

AFRICA RISK CONSULTING

Botswana Monthly Briefing February 2015

Botswana Summary 18 February 2015

Tensions escalate between the government and the largest union body over wage negotiations. This follows finance minister Matambo's announcement that the government had made a wage offer to security service employees, and vice president Masisi's statement that the government would increase the employees' pay outside formal union bargaining processes. The tension reflects a bigger political clash between the unions and President Ian Khama (2008-present): the unions helped found the opposition Umbrella for Democratic Change (UDC), which made a strong showing in the October 2014 general elections. The government says it will privatise Botswana Telecommunications Corporation (BTC), partly due to a fall in diamond revenues. Diamond processor Teemane Manufacturing closes its 20-year Botswana operation after a fall in global polished diamond prices. Polishers, the government and De Beers are now negotiating price structures, amidst indications that more processors are considering withdrawing from Botswana.

Tensions escalate between trade unions and government over wage increases

A cabinet proposal to increase state security employees' salaries has riled the **Botswana Federation of Public Sector Unions (BOFEPUSU)**.¹ Vice-president **Mokgweetsi Masisi** expressed the government's intention to increase salaries for the **Botswana Defence Force, Botswana Police Service** and **Botswana Prison Service** on 1 February during a meeting with members of the security forces.² He said the increase was justified because the government believed that the non-unionised sector's employees suffered from low relative pay. However, he did not mention the specific percentage increase on offer. The government last gave the security sector a 4% salary increase in April 2014.³ BOFEPUSU secretary general **Tobokani Rari** criticised the government's decision to announce the pay rise unilaterally while negotiations on other public service salaries were ongoing because this would pre-empt the outcome.⁴ He also said that any salary increase (if favourable) should apply to all public sector workers, not just the security services.

Rari also criticised finance minister **Kenneth Matambo's** announcement in the 2015 budget statement, delivered on 2 February, that the government was fully committed to the formal bargaining process and had tabled an offer to the unions. The unions have been conducting salary negotiations with the government since 2014 through the **Public Sector Bargaining Council (PBSC)**. However, the government rejected their proposed 16% salary hike, submitted in October 2014. The PBSC is a salary negotiation forum comprising representatives of the unions and the government. BOFEPUSU called Matambo's announcement an act of bad faith, citing the case in April 2014 when President **Ian Khama** (2008-present) announced a 4% pay rise for the security services and went on to impose the same settlement on all civil servants.⁵

¹ BOFEPUSU represents most of Botswana's civil service unions, ie the **Botswana Land Boards and Local Authorities Workers Union (BLLAWU)**, **Botswana Public Employees Union (BOPEU)**, **Botswana Sectors of Educators Trade Union (BOSETU)**, **Botswana Teachers Union (BTU)**, and the **National Amalgamated Local Central Government and Parastatals Workers Union (NALCGPWU)**.

² Sunday Standard, 5 Feb 2015

³ Botswana Gazette, 24 Apr 2014

⁴ Sunday Standard, 5 Feb 2015

⁵ Southern Times, 2 Feb 2015

BOFEPUSU subsequently lodged a **High Court** application to prevent Khama from taking unilateral action on salaries because this compromised the PSBC's work.⁶ BOFEPUSU lost the High Court action on 30 April 2014, on the grounds that it was not urgent. However, the **Court of Appeal** ruled against Khama and the government's **Directorate of Public Service Management (DPSM)** on 11 February 2015. The appellate panel, led by judge president **Ian Kirby**, ruled unanimously that Khama and the DPSM had failed to negotiate in good faith when they imposed a 4% overall salary increase in April 2014 because it was unilateral and also breached the PSBC procedure for negotiations.⁷

Bilateral negotiations through the PSBC resumed on 16 February but remain tense. BOFEPUSU is demanding a 15% salary hike across the board, while the government insists on 4%, arguing that it faces budgetary constraints since the economy is yet to fully recover from a depressed global diamond market.⁸ In parallel, the DPSM's director, **Ruth Maphorisa**, announced that the government would hire temporary employees for various departments (presumably in the event that the unions considered strike action).⁹ However, since such a move would increase the government's overall wage bill, it contradicts (on the surface, at least) the government's argument that it cannot afford a salary increase higher than 4% for current workers. Any move to hire temporary employees would also cut across **International Monetary Fund** advice to Botswana to trim its public sector wage bill, which accounts for approximately 43% of the total annual budget.¹⁰

Speaking at a **Botswana Public Employees Union (BOPEU)** convention in December 2014, Khama said that salary negotiations had been undermined by union representatives' politicisation of the negotiation process, which had led to *"unrealistic demands that the government could not afford, particularly the [previous] 16% salary hike demanded by BOFEPUSU"*.¹¹ He added that it is wrong that 43% of the government budget goes to 5% of the country's population¹² and that Botswana is currently servicing a \$1.4 billion debt to the **World Bank** that has to be cleared through an \$82m annual repayment.¹³

Tension between Khama and the public sector unions stems from the latter's support for political opposition parties. Prior to the October 2014 general election, BOFEPUSU secretary general **Ketlhalefile Motshegwa** stated that the unions were not only supportive of the opposition, but had also conceived the idea of opposition parties forming the **Umbrella for Democratic Change (UDC)**.¹⁴ BOFEPUSU also attacked the government following the arrest on sedition charges of **Sunday Standard** editor **Outsa Mokone** in September 2014.¹⁵ Motshegwa also accused Khama's ruling **Botswana Democratic Party (BDP)** government of destroying Botswana's legacy of democracy and described Khama as contemptuous of pluralism.¹⁶ He pledged BOFEPUSU's support for the UDC in the general election in order to protect the country's reputation as a democratic state.

There is a longer history of confrontation between BOFEPUSU and the BDP government. Starting in June 2011, the union grouping led a six-week strike of 90,000 of Botswana's total 103,000 public sector workers (including nurses, teachers and doctors), the largest in Botswana's history. At the time, BOFEPUSU was demanding a 16% salary hike after a three-year pay freeze.¹⁷ Khama initially ignored the strike, but eventually responded by imposing an arbitrary 3% increase. Over 2,600 workers who resisted the pay increase were dismissed from their jobs.¹⁸ However, the strike cemented the relationship between unions and opposition parties, who also backed the 16% demand.

⁶ Star Africa, 26 Jan 2015

⁷ Mmegi, 11 Feb 2015

⁸ Botswana Guardian, 17 Feb 2015

⁹ Botswana Guardian, 17 Feb 2015

¹⁰ Mmegi, 4 Dec 2014

¹¹ Mmegi, 4 Dec 2014

¹² Mmegi, 4 Dec 2014

¹³ Mmegi, 4 Dec 2014

¹⁴ Tswana Times, 16 Oct 2014

¹⁵ Botswana News Hub, 14 Sep 2014

¹⁶ Botswana News Hub, 14 Sep 2014

¹⁷ CNN, 22 Apr 2011

¹⁸ Mail and Guardian, 23 Sep 2011

The UDC's 2014 electoral showing, where it won a significant 17 (of 61) seats in the unicameral parliament, was by far the best showing of any opposition since independence in 1966. And it was largely credited to union support.¹⁹ As a result, public sector salary negotiations in Botswana are now highly political. The current pay dispute also reflects the deteriorating political rivalry between the government and unions, which may worsen further if the parties do not reach a compromise.

Botswana to privatise state-owned telecoms firm amidst slow economic growth

Botswana's government will privatise the state-owned **Botswana Telecommunications Corporation (BTC)** in the first half of 2015. BTC has been a government parastatal since 1980, but has been financially unstable of late. Speaking during the 2015 budget presentation on 2 February, finance minister Matambo said that the **National Development Bank (NDB)** would also be privatised²⁰ as part of a strategy to improve public sector efficiency. Matambo said this strategy would include outright sale of public assets and outsourcing of non-core public services.²¹

Shares for BTC and NDB will be divided as follows: 51% reserved for government, 30% for citizens, 5% for employees and 14% for public sale, including foreigners.²² Matambo added that the **Public Enterprises Evaluation and Privatisation Agency (PEEPA)** and **Botswana Service College** would support ministries in implementing outsourcing programmes, including staff training on contract management.

The government had initially slated BTC's initial public offering (IPO) for November 2014 but postponed it twice — first to December 2014 and now to the "first half" of 2015.²³ The government attributed this partly to the initial dates' proximity to the December holidays, which would have made internal processes such as convening investment committees and seeking board approvals difficult.²⁴

*"The government has been pursuing a privatisation agenda for some years now. High-profile privatisations always attract considerable interest, as was the case of **Air Botswana** in 2007. However, the current push for privatisation likely emanates from both domestic and external pressures, particularly from international financial institutions. With increased recent fluctuations in its revenue and income, the government is more sensitive to pressure from international financial institutions."*²⁵

Matambo noted that Botswana's economic growth is expected to drop slightly from 4.9% in 2015, down from 5.2% in 2014.²⁶ The overall outlook is positive, with inflation declining to 3.8% in December 2014, down from 4.6% in August 2014. Botswana had a balance of payments surplus of \$1.3 billion in 2014, a sharp increase from \$124m in 2013.²⁷ Lower global oil prices have been cited as a major contributory factor (Botswana is a net energy importer). Matambo added that an increase in **Southern African Customs Union (SACU)** remittances also helped. According to government estimates, mining will account for 29% of state revenue in the next fiscal year, and the budget surplus is expected to widen by a further \$125m, which translates to 0.8% of GDP.²⁸ **Moody's Investor Service** gave Botswana an A2 credit ranking in its December 2014 report, which translates to a stable economic outlook.²⁹

¹⁹ Botswana Gazette, 11 Dec 2014

²⁰ Yahoo News, 2 Feb 2015

²¹ Daily News, 2 Feb 2015

²² Daily News, 2 Feb 2015

²³ IT Web Africa, 3 Feb 2015

²⁴ IT Web Africa, 3 Feb 2015

²⁵ Source, analyst

²⁶ Business Day Live, 2 Feb 2015

²⁷ Business Day Live, 2 Feb 2015

²⁸ Business Day Live, 2 Feb 2015

²⁹ Moody's Investor Service, 10 Dec 2014

“The longer term agenda of privatisation cannot be attributed to recent concerns about diamond revenues since it predates the fluctuations of the last few years. However, the recent fluctuations in global diamond prices may have given a push to the agenda, which has been relatively dragging the last few years.”³⁰

Diamond cutting firm to close as global diamond market slows down

Teemane Diamond Manufacturing Company has announced that it will close its operations in Botswana due to the depressed global market for polished diamonds.³¹ The diamond cutting and polishing firm has operated in the country for 20 years. General manager **Mervin Lifshitz** stated that the company faced commercial pressures from high input costs, particularly rough diamond prices, and lower returns from the sale of processed stones. The company will retrench 400 employees as a result of the closure. The current low global diamond prices have undermined polishing companies’ profits worldwide, but the impact has been most acute in Botswana. The impact in price falls on costs has been \$12-\$25 per carat in **India**, \$20-\$30 in **China** but between \$60-\$65 in Botswana.³²

According to the **Rapaport RapNet Diamond Index**, prices for 1-carat graded diamonds fell 0.4%, those for 0.30-carat diamonds dropped 0.9% and 0.50-carat diamonds declined 1% in value in January 2015.³³ The downtrend started in April 2014 and global demand remains weak.³⁴ Botswana’s local diamond cutting and polishing industry is also under strain from increased competition since **De Beers** began guaranteeing stones to local cutters and polishers in 2006.³⁵ The overall number of cutting and polishing companies has since grown from four to over 20.³⁶

Local polishing companies in Botswana buy rough diamonds from De Beers as part of its 50-50 joint venture with the government, **Debswana**. The companies accuse De Beers of inflating rough diamond prices, thus increasing polishers’ operating costs and lowering their profits especially amidst low global demand and prices.³⁷ All cutting and polishing companies operating in Botswana have reportedly already started making cutbacks. **Moti Ganz** has already retrenched 100 workers and **Leo Schatter** dismissed 50 of its 250 workers in January 2015.³⁸ The industry still employs over 3,700 people.

The diamond polishing companies also allege that, apart from increasing prices for rough stones, De Beers has adopted a new policy of selling smaller (lower-value) stones to polishers, while directing larger stones to clients for high-end investment purchases.³⁹ This policy has reportedly boosted De Beers’ short-term profits at the expense of diamond processors.⁴⁰ In response, De Beers reduced rough diamond prices by 4% in its January 2015 ‘sight,’ coupled with a strategy of cutting supply until market prices recovered, but this has not yet improved sight holders’ profits.⁴¹ **Martin Rapaport**, chairman of **Rapaport Group**, stated that a reduction in supply would not solve the problem of low demand since prices remain structurally high.⁴² **Botswana Diamond Manufacturers Association (BDMA)** executive director **Pauline Paldi-Mokou** has stated that negotiations are currently underway between the government, De Beers and the association to resolve the pricing problem.⁴³

³⁰ Source, analyst

³¹ Israeli Diamond Company, 5 Feb 2015

³² Mmegi, 4 Feb 2015

³³ Rapaport, 3 Feb 2015

³⁴ Rapaport, 3 Feb 2015

³⁵ Bloomberg, 3 Feb 2015

³⁶ Bloomberg, 3 Feb 2015

³⁷ Mmegi, 4 Feb 2015

³⁸ Mmegi, 4 Feb 2015

³⁹ Mmegi, 4 Feb 2015

⁴⁰ Mmegi, 4 Feb 2015

⁴¹ Rapaport, 30 Jan 2015

⁴² Rapaport, 3 Feb 2015

⁴³ Mmegi, 4 Feb 2015

Implications

The political impasse between Khama's government and public service trade unions will further polarise the country's politics. But it remains to be seen how Batswana who do not work in the public sector react to union demands for 15% pay rises, especially with the prospect of further job losses in the diamond processing sector and (likely) from privatisation of parastatal companies. The unions need to be mindful of less public sympathy than in 2011, when double-digit wage demands followed three years of pay freezes during the global financial crisis. The government, in turn, needs to beware of playing into the hands of those seeking political confrontation.

The privatisation of BTC is indicative of slowing economic growth and a worsening long-term, structural fiscal position, creating pressure on the government to offload loss-making or under-performing parastatals. The good news is that lower energy prices and increased customs receipts have given a short-term boost to the official accounts, which should ensure medium-term stability and enable a soft landing.

Closure of a prominent diamond-cutting firm highlights the need for the government to facilitate a resolution of the diamond pricing structure in order to avoid further deterioration of the downstream diamond sector.