

AFRICA RISK CONSULTING

Botswana Monthly Briefing 20 September 2017

Botswana 20 September 2017 Summary

Botswana reportedly faces a United Nations (UN) probe over its deals with a North Korea-based company. The parliamentary committee on communication works, transport and technology announces plans to challenge the joint venture company that the Botswana Power Corporation (BPC) and Liquid Telecom Group established in October 2016. The government announces a draft bill that will require all mining companies to give the government the right of first refusal for any unusual or exceptional mineral products. Australia-based mining company MOD Resources Limited announces plans to double its budget for exploration activities amid an increase in global copper prices.

Botswana in North Korea sanctions busting investigation

The **United Nations Security Council (UNSC)** is reportedly investigating **Botswana** over allegations that it has assisted **North Korea** to violate sanctions, according to media reports on 18 September.¹ The allegations are likely to undermine Botswana's image on the world stage, given the increased global concerns over North Korea's nuclear weapons programme and threats of a nuclear war.² A UN panel of experts released a report in which it stated that Botswana awarded a contract to North Korea-based **Mansudae Overseas Projects** to construct Botswana's **Three Dikgosi (kings) Monument**.³ The monument features three 18-foot bronze statues of the country's leading traditional leaders, and former president **Festus Mogae** (1998-2008) inaugurated it in 2005.⁴ Although Botswana terminated formal diplomatic ties with North Korea in 2014, the UNSC indicated that North Korea has been violating the sanctions through use of private front companies.⁵ Botswana's foreign affairs ministry has reportedly indicated that it is aware of the report, but is yet to receive formal correspondence from the UN requesting information on its dealings with North Korean companies.⁶

The UN report highlighted the inefficient enforcement of sanctions against North Korea as the reason for its continued ability to circumvent the sanctions, which resulted in its earning \$270m through foreign deals since February.⁷ Botswana, along with several other **African** countries, has had diplomatic relations with North Korea since the 1960s, and this has put it at risk of UN sanctions. The other countries include **Tanzania, Uganda, Angola, Democratic Republic of the Congo (DRC), Eritrea, Mozambique, Namibia, Benin, and Zimbabwe**.⁸

¹ Sunday Standard, 18 Sept 2017.

² Sunday Standard, 18 Sept 2017.

³ Sunday Standard, 18 Sept 2017.

⁴ Sunday Standard, 18 Sept 2017.

⁵ Sunday Standard, 18 Sept 2017.

⁶ Sunday Standard, 18 Sept 2017.

⁷ Business Insider, 19 Sept 2017.

⁸ Business Insider, 19 Sept 2017.

The UN is investigating Tanzania, Uganda and Mozambique for allegedly entering into military-related contracts with North Korea, while Botswana and the other African countries are subject to investigation because of commercial dealings with Mansudae.⁹ Nevertheless, present indications show that Botswana had closer relations with North Korea prior to President **Ian Khama** (2008-present) assuming office in 2008. Although the UN investigation is not likely to result in sanctions against Botswana, its association with North Korea is likely to harm its global reputation for promoting human rights and good governance.

Parliamentary committee seeks to end BPC and Liquid Telecom joint venture

The parliamentary committee on communications, public works, transport and technology has indicated that the public-private partnership (PPP) between state-owned power utility, the **Botswana Power Corporation (BPC)**, and telecommunications company, **Liquid Telecom Botswana**, is unlawful, according to news reports on 8 September.¹⁰ This is an unprecedented challenge to PPPs, for which Botswana is well known, particularly in managing its diamond industry. The head of the parliamentary committee, **Samuel Rantoana**, argued the joint venture is illegal because it competes with the state-owned telecommunications company **Botswana Fibre Networks (BoFiNet)**.¹¹ The committee resolved to investigate the joint venture company, indicating that it disadvantages Botswana's taxpayers.¹²

*"The parliamentary committee's decision to challenge the joint venture (JV) between the BPC and Liquid Telecom is unusual, given the government's promotion of public-private partnerships (PPPs) and privatisation of its wholly owned companies. The basis for the challenge is merely that Liquid Telecoms challenges BoFinet's monopoly, and this is insufficient legal ground for disbanding the BPC-Liquid joint venture. It is thus highly unlikely that the parliamentary committee will manage to successfully challenge Liquid Telecoms."*¹³

The BPC is a state-owned corporation that generates, transmits and distributes electricity throughout Botswana. It owns and operates an optical fibre cable network that is embedded in its high voltage electricity supply system.¹⁴ The BPC has an extensive network that covers the entire country, since it is the sole electricity supplier.¹⁵ The BPC entered into an **Indefeasible Right of Use Agreement (IRUA)** with Liquid Telecom in October 2016.¹⁶ The BPC's former chief executive officer, **Jacom Raleru**, and Liquid's chief executive, **Nic Rudnick**, entered into the partnership.¹⁷ Under the agreement, Liquid leases the BPC's excess optical fibre telecommunications to provide network services using BPC's infrastructure.¹⁸ BPC granted Liquid the partnership through a competitive bidding process.¹⁹ Liquid Telecom is a subsidiary of **Econet Global**, which Zimbabwe-born businessman **Strive Masiyiwa**

⁹ Business Insider, 19 Sept 2017.

¹⁰ Mmegi, 8 Sept 2017

¹¹ Mmegi, 8 Sept 2017.

¹² Mmegi, 8 Sept 2017.

¹³ Source, analyst, South Africa

¹⁴ Mmegi, 8 Sept 2017.

¹⁵ Weekend Post, 24 Oct 2016.

¹⁶ Mmegi, 8 Sept 2017.

¹⁷ Mmegi, 8 Sept 2017.

¹⁸ Mmegi, 8 Sept 2017.

¹⁹ Mmegi, 8 Sept 2017.

founded in 1993.²⁰ The parliamentary committee's challenge is unlikely to succeed because it lacks a viable legal basis. However, the challenge will undermine the government's efforts to promote private sector investment into Botswana, especially through public-private partnerships.

Government changes law to have first buy option for large diamonds

The government of Botswana has indicated that it is drafting a law that will compel mining companies to give it the right of first refusal to purchase diamonds with unusual features, including large stones, which are extracted from its mines, according to media reports on 18 September.²¹ This is likely to strain relations between the government and diamond mining companies, since it limits the companies' independence regarding the sale of large stones, which have higher value than jewel-quality stones.²² The new law follows **Canada**-based **Lucara Diamonds'** extraction of large diamonds from its Botswana mines in 2015, particularly the 1,109 carat '**Lesedi la Rona**' (Our Light) diamond, which is the world's second biggest diamond.²³ Lucara is yet to find a buyer for the diamond, which it valued at \$70m.²⁴ The draft bill seeks to amend the **Precious and Semi Precious Stones Act** and requires that any producer that extracts an unusual rough diamond should notify the mineral resource minister within 30 days.²⁵

The mineral resources ministry's chief minerals officer, **Moses Tshethane**, said that the government would enter into negotiations with the producer in order to reach an agreed upon price, in accordance with the diamond's current market price.²⁶ He also said that the new law is not unusual, given that other governments worldwide would wish to celebrate natural resources that have unusual features in museums, or store them as national treasures.²⁷ Lucara has said that the legislation will not have any impact on its financial position.²⁸ CEO **William Lamb** said that Lucara agrees with the policy as a way for both the government and the company to attain optimal revenue at market prices for the sale of such unusual diamonds.²⁹ Lucara has been at the forefront of extracting large diamonds in Botswana.³⁰ Apart from the Lesedi la Rona diamond, it also unearthed an 812.77-carat stone at its **Diamond Corp's** mine in 2015, which it sold at an auction for \$63m in 2016.³¹

Although Lucara has said it agrees with the government's rationale for the impending law, the regulation may create acrimonious scenarios, especially if the government offers a price lower than what the market would be prepared to pay, and this is very likely. Both Lucara and the government are banking on large diamonds because of the glut in jewel quality diamonds, which have been experiencing low global demand, and competition from synthetic diamonds.

²⁰ Econet Global website

²¹ Business Day, 18 Sept 2017.

²² Business Day, 18 Sept 2017.

²³ Business Day, 18 Sept 2017.

²⁴ Business Day, 18 Sept 2017.

²⁵ Business Day, 18 Sept 2017.

²⁶ Business Day, 18 Sept 2017.

²⁷ Business Day, 18 Sept 2017.

²⁸ Mining Review, 20 Sept 2017.

²⁹ Mining Review, 20 Sept 2017.

³⁰ Mining Review, 20 Sept 2017.

³¹ Business Day, 18 Sept 2017.

MOD increases Botswana exploration budget as copper prices rise

Australia-based mining company **MOD Resources Limited** announced on 1 September that it will double its budget for exploration activities for the next year to \$8m, which would enable the expansion of its mining projects in Botswana.³² This reflects the increased profitability of the copper industry, following the 50% increase in copper prices this year.³³ The increased drilling and exploration programme will include more than 160 diamond and 40 reverse circulation holes.³⁴ MOD's managing director, **Julian Hanna**, said that although the **T3** project is MOD's main asset, the company has discovered several other drill sites that hold significant mineral potential.³⁵ This includes the same structural corridor where the T3 site is located, and other resources within the eastern **Kalahari** copper belt.³⁶ Hanna noted that MOD will need to capitalise on the improving market sentiment, and scale-up exploration of the relatively under-explored Kalahari copper belt.³⁷

Copper prices have increased 20% since the end of May, the highest level in almost three years.³⁸ Positive economic data from **China**, the world's largest consumer of primary commodities, and a weak **United States** dollar are the two major reasons for the copper price increases.³⁹ Investors anticipate increased copper demand from the growth of the electric vehicles sector, and advances in energy storage technology emanating from a global campaign to reduce fossil fuel use.⁴⁰ **UBS Investment Bank** has indicated that electric vehicles will drive 1.2m tonnes per annum of copper demand by 2025.⁴¹ These developments will make a positive impact on Botswana's copper industry, which has been in decline since the global primary commodity slump since 2014. However, Botswana's copper industry will feel the impact if the high prices are sustained, given an existing glut of copper from close to three years of an underperforming market.⁴²

Planner

18 Oct 2017 **Gaborone (Botswana)**. 3rd Annual African Cybercrime Conference;
 9 – 11 Apr 2018 **Gaborone (Botswana)**. **Mining Investment Botswana** strategic mining conference;
 2019 **(Botswana)** Scheduled elections;

Chronology

21 September 2017 **(Botswana)** *Mmegi*. **Sidney Pilane**-led faction of the opposition **Botswana Democratic Movement** calls on rival **Ndaba Gaolathe**-led faction to submit a proposal to discuss the issue of power sharing;

³² Mining Weekly, 1 Sept 2017.

³³ Mining Weekly, 1 Sept 2017.

³⁴ Mining Weekly, 1 Sept 2017.

³⁵ Mining Weekly, 1 Sep 2017.

³⁶ Mining Weekly, 1 Sept 2017.

³⁷ Mining Weekly, 1 Sept 2017.

³⁸ Financial Times, 4 Sept 2017.

³⁹ Financial Times, 4 Sept 2017.

⁴⁰ Financial Times, 4 Sept 2017.

⁴¹ Financial Times, 4 Sept 2017.

⁴² Financial Times 4 Sept 2017.

20 Sep 2017 **(Botswana)** *Mmegi*. **Botswana Housing Corporation** plans to build 2,000 houses in the current financial period;

20 Sep 2017 **(Botswana)** *Mmegi*. **Umbrella for Democratic Change (UDC)** recommends that **Botswana Democratic Movement** factions submit to a power-sharing arrangement to be supervised by the UDC;

18 Sep 2017 **(Botswana)** *Sunday Standard*. **United Nations** panel of experts report announces Botswana is under investigation for questionable dealings with **North Korea**-linked companies;

18 Sep 2017 **(Botswana)** *Business Day*. Ministry of mineral resources announces plans to amend mining legislation to give government first option to buy diamonds that are unusually large, or have other unusual features, found in Botswana mines;

15 Sep 2017 **(Botswana)** *Mmegi*. Provisional liquidator of **BCL** files for provisional liquidation after **Pula Steel** shareholders fail to inject fresh funds into BCL;

8 Sep 2017 **(Botswana)** *Mmegi*. The Parliamentary Committee on Communications Works, Transport and Technology declares partnership between **Botswana Power Corporation (BPC)** and **Liquid Telecom** is unlawful;

1 Sep 2017 **(Botswana)** *Mining Weekly*. **Australia**-based mining company **MOD Resources Ltd** announces it will double its budget for exploration activities for the next year to \$8m to enable expansion of its mining projects in Botswana;



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Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

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