

AFRICA RISK CONSULTING Botswana Monthly Briefing April 2015

Botswana Summary 23 April 2015

President Ian Khama (2008-present) allegedly leases his farm to private companies for hydraulic fracturing (natural gas fracking exploration), promoting allegations of elite-level collusion and conflict of interest. The International Monetary Fund (IMF) marginally increases Botswana's projected rate of economic growth, despite a slump in the diamond cutting and polishing industry. Botswana faces acute water shortages, due to drought and over-consumption, predicted to persist until 2020 and to hamper economic growth in Gaborone, the country's industrial hub. The government's so-far ineffective strategies to address water and electricity shortages could also negatively affect the key mining sector (major water and power users).

Khama allegedly involved in secret natural gas exploration on his private farm

President **Ian Khama** (2008-present) is reportedly involved in natural gas exploration at a private farm that he jointly owns with minister of youth, sports and culture, **Thapelo Olopeng**. A documentary funded by the **George Soros**-backed **Open Society Initiative for Southern Africa (OSISA)**, which was initially released in 2013, had accused the Khama government of seeking to deprive the **Kalahari's** nomadic peoples of their land rights to push forward mineral development, including hydraulic fracturing (or 'fracking') for natural gas. At the time, the report did not implicate Khama personally and the government claimed that only conventional gas-extraction technologies were being pursued.¹

The documentary, "*High Cost of Cheap Gas*", revealed that international companies have been conducting fracking operations for coal bed methane gas since 2013. The companies include **South Africa's SASOL, Australia's Tamboran Resources, Anglo American, Tlou Energy, Kalahari Energy, Exxaro, and Sabre Energy**.² However, a report in the *Sunday Standard* newspaper on 19 April revealed that at least three gas exploration companies that were previously implicated in the 2013 controversy are conducting exploration projects at a farm owned by Olopeng, in which Khama is alleged to have a secret interest, in the **Central Kalahari Game Reserve**.³

Since the media made the original revelations public in early 2014, the government has admitted that it granted 121 fracking concessions to exploration companies.⁴ Now, Olopeng, who is also Khama's close friend, has admitted that exploration took place at his farm, but has denied that gas has been discovered and claimed that the companies have since moved to explore elsewhere.⁵ The office of the president also released a statement denying reports of Khama's co-ownership in the farm or knowledge of the fracking operations.⁶

Campaign groups such as **Survival International** – with which the government has had a fractious relationship for two decades – have also now alleged that the government has been secretly granting fracking licences in over half of the Central Kalahari Game Reserve since 1994.⁷ These revelations may

¹ Mail and Guardian, 18 Nov 2013

² Sunday Standard, 19 Apr 2015

³ Sunday Standard, 19 Apr 2015

⁴ Sunday Standard, 19 Apr 2015

⁵ Sunday Standard, 19 Apr 2015

⁶ Office of the President, 22 Apr 2015

⁷ The Guardian, 18 Nov 2013

in part explain the continued confrontation between the government and indigenous **Bushmen**, who regard the reserve as their ancestral land. The reserve is the world's second biggest wildlife reserve, spanning 52,800 square kilometres.⁸

Coal bed methane extraction is a controversial issue in Botswana, since it contaminates underground water sources due to the chemicals used to crack rocks, thus destroying the ecosystem and limiting access to water by the respective areas' local inhabitants. The country is currently experiencing acute water shortages due to poor rainfall and successive droughts since 2012 (see below).

The government's secrecy regarding its granting of licences and the fracking operations in the Central Kalahari Game Reserve have raised questions about accountability and transparency in the extractive natural resource industry in Botswana. The allegations regarding Khama's direct involvement and lack of parliamentary oversight have triggered media and campaign-group comment about perceived collusion between senior government officials and private international corporations conducting business in the country. Such revelations damage the country's hitherto positive reputation for transparent and accountable political leadership.

IMF revises up growth forecast, amidst decline in local diamond processing

The **International Monetary Fund (IMF)**'s bi-annual **World Economic Outlook (WEO)** has revised upwards the IMF's estimate for Botswana's economic growth (to 4.5% from 4.2%) for 2015.⁹ Released on 15 April, the latest estimate is still lower than the 4.9% that finance minister **Kenneth Matambo** indicated in his 2015-16 budget statement delivered in February 2015.¹⁰ Matambo had stated that non-mining sectors such as trade, hotels and restaurants, finance and banking, and social and personal services would drive economic growth this year.¹¹ He added that the government's beneficiation policy, aimed at growing the diamond cutting and polishing industries, would also contribute.

The IMF's projection comes amidst a crisis in the mining industry, especially in the diamond and copper sectors. Several copper mines and diamond polishing companies have either shut down or retrenched employees to reduce costs since the end of 2014 (see *ARC Botswana March 2015 Briefing*). **The Botswana Diamond Workers Union (BDWU)** has now indicated that 409 of its members have lost their jobs over this period.¹² The increase in rough diamond prices and a drop in those for polished diamonds largely accounts for the cutting and polishing industry's declining viability in Botswana. Commercial banks have also begun retreating from financing diamond companies, stating that the business environment is not profitable.¹³ **Amro Botswana**, local subsidiary of **Netherlands** bank **ABN AMRO Bank N.V** and formerly the largest financier of the diamond sector in Botswana, shut down in 2013 due to the decline of the diamond-processing sector there.¹⁴

Botswana has been losing out to **India**, which has been attracting 'sight-holders' due to its comparatively low diamond cutting and polishing costs, pegged at \$12 per carat.¹⁵ The decline in Botswana's processing industry has not had an impact on **De Beers** and its local operation, **Debswana**, a 50-50 joint venture with the Botswana government. Diamond mining in Botswana seems set to remain profitable, since polishers in India, which is also the world's largest diamond cutting and polishing centre, are major buyers of Botswana's rough diamonds.¹⁶ Analysts, however,

⁸ The Guardian, 18 Nov 2013

⁹ Mmegi, 17 Apr 2015

¹⁰ The Citizen, 3 Mar 2015

¹¹ The Citizen, 3 Mar 2015

¹² Sunday Times, 20 Apr 2015

¹³ Sunday Times, 20 Apr 2015

¹⁴ Sunday Times, 20 Apr 2015

¹⁵ Botswana Gazette, 26 Mar 2015

¹⁶ Botswana Gazette, 26 Mar 2015

see this as a substantial weakness in the government's beneficiation policy, since De Beers benefits at the expense of the local cutting and polishing industry.¹⁷

*"The non-mining industries that are projected to drive economic growth in 2015 depend, to varying degrees, on the viability of the diamond industry, and the current decline of the cutting and polishing sector will be felt in all such auxiliary industries. Although Botswana is the world's largest diamond producer by value, it currently faces stiff competition from **Russia's Alrosa**. Diamond polishers transferring their operations to India will also create a viable market for Russia's rough diamonds, which will challenge Botswana's rough production.*

*Botswana's government stands to lose more because its current policy of beneficiation, which aims to stimulate the growth of non-diamond related industries, really depends on the viability of the value-added diamond cutting and polishing and marketing industry. Its failure to urgently address De Beers' high rough diamond pricing structure, which is the main cause of the downstream industry's decline, is thus a surprising paradox. In the current state of affairs, De Beers is the only winner, with the retrenched workers, and the cutting and polishing industry being the losers both in the short and long term."*¹⁸

Sight holders have accused De Beers of a major price hike (between 7-20%) in 2014 that increased the cutting and polishing industry's production costs, while De Beers and Debswana posted a record \$1.4 billion profit in the same year.¹⁹ Trade and industry minister **Vincent Seretse** has also criticised the generally slow growth, high levels of retrenchments and corruption in the private sector.²⁰ Speaking during a meeting with representatives from various business sectors on 12 April, Seretse stated that the government's economic diversification and industrial development initiatives depend on effective partnerships between the state and private enterprises.²¹

Botswana facing water woes, projected to last until 2020

Botswana faces a water crisis due to poor recent rainfall, low reserve water levels and increased consumption in the capital, Gaborone, from both residential and industrial users.²² The **Water Utilities Corporation (WUC)** has commissioned the **Dikgatlong Dam** project, with a 400m cubic-metre capacity due to persistent low water levels in Gaborone's long-standing, primary water source, **Gaborone Dam**.²³ The Dikgatlong project, which is located in the country's southwest, entails the construction of a pipeline to supply Gaborone, but it will only be completed in 2019 or 2020.²⁴

Botswana has faced acute water shortages due to drought since 2002. The Gaborone dam was last full to capacity in 2001, and has considerably declined since then; it currently holds only 3% of its capacity.²⁵ Opposition members of parliament have since called on the government to declare the water and related electricity shortages a national crisis.²⁶ They cite the fact that the government's water rationing exercise, which began in 2012, has helped manage dwindling supply but has acutely affected the construction and agricultural sectors.²⁷

¹⁷ The Namibian, 22 Apr 2015

¹⁸ Source, analyst

¹⁹ Botswana Gazette, 26 Mar 2015

²⁰ Mmegi, 23 Apr 2015

²¹ Sunday Times, 20 Apr 2015

²² Botswana Gazette, 26 Mar 2015

²³ Botswana Gazette, 26 Mar 2015

²⁴ Botswana Gazette, 26 Mar 2015

²⁵ Daily News, 31 Mar 2015

²⁶ Star Africa, 30 Mar 2015

²⁷ Midweek Sub, 26 Mar 2015

In late March minerals, energy and water resources minister **Kitso Mokaila** announced an increase in water tariffs from April due to increased costs of water provision.²⁸ He said that this would influence consumers to use water sparingly.²⁹ Currently, the government charges a mere \$0.20 per 1,000 litres of water, and Mokaila indicated that this low level limited the government's ability to fund the maintenance, infrastructure, and electricity used in transporting water.³⁰ He also said that the government would undertake several operational reforms, to include unbundling the minerals ministry's water units into water resources management, water supply and sanitation.³¹

Botswana's current water demand is 221m cubic metres per year, with only 218m cubic metres available.³² The government predicts that consumption will rise to 225m cubic metres simply due to growth in various sectors of the economy.³³ The government has therefore taken steps to improve its capacity to respond to water shortages in the country. A two-year capacity cooperation partnership programme with the **Stockholm International Water Institute** started in January 2012 and will continue until December 2016.³⁴ The partnership comprises support for Botswana's department of water affairs' organisational and institutional framework, optimising waste water and sanitation management, developing raw water abstraction strategies and catchment area management, and feasibility studies on identifying aquifers around the country.³⁵ This builds on the department's 18-month partnership with the **Swedish Meteorological and Hydrological Institute** from June 2012 to December 2013, which helped the government improve hydrological forecasting and countrywide water-related early-warning systems for droughts and floods.³⁶ However, the government is yet to establish an effective infrastructural response to the country's worsening water shortages and hopes that the latest Swedish initiative will bring that closer.

"The government's failure to swiftly address the country's water shortages is hardly surprising, given its similarly lethargic response to electricity shortages. A combined effect of water and electricity shortages will considerably weaken the economy, and make it a less attractive destination for investment."³⁷

Water shortages are not unique to Botswana, with a predicted shortage throughout the southern African region by 2025.³⁸ However, in a drought-prone and largely desertified country with a growing population, increased mining and other industrial operations, water consumption has inevitably become unsustainable. Botswana ought to have had several mechanisms in place to draw water to both urban and rural areas in order to forestall the impact of the country's long-understood dry climate.³⁹ It should also have explored methods of water recycling by now, in addition to drilling boreholes and drawing from external sources such as Lesotho.⁴⁰

"Now, only a combined [emergency] approach that encompasses creating multiple new water sources, upgrading of infrastructure to match industrial and residential consumption patterns, pricing changes, recycling, use of external sources and influencing consumer behavioural change will alleviate the acute water shortages facing Botswana."⁴¹

²⁸ Botswana Gazette, 26 Mar 2015

²⁹ Botswana Gazette, 26 Mar 2015

³⁰ Botswana Gazette, 26 Mar 2015

³¹ Botswana Gazette, 26 Mar 2015

³² Botswana Gazette, 26 Mar 2015

³³ Midweek Sun, 24 Mar 2015

³⁴ Midweek Sun, 24 Mar 2015

³⁵ Midweek Sun, 24 Mar 2015

³⁶ Midweek Sun, 24 Mar 2015

³⁷ Source, analyst

³⁸ Source, analyst

³⁹ Source, analyst

⁴⁰ Source, analyst

⁴¹ Source, analyst

A **World Economic Forum** report in 2013 identified water as one of the greatest threats to global development, and Botswana was projected to be among the first countries to be impacted.⁴²

Implications

President Khama's alleged links, even indirectly, to secret fracking projects indicate the real and increasing risk of high-level collusion and conflicts of interest in the extractives sector in Botswana, a relatively recent development. It may be that the presidency's denials are true and that Khama has no secret stake in the land under exploration. But public scepticism is bound to be high since the government had been denying for nearly two years that fracking was even taking place in the Kalahari.

Despite the IMF's projections of a marginally higher rate of economic growth for Botswana, the decline in the diamond processing sector and increased retrenchments will likely keep economic output below potential over the medium term. Persistent water shortages in Gaborone will also undermine economic growth, since water is a primary resource in various mining and manufacturing production processes. The government's admission that the water problems will likely continue until 2020 will likely encourage investors to delay committing to water-dependent industries in and around Gaborone. Similarly, the fiscus will not be helped by the 6% salary uplift for public servants expected to have inflationary effects that will also slow the economy.⁴³

⁴² Multiple sources: Mmegi, 24 May 2012, The Voice, 8 Jul 2012

⁴³ Mmegi, 17 Apr 2015

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