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Minerals, energy and water resources minister Kitso Mokaila states in parliament on 1 August that the government has no plans to nationalise mines or buy out private investors, and that nationalisation of mines would have a detrimental effect on the whole economy. Although the economy is already struggling with decreased mining output, De Beers announces a strong first-half profit of \$585m, while Canada-based diamond company, Lucara Diamond Corp, announces a special dividend of \$132m due to strong financial results. Pangolin Diamonds announces that it is initiating percussion drilling at its mine in Botswana. However, these positives are tempered by a continued decrease in mining output in Botswana, especially in the diamond sector. Economic consulting firm Econsult recommends Botswana diversify its exports to continue growth and to move to a 'second transformation' of the economy. The opposition Botswana Congress Party (BCP) plans to conclude talks to join the opposition coalition, the Umbrella for Democratic Change (UDC), by the end of the year, uniting the opposition as one against the incumbent Botswana Democratic Party (BDP).

Botswana has no plans to nationalise mines

Minerals, energy and water resources minister **Kitso Mokaila** stated in parliament on 1 August that the government is not planning to nationalise mines or buy out private investors. Plans to do so would negatively impact **Botswana's** mineral investment attractiveness and drive away required investment to fund new projects.¹ Mokaila referred specifically to the prospect of the Botswana government buying out the **De Beers Group** from their joint diamond production company, **Debswana Diamond Co Ltd**. Several opposition members of Botswana's national assembly had alleged that the government was losing money to De Beers and called for a wholly state-owned enterprise to run mining operations in the country. In response, Mokaila noted that:

"No money is being lost to De Beers because they get what they are legally and commercially entitled to. There is no plan or policy to nationalise any mine, therefore the issues of advantages and disadvantages of such a move does not arise. There are no plans to buy out De Beers from Debswana."²

Mokaila stated that the government has not set a price to buy out De Beers nor has it put a value on Debswana.³ Government revenue from the joint venture was over \$1 billion in 2011.⁴ Mokaila noted that a plan to nationalise mines would have a negative impact on the country's economy.

"It is not the intention of government to buy out private investors or nationalise mines in Botswana. Such a move would have a negative effect on the country's mineral investment attractiveness as it will drive away the much required investment to find new prospecting projects and on-going investments in existing operation."⁵

¹ The Voice, 5 Aug 2016.

² Mmegi, 3 Aug 2016.

³ The Voice, 5 Aug 2016.

⁴ Mmegi, 1 Aug 2013.

⁵ Mmegi, 4 Aug 2016.

Member of parliament for **Boteti East, Sethoma Lelatisitswe**, also enquired about Debswana's localisation plan. Mokaila stated that of Debswana's 5,385 direct employees, only 105 employees are expatriates, and are necessary due to the limited supply of domestic nationals with suitable professional experience and qualifications.⁶ Several mines in Botswana are already close to being fully localised, such as **Jwaneng, Orapa-Letlhakane** and **Damtshaa**.⁷

There are also efforts to improve beneficiation in Botswana.⁸ The **United States (US)** government announced on 25 July that it had guaranteed a \$125m loan to strengthen diamond beneficiation in Botswana.⁹ The loan, which is the first tranche of a total \$250m fund, could help to ensure that diamond sorting, marketing and manufacturing are done in Botswana before export, increasing beneficiation in the country. The **Overseas Private Investment Corporation (OPIC)**, the US government's development finance institution, signed the loan guaranty with **Barclays Bank of Botswana** and **Lazare Kaplan International (KPI)**.¹⁰ OPIC vice president **James Polan** stated that *"this project will provide critical support to an industry that is central to Botswana's economy and a key source of job creation"*.¹¹ The loan guaranty will also assist US private sector companies to gain a foothold into the Botswana diamond market.¹²

De Beers announces strong first-half profits while Canadian mining firms continue

The calls for nationalisation come at the same time as De Beers announced 2% profit growth during the first half of 2016. The diamond company announced a first-half profit of \$585m on 30 July, mostly due to higher revenues from stronger rough diamond demand.¹³ The increase in rough diamond demand was paired with a decrease in rough diamond production, partially due to a 9% decrease in production by Debswana.¹⁴ In 2015, diamond output dropped 18% and while this may have helped De Beers profit, Botswana's real gross domestic product (GDP) contracted 0.2% between March 2015 and March 2016, compared to 3.2% growth year-on-year during the same period.¹⁵ However, despite the production decrease and poor growth, the increased profits are a bonus for the Botswana government as it has a 15% stake in De Beers.¹⁶

This follows an announcement on 19 July that **Canada-based Lucara Diamond Corp** will pay out a special dividend of \$132m to shareholders, following strong financial results from its diamond mine in Botswana.¹⁷ The size of the dividend shows the company's confidence in the strength of the diamond market and its high expectations for future revenue from diamond sales in the long term.¹⁸ The dividend follows the company's discovery of high quality diamonds from its **Karowe** mine, such as the world's second-largest, 1,111 carat gem diamond, named **'Lesedi La Rona'** (Our light) in 2015.¹⁹ The mine is Lucara's most valuable asset, although the company is currently conducting drilling and exploration programmes to establish new mines.²⁰ It also holds two prospecting licences near the Karowe mine.²¹ Lucara is due to announce its second quarter and interim results on 4 August, and reported \$50.3m in revenue at the close of its first quarter results ending 31 March.²²

⁶ Daily News, 2 Aug 2016.

⁷ Daily News, 2 Aug 2016.

⁸ Daily News, 2 Aug 2016.

⁹ Mining Weekly, 27 Jul 2016.

¹⁰ Mining Weekly, 27 Jul 2016.

¹¹ OPIC.gov, 25 Jul 2016.

¹² Mmegi, 29 Jul 2016.

¹³ Daily News, 2 Aug 2016.

¹⁴ Daily News, 2 Aug 2016.

¹⁵ Diamonds.net, 16 Aug 2016.

¹⁶ Daily News, 2 Aug 2016.

¹⁷ Proactive Investors, 20 Jul 2016.

¹⁸ Mining Journal, 20 Jul 2016.

¹⁹ Proactive Investors, 20 Jul 2016.

²⁰ Proactive Investors, 20 Jul 2016.

²¹ Proactive Investors, 20 Jul 2016.

²² Mining MX, 20 Jul 2016.

Additionally, **Toronto Stock Exchange**-listed **Pangolin Diamonds Corp** announced on 26 July that it has started a percussion drilling programme at its **Motloutse** diamond project in Botswana.²³ This continued investment into Botswana's diamond mining sector reaffirms the industry's viability despite low demand and prices since 2015.²⁴ The site covers the area where prospectors discovered diamonds for the first time in Botswana in 1959, including the location where De Beers discovered its first diamonds in Botswana in 1962.²⁵ Pangolin expects to complete the drilling programme by mid-August, after which it will analyse and announce the drill results.²⁶

...but mining production continues to decrease in the country

A report released in June 2016 by **Statistics Botswana** indicates that mining troubles will continue in the country due to a low global demand for diamonds and a lack of other minerals contributing to the economy.²⁷ This could reduce future government revenue, considering mineral revenues account for 40% of Botswana's GDP. The **Indices of Physical Volume of Mining** reports that total mining production dropped 5.6% year-on-year in the first quarter of 2016.²⁸ Both diamond and copper production has declined and while there were increases in production of gold, copper-nickel-cobalt matte and soda ash, the combined weight of the minerals is too insignificant to result in positive mining production growth.²⁹ **Gem Diamonds**, which owns the **Ghaghoo** diamond mine in Botswana, has been downsizing operations and reducing costs at its Botswana mines due to the weak market for diamonds.³⁰ One of the major reasons for this decline is the decreased demand for these minerals, especially from **China** where economic growth has slowed.³¹

Furthermore, a report by Botswana-based **Econsult**, led by **Keith Jefferis**, deputy governor of the **Bank of Botswana** from 1999 to 2005, stressed the need for Botswana to diversify the economy and not to rely on diamonds for economic growth.

*"It would be a mistake to assume that 'business as usual' is a viable approach to the future growth of the Botswana economy, for several reasons. First, even if diamond production continues at current levels for many years, this represents an output plateau, which by definition entails zero growth. Second, as mines get deeper and more difficult to exploit, costs of production go up and hence profits – and the sector's contribution to GDP and government revenues – will gradually decline."*³²

Jefferis recommends a diversification of exports, based on productivity, efficiency and competitiveness, as the basis for growth for Botswana's "*second transformation*", which will also require deeper integration into regional and global markets.³³

*"The fundamental approach must be outward looking, embracing global integration, vigorously promoting and supporting firms that export goods and services, attracting inward foreign investment, welcoming foreign firms and individuals who wish to invest in Botswana, work in Botswana, and trade with Botswana. The current tendency of putting up barriers to such regional and global integration will not lead Botswana towards high-income status."*³⁴

²³ Rapaport, 26 Jul 2016.

²⁴ Rapaport, 26 Jul 2016.

²⁵ Rapaport, 27 Jul 2016.

²⁶ Yahoo Finance, 26 Jul 2016.

²⁷ The Voice, 16 Aug 2016.

²⁸ www.cso.gov.bw, Indices of the Physical Volume of Mining Production, 2016.

²⁹ The Voice, 16 Aug 2016.

³⁰ Financial Times, 17 Aug 2016.

³¹ The Voice, 16 Aug 2016.

³² Econsult, Jun 2016.

³³ The Southern Times, 12 Aug 2016.

³⁴ Econsult, Jun 2016.

Opposition Botswana Congress Party to conclude talks with UDC coalition

The opposition **Botswana Congress Party (BCP)** announced on 31 July that it will conclude talks to join the opposition coalition, the **Umbrella for Democratic Change (UDC)**, before the end of 2016. With the inclusion of the BCP, the UDC would comprise all the major opposition parties. The UDC will attempt to increase its power over the incumbent **Botswana Democratic Party (BDP)** before the 2019 general elections in Botswana. The BDP, which has ruled Botswana since independence in 1966, currently holds 37 of the 63 seats in the **National Assembly**, while the UDC holds 17 and the BDC 3. Of the 63 seats available, only 57 are directly elected, meaning that, if the BDC joins the UDC, there will be a completely united opposition against the ruling BDP.

The UDC is a coalition between the **Botswana People's Party (BPP)**, **Botswana National Front (BNF)** and the **Botswana Movement for Democracy (BMD)**. Talks between UDC leader **Duma Boko** and BCP leader **Dumelang Saleshando** were due to start in April but were postponed. The resumed discussions will determine a common policy platform and deal with mechanisms to allocate constituencies among the opposition parties.³⁵ The BCP and UDC also signed a memorandum of agreement to not contest against each other in by-elections.³⁶ BCP secretary-general **Kentse Rammidi** stated that the BCP does not plan to *"go it alone if the talks fail"*³⁷ although the party could play the role of king-maker in 2019 if neither the BDP nor the UDC is able to obtain a majority to govern.

In response to the united opposition, the ruling BDP and its leader, president **Seretse Khama Ian Khama** (2008-present), announced plans to hold its primary elections earlier than planned in opposition-held constituencies. The primaries will elect the BDP member responsible for the constituency and are being held early in an attempt to quell opposition momentum in the country.³⁸

Implications

Botswana's public statement on its refusal to nationalise will help to keep markets calm, as opposed to the recurrent calls in **South Africa** for nationalisation of mines by **Economic Freedom Fighters (EFF)** leader **Julius Malema**. Botswana is one of a few resource-rich countries in which government has a significant ownership of mining companies. The Botswana government is able to obtain revenue from diamonds without the responsibility of managing the mine, which is left to De Beers. Nationalisation, such as happened in other African nations including **Zambia**, is more likely to lead to economic disaster as foreign investors move their capital to more investment-friendly countries. Mokaila's insistence that Botswana is not interested in nationalisation will help to continue investment in the mining sector in the country.

This is evidenced by the continuing profits made by De Beers, as well as continued investment by mining companies, such as the Canada-based companies, Lucara Diamond Corp and Pangolin Diamonds. The strong return on investment by Lucara and willingness to invest further by Pangolin will help to increase investor confidence in Botswana's mining sector, despite the slump in production. Botswana would be smart, however, to look to diversify its economy away from a dependence on minerals as production decreases. Jefferis' policy advice may be sound, but it may be difficult for government to move away from resources as its main source of revenue considering its dependence on it during the past decades.

The ruling BDP, despite a long-standing record of good governance and growth, may start to see signs of struggle if the opposition is able to unite by the end of 2016. It has continually lost seats in parliament since the 2004 elections and may lose its majority in the National Assembly in 2019 if it is unable to keep delivering services to the population, which is dependent on continued growth in the resource sector.

³⁵ Mmegi, 2 Aug 2016.

³⁶ Daily News, 1 Aug 2016.

³⁷ Mmegi, 2 Aug 2016.

³⁸ Sunday Standard, 28 Jul 2016.

About Africa Risk Consulting:

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