



# **A Political Risk Analysis of Botswana**

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By

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Tertius Mynhardt Jacobs

## DECLARATION

I, Tertius Mynhardt Jacobs, declare that the Master's Degree research thesis that I herewith submit for the Master's Degree qualification Specialising in Political Science at the University of the Free State is my independent work, that I have acknowledged all my sources and that I have not previously submitted it for a qualification at another institution of higher education.

I further declare that I am aware that the copyright is vested in the University of the Free State.

I also declare that all royalties as regards intellectual property that was developed during the course of and/or in connection with the study at the University of the Free State, will accrue to the University.

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## Table of Abbreviations

ANC	African National Congress
BAM	Botswana Alliance Movement
BCP	Botswana Congress Party
BDF	Botswana Defence Force
BDP	Botswana Democratic Party
BERI	Business Environment Risk Intelligence
BFTU	Botswana Federation of Trade Unions
BMD	Botswana Movement for Democracy
BNF	Botswana National Front
BPC	Botswana Power Corporation
BPP	Botswana Peoples Party
BR	Botswana Railways
CKGR	Central Kalahari Game Reserve
CRA	Country risk analysis
DISS	Directorate on Intelligence and Security Services
EDD	Economic Diversification Drive
EIU	Economist Intelligence Unit
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FDI	Foreign direct investment
GTI	Global Terrorism Index
HHI	Herfindahl Hirschman Index
ICJ	International Court of Justice
ICRG	International Country Risk Guide

IIAG	Ibrahim Index of African Governance
PPP	Public Private Partnerships
PRS	Political Risk Service
RMB	Rand Merchant Bank
SACU	South African Customs Union
SADC	Southern African Development Community
UDC	Umbrella for Democratic Change
UK	United Kingdom
WHO	World Health Organisation

## **CHAPTER 1 : General introduction and orientation**

Venter (2005:28) introduces the concept of political risk strikingly with the following statement by Dr PJ Haasbroek, former chief economist of Barlow World: “Money is cowardly, it looks for safety and safety means certainty, transparency and stability”. This being said, Africa, political risk, and uncertainty are three concepts that seem to go hand in hand in the scholarly literature. Conflict, terrorism, poverty, exploitation, corruption, resource dependence and authoritarianism are but a few of the key problems posing challenges to African countries. Although these are significant challenges to governance, they also translate into political risk factors that are crucial to foreign investors. After all, any investment relies on the assurance, or at least probable assurance, of returns and freedom of predictable threats (Brink, 2004:1). Instability and uncertainty create an untrustworthy and unpredictable environment, which deters investment. Political risk analysis, which is basically an in-depth assessment of relevant risk factors, chiefly politico-economic in nature, attempts to examine the issue of uncertainty in troubled states. Political risk analysis also aids in reducing uncertainty by creating possible future scenarios. In essence, political risk analysis attempts to identify the measure of uncertainty over the possible political risks by highlighting key problem areas in countries riddled with political risks.

As much as the African continent is generally associated with high levels of uncertainty and risk, Brink (2004:40) rightly points out: “[I]t would be false to assume that all developing countries or emerging economies pose high-risk investment environments ... there are developing countries that pose medium or even low-risk environments”. In Southern Africa, Botswana has always been known as one of Africa’s most stable countries. From an international perspective, Botswana is, in fact, perceived as the continent’s longest continuous multi-party democracy and relatively free of corruption, and presides over a good human rights record. This landlocked country is often referred to as “the great success story of post-independence Africa” (Acemoglu, Johnson & Robinson, 2001:9; De Beers, 2015:17; Throup, 2011:1). Botswana has come a long way since independence in 1966, both politically and economically. Since independence, Botswana’s political conditions have been stable with the Botswana Democratic Party (BDP) being in power since independence (BBC News, 2017). As far as the country’s stability is concerned, it is often suggested that Botswana’s first

post-independence president, Sir Seretse Khama, and the invaluable political institutions of the Tswana people are the two key factors in Botswana's effective government institutions and enduring political stability (Acemoglu et al, 2001).

In addition to the above, the diamond industry in Botswana is of significance and importance to the country's economic performance. Shortly after independence, in the late 1960s, an immense diamond mine was discovered in the remote area of Orapa, approximately 400 kilometres from Gaborone (Nocera, 2008). In 1975, it became clear that the newly-discovered diamond mines in Botswana were highly productive, which led to Botswana renegotiating its diamond mining agreement with De Beers. The outcome provided Botswana with a 50% share of diamond profits (Acemoglu et al, 2001:17), a key factor in its politico-economic landscape and overall prosperity. Yet, given the Botswana economy's dependence on diamonds, recent figures indicate a struggling real gross domestic product (real GDP) growth rate of 2.2% in 2017 due to low commodity prices. This was, however, predicted to change in 2018 with an estimated 4.6% growth rate (IMF DataMapper, 2018). Over the years Botswana's growth rate has shown little to no consistency, constantly changing with the tides of commodity prices, signifying a worrisome vulnerability to external shocks.

In 2016, Botswana celebrated 50 years of independence and political stability, but a calm surface may conceal an unruly undercurrent. In this regard, Von Meijenfeldt (2016), from a domestic perspective, refers to a few key 'areas of uncertainty' in Botswana. First, in quantitative terms, at least 20% of its economy rests upon the diamond industry. Although Botswana made great strides and agreements from which it benefits handsomely, diamonds are a finite commodity and it is estimated that Botswana's diamond reserves will be exhausted by 2050 (African News Agency, 2016b). Second, amid a catastrophic drought, Botswana faces a serious water crisis that has already influenced various sectors such as its agricultural sector (eNCA, 2016c), and threatened urban and economic development already years in the making (Von Meijenfeldt, 2016). Furthermore, being dependent on its neighbours for electricity and not having the most stable and economically promising neighbourhood, Botswana is also experiencing a significant electricity shortage that is further hampering development and infrastructure. Third, wildlife conservation laws (Vidal, 2016) and a water dispute in which San people are coerced into evacuating lands rich in diamonds

(Simpson, 2013), amount to a society in which minorities appear to be severely oppressed in the larger hunger for diamonds, a bad mark for democracy and 'political stability' in Botswana. Finally, reports of repression against dissenting voices and critical thinking in the media, academic institutions and civil society are also on the rise, creating a society that seems to fear the state (Von Meijenfeldt, 2016). Thus, Botswana is not divorced or insulated from political risk and the question is which current, temporary and prevalent conditions and events in Botswana's politico-economic and social landscape represent general or particular risks to both the political and economic stability of the country.

## **1.1 Problem statement and research question**

According to Brink (2004:1), "[f]oreign investment projects are subject to the sovereignty of the host country in which they are active". In other words, foreign investments are susceptible to the politics of the state in which they operate. They can either be protected by an effective constitution or be at the mercy of a threatening government. In a country such as the Democratic Republic of the Congo, with various rebel groups, child labourers and political instability, political risks are obviously high. At any given time, rebel groups can overthrow the ruling government and install their own regime, possibly to the detriment of certain investments. Another case in point is South Sudan with its oil riches but extensive civil conflict. The main investors in South Sudan's oil industry, China National Petroleum Company, Malaysia's state-run oil and gas firm Petronas and India's ONGC Videsh (Hourelid, 2017), all operate knowing that political risks such as ethnic violence, inaccessible infrastructure and terror attacks (Clements, 2017) may significantly influence returns on their investments in South Sudan. In the Niger Delta in Nigeria, dissent was expressed by sabotaging oil pipes and other parts of the oil refinery infrastructure, the kidnapping of oil workers, demonstrations and oil theft (Moen & Lambrechts, 2013:91). These types of actions compelled multinational companies to not only analyse the political risks of the region, but to also create mitigation strategies to help curb the impact of these risks.

On the opposite side of the political risk spectrum, a country such as New Zealand entails extremely low political risks. The future political scene is relatively predictable

and investors can be reasonably certain that their investments are in no way threatened by political issues.

Credit rating agencies and forecasting services such as the Economist Intelligence Unit (EIU) (The Economist Intelligence Unit, 2017), the Political Risk Services (PRS) Group (The PRS Group, 2017b) and its International Country Risk Guide (ICRG) (The PRS Group, 2016), and Moody's Investors Service (Moody's, 2017) all indicate an extremely favourable political risk rating for Botswana, which is on par with developed countries such as the United States of America (USA), the United Kingdom (UK) and Germany. Overall, these agencies and services view Botswana in a positive light and argue that political stability will endure despite competition and economic challenges (The Economist Intelligence Unit, 2017).

However, as indicated above, despite the aggregate view of overall stability and limited risks to investment, various 'under the radar' events have been reported that may all contribute to future political risks, or at the very least, be detrimental to certain foreign investments. These include:

- authoritarian tendencies within the BDP's 50-year rule and an over dependence on Botswana's diamond industry (Poteete, 2014a)
- friction and uncertainty between the BDP and a coalition of Botswana's four main opposition parties seeking to challenge the BDP's stale governance (Reuters, 2017a)
- a countrywide state of disastrous drought in 2015/16 (eNCA, 2016a) which resulted in electricity shortages in 2016, causing the economy to contract by 0.8% in the third quarter of 2016 (Luedi, 2017)
- a new developing trend of synthetic diamonds that are proving to be a significant threat to diamond mining, and ultimately to the whole pillar of diamond dependence that supports Botswana's economy (Botswana Guardian, 2015).

As much as Botswana is a seemingly stable country, it must be argued from a political risk analysis perspective that the dynamics of any country should be frequently examined, and assessments should be updated continuously to provide clients with the latest, most updated and thorough political risk analyses (Brink, 2004:11). New

developments and less salient issues should be examined and considered, which implies and requires frequent analyses regardless of seeming stability and creditworthiness.

Against a backdrop of the aforementioned problem statement, the following research question can be posed:

*Which contemporary conditions, events and role players in Botswana's political, economic and social landscapes potentially present general or particular risks to both the political and economic stability of the country?*

## **1.2 Aim of the study**

In order to attempt any political risk analysis, a model must first be chosen or constructed. To this end, the model and indicators used in the scholarly work of Prof. Albert Venter (1999) are of particular utility for this study. Despite his focus on authoritarian states, the composition of his model, regarding the specific political risk indicators, serves as a simple yet elegant model of political risk that should serve to highlight key political risks for foreign investors. Therefore, this study uses the indicators in Venter's framework with specific reference to current political risks for Botswana.

Most recent scholarly political risk analyses in South Africa on African states tend to focus on countries where high levels of political uncertainty or risk are the order of the day, such as Fouché's (2003) analysis of Uganda, Venter's (2005) analysis of political risk in South Africa, Bjelland's (2012) assessment of Libya, Moen and Lambrechts' (2013) study on the Niger Delta in Nigeria, Barnard and Croucamp's (2015) political risk assessment of South Africa, and Neethling's (2016) refreshed article on South Africa. This study focuses on Botswana as a country known for its political stability and impeccable political institutions, bringing a refreshing and somewhat different perspective to the study of political risk analysis in the (southern) African context. Various factors are considered, weighing the seeming stability of Botswana against the political risk indicators identified. This is done by using Venter's (1999) work, reinforced by two additional indicators to address the specific case of Botswana.

In view of the above, the objectives of the study are to:

- provide a comprehensive political risk assessment of Botswana, focusing on all (11) relevant different political, economic and social indicators;
- discuss the most likely political risk scenarios investors can expect in the foreseeable future in Botswana.

### **1.3 Significance of the study**

As stated earlier, one may wonder why a political risk analysis should be conducted in relation to an African country known for its political stability and limited politico-economic problems on a continent riddled with major political, economic and social challenges. Brink (2004:7) deems it important to challenge the notion that political risks are “narrowly regarded as being the nemesis of only emerging economies”. A low-risk environment may in truth pose a risk in itself – certain political, economic or social factors may not be present to infringe on profits, but heightened market competition in saturated markets and more investors willing to lend or invest money may also influence returns (Brink, 2004:9).

In a geopolitical context (see Figure 1.1), Botswana is a landlocked country, with a historically troubled Zimbabwe to the east and the politically problematic South Africa to the south. To Botswana’s west is Namibia, both significantly dependent on South Africa’s stability and with a mixture of its own political challenges (Cloete, 2017; Nyaungwa, 2017). Finally, to the north (in very small part) is Zambia, another landlocked African country dependent on a single commodity (in this case copper) (Mills, 2015), but with much less political stability than Botswana (Allison, 2017).

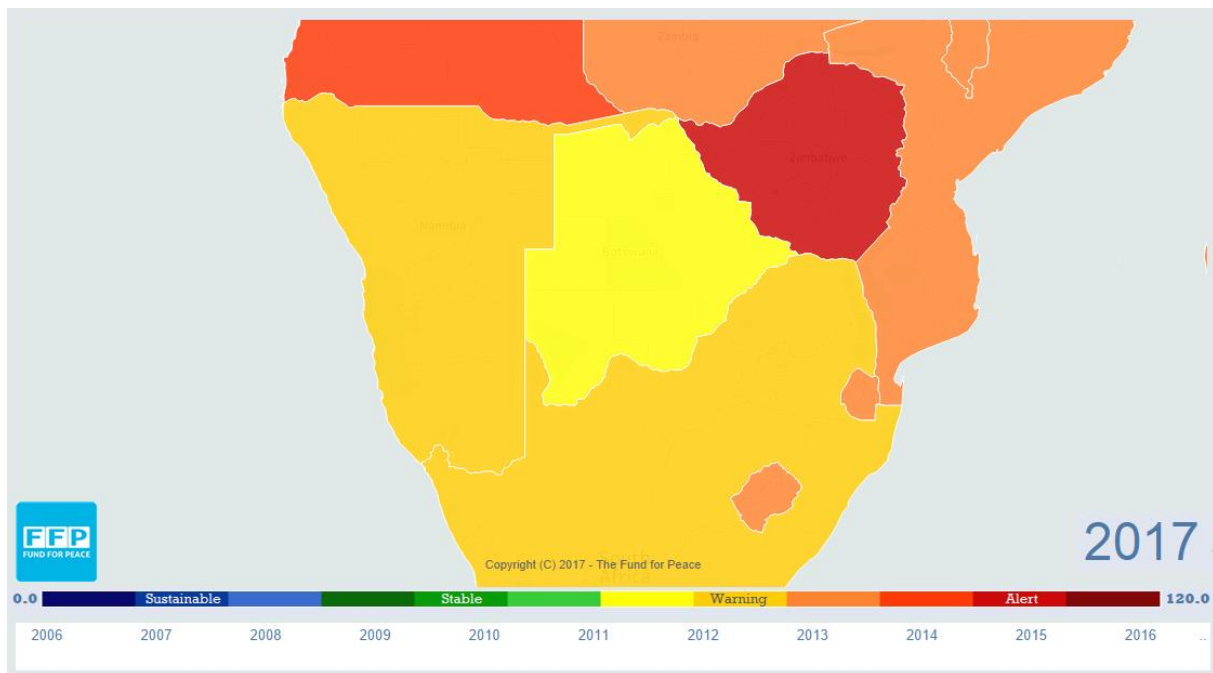


Figure 1.1: Botswana's geopolitical position (Fund for Peace, 2017)

Botswana, despite itself being stable and prosperous, finds itself amid a neighbourhood riddled with politico-economic problems; a neighbourhood Botswana has to depend on for trade and the transport of imports and exports. Various underlying problems are surfacing, as noted earlier, most of them of little importance as standalone factors, but collectively they pose a potential risk to the future stability of Botswana. This study draws its significance from the belief that political risk analyses should be regularly conducted on all countries, regardless of a seemingly stable and prosperous political economy. This study is of the opinion that political risk analysis is not a singular assessment but should be an everlasting scrutiny of states.

### 1.3.1 Political risk analysis

In contemporary times, globalisation has made the world a much smaller place, but at the same time much more complex. In this complexity, markets become more multifaceted and are increasingly more susceptible to an array of influences, a crucial influence being political factors. To this extent, political risk analysis attempts to reduce the uncertainty of these factors by analysing the possible influences and creating possible scenarios on which foreign investors and corporations can build their judgement. The practice of political risk analysis is thus critical to all considerations of foreign investment or expansion of multinational corporations (MNCs).

### **1.3.2 Political risk indicators**

This study builds on the work of Venter (1999) and the risk indicators used in his research. However, Botswana represents a unique case of stability and therefore two additional indicators, as used by Brink (2004) (further discussed under 1.4), serve to examine Botswana as a specific case. The chosen model as well as the contributing indicators have been specifically chosen to ensure that the entire spectrum of political, economic and social factors in Botswana are covered and that all aspects that might be relevant to an understanding of the 'bigger picture' are examined. In other words, the use of Venter's model intends to provide an objective analysis and assessment of the case of Botswana in general, whereas the contributing factors intend to address some of the more country-specific matters relating to Botswana as a unique case.

### **1.3.3 Case study: Botswana**

In the final instance, Botswana was chosen as a case study for two main reasons. First, Botswana is a country dependent on a single commodity, yet without a resource curse. In other words, Botswana presents a potential weakness in terms of its dependence, but a strength in terms of the government's ability to regulate the benefits of the commodity, suggesting a healthy political landscape. Second, as mentioned before, this study aims to apply the political risk analysis to a stable country in order to prove the significance of regular analysis. For this reason, Botswana is of significant interest due to its uncontroversial politico-economic landscape, yet interesting geopolitical position.

## **1.4 Methodology and outline of political risk indicators**

The nature of this study corresponds with a descriptive and qualitative study, with the main unit of analysis being Botswana, congruous with a predominantly state-centric level of analysis. A comparative study is not applicable to the nature and purpose of this study and is, therefore, not adopted. Furthermore, the study is executed in a historical-descriptive and analytical manner, based on a literature study and factual data sources. Although a distinction is drawn between an inductive and deductive

approach, this study will capitalise on the fusion of both, approaching the analytical framework deductively and the factual information inductively.

A unit of analysis can be defined as those units initially described for the ultimate purpose of aggregating their characteristics in order to describe or explain an abstract phenomenon (Babbie, 1983: 76). For this reason, the study draws its prospective evaluation from the political risk analysis of Botswana in reaching its conclusion.

Descriptive research involves the scientific observation, precise measurement and reporting of the characteristics of the phenomenon or event under study (Babbie, 1983: 75, 98). This study represents descriptive research as it intends to observe and measure the political risks within the political economy of Botswana and, accordingly, reports on the risks by means of a conventional political risk analysis.

Qualitative research entails the non-numerical examination and interpretation of observations for the purpose of discovering underlying meanings and patterns of relationships (Babbie, 2015: 382), and collecting information in depth but from a relatively small number of cases (Burnham et al, 2008: 40). Quantitative research often falls victim to focusing on the logistics of data collection for a statistical analysis and losing sight of theory over time. With qualitative research this is not as likely, as data collection, analysis and theory are more closely intertwined. Regardless, the research approach should generate the most applicable results to the current study and, to research the current events comprising this study, knowledge should precede practice. In other words, an understanding of the subject should come before engaging the research (Babbie, 2015: 382). In light of the aforementioned, a qualitative study that consists of written academic literature is most applicable to the study, as patterns of behaviour and influence are effectively represented in such academic documents. With the method in which the model for political risk analysis is comprised and applied in this study, this study accedes to a qualitative study.

Neuman (2012:32-34) distinguishes between deductive and inductive approaches. The deductive approach entails testing ideas and concepts against hard data in the real world, thus starting with an abstract relationship between concepts working towards the creation of empirical evidence (Neuman, 2012:32). On the other hand, the inductive approach starts off with detailed empirical observations and strives towards

abstract generalisations (Neuman, 2012:33). In this particular study, the model for the political risk analysis is drawn from the work of Venter (1999) and contributing indicators from Brink (2004), representing a deductive approach. However, applying the model requires an inductive approach to analyse detailed events and phenomena in the case study and build towards the general political risk evaluation.

Finally, this study is largely based on a literature review to search for valid ground in relation to research findings. The literature review serves to indicate where this specific study fits into the bigger picture of research on the subject as well as point to general similarities and differences to previous research in a comparative political science context. In essence, it serves a bibliographic function, indexing previous research on this topic (Babbie, 1983: 481). To perform this role, this research study uses secondary sources such as books, academic journal articles, newspaper reports, internet websites and other reports. As far as possible, it also uses primary sources such as speeches, interviews and official records. However, it should be noted that in cases where primary data may be limited, the study will make use of updated reports by reputable sources.

In the Southern African scholarly context, the work by Venter (1999 & 2005) has been especially noteworthy and directional. Venter's (1999) model represents a synthesis of the Business Environment Risk Intelligence (BERI), the PRS, and the EIU models vested in the work by Howell and Chaddick (1994). Venter built on Howell and Chaddick's work by considering their findings regarding the predictive power of the three political risk models and suggesting that they can be fused, resulting in his model.

Venter (1999:80-83) used the following indicators for his research and political analyses: *bad neighbours / regional political forces / dependence on hostile neighbouring power, Islamic fundamentalism / radical religious forces; authoritarianism / undemocratic measures to retain power / generals in power, staleness, uncertain leadership succession (long leadership); ethnic/religious/racial tensions; war, armed insurrection, instability and non-constitutional changes; societal conflict, deep ideological cleavages; rapid urbanisation, social conditions, population explosion; and macro-economic circumstances of the host state.* This study is mainly premised on Venter's synthesis of Howell and Chaddick's work, and accordingly, structure a similar model of analysis. However, as mentioned, Botswana does present a unique case

study. For this reason, two additional indicators are drawn from the work by Brink (2004:105; 108): *preservation of resources* and *vulnerability spread*.

The purpose of the chosen model and the relevant indicators is to produce an appropriate and in-depth political risk analysis of Botswana, examine all relevant political risks and provide a comprehensive political risk assessment of Botswana.

## **1.5 Literature review**

The nature and scope of any political risk analysis require the use of the widest possible spectrum of literature. This section provides an overview of key literature and data sources on which this study will be constructed. To simplify the significance and purpose of the chosen sources, the literature review can be divided into three subsections.

### **1.5.1 Political risk analysis: Conceptual orientation**

The origins, and therefore the true nature, of political risk analysis are drawn from the thorough work by Guy and Kamga: *Political risk and foreign direct investment* (1998). To support this concept, Brink's *Measuring political risk* (2004) and McKellar's *A short guide to political risk* (2010) will serve as the underlying guide to defining and explaining uncertainty, political risk and political risk analysis. In Brink's work, extensive discussions are presented to thoroughly explain these concepts, as well as a multitude of related factors to bear in mind in the course of any political risk study. In addition to Brink's conceptualisations, Jarvis' *Conceptualizing, analyzing and measuring political risk: The evolution of theory and method* (2008) provides a wider spectrum of possible definitions and approaches to political risk analysis, with detailed discussions about the drawbacks and advantages of each approach. Both Brink and Jarvis contribute extensively to the conceptual orientation of this study. Jarvis' article is not limited to a combination of definitions, but also sets out to provide a theoretical foundation for political risk studies. Simon's *A theoretical perspective on political risk* (1984) likewise contributes significantly to the theory behind political risk analysis and, combined with Jarvis' article, contributes to the theoretical framework of this study. Finally, articles such as Croucamp and Malan's *Political risk assessment for South Africa with*

reference to the public discourse on the nationalisation of mines (2011) and Bremmer's *How to calculate political risk* (2007) is used to contribute to the ideas and views behind the concept of political risk analysis.

### **1.5.2 A model for political risk analysis**

Venter's *The 1998 fall of Suharto: A vindication of key political risk indicators?* (1999), as well as his *A comment on current political risks for South Africa* (2005), in which he expounds his model for political risk analysis, will form the foundation of this study. In his turn, Venter builds on Howell and Chaddick's *Models of political risk for foreign investment and trade: An assessment of three approaches* (1994). Therefore, to fully grasp Venter's model, an outline of Howell and Chaddick's work is necessary. This study elaborates on Howell and Chaddick's work to build up to the motivation behind Venter's model and the use of his work in this study. For the contributing risk indicators, Brink's (2004) work is again consulted. Furthermore, the works by Fouché (2003), Bjelland (2012), Du Toit (2013) and Neethling (2016) are used to acquaint the researcher with political risk studies and enjoys brief references throughout the study. Additional studies of significance for this aspect of the study include Moen and Lambrechts' *Managing political risk: Corporate social responsibility as a risk mitigation tool – A focus on the Niger Delta, Southern Nigeria* (2013), Bischoff and Lambrechts' *The regional impact of political risk: The conflict in the Niger Delta and the political risk of the Gulf of Guinea* (2010), and finally, Nel's *The predictive power of political risk forecast models: An empirical analysis* (2009).

### **1.5.3 Case study: Botswana**

For the purpose of the case study, a wide variety of sources is used. To start, Acemoglu et al's *An African success story: Botswana* (2001) serves as the foundation for an overview on the historical background. The contemporary case of Botswana is put into context by Bloomberg News (2015), Cohen (2015), Luedi (2017), KPMG (2014), Poteete (2014a) and Throup (2011). Additionally, data sources such as the IMF DataMapper, The World Bank and the Government of Botswana's website are also consulted.

## 1.6 Research outline

This study follows a conventional structure: An introduction and theoretical framework is followed by the body and closed by a concluding section. In line with this, the first chapter introduces the reader to the ‘what?’ (background), the ‘how?’ (methodology), and the ‘why?’ (significance and objectives) of the study, laying the foundation for the rest of the study.

The second chapter provides conceptual clarity on political risk, political risk analysis and concepts related to these overarching concepts. Furthermore, Chapter 2 provides the theoretical foundation for the study, examining Venter’s (1999) model as well as the additional indicators mentioned above, thereby explaining the different political, economic and social indicators used in this political risk analysis on Botswana. This section aims to not only promote objectivity in the analysis, but also to limit any ambiguity or obscurity.

The purpose of the third chapter is to provide context to the case of Botswana, paying attention to the various aspects that comprise the state of Botswana. Structurally, this chapter provides a brief historical background of Botswana’s politico-economic landscape, along with an overview of the country’s contemporary political, economic and societal landscapes. In doing so, the contemporary dynamics of events and significant role players will be examined with a view to providing information relating to the indicators outlined in Chapter 2.

The content of the second and third chapters provide the foundation for the political risk analysis of Botswana that is conducted in chapter four. The model and risk indicators explained in Chapter 2 will thus be applied to evaluate the different facets of Botswana’s politico-economic and social composition. Following the conventions of previous studies on political risk, a score will be allocated to the different indicators, specifically relating to the relevant political, economic and social indicators, in conducting an assessment of contemporary political risk in Botswana.

Finally, the fifth chapter will serve as the summary and conclusion. All key findings of the study will be summarised and evaluated to address the research question and formulate viable and academically sound conclusions on political risk in Botswana.

## **1.7 Conclusion**

Botswana may appear to be an unusual unit of analysis in a political risk analysis in view of the fact that the country seems to present limited political risks in comparison to the overwhelming majority of African states. Political risk scholars tend not to look too critically at prospering countries as these usually fail to provide interesting political risk studies. However, to effectively demonstrate the utility and relevance of political risk analysis it is crucial to veer away from so-called problematic countries towards countries with good reputations and investment profiles. Should political risk analysis identify political risks in a prosperous country then it becomes evident that political risk analysis is of value regardless of a country's reputation. This study is premised in the last mentioned. Therefore, in pursuit of demonstrating the utility of political risk analysis as an instrument of scholarly value, this study sets out to conduct a political risk analysis of Botswana.

## **CHAPTER 2 : Concept and framework of political risk analysis**

“[W]hen a[n] MN[C] invests in a given country, it enters the world of that country.” This quote by Simon (1984:127) points to the differing risks an investor might encounter in different environments, depending on the political, social and economic circumstances. Naturally, differing environments and risks require a thorough assessment specifically catering for the politico-economic environment in question. In such cases, investors often opt for a political risk analysis to highlight the risks to their returns.

Barnard and Croucamp (2015:1) suggest that political risk differs from economic and financial risks and variables due to it being difficult to quantify and is challenged by subjectivity. They also emphasise that risk indicator scores are essentially based on qualitative judgements and research. Regardless, there has always been a relationship between business and politics, and a high regard for this relationship promotes a better understanding of the risks involved in a specific situation (Brink, 2004:4). Furthermore, it is generally accepted that political phenomena and economic trends are too integrated to be assessed independently. For this reason, it is often assumed that social stability should outrank a competitive economy, prospects for growth and employment creation. Political (in)stability under verifiable conditions, however, may not truly undermine foreign direct investment (FDI), the prospects for growth in both the formal and informal economy, the extractive capacities of the state or the legitimate (re)distributive regime of the government (Croucamp & Malan, 2011:156).

In light of the aforementioned, some assessment is required to determine the extent to which political (in)stability and social (in)stability might influence FDI. Several frameworks for the analysis of political risk exist and, although various analysts and scholars have proposed their own models, generally these frameworks contain more or less the same core. Therefore, to best capture the crux of political risk analysis, a synthesis of some sort is required. As previously mentioned, Venter’s (1999) work is a synthesis of Howell and Chaddick’s (1994) examination of three models of political risk analysis. By combining the three models, Venter was able to compile a model of his own that focuses specifically on the overlapping, or generic, risk indicators that are crucial to any political risk assessment.

This chapter sets out to bring definitional clarity to political risk analysis, as well as a few related concepts such as uncertainty and political risks. Furthermore, a brief theoretical orientation is discussed to provide the study with a sound academic foundation. Lastly, this chapter critically examines Venter's risk analysis model with the aim of constructing a model that specifically caters to the case of Botswana, and which would facilitate a reliable and valid study of Botswana. The end of this chapter provides the study with a model of political risk analysis that can be applied to the case of Botswana and in doing so, address the problem statement and answer the research question.

## **2.1 Defining key terminology**

In any study, certain key concepts and terminology are of importance. For example, the term 'good governance', which is a term often used in the commending of Botswana, needs to be clarified to ensure that the reader fully grasps what the author intends when referring to this concept. To this extent, one should first understand the concept of 'governance', which the United Nations (2009:1) defines as:

the process of decision-making and the process by which decisions are implemented (or not implemented).

The United Nations (2009:1) also continues by stating that their definition of good governance includes eight key characteristics. It follows the rule of law and is equitable and inclusive, effective and efficient, responsive, transparent, accountable, consensus oriented, and participatory. In sum, good governance entails the governance of a country in such a way that major conflicts and risks are avoided or mitigated, government promotes economic growth and democratic principles, corruption is kept at bay, and a high value is placed on human rights.

In the sections below, a number of additional key terms are clarified and discussed to provide definitional clarity and to inform the reader of the different intended meanings attached to the concepts used in this study.

### 2.1.1 Uncertainty and risk

Sottiolotta (2013:23) holds that ultimately, “the probability of a harmful event derives from a judgement that converts political uncertainty into political risk”. In other words, the analyst or investigator is responsible for transforming an abstract issue or factor in society into a quantifiable indicator of political risk, in essence turning an *uncertainty* into a *risk*. Uncertainty is defined as a condition in which one cannot determine the probability of an event and, therefore, is unable to conclude on a way of insuring against such an occurrence (Van Wyk, 2010:110).

Risk, on the other hand, exists when analysts, decision makers, or investigators have more or less “perfect knowledge of all possible outcomes associated with an event and the probability distribution of their occurrence” (Vertzberger, 1998:19-20). For this reason, risk is associated with specific aspects or indicators that can be assessed to provide a forecast based on probability and predictability.

An elaborated discussion is provided by McKellar (2010:3-4), who defines risk as a “potential event or condition which, if realised, would cause harm or damage to a business”. According to McKellar, the concept of risk can be further explained through three common errors in its interpretation. First, it is common to forget that the two measures of risk, probability and impact, are independent. This suggests that even though an event is inevitable, it does not necessarily entail a severe risk unless the impact itself would be severe. The same applies in a case where the impact may be severe, but the probability of the event proves to be insignificant. A second error would be to associate uncertainty with a low probability. If you are not informed about an event and its probability, the safest bet is a 50/50 probability estimate, meaning there is an equal chance of the event happening as not. Lastly, there is often confusion about the difference between ‘risk’ and ‘a risk’. McKellar (2010:4) argues that *risk* is “negative potentiality, or the hazard incurred by being in a particular situation”, whereas *a risk* is a specific potential event or impact. Based on the aforementioned, risk relates to a detrimental outcome for those involved.

A *risky* situation can thus be explained as one in which it is possible to be informed of the probabilities of various events taking place, or the probability of certain political

risks impacting on a foreign investment. An *uncertain* situation, on the other hand, would be one in which these probabilities cannot be known at all (Brink, 2004:55).

### **2.1.2 Political risk and country risk**

Bridging the concept of risk to this specific study requires a discussion of political risk and how it may differ from country risk, as both are of importance to the concept of political risk analysis. Too often the concepts of political risk and country risk are considered to be the same thing. The discussion below provides a simple distinction.

Jarvis (2008:3) notes that political risk may differ across an array of disciplinary perspectives. In essence, Jarvis suggests that scholars of international business will propose a definition similar to Howell and Chaddick (1994:71) who define political risk as:

the possibility that political decisions, events, or conditions in a country, including those that might be referred to as social, will affect the business environment such that investors will lose money or have a reduced profit margin.

Or, in the same vein, Schmidt (cited in Jarvis, 2008:4) who defines political risk as:

the application of host government policies that constrain the business operations of a given foreign investment.

The disciplinary perspective of political scientists may instead focus on the exercise of government power and how the use and abuse of this power might hinder, constrain or counter the operation of political institutions, the exercise of legitimate government rule, and the functioning of international and civil society (Jarvis, 2008:5). In other words, according to Jarvis, political risk often translates into political instability for political scientists.

Jarvis also mentions a few other perspectives that pertain to political maturity, transparency, effective democracy, or simply the activities of governments whose decisions and policies may prove detrimental to the operation of multinational corporations (Jarvis, 2008:6).

McKellar (2010:3) and Brink (2004:18) both concur with defining political risk as the probability that business will experience harm in terms of their operation and/or returns as a consequence of the political system's behaviour. This study subscribes to McKellar's and Brink's definition of political risk.

Country risk, on the other hand, generally refers to potential financial losses due to problems sprouting from macro-economic events in a country (Brink, 2004:19). Hough (2008:18) refers to four conceptions of the distinctions between political risk and country risk, among which Hough contends that country risk:

is of a larger scale, incorporating economic and financial characteristics of a system in the same effort to forecast situations in which foreign investors will encounter problems in specific national environments.

This is as opposed to political risk, which refers to macro- and micro-risks of a predominantly political or politically related nature.

However, the definition that ultimately captures the whole of the concept of country risk is that of Meldrum (2000:33). Meldrum defines country risk as follows:

All business transactions involve some degree of risk. When business transactions occur across international borders, they carry additional risks not present in domestic transactions. These additional risks, called country risks, typically include risks arising from a variety of national differences in economic structures, policies, socio-political institutions, geography and currencies. Country risk analysis (CRA) attempts to identify the potential for these risks to decrease the expected return of a cross-border investment.

The distinction between country risk and political risk can be simplified. Brink's (2004:23) elegant distinction between political risk and country risk notes that country risk implies a country's *inability* to repay loans, whereas political risk tends more to a country being *unwilling* to do so. In this sense, political risk entails a focus on purely *political* risks, whereas country risk refers to *all* possible risks within the country.

### **2.1.3 Political risk analysis**

To approach the concept of political risk analysis one must bear in mind that political risk is composed of two elements: shock and stability. Shock in itself is fairly irrelevant

in analysis as it is nearly impossible to forecast events such as natural disasters or unforeseen deaths of state officials; however, stability proves to be relatively easy to assess (Bremmer, 2007:100). Abuse of power, for example, will more often than not spur discontent in the hearts of civilians leading to revolt and political instability, a scenario that can be forecast at the very beginning of power abuse. In essence, political stability can be analysed and possible scenarios forecast based on current events.

With the previous subsections explaining the concepts of uncertainty, risk, political risk, and country risk, it is now much simpler to grasp the concept of political risk analysis. In essence, political risk analysis broadly entails the examination and explanation of the probability that interrelated factors caused or influenced by government behaviour or other unforeseen external or internal events will affect business and investment climates in a detrimental fashion leading to investors experiencing below expected returns or even significant monetary losses (Brink, 2004:25).

A crucial aspect of political risk analysis is its contribution to risk management strategies. Political risk analysis also empower corporations to fashion risk management strategies that enable them to identify and mitigate the various risks so as to avoid any unnecessary losses (Bischoff & Lambrechts, 2010:61; Moen & Lambrechts, 2013:90).

Ultimately, political risk analysis comes down to the assessment of political risk allowing for the forecast of possible future scenarios so as to manage any political risks that may arise and provide investors with an informed decision.

Lastly, when approaching political risk analysis it is crucial to differentiate between 'macro' and 'micro' political risk. Macro risks refer to changes in the overall political order of a state, thereby affecting all firms in the state. Micro risks, on the other hand, are specific to an industry, firm or project (Venter, 1999:76). This study will predominantly focus on macro-political risks related to Botswana.

## **2.2 Theoretical framework**

Introducing a theoretical foundation to a political risk assessment is quite a daunting task for a number of reasons. Unlike international political economy or international relations, political risk analysis does not have its own set of theoretical perspectives. This section starts by explaining the obstacles to developing theory in political risk, followed by a discussion on the mainstream theories used in political risk analysis, that is problem-solving and decision-making theory.

### **2.2.1 Obstacles to developing theory in political risk**

Political risk analysis has enjoyed increasing attention in recent decades, accelerated by a combination of: the developing world's high growth opportunities and globalisation that enables, and indeed impel, international businesses to seek out these opportunities; and the political risks endemic in these regions. These emerging markets prove to have a strong risk-reward equation, of which political risk constitutes a key consideration (McKellar, 2010:7). However, despite its significant practical value, studies of national interest, national identity, type of political system and level of national frustration are often not perceived to be truly relevant to the more immediate needs of MNCs' corporate strategy. Theory in political risk generally comes second to the MNCs' desire for immediate answers (Simon, 1984:124).

Simon (1984:124) proposes three factors that may help to explain why it remains a challenge to construct a universal theory for political risk analysis. First, the operationalisation and quantification of non-economic variables tends to spark a general scepticism among corporations. This scepticism is vested in a belief that political risk as a concept is too indistinct and subjective to be exposed to systematic quantitative analysis. In other words, political risk requires the qualitative study of events and is, therefore, difficult to quantify and present in the same fashion as quantitative economic and financial indicators based on actuarial determination.

A second factor relates to the issue of time pressure in MNCs that tend to favour sporadic individual country studies over systematic cross-national analyses. While this may provide a large volume of information on a single country, it neglects a conceptual framework developed to aid in the analysis of the data. Analysts employed by MNCs are often mainly orientated towards international relations' traditional country/area

approach, rarely ever attempting to link the various analyses of countries together in order to identify cross-national patterns (Simon, 1984:124).

The cross-disciplinary nature of political risk comprises the third obstacle. Simon (1984:124) argues that due to political risk striding across various interdisciplinary fields, with an array of different perspectives on the problem, it is often difficult to communicate ideas and interests across these domains.

Jarvis (2008:36), on the other hand, provides an argument that may be seen as a critique of Simon's view, but at the same time highlights a key aspect of political risk analysis. Jarvis rightly states:

[a]ttempting to generate grand system-wide correlations and universal theory, ignores the fact that not all political events have the same risk implications for all foreign investment.

In essence, the ability to analytically untwine investment types as well as demonstrate causality between political events, political systems and their impact on various investments escape Simon's approach to theory building.

In the end the question remains, how do political risk scholars introduce a theoretical foundation to a political risk analysis when theory itself is challenged by an array of obstacles? To attempt to find an answer, this study follows and is informed by the approach of problem-solving and decision-making theory, supported by rational choice theory.

### **2.2.2 Theoretical framework: The theories of problem-solving, decision-making and rational choice**

Despite political risk analysis facing various obstacles in generating a uniform theory, scholars generally opt for either one (Brink, 2004:30-32) or a combination of both (Bjelland, 2012:15-16; Du Toit, 2013:14-15) problem-solving and decision-making theory as a theoretical foundation. Furthermore, rational choice theory often serves as valuable reinforcement to the aforementioned theories.

Cox (1981:128-129) expounds problem-solving theory by noting that it takes the world as is, with existing social and power relations and the institutions into which they are

organised, as the given framework for action. The aim of problem-solving is to smooth the workings of these relationships and institutions by effectively managing the particular sources of trouble, i.e. political risks in the context of this study. Furthermore, problem-solving has the ability to fix parameters or limits to a problem area and reduce the statement of a particular problem to a limited number of variables (or risk indicators) that are receptive to relatively close and precise examination (Cox, 1981:129). Accordingly, problem-solving is concerned with setting goals, fixing agendas and designing appropriate actions (Simon et al, 1987:11) to ensure the relationship between, for example, business and politics operate effectively by scrutinising a set of variables.

Generally, decision-making theory is assumed to be a theory underlying rational decision making under uncertainty. To reduce uncertainties in foreign investment, the following steps, involved in decision making, should be taken: conceptualise the idea to invest or expand operations, conduct a feasibility study of the possible outcomes, prepare detailed specifications, implement the decision, and eventual operations of the preliminary concept. Once a political risk analysis is conducted, the decision maker's attention is drawn to the various risks and certain management steps can be considered (Brink, 2004:30).

There is, however, a third element supporting both the theories of problem-solving and decision-making, namely rational choice theory. Despite being the dominant paradigm in economics for a long time, the rational choice approach goes beyond conventional economic issues and is more widely used by social scientists to better understand human behaviour (Green, 2002:2). Rational choice theory generally considers the choice behaviour of one or more individual decision-making units – in this context, foreign investors. Whenever such a decision-making unit is faced with questions or problems regarding the conduct of its business, and ultimately the best course of action favouring revenue, the rational choice approach suggests that its choices are those that best help it achieve its objectives, given all relevant factors that are beyond its control. In essence, the basic presumption of rational choice theory is that people do their best under prevailing circumstances (Green, 2002:4-5). In fact, Green (2002:46) defines the concept of rationality by stating that “an agent's choices reflect the most preferred feasible alternative implied by preferences that are complete and transitive”.

Green takes it further by arguing that a “rational” choice is by definition based on *reason*, which he defines as “the faculty or process of drawing logical inferences” (Green, 2002:46). Tversky and Kahneman (1986:S251) further support this view of rationality by arguing that competition favours rational decision-making units and that optimal decisions increase the chances of survival in a competitive environment, such as the international market system. In light of this, one can deduce that political risk analysis is an instrument of rationality – a tool used to inform the decision-making unit to ensure that the most logical and favourable decision is made.

In simpler terms, whenever an MNC or foreign investor considers expanding or investing in a specific political environment, an initial challenge is that of uncertainty. Uncertainty often sprouts from either insufficient knowledge or from an inability to manipulate the nature and processes within the environment. In such a case, uncertainty can be managed by means of political risk analysis, which entails the analysis and comparison of various possibilities. This application of management science can be seen as a *rational* attempt at problem-solving. In other words, using political risk analysis to manage the uncertainty in a specific case can be seen as a tool to *solve the problem* of not knowing what is out there, thereby providing the necessary information to *evaluate and decide* (Bjelland, 2012:15; Brink, 2004:30).

## **2.3 Framework for analysis**

From the basis of the aforementioned theories, some framework of analysis is required to inform and resolve the issue of uncertainty. As mentioned before, a number of different frameworks for assessing political risks exist, each with their own strengths and weaknesses. This section discusses the framework of analysis for the case of Botswana, composed of Venter’s (1999) model and Brink’s (2004) two indicators, ultimately categorised according to the social, political or economic nature of said indicators.

### **2.3.1 Venter’s (1999) synthesised model**

As a result of the nature of political risk analysis, challenged by subjectivity, to date there remains no set body of knowledge, no disciplinary consensus on which key

indicators of political risk should be used. Venter's (1999:76) argument is that to remedy this, one can analyse the past performance of political risk indicators used in practice, which is exactly what Howell and Chaddick (1994) did. Howell and Chaddick's (1994:1) research correlates five-year projections of three main political risk models, the EIU, the BERI, and the PRS models, with forecasted and actual losses incurred due to political risks in specific countries over a five-year period. The rationale for their study was to isolate specific variables that, supposedly, would most often account for actual losses incurred. In their findings, two key variables emerged that served as such specific variables: "Hostile Regional Environments" (bad neighbours) and "Authoritarianism" (Howell & Chaddick, 1994: 89). Venter (1999:77) bases his study, and ultimately his model, on the principle that the indicators included in these main political risk models have been "tested-in-use", meaning that they have proven to be capable of successfully anticipating actual losses as a consequence of political risks. The foundation of Venter's model is built upon these three models and their key indicators, as critically examined by Howell and Chaddick.

To substantiate the indicators in Venter's model, it is necessary to briefly illustrate the three risk analysis models depicted in Howell and Chaddick's work, as well as their justification for the merit of the key indicators. However, it is important to note that Howell and Chaddick's research was done in 1994 and that the models in question may have evolved over the years, to varying degrees. The discussion below discusses the models as presented in the work of Howell and Chaddick (1994) and Venter (1999).

### *The Economist Model*

The Economist Model is not the same as the EIU's current model but is instead rooted in a risk analysis by The Economist (cited in Howell, 1992:487) titled *Countries in trouble*. Howell (1992:487) argues that although one may not entirely agree with its methodology, it is a method that is "concise, clear and reflective" of the thinking that is prevalent among those who are ultimately responsible for decisions regarding the opting for, or rejection of, accepting political risk with their investments.

The Economist, in the abovementioned article, chose six political variables weighing a total of 50 points, as well as four social variables amounting to 17 points to present

general political risks (Howell, 1992:489-491). These indicators are (Howell, 1992:489-491; Howell & Chaddick, 1994:76-78; Venter, 1999:77-78):

a) Political

- **Bad neighbours** (hostile regional environments):

Domestic political environments are inextricably linked with regional and international systems, suggesting that the success of investments will depend on activities that may be outside the direct control of governments, in essence by regional hegemonically orientated states.

- **Authoritarianism:**

A lack of popular participation associated with underlying and potential political discontent bodes ill for any investment, especially when disruption and probably violence seethes underneath.

- **Staleness of leadership:**

The argument is that after 10 years in office a party/leader tends to get detached and stale. Complacency accompanies entrenchment, along with discontent, corruption, disdain and nepotism.

- **Illegitimacy:**

Legitimacy implies an uncoerced and positive acceptance on the part of the population of a state. Illegitimacy relates to the lack of legitimacy of a regime with the wider population not accepting a government's position in power. It is important to note here that legitimacy, in this context, is a condition as perceived by those directly ruled and not by outsiders.

- **Generals in power:**

The Economist argues that most military men do not know how to govern or to step down gracefully. The risk here pertains to a military ill-equipped to govern over the long-term, as well as military men (generals) in power.

- **War/armed insurrection:**

War or armed insurrection as a political risk is almost self-explanatory. War and insurrection disrupt the economy and, therefore, the investment environment.

b) Social

- **Urbanisation pace:**

A number of problems accompany an urbanisation process that is too rapid or too concentrated on a single city. These problems are related to social disruption, high crime rates and drug trading.

- **Islamic fundamentalism:**

This particular indicator includes an array of risks for investors, especially foreign and non-Muslim, including bombings, popular uprisings and anti-western or anti-foreign emotions spurred by Islamic radicals.

- **Corruption:**

Although corruption is implicit in all countries and systems, it becomes a risk when it gets out of hand. Corruption can distort an economy, making the investment environment unpredictable and uncertain.

- **Ethnic tension:**

Ethnic, religious and racial tension can create an immensely unfavourable investment environment by redirecting government attention, invoking restrictions on investors, restricting labour resources, or even resulting in open conflict.

*BERI (Business Environment Risk Intelligence)*

The BERI index is based on scores assigned to 10 indicators, scoring seven points per indicator, in which seven indicates minimum risk and zero maximum risk. A higher score, therefore, indicates a lower risk with an optimal risk situation represented by a total score of 70. Further bonus points may be added, which would bring the total to a

score of 100. The 10 indicators are divided into three categories; internal risks, external risks and symptoms of risk (Howell & Chaddick, 1994:82-83; Venter, 1999:78-79):

a) Internal risks:

- **Fractionalisation of the political spectrum** and the power of these factions:

This indicator represents divisions among political perspectives in society, with the number of perspectives seen as representing a threat to consistency and regularity in political processes.

- **Fractionalisation by language, ethnic and/or religious groups** and the power of these factions

- **Restrictive (coercive) measures required to retain power** (equated to authoritarianism/totalitarianism):

The existence of authoritarianism or the use of coercive measures reflects the prospect of arbitrary action, abrupt changes of rules and alienation.

- **Mentality**, including xenophobia, nationalism, corruption, nepotism, and willingness to compromise

- **Social conditions, including population density and wealth distribution**

This social indicator further encompasses crime, unemployment, drug use, illiteracy, health conditions and disparity between levels of society (social classes)

- **Organisation and strength of forces for a radical left government** (Islamic fundamentalism)

b) External causes

- **Dependence on and/or importance to a hostile major power** (the negative bad neighbour)

- **Negative influences of regional political forces** (the over-friendly neighbour)

c) Symptoms of political risk

- **Societal conflict** involving demonstrations, strikes, and street violence
- **Instability** as perceived by nonconstitutional changes, assassinations and guerrilla wars.

*Political Risk Services: World Political Risk Forecast*

The Political Risk Services or the *Coplin-O'Leary Country Risk Rating System* is a methodology developed by Professors William D. Coplin and Michael K. O'Leary that uses expert predictions and a modified Delphi technique to project political risk. PRS analyses are generated by at least three experts, hired as consultants, for each country. This network of area specialists represent more than 250 analysts globally, from a wide array of backgrounds including academics, business and government officers (Howell, 2014:1).

This specific model entails a number of unique features including adjusting for alternative future governments and an attempt to project direct government action. Nevertheless, the PRS analysis examines direct government actions or economic functions by means of the following indicators (Howell, 2014:2-5; Howell & Chaddick, 1994:84-86; Venter, 1999:79-80):

- **Probability of political turmoil:**

Actions that can result in threats or harm to people or property by political groups or foreign governments, operating within the country or from an external base, which may include: riots and demonstrations; politically motivated strikes; disputes with other countries that may affect business; terrorism and guerrilla activities; civil or international war; street crime that might affect international business personnel; and organised crime having an impact on political stability or foreign business. However, legal, work-related labour strikes that do not lead to violence is not included here.

- **Equity restrictions:**

Foreign ownership of business may be subject to limitation. This indicator emphasises sectors where these limitations are particularly liberal or restrictive.

- **Operations restrictions:**

Government regulations can place restrictions on procurement, hiring foreign personnel and daily hours of employment.

- **Taxation discrimination:**

The formal and informal tax policies advantageous or detrimental to international business.

- **Repatriations restrictions:**

Formal and informal rules regarding the repatriation of profits, dividends, and investment capital.

- **Foreign exchange controls:**

Formal and informal policies, and financial conditions that either ease or inhibit currency conversion.

- **Tariff barriers:**

Any new and unexpected financial costs imposed on imports.

- **Non-tariff barriers:**

Formal and informal quotas, licencing provisions, or other restrictions on imports with the objective of forestalling foreign trade.

- **Payment delays**

The punctuality with which government and private importers pay their foreign creditors, based on government policies, domestic economic conditions and international financial conditions.

- **Fiscal and monetary expansions:**

The effect of the government's spending, taxing, interest rate and other monetary policies.

- **Labour policies:**

Government policies, trade union activity and the productivity of the labour force influence business costs.

- **International borrowing liability** (foreign debt)

Restructuring the three models to expose those variables that would most often account for actual losses incurred, Howell and Chaddick identify key variables from each model. The Economist Model's most significant indicators account for 45% of losses incurred. According to Howell and Chaddick (1994:79), these include bad neighbours, authoritarianism, Islamic fundamentalism, urbanisation, war, ethnic tension, and generals in power. In the BERI model, Howell and Chaddick (1994:84) found that the indicators of negative influences of regional political forces, radical left forces, restrictive (coercive) measures, ethnic fractionalisation, dependence on hostile major power, instability, societal conflict, and social conditions combined accounted for 53% of losses incurred. Lastly, Howell and Chaddick (1994:87-88) found that of the three, the PRS model proved significantly more effective as it could account for 75% of losses incurred. Those indicators responsible for the majority sum of accountability (74%) include exchange controls, international borrowing liability, payment delays, labour policies, repatriation restrictions, equity restrictions, tariff barriers, and operations restrictions.

Based on Howell and Chaddick's findings, Venter saw an opportunity to synthesise these three models and propose key political risk indicators for his own model of political risk analysis. Howell and Chaddick's (1994:79-88) use of historical data to identify the indicators that accounts for actual incurred losses provides a solid, scientific foundation from which Venter's model draws its validity. The following section will elaborate on Venter's key political risk indicators.

### **2.3.2 Political Risk Indicators**

The previous subsection provides a foundation for understanding the reasoning and value behind the chosen indicators proposed by Venter (1999). However, as

mentioned in the methodology of this study, Venter's indicators alone prove to be insufficient to fully capture all vital political risks in the case of Botswana. In this particular study, the indicators in Venter's model is complemented by two additional indicators drawn from the work of Brink (2004). This section aims to integrate Venter and Brink's indicators to form a framework of analysis on which a comprehensive political risk assessment of Botswana can be made.

Brink's (2004) book *Measuring Political Risk* provides a comprehensive discussion on the different aspects of political risk analysis. The main aim of the book is to design and present a generic yet adaptable model for political risk analysis that:

takes the latest information and technology, new variables, risk factor indicators and formulas, and combines these with a potential foreign investor's intuitive judgement and objective expertise (Brink, 2004:6).

Despite Brink's vast array of proposed variables, covering almost every possible indicator, this study extracts only two indicators, as mentioned in the methodology.

To simplify and compartmentalise, the applicable indicators will be divided into three categories, namely *political indicators*, *sociopolitical indicators*, and *politico-economic indicators*. The motivation for this is to break the overall framework down into simpler dimensions and, in so doing, emphasise the nature and focus of the indicators in question.

#### *Political indicators*

- **Bad neighbours**

Also known as hostile regional environments, this indicator is crucial, as supported by its inclusion by both the Economist and BERI models. It entails the state under consideration being under the influence of either a superpower or a regional hegemon, which tends to dominate their peripheries, often with the use of force (Venter, 1999:81). A high-risk case would be an Asian country in China's political shadow; a low risk, on the other hand, will naturally be a country that is a hegemon or superpower itself such as the USA.

- **Radical religious forces**

Radical religious forces, particularly those inspired by Islamic fundamentalism, are as relevant today, perhaps even more so, as when Venter's (1999) article was written. From terror attacks in Europe to various Islamic militant groups in Africa, radical religious forces are a crucial factor in any political risk analysis. Boko Haram exhausting Nigeria's military while posing a continuous threat is an example of a high-risk situation in Nigeria's northern parts (Vanguard, 2016). South Africa, on the other hand, may pose a low risk due to minimal Islamic fundamentalism.

- **Authoritarianism**

Venter (1999:81) suggests that this variable may seem counter-intuitive as authoritarian governments at first glance would indicate political stability. However, although such governments may induce short-term stability, they most likely mask greater popular discontent that may result in political violence and mass revolt against the ruler. Such political problems translate into dire political risks for investors. On the extreme side of the risk continuum, are examples such as Sudan under Omar al-Bashir, Zimbabwe under Robert Mugabe, and North Korea under the rule of the Kim dynasty, where the rulers have a power hold over the country, limiting political freedom and, in some cases, spurring civil strife and open violence.

- **Staleness, uncertain leadership succession**

The empirically based argument is that a leader needs approximately five years to consolidate his/her grip on power in a state, though after 10-12 years said leader grows detached and stale (Venter, 1999:81). Not only does extensive leadership tend to lead to corruption, nepotism, disdain and political uncertainty, but it also ends in uncertainty over the orderly transfer of power. A good example of staleness and uncertain leadership succession is Zimbabwe's leader of more than 36 years, Robert Mugabe. Mugabe's leadership seemed to be never-ending, but members of his ZANU-PF party fought among each other, which signalled widespread conflict before Mugabe's reign finally ended (eNCA, 2016b). Uncertainty over leadership

also entails uncertainty over an investment's security as potential candidates can make an array of promises detrimental to foreigners.

- **War, armed insurrection, and non-constitutional changes**

Naturally, war and armed insurrection can wreak havoc on an investment. They include the destruction of physical facilities and disruption of the economy to produce war materials and to support armed combatants. Further losses may include commandeering private property for war purposes as well as the expropriation and nationalisation of assets to foot the bill in waging war (Venter, 1999:82).

#### *Sociopolitical indicators*

- **Ethnic/religious/racial tensions**

These tensions and divisions in society are good predictors of political turmoil, and thus political risk. This is because such tensions focus government attention on their solution, restrict resources available for economic development, or even result in open conflict and destruction to property, and, in extreme cases, can lead to the fall of a government (Venter, 1999:82). A high-risk situation entails visible patterns of conflict along these divisions that disrupt the functioning of businesses and industries.

- **Societal conflict**

Whereas the previous indicator suggests divisions along ethnicity, religion or race, this indicator represents divisions in society that originate more from ideology and/or social classes. It represents a threat to consistency in economic and social policy, as it implies that a conservative government may favour investment and business, yet a leftist government may favour social welfare and state interventionist policies. Here, the existence of leftist parties does not in itself pose a risk; the risk is rather in the regard and support such

parties enjoy, combined with the degree to which they differ with conservative parties (Venter, 1999:82).

- **Rapid urbanisation, social conditions, population explosion**

This indicator serves as more or less a ‘catch-all’ for social ills. The level of risk can be determined by the severity and number of social ills plaguing the society. Social ills included here are crime, unemployment, corruption, drug abuse and drug trafficking, illiteracy and health conditions (Venter, 1999:82). To improve the focus and simplicity of this indicator, this study renames this indicator ***Social conditions and population dynamics***.

#### *Politico-economic indicators*

- **Preservation of resources**

A country’s economic prospects, especially one that relies significantly on a single commodity, are greatly influenced by its physical resource endowment and protection. Unregulated or unsustainable depletion of resources can constrain economic growth and productivity, causing poverty and migration, which spurs social and political instability (Brink, 2004:105). A high-risk scenario would include a case in which the government of the day either has no control over extracting its resources, or no policies regulating the depletion of its resources.

- **Vulnerability spread**

Countries reliant on a single commodity are linked to a relatively high degree of vulnerability for various reasons such as exchange rates, market prices, and climatic vulnerability. In an ideal scenario (low-risk case), the production of goods and services in a country occurs in the primary sector (raw materials are produced), secondary sector (the manufacturing sector), and the tertiary sector (comprised of services and trade sections of the economy). However, vulnerability may sprout from under-developed secondary and tertiary sectors, resulting in the primary sector comprising a large portion of the

country's economy. Factors threatening the primary sector would then also greatly threaten the whole economy (Brink, 2004:108).

- **Macro-economic circumstances of the host state**

Venter (1999:83) rightly points out that the PRS model demonstrates the relationship between business and economic elements that are vulnerable to political influence. Exchange controls, payment delays and international borrowing liabilities may, for example, signify potential losses due to government policies of the host state in which a company operates. Venter goes further by refining the PRS model with Kern's 'acid test' on public finances (Venter, 1994:83). In business terms, the acid-test ratio is a strong indicator of whether a firm has sufficient short-term assets to cover its immediate liabilities (CFI, 2018). For the purposes of political risk analysis, the acid test is used to indicate whether a state is in good standing in relation to its liabilities. Therefore, the acid test drawn from Venter (1994:83) is portrayed as follows:

- ~ Payment of interest and principal as a percentage of export earning on goods and services, with a ratio equal to or less than 25%.
- ~ Unsettled government debt as a percentage of GDP.  $\text{Debt} \div \text{GDP} \times 100$  should not exceed 40%, which indicates long-term financial problems.
- ~ Total debt as a percentage of exports should not exceed 100%.
- ~ Current account deficit as a percentage of GDP should not exceed 7.5% of GDP.
- ~ Government budget deficit as a percentage of GDP should not exceed 3% of GDP.
- ~ Tax, as a percentage of GDP, should not exceed 30%, as it points to low government involvement in the economy and moderate government consumption.

The indicators discussed in the above section form the backbone or foundation for conducting this political risk analysis on Botswana. It is also important to note that, as

far as possible, these indicators are intended to facilitate a comprehensive, sound and valid political risk analysis of the country under review. In the final instance, it is worth quoting Brink (2004:2) regarding the use of political risk analyses:

The use of a model for political risk analysis and management aims to 'balance' user subjectivity with a model that can reflect researched information in order to attempt a more objective probable estimation of risk.

Finally, it should be noted that a particularly interesting qualitative approach to a political risk rating system is presented in the work of Bischoff and Lambrechts (2010:65-67). In their study, it was decided to rate the five variables with either a low, medium, high, or extreme risk rating, based on qualitative analysis. Additional explanatory notes stipulate overall risk ratings criteria. The use of such a simple qualitative approach informs the reader of various scenarios from the start, ensuring as far as possible that should other researchers use the same model or approach, they would reach similar conclusions. This study is thus informed by the work of Bischoff and Lambrechts (2010) in compiling a similar risk rating system.

Following the above, each of the 11 indicators is rated according to either a low, medium, high, or extreme risk (see Table 2.1 for the political indicators and Table 2.2 for the sociopolitical and politico-economic indicators). Should any of the 11 indicators receive an extreme rating, the overall risk rating will be extreme; if more than two variables are rated with a high-risk rating, the overall risk rating will be high; and, if none of the aforementioned is evident, the overall risk rating will reflect that of the majority rating.

Table 2.1: Risk ratings, political indicators

Political Indicators						
	Bad Neighbours	Radical religious forces	Authoritarianism	Staleness, uncertain leadership	War, armed insurrection, and non-constitutional changes	
Risk ratings	Extreme Risk	An evident pattern of a neighbouring country(s) that dominate either by use of force or uses superior political power positions to oppress and/or control	A country governed by religious forces that shun foreign businesses	An authoritarian leader, or military regime monopolises state power. Major discontent and the suppression of democratic principles are evident	Presidents for life, or a leader in power for longer than 12 years with evidence of corruption and nepotism, and uncertainty over succession	The country in question resides in a state of war. Sustained attacks are widespread and includes one or more other countries
	High Risk	Inter-state behavioural patterns suggest political domination. A country threatened either with the use of force or political power	Religious fundamentalism is experienced throughout the country or region, severely affecting western business in particular	A real threat that the military may seize government power and/or undercurrents suggesting the establishment of an authoritarian regime	A political leader or political party in power for 10 - 12 years, with evidence of corruption, nepotism and political uncertainty	A country in or near the vicinity of the country in question resides in a state of war with widespread armed attacks and spillover effects
	Medium Risk	The country in question enjoys a relatively good political position, yet still experiences domination by countries with superior political or economic power	Religious fundamentalism exerts a limited influence in the country, while not directly affecting business.	A history of authoritarianism and/or military rule. Currently, little evidence suggest a relapse, reinforced by a democratic government	A political leader or political party in power for more than two terms, with limited corruption and nepotism, and relative political certainty	A country and/or region with a history of war, armed insurrection, and non-constitutional changes, although currently no notable such events, nor threats of relapse
	Low Risk	A hegemon or superpower itself, thus will only experience opposition from political actors on par with its own power position	There is no religious fundamentalist influence within the country or its region and, therefore, does not affect business at all	An entrenched democracy within a region that does not have authoritarian or military governments	Good checks and balance with informed voters ensuring the regulation of political parties and/or leaders in power to the benefit of the country	The region is stable and relatively peaceful, in terms of war and armed insurrection.

Table 2.2: Risk ratings, sociopolitical and politico-economic indicators

Risk ratings	Socio-political Indicators			Political-economic Indicators			
		Ethnic/religious/ racial tensions	Societal conflict	Rapid urbanisation, social conditions, population explosion	Preservation of Resources	Vulnerability spread	Macro- economic circumstances of the host state
	Extreme Risk	Widespread violence due to one or more ethnic groups or ideologically motivated organisations involved in a liberation struggle or to change the incumbent government	A leftist government that favour social welfare and strict state interventionist policies, highly regarded by the majority of the population. A strong bias towards independent private enterprises	A troubled civil society, plagued by high crime rates, unemployment, pervasive corruption, widespread illiteracy, and/or poor health conditions	Policies to control and/or regulate the extraction of resources are non-existent. Armed forces exploit areas rich in natural resources	An economy based on the export of a single natural resource either in low demand or with a small reserve in quantity left. A non-existent secondary and tertiary sector	Failure to fulfil any of the requirements as set out by the acid test
	High Risk	Governments and politics in the region are ethnically based. Intra-state conflict is palpable with state resources focused on conflict resolution instead of economic growth	A government comprised mostly of leftist parties with economic and social policies allowing only limited independent private enterprises. Inconsistence in economic and social policy	Unequal manifestations of social problems. High crime rates, unemployment and poor health conditions, yet limited corruption, for example. Indicates inefficient government	Policies to control and/or regulate the extraction of resources are weak and/or insufficient. The extraction of resources is unsustainable	An economy based mostly on the export of a single natural resource either in low demand or with a small reserve in quantity left. Only a weak secondary and tertiary sector	Falling short of the majority of the acid test criteria
	Medium Risk	A history of ethnic, racial and/or religious tensions, with mere sporadic events that suggest tension. No detriment to business	A good balance between conservative and leftist government. Social welfare and state interventionist policies at times still take preference over investment and business	Sporadic social issues, usually with relative high rates in singular social problems. Relatively effective policies implemented to remedy the situation. Limited effect on business	Good policies are in place to regulate the extraction of natural resources, but may be less efficient due to economic pressure or corruption	A relatively diversified economy with at least one strong and sustainable sector	Only meeting the basic requirements of the acid test
Low Risk	A relative absence of ethnic, religious and/or racial tensions. A government that caters to the needs of all its civilians' needs	A healthy combination of conservative and leftist government that balances progressive liberal economic policies and social welfare policies	Healthy civil society without distinctive or disruptive social issue. Effective policies address social issues. Social issues have no effect on business	Regulation policies effectively control the extraction of natural resources and promotes the sustainability of extracting the resources	A diverse economy with a sustainable primary sector and strong secondary and tertiary sectors	A complete pass of all the criteria of the acid test indicating good macro-financial standing	

## 2.4 Conclusion

The overall objective of this chapter was threefold, as set out in the three broad subsections. In the first instance, the chapter acquainted the reader with the various concepts at the core of the study, especially political risk and its analysis, which relates to the analysis of political events that may influence returns on investments or the operations of foreign businesses. The conceptual orientation equipped the reader with the knowledge to grasp the theoretical framework as well as the framework of analysis.

The theoretical framework sets out to explain the underpinnings of political risk analysis to lay a strong foundation on which the analysis can be structured. This section discussed the challenges of a theoretical background for political risk analysis to inform the reader why the theories that follow were ultimately chosen. The chosen theories pertain to problem-solving theory and decision-making theory, two mutually complementary theories suggesting that political risk analysis is a combination of solving the issues between business and politics, and evaluating and deciding on different routes to solve these issues. An additional third theory, rational choice theory, addresses the rationality underlying the aforementioned theories to further support their validity and utility.

Lastly, the framework of analysis, or the political risk analysis model, of the study was expounded with reference to the work of Venter (1999), who built on the work of Howell and Chaddick (1994), as well as two indicators from the work of Brink (2004). This section resulted in a model for political risk analysis, with indicators divided into three categories: political indicators, social indicators, and economic indicators.

Premised on the above discussion, the study can assess Botswana by using the proposed synthesised framework or model. However, this cannot be done without a further contextualisation of the case study with regard to geophysical, demographic, infrastructural, historical, economic and political information and data. The next chapter accordingly aims to explore the case of Botswana by providing relevant information in the form of a country profile that has relevance in the assessment of Botswana.

## CHAPTER 3 : Contextualising the case of Botswana

From being ignored by the British Protectorate (Acemoglu et al, 2001:12) and being described as “a useless piece of territory” by a British colonial official (Guest, 2013:26) to being the second largest producer of diamonds globally (Zimnisky, 2017), Botswana has come a long way over the years.

In 1885, Botswana, initially known as Bechuanaland, was colonised as a British protectorate to serve a strategic purpose, rather than being used for the colonial status quo of mineral exploitation. On 30 September 1966, Botswana gained its independence from Britain after the BDP’s democratic victory in 1965 (Acemoglu et al, 2001:12-13; Chan, 2016:23). Unlike other African countries, Botswana did not suffer beneath the yoke of inefficient political rule. On the contrary, Botswana’s leaders directly after independence were highly educated and ensured excellent governance (Acemoglu et al, 2001:3). In the years that followed, Botswana proved to be the exception to the African rule and was, accordingly, dubbed “one of Africa’s success stories” (Chan, 2016:23). Despite the common belief that Botswana’s success is based purely on its diamond endowment, it should be noted that the discovery of diamonds did not lead to a resource curse, as was the case in many other African countries (Acemoglu et al, 2001:1). From a poor country that was written off as a “dependent underdeveloped labor reserve for South Africa” (Acemoglu et al, 2001:17) to the discovery of vast riches, Botswana should be, at the very least, praised for not succumbing to the detrimental effects of the *nouveau riche* – new riches.

Despite a history that reflects excellent governance and an overall victory for liberal democracy, one should never assume that such historical patterns will endure indefinitely. It is imperative to take cognisance of, and investigate, all possible contemporary risks that could be developing under the radar. For this reason, a political risk analysis is conducted to extrapolate all risks involved. However, a country profile of Botswana is required to provide a point of departure and a background overview for the aforementioned political risk analysis. Therefore, the purpose of this chapter is to provide all necessary background information on Botswana, which includes the geophysical, infrastructural and politico-historical features of Botswana.

### **3.1 The geophysical and demographical features of Botswana**

The Republic of Botswana is an independent, landlocked country in Southern Africa. It shares its borders with South Africa (1 969 km) to the South, Namibia (1 544 km) to the West, Zimbabwe (834 km) to the East and Zambia (0.15 km) to the North. Botswana has a semi-arid climate with a predominantly flat tableland terrain. It is similar in size to France and the USA's state of Texas with a total surface area of 581 730 km<sup>2</sup>, of which a mere 15 000 km<sup>2</sup> is water. Botswana's limited water is in no small part due to the Kalahari Desert in its southwest region, and this physical environment does partly account for its varied population distribution and low population density. Despite its daunting physical environment, Botswana still uses 46% of its land for agricultural use, mainly for grazing (CIA, 2018; Department of Surveys and Mapping, 2001).

An aspect of great concern pertains to Botswana's weather and climate. The semi-arid country enjoys seasonal rainfall from November to March. However, due to the fact that the country's location rainfall is low and seasonal ranges of temperatures are high, it often leads to periodic droughts that are at times even declared natural disasters. These limited freshwater resources inevitably lead to other environmental issues such as overgrazing and desertification, further hampering various aspects of the country (CIA, 2018; Department of Surveys and Mapping, 2001; eNCA, 2016a).

According to the Central Intelligence Agency's (2018) July 2017 estimate, which considers the effects of excess mortality due to AIDS, Botswana consists of a population size of approximately 2 214 858. Botswana's population distribution is concentrated in the east, with a focus in and around the capital of Gaborone and the far central-eastern city of Francistown with low density in other areas, especially in the Kalahari to the west where the physical environment is less forgiving. A noteworthy aspect of Botswana's people and society pertains to the ethnic groups and languages of Botswana: the Tswana ethnicity dominates the population with its 79% share, while its Setswana language is spoken by more than 77% of the country's population, with English taking a mere 2.8% share (CIA, 2018). Despite Setswana being spoken by the majority of the population, Botswana's official language is still English (Botswana Government portal, 2011). Furthermore, Botswana's ethnic groups (apart from the aforementioned Tswana people that comprise 79%) consists of 11% Kalanga, 3%

Basarwa, and 7% others that include the Kgalagadi and white people. Christianity is the dominant religion, making up 79.1% of the population, with Baha'i, Hindu and Muslim forming part of the 1.4% of other religions; the difference is made up of Badimo (4.1%) and none or unspecified (15.5%) – 2011 estimate (CIA, 2018).

## **3.2 Background information**

To provide a rough outline of Botswana's current situation, a short summary of basic background information follows below. The purpose is to inform the reader of all necessary information that has to be considered when dealing with the context of Botswana, which makes it much easier to understand the whole of the contextualisation.

The background information is summarised into three separate categories – economy, industry and politics.

### **3.2.1 Economy**

In terms of Botswana's economy, the IMF (2017) holds a positive view of Botswana and concludes that the "economy is undergoing a cyclical recovery and the outlook is broadly positive". The gradual rebound in the global diamond market and public investment supports the annual real GDP growth, which is projected to approach 5% in the near future. In the medium-term, Botswana's economic outlook is positive and risks are balanced. Furthermore, the IMF (2017) also stated that Botswana's macroeconomic policies are appropriate and that Botswana's exchange rate regime continues to serve the country well.

Since independence, Botswana has been one of the world's fastest growing economies, averaging 5% annually over the past decade. However, its reliance on commodities leaves it susceptible to international market fluctuations. Any favourable growth prospects crucially depend on continued rebound in the global diamond market, improved reliability in electricity and water supply, and reforms. In 2016, Botswana recovered from the previous year's recession with an economic growth rate of 2.9% (African Development Bank, OECD & UNDP, 2017:245; World Bank, 2017c). An even

more promising outlook was held in 2017, when the IMF revised its economic growth forecast to 4.5% following a rising diamond demand, an estimate not far from that of Botswana's Finance Minister Kenneth Matambo, who had said that the economy would grow by an estimated 4.2% in 2017 (African Globe, 2017; Reuters, 2017c). With Botswana's economy recovering due to the diamond price, yet another period of boom for Botswana ensued as diamond demand increased.

The abovementioned economic growth should be considered on the backdrop of its anatomy. The main contributors to Botswana's economy (total GDP), in ascending order, includes construction (6.2%), finance and business service (13.6%), general government (14.4%), trade, hotels and restaurants (18.3%), and mining (19.9%) (Statistics Botswana, 2017d:10). It is important to note that despite general government (also known as government spending/expenditure) being the third largest sector of the economy (at current prices) and the largest single employer, government spending is still largely dependent upon mineral revenues (Jefferis & Nemaorani, 2013). From these statistics it becomes clear that despite efforts of economic diversification, Botswana's economic growth as a whole remains directly and indirectly heavily dependent on its mining and mineral industry.

In terms of imports and exports, Botswana exported US\$ 7.32 billion and imported US\$ 6.1 billion, in 2016, resulting in a positive trade balance of US\$ 1.22 billion. Its main exports, in descending order, are diamonds (US\$ 6.45 billion), nickel mattes (US\$ 235 million), insulated wire (US\$ 117 million), fresh bovine meat (US\$ 52.4 million), and frozen bovine meat (US\$ 51.7 million). Botswana's main export destinations, in descending order, include India, Belgium, Singapore, South Africa, and the United Arab Emirates (Statistics Botswana, 2018e; WITS, 2017). On the other hand, Botswana's main imports, in descending order, are diamonds (US\$ 1.73 billion), refined petroleum (US\$ 628 million), packaged medicaments (US\$ 160 million), vehicles (US\$ 159 million), and electricity (US\$ 141 million). The main import sources originate from, in descending order, South Africa (an outlier comprising an astonishing 61.4% of Botswana's imports), Canada, India, and the UK (Statistics Botswana, 2018e; WITS, 2017). The great number of diamond imports follows as a result of the migration of De Beers' international sales function from London to Gaborone as well as more local diamond processing plants (De Beers, 2015:26).

A few final statistical notes relate to Botswana's foreign reserves, inflation and its exchange rate. Botswana's foreign reserves decreased by 4.73% from \$7.546 billion in 2015 to \$7.189 billion in 2016. Inflation decreased from 3.1% in 2015 to 2.8% in 2016. Lastly, Botswana's exchange rate stood fast at 10.13 pulas (Botswana pula) per US\$ in 2014, 10.90 in 2015 and 10.90 in 2016 as well (CIA, 2018).

### **3.2.2 Industry**

Botswana's industry mainly revolves around diamond processing. One way the government perceives the future survival of the Botswana diamond industry, once mining is forced to slow down, is through Botswana's well integrated and skilled diamond cutting-and-polishing trade. Other industries include food processing (predominantly beef), iron ore, textiles, salt, soda ash, copper, nickel, potash, silver and coal (CIA, 2018; Commonwealth Network, 2017).

The Botswana government owns three development finance institutions that provide for industry. These are the Citizen Entrepreneurial Development Agency, the Botswana Development Corporation, and the National Development Bank (Botswana Ministry of Trade and Industry, 2014:31).

The first trade union formed was the Francistown African Employees Union in 1948. After independence in 1965, the local unions financially supported by the International Confederation of Free Trade Unions, formed the Bechuanaland Federation of Labour. The current Botswana Federation of Trade Unions (BFTU) was formed as early as the 1970s with the establishment of the Botswana Trade Union and the Education Centre comprising a handful of trade unions. Today, Botswana has more than 30 trade unions affiliated with the BFTU (Friedrich Ebert Foundation, 2008:17).

In his 2014/2015 budget speech, Botswana's minister of finance, Kenneth Matambo, spoke of "sluggish growth" in Botswana's manufacturing sector. To understand the struggle behind this industry, one must consider the country's geographical location, resources in the form of utilities, and the size of Botswana's local market. As mentioned before, Botswana is a landlocked country with no direct access to any ports from which it can export massive amounts of manufactured goods, constraining export prospects for manufactured goods. Furthermore, reports of drought and electricity shortages, also previously mentioned, have a direct negative impact on Botswana's capability to

sustain a large manufacturing industry. Finally, due to the volatility of Botswana's economy, poverty and unemployment cripple the average Motswana's financial position (Lemmenyane, 2018). High poverty rates, unemployment and a small middle class ultimately lead to a small local market, insufficient for sustaining any significant manufacturing industry.

### **3.2.3 Politics**

Under the 1965 constitution, Botswana is a republic with an executive president chosen by the National Assembly for the concurrent five-year term. The president is both the chief of state and the head of government. The position is currently held by Mokgweetsi Eric Masisi (since April 2018), with the vice president being Slumber Tsogwane (since April 2018). Botswana's main political parties include the BDP, Botswana National Front (BNF), Botswana Congress Party (BCP), Botswana Movement for Democracy (BMD), Botswana Alliance Movement (BAM), Botswana Peoples Party (BPP), and the Umbrella for Democratic Change (UDC) – a political alliance that includes BMD, BPP, BCP and BNF. Botswana can undoubtedly be categorised as a dominant party system as the BDP have been in power since independence in 1966 (CIA, 2018; Maundeni, Sebudubudu, Kebonang & Mokhawa, 2006:25-26; The Commonwealth, 2017).

In terms of international relations, Botswana is generally perceived as an “excellent trade partner and an advocate for stability in Africa” in the words of the U.S. Department of State (2017a), a view supported by Botswana-South Africa relations that enjoy mutual benefits and promotive cooperation (Ntshole, 2014). A noteworthy exception pertains to Botswana-Zimbabwe relations. What was once a fruitful friendship, has soured into a strained relationship due to a number of events and claims that boil down to Botswana's objection and resistance towards the dictatorship that plagued Zimbabwe. Intolerance towards cooperation and vast human rights violations by the latter led to Botswana leaders speaking out against the Zimbabwean government and then president Robert Mugabe on multiple occasions (Marupi, 2010; Mosikare, 2017; News24, 2016; Owino, 2008).

Regarding international organisations, Botswana is a member of the African Union, Commonwealth of Nations, Group of 77, International Criminal Court, International

Monetary Fund, Nonaligned Movement, Southern African Customs Union, Southern African Development Community, United Nations, and World Trade Organization, among an array of other organisations (CIA, 2018).

Finally, the following countries are represented (embassies and high commissions) in Gabarone: Angola, Brazil, China, Cuba, France, Germany, India, Japan, Kenya, Libya, Mozambique, Namibia, Nigeria, Russia, South Africa, Turkey, UK, United States, Zambia, and Zimbabwe (EmbassyPages.com, 2017).

### **3.3 Physical infrastructure**

Botswana presides over an effective physical infrastructure, by African standards. Naturally, the mining industry led to great infrastructural improvement due to transportation and communication network requirements (Nations Encyclopedia, 2017). However, despite significant progress towards improving rural access and infrastructure, Rand Merchant Bank's (RMB) *Where to Invest in Africa* 2016/2017 report indicates an overall deterioration of the quality of Botswana's infrastructure from 2006 to 2015 (Fauconnier, Ramkhelawan-Bhana & Mandimika, 2016:78). The report's findings are echoed by news articles reporting:

[t]he quality of Botswana's overall infrastructure has declined badly over the past five years, making the country one of Africa's 'Top 5 Deteriorators' in the latest edition of the Rand Merchant Bank *Where to Invest in Africa* report (Sunday Standard, 2015).

while Botswana has over the years compared well when it comes to public infrastructure development, there is a downward trend, as succinctly captured by the [Bank of Botswana], which shows a decline, starting from 2007 to date (Sunday Standard, 2016).

The distribution of Botswana's infrastructure networks roughly follows the same patterns of economic activity and population – a distribution divided by the two topographic regions. Bush country and grassland to the east is characterised by high population density and low poverty rates with rich mineral resource endowments. The Okavango Swamps and the Kalahari Desert to the west is sparsely populated with a

high incidence of poverty and poor mineral endowments. Therefore, a much greater density of transport, power, and information, and communications technology is observed in the east than in the rest of the country. The water sector, on the other hand, is the most challenging with limited water resources that constrain all other sectors and industries dependent on water supply (Briceño-Garmendia & Pushak, 2011:5).

**Road transport:** According to the Botswana government, the current engineered paved road network has almost entirely been constructed since independence in 1966. The total road network, under the care of the central government, consists of 18 507 km (2015 est.) of which 6 925 km (37.4%) is paved and 11 582 km (62.5%) is unpaved. These roads are further complemented by a 11 769 km (2015 est.) road network maintained by local authorities. Of this additional road network, 3 176 km (27%) is paved (tar), while 8 577 km (72.8%) is unpaved roads that include gravel, earth and sand roads (Ministry of Transport and Communications, 2011; Statistics Botswana, 2016a:1-4).

Botswana has a strong record of road network expansion, quality and, to a much lesser extent, maintenance. The quality of roads (in 2011) is comparable to that found in the African middle-income countries and only second to South Africa and Mauritius (Briceño-Garmendia & Pushak, 2011:10).

**Air transport:** Air Botswana, Botswana's national carrier, has a fleet of four aircraft with a combined seat capacity of 206, as well as a lease on a single Bombardier jet aircraft (Air Botswana, 2017; Mguni & Piet, 2017). Due to Air Botswana being dogged by financial losses and poor service delivery as a result of an aging fleet and high operational costs, Botswana's Minister of Transport and Communications Kitso Mokaila has repeatedly called for the privatisation of the national carrier. Opting to privatise the national carrier may reduce the financial load on the government and provide opportunities for private investors to bring the ailing airline up to standard (Dikuelo, 2017).

Aircraft movements have declined since 2013, with a slight increase (3.5%) from 2015 (74 472 total aircraft movements) to 2016 (77 079 total aircraft movements). From a total of 86 363 aircraft movements in 2013 to 77 079 aircraft movements in 2016,

overall aircraft movement declined by 10.75%. Interestingly, international aircraft movements in this time increased by 3.45%. Maun accounted for 58.1% of total movements due it being a tourist destination (Statistics Botswana, 2016a:28; Statistics Botswana, 2017c:34). Air cargo has been declining since 2008, amounting to a 45.39% decrease from 2008 to 2016 (Statistics Botswana, 2017c:37-38).

**Railway transport:** Botswana Railways, Botswana's national railway, presides over a railway network that consists of a main line which runs from Ramatlabama in the south and Bakaranga in the north. This network also includes three branch lines that connect Botswana Railways' stations to the mines (from which Botswana Railways transports commodities), crossing loops, private and service sidings as well as station yards. Ultimately, this railway network amounts to a distance of 886 km. This 886 km contains a 640 km mainline of 50 kg/m continuous welded rail, a Francistown – SuaPan 174 km branch line of 40 kg/m continuous welded rail, a Serule – Selibe-Phikwe 56 km branch line of 40 kg/m continuous welded rail, and a Palapye – Morupule 16 km branch line of 40 kg/m continuous welded rail (African Growing Enterprises, 2009; Botswana Railways, 2017).

According to reports, "Botswana Railways' (BR) Freight Service is the country's leading transport operator of bulk goods" and "BR's freight service is the most convenient, reliable and cost-effective mode of transport to use for moving bulk commodities" (The SA-Mag, 2012). Despite this overwhelmingly positive view, recent statistical analysis found that the effects of the 2009 global recession decreased the tonnage of goods transported by rail, which also faces stiff competition from roads that, at times, leads to the loss of customers and, accordingly, revenues (Statistics Botswana, 2016a:34).

On a positive note, Botswana and Namibia are working on a Trans-Kalahari railway project with the aim of linking Botswana's rich coal fields, and other minerals along the corridor, to the Namibian coast (African News Agency, 2016a). Botswana also revitalised its passenger train service using Transnet as a supplier of these new passenger coaches (Herbst, 2016).

**Waterways and water resources:** The Kazungula Pontoon is Botswana's major water transport system that ferries vehicles and passengers across the Zambezi river to and from Zambia, the Democratic Republic of the Congo and Angola. In 2016, 502 759

people used the Pontoon to cross either in or out of Botswana, while 63 168 vehicles were transported (Statistics Botswana, 2017c:41-42). This system of transport is, however, not efficient enough to support the large amounts of goods, vehicles and people that need to cross the Zambezi, resulting in congestion that, at times, has left truck drivers waiting up to a month for transport aboard the Pontoon (Kedikilwe, 2016). To remedy this issue of congestion, the Zambian and Botswana governments engaged in a bilateral initiative in December 2014, at a cost of about US\$ 234 million, to construct a bridge over the Zambezi that would allow for the safe and efficient transport across the Zambezi. Not only will the Kazungula Bridge relieve the congestion, but also promote trade between the two countries as well as improve the global competitiveness of the entire Southern African Development Community (SADC) (LusakaTimes, 2017, Zambia Daily Mail, 2016).

Droughts in Botswana are chronic – six of the last 10 years have been moderately to severely dry. Botswana declared a drought emergency in July 2015, following a second year of poor or failed rains across most of the country. The 2015 drought was rated as extremely severe and “the worst in the last 34 years” by the meteorological department (World Bank, 2017a:12). In response to this emergency, the government of Botswana approached the World Bank for assistance, in the form of a US\$ 145.5 million loan, to fund the Emergency Water Security and Efficiency Project. Paul Noumba Um, the World Bank Country Director, said that “The project will help Botswana cope with increased water stress, arising from a number of factors including chronic drought,” and that the “proposed measures are therefore critical for the sustainable development of the country, particularly given current climate change projections” (World Bank, 2017b).

In terms of drinking water sources and sanitation facility access, 96.2% of the population have access to improved drinking water sources and 63.4% of the population have access to improved sanitation facilities (CIA, 2018).

**Electricity:** A recent survey by Afrobarometer (Oyuke, Penar & Howard, 2016:2; 5) – a research network that conducts public surveys on issues pertaining to more than 30 countries across Africa – indicates that in 2014/2015, 89% of the respondents representing the population had access to the electricity grid. Statistical data from the World Bank, on the other hand, indicated that a mere 56.48% of Botswana’s population

had access to electricity in the same period (World Bank, 2017a). On a positive note, the government-owned Botswana Power Corporation (BPC) provided electricity to rural villages, resulting in 76% of villages being connected to the grid in 2016 (Export.gov, 2017a).

For many years, Botswana relied on importing South African power to meet most of its electricity demands. In 2014, approximately 1.7 billion kWh of electricity was imported. However, due to good governance practices, Botswana built a national power utility with full operational autonomy alongside the establishment of sound power regulation policies and incentives. In the State of the Nation Address on 6 November 2017, Botswana's then President Ian Khama announced that "[s]elf sufficiency in power supply and diversification of petroleum products are priorities for energy security" (Khama, 2017). In support of his claim Ian Khama referred to an expected electricity demand of 856 MW by 2025 while having already installed generating capacity of 927 MW consisting of 132 MW from Morupule A, 600 MW from Morupule B, 90 MW from Orapa Power Plant, and 105 MW from Matshelagabedi Alstom Power Rentals plant (Briceño-Garmendia & Pushak, 2011:24; CIA, 2018; Khama, 2017).

**Telecommunications:** A general assessment of Botswana's telecommunications system boils down to participation in regional development efforts, the expansion of a fully digital system with fibre-optic cables linking major population centres in the east together with a system of open-wire lines, microwave radio relay links, radio-telephone communication stations and lastly, rolling out 4G services to over 95 sites across the country by the Botswana Telecommunications Corporation (CIA, 2018).

A brief statistical overview shows six fixed line subscriptions per 100 inhabitants, but 149 mobile cellular subscriptions per 100 inhabitants, indicating a higher mobile cellular teledensity. Lastly, 39.4% (869 610 people) of the total population use the internet regularly (CIA, 2018).

**The economic infrastructure:** Although Botswana presents good economic growth and a strong economy supported by good governance, it is still plagued by poverty and unemployment. A 2015 poverty assessment of Botswana by the World Bank (2015:2) found that between 2002 and 2010, the incidence of poverty using the national poverty line decreased from 30.6% to 19.4%, whereas extreme poverty, using the respective

national line, decreased from 22.7% to 13.8% during the same time. Unemployment, though still a challenge, also declined from 19.9% in 2011 to 17.6% in 2016 (Reuters, 2017b).

Taken as a whole, Botswana's physical infrastructure poses an array of challenges and potential risks to investors. However, in its developing African context, Botswana still upholds an extremely desirable infrastructural environment with endless potential. Botswana's infrastructure is enjoying healthy development despite a few serious obstacles.

### **3.4 Botswana's rise to "success": The historical context**

From the Khoi and San prehistoric times to the colonialisation era and even today, the Kalahari thirstlands of Botswana have been key in the historical geography of the region due to its intermediate territorial position between the savannas of the north and east and the steppes of the south and west (Parsons, 2017; Tlou & Campbell, 1984:26). Furthermore, despite its contemporary economic stature, Botswana was a poor and peripheral British protectorate known as *Bechuanaland* during the colonial years (Parsons, 1999). This section unravels the historical narrative that saw Botswana evolve from just another British colony in Africa to one of the most prosperous African economies. The aim is to provide the analysis with a solid contextual foundation to improve the understanding of potential political risks the case of Botswana may hold.

#### **3.4.1 The pre-colonial era**

Botswana has been inhabited by humans since the dawn of the modern humans about 100 000 years ago. Although the San and Khoi peoples were the original inhabitants of this area, the ancestors of the modern Tswana tribes migrated into this area. The migration also entailed the conquering of the indigenous San and other tribes who were, in a sense, amalgamated into the Tswana people (Acemoglu et al, 2001:9; Boddy-Evans, 2017). From the 13<sup>th</sup> to the 18<sup>th</sup> centuries, a number of powerful Tswana dynasties began to emerge in the western Transvaal region, leading to the growth of Tswana states. Despite times of war and times of prosperous trading, several related

Tswana societies were established by the 1800s (Acemoglu et al, 2001:9; Parsons, 1999).

Although this era and region encompasses a rich and vast history, this study will focus on the Tswana political and economic organisational features originating in large part from this pre-colonial era. Acemoglu et al, in their *An African Success Story: Botswana* (2001), ultimately come down to the importance of the Tswana culture's political institutions and how Tswana politics, in effect, paved the way for forward thinking and good governance, resulting in the flourishing country we know today as Botswana.

During the 19<sup>th</sup> century, highly stratified, sharply hierarchical societies came into being in Botswana. Within these societies the chief was the central political figure controlling economic resources and was also an individual accumulator of wealth. The chief's authority was exercised via a hierarchy of relatives, officials and ward headmen, with a distinct type of ward for outsiders who the Tswana amalgamated into their tribal structures (Acemoglu et al, 2001:9; Good, 1992:69). In the political institutions of such a socio-economic system, the *kgotla* – an assembly of men in which issues of public interest were discussed – appeared as a uniquely indigenous form of popular participation. Although the *kgotla* essentially operated to facilitate social control by the leadership and its powers were limited to advisory only, as a forum to generate consensus for proposed actions the *kgotla* at times provided an effective way for commoners to criticise the king. Furthermore, *kgotlas* also served as a venue where the king heard court cases and law was dispensed (Acemoglu et al, 2001:9-10; Good, 1992:70).

One may be forgiven for thinking that such cultural institutions were common practice in pre-colonial African societies; however, this is not the case. This governmental system provided for consultation between chief and some form of popular assembly. This feature is, according to Schapera (1967:64), "far more characteristic of Sotho, and especially Tswana, than any other Bantu". Among the Sotho, and especially Tswana, most matters of public concern were finally discussed at a popular tribal assembly that commoners were expected to attend (Acemoglu et al, 2001:10).

This almost distinctly integrative nature of Tswana institutions and lack of colonial influence (further discussed in section 3.4.2) can be seen as a significant contribution to the current relative homogeneity of Botswana.

### 3.4.2 Colonial era

In the first half of the 19<sup>th</sup> century, Tswana tribes faced an array of conflicts ranging from the *difaqane* – a series of Zulu and other Nguni conflicts that changed the demographic, social and political configuration of central and southern Africa – to clashes with the Afrikaners (also known as Boers) during the Boer “Groot Trek” in 1835 (Acemoglu et al, 2001:11; Encyclopædia Britannica, 2017). The extent of cooperation between tribes in the face of a mutual enemy proved to be a particularly interesting feature of these wars as this cooperation laid the foundations for a future Republic of Botswana in which *merafe* – the eight main Tswana tribes consisting of the Bakgatla, Bakwena, Balele, Bangwaketse, Bangwato, Barolong, Batawana and Batlokwa – recognise common unity (Acemoglu et al, 2001:9, 11).

Another unique cooperative interaction arose from the Tswana’s relations with the British. Predating the ‘scramble for Africa’, around 1853, the chief of the Bakwena tribe, Schele, travelled to Cape Town to ally the Tswana with the British in an attempt to garner protection from the Boers. At the time, the British ignored such pleas, including those from missionaries on behalf of the Batswana (Acemoglu et al, 2001:12). For many years British traders and missionaries used the road called ‘the road to the north’ or ‘the missionary road’ (see Figure 3.1). This ‘road to the north’ became a crucial strategic asset to the British for several reasons: first, diamonds were discovered in Kimberley in 1867, thereafter gold was discovered on the Witwatersrand in 1884-1885, and finally, the 1885 Berlin Conference formalised the ‘scramble for Africa’. This led the British to look inwards from the Cape Colony towards central Africa (Acemoglu et al, 2001:12; Tlou & Campbell, 1984:146-147).

With the road to the north as a critical point of interest, British control over this road became a main concern for the British colonialists. In 1884 Germany annexed South West Africa (today’s Namibia) and, shortly thereafter, threatened to join across the Kalahari with the independent Boer republic of the Transvaal (see Figure 3.1). It became quite clear to the British government that the road to the north was in danger

of being cut off and suddenly Botswana occupied an important strategic position between the new German colony on one side and the Boer states on the other. Consequently, in 1885, Britain declared the creation of a crown colony in British Bechuanaland, as well as creation of the Bechuanaland Protectorate in the same year (Acemoglu et al, 2001:12; Parsons, 2017; Tlou & Campbell, 1984:147-148).

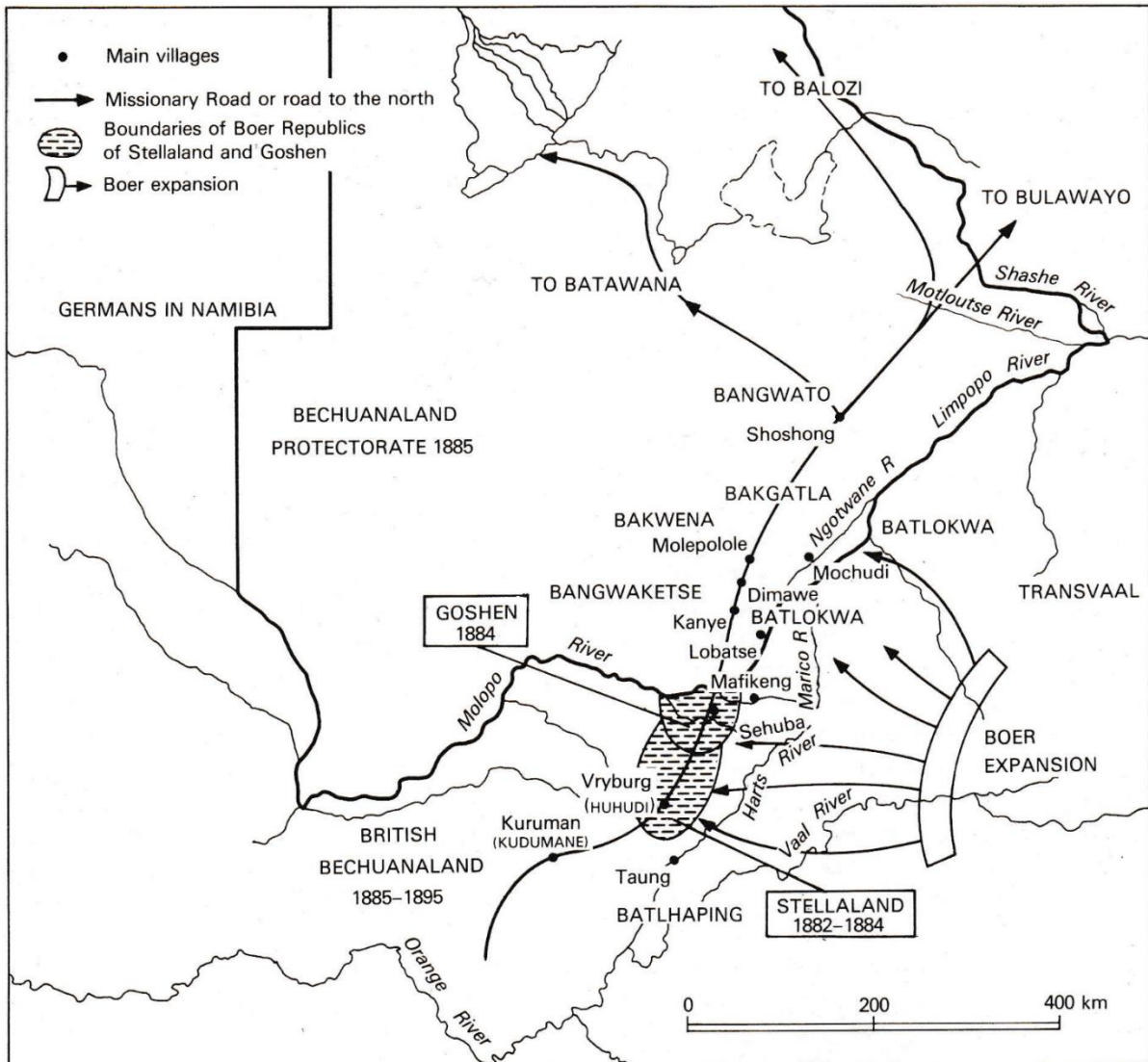


Figure 3.1: The strategic position of Botswana in the 19<sup>th</sup> century (Tlou & Campbell, 1984:144)

Unlike with other African countries, the Tswana tribes were amalgamated into the British empire mostly due to their territorial strategic location and not in pursuit of valuable or attractive territory. As a result, colonialism as a direct influence affected the people of Botswana fairly lightly. From the late 1950s it became clear that Bechuanaland could not be handed over to South Africa and must be developed towards political and economic self-sufficiency. In 1960, with the aid of great Tswana

role players, the British announced the creation of a Legislative Council and at the same time the first political party, the Bechuanaland People's Party – later the BPP (Acemoglu et al, 2001:13-14; Parsons, 2017).

The BPP adopted a radical anti-colonial stance and took inspiration from the anti-apartheid struggle in South Africa. In response to this, Seretse Khama and his supporters founded the Bechuanaland Democratic Party (later the Botswana Democratic Party) in 1962. In contrast to the BPP's narrow political base in the early 1960s, Seretse Khama was able to integrate an emerging educated elite of teachers and civil servants as well as traditional chiefs due to himself being the hereditary leader of the largest Tswana state and also European educated (Acemoglu et al, 2001:14-15). From 1964 the British began to push for political change and built a new administrative capital at Gaborone. In 1965 the BDP won the first elections and, thus, became self-governing under an elected BDP government with Seretse Khama as Prime Minister. In 1966, the Republic of Botswana was established with Khama as its first president (Parsons, 2017).

### **3.4.3 Post-colonial presidential leadership**

Despite pre-colonial and colonial influences, Botswana's rise to success also owes largely to good leaders and the good governance that accompanies such leaders. In short, Sir Seretse Khama maintained the presidency from 1966 until his death in 1980; Khama was succeeded by Quett Masire, Khama's vice president since 1965, until his retirement in 1998; Festus Mogae was elected and re-elected following BDP victories and served as president from 1999 until his retirement in 2008. In recent times, Seretse Khama's son, Ian Khama, was in power from the BDP electoral victory in 2009 until he stepped down in 2018 (Parsons, 1999; Parsons 2017); and currently, Mokgweetsi Masisi is the new incumbent president of Botswana (Komane, et al, 2018).

**Seretse Khama** inherited an impoverished and internationally obscure state from British rule, but transformed it into an increasingly democratic and prosperous country with a significant role in Southern Africa. President Khama and the new Republic of Botswana faced an initial international image problem in the sense that it was widely assumed that Botswana, at the time, had no option but to sell-out to its all-powerful white neighbours, South Africa, South-West Africa and Southern Rhodesia. Botswana

was believed to be the poorest country in Africa (Parsons, 1999). President Khama's rule, however, was marked by good economic and political policies, putting Botswana in an excellent position to capitalise on any untapped potential, such as diamonds.

In the political scene, the National Assembly emerged followed by the constitution creating a House of Chiefs. Khama, however, ensured that the House of Chiefs was reduced to a talking shop that gave the chiefs no real power over legislation and, once the BDP came into power, legislation progressively stripped the chiefs of their residual power. The Chieftaincy Act of 1965 gave the president the ability to remove a chief. These steps were crucial in the construction of the state (Acemoglu et al, 2001:16).

One of the first tasks for President Khama was to lay the groundwork for an export-orientated economy, based on beef processing and copper and diamond mining. A crucial decision in this time was the passing of the Mines and Minerals Act in 1967, which saw sub-soil mineral rights vested in the national government before these rights could be claimed by the tribes. This decision is particularly interesting and further confirms the quality of Khama's presidency given that the main diamond mines were under lands of which Khama himself was chief (Acemoglu et al, 2001:16-17; Parsons, 1999). Furthermore, President Khama turned his personal attention to foreign policy to seek out allies including President Kaunda of Zambia, to break Botswana free from its image of being a docile 'hostage' state (Parsons, 1999).

In this time, Botswana was a very poor country with few assets, little infrastructure, poor quality of education and, given the poor agricultural conditions, a reliance on large imports of food. Because of this bad start, many analysts wrote Botswana off as a dependent underdeveloped labour reserve for South Africa. To resolve their poor position, Khama's government adopted several highly successful strategies. First, they renegotiated the customs union with South Africa in 1969 to secure a greater share of revenue. They also encouraged mining companies to explore the country, which led to the discoveries of copper and nickel deposits, as well as industrial and gem quality diamonds. A crucial strategy, however, came to the fore when it became clear how productive these mines were. The government invoked a clause in the original mining agreement with De Beers and renegotiated the diamond mining agreement, thereby ensuring that a 50% share in diamond profits was held by the Botswana government (Acemoglu et al, 2001:17).

In his final years, Seretse Khama was one of the 'Front-Line Presidents' who negotiated the future of Zimbabwe and Namibia and was also a key founder of what evolved into the SADC. He passed away on 13 July 1980 (Parsons, 1999).

**Quett (Ketumile) Masire**, alongside Seretse Khama, was an architect of Botswana's government after the Southern African country gained independence from Britain in 1966. Botswana's first vice-president succeeded the country's first president, President Seretse Khama, who died of cancer in 1980, and was re-elected in 1984, 1989 and 1994, serving until 1998 (Padnani, 2017).

Masire's time in office saw some of the most difficult times for Botswana, largely due to it being in the firing line in the wars against apartheid. Masire had the difficult challenge of opposing apartheid in neighbouring South Africa while simultaneously depending on South Africa economically. In this time of difficulty, Masire initially looked the other way when South African guerrillas from the African National Congress (ANC) set up a base in his country. Eventually Masire was forced to eject the ANC after South African forces raided Gaborone in 1985, but did not deny entry to young men fleeing South Africa to become ANC fighters (Dowden, 2017; Padnani, 2017).

During the boycott of South African goods and services by foreign companies, several South African or foreign-owned companies relocated to Botswana, among which South African gold and diamond giant De Beers was most prominent (Dowden, 2017). Since the profitability of diamond mining in Botswana was noticed, Masire and Khama played significant roles in the 50-50 joint venture between the government of Botswana and De Beers. In May 1978, De Beers Consolidated Mines Ltd and the government of Botswana signed an agreement to establish the Jwaneng Mine, which was officially opened by then President of Botswana Quett Masire in August 1982. The Debswana venture proved to be highly significant as Botswana's diamond mining industry can be, and is often, seen as the life force of the country (Debswana, 2017; Padnani, 2017). Masire also had De Beers build a sorting house in Gaborone where the diamonds were graded before being sent to De Beers in London. Furthermore, he also demanded that Botswana people were trained in sorting and evaluating diamonds (Dowden, 2017).

Another challenge Masire faced is the HIV/AIDS pandemic that today still plagues the country. However, as a result of the substantial revenue from diamonds, the

government was able to fund its own programme at a huge expense while other African countries relied on international aid. Additionally, inequality between rich and poor remain high despite Masire's efforts to close the gap by providing access to education, resulting in Botswana having one of the highest literacy rates in Africa (Dowden, 2017; Padnani, 2017).

**Festus Mogae**, a former cabinet minister and vice president, took up the reins after Masire's retirement in 1998 (Parsons, 2017). In a speech delivered in a major lecture at the Institute of Development Studies, Sussex University, then President Mogae stated that he did not agree with the characterisation of Botswana's development as a 'miracle' success story "somehow suggesting some divine intervention or inexplicable reason for what was achieved". Mogae continued:

[n]atural resources, no matter how lucrative, cannot develop a country without political stability, sound economic management and prudent financial husbandry.

Instead, Mogae was of the strong opinion that, among others, quality political leadership was a key factor to Botswana's success (Mogae, 2005:34).

In 2008, Mogae was praised for being a main character in his own good leadership speech. The 2008 Ibrahim Prize for Achievement in African Leadership was awarded to Mogae, accompanied by praise for his leadership on health and economic issues (African Success, 2008). The award panel, which included former UN Secretary-General Kofi Annan, former Irish President Mary Robinson, and Nobel peace laureates Martti Ahtisaari and Mohamed ElBaradei, praised Mogae stating that he:

ensured Botswana's continued stability and prosperity in the face of an HIV/AIDS pandemic which threatened the future of his country and people,

but was also declining due in large to

one of Africa's most progressive and comprehensive programs for dealing with the disease (Perry, 2008).

Mogae's economic management was also praised as it produced "remarkable growth", attracted investment, thwarted inflation and allowed for the pursuit of diversification away from diamonds while also using tax revenue to fund investment in infrastructure,

education and health. In the midst of all this, Mogae also maintained a tough stance against corruption (Perry, 2008).

The former President of Botswana, however, was not immune to criticism. The major critique against the Mogae government pertains to the relocation of the Basarwa (San) from their ancestral land in the Central Kalahari Game Reserve (CKGR) and banning them from hunting and gathering (African Success, 2008; Parsons, 2017). Survival International (2017), the main NGO supporting the Basarwa people relocated from the CKGR, claims that the Botswana government forced the San people off their ancestral land following a large diamond discovery in the CKGR. Although the Mogae government denied these claims (News24, 2002), Survival International aided the San people in a court case against the Botswana government in which a constitutional judge ruled that:

[the San's] eviction by the government was 'unlawful and unconstitutional', and that they have the right to live inside the reserve, on their ancestral land (Survival International, 2017).

Despite this victory, reports repeatedly suggest that the San people in Botswana still experience some form of repression, discrimination and/or social exclusion in Botswana's thirst for diamonds (Chandran, 2017; Fihlani, 2014; Minorities At Risk, 2006; Survival International, 2017).

To a smaller extent, Caprivi refugees fleeing from Namibia's Caprivi Strip into Botswana since 1998 also caused, and still cause, a continuing nuisance for relations between the governments as Botswana opted to take in more refugees (Parsons, 2017; The Patriot, 2017).

A final noteworthy point of controversy relates to Mogae's treatment of Kenneth Good, an Australian political science lecturer known for his critical writing on the Botswana government. In 2005, then President Mogae declared Good an "unwanted immigrant" after Good said in a lecture that Botswana was run by a "secretive elite". Mr Good, a lecturer at the University of Botswana for more than 15 years, was deported in the same year (BBC News, 2005). Eventually, Good opted for the African Union's human rights commission, successfully sued the Botswana government and won undisclosed

payouts (Gaotlhobogwe, 2010). This was an incredibly bad mark on Mogae's presidency and, more importantly, on Botswana's international image.

**Seretse Khama Ian Khama**, son of Botswana's first President Seretse Khama, rose from the position of vice-president to president in 2008 (Palgrave Macmillan, 2017:228). Ian Khama was initially enthusiastically welcomed as a politician, entering as a well-respected military officer, traditional leader of one of Botswana's largest tribes, and son of the renowned first Botswana President Seretse Khama. However, while Ian Khama was expected to be a consensus-builder within the governing BDP, he has instead been a controversial figure whose perceived authoritarian leadership style served as a catalyst for factional strife within the party (Poteete, 2014a; The PRS Group, 2016:33).

Ian Khama leaves behind a mixed political record. The former commander of the army showed difficulties in accepting that the civil service was not a command institution, but one with processes and consultations, therefore further supporting claims of authoritarian-like rule. On the other hand, he did understand the need to internationalise and diversify the country's economy (Chan, 2016:28).

One of the key problems that plagued Ian Khama's time in office manifested in the factionalism within the BDP. The ruling party underwent an internal split in 2010 that led to the formation of the BMD. Ian Khama's reluctance to tolerate factions within the ruling BDP provoked the split, despite these tensions existing for decades. The BMD later combined forces with opposition parties in an effort to challenge the dominant BDP party. As a result, the BDP won less than 50% of the popular vote in 2014, signalling a chink in the dominant party's armour and the possibility of successful opposition should the opposing parties manage to create a united front (Bertelsmann Stiftung, 2016:13; The PRS Group, 2016:33; Throup, 2011:5). Ian Khama and his supporters recognised the possibility of an electoral loss and responded with overt mobilisation of state resources for political ends, intimidation, media repression, fear-mongering, personal attacks and deception (Poteete, 2014a).

To make matters worse, Survival International named Ian Khama "Racist of the Year" 2016 following the Botswana government's continued discrimination against the San people under Ian Khama's rule in favour of diamond mining on their ancestral land. In

2016, the San people of Botswana still had no access to their ancestral land and were banned from hunting any animals (Survival International, 2016).

Similar to his predecessor, Ian Khama showed an inclination to suppress free media following various arrests of journalists on vague charges. The chairperson of the Botswana Editor's Forum, Spencer Mogapi, said Ian Khama disdained private media which he finds "shallow, boring...never contributing anything", unpatriotic and partisan (Konopo, 2015). As support for the BDP declined, Ian Khama's authoritarian tendencies seemed to increase, forcing a more rapid decline of trust in the democratic principles of the ruling BDP. Ian Khama's authoritarian tendencies brought into question the future of government in Botswana, as well as stability as in 2018 Ian Khama had to hand over the reins to a successor (The PRS Group, 2017a:33).

Despite overwhelming critique, Ian Khama stepped down on 31 March 2018 giving way to **Mokgweetsi Masisi**, his vice-president (Komane, et al, 2018). Masisi is said to be a jack-of-all-trades as well as "a safe pair of hands" for the Botswana economy. Although Masisi is a refreshing change of pace from Ian Khama, he appears to lack strong support within the ruling party and faces strong factional opposition (Komane, et al, 2018; Mguni & Cohen, 2018). Masisi is a trained teacher who worked as an education project officer for the UN Children's Fund for eight years before resigning in 2003 to enter politics. In 2014 Ian Khama named Masisi minister of education and skills development, a portfolio he retained when he became vice president in the same year (Mguni & Cohen, 2018). Masisi is still new in his position, but many have high hopes for the new Botswana president.

Today, Botswana faces an array of problems much more delicate and complicated than when Seretse Khama first came into power in 1965. However, all is not lost, and Botswana is still seen as a prosperous African economy with good democratic principles. As far as African leaders go, Botswana has benefited from strong, intelligent and mostly good leaders that drove Botswana from a poor and seemingly useless country to a strong African role-player. This is an impressive feat considering that most of Africa is plagued by bad leaders. Despite this positive backdrop, this study continues to emphasise the need to analyse political risks regardless of a country's positive reputation.

### 3.5 Government structure

Botswana is a sovereign, democratic, unitary and parliamentary republic with a two-tier system of government consisting of the central government, headed by the president, and local government, headed by a mayor in towns/cities and a council chairperson in rural districts. There is, however, no constitutional provision for local government in Botswana and the main legislation is the Local Government Act 2012. Its legal system adheres to Roman-Dutch law, while cases in rural areas are heard by customary courts. The Constitution, adopted in 1966, is divided into nine chapters covering areas ranging from individual rights to the delegation of executive powers (CLGF, 2018:32; EIU, 2015; GlobalEDGE, 2017; Republic of Botswana, 2002).

Botswana's bicameral parliament is made up of the National Assembly which is advised on social and cultural issues by a lower house known as the House of Chiefs or *Nlto ya Dikgosi*. The National Assembly has 57 members directly elected by universal adult suffrage under the first-past-the-post system from single-member constituencies. Four additional members are appointed by the president and endorsed by parliament. The House of Chiefs has an advisory role and consists of 34 members, with each member adhering to a 5-year election cycle (CLGF, 2018:32; GlobalEDGE, 2017).

The President is the head of state and government and is indirectly elected by the members of the National Assembly to hold office for a maximum aggregate period of 10 years, with an election cycle of 5 years. The President and the Attorney General are ex-officio members of parliament. Cabinet ministers are appointed from among members of the National Assembly by the president. As previously mentioned, currently Mokgweetsi Masisi serves as president and therefore also as head of the Botswana government and Chief of State (CLGF, 2018:32; GlobalEDGE, 2017; Komane, et al, 2018).

The High Court is the highest court of the land responsible for exercising judicial power. The Court of Appeal and High Court Chief Justices are appointed by the President, while other judges are appointed by the President upon the advice of the judicial service commission. A mandatory retirement age of 70 is applicable to the judicial branch of government (GlobalEDGE, 2017).

### 3.6 Conclusion

A thorough political risk analysis presupposes a systematic and comprehensive procedure. The first step involves compiling the analysis framework, the methodology that will guide the analysis. Another critical part, however, is scrutinising the basic features and history of the subject of analysis; in essence, Botswana. For this reason, a summarised view of Botswana's basic features was provided, accompanied by the political history of Botswana. This contextualisation serves to indicate potential historical influences that may arise as a political risk threatening present or future foreign investment or involvement. This chapter draws the final curtain and paves the way for the political risk analysis of Botswana in the next chapter.

Although former president of Botswana Mogae strongly believes that the success Botswana achieved was not merely of divine intervention, but good leadership, the argument can be made that Botswana's history indicates a path of continuous prosperity and opportunities for resolution in the face of adversity. In the pre-colonial era, people in the region evolved into 'primitive capitalists' and developed culture of good governance. When threatened by the Boers, the Tswana people opted for a diplomatic approach and eventually became a British protectorate when the British trade route was threatened. Under colonial rule, the Tswana people were not affected as much as other African nations, as the only British concern with Bechuanaland was the strategic position it held. At independence, Botswana greatly benefited from having in power a person with a western education, a chief of one of the largest Tswana tribes in the region and good leadership skills. As the British colonialists left, Botswana discovered large deposits of diamonds and eventually, with the aid of good leadership, rose to being one of the top diamond producers in the world.

Acquiring a knowledge base of Botswana's history, and infrastructural, geographic, and geodemographic features is a crucial step for any prospective investor. The government structures accompanied by information pertaining to the economy, industry and political landscape also make up an important part of this cognisance. The purpose of this chapter is to ultimately provide a foundation complementing the analysis framework as, combined, they set the stage for the political risk analysis of Botswana.

In the following chapter, the political risk analysis framework compiled in Chapter 2 is applied to the current state of the country overviewed in Chapter 3. To be able to answer the research question, the next chapter, supported by the previous chapters, is most important and ultimately provides the answers this study seeks.

## **CHAPTER 4 : Political risk analysis of Botswana**

Previous chapters of this study delineated the concept of political risk, compiled a framework for political risk analysis and provided context for the case study. The penultimate chapter of this study has but one function: to analyse the political risks in the context of Botswana. The analysis of political risk in Botswana will be broken down into three overarching sections addressing the political, societal and economic aspects of the state. As the focal points of this chapter, the 11 indicators identified in the second chapter will guide the analysis and provide for a comprehensive scrutiny of the situation in Botswana.

In this chapter, the underlying theoretical framework of problem-solving theory and decision-making theory comes into play. The baring of each indicator is an attempt to solve the problem of ignorance and uncertainty by providing any and all information relating to the indicator in question. However, the absence of uncertainty and information alone is of little use if not analysed as well, which is why decision making is a crucial aspect of political risk analysis. Each indicator contains information AND an attributed risk rating decided by the analyst based on the framework compiled in the preceding chapters. The systematic approach to problem-solving and decision making ensures a solid foundation for the findings of this chapter providing for a more reliable and objective view of the political risks in Botswana.

### **4.1 Political indicators**

Political indicators, or political sources of risk, as a subcategory of a political risk analysis may cause confusion, after all a political risk analysis aims to analyse political risks. However, any competent researcher considers the interdependent relationship between politics, societies and peoples, and the economy, and how these three facets are influenced by politics as well as exerting an influence on politics and, therefore, also on political risk. It is therefore useful to categorise political risks as either political (political indicators), social (sociopolitical indicators) or economic (politico-economic indicators).

Accordingly, this subsection comprises political risks that sprout from political origins such as war, terrorism, international relations and government.

#### **4.1.1 Bad neighbours**

Overall, Botswana maintains healthy relations with its neighbours. A recent testament of Botswana's good relations manifests in the Kazungula Bridge project, which aims to open a transport corridor between Zambia and Botswana. The project seeks to improve the infrastructure at Kazungula to reduce transit time (from 30 hours to six hours), facilitate increased trade activity, and improve the integration of the Zambia and Botswana economies, as well as their global competitiveness (Engineering News, 2018).

The Kazungula Bridge project, however, highlighted Botswana's uncomfortable relationship with its Zimbabwean neighbour. Design alterations, which includes extending the bridge from 600 metres to 923 metres, had to be instituted after a dispute with Zimbabwe, under the rule of Mugabe. Mugabe refused passage of the bridge through Zimbabwe, a passage that would have consisted of approximately 200 metres (Engineering News, 2018). Tense relations between Botswana and Zimbabwe have grown over the 30 years of Mugabe's dictatorship, with Ian Khama's 'megaphone diplomacy' exacerbating the relationship. Botswana's former president Ian Khama had publicly spoken out against former president Robert Mugabe on multiple occasions (Chinaka, 2008; Cropley, 2017; Dzirutwe, 2016) fostering an uncomfortable relationship that one media outlet even likened to a Cold War (Mosikare, 2017).

The economic situation in Zimbabwe contributes to the troubled relationship as illegal Zimbabwean immigrants travel to Botswana in pursuit of better economic prospects. Yet, despite Botswana's economic standing, it is still plagued by a high unemployment rate and cannot, therefore, afford waves of illegal immigrants seeking financial opportunities, legitimate or illegitimate. Government spending on refugees and deportation puts a further strain on the Botswana economy, which in turn strains relations between the two governments, particularly in times of economic turbulence (Gabathuse, 2016; Ngwenya, 2016).

However, with Mugabe being deposed, Botswana's Ian Khama and Zimbabwe's Emmerson Mnangagwa were eager to fix the strained relations caused by Mugabe's

gross human rights violations and Ian Khama's loud criticism of Mugabe's regime (News24, 2017). At the start of 2018, Zimbabwean President Emmerson Mnangagwa received a warm welcome in Gaborone, forming part of a state visit to enhance bilateral and economic cooperation between the two neighbours (Toteng, 2018). This recent change in government has the potential to turn a *bad neighbour* into a useful ally in the near future.

On the opposite side of the country, Botswana has also been at odds with its other neighbour, Namibia. Due to the arid climates of both countries, water sources is and will always be a critical focal point between the neighbours. In the past Botswana and Namibia had a long and well-known dispute regarding the ownership of the Sedudu/Kasikili island in the Chobe River between Namibia and Botswana. In the end, the International Court of Justice (ICJ) ruled in favour of Botswana, a ruling very welcome following a relatively long period of protracted debate and intermittent threats of military action, which included formal military occupation of the island by the Botswana Defence Force (BDF) (Ashton, 2002; Le Roux, 1999:54). Realising that clashing over water in times of severe drought is inevitable, the three riparian states sharing the Okavango created The Permanent Okavango River Basin Water Commission (OKACOM) to advise on disputes regarding the Okavango River. According to OKACOM, the agreement signed in 1994 commits the member states to "promote coordinated and environmentally sustainable regional water resources development" and to recognise the implications that developments upstream of the river can have on the resources downstream (Mbaiwa, 2004:1324; OKACOM, 2018).

Botswana will inevitably experience conflicts with neighbours sharing in its water sources. However, if the current trend of good governance and adherence to international law and customs continues, the conclusion can be drawn that any political risks originating from bad neighbours can be effectively dealt with. Based on this, a **low risk** can be attributed to this political Indicator.

#### **4.1.2 Radical religious forces**

Botswana falls among the countries least affected by radical religious forces (see Figure 4.1), according to 2017 data (IEP, 2017:105). The Global Terrorism Index (GTI) is a comprehensive study that analyses the impact of terrorism for 163 countries,

covering 99.7% of the world's population. The GTI produces a composite score to provide an ordinal ranking of countries on the impact of terrorism. In this scoring system Botswana received 0 out of 10; where 0 represents no impact from terrorism and 10 represents the highest measurable impact of terrorism (IEP, 2017:6, 46). This scoring system is based on four main indicators, while the annual GTI score is based on a unique scoring system to account for the relative impact of incidents in the year. These four yearly factors include: the total number of terrorist incidents in a given year, the total number of fatalities caused by terrorists in a given year, the total number of injuries caused by terrorists in a given year, and a measure of the total property damage from terrorist incidents in a given year (IEP, 2017:108). An annual score of 0 indicates that Botswana has not experienced any of the abovementioned factors in recent times. To further illustrate the low impact of terrorism in Botswana, a 2014 newspaper article titled *Tale of two Africas: In Botswana, a 'boring' election; in Tunisia 6 terrorists killed ahead of tense vote* (Onyango-Obbo, 2014) compared two African countries, Botswana and Tunisia, conducting their respective elections at roughly the same time. The article stated that although many analysts called Botswana's 2014 elections "an unprecedented test against an invigorated opposition", another group of observers were convinced that the BDP might not even lose a seat.

On the other hand, in the run-up to the Tunisian elections, authorities expressed fears that "terrorists" will seek to disrupt the election (Onyango-Obbo, 2014). According to Onyango-Obbo (2014), the reason behind this strong contrast is the Botswana being among the Africans who have voted most consistently, resulting in one of the very few African countries that escaped both one-party civilian dictatorship and military rule. Despite murmurs of "dynasty rule" and slow change (Onyango-Obbo, 2014), Botswana remains free of radical groups seeking to destabilise the current regime.

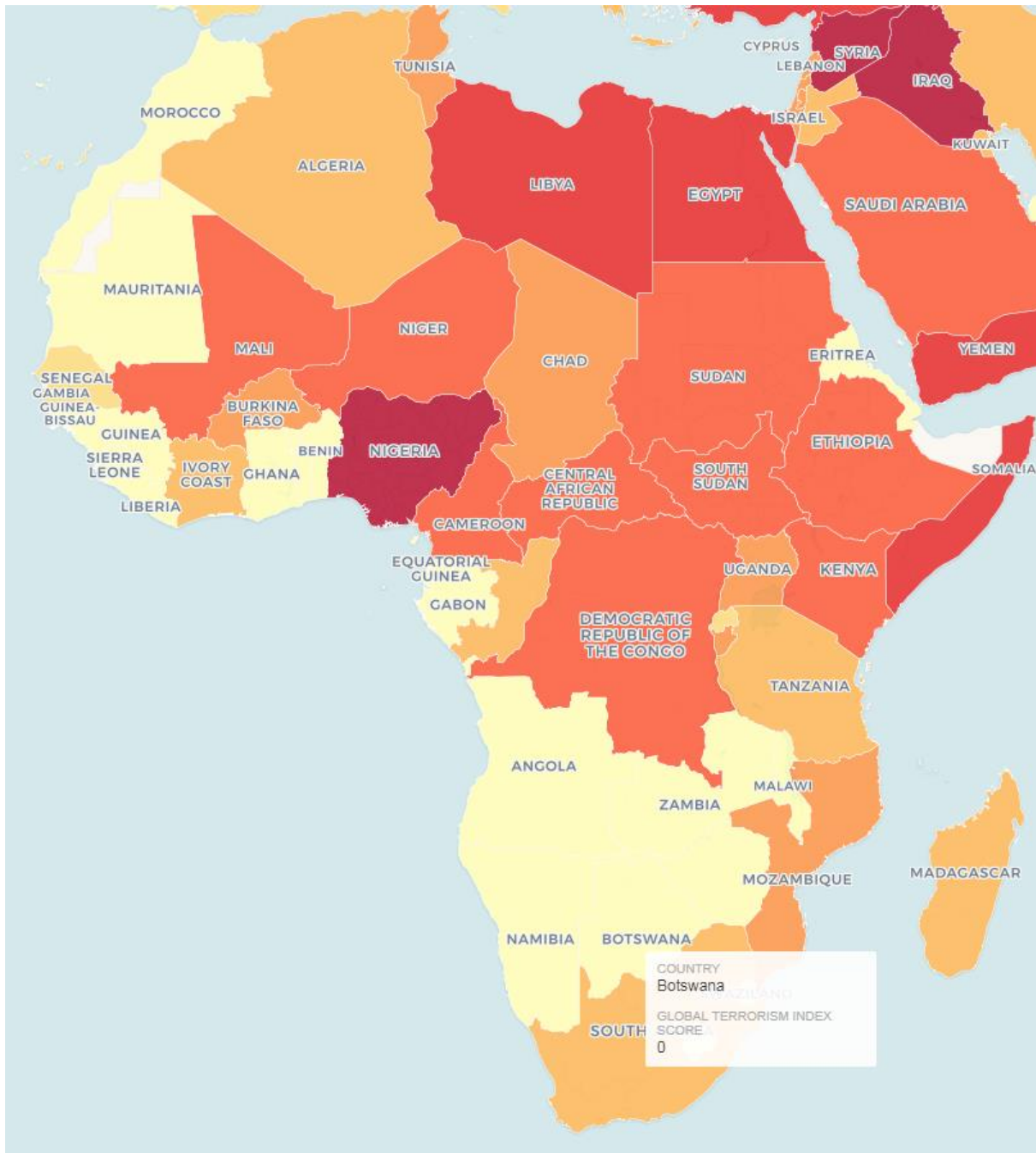


Figure 4.1: Botswana’s GTI score (Smith, 2017)

Despite this image of a terrorist-free country, any thorough analysis must also scrutinise undercurrents relating to potential risks or vulnerabilities. To this extent, the British government makes a valid statement when it warns its nationals that although there is no recent history of terrorism in Botswana, attacks can’t be ruled out. The British government reminds its nationals that there is a heightened threat of terrorist attack globally against its interests and its nationals (Government of the United Kingdom, 2018). In the same vein, Turkey’s ambassador to Botswana, Ibrahim Mete Yagli, has warned that the deadly terrorist group that orchestrated the failed 2016 coup

d'état in Ankara, Istanbul are already operational on the African continent. According to Yagli, as a part of the region Botswana must be vigilant at all times as this is a highly trained and well-resourced group that can ruin a country's and its citizens' future (Pheage, 2017). While the USA does not believe that diamond smuggling occurring in Botswana is linked to terrorism financing, it does state that as a cash-based society, Botswana has insufficient infrastructure to address money laundering and terrorism financing that may take place within its borders (U.S. Department of State, 2014).

Criticism of Botswana's insufficient infrastructure is neither unfounded nor a perception exclusive to the USA. A report published in 2009 concluded that Botswana struggles to meet international standards relating to Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT). Major contributors, according to the report, relate to Botswana's strategy to attract FDI coupled with very lucrative and easily accessible government subsidies, grants, loans and tax breaks for establishing businesses that propose to employ Botswana. This, combined with a weak mechanism to vet foreign individuals, creates an opportunity for money laundering and financing terrorism (Madzima, 2009:7, 18). Eight years later, a 2017 report found that Botswana's AML/CFT regime is not yet developed, with competent authorities still in the process of understanding their responsibilities and building capacity to deal with money laundering and financing terrorism (ML/TF) (ESAAMLG, 2017:7). Generally, Botswana's legal framework does not provide for a requirement to identify and verify the identity of legal persons and legal arrangements or a requirement to obtain and retain information on beneficial ownership. Authorities have not determined and are not aware of the ML/TF risks associated with the legal persons and arrangements in Botswana (ESAAMLG, 2017:8).

Overall, radical religious forces do not present a threat in terms of violent attacks or acts of terrorism as shown in the statistics mentioned in this section. However, due to Botswana's insufficient infrastructure to counter ML/TF, it may in fact be promoting (or at the very least, fail to limit) radical religious forces' activities on the continent. Ultimately, this political risk indicator's emphasis resides on the effect of terrorism on the political and economic landscape of the country in question. With this in mind, radical religious forces pose a **low risk** to Botswana. A proviso must accompany this allocation: improvements in Botswana's AML/CFT infrastructure may disrupt ML/TF

activities, resulting in a potential heightened political risk caused by agitated terrorist organisations that benefit from Botswana's current insufficient AML/CFT infrastructure.

### **4.1.3 Authoritarianism**

Botswana has long been perceived as a poster child for a democracy, preceded by a reputation for its political stability, good governance and, for the past few decades, as a strong opposer of African dictators and human right violators. Yet, despite its golden reputation Botswana is not without authoritarian tendencies and human rights violations of its own.

Former president Ian Khama has been an especially divisive figure often criticised for his authoritarian tendencies, though these tendencies, vested in the considerable power of the executive, was also evident in Ian Khama's predecessor, former president Festus Mogae. In 2005, Botswana under Mogae deported a long-serving Australian professor of political science at the University of Botswana, Professor Kenneth Good, following research he had conducted for Survival International on the battle between the Khoisan in the CKGR and the diamond mining interests (Throup, 2011:10). Good co-authored a paper that criticised the Botswana leadership of being run by an elite that made decisions, particularly on the presidential succession, behind closed doors, and manipulated state media. After one court appearance, Good stated that the decision, by the court, to deport him symbolised the "death of democracy" (BBC News, 2005; Ford, 2005). On 31 May 2005, the Botswana High Court ruled against Good, who was branded a "prohibited immigrant" and a "security threat" to Botswana, on the grounds that the Constitution of Botswana gives the President the right to behave as he deems fit and that "[t]he president does not have to give any reasons" regarding his decision (Taylor, 2006:105-107). Although Good went on to file, and eventually win, a lawsuit against the Botswana government at the African Union's Human Rights Commission in Banjul, The Gambia (Gaotlhobogwe, 2010), he is still banned from entering Botswana, casting a dark shadow over Botswana's democratic international image.

To the outside world, former president Ian Khama developed a reputation for being an outspoken African figure who does not hesitate to publicly speak out against the likes of Robert Mugabe, Yuwari Museveni and Omar Hassan Al-Bashir. This image of a

warrior for democracy is, however, not reflected as clearly at home (Konopo, 2017). According to Afrobarometer data, risk to democracy doubled from 12% to 24%, while perceived supply of democracy declined by 15% - 16% between 2008 (at the start of Ian Khama's term) and 2014 (Bratton & Gyimah-Boadi, 2015:20; Lekalake, 2016:8). Further data indicates that in 2014, 65% of respondents believed they are free to say what they think, as opposed to 2008 in which 83% of respondents shared this belief (Dionne, 2016).

Since Ian Khama took office in 2008, the number of extra-judicial killings, torture and harassment of members of the public by plainclothes security agents has seen a noteworthy increase. In the run-up to the 2014 Botswana elections, as many as 16 journalists were arrested, detained and threatened. For the most part, these actions are attributed to Ian Khama creating the Directorate on Intelligence and Security Services (DISS) (Konopo, 2017). Joel Konopo, a Botswana journalist whose life was threatened by intelligence operatives while pursuing evidence to support his criticism of Ian Khama (Shedrofsky, 2017), is of opinion that the DISS is a spy agency doing the bidding of Ian Khama. The DISS's role and mandate are unclear, while it holds wide ranging powers to arrest, seize and detain without warrant, according to the Intelligence and Security Services Act of 2007 (Konopo, 2017). Ian Khama's alleged connection to the DISS also relates to another aspect of his leadership that troubled analysts, namely the 'militarisation' of the civil service. Key positions in the civil service were awarded to former army officers without those positions being advertised (Sebudubudu & Botlhomilwe, 2013:127).

Overall, Ian Khama has been criticised for failing to divert the Botswana economy off diamond dependence, implementing populist policies leading to a growth in unemployment and poverty (Konopo, 2017), trying to control and censor the media (Vikilahle, 2017), and of 'creeping authoritarianism' as a whole (Dionne, 2016). Ultimately, the picture that emerged from Ian Khama's presidency was that of an 'authoritarian' head of state with the tendency to make unilateral decisions (Sebudubudu & Botlhomilwe, 2013:126-127). Ian Khama's authoritarian rule cannot be solely attributed to his personal inclinations; consideration must also be given to a constitution that enables a head of state to act in such a way.

Building on the abovementioned, the power of the Botswana head of state represents a significant contribution to the risk of authoritarianism. The office of the president wields immense power, controlling the appointment of all ministers, senior civil servants, parastatal heads, military commanders, the selection of nominated members of Parliament, and the leaders of a diverse range of executive agencies (Throup, 2011:13). Section 47 of Botswana's constitution states that "[t]he executive power of Botswana shall vest in the President" and that:

[i]n the exercise of any function conferred upon him by this Constitution or any other law the President shall, unless it is otherwise provided, act in his own deliberate judgment and shall not be obliged to follow the advice tendered by any other person or authority (Republic of Botswana, 2002).

Furthermore, Parliament exerts limited checks and balances on the president's powers, with only the minister of finance possessing any real political autonomy (Throup, 2011:13). Although Parliament is supposed to be a separate branch of government able to check the executive, it rather tends to function like a department in the office of the president, controlled not by the speaker but by the vice president, referred to as the leader of the house. Section 92 of the Constitution even empowers the president to dissolve a democratically elected parliament, despite the president not being democratically or popularly elected (Mogalakwe & Nyamnjoh, 2017:4; Republic of Botswana, 2002). Sebudubudu & Botlhomilwe (2013:118-119) highlight the risks of a weak assembly due to an overpowering executive. The powers vested in the Botswana head of state empower this position with power over Parliament through direct contribution in parliamentary proceedings, the capacity to dissolve parliament, as well as with legislative powers – as any bill passed by Parliament requires the president's assent to become law (Sebudubudu & Botlhomilwe, 2013:118). This proves especially troublesome when one considers that the Botswana Parliament is also dominated by the BDP. The significant risk arises out of the president's ability to, in effect, prevent or at least deter a vote of no confidence, appoint loyalists in strategic governmental positions, and ultimately capture the state with very little constitutional buffers.

To determine the level of political risk for this indicator proves a difficult task. For years Botswana has enjoyed good democratic leaders with limited authoritarian tendencies,

despite a constitution that can be exploited for authoritarian purposes. Ian Khama's authoritarian tendencies introduced the very real risk creeping within the composition of the Botswana government. Authoritarianism in Botswana is limited to the integrity and behaviour of the executive of the day and can, at any time, change depending on the head of state. On the backdrop of two presidencies preceding Masisi that showed signs of authoritarianism and the BDP's longstanding reign coupled with a constitution that enables the president of Botswana to behave as an authoritarian, it would be unwise not to see authoritarianism as a real political risk. Considering Botswana's constitution as well as the BDP's domination of the Botswana Parliament and presidency, Botswana poses a **medium risk** in terms of authoritarianism. This risk can easily be downgraded to a low risk, should the electoral playing field level out and Botswana's constitution be adapted to ensure stronger checks and balances, especially regarding the separation of powers between the executive and other branches of government. However, such a separation is unlikely if consideration is given to The PRS Group's (2016:30) argument that such a division would create a greater risk of significant economic difficulties as policy disagreements would slow the pace of implementation and contribute to heightened uncertainty and a loss of investor confidence.

#### **4.1.4 Staleness, uncertain leadership succession**

In Chapter 2, the argument is made that a leader needs five years to consolidate his/her grip on power, but that after 10-12 years a leader grows detached and stale. Chapter 4 Section 34 of Botswana's constitution effectively limits the risk of an individual leader growing stale by limiting the tenure of the president to an aggregate period not exceeding 10 years (Republic of Botswana, 2002). Although this constitutional principle has been respected by each president since its implementation in 1997, it does not account for political parties growing stale.

Dominating elections since 1966, the BDP have increasingly been criticised for incompetent governmental officials, corruption, and inefficiency (Ntshingane, 2017) and after more than 50 years in power, many Batswana have grown tired of the BDP (Beardsworth, 2018). Figure 4.2 clearly illustrates Batswana growing tired of the BDP as support during general elections has declined significantly throughout the years.

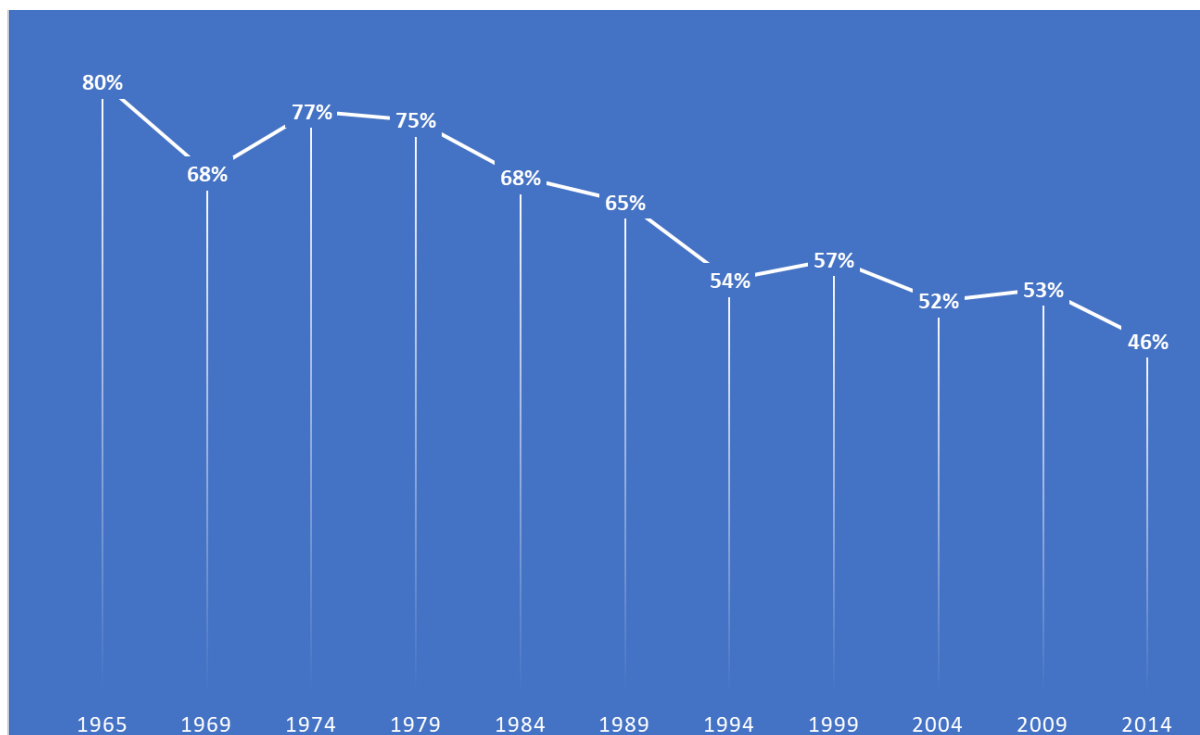


Figure 4.2: BDP votes won in general elections (Data extracted from EISA, 2017)

This electoral image (Figure 4.2), however, fails to capture the fact that the BDP still dominates parliament by filling 65% of the seats in parliament (EISA, 2017). Despite the BDP's apparent languish, certain aspects of the organisation of government continue to benefit the ruling party, thereby limiting the threat of electoral decline. It is one thing for a political party to grow stale and detached from the needs of the public, but what makes it troublesome in the case of the BDP is the disproportionalities of the first-past-the-post voting system, coupled with a weak opposition and presidential terms disconnected from the five-year electoral cycle. The presidential terms in Botswana creates a cycle in which a head of state can 'pick' his/her own successor by appointing a favourable individual to the position of vice-president. Due to President Masire's resignation in 1998 presidential terms are disconnected from the election cycle resulting in the vice-president automatically ascending to the position of president, 18 months before each election (Poteete, 2014b). This creates an 'incumbency effect' in which the incumbent president can use all the privileges that come with the position to win the favour and loyalty of voters and so ensure his continued reign, as well as that of his political party (Beardsworth, 2018). The institutional composition of Botswana's government is one of the main contributors to the BDP's longstanding reign and, therefore, also to its staleness.

Evidence of the BDP's staleness manifests in a key responsibility of the executive: policy implementation. Kaboyakgosi & Marata (2013:310) argue that Botswana's policies are characterised by poor implementation and suggest a few reasons for this, two of which indicate a strong correlation with a stale government. First, the main challenge of policy implementation pertains to the declining credibility of the government's ability to adhere to its policies. In recent years, the Botswana government has increasingly created and adopted policies to which it does not adhere (Kaboyakgosi & Marata, 2013:316), suggesting a detached and complacent government. The long struggle to privatise Air Botswana as well as a half-hearted commitment to the Public Private Partnerships (PPP) Policy both serve to support this argument. The privatisation of Air Botswana was due to take place in 2001 (AfDB/OECD, 2003:79), though after a long period of stagnancy this is once again in the pipeline in 2018 (Van Diemen, 2018). Furthermore, the 2017 Stanbic Bank Botswana PPP conference in Gaborone brought to the foreground a concern shared among the private sector, saying that the Botswana government shows a "lack of political will to develop the infrastructure via the PPP" (Tabane, 2017). According to Regina Sikalesele-Vaka, investor and stakeholder in the non-bank financial sector, there was no assurance that government is serious about developing PPP markets in Botswana (Tabane, 2017).

Second, according to the 2017 Ibrahim Index of African Governance Report (Mo Ibrahim Foundation, 2017:34) Botswana is showing a worrying trend of increasing deterioration in terms of public accountability. Despite ranking third among all African countries included in this report (Mo Ibrahim Foundation, 2017:34), this regression of good governance still bodes ill for a country praised for its good democratic principles. The report also indicates that a major contributor to this deterioration is the issue of increasing corruption (Mo Ibrahim Foundation, 2017:35). This is further supported by the 2018 Bertelsmann Stiftung's Transformation Index (Bertelsmann Stiftung, 2018:8), which states that a "culture lacking accountability is on the rise" as private newspapers continuously report on corruption and maladministration implicating senior government officials and politicians, yet none take responsibility. Regarding corruption, GAN Integrity's (2016) *Botswana corruption report* indicates a moderate corruption risk in Botswana, although an increasing trend of nepotism and patronage networks pervade the government sector, which leads to a very high corruption risk for public tenders.

With a single political party dominant for more than 50 years, forming the majority of a government that is increasingly being seen as detached, lacking in political will, slow in implementing key policies, and increasingly corrupt, signs of staleness are clear. Although this indicator generally focuses on the staleness of a leader, it proves imperative to also consider the larger body and the extent to which governance is seen as stale and detached. The BDP is a simple case of a political party that was crucial to Botswana's success having grown stale due to its long reign coupled with an institutional framework that aids its grip on power. To attribute a high risk is, however, not appropriate. Despite the BDP's long reign, it is still not comparable to Mugabe's more than 30-year reign as head of state of Zimbabwe (Biography.com, 2018), and even less so to the Kim Dynasty that has ruled North Korea with an iron fist for more than 70 years (Campbell, 2017). Instead, it proves appropriate to attribute Botswana a **medium risk** when it comes to staleness of government.

#### **4.1.5 War, armed insurrection, and non-constitutional changes**

Unlike many other African countries, Botswana does not stress military power in its foreign policy nor does it celebrate a 'warrior' culture. Instead, it emphasises dialogue and diplomacy over violence as the preferred option to resolve disputes (Henk, 2005:172-173). Yet, since its creation in 1977, in direct reaction to the Rhodesian bush war, the BDF has seen rapid development (Le Roux, 1999:87, 90). Even today, the defence and security sector is listed among the five priority spending areas of Botswana's 2018/2019 budget (DefenceWeb, 2017). Although Botswana does not currently face any transnational disputes or any threat of civil war (CIA, 2018), Economic and Financial Policy secretary Taufila Nyamadzabo justifies Botswana's continued BDF emphasis by arguing that a military remains pertinent as a form of insurance against future security threats and that replacing worn out and outdated equipment ultimately reduces high maintenance costs caused by aging equipment (DefenceWeb, 2017).

In a conflict-torn region, Botswana has remained peaceful since independence and is even included in a 'Zone of Peace' in Southern Africa comprising Zambia, Malawi and Botswana (Brosché, 2017:3; Brosché & Höglund, 2017). Although Botswana currently presents no threat of war, armed insurrection or non-constitutional changes, it remains necessary to look into its past to better gauge the existence of potential future risks.

To this extent, four events involving the BDF serve as brief case studies to illustrate Botswana's tendency (or lack thereof) to engage in armed combat: The Botswana-Namibia Caprivi Strip dispute, the 1998 military intervention in Lesotho, patrolling the border between Botswana and Zimbabwe, and Botswana's war against poachers.

In the late 1990s Botswana and Namibia were involved in a dispute over the Sedudu/Kasikili island in the Caprivi Strip. Although this dispute has already been covered under the bad neighbours indicator, the BDF's role in this dispute is of concern for the current indicator. In the run-up to the ICJ ruling, and despite ongoing talks between the two countries, BDF troops occupied the island with instructions to stop any Namibians, even senior government officials, from setting foot on the island (Le Roux, 1999:84-85). A grave concern arose when Botswana planned to build a new military air-base in the midst of the dispute. The air-base would supposedly consist of three sites with the third site located near the Caprivi Strip giving rise to the suspicion of a 'military build-up' (Le Roux, 1999:84, 87). In the end, as discussed previously, the ICJ ruled in favour of Botswana and today Botswana's air force is mainly located near Molepole (the main site for the air-base planned during the Caprivi Strip dispute), Gaborone, and airfields near Francistown and Maun (GlobalSecurity, 2016a).

On 22 September 1998, South Africa intervened in Lesotho claiming it a SADC humanitarian peacekeeping mission to rescue Lesotho from a coup. One day later, the BDF arrived with a small motorised infantry company and a battalion command element (Likoti, 2007:251, 253, 256). The intervention proved to be inconsistent with the UN Charter as well as the SADC Treaty and was shrouded in controversy. However, upon entering Lesotho the BDF flew a pure white flag suggesting that Botswana saw itself as a peacemaker instead of an intervener (Likoti, 2007:251, 260). Ultimately, Botswana's actions in the intervention led Likoti (2007:261) to conclude that instead of self-interested realist motivations attributed to South Africa by critics, Botswana was most likely involved to legitimise the intervention and therefore a force for peace instead of war or intervention.

At the height of Robert Mugabe's regime, the violence of his supporters led to Zimbabwean masses fleeing the country, which strained relations with its neighbours, especially Botswana. To curb the influx of Zimbabwean refugees, Botswana built an electrified fence along its Zimbabwean border in 2003, accompanied by a BDF

contingent serving as border patrol in 2008 (Munnion, 2008; Pitse, 2008). Although it was merely a precautionary measure to prevent a spill-over effect, the BDF border patrol also included heavy artillery to repel any military attack that might erupt due to the political trouble in Zimbabwe (Munnion, 2008; Pitse, 2008). After Mugabe's resignation, such a strong emphasis on an anti-Zimbabwe border patrol is no longer necessary as Botswana and Zimbabwe work to improve relations strained by Mugabe's regime (News24, 2017).

Ultimately, when faced with international quarrels, Botswana has opted for diplomatic resolutions and averted war instead of seeking it out. Although Botswana displays a preference for peace, part of Botswana's constitution coupled with former president Ian Khama's military background gives rise to concern pertaining to civil-military relations. In the first instance, Section 48 of Botswana's constitution states that the "supreme command of the armed forces of the Republic shall vest in the President and he shall hold the office of Commander in Chief" thereby conferring the power to determine the operational use of the armed forces as well as the appointment and promotion of officers onto the president of Botswana (Republic of Botswana, 2002). Although Section 48 also states that Parliament may regulate this use of the BDF, the executive's dominance over Parliament renders this condition moot. This clause in Botswana's constitution introduces a vulnerability in which the president of Botswana has the power to use, and even misuse, the BDF as he or she deems fit. An example of a past president's willingness to deploy military force against its own population is former president Masire's reaction to riots in 1995. A ritual murder of a young girl sparked protests on several issues and quickly spread across the country and to the capital city in particular. Masire responded with the immediate use of the military and issued a warning that the government:

shall not tolerate lawlessness, destruction of public and private property as well as unruly behaviour .... Those who continue with such behaviour will regret, (Modungwa, 2014:65).

Secondly, a key component of a liberal democracy relates to civilian control of the military – civilian (non-military) officials enjoy exclusive authority to decide national policies and their implementation while the military has no autonomous decision-making power (Croissant et al, 2011:78). This suggests that in a liberal democracy, as

Botswana appears to be, political office bearers are comprised of elected civilians and not military generals. With the ascension of Lieutenant-General Ian Khama the lines between civil-military relations became blurred as Ian Khama used the capacities and techniques of personal, militaristic rule to an exceptional degree, all the while his leadership experience was limited to three areas alone: chieftaincy and dynastic politics, the military, and state power, briefly at the highest level (Good, 2009:318). According to Good (2009:315), Ian Khama's time in office saw an escalation in the militarisation and personalisation of power in Botswana. Repressive agencies, such as the DISS, were operationalised, military personnel, including officials in Ian Khama's first cabinet, have entered government, and a flurry of accusations of extra-judicial killings by state agents have been made (Good, 2009:315; Modungwa, 2014:74).

Despite the significant concern this military-authoritarian rule sparked, Khama's ruling style significantly differed from all three previous presidents (Modungwa, 2014:80) suggesting that this period of blurred civil-military relations is an outlier and not necessarily the norm in Botswana's democracy. However, the current vulnerability of Botswana's constitution, in terms of the head of state abusing military power, remains a dormant political risk that requires only one radical leader to exploit.

Gazing upon Botswana's intra- and interstate conflicts, Botswana undoubtedly present a **low risk** when it comes to war, armed insurrection and non-constitutional changes. The attribution of a low risk does not mean there are no underlying risks. Indeed, Botswana's behaviour internationally suggests little risk of war or armed insurrection, though the underlying vulnerabilities in its constitution and leadership could hold the potential for future political risks, should these vulnerabilities be exploited by a radical or authoritarian leader.

## 4.2 Sociopolitical indicators

Sociopolitical indicators differ from political indicators as the focus shifts from the government and governance to the societies and civilians of the country. Issues of ethnicity, race, societal conflict, and social conditions comprise this subsection. These issues can gravely influence investments as people and societies remain key to the functioning of any business. Analysing the social side of a country can be helpful to

predict potential conflicts or restrictions on business operations and ultimately, investment returns.

#### **4.2.1 Ethnic/religious/racial tensions**

Although Botswana is an ethnically heterogeneous nation, like most African countries, it presents a unique ethnicity case for two reasons: 1) it is characterised by constitutionally grounded ethnic differentiation and 2) has experienced relative peace among its ethnic groups despite its constitutionally legitimated ethnic differentiation. In terms of the former, Botswana's constitution delineates eight 'principal tribes', which includes the Bangwato, Bakgatla, Bakwena, Barolong, Batlokwa, Bangwaketse, Balete and Batawana (Mulinge, 2008:63-64). However, despite the apparent peace and acceptance of formalised differentiation, two points of conflict point towards rising ethnic tension within Botswana.

The first point revolves around tribal representation in the House of Chiefs, captured in sections 77, 78, and 79 of Botswana's constitution. These sections cover the composition of the House of Chiefs as well as its membership clause which limits eligible members to the eight majority tribes mentioned above (Mulinge, 2008:70; Republic of Botswana, 2002). Tribes that do not form part of the 'principal' tribes initiated political debates (since 1999) that questioned the legality of these sections of the constitution, labelling them as discriminatory. Minority tribal groups insisted on recognition as distinctive entities as well as representation in the House of Chiefs. A call was made to expand the House of Chiefs to incorporate chiefs from all tribes in the country (Mulinge, 2008:70). In 2000 president Mogae appointed a commission to collect views from people regarding their perceptions on the demands of changing the constitution to a tribal-neutral constitution. Based on the recommendations from the commission, a draft government White Paper was compiled that proposed an expansion of the House of Chiefs to include representatives from minority tribes. Furthermore, the paper called for the system to change from Tswana 'paramount chiefs' who enjoy automatic membership to one in which all members of the house are to be elected equally. Botswana minority tribes were en route to constitutional equality when Mogae announced that the White Paper would not be "forced on the people if they do not want it" following a meeting with his ruling BDP party (Panapress, 2002). Although the debates have since lost steam, this point of conflict remains unsolved and

has the potential to surface again in the future (Mulinge, 2008:70). Today, the minority tribes are still of the view that they are being despised and overlooked, particularly in terms of language which they perceive to be crucial to the promotion of their culture. Despite these issues raised by minority groups, the government opts for no action to be taken (Kologwe, 2016). Failure to acknowledge the needs of minority groups not only fuels tribalism but also leads to many individuals from minority groups without adequate political representation. Without forums and representatives to highlight issues such as education, many minority groups in rural areas may find it difficult to obtain an education as this would require learning a new language to be able to understand the lectures and content offered by available educational institutions. Lack of education can lead to even more severe consequences such as poverty and crime. Ultimately, Botswana's constitutional differentiation can lead to security risks if minority groups continue to feel oppressed and marginalised.

The second point of conflict, and perhaps one of the most noteworthy and longstanding cases relates to the Botswana government's treatment of the Khoisan people. Despite the Khoisan being a minority ethnic group amounting to only 3% of Botswana's population (CIA, 2018), they remain the indigenous peoples of the Kalahari Desert (Survival International, 2017). During the British Protectorate of Bechuanaland, in 1961, the CKGR was created as a game reserve in which the Khoisan people's way of life could be preserved, a nascent homeland for the Khoisan (Ramsay, 1989:91-94). However, the early 1980s saw the discovery of diamonds in the CKGR followed by government ministers telling the Khoisan living in the CKGR to vacate their lands. In 1997, 2002 and 2005, almost all Khoisan people residing in the CKGR were relocated to resettlement camps outside the reserve (Survival International, 2017). According to the Botswana government, the motive behind relocating the Khoisan relates to promoting tourism, wildlife conservation and improving the living standards of the Khoisan as permanent structures such as clinics and schools cannot be built inside the reserve. Although it may sound like acceptable motives, the small Khoisan populations that were residing in the CKGR had a relatively small effect on animals, while life outside the camp resulted in many Khoisan people falling victim to alcoholism and HIV/AIDS (Nieuwoudt, 2008; The Economist, 2009).

After a series of court cases spanning more than a decade, a lot of suffering in the resettlement camps, and even the barring of the Khoisan's longstanding lawyer from entering Botswana, only a small number of Khoisan were allowed back to their ancestral land (Survival International, 2017). Meanwhile, a new Ghaghoo diamond mine opened in the CKGR in 2014 (Slater, 2014) with corporations such as Petra Diamonds also holding prospecting licences for areas within the CKGR (Petra Diamonds, 2017). Today, the Khoisan people, Survival International and its supporters still strongly believe that the Khoisan were evicted from the CKGR due to the Botswana government's pursuit of diamonds (Survival International, 2017).

Conflicts relating to ethnicity are likely to be ignored or denied by the BDP as its support base is made up primarily of the Tswana people – the 79% majority of Botswana's population.

Despite issues of ethnicity and race, freedom of religion enjoys a high regard in Botswana's legal framework. Freedom of religion can be exercised in an enabling environment provided by the separation of religion and state. As a result, this separation also encourages tolerance for all types of religions, which ultimately results in peaceful coexistence among adherents of differing religions (Quansah, 2008:504).

The government of Botswana, more specifically the BDP, displays little regard for its minority groups. This attitude has seen rising tensions in the past, which arose to smaller extents over the years. A history of ethnic tensions with sporadic events pointing to rising tensions are all present, although no true detriment to business exists at the moment. In accordance with the framework of Chapter 2 this entails a **medium risk** that can easily be reduced should the BDP find some resolution between minority groups and the dominating Tswana groups.

#### **4.2.2 Societal conflict**

As Chapter 2 explained, societal conflict shifts the focus to cleavages along the lines of ideology and/or social class. Although political parties in Botswana subscribe to respective ideologies and are, therefore, also ideologically different, the term ideology serves a limited role in politics, especially in campaign messages and rallies, due in large part to lay people not understanding such messages (Seabo, 2013:40; 44). Molomo (2000:73) argues that the paucity of ideology among political parties is evident

in politicians' nonchalant shifting to other parties. In some cases, councillors have simply 'crossed the floor' to join another party suggesting that ideology's importance is a relatively unimportant factor in political alignments in Botswana. In the same vein, it has been noted that perhaps Botswana's absence of ideological cleavages merely represents an absence of ideology (Molefhe, 2012).

Nevertheless, it remains useful to briefly mention the official ideologies of Botswana's four top parties. The BDP identifies as a right-wing party vested in the ideology of conservatism with:

[a] commitment to protection of fundamental human rights and to tolerate no forms of discrimination on grounds of race, colour or creed as enshrined in the party's constitution (Seabo, 2013:41-42).

The BPP subscribes to the principles of socialism with a very extreme left-wing nature. For the BPP, socialism refers to the "seizure and retention by the people through their state of the basic means of production". In other words, a strong insistence on nationalisation of Botswana's resources and putting them under state control (Seabo, 2013:41-43). The BNF is a social democratic centre-left party subscribing to an "economy based on a strong public sector and private ownership of the means of production" and projecting itself as a champion for workers' rights (Seabo, 2013:41-44). Following suit, the BCP also identifies as a social democratic party, though distinguishes itself from the BNF by arguing that it is more pragmatic than the BNF who the BCP see as mere theorists (Seabo, 2013:41; 44).

Despite differing official ideological positions, the BDP has long attained a hegemonic influence resulting in their ideology being shared by the majority of the electorate (Molomo, 2000:87). The BDP's domination of the political scene reduces the threat and ultimately the significance of ideological cleavages to overall stability in Botswana.

Botswana is, however, subject to criticism when it comes to inequality and social class. To measure inequality in terms of income or wealth distribution, the Gini coefficient index ranges from zero to one, where one means complete inequality while zero entails complete equality (Statistics Botswana, 2018a:10). At the time of writing, Botswana's latest (2015/2016) Gini coefficient based on income is not yet available, though its Gini coefficient based on consumption (also known as expenditure) is available. Statistics

Botswana (2018a:10) argues that the Gini coefficient can be calculated from income or consumption information, though insists that information on consumption is more reliable than that of income as income is more liable to under or over reporting. Nevertheless, Botswana's latest national Gini coefficients are 0.645 (0.605 World Bank estimate) based on income in 2009 and 0.495 based on consumption during the same year, though the latter increased to 0.522 in 2015 (Statistics Botswana, 2018a:10; World Bank DataBank, 2018). To put this into context, consider the Gini coefficients (based on income in the year of 2008) of South Africa and the Central African Republic with 0.63 and 0.562 respectively as opposed to that of the USA and Norway with 0.411 (2007 estimate) and 0.27 respectively (World Bank DataBank, 2018). It becomes clear that inequality in Botswana remains pervasive. This inequality translates into luxury vehicles travelling alongside weather-beaten taxis in the capital where fashionable mansions share a fence with simple shacks (Business Report, 2006).

Though inequality alone does not amount to a noteworthy factor, its persistence despite a significant growth rate and flourishing diamond industry makes inequality in Botswana a significant issue. Botswana may not be experiencing outright societal conflict between differing ideologies or social classes but instead may manifest in alternative social issues. Richard Wilkinson and Kate Pickett (2014), renowned social cohesion and inequality authors, argue that inequality damages the social fabric of the whole society and exacerbates social ills. Yet, as social ills are not of concern to this indicator and Botswana has no significant history of societal cleavages, with a relatively homogenous society, and experiences an absence of societal and ideological conflict due to the dominance of the BDP, a **low risk** is attributed to societal conflict.

#### **4.2.3 Social conditions and population dynamics**

The low risk of the previous indicator may be misleading as the inequalities of social class tend to spur troublesome social conditions such as poor health conditions, crime, lack of education and continuous poverty. Although they may not be the focus of societal conflict, all these issues are of great concern to this section's indicator and will be key in determining the sociopolitical risks in this regard. This indicator covers all 'loose ends' of social indicators and includes small quantities of information relating to an array of social issues such as poverty, unemployment, crime, xenophobia, drug abuse and trafficking, health conditions, and education.

According to Statistics Botswana (2018a:4), **poverty** has significantly declined since the turn of the century. Poverty incidence decreased from 30.6% in 2002/2003 to 19.3% in 2009/2010 and further decreased to 16.3% in 2015/2016. Following the latest statistics report that produced this rosy picture, questions have been raised about the reliability of these statistics. The reason for this concern pertains to the statistics indicating that the proportion of persons below a dollar a day decreased at national level, yet the actual numbers increased from 119 144 to 119 383. In urban villages this proportion also decreases but the actual number of people increased from 40 602 to 46 356 (Motlhabane, 2018). Motlhabane (2018) mentions a number of additional statistical inconsistencies that bring in to question the accuracy and also refers to the absence of a number of measures that were useful to the government in the past. Despite the questionable statistics, it is accepted that poverty in Botswana is on a downward trend. This reduction in poverty can be attributed to two flagship programmes; the Poverty Eradication programme and the Economic Diversification Drive (EDD). The Poverty Eradication programme targets less privileged people such as orphans, the destitute and the unemployed without income. Additionally, this programme includes guidelines to provide information to beneficiaries on making decisions to select and manage projects to kick start their own projects. The EDD on the other hand is used by the government to support beneficiaries' operating packages such as bakeries that supply schools with various food products by purchasing their produce for the primary school feeding programme. A dedicated Poverty Eradication Unit also exists with the mandate to provide a coordination mechanism and enabling environment for effective implementation of poverty eradication initiatives, policies and programmes (Motlhabane, 2018).

In a flourishing economy, Botswana's **unemployment** rate remains persistently high at 18.1% in December 2017 with the past decade's lowest point being 16.17% in December 2009 (CEIC Data, 2018; Statista, 2018a). The reason for Botswana's high unemployment rate is also the reason for its good economy: capital-intensive mining and quarrying activities. Botswana's undiversified economy heavily relies on its mining industry, which is not labour intensive. All the while labour intensive sectors such as agriculture and construction account for only limited GDP contributions (Motlhabane, 2018; Chiutsi, 2017b). Therefore, although the mining industry is flourishing and contributing a lot to the economy, it is not a great employment creator leading to the

challenging position Botswana currently finds itself in. The reason for the mining industry's labour paucity is that mining companies generally focus on reducing production costs to remain viable during times when commodity prices are depressed (Chiutsi, 2017b). Botswana's unemployment troubles may still be a long way from being significantly relieved.

In South Africa during the month of May 2008, 62 people were killed in a series of xenophobic attacks that spread across townships (Misago & Neocosmos, 2015). In this time **xenophobia** became a very real sociopolitical risk for South Africa. With the political turmoil of Botswana's neighbours, xenophobia in Botswana also became a very real sociopolitical risk worth considering. Although Botswana has not experienced the type of xenophobic violence that surfaced in South Africa, this does not mean that foreigners, particularly Zimbabweans, are welcome or that manifestations of xenophobia are absent. A study on xenophobia has come to suggest that attitudes towards the presence of 'outsiders' in Botswana are, at times, as negative as in South Africa (Campbell & Crush, 2015:160). In Botswana, most citizens, authorities and the police take a dim view of the presence of Zimbabweans in the country. To curb the influx of illegal immigration, Botswana has a vigorous policy of arresting and deporting Zimbabweans called 'clean up campaigns'. However, Zimbabwean migrants claim that it is within this 'campaign' that xenophobic attacks transpire as many Zimbabweans are 'whipped' as a form of corporal punishment for criminal activities of which no real evidence exists (Campbell & Crush, 2015:172; 175-176). Further forms of xenophobia also manifest in police raids, harsh treatment, bad living conditions, as well as systematic and repeated discrimination in the workplace, at schools and at public hospitals (Campbell & Crush, 2015:173). Although xenophobia in Botswana is quite limited and indirect, it does exist and, therefore, has the potential to evolve into a real sociopolitical risk if left unchecked.

Another major factor in Botswana's sociopolitical scene is its **health conditions**. At birth, the average life expectancy, in 2012 of 62 years was higher than the region's average of 58 years, though lower than other countries that fall in the same income group's average of 74 years. In 2016 the average for men and women were 64 and 68 years respectively (WHO, 2015; WHO, 2018). Although Malaria in the northern regions of Botswana is a serious threat to health conditions, Botswana's main challenge

remains its HIV/AIDS epidemic. At a glance, the following statistical data alone paints a grim image of the HIV/AIDS issue: Of Botswana's 2 214 858 population, 380 000 adults and children are living with HIV, with an adult HIV prevalence rate of 22.8%; 14 000 adults and children were newly infected with HIV in 2017, while 4 100 adult and child deaths were due to AIDS; of those infected with HIV/AIDS, 86% know their status, while 84% of adults and 68% of children are receiving Antiretroviral therapy (UNAIDS, 2018).

Although Botswana has demonstrated a strong commitment in responding to its HIV epidemic and has seen a major decline in new infections due to its exemplary treatment programme, it is currently facing the huge challenge of sustaining its impressive response. One of the biggest obstacles in this regard is the withdrawal of many of its donors. PEPFAR alone has more than halved its funding, from US\$ 84 million in 2011 down to US\$ 28 million in 2016. In recent years, new infections has also been increasing again from 9 100 in 2013 to 10 000 in 2016 (Avert, 2018). Accordingly, the sociopolitical and socio-economic risks linked to HIV/AIDS should be regarded as a matter of increasing importance. A study by the United Nations (2004) sought to identify the impact of HIV/AIDS on various areas of concern. Among the key areas, and of concern to a political risk analysis, is the impact this epidemic may hold for firms as well as the economy.

For firms, deaths due to AIDS can directly lead to a decrease in the number of available workers, especially young and productive workers, as well as a decline in the number of skilled labourers who occupy important positions. The loss of skilled workers can drain the institution of knowledge and skills accumulated throughout the years and at the same time lead to an increase in demand for training as new employees require training for better recruitment. Ultimately, remaining employees may also experience low morale, which can directly influence their productivity. Firms with health programmes may incur additional medical costs relating to medical aid schemes. Another factor not often considered is that a population plagued by HIV/AIDS can grow smaller quite significantly thereby shrinking possible markets from which firms profit (United Nations, 2004:53). When all of this is considered, HIV/AIDS can lead to lower productivity while also incurring higher production costs, leaving firms with very little profitability.

The impact on firms, particularly the labour pool, comprise one of the four ways the United Nations (2004:81) perceive HIV/AIDS to affect the economy of a country. Additionally, families will be forced to reduce savings and investment due to increased health expenditure owing to HIV/AIDS. Should education, health and nutrition of the family suffer as a result of these expenses, prospects for long-term economic growth and development will decline. Furthermore, the epidemic may also require the diversion of public spending to health expenditure, thereby likely depriving investments in physical and human capital which, in turn, leads to slower GDP growth. This also holds the potential for deterring FDI if potential investors become convinced that the epidemic is seriously undermining the return on their investments. Finally, as affected families grow impoverished by HIV/AIDS the growth rate of per capita income will also see a decline leading to poverty deepening (United Nations, 2004:81). As a whole, HIV/AIDS entails a grave risk for Botswana's socio-economic landscape and therefore also for its politico-economic landscape if this issue does not receive a renewed emphasis.

Botswana has made significant progress in terms of **education** and boasts a national literacy rate of 90%. Its commitment to education for all and various improved programmes have seen its literacy rate leap from 68.9% in 1993, to 90.02% in 2014 (Statistics Botswana, 2016c:9). Education in Botswana is also free to primary school level. Secondary education entails a cost-sharing modality in which parents pay 10% of the unit cost, though no student can be denied access due to the inability to pay fees. At the tertiary level, students generally pursue a mixture of loans and grants, depending on the course (UNICEF, 2017:14).

Despite this positive image, a new call for reforming the process of instruction, curriculum, assessment, and structure of secondary education has emerged. In 2014, of the total students writing the General Certificate of Secondary Education Examination (BGCSE) only 25.75% obtained Grade C (60% - 69.99%) or better. Since 2006, results for the BGCSE has been declining despite two thirds of the national budget allocated to the education sector (Makwinja, 2017:49). Bad grades and failure lead to youths being more prone to involvement in crime, drug and alcohol abuse coupled with negative health effects that further tap into the country's limited resources. In turn, this also affects manpower development leading to high levels of economic

inequality and unemployment (Makwinja, 2017:49-50). Supporting this is the argument that contemporary forms of secondary education insufficiently prepare graduates of secondary education with the 21<sup>st</sup> century skills (cognitive and socio-emotional) and vocational skills demanded in a 21<sup>st</sup> century economy (Blom et al, 2017:29). For this reason, multiple authors (Blom et al, 2017; Makwinja, 2017; UNICEF, 2017) have argued for Botswana's education model to undergo reform as well as a larger share of budget resources to ensure a better education that will produce individuals capable of acquiring the many skill sets needed to be employed in modern times. An improved education system will also relieve the pressures of unemployment as more individuals will be equipped with the necessary skills for jobs currently being handed to foreign individuals. Reducing unemployment through improved education will also relieve pressure on the economy as salaries paid to locals will be used within the country as opposed to foreigners, who may send money home or spend their salaries outside of Botswana.

Because staleness is often accompanied by **corruption**, the staleness indicator already includes a discussion on corruption in Botswana. For this reason, this indicator will not repeat such a discussion but will use the conclusions from that discussion. As previously mentioned, Botswana contains a moderate corruption risk with the potential of a high tender corruption risk.

From recorded data, Botswana's annual **population growth** rate peaked in 1978 with 3.92% and reached a low in 2003 of 1.361%. In the last decade, this growth rate remained steady between 1.589% in 2007 and 1.823% in 2017 (World Bank DataBank, 2018). Based on this, Botswana's population growth has a very limited impact on Botswana's society.

**Urbanisation** between 2006 to 2016 steadily increased from 55.31% in 2006 to 57.71% in 2016, showing no signs of rapid urbanisation and, therefore, no sociopolitical risk relating to urbanisation (Statista, 2018b).

The USA's Overseas Security Advisory Council (OSAC) (2018) assessed Gaborone as a high-threat location for **crime** directed at or affecting official US government interests. On the other hand, Intelligent Protection International Limited (2018), a UK based Specialist Security Services company, attributes a low to medium threat level to

Botswana as a whole. Both these sources make brief references to the uncommon nature of serious crimes, but also note that crime tends to spike during holiday seasons, particularly in tourist hot spots. Overall, small crime and violence is on the rise and safety precautions are highly recommended by both institutions (Intelligent Protection International Limited, 2018, OSAC, 2018). In its crime statistics reports from 2012 to 2016, Statistics Botswana shows that theft and related offences remain in the top three of committed offences, at times accompanied by dangerous or negligent acts as well as road traffic offences, which peaked in 2016 (Statistics Botswana, 2016b:13; Statistics Botswana, 2017a:11-12; Statistics Botswana, 2018d:12-13). Reports of drug trafficking and cybercrime have also surfaced through the years (Sunday Standard, 2013; Sunday Standard, 2017), though not presenting a serious risk to foreign investments.

In terms of **inflation**, Ghodbane (2015:1-2) argues that most economists would agree that the optimal inflation rate for a modern economy ranges between 2% and 3%. In the past decade, Botswana has experienced inflation rates peaking at 12.6% in 2008 yet currently displays a healthy inflation rate of 3.1% in June 2018 (Statistics Botswana, 2018c:3). In fact, since 2015 Botswana's national inflation rate has kept steady between 3.6% and 2.7% in 2015 and 2016 respectively (Statistics Botswana, 2018b:6). Despite its current healthy outlook, the last decade's fluctuating inflation rate suggests a reflection of the fluctuation of commodity prices and is therefore only as stable and healthy as Botswana's diamond industry. Regardless, Botswana presents a good inflation rate that does not pose a risk to international investors.

Before a risk is attributed, it is useful to put Botswana into a wider context to better understand its social conditions. Table 4.1 compares select social statistics of two countries from SADC, namely South Africa and Zimbabwe, and two upper-middle-income countries, including Mexico and Brazil, to that of Botswana. The SADC countries provide a southern African context, while the upper-middle-income countries provide a more global comparison. From the comparison in Table 4.1 Botswana's social statistics bodes comparatively well when compared to the SADC context, though compares significantly worse in its global context. Overall, Botswana's social conditions prove quite worrisome when considered in context to countries considered similar to Botswana.

Table 4.1: Social statistics comparison

	SADC		Upper-middle income countries		Botswana
	South Africa	Zimbabwe	Mexico	Brazil	
Poverty incidence	18.9% (2014 est.)	21.4% (2011 est.)	4.1% (2014 est.)	2.8% (2014 est.)	16.3% (2015 est.)
Unemployment rate	24.9% (2014 est.)	11.3% (2014 est.)*	4.8% (2014 est.)	6.9% (2014 est.)	18.1% (2017 est.)
Adult HIV prevalence	18.9% (2016 est.)	13.5% (2016 est.)	0.3% (2016 est.)	0.6% (2016 est.)	21.9% (2016 est.)
National literacy rate	94.1% (2014 est.)	88.7% (2014 est.)	94.6% (2014 est.)	91.7% (2014 est.)	90% (2014 est.)
Population growth	1.2% (2017 est.)	2.3% (2017 est.)	1.3% (2017 est.)	0.8% (2017 est.)	1.8% (2017 est.)
Inflation	5.5% (2017 est.)	3.8% (2017 est.)	6.1% (2017 est.)	3.8% (2017 est.)	3.1% (2017 est.)
*Zimbabwe's unemployment rate fails to indicate the 95% of the work force involved in the informal economy.					

(Data extracted from World Bank DataBank, 2018; Onishi & Moyo, 2017)

From all the above, Botswana presents a mixture of no risks to somewhat significant risks such as unemployment, HIV/AIDS and rising crime. Although Botswana does not impress when it comes to its social conditions, none of these social conditions indicate a truly high risk for foreign investment or business and high political risk can, therefore, not be attributed to this indicator. However, as other aspects of Botswana sociopolitical scene present a definite degree of risk, a low risk is also not appropriate. It is for this reason that a **medium risk** is awarded to this 'catch-all' sociopolitical indicator.

### 4.3 Politico-economic indicators

The last three indicators shift the focus to factors revolving around the economy. This section identifies possible risks that originate from weaknesses sprouting from the economy, its composition and contributors as well as the government's ability to maintain the health of its economy. In this section the indicators of vulnerability spread, analysing the economy's vulnerability to external shocks, and the macro-economic circumstances of the host state is analysed.

#### 4.3.1 Preservation of resources

When it comes to analysing the preservation of Botswana's natural endowment, it would be unwise to narrow one's focus to Botswana's diamond endowment alone. Indeed, Botswana does depend extensively on this single commodity, as mentioned throughout this study, but Botswana also presides over lush ecological systems that

contributes increasingly more to its economy via the tourism sector. In addition to these two categories of natural resources, water sources are critical to Botswana due to its arid climate. This indicator seeks to determine if Botswana does enough in terms of preserving these three types of natural resources that are crucial to its prosperity. For this reason, diamonds, ecotourism, and water will be the chief determinants of political risk under this indicator.

A testament to the lengths Botswana is willing to go to preserve all sources pertaining to its **ecotourism** manifests in the use of its military in anti-poaching measures. Because the tourism sector plays a significant role in Botswana's economy as well as prospects for diversification away from diamond revenue (Export.gov, 2017b), any threat to its tourism industry represents a threat to Botswana's prosperity. Botswana has, therefore, declared a 'war on poaching' (Mogomotsi & Madigele, 2017:51) and employed the BDF to defend the nation's 'megafauna' – its large wild animals (Henk, 2005:171). Despite Ian Khama's authoritarian tendencies, he deserves praise for his role as a major driver behind the decision to use the BDF for anti-poaching purposes (Henk, 2005:174). Due to poachers in Botswana being sufficiently armed to intimidate the Botswana police and Department of Wildlife personnel, the use of Botswana's military proved to be a completely rational decision and has contributed to a significant decline in poaching in Botswana (Henk, 2005:173, 177; Mogomotsi & Madigele, 2017:52). Although the BDF encountered difficult relations with local authorities, such as the Botswana police and Department of Wildlife, the BDF now effectively cooperates with these institutions, further supporting a positive track record for the military's involvement (Henk, 2005:185). While most occurrences of war may increase political risks, the effective use of the BDF to counter poaching decreases both economic and political risks. The political argument here is that the BDF has shown discipline and efficiency, despite being an extremely young and inexperienced defence force (GlobalSecurity, 2016b; Henk, 2005:174).

In 2002, Botswana adopted a national ecotourism strategy to complement the Botswana Tourism Master Plan and aims to promote tourism development while simultaneously conserving Botswana's wildlife and natural resources (Stevens & Jansen, 2002:iii). Botswana boasts one of the highest percentages of land demarcated for conservation (38%) and is often commended for its sustainable tourism practices

(Eagan, 2018; Siyabona Africa, 2017). Despite being criticised for discriminating against certain ethnic groups, it remains undeniable that Botswana engages its local communities in a mutually beneficial relationship. The tourism industry benefits from employees that know the heritage, landscape and tourist attractions in their locality, while the locals benefit from tourists that bring employment and business opportunities (Siyabona Africa, 2017). Furthermore, any enterprises seeking to extract profit from Botswana's protected areas have to adhere to strict licencing regulations that cover building, transport and accommodation (BITC, 2018). This ensures that luxury lodges, for example, are built on decks raised above the ground to minimise permanent damage to the environment, thereby leaving Botswana's wilderness and landscapes unspoiled even if buildings are demolished (Travel for Wildlife, 2018). Encouraging sustainable tourism goes even further and deeper into Botswana's society with the government introducing mandatory school subjects incorporating protection and preservation starting as early as the fourth year of primary school (Eagan, 2018). In effect, Botswana displays a high regard for preserving its wildlife and all ecotourism related natural resources. The impetus for increasing their focus on ecotourism is quite simple – Botswana's diamonds are not forever.

As natural **diamonds** form over a period of billions of years, any industry based solely on mining this mineral cannot be sustainable. The depletion of Botswana's diamonds is inevitable and although estimates of the 'end of diamonds' vary quite a lot, starting from 2020, the current estimate has been pushed back to 2050 (Cropley, 2016; Grynberg, Sengwaketse & Motswapong, 2015:x; Kojo, 2010:3). Analysing a resource that is neither sustainable nor valuable if preserved, the focus should shift to Botswana's current actions to either diversify away from diamonds, or to extract as much political and economic benefits from its current position to ensure prosperity even after their diamonds are depleted.

To this extent, three regulatory acts prove noteworthy – Botswana's Mines and Minerals Act, the Diamond Cutting Act, and the Precious and Semi-Precious Stones (Protection) Act. As mentioned in Chapter 3, all mineral rights in Botswana are vested in the state under the 1967 Mines and Minerals Act. Botswana's legal framework for mining operations is captured within its Mines and Minerals Act and creates an environment to obtain, among other things, mining licences, retention licences and

mineral permits for small scale mining (Mines and Minerals Act). From this Act, Tshiamo (2014:19) identifies two aspects that ensure Botswana reaping the benefits in the long term, namely Section 3 and Section 12. Section 3 warrants that the Minister of Minerals, Energy and Water resources shall “ensure, in the public interest, that the mineral resources of the Republic are investigated and exploited in the most efficient, beneficial and timely manner” (Mines and Minerals Act). Section 12 ensures preference of Botswana products as far as purchase, construction and installation in diamond operations are concerned (Tshiamo, 2014:19; Mines and Minerals Act). Furthermore, the Diamond Cutting Act, commenced in 1979, regulates the cutting, sawing and polishing of rough and uncut diamonds and for any other related matters. This act also provides preference for Botswana products under section 29 (Diamond Cutting Act). A final noteworthy regulation pertains to the Exports and Import of Rough Diamonds. Published in 2004, the Precious and Semi-Precious Stones (Protection) Act regulates the imports and exports of rough diamonds with a particularly strong emphasis on the Kimberly Process Certificate. Without this certificate import and export of rough diamonds would not be possible [Precious and Semi-Precious Stones (Protection) Act].

Gauging Botswana’s economic diversification, especially away from diamonds, can be done from more than one approach. The first approach involves the Herfindahl Hirschman Index (HHI), which is used to measure disparity. To measure diversification, the inverse of the HHI is used, thus, a higher index signals economic diversification whereas a lower index signals an absence of economic diversification (Grynberg et al, 2015:226). Grynberg et al’s (2015:226-227) analysis suggest that Botswana remains significantly dependent on the mining sector with a small increase in diversification from 1989 to 2013. Despite numerous attempts by the government, diversification remains a challenging task and structural changes are slow to be implemented. In terms of export concentration, indicators reflect a similar trend as government’s efforts have been met by only limited success (Grynberg et al., 2015:227-228). This failure to diversify its economy is echoed in Botswana’s exports. Statistics Botswana (2017b:5-6) reported that of Botswana’s total exports for December 2017, diamonds accounted for 92.2% of total exports, an increase from 88.8% in November 2013 (Statistics Botswana, 2014:9-10). An isolated view on Botswana’s exports reflects an increased dependence on diamond exports.

With this image of limited diversification there have been propositions of diversification through alternative natural resources (Harvey, 2015:1-4), such as coal and iron ore. Though these alternatives may sound like attractive alternatives, significant obstacles hinder these alternatives. Although Botswana possess a significant coal endowment, much of this is likely to remain categorised as sub-economic. Increasing international pressure to reduce carbon emissions also creates uncertainty over future export markets. Botswana's infrastructure further prohibits the effective use of coal as transport, water and electricity proves too limited to ensure a large coal industry (Harvey, 2015:2-3). Complementing coal with iron ore could possibly provide a solution given that the infrastructure constraints are alleviated. A steel industry supplying the growing SADC region could partially supply the infrastructure capital necessary for large-scale iron ore and coal exporting. A local consumption of coal and iron ore could generate higher value products and even a local market through inter-industry linkages – process iron ore locally using locally available thermal coal (Harvey, 2015:3). Ultimately though, iron ore and coal would only partially be able to fill the void left by diamonds and are still not sustainable sources of revenue. Harvey (2015:3-4) therefore argues that a high emphasis should be placed on developing Botswana's tourism industry through human and physical capital investments, as this is the most likely approach to yield the highest, most sustainable returns.

Botswana's new President Mokgweetsi Masisi vowed to "build a Botswana in which sustained development is underpinned by economic diversification" alongside a commitment to tackling youth unemployment (Reuters, 2018). Though the value of his promises and his planned approach to these issues remain uncertain.

With its current diamond endowment facing depletion, Botswana can also consider two other options: reduce diamond production now or increase diamond exploration. The former, according to Grynberg et al (2015:161), has two broad consequences. Firstly, reducing diamond production will slow down growth resulting in effects similar to that of depletion – reducing savings, investment and growth. In essence, this policy trades off high growth over a shorter period against lower growth over a longer period (Grynberg et al, 2015:161-162). On the other hand, given Botswana's influential global position the second impact of such a policy would be to drive up world diamond prices. Although this effect has the potential to counter the first effect, it could also present

opportunities for other smaller producers to fill the void, ultimately levelling global diamond prices leaving Botswana back at the first effect (Grynberg et al, 2015:162). Alternatively, Botswana Diamonds MD James Campbell suggests that the only way Botswana can continue reaping the benefits of diamond mining is to investment more in diamond exploration (Creamer, 2017). Following Campbell's optimism, Botswana diamonds has started exploration work on the Sunland Minerals joint venture, which it shares with Russian diamond producer Alrosa, in Botswana. This exploration programme aims to follow up on 15 previously identified priority geophysical targets in the CKGR (Breytenbach, 2018). Should exploration be successful and numerous additional deposits discovered, the 'end of diamonds' can potentially be further postponed providing more time to develop alternative and more sustainable revenue sources. However, it remains wise to bear in mind that more time could also result in less incentive for the government of the day to diversify Botswana's economy.

In 2005, when De Beers' mining licence expired, Botswana used the opportunity to take strategic decision supporting beneficiation. The strategy resulted in local cutting-and-polishing factories and the migration of De Beers' international sales function from London to Gaborone. The latter ensured a significant transfer of economic activity to Botswana as representatives of the world's leading diamond manufacturers and traders now flock to Botswana to buy rough diamonds from De Beers. The value of rough diamonds trade within Botswana has risen from under US\$1 billion annually to over US\$6 billion following the relocation (De Beers, 2015:26). Building on such practices, Botswana is progressing from an exporter of raw diamonds to a major hub of the diamond value chain. Although local cutting-and-polishing factories have seen serious challenges in the past, decreasing price margins between rough diamonds and polished diamonds, an overly rigid government approach and high labour costs all shrink the profitability of these manufacturers (Creamer, 2015). President Masisi already has his eye on the next negotiations with De Beers. With De Beers' current 10-year deal expiring in 2020, Masisi is "dead determined" to negotiate a new long-term diamond sales pact and for more gems to be processed locally. Masisi seeks to create more jobs and believes that more cutting-and-polishing of diamonds within the country will go a long way to alleviating unemployment (Bell, Cohen & Mguni, 2018). Exploiting their current position in the diamond industry to develop a strong local diamond

manufacturing sector represents a smart step towards economic sustainability and a testament to economic evolution.

Apart from preserving the natural resources itself, opting to preserve capital gains from the natural resource also serves as a viable approach. To this extent, Botswana established the Pula Fund with the aim of preserving part of the income from diamond exports for future generations. The Pula Fund is a Sovereign Wealth Fund that has increased substantially in value in real terms since its establishment in 1994 (Bank of Botswana, 2018). Central to the establishment of the Pula Fund is the need to mitigate negative impacts originating from the price volatility of the commodities market. Any withdrawals from the fund are usually done in coordination with the five-year National Development Plans on the condition of any projects undertaken being able to recover long-term operating costs. The Pula Fund has been crucial in cushioning external shocks such as the economic recession of 2008/2009, although it may not be sufficient to serve as a substitute when Botswana's diamonds are eventually depleted (Grynberg et al., 2015:163; Wilcox, 2015). However, as a source of capital to promote diversification efforts, the Pula Fund is an invaluable policy that will contribute vastly to Botswana's long-term economic sustainability.

The final resource of significance is that of **Water**. Botswana is an arid to semiarid country with a climate that ranges from months of dry temperature weather during the winter to humid subtropical weather interspersed with drier periods of hot weather during the summer (Parsons, 2017). Rainfall is unreliable and unevenly distributed varying from 250mm annually in the southwest to 650mm in the northeast. Approximately two-thirds of Botswana is covered by the Kalahari Desert sand, which is not suitable for agricultural production. Botswana is also highly vulnerable to seasonal variations in climate influenced by La Nina and El Nino events (Wingqvist & Dahlberg, 2008:2). Being a landlocked country with such a climate, water is a natural resource that Botswana cannot afford to squander. In 2010, the World Bank carried out a climate risk assessment and found a definite bias towards increased droughts and that groundwater recharge is likely to decline (World Bank, 2017b:13). Following severe droughts, the World Bank approved a US\$145.5 million loan to improve water availability in vulnerable areas. The project is said to help Botswana cope with

increased water shortages and contribute to the sustainable development of the country (World Bank, 2017a).

A life-sustaining natural resource like water differs quite extensively from economic resources like diamonds and ecotourism, particularly when it comes to preservation. With water Botswana displays significant emphasis on the preservation of this resource as it is vital to human survival as well as economic sectors. Botswana's mining sector is responsible for approximately 10 to 15% of water use, with diamond production accounting for three quarters of the mining sector's water use. As the mining sector grows it is likely that the demand for water resources will grow accordingly (DWA & CAP, 2014:2). Large mines, such as Jwaneng diamond mine, develop their own well fields and cover any costs related to extraction of these water sources. While this relieves stress on surface sources, concerns have been raised regarding ground water depletion as well as water pollution through discharge of effluent or seepage from tailing dams (DWA & CAP, 2014:4-5).

In line with the abovementioned, the World Bank (2017b:28) found that risks, other than chronic drought and pollution, to the sustainability of Botswana's water sources include the depletion of groundwater sources, and operational and financial performance. The proposition is that the former will be mitigated through measures protecting and managing groundwater sources, artificial recharge, improving demand management, groundwater monitoring and mapping, drought preparedness, climate change adaptation, and supporting raw water abstraction strategy. While the latter will be mitigated via support for institutional restructuring to allow improved staff productivity, boost billing and collection, optimise water supply production and wastewater treatment, and reduces technical losses and operating costs (World Bank, 2017b:28). Botswana's Water Utilities Corporation chief executive officer, Mr Mmetla Masire, also mentioned that one of the biggest challenges the corporation faces is not only an old and frail infrastructure, but also water losses due to damaged pipes. According to Masire it is a fact that some water lost is due to an aging infrastructure, but more worryingly due to a trend of vandalism and third-party damage to the infrastructure causing significant water losses. On a positive note, the 2016/2017 rainy season resulted in significant inflows into most dams across the country (Batlotleng, 2017).

Current government attempts to alleviate water stress, particularly on groundwater sources, include the construction of a number of dams, complemented by several water transfer schemes bringing water from the Moloutse River in the North-East to major villages and towns in the eastern parts of Botswana. The current 400km-long North South Carrier – phase 1 (NSC-1) is being expanded from its existing 25Mm<sup>3</sup>/year capacity, and it is proposed that a second phase (NSC-2) will deliver an additional 45Mm<sup>3</sup>/year. The government is also studying alternative long-term options which includes a third phase (NSC-3) involving water from the Chobe-Zambezi, the Lesotho highlands, and desalinating sea water in Windhoek, Namibia. The purpose of these surface water systems is to interlink with groundwater systems to ensure the recovery of aquifers and provide alternate use or back up supply (World Bank, 2017b:13).

Botswana finds itself in a position where preserving its natural resources no longer forms part of good governance but tends more towards ensuring the survival of the country as a whole. Ecotourism appears to be Botswana's life after diamonds, diamonds entail financial and politico-economic benefits that, if governed effectively, will ensure Botswana's survival in the diamond value chain, while water forms the basic necessity without which business and, more importantly, human survival will not endure. As a whole, Botswana strongly emphasises sustainability through preservation and shows great respect to sustainable development. Despite fears of the 'end of diamonds' Botswana continuously strives to improve its position in respect to De Beers ensuring the longevity of its role in the global diamond market. Even if Botswana's diamonds are depleted, it is unlikely that the country and its economy will crumble. Sufficient policies and institutions are in place to extract as much benefits as possible from diamond mining while simultaneously developing into an economy less dependent on diamonds. Although this development is extremely slow, Botswana indicates incentive to preserve its prosperity. This high regard for preservation is also reflected in its approach to ecotourism and water, resulting in a growing tourism industry and measures in place to improve its water problems. A **low risk** presents itself in Botswana's preservation of resources due to the governments effective approach towards sustainable development.

### 4.3.2 Vulnerability spread

Vulnerability spread includes the development of a country's primary, secondary and services sectors, while analysing the dependence on the primary sector as a cause for concern. The ideal situation would entail strong and sustainable manufacturing and services sectors with a limited primary sector. This ensures that external shocks, such as low commodity prices, have little impact on the country's economy. Additionally, dependence on the export of natural resources (primary sector) such as raw diamonds means the dependence on an unsustainable source of revenue.

Consider the contribution of manufacturing (value added) to GDP in Botswana. In 1965, before the discovery of diamonds, the manufacturing (secondary) sector contributed 11.585% to GDP. With the discovery of diamonds in Botswana, this contribution dropped to 5.671% in the span of four years. Today, not much has changed as manufacturing contributes a mere 5.129% to GDP in 2017 (World Bank DataBank, 2018). Botswana's manufacturing sector face numerous challenges that contribute to the abovementioned statistics. According to the Botswana Exporters and Manufacturing Association's executive director, there is a lack of export incentives, work and residence permits, low preference to local manufactures and finance mechanisms for industry and for financing of specialised equipment. Furthermore, high transport costs, low labour productivity, lack of local raw materials, unreliable water supplies and difficulties in bringing in skilled foreign workers. Despite locally produced goods remaining minimal, initiatives like the government's Economic Diversification Drive (EDD), exist in effort to invest in the growth of the production of goods and services in Botswana (Sekaba, 2016). Botswana's landlocked location and small local market are further obstacles to the development of its manufacturing sector.

Botswana's dependence on diamonds for export and growth renders it highly vulnerable to external shocks. Further contributing to this vulnerability includes the uncertainty surrounding global trade and openness, the underwhelming economic conditions in South Africa that could adversely affect revenues from South African Customs Union (SACU), as well as an adverse climate (African Development Bank, 2018:129). First National Bank research manager, Moatlhodi Sebabole, confirms Botswana's vulnerability to external shocks by referring to the 2017/2018 budget review. According to Sebabole, the government's biggest source of revenue is mainly

minerals and SACU, two sources highly susceptible to external shocks. For the past six years 60% of government revenue came from SACU and minerals, a weakness that direly needs to be addressed. The budget also strives to get more revenue from SACU than minerals leaving Botswana at the mercy of the recovery of international trade and of South Africa which contributes 90% to the customs union. Another issue in this respect is Botswana's diamond sales depending approximately 60% on the US market. Another financial crisis, like that of the 2008/2009 financial crisis will result in major economic shocks to Botswana's economy (Chiutsi, 2017a). A credit brief by Moody's (2017:3), however, argues that Botswana still enjoys a very low external vulnerability risk. Botswana's large positive net international investment position and track record of current account surpluses coupled with very low levels of external debt significantly mitigate risks of external shocks.

A relatively new and increasingly popular trend is the cultivation of diamonds. These cultured diamonds (also known as engineered or lab created diamonds, though differ from imitation diamonds) are cultivated in highly controlled laboratory environments using technological processes to replicate the conditions under which diamonds naturally develop beneath the Earth's crust, see Figure 4.3. Despite being man made, these cultured diamonds are made of the same material as natural diamonds resulting in cultured diamonds exhibiting the same optical and chemical properties (Brilliant Earth, 2018). For all intents and purposes, cultured diamonds and naturally occurring diamonds are both diamonds that have the same industrial use and both also sold as idolised jewellery.

Cultured diamonds hold both a dire threat and potential sustainable opportunity for Botswana. The threat to Botswana comes in the form of market competition and a disadvantaged power position in relation to De Beers and their decision to enter the cultured diamond market. In the first instance, cultured diamonds are purer, 20% cheaper, more environmentally friendly, and are not associated with conflict areas or child labour (Pettit, 2018; Sanderson, 2017). The cultured diamonds industry is also sustainable, which is especially threatening to natural diamond producers that require funds for exploration. With cultured diamonds receiving increasing attention and the perception that they are pure and more affordable, exploration money will dry up as investors move their money to this new, sustainable industry (Sanderson, 2017).

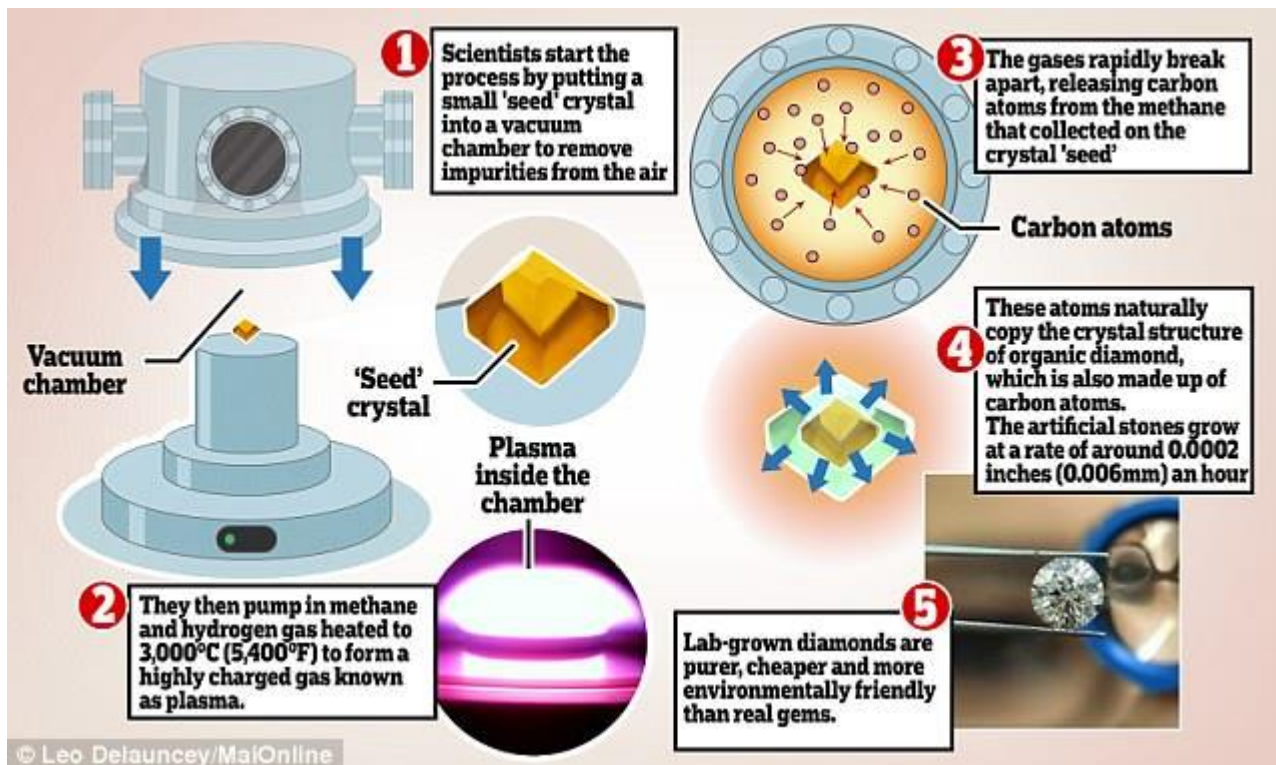


Figure 4.3: Cultured diamonds process (Pettit, 2018)

As the preference for affordable, conflict-free diamonds gains momentum the opposite will occur in the natural diamond industry, which is Botswana's current lifeline. In addition to being a mere market competitor, cultured diamond producers ultimately risk destroying their own industry. The truth is that diamonds have never been scarce. Their value is based on it being a so-called Veblen good – a luxury item whose price does not follow the usual laws of supply and demand – whose appeal partly depends on its artificially high prices (Sanderson, 2017). With cultured diamond producers striving to compete on cost, producing cheaper diamonds, the idolisation of diamonds (ultimately the basis of their value) has the potential to be compromised. Flooding the market with cheaper, purer diamonds will not only topple the cultured diamond producers but also natural diamond producers such as Botswana. With this danger lurking, De Beers has decided to sell cultured diamonds for the first time in its 130-year history – a significant shift since it vowed for years not to sell stones created in laboratories (Biesheuvel, 2018).

In light of De Beers' historic shift, opposition parties in Botswana have raised concern on Botswana's relationship with De Beers. The leader of the opposition and President of the UDC Duma Boko raised his concern:

De Beers has entered into the synthetic diamonds market. What does that do? Botswana thinks it has rough diamonds and we are negotiating with De Beers. But De Beers says I don't need you (Tebele, 2018).

While opposition in Botswana remain wary of De Beers' decision, Botswana's government is convinced that the country will benefit not only from their 15% stake in De Beers but also the stabilisation effect De Beers' entry into the cultured diamond market aims to achieve (Tebele, 2018). Regarding De Beers' decision to enter the cultured diamonds market, an additional potential threat has been voiced by labour unions in South Africa. Questions have been raised on the impact of job creation or losses in regions that are dependent on diamond mining, especially if De Beers plans to shift their focus to cultured diamond production and not include current African partners in the production process (Mkentane, 2018).

However, with the latter in mind, the cultivation of diamonds also presents a potential opportunity to Botswana, particularly to its secondary (manufacturing) sector. Botswana's President Masisi recently mentioned that he plans to negotiate a new long-term diamond sales pact with De Beers when the current 10-year deal expires in 2020 so as to encourage more gems to be processed locally (APA News, 2018). If Botswana, in collaboration with De Beers, can better develop diamond polishers, cutters and retailers locally, this production process can benefit not only from Botswana's natural diamonds but also from the processing of cultured diamonds. Botswana has the unique opportunity to use their pact with De Beers to negotiate for the establishment of diamond cultivating laboratories in Botswana. This course of action holds the potential to significantly promote Botswana's manufacturing sector, reduce unemployment and poverty, and provide a more sustainable diamond industry for one of the world's foremost diamond producers.

Economic growth in non-mining sectors is driven in large by service-orientated sectors, in particular by trade, hotels and restaurants, and transport and communications, supported by accommodative fiscal and monetary policies (African Development Bank, 2018:129). In 2015, Botswana's mining industry saw a decrease in value while its services sector recorded a positive economic growth. The services sector was also the driver of a revised 3.8% economic growth rate in the first quarter of 2015 as mining production slowed. With the increasing dominance of Botswana's services sector, the

economy grows more diversified. However, despite the services sector's increasing contribution to GDP its 7% contribution to export revenue is still overshadowed by diamond exports' 70% contribution (Benza, 2015).

Considering Botswana's primary, secondary and tertiary sectors it becomes evident that Botswana is still highly dependent on its primary sector. With that being said, sectors beyond natural diamonds still hold a lot of potential with initiatives like the EDD boding well for the development of better secondary and tertiary sectors. Should the government work to relieve pressure on the manufacturing sector and further promote the secondary and tertiary sectors, Botswana can expect to experience significant economic diversification in the medium to long term. However, Botswana's current course suggest continued reliance on the export of diamonds and trade with SACU, and therefore in large with South Africa. This continued reliance on a single commodity coupled with overreliance on specific trading partners suggest that at the very least, Botswana exhibits a *medium risk* of vulnerability to external shocks.

#### **4.3.3 Macro-economic circumstances of the host state**

The last indicator is mostly comprised of the acid test mentioned in Chapter 2, but also includes other economic factors such as exchange controls, repatriation restrictions, the imposition of tariffs, and expropriation and compensation. Right off the bat, Botswana makes a good impression with the abolishment of its Exchange Control Act in 1999, allowing the immediate remittance and full repatriation of profits and dividends, and its constitution prohibiting the nationalisation of private property (BITC, 2017:9; RSM, 2018; U.S. Department of State, 2017b). In terms of the imposition of tariffs, goods imported into Botswana from outside the SACU are liable to 12% VAT and tariff rates set out in the Customs and Excise Tariff Schedule. Goods from SACU member states (Lesotho, Namibia, South Africa or Swaziland) attract only 12% VAT (BURS, 2013). Furthermore, Botswana allows duty-free import of machinery and equipment for manufacturing purposes as well as the exemption of customs duty on raw material for goods going outside of SACU (Embassy of Botswana, 2018).

Further analysis of the macro-economic circumstances of the host state requires the acid test to determine if Botswana has sufficient short-term assets to cover its immediate liabilities, in essence the macro-economic health of Botswana. The acid test

follows (Data extracted from: World Bank DataBank, 2018; Ministry of Finance and Economic Development, 2018:11):

~ Payment of interest and principal (percentage of export earnings on goods and services not exceeding 25%)

- 2015: 3.141%
- 2016: 1.899%

Both 2015 and 2016's figures are well below 25% indicating little to no payment of interest and principal risk.

~ Outstanding government debt (percentage of GDP, where  $\text{debt} \div \text{GDP} \times 100$  should not exceed 40%, indicating long-term financial problems)

- 2010: 21.631%
- 2015: 17.909%
- 2016: 15.233%

Since 2010 Botswana presents a significant decline in outstanding government debt with figures less than half the recommended limit, thus indicating acceptable outstanding government debt.

~ Total external debt (percentage of exports not exceeding 100%)

- 2008: 7.579%
- 2009: 36.724%
- 2015: 28.264%
- 2016: 24.022%

In the wake of the 2008/2009 global financial crisis Botswana incurred significant external debt to soften the impacts of this crisis, as indicated by the significant increase in debt from 2008 to 2009. However, this external debt as seen a steady decline and is still well below the risk limit.

~ Current account balance (percentage of GDP no less than -7.5%)

- 2015: 5.636%
- 2016: 13.708%
- 2017: 12.344%

Botswana's current account balance indicates no threat of deficit or even surpassing a deficit of 7.5, indicating a low risk.

- ~ Government budget balance (percentage of GDP no less than -3%)
  - o 2015/2016 Budget Outturn: -4.7%
  - o 2016/2017 Budget Outturn: 0.6%
  - o 2017/2018 Budget Estimate: -1.3%
  - o 2018/2019 Budget Proposed: -1.8%

The government budget balance, in this case, is a point of concern as 2015/2016 showed a deficit of more than 3% while 2017-2019 include estimates veering close to the 3% deficit. A potential risk surfaces in Botswana's government budget balance.

- ~ Tax revenue (percentage of GDP not exceeding 30%, as it points to low government involvement in the economy and moderate government consumption)
  - o 2015: 24.688%
  - o 2016: 20.848%

Botswana's tax revenue does not exceed the prescribed limit but does veer close to this percentage. However, as the latest figures are still well within the acceptable margins, tax revenue is still perceived as a low risk in this regard.

Although the government budget deficit is a potential point of concern, the acid test indicates little to no long-term problems for Botswana meeting its international borrowing liabilities. The sum of this indicator makes it clear that Botswana's macro-economic circumstances presents a **low risk** to international markets. It should, however, be noted that Venter (1999:94) acknowledges a weak point in this, the macro-economic circumstances, indicator. Venter (1999:95) states that the acid test does not sufficiently take into account the lack of transparency in the disclosure of government-generated economic statistics, which should be added as an additional political risk factor. However, despite a few cases mentioned in this chapter that might suggest inaccuracies in Botswana government generated economic statistics, the overall

impression is that these statistics still represent a reliable statistical representation of Botswana's macro-economic circumstances.

#### 4.4 Summary and conclusion

This chapter comprised of the actual political risk analysis of Botswana. A thorough analysis of the 11 indicators provides the study with a specific risk rating for each indicator. To allow for a conclusion on the political risks in Botswana, these risk ratings from each indicator need to be captured and analysed as a whole. Table 4.2 illustrates the risk ratings from each of the 11 indicators.

Table 4.2: Risk ratings from 11 indicators

Indicators	Risk Rating
<b>Political Indicators</b>	
Bad neighbours	Low
Radical religious forces	Low
Authoritarianism	Medium
Staleness, uncertain leadership succession	Medium
War, armed insurrection, and non-constitutional changes	Low
<b>Sociopolitical Indicators</b>	
Ethnic/religious/racial tensions	Medium
Societal conflict	Low
Social conditions and population dynamics	Medium

<b>Politico-economic Indicators</b>	
Preservation of resources	Low
Vulnerability spread	Medium
Macro-economic circumstances of the host state	Low

Based on the analyses of this chapter, Botswana exhibits six low risk indicators, which include bad neighbours; radical religious forces; war, armed insurrection, and non-constitutional changes; preservation of resources; societal conflict; and macro-economic circumstances of the host state. A further five medium risk indicators are also present, including authoritarianism; staleness, uncertain leadership succession; ethnic/religious/racial tensions; social conditions and population dynamics; and vulnerability spread. The aggregate deduced from this is that Botswana poses a low to medium political risk.

In the final chapter of this study, the results of the political risk analysis of Botswana are summarised and discussed to allow the research question and the final conclusion on the political risks of Botswana to be answered.

## CHAPTER 5 : Summary, evaluation and conclusion

### 5.1 Summary

This study pursued an analysis with a simple purpose; to provide a political risk analysis of Botswana's political, societal and economic landscapes. To this end the study sought to build on the work of Venter (1999) and Brink (2004) to compile an analysis framework that would sufficiently scrutinise the possible political risks in Botswana. To facilitate the analysis the following research question was posed:

*Which contemporary conditions, events and role players in Botswana's political, economic and social landscapes potentially present general or particular risks to both the political and economic stability of the country?*

Despite an aggregate view of prosperity and stability, Botswana's main GDP contributor remains a single commodity. This, coupled with further 'under the radar' events, suggests that Botswana's sparkling reputation may hide unfortunate realities. To eradicate uncertainty, new developments and less salient issues should be examined and considered, which implies and requires frequent analyses regardless of seeming stability and creditworthiness. It is based on this problem that this study launched a qualitative political risk analysis of Botswana.

To conduct the risk analysis, the study used Venter's (1999:80-83) synthesised risk analysis framework. The synthesis, vested in the work of Howell and Chaddick (1994), includes the BERI, PRS and EIU models, which lead Venter to nine of the risk indicators used in this study. Although Venter's model already provides a comprehensive risk analysis framework, two additional indicators were drawn from the work of Brink (2004) to provide for areas of concern that are of particular interest to the case of Botswana, further enhancing the scope of the analysis. The 11 indicators were then divided according to their political, social or economic focus. Those indicators with a more purely political focus included *bad neighbours; radical religious forces; authoritarianism; staleness, uncertain leadership; and war, armed insurrection, and non-constitutional changes*. Sociopolitical indicators entailed *ethnic/religious/racial tensions; societal conflict; and social conditions and population dynamics*. The economically orientated indicators constituted *preservation of resources; vulnerability*

*spread*; and *macro-economic circumstances of the host state*. The categorisation of these indicators shifts the focus of the analysis to different landscapes of the country in question thereby enabling conclusions on each landscape.

Although political risk analyses generally combine a qualitative and quantitative approach by assigning a numerical risk score and calculating a total risk score, this study opted for a more qualitative approach and, instead, attributed one of four potential levels of risk to each indicator. These levels of risk were further accompanied by a set of rules that would determine cases of extreme risk, high risk, medium risk, and low risk. In this regard, an overall extreme risk rating would be attributed should any of the 11 indicators receive an extreme rating; an overall high-risk rating would be applicable if more than two variables are rated with a high-risk rating; and, if none of the aforementioned is evident, the overall risk rating would reflect that of the majority ratings provided by the 11 indicators.

In view of the above, this study was executed in a historical-descriptive and analytical manner, based on a literature study and factual data sources. In this regard, collection and analysis was undertaken in the framework of a descriptive and qualitative study, with the main unit of analysis being Botswana, congruous with a predominantly state-centric level of analysis. The literature outlined in the first chapter proved of significant use to the study, with the work of Venter (1999), Brink (2004) and Howell and Chaddick (1994) of particular benefit. Despite a strong preference for primary sources, the study encountered limited primary data in certain cases. To overcome this limitation, updated reports by the World Bank, African Development Bank, Bertelsmann Stiftung, Mo Ibrahim Foundation and the Friedrich Ebert Foundation were used alongside descriptive literature on issues pertaining to political risks in Botswana. A fusion of an inductive and deductive approach allowed the study to approach the analytical framework deductively and the factual information inductively.

The significance of this analysis resides in its recurrent emphasis on the importance of political risk analysis, regardless of a country's reputation. With the increasing complexities of the international system, foreign investment and government behaviour this study firstly argues that political risk analysis has grown to be a necessity in all consideration of foreign investment or international business expansion. Taking political risk into consideration ensures the minimisation of uncertainty thereby

providing for informed judgements. To support this argument, the study used Botswana as a case study to show that a country assigned a low risk by intelligence agencies may still contain individual political risks worth taking into consideration. The framework chosen for this study comprised an already established academic framework in an attempt to promote objectivity while the two additional indicators aimed to cater for key areas of concern in Botswana's case. In essence, this study argues that political risk analysis is not a singular assessment but should be an ongoing scrutiny of a state or states under review.

In light of the aforementioned, this study's **Chapter 1** commenced with a general introduction and orientation that consisted of introducing the study via the information mentioned above. Following the introduction, **Chapter 2** continued to build a theoretical foundation for the research by means of a three-pronged approach. First, because political risk analysis is at the heart of this study, it is critically important to fully grasp the concept of political risk analysis. In order to effectively provide an understanding of the concept of political risk analysis the concepts of uncertainty, risk, political risk and country risk were expounded. Providing the reader with an in-depth understanding of the concepts involved in political risk analysis allows for a better grasp of the theoretical foundation of the study.

The second approach entailed the formation of a theoretical foundation comprising of *problem-solving theory* and *decision-making theory* with support from *rational choice theory*. The rationale behind the usage of these theories argues that political risk analysis is an attempt to manage the uncertainty in a specific case. Political risk thus serves as a tool to *solve the problem* of not knowing what is out there, thereby providing the necessary information to *evaluate and decide* which, in turn, is seen as a *rational* attempt at problem-solving.

In the third, and arguably the most important, instance, a discussion and compiling of the framework of analysis ensued. Here, the work of Venter enjoyed an extensive discussion neatly outlining the crux of the framework that forms the backbone of this analysis. However, to understand Venter's model of risk analysis, it proved necessary to elaborate on the work of Howell and Chaddick, which formed the basis for Venter's study. Howell and Chaddick's work consisted of a comparison of the three main political risk models, namely the EIU, the BERI, and the PRS model. Their comparison

identified key variables that would most often account for actual losses incurred. It is based on these key variables that Venter was able to construct a political risk model of his own. Although the foundation of Venter's model was academically sound, it only included indicators that would *most often* account for losses. For this reason, this study found it useful to add indicators that would ensure Botswana's case is sufficiently scrutinised. Additional indicators were then drawn from Brink's (2004) *Measuring Political Risk* to cater for two aspects of Botswana's case that requires specific attention. Following the delineating of the study's indicators, the framework of analysis was compiled and complemented by the four levels of risk ratings as well as the rules accompanying the risk ratings.

With the theoretical foundation outlined and the framework of analysis clarified, **Chapter 3** sought to contextualise the case of Botswana. The third chapter referred to Botswana's geophysical and demographical features as a starting point. From there, information on Botswana's economy, industry and politics, coupled with its physical infrastructure formed a macro-comprehension of Botswana's current situation. To better understand Botswana's current situation, the study also explained Botswana's rise to "success" from the pre-colonial era, to the influences from colonialisation, and finally, to more current events which included post-colonial leadership. Forming part of the contextualisation, Botswana's government structure also enjoyed attention with a brief discussion.

Following the theoretical foundation, framework of analysis, and contextualisation of Botswana, the way was paved for the actual analysis to be conducted. In **Chapter 4**, the penultimate chapter of the study, each of the 11 indicators received intense research to investigate any possible risks, whether these are past, current or future risks. Each indicator consisted of information coupled with an attributed risk rating, which was decided by the analyst based on the framework compiled in the second chapter. The theoretical foundation supported the framework of analysis, allowing for the systematic analysis of political risks in Botswana. From the analysis, five indicators presented a medium risk, including authoritarianism; staleness, uncertain leadership succession; ethnic/religious/racial tensions; social conditions and population dynamics; and vulnerability spread. However, the majority of indicators, including bad neighbours; radical religious forces; war, armed insurrection, and non-constitutional

changes; preservation of resources; societal conflict; and macro-economic circumstances of the host state, presented with low risks to foreign investment and business.

Viewing the study as a whole, it should be noted that this analysis does not attempt to reinvent the wheel by providing a new political risk analysis framework or to provide an analysis of Botswana that seeks to rival existing studies of the country. Instead, this study makes an argument for the importance of political risk analysis and seeks to apply an established framework to the case of Botswana.

## **5.2 Evaluation of outcomes**

In order to elaborate on the general or particular risks to both the political and economic stability of Botswana it was first necessary to evaluate the results of the political risk analysis conducted in the fourth chapter of this study. To do so, the evaluation was broken down into the three landscapes pertaining to the political, societal and economic domains of Botswana and include brief evaluations of the risk ratings attributed to each indicator.

Botswana's political landscape, according to the five political indicators in this study, presents three areas with low risk and two medium risks. The low risk attributed to Botswana's regional context despite past tensions with the likes of South Africa, Namibia, and Zimbabwe, is based on the democratic and effective diplomatic approaches used by the government of Botswana to resolve interstate conflict. A critical factor regarding the future of Botswana's low-risk neighbourhood pertains to the sharing of water sources. This study cautions stakeholders to be wary of the conflict that may accompany water sources in the near future.

To illustrate the low risk of radical religious forces, the analysis compared Botswana's 2014 election with the runup to Tunisia's election that took place in roughly the same time. The comparison was further accompanied by data from the GTI which, combined, clearly showed that Botswana currently enjoys little to no terror activities within its borders. Patterns of terror funding, however, do exist although the government does appear to address this issue.

The indicator of authoritarianism focused mostly on the former president of Botswana, Ian Khama who exhibited significant authoritarian tendencies. An interesting discovery of this analysis found that Ian Khama's predecessor, Mogae, also came under fire for his authoritarian tendencies, albeit much less than Ian Khama. What makes it interesting is that Mogae was also awarded the 2008 Ibrahim Prize for Achievement in African Leadership. Allegations of authoritarian tendencies should, therefore, at times be taken with a pinch of salt. The real political risk for this indicator manifests in the power of the Botswana head of state. Botswana's presidential position wields considerable power with little checks and balances to ensure the abuse of power can be kept at bay, regardless of the individual assuming this position. The medium risk attributed to authoritarianism is based on the history of authoritarian tendencies, although to a larger extent on its limited checks and balances, vulnerable constitution and ultimately a golden opportunity for the head of state to abuse their power should they choose to do so.

Although Botswana has proved time and again that leadership succession occurs in a timely and democratic (albeit a bit biased) fashion, the staleness of the BDP lead the analysis to attribute a medium risk to the fourth indicator. Many Botswana have grown tired of the BDP, as evident in the BDP's declining electoral support. The BDP has also been criticised for incompetence, corruption and inefficiency, particularly when it comes to policy implementation. Furthermore, the very organisation that awarded Mogae for his governance also indicated that Botswana's governance is showing a worrying trend of increasing deterioration. The framework in Chapter 2 stipulated that a leader needs five years to consolidate his/her grip on power, but that after 10-12 years a leader grows detached and stale. With the BDP governing for over 50 years, the argument that this political party is growing detached and stale holds significant merit. The ruling party appear to have grown complacent in its regional context.

Botswana's situation regarding war, armed insurrection and non-constitutional changes is best illustrated by its inclusion in a 'Zone of Peace' in the larger conflict-torn region. The government does not stress military power in its foreign policy nor does it celebrate a 'warrior' culture. The issue of civil-military was also addressed, especially following the leadership of Ian Khama who also served as General in the BDF. Although the lines between civil-military relation became blurred during Ian

Khama's presidency, it became evident that this was an outlier case in comparison to previous leaders. With the exception of using its military to patrol its borders in times of conflict and the intervention of Lesotho in 1998, Botswana shows no signs of either inter-or intrastate war, nor are there any real threats of armed insurrection which makes the attributed low risk an easy and logical decision.

Among the sociopolitical indicators, the two medium risks outweigh the single low risk. The first sociopolitical indicator highlighted that despite Botswana's ethnically heterogeneous appearance, tensions exist among the ethnic minority groups. Whether it is dissatisfaction regarding the composition of Botswana's constitution or the controversial handling of the Khoisan people, the analysis found evidence of ethnic tensions both in the past and in the present. These tensions hold the potential to grow into unrest should the minority experience increased oppression and opt for collaboration to alter the current government regime. However, as these are minority groups and Botswana remains for the most part ethnically heterogeneous, these ethnic tensions present only medium risks.

The section on societal conflict sought to gauge risks originating from ideological or social class cleavages. The first discovery of the analysis found that ideology is of very little importance to the society of Botswana and that government is dominated by the ideology of the ruling party. This rules out any risk arising from ideological cleavages, though the analysis did mention the official ideologies present in Botswana. Social class was investigated using inequality as a measure of social class cleavages. From this approach it was found that inequality in Botswana remains problematic. Its 2009 Gini coefficient of 0.645 compares relatively ill with the rest of its region, for example South Africa and the Central African Republic's 0.63 and 0.562 respective Gini coefficients. Seeing that Botswana enjoys a significant growth rate and a flourishing diamond industry, the pervasive social inequalities in Botswana remain curious. However, Botswana's society does not indicate conflict or clashes along these lines and, therefore, the indicator proved to be a low risk to stakeholders.

The sociopolitical indicator with the most aspects of concern pertain to the social conditions and population dynamics. This catch-all indicator highlighted a number of social conditions plaguing the society which include poverty, unemployment, xenophobia, health conditions, corruption and crime. Although education, population

growth, urbanisation, and inflation were also investigated, these conditions proved not to be of significant concern. Despite a significant decline in poverty since the turn of the century, the incidence of poverty remains worrisome at 16.3% in 2016. In accordance with persisting poverty, Botswana's unemployment rate remains high at 18.1% in 2017. A main reason for this image of a relatively wealthy state with many poor citizens is the capital-intensive mining industry which is not labour intensive. Therefore, although the mining sector thrives, promoting a prosperous economy, it does very little for the sociopolitical landscape of Botswana. HIV/AIDS remains of significant concern to the government of Botswana as well as labour-intensive firms operating in Botswana. Adult HIV prevalence remains high at 22.8% in 2017 and remains a significant challenge for employers of a large labour force. Viewed in a broader context, Botswana's social conditions, for the most part, still reflect the status quo of African countries and compares ill with other upper-middle countries such as Mexico and Brazil as illustrated in Table 4.1. Due to the multitude of recurring social conditions, a medium risk allocation proved appropriate.

Politico-economic indicators coincide with that of the political indicators in that the low risks outweigh the medium risk. Investigating Botswana's preservation of resources, the analysis found that Botswana has gone to great lengths to ensure the sustainability of some of its key sources, including those related to ecotourism, diamond revenue, and water. Although these resources are experiencing significant pressure, the government proves to be actively working towards the preservation of its resources. The information from the research suggested a low risk when considering the preservation efforts.

Considering vulnerabilities to external shocks, Botswana remains highly dependent on the export of primary goods to the disadvantage of its manufacturing sector. The researcher, however, points out that a particular external shock, cultured diamonds, has the potential to promote both the primary and manufacturing sector. With good governance of this matter, a multitude of investment opportunities can be unlocked that would further promote Botswana's economic position. Furthermore, despite Botswana's services sector enjoying increased growth, it is evident that the mining and export of diamonds is still the main pillar supporting the Botswana economy. As a result

of this continued dependence on its primary sector, vulnerabilities to external shock can not be ruled out and thus presents a medium risk.

The final indicator, the macro-economic circumstances of the host state, found that Botswana's exchange control, repatriation restrictions, imposition of tariffs, and expropriation and compensation all create an inviting investment environment, especially for stakeholders within the SACU. The acid test, explained in Chapter 2, also examined Botswana's macro-economic standing and found that Botswana passed the test, despite two areas of concern. In the first instance, Botswana incurred significant external debt in the wake of the 2008/2009 recession, though at the same time, also shows the payment of external debt evident in the steady decline in external debt. However, the government's budget balance (which should not exceed a 3% deficit of GDP) proves noteworthy. In 2015/2016 the government budget balance presented a 4.7% deficit and although this deficit recovered to a 0.6% surplus in 2016/2017, the 2017/2018 estimate indicated a deficit of 1.3% while the 2018/2019 proposed budget indicate a 1.8% deficit suggesting a downward trend. Despite this, the macro-economic circumstances of Botswana remain consistent with that of low-risk cases.

Based on the discussion above, this analysis finds that Botswana poses a low to medium risk to potential investors and stakeholders. Investment in Botswana enjoys relative security, though investments in the areas of medium risk should be carefully considered by making use of recurring political risk analyses to ensure that risks are mitigated or avoided as far as possible.

### **5.3 Conclusion**

At the onset of the study, the aim was set at assessing an African country that – at least in terms of its public international image – does not coincide with high risk cases in the African or Southern African context. Botswana was, therefore, chosen for its political stability and impeccable political institutions. Ultimately, the aim was to conduct a political risk analysis of a relatively stable and prosperous African country and to focus on all relevant variables, but also to explore certain factors that sometimes do not appear on the proverbial radar screen. Following this analysis, the study can now answer its research question based on the findings from this assessment.

Although this study is built on a single research question with no subsidiary questions it does refer to three aspects in which political risk may manifest. The question of *which contemporary conditions, events and role players in Botswana's political, economic and social landscapes potentially present general or particular risks to both the political and economic stability of the country* connects political risks to the political, economic and social dimensions and dynamics of Botswana. Therefore, to finally answer the research question it is useful to reflect on the conditions, events and role players in Botswana that hold risk to these three landscapes.

*Contemporary conditions, events and role players in Botswana's **political landscape*** include its geopolitical position and water sources *in general*, authoritarian opportunities in its constitution *in general*, and *the particular* staleness of the BDP. Botswana has a history of rising tensions when it comes to conflict that involves its water sources as evident by its conflict with Namibia, with whom Botswana shares the Okavango Delta. In the time period of this analysis these tensions present a low risk, however, with the reality of climate change, the increasing importance of water sources and the decreasing availability of water, the future holds the very real risk of rising tensions between states sharing water sources, such as the Okavango Delta. It also became apparent that Botswana's government composition, including the structure of its constitution, leaves it vulnerable to authoritarian tendencies. Although the state has enjoyed leaders with integrity, democratic principles and good governance, the vulnerabilities remain and can be exploited by the single proverbial bad apple. For this reason, it is crucial to closely follow and analyse the behaviour of any new head of the Botswana state to effectively gauge any authoritarian tendencies that may present political risks. In Botswana's political landscape, the risk of the BDP's staleness manifests in areas critical to the development of economic and social conditions which may retard infrastructure and economic opportunities as well as fuel unrest among its population. Through these means, staleness presents a very real political risk that requires careful consideration when approaching. The study also found a mild advantage of the BDP's dominance vested in ideological coherence. Dominating the executive, legislature and the ideological realm results in relative peace within government institutions. Though one must also consider that relative peace does not mean the absence of feelings of oppression and resentment among those that may differ with the dominant party.

*Contemporary conditions, events and role players in Botswana's **social landscape*** include the Khoisan people *in particular*, social inequalities *in general*, and a number of *general* social conditions. Society forms part of the foundation of a state and is, therefore, critical to the stability of the state. The government's treatment of the Khoisan people, coupled with mild oppression or dominance of other minority groups, is fuelling the already troubling issue of tribalism in Botswana. This behaviour has two consequences: first, it holds the potential to encourage minority groups to resort to more radical approaches to get their voices heard, which is an especially disconcerting possibility in a region with active terrorist groups; second, tribalism leads to tension and conflict between groups of the population that may see to a rise in violent crime fuelled by tribal differences. Botswana's mostly heterogenous population often hides the resentment experienced by minority groups. To avoid conflict among its people the government is required to implement policies and practices that will provide minority groups with a platform to vent their frustration. The analysis found that based on the absence of active conflict between social classes, societal conflict does not present a noteworthy sociopolitical risk. However, it is worth noting that Botswana has a significant degree of societal inequality which holds a real possibility for progressing into conflict should lower social classes continue to feel that the state's diamond wealth is passing them by. Furthermore, social conditions in Botswana entail considerable political risks spread out among issues such as poverty, unemployment, xenophobia, HIV/AIDS prevalence and crime. Not only do these conditions exert extensive strain on firms with large labour forces but also present safety concerns for foreigners visiting or living in Botswana. A heightened emphasis needs to be placed on these issues so as to promote a more inviting investment climate. In this regard it should also be noted that the new Botswana President Masisi does aim to address some of these social conditions which bodes well for the future of Botswana.

*Contemporary conditions, events and role players in Botswana's **economic landscape*** consist of the continued reliance on a single, primary commodity *in general*, and the rise of cultured diamonds *in particular*. In the course of this analysis, Botswana's politico-economic indicators may not have been fraught with political risks, though particular risks present the potential to threaten Botswana's economy to a significant extent. In line with the latter, Botswana's reliance on its diamond mining industry renders it vulnerable to any external shocks or threats to diamond revenues,

all while speculation on 'the end of diamonds' is enjoying increased attention. Attempts at diversifying its economy have been slow and ineffective for the most part. Regarding the depletion of Botswana's diamonds, the analysis referred to a few possible solutions, though the only real option proved to be exploration. This study, however, argues that exploration only postpones the problem and may leave the Botswana government with even less incentive to further diversify its economy. A brief reference was also made to the increasing popularity of cultured diamonds, which pose both a threat as market competition and an opportunity for a more sustainable manufacturing-based economy. De Beers' entry in to the cultured diamonds market suggests that cultured diamonds may, in fact, not be a threat to Botswana's diamonds in the short-term, though the long-term remains uncertain. This study argues that Botswana presides over a very unique opportunity to negotiate a deal with De Beers' in which diamond cultivation, polishing and processing can be developed in Botswana. In doing so the economy becomes more stable and sustainable while alleviating unemployment and, in turn, poverty and crime. This course of action also holds potential for increased FDI's further promoting Botswana's economy.

Although Botswana has often been commended and cited for its political and economic achievement, it is evident that social conditions are generally not in a satisfactory state, which implies that it would be wrong to view Botswana in simplified terms as a relatively wealthy state with a poor population component. Botswana may have escaped the resource curse, but it remains highly dependent on a single commodity which does not differ much from the likes of Nigeria, for example. Slow diversification, a stale government, and a population marred by social ills makes Botswana a low risk case, with very real political risks that cannot be taken for granted, especially not by foreign investors or firms. However, despite Botswana's mild political risks, good democratic principles are entrenched in the fibre of its politics. If these principles can be joined with a more proactive and opportunistic government, Botswana holds the potential to be a land of continued stability and economic promise.

#### **5.4 Final remarks and future research**

In a competitive and increasingly internationalised world, many role players, including internationalised business, rely on instruments, such as political risk analyses, in seeking opportunities in developed and developing markets. Universally and

generically, political risk can be defined as the probability of a harmful event that could derive from a judgement that converts political uncertainty into political risk, or a potential harm to business operations arising from political behaviour.

The aim and purpose of this study were relatively simple: applying a comprehensive political risk analysis to the case of contemporary Botswana. Discussions on risk mitigation and management did not form part of this study's aim and purpose. It should also be noted that with discussions on the 'end of diamonds' in Botswana being little more than mere estimates and speculation at this stage, it is not possible to determine exactly when such a point would be reached. Additionally, it is also difficult to determine when and to what extent Botswana could become more authoritarian or to determine whether the current or a future leader would divert from Botswana's past political trajectories and values. In this regard, it would be wrong to equate uncertainty about these matters with low probability and this is one reason why this political risk analysis on Botswana should not be regarded as a final word or study on the country and its future.

The methodological basis of this study rests on a relatively simple risk model and in no way attempts to compete with corporate models. As the international realm undergoes ongoing and dynamic change, so should the most effective political risk models in pursuit of being effective instruments in assessing the many dynamic changes in the ever changing national, regional and international landscapes. To this end, scholarly efforts to bring further refinement to the relevance and viability of risk models would be merited and should in fact be done in the best academic tradition of critical analysis.

Further to the above, this analysis was conducted at the end of Ian Khama's tenure and at the beginning of Masisi's tenure. For this reason, it is exceptionally daunting to forecast political risks that may spawn from the change of leadership, or even from the forthcoming 2019 Botswana elections. In accordance with the need for ongoing academic activity and advancement, it might soon be imperative to conduct further assessments of political risks in Botswana with specific focus on the outcomes of the 2019 elections, as well as the Masisi presidency.

After all, the political realm is pervasive and indeed business in general, and in Africa in particular, occurs in a framework ultimately set by political authority which, in turn, is

often marked by or coinciding with changing and volatile leadership and landscapes – nationally, regionally and/or internationally. Botswana is no exception and is nationally located in a broader dynamic landscape where local and international business experience regular shifts in the form of challenges and opportunities. There have been significant discontinuities in the global political landscape and, with a recent change in political leadership in Botswana, this risk analysis cannot be considered the final word or chapter on the topic under review. To this end, ongoing research is imperative in exploring and assessing old and new sources of political risk and the different levels of risk in the country.

Nonetheless, it is trusted that this dissertation has sufficiently explored the contemporary political, economic and social landscapes that are of importance to both the political and economic stability of the country – at least for the foreseeable future. It is further trusted that the study has focused on a sufficient number of local, regional and other variables pertaining to the case of Botswana with a view to measuring the level of political risk in this Southern African state. This, specifically, pertains to potential harm to current and future business operations, or the probability of a harmful event that could derive from a judgement that converts political uncertainty into political risk.

Political risk is obviously most prevalent in and relevant to developing countries, including African states. At the same time, some of the highest growth opportunities are in developing countries. In this regard, Botswana with its strong economic growth since independence is of special importance, particularly in the Southern African context where economic growth figures are currently looking more promising than in recent decades.

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(national estimate); Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population)];.

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## Abstract

Often the most attractive investment opportunities sprout from politically troubled countries. To better gauge the profitability of investments in countries riddled with political troubles, a political risk analysis is required. Although academic studies of political risk analysis usually seek to analyse countries with severe political risks, this study seeks to diverge from the status quo. Instead, this study explores an African country known for its good political environment. Botswana presides over a reputation of good governance and a stable economy while also being one of the top diamond producers in the world. Despite this image, this study argues that there are two reasons to conduct a political risk analysis of Botswana.

First, a number of 'under-the-radar' events suggest that the peaceful surface might conceal a troubling undercurrent that could point to future political risks. The best way to sufficiently scrutinise the validity of this concern is to conduct a political risk analysis on Botswana using indicators that would detect any troublesome undercurrents.

Second, political risk analysis is about reporting on political risks that might negatively impact an investment in a seemingly profitable industry. Therefore, this study argues that political risk analysis should not be limited to countries with the worst political standings but to all countries regardless of their reputation. Even stable, prosperous countries like Botswana may hold political risks that should be scrutinised by political risk analysis.

On the backdrop of the abovementioned, this study uses a synthesis of some of the foremost political risk models and applies the synthesised model, with two additional indicators, on the case of Botswana to determine exactly which contemporary political, social, or economic conditions, events and role players may pose a particular or general risk to both the political and economic stability of the country.

Ultimately, the study found that at the heart of Botswana's political risks lies the issue of water security, the staleness and dominance of the ruling party, an array of worrisome social conditions, and continued overdependence of diamonds. Although Botswana has been praised for its good governance and economy, this study found

that it still presents a number of political risks and compares relatively ill to other upper-middle income countries.

## **KEYWORDS**

Botswana

Political Risk Analysis

Foreign Direct Investment

Authoritarianism

Social conditions

Diamonds

Debswana

Tswana