

## AFRICA RISK CONSULTING

### Botswana Monthly Briefing March 2016

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#### Botswana Summary 19 March 2016

*Job cuts escalate in Botswana amid the global commodities slump. Analysts call for increased government action to stem the job losses that may create social unrest. The Botswana Telecommunications Limited (BTCL) initial public offer (IPO) raises \$40m, following a series of postponements from 2011. This is the first IPO under the government's policy to privatise all state-owned enterprises. Apart from raising capital for investment and expansion, the government plans to increase citizen participation in the economy through the policy. A consortium comprising Japan-based Marubeni Corp and South Korea-based Posco Energy wins a tender for the expansion of the Morupule B power plant. The government awards the tender to the consortium despite alleged misrepresentations in the consortium's bid.*

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#### Job cuts escalate in Botswana and southern Africa's mining sector

Job cuts are looming in Botswana's mining sector as a result of the global slump in commodities. The mines department announced on 4 March that state-owned copper mining company **BCL** is set to retrench up to a third of its employees, translating to approximately 2,000 of its 6,000-strong workforce.<sup>1</sup> The company is streamlining operations against low copper prices that are at six-year lows.<sup>2</sup> **London Stock Exchange (LSE)**-listed **Gem Diamonds** is also planning to lay off two-thirds of its local workforce, since it expects its diamond production to fall by more than half this year due to low global demand.<sup>3</sup> Department of mines director **Gabotshwarege Tshekiso** said that Gem would possibly lay off as many as 100 workers at its **Ghaghoo** mine.<sup>4</sup> **African Copper's** mines at **Mowana** and **Thakadu** are also under provisional liquidation.<sup>5</sup> Before its closure, **African Copper Botswana** employed 543 people.<sup>6</sup>

However, Tshekiso noted that two upcoming projects (**Khoemacau Copper Mining** and **Lerala** diamond mine) would possibly mitigate the job cuts by absorbing some of the workers.<sup>7</sup> **United States (US)**-based **Cupric Canyon Capital** is spearheading the Khoemacau copper and silver mining project, which will generate approximately 400 jobs during the 2016 construction phase.<sup>8</sup> **Kimberly Diamonds'** Lerala mine will probably commence operations later in 2016.<sup>9</sup>

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<sup>1</sup> Business Day, 5 Mar 2016; Diamond Intelligence, 6 Mar 2016.

<sup>2</sup> Star Africa, 8 Mar 2016.

<sup>3</sup> Star Africa, 8 Mar 2016.

<sup>4</sup> Diamond Intelligence, 6 Mar 2016.

<sup>5</sup> Daily News, 9 Mar 2016.

<sup>6</sup> Daily News, 9 Mar 2016.

<sup>7</sup> Business Day Live, 5 Mar 2016.

<sup>8</sup> Business Day Live, 5 Mar 2016.

<sup>9</sup> Business Day Live, 5 Mar 2016.

The government indicated that it expects the country's mining revenues to fall by 8% in 2016 because of the low global commodity prices.<sup>10</sup> Botswana's diamond exports fell 38% to \$2.4 billion in 2015, which is the country's lowest shipment in six years.<sup>11</sup> The current drop in diamond revenue also stems from **De Beers'** loss of monopoly over the global diamond supply and pricing since it cannot effectively manage the market, and control prices.<sup>12</sup> De Beers is the government's 50-50 partner in the **Debswana Diamond Company**. Other companies such as **Russia**-based **Alrosa**, (the world's largest miner by volume), **United Kingdom (UK)**-based **Rio Tinto**, **Jersey**-based **Petra Diamonds** and **Canada**-based **Dominion Diamond** have gained control of much larger portions of the global diamond market.<sup>13</sup> A combination of increased supply among polishers and dealers, reduced retail demand, especially from **China**, and more caution on the part of banks that provided cheap financing for the diamond trade account for the current slump.<sup>14</sup>

*"Manufactures and channel players had built considerable speculative stockpiles that inexpensive financing had supported, and an industry-wide belief that rough diamond prices could only rise...when prices began to decline in 2015, with low growth, especially from **Asia**, and reduced industry finance due to the need to avoid exposure, a considerable de-stocking exercise began."*<sup>15</sup>

The falling commodity prices have affected jobs in the southern African region at large. The **Mining Industry Association of Southern Africa (MIASA)** has indicated that over 70,000 job losses have occurred across all commodities because of low mineral prices on the global market.<sup>16</sup> It also noted that 50,000 mining sector employees in the region face retrenchment if the private sector and governments do not cooperate to slow the industry's decline.<sup>17</sup> MIASA suggested policy initiatives such as the reduction of government bureaucracy and attracting investors and small-scale miners into the industry to create jobs.<sup>18</sup> MIASA called on governments to reduce uncertainty by not changing policies with little warning, in order to provide investors with security of tenure, thus promoting long-term investment in mining.<sup>19</sup> It also indicated that the job losses may result in social unrest in the region, which already faces possible famine due to the **El Nino** conditions that resulted in a poor farming season. MIASA represents chambers of mines in Botswana, the **Democratic Republic of the Congo**, **Madagascar**, **Namibia**, **South Africa**, **Tanzania**, **Zambia** and **Zimbabwe**.<sup>20</sup>

### **BTCL IPO raises \$40m, as government plans BOL sale**

**Botswana Telecommunications Corporation Ltd (BTCL)** has raised 462m pula (\$40.3m) from its initial public offer (IPO) that launched in December 2015 and closed on 4 March.<sup>21</sup> The **Public Enterprises Evaluation and Privatisation Agency (PEEPA)** indicated that it had sold 462 million shares for 1 pula (\$0.09) each.<sup>22</sup> The BTCL becomes the first state-

<sup>10</sup> Diamond Intelligence, 6 Mar 2016.

<sup>11</sup> Reuters, 4 Mar 2016.

<sup>12</sup> Financial Times, 16 Mar 2016.

<sup>13</sup> Financial Times, 16 Mar 2016.

<sup>14</sup> Financial Times, 16 Mar 2016.

<sup>15</sup> Analyst quoted by Financial Times, paraphrased, 16 Mar 2016.

<sup>16</sup> Southern Times, 17 Mar 2016.

<sup>17</sup> Southern Times, 17 Mar 2016.

<sup>18</sup> Sunday Standard, 10 Mar 2016.

<sup>19</sup> Sunday Standard, 10 Mar 2016.

<sup>20</sup> Southern Times, 17 Mar 2016.

<sup>21</sup> Mmegi, 15 Mar 2016.

<sup>22</sup> The Africa Report, 1 Mar 2016.

owned enterprise that the government privatised under the policy it started in 2012.<sup>23</sup> The government restricted the IPO to Botswana citizens and locally owned companies.<sup>24</sup> The restriction of the IPO to citizens broke **Botswana Stock Exchange (BSE)** regulations, which provide equal access to citizens and non-citizens alike.<sup>25</sup> BSE chief executive officer **Thapelo Tsheole** defended the restriction, arguing that the government sought to empower its citizens through the BTCL privatisation.<sup>26</sup> The company will also list on the BSE on 8 April.<sup>27</sup> The IPO closed on 4 March after running for eight weeks.<sup>28</sup> The shares comprised 212 million that the government sold, and 250 million that the BTCL issued.<sup>29</sup> The government had initially scheduled the IPO for August 2011, but it was repeatedly postponed.<sup>30</sup> Once the company lists on the BSE, the government will retain 51% of the 1.05 billion shares, workers will hold 5%, and public shareholders the remaining 44%.<sup>31</sup> However, the BTCL IPO was oversubscribed, receiving offers in excess of the 462 million shares available for sale.<sup>32</sup> The BTCL indicated that its **Allocation Committee** would allocate fewer shares to some offers in order to distribute them equitably among the applicants.<sup>33</sup>

The government also plans to privatise **Botswana Oil Limited (BOL)**, a wholly state-owned enterprise.<sup>34</sup> BOL chief executive officer **Willie Mokgatle** issued a statement on 11 March indicating that the government plans to put up 49% of its shares for sale in order to promote entrepreneurship in the economy.<sup>35</sup> President **Ian Khama** (2008- present) launched Botswana Oil in October 2014 to ensure the country's supply of petroleum products.<sup>36</sup> The oil industry is a national security concern being one of the primary industrial and residential energy sources.<sup>37</sup> Mokgatle indicated that international corporations have controlled the oil value chain in Botswana since independence, and that the government plans to provide an opportunity for citizens to participate in the industry.<sup>38</sup> He noted that the industry generally lacked investment, particularly in bulk oil storage and logistics, including pipeline infrastructure.<sup>39</sup> BOL plans to construct fuel storage facilities in **Francistown** to expand the country's strategic fuel reserves.<sup>40</sup> This will increase the capacity of strategic fuel storage reserves by 30 million litres to 65 million litres.<sup>41</sup> Mokgatle further stated that the government plans to focus BOL on coal beneficiation, particularly coal to liquid production.<sup>42</sup>

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<sup>23</sup> Sunday Standard, 14 Mar 2016.

<sup>24</sup> Total Telecom, 15 Mar 2016.

<sup>25</sup> Sunday Standard, 14 Mar 2016.

<sup>26</sup> Sunday Standard, 14 Mar 2016.

<sup>27</sup> Total Telecom, 15 Mar 2016.

<sup>28</sup> Mmegi, 15 Mar 2016.

<sup>29</sup> Mmegi, 15 Mar 2016.

<sup>30</sup> Sunday Standard, 14 Mar 2016.

<sup>31</sup> Sunday Standard, 14 Mar 2016. Mar 2016.

<sup>32</sup> Mmegi, 15 Mar 2016.

<sup>33</sup> Mmegi, 15 Mar 2016.

<sup>34</sup> Star Africa, 11 Mar 2016.

<sup>35</sup> Star Africa, 11 Mar 2016.

<sup>36</sup> Ministry of minerals, energy and water resources website

<sup>37</sup> Star Africa, 12 Mar 2016.

<sup>38</sup> Daily News, 15 Mar 2016.

<sup>39</sup> Daily news, 15 Mar 2016

<sup>40</sup> Sunday Standard, 17 March 2016

<sup>41</sup> Sunday Standard, 17 Mar 2016.

<sup>42</sup> Star Africa, 12 Mar 2016.

Botswana consumes approximately 1.2 billion litres of oil annually, which it mainly imports from South Africa.<sup>43</sup>

Botswana has over 30 state-owned enterprises. They range from agricultural, tourism, power, water utilities, airlines, housing, development finance, and oil industries.<sup>44</sup> Their poor performance has contributed to the current privatisation policy.<sup>45</sup>

### Japanese and South Korean firms win \$800m tender amidst controversy

Japan-based **Marubeni Corp** and South Korea-based **Posco Energy** have jointly won an \$800m tender to expand Botswana's **Morupule B** power station by an extra 300 megawatts (MW).<sup>46</sup> In a public notice on 8 March, the **Public Procurement and Asset Disposal Board (PPADB)** indicated that the new coal-fired plant would be an extension of the **China National Electric Equipment Corporation (CNEEC)**-build 600MW power plant that has failed to attain full functionality since its completion.<sup>47</sup> The **Japan Bank for International Cooperation (JBIC)** and the **Export-Import Bank of Korea** will finance the expansion project.<sup>48</sup> Upon the project's completion, the firms will enter into a 30-year power purchase agreement with the national power utility, **Botswana Power Corp (BPC)** at a cost of \$72 per megawatt hour.<sup>49</sup> Construction of the new plant will commence in 2016, with the national power grid receiving the first power produced in May 2020.<sup>50</sup> The plant will also have a circulating fluidised bed (CFB) combustion, which has environmentally friendly and high efficient technology that limits the emission of pollutants like nitrogen and sulfur oxides.<sup>51</sup> Posco Energy president and chief executive officer **Yoon Dong-jun** said that the successful bid will allow the company to use Botswana as a base from which to explore other opportunities in the southern African region.<sup>52</sup>

The **Morupule Coal Mine** will supply the new plant. It has begun preparing a new open cast mine that will produce one million tonnes per year.<sup>53</sup> The new plant will lift power generation to more than 1000MW, exceeding the current national power demand of 610MW.<sup>54</sup>

This will be Botswana's first independent power producer (IPP) model.<sup>55</sup> Unlike the first Morupule B power plant, which the government funded to the tune of \$970m, the developers will cover all the construction costs for this project.<sup>56</sup> The government has escalated efforts to ramp up the country's dwindling local power supply since 2015. The minerals, energy and water resources ministry awarded a tender to another South Korea-based company, **Dosaan Heavy Industries**, to refurbish the **Morupule A** power plant in December 2015.<sup>57</sup> The first unit will be operational by December 2016, while the whole project will reach completion by

<sup>43</sup> Star Africa, 12 Mar 2016.

<sup>44</sup> The Africa Report, 15 Mar 2016.

<sup>45</sup> The Africa Report, 15 Mar 2016.

<sup>46</sup> Reuters, 8 Mar 2016.

<sup>47</sup> Reuters, 8 Mar 2016.

<sup>48</sup> Medaafricatimes, 8 Mar 2016.

<sup>49</sup> Yahoo Finance, 8 Mar 2016.

<sup>50</sup> Yahoo Finance, 8 Mar 2016.

<sup>51</sup> Mmegi, 9 Mar 2016.

<sup>52</sup> Mmegi, 9 Mar 2016.

<sup>53</sup> Mmegi, 9 Mar 2016.

<sup>54</sup> Reuters, 8 Mar 2016.

<sup>55</sup> Mmegi, 9 Mar 2016.

<sup>56</sup> Mmegi, 9 Mar 2016.

<sup>57</sup> The Patriot, 3 Mar 2016.

December 2017.<sup>58</sup> The government has also put out another tender for a 300 MW greenfield power plant, which will increase the local power production to 1,200 MW within the next five years.<sup>59</sup>

The government allegedly ignored expert advice in awarding the tender to Marubeni and Posco Energy.<sup>60</sup> The minerals, energy and water resources ministry reportedly received warnings from two international consultancy companies, **Delphos International** and **Auecon**, that the consortium had misrepresented its capacity and would not deliver the plant by the scheduled date.<sup>61</sup> They also argued that the plans that Marubeni and Posco proposed breached the allowable maximum capacity and would result in a \$40m cost overrun.<sup>62</sup> The consultants also alleged that the consortium lacked back-up plans in the event of problems with the power units.<sup>63</sup> This means if the plants develop faults, Botswana will experience power cuts. The consultancy companies had recommended another bidder – **Kepeco** – which they argued has the capacity to deliver the project 11 months earlier than Marubeni and Posco Energy.<sup>64</sup>

*“These irregularities point to a repetition of the government’s ill-fated Morupule B plant, that the CNEEC constructed, but has not been fully operational to date. Khama complained bitterly about the Morupule B fiasco, but strangely, he did not make anyone accountable for the situation, both in the CNEEC and his own administration. With the recent tender [Marubeni/Posco] history will likely repeat itself. However, this may be slightly different. Under this independent power producer model, the successful bidders will incur the loss if the plant does not function, since they will get a return on their investment from the government’s purchase of electricity from the plant. That means it is within the companies’ financial interests to make the plant work. Nevertheless, it does not downplay the serious irregularities that accompanied the bidding process, which can only be explained by corruption.”<sup>65</sup>*

## Implications

The ongoing job losses expose the weaknesses of Botswana’s economy, which primarily depends on mining revenue, especially from diamond exports. Large-scale retrenchments are likely to continue throughout the region. New investment will only trickle into the regional economy, due to low returns from minerals. Job losses increase the likelihood of social unrest, given the prevailing drought that is causing food and water shortages. Southern African governments – including Botswana – thus need to take a more active role in attracting investment, especially in non-mineral or primary commodity-based industries.

The government’s privatisation policy is underway with the successful BTCL IPO. Although this will provide capital and facilitate increased citizen participation in the economy, the exclusion of foreign nationals may counter the government’s efforts to attract foreign investment into the economy. Instead, the government ought to create quotas that would allow non-citizens and multinational companies to participate in the privatisation drive

<sup>58</sup> The Patriot, 3 Mar 2016.

<sup>59</sup> Mmegi, 9 Mar 2016.

<sup>60</sup> Sunday Standard, 14 Mar 2016.

<sup>61</sup> Sunday Standard, 14 Mar 2016.

<sup>62</sup> Sunday Standard, 14 Mar 2016.

<sup>63</sup> Sunday Standard, 14 Mar 2016.

<sup>64</sup> Sunday Standard, 14 Mar 2016.

<sup>65</sup> Source, analyst, Botswana

through finance, expertise and exposure to knowledge and technology that the country does not yet have.

If successful, the government's power initiatives will make Botswana a power exporter within the next decade. However, the government also needs to expand its initiatives to develop renewable energies, especially solar power which will be more sustainable in the long term. The possibility that corruption influenced the government's award of a tender to the Japanese and South Korean consortium is, however, a cause for concern.

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