

NARRATIVE REPORT ON BOTSWANA



PART 1: NARRATIVE REPORT

Botswana comes in at 113rd place in the 2020 Financial Secrecy Index. The country has a relatively high secrecy score of 62, but has an insignificant market for offshore financial services. Botswana accounts for just 0.00142% of the global market in financial secrecy.

Botswana: the unknown cost of its secrecy

As early as 1995, Botswana explored the option of establishing an International Financial Services Centre (IFSC) ‘as a possible engine of growth for the [...] economy’.¹ At the time, the United States Agency for International Development provided funding to carry out a feasibility study.² Deloitte & Touche South Africa managed the project, along with advisors from Luxembourg, Bermuda and the Isle of Man – all notorious secrecy jurisdictions. The team recommended that ‘in the face of increasing international and regional competition, Botswana needs to act quickly and decisively’.³

Several years later, diamond-rich Botswana appears to have followed these recommendations, earning itself the nickname ‘the Switzerland of Africa’. In 2003, it established an International Financial Services Centre offering packages that exempt companies from capital gains and withholding tax, with limited foreign exchange controls.⁴ Tax benefits also include a discounted corporate tax rate of 15% on profits, although they are taxable on worldwide income, and a zero rate for VAT. Tax exemptions are extended to interest, dividends, management fees and royalties when paid to a non-resident or IFSC company. Residence permits can also be obtained through investment, starting as low as EUR 43,000.⁵ In competition with Mauritius to be an entry point to doing business in other African countries, Botswana currently has 13 Double Taxation Avoidance Treaties; another six are awaiting ratification, and six more are in various stages of negotiation.⁶

The financial sector contributed 15.3% to GDP in 2017, up from 14.7% in 2011.⁷ Yet as of mid-2017, well over a decade after tax concessions and holidays were instituted, the cost of these to the country in terms of revenue forgone has not been quantified, according to the International Monetary Fund (IMF).⁸ The IMF warns against tax incentives: ‘international best practice has shown that accelerated depreciation allowances or investment tax credits associated to a loss carry-forward period are far more cost-effective and better to attract long-term investments than temporary tax holidays and rate reductions, which tend to attract foot-loose enterprises’.⁹

Foot-loose enterprises or not, Botswana does not appear to be heeding this advice as it continues to seek to create a so-called ‘investor-friendly’ business environment.¹⁰ It is in the process of setting up eight special economic zones for activities ‘with perceived comparative advantage, including mineral beneficiation, leather, beef, financial services and agricultural processing’.¹¹ Yet the arrangements and incentives offered to companies are likely to come at a cost to the country’s coffers.

For example, the arrangement that the government has with De Beers for the country’s famous diamonds is shrouded in secrecy: contracts are not public, the valuation formula of diamonds produced is unknown,

Rank: 113 of 133

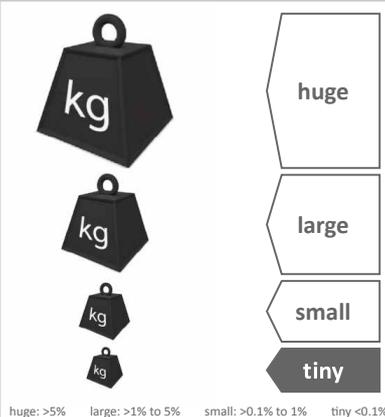
How Secretive?

62



How big?

<0.01%



Botswana accounts for 0.001 per cent of the global market for offshore financial services. This makes it a tiny player compared to other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.

Full data is available here: <http://www.financialsecrecyindex.com/database>.

To find out more about the Financial Secrecy Index, please visit

<http://www.financialsecrecyindex.com>.

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increasing the risk of trade mis-pricing, and the corporate ties between the ruling party and the company are not transparent. According to a [recent study into De Beers and Botswana's diamonds](#), 'Botswana's paper success does not translate to the kinds of gains the country should be receiving. Disclosure of key information and removal of De Beers' monopoly would liberate the economy and its democracy'.¹²

Botswana has faced international scrutiny. Controversially, [at the G20 Summit in 2012](#), former French president Nicholas Sarkozy called for the exclusion of Botswana, along with 11 other countries, from the international business community since the country was without a 'suitable legal framework for the exchange of tax information'.¹³ In 2017, France again blacklisted Botswana, despite Botswanan president Ian Khama's protestations that they have taken steps to align with international standards since 2010, including [amendments to the Income Tax Act to allow for the exchange of information](#).¹⁴

Botswana is in fact [yet to sign important international agreements](#), notably the Amended Council of Europe/OECD Convention on Mutual Administrative Assistance in Tax Matters (Tax Convention)¹⁵ and the Multilateral Competent Authority Agreement (MCAA) to implement the OECD's Common Reporting Standard.¹⁶ And [information sharing remains limited](#), enabling companies and wealthy foreigners to get away with tax avoidance and evasion by avoiding detection in their home countries or where business activity actually takes place.¹⁷

Although Botswana has not been blacklisted by the EU Code of Conduct Group's list of non-cooperative jurisdictions for tax purposes, it has been grey-listed and was required to sign and ratify the MAC or to have in place a network of agreements covering all EU member states by the end of 2019 in order not to be blacklisted¹⁸.

There is limited information on the way in which Botswana's IFSC is used for illicit and criminal practice, but according to a [2017 evaluation](#) carried out by Eastern and Southern Africa Anti-Money Laundering Group, without a developed anti-money laundering and counter-terrorist financing regime the country is at risk of being used as a conduit.¹⁹

Endnotes

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- 3 http://pdf.usaid.gov/pdf_docs/pnaby256.pdf, p.5; 31.1.2020.
- 4 Botswana Investment and Trade Centre 2017, 'Botswana Investors Handbook 2017', http://www.bitc.co.bw/sites/default/files/bitc_investor_handbook_amended_final_0.pdf; 31.1.2020.
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- 7 This figure includes 'Finance, real estate and business services'. Honde, G 2018, 'Botswana', African Economic Outlook 2018, African Development Bank/Organisation of Economic Cooperation and Development/United Nations Development Programme, table 2 p.3, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/country_notes/Botswana_country_note.pdf; 31.1.2020.
- 8 IMF August 2017, 'Botswana: Selected Issues', Country Report 17/250, <https://www.imf.org/en/Publications/CR/Issues/2017/08/08/Botswana-Selected-Issues-45173>; 31.1.2020.
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- 12 Sharife, K June 2016, 'Botswana's Diamond Deception', Open Society Initiative of Southern Africa, p.6, https://web.archive.org/web/20171016180140/http://www.osisa.org/sites/default/files/sup_files/de_beers_paper_-_osisa_final_lowres1.pdf; 31.1.2020.
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- 14 <http://www.sundaystandard.info/botswana-attacks-france-over-tax-haven-blacklist>; 31.1.2020.
- 15 https://www.oecd.org/tax/exchange-of-tax-information/Status_of_convention.pdf; 31.1.2020.
- 16 <https://www.oecd.org/tax/automatic-exchange/international-framework-for-the-crs/MCAA-Signatories.pdf>; 31.1.2020.
- 17 <https://web.archive.org/web/20170930111629/http://www.sundaystandard.info:80/botswana-papers-ifsc-was-created-make-botswana-tax-haven>; 31.1.2020.
- 18 Official Journal of the European Union (2019) 'The EU list of non-cooperative jurisdictions for tax purposes — Report by the Code of Conduct Group (Business Taxation) suggesting amendments to the Annexes of the Council conclusions of 12 March 2019, including the delisting of one jurisdiction (2019/C 386/02)', 14.11.2019, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=uriserv:OJ.C_.2019.386.01.0002.01.ENG; 31.1.2020.
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PART 2: SECRECY SCORE

OWNERSHIP REGISTRATION

- 40 1. Banking Secrecy
- 50 2. Trust and Foundations Register
- 0 3. Recorded Company Ownership
- 50 4. Other Wealth Ownership
- 0 5. Limited Partnership Transparency

LEGAL ENTITY TRANSPARENCY

- 100 6. Public Company Ownership
- 100 7. Public Company Accounts
- 100 8. Country-by-Country Reporting
- 75 9. Corporate Tax Disclosure
- 100 10. Legal Entity Identifier

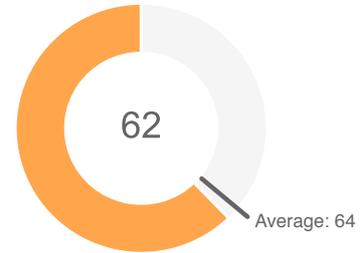
INTEGRITY OF TAX AND FINANCIAL REGULATION

- 63 11. Tax Administration Capacity
- 75 12. Consistent Personal Income Tax
- 30 13. Avoids Promoting Tax Evasion
- 100 14. Tax Court Secrecy
- 25 15. Harmful Structures
- 60 16. Public Statistics

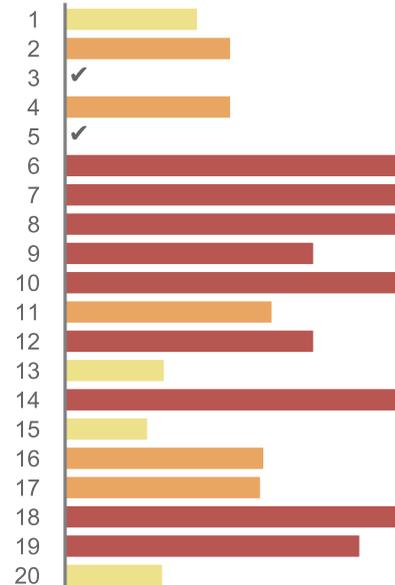
INTERNATIONAL STANDARDS AND COOPERATION

- 59 17. Anti-Money Laundering
- 100 18. Automatic Information Exchange
- 89 19. Bilateral Treaties
- 30 20. International Legal Cooperation

Secrecy Score



Key Financial Secrecy Indicators



Notes and Sources

The FSI ranking is based on a combination of a country's secrecy score and global scale weighting (click [here](#) to see our full methodology).

The secrecy score is calculated as an arithmetic average of the 20 Key Financial Secrecy Indicators (KFSI), listed on the right. Each indicator is explained in more detail in the links accessible by clicking on the name of the KFSI.

A grey tick in the chart above indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This report draws on data sources that include regulatory reports, legislation, regulation and news available as of 30 September 2019 (or later in some cases).

Full data is available here: <http://www.financialsecrecyindex.com/database>.

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