

AFRICA RISK CONSULTING

Botswana Monthly Briefing July 2020

Botswana Summary 23 July 2020

The Covid-19-induced lockdown in South Africa has led to fuel supply shortages in Botswana, which relies heavily on fuel imports from its neighbour. The International Monetary Fund (IMF) projects Botswana's economy will contract by 9.6% this year, more severely than the 5.4% forecasted in April. Khoemacau Copper Mining, a subsidiary of United States-based Cupric Canyon, develops a high-grade copper-silver project, catalysing development of the Botswana Kalahari Copper Belt, which is expected to officially begin production in mid-2021.

Covid-19 constraints spark fuel supply shortage

Botswana's dependence on fuel supply from its most prominent regional neighbour, **South Africa**, has resulted in severe supply constraints over the past two weeks.¹ Permanent secretary of Botswana's ministry of natural resources, green technology, and energy security, **Mmetla Masire**, confirmed in an address on **Botswana Television (BTV)** on 7 July that the fuel shortage has prompted the government to tap into its strategic reserves and source fuel from alternative suppliers in the **Southern African** region, including **Namibia** and **Mozambique**.²

*"We have not received the normal supply of fuel from South Africa and that has caused supply challenges for the retailers. The situation has not stabilised and we had to make use of our strategic reserves. We are now receiving about a third of our normal supply."*³

Under normal circumstances, Botswana imports its fuel supplies by road from South Africa.⁴ President **Mogweetsi Masisi** (2018-present) confirmed Masire's statement in a televised address on 7 July, saying that constraints, largely related to the implementation of national lockdowns and the inability of refineries to produce at full capacity, have widely disrupted supply chains and prompted Botswana to source fuel from alternative sources.⁵

The Botswana government has announced fuel rationing to deal with the fuel shortages.⁶ President Masisi, addressing the nation in a live broadcast on 10 July, said that the duration of operating hours of fuel stations would be reduced from 24 hours to 12 hours.⁷

*"Each car will fuel at a maximum cost of 250 pula (\$25) only with immediate effect until the situation normalises."*⁸

While Botswana, with its population of 2.4 million inhabitants, has registered relatively low Covid-19 infection rates – only 522 confirmed cases of the coronavirus, one death, and nearly 50 recoveries – the knock-on economic effect from South Africa has hit Botswana hard.⁹

The fuel shortage is likely to further disrupt business operations across various sectors in Botswana, which are already in distress as a result of the suspension of economic activity under the six-month

¹ Political analyst, South Africa, 30 Jun 2020

² Bloomberg, 7 Jul 2020

³ Bloomberg, 7 Jul 2020

⁴ Source, analyst, Pretoria

⁵ CGTN Africa, 7 Jul 2020

⁶ CGTN Africa, 10 Jul 2020

⁷ CGTN Africa, 10 Jul 2020

⁸ CGTN Africa, 10 Jul 2020

⁹ Source, analyst, Pretoria

state of emergency that President Masisi declared on 31 March in an effort to curb the spread of **Covid-19**.¹⁰ Truck drivers from outside Botswana who are delivering fuel supplies are subject to mandatory 14-day Covid-19 quarantine before they are permitted to enter the country.¹¹

Economic trajectory expected to decline ...

The **International Monetary Fund (IMF)** has revised its previous forecast of Botswana's economic trajectory, predicting that the economy will shrink by 9.6% in 2020 in comparison to its prior projection of 5.4% that was forecasted in April.¹² However, the IMF expects Botswana to recover strongly in 2021 with 8.6% growth, from the April forecast of a 6.8% bounce back. The IMF published its latest forecasts in the **Sub-Saharan Africa Economic Outlook** on 29 June. Its revised projections for Botswana align with its forecast of countries in sub-Saharan Africa that the Covid-19 pandemic will most affect.¹³

The IMF report predicts that growth will decline the most in tourism-dependent and resource-intensive countries.¹⁴ The Covid-19 pandemic has exposed the vulnerabilities stemming from Botswana's lack of economic diversification due to its significant reliance on a single commodity – diamonds – for growth, exports, and budget revenues.¹⁵ Mining accounts for 25% of Botswana's GDP, while tourism directly represented 4% of its GDP in 2019.¹⁶

The Botswana government expects its economy to contract by 8.9% in 2020, lower than its previous estimate of a 13.3% contraction.¹⁷ The **Bank of Botswana** (central bank) issued a statement on 14 July that the revisions in the government's economic forecasts were boosted by a sooner than expected resumption of economic activities, including mining output, following a shorter than expected national lockdown.¹⁸

*"The ministry of finance now sees a lower economic contraction in 2020. The first number was based on an assumption of a longer lockdown and larger contraction in mining activities."*¹⁹

The **African Development Bank Group (AfDB)** in its **African Economic Outlook 2020** report makes slightly more optimistic projections for Botswana than both the IMF and the Botswana government. The AfDB suggests that Botswana's economy will contract by 5.5% in 2020 and bounce back with 5% growth in 2021.²⁰

... as Botswana steps up campaign to woo investors ...

Botswana Investment and Trade Centre (BITC) CEO **Keletsoitse Olebile** said on 26 June that Covid-19-induced economic disruptions would cause Botswana's foreign direct investment (FDI) to contract by 40% in 2020.²¹

*"Covid-19 has ravaged economies of many countries across the globe. In turn this will affect Botswana's FDI prospects with estimates projecting that our FDI will drop by 40%. Covid-19 has badly affected the global economy thereby affecting the investment agency's prospects of attracting FDI in 2020."*²²

¹⁰ Botswana Government press release, 21 May 2020

¹¹ CGTN Africa, 10 Jul 2020

¹² International Monetary Fund, 29 Jun 2020

¹³ International Monetary Fund, 29 Jun 2020

¹⁴ Source, analyst, Pretoria

¹⁵ Source, analyst, Pretoria

¹⁶ World Bank, 2019

¹⁷ Central Bank of Botswana, 14 Jul 2020

¹⁸ Central Bank of Botswana, 14 Jul 2020

¹⁹ Central Bank of Botswana, 14 Jul 2020

²⁰ African Development Bank Group, 7 Jul 2020

²¹ Mmegi, 26 Jun 2020

²² Mmegi, 26 Jun 2020

Botswana relies substantially on global markets for diamond sales and exports, making it vulnerable to international market fluctuations.²³ In an attempt to address Botswana's overreliance on the minerals extraction sector – particularly the diamond industry – the BITC has been promoting the attractiveness of Botswana as an investment attraction, citing its stable political climate, the ease of doing business in the country, and its favorable economic growth trajectory.²⁴

The BITC – Botswana's investment lobbying company – held its first trade contact mission in South Africa in March, where it highlighted Botswana's competitive corporate tax rate of 22%, well below the continental average of 27.5% and more attractive than the global average of 23.5%.²⁵ Botswana may also be ahead of other **African** nations in terms of its human capital. Botswana has a literacy rate of 82%, well above **sub-Saharan Africa's** literacy rate of 65%, placing it in the top ten most literate countries across the **African** continent.²⁶

Botswana ranked 87th out of 190 economies surveyed in the **World Bank's 2020 Doing Business** report, maintaining its 2019 ranking and registering a position in the top 10 countries in Africa for facilitating business activity.²⁷ The ranking places Botswana 7th in Africa, trailing behind **Mauritius** (13th), **Rwanda** (38th), **Morocco** (53rd), **Kenya** (56th), **Tunisia** (78th), South Africa (84th) and **Zambia** (85th).²⁸ Confirming the BITC's claims, the World Bank report noted that Botswana had made "paying taxes less costly by reducing the corporate income tax rate".²⁹

... and a copper-silver project is on the horizon

Botswana stands to receive a major economic boost from the new, large-scale **Khoemacau** copper and silver project – a high-grade project that **United States**-based **Cupric Canyon Capital LP** subsidiary **Khoemacau Copper Mining (KCM)** is developing in north-western Botswana.³⁰ The \$400m project forms part of a 4,040 km² mineral concession located on the **Kalahari Copper Belt**.³¹ Renewed exploration interest in the Kalahari Copper Belt reflects recognition of its significant potential and dovetails with the Botswana government's aim to diversify its mining economy away from an overreliance on diamonds.³²

Mining is an important contributor to Botswana's GDP.³³ Minerals account for around 80% of export earnings.³⁴ A number of exploration firms have expanded their operations in the Kalahari Copper Belt including **United Kingdom**-registered **Galileo Resources PLC**, which announced that it would be acquiring 21 prospecting licences within the Kalahari Copper and **Limpopo Mobile Belts** in Botswana³⁵ (see *ARC Briefing Botswana May 2020*). Botswana also has a rapidly expanding thermal coal industry. **Gaborone**-based **Minergy Limited** is developing the **Masama** mine in south-western Botswana with the aim of supplying thermal coal to South Africa.

KCM's high-grade **Zone 5** resource, referred to as its "Starter Project", was discovered in 2012.³⁶ KCM project director **Chrisjan van Wyk** said early construction works at Khoemacau began in 2019, with the first copper concentrate from the starter project anticipated by mid-2021:

²³ Source, analyst, Pretoria

²⁴ Mmegi, 26 Jun 2020

²⁵ Mmegi, 26 Jun 2020

²⁶ Mmegi, 26 Jun 2020

²⁷ World Bank Doing Business 2020

²⁸ World Bank Doing Business 2020

²⁹ World Bank's Doing Business 2020

³⁰ Khoemacau Copper Mining, 2020

³¹ Khoemacau Copper Mining, 2020

³² Source, analyst, Pretoria

³³ Source, analyst, Pretoria

³⁴ The World Bank, 13 Apr 2020

³⁵ Khoemacau Copper Mining, 2020

³⁶ Mining Africa Review, 15 Jul 2020

“At present, we are focused on developing Khoemacau’s high grade Zone 5 resource which is aimed at producing first concentrate by mid-2021 and thereafter building up to its nameplate throughput of 3.65Mtpa producing +60 000 tpa copper and 2 Mozpa silver, with both payable metals in concentrate.”³⁷

The Khomecau copper project is currently developing underground operations at its flagship Zone 5 deposit.³⁸ Zone 5 is the most prominent deposit among the several deposits within the Khoemacau project and hosts some of the most significant high-grade copper mineralisation deposits such as Khoemacau and **Boseto**. The mine plan involves three adjacent underground mines at Zone 5.³⁹

KCM’s short-term plan is to achieve safe reliable production of the Starter Project.⁴⁰ The long-term plan is to expand Khoemacau to approximately 5.8 million tonnes per annum via the expansion project, in which a stand-alone process plant will be built at Zone 5.⁴¹

With less than a year to go before its milestone for the first shipment of concentrate in mid-2021, KCM has made substantial progress in the development of its starter project.⁴² The Zone 5 mine has an expected operating life of 20 years or more, and is expected to produce more than 155,000 tonnes of copper concentrate at 38%-42% copper content (more than 60,000 tonnes of copper metal) and 2 million ounces of silver in its initial stages.⁴³

Planner

20 Aug 2020 **(Botswana) Bank of Botswana** Monetary Policy Committee meeting;
2024 **(Botswana)** Presidential elections

Chronology

15 Jul 2020 **Gaborone (Botswana) Reuters. Bank of Botswana** (central bank) says it expects its economy to shrink by 8.9% in 2020, less severely than its previous forecast of a 13.3% contraction, boosted by better than expected mining output and a shorter lockdown;

7 Jul 2020 **Gaborone (Botswana) Bloomberg.** Government releases 30.8 million litres of fuel from its strategic reserves to ease an acute shortage that has caused long queues at gas stations as **covid-19** regulations disrupt supply chains;

2 Jul 2020 **Gaborone (Botswana) Mmegi.** President **Mokgweetsi Masisi** enters self-quarantine – for the fourth time – after an employee in the presidential office is confirmed to have contracted **covid-19**;

30 Jun 2020 **Gaborone (Botswana) Reuters.** Foreign ministry taps into strategic fuel reserves to alleviate shortages caused by import delays during the **coronavirus** crisis and also what the government has called panic-buying;

26 Jun 2020 **Gaborone (Botswana) Mmegi.** Finance ministry says **Botswana** requires some \$3.40 billion over the next two and a half years to revive the economy from the effects of the **covid-19** pandemic;

23 Jun 2020 **Gaborone (Botswana) Times.** Public prosecutor’s office asks **South Africa**-based non-governmental organisation **AfriForum** to represent it in a high-profile money-laundering and fraud case involving \$48m cash allegedly funnelled into South African bank accounts;

22 Jun 2020 **Gaborone (Botswana) Mmegi. Botswana Energy Regulatory Authority** allots

³⁷ Mining Africa Review, 15 Jul 2020

³⁸ Khoemacau Copper Mining, 2020

³⁹ Khoemacau Copper Mining, 2020

⁴⁰ Mmegi, 12 Jun 2020

⁴¹ Mmegi, 12 Jun 2020

⁴² Mining Mx, 26 Feb 2020

⁴³ Mining Mx, 26 Feb 2020

generation licences to three independent power producers for the construction of power plants with a 827MW generation capacity – the first in the country’s history;

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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