

## AFRICA RISK CONSULTING

### Botswana Monthly Briefing August 2017

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#### Botswana 16 August 2017 Summary

*Tibetan spiritual leader, the Dalai Lama, cancels his planned visit to Botswana, citing fatigue and exhaustion, ending speculation about the impact of the proposed visit on economic and political relations between Botswana and China. The International Monetary Fund (IMF) revises Botswana's economic growth forecast for 2017 upwards, citing improved diamond sales and beneficial outcomes from government policies. France's defence ministry releases a report to parliament showing Botswana purchased over \$356m in military equipment from France in 2016. Botswana based diamond mining company De Beers announces an improvement in its diamond sales, following increased demand from India.*

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#### Dalai Lama cancels Botswana visit

Exiled **Tibetan** spiritual leader, the **Dalai Lama**, cancelled a planned visit to **Botswana** citing exhaustion, according to media reports on 12 August.<sup>1</sup> This ends speculation on the political and economic implications of possible retaliatory action by **China** against the government of Botswana for allowing the visit.<sup>2</sup> The Dalai Lama was scheduled to speak at a conference in the capital, **Gaborone**, on 17 August, which the **United States (US)**-based **Mind and Life Institute** had organised.<sup>3</sup> The Dalai Lama's visit had resulted in a diplomatic standoff between China and Botswana.<sup>4</sup> China views the Dalai Lama, who lives in exile in **India**, as a Tibetan separatist, and pressures countries to refuse him entry.<sup>5</sup> China had issued several statements criticising Botswana's decision to grant the Dalai Lama entry into Botswana, and the tensions had placed Chinese investments in Botswana in question.<sup>6</sup> China is one of the leading foreign investors in Botswana and has conducted various infrastructure development projects in the last decade. Its economic influence has allowed it to exert political pressure on **African** countries, including with regard to the Dalai Lama and **Taiwan**.

The Dalai Lama's cancellation of his visit followed considerable divisions within President **Ian Khama's** (2008-present) cabinet over granting him entry into Botswana.<sup>7</sup> A faction of the cabinet led by vice president **Mokgweetsi Masisi** reportedly broke ranks with Khama, given the potential political fallout between Botswana and China resulting from the proposed visit.<sup>8</sup> The planned visit had also resulted in potential diplomatic conflict between Botswana and other African countries.<sup>9</sup> China had appealed to some African countries to deny the flight

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<sup>1</sup> Timeslive, 12 Aug 2017.

<sup>2</sup> Timeslive, 12 Aug 2017.

<sup>3</sup> Timeslive, 12 Aug 2017.

<sup>4</sup> Eyewitness News, 12 Aug 2017.

<sup>5</sup> Eyewitness News, 12 Aug 2017.

<sup>6</sup> Eyewitness News, 12 Aug 2017.

<sup>7</sup> Sunday Standard, 13 Aug 2017.

<sup>8</sup> Sunday Standard, 13 Aug 2017.

<sup>9</sup> Sunday Standard, 30 Jun 2017.

carrying the Dalai Lama passage through their airspace and refuelling rights en route to Gaborone.<sup>10</sup> However, Botswana's government had affirmed its right to grant the Dalai Lama access, having conducted independent reviews of the implications of his visit to Botswana's national interest.<sup>11</sup>

The Dalai Lama's cancellation of his visit will put to rest speculation on the effects of possible Chinese retaliatory action against Botswana. However, Botswana's stance in maintaining its sovereign right to independently decide who to allow or bar from Botswana sets an important precedent for African countries that face Chinese pressure to deny the Dalai Lama entry into their territories.

### IMF reviews Botswana's economic growth forecast

The **International Monetary Fund (IMF)** has revised Botswana's economic growth prospects for 2017 and made adjustments based on increasing diamond demand, new investments in the water and power sectors, and government policy reforms, according to media reports on 12 August.<sup>12</sup> The higher forecast will potentially lead to new investments into the country's economy, which had experienced a period of decline since 2015 because of low global diamond demand.<sup>13</sup> The IMF adjusted the 2017 and 2018 growth forecast to 4.5 and 4.8% respectively, higher than the 4.1 and 4.2% forecast that it had released in April.<sup>14</sup> The IMF's forecast is also higher than the government's official figure of 4.2%, which finance minister **Kenneth Matambo** presented in February.<sup>15</sup> The IMF indicated that government reforms that improved the public sector's efficiency and a moderate financial stimulus would also account for the higher growth forecast.<sup>16</sup> This includes the privatisation of state corporations, and the Economic Stimulus Programme (ESP), which President Khama launched in 2015.

However, the IMF cautioned that several headwinds could undermine Botswana's economic outlook.<sup>17</sup> This includes the possibility of lower receipts from the **Southern African Customs Union (SACU)**, economic deterioration in major trading partner **South Africa**, and a possible decrease in demand for diamonds from developed countries.<sup>18</sup> It indicated that Botswana's diversification from diamonds has been slow, and that the capital-intensive nature of mining had not contributed to the reduction of unemployment levels and inequality.<sup>19</sup> The IMF team released the report following consultations with the governor of the **Reserve Bank of Botswana (RBB)** (central bank), **Moses Dinekere Pelaelo**, finance minister Matambo, and representatives from the donor community, civil society and financial sector.<sup>20</sup>

These results are likely to result in increased investor interest in Botswana's economy, especially as the IMF acknowledged the positive effects of government policy. This reinforces the country's reputation for good governance, which guarantees a stable economic climate

<sup>10</sup> Sunday Standard, 30 Jun 2017.

<sup>11</sup> Sunday Standard, 30 Jun 2017.

<sup>12</sup> Reuters, 12 Aug 2017.

<sup>13</sup> Reuters, 12 Aug 2017.

<sup>14</sup> Reuters, 12 Aug 2017.

<sup>15</sup> CNBC, 12 Aug 2017.

<sup>16</sup> CNBC, 12 Aug 2017.

<sup>17</sup> Mmegi, 10 Aug 2017.

<sup>18</sup> Mmegi, 10 Aug 2017.

<sup>19</sup> Mmegi, 10 Aug 2017.

<sup>20</sup> Mmegi, 10 Aug 2017.

and security of investments. However, the report also shows the need for quicker diversification from mining, which the government is yet to accomplish.

### France reports significant weapons purchases from Botswana

France's defence ministry revealed in its July 2017 parliamentary report on arms exports that Botswana purchased over \$356m worth of military hardware from France in 2016, according to news reports on 3 August.<sup>21</sup> This follows criticism in June of Khama's military spending, as the government is currently engaged in negotiations with **Sweden** to purchase new fighter jets at a cost of \$1.7 billion (see *ARC Briefing Botswana June 2017*).<sup>22</sup> The arms purchases from France include **MICA-VL** and **Mistral** missiles, which are both short-range missile types.<sup>23</sup> Botswana's military hardware purchase for 2016 is significantly higher than in previous years, comparing to \$14m in 2014 and \$117m in 2015.<sup>24</sup> The report also indicated that France delivered 14 missile launchers to Botswana in 2016, and granted its government 15 defence export licences in 2016, compared to five in 2015.<sup>25</sup> Botswana is also on the verge of buying eight **South Korean** T-50 supersonic jet fighters, in a deal worth approximately \$196m.<sup>26</sup> The government is reportedly planning to establish a \$98m military college in **Paje**, in central Botswana.<sup>27</sup>

The report follows media reports that former **Botswana Defence Force (BDF)** commander, Lieutenant General **Gaolathe Galebotswe** travelled to France in December 2015, together with other senior ranking members of the BDF for a demonstration of the missile systems that the army purchased.<sup>28</sup> The BDF denied that it has used another company to facilitate or act as a "middleman" in the arms deals.<sup>29</sup> In a statement, a BDF representative, Lieutenant Colonel **Fikani Machola**, said that the army has always dealt directly with original equipment manufacturers in purchasing military hardware, and does not work with consultants or facilitators.<sup>30</sup> This has been a controversial subject in the past amidst allegations that President Khama's family members, especially younger brother **Tshekedi Khama**, had benefited from arms deals through functioning as brokers and middlemen, notably through a company called **Seleka Springs**.<sup>31</sup>

The government's relatively high level of military spending is disproportionate to any threat that faces the country. Although the government maintains that its military spending is aimed at replacing aged equipment, and the need to match international standards. Botswana's military spending also reflects some long-standing personal investments and benefits that Khama, a former BDF commander, will realise from the arms purchases. Khama is reportedly planning to return to the army following the end of his term of office in 2019.<sup>32</sup>

<sup>21</sup> Defence Web, 3 Aug 2017.

<sup>22</sup> Defence Web, 3 Aug 2017.

<sup>23</sup> Defence Web, 3 Aug 2017.

<sup>24</sup> Defence Web, 3 Aug 2017.

<sup>25</sup> Defence Web, 3 Aug 2017.

<sup>26</sup> Sunday Standard, 6 Aug 2017.

<sup>27</sup> Sunday Standard, 6 Aug 2017.

<sup>28</sup> Sunday Standard, 6 Aug 2017.

<sup>29</sup> Sunday Standard, 6 Aug 2017.

<sup>30</sup> Sunday Standard, 6 Aug 2017.

<sup>31</sup> Mmegi, 23 Jun 2017.

<sup>32</sup> Mmegi, 7 Apr 2017.

## Indian demand for diamonds boosts De Beers' sales

**United Kingdom (UK)**-based diamond mining company **De Beers** has announced an improvement in its sales in the sixth of its ten diamond sales for 2017, according to media reports on 2 August.<sup>33</sup> This represents an improvement in gem-quality diamond sales, which the slump in the global primary commodity market affected considerably.<sup>34</sup> De Beers posted provisional revenue of \$572m for its sixth sale this year, an improvement on the \$528m that the company earned at the same time in 2016.<sup>35</sup> The improved sales stem mainly from demand from India, as part of preparations for its **Diwali** festival in October.<sup>36</sup> De Beers has increased production at its **Orapa** mine in Botswana in order to reach a production target of 31-33 million carats in 2017, which would enable it to meet the high demand.<sup>37</sup>

De Beers' executive head of strategy, **Gareth Mostyn**, indicated on 27 July that this year's global diamond market is generally the most robust since 2014.<sup>38</sup> The company reported in June that global sales increased 0.3% since 2017, to \$80 billion, and increased demand from the US, which accounts for over half of global purchases.<sup>39</sup> This had offset slowing demand from China and India from late 2014 to early 2017, which De Beers now forecasts to increase in the latter half of 2017.<sup>40</sup> The improvements in the gem quality diamond markets come as **Canada**-based **Lucara Diamonds** experiences difficulties in selling the world's largest diamond, the 1,109-carat **Lesedi La Rona**, which it valued at \$70m (see *ARC Briefing Botswana July 2017*).<sup>41</sup>

The large diamond industry had experienced higher profits than the gem quality market, which resulted in Lucara Diamonds upgrading the technology in its Botswana mines in order to extract more large diamonds.<sup>42</sup> Lucara CEO **William Lamb** said on 4 August that his company will probably establish a partnership through which it will sell its historic 1,109-carat diamond if it fails to find a buyer within the next six to eight weeks.<sup>43</sup> The diamond has negatively affected the value of Lucara's shares, which have dropped more than 30% since late 2016.<sup>44</sup> Lucara failed to sell the diamond at a **Sotheby's** auction in **London** (UK) in June 2016.<sup>45</sup>

Although the diamond industry is experiencing a gradual resurgence in Botswana, the global diamond glut remains, and this will keep prices from rising to pre-2014 levels. Botswana's diamonds also face competition from the growth of the synthetic diamond industry, especially in its formerly leading markets, the US and China.

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<sup>33</sup> Business Live, 2 Aug 2017.

<sup>34</sup> Business Live, 2 Aug 2017.

<sup>35</sup> Business Live, 2 Aug 2017.

<sup>36</sup> Business Live, 2 Aug 2017.

<sup>37</sup> Business Live, 2 Aug 2017.

<sup>38</sup> Bloomberg, 31 Jul 2017.

<sup>39</sup> Bloomberg, 31 Jul 2017.

<sup>40</sup> Bloomberg, 31 Jul 2017.

<sup>41</sup> Mining Weekly, 29 Jul 2017.

<sup>42</sup> Mining Weekly, 29 Jul 2017.

<sup>43</sup> Mining.com, 6 Aug 2017.

<sup>44</sup> Mining.com, 6 Aug 2017.

<sup>45</sup> Mining.com, 6 Aug 2017.

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