

## AFRICA RISK CONSULTING

## Botswana Monthly Briefing September 2019

## Botswana Summary 23 September 2019

*The Independent Electoral Commission confirms that four nominees have submitted applications as presidential candidates at the Gaborone High Court: President Mokgweetsi Masisi (2018-present); Umbrella for Democratic Change (UDC) member Duma Boko; Alliance for the Progressives member Ndaba Gaolathe; and Botswana Patriotic Front (BPF) member Biggie Butale. President Masisi says that the government is in “cordial” negotiations with United Kingdom (UK)-headquartered De Beers Group about a new diamond-sales pact to replace the current deal that expires in 2020. Bank of Botswana (central bank) governor Moses Pelaelo says that the central bank has reduced the benchmark interest rate 25 basis points to 4.75%.*

## The BDP’s biggest test yet

The **Independent Electoral Commission** on 21 September confirmed that four nominees have submitted applications as presidential candidates at the **Gaborone High Court**: President **Mokgweetsi Masisi** (2018-present); **Umbrella for Democratic Change (UDC)** leader **Duma Boko**; **Alliance for the Progressives** member **Ndaba Gaolathe**; and **Botswana Patriotic Front (BPF)** member **Biggie Butale**.<sup>1</sup> Next month’s elections are expected to be the most contested since the ruling **Botswana Democratic Party (BDP)** began its uninterrupted reign half a century ago, as the BDP faces a splinter group cut by former president **Ian Khama** (2008-2018) in coalition with the main opposition party, the UDC. The centrality of Masisi and Khama’s bitter rivalry makes it likely that either side will contest the validity of the election result should it not go their way – which poses a threat to **Botswana’s** distinguished democratic record and creates potential security concerns.

President Masisi’s BDP has been in power since independence from Britain in 1966 and is the favourite to win. However, BDP support has declined in recent years. In 2009 the BDP won 45 of the 57 seats in parliament (79%), with 53.26% of the vote,<sup>2</sup> while in 2014 its share of the popular vote slipped below 50% for the first time in its history and its representation in parliament reduced to 37 seats.

Party	Votes	% Votes	Candidates	Seats	% Seats
Botswana Democratic Party (BDP)	320,657	46.46	57	37	64.91
Umbrella for Democratic Change	207,113	30.01	52	17	29.82
Botswana Congress Party (BCP)	140,998	20.43	54	3	5.26
Independent	21,484	3.11	29	0	0.00
Total	690 252	100.01	192	57	99.99

## Table source

Independent Electoral Commission 2014a, 1-15; Independent Electoral Commission 2014b.

<sup>1</sup> Mmegi, 21 Sep 2019

<sup>2</sup> Independent Electoral Commission, 2009

Masisi succeeded Khama as president in April 2018 (see *ARC Briefing Botswana April 2018*). Although Khama handpicked Masisi to be his successor, he has since become his chief political adversary. It has been a tradition in the BDP that the incumbent president vacates his seat 18 months before the end of his second term in office. The deputy president is handpicked by the BDP elite and steps in as interim president, where he sits for a year and a half to ease into the job and also use the advantages of incumbency to campaign for the elections that follow at the end of the five-year term. This was not the case for the Khama-Masisi handover. Instead of taking a back seat, Khama has accused Masisi of becoming an autocrat and threatening the country's reputation as a beacon of stability in **Africa**.

The BDP's stranglehold on the country's politics is weakening. The party is more divided than ever in its history and its coffers are almost empty.<sup>3</sup> This is further damaged by the bitter falling out between Khama and Masisi. The BDP does not have its conformable election routine this time, and it may not be ready for the election.

Khama resigned from the BDP in May and established the BPF, which pledges support to the ruling party's primary challenger, the UDC. The UDC-BPF coalition accuses the government of failing to solve the country's pertinent issues of inequality, corruption and unemployment, and says that a fresh government is needed to address them. Khama's BPF will contest the election in 19 constituencies, mostly in the **Central District**, a Khama stronghold. If Khama gets enough supporters to vote against the ruling party, he could be back in power.

The UDC poses a serious challenge to the BDP with Khama on-board. The UDC is a coalition party formed in 2012 comprising the **Botswana National Front (BNF)**, **Botswana People's Party (BPP)** and **Botswana Congress Party (BCP)**. UDC president Duma Boko is also president of the BNF, which has the most MPs and is the biggest and oldest opposition party in Botswana. The BNF won six seats in the 2009 election with 22% of the popular vote and participated in the 2014 election as part of the UDC coalition. Boko won the **Gaborone Bonnington North** seat for the UDC with 54% of the vote in 2014, while Ndaba Gaolathe won **Gaborone Bonnington South** for the UDC with 57% of the popular vote.<sup>4</sup>

But the UDC is not without its problems. The **BNF Veterans League**, made up of BNF members of parliament, has been attacking the BNF and UDC leadership and planning to petition the party.<sup>5</sup> In a statement, the veterans criticised "secret" funding deals with Khama, saying,

*"These secret deals and funding are inconsistent and at variance with the well-known BNF political character, culture and traditions, and undermines time honoured BNF principle of collective leadership."*<sup>6</sup>

BNF Veterans' support is essential for the UDC to be victorious next month. The safe seats occupied by the veterans will be relied upon to win a majority in parliament. If the veterans continue to publicly criticise their own side – or even worse, if they defect – it could swing the election.

The leader of the political party that wins the most seats in the 57-seat **National Assembly** following the 23 October vote will become president of the country. The vote will elect 57 national assembly and 490 local government representatives.

### **De Beers diamond-sales pact: what to expect?**

President Mokgweetsi Masisi on 6 September at the **World Economic Forum on Africa in Cape Town (South Africa)** said that the government is in "cordial" negotiations with **United Kingdom (UK)**-headquartered **De Beers Group** about a new diamond-sales pact to replace the current deal that expires in 2020.<sup>7</sup> Masisi declined to give details of the negotiations or the preferred duration of

<sup>3</sup> The Voice, 3 Jul 2019

<sup>4</sup> Elections Botswana

<sup>5</sup> Mmegi, 19 Jul 2019

<sup>6</sup> Sunday Standard, 13 May 2019

<sup>7</sup> Moneyweb, 6 Sep 2019

the new pact but did confirm that it will be finalised after next month's election. The talks are crucial for both Botswana, which relies on diamonds for almost a fifth of its GDP, and De Beers, which gets about two-thirds of its gems from Botswana but is experiencing diminished profitability from diamonds mainly because of global supply and the emergence of competitors. Masisi said in May that he hopes for a new long-term sales pact with De Beers, and for more gems to be processed locally. De Beers is likely to push back against the government's demands.

Masisi said at the World Economic Forum on Africa,

*"Everything is going as planned. We need to improve the profitability of the business for both of us. So great returns for both of us."*<sup>8</sup>

He also noted that a global economic slowdown is affecting both diamond sales and prices negatively and is having a knock-on effect on Botswana's economy, but the government expects the downturn to be temporary. Diamonds are the biggest contributor to Botswana's economy, which has been structured around diamond exports for many years.

Botswana's largest lobby group, **Business Botswana**, accused De Beers on 15 June of not adequately providing economic opportunities in Botswana (see *ARC Briefing Botswana June 2019*). Business Botswana's president, **Gobusamang Keebine**, said that De Beers has "*done little*" to provide opportunities for local businesses and facilitate greater benefit from the diamond industry since the company moved its diamond sorting and sales operations from **London** to Gaborone in 2011 under a ten-year agreement. The agreement led to the creation of 3,600 local jobs, but Keebine indicated that these were mostly at the lower level, and not at the level of new local business creation or expansion.

President Masisi said in May 2018 that he is mainly seeking to establish a long-term deal with De Beers, instead of the current model of 10-year contracts:

*"Preparations for the negotiations have begun. We are expecting to get a mutually beneficial agreement, yielding positive results for both. It's a long-term agreement, we have had a wonderful relationship with De Beers, and we expect it to be more cemented... Part of the negotiations ... are because we will be sinking a lot of money down now, and the returns will only be realised after in the period of the next deal. So why would one want a short-term deal? It's a marriage [that] we are after..."*<sup>9</sup>

Masisi also said that he will be focusing on having De Beers conduct all its diamond processing activities in Botswana, without exporting any unprocessed stones:

*"If the diamonds are here in the ground in Botswana, why don't you fix them here... why take them far away? We want to get to the underlying reasons why diamonds have to be processed elsewhere, and bring them back to Gaborone. We are dead set on doing that."*<sup>10</sup>

Botswana is the world's biggest diamond producer after **Russia**, and the gems generate the bulk of the country's export revenue. Most of its diamonds are mined by **Debswana**, a 50-50 joint venture between the government and De Beers. UK-based **Anglo American** owns 85% of De Beers, with Botswana's government holding the balance.

London- and Botswana-listed **Botswana Diamonds** on 12 September received environmental authorisation for diamond-bearing gravels from the **Marsfontein** mine, next to the company's **Thorny River** project in **South Africa**.<sup>11</sup> The company noted the permission, granted to its associated firm **Vutomi**, was a critical step towards obtaining a mining permit, which it expected to receive shortly.

<sup>8</sup> Moneyweb, 6 Sep 2019

<sup>9</sup> President Masisi quoted in Bloomberg, 15 May 2019

<sup>10</sup> President Masisi quoted in Bloomberg, 15 May 2019

<sup>11</sup> Mining.com, 12 Sep 2019

**Canada**-based mining company **Lucara Diamond** announced on 18 September that it had discovered a 123-carat, gem-quality, top white Type II gem at its **Karowe** mine.<sup>12</sup> The same operation found the largest precious rock ever found in Botswana. Karowe, which began commercial operations in 2012, has this year yielded 22 diamonds larger than 100 carats, eight of them exceeding 200 carats.

### Record low interest rates

**Bank of Botswana** (central bank) governor **Moses Pelaelo** told reporters in Gaborone on 26 August that the central bank's **Monetary Policy Committee (MPC)** has reduced the benchmark interest rate 25 basis points to 4.75% to boost economic growth.<sup>13</sup> **United States**-based rating agency **Fitch Solutions** forecasts that the Bank of Botswana will cut its benchmark interest rate by 50 basis points to 4.50% by the end of 2019 to stimulate slowing gross domestic product (GDP) growth.<sup>14</sup> The cut is the first since October 2017, when the central bank reduced it by 50 basis points. Botswana now has its lowest interest rate level since at least 2007.

Pelaelo said the current state of the economy and outlook for both domestic and external economic activities have provided scope to ease monetary policy.

*"The MPC decided to reduce the bank rate by 25 basis points to 4.75%. However, with inflation low and stable and inflation expectations well anchored, improving total factor productivity remains key in promoting sustainable and inclusive economic growth."*<sup>15</sup>

Pelaelo added that inflation has remained weak given subdued demand pressures in the economy, and that "accommodative monetary policy" should expand the economy by 4.2% in 2019 and 4.8% in 2020.

According to the governor, the significant influences on domestic economic performance include conducive financing conditions as indicated by accommodative monetary policy and sound financial environment that facilitate policy transmission, intermediation and risk mitigation. He said it is further anticipated that the increase in government spending, as well as implementation of initiatives, such as the doing business reforms, should also be supportive of economic activity. He said,

*"Overall, the economy is projected to operate close to, but below, full capacity in the short to medium term, thus posing no upside risk to the inflation outlook."*<sup>16</sup>

Consumer inflation in July was 2.9%, remaining below the bottom end of the central bank's target band of 3% to 6%. Inflation has not gone above the upper end of the band since at 2014. Botswana's main import destination, South Africa, saw inflation ease to 4% in July. Botswana imported \$3.87 billion in goods and services from South Africa in 2018. Global economic data provider **CEIC Data** reports that Botswana's unemployment rate increased to 17.94% in December 2018.

The central bank's director for research and monetary policy committee member, **Tshokologo Kganetsano**, said:

*"We believe price stability has been achieved. We expect inflation to remain within that range and the decision to cut the rate is to promote economic activity."*<sup>17</sup>

**Barclays Bank of Botswana** managing director **Keabetswe Pheko-Moshagane** on 20 September said the country's small and medium-sized enterprise sector is critical to the country's economic activities and employment needs.<sup>18</sup> She said at the annual **Procurement and Enterprise Development Conference** in Gaborone,

<sup>12</sup> Mining.com, 18 Sep 2019

<sup>13</sup> Business Day, 29 Aug 2019

<sup>14</sup> Fitch Solutions, 22 Jul 2019

<sup>15</sup> Mmegi, 30 Aug 2019

<sup>16</sup> Mmegi, 30 Aug 2019

<sup>17</sup> Tshokologo Kganetsano quoted in Bloomberg, 29 Aug 2019

<sup>18</sup> Iol, 20 Sep 2019

*"In Botswana, research has shown that nearly 90% of all registered businesses are SMEs and employ over 300,000 people both formally and informally...As the private sector we play a vital role in ensuring that our SMEs thrive and grow into large corporates that can create the much needed employment and further showcase the resilience of local suppliers and capabilities."<sup>19</sup>*

## Planner

24-25 Sep 2019 **(Botswana)** Africa Mining Summit;  
 23 Oct 2019 **(Botswana)** General elections;  
 3-4 Oct 2019 **(Botswana)** Entrepreneurship in Mining Conference;  
 31 Oct 2019 **(Botswana)** Bank of Botswana MPC meeting;  
 5 Dec 2019 **(Botswana)** Bank of Botswana MPC meeting;

## Chronology

22 Sep 2019 **Gaborone (Botswana)** *City Press*. Former President **Ian Khama** says he wishes for his younger brother, **Tshekedi Khama**, to follow him to the **Botswana Progressive Front** and leave the **Botswana Democratic Party**;

21 Sep 2019 **Gaborone (Botswana)** *Mmegi*. The **Independent Electoral Commission** confirms that four nominees have submitted applications as presidential candidates: President **Mokgweetsi Masisi**; **Umbrella for Democratic Change** member **Duma Boko**; **Alliance for the Progressives** member **Ndaba Gaolathe**; and, **Botswana Patriotic Front** member **Biggie Butale**;

20 Sep 2019 **Gaborone (Botswana)** *iol*. **Barclays Bank of Botswana** managing director **Keabetswe Pheko-Moshagane** says the SME sector is critical to the country's economic activities and employment needs;

18 Sep 2019 **Cape Town (South Africa)** *iol*. **Botswana Bureau of Standards** and **South African Bureau of Standards** sign an MoU to formalise the commitment to collaborate on all standards related matters;

18 Sep 2019 **Gaborone (Botswana)** *Mining.com*. **Canada**-based mining company **Lucara Diamond** discovers a 123-carat gem at its **Karowe** mine;

18 Sep 2019 **Gaborone (Botswana)** *Journal du Cameroun*. Registrar and Master of the High Court **Michael Motlhabi** says there are at least six prospective candidates for October presidential elections, including current President **Mokgweetsi Masisi**;

18 Sep 2019 **Harare (Zimbabwe)** *Africa Times*. **Botswana Stock Exchange** and its **Zimbabwe** counterpart sign an MoU to facilitate cross-border exchange listings, reduce regulatory impediments and establish shared strategies on product and market development;

17 Sep 2019 **Gaborone (Botswana)** *The Observer*. The first group of more than 850 **Namibian** refugees who fled their home country in 1999 are deported after they declined pleas for voluntary repatriation;

12 Sep 2019 **Gaborone (Botswana)** *Bloomberg*. Environment minister **Kitso Mokaila** says hunting licences to shoot 158 elephants will be auctioned but a minimum price is yet to be decided; the 72 foreigner-designated licences will have an additional charge of \$1,830;

<sup>19</sup> Iol, 20 Sep 2019

12 Sep 2019 **Gaborone (Botswana)** *Mining.com*. **Botswana Diamonds** receives environmental authorisation for diamond-bearing gravels from the **Marsfontein** mine in **South Africa**;

11 Sep 2019 **Johannesburg (South Africa)** *Reuters*. **British High Commission** agrees an **Economic Partnership Agreement** with the **Southern African Customs Union (SACU)** to allow businesses to keep trading after Brexit without any additional barriers;

6 Sep 2019 **Gaborone (Botswana)** *Moneyweb*. President **Mokgweetsi Masisi** says that the government is negotiating a new diamond-sales pact with **De Beers** to replace the current deal which expires in 2020;

2 Sep 2019 **Gaborone (Botswana)** *Mining Weekly*. **United Kingdom**-based mining company **Kavango Resources** signs a memorandum of understanding with **Botswana**-based **LVR GeoExplorers** to farm-in to two **Kalahari Copperbelt** prospecting licences;

2 Sep 2019 **Gaborone (Botswana)** *Mmegi*. The **Independent Electoral Commission** confirms that President **Mokgweetsi Masisi** has set 23 October to hold parliamentary and local elections;

26 Aug 2019 **Botswana (Gaborone)** *Business Day*. **Bank of Botswana** governor **Moses Pelaelo** says the benchmark interest rate has been cut by 25 basis points to 4.75% to boost economic growth;

20 Aug 2019 **Botswana (Gaborone)** *Xinhua*. Trade and industry minister **Bogolo Kenewendo** says that **Botswana** increased foreign direct investment in 2018/2019 to \$290m from a target of \$210m;

### About Africa Risk Consulting:

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