

AFRICA RISK CONSULTING

Botswana Monthly Briefing November 2018

Botswana Summary 21 November 2018

President Mokgweetsi Masisi (2018-present) reveals plans to renegotiate the government's joint venture agreement with United Kingdom (UK)-based De Beers Diamond Company, to secure more government control over the valuing of diamonds and determining the company's revenue from diamonds exported from Botswana. A faction of the ruling Botswana Democratic Party (BDP) reportedly plans to oust President Masisi before the general election in 2019. Botswana falls five places in the World Bank's 2019 Doing Business rankings, although its score improved slightly to 65.40 from 64.94 in the previous rankings. Botswana Diamonds has bought Russia-based diamond company Alrosa's 50% equity in the Sunland Minerals joint venture and will sell it to a new joint venture partner.

Masisi pushes for increased government control in Debswana JV

President **Mokgweetsi Masisi** (2018-present) is reportedly seeking to renegotiate the terms of the joint venture contract that the **Botswana** government has with **United Kingdom (UK)-based De Beers Diamond Company** in order to give it more control over **Debswana**, its 50-50 joint venture with De Beers.¹ A change in the terms of the contract is likely to create tension between the government and De Beers, which has enjoyed substantial control over the diamond value chain, from production, pricing and valuation, marketing, and the amount of revenue that accrues to the government.² In a speech at the opening ceremony of the **2018 Diamond Conference** in Botswana's capital, **Gaborone**, on 13 November Masisi said the government had assembled a team to kick-start negotiations for the next sales agreement:³

*"Through our partnership with De Beers, there has been over the years, increased participation in the diamond pipeline from prospecting through to cutting and polishing... Our historic 2011 sales agreement was instrumental in achieving these milestones... We, however, need to move further up the pipeline to jewellery manufacturing and retail... Participation at these upmarket levels of the pipeline, however small, will go a long way in promoting the development of Gaborone as a "Diamond City", and Botswana as the number one diamond destination."*⁴

Diamond pricing and valuing has been a thorny issue between De Beers and the government. Although the government has its own valuers, De Beers reportedly has unchecked control over the valuing process.⁵ The permanent secretary in the minerals ministry, **Cornelius Dekop**, confirmed that government has been negotiating with De Beers to have this situation changed:

¹ Southern Times, 19 Nov 2018.

² Southern Times, 19 Nov 2018.

³ Excerpts from President Masisi's speech, quoted in Southern Times, 19 Nov 2018.

⁴ Excerpts from President Masisi's speech, quoted in Southern Times, 19 Nov 2018.

⁵ Southern Times, 19 Nov 2018.

“The price book is one of the issues in the talks; they have been controlling that on their own. We want to look at charges on sight holders, beneficiation and others besides the price book... The people negotiating for us have access to the price book, but it’s not enough.”⁶

Masisi said that this is part of the government’s broader policy, the **National Vision 2036**, which seeks to raise Botswana to a higher-income country from its current middle-income status.⁷ Masisi said the government remains committed to expanding the benefits of economic beneficiation, which is also a substantial element of its efforts to achieve economic diversification.⁸

“It is also one of my Government’s key priorities because it has the potential to create sustainable jobs, particularly for the Youth. All of you indeed have and continue to play a significant role in supporting the positive economic and social impact of diamonds across producer countries.”⁹

De Beers Group chief executive officer **Bruce Cleaver** said that the company would not part ways with the government of Botswana over the negotiations:

“It would shock the world and the diamond industry if the government and De Beers were to part... Both teams are currently drafting heads of agreement and the public will know once everything has been finalised.”¹⁰

Botswana’s bid to renegotiate its joint venture agreement with De Beers is a necessary step in expanding benefits from mineral beneficiation.¹¹ The government is also concerned about the reduced value of diamonds and volatility of prices, and thus seeking to strengthen its control and access to revenues which it would invest in other sectors of the economy that are unrelated to mining or diamonds.¹² The beneficiation agreement that the two joint venture partners signed in 2011 transferred De Beers’ diamond sales, or sights, from **London** (UK) to Gaborone for a period of ten years.¹³

The negotiations could be tense, mainly because of the financial implications of changing the current joint venture agreement. De Beers is concerned about the likelihood of depressed revenues from global sales, given the current global oversupply, growth in synthetic diamonds, and its loss of control of global supply, pricing and distribution.¹⁴ Losing control of valuation and pricing in Botswana could result in it having to pay more revenue to the government of Botswana.¹⁵

BDP faction plots to oust Masisi at party congress

A faction within the ruling **Botswana Democratic Party (BDP)**, calling itself “**New Jerusalem**”, has reportedly made plans to remove President Masisi from office before the 2019 general election.¹⁶ These revelations are likely to intensify internal conflict within the

⁶ Permanent secretary in the minerals ministry, Cornelius Dekop quoted in Southern Times, 19 Nov 2018.

⁷ Southern Times, 19 Nov 2018.

⁸ Southern Times, 19 Nov 2018.

⁹ Excerpts from President Masisi’s speech, quoted in Southern Times, 19 Nov 2018.

¹⁰ De Beers Group chief executive officer, Bruce Cleaver quoted in The Patriot, 22 Nov 2018.

¹¹ Source, analyst, London

¹² Source, analyst, London

¹³ Source, analyst, London

¹⁴ Source, analyst, London

¹⁵ Source, analyst, London

¹⁶ The Voice, 21 Nov 2018.

BDP, which may result in a split before the 2019 general election.¹⁷ Sixteen members of parliament (MPs) aligned to former president **Ian Khama** (2008-2018) make up the bulk of the New Jerusalem faction and reportedly held a secret meeting on 17 November.¹⁸ They elected De Beers Diamonds Company chairman **Neo Moroka** as the preferred candidate to challenge Masisi for the presidency of the party at the BDP congress in July 2019.¹⁹ The faction also plans to call for a special congress in March and force an early party presidential election, instead of the traditional July party congress.²⁰

*“Some of the names that were touted for the presidency challenge included **Tshekedi Khama** and **Venson Moitoi** but in the end a consensus was reached to nominate Moroka on the basis of his being from the southern part of the country... This will be a first in the history of the BDP, to have someone challenging the president for his seat.”²¹*

The faction has made contingency plans in the event that Masisi expels them from the party:

*“They know that [Masisi] will be made aware of their plan and secret meetings, so they decided that should they be fired from the BDP, they would form a breakaway party and approach the **Umbrella for Democratic Change [UDC]** to be included in the coalition... If they get fired, there will be a hung parliament and the partnership with UDC would serve to save the situation.”²²*

BDP chief whip **Liakat Kably** confirmed the existence of the faction and its objectives:

“As a party we are aware of the New Jerusalem group. We even discussed it at the party caucus and we are trying to establish who exactly is behind it... They think that they are superior to other party members. Some of them don’t even have any meaningful contribution to the party anymore and they seem to be eager to give the UDC mileage by dividing the party unnecessarily but we will deal with them accordingly.”²³

The widening cracks within the ruling party mainly emanate from personal differences between former president Khama and President Masisi.²⁴ Khama had sought to maintain a level of influence in Masisi’s government through several concessions such as having Khama’s confidante and ally, former director of the **Directorate for Internal Security (DIS), Isaac Kgosi**, as Masisi’s chief of staff.²⁵ The conflict also emanates from Masisi’s will to separate himself from the Khama family’s dynastic influence on Botswana’s politics.²⁶ He reportedly refused to appoint Ian Khama’s younger brother, Tshekedi Khama, as vice president, which would have ensured another Khama as Botswana’s president in the future.²⁷ The internal conflicts will considerably weaken the BDP, and may result in substantial gains by the opposition in the 2019 general election.²⁸ The BDP has been in power since 1966, but saw its share of the popular vote sink below 50% for the first time in elections in 2014, as it paid the

¹⁷ The Voice, 21 Nov 2018.

¹⁸ The Voice, 21 Nov 2018.

¹⁹ The Voice, 21 Nov 2018.

²⁰ The Voice, 21 Nov 2018.

²¹ Anonymous BDP source, quoted in The Voice, 21 Nov 2018.

²² Anonymous BDP source, quoted in The Voice, 21 Nov 2018.

²³ BDP chief whip, Liakat Kably quoted in The Voice, 21 Nov 2018.

²⁴ Source, analyst, London

²⁵ Source, analyst, London

²⁶ Source, analyst, London

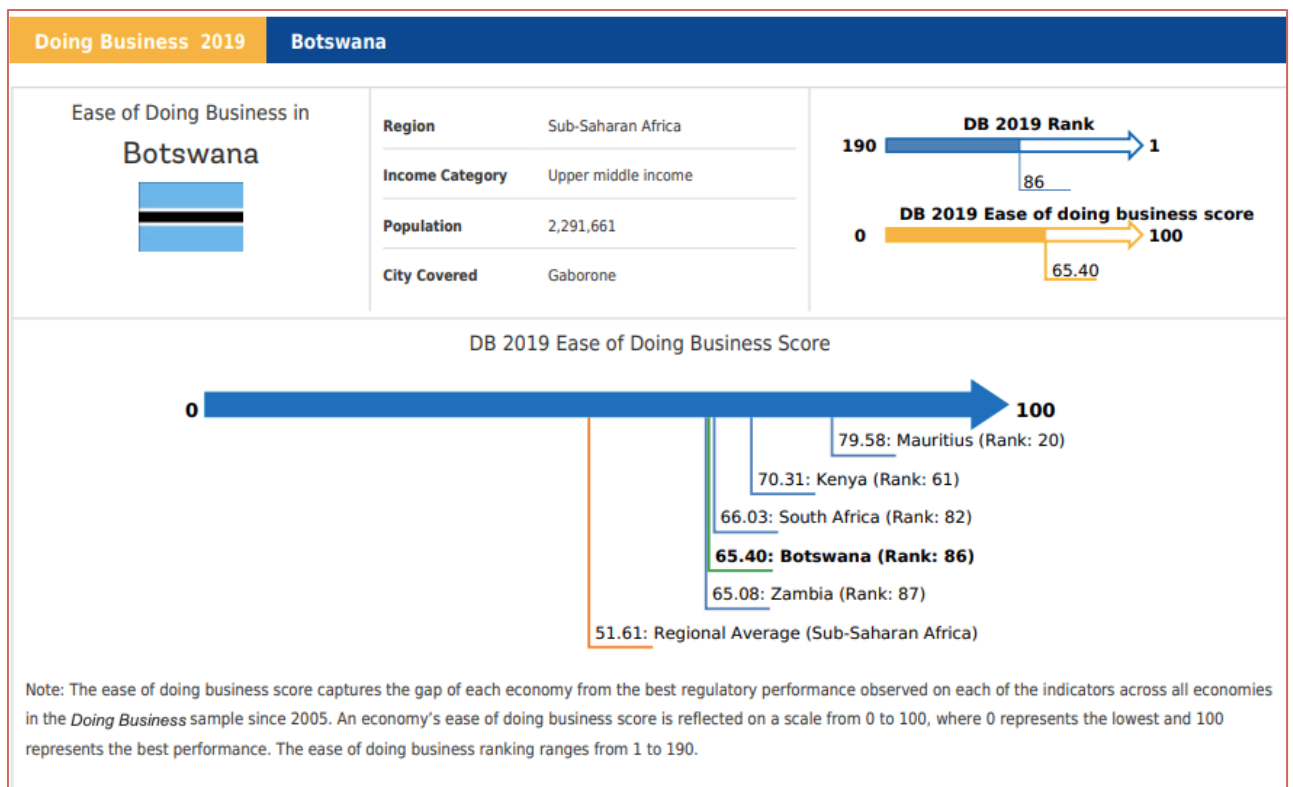
²⁷ Source, analyst, London

²⁸ Source, analyst, London

price for sluggish economic growth and high youth unemployment.²⁹ It currently holds 37 of the 57 seats in parliament, while the UDC holds 17 and the **Botswana Congress Party** three.

Botswana drops in Doing Business rankings

The **World Bank** has ranked Botswana 86 out of 190 countries in its **Doing Business** report for 2019.³⁰ This is a five-place drop from its ranking of 81 in the 2018 report.³¹ The ranking is likely to result in critique of President Masisi’s policies, even though the data is mainly drawn from former president Ian Khama’s time in office.³² However, Botswana slightly improved its Ease of Doing Business score, which increased to 65.40 from 64.94 in 2018.³³ This figure is higher than the regional average of 51.61 for **sub-Saharan Africa**, although several countries are within the same range: **Zambia** scored 65.08 (ranked 87th), **South Africa** 66.03 (ranked 82nd), and **Kenya** 70.31 (ranked 61st).³⁴



Source: World Bank Doing Business 2019, Training for Reform, Economy Profile Botswana

The World Bank’s Doing Business reports use several indicators to determine each country’s ranking annually. These include starting a business, registering property, paying taxes, getting construction permits, getting electricity, protecting minority investors, and enforcing contracts and resolving insolvency.³⁵

²⁹ Africa News, 3 Feb 2017.

³⁰ World Bank’s Doing Business Report 2019, 31 Oct 2018.

³¹ World Bank’s Doing Business Report 2019, 31 Oct 2018.

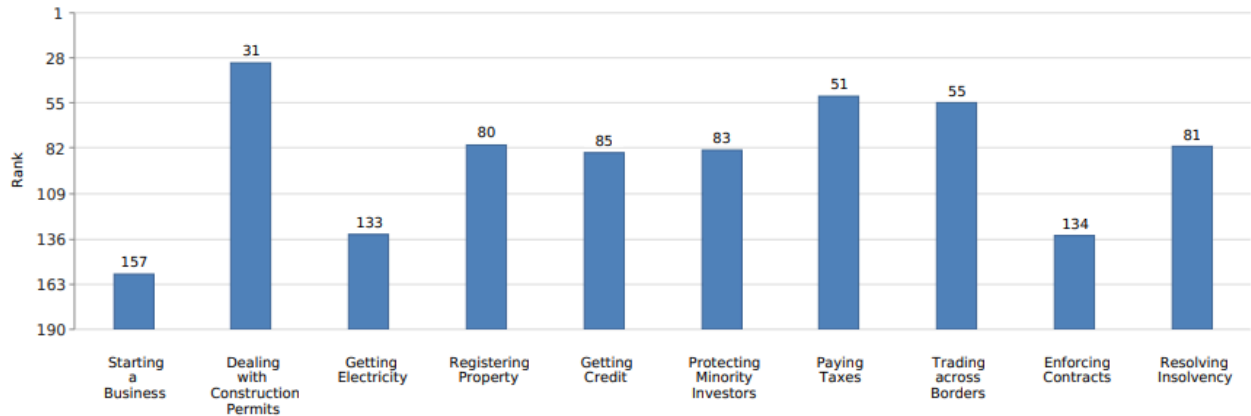
³² World Bank’s Doing Business Report 2019, 31 Oct 2018.

³³ World Bank’s Doing Business Report 2019, 31 Oct 2018.

³⁴ World Bank’s Doing Business Report 2019, 31 Oct 2018.

³⁵ World Bank’s Doing Business Report 2019, 31 Oct 2018.

Rankings on Doing Business topics - Botswana



Botswana demonstrated improvements in several areas, such as

- Dealing with construction permits
- Getting electricity
- Resolving insolvency
- Made payment of taxes easier through developing an online system for filing and paying taxes;
- Improved cross-border trade by implementing a new automated customs data management system;

However, Botswana had a slight deterioration in the registering property indicator, because it made the process more difficult by reducing the efficiency of its registrar of Deeds, since it has been computerising its manual records.³⁶

Nevertheless, Botswana's overall Doing Business profile is promising.³⁷ The government has made several improvements in upgrading several services, especially taxes and cross border trading, which contribute to efficiency and increased capacity for service delivery. Botswana has also introduced a visa free regime for all arrivals, which will allow investors relative ease of access into Botswana for business activities.³⁸

Botswana Diamonds buys out Alrosa in Sunland Minerals joint venture

Botswana-based diamond mining company **Botswana Diamonds** announced on 15 November that it had acquired **Russia-based Alrosa Diamonds'** 50% stake in the **Sunland Minerals** joint venture project.³⁹ Although Alrosa's withdrawal from the Sunland joint venture is a result of leadership and priority changes in the company, it may suggest a lack of confidence in the profitability of diamonds in the long term.⁴⁰ Botswana Diamonds described the move as part of plans to bring in an as yet unnamed new investor, which would enable the Sunland Minerals project to expand its exploration work to find new kimberlite

³⁶ World Bank's Doing Business Report 2019, 31 Oct 2018.

³⁷ World Bank's Doing Business Report 2019, 31 Oct 2018.

³⁸ Africa News, 16 Nov 2018.

³⁹ Mining.com, 15 Nov 2018.

⁴⁰ Source, analyst, London

diamond deposits.⁴¹ Botswana Diamonds described its new partner as “a large diamond producer with new ideas and keen to find new kimberlites in Botswana”.⁴² Botswana Diamonds also indicated that it would sell the 50% that it acquired from Alrosa to the new joint venture partner.⁴³

Botswana Diamonds and Alrosa established the Sunland Minerals joint venture in 2014.⁴⁴ It sought to employ Alrosa’s technological expertise to seek new kimberlitic diamonds in the **Kalahari Game Reserve**.⁴⁵ Botswana Diamonds chairman **John Teeling** said Alrosa had been an excellent partner over the past four years:

*“They brought a fresh approach and new technology to exploration in the Kalahari... The work done by Sunland was, and is, of a high standard. We had no instant success, you rarely do in exploration, but progress had been made toward the target of a commercial discovery. For reasons unconnected with this acreage, new Alrosa management prioritised marketing over early stage exploration. This happened before, in a previous company, with the **Karowe** discovery. We successfully replaced a partner, which then developed the Karowe mine... Although no guarantees can be given at this stage, we are at an advanced stage of discussions with a significant diamond producer who has in place an experienced exploration team.”⁴⁶*

Although Botswana is the world’s second largest producer of diamonds after Russia, the industry faces several constraints.⁴⁷ These include ageing mines, which increase mining costs, power and water shortages, and gradually rising competition from the synthetic diamonds industry.⁴⁸ Diamond companies in Botswana, especially **Canada-based Lucara Diamonds**, have since shifted focus to large diamonds, which are more profitable than smaller jewel-quality diamonds.⁴⁹ Diamonds currently have a glut on the global market, and this, coupled with a synthetic diamond market, may keep prices relatively low.⁵⁰

⁴¹ Mining.com, 15 Nov 2018.

⁴² Excerpts from Botswana Diamonds’ statement, quoted in Mining.com, 15 Nov 2018.

⁴³ Mining.com, 15 Nov 2018.

⁴⁴ Mining.com, 15 Nov 2018.

⁴⁵ Mining.com, 15 Nov 2018

⁴⁶ Botswana Diamonds’ chairman, John Teeling, quoted in Mining.com, 15 Nov 2018.

⁴⁷ Mining.com, 15 Nov 2018

⁴⁸ Source, analyst, London

⁴⁹ Source, analyst, London

⁵⁰ Source, analyst, London

Planner

4 Dec 2018 **(Botswana) Bank of Botswana Monetary Policy Committee** meeting
 21 May 2019 Mining Investment Conference and Exhibition;
 2019 **(Botswana)** Scheduled general elections;
 10 Sept 2019 **(Botswana) Electra Mining Botswana** event;

Chronology

21 Nov 2018. **Gaborone (Botswana) The Patriot**. The **Botswana Energy Regulatory Authority (BERA)** revealed that the central government is reportedly losing millions of pula in unpaid fuel levies, because of the absence of payment mechanism through which oil companies pay the tax to government;

19 Nov 2018. **Gaborone (Botswana) Xinhua**. Investment, trade and industry minister **Bogolo Kenewedo** reveals that the government is actively seeking more **Chinese** investments and trade;

18 Nov 2018. **Gaborone (Botswana) Southern Times**. President **Mokgweetsi Masisi** reveals plans to re-negotiate the government's joint venture agreement with **De Beers Diamond Group** and secure more control over diamond valuation and revenue allocation;

17 Nov 2018. **Gaborone (Botswana) Xinhua**. Permanent secretary in the environment, natural resources, conservation and tourism ministry **Thabang Botshoma** announces that Botswana will begin issuing visas on arrival to all tourists;

15 Nov 2018. **Gaborone (Botswana) Mining Journal**. **Botswana**-based diamond mining company, **Botswana Diamonds** buys out **Russia**-based **Alrosa Diamonds'** 50% stake, and prepares to sell it to a new joint venture partner;

11 Nov 2018. **Gaborone (Botswana) Sunday Standard**. President **Mokgweetsi Masisi** has removed the former director of intelligence and security, **General Isaac Kgosi's** brother, **Colonel Shadrack Kgosi**, from his position as deputy commander of the **Botswana Defence Force**;

9 Nov 2018. **Gaborone (Botswana) Journal du Cameroun**. The office of the president issues a statement denying that the ongoing rift between president **Mokgweetsi Masisi** and former president **Ian Khama** has spread to the army;

9 Nov 2018. **Gaborone (Botswana). The Voice**. President **Mokgweetsi Masisi** announced on 5 November that his government would sign the **African Continental Free Trade Agreement (AFCFTA)** in January 2019;

2 Nov 2018. **Gaborone (Botswana). The Chronicle**. **Botswana**-based retailer **Choppies'** non executive director **Sydney Alan Muller** resigns following Choppies' suspension from the Botswana and **Johannesburg Stock Exchanges**;

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.africariskconsulting.com

Getting in touch

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

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)