

AFRICA RISK CONSULTING

Botswana Monthly Briefing May 2018

Botswana Summary 11 May 2018

President Mokgweetsi Masisi (2018-present) dismisses Isaac Kgosi, ally of former president Ian Khama (2008-2018) as head of the Directorate for Intelligence and Security (DIS). The International Monetary Fund (IMF) revises Botswana's growth rate for 2018 from 4.8% to 4.6%, citing an over-optimistic initial forecast for Botswana's diamond industry in 2018. Botswana's diamond industry experiences mixed fortunes with the impending auction of the failed Lerala diamond mine and Canada-based Lucara Diamonds' discovery of new large, high quality diamonds from its Karowe mine. The government approves Maatla Resources' environmental impact assessment (EIA), paving the way for a new coalmine in Botswana.

President Masisi dismisses DIS director Isaac Kgosi

President **Mokgweetsi Masisi** (2018-present) relieved the **Directorate for Intelligence and Security (DIS)** director-general **Isaac Kgosi** of his duties on 2 May.¹ This is the highest profile personnel change that Masisi has made since taking over from former President **Ian Khama** (2008-2018) on 1 April.² Permanent secretary to the president **Carter Morupisi** said that Kgosi's dismissal was "normal", given the transition of leadership from Khama to Masisi.³ Kgosi had served as the DIS director since 1 April 2008.⁴ Masisi appointed Brigadier **Peter Magosi** as the new director general for the DIS immediately after Kgosi's dismissal on 2 May.⁵ The appointment of Magosi as Isaac Kgosi's replacement is a significant shift from Khama's legacy: Magosi is a well-known critic of both Kgosi and Khama.⁶

Magosi joined the **Botswana Defence Force (BDF)** in 1985, rising through the ranks to become an infantry brigade commander, chief of staff, and commander of ground forces.⁷ However, Khama forced him into early retirement in February 2016 as a result of political disagreements.⁸ Khama's younger brother, wildlife and tourism minister **Tshekedi Khama**, subsequently hired Magosi as the head of intelligence in the department of wildlife in April 2016, a position that he held until being appointed as the new DIS director.⁹

Opposition political parties welcomed Kgosi's dismissal.¹⁰ The opposition **Botswana Congress Party (BCP)** said that President Masisi ought to review the DIS' oversight mechanisms and establish accountability and transparency in the organisation.¹¹ BCP

¹ Sunday Standard, 2 May 2018.

² Sunday Standard, 2 May 2018.

³ Southern Times, 13 May 2018.

⁴ Mmegi, 4 May 2018.

⁵ Sunday Standard, 2 May 2018.

⁶ Source, analyst, London

⁷ Sunday Standard, 2 May 2018.

⁸ Sunday Standard, 2 May 2018.

⁹ Sunday Standard, 2 May 2018.

¹⁰ Business Day, 7 May 2018.

¹¹ Business Day, 7 May 2018.

president **Dumelang Saleshando** also said that Kgosi should face prosecution for corruption and other alleged crimes that he personally committed, or that the DIS committed during his tenure.¹²

“We also recommend investigation into human rights abuses by the [directorate] under Kgosi and Khama, including but not limited to extra-judicial killings, torture and other degrading treatments, unlawful and arbitrary arrests, and detentions, and wiretaps or electronic communications, and invasion of privacy of citizens.”¹³

At the time of his dismissal, Masisi faced allegations of misappropriating 250m Botswana pula (\$26m) from the **National Petroleum Fund (NPF)**.¹⁴

“The directorate on corruption and economic crime has completed an investigation [into] corruption and fiscal and revenue crimes involving the former director-general in at least one case. The latest case of the NPF proved the DIS’ ... disregard for the laws of Botswana... It is common knowledge that Khama, who shielded him from both prosecution and accountability before democratic institutions, protected Kgosi. The spy unit under him was [also] a huge liability to the fiscus.”¹⁵

Kgosi was widely believed to be Khama’s “hatchet man”, and seemingly beyond the reach of the law. In an appearance before the **Public Accounts Committee (PAC)** on 12 April to answer allegations on the misappropriation of the NPF funds, Kgosi declared he was not answerable to anyone, including the president.¹⁶ Although Kgosi’s firing is partly a result of Masisi asserting his authority as he settles into the presidency, he is also signalling plans to transform the image of the **Botswana Democratic Party (BDP)**-led government, which faced several accusations of corruption and deterioration of the rule of law under Khama.

IMF reduces Botswana’s growth forecast for 2018

The **International Monetary Fund (IMF)** reported in its **World Economic Outlook (April 2018)** on 8 May that it has reduced its growth forecast for Botswana’s economy from 4.8% to 4.6%.¹⁷ The IMF made the revision partly because it had based the initial projection primarily on an optimistic view of a stronger projected demand for diamonds in 2018.¹⁸ The IMF forecast Botswana’s economic growth rate at 4.8% in August 2017, based on results of its annual consultations with local government authorities.¹⁹

The IMF’s revisions are, however, in contrast with the **World Bank** and government forecasts.²⁰ The World Bank in January increased its forecast of Botswana’s economic growth from 4.2% to 4.7%, while the **Bank of Botswana (BoB)** (central bank) forecast 5.3% growth.²¹ The IMF’s broader commentary pointed towards ripple effects from **South Africa’s** economy into Botswana’s:²²

¹² Business Day, 7 May 2018.

¹³ BCP president Dumelang Saleshando quoted in Business Day, 7 May 2018.

¹⁴ Business Day, 7 May 2018.

¹⁵ BCP president Dumelang Saleshando, quoted in Business Day, 7 May 2018.

¹⁶ The Voice, 12 Apr 2018.

¹⁷ Mmegi, 11 May 2018.

¹⁸ Mmegi, 11 May 2018.

¹⁹ Mmegi, 11 May 2018.

²⁰ Mmegi, 11 May 2018.

²¹ Mmegi, 11 May 2018.

²² Mmegi, 11 May 2018.

*“The recent weak economic performance in South Africa has slowed growth in neighbouring countries. The regional spillovers are likely to be transmitted through various channels, including intraregional trade such as the **Southern African Customs Union (SACU)** and banking for Botswana.”²³*

Despite the mixed growth forecasts, the BoB maintains that the diamond industry will perform well, give a boost to downstream industries, and influence a high official growth rate.²⁴ Diamond exports from Botswana amounted to \$339.7m in January, \$229m for February, and \$342m for March.²⁵ **Standard and Poor’s Global Ratings (S&P)** indicated that these figures are in line with the same period in 2017, and this suggests stable demand from the main diamond markets – the **United States, China** and **India**.²⁶ It also indicated that the stable outlook means that the diamond sector will be robust, and support Botswana’s export revenues and economic growth in the next 12-14 months.²⁷

“With those increased diamond sales, we expect some improvement in diamond polishing activities, and other sectors, which is where we see better growth in the trade sector... In the water and electricity sector, we are [also] expecting stable supply, which in turn is important for production, especially as we are coming from periods of shortages. This will [in turn] support economic activity.”²⁸

Botswana’s diamond industry experiences mixed fortunes

Despite the Bank of Botswana’s positive outlook for the diamond sector, industry players in Botswana are experiencing mixed fortunes. **Australia**-based **Kimberley Diamonds’ Lerala** diamond mine is set for an online auction, while **Canada**-based **Lucara Diamond Corp** has found additional large diamonds at its **Karowe** mine. Kimberley Diamonds announced that it will auction its Lerala diamond mine in Botswana from 24-30 May.²⁹ The mine was placed under judicial management in June 2017 because of high operating costs and weak sales.³⁰ The sale of the mine follows the mine liquidator’s failure to obtain viable offers for new investment into the mine.³¹ Assets from the mine that will be on auction include five kimberlite pipes that range from 0.16 hectare to 2.35 hectares, mining rights, a 200 metric tonnes per hour processing plant, and a 4.2-megawatt diesel power generator.³² Bidding for the assets will open online on 24 May and end on 30 May.³³

Kimberley Diamonds opened the Lerala mine in 2008. The mine produced approximately 59,000 carats in the year before its closure, against a target of 357,000 carats a year.³⁴ Operational challenges led to its shut down in 2017, resulting in the loss of 130 jobs.³⁵ Kimberley Diamonds also de-listed from the **Australian Stock Exchange** in March 2017.³⁶

²³ Quoted from the IMF April World Economic Outlook, 8 May 2018.

²⁴ Mmegi, 11 May 2018.

²⁵ Rapaport, 2 May 2018.

²⁶ Rapaport, 2 May 2018.

²⁷ Rapaport, 2 May 2018.

²⁸ BoB’s research and financial stability director, Tshokologo Kganetsano, quoted in BusinessWeek, 11 May 2018.

²⁹ Moneyweb, 30 Apr 2018.

³⁰ Moneyweb, 30 Apr 2018.

³¹ Moneyweb, 30 Apr 2018.

³² Bloomberg 30 Apr 2018.

³³ Bloomberg, 30 Apr 2018.

³⁴ Moneyweb, 30 Apr 2018.

³⁵ Moneyweb, 30 Apr 2018.

³⁶ Mining.com, 30 Apr 2018.

“Kimberley Diamonds’ closure and sale of the Lerala is partly a result of the global diamond industry’s poor performance between 2008 and 2017, which considerably harmed smaller mining companies which had thinner financial cushions to sustain them through the global diamond slump. However, given the current surge in the global diamond market, the mine may potentially become profitable should it attract viable investment in the upcoming auction.”³⁷

Meanwhile, Lucara Diamond Corp has unearthed two other large diamonds from its Karowe mine in Botswana, a 427-carat light brown diamond on 12 April, and another 327-carat top white gem diamond on 26 April respectively.³⁸ This cements Lucara’s and Botswana’s reputations as leading producers of the largest and best quality diamonds, which are more profitable than smaller diamonds that are currently in global oversupply.³⁹ Lucara plans to hold a sale for the large diamonds in June.⁴⁰ The Karowe mine is a high value asset for Lucara, where it has extracted 218 large diamonds of more than 10.8 carats so far this year.⁴¹

Botswana’s diamond industry generally remains profitable in 2018, with the large diamonds sub-sector being the best performing.⁴² However, although they are stable, exports for rough diamonds have been flat in the first quarter of 2018.⁴³ The total figure for the first quarter of 2018 amounts to \$911m, which is a 1% difference from the 2017 figure of \$912.6m for the same period.⁴⁴

Government grants approval for new coalmine in Botswana

The government approved an environmental impact assessment (EIA) from Botswana-based coal mining company **Maatla Resources** on 19 April for its new **Mmamabula** coal mine.⁴⁵ Botswana’s coal mining sector is expanding in response to an upward trend in global coal prices as a result of increased demand in southern **Africa** and **East Asian** markets, especially India and China.⁴⁶ Maatla Resources has also submitted an application for a licence for the new mine.⁴⁷ The Mmamabula mine contains over 90m tonnes of high-grade thermal coal.⁴⁸ The mine has a 25-year lifespan, and Maatla Resources aims to produce between 50,000 and 100,000 tonnes a month within the first year of production.⁴⁹ Mmamabula mine will supply high-grade coal to cement and lime producers, paper mills, chemical industries, brickworks, breweries, sugar estates, hospitals, and general boiler applications in southern African countries.⁵⁰ Maatla Resources plans to begin site establishment and construction activities in 2018, and first coal sales in 2019.⁵¹

The coal-mining sector in Botswana is poised for growth and expansion because of rising coal demand in developing economies, both in southern Africa and **Asia**. Botswana is likely to

³⁷ Source, analyst, London

³⁸ Bloomberg, 26 Apr 2018.

³⁹ Bloomberg, 26 Apr 2018.

⁴⁰ Bloomberg, 26 Apr 2018.

⁴¹ Bloomberg, 26 Apr 2018.

⁴² Source, analyst, London

⁴³ Rapaport, 2 May 2018.

⁴⁴ Rapaport, 2 May 2018.

⁴⁵ Mining Weekly, 19 Apr 2018.

⁴⁶ Mining Weekly, 19 Apr 2018.

⁴⁷ Mining Weekly, 19 Apr 2018.

⁴⁸ Mining Weekly, 19 Apr 2018.

⁴⁹ Mining Weekly, 19 Apr 2018.

⁵⁰ Mining Weekly, 19 Apr 2018.

⁵¹ Mining Review Africa, 27 Apr 2018.

attract further investment in the coal-mining sector and associated industries, particularly power generation, and infrastructure development such as export rail.⁵²

Planner

21 May 2018. **(Botswana)** Corporate Registers Forum;
 30 May 2018. **(Botswana)** Botswana Real Estate and infrastructure Conference;
 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

30 Apr 2018. **(Botswana)** *Bloomberg*. **Australia-based Kimberley Diamonds** announces it will auction its **Lerala** diamond mine in **Botswana** on 24 May, after liquidators fail to find viable investment;

27 Apr 2018. **(Botswana)** *Mining Review*. The Botswana government approves Botswana-based coal and energy company **Maatla Energy's** environmental impact assessment (EIA) submitted, paving the way for the establishment of a new coal mine;

26 Apr 2018. **(Botswana)** *Bloomberg*. **Canada-based diamond mining company, Lucara Diamond** announces it has unearthed two new large, high quality diamonds, a 427-carat diamond and a 327-carat stone;

25 Apr 2018. **(Botswana)** *Mining.com*. **Canada-based Pangolin Diamonds** finds its first diamond at its **Jwaneng South** project, confirming the presence of diamond resources at the site;

20 Apr 2018. **(Botswana)** *Mmegi*. Opposition **Umbrella for Democratic Change (UDC)** party says it will report the Botswana government to the **United Nations** over job losses that resulted from the closure of the state-owned **BCL** copper and nickel mining company;

15 May 2018. **(Botswana)** *The Independent*. President **Mokgweetsi Masisi** announces plans to negotiate a long-term contract with **De Beers** diamond mining company when the current contract expires in 2020, to increase the number of diamonds processed in Botswana;

8 May 2018. **(Botswana)** *The Patriot*. Civil society organisations and opposition parties call for the prosecution of former **Directorate of Intelligence and Security (DIS)** director **Isaac Kgosi** on allegations of corruption and abuse of office;

6 May 2018. **(Botswana)** *Southern Times*. The government announces it will cancel dual citizenship for all persons over the age of 21 who still hold Botswana citizenship and that of another country;

⁵² Mining Review Africa, 27 Apr 2018.

2 May 2018. **(Botswana)** *Mining Weekly* **Lucara Diamond Corp** appoints **Naseem Lahri** as managing director of its **Botswana**-based **Boteti Mining** unit;

2 May 2018. **(Botswana)** *News24*. President **Mokgweetsi Masisi** dismisses **Directorate for Intelligence and Security (DIS)** head **Isaac Kgosi** and replaces him with Brigadier **Peter Mogosi**;

30 Apr 2018 **(Botswana)** *Reuters*. The **Bank of Botswana** (central bank) leaves its benchmark interest rate at 5%;

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