licenced cutting and polishing firms has doubled in the last two years as Botswana looks to increase local beneficiation of its rough diamonds (see above).

However, Botswana does not see a similar sparkle in the diamond industry in 2023, with the sector forecast to record negative growth of -1%. The country expected the drop in diamond demand to be balanced by the expected high production from the new copper mines as well as the high demand for coal, but this does not seem to be the case. While the copper market appears to be still steadily buoyant in 2023, trends have shifted in the coal sector as softening of prices has affected exports to **Europe** leading to one of only two operating coal mines in the country halting production during the month of March. Botswana-listed **Minergy** announced on 7 March it halted operations at its **Masama Coal Mine**, which can produce up to 1.5 million tonnes per annum, blaming weakening coal prices for its operational problems after seeing a 33% drop in coal prices since mid-December.<sup>10</sup>

Vice president of trading at De Beers, **Paul Rowley** told the media on 31 March that it is less pessimistic about the 2023 prospects than they were a few months ago as **China** has opened after a prolonged lockdown while consumer demand appears to be resilient in the **United States**, the biggest diamond market in the world. It remains to be seen if this will help bring the sector out of the anticipated negative growth in 2023.

## Botswana adopts development manager model for infrastructure projects delivery

Implementation of the **Transitional National Development Plan (TNDP)** began on 1 April, days after the government decided on 22 March to adopt the **Development Manager (DM)** model as the lead method for improved project delivery, an area Botswana has struggled with. The new model will replace the current system where the country uses project managers to oversee government projects.

Transport and public works minister **Eric Molale** told parliament on 22 March that the government has accordingly adopted the new model under which the DM does the full scope of Engineering, Procurement, Construction and Management (EPCM) services associated with facilities and infrastructure projects. The aim is to improve efficiency while also cushioning the government from financial risks associated with lapses in project implementation and delivery, including delays and cost overruns commonly associated with litigation and insider trading. In addition, the model, where

<sup>7</sup> [StatBots](#), Mar 2023

<sup>8</sup> [News24](#), 27 Jul 2022

<sup>9</sup> [Reuters](#), 31 Jan 2023

<sup>10</sup> [Reuters](#), 8 Mar 2023

feasible, allows for private sector financing and decentralisation and de-concentration will become one of the major reinforcing approaches to the DM model especially in enhancing implementation capacity at the local level.

Under the TNDP, P64 billion (\$4.7 billion) has been budgeted for financing public investments in infrastructure including roads, land, water infrastructure development and support to key state-owned enterprises with P26.8 billion (\$1.98 billion) earmarked for new projects while P37.2 billion (\$2.75 billion) has been set aside to fund existing projects, some of which saw implementation slowed down by the **Covid-19** pandemic. However, project implementation and delivery have been a big challenge in Botswana with the **International Monetary Fund (IMF)** estimating that as much as 37% of expenditure has been wasted through inefficient spending.<sup>11</sup>

Some of the biggest challenges were identified as poor contract administration, poor supervision that results in poor quality of the end product, delay in decision making which often results in slow-moving projects, excessive cost overruns and litigation. Inadequate implementation, monitoring and evaluation of projects. An expression of interest is being evaluated to commence implementation of the DM model starting April 2023.

### Planner

27 – 28 Apr **Gaborone (Botswana)** Monetary Policy Committee (MPC) meeting  
 Jun 2023 **Gaborone (Botswana)** End of current **De Beers**-government diamond sales deal;  
 Jul 2023 **Gaborone (Botswana)** 15th **United States-Africa** Business Summit;  
 Nov 2023 **Gaborone (Botswana)** 2023/24 supplementary budget;  
 2024 **(Botswana)** Presidential elections.

### Chronology

31 Mar 2023 **Gaborone (Botswana)** *Mmegi*. Listed commercial banks are enjoying one of their best earnings seasons in recent years, with pre-tax profits for the period to December increasing for some players, by up to 250% off the back of the central bank interest rate hikes in 2022;

27 Mar 2023 **Gaborone (Botswana)** *Mmegi*. Transport and public works minister **Eric Molale** says government is looking at diversifying revenues for the cash-strapped national airline, **Air Botswana** by making it cargo-driven, and that it has signed agreements with cargo handling agents at key source markets including **China, India, Indonesia, Singapore, Germany** and the **United Arab Emirates**;

26 Mar 2023 **Gaborone (Botswana)** *Daily News*. **Matthias Diependaele**, the **Flanders** finance, budget, housing and immovable heritage minister arrives for a three-day working visit to explore cooperation in the areas of trade and investment, tourism, innovation, research, digitalisation, agriculture, tourism, mining, waste management and renewable energy;

25 Mar 2023 **Gaborone (Botswana)** *The Botswana Guardian*. Two council ward by-elections are held with the ruling **Botswana Democratic Party (BDP)** winning one and opposition **Umbrella for Democratic Change (UDC)** winning the other, bringing the opposition's total wards to 12 across the country;

24 Mar 2023 **Selebi Phikwe (Botswana)** *Mmegi*. **Norwegian** firm **Scatec ASA** is mobilising \$49m in funding to build a 50-megawatt solar plant via an Independent Power Producer (IPP)

<sup>11</sup> The Voice, 1 Feb 2021

agreement, where Scatec will bear the costs of building, running, and maintaining the plant with the **Botswana Power Corporation (BPC)** purchasing the power under a 25-year agreement;

24 Mar 2023 **Gaborone (Botswana)** *Mmegi*. Botswana wins a key legal case involving a parcel of 53,000 carats of rough diamonds that was taken to **Belgium** by the former owner of closed **Lerala Mine** in 2017, bringing the diamonds back under local control after six years of court cases and ending the saga at Lerala where creditors had filed claims worth P30m (\$?2.29m);

22 Mar 2023 **Gaborone (Botswana)** *Mmegi*. **United Kingdom**-listed **Gem Diamonds** says it is considering a total closure of its **Ghaghoo Diamond Mine** in the **Central Kalahari Game Reserve (CKGR)** after failing to secure a buyer since putting the asset on care and maintenance over six years ago;

21 Mar 2023 **Gaborone (Botswana)** *Sunday Standard*. State-owned **Okavango Diamond Company (ODC)** is facing a P133m (\$9.9m) lawsuit for the alleged theft of a Motswana businessman's intellectual property from whose idea of the company is alleged to have pocketed P1.4 billion (\$103.7m). Court records say after turning down a proposal by businessman **Isaac Leshona** for ODC to sell its diamonds on the **Dubai Diamond Exchange (DDE)** market, a few months later ODC went on to implement the idea, raking in over a billion Pula in just one auction;

21 Feb 2023 **Gaborone (Botswana)** *Daily News*. The **Botswana Meat Commission (BMC)** has been accredited to export beef to the **United Arab Emirates (UAE)** as of March 2023 following negotiations that were conducted at the **Dubai Expo 2020** held in February 2022;

19 Mar 2023 **Gaborone (Botswana)** *Mmegi*. State-owned **Okavango Diamond Company (ODC)** plans to put 20.46 carat **Okavango Blue** diamond up for sale this year, nearly five years after the discovery of the iconic diamond;

19 Mar 2023 **Gaborone (Botswana)** *The Patriot on Sunday*. **Letshego Botswana** signs a deal with **Morupule Coal Mine (MCM)** under which the microlender has committed P2.2 billion (\$163m) in funding support to the mine's citizen-owned business partners;

16 Mar 2023 **Gaborone (Botswana)** *BOPA* World renowned rough and polished diamonds manufacturer and distributor, **Andre Messika Limited** announces plans to set up operations in Botswana after the company's founder and owner **Andre Messika** visited President **Mokgweetsi Masisi**;

16 Mar 2023 **Gaborone (Botswana)** *Sunday Standard*. **Bank of Botswana** says over the 12 months to February 2023, the nominal pula exchange rate appreciated by 5% against the **South African** rand and depreciated by 8.4 % against the Special drawing rights, namely depreciating by 12.7% against the US dollar, 7.9 % against the Euro, 3.8 % against the Chinese **Renminbi** and 3.1% against the **British** Pound, while it appreciated by 3 % against the **Japanese** Yen;

16 Mar 2023 **Gaborone (Botswana)** *Mmegi*. A **European Union (EU)** delegation is set to review how Botswana is managing to detect and control foot and mouth disease in cattle, as the **Botswana National Beef Producers Union (BNBPU)** indicates that they do not doubt that farmers will continue supplying the EU after the highly anticipated audit;

15 Mar 2023 **Gaborone (Botswana)** *The Weekend Post*. **Statistics Botswana** figures show annual inflation slowed to 9.1% in February from 9.3% in January, but that price pressure remains on basic commodities, particularly cooking oil and vegetables;

15 Mar 2023 **Gaborone (Botswana)** *XNews*. **United Kingdom**-listed **Tlou Energy** anticipates completing the 66kV transmission line of **Lesedi's** 10MW gas-to-power (GTP) project, which runs from **Nyamakatse** to **Botswana Power Corporation's** substation in **Serowe**, in the third

quarter of 2023 as the country's most advanced **Coal Bed Methane (CBM)** project makes headway;

14 Mar 2023 **Gaborone (Botswana)** *Rapaport*. **De Beers** sells an estimated \$495m of rough diamonds in its second auction of the year, a 9% increase on the first auction held in January, but still 24% lower than values sold at the corresponding auction last year;

13 Mar 2023 **Gaborone (Botswana)** *Sunday Standard*. The finance ministry is set to table a bill aimed at enabling citizens to participate more in the banking sector as finance minister **Peggy Serame** tells parliament there is concern that there is a small number of majority citizen-owned financial intermediaries in financial services and a particular lack of citizen-owned banks;

10 Mar 2023 **Gaborone ( Botswana)** *Reuters*. President **Mokgweetsi Masisi** says Botswana will not drop its demand to sell a bigger share of the diamonds Debswana, its joint venture with **United Kingdom**-based **De Beers**, produces raising the stakes in talks to renew a sales deal that expires in June;

8 Mar 2023 **Gaborone (Botswana)** *Mmegi*. **Botswana Communications Regulatory Authority (BOCRA)** figures show Botswana's oldest mobile telephone operator **Mascom's** market share decreased by 2% in the year to March 2022 to just 43%, continuing a five-year gradual slide in market dominance, while **Orange** attained 39% of mobile phone subscriptions and **BTC** attained 18% of the market share.

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