

AFRICA RISK CONSULTING

Botswana Monthly Briefing 16 June 2017

Botswana Summary 16 June 2017

Tibetan spiritual leader, the Dalai Lama, will visit Botswana in August, potentially harming diplomatic and trade relations with China despite the foreign ministry denying state involvement in his visit. The opposition Umbrella for Democratic Change (UDC) petitions the Swedish government to reconsider its decision to sell military hardware to the Botswana government, citing excessive spending and evidence of corruption in arms procurement. Wilderness Holdings withdraws its expression of interest (EOI) to become a joint venture partner with the national airline, Air Botswana. Australia-based Kimberley Diamonds shuts down its Lerela diamond mine in Botswana, as poor sales in the diamond sector reduce profits.

Botswana set for diplomatic row with China over Dalai Lama

The government has granted the **Tibetan** spiritual leader, the **Dalai Lama**, permission to enter **Botswana** for a conference that the **Mind and Life Institute** will host at the **University of Botswana** from 17-19 August.¹ This may result in diplomatic tensions with **China**. China's "**One-China**" foreign policy regards the autonomous territories of **Taiwan** and Tibet as Chinese provinces.² The Dalai Lama is a proponent of Tibetan autonomy, which China views as separatism.³ China frequently criticises countries that allow the Dalai Lama entry, using threats of withdrawing aid funding and trade links as leverage.⁴ **South Africa** denied the Dalai Lama entry in 2009 to protect trade relations with China following diplomatic pressure from **Beijing**.⁵

The government has denied playing a part in the Dalai Lama's visit⁶ although President **Ian Khama** (2008-present) will give the opening address at the conference.⁷ Foreign affairs ministry permanent secretary **Gaeimelwe Goitsewang** stated on 13 June that the Botswana government officially supports the "One China" policy and therefore would not coordinate or sanction the Dalai Lama's trip.⁸ Goitsewang confirmed that the Chinese government had contacted his government over the issue, and said that his ministry was not responsible for the Dalai Lama's visit.⁹ However, the foreign ministry's chief of protocol, **Daphne Kadiwa**,

¹ Journal du Cameroun, 5 Jun 2017.

² Journal du Cameroun, 5 Jun 2017.

³ Journal du Cameroun, 4 Jun 2017.

⁴ Journal du Cameroun, 5 Jun 2017.

⁵ Journal du Cameroun, 4 Jun 2017.

⁶ Mmegi, 14 Jun 2017.

⁷ Weekend Post, 5 Jun 2017.

⁸ Mmegi, 14 Jun 2017.

⁹ Mmegi, 14 Jun 2017.

was reportedly involved in granting the Dalai Lama entry into the country.¹⁰ Goitsemanang claimed that Kadiwa's involvement was in her personal and private capacity.¹¹ The government's handling of the Dalai Lama's visit raises questions since it is unlikely that a junior ranking ministry official would use personal discretion to allow the entry of a high-profile individual in contravention of government policy.

The Chinese embassy in Botswana has not commented on the issue yet. The director of political affairs at the embassy, **Tang Shenping**, indicated that the issue was "sensitive" and promised to issue a statement in due course.¹²

Botswana and China have shared close diplomatic and economic relations for over forty years.¹³ If the visit goes ahead as planned, the Dalai Lama's arrival in August is likely to result in diplomatic tensions between China and Botswana, since China makes no exceptions to condemning his visits to countries with which it has formal diplomatic and economic relations.

Opposition petitions Sweden over Botswana arms purchase

The opposition **Umbrella for Democratic Change (UDC)** has petitioned the **Swedish** government over its sales of military hardware to the Botswana government, according to media reports on 9 June.¹⁴ This is a notable spillover of the country's internal politics onto the world stage and will put pressure on the government in the run up to the 2019 elections.¹⁵ The UDC's president, **Duma Boko**, submitted a 10-page petition to the Swedish government, criticising the Botswana government's prioritisation of arms purchases while the country's unemployment and social inequality levels continue to escalate.¹⁶ Boko described the military spending as "illegitimate", since the current **Botswana Democratic Party (BDP)** government's mandate will expire in less than two years.¹⁷ Botswana's military spending has increased markedly under Khama's presidency.¹⁸ Khama is also reportedly invested in the arms procurement industry, particularly through **Seleka Springs**, a company in which he allegedly has shares.¹⁹ In his statement to the Swedish government, Boko described Khama's military spending as

*"...not even indicative of his 'patriotic' or even 'altruistic' credentials. It is all about his unbridled selfishness and policy of self-aggrandisement."*²⁰

Botswana's military expenditure has increased since Khama assumed office, from \$292m in 1998 to \$377m in 2008, and \$436m in 2015.²¹ The government's **National Development Plan 1**, which outlines its development agenda from April 2017 to March 2023, indicated that it plans to spend about 15% of its gross domestic product (GDP) on "territorial integrity", half of which will fund the purchase of Swedish **Gripen JAS 39** fighter aircraft.²² Although the

¹⁰ Mmegi, 14 Jun 2017.

¹¹ Mmegi, 14 Jun 2017.

¹² Journal de Cameroun, 15 Jun 2017.

¹³ Journal de Cameroun, 15 Jun 2017.

¹⁴ Mmegi, 9 Jun 2017.

¹⁵ Mmegi, 9 Jun 2017.

¹⁶ Weekend Post, 12 Jun 2017.

¹⁷ Weekend Post, 12 Jun 2017.

¹⁸ Weekend Post, 12 Jun 2017.

¹⁹ Mmegi, 9 Jun 2017.

²⁰ UDC president Boko's statement to the government of Sweden.

²¹ Mmegi, 9 Jun 2017.

²² Mmegi, 9 Jun 2017.

government cites the need to modernise its military hardware, military expenditure exerts additional pressure on its declining economy, which low diamond prices have considerably affected. Ratings agency **Standard and Poor's** reported in December 2015 that diamond sales dropped by up to 30% over two years.²³ The government's 2009 debt stood at 6.3% of GDP, but this has increased to 16% of GDP by 2017, partly inflated by arms purchases.²⁴

The arms purchases are symptomatic of Botswana's overall political dynamics under Khama. The presidency, army, and some members of the Khama family are linked to controversial deals and transactions, which indicate possible use of the state for financial gain by the governing elite.

Wilderness Safaris withdraws controversial Air Botswana bid

Botswana-based tourism company **Wilderness Safaris** withdrew its interest in taking over the national airline, **Air Botswana**, on 9 June.²⁵ This puts Air Botswana's future in question, given similar withdrawals and failed bids by several private companies that have expressed interest in running the airline.²⁶ The government had invited expressions of interest (EOIs) in February as part of the privatisation of Air Botswana, which is experiencing operational challenges and incurring losses.²⁷ The transport and communications ministry informed a parliamentary committee that Wilderness had expressed its interest in the national carrier on 7 June.²⁸ Wilderness did not provide reasons for the decision, stating only that it had chosen to withdraw the EOI "*after careful deliberation*".²⁹ Wilderness' bid was controversial because President Khama reportedly owns substantial shares in the company through a subsidiary called **Linyanti Investments**.³⁰ Khama has previously publicly denied involvement in Wilderness Safaris.³¹ Khama indicated in September 2016 that he was not a shareholder in the company, but only held shares in a concession that is leased to the company.³²

When the government privatised Air Botswana in February, it invited bids for different ownership and investment forms, ranging from full ownership, joint ventures, franchising and concessions proposals.³³ Wilderness appeared poised to take over the airline as a viable joint venture partner, owing to its financial standing and expertise. It is listed on the **Johannesburg Stock Exchange (JSE)** and operates 50 resorts in eight **African** countries.³⁴ Wilderness also owns airline **Wilderness Air**, which operates 35 small aircraft in Botswana, **Zimbabwe, Zambia** and **Namibia** catering for tourist travel.³⁵ Wilderness Safaris' bid had provided a strong prospect for a domestic investment lifeline for Air Botswana, which is currently struggling to secure viable private investment and a turnaround strategy.

²³ Weekend Post, 12 Jun 2017.

²⁴ Weekend Post, 12 Jun 2017.

²⁵ Reuters, 9 Jun 2017.

²⁶ Reuters, 9 Jun 2017.

²⁷ Reuters, 9 Jun 2017.

²⁸ The Voice, 9 Jun 2017.

²⁹ The Voice, 9 Jun 2017.

³⁰ The Voice, 9 Jun 2017.

³¹ Mmegi, 30 May 2017.

³² Mmegi, 30 May 2017.

³³ Reuters, 29 May 2017.

³⁴ Reuters, 29 May 2017.

³⁵ Reuters, 29 May 2017.

Although the reasons for Wilderness' decision are unclear, it followed public criticism over allegations that Khama had handpicked Wilderness to be a joint venture partner through a presidential directive, CAB 12 (A) 2017.³⁶ The presidential decree had instructed the cabinet to have Air Botswana take on Wilderness as a majority shareholder.³⁷ The negative press had reportedly threatened Wilderness' share price on the **Botswana Stock Exchange**, its primary listing, which resulted in shareholders voting for a reversal of the EOI.³⁸ However, both Wilderness and the government have denied the existence of the presidential directive or any irregularities in the aborted purchase.³⁹ Other sources allege that the company had already decided not to move forward with the bid for Air Botswana by the time the transport and communications permanent secretary **Kabelo Ebineng** publicly revealed Wilderness' EOI.⁴⁰

The controversy surrounding Wilderness Safaris' failed bid is indicative of the overlapping, and sometimes competing, political and business interests in the government. It revolves around the investments of President Khama and his family in the tourism industry in general, and in Wilderness in particular. Wilderness' withdrawal also leaves Air Botswana without a viable prospect for privatisation in the short to medium term.

Kimberley Diamonds shuts down Lerala mine, as diamond sector contracts

Australia-based mining company **Kimberley Diamonds (KDL)** has shut down its **Lerala** diamond mine in Botswana, following poor sales and weak market conditions, according to media reports on 1 June.⁴¹ This is the latest economic consequence of the now soft global diamond market in which diminished demand has led to a glut of jewel quality diamonds and low prices.⁴² The mine closure led to the retrenchment of 130 local workers, reportedly without prior notification.⁴³ **Australia**-based **DiamonEx** began operations at the Lerala mine in 2008 but closed the mine in 2009 following a crash in diamond prices.⁴⁴ **United Kingdom**-based **Mantle Mining** bought the mine from DiamonEx in 2011.⁴⁵ Lerala closed down again in July 2012 following a slowdown in the diamond market.⁴⁶ Kimberley Diamonds acquired 100% of the equity in Mantle Mining, including the Lerala Mine, in 2013.⁴⁷ Kimberley Diamonds recommenced mining operations at Lerala in April 2016.⁴⁸ The company was reportedly engaged in talks with a China-based investor before it closed the mine.⁴⁹

Kimberley Diamonds' closure of Lerala mine this month follows **Gem Diamonds'** similar decision to suspend operations at its **Ghaghoo** mine in western Botswana in early June, also due to low global diamond prices.⁵⁰ The mine contained an estimated 20.1 million tonnes of

³⁶ Sunday Standard, 11 Jun 2017.

³⁷ Sunday Standard, 11 Jun 2017.

³⁸ Sunday Standard, 11 Jun 2017.

³⁹ Sunday Standard, 11 Jun 2017.

⁴⁰ Sunday Standard, 11 Jun 2017.

⁴¹ CNBC Africa, 1 Jun 2017.

⁴² CNBC Africa, 1 Jun 2017.

⁴³ CNBC Africa, 1 Jun 2017.

⁴⁴ Mmegi, 2 Feb 2009.

⁴⁵ Sunday Standard, 27 Jun 2011.

⁴⁶ Mmegi, 1 Jun 2017.

⁴⁷ Mining Weekly, 17 Sep 2013.

⁴⁸ Mmegi, 12 Apr 2016.

⁴⁹ CBC Africa, 1 Jun 2017.

⁵⁰ Journal du Cameroun, 2 Jun 2017.

diamond mineral resource at 24.2 carats per hundred tonnes, which amounted to 4.9 m carats.⁵¹

Botswana is facing gradual decline in its diamond industry, especially smaller jewel quality stones, due to low global prices. **Econsult** managing director **Keith Jefferis** indicated on 12 June that mining has generally ceased being the main driver of Botswana's economy.⁵² Speaking at the **Botswana Resource Sector Conference**, Jefferis indicated that investment into the mining sector had dropped below 2% of gross domestic product (GDP) in the last two years, from 6% and 7% a year in the early 2000s.⁵³

*"The future of mining is not going to be like the huge cash cow it was in the past. Mining is risky, and risk means there will be successes and failures...Diamond sales have been very volatile...even if we produce 25 million carats a year forever, the growth rate is zero, and at best we'll plateau, and the diamond industry will not contribute to economic growth on that basis."*⁵⁴

Nevertheless, diamond exports remain a crucial contributor to the country's economy, representing 74% of exports.⁵⁵ The sector has also recovered slightly in the 2016/17 financial year, with the diamond sector contributing to an average of 30% to the country's GDP.⁵⁶

The ongoing decline in the mining sector in general and diamond industry in particular reveals the need for urgent economic diversification, since this will have economic, political and humanitarian implications. Continued mine closures will lead to increased levels of unemployment and lower standards of living, which could result in a hotly contested 2019 election.

⁵¹ Mmegi, 1 Jun 2017.

⁵² Mining Weekly, 12 Jun 2017.

⁵³ Mining Weekly, 12 Jun 2017.

⁵⁴ Keith Jefferis, quoted in Mining Weekly, 12 Jun 2017.

⁵⁵ Mining Weekly, 12 Jun 2017.

⁵⁶ Mining Weekly, 12 Jun 2017.

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