

## AFRICA RISK CONSULTING

### Botswana Monthly Briefing April 2018

---

#### Botswana Summary 16 April 2018

*President Mokgweetsi Masisi (2018-present) is inaugurated as the fifth president of post-independence Botswana, succeeding Ian Khama (2008-2018). Masisi faces several immediate economic and political challenges as the ruling Botswana Democratic Party (BDP) seeks to retain its incumbency in the upcoming 2019 elections. Botswana drops from first to fourth place in the latest Global Investment Index as a result of regulatory and infrastructural concerns that undermine investor confidence. The Debswana Diamond Company, the 50:50 joint venture between United Kingdom-based De Beers and the Botswana government, announces plans to expand Jwaneng, the world's richest diamond mine by value. The national power utility, the Botswana Power Company (BPC), announces a 10% tariff increase.*

---

#### Mokgweetsi Masisi sworn in as president

**Mokgweetsi Masisi** (2018-present) was sworn in as **Botswana's** new president on 1 April after former president **Ian Khama** (2008-2018) stepped down in anticipation of the end of his constitutionally mandated second five-year term.<sup>1</sup> Masisi is Botswana's fifth president since independence in 1966.<sup>2</sup> The smooth transfer of power strengthens Botswana's image as one of **Africa's** best-governed and economically successful countries.<sup>3</sup> However, Botswana also faces several challenges, such as a high youth unemployment rate of 33.2%,<sup>4</sup> weak global primary commodity prices, and a fractured relationship between the government and the private media and civil society in general, mainly owing to the government's recent heavy-handed responses to criticism.<sup>5</sup>

Unlike Khama, a trained soldier and former army commander, Masisi is a schoolteacher by profession.<sup>6</sup> He obtained a Masters' degree in education from **Florida State University (United States)** in 1991.<sup>7</sup> He worked at the **United Nations Children's Fund (UNICEF)** as an education project officer, before becoming a member of parliament in 2009.<sup>8</sup> Masisi served as public affairs minister from 2011 to 2014, and became education minister in 2014.<sup>9</sup> He was appointed vice-president in 2014.<sup>10</sup> Masisi retained his position as chairman of the ruling **Botswana Democratic Party (BDP)** at the BDP's July 2017 elective congress.<sup>11</sup>

---

<sup>1</sup> Reuters, 1 Apr 2018.

<sup>2</sup> Reuters, 1 Apr 2018.

<sup>3</sup> Reuters, 1 Apr 2018.

<sup>4</sup> Reuters, 1 Apr 2018.

<sup>5</sup> Mail and Guardian, 3 Apr 2018.

<sup>6</sup> Mail and Guardian, 3 Apr 2018.

<sup>7</sup> Mail and Guardian, 3 Apr 2018.

<sup>8</sup> Mail and Guardian, 3 Apr 2018.

<sup>9</sup> Reuters, 1 Apr 2018.

<sup>10</sup> The Voice, 14 Nov 2014

<sup>11</sup> Mail and Guardian, 3 Apr 2018.

Like Ian Khama, Masisi has a political family background. His father, **Setlthomo Edison Masisi**, was foreign minister in the government of Botswana's first post-independence president and Ian Khama's father, **Seretse Khama** (1966-1980).<sup>12</sup>

*"Masisi is not a political outsider, but part of the political elite that has been at the top echelons of power since independence. His family profile and charisma do not match Ian Khama's, but Masisi is an articulate and well-educated politician, who has been working within government and the BDP for approximately a decade, and thus not a newcomer to both national and party politics. He will likely fit into his new role with little difficulty. On the whole, his rise to power is no miracle or historical accident, but part of the well-established process of elite distribution of power within the BDP."*<sup>13</sup>

Masisi appointed the current BDP chairperson and member of parliament (MP) for **Boteti West, Slumber Tsogwane** as Botswana's vice-president on 4 April.<sup>14</sup> Parliament endorsed Tsogwane's appointment by a simple majority.<sup>15</sup> Tsogwane chaired several parliamentary committees between 2000 and 2002, was deputy finance and development minister between 2004 and 2009, and served as Botswana's local government and rural development minister from 2014.<sup>16</sup>

Masisi also appointed **Bogolo Kenewedo** as the new investment, trade, and industry minister, **Ngaka Ngaka** as the tertiary education, research, science and technology minister, and **Bagalatia Arone** as the basic education minister.<sup>17</sup>

Although the smooth transition of power demonstrates the maturity and stability of the BDP's internal political system, Masisi faces several immediate tasks before the general election in 2019.<sup>18</sup> The BDP lost electoral support to the opposition **Umbrella for Democratic Change (UDC)** coalition during Khama's last term, with the BDP winning less than 50% of the national vote in 2014 for the first time since independence.<sup>19</sup> Masisi will need to strengthen his political stature within the BDP party and the electorate in general, since he lacks Khama's charisma and the benefit of a high-profile family background.<sup>20</sup> Masisi will need to sustain the positive aspects and accomplishments of the BDP and Khama's rule while establishing a clean break from Khama's authoritarian streak and a reputation of corruption and patronage politics.

### Botswana drops on the latest Global Investment Index

Switzerland-based research laboratory **Quantum Global** released the latest edition of its **Africa Investment Index** on 26 March showing that Botswana remains a highly ranked investment destination in **Africa**, but has dropped from first position, which it occupied in 2017, to fourth.<sup>21</sup> The results reflect the negative effects of weaknesses in Botswana's regulatory environment, particularly in the ease of doing business and the openness of the economy to international trade.<sup>22</sup> The report measures the extent to which African countries

<sup>12</sup> Mail and Guardian, 3 Apr 2018.

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

<sup>14</sup> Daily News, 4 Apr 2018.

<sup>15</sup> Daily News, 4 Apr 2018.

<sup>16</sup> Daily News, 4 Apr 2018.

<sup>17</sup> Daily News, 5 Apr 2018.

<sup>18</sup> Reuters, 1 Apr 2018.

<sup>19</sup> Reuters, 1 Apr 2018.

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

<sup>21</sup> Mmegi, 6 Apr 2018.

<sup>22</sup> Mmegi, 6 Apr 2018.

attract investment in the medium term.<sup>23</sup> The rankings are based on six main criteria: growth factors, risk factors, business environment factors, demographics and social capital factors.<sup>24</sup>

Botswana's decline to fourth place results from several issues, including underdeveloped infrastructure, and lack of skilled personnel in industry and labour intensive sectors such as manufacturing, agriculture, and food processing.<sup>25</sup>

*"Botswana has attempted several strategies to diversify its economy and improve ease of business, and this intensified during Khama's second term. However, these efforts are yet to make a discernible effect."*<sup>26</sup>

Although Botswana has an excellent reputation as an investment of choice for international investors, several factors such as cumbersome immigration procedures and delays in issuing of licences and permits discourage the establishment of businesses and recruitment of expatriate staff.<sup>27</sup>

*"The new president, Mokgweetsi Masisi, will need to inject both fresh thinking and strategies, and attitudes that may have quicker and more positive results. This includes making changes to Botswana's immigration regime, which has gained a reputation for being contemptuous of foreigners. This is a crucial fact because, for the most part, new investors tend to be foreigners, and they naturally need to be able to live and work in Botswana, and also recruit experienced staff, especially in the formative stages of establishing the businesses, who in most cases would be expatriates. If Botswana continues to frustrate the establishment of new businesses, the efforts to increase economic diversification will only be minimally successful because it directly affects FDI inflows."*<sup>28</sup>

To address these issues, the Botswana government has been implementing several reforms, such as the **Botswana Investment and Trade Centre (BITC)**'s opening of a **One-Stop Shop** for investors to access permits, registration and clearances in one place.<sup>29</sup>

Improvements in current account ratios, exchange rate risk, external debt, and import cover mainly account for the top performing countries' high rankings.<sup>30</sup> **Morocco** replaces Botswana in the top spot, followed by **Egypt** and **Algeria**.<sup>31</sup> Morocco scored the highest ranking mainly because of its high foreign direct investment (FDI) figures.<sup>32</sup> **Cote d'Ivoire, South Africa, Ethiopia, Zambia, Kenya** and **Senegal** also appear in the top 10 best performers in Africa.<sup>33</sup>

### **Debswana to expand operations at Jwaneng diamond mine**

Botswana's leading diamond mining company, the 50:50 joint venture between the Botswana government and **United Kingdom**-based **De Beers, Debswana Diamond Company Ltd (Debswana)**, announced on 5 April that it will expand the **Jwaneng** mine, the world's richest

<sup>23</sup> Mmegi, 6 Apr 2018.

<sup>24</sup> Mmegi, 6 Apr 2018.

<sup>25</sup> Weekend Post, 10 Apr 2018.

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

<sup>27</sup> Weekend Post, 10 Apr 2018.

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

<sup>29</sup> Weekend Post, 10 Apr 2018.

<sup>30</sup> Mmegi, 6 Apr 2018.

<sup>31</sup> Mmegi, 6 Apr 2018.

<sup>32</sup> Weekend Post, 10 Apr 2018.

<sup>33</sup> Mmegi, 6 Apr 2018.

diamond mine by value, to extend its lifespan by eleven years, and produce an additional 50 million carats.<sup>34</sup> The planned expansion reaffirms the projected increase in global diamond demand and prices.<sup>35</sup> The latest expansion project follows Debswana's \$3 billion investment into expanding the mine in 2010, which uncovered approximately 100 million carats.<sup>36</sup>

The expansion project, branded "**Cut 9**", has received provisional approval from the environmental affairs department and is awaiting public review of its environmental management plan.<sup>37</sup> The expansion project will primarily entail removing waste from the bottom of the mine, which will deepen and widen the pit to 855 metres from 650 metres and extend the mine's lifespan to 2035.<sup>38</sup> Debswana's managing director, **Balisi Bonyongo**, indicated that the company will complete feasibility studies before the end of 2018, and the study will reveal the total amount of investment that will be required for the project.<sup>39</sup> Debswana spokesperson **Matshidiso Kamona** said that the company would probably fund the expansion internally.<sup>40</sup>

### **Kibo Mining acquires 85% in Botswana coal to power project**

**Tanzania**-based mining company **Kibo Mining** announced on 4 April that it has acquired 85% shareholding in Botswana-based **Mabesekwa Coal Independent Power Project (MCIPP)**.<sup>41</sup> Kibo's investment in coal demonstrates the continued viability of Botswana's coal industry, and the growth of the local coal-to-power energy sub-sector, which will also boost Botswana's domestic power supply.<sup>42</sup> Kibo purchased the shares from **Sechaba Natural Resources**, a subsidiary of Botswana-based **Shumba Energy**.<sup>43</sup> Sechaba retained 15% interest in the project and will have a seat on Kibo Mining's board.<sup>44</sup> Shumba Energy's founder and director, **Mashale Phumaphi**, will serve as Sechaba's nominated director.<sup>45</sup>

Kibo's chief executive officer, **Louis Coetzee**, said the acquisition of the MCIPP strengthens and diversifies the company's African energy portfolio:

*"The MCIPP has notable similarities with our **Mbeya Coal to Power Project (MCP)** in Tanzania. These synergies will enable us to capitalise on our institutional knowledge and contacts in the industry as we pursue rapid development of both projects in tandem."*<sup>46</sup>

The MCIPP is located 50 kilometres south-east of **Francistown**, Botswana's second largest city.<sup>47</sup> Kibo plans to develop it as a coal-based integrated mine-mouth power plant, which will also potentially incorporate a solar component.<sup>48</sup> Kibo Mining has since conducted pre-feasibility and scoping studies on the mine, which revealed that it has a maximum capacity to

<sup>34</sup> Reuters, 6 Apr 2018.

<sup>35</sup> Reuters, 6 Apr 2018.

<sup>36</sup> Reuters, 6 Apr 2018.

<sup>37</sup> Reuters, 6 Apr 2018.

<sup>38</sup> Reuters, 5 Apr 2018.

<sup>39</sup> Reuters, 9 Apr 2018.

<sup>40</sup> Moneyweb, 5 Apr 2018.

<sup>41</sup> Mining Review, 4 Apr 2018.

<sup>42</sup> Mining Review, 4 Apr 2018.

<sup>43</sup> Mining Review, 4 Apr 2018.

<sup>44</sup> Mining Review, 4 Apr 2018.

<sup>45</sup> Mining Review, 4 Apr 2018.

<sup>46</sup> Kibo Mining CEO Louis Coetzee quoted in Mining Review, 4 Apr 2018.

<sup>47</sup> Mining Review, 4 Apr 2018.

<sup>48</sup> Mining Review, 4 Apr 2018.

generate 600 megawatts of electricity, and has a mine lifespan of over 30 years.<sup>49</sup> Kibo also acquired water and land use permits, and environmental certification.<sup>50</sup>

*“Despite the growing global movement towards renewable energies, and vilification of fossil fuels like coal, demand remains reasonably high in both regional and overseas markets. Developed countries in the west have the luxury of substituting coal because of the advanced nature of their technologies, regulatory framework pertaining to environmental standards, and availability of capital to invest in alternative technologies. Several developing economies still rely on fossil fuels because they are cheaper and effective. The **International Energy Agency (IEA)** has indicated that coal presently accounts for 41% of global power generation, 29% of all basic energy provision, and will be the primary source of fuel for power generation in the next 30 years.”<sup>51</sup>*

Although the investment is part of Kibo Mining’s strategy to position itself as a formidable strategic energy supplier in south and east Africa, it also shows the growing importance of coal-to-power as a viable energy generation sector.<sup>52</sup> The investment also provides a local market for Botswana’s coal, which is of relatively low quality and mainly fit for powering coal-fired electricity plants.<sup>53</sup> Currently, the major markets for Botswana’s coal have been **China** and **India**, and this dependence on external markets had a negative impact on Botswana’s economy due to declining coal revenues between 2015 and 2017.<sup>54</sup>

### **BPC increases power tariffs by 10%**

The national power utility, the **Botswana Power Corporation (BPC)**, has increased electricity tariffs by 10% effective from 1 April, as it seeks to recover from financial losses.<sup>55</sup> This will have a negative impact on the economy, mainly through price increases, as companies will increase prices correspondingly for their goods and services.<sup>56</sup> The BPC has been making financial losses for several years, mainly due to high import costs, non-performing assets, and operational deficits.<sup>57</sup> As a result, the BPC has depended on government subsidies.<sup>58</sup> However, the BPC is currently implementing a turnaround plan, which includes a combination of tariff adjustment and a government bailout of 800m pula (\$83m) for the 2018 financial year.<sup>59</sup>

*“Although the government has implemented several strategies, including investing in solar and reducing electricity imports, this is yet to have an effect on both the national grid and the BPC’s profitability. Passing on the costs to the consumer at this stage is a potentially risky move for the government, given the proximity of the election. The increased cost of living may make the BDP unpopular, and give the opposition leverage.”<sup>60</sup>*

<sup>49</sup> Mining Review, 4 Apr 2018.

<sup>50</sup> ESI Africa, 4 Apr 2018.

<sup>51</sup> Source, analyst, London.

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

<sup>53</sup> Source, analyst, London.

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

<sup>55</sup> Creamer Media, 5 Apr 2018.

<sup>56</sup> Creamer Media, 5 Apr 2018.

<sup>57</sup> Creamer Media, 5 Apr 2018.

<sup>58</sup> Creamer Media, 5 Apr 2018.

<sup>59</sup> Creamer Media, 5 Apr 2018.

<sup>60</sup> Source, analyst.

BPC chief executive officer **Stefan Schwarzfischer** indicated that the BPC reduced its operational losses by 83% in the year ending 31 January.<sup>61</sup> Its cost-cutting strategies included reducing imports, and overhead costs, and a similar tariff adjustment that it implemented in April 2017.<sup>62</sup> Schwarzfischer also said that the BPC is working towards weaning itself from government subsidies from 2020 onwards.<sup>63</sup> This is part of the government's policy of privatising non-performing parastatals, as it seeks to reduce public expenditure and boost economic productivity.<sup>64</sup>

### Planner

26 Apr 2018. **(Botswana)** Consumer Electronics Exhibition;  
 30 May 2018. **(Botswana)** Botswana Real Estate and infrastructure Conference;  
 21 May 2018. **(Botswana)** Corporate Registers Forum;  
 6-7 Jun 2018. **(Botswana)** Botswana Resource Sector Conference;  
 5-7 Jul 2017. **(Botswana)** Manufacturers and Distributors Exhibition in Botswana;  
 10 Sept 2019. **(Botswana)** Electra Mining Botswana event;  
 30 Oct-2 Nov 2018 **(Botswana)** Global Expo Botswana;  
 2019 **(Botswana)** Scheduled general elections;

### Chronology

12 Apr 2018. **(Gaborone)** *Bloomberg*. **Lucara Diamond Corporation** unearths another large, 472-carat diamond from its **Karowe** diamond mine;

12 Apr 2018. **(Luanda)** *Angop*. President **Mokgweetsi Masisi** arrives in **Angola** for a working visit, leading a delegation of ministers including foreign affairs minister **Vincent Seretse** and transport and communications minister **Onkokame Mokaila**;

11 Apr 2018. **(Lusaka)** *Lusaka Times*. President **Mokgweetsi Masisi** pays a courtesy call on **Zambia's** President **Edgar Lungu**;

9 Apr 2018. **(Gaborone)** *Journal du Cameroun*. **Botswana** hosts the Intergovernmental **Panel on Climate Change Lead Author** meeting from 9-13 April;

9 Apr 2018. **(Gaborone)** *Weekend Post*. **Botswana** falls from first to fourth place in the latest **Africa Investment Index**, published by the **Quantum Global Research Lab**;

8 Apr 2018. **(Windhoek)** *New Era*. President **Mokgweetsi Masisi** visits **Namibia** on a one-day working visit, to strengthen bilateral relations between the two countries;

5 Apr 2018. **(Gaborone)** *Business Day*. National utility, the **Botswana Power Corporation (BPC)**, increases tariffs by 10%, as part of restructuring strategy;

<sup>61</sup> Creamer Media, 5 Apr 2018.

<sup>62</sup> Creamer Media, 5 Apr 2018.

<sup>63</sup> Creamer Media, 5 Apr 2018..

<sup>64</sup> Source, analyst, London.

5 Apr 2018. **(Gaborone)** *Moneyweb*. **Debswana Diamond Company** announces plans to expand the **Jwaneng** mine, the world's richest diamond mine by value;

4 Apr 2018. **(Gaborone)** *Xinhua*. Parliament endorses the appointment of **Slumber Tsogwane** as Botswana's new vice president;

3 Apr 2018. **(Gaborone)** *Creamer Media*. **Tanzania**-based mining company **Kibo Mining** complete the purchase of 85% of the **Botswana**-based **Mabesekwa** coal-to-power project;

3 Apr 2018 **(Botswana)** *Reuters*. **United Kingdom**-based copper producer, **Cradle Arc**, plans to increase copper output to 12,000 tonnes per year at the **Mowana** mine in **Botswana**;

3 Apr 2018. **(Gaborone)** *News24*. In his inaugural address, President **Mokgweetsi Masisi** highlights youth unemployment as one of the key priority areas of his incoming government;

1 Apr 2018. **(Gaborone)** *Al Jazeera*. **Mokgweetsi Masisi** is inaugurated into office, succeeding former president **Ian Khama**;

23 Mar 2018 **Gaborone (Botswana)** *Southern Times*. State-owned power company, **Botswana Power Corporation**, begins exporting power to other **Southern African Development Community** countries;

### 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](http://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](http://www.africariskconsulting.com)

### Getting in touch

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

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