

## AFRICA RISK CONSULTING

### Botswana Monthly Briefing July 2019

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#### Botswana Summary 23 July 2019

**President Mokgweetsi Masisi (2018-present) plans to refresh diplomatic relations in Africa and globally following their disregard by his predecessor and fierce adversary, former president Ian Khama (2008-2018). This will benefit foreign investment so long as investors are not put off by intensifying political battles between the two. Members of Parliament (MPs) debate the Transfer Duty (Amendment) Bill 2018, which would increase non-citizen duty rates from 5% to 30% and prohibit foreign nationals from owning land. The heated reaction to the bill in parliament indicates that it is unlikely to be passed into law without significant amendments. Botswana-based retailer Choppies Enterprises closes stores in Kenya and looks set to follow a fate similar to that of several other major retailers in the region.**

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#### Botswana's new global outlook under Masisi

President **Mokgweetsi Masisi** (2018-present) told **Kenya**-based news outlet **The East African** in an interview on 29 June that he plans to strengthen relations on the continent and across the globe, and rebuild ties that were disregarded under his predecessor and fierce adversary, former president **Ian Khama** (2008-2018).<sup>1</sup> Masisi's new outlook may interest foreign governments and investors with a close eye on **Botswana's** plentiful resources, many of which Khama either ignored or agitated; however, this interest may be jeopardised by domestic politics, which is centred around Masisi and Khama's stormy relations.<sup>2</sup>

Compared to Khama, Masisi has made considerable efforts to build relations with his counterparts in **Africa** and around the world. Masisi attended his first **African Union (AU) Heads of State Summit** in April; Khama failed to attend a single AU summit or **United Nations General Assembly** during his first seven years in office. During his interview with *The East African*, Masisi said:

*"Realising that we are a small country has compelled us to think outside the box in terms of growing our economy, income levels and jobs at the same time. A lot of that lies beyond the shores of Botswana. So, we have to add value to the services and goods we produce to become more competitive to the rest of the world that has the resources to pay for them and return a profit, and therefore raise income levels. We are also surrounded by friendly countries and it is important that we maintain those relations."*<sup>3</sup>

Khama damaged ties with a number of his counterparts on the continent, including **Zimbabwe's** former president, **Robert Mugabe** (1987-2017), **Kenya's** President **Uhuru Kenyatta** (2013-present), **China's** President **Xi Jinping** (2013-present). While deputy chairman of the **Southern African Development Community (SADC)**, Khama did not attend Mugabe's appointment ceremony as the chairman in 2014, and accused Mugabe of rigging elections. In retaliation, Mugabe described Khama as a political novice and an agent of the West.<sup>4</sup> Masisi is now attempting to smooth relations with Zimbabwe. He told *The East African*,

*"I'm going to **Victoria Falls** for the **Wildlife Summit** at the invitation of President [Emmerson] **Mnangagwa** [2017-present]... When the harmonised elections were held in Zimbabwe, we were part of the SADC team of observers and our own team liaised with the African Union team and*

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<sup>1</sup> The East African, 29 Jun 2019

<sup>2</sup> Source, analyst, London

<sup>3</sup> The East African, 29 Jun 2019

<sup>4</sup> The East African, 29 Jun 2019

*other observers, and the findings were that the elections were held in a manner that sufficiently legitimised the government of Zimbabwe. We recognised and applauded that.”<sup>5</sup>*

Masisi conducted a state visit to Kenya on 22 July, seeking to enhance bilateral cooperation and sign several agreements.<sup>6</sup> Relations between Botswana and Kenya cooled in 2013 when Khama tried to block Uhuru Kenyatta from visiting Botswana while on trial at the **International Criminal Court (ICC)**. Khama said,

*“You can’t establish a court and refuse to go when it calls you. If he refuses, he won’t set foot here.”<sup>7</sup>*

**Gaborone** allowed the Kenyan leader to visit in June 2016, after the case was dismissed. Kenya and Botswana relations have since grown warmer.

Masisi and Khama have also clashed over relations with **Tibet’s** spiritual leader, the **Dalai Lama**. Khama flew to **India** in April to meet the Dalai Lama, against Masisi’s wishes. The current Botswana administration worried that the trip would damage relations with China, a key investor in Botswana. To prevent a diplomatic row, permanent secretary to the president **Carter Morupisi** told Khama not to travel, saying:

*“We expect him to understand as a former head of state, the position of Botswana on international matters. It is important as citizens of this country to appreciate and respect the sovereignty and the rights of Botswana when it comes to international relations. It is important to uphold and respect conventions and treaties that Botswana is party to. We hope that for the image of the country at international level, Khama does not undertake the trip.”<sup>8</sup>*

The Dalai Lama was scheduled to visit Botswana in 2017, when Khama was in office (see *ARC Briefing Botswana August 2017*). China reacted by threatening to recall its ambassador to Botswana, while Khama remained defiant and said Botswana was not “*a Chinese colony*”.<sup>9</sup> The Dalai Lama eventually cancelled his trip, citing exhaustion, which prevented the diplomatic tiff from escalating. Masisi says he does not understand the anxiety about China:

*“We, in Botswana, are very comfortable [with China] because we determine who we relate with and how we relate.”<sup>10</sup>*

Masisi and Khama’s differences go beyond their approaches to international relations and have come to dominate national politics. Their differences are likely to deepen as elections – scheduled for October – approach.<sup>11</sup> Their political battles have become synonymous with tribal politics, which could dent investor confidence in Botswana.<sup>12</sup> **Kgosietsile Ngakaagae**, a staff writer at Botswana-based news outlet **Mmegi**, recently raised concerns of rising political tribalism or “*ethnic political solidarity*,” which threatens national peace and security and damages the country’s good democratic standing.<sup>13</sup> That said, **Botswana Investment Trade Centre (BTIC)** chief executive officer **Keletsoitse Olebile** says that although the situation is harmful, it has not yet affected investor confidence in Botswana:

*“On the ground is a totally different situation as investor confidence is still very high. We are seeing more investors showing interest in Botswana.”<sup>14</sup>*

<sup>5</sup> The East African, 29 Jun 2019

<sup>6</sup> Capital FM, 22 July 2019

<sup>7</sup> Capital FM, 22 July 2019

<sup>8</sup> The East African, 29 Jun 2019

<sup>9</sup> The East African, 29 Jun 2019

<sup>10</sup> The East African, 29 Jun 2019

<sup>11</sup> Source, analyst, London

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

<sup>13</sup> Mmegi, 19 Jul 2019

<sup>14</sup> Source, analyst, London

### ... as the government debates a land ownership bill ...

Members of Parliament (MPs) debated on 17 July over the introduction of the **Transfer Duty (Amendment) Bill 2018**, which would increase non-citizen duty rates and prohibit foreign nationals from owning land.<sup>15</sup> Given the fraught reaction to the bill in parliament, as well as the importance of foreign investment to the country's economy, it is unlikely that the bill will pass into law without significant amendments.<sup>16</sup> It is also not clear that it would have its intended effect of improving national land ownership. Land ownership is a highly controversial issue in Botswana that needs to be dealt with delicately to prevent severe economic damage and civil unrest – the government only needs to look to a number of its SADC neighbours for examples of this.<sup>17</sup>

The bill, which finance minister **Kenneth Matambo** brought before parliament, would amend the duty payable on land so that non-citizens would pay 30% rather than 5%. According to the bill, in the case of customary land grants, the duty will be calculated on the aggregate rental payable or on the value of the immovable property leased, whichever is greater. The bill would also restrict foreigners to purchasing long-term leases. Currently, the government actively seeks out foreign investment and is willing to sell land or properties to foreigners; only tribal land and state land cannot be sold to foreigners.<sup>18</sup>

Botswana's vice-president, **Slumber Tsogwane**, claims the bill would damage Botswana's investment climate and tourism and property industries:

*"Should Parliament ever dare to introduce such bombshell piece of legislation, this will lead to a fall in foreign investment, hurt tourism and property industry therefore leading to decline in economy...it is not a good idea to be thinking of introducing a law like that. Such laws will scare the potential investors to our country."*<sup>19</sup>

Tsogwane's views were shared by political representatives of the business community, **Business Botswana**, which described the bill as "anti-foreigner" and "anti-foreign investment" and called on the government to remove the transfer duty amendment from the bill.

*"The potential negative effects on many participants in the economy are substantial, and will far exceed the benefits of any additional tax revenues that may be raised. We therefore strongly recommend that the proposal to increase the rate of transfer duty on the sale and transfer of property to non-citizens from 5 percent to 30 percent be removed from the bill."*<sup>20</sup>

However, many MPs countered Tsogwane's arguments and called for foreign duty rates to be above 50%. **Gaborone North MP Haskins Nkaigwa** spoke in favour of the bill, saying foreign nationals currently living in Botswana would not be affected. He also said that the emphasis should be on protecting Botswanan citizens who do not have land:

*"Citizens don't have access to land because foreigners continue to own large acres of land at the expense of our people. We should negotiate in this sensitive issue; this land belongs to Botswana citizens not the so-called foreign investment."*<sup>21</sup>

Property sales in all areas by foreign investors have increased over recent years, especially around Gaborone and **Maun**. Attractive prices, economic stability, democratic institutions and a growing tourism industry make Botswana a popular real estate investment destination in **Southern Africa**.<sup>22</sup> The **World Bank** ranked Botswana 86 out of 190 economies in its 2019 **Ease of Doing Business**

<sup>15</sup> The Patriot, 17 Jul 2019

<sup>16</sup> Source, analyst, London

<sup>17</sup> Source, analyst, London

<sup>18</sup> [www.state.gov/reports/2018-investment-climate-statements/botswana/](http://www.state.gov/reports/2018-investment-climate-statements/botswana/)

<sup>19</sup> The Patriot, 17 Jul 2019

<sup>20</sup> The Patriot, 17 Jul 2019

<sup>21</sup> The Patriot, 17 Jul 2019

<sup>22</sup> Source, analyst, London

report, falling 5 places from 81<sup>st</sup> in 2018.<sup>23</sup> Property rights are enforced in Botswana; the World Bank ranks Botswana 80 out of 190 in the Registering Property category in 2019.<sup>24</sup>

There are three main categories of land in Botswana: freehold, state land, and tribal land.<sup>25</sup> Tribal and state land cannot be sold to foreigners. There are no restrictions on the sale of freehold land, but only about 5% of land in Botswana is freehold. In the capital city of Gaborone, the number of freehold plots is limited. State land represents about 25% of land in Botswana. On application to the Department of Lands, both foreign-owned and local enterprises registered in Botswana may lease state land for industrial or residential use. Commercial use leases are for 50 years and residential leases are for 99 years. Tribal land represents 70% of land in Botswana. To obtain a lease for tribal land, the investor must approach the relevant local land board.

### Choppies' Kenya closures cause concern

Botswana-based retailer **Choppies Enterprises** closed one of the dozen stores that it had opened in quick succession in **Kenya** on 27 June after failing to pay suppliers for months.<sup>26</sup> The closure comes amid reports of the firm's revenue losses and infighting at the management level in Botswana. The decline of Choppies will result in job losses and further damage confidence in Botswana and the region's retail industry, which has seen several major retailers close in recent years.<sup>27</sup>

Choppies shut down its **Kiambu** town branch in Kenya just days after it had closed its **Bungoma** outlet owing to stock shortage.<sup>28</sup> Choppies' other outlets in Kenya are also struggling with stocks almost out. **Kenya Union of Commercial Food and Allied Workers** secretary general **Boniface Kavuvi** said:

*"Choppies workers have not been paid in full to date. They have also failed to pay suppliers for a while now and this explains the closure of some branches and empty shelves on others. The supermarket is now dealing with similar issues faced by [Kenyan supermarket chains] **Nakumatt** and **Uchumi**."*<sup>29</sup>

Choppies' troubles hit a climax last year when the **Botswana Stock Exchange (BSE)** and the **Johannesburg Stock Exchange (JSE)** halted the trading of its shares over the supermarket chain's failure to release financial results for the year ended 30 June 2018 (see *ARC Briefing Botswana October 2018*). In May, Choppies fired CEO **Ramachandran Ottapathu** following a board agreement.<sup>30</sup> The board had announced in March that the company would embark on legal and forensic investigations and would follow its recommendations later.<sup>31</sup> Choppies had indicated in a statement issued in September that its board of directors and external auditors, **PwC**, were seeking independent verification and legal advice on several issues that emerged in a review of the current and previous financial periods.<sup>32</sup> This includes transactions that its **South African** subsidiary conducted in the 2017 and 2018 financial years, and a shareholder dispute in Zimbabwe.<sup>33</sup>

Choppies operates in Botswana, South Africa, Kenya, and Zimbabwe, with total stores down from 260 to 212.<sup>34</sup> Choppies ventured into Kenya in 2016 by taking over **Ukwala Supermarkets**. Choppies has six branches in Kisumu city and eight other branches in Kenya spread across major towns including **Nakuru**, **Kisii** and **Kericho**. It is engaged in a shareholder dispute with **Nanavac Investments**, which

<sup>23</sup> [www.doingbusiness.org/en/data/exploreeconomies/botswana](http://www.doingbusiness.org/en/data/exploreeconomies/botswana)

<sup>24</sup> [www.doingbusiness.org/en/data/exploreeconomies/botswana](http://www.doingbusiness.org/en/data/exploreeconomies/botswana)

<sup>25</sup> Unless otherwise stated: [www.state.gov/reports/2018-investment-climate-statements/botswana/](http://www.state.gov/reports/2018-investment-climate-statements/botswana/)

<sup>26</sup> The East African, 3 Jul 2019

<sup>27</sup> Source, analyst, London

<sup>28</sup> Business Daily, 7 Jul 2019

<sup>29</sup> Business Daily, 7 Jul 2019

<sup>30</sup> The Standard, 3 Jul 2019

<sup>31</sup> The Standard, 3 Jul 2019

<sup>32</sup> Business Day, 27 Sept 2018

<sup>33</sup> Business Day, 27 Sept 2018

<sup>34</sup> Business Daily, 7 Jul 2019

former Zimbabwe vice president **Phelekezela Mphoko** owns.<sup>35</sup> Nanavac claims that it owns 51% of Choppies' operations in Zimbabwe, while Choppies believes that it holds only 7%.<sup>36</sup> The shareholder dispute and other irregularities reflect negatively on the strength of Choppies' internal control and management systems.

### Planner

29 Aug 2019 **(Botswana) Bank of Botswana MPC** meeting;  
 10 Sept 2019. **(Botswana) Electra Mining Botswana** event;  
 October 2019 **(Botswana) Scheduled general elections**;  
 31 Oct 2019 **(Botswana) Bank of Botswana MPC** meeting;  
 5 Dec 2019 **(Botswana) Bank of Botswana MPC** meeting;

### Chronology

23 Jul 2019 **Gaborone (Botswana) Africanews**. **FIFA** bans former **Botswana Football Association** general secretary **Mooketsi Kgotlele** for accepting bribes;

22 Jul 2019 **Gaborone (Botswana) Daily News**. Health minister permanent secretary **Morrison Sinvula** announces that Botswana is on high alert for the **Ebola** outbreak in the **Democratic Republic of the Congo**;

22 Jul 2019 **Gaborone (Botswana) Rapaport**. **Botswana Diamonds** raises sufficient funds to continue operations, and expects to hold its first sale by the fourth quarter;

20 Jul 2019 **Gaborone (Botswana) Xinhua**. President **Mokgweetsi Masisi** survives a potential helicopter crash in Botswana's second largest city, **Francistown**;

19 Jul 2019 **Gaborone (Botswana) Mmegi**. Government plans to debut a new bond at its forthcoming auction, which will seek to raise P450m (\$42.57m) in borrowings from the local market;

19 Jul 2019 **Gaborone (Botswana) The Patriot**. **Botswana Telecommunications Corporation Limited** posts a 25% decline in profit after tax;

19 Jul 2019 **Gaborone (Botswana) Daily News**. President **Mokgweetsi Masisi** tells a kgotla meeting that a **National Transformation Strategy** is expected to create employment and promote investment;

19 Jul 2019 **Gaborone (Botswana) Mmegi**. Government security forces reportedly entered news outlet **Mmegi** and confiscated a cellular phone belonging to political reporter;

18 Jul 2019 **Gaborone (Botswana) The Patriot**. Civil servants threaten massive demonstrations to force government to resume negotiations with trade unions.

18 Jul 2019 **Lusaka (Zambia) Daily News**. Botswana's minister of international affairs and cooperation, **Unity Dow**, attends the 20th **Southern African Development Community (SADC)** ministerial committee of the organ on politics, defence and security cooperation meeting;

17 Jul 2019 **Gaborone (Botswana) Daily News**. Environment, tourism and natural resources conservation minister **Kitso Makaila** says controlled hunting will be re-introduced in 2020;

17 Jul 2019 **Gaborone (Botswana) Daily News**. **Bank of Botswana** (central bank) business survey report states that companies in Botswana are confident that the economy will record a positive

<sup>35</sup> Business Day, 26 Sep 2018

<sup>36</sup> Business Day, 26 Sep 2018

trajectory during the second half of the year;

18 Jul 2019 **Gaborone (Botswana)** *Daily News*. Fifteen Botswanan journalists attend a seminar hosted by the **China International Publishing Group** in **China**;

18 Jul 2019 **Gaborone (Botswana)** *Gulf Times*. **Qatar Airline** to launch three-times weekly direct flights to Gaborone from 27 October;

17 Jul 2019 **Gaborone (Botswana)** *The Patriot*. MPs divided in parliament over the **Transfer Duty (Amendment) Bill 2018**, which could deny foreigners land ownership and increase non-citizen duty rates from 5% to 30%;

11 Jul 2019 **Gaborone (Botswana)** *Reuters*. Government appeals last month's high court ruling that decriminalised homosexuality;

28 Jun 2019 **Gaborone (Botswana)** *Daily News*. President **Mokgweetsi Masisi** and his **Rwandan** counterpart, President **Paul Kagame**, forge partnership during Kagame's two-day visit;

24 Jun 2019 **Gaborone (Botswana)** *Daily News*. **Australia**-based **Ausdrill Limited**'s hard-rock underground mining subsidiary **Barmenco** wins a 5-year \$800m copper mine contract in Botswana;

24 Jun 2019 **Gaborone (Botswana)** *Rapaport*. Government expresses interest in buying shares in **Canada**-based **Lucara Diamond Corp.**, owner of Botswana's high-value **Karowe** diamond mine.



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