

AFRICA RISK CONSULTING

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Botswana Summary 15 January 2020

A United States (US) military base at Thebephatshwa Air Base, 60 km from Gaborone, creates a risk, albeit low, to Botswana of terrorist attacks in the context of heightened Iran-United States (US) tensions following the US 'pre-emptive' missile attack in Iraq. Botswana's Court of Appeal accepts the opposition Umbrella for Democratic Change (UDC) petition challenging the 2019 election results. The new appeal will need to answer questions surrounding the legitimacy of the election results, providing clarification and resolution. US-based ratings agency Moody's assigns a Baa2 long-term issuer rating with a stable outlook to state-owned Botswana Power Corporation (BPC). Diamond negotiations commence between Botswana and United Kingdom-headquartered De Beers ahead of the current deal's expiration.

Botswana security risks increase amid Iran-US tensions

The **United States (US)** launched a so-called 'pre-emptive' missile attack in **Iraq** on 3 January, killing seven people, including the head of **Iran's Quds Force**, General **Qasem Soleimani**, and Iraqi commander, **Abu Mahdi al Muhandis**.¹ Whilst **Botswana** is not an obvious target in potential retaliation, businesses and investors should ensure their security measures and checks are in place and that they are keeping well informed of potential terrorist activities. In 2018 the **US Department of Defence** constructed a military base costing P100 million (\$9.3m) inside **Thebephatshwa Air Base** outside **Molepole** in south-east Botswana, 60 km from the capital, **Gaborone**.² In 2019 the US created the **US National Guard's State Partnership Program on the African Continent**, a five-year programme established to,

"strengthen security institutions, promote multilateral sharing of information and develop interoperability among partner nations".³

There are currently 13 state partnerships between the US and **African** nations:

"North Carolina and Botswana; California and Nigeria; New York and South Africa; Michigan and Liberia; Utah and Morocco; Vermont and Senegal; Wyoming and Tunisia; Kentucky and Djibouti; Massachusetts and Kenya; and Indiana and Niger. The North Dakota National Guard is partnered with three countries: Ghana, Togo and Benin."⁴

Botswana Defence Force Air Arm commander major general **Innocent Phatshwane** said the partnerships present opportunities to,

"foster trust and partner capacity, and exchange military best practices while maintaining critical skills".⁵

Despite these opportunities, Botswana should be on high alert for any potential threats at the US base, given that Iran was quick to retaliate by firing attacks on Iraqi air bases that housed American troops.⁶ Businesses and investors should ensure that their employees are aware of potential risks and take extra precautions, particularly if they are linked to US interests or in the vicinity of the base.

¹ CNN International, 3 Jan 2020

² United States Africa Command, 18 Jul 2018

³ US Air force, 26 Jul 2019

⁴ The Intercept, 1 Dec 2018

⁵ US Air force, 26 Jul 2019

⁶ Military Times, 7 Jan 2020.

Until now, Botswana has fared well in relation to its security risk status. The **Institute for Economics and Peace's Global Terrorism Index 2019** ranked Botswana 138th, maintaining its 2018 rank.⁷ The index rates the **Impact of Terrorism** on a scale of 10-0 (10 being "very high" and 0 being "no impact").⁸ Botswana's rank on the terrorism impact scale is 0, meaning it is unlikely to suffer any impact from terrorism. It also has a low criminality and high resilience score in the **Global Initiative's Africa Organised Crime Index 2019**, ranking fourth (with first place being the safest) on the continent, behind **Rwanda** (third), **Tunisia** (second), and **São Tomé and Príncipe** (first), with particularly high scores for international cooperation, political leadership and governance, and national policies and laws.⁹

Appeal Court accepts opposition's challenge of 2019 election results

Botswana's **Court of Appeal** ruled on 8 January that the opposition **Umbrella for Democratic Change (UDC)** has reasonable grounds to challenge the October 2019 election results.¹⁰ Judge **Sing Walia's** ruling comes after the **High Court** had dismissed the UDC's petition in November citing "failure to comply with rules" and "lacking supporting affidavits", causing the UDC to petition the Court of Appeal.¹¹ The ruling **Botswana Democratic Party (BDP)** won 38 out of 57 seats in parliament in the 2019 presidential elections; the UDC, which won 15 seats, maintains that there were instances of voting irregularities in some constituencies.¹²

UDC vice-president **Dumeland Saleshando** welcomed judge Walia's ruling. Saleshando has criticised the lengthy duration of the BDP's time in office and continued to advocate for an end to the BDP's reign.¹³ The BDP has ruled Botswana since its independence from **Britain** in 1966. However, when former President **Ian Khama** (2008-2018) denounced his hand-picked successor, now President **Mokgweetsi Masisi** (2018-present), and decided to support a new party in May 2018, prior to the October elections, it caused fractures within the BDP. The elections were expected to alter the BDP's previously undefeated hold on power and reduce its seats in parliament. President Masisi dismissed the opposition's claims of voting irregularities, yet the Appeal Court's ruling indicates that the UDC has grounds for its claims against the BDP.

As one of the continent's heralded democracies, the current political instability in Botswana is uncharacteristic and detrimental to the economy. The longer the uncertainty persists, the more likely the divisions within the BDP, and the nation at large, are to deepen.¹⁴ Political instability is also likely to discourage foreign investment in Botswana. The new appeal, set for 29 January, will need to answer lingering questions about the legitimacy of the election results and provide clarification and resolution.

Moody's assigns BPC a Baa2 long-term issuer rating

US-based financial services corporation **Moody's Investors Service (Moody's)** assigned a Baa2 long-term issuer rating with a stable outlook to state-owned national energy company, **Botswana Power Corporation (BPC)**. This is the first time Moody's has assigned a rating to BPC, which is responsible for Botswana's energy production, transmission, distribution and supply.¹⁵ BPC works in conjunction with the mineral resources, green technology and energy security ministry, which oversees the company's strategy and operations and has the final say on the level of end-user tariffs.¹⁶ BPC pursues

⁷ Global Terrorism Index 2019, Institute for Economics and Peace, visionofhumanity.org

⁸ Global Terrorism Index 2019, Institute for Economics and Peace, visionofhumanity.org

⁹ Africa Organised Crime Index 2019, Global Initiative, globalinitiative.net

¹⁰ France24, 8 Jan 2020

¹¹ AfricaNews, 9 Jan 2020

¹² Agence-France Presse, 8 Jan 2020

¹³ France24, 8 Jan 2020

¹⁴ Source, political analyst, London

¹⁵ The Patriot, 13 Jan 2020

¹⁶ AllAfrica, 13 Jan 2020

investment projects that are intended to match the government's policy objectives through continuous financial support. The company is entirely funded by the state and as such,

*"BPC is subject to significant government influence and further acts to implement a range of policy mandates associated with national development objectives."*¹⁷

The BPC's Baa2 rating places it within the 'yellow' grading – "good credit quality with moderate credit risk".¹⁸ In its rationale, Moody's said the BPC's Baa2 rating is underpinned by

*"[t]he expectation that the Government of Botswana will continue to provide timely financial support to the company, as necessary, given the critical role of BPC to the country and its mission to ensure that Botswana has access to electricity, and an assumption that substantially all of BPC's commercial borrowings will continue to be covered by the government guarantees."*¹⁹

On the down side, Moody's noted that the BPC's high indebtedness and weak financial profile on a standalone basis constrain the Baa2 rating, with the company's liquidity position reliant on timely cash injections from the government.²⁰ The rating also reflects the company's significant asset concentration and poor asset quality, with multiple design and construction issues affecting output from BPC's coal-fired plants. The poor reliability of its power plants increases Botswana's reliance on electricity imports, reducing visibility over the company's internally generated cash flows:

*"While the **Morupule A** power plant (132 megawatt (MW)) is expected to come back fully online this year, the remediation programme for the larger **Morupule B** power plant (600 MW) has only started and there is uncertainty around the improvement in the plant's availability once the works have been completed in 2023, as per the current schedule."*²¹

Until the Morupule power plants come fully online, Botswana will continue to experience a shortage of domestically produced electricity, requiring it to import electricity. Botswana's electricity consumption in 2019 was 4 billion kWh (1.617kWh per person) whilst its production was 3 billion kWh.²² Botswana imported 1,673 kWh worth of electricity in 2019.²³ The BPC has forecast electricity demand to more than double to 1 359 MW by 2035, from 600 MW in 2019.²⁴ The reliance on electricity imports is indicative of financial development, urbanisation and industrialisation, which is seen to have an impact on the country's energy consumption.

The BPC appears to have understood the need to address reliance on energy imports and tackle electricity shortages. A shift from coal-fired plants to solar energy projects is underway with the construction of two solar photovoltaic plants with a combined capacity of 100 MW.²⁵ The BPC is searching for suitable IPPs (independent power producers) which will be split into two separate 50 MW solar projects.²⁶

De Beers and Botswana government commence diamond negotiations

December 2020 will mark the end of the current deal between Botswana and **United Kingdom (UK)**-headquartered **De Beers** diamond company, which commenced in January 2011.²⁷ The company at the heart of the deal is **Debswana**, the joint venture in which De Beers and the Botswana government each holds a 50% stake. Botswana also has a 15% stake in De Beers, with the rest owned by UK-based **Anglo-American plc**. Debswana will be at the core of the upcoming negotiations for a new deal, as

¹⁷ The Patriot, 13 Jan 2020

¹⁸ Compiled by the Serbian government's Ministry of Finance, October 2019

¹⁹ Moody's, 10 Jan 2020

²⁰ Moody's, 10 Jan 2020

²¹ Moody's, 10 Jan 2020

²² Index Mundi, Dec 2019

²³ Index Mundi, Dec 2019

²⁴ Political Analysis South Africa, 15 Aug 2019

²⁵ Political Analysis South Africa, 15 Aug 2019

²⁶ Political Analysis South Africa, 15 Aug 2019

²⁷ African Business, 6 Jan 2020

will the **Okavango Diamond Company**, an independent company created in 2011 and solely owned by Botswana, with the right to sell 15% of diamonds extracted from Botswana.

Botswana's diamond industry now accounts for a fifth of its gross domestic product (GDP). Botswana has four diamond mines containing some of the world's wealthiest diamond deposits. According to the **International Monetary Fund (IMF)**, the mines were the primary reason for Botswana's economic transformation

"from a cattle-rearing economy to one of Africa's wealthiest countries, with the fifth highest per capita income on the continent".²⁸

The current deal was held in high regard at the time and was anticipated to create numerous beneficial consequences, particularly for Botswana. De Beers agreed to move its global sightholder sales operations, which sold 90% of its rough diamonds by value, from **London** to Gaborone by the end of 2013.²⁹ De Beers also moved some of its beneficiation operations to Gaborone, and 85 of 300 London-based De Beers staff members relocated to Gaborone. Diamond sales operations officially began in November 2013 in the **Diamond Trading Centre**. The centre is a rough diamond sorting and valuing operation that can sort 45m carats a year. Half the employees in the sales division are from Botswana, along with local account managers, human resources and finance staff.³⁰

The joint venture has produced mixed results. According to economic impact reports from 2015 compiled by De Beers, the annual value of rough diamonds traded in-country rose from \$1 billion to more than \$6 billion in 2014, resulting in taxes and royalties for Botswana. De Beers also reported generating \$380m in revenues for Botswana from the sale of rough diamonds to international manufacturers.

"Supplier and employee expenditure by De Beers added \$30m to GDP, roughly 2.5% of Botswana's GDP, making the partnership the largest single contributor to the Botswana economy, besides the government itself."³¹

The Debswana partnership created more than 34,000 jobs in Botswana either directly by the partnership, by suppliers of the partnership, or by the spending of direct employees and those of the suppliers.³² However, since the 2014 report, the number of jobs has declined. The automation of mining, decreased activity amongst local sightholders, and competition from other diamond processing centres such as **Tel Aviv (Israel)** and **Antwerp (Belgium)** have impacted the success of the joint venture. De Beers cut its diamond prices by 5% in November, and the open market price for rough diamonds dropped 9% in 2019. However, De Beers remains Botswana's largest employer outside of the government, giving it leverage in the negotiations.

De Beers has a confidentiality agreement with Botswana so insight into the negotiations is unlikely until they have concluded. The new deal is expected to centre around parameters concerning the sorting, valuing and sales of diamonds from Debswana. While much emphasis appears to be placed on making as lucrative a deal as possible, the government needs to place greater focus on diversifying the diamond-dominated economy (see *ARC Briefing Botswana December 2019*).³³ By diversifying its revenue, Botswana will be less vulnerable to changes in the diamond industry's supply-demand dynamic and be able to create a more sustainable and inclusive growth path.

²⁸ African Business, 6 Jan 2020

²⁹ African Business, 6 Jan 2020

³⁰ African Business, 6 Jan 2020

³¹ African Business, 6 Jan 2020

³² African Business, 6 Jan 2020

³³ Source, political and economic analyst, Johannesburg

Planner

29 Jan 2020 **Gaborone (Botswana) Court of Appeal** scheduled to hear opposition **Umbrella for Democratic Change (UDC)** case against the 2019 election results;

3-6 Feb 2020 **Cape Town (South Africa)** Investing in Africa Mining Indaba;

25 Feb 2020 **(Botswana) Bank of Botswana's** next outlook for the domestic economy;

26 Feb 2020 **(Botswana) Bank of Botswana** Monetary Policy Committee meeting;

19-23 Apr 2020 **Gaborone (Botswana) United States**-based business magazine **Forbes** to host the first **Under 30 Africa Summit**;

30 Apr 2020 **(Botswana) Bank of Botswana** MPC meeting;

Chronology

14 Jan 2020 **Kanye (Botswana) MiningWeekly**. **Canadian**-based **Giyani Metals Corporation** will commence the feasibility study for its **K.Hill** manganese deposit following initial positive feedback from **SRK Consulting (Canada)**, **Tetra Tech (US)** and **Royal IHC (Netherlands)**;

13 Jan 2020 **Mahalapye (Botswana) BotswanaDailyNews**. A public inquiry into a train accident that claimed two lives in 2019 is underway with an eight-man investigative board of engineers and former **Botswana Railways** employees to gather evidence;

12 Jan 2020 **Gaborone (Botswana) BotswanaDailyNews**. **Kago Keotshwaetse**, author of *Understanding the Stock Market*, champions financial literacy in order for **Botswana** to take advantage of viable stock options in the **Botswana Stock Exchange (BSE)**;

12 Jan 2020 **Ngwasha Gate (Botswana) BotswanaDailyNews**. Environment, natural resources conservation and tourism ministry advises public to be cautious about acid spillage at **Ngwasha** gate after a tanker ferrying sulphuric acid from **Durban (South Africa)** had a pipe burst on its way to **Kamotho** in the **Democratic Republic of the Congo (DRC)**;

24 Dec 2019 **Gaborone (Botswana) AfricaNews.com**. Environment, natural resources conservation and tourism ministry warns Botswana risks its reputation as a haven for wildlife after rhino poaching rose in 2019;

12 Dec 2019 **Johannesburg (South Africa) AfricaNews.com**. Former president **Ian Khama** announces plans to sue the government for defamation after a report cites him in connection with corruption allegations.

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