

## AFRICA RISK CONSULTING

### Botswana Monthly Briefing October 2018

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#### Botswana Summary 18 October 2018

*Opposition Umbrella for Democratic Change (UDC) president Duma Boko reportedly plans to table a motion of no confidence in President Mokgweetsi Masisi (2018-present). The Directorate on Intelligence and Security Services (DISS) announces it will transfer to government a luxury private jet that former DISS director-general Isaac Kgosi ordered. Global ratings agency Moody's Corporation plans to expand its coverage of Botswana's corporate entities. The Botswana Stock Exchange (BSE) threatens to delist Botswana-based retailer Choppies Enterprises over delays in publishing year-end financial results.*

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#### Boko plans motion to dismiss Masisi...

Opposition **Umbrella for Democratic Change (UDC)** leader **Duma Boko** is reportedly preparing to file a motion to dismiss President **Mokgweetsi Masisi** (2018-present), according to media reports on 15 October.<sup>1</sup> The move emanates from the ongoing tussle for political power between President Masisi and former president **Ian Khama** (2008-2018).<sup>2</sup> Boko is reportedly working with **Tshepang Mabaila**, a member of the ruling **Botswana Democratic Party (BDP)**, and close associate of former president Khama to lobby legislators to support the motion.<sup>3</sup> If Boko submits the motion, it is likely to pass because of support from both the opposition and ruling party legislators who are opposed to President Masisi.<sup>4</sup>

Khama and Masisi are engaged in an intensifying conflict that began shortly after Khama left office in April.<sup>5</sup> The two leaders' feud mainly emanates from Masisi's actions to establish his own political regime and prevent Khama from maintaining his authority within the BDP and government.<sup>6</sup> This included firing one of Khama's closest allies, former **Directorate on Intelligence and Security Services (DISS)** director **Isaac Kgosi**, in May (see *ARC Briefing Botswana May 2018*), and issuing directives prohibiting Khama from using government aircraft (see *ARC Briefing Botswana July 2018*).<sup>7</sup> Masisi also refused to accept Khama's request to appoint Kgosi as his presidential secretary, which Masisi reportedly viewed as an attempt to spy on his presidency.<sup>8</sup>

According to media reports, Masisi is implementing an anti-corruption crusade aimed at both sitting and former cabinet ministers.<sup>9</sup> Masisi is likely to target Khama, given that the level of corruption in government generally increased during Khama's term of office.<sup>10</sup> The two

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<sup>1</sup> Sunday Standard, 15 Oct 2018.

<sup>2</sup> Sunday Standard, 15 Oct 2018.

<sup>3</sup> Sunday Standard, 15 Oct 2018.

<sup>4</sup> Sunday Standard, 15 Oct 2018.

<sup>5</sup> Sunday Standard, 15 Oct 2018.

<sup>6</sup> Sunday Standard, 15 Oct 2018.

<sup>7</sup> Sunday Standard, 15 Oct 2018.

<sup>8</sup> Sunday Standard, 15 Oct 2018.

<sup>9</sup> Sunday Standard, 15 Oct 2018.

<sup>10</sup> Sunday Standard, 15 Oct 2018.

leaders' fight will considerably weaken the ruling BDP, making it more likely that the opposition will gain more seats in parliament, or win the presidency, in the 2019 elections.<sup>11</sup> This could explain Boko's investment in initiating a motion of no confidence against Masisi.<sup>12</sup> However, Boko's suspected association with Khama may weaken his public image, since Khama was largely unpopular in the urban areas, which is the UDC's stronghold.<sup>13</sup>

### ...as DISS rejects new jet, accuses Kgosi and Khama of corruption

DISS director-general Brigadier **Peter Magosi** indicated on 2 October that Botswana's intelligence services organisation will hand over to government new luxury jet that the administration of former DISS director Isaac Kgosi purchased before Kgosi left office.<sup>14</sup> This comes as political tensions between President Masisi and former president Khama escalate (see above).<sup>15</sup> Magosi indicated that the DIS would not need the aircraft, since it already has two Pilatus PC-12 jets, which are more suitable for the intelligence service's operations.<sup>16</sup> He said that he would hand it over to the government, for the vice president and cabinet's use.<sup>17</sup>

*"The Directorate on Intelligence and Security Services (DISS) is about to take delivery of a brand new **Pilatus PC-24** twin jet engine aircraft... **Swiss** media outlets have recently been carrying stories bearing pictures of the new DISS airplane, the airplane bears **Botswana** flag colours ... The DISS already owns two Pilatus PC-12NG aircrafts. Which raises the question, does the DISS need the PC-24 jet aircraft?"<sup>18</sup>*

Kgosi ordered the PC24 jet from Switzerland-based company, **Pilatus Aircraft** at a cost of over 100m Botswana pula (\$9.4m).<sup>19</sup> Magosi's administration was unable to cancel the order, because the DISS had already paid for it.<sup>20</sup> Kgosi reportedly bought the aircraft for former president Khama to use after his retirement, since he would no longer have access to the presidential jet, a **Bombardier Global Express BD700 XRS**.<sup>21</sup> Khama reportedly took flying lessons in the DIS' PC-12 aircraft in the months prior to his departure from office in preparation for the delivery of the new aircraft, which he would use after retirement.<sup>22</sup>

Magosi also revealed to the **Public Accounts Committee (PAC)** that the DIS is struggling to trace the weapons and surveillance equipment that Kgosi's administration purchased, since he found no records or inventory when he came into office in May.<sup>23</sup>

*"Our main challenge is surveillance equipment and weapons of war procured outside the country and the only solution is to go to the companies where they were procured and ask how many were procured from them."<sup>24</sup>*

He also said that the DIS has never received an audit since its formation and that he has since engaged the **Auditor-General** to audit the organisation's books.<sup>25</sup> He also criticised the DISS'

<sup>11</sup> Source, analyst, London.

<sup>12</sup> Source, analyst, London.

<sup>13</sup> Source, analyst, London.

<sup>14</sup> Sunday Standard, 2 Oct 2018.

<sup>15</sup> Sunday Standard, 2 Oct 2018.

<sup>16</sup> Sunday Standard, 17 Sept 2018.

<sup>17</sup> Sunday Standard, 17 Sept 2018

<sup>18</sup> DISS director Brigadier Isaac Magosi, quoted in Sunday Standard, 17 Sept 2018.

<sup>19</sup> Sunday Standard, 2 Oct 2018.

<sup>20</sup> Sunday Standard, 17 Sept 2018

<sup>21</sup> Sunday Standard, 17 Sept 2018

<sup>22</sup> Sunday Standard, 17 Sept 2018

<sup>23</sup> The Patriot, 3 Oct 2018.

<sup>24</sup> DISS director Brigadier Isaac Magosi, quoted in The Patriot, 3 Oct 2018.

involvement in political affairs during Kgosi's term of office, especially alleged surveillance and threats to eliminate Khama's political opponents.<sup>26</sup> Magosi said that his administration is in the process of reviewing the organisation's overall functions, so that it will function as a professional and efficient intelligence outfit.<sup>27</sup>

Magosi's statements reflect President Masisi's efforts to signal a complete break from Khama's regime. Magosi is also portraying his government as professional and combating corruption. However, Masisi's anti-corruption drive and ongoing criticism of former president Khama's government is likely to weaken the BDP ahead of the 2019 election. Khama retains considerable influence within the BDP, security sector, and networks of foreign business partners whose interests President Masisi would not guarantee.

### **Moody's plans to expand coverage of Botswana's entities**

Global financial services company and ratings agency **Moody's Corporation** indicated on 28 September that the company is planning to expand its coverage of business organisations in Botswana.<sup>28</sup> This development signals the expansion of Botswana's economy and potential for growth.<sup>29</sup> Botswana currently has only two rated corporates, the **Botswana Development Corporation (BDC)** and **Letshego Holdings**, despite having **Africa's** highest sovereign rating of A2.<sup>30</sup> Moody's provides credit ratings on governments and commercial entities, mainly through looking at their ability to repay debts timeously.<sup>31</sup> It also conducts research, analysis, and monitoring.<sup>32</sup> It rates 65 institutions across Africa, 24 countries, eight multinational development banks, and 32 corporate entities.<sup>33</sup> Moody's ratings allow investors to determine the creditworthiness of institutions and governments.

Moody's officials visited Botswana in September to meet with local business people, including chief executive officers, asset managers, bankers, and market analysts, among others as part of the process of gathering information that will inform its expanded coverage.<sup>34</sup>

*"We are noting positive trends among Botswana's banks... From 2013, capital adequacy has been stable to rising. The **Bank of Botswana** [central bank] has a prudential capital adequacy ratio of 15%, which Moody's views as quite significant, but banks have achieved that."<sup>35</sup>*

Moody's also indicated that one of its main concerns with Botswana's economy is the extensive involvement of government and development finance institutions in the economy, especially funding major public works and infrastructure.<sup>36</sup>

*"Africa in general has a history of government providing the resources for public infrastructure, from water to electricity. However, that is changing and governments are looking to reduce their presence in the business space and bring in the private*

<sup>25</sup> The Patriot, 3 Oct 2018.

<sup>26</sup> The Patriot, 3 Oct 2018.

<sup>27</sup> The Patriot, 3 Oct 2018.

<sup>28</sup> Mmegi, 28 Sept 2018.

<sup>29</sup> Mmegi, 28 Sept 2018.

<sup>30</sup> Mmegi, 28 Sept 2018.

<sup>31</sup> Mmegi, 28 Sept 2018.

<sup>32</sup> Mmegi, 28 Sept 2018.

<sup>33</sup> Mmegi, 28 Sept 2018.

<sup>34</sup> Mmegi, 28 Sept 2018.

<sup>35</sup> Moody's vice president (senior credit officer) Financial Institutions Group, Akin Majekodunmi quoted in Mmegi, 28 Sept 2018.

<sup>36</sup> Mmegi, 28 Sept 2018.

*sector... the challenge is for governments to move away from providing and paying for all the public infrastructure and bring in private sector capital, which is looking for long-term debt to match its liabilities.”<sup>37</sup>*

Moody’s interest in expanding its coverage of commercial entities in Botswana reflects the economy’s potential for growth. This is likely to increase investors’ and lenders’ interest in Botswana’s economy, and provide the much-needed private capital that will drive industrial growth and diversification.

### **Botswana Stock Exchange threatens to delist Choppies over delayed results**

The **Botswana Stock Exchange (BSE)** revealed on 16 October that it is considering delisting Botswana-based grocery retailer **Choppies Enterprises** over delays in its publication of financial results.<sup>38</sup> Should the BSE proceed with the delisting, this would considerably weaken one of Botswana’s largest employers.<sup>39</sup> Delisting has considerable indirect consequences, through a sharp reduction in the value of its shares.<sup>40</sup> Choppies failed to release its results for the financial year ending in June, within three months of the period that the BSE stipulated.<sup>41</sup> The BSE has issued a statement cautioning shareholders of its impending action.<sup>42</sup> In a statement issued in September, Choppies indicated that its board of directors and external auditors, **PwC**, are currently seeking independent verification and legal advice on several issues that emerged in a review of the current and previous financial periods.<sup>43</sup> This includes transactions that its **South African** subsidiary conducted in the 2017 and 2018 financial years, and a shareholder dispute in **Zimbabwe**.<sup>44</sup>

Choppies also indicated that although the independent verifications have since begun, it is yet to establish the completion date and outcomes of the exercise, which affects the publication of the final year-end results.<sup>45</sup> Choppies’ shares have dropped substantially because of the threats of suspension from the BSE.<sup>46</sup> The **Johannesburg Stock Exchange (JSE)** has also reportedly cautioned Choppies of impending de-listing, should it not publish its year-end financial results.<sup>47</sup> Choppies’ chief executive officer, **Ramachandran Ottapathu** said that Choppies had lost 300 million Botswana pula (\$28m) between September and October, because of declining share value:<sup>48</sup>

*“There was a delay in the publication of the financials and that delay created a perception in the market, driving the share price down. This has nothing to do with Choppies operation. We will continue to grow this company... We were hoping to have solved all issues within the stipulated period, there was no intentional delay from the management side. Shareholder disputes cropped up in July, which contributed a lot to*

<sup>37</sup> Moody’s vice president (senior credit officer) project and infrastructure group, Christopher Bredholt, quoted in Mmegi, 28 Sept 2018.

<sup>38</sup> Reuters, 16 Oct 2018.

<sup>39</sup> Reuters, 16 Oct 2018.

<sup>40</sup> Source, analyst, London

<sup>41</sup> Reuters, 16 Oct 2018.

<sup>42</sup> Reuters, 16 Oct 2018.

<sup>43</sup> Business Day, 27 Sept 2018.

<sup>44</sup> Business Day, 27 Sept 2018.

<sup>45</sup> Business Day, 27 Sept 2018.

<sup>46</sup> The Voice, 16 Oct 2018.

<sup>47</sup> The Voice, 16 Oct 2018.

<sup>48</sup> The Voice, 16 Oct 2018.

*the decline in shareholding price. It has only been a month and we are working around the clock to make sure the situation does not worsen.”<sup>49</sup>*

Choppies operates in **Botswana**, South Africa, **Kenya**, and Zimbabwe.<sup>50</sup> It is engaged in a shareholder dispute with **Nanavac Investments**, which former Zimbabwe vice president **Phelekezela Mphoko** owns.<sup>51</sup> Nanavac claims that it owns 51% of Choppies’ operations in Zimbabwe, while Choppies believes that it holds only 7%.<sup>52</sup> The shareholder dispute and other irregularities reflect negatively on the strength of Choppies’ internal control and management systems. The news of the delisting caused shareholders to sell off Choppies shares, driving the price down and costing Choppies investment capital. News of the delisting may also have medium to long-term effects, mainly through the loss of investor confidence.

### Planner

22 Oct 2018 (**Botswana**) **Bank of Botswana Monetary Policy Committee** meeting  
 30 Oct-2 Nov 2018 (**Botswana**) Global Expo Botswana;  
 5 Nov 2018 (**Botswana**) International Data Week;  
 4 Dec 2018 (**Botswana**) **Bank of Botswana Monetary Policy Committee** meeting  
 2019 (**Botswana**) Scheduled general elections;  
 10 Sept 2019. (**Botswana**) Electra Mining Botswana event;

### Chronology

12 Oct 2018. **London (United Kingdom)** *Mmegi*. President **Mokgweetsi Masisi** criticises the **British Broadcasting Corporation (BBC)** for its reporting on the poaching of 84 elephants in **Botswana**;

7 Oct 2018. **Francistown (Botswana)** *Global Times*. Agricultural development and food security minister **Patrick Ralotsia** says that Botswana is exploring exporting beef to **China**;

7 Oct 2018. **Gaborone (Botswana)** *Sunday Standard*. Former president of Botswana, **Festus Mogae** (1998-2008), is embroiled in **Choppies** shares dispute, which also involves former **Zimbabwe** vice president **Phelekezela Mphoko**;

5 Oct 2018. **Gaborone (Botswana)** *Proactive Investors*. **Botswana**-based **Botswana Diamonds** and **United-Kingdom**-based **Vast Resources** sign deal to develop **Zimbabwe’s** **Marange** diamond fields;

5 Oct 2018. **Gaborone (Botswana)** *ESI Africa*. The **Botswana Power Corporation (BPC)** goes to tender to replace several defective power transformers;

2 Oct 2018. **Gaborone (Botswana)** *Sunday Standard*. Anonymous military sources claim that former president **Ian Khama** took flying lessons in preparation for using luxury private jet that the **Directorate on Intelligence and Security Services (DISS)** purchased

<sup>49</sup> Choppies’ chief executive officer, Ramachandran Ottapathu quoted in The Voice, 16 Oct 2018.

<sup>50</sup> Business Day, 27 Sept 2018.

<sup>51</sup> Business Day, 26 Sept 2018.

<sup>52</sup> Business Day, 26 Sept 2018.

from **Switzerland**;

28 Sept 2018. **Gaborone (Botswana)** *Mmegi*. Global rating and financial services agency, **Moody's Corporation** plans to expand its coverage of commercial entities in **Botswana**;

27 Sept 2018. **Gaborone (Botswana)** *Reuters*. The **Botswana Stock Exchange (BSE)** threatens to suspend retailer **Choppies Enterprises** from the local bourse over delays in publishing year-end financial results;

27 Sept 2018. **Gaborone (Botswana)** *Mining Weekly*. **Stanbic Botswana** signs \$125m loan guarantee with **Overseas Private Investment Corporation** and **Botswana Finance** to lend to diamond manufacturers and polishing companies;

26 Sept 2018. **Gaborone (Botswana)** *Business Day*. **Botswana**-based junior coal mining company **Minergy** announces plans to expand its business to **South Africa**;

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