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Botswana Summary 22 November 2014

President Ian Khama (2008-present) appoints a vice-president, Mokgweetsi Masisi, 18 days after his inauguration. This follows a failed legal bid to change parliament's voting procedure. Analysts say that the appointment may be temporary, and that Khama's younger brother Tshekedi may replace Masisi after two years. Large diamonds lure investors to Botswana but Khama warns that diamonds alone cannot sustain Botswana's economy. Turnstar Holdings secures \$27m from Rand Merchant Bank (RMB) for the expansion of Gaborone's Game City Mall. This indicates a surge in interest in the retail sector, but local analysts caution against what they call "risky investments."

Khama appoints a vice-president...

President **Ian Khama** (2008-present) has appointed **Mokgweetsi Masisi** as vice-president, 18 days after his inauguration. This followed months of speculation that he intended to appoint his younger brother, **Tshekedi Khama**, to the position, sparking fears of plans to create a family political dynasty.¹ Ian and Tshekedi's father, Sir **Seretse Khama**, was independent Botswana's first president from 1966 to 1980. Tshekedi Khama is the current minister of environment, wildlife and tourism. The vice-presidency became vacant after Masisi's predecessor, **Ponatshego Kedikilwe**, retired just after the general elections in October, aged 76. Parliament confirmed Masisi's nomination by Khama through secret ballot, with 38 votes in favour and 19 abstentions.² It also confirmed Khama's appointment of **Gladys Kokorwe** and **Kagiso Molatlhegi** as speaker and deputy speaker respectively.³

*"Masisi's appointment was a surprise, since he was not among the front runners for the vice-presidency. However, he is reputed to be a die-hard Khama loyalist and that primarily explains his appointment, apart from his record of public service."*⁴

Prior to his appointment as vice-president, Masisi was minister of education and skills development. He trained as an English and history secondary schoolteacher in 1984.⁵ He joined politics in 2003, and ran unsuccessfully for the ruling **Botswana Democratic Party (BDP)** primaries in the same year.⁶ He subsequently joined the NGO sector as a consultant, returning to politics in 2009 when he won BDP primaries and successfully contested the **Moshupa** area parliamentary seat.⁷ Khama appointed him as deputy minister for presidential affairs and administration in 2009 and promoted him as substantive minister in 2011.⁸ In April 2014, Khama appointed him as the acting minister of education and skills development and as full minister after the October 2014 election.⁹

¹ Yahoo News, 11 Nov 2014.

² Yahoo News, 11 Nov 2014.

³ Mmegi, 13 Nov 2014.

⁴ Source, political analyst

⁵ Global Post, 12 Nov 2014.

⁶ Weekend Post, 17 Nov 2014.

⁷ Weekend Post, 17 Nov 2014.

⁸ Global Post, 12 Nov 2014.

⁹ Weekend Post, 17 Nov 2014.

...as judge rejects Khama's bid to change parliamentary voting procedure

Constitutionally, Khama was obliged to submit his nominations for vice-president, speaker and deputy-speaker to Botswana's parliament for confirmation through a vote. For these nominations, Parliament had amended its standing orders in order to use a secret ballot, instead of voting by a show of hands.¹⁰ Following his inauguration, Khama took legal action against all political parties represented in parliament, including his own BDP, to force them to change the voting process on his nominations back to a show of hands.

Representing Khama in the **High Court** challenge, attorney-general **Athalia Molokomme** argued that the amendments were unconstitutional since they were against the "open and transparent" provisions of the constitution.¹¹ However, **Gaborone** High Court Justice **Michael Leburu** ruled against Khama, arguing that the secret ballot was consistent with Botswana's democratic practice.¹² Khama accepted the ruling and proceeded to nominate the new vice-president and speakers.

The fact that Khama had to resort to legal means shows the extent of the backlash within his BDP against his thinly-disguised intentions to install Tshekedi as vice president.¹³ Khama's push for a return to voting by show of hands was reportedly intended to put pressure on BDP MPs by exposing their individual votes on the nomination.¹⁴ The vice-presidency is a sensitive position in Botswana because of the "automatic succession" clause in Botswana's constitution. In 1998, the then outgoing president, **Quett Ketumile Masire**, (1980 – 1998) oversaw a constitutional amendment which limited presidential terms to two five-year terms and provided that a sitting vice-president would succeed an incumbent at the end of his/her term.¹⁵ This, in effect, made a sitting vice-president a president-in-waiting due to the BDP's electoral dominance.

*"Appointing the vice-president is a delicate affair for every incumbent in Botswana because of automatic succession. Khama needed to appoint a person who can guarantee his interests both during his presidency and after it ends in 2018. By campaigning without a running mate, Khama was ensuring the unquestioned loyalty of all potential candidates by keeping them in limbo. This minimised chances of outright rebellion during and after the election. It is unclear if Masisi will eventually succeed Khama; his appointment can be reversed before 2018."*¹⁶

Political analysts have seized on Masisi's appointment and routinely refer to him as a "transitional vice president" who will hand over power to Tshekedi after two years.¹⁷ Both Ian Khama and Tshekedi Khama have denied these claims.¹⁸ Khama likely appointed Masisi instead of Tshekedi in order to avoid aggravating the already-severe tension within the BDP caused by its poor electoral performance, in which Khama's personal unpopularity with the voters was a major factor. Appointing a vice-president without direct Khama family or military ties will avoid further weakening the fractured BDP at this time.

*"Masisi will retain his position as minister of education and skills development, and this is one of the foremost indicators that he may indeed be a 'transitional vice president.' It is impractical for him to balance the two portfolios [long-term]. The education ministry is notoriously challenging due to persistent problems with deteriorating standards in the country. This is why Khama removed the former minister, **Pelonomi Venson-Moitoi**, in April 2014 and replaced her with Masisi. Therefore, it is possible that Masisi's vice-presidency is temporary; he may revert to the education ministry before 2018."*¹⁹

¹⁰ Independent Online, 30 Oct 2014.

¹¹ Mmegi, 30 Oct 2014.

¹² Mail & Guardian, 11 Nov 2014.

¹³ Mail & Guardian, 11 Nov 2014.

¹⁴ Mail & Guardian, 11 Nov 2014.

¹⁵ Daily Maverick, 14 Nov 2014.

¹⁶ Source, political analyst

¹⁷ Mmegi, 17 Nov 2014.

¹⁸ Botswana Guardian, 17 Nov 2014.

¹⁹ Source, political analyst

Masisi is generally seen as a capable public servant despite being known as a close Khama ally and confidante. In addition to minimising tension within the BDP, his appointment as vice-president also diminishes chances of a polarised parliament at the start of Khama's last term in office. This creates an environment that allows Khama's new government – if he chooses – to begin undoing damage to Botswana's global image due to pre-election accusations of growing authoritarianism and the suspected assassination of opposition leader, **Gomolemo Motswaledi** (see *ARC Botswana August 2014 Briefing*). It will also facilitate a return to the country's reputation for stable politics and as a safe investment destination. Khama's acceptance of his defeat in the courts reinforced Botswana's reputation for judicial independence and supremacy of the rule of law, in contrast to the situation in many of Botswana's regional neighbours.

Diamonds lure investor cash to Botswana

International investors have begun targeting large-sized diamonds for inclusion in investment portfolios alongside stocks, bonds and gold.²⁰ Botswana is the leading source of the largest diamonds, which are mostly 30 carats and above. Buyer interest is being driven by their high value, their scarcity, their discreet and portable nature, and their potential as a long-term store of value. Large diamonds are also less susceptible to price fluctuations unlike the smaller sizes which are mostly used in industry or mass-market jewellery.²¹ Prices for large diamonds have increased by 76% in the past 20 years and have been largely unaffected by global recessions.²² Large diamonds are also mined in **Lesotho** and **South Africa**.

Canada's Lucara Group and **London (UK)-based Gem Diamonds** and **Petra Diamonds** have sold the largest diamonds to date. Recent sales include Lucara's 203-carat diamond – from its Botswana operations – for \$8.2m on 21 October, Gem's 198-carat diamond from its Lesotho mine for \$10.6m on 1 October, and Petra's 123-carat blue diamond from its flagship South African mine for \$27.6m on 16 September.²³ Lucara Group earned \$136m alone from selling 50 large diamonds in 2014, up from \$72m for 45 large stones in 2013.²⁴ Companies seldom reveal large-diamond buyers' identities and sell the diamonds through brokerage firms during 'sightholder' viewings in Gaborone.²⁵

Trade in large diamonds maintains the precious stone's financial competitiveness on the global market in light of a slowdown in wider diamond prices since 2011.²⁶ Apart from a drop in prices for smaller diamonds, a further challenge to the industry is expected from synthetic diamond manufacture, which will be a cheaper alternative for jewellery manufacture.²⁷ However, Botswana maintains a commanding position in the market. The latest **Fraser Institute's Mining Policy Perception Index** ranks Botswana as the world's number one environment for diamond mining and investments.²⁸ The Canada-based institute assesses the competitiveness of global mining jurisdictions annually.

Botswana's government has committed to diversifying away from diamonds and mining in general. In his first State of the Nation address since the election on 13 November, President Khama indicated that the country's dependence on diamonds was unsustainable: Botswana is projected to remain a leading diamond producer only until 2050 and needs to accelerate beneficiation and diversification strategies, starting with auxiliary industries.²⁹ Khama cited the transfer of diamond 'sights' from London to Botswana in December 2013, and **Bamangwato Concessions Limited's** recent purchase

²⁰ Wall Street Journal, 3 Nov 2014.

²¹ Yahoo Finance, 4 Nov 2014.

²² Yahoo Finance, 4 Nov 2014.

²³ Wall Street Journal, 3 Nov 2014.

²⁴ Yahoo Finance, 4 Nov 2014.

²⁵ Wall Street Journal, 3 Nov 2014.

²⁶ Wall Street Journal, 3 Nov 2014.

²⁷ Rapaport, 2 Nov 2014.

²⁸ Fraser Institute Policy Perception Index (PPI), 2013

²⁹ Daily News, 16 Nov 2014.

of **Norlisk's** nickel mines, as evidence of government's commitment to diversification away from diamonds.³⁰

Turnstar secures \$ 27m for Game City expansion as retail sector grows

One of Botswana's largest shopping malls, **Game City**, is set for its fourth expansion project after property owner **Turnstar Holdings** secured BWP250m (\$27m) from **Rand Merchant Bank's (RMB)** Botswana operation. Speaking at the groundbreaking ceremony on 18 November, Turnstar's managing director, **Gulaam Abdoola**, said that the project would include additional retail space, restaurants, a food court, entertainment areas, parking spaces and conference facilities.³¹

Turnstar Holdings was established in November 2007 by Gulaam and **Hawa Abdoola**, who jointly own the company.³² It specialises in real estate and property investments for rental income and has a portfolio of retail, industrial and residential properties.³³ Its largest assets include Game City Mall and **Nzano Shopping Centre** in **Francistown**, Botswana's second largest city. RMB is **FNB Botswana** and **First Rand Bank Ltd's** corporate finance, investment and advisory division. It provides investment banking, infrastructure, real estate and project finance, resource and leveraged finance and debt capital markets.³⁴

Turnstar's expansion of Game City Mall and RMB's financing of the project is indicative of the retail sector's growth potential in Botswana and the region more broadly. In addition to Game City, other shopping malls in Gaborone include **Riverwalk**, **Molapo Crossing**, **Airport Junction**, **Sebele Centre** and **Railpark**. Retail is one of Botswana's major GDP earners, accounting for 29% of national output, and is also the second largest employer.³⁵

A 2013 **Deutsche Bank** report forecasts retail growing by \$410 billion between 2012-2020 in **sub-Saharan Africa**, driven by the growth in Africa's middle class, with apparel, consumer goods and food accounting for \$185 billion.³⁶ It also indicated that consumer spending accounts for more than 60% of sub-Saharan Africa's gross regional income.

Global indicators show that Botswana is one of sub-Saharan Africa's fastest growing retail markets. The country ranked 20th in 2012, 25th in 2013 and 26th in 2014 in **A.T. Kearney's Global Retail Development Index (GRDI)**, which is a ranking for the top 30 fastest-growing retail markets worldwide.³⁷ The index also lists developing countries with the most potential for multinational retailers to consider expanding to. Botswana was the only sub-Saharan African country on this list in 2012 and is the second highest sub-Saharan country after **Nigeria** (20th position) in the 2014 index.³⁸

Several factors determine a country's ranking on the GRDI: country risk, which measures political and economic factors; market attractiveness, which measures factors such as retail sales per capita and urban population sizes; market saturation, which considers factors such as share of modern retail; number of international retailers operating in the country and their market share; and lastly, time pressure, which explains whether the economy offers short or long term opportunities.³⁹ The GRDI report describes Botswana's market as promising, with an annual consumer spending of more than \$3,500 per capita and a \$5.6 billion⁴⁰ total market value.

A local political analyst offers a more cautious assessment:

³⁰ Daily News, 16 Nov 2014.

³¹ Mmegi, 19 Nov 2014.

³² Turnstar website

³³ Turnstar Website

³⁴ RMB Botswana Website

³⁵ Mmegi, 21 Mar 2014.

³⁶ Fast Moving Retail Exchange, 18 Nov 2013.

³⁷ HWMIA Online, 2 July 2012.

³⁸ Global Retail Development Index, 2014

³⁹ HWMIA Online 2 Jul 2012.

⁴⁰ Global Retail Development Index, 2014

“Property developers are not working with the present economic context but [from] forecasts, and that is risky. Gaborone’s population is approximately 500,000 people, and that is a relatively small market. Most, if not all, shopping malls are sprouting in residential areas instead of the city centre. This is designed to provide convenience more than tapping into an existing large market. Therefore, both the property developers and retailers are making risky investments into a saturated and small market. This may result in a sharp drop in rentals over time due to poor sales. In the worst case scenario, the shops may shut down entirely.”⁴¹

Food and apparel are the leading retail commodities in Botswana, followed by furniture and hardware. Botswana’s formal retail sector is concentrated in Gaborone and the rise of new shopping malls is largely driven by South African investments.⁴² Retailers such as **Pick n Pay, Shoprite, SPAR and Woolworths** dominate the retail sector in Botswana, with more expected to enter the market by the end of the year.

*“The growth and expansion of the retail sector in Botswana is not home-grown but an externally and market-driven project. All investors in the sector are from South Africa, except for **Choppies**. Retail does not boost economic growth, but benefits from it. Botswana’s economy is not expanding at a pace that warrants immediate expansion of the retail sector.”⁴³*

Implications

Botswana will return to a degree of political predictability following Khama’s appointment of Masisi as vice-president, after months of speculation and fears that he intended to appoint his younger brother and create a Khama dynasty. In the best-case scenario, he will initiate bridge-building both within his own party and with the opposition to undo some of the divisive effects of factionalisation in the run-up to the October elections. His overtures to the opposition after the inauguration and the appointment of Masisi suggest an intention to stabilise the political sphere and work with his opponents, at least for now. His acceptance of the court ruling on parliament’s voting procedure has also helped repair Botswana’s reputation for respecting the rule of law, which had been weakened by pre-electoral events (see *ARC Botswana October 2014 Briefing*).

Large diamonds are a viable source of investment and a niche alternative to mass-market diamonds, which are more susceptible to global price fluctuations and mostly threatened by the development of synthetic diamonds. Botswana is very well placed to benefit from shifting market differentiation in the short term. Khama’s emphasis on the long-term unsustainability of diamond revenue signals possible expansion of alternative revenue streams, which will boost the country’s economy.

The development of shopping malls in Gaborone is indicative of the perceived strong growth potential of the retail sector in Botswana. Government’s economic diversification policy could certainly increase incomes and expand the market, which could in turn increase consumption and thus strengthen the retail sector. But, given that Botswana’s total population is only two million, there are justifiable fears of market saturation and the attraction of real estate in the country may really be indicative of flat-lining business confidence in neighbouring markets, notably South Africa and **Zimbabwe**.

⁴¹ Source, political analyst

⁴² Global Retail Development Index, 2014

⁴³ Source, political analyst