

AFRICA RISK CONSULTING

Botswana Monthly Briefing March 2024

Botswana Summary 6 March 2024

The Bank of Botswana (central bank) adopts an accommodative monetary policy as it seeks to keep interest rates low to support economic activity as the diamond market is expected to continue to face headwinds experienced in 2023. The domestic cutting and polishing industry is seeking a wage subsidy bailout from the government and a moratorium on training levy as it tries to recover from the downturn in the global diamond industry in 2023. Government confirms on 8 February that it will buy a 24% stake in Belgian gem trader, HB Antwerp.

Central Bank to keep interest rates low in 2024

The **Bank of Botswana** (central bank) has said it will lean towards a loose monetary policy in 2024 in a bid to support the economy that is expected to be constrained by the ongoing weakness in the global diamond market. Supported by a benign inflation outlook, the central bank says it will adopt an accommodative monetary policy stance as the economy continues to operate below capacity and will therefore not generate any demand inflationary pressures.¹

The economy is estimated to have grown by 3.2% in 2023, lower than a previous forecast of 3.8% as the headwinds in the global diamond market lowered the sales of joint **Debswana Diamond Company**, the joint venture between government and **United Kingdom**-headquartered **De Beers**, by 25%. Economic growth is seen picking up to 4.2% this year largely premised on the world economy recovering but domestic economic activity will remain subdued.² With lower interest rates, the central bank is targeting an increase in credit growth to boost investments and consumption. Annual growth in commercial bank credit accelerated to 7.1 % in December 2023, from 5.8 % in December 2022 with the faster growth, in part, associated with the increase in loan uptake by businesses.

Despite the accommodative policy stance, the **Monetary Policy Committee (MPC)** at its meeting on 22 February decided to maintain the monetary policy rate at 2.4%.³ The MPC last reduced its policy rate by 0.25% at its December 2023 meeting, a surprising move given that in recent months the main inflationary pressures have come from domestic prices (on which monetary policy can have its main effect), in contrast to the global price rises that pushed up inflation in 2022 and 2023.

The **Monetary Policy Statement** notes that inflation this year could be higher than the projected average of 4% if international commodity prices increase beyond current forecasts, supply and logistical constraints persist and the reversal of global economic integration (geo-economic fragmentation) escalates.

However, the record-breaking P102 billion (\$7.55 billion) stimulus budgets unveiled by the finance ministry in February could also prove inflationary and this set against an expansionary monetary policy stance could test the ability of the MPC to calibrate monetary policy to the drivers of inflation.⁴

While the central bank sees inflation remaining within the 3% and 6% objective range inflation could pick up sharply in 2024 partly reflecting a normalisation of price changes as 2023's fuel price reductions drop out of the calculations. In addition, global fuel prices are expected to increase, partly due to increased instability in the **Middle East** and higher fuel transport costs. Inflation will also be

¹ Mmegi, 23 Feb 2024

² Reuters, 22 Feb 2024

³ Reuters, 22 Feb 2024

⁴ Mmegi, 9 Feb 2024

pushed up by the sharp increase in minimum wages from 1st February 2024 and the extension of the ban on vegetable imports in June this year.⁵

Struggling diamond cutters seek government bailout

The Botswana diamond cutting and polishing industry, which has grown exponentially in the past few years to become a hallmark of the country's beneficiation drive, has been hard hit by the ongoing headwinds in the global diamond market resulting in the **Botswana Diamond Manufacturers Association (BDMA)** seeking a bailout from the government in the form of a wage subsidy and exemption from the training levy.⁶

Botswana's diamond industry currently boasts 48 licensed diamond cutting and polishing companies of which approximately 50% were licensed during the 2021-2022 period. The increase in licensed companies has translated to an increase in employment with 4,001 employees registered at the beginning of 2023, compared to 2,332 employees registered during the same period in 2022. However, a downturn in the industry in 2023, which saw sales dip to levels lower than during the **Covid-19** pandemic, has almost driven the local cutting and polishing industry to bankruptcy. With diamond prices and demand almost collapsing towards the end of 2023, the firms found themselves stuck with costly inventory, unable to offload it to the retail market, while under pressure from overheads, including bank credit weighed on cashflows.⁷

Pressures from weak global demand and very slim manufacturing margins have been compounded by the impact of Botswana's tax regime, in the form of the training levy. This quasi-tax, based on turnover, has to be paid by manufacturers regardless of whether or not they make a profit, which undermines the viability of operating in Botswana, especially given that the levy cannot generally be used to cover the costs of many years of on-the-job training that they provide for their staff.⁸ Due to a combination of these negative factors, the BDMA says some firms had closed in October, earlier than the festive break, to save costs, while others were yet to reopen following the festive season.

BDMA chair **Siddarth Gothi** noted they are still awaiting the response from the respective bodies, through the Diamond Hub and the minerals and energy ministry who have assured them that they will do everything in their capacity to sustain the industry.

For 40 of the past 50 years, Botswana's participation in the diamond industry has been limited to mining. Still, in the past decade, the country has been pushing a mineral beneficiation agenda, aiming to become more involved in the trading, cutting and polishing sectors and in jewellery manufacturing.⁹

Botswana and HB Antwerp edge closer to deal

The government confirmed on 8 February that it will buy a 24% stake in **Belgian** diamond trader, **HB Antwerp** and supply it with gems from its state-owned company **Okavango Diamond Company**. In March 2023, President **Mokgweetsi Masisi** (2018-present) announced the proposed deal, which appeared to have been compromised after **Canada's Lucara Diamond Corporation** in September 2023 terminated its 10-year sales deal with HB Antwerp citing a breach of financial commitments by the Belgian company.¹⁰

However, two key developments took place in February which appear to have cleared the path for the deal. On 7 February, the finance ministry released its 2024/25 national budget estimates which showed that the government had set aside P890m (\$65m) to buy the 24% stake in HB Antwerp an amount that Masisi's critics say is too high for a 3-year-old startup. The \$65m budgeted for the 24%

⁵ Bloomberg, 5 Dec 2023

⁶ Mmegi, 16 Feb 2024

⁷ Rapaport, 23 Nov 2023

⁸ Econsult 2023 Review

⁹ Rapaport, 22 Jun 2023

¹⁰ Jckonline, 28 Sep 2023

stake in HB values the Belgian company, founded in 2020, at \$275m.¹¹ On 19 February, Lucara surprised the markets when it announced that it was reviving its deal with HB just five months after severing ties because the Belgian company had failed to honour its financial commitments.

Under the terms of the renewed deal, which is still subject to approval by Lucara lenders for its project to go underground at **Karowe Mine**, the Canadian company will again supply HB with +10.8 carat rough diamonds for a period of ten years with the deal tenure backdated to December 2023.¹² The purchase price paid for Lucara's stones shall be based on the mutual agreement of the estimated polished outcome, with a further sales value uplift ("top-up") paid to Lucara based on actual achieved polished sales thereafter, less a fixed margin payable to HB.

Following appears all is set for Botswana to buy the shares in the Belgian company, which says its model of sharing profits from the polished process can deliver up to 40% more revenues for diamond producers. By taking a stake in HB, Botswana is not only eyeing higher revenues from its diamond sales but the country is looking to actively participate in the industry's downstream activities.

¹¹ Mining.com, 7 Feb 2024

¹² Mmegi, 19 Feb 2024

Planner

26 Apr 2024 **Gaborone (Botswana) Bank of Botswana** (central bank) **Monetary Policy Committee (MPC)** meeting

Oct 2024 **(Botswana)** General elections

Dec 2024 **Gaborone (Botswana)** Supplementary budget

Chronology

4 Mar 2024 **Gaborone (Botswana) Daily News**. **Estonia's** President **Alar Karis** visits Botswana at the invitation of President **Mokgweetsi Masisi** for a four-day state visit in a bid to strengthen bilateral relations and explore areas of cooperation;

1 Mar 2024 **Gaborone (Botswana) Mmegi**. The **Bank of Botswana (BoB)** (central bank) raises P1.28 billion (\$95m) in debt for the government through treasury bills (T-Bill) and bonds with yields falling by 34 basis points on the three-month T-Bill and by 32 basis points on the six-month T-Bill, while the reduction on the bonds was more moderate, averaging 18 basis points;

1 Mar 2024 **Gaborone (Botswana) Mmegi**. State-owned **Botswana Oil (BOL)** reports that ahead of the 29 February deadline, "quite a number" of potential investors had responded to its call for bids to build a **Coal to Liquids (CTL)** plant that could produce 12,000 barrels of oil per day or more than 50% of the country's annual consumption;

26 Feb 2024 **Gaborone (Botswana) Mmegi**. **Canada's Lucara Diamond Corporation**, operators of **Karowe Mine**, announce a net loss of \$20.2m for the year 2023, a reflection of decreased sales in a depressed diamond market;

25 Feb 2024 **Gaborone (Botswana) Sunday Standard**. The value of Botswana's 15% shareholding in **United Kingdom**-headquartered **De Beers** decreases by \$240m, from \$1.38 billion to \$1.14 billion, after parent company, UK-headquartered **Anglo American** writes down the diamond company's book value by \$1.6 billion, principally relating to goodwill;

25 Feb 2024 **Gaborone (Botswana) Daily News**. President **Mokgweetsi Masisi** meets with **Chrysoula Zacharopoulou**, an envoy of **France's** President **Emmanuel Macron**, and confirms that Botswana and **France** will start exploring means of boosting economic ties in animal and human vaccine development, artificial insemination science, travel tourism and innovation;

24 Feb 2024 **Gaborone (Botswana) Mmegi**. President **Mokgweetsi Masisi** says he foresees the removal of passport requirements between **Zimbabwe** and Botswana in line with **Southern African Development Community (SADC)** guidelines and good neighbourliness;

23 Feb 2024 **Gaborone (Botswana) Mmegi**. President **Mokgweetsi Masisi** warns members of parliament (MPs) against commotion incitement and discrimination against **Zimbabwe** following a debate on the use of national identity cards (IDs) to cross borders amid legislator's fear of a possible influx of immigrants;

23 Feb 2024 **Gaborone (Botswana) Mmegi**. The P500m (\$37.1m) **Selebi-Phikwe Citrus Project**, which can produce 70,000 tonnes per annum, is expected to yield its first harvest in March, marking a significant leap in Botswana's drive to enhance agricultural production. Approximately 70% of the initial produce will be exported globally, with the remainder being sold domestically and in other **African** countries;

22 Feb 2024 **Gaborone (Botswana) Mmegi**. Health ministry discloses that over a month, it has recorded an alarming surge in influenza and **Covid-19** with cases of influenza-like illness ranging from 5,300 and 8,627 per week and Covid-19 between 2 and 41 per week;

22 Feb 2024 **Gaborone (Botswana) Mmegi**. The **National Planning Commission (NPC)** says it is working to deliver a draft of the twelfth **National Development Plan (NDP12)** by the end of October which will outline national priorities and projects to be funded from 2025 to 2030;

21 Feb 2024 **Gaborone (Botswana Daily News)**. President **Mokgweetsi Masisi** appoints **Boitumelo Gofhamodimo** as the new assistant minister in the ministry of state presidency following her recent election as a specially elected member of parliament (semp) to replace former environment and tourism minister **Philda Kereng** who has been appointed Botswana's ambassador to **Nigeria**;

20 Feb 2024 **Gaborone (Botswana) Mmegi**. The **Independent Electoral Commission (IEC)** is running a supplementary voter registration period from 26 February to 15 March following a lukewarm first phase where only 736,424 prospective voters registered from 1.7 million eligible voters;

16 Feb 2024 **Gaborone (Botswana) Mmegi**. High court judge **Barnabas Nyamadzabo** delivers a judgment declaring former president **Ian Khama**, who is facing charges of illegal possession of firearms but has refused to appear before the courts, a fugitive from justice and asserting that he has no right to bring any action to court;

16 Feb 2024 **Gaborone (Botswana) Sunday Standard**. **Ethiopian Airways** unveils plans to inaugurate a new passenger route to **Maun**, Botswana's esteemed tourism hub, commencing this June;

16 Feb 2024 **Gaborone (Botswana) Mmegi**. **Absa Botswana** and **Stanbic Bank Botswana** have partnered to lend **sub-Saharan** credit firm, **Norsad Capital**, R680m (\$35.8m) to support financial inclusion as well as women and youth programmes, under a historic sustainable-linked funding arrangement;

14 Feb 2024 **Gaborone (Botswana) VOA**. Botswana's opposition parties deplore the decision of the country's **Independent Electoral Commission** to benchmark its election procedures against those of **Zimbabwe**, adding that it endorses the disputed August election;

13 Feb 2024 **Gaborone (Botswana) The Herald**. The **Independent Electoral Commission (IEC)** visits the **Zimbabwe Electoral Commission (ZEC)** to exchange expertise despite several electoral observers noting that Zimbabwe's August 2023 election was not free, fair and credible;

12 Feb 2024 **Gaborone (Botswana) Monitor**. Botswana and **Uganda** establish a joint commission of cooperation aimed at deepening collaboration in various areas;

9 Feb 2024 **Gaborone (Botswana) Mmegi**. **Statistics Botswana's** quarterly **Labour Force Module** report for the July to September 2023 period shows that the monthly average cash earning by higher earners averages P22,000 (\$1,600) per month;

7 Feb 2024 **Gaborone (Botswana) Mmegi**. **Botswana Communications Regulatory Authority (BOCRA)** denies reports that it has declined an application by **United States**-based **Starlink** to be a licenced internet service provider in the country, saying it is still engaged with the application and has not made a final decision;

7 Feb 2024 **Gaborone (Botswana) Sunday Standard**. **Bank of Botswana** (central bank) figures show that in the 12 months to January 2024, the nominal pula exchange rate firmed at 1.9 % percent against the **South African** rand but depreciated against all other major currencies at 4.2% against the **SDR**, 8.1% against the pound, 5.7 % against the **United States** dollar, and 5.5 % against the euro;

7 Feb 2024 **Cape Town (South Africa) Reuters**. State-owned **Okavango Diamond Company (ODC)** says it resumed diamond auctions in January after a two-month halt last year as the industry as a whole tackled a glut of inventory;

5 Feb 2024 **Gaborone (Botswana)** *Daily News*. Finance minister **Peggy Serame** says **Botswana Unified Revenue Service (BURS)** is implementing the Electronic Invoicing (E-Billing) for efficient VAT collection to close leakages and maximise revenue with the first phase of the three-year project scheduled for completion in December 2024;

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