

AFRICA RISK CONSULTING

Botswana Monthly Briefing May 2015

Botswana Summary 21 May 2015

Botswana government agencies raid private newspaper's offices following the publication of stories implicating the director general of the Directorate of Intelligence and Security Services (DISS) and senior government officials in corrupt activities. Civil society groups decry the government's increasingly hostile relationship with the private media. The country's largest retail chain, Choppies, will list on the Johannesburg Stock Exchange in an unprecedented expansion move. Although analysts have cautioned the profitability of expanding into a saturated retail market, Choppies is confident of maintaining its comparative advantage. The ministry of Transport and Communications will upgrade the country's roads following increased pressure from private and commercial traffic. This will support the country's economic growth, which will slightly accelerate due to the government's beneficence and economic diversification policies.

Government newspaper raid escalates fears of government-led media crackdown

The **Directorate on Corruption and Economic Crimes (DCEC)** raided the offices of private newspaper **Botswana Gazette** on 6 May. This follows the newspaper's publication of an investigative story that linked **Directorate of Intelligence and Security Services (DISS)** director-general **Isaac Kgosi** and the ruling **Botswana Democratic Party (BDP)** to various criminal activities.¹ The DCEC also arrested acting editor **Lawrence Seretse**, managing editor **Shike Olsen**, and reporter **Innocent Selathwa**. It also seized the Botswana Gazette's computers used in writing the story.² It alleged that the newspaper articles contained information relating to its investigation into the corruption allegations and thus the newspaper contravened Section 44 of the **Corruption and Economic Crime Act (1994)**, which prohibits the release of information on ongoing criminal investigations.³ The DCEC also arrested the Botswana Gazette's lawyer, **Joao Salbany**, on charges of obstruction of justice after he prohibited their entry into the offices to confiscate computers because of an inadmissible search warrant.⁴

Prior to the raid, the Botswana Gazette had been running a series of stories pertaining to corruption within the DISS and BDP for several weeks. It primarily alleged that the BDP and DISS worked with a **Zambian** national, **Jerry Chitube**, to conduct various illegal activities, mainly illicit oil and diamond deals.⁵ The DCEC also believed that Chitube had leaked documents to the newspaper with information linking the DISS and BDP to the various criminal activities and thus sought to seize them during the raid.⁶ Chitube claims in the leaked documents that the BDP financed its 2014 election campaign with funds raised from diamond smuggling, masterminded by the DISS. He also alleged that he worked with insiders at the **Diamond and Narcotics Squad**, and the **Debswana**-owned **Orapa** and **Jwaneng** diamond mines to secure diamonds that would be smuggled to **South Africa**.⁷ The DISS allegedly facilitated the smuggling operation and worked with several high-ranking BDP officials in the diamond syndicate.⁸ The government subsequently deported Chitube earlier this year, reportedly on charges of possessing fake identity documents.⁹

¹ Mmegi, 7 May 2015

² Mmegi, 7 May 2015

³ News24, 8 May 2015

⁴ Star Africa, 7 May 2015

⁵ Sunday Standard, 17 May 2015

⁶ Mail and Guardian, 7 May 2015

⁷ Sunday Standard, 17 May 2015

⁸ Sunday Standard, 17 May 2015

⁹ News24, 8 May 2015

*“The private media’s publication of stories that embarrass the BDP government or any of its high ranking officials will almost always attract similar responses from the government, despite the civil society and international community’s condemnation of its attacks on journalists. Although it is regarded as ‘democratic’, Botswana has a de facto dynastic system, with [President] **Ian Khama** [2008- present] and his close associates at the centre. This has resulted in an entrenched and unchallenged culture of corruption, nepotism and impunity over the years, which has deepened since Ian Khama rose to power in 2008. Thus the media crackdown is only symptomatic of the actual (authoritarian) political system that exists in Botswana.”¹⁰*

The case follows a similar episode at the offices of private newspaper **Sunday Standard** in September 2014, where police arrested and charged the editor, **Outsa Mokone**, with sedition following the paper’s publication of a story alleging that the presidency had covered up an night-time road accident involving President Khama.¹¹ **Edgar Tsimane**, the journalist who wrote the story, fled to exile in South Africa fearing for his life.

Civil society groups accuse the government of initiating a crackdown on private newspapers and intimidating the press. The **Press Council**, Botswana chapter of the **Media Institute of Southern Africa (MISA)** and the **Law Society of Botswana** condemned the government’s heavy-handed approach, accusing it of violating freedom of expression and muzzling the press.¹² Press Council president **Tshireletso Motlogelwa** accused the government of criminalising journalism through aggressively attacking private newspapers that have published stories that they deem to be against their interests.¹³

“The key issue here is not the government targeting the media per se, but protection of the senior political leaders’ interests, who in most cases are directly connected to President Khama. For instance, despite having several corruption cases against him, Khama has consistently resisted dismissing the DISS director general, Isaac Kgosi due to their close relationship that dates back to Khama’s military service until 1998. The private media’s ruffling of the BDP and Khama-linked officials’ feathers will thus elicit swift and decisive action from the government primarily to avoid embarrassing Khama since almost all the cases can be traced back to him, through his close associates. This is unlikely to change during Khama’s last term of office.”¹⁴

The government’s attacks on journalists and publishers have tarnished Botswana’s image as a bastion of democracy. **United States (US)**-based non-governmental organisation **Freedom House** has downgraded the country from 44 to 41 points on their ‘**World Freedom Index**’ following the government’s arrest of Sunday Standard journalists in September 2014.¹⁵ BDP spokesman **Mpho Balopi** denied that the government is intolerant of the media, despite its actions against the private press.¹⁶

Botswana’s largest retailer to list on JSE

Botswana’s largest grocer, **Choppies Enterprise Limited**, is set to list on the **Johannesburg Stock Exchange (JSE)**. The company estimates it will raise approximately \$50m from this secondary listing as part of a plan to expand into Africa’s other consumer markets.¹⁷ The company announced on 11 May that it plans to list its shares on the continent’s largest and most liquid bourse on 27 May. It plans to sell 117,4m new shares, together with 160m from existing shareholders and the offer price for each share will be determined in a book-build process conducted by the **Rand Merchant Bank**.¹⁸ Choppies CEO **Ramachandran Ottapathu** said that the listing would allow the company to accelerate its establishment of new stores, expand into new markets on the continent and fund acquisitions associated with the expansion.¹⁹

¹⁰ Source, political analyst

¹¹ Mmegi, 7 May 2015

¹² Mail and Guardian, 7 May 2015

¹³ Mail and Guardian, 7 May 2015

¹⁴ Source, political analyst

¹⁵ Mail and Guardian, 7 May 2015

¹⁶ Star Africa, 7 May 2015

¹⁷ Star Africa, 7 May 2015

¹⁸ Business Day, 12 May 2015

¹⁹ CNBC Africa, 11 May 2015

Some of the prospective markets earmarked for expansion include **Zambia** and **Tanzania**. The company plans to operate a total of 200 stores by the end of 2016.²⁰

Choppies, valued at \$482m, also trades on the **Botswana Stock Exchange**.²¹ Its retail business targets lower to middle income consumers and currently runs 125 stores: 72 in Botswana, 35 in South Africa and 18 in **Zimbabwe**.²² Choppies debuted in the South African market in 2008, and has since identified 30 locations for store expansion in the country.²³ It will focus on small towns in provinces including **Mpumalanga, Limpopo, Northern Free State** and **North West**.²⁴ It also plans to open five more stores in Botswana, and 12 in Zimbabwe by December 2015.²⁵

The southern African region's retail market is saturated, which makes the profitability of its expansion drive less certain. Competitors include **Shoprite, Pick n Pay, Boxer** and **Massmart's Cambridge**. Choppies' expansion drive is neither accompanied by macro-economic growth nor increase in real wages in the region.²⁶ The cost of living has been steadily increasing, with household spending dropping and debt remaining a persistent feature of the regional market, especially in South Africa. Choppies' expansion plans therefore carry substantial risk. In response to these concerns, Ottapathu argued that the company's business is not over-exposed in the South African market since it constitutes less than 25% of its business. He also noted that the company will balance this risk by entering other growing consumer markets on the continent, and that added in-store services differentiate Choppies' business from competitors. These include mobile money transfer, travel, local council payments, pension distributions and utility payments, which drive the volume of consumers patronising its stores.²⁷ Its private-label goods in categories such as food, beverages, and cosmetics account for 19% of sales in Botswana, 10% in South Africa and 4% in Zimbabwe.²⁸

Upgrades to road network amidst increased congestion

The **Transport and Communication** ministry announced on 12 May that it will upgrade the entire road network system. The ministry has hired international consultants **CPCS Transcom** to oversee the survey work and produce a **National Multi-Modal Transport Master Plan** and a **Gaborone Transport Master Plan**.²⁹ The consultant's 40 enumerators will undertake surveys and traffic counts across the country.³⁰ It will use the data to develop an elaborate road network upgrade plan. Growing numbers of vehicles have increased pressure on the road network, especially in Gaborone. The influx of second hand vehicles, mostly from **Japan, Singapore** and the **United Kingdom** over the last decade, has exacerbated traffic congestion.³¹

Per capita vehicle ownership is at approximately 216 vehicles per 1,000 people, one of the highest in the developing world, and surpasses some **European** countries.³² Speaking at a ground-breaking ceremony on 27 March for the first interchange in **Francistown**, located 430km north of Gaborone, transport and communications minister **Tshenoo Mabeo** said that since 2010, vehicle ownership has grown by 50%.³³ The vehicle population was approximately 204,000 five years ago, but has since grown to nearly 320,000.³⁴ Apart from private vehicles, public service transportation and heavy commercial vehicles have also increased traffic on the country's roads.

²⁰ CNBC Africa, 11 May 2015

²¹ CNBC Africa, 11 May 2015

²² Moneyweb, 12 May 2015

²³ Moneyweb, 12 May 2015

²⁴ Moneyweb, 12 May 2015

²⁵ Moneyweb, 12 May 2015

²⁶ Sasfin Securities retail analyst, media interview

²⁷ Moneyweb, 12 May 2015

²⁸ Moneyweb, 12 May 2015

²⁹ Xinhua, 13 May 2015

³⁰ Xinhua, 13 May 2015

³¹ Xinhua, 13 May 2015

³² Xinhua, 27 Mar 2015

³³ Daily News, 29 Mar 2015

³⁴ Daily news, 29 Mar 2015

*“Botswana’s road networks are relatively underdeveloped compared to other southern African countries like Zimbabwe and South Africa mainly because it did not have a similarly entrenched colonial system which created the elaborate road building infrastructure found elsewhere in the region. The government is catching up from behind on this issue, because economic growth in recent years has resulted in an inevitable influx of second hand cars and increase in traffic. This is due to increased spending among young professionals and expatriates, and the government’s relaxed policy on cheap car imports from the **Far East** facilitates the relatively easy process of importing cheap cars from there. Zimbabwe and South Africa for instance restrict and regulate the rate of cheap car imports, but Botswana has yet to do the same. The country’s central location also necessitates the expansion of road networks, since commercial traffic from South Africa, Zimbabwe and Zambia exerts substantial pressure on the roads. Since the government is promoting the expansion of non-mining industries, the resultant expansion will further worsen this situation, so road upgrades are long overdue.”³⁵*

Road transport is Botswana’s major mode of surface travel, accounting for approximately 93% of total passenger transport volume.³⁶ The government commenced construction of the current road systems after independence in 1966, and this amounted to 6,116km of paved and 2,800km unpaved roads, and an additional 9,000km of district roads.³⁷ On the other hand, the country’s single railway line runs from the southern to the northern regions via its eastern side, and together with air transport, constitutes about 7% of passenger transport.³⁸ The country also has a high traffic accident rate, with accidents estimated to cost an equivalent 1- 2 % of GNP.³⁹

The upgrade is a positive step in infrastructure development, which has been accelerating in the last five years. The country lacks an infrastructural base, and the government has had to develop its road networks in response to economic growth. Its economic diversification programme, which it has driven more aggressively in the last five years, is likely to result in increased pressure on road networks and other infrastructural amenities, especially in Gaborone.

Implications

The government’s relationship with the private media will remain strained due to the BDP and Khama’s need to maintain their interests and prevent leakages into the media. The crackdown on journalists is primarily due to the senior government officials’ need to maintain the secrecy and maintain their ability to operate with impunity. However this comes at a cost: the country’s increasingly worsening international image is likely to deter investment. Investors should exercise extra caution prior to investing in the country in the short term, especially in companies that are politically exposed. A continued crackdown on the media could also have long term effects. As in neighbouring South Africa, a political culture that actively protects corrupt officials can undermine economic growth.

Choppies’ expansion drive is unprecedented in Botswana, since it is the first retail group to expand outside the country. Its success will rest on its ability to maintain its appeal to low to middle class consumers in the region, and its value-added services that serve the same demographic. Its outward expansion may not have immediate and direct effects on Botswana’s economy, but as a Botswana-based entity, its increased profitability in the region will improve the levels of its domestic investments mainly through opening new stores. The country’s projected economic growth will also support the company’s expansion drive.

The road upgrade project will improve the country’s domestic and transit logistics, which in turn will support both private and commercial transportation in the country. The government has not released figures

³⁵ Source, economic analyst

³⁶ Mmegi, 19 May 2015

³⁷ Mmegi, 19 May 2015

³⁸ Mmegi, 19 May 2015

³⁹ Mmegi, 19 May 2015

on the cost of the project – which will be high. However, high infrastructure expenditure is necessary to support the country’s projected economic growth.

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC’s core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC’s integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC’s essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.briefing.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)