

## AFRICA RISK CONSULTING

### Botswana Monthly Briefing 15 October 2017

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#### Botswana Summary 15 October 2017

*President Ian Khama (2008-present) is involved in a diplomatic dispute with Zimbabwe's President Robert Mugabe (1980-present), reflecting tensions between the two leaders. Canada-based diamond mining company Lucara Diamonds sells the 1,109-carat Lesedi La Rona diamond for \$53m, far less than it had estimated. The government's standoff with Morupule B contractors threatens the plant's expansion programme. Switzerland-based Glencore purchases Chevron Botswana. Global auditing firm KPMG is involved in allegations of fraudulent auditing in Botswana. The Kingdom Bank Africa Ltd (KBAL) liquidator accuses the firm of falsely reporting that KBAL was solvent when it faced liquidity challenges.*

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#### Khama in diplomatic dispute with Mugabe

The **Botswana** government issued a statement on 5 October dismissing **Zimbabwe** President **Robert Mugabe's** (1980-present) criticism of President **Ian Khama's** (2008-present) non-attendance at regional and continental meetings.<sup>1</sup> The statement reflects the ongoing diplomatic tensions between the two leaders and offers insight into some of the factors that contributed to the electoral loss of Botswana's foreign minister, **Pelonomi Venson-Moitoi**, when she ran for the position of **African Union (AU) Commission** chairperson in January.<sup>2</sup> Mugabe attended the **Zimbabwe South Africa Bi-National Commission** on 3 October in **Pretoria (South Africa)** and stated in his official remarks that Venson-Moitoi lost the elections because of Khama's reputation for absenteeism from continental and global leaders' meetings.<sup>3</sup>

*"They sweated, you sweated, we sweated, but one man did not sweat. He sat at home and expected wonders to happen, but that did not happen. Everybody just said to you [Venson-Moitoi], 'We have not seen your president here, he does not attend meetings.' What will happen if we placed the organisation (AU) in his hands?"<sup>4</sup>*

Botswana's international affairs and cooperation ministry issued a statement dismissing Mugabe's comments and said the ministry would not issue any further comments on the issue out of respect for Mugabe's advanced age.<sup>5</sup>

*"It is well established in diplomatic circles on the continent and abroad that Khama has a contemptuous attitude towards international meetings, and opts to send representatives instead. In addition, Khama has frequently broken ranks with leaders*

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<sup>1</sup> African News, 6 Oct 2017.

<sup>2</sup> African News, 6 Oct 2017.

<sup>3</sup> African News, 6 Oct 2017.

<sup>4</sup> African News, 6 Oct 2017.

<sup>5</sup> African News, 6 Oct 2017.

*from the **Southern African Development Community (SADC)**, and the AU on several issues, including his withering criticism of Mugabe's rule. So, Venson-Moitoi could not have possibly won the election because Khama did not build solidarity with other leaders on the continent. On that basis, Mugabe's comments were valid, although they were made in a contemptuous fashion – this reflects the years-long animosity between the two leaders.”<sup>6</sup>*

This latest diplomatic dispute is part of presidents Khama and Mugabe's long-standing frosty relations and reflects both the regional and continental political dynamics.<sup>7</sup> Mugabe has managed to build solidarity with other leaders in the SADC and AU, while Khama has a record of both overt and subtle contempt for the inter-governmental organisations.<sup>8</sup> However, this is not likely to continue during the tenure of Botswana's next president who is more likely to build regional and continental solidarity, mainly for political and economic purposes.<sup>9</sup>

### **Lucara sells Lesedi La Rona diamond for \$53m**

Canada-based diamond mining company **Lucara Diamonds** sold its 1,109 carat **Lesedi La Rona** ('Our Light', in Botswana's **Tswana** language) diamond, which is the world's second largest, for \$53m through a private sale to **United Kingdom (UK)**-based jeweler, **Graff Diamonds**, according to news reports on 26 September.<sup>10</sup> This ends speculation about the fate of the diamond, which Lucara failed to sell at an auction at **Sotheby's** in **London (UK)** in 2016.<sup>11</sup> Lucara recovered the diamond from its **Karowe** mine in Botswana in 2015, and had originally hoped to get \$70m for it.<sup>12</sup> Lucara CEO **William Lamb** said that Graff paid more than the highest bid that Lucara received in June 2016 at the Sotheby's auction.<sup>13</sup> However, the price falls short of the \$63m that Lucara received from the sale of a smaller diamond, the 813-carat **Constellation**, in 2016.<sup>14</sup> Graff Diamonds' founder, **Laurence Graff**, indicated that the company will cut the diamond in a way that preserves its unique properties.<sup>15</sup>

The length of time Lucara took to sell the diamond demonstrates difficulties within the large diamond market, including the risk of diminished returns after the diamond is polished.<sup>16</sup> Nevertheless, the sale improved Lucara's financial position, as its share price had declined 19% since its failure to sell the diamond at Sotheby's in 2016.<sup>17</sup> Lucara's shares increased by 7.4% on the **Toronto Stock Exchange** after it announced the sale.<sup>18</sup>

Lucara will continue to focus on large diamonds, since they are more profitable than smaller diamonds.<sup>19</sup> Lucara's income from the Lesedi La Rona and Constellation diamonds amounted to over \$130m, which exceeded its investment in the Karowe mine from which it extracted the diamonds.<sup>20</sup>

<sup>6</sup> Source, analyst, Botswana

<sup>7</sup> VOA, 4 Oct 2017.

<sup>8</sup> VOA, 4 Oct 2017.

<sup>9</sup> VOA, 4 Oct 2017.

<sup>10</sup> CNN, 26 Sept 2017.

<sup>11</sup> CNN, 26 Sept 2017.

<sup>12</sup> CNN, 26 Sept 2017.

<sup>13</sup> CNN, 26 Sept 2017.

<sup>14</sup> CNN, 26 Sept 2017.

<sup>15</sup> CNN, 26 Sept 2017.

<sup>16</sup> Bloomberg, 26 Sept 2017

<sup>17</sup> Bloomberg, 26 Sept 2017

<sup>18</sup> Bloomberg, 26 Sept 2017

<sup>19</sup> Bloomberg, 26 Sept 2017

<sup>20</sup> Bloomberg, 26 Sept 2017

## Government's standoff with contractors threatens Morupule B expansion

The Botswana government is engaged in a pre-construction dispute with the two firms that won the tender to refurbish the **Morupule B** power plant, according to media reports on 29 September.<sup>21</sup> This is likely to result in further delays to the government's plans to increase domestic electricity generation to meet household and commercial demand and reduce its dependence on imported electricity.<sup>22</sup> The government awarded an \$800m contract to expand the power station by 300 megawatts to a joint venture between **Marubeni** and **Posco Energy** in December 2015.<sup>23</sup> The two firms were contractually obliged to fund the project independently and recoup their investment through a power purchase agreement (PPA) with the national utility, the **Botswana Power Corp (BPC)**.<sup>24</sup> However, the firms demanded that the government provide the \$800m guarantee upfront in order to cover the risk of the BPC failing to pay the companies through the PPP.<sup>25</sup>

Energy security minister **Sadique Kebonang** indicated on 28 September that the government had given the companies an ultimatum and that it planned to withdraw the contract if the parties failed to reach a workable compromise.<sup>26</sup> Marubeni and Posco Energy maintain that the joint venture would need the financial guarantee from the government to access project finance from various lenders.<sup>27</sup> The two companies had suggested an alternative arrangement in which the government would provide ongoing support to the project.<sup>28</sup> Kebonang said if its negotiations with Marubeni and Posco collapse, the government could re-tender the project, or abandon it for the development of a 100-megawatt solar project instead.<sup>29</sup>

*"The Morupule B plant is by far the costliest infrastructure development blunder that the government has made during Ian Khama's tenure. It possibly explains Khama's frosty diplomatic relations with **China**, which came to the fore during the **Dalai Lama's** intended visit to Botswana in August [see ARC Briefing Botswana July and August 2017]. It remains unclear if the government has since managed to recoup its losses from the [**China National Electric Engineering Corporation**] **CNEEC**, given that the **CNEEC** was contractually obliged to bring the plant to full functionality, which is yet to occur."<sup>30</sup>*

The government commissioned the Morupule B expansion project in 2006, but the power plant is not yet fully functional because of persistent technical problems resulting from mismanagement by **CNEEC**, the initial contractor.<sup>31</sup>

## Glencore acquires Chevron Botswana

Switzerland-based **Glencore Plc** has signed an agreement with **Off The Shelf Investments Fifty Six (OTS)** to buy a 75% stake in **Chevron South Africa**, and 100% ownership of **Chevron Botswana**, in a deal worth \$973m, according to media reports on 6 October.<sup>32</sup> The

<sup>21</sup> Mmegi, 29 Sept 2017.

<sup>22</sup> Mmegi, 29 Sept 2017.

<sup>23</sup> Mmegi, 29 Sept 2017.

<sup>24</sup> Mmegi, 29 Sept 2017.

<sup>25</sup> Mmegi, 29 Sept 2017.

<sup>26</sup> Mmegi, 29 Sept 2017.

<sup>27</sup> Mmegi, 29 Sept 2017.

<sup>28</sup> Mmegi, 29 Sept 2017.

<sup>29</sup> Mmegi, 29 Sept 2017.

<sup>30</sup> Source, analyst, Botswana

<sup>31</sup> Mmegi, 29 Sept 2017.

<sup>32</sup> Creamer Media, 6 Oct 2017.

deal reflects a rebound in global commodity prices, which has resulted in global mining companies realising higher profits and buying more assets.<sup>33</sup> The new acquisition will expand Glencore's multinational commodity trading and mining operations into Botswana.<sup>34</sup> Glencore is the world's largest mining company by revenue.<sup>35</sup> The Botswana-based assets that Glencore will acquire include Chevron's interests in manufacturing, retail, and industrial supply businesses.<sup>36</sup> Glencore indicated that the assets will provide additional downstream opportunities for its interests in the oil sector.<sup>37</sup> Glencore secured the deal in an auction in which it outbid several other competitors.<sup>38</sup> The sale is Chevron's second attempt to sell the assets, which it had initially sought to dispose of in January 2016 due to low global oil prices.<sup>39</sup>

Glencore's investment into the oil and commodities sector comes as Botswana's state-owned oil corporation, **Botswana Oil Ltd (BOL)**, has announced that its call for investors to build the country's first coal to liquid (CTL) plant has attracted 11 bidders, according to media reports on 22 September.<sup>40</sup> The relatively enthusiastic response from the private sector reflects the project's financial viability.<sup>41</sup> BOL's government and stakeholder relations manager, **Matilda Mmipi**, said the national oil utility will evaluate the submissions for tender in order to identify a suitable joint venture partner.<sup>42</sup> Mmipi also indicated that the BOL is likely to complete the evaluation process towards the end of October.<sup>43</sup> Mmipi said that once completed, the project will ensure that Botswana moves towards self-sufficiency in oil production, while augmenting the local production with reduced import amounts.<sup>44</sup> The coal-to-liquids plant will produce approximately 75-80% of Botswana's annual oil consumption, currently 1.2 billion litres.<sup>45</sup> The CTL process entails converting coal into liquid fuels such as petrol, paraffin, diesel, liquefied petroleum gas, ammonia, and wax.<sup>46</sup> These developments will substantially expand the oil sector in Botswana, given the gradual resurgence in global oil prices.<sup>47</sup>

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<sup>33</sup> Sunday Times, 6 Oct 2017.

<sup>34</sup> Creamer Media, 06 Oct 2017.

<sup>35</sup> Creamer Media, 6 Oct 2017.

<sup>36</sup> Creamer Media, 6 Oct 2017.

<sup>37</sup> Creamer Media, 6 Oct 2017.

<sup>38</sup> Sunday Times, 6 Oct 2017.

<sup>39</sup> Sunday Times, 6 Oct 2017.

<sup>40</sup> Mmegi, 22 Sept 2017.

<sup>41</sup> Mmegi, 22 Sept 2017.

<sup>42</sup> Mmegi, 22 Sept 2017.

<sup>43</sup> Mmegi, 22 Sept 2017.

<sup>44</sup> Mmegi, 22 Sept 2017.

<sup>45</sup> Mmegi, 22 Sept 2017.

<sup>46</sup> Mmegi, 22 Sept 2017.

<sup>47</sup> Mmegi, 22 Sept 2017.

## KPMG in allegations of fraudulent auditing in Botswana

Multinational auditing firm **KPMG** is involved in allegations of potentially large-scale fraudulent auditing in Botswana, according to media reports on 2 October.<sup>48</sup> The case provides insight into corporate corruption in Botswana, despite its reputation for a robust political and economic governance culture.<sup>49</sup> **John Little**, the liquidator of **Kingdom Bank Africa Ltd (KBAL)** which closed down in 2015, has accused KPMG of falsely signing off the bank's books as solvent, when the bank was in fact insolvent.<sup>50</sup> Little is suing KPMG for \$18.1m.<sup>51</sup>

KBAL entered liquidation in May 2015, following an audit by the **Bank of Botswana (BoB)**, (central bank) which revealed an \$18.7m mismatch between its assets and liabilities.<sup>52</sup> However, Little said that KBAL was already insolvent in 2010, but continued operating until 2014 because KPMG falsely declared that the bank was still solvent.<sup>53</sup> As a result, KBAL's annual financial statements after 2010 misstated its financial position, resulting in the financial distress that led to the bank's closure.<sup>54</sup>

KPMG has denied that it deliberately misrepresented KBAL's financial position:

*"As at 31 December 2013, KBAL was solvent and in our view had sufficient reserves to carry it through for at least 12 months whilst it undertook a restructuring process which included finding new investors for the Bank. The going concern issues and the required restructure were disclosed in the financial statements at 31 December 2013. The board of directors was not successful in producing additional investors and KBAL was placed into statutory management in February 2015 by Bank of Botswana."*<sup>55</sup>

Zimbabwe-based businessman **Nigel Chanakira** was the 100% owner of KBAL and registered the bank in Botswana in 2003, with **Kingdom Bank Zimbabwe (KBZ)** as its parent company and technical partner.<sup>56</sup> KBAL's solvency and liquidity problems are a result of its investment of \$18m in negotiable certificates of deposits (NCDs) to its holding company, KBZ.<sup>57</sup> It failed to retrieve the investment because of liquidity crises in Zimbabwe, resulting in the loss of depositor funds.<sup>58</sup> The case is primarily a result of Zimbabwe's economic crises, but also reflects the need for Botswana to upgrade its banking regulations. The Bank of Botswana ought to have required that KBAL secured sufficient insurance against the transfer of the NCDs to another country, given that the loss of the NCDs led to KBAL's account holders losing funds they had deposited in a Botswana-based financial institution.

<sup>48</sup> Sunday Standard, 2 Oct 2017.

<sup>49</sup> Sunday Standard, 2 Oct 2017.

<sup>50</sup> IOL, 3 Oct 2017.

<sup>51</sup> Mmegi, 5 Oct 2017.

<sup>52</sup> IOL, 3 Oct 2017.

<sup>53</sup> IOL, 3 Oct 2017.

<sup>54</sup> Sunday Standard, 2 Oct 2017.

<sup>55</sup> Excerpt from KPMG's statement, quoted in Mmegi, 5 Oct 2017.

<sup>56</sup> Mmegi, 5 Oct 2017.

<sup>57</sup> Mmegi, 5 Oct 2017.

<sup>58</sup> Mmegi, 5 Oct 2017.

## Planner

18 Oct 2017. **Gaborone (Botswana)** 3<sup>rd</sup> Annual African Cybercrime Conference;

9-11 Apr 2018 **Gaborone (Botswana)** Mining Investment Botswana strategic mining conference;

2019 (**Botswana**) Scheduled general elections;

## Chronology

12 October 2017. Gaborone (**Botswana**) *Africa News* Botswana government issues statement criticising **Catalonia** for ‘illegal signing’ of independence declaration;

9 October 2017. Lobatse (**Botswana**) *News24 Media Institute of Southern Africa (MISA)* accuses Botswana government of being aggressive and intolerant after it seeks interdict against **Sunday Standard** from publishing information related to the **Directorate of Corruption and Economic Crimes (DCEC)**’s operations;

6 October 2017. Gaborone (**Botswana**) *Africa News* Botswana says President **Robert Mugabe’s** recent diplomatic gaffe is a result of his advanced age;

6 October 2017. Johannesburg (**South Africa**) *Creamer Media* **Glencore** announces plans to acquire **Chevron’s South Africa**, Botswana assets for \$973m;

6 October 2017. (**Botswana**) *The Southern Times* Finance minister **Kenneth Matambo** announces that the government will allocate a larger portion of the 2018/19 national budget to defence;

2 October 2017. Gaborone (**Botswana**) *Sunday Standard* **Kingdom Africa Banking Limited (KBAL)** liquidator **John Little** accuses global auditing company **KPMG** of misconduct for allegedly rating KBAL as solvent when it was in fact insolvent;

26 September 2017. Gaborone (**Botswana**) *Bloomberg* State-owned oil firm **Botswana Oil Ltd (BOL)** spokesperson **Matilda Mmipi** says BOL will name developer of planned \$4 billion coal to liquids plant by December;

26 September 2017. Gaborone (**Botswana**) *CNBC* Canada-based diamond mining company **Lucara** sells the 1109-carat “**Lesedi La Rona**” diamond for \$53m to **Graff Diamonds**, having failed to sell it in 2016;

29 September 2017. Gaborone (**Botswana**) *Mmegi* Mineral resources, green technology and energy security minister **Sadique Kebonang** has threatened joint venture partners **Posco Energy** and **Marubeni** with withdrawal of contract, as contractual dispute over **Morupule B** expansion continues;

### About Africa Risk Consulting:

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