

## AFRICA RISK CONSULTING

### Botswana Monthly Briefing December 2018

#### Botswana Summary 17 December 2018

**President Mokgweetsi Masisi (2018-present) reshuffles his cabinet amidst continuing tensions with former president Ian Khama (2008-2018). Botswana's only operational copper mine, Mowana mine, suspends operations after failing to access operating capital. Botswana-based Minergy Limited announces plans to export coal from Botswana to South Africa's national power utility, Eskom. Botswana's political and economic highlights demonstrate modest economic growth and a hotly contested general election amidst infighting within the ruling Botswana Democratic Party (BDP).**

#### President Masisi reshuffles cabinet

President **Mokgweetsi Masisi** (2018-present) reshuffled his cabinet on 14 December, removing **Tshekedi Khama**, the younger brother of former president **Ian Khama** (2008-2018), from his position as environment, natural resources, conservation and tourism minister, and appointing him as youth empowerment, sports, and culture development minister instead.<sup>1</sup> This will aggravate ongoing tensions between former president Khama and Masisi.<sup>2</sup> The Khama family has several business interests in wildlife and tourism, and Tshekedi Khama's removal from the ministry is likely to loosen their control over the tourism industry.<sup>3</sup> The environment and tourism ministry is one of the most powerful in **Botswana**, given that tourism contributes the second highest revenue to the economy after diamonds.<sup>4</sup>

Former president Khama reportedly has shares in **Linyanti Investments**, which owns the **Linyanti Concession** in Botswana's **Okavango Delta**.<sup>5</sup> Ian Khama's lawyer, **Parks Tafa**, chaired the board of leading tourism company **Wilderness Holdings** throughout most of Khama's presidency, and Khama's nephew, **Marcus Te Haar** is one of the company's non-executive board members.<sup>6</sup> Tshekedi Khama expressed disappointment with Masisi's decision:

*"I am surprised because I thought the president would wait until after the 2019 general elections before considering these changes. Why now? You should already know about all the employment and developments in tourism that happened under my watch. The country's tourism industry was on the right track. What can anyone achieve in a new ministry given that we are left with nine months to elections? I have been pursuing a very crucial tourism market for the past two and a half years and just yesterday they opened up to us, and then I wake up to this [cabinet reshuffle]."*<sup>7</sup>

<sup>1</sup> Mmegi, 14 Dec 2018.

<sup>2</sup> Mmegi, 14 Dec 2018.

<sup>3</sup> Sunday Standard, 17 Dec 2018.

<sup>4</sup> Weekend Post, 17 Dec 2018.

<sup>5</sup> Mail and Guardian, 14 Dec 2018.

<sup>6</sup> Mail and Guardian, 14 Dec 2018.

<sup>7</sup> Former tourism minister Tshekedi Khama quoted in Sunday Standard, 17 Dec 2018.

Masisi replaced Khama with **Kitso Mokaila**, and appointed **Dorcas Makgato** as the new transport and communications minister.<sup>8</sup> He also appointed **Ngaka Ngaka** as the nationality, immigration and gender affairs minister, while **Thapelo Olopeng** becomes the new tertiary education, research, science and technology minister.<sup>9</sup>

The cabinet reshuffle will heighten the political tensions between Khama and Masisi.<sup>10</sup> The causes of the tensions include Masisi's refusal to appoint Tshekedi Khama as his vice president, barring Ian Khama from flying military aircraft, and his entitlements as a former head of state.<sup>11</sup> In the bigger picture, the tensions are a result of the Khama family's desire to maintain political dominance in the BDP and government, which Masisi and his supporters in government oppose.<sup>12</sup> Increased divisions in the ruling **Botswana Democratic Party (BDP)** are likely to weaken it going into the 2019 elections.<sup>13</sup>

### **Mowana copper mine suspends operations due to capital constraints**

The management of Botswana's only operational copper mine, **Mowana Mine**, revealed on 11 December that it would suspend operations because of failure to raise sufficient working capital.<sup>14</sup> This will undermine the government's efforts to strengthen its copper mining sector.<sup>15</sup> Although global copper prices have been recovering, Mowana failed to capitalise because of frequent equipment breakdowns.<sup>16</sup> The company's failure to raise enough capital resulted in its failure to pay workers' salaries and suppliers.<sup>17</sup> Although Mowana had a conditional \$4m working capital facility from **Fujax Minerals and Energy Limited**, the two entities could not agree over collateral.<sup>18</sup> Mowana's general manager, **Dominic Doherty**, indicated that,

*"We thought it would only be fair to suspend operations while we try and explore other ways of securing the funding. Our hope is that the situation will be resolved soon and we can be able to restart the operations."*<sup>19</sup>

**Australia-based Cradle Arc** owns 60% of Mowana mine, which it acquired and reopened in 2017.<sup>20</sup> The mine had entered into liquidation in 2015.<sup>21</sup> Mowana mine has a production capacity of 12,000 tonnes per year.<sup>22</sup> The mine employs 411 workers, who stand to lose their jobs in the mine closure.<sup>23</sup> Mowana mine became Botswana's only copper mine in 2016, after the government-owned **BCL Limited** entered into liquidation, resulting in over 5,000 job losses.<sup>24</sup> The mine closure and job losses will have a negative impact on Botswana's socio-economic status, especially as the government works to reduce its economic dependence on

<sup>8</sup> Sunday Standard, 17 Dec 2018.

<sup>9</sup> Sunday Standard, 17 Dec 2018.

<sup>10</sup> Sunday Standard, 17 Dec 2018.

<sup>11</sup> Sunday Standard, 17 Dec 2018.

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

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

<sup>14</sup> Reuters, 11 Dec 2018.

<sup>15</sup> Reuters, 11 Dec 2018.

<sup>16</sup> Reuters, 11 Dec 2018.

<sup>17</sup> Reuters, 11 Dec 2018.

<sup>18</sup> Reuters, 11 Dec 2018.

<sup>19</sup> Mowana's general manager, Dominic Doherty quoted in Reuters, 11 Dec 2018.

<sup>20</sup> Reuters, 11 Dec 2018.

<sup>21</sup> Reuters, 11 Dec 2018.

<sup>22</sup> Reuters, 11 Dec 2018.

<sup>23</sup> Reuters, 11 Dec 2018.

<sup>24</sup> Reuters, 11 Dec 2018.

mining.<sup>25</sup> Mowana Mine's failure to access operating capital may indicate a lack of investor confidence in the volatile global copper market.<sup>26</sup>

### Minergy to open market for Botswana's coal in South Africa

Botswana-based mining company **Minergy Limited** announced on 4 December that it would seek to secure a market for its coal in **South Africa**, mainly through targeting the state-owned national utility, **Eskom Holdings**.<sup>27</sup> This would provide an additional opportunity for Botswana to earn revenue from its vast coal reserves, which are mainly suited for coal-fired power stations.<sup>28</sup> Minergy is preparing to begin coal production at its **Masama** site, which is located in the **Mmamabula** coalfield.<sup>29</sup> Minergy's chief executive officer, **Andre Boje**, said that Botswana has considerable potential in fulfilling growing demand for coal in **Africa** and overseas:

*"The thermal coal price has also increased 33% over the past 18 months, making it one of the world's top five highest-performing commodities...The price of coal is rising, there is a deficit in supply and a strong demand, especially in the developing world, which is driving up the prices and keeping them high."*<sup>30</sup>

Minergy also revealed that it had made unsuccessful enquiries to Eskom about selling Botswana's coal to the national power utility.<sup>31</sup> At the time, Eskom had indicated that it would only purchase coal from companies that had black majority shareholders.<sup>32</sup> However, Eskom no longer has this requirement.<sup>33</sup> Botswana stands to gain revenue from coal exports in the short to medium term, because of high demand.<sup>34</sup> Unlike South Africa, Botswana does not have strong civil society mobilisation against coal and the fossil fuels industry in general.<sup>35</sup>

### Botswana in focus: 2019

Botswana's finance ministry expects its economy to increase by 4.2% in 2019, but this mainly depends on an improved global diamond market, and stable power and water supply.<sup>36</sup> Other non-mining service sectors, such as tourism, restaurants, transport, and trade, will also support this projected growth.<sup>37</sup> However, an anticipated **El Nino** weather event in 2019 is likely to weaken Botswana's economy, given its limited water resources for domestic and industrial use. The government's infrastructural development projects will also provide some economic stimulus, by increasing demand from multiple sectors, and creating jobs.<sup>38</sup> Manufacturing will also experience moderate gains, which a stable water and energy supply would support.<sup>39</sup> Agricultural output is likely to be subdued, particularly in light of anticipated poor weather in 2019.

<sup>25</sup> Source, analyst, London

<sup>26</sup> Source, analyst, London

<sup>27</sup> Miningmx, 4 Dec 2018.

<sup>28</sup> Miningmx, 4 Dec 2018.

<sup>29</sup> Miningmx, 4 Dec 2018.

<sup>30</sup> Minergy's chief executive officer, Andre Boje, quoted in Miningmx, 4 Dec 2018.

<sup>31</sup> Miningmx, 4 Dec 2018.

<sup>32</sup> Miningmx, 4 Dec 2018.

<sup>33</sup> Miningmx, 4 Dec 2018

<sup>34</sup> Source, analyst, London

<sup>35</sup> Source, analyst, London

<sup>36</sup> Engineering News, 18<sup>th</sup> Sept 2018.

<sup>37</sup> African Development Bank's African Economic Outlook, 2018

<sup>38</sup> African Development Bank's African Economic Outlook, 2018

<sup>39</sup> African Development Bank's African Economic Outlook, 2018

The **International Monetary Fund (IMF)** sees the economy growing at 3.6%, down from its initial prediction of 4.5%.<sup>40</sup> The IMF made the adjustment because of concerns with Botswana's economic model, especially the dependence on diamonds, and slow capital accumulation.<sup>41</sup>

*"Relying entirely on minerals and the state for development has downsides as the mining sector is capital-intensive, production is finite, and related revenues are volatile... At the same time, the public sector has become too bureaucratic and is impeding productivity growth... Looking ahead, growth is expected to slightly be moderate on the back of the slower rate of capital accumulation in both the mining and non-mining sectors..."<sup>42</sup>*

Although the global diamond market is experiencing resurgence, the oversupply of jewel quality diamonds, coupled with a growing synthetic diamonds market, will stifle diamond prices.<sup>43</sup> The drought that is predicted to occur in 2019 will have far reaching effects on the same industries that will drive growth, such as construction and infrastructure development, manufacturing, and mining.<sup>44</sup> The **World Bank** also notes that considerable dependence on the state as the main investor and employer is an ongoing weakness of Botswana's economic model.<sup>45</sup> This limits the entry of private investors and stifles innovation.<sup>46</sup>

Botswana's political conditions will be increasingly discordant in 2019, mainly because of the upcoming general election.<sup>47</sup> The ruling Botswana Democratic Party (BDP) is experiencing internal fractures between two main opposing camps, one that aligns itself with the current president, Mokgweetsi Masisi, and another that supports former president Ian Khama.<sup>48</sup> The factional contests may diminish the BDP's chances of retaining its parliamentary majority in the general election.<sup>49</sup>

These divisions are unlikely to taint Botswana's overall quality of governance.<sup>50</sup> Botswana gained higher than average scores on the **Mo Ibrahim Index**, with an overall governance ranking of 5 out of 54 countries in **Africa**, which translates to 68%.<sup>51</sup> These figures are likely to improve, given that several concerns with former president Ian Khama's authoritarian governance style and attacks on the civil society, media, and opposition parties negatively affected Botswana's global rankings, which were largely established before Masisi became president.<sup>52</sup> Botswana scored 61% in **Transparency International's** latest **Corruption Perceptions Index (2017)**, and is the highest-ranked African country in 34<sup>th</sup> position.<sup>53</sup> However, this score steadily declined during former president Khama's presidency (see

<sup>40</sup> Mmegi, 12 Oct 2018.

<sup>41</sup> Mmegi, 12 Oct 2018.

<sup>42</sup> Excerpts from the International Monetary Fund's World Economic Outlook report on Botswana, quoted in Mmegi, 12 Oct 2018.

<sup>43</sup> African Development Bank's African Economic Outlook, 2018

<sup>44</sup> Source, analyst, London

<sup>45</sup> World Bank in Botswana Report, November 2018.

<sup>46</sup> World Bank in Botswana Report, November 2018.

<sup>47</sup> Source, analyst, London

<sup>48</sup> Source, analyst, London

<sup>49</sup> Source, analyst, London

<sup>50</sup> Source, analyst, London

<sup>51</sup> Mo Ibrahim Index of governance, 2018.

<sup>52</sup> Source, analyst, London

<sup>53</sup> Transparency International's Corruption Perceptions Index (2017)

below).<sup>54</sup> This is likely to improve as President Masisi settles into his new role, and implements credible anti-corruption measures.<sup>55</sup>

2017 Rank	Country	2017 Score	2016 Score	2015 Score	2014 Score	2013 Score	2012 Score	Region
34	Botswana	61	60	63	63	64	65	Sub Saharan Africa

Source: Transparency International Corruption Perceptions Index, 21 Feb 2018.

## Planner

21 May 2019 **(Botswana)** Mining Investment Conference and Exhibition;  
 10 Jun 2019 **(Botswana)** Botswana Resource Sector Conference  
 October 2019 **(Botswana)** Scheduled general elections;  
 10 Sept 2019. **(Botswana)** Electra Mining Botswana event;

## Chronology

16 Dec 2018. **Gaborone (Botswana)** *Weekend Post*. Former environment and tourism minister **Tshekedi Khama** expresses his disappointment with President **Mokgweetsi Masisi's** decision to transfer him to the youth and culture development portfolio;

14 Dec 2018. **Gaborone (Botswana)** *Proactive Investor*. **Botswana** government's minerals resources ministry extends **United Kingdom-based Metal Tiger's** prospecting licences by two more years to 2021;

11 Dec 2018. **Gaborone (Botswana)** *Reuters*. **Botswana's** only operational copper mine, **Mowana** mine, suspends operations after failing to access operating capital;

11 Dec 2018. **Gaborone (Botswana)**. *IT Web Africa*. **France-based** telecommunications company **Orange S.A** reveals plans to build a data centre in **Botswana** as part of an investment worth \$6.6m;

10 Dec 2018. **Gaborone (Botswana)** *Mining Weekly*. Botswana-based **Kavango Resources** records positive results from its exploration project in the **Kalahari** desert, demonstrating potential for new copper/nickel/platinum group minerals;

6 Dec 2018. **Gaborone (Botswana)** *The Patriot*. President **Mokgweetsi Masisi** is yet to move into his official residence, **State House**, because of ongoing security upgrades, following the discovery of surveillance equipment;

5 Dec 2018. **Gaborone (Botswana)** *Mining MX*. Botswana-based **Minergy Limited** plans to secure a contract for supplying coal to **South Africa's** national power utility, **Eskom Holdings**;

30 Nov 2018. **Gaborone (Botswana)** *Political Analysis South Africa*. **Botswana** hosts regional conference on corruption in **Africa** starting on 29 November;

<sup>54</sup> Source, analyst, London

<sup>55</sup> Source, analyst, London

29 Nov 2018. **Gaborone (Botswana)**. *Renewables Now*. **Botswana's** national power utility, the **Botswana Power Corporation (BPC)**, opens tender for 12 solar parks;

27 Nov 2018. **Gaborone (Botswana)** *JCK Online*. **Debswana Diamond Company** appoints **Albert Milton** as its new managing director starting on 1 December, as the government engages **De Beers Limited** in negotiations for a new contract;