

## AFRICA RISK CONSULTING

### Botswana Monthly Briefing January 2018

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#### Botswana Summary 22 January 2018

*President Ian Khama (2008-present) is in the running for the Mo Ibrahim Award, which recognises African heads of state who demonstrate exemplary leadership during their terms of office. Diplomatic tensions between Botswana and the United States (US) deepen as Botswana criticises US foreign policy actions. The government faces pressure from local oil retailers over its failure to pay fuel levies. The Bank of Botswana (BoB) leaves the benchmark interest rate at 5% saying the current policy stance is consistent with keeping inflation within the 3 – 6% medium-term target. Tango Mining Limited and Okavango Diamond Mining Company's investments and sales demonstrate resurgence of Botswana's diamond mining sector.*

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#### President Khama in the running for Mo Ibrahim Award

President **Ian Khama** (2008-present) is in consideration for the **Mo Ibrahim Leadership Award**, according to media reports on 8 January.<sup>1</sup> This represents significant international approval for Khama's record in office, despite several controversies that have demonstrated a propensity for authoritarian leadership and disregard for human rights.<sup>2</sup> The Mo Ibrahim award is awarded to presidents who oversaw economic growth with shared national benefits, and strengthened democracy and human rights during their time in office.<sup>3</sup> The award also recognises the outgoing presidents as role models for other heads of state in **Africa**, and promotes their continued participation in public life in their countries and elsewhere in Africa.<sup>4</sup> The **Mo Ibrahim Foundation**, which gives the award, is considering President Khama alongside the outgoing president for **Liberia, Ellen Johnson Sirleaf** (2006-2017).<sup>5</sup>

Khama, who steps down from office in April, meets the criteria for the award mainly because of Botswana's reputation for good governance and democracy.<sup>6</sup> However, former president **Festus Mogae** (1998-2004) publicly expressed concerns in 2014 about a regression in the quality of democracy in Botswana during Khama's presidency.<sup>7</sup> Khama has also faced criticism from other heads of state in the **Southern African Development Community (SADC)** and the **African Union (AU)** for not attending annual meetings and for displaying a disrespectful attitude towards the organisations during his time in office.<sup>8</sup>

Nevertheless, Khama's moral authority remains high in Africa. He has often been a lone voice criticising African leaders who did not wish to leave power or who committed human rights abuses in their countries, notably former **Zimbabwean** president, **Robert Mugabe** (1980-

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<sup>1</sup> Weekend Post, 8 Jan 2018

<sup>2</sup> Weekend Post, 8 Jan 2018

<sup>3</sup> Weekend Post, 8 Jan 2018

<sup>4</sup> Weekend Post, 8 Jan 2018

<sup>5</sup> Weekend Post, 8 Jan 2018

<sup>6</sup> Weekend Post, 8 Jan 2018

<sup>7</sup> Mmegi, 14 Aug 2014.

<sup>8</sup> Weekend Post, 8 Jan 2018

2017).<sup>9</sup> If granted the award, Khama will preserve Botswana's reputation for exemplary democratic leadership, and this will improve his record of a reportedly authoritarian style of governance that has led to unprecedented conflict with the opposition and civil society during his two terms in office.<sup>10</sup>

### Botswana sharply criticises Trump's alleged remark

The **Botswana** government issued a statement on 12 January sharply criticising **United States (US)** President, **Donald Trump's** (2017-present) reported statement describing developing countries as "*shithole*" countries, during a meeting on immigration legislation on 11 January.<sup>11</sup> This is the latest in a series of severe diplomatic rebukes that the Botswana government has issued to the US, one of its traditional international allies.<sup>12</sup> Botswana's international affairs and cooperation ministry issued a statement that it had also summoned the US ambassador to Botswana, **Earl Miller**, to express its displeasure over the alleged statement attributed to President Trump.<sup>13</sup> President Khama has adopted a generally oppositional attitude towards Trump's presidency. Alluding to Trump's presidency, Khama posted on his official **Facebook** page:

*"With a chaotic year gone and another 3 to go, can someone please fast forward us to January 2021".<sup>14</sup>*

This is the latest episode in a series of public spats between the two countries, which previously enjoyed warm diplomatic relations.<sup>15</sup> The Botswana government adopted a similar stance against the US position in the **United Nations (UN)** voting process on the issue of designating **Jerusalem** as the capital of **Israel** on 21 December.<sup>16</sup> The US ambassador to the UN, **Nikki Haley**, issued a statement to the effect that President Trump would be watching the UN vote on the status of Jerusalem, with the intention of instituting retributive action against all countries that would have voted against the US.<sup>17</sup> In response, the Botswana government indicated that it viewed the US stance as:

*"... grossly inappropriate communication, whose purpose would be to undermine the sovereignty of Botswana as an independent country, [and] demonstrates unprecedented diplomacy."<sup>18</sup>*

The government further stated that Botswana would not be intimidated by such threats, would exercise its sovereign right in the vote, and encouraged other countries to do the same.<sup>19</sup>

Botswana's criticism of the US government's actions results from Khama's desire to demonstrate Botswana's sovereignty and his personal disapproval of Trump's policies.<sup>20</sup>

<sup>9</sup> Weekend Post, 8 Jan 2018.

<sup>10</sup> Source, analyst, London

<sup>11</sup> Times Live, 12 Jan 2018.

<sup>12</sup> Times Live, 12 Jan 2018.

<sup>13</sup> Times Live, 12 Jan 2018.

<sup>14</sup> Quoted from President Ian Khama's official Facebook page, posted on 20 Jan 2018.

<sup>15</sup> Mmegi, 21 Dec 2017.

<sup>16</sup> Mmegi, 21 Dec 2017.

<sup>17</sup> Mmegi, 21 Dec 2017.

<sup>18</sup> Mmegi, 21 Dec 2017.

<sup>19</sup> Mmegi, 21 Dec 2017.

<sup>20</sup> Source, analyst, London

However the diplomatic tensions are unlikely to lead to a fundamental change in economic and diplomatic ties between Botswana and the US.

### Government faces pressure from oil retailers over non-payment of fuel levies

The government owes local fuel retailers close to 1 billion pula (\$102.6m) in unpaid levies from the **National Petroleum Fund (NPF)**, according to media reports on 19 January.<sup>21</sup> This is likely to lead to fuel shortages or price increases within several weeks.<sup>22</sup> The NPF collects levies from motorists and then pays these to retailers but has failed to pay the levies to Botswana-based fuel suppliers for over nine months.<sup>23</sup> The companies, which include **Puma Energy, Vivo Energy, Engen Botswana, and Caltex**, have had to utilise costly measures to remain operational, such as borrowing, or using their reserves.<sup>24</sup> Botswana's oil industry has been in a state of under-recovery, where pump prices are below actual prices, since the beginning of 2017.<sup>25</sup>

Reports of the government's debt to oil retailers follow media reports that the energy department has indicated it will withdraw all its funds and investment portfolios from the NPF.<sup>26</sup> In a statement, the energy department indicated that it would transfer the funds into the **Government Remittance Account** at the **Bank of Botswana (BoB)**.<sup>27</sup>

The NPF appears to be seeking to distance itself from one of Botswana's largest corruption scandals,<sup>28</sup> a money laundering case allegedly involving **Kgori Capital** director **Bakang Seretse**, and the misappropriation of P326m (\$33m).<sup>29</sup> One of Seretse's companies has administered the NPF since 2016.<sup>30</sup> Some of the NPF's funds were allegedly transferred to one of Seretse's company accounts.<sup>31</sup> The case has also implicated mineral resources, green technology and energy security minister **Sadique Kebonang** because his ministry oversees both the energy department and the NPF.<sup>32</sup>

If the government further delays paying the oil retailers, they are likely to increase fuel prices, which will increase the cost of living in Botswana. This could make the ruling **Botswana Democratic Party** government unpopular, giving the opposition leverage ahead of the 2019 elections.<sup>33</sup>

### Bank of Botswana leaves benchmark interest rate at 5%

The Monetary Policy Committee (MPC) of the **Bank of Botswana (BoB)** (central bank) announced on 18 December that it had left the bank rate unchanged at 5%, following a positive inflationary outlook.<sup>34</sup> BoB governor **Moses Pelaelo** said the bank had forecast inflation within the 3-6% objective range in the medium term, after it decreased 3% in

<sup>21</sup> Mmegi, 19 Jan 2018.

<sup>22</sup> Mmegi, 19 Jan 2018.

<sup>23</sup> Mmegi, 19 Jan 2018.

<sup>24</sup> Mmegi, 19 Jan 2018.

<sup>25</sup> Mmegi, 19 Jan 2018.

<sup>26</sup> Weekend Post, 8 Jan 2018.

<sup>27</sup> Weekend Post, 8 Jan 2018.

<sup>28</sup> Source, analyst, London

<sup>29</sup> Weekend Post, 8 Jan 2018.

<sup>30</sup> Weekend Post, 8 Jan 2018.

<sup>31</sup> Weekend Post, 8 Jan 2018.

<sup>32</sup> Weekend Post, 8 Jan 2018.

<sup>33</sup> Source, analyst, London

<sup>34</sup> Daily News, 20 Dec 2017.

October to 2.9% in November 2017.<sup>35</sup> He cited the subdued domestic demand pressures, and the modest increase in foreign prices as being responsible for the positive medium-term outlook.<sup>36</sup> However, Pelaelo said that downside risks emanating from the sluggish global economy and a potential fall in commodity prices would provide downside risks to the positive inflation outlook.<sup>37</sup> The BoB further indicated that the economy registered a 3.1% growth rate in the 12-month period to June 2017.<sup>38</sup>

The BoB said that a 4.9% increase in non-mining activity from 3.3% in the same period also accounted for the improved economic growth rate.<sup>39</sup> Mining output increased by 10.1% in the year to June 2017, although this was smaller than the large contraction of 22.9% in the previous period.<sup>40</sup> The BoB also revealed that it expects gradual economic recovery in the medium term because of anticipated improvements in global economic conditions.<sup>41</sup> Pelaelo indicated that the BoB expects global economy to grow by 3.6% in 2017, compared to 3.2% in 2016.<sup>42</sup> The global economy would also grow by 3.7% in 2018, which reflects anticipated economic growth in emerging markets.<sup>43</sup> However, the BoB cautioned that the medium-term growth prospects were likely to be affected by uncertainties in the global economy, mainly from issues pertaining to global trade policy and openness, and moderation of growth in China.<sup>44</sup>

### **Tango Mining to buy 75% of Botswana diamond project**

**Canada-based Tango Mining Limited** announced that it will acquire a 75% stake in the **Middlepits** alluvial diamond project in Botswana from **Metswedi Mining**, according to media reports on 21 December.<sup>45</sup> The new investment signifies growing confidence in the viability of the global diamond industry and will support Botswana's economic growth.<sup>46</sup> The site consists of one prospecting licence.<sup>47</sup> **United Kingdom-based De Beers** explored the site between 1974 and 1976, while **Falconbridge** also conducted exploratory work between 1978 and 1980, and **Southern Africa Minerals Corporation** also explored it between 1993 and 1997.<sup>48</sup> De Beers identified a 100 square kilometre area of diamond and heavy mineral concentrations, such as garnets and ilmenites, although the diamond content was yet to be assessed systematically.<sup>49</sup> Tango indicated that it would undertake comprehensive exploration and development work in the first quarter of 2018.<sup>50</sup>

Tango Mining's announcement follows the revelations of Botswana's state-owned diamond mining company, **Okavango Diamond Mining Company (ODC)**, on 11 January that it sold a

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<sup>35</sup> Daily News, 20 Dec 2017.

<sup>36</sup> Daily News, 20 Dec 2017.

<sup>37</sup> Daily News, 20 Dec 2017.

<sup>38</sup> Daily News, 20 Dec 2017.

<sup>39</sup> Daily News, 20 Dec 2017.

<sup>40</sup> Daily News, 20 Dec 2017.

<sup>41</sup> Daily News, 20 Dec 2017.

<sup>42</sup> Daily News, 20 Dec 2017.

<sup>43</sup> Daily News, 20 Dec 2017.

<sup>44</sup> Daily News, 20 Dec 2017.

<sup>45</sup> Proactive Investors, 21 Dec 2017.

<sup>46</sup> Proactive Investors, 21 Dec 2017.

<sup>47</sup> Proactive Investors, 21 Dec 2017.

<sup>48</sup> Proactive Investors, 21 Dec 2017.

<sup>49</sup> Proactive Investors, 21 Dec 2017.

<sup>50</sup> Proactive Investors, 21 Dec 2017.

record 3.41 carats of diamonds in 2017, its highest annual sales since its formation in 2013.<sup>51</sup> This reaffirms the diamond mining industry's resurgence, which began in 2017 after a global slump that began in 2014.<sup>52</sup> ODC managing director **Marcus ter Haar** indicated that ODC enjoyed high demand and higher prices in the first half of 2017, which weakened from July through to November 2017.<sup>53</sup> Ter Haar also said that most demand came from the US and **China**.<sup>54</sup> ODC remains cautiously optimistic for similarly high performance in the first half of 2018.<sup>55</sup> ODC sells 15% of the production of **Debswana**, a joint venture between the Botswana government and De Beers.<sup>56</sup>

Botswana's diamond industry is currently enjoying resurgence, largely resulting from increased demand from its traditional markets in China and the US.<sup>57</sup> However, this resurgence is not likely to reach pre-2014 levels, because of the global diamond glut that occurred between 2014 and 2017.<sup>58</sup> The oversupply will keep prices of smaller, jewellery-quality diamonds relatively lower, although larger diamonds may fetch higher prices.<sup>59</sup>

### Planner

February 2018 **Gaborone (Botswana) Umbrella for Democratic Change (UDC)** inaugural annual congress;

22 Feb 2018 **Gaborone (Botswana) Africa Youth Entrepreneurship** Summit;

1 April 2018 **Gaborone (Botswana)** President **Ian Khama** to step down, deputy **Mokgweetsi Masisi** to replace him in acting capacity until elections in 2019;

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

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

### Chronology

22 Jan 2018. **(Botswana) Engineering News. Botswana Power Corporation (BPC)** will invest \$495m to extend the national power grid to the north west region, mainly to cater for copper mining and tourism;

18 Jan 2018. **(Botswana) Mmegi. Afrobarometer** survey report shows high levels of unemployment in **Botswana**;

17 Jan 2018. **(Botswana) Journal du Cameroun.** Party leader, **Gaontebale Mokgosi**

<sup>51</sup> Moneyweb, 12 Jan 2018

<sup>52</sup> Moneyweb, 12 Jan 2018

<sup>53</sup> Moneyweb, 12 Jan 2018

<sup>54</sup> Moneyweb, 12 Jan 2018

<sup>55</sup> Moneyweb, 12 Jan 2018

<sup>56</sup> Moneyweb, 12 Jan 2018

<sup>57</sup> Source, analyst, London

<sup>58</sup> Source, analyst, London

<sup>59</sup> Source, analyst, London

announces the formation of new opposition political party, the **Real Alternative Party (RAP)**;

17 Jan 2018. **(Botswana) Mining Global**. Coal mining company **Minergy** becomes the first Botswana-based company to list on the **United Kingdom's Alternative Investments Market (AIM)**;

12 Jan 2018. **(Botswana) Moneyweb**. **Botswana's Okavango Diamond Company (ODC)** posts record sales of 3.41m carats of diamonds in 2017;

12 Jan 2018. **(Botswana) Mmegi**. The **World Bank** announces that it expects **Botswana's** economy to grow by 4.7% in 2018, up from the 4.21% that it forecast in June 2017;

10 Jan 2018. **(Botswana) The Voice**. **First National Bank (FNB) Botswana** assures customers that it has contained the security breach that led to theft of money from 359 accounts;

3 Jan 2018. **(Botswana) Natural Gas World**. Natural gas exploration company **Strata-X** buys a stake in the **Serowe** coal bed methane (CBM) project, giving it 100% ownership;

21 Dec 2017. **(Botswana) Mmegi**. **Botswana** government issues sharp criticism of the **United States** government's threats to **United Nations** member countries voting against its **Jerusalem** resolution;

20 Dec 2017. **(Botswana) Daily News**. **Bank of Botswana (BOB)** leaves benchmark interest rate at 5%;

15 Dec 2017. **(Botswana) Mmegi**. **Tlou Energy** announces targets to produce 100 megawatts of energy a year from its **Lesedi** coal bed methane project;

14 Dec 2017. **(Botswana) CAJ News Agency**. **World Bank's International Finance Corporation (IFC)** gives \$25m to the **Botswana Building Society (BBS)** for financial inclusion projects;

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