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Zimbabwe and South Africa confirm their support for the candidacy of Botswana's foreign minister, Phelekezela Mampoko, for chair of the African Union (AU). Their support comes despite Botswana's breaking rank with the Southern African Development Community (SADC) over Zimbabwe and Namibia's request to the United Nations (UN) for permission to legally export their ivory stocks, and criticism of South Africa and other African countries for their decision to withdraw from the International Criminal Court (ICC). Standard and Poor's (S&P) announces Botswana's credit rating, indicating a negative outlook that mainly emanates from the currently low global commodity prices. The World Bank states that the government should invest more in building the country's infrastructure, mainly water and electricity-related facilities, in order to improve its economic performance. The Botswana Power Corporation (BPC) plans to sell the struggling Morupule B power plant, following persistent technical flaws that have resulted in operating losses and dependence on government subsidies. Botswana and South Africa unveil a new bridge at Swartkopfontein, their largest and busiest border post, which will facilitate higher volumes of trade between the two countries.

South Africa and Zimbabwe support Mampoko's candidacy for AU chair

In a surprise move, **South Africa** and **Zimbabwe** have confirmed their support for **Botswana's** foreign minister, **Phelekezela Mampoko**, as candidate for the **African Union (AU)** chair.¹ The two countries indicated their support in a joint communiqué issued at the inaugural session of the **Zimbabwe-South Africa Bi-National Commission** on 3 November.² Zimbabwe foreign minister **Simbarashe Mumbengegwi** read the statement during the bilateral meeting between Zimbabwe president **Robert Mugabe** (1980- present) and South Africa president **Jacob Zuma** (2008-present).³ The AU chair became vacant after the current chair, former South African home affairs minister **Nkosazana Dlamini-Zuma**, decided not to stand for a second term.⁴

This support comes despite Botswana breaking rank with the **Southern African Development Community (SADC)** leaders over Zimbabwe's and **Namibia's** lobby to legally export ivory (see *ARC Briefing Botswana September 2016*), and disagreement with South Africa over its withdrawal from the **International Criminal Court (ICC)** (see *ARC Briefing Botswana October 2016*), which had put the endorsements in doubt. The confirmation of support puts to rest rumours that South Africa had opted to support **Kenya's** foreign affairs cabinet secretary, **Amina Mohammed**.⁵

¹ eNCA, 4 Nov 2016.

² The Citizen, 4 Nov 2016.

³ eNCA, 4 Nov 2016.

⁴ eNCA, 4 Nov 2016.

⁵ New Zimbabwe, 4 Nov 2016.

“Mugabe and Zuma’s support for Botswana’s foreign minister is unexpected, because of the sharp differences that exist between the two leaders and Khama. These differences, especially over withdrawal from the ICC, had partly led to rumours that South Africa would support Kenya’s candidate, since the two nations share common ground as far as withdrawal from the ICC is concerned. However, it is politically expedient for Zuma and Mugabe to support a regional SADC candidate, who has high winning potential and would likely promote regional interests in the AU.”⁶

The AU held the first round of elections in July (see *ARC Briefing Botswana July 2016*). Moitoi beat the other two candidates, **Specioza Wandira Kazibwe**, former **Ugandan** vice president, and **Agapito Mokuy**, **Equatorial Guinea’s** foreign minister. However, the vote for Moitoi fell short of a two-thirds majority because some countries abstained from voting.⁷ Moitoi garnered 16 votes, against Mokuy’s 12 and Kazibwe’s 11, which prompted the AU to postpone the elections following seven rounds of votes.⁸ The AU has since extended Nkosazana Dlamini-Zuma’s term until the next election in **Addis Ababa (Ethiopia)** in January 2017.⁹ Former special representative of the **United Nations (UN)** secretary general for **Central Africa** and **Senegalese** diplomat **Abdoulaye Bathily** has since joined the race and will contest the election in January.¹⁰

S&P affirms Botswana’s credit rating

Standard and Poor’s (S&P) credit rating agency announced Botswana’s credit rating and highlighted its negative outlook on 31 October.¹¹ S&P indicated that the negative outlook results from the downside risk emanating from the likelihood of a continued low commodity price environment, especially in diamonds, which are Botswana’s leading export commodity.¹² S&P reaffirmed the ratings of ‘A-’ for long-term bonds, and ‘A-2’ for short-term bonds in domestic and foreign currency priced borrowing.¹³ The negative outlook is also a result of the drought, and other infrastructural challenges such as inadequate electricity supply and water shortages.¹⁴

S&P indicated that the possible continued low diamond prices and demand is likely to result in weaker economic growth and worsening of the country’s external position in the next 12-18 months.¹⁵ Diamond sales have declined by 15% in the first half of 2016, echoing a similar drop in 2015.¹⁶ This has led to **Debswana**, the government-owned diamond producer, cutting back production.¹⁷ However, S&P cited prudent fiscal management, a strong external balance sheet, strong institutional framework and an established track record of political stability continue as commendable features of Botswana’s political system.¹⁸ S&P also noted

⁶ Source, analyst

⁷New Zimbabwe, 4 Nov 2016.

⁸New Zimbabwe, 4 Nov 2016.

⁹SABC, 4 Nov 2016.

¹⁰The Citizen, 4 Nov 2016.

¹¹Rapaport 31 Oct 2016.

¹²Rapaport, 31 Oct 2016.

¹³Mmegi, 1 Nov 2016.

¹⁴Mmegi, 1 Nov 2016.

¹⁵Mmegi 1 Nov 2016.

¹⁶CPI Financial, 31 Oct 2016.

¹⁷CPI Financial, 31 Oct 2016.

¹⁸Mmegi, 1 Nov 2016.

positive growth in construction and services sectors, which, combined with anticipated (though gradual) recovery in the diamond sector, would result in 3% GDP growth in 2016.¹⁹

Following S&P's announcement, the **World Bank** on 28 October also stated that Botswana should invest more in infrastructure and human capital to boost its competitiveness.²⁰ The bank warned that the government's failure to upgrade electricity and water infrastructure in a timely manner would negatively impact non-mining economic activities, particularly in manufacturing.²¹ The bank also noted to the need to diversify from commodity exports and public sector activity, which make Botswana vulnerable to external shocks.²² This includes the current economic slowdown in **China**, which contributed to a reduction in diamond demand.²³ The bank also recommended that the government improve the ease of doing business through a reform of its relatively unfriendly immigration policies, which frequently limit expatriate professionals' ability to work in the country.²⁴

Botswana to sell Morupule B Power plant

The government announced on 5 November that it will sell the struggling **Morupule B** coal-fired power plant.²⁵ **Botswana Power Corporation (BPC)** chief executive officer **Stefan Schwarzfischer** said that structural defects affecting functionality have made the plant costly to maintain and operate since its commissioning in 2012.²⁶ The BPC has not revealed the buyer, but it is likely **China National Electric Equipment Corporation (CNEEC)**, the company that built the power plant.²⁷ Schwarzfischer said the sale would take 6-12 months to complete.²⁸

"The government's decision to sell the Morupule plant is overdue, given its failure to attain full operational functionality since its launch. However, this is likely a deal in which the CNEEC and the government finally settle the ongoing dispute over the plant. By buying the plant, the CNEEC gets to pay part of its debt to the government, since the plant never got to operate fully as the CNEEC was contractually obliged to ensure."²⁹

The plant cost \$970m to construct and has an electricity generation capacity of 600 megawatts (MW).³⁰ However, it has broken down since its commissioning due to boiler leaks and generator failures, which has forced Botswana to depend on power imports from South Africa.³¹ A joint venture between **Japan-based Marubeni Corp**, and **South Korea-based Posco Energy** had won a tender to repair the plant in March, which would add 300MW-output capacity.³² The impending sale is not likely to affect the repairs.³³

¹⁹ CPI Financial, 31 Oct 2016.

²⁰ Mmegi, 28 Oct 2016.

²¹ Mmegi, 28 Oct 2016.

²² Mmegi, 28 Oct 2016.

²³ Mmegi, 28 Oct 2016.

²⁴ Mmegi, 28 Oct 2016.

²⁵ Reuters, 5 Nov 2016.

²⁶ The Chronicle, 9 Nov 2016.

²⁷ Southern Times, 11 Nov 2016.

²⁸ Reuters, 5 Nov 2016.

²⁹ Source, analyst

³⁰ The Chronicle, 9 Nov 2016.

³¹ Southern Times, 11 Nov 2016.

³² Reuters, 5 Nov 2016.

³³ Reuters, 5 Nov 2016.

The BPC has been operating at a loss since 2008 and is currently implementing a corporate restructuring exercise to cut losses and reduce dependence on government subsidies, which made the sale necessary.³⁴ BPC posted a \$180m operating loss in the 2015-2016 financial year, and received \$219m in government subsidies in the same period.³⁵

“The government has been subsidising the attempts at repairing the Morupule B plant to no avail, so far, and thus needs to recoup the losses that it has made in both the initial capitalisation and subsequent renovations. Privatising the plant is likely to attract new private investment, which will fund the rehabilitation of the plant, leading to full functionality and an assured source of electricity for Botswana’s domestic consumption.”³⁶

New Botswana-South Africa bridge expected to boost economic growth

South Africa and Botswana unveiled a new bridge at **Swartkopfontein Border Post**, the largest border post between the two countries, on 7 November.³⁷ The bridge will facilitate imports and exports between the two countries, which frequent flooding of the previous bridge had negatively impacted.³⁸ South Africa is Botswana’s largest trading partner in the SADC region.³⁹ South Africa’s bilateral trade with Botswana amounted to \$3.9 billion in 2015.⁴⁰ Several South African companies are based in Botswana, in sectors such as housing, food and beverages, construction, retail, hotels and leisure, banking, and medical services.⁴¹

The two countries jointly funded the \$5.8m construction of the bridge.⁴² Speaking at the launch, South Africa’s transport minister **Dipuo Peters** said that the bridge represented infrastructural development that facilitated regional economic integration through the transfer of goods and services.⁴³ Botswana transport minister **Kitso Mokaila** indicated that since Botswana is a land locked country, the bridge would boost the economy by facilitating its movement of goods to and from other continents.⁴⁴ Botswana’s exports and imports are mostly channelled by road, entering Africa through South Africa’s **Durban** port.

Mokaila’s comments follow revelations that the dry port Botswana uses at **Walvis Bay** (Namibia) is failing to attract business, since most importers prefer Durban port.⁴⁵ The dry port manager, **Derrick Mokgale**, said he has lobbied the government to promote the use of the port by introducing a clause in the tendering process that would compel importers to use the port at Walvis Bay, instead of Durban.⁴⁶ However, Mokgale acknowledged that the Durban port is more competitive than Walvis Bay because it has rail links and weigh bridge services, which Walvis Bay does not have, due to a shortage of land on which to construct them.⁴⁷ Botswana constructed the dry port in 2015 (see *ARC Briefing Botswana January 2015*)

³⁴ Reuters, 5 Nov 2016.

³⁵ Reuters, 5 Nov 2016.

³⁶ Source, analyst

³⁷ SABC News, 7 Nov 2016.

³⁸ SABC News, 7 Nov 2016.

³⁹ SABC News, 7 Nov 2016.

⁴⁰ The Citizen, 10 Nov 2016.

⁴¹ Statement from the South African Presidency, quoted in The Citizen, 10 Nov 2016.

⁴² Creamer Media, 7 Nov 2016.

⁴³ Creamer Media, 7 Nov 2016.

⁴⁴ SABC News, 7 Nov 2016.

⁴⁵ Mmegi, 4 Nov 2016.

⁴⁶ Mmegi, 4 Nov 2016.

⁴⁷ Mmegi, 4 Nov 2016.

in order to provide an alternative route for imports from **Brazil**, the **United States** and trading partners in **Europe**.⁴⁸

Implications

Zimbabwe's and South Africa's support for Venson-Moitoi's candidacy for the AU position is unexpected, given that Botswana consistently breaks rank with both the regional SADC bloc and the AU at large. However, this may also indicate that the two governments opted to look beyond their differences with President **Ian Khama** (2008- present), whose term as SADC chair will end in 2017, and unite behind a candidate who would promote the SADC's interests at the AU. Moitoi's chances of winning are relatively high, given that she won the first election.

S&P's affirmation of Botswana's credit rating is not unexpected, given the currently depressed global commodity markets. However, the ratings and the World Bank's feedback also reflect the government's failure to invest in economic diversification and infrastructure, especially in water and energy. Diamonds are not likely to provide high returns in the future, given ongoing competition from synthetic diamonds, and **De Beers'** loss of control over global supply and prices that Botswana had benefitted from since the inception of its diamond industry.

The government's decision to sell Morupule B power plant is long overdue, since it has consistently experienced technical defects and failed to attain full functionality despite multiple renovations. The ongoing work by the joint venture between Japan's Marubeni and South Korea's Posco will probably be transferred to the new owner.

The new bridge at Swartkopfontein will boost the exchange of goods between Botswana and South Africa, since it is the largest and busiest port of entry by road. Botswana will benefit more from the bridge, since South Africa is its largest trading partner, and Botswana channels its imports and exports through Durban port.

⁴⁸ Mmegi, 4 Nov 2016.

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