

AFRICA RISK CONSULTING

Botswana Monthly Briefing June 2023

Botswana Summary 7 June 2023

Negotiations continue between the government and United Kingdom-headquartered De Beers regarding their joint venture, Debswana. With the 30 June deadline looming, and no indication of resolution, there are three possible outcomes: a further postponement, a deadlock that will lead to arbitration or renewal under new terms. Annual inflation slows to its lowest rate in close to two years, reaching 7.9% in April. Easing inflation provides further room for monetary authorities to continue an accommodative monetary policy stance this year. Botswana's only iron ore mine, Ikongwe Mine, stops production on 31 May as exports become unviable due to low international prices set against high transport costs. This is a repeat of a situation that coal miner Minergy Limited faced earlier this year, highlighting challenges in diversifying the economy away from diamond mining.

Diamond debate continues as deadline approaches

As the 30 June deadline for **Botswana** and **United Kingdom**-headquartered **De Beers** to agree on a new sales and marketing deal for their joint venture **Debswana** draws closer it remains unclear what the two parties, which have been negotiating since 2018, will agree on.

President **Mokgweetsi Masisi** (2018-present) has repeatedly come out to say he will not back down on his demands for state-owned **Okavango Diamonds Company (ODC)** to have a bigger share of Debswana's production which currently stands at 25%. He reiterated his stance on 25 May and said he was willing to take the matter to arbitration if necessary, suggesting that there was a stalemate at the negotiating table.¹ While Masisi has portrayed an intense scenario, both parties were recently represented at the highest levels at the **JCK Show** held between 2 and 5 June in **Las Vegas (United States)** with observers painting a different picture, noting that things were not as intense, fuelling more talk about a potential outcome. With only 23 days left before the deadline, three possible outcomes remain:

Another extension of the sales deal to allow more negotiations

Negotiations between De Beers and Botswana have always been intense, often spanning a few years with deadlines invariably postponed or extended. What is clear in the industry is that both parties still need each other and with Masisi having come out clearly on Botswana's stance, unlike in the past where talks were done quietly, it may be prudent to give each other more time to map the best way out the gridlock, possibly another six months.

While Masisi has been quite adamant in his stance that there would be no further extension, the agreement is technically between two parties and a way of extending can always be found. Botswana cannot afford an abrupt disruption in government revenue flows as the country is living on an expansionary budget with significant expenditure in infrastructure developments and public wage bills.² De Beers, on the other hand, needs the security of supply from Botswana, where it gets 70% of its supply to meet its obligations with contracted clients (Sightholders).

De Beers' new CEO **Al Cook** has come out to say he has "great respect for what Botswana is asking for", a statement which suggests the diamond giant might be willing to make more concessions or come up

¹ [Reuters](#), 25 May 2023

² [Reuters](#), 6 Feb 2023

with new ideas on how Botswana can benefit more from its diamonds, especially around beneficiation.³ With over \$10 billion reportedly required in the next couple of years to expand the life of Debswana's key assets, **Jwaneng** and **Orapa** mines, it would be practical for the two parties to give each other a bit more time to find ways of continuing to work together on better terms.⁴ Whether the principals of the two negotiating teams will agree to another extension is still to be seen.

Deadlock and arbitration

The worst-case and most disruptive scenario not only for the two parties but for the whole industry globally would be for there to be a deadlock, requiring the case to go for arbitration. The current agreement between the two parties outlines that any dispute will be referred to **London** (UK) and would likely be heard in the **London Court of International Arbitration (LCIA)**. As mentioned, Masisi hinted on 25 May that there could be a stalemate and that there was a possibility of the issue going to arbitration:

*"Our agreement with De Beers is very restrictive to us. We signed it at a time when we didn't know much but now our eyes are open. Our agreement stipulates that if there is a dispute it would be settled under British laws. But even if we lose the litigation, our diamonds will remain ours and we will never give in. If I am going to lose votes because of this issue, then so be it."*⁵

Cases such as this are expensive and raise the possibility of both parties, including De Beers, having to publicise information that would normally remain private unless there is a strong case for keeping it private. Sources that have seen the agreement between Botswana and De Beers note that the country has a good chance of winning if the matter goes to the LCIA, but the question remains if Botswana can afford a long and expensive case that will likely disrupt the steady flow of revenues at a time when its reserves in the **Government Investment Account** are low compared to historical levels.

Bank of Botswana (central bank) figures from March 2023 show that the reserves, which historically covered up to 28 months of imports, have dwindled to only be able to cover ten months of imports.

New deal signed

For the renewal of this 54-year-old partnership, one or both parties need to make significant concessions. Apart from Masisi's demands for ODC allocation to be increased, the other issues under renegotiation are not publicly known, but media reports suggest that Botswana is also seeking greater support from De Beers in its beneficiation efforts, particularly in the diamond cutting, polishing, and jewellery industries. Reports have also hinted that Botswana wants to get involved in the exploration activities, something which De Beers currently undertakes without its partner.

Botswana has not specified how much it would like the ODC allocation to be increased, but rumours have mentioned an increase from 25% to 50%. A 25% increase would be a big knock for De Beers as it will take away as much as six million carats per year, a quarter of Debswana's annual production which has averaged 24 million carats in previous years.⁶ De Beers says it gets only 20% of the profits from Debswana and analysts believe the company will not be willing to forego as much as six million carats in sales but might be open to a 40% allocation for ODC. De Beers has also said the current round of negotiations has been made difficult as the sales deal is being renegotiated concurrently with the mining licences for Debswana. For a new deal to be signed it appears both parties will need to make some concessions, and thus far, it seems they are unable to agree on these before the 30 June deadline.

Inflation slows to a 23-month low

³ [Business Times](#), 21 May 2023

⁴ [Bloomberg](#), 23 Apr 2021

⁵ [Reuters](#), 25 May 2023

⁶ [Mining Weekly](#), 10 Mar 2023

The annual inflation rate eased to 7.9% in April, down from 9.9% in March, the lowest level in close to two years. The main contributors to the annual inflation rate in April 2023 were transport (2.7%), food & non-alcoholic beverages (2.2%), and miscellaneous goods & services (0.9%).⁷ The drop comes as the rate of interest rate increases continues to slow further reducing the scope for a reversal in the central bank's accommodative monetary policy. The central bank's **Monetary Policy Committee (MPC)**, which next sits on 15 June, has not increased interest rates since October 2022 in what now appears to be the end of the policy tightening cycle of 2022 that saw interest rates increased by a cumulative 151 basis points.

Overall inflation decreased from an average of 12.6% in the fourth quarter of 2022 to an average of 9.4% in the first quarter of 2023 with the central bank saying in April that the outlook for the year is now more favourable than the projections made in February.

The decrease in inflation is due to the base effects associated with the increase in administered prices in 2022 as well as the impact of the downward adjustment of domestic fuel prices in the first quarter of 2023. The central bank projects that, while it will fluctuate, inflation will trend downwards and fall within the 3-6% objective range in the second quarter of 2024.

However, risks remain of capital outflows from Botswana emanating from the accommodative monetary policy at a time when its main trading partner, **South Africa** is on a policy tightening path.⁸ The **South African Reserve Bank (SARB)** (central bank) raised its repo rate by 50 basis points on 25 May to a 14-year high of 8.25%, making it the tenth hike since November 2021.⁹

Iron ore suffers the same fate as coal as global prices fall

The sharp drop in iron ore prices on the global market has forced Botswana's only operating mine, **Ikongwe Mine** to stop production on 31 May as the low prices coupled with the high logistics costs from landlocked Botswana have made exports unviable.¹⁰ The mine, owned by **Botswana**-registered **Vision Ridge Investments**, a unit of India's **Yashomann Industries**, started production in 2021 when prices were as high as \$240 per tonne on the international market, but prices have since fallen to under \$100 per tonne as demand for steel from the **Chinese** property market continues to be volatile. Ikongwe can produce one million tonnes of iron ore per year over an initial 10-year lifespan. Endowed with a high grade of up to 65%, Ikongwe made its first shipments to **China** in September 2021 contributing to the country's efforts to reduce its reliance on diamonds.

The halt of production by Ikongwe mirrors what happened to coal miner **Minergy Limited**, which was forced to halt production at its **Masama Coal Mine** in March due to a sharp drop in global coal prices, a situation which was also exacerbated by the high costs of transport from Botswana to the ports.¹¹ Due to strong demand from mostly **Europe**, where the **Russia-Ukraine** war sparked an energy crisis, Minergy's exports jumped 53% in the six months to December 2022. However, the company said in April that coal prices had dropped by about 33% since December putting the sales and revenues under pressure.

Statistics Botswana's quarterly data indicates coal exports dropped to P166m (\$12.5m) in the first quarter of the year from P212m (\$15.9m) in the fourth quarter of 2022. Copper exports rose in the period as the **Khoemacau Copper mine** ramped up production with exports rising to P1.42 billion (\$106m) in the first quarter of the year from P1.25 billion (\$94m) in the previous period. The rise in copper exports will help to cushion the fall in iron ore and coal exports, with diamonds still the dominant foreign exchange earner.

⁷ Statistics Botswana

⁸ [Sunday Standard](#), 31 May 2023

⁹ [Reuters](#), 25 May 2023

¹⁰ [Reuters](#), 31 May 2023

¹¹ [Mmegi](#), 7 Mar 2023

Planner

15 Jun **Gaborone (Botswana)** Monetary Policy Committee (MPC) meeting
 Jun 2023 **Gaborone (Botswana)** End of current **De Beers**-government diamond sales deal;
 11 – 14 Jul 2023 **Gaborone (Botswana)** 15th **United States-Africa** Business Summit;
 Nov 2023 **Gaborone (Botswana)** 2023/24 supplementary budget
 Feb 2024 **Gaborone (Botswana)** 2024/25 national budget
 2024 **(Botswana)** Presidential elections.

Chronology

5 Jun 2023 **Gaborone (Botswana)** *Mmegi*. **United Kingdom**-headquartered **De Beers** opens its blockchain diamond traceability platform **Tracr** to the broader industry, providing sector-wide provenance as the industry fights to distinguish ethically sourced stones from the **Russian** production still flowing into the global market despite sanctions;

2 Jun 2023 **Gaborone (Botswana)** *Mmegi*. Opposition parties, **Botswana Congress Party (BCP)**, **Umbrella for Democratic Change** and the **Alliance for Progressives (AP)** call on president **Mokgweetsi Masisi** to tread carefully in ongoing negotiations with **United Kingdom**-headquartered **De Beers** and not risk throwing the country into chaos;

2 June 2023 **Gaborone (Botswana)** *The Monitor*. New established local diamond and polishing firm **KGK Diamonds** exports its first jewellery to the **United States** market under the **African Growth and Opportunities Act (AGOA)**, marking a rare utilisation of the trade deal by a local company;

31 May 2023 **Gaborone (Botswana)** *Sunday Standard*. President **Mokgweetsi Masisi** terminates the employment contract of **Tymon Katlholo**, the suspended director general of the **Directorate on Corruption and Economic Crime (DCEC)**;

31 May 2023 **Gaborone (Botswana)** *Daily News*. President **Mokgweetsi Masisi** issues a writ of elections for the **Serowe West** constituency rendered vacant by the disqualification of the then member of parliament, **Tshekedi Khama**. Khama was disqualified from parliament after missing two consecutive sittings following his relocation to **South Africa** to join his brother former president **Ian Khama** who is in self-imposed exile;

28 May 2023 **Gaborone (Botswana)** *Sunday Standard*. Former president **Ian Khama**'s extradition from **South Africa** will be determined by his political connections instead of through a judicial process after he lost a high court bid to have a magistrate in South Africa consider whether the criminal charges he is facing in **Botswana** are trumped up;

25 May 2023 **Gaborone (Botswana)** *Weekend post*. **Khoemacau Copper Mining**, Botswana's only fully operating copper mine, confirms that its owners have commenced a process to engage with potential buyers of their interests;

25 May 2023 **Gaborone (Botswana)** *Reuters*. **Australia**-listed **Sandfire Resources** has produced the first copper concentrate at its new **Motheo Copper Mine** in the **Kalahari Copper Belt** with inaugural shipments expected in the middle of this year;

23 May **Gaborone (Botswana)** *BSE Xnews*. **Minergy Limited**, owners of Botswana's only privately operating coal mine, announce they have received funding from state-owned **Minerals Development Company Botswana (Pty) Ltd** which will allow them to initially continue operations in a reduced sales environment. Minergy stopped operation in March at **Masama**

coal mine after its mining contractor, **Jarcon Limited** down tools over non-payments of mining fees;

22 May 2023 **Gaborone (Botswana)** *Sunday Standard*. State-owned national oil company **Botswana Oil** indicates that plans are underway to secure a partner to undertake a multi-billion coal-to-liquids project in 2025. The project will be a Public Private Partnership (PPP) project for the development of a coal-to-liquids facility and a coal-to-liquids business, producing petroleum products primarily for the local market, and other downstream products;

22 May 2023 **Gaborone (Botswana)** *Sunday Standard*. **United Kingdom**-headquartered **De Beers** reports that the value of rough diamonds sold in the fourth sales cycle of the year was \$480m, down from the \$542m earned in the third sales cycle held in April. The latest provisional sales figure is also lower than the \$604m earned in the fourth sales cycle of 2022;

22 May 2023 **Gaborone (Botswana)** *Sunday Standard*. **Botswana Power Corporation (BPC)** institutes rotational load shedding, just two weeks after a nationwide power cut, to manage the forced outage on **Morupule B's Unit 4** which was caused by a boiler tube leak;

19 May 2023 **Gaborone (Botswana)** *Mmegi*. Company officials from **Belgian** gem processor **HB Antwerp** say the deal for Botswana to buy a 24% stake in the company is imminent with the two parties expected to sign the agreement soon;

12 May 2023 **Gaborone (Botswana)** *Mining Weekly*. **Canadian**-headquartered **Lucara Diamonds** reports revenue was lower at \$42.8m in the first quarter of the year, compared with \$68.2m generated in the first quarter of last year, owing to a change in ore mix processed and diamond pricing weakness amid global economic and geopolitical uncertainty;

10 May 2023 **Gaborone (Botswana)** *Mmegi*. Botswana signs a memorandum of understanding (MOU) with the **Democratic Republic of Congo's (DRC)** national investment promotion arm during the recent **Botswana-DRC Business Forum** that was held on the margins of DRC president **Felix Tshisekedi's** inaugural state visit to the country. The MoU aims to explore business opportunities and strengthen economic ties between the two countries;

9 May 2023 **Gaborone (Botswana)** *Daily News*. **Botswana Power Corporation (BPC)** apologises for a countrywide electricity blackout that plunged the nation into unexpected load-shedding caused by a "grid disturbance" which knocked out both **Morupule A and B** power plants and a transmission line connecting **Botswana** to **South Africa**.

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