

## AFRICA RISK CONSULTING

### Botswana Monthly Briefing September 2018

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#### Botswana Summary 15 September 2018

*The Bank of Botswana (BoB) (central bank) raises over \$100m on the bond market. The BoB releases its maiden monetary policy report, which will convey its policy formulation and implementation to the public. The International Monetary Fund (IMF) completes its Article IV consultations with the Botswana government, urging structural reforms to strengthen its economy. The government of China extends further loans to Botswana, while cancelling others, as the two governments rebuild economic and potential ties. The mineral resources, green technology and energy security ministry awards a licence to Botswana-based Minergy Limited, paving the way for Botswana's first open cast coal mine.*

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#### Central bank raises over \$100m on bond market, releases monetary policy report

The **Bank of Botswana (BoB)** (central bank) raised 1.1 billion pula (BWP) (\$100.7m) in a bond and treasury bill auction on 31 August.<sup>1</sup> The strong response to the government's fresh round of borrowing demonstrates the domestic market's confidence in Botswana's economic future.<sup>2</sup> The BoB conducts auctions of bonds and six-month treasury bills on the government's behalf, under a BWP50 billion (\$4.6 billion) facility, and limits the auctions to commercial banks, which have exclusive bidding rights.<sup>3</sup> There was intense bidding at the BoB's auction on 31 August, mainly because the BoB availed two new longer-term bonds amounting to BWP 700m (\$64,000) that will mature between 2029 and 2043.<sup>4</sup> The commercial banks' considerable interest in the new long-term bonds reflects favourable views on Botswana's long-term economic growth.<sup>5</sup>

The BoB launched its maiden **Monetary Policy Report** on 10 September, as a tool for improving communication and transparency on the state of the economy, policy analysis, and implementation.<sup>6</sup> BoB governor **Moses Pelaelo** said the BoB would use the report as the main channel for communicating to the public its formulation and implementation of its monetary policy:<sup>7</sup>

*"[The report] serves to meet the public's expectations of a transparent and accountable central bank in fulfilling the monetary policy mandate. The Monetary Policy Statement will precede the Monetary Policy Reports in April, August and October in February each year... I would like to assure you that the bank's implementation of monetary policy [would] continue to focus on entrenching expectations of low, predictable and sustainable inflation, through timely responses to price developments... Essentially, this is the enduring contribution of the bank to an enabling environment for private sector*

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

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

<sup>3</sup> Mmegi, 14 Sept 2018.

<sup>4</sup> Mmegi, 14 Sept 2018.

<sup>5</sup> Mmegi, 14 Sept 2018.

<sup>6</sup> Mmegi, 12 Sept 2018.

<sup>7</sup> Mmegi, 12 Sept 2018.

*growth and greater participation in economic activity; [and] enhanced prospects for economic diversification efforts, employment creation, inclusive growth and transition to high-income status.”<sup>8</sup>*

The BoB’s recent strategies form part of efforts to strengthen Botswana’s economy.<sup>9</sup> The Monetary Policy Statement in particular seeks to provide an authoritative, timely resource for both local and international investors on the state of Botswana’s economy to assist them in making investment decisions.<sup>10</sup> The government of President **Mokgweetsi Masisi** (2018-present) is working to improve the ease of doing business in Botswana. This includes having credible and easily accessible information on its economic policies.

### **IMF completes Article IV consultations, encourages structural reforms**

The **International Monetary Fund (IMF)** concluded its **Article IV** consultations in Botswana on 13 September and praised the government’s policies that have kept Botswana’s economy stable amidst cyclical shifts in the global diamond market.<sup>11</sup> This stamp of approval will cast President Masisi in a positive light and potentially attract new investors.<sup>12</sup> The Article IV consultations entail officials from the multilateral lending institution conducting discussions with government and central bank officials, mainly to assess the state of the economy before the country accesses IMF loans.<sup>13</sup> Botswana has not requested IMF loans, but sought the IMF’s technical support mainly in tax reform, financial management, and fiscal and monetary policy.<sup>14</sup>

**Enrique Gelbard** led the IMF’s assessment team, which engaged in talks with BoB governor Moses Pelaelo and finance and economic development minister **Kenneth Matambo**.<sup>15</sup> The IMF team said that structural reforms, which include strategies to diversify the economy away from the mining sector, are crucial to Botswana’s economic growth.<sup>16</sup>

*“In Botswana, beef and tourism are sectors that have significant potential, and there are measures the government can take to promote these sectors such as removing an export monopoly on beef exports, and improving the transport infrastructure.”<sup>17</sup>*

A drop in global diamond prices between 2015 and 2017 considerably weakened Botswana’s economy because of diminishing revenue.<sup>18</sup> The finance and economic development ministry launched a plan in August to boost long-term economic growth.<sup>19</sup> The six-year strategy is the government’s most recent policy initiative to boost the economy, and prioritises public financial management reforms, automation, and data collection.<sup>20</sup>

The IMF’s assessment of the government’s management of the economy will reassure local and foreign investors of Masisi’s leadership.<sup>21</sup> However, the government will need to

<sup>8</sup> Governor of the BoB, Moses Pelaelo quoted in Mmegi, 12 Sept 2018.

<sup>9</sup> Source, analyst, London

<sup>10</sup> Source, analyst, London

<sup>11</sup> MoneyWeb, 17 Sept 2018.

<sup>12</sup> MoneyWeb, 17 Sept 2018.

<sup>13</sup> MoneyWeb, 17 Sept 2018.

<sup>14</sup> MoneyWeb, 17 Sept 2018.

<sup>15</sup> MoneyWeb, 17 Sept 2018.

<sup>16</sup> MoneyWeb, 17 Sept 2018.

<sup>17</sup> IMF team leader Enrique Gelbard, quoted in MoneyWeb, 17 Sept 2018.

<sup>18</sup> MoneyWeb, 17 Sept 2018.

<sup>19</sup> MoneyWeb, 17 Sept 2018.

<sup>20</sup> MoneyWeb, 17 Sept 2018.

<sup>21</sup> Source, analyst, London

implement prudent structural measures to expand non-mining industries and their value chains to diversify the economy and provide new targets for investment. This includes cattle ranching and beef export, and agriculture. Government investment in information technologies and innovation also has the potential to transform Botswana into a technological hub in southern Africa.

### China writes off Botswana's debt, extends new loan

President Masisi announced on 8 September that the **Chinese** government would write off some of Botswana's debt, extend its road and rail infrastructure loan, and provide an additional grant.<sup>22</sup> This demonstrates the warming of diplomatic relations between the two countries, which had deteriorated during former president **Ian Khama's** (2008-2018) term of office.<sup>23</sup> Masisi's announcements followed his attendance at the **China Africa Forum in Beijing**, which took place from 3-4 September, where Masisi met with Chinese president, **Xi Jinping** (2013-present).<sup>24</sup> The debt that the Chinese government will cancel amounts to BWP 80m (\$7.3m), while the new grant is for \$31m (BWP340m).<sup>25</sup> Masisi said that Botswana had received an additional loan, but did not disclose the amount.<sup>26</sup>

Botswana's finance ministry was reportedly seeking \$1 billion to fund the development of transport infrastructure.<sup>27</sup> China availed \$60 billion in financing for African countries during the China-Africa Forum and wrote off debts for several African countries that were unable to service the loan payments.<sup>28</sup> President Jinping said that the finance would include \$15 billion in aid, interest-free and concessional loans, a \$20 billion credit line, \$10 billion special fund for China-Africa development, and a \$5 billion special fund for imports from Africa.<sup>29</sup>

China is one of Botswana's leading trade and investment partners.<sup>30</sup> Several China-based companies, most of which are state-owned, are engaged in infrastructure projects in Botswana.<sup>31</sup> The transport and communications ministry is currently engaged in developing the **Mosetse-Kazungula** railway project, which will connect the central region of Botswana to the north west, where most of the country's tourism sites are located.<sup>32</sup>

However, Botswana's close cooperation may not be entirely to its advantage.<sup>33</sup> Its dependence on Chinese financial assistance is likely to lead to a quasi-monopoly of Chinese companies on large-scale economic projects, especially in infrastructure. This may compromise quality, as was the case with the **Morupule B** power plant, which is yet to achieve full operational capacity since its commissioning in 2012.<sup>34</sup> Botswana's dependence on Chinese aid also diminishes its ability to negotiate fair contracts, which may undermine the quality of the projects it conducts with Chinese companies.<sup>35</sup>

<sup>22</sup> EWN, 9 Sept 2018.

<sup>23</sup> EWN, 9 Sept 2018.

<sup>24</sup> EWN, 9 Sept 2018.

<sup>25</sup> EWN, 9 Sept 2018.

<sup>26</sup> EWN, 9 Sept 2018.

<sup>27</sup> Business Report, 10 Sept 2018

<sup>28</sup> Business Report, 10 Sept 2018

<sup>29</sup> Business Report, 10 Sept 2018

<sup>30</sup> Business Report, 10 Sept 2018

<sup>31</sup> Business Report, 10 Sept 2018

<sup>32</sup> Business Report, 10 Sept 2018

<sup>33</sup> Source, analyst, London

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

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

## Government awards first open cast coal mining licence to Minergy

The mineral resources, green technology and energy security ministry awarded the country's first open-cast coal mining licence to Botswana-based mining company, **Minergy Limited**, on 28 August.<sup>36</sup> This paves the way for the development of an open cast coal mine at Minergy's **Mmamabula** coalfield, which will increase Botswana's overall coal production for domestic power generation, and export to the southern Africa region, **India** and China.<sup>37</sup> Minergy plans to commission the new mine in January 2019 and commence production in February 2019.<sup>38</sup> The government's granting of the licence follows Minergy's successful completion of a feasibility study and authorisation of its **Environmental Impact Assessment** by the government's environmental affairs department.<sup>39</sup>

Minergy CEO **Andre Boje** said that the Botswana government's confidence in Minergy's economic model of coal production and export facilitated the granting of the licence.<sup>40</sup> Minergy has 100% ownership of the **Masama** coal project, located in the Mmamabula field 50km north of the capital, **Gaborone**.<sup>41</sup> The mine has the potential to produce 2.4 million tonnes of coal per year.<sup>42</sup> Boje said that the granting of the licence lessens any potential risks for investors on the viability of the project.<sup>43</sup> The company will now begin the process of securing contractors who will begin groundbreaking activities and engage the local communities in job creation and community development programmes, which includes bringing in electricity, and upgrading clinics and schools close to the mine.<sup>44</sup>

Although there is a global movement towards renewable energy, coal remains a viable source of energy for many developing countries worldwide.<sup>45</sup> This guarantees a market for Botswana's coal, which is mainly suited for thermal power plants.<sup>46</sup> Coal prices have increased by 33% in the last year and a half, and coal is one of the top five best-performing commodities in the global market.<sup>47</sup>

*"Botswana and Minergy both have a significant role to play in fulfilling that increase in demand. Investors looking to invest in coal have lots of opportunity at the moment; 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. In my experience, there's never been a better time to invest in coal."<sup>48</sup>*

As an energy resource, coal is attractive because of its low cost compared to others.<sup>49</sup> Economic growth in several world regions influences the growth and expansion of cities; corresponding growth in electricity demand, such as in India and China, accounts for growing demand for coal.<sup>50</sup> Despite this growing demand, the viability of coal as an energy source is

<sup>36</sup> Mining Review Africa, 29 Aug 2018.

<sup>37</sup> Mining Review Africa, 29 Aug 2018.

<sup>38</sup> Mining Review Africa, 29 Aug 2018.

<sup>39</sup> Mining Review Africa, 29 Aug 2018.

<sup>40</sup> Mining Review Africa, 29 Aug 2018.

<sup>41</sup> Mining Weekly, 28 Aug 2018.

<sup>42</sup> Mining Weekly, 28 Aug 2018.

<sup>43</sup> Mining Weekly, 28 Aug 2018.

<sup>44</sup> Mining Weekly, 28 Aug 2018.

<sup>45</sup> Source, analyst, London

<sup>46</sup> Source, analyst, London

<sup>47</sup> Mining Weekly, 28 Aug 2018.

<sup>48</sup> Mining Weekly, 28 Aug 2018.

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

<sup>50</sup> Mining Review Africa, 29 Aug 2018.

likely to diminish in the long term because of its negative impact on the environment and health.<sup>51</sup> The Botswana government needs to gradually shift away from mining in general, and the fossil fuel industries in particular, because of a global shift towards safer and more sustainable energy generation methods.

### 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

17 Sept 2018. **Gaborone (Botswana) Moneyweb. International Monetary Fund (IMF)** assessment team concludes **Article IV** consultation, urges government to improve structural reforms to boost economic growth;

14 Sept 2018. **Gaborone (Botswana) Mmegi.** The **Bank of Botswana (BoB)** raises BWP 1.1 billion (\$100.7m) through auctioning bonds to commercial banks;

14 Sept 2018. **Gaborone (Botswana) Mmegi.** **Botswana's** attorney general acknowledges the existence of a questionable contract between the office of the president and **Israel-based** arms manufacturing company, **Dignia Systems**;

14 Sept 2018. **Gaborone (Botswana) Mmegi.** The government suspends the planned implementation of **Electronic Voting Machines (EVMs)**;

14 Sept 2018. **London (United Kingdom) Morning Star.** **London-based** mining company, **Cradle Arc Plc** announces that **Botswana's** minerals, energy and water resources ministry has granted the company two-year renewals on prospecting licences at its flagship **Mowana** copper mine in Botswana;

14 Sept 2018. **Gaborone (Botswana) Mmegi.** Botswana's largest mining company, **Debswana Ltd**, says it is on track to achieve its target to produce 23.8m carats of diamonds in 2018;

12 Sept 2018. **Gaborone (Botswana) Mmegi.** The **Bank of Botswana (BoB)** launches its maiden **Monetary Policy Report**, which will provide information on the formulation and implementation of monetary policy;

12 Sept 2018. **Gaborone (Botswana)** The Botswana parliament launches a review of a hunting ban on elephants in 2014 due to an increase in the country's elephant population;

8 Sept 2018. **Gaborone (Botswana) EWN.** President **Mokgweetsi Masisi** announces that the government of **China** will extend a rail and road infrastructure loan, and write off some

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

of Botswana's debt;

28 Aug 2018. **Gaborone (Botswana) Mining Weekly**. **Botswana**-based mining company, **Minergy** announces plans to commission and begin producing coal from its **Masama** coal mine in January 2019;

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