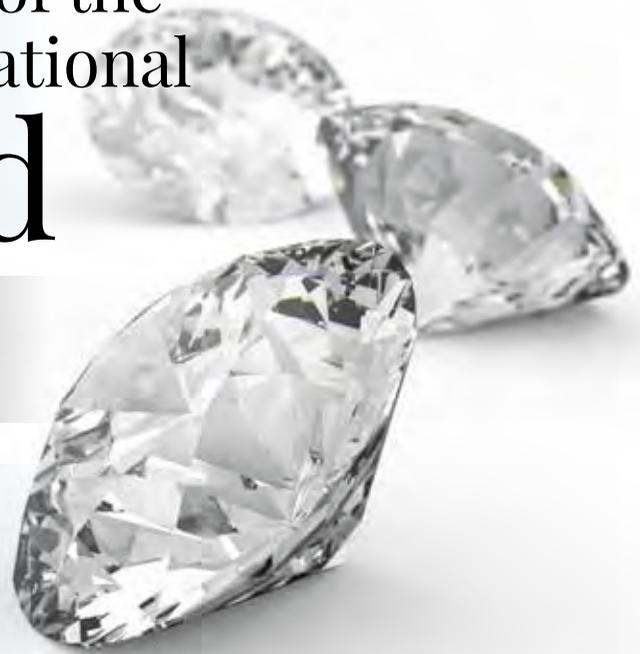


The Reverberations of the Covid-19-Hit International Diamond

Market on Botswana

By Kalo Makaloba



A semi-desert country in southern Africa, Botswana has historically never had any economic significance – a narrative supported by how the country became a British protectorate in 1885, as opposed to the normal trend at the time of being forced into becoming a colony. The rationale behind this was that the then Bechuanaland had no significant natural resources, unlike South Africa and Rhodesia. Because of its lack of natural deposits, Bechuanaland was one of the world's poorest nations and its transition to independence in 1966 went smoothly, as the British saw no reason to hold on. Shortly into her independence, Botswana discovered diamonds, which went on to become the propeller of the country's economy – helping her to transition from being one of the world's poorest countries to an upper-middle-income country by the late 1990s, a status shared with only a few other African countries (Lock, 2019; Jefferis, 1998). Botswana has continued to enjoy relative economic success, which has aided its development in different spheres, due largely to its prudent political leadership. This transformation has been a consistent story, with the exception of a few hurdles, such as the 2008 global economic meltdown. The common denominator in any

instance that the economic prosperity of Botswana has slowed has been the international diamond market.

In his 2020/2021 budget proposals, the Minister of Finance and Economic Planning projected a revenue of BWP 62.4 billion – with revenue from the diamond industry being a significant contributor. A month after these February proposals, the spread of Covid-19 from its Wuhan epicentre gathered pace and by mid-March the economic repercussions of the pandemic were evident, as economies around the world closed and governments directed their efforts and finances towards combatting the virus. Developed economies took a significant hit, and it was only a matter of time before the same happened to Botswana's economy, with a significant loss of revenue. As countries imposed lockdowns and markets tumbled, consumption patterns changed and the demand for luxurious goods, such as diamonds and its related by-products, fell sharply. A diamond-reliant Botswana is therefore in for a long, rough ride. This piece examines the economic impact of Covid-19 on the diamond-reliant and fragile economy of Botswana and how this economic meltdown will impact all aspects of the country's development. The paper will

conclude by suggesting economic reforms that should be a priority for Botswana as she recovers and faces the future.

Botswana and Diamonds – A Fragile Prosperity

The discovery of diamonds in 1969 spelled a new story for Botswana and as a result she became the world’s fastest growing economy for a period of over 20 years. Mineral revenue reached highs of 80% of her total income in some financial years (Acemoglu et al, 2001; Armah, 2015). Botswana has relied on her diamonds for over 45 of her 53 years of independence, but the magic of these gems has not come without warnings of unsustainability. Through various policies, the country has targeted economic diversification, but with very little success – Botswana’s economy is still largely reliant on diamond revenue. There exist two types of diamonds in the country. The first are industrial diamonds used in the manufacturing of industrial machinery, found and mined in Orapa and Letlhakane. These diamonds do not carry the same financial value as gem stones used for jewellery and other delicacies in modern-day fashion. Gem stones are the second type of diamond, and are Botswana’s main source of income, found mostly in the Jwaneng Mine (Lock, 2019). These two sets of diamonds continue to propel Botswana’s economy, despite diversification efforts that have seen very little success.

Early Warnings

The Covid-19 pandemic is not the first threat to the international diamond market and consequently to the economy of Botswana. The most significant and recent reminder of the fragility of Botswana’s diamond-reliant revenues is the 2008 financial meltdown. This most recent economic recession brought most economies to their knees, resulting in a downward spiral of the consumption of luxury goods such as diamonds. This had a direct hit on Botswana, with the country suspending its National Development Plan 10 in 2009. When it was resumed a year later, most development projects had fallen behind, forcing the government to introduce an Economic Stimulus Package that took a toll on the country’s foreign reserves (Botlhale, 2017; Government of Botswana, 2017). This was a warning sign of the unsustainability of the country’s reliance on

diamonds.

The story of ‘diamonds are not forever’ reminds us that this current reliance could translate into economic suicide in Botswana’s future. This is anchored on two main arguments. The first is that diamonds could be extinct in the near future, a fact which Botswana is well aware of. Until the Cut 8 Mine Expansion Project, Jwaneng Mine’s predicted lifespan did not extend beyond 2025 (Grynberg, 2013). The second is the introduction of synthetic diamonds, which have been poised to take the place of the natural gems, despite having a far lower market value (Sunday Standard Botswana, 2014). These factors should have been warning signs for Botswana to diversify its economy, but its 2020/2021 budget proposals reflect a continued reliance on diamonds, with mineral revenue led by diamonds expected to contribute BWP 20.2 billion (32% of the country’s total revenue). In this context, the Covid-19 pandemic could not have come at a worse time for the country (Matsheka, 2020).

The Economic Impact of Covid-19: An Unforeseen Hit

In the 2020/2021 financial year, Botswana’s economy was expected to grow at a rate of 4%, higher than the 3% global economic growth projected for the same period. The country expected a total revenue of BWP 62.4 billion, of which 32% was to come from mineral revenue led by diamonds (Matsheka, 2020). This is consistent with the annual pattern of mineral and diamond revenues, as shown in the table below.

Financial Year	Mineral and diamond revenue (in billion BWP)	Contribution as % of the country’s total revenue
2015/2016	19	34.4
2016/2017	17	35.2
2017/2018	16.33	28.6
2018/2019	24.6	38.3
2019/2020	21.9	35
2020/2021	20	32

(Sources: Mathambo, 2015–2019; Matsheka, 2020)

As can be seen, the mineral and diamonds sector has been the largest contributor to Botswana’s total revenue over the past few years, hovering

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consistently above the 30% mark. Any change in this sensitive market therefore has a direct correlation to the income at Botswana’s disposal. Over the years, Botswana has failed to diversify its income away from diamonds, meaning that this income continues to be extremely vulnerable.

The projected loss of revenue in the current financial year has seen the country reduce its projected economic growth from the initial 4% to -13%, a record low. This loss of income will be felt directly by a number of economic areas, and the impacts have already started to show barely two months into the pandemic (Matsheka, 2020). The government of Botswana spends most of its budget on recurrent expenditure, as it has a sizeable public sector in relation to its economic size and population (Matsheka, 2020). In 2019, the government had proposed a 6–10% salary increment across different salary scales for public servants, to be implemented over two consecutive financial years (2019/2020 and 2020/21). This was meant to cushion the implications of a long period without increments, due to the global meltdown. However, this decision has since been deferred until the economy stabilises, as the government has been unable to raise the required BWP 1.4 billion (Mmegi Online, 2020). This represents one of the few economic impacts that Botswana will have to tackle due to the fall in projected diamond sales as a result of the Covid-19 crisis.

Like most countries, Botswana has had to introduce social protection nets to support those who have been directly hit by the implications of the national lockdown, which has now been in place for over a month. The government set up a BWP 2 billion fund, which is to be used for wage subsidies for affected companies, tax concessions and other social protection services (Kgmanyane, 2020; Botswana Guardian, 2020). This will also take away from the already shrinking government

coffers affected by the Covid-19 pandemic.

In addition to the loss of diamond revenue, Botswana is projected to lose over BWP 1 billion in value-added tax, another major hit on the country’s economy (Matsheka, 2020). After mineral revenue, the second largest contributor to Botswana’s economy is the Southern African Customs Pool, which was expected to contribute 27% of total revenue in the 2020/2021 financial year, although no official figures exist as yet. This is expected to take a major dive, as all the Southern African Customs Union (SACU) countries have been on lockdown for over a month, meaning that there has been very little economic activity at ports of entry. South Africa, the biggest SACU economy, will have its own economic ramifications to deal with, as it is currently the African country that has been the worst affected by Covid-19 (Johns Hopkins University, 2020). Other sectors – such as public enterprises and corporate tax – are also expected to take a tumble, leaving Botswana further stricken by Covid-19.

Beyond Covid-19: Lessons for Botswana

Covid-19’s projected economic impact on Botswana is largely due to the country’s overreliance on its diamond industry. This overreliance has characterised Botswana’s post-colonial economy. The government’s well-intended diversification drives have been ineffective for a number of reasons – one of which has been the reliability of diamond revenue. The Covid-19 pandemic, however, has revealed the fragility of the country’s economy. It is imperative that the government of Botswana finds alternative sources of income. Below, I present three main areas that Botswana could turn to in this pursuit.

Tourism

Botswana is home to the Okavango Delta – the largest inland delta in the world and a UNESCO World Heritage Site. As well as the famed Big 5, the Delta boasts the largest herd of elephants in the world (Chase et al, 2016). The excellent anti-poaching strategies adopted by the country over the years have also enabled it to be a safe haven for rhinos and many other endangered species – contributing to its potential as a tourism hub. Beyond the Delta, Botswana has many other tourism sites with massive potential, if the right investments are made. The tourism industry has

so far been dominated by foreign investment, with most profits leaving the country. With the right economic empowerment policies in place, the tourism industry can grow to become a significant contributor to Botswana's national revenue, following in the footsteps of countries such as Kenya and Egypt.

Knowledge-Based Economy

With the onset of the Fourth Industrial Revolution (4IR), economies around the world are becoming increasingly knowledge-based. The education sector in Botswana is one of the few in the world that is wholly government funded, and has the potential to become a key driver of the country's economy. Investments into the education sector and the information sector can therefore be improved, enabling the country to move towards a knowledge-based economy, as opposed to its current reliance on natural resources.

Re-Awakening the Beef Industry

The Botswana Meat Commission is a state-owned enterprise that has held the status of Africa's best performing public enterprise for a number of decades. However, the withdrawal of the European market has brought this sector to its knees, despite Botswana having a cattle population of over 2 million (a ratio slightly above 1:1 to its human population). With the right management and the sourcing of new emerging markets such as China, this sector could become the mainstay of Botswana's economy, as it was before independence and the discovery of diamonds.

Conclusion

In addition to its dire health impacts, Covid-19 has collapsed many economies in the first quarter of 2020. Botswana has so far not been severely impacted in terms of infections and fatalities,

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but the same cannot be said economically, as the country has had to endure the gruesome economic implications of the highly-affected global diamond industry. Botswana's overreliance on diamonds means that the country is facing a significant decrease in revenue, on top of the costs incurred by the pandemic. This moment in time should serve as a wake-up call to Botswana to speed up its diversification process and to reduce the vulnerability of its economy by finding means of revenue other than its diamond industry. ■

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