

## AFRICA RISK CONSULTING

### Botswana Monthly Briefing August 2023

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#### Botswana Summary 8 August 2023

*Debswana's sales of rough diamonds fall 17% in the first six months of the year with lower sales expected to impact government revenues in the 2023/24 financial year. Botswana is bringing forward and upscaling some of its renewable energy projects as it aims to meet a 2023 target of having 30% of its electricity supply from green energy. Canada-based Giyani Metals announces on 31 July improved economic prospects for its manganese project in Botswana. This bolsters the potential of what would be the country's first large-scale manganese mine. Annual inflation for June falls to a 26-month low of 4.7% due to lower food and fuel prices.*

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#### Drop in diamond sales to impact budget balance

Rough diamond sales at **Debswana**, the 50:50 joint venture between the government and **United Kingdom**-headquartered **De Beers**, tempered by 17% in the first six months of 2023 due to a weak global market. Figures from the **Bank of Botswana** show that in the first half of the year, Debswana sold diamonds worth \$2.2 billion, down from \$2.6 billion registered in the same period of 2022, a year in which the company made record sales. The slower sales will impact the country's national budget which finance minister **Peggy Serame** projected in February will post a higher 3.06% deficit this year compared to the 2.1% in the 2022/23 financial year.<sup>1</sup> Accompanied by falling diamond revenue, this deficit is likely to widen further. Government revenues are set to jump from P71.53 billion (\$5.54bn) in the current financial year to P790 billion (\$6.12 billion) in 2023/24 while expenditure will rise from P76.41 billion (\$5.93 billion) to P87.38 billion (\$6.77 billion) resulting in a 3.06% GDP deficit as the development budget rises by 28% while the ministerial recurrent expenditure rises by 13%.

The government earns 80% profit from Debswana operations when tax and royalties are included while revenues contribute 30% of national income and 70% of foreign exchange earnings. Debswana, which produced 12.7 million carats in the first six months of the year, also accounts for almost all diamonds produced in Botswana, with **Lucara** being the only other operating mine in the country. The company registered an 8% growth in output in 2022 to 24.1 million carats but in 2023, the sector is forecast to record negative growth of -1%.<sup>2</sup>

Botswana and De Beers agreed in principle to a new ten-year diamond sales agreement in June, which will see state-owned **Okavango Diamond Company's (ODC)** share of Debswana output rise to 30% at the signing of the new contract (*see ARC Briefing Botswana Jul 2023*). The output will rise to 40% in five years and eventually 50% by the end of the new contract, as Botswana seeks to get more income from its resources.<sup>3</sup> ODC is further planning to diversify how it sells rough stones to the market by introducing contract sales to complement its current auction system as it gears up to receive the increased supply.<sup>4</sup>

#### Botswana pushes forward renewable energy projects

Botswana is bringing forward and increasing the scale of its renewable energy projects as the country aims to increase its share of green energy to 30% by 2030. Botswana currently has an energy demand of about 600 megawatts (MW) against a supply of 500MW, almost all of which are met by coal-fired

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<sup>1</sup> [Reuters](#), 1 Aug 2023

<sup>2</sup> [Reuters](#), 1 Mar 2023

<sup>3</sup> [Sunday Standard](#), 1 Jul 2023

<sup>4</sup> [Reuters](#), 4 Aug 2023

power plants.<sup>5</sup> Under the **Integrated Resource Plan (IRP)**, approved by parliament in 2020, Botswana plans to add more than 600MW of solar and coal-fired power in the next six years as the country looked to wean itself off imports while also eyeing power exports.

The projects outlined in the IRP include adding 100 MW of solar power via two 50MW solar photovoltaic (PV) plants in **Selebi Phikwe** and **Jwaneng**, as well as another 200MW Concentrated Solar Power (CSP) system and a 300MW coal-fired power plant. Minerals and energy minister **Lefoko Maxwell Moagi** said on 25 July that the 50MW PV plants planned at Jwaneng and Selebi-Phikwe have now been doubled to 100MW each while procurement for the 200MW CSP plant is now being fast-tracked. A 50MW wind power project, whose procurement was to start in 2024, has also been brought forward while procurement for another 100MW solar PV initially set for 2025 will start this year.

The country has amongst the highest levels of direct normal (solar) irradiation (DNI) of any location in the world, with over 3,000 kWh/m<sup>2</sup> per annum. The area bordering Botswana, **South Africa** and **Namibia** is said to be among the areas with the highest DNI. It is estimated that using less than 1% of the country's area, Botswana could meet its current electricity consumption.<sup>6</sup>

Although the country has a target of generating at least 30% of national production from renewables by 2030, power generation is expected to remain dominated by fossil fuels in the near future. The country in July doubled the planned capacity of a coal-fired power plant being built in the country by **India's Jindal Steel and Power Ltd** to 600MW as it seeks to boost both energy security and exports.<sup>7</sup>

Botswana has more than 200 billion tonnes of coal resources and despite recent pressure to cut coal use due to climate change, the diamond-dependent country is pushing ahead with monetising those resources for economic development. Its energy demand is expected to rise from 600MW currently to around 800MW by 2028, while its power supply is forecast to grow from just over 500MW to more than 1,000MW.

### Headway in Botswana's first manganese mine

**Canada**-headquartered **Giyani Metals** on 31 July announced a new Preliminary Economic Assessment (PEA) for the **Kgwakwe Hill** manganese project in **Kanye**, showing significant economic potential for what would be Botswana's first large-scale manganese mine.<sup>8</sup> Botswana is heavily reliant on diamonds but is looking to diversify within the mining sector with minerals such as copper, nickel, coal and iron ore. Apart from diamond mines, the country has two operating coal mines and two copper mines with Australia's **Sandfire Resources** currently commissioning its new **Motheo Mine** in the Kalahari **Copper Belt**.

Giyani Metals' focus at Kgwakwe Hill is the integrated production of high-purity manganese sulphate monohydrate (HPMSM) – a critical lithium-ion battery precursor material. With the global appetite for green minerals on the rise due to the energy transition, the demand for battery metals such as manganese could reduce Botswana's reliance on diamonds.

In its updated PEA, Giyani Metals projects a single production line to process manganese oxide material on-site to produce high-purity manganese sulphate, with a feed capacity of 200,000 tonnes per annum (tpa) over a 57-year life. Under this scenario, the project would have a post-tax net present value using an 8% discount rate of \$983m, more than doubling its previous Net Present Value (NPV) of \$481m from November 2022, and post-tax internal rate of return of 29.4% (versus 28% in 2022).

An upside case scenario was also evaluated, assuming an additional production line from year five of operations taking the total feed capacity to 400,000 tpa. The upside case would produce a post-tax

<sup>5</sup> [Mmegi](#), 28 Jul 2023

<sup>6</sup> 'Botswana-Rapid assessment and gap analysis' [Se4all-africa](#). Accessed 7 Aug 2023

<sup>7</sup> [Reuters](#), 25 Jul 2023

<sup>8</sup> [Mining.com](#), 31 Jul 2023

NPV of \$1.6 billion and a post-tax IRR of 33.5% over a 25-year life. Giyani Metals estimates total initial capital expenditure at \$284m, with an additional \$208m of expansion capital required in year 4 of the upside case.

Kgwakwe Hill will be the first fully integrated battery metals project in the country, and one of the only mining projects in the country to go into full beneficiation. Giyani Metals plans to complete project construction in 2026, which will dovetail with commercial production of the forecast ramp-up of HPMSM demand from offtakes.<sup>9</sup>

### Inflation falls to 26-month low

**Statistics Botswana** released its latest inflation data on 14 July, indicating that annual inflation dropped from 5.6% in May to 4.7% in June, the lowest level since March 2021 driven down by lower food and fuel prices.<sup>10</sup> By comparison, in June last year, inflation was measured at 12.7%, as it marched towards a 14-year peak of 14.6% in August of that year.

Annual food and non-alcoholic beverages inflation dropped to 12.9% in June from 14.3% in May, while inflation associated with transport fell from 4.3% to 1.3%. Fuel prices have generally been declining in recent months, with diesel and petrol pump prices dropping by an average of 88 thebe (\$0.07) on 20 June. **Bank of Botswana** (central bank) sees inflation remaining within the 3% to 6% objective range going into the medium term reflecting the decline in international oil prices, positive real lending rates, and the prospect of regulated prices remaining unchanged. However, the central bank is unlikely to reduce interest rates on the next sitting of the **Monetary Policy Committee** meeting on 24 August due to the lingering volatility brought by the uncertainties in the global economy.

Risks to inflation rising remain on account of international commodity prices increasing beyond current forecasts, the persistence of supply and logistical constraints, as well as reversal of global economic integration (geo-economic fragmentation). These risks are, however, offset by a stronger appreciation of the Pula against the **South African** rand and subdued local demand.

### Planner

24 Aug 2023 <b>Gaborone (Botswana)</b> Monetary Policy Committee Meeting
Nov 2023 <b>Gaborone (Botswana)</b> 2023/24 supplementary budget
Feb 2024 <b>Gaborone (Botswana)</b> 2024/25 national budget
2024 <b>(Botswana)</b> General elections.

### Chronology

4 Aug 2023 <b>Gaborone (Botswana)</b> <i>Xnews</i> . <b>Botswana Stock Exchange</b> CEO <b>Thapelo Tsheole</b> announces that the number of listed debt securities on the bourse has doubled to a total of 92 after 46 new debt securities listed on the exchange on 3 August. The new listings comprise 27 bonds and 19 commercial papers;
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<sup>9</sup> [Miningweekly](#), 23 May 2023

<sup>10</sup> [Mmegi](#), 15 Jul 2023

1 Aug 2023 **Gaborone (Botswana)** *Mmegi*. Justice minister **Machana Shamukuni** announces in parliament the deferral of the **Penal Code Amendment Bill No.29 of 2022**, which would decriminalise same-sex relations, to allow for a rigorous examination of the constitutional issues raised with his ministry regarding the bill before it could be debated by legislators;

31 Jul 2023 **Gaborone (Botswana)** *Daily News*. **Patrick Chinamasa** leads a **Zimbabwean** delegation to visit president **Mokgweetsi Masisi**. Chinamasa presents a special message from Zimbabwean president **Emmerson Mnangagwa** about that country's readiness for the election that will be held on August 23;

31 Jul 2023 **Gaborone (Botswana)** *Bloomberg*. State-owned rail companies from **Botswana** and **South Africa** are seeking funding for a P3 billion (\$230m) railway line stretching 113km between the two countries to transport mineral commodities including coal. The **Mmamabula-Lephalale** link will have a capacity of 24 million tonnes a year connecting via existing routes to South Africa's **Richards Bay Port** and the **Maputo Port** in **Mozambique**;

30 Jul 2023 **Gaborone (Botswana)** *Daily News*. Botswana, through a press statement from the foreign affairs minister, condemns the unconstitutional subversion of democracy in **Niger** and calls for the immediate release of the constitutionally elected president **Mohamed Bazoum**;

28 Jul 2023 **Gaborone (Botswana)** *Mmegi*. Senior officials from the energy and minerals ministry are debating a proposal from **Angola's** government for Botswana to take up an equity stake in the upcoming 200,000 barrels a day **Lopito Oil Refinery** planned for the **Atlantic** coast;

28 Jul 2023 **Gaborone (Botswana)** *Mmegi*. **Bank of Botswana** has stepped back on plans to introduce state-backed retail bonds citing the complexity and cost of the initiative. The retail bonds were aimed at supporting financial inclusion through access to secure, low-denomination savings products for retail investors;

26 Jul 2023 **Gaborone (Botswana)** *The Monitor*. President **Mokgweetsi Masisi** declares the 2022/23 farming season a severe drought year and as a result, the agriculture ministry will provide a 30% subsidy on feeds for livestock while the finance ministry will pay 40% of the seasonal loans to farmers who received loans from **Citizen Entrepreneurial Agency (CEDA)** and **National Development Bank (NBD)**;

26 Jul 2023 **Gaborone (Botswana)** *Daily News*. **Gambling Authority (GA)** issues Limited Payout Machines (LPMs) licences to 1,900 entrepreneurs. The licences afford the entrepreneurs to operate gambling machines with a limited maximum bet of P10 (\$0.76) and a maximum jackpot of P3,000 (\$230.80) or as may be prescribed by the authority from time to time;

23 Jul 2023 **Gaborone (Botswana)** *Daily News*. **Angolan** president **João Lourenço** visits Botswana on a state visit and holds official talks with president **Mokgweetsi Masisi** where the two commit to fostering bilateral relations and expanding areas of cooperation;

21 Jul 2023 **Gaborone (Botswana)** *Mmegi*. Agriculture minister **Fidelis Molao** tables in parliament the **Meat Regulator Bill** which seeks to end the monopoly held by the **Botswana Meat Commission (BMC)** as the sole exporter of beef saying the government has been worried about the dwindling contribution of livestock sales to the mainstream economy;

21 Jul 2023 **Gaborone (Botswana)** *Mmegi*. A sample survey of 401 adults by the country's leading credit bureau, **TransUnion Botswana**, estimates that 34% of local consumers are concerned about being able to meet their bills and loan obligations;

20 Jul 2023 **Gaborone (Botswana)** *The Monitor*. **Canada-based Lucara Diamond Corp** delays the completion date for its underground expansion project (UGP) at the **Karowe** mine, by 18 months and increases its capital cost to reach completion by \$136m;

19 Jun 2023 **Gaborone (Botswana) Mmegi**. **Statistics Botswana** reports that the number of air passengers rose by 44% in the first three months of the year compared to the same period last year, although longer trends show arrivals and departures are still below pre-pandemic levels;

19 Jul 2023 **Gaborone (Botswana) Daily News**. Opposition party, the **Botswana Congress Party (BCP)** leader, **Dumelang Saleshando** says the BCP will run solo in the 2024 general elections. The BCP pulled out of the opposition coalition, the **Umbrella for Democratic Change (UDC)**, early this year and has also failed in its bid to have a pact with fellow opposition party, the **Alliance for Progressives (AP)**;

15 Jul 2023 **Gaborone (Botswana) Mmegi**. **Statistics Botswana** reports that national electricity production rose by 39.5% reaching 890,655 megawatt hours (MWh) in the first three months of the year, compared to 638,501MWh over the corresponding period last year;

14 Jul 2023 **Gaborone (Botswana) International Monetary Fund**. The **International Monetary Fund (IMF)** forecasts Botswana's economy to grow by 3.8% this year, down from 5.8% last year, on account of the lower diamond output and weaker global economy;

14 Jun 2023 **Gaborone (Botswana) Mmegi**. **Development Finance Corporation (DFC)**, a key **United States** government investment agency that led that country's delegation to the 2023 **US-Africa Summit**, endorses efforts by mineral-rich countries such as Botswana to add more value to their resources domestically;

14 Jun 2023 **Gaborone (Botswana) Mmegi**. Assistant agriculture minister **Molebatsi Molebatsi** says government plans to phase down and eventually stop exports of live cattle by December 2023, ending a lucrative income stream that netted farmers P1.2 billion (\$92.3m) in 2022. Farmers will now be restricted to exporting two live cattle each between July and October, then one each between then and December, when the exports would end;

13 Jul 2023 **Gaborone (Botswana) Daily News**. **African** heads of state and business leaders, including president **Mokgweetsi Masisi**, ask the **United States** during **US-Africa Business Summit** to extend its **Africa Growth Opportunity Act (AGOA)** due to expire in 2025;

11 Jul 2023 **Gaborone (Botswana) Mmegi**. The **Botswana Stock Exchange (BSE)** main index, the **Domestic Companies Index (DCI)**, rose 4.2% in the first half of the year mostly driven by strong performances in financial counters such as **Standard Chartered** whose share price gained a net 44%, followed by **Chobe Holdings** with 26.4%, **Absa Botswana** with 14.3%, and **Engen Botswana** with 11.7%;

9 Jul 2023 **Gaborone (Botswana) Sunday Standard**. **Bank of Botswana** figures show that over the twelve months to June 2023, the nominal Pula exchange rate appreciated by 5.9% against the **South African** rand and depreciated by 8.3% against the **SDR**. Against the SDR constituent currencies, the Pula depreciated by 11.7 % against the pound and the euro, 8.4 % against the **United States** dollar, 2.8 % against the **Japanese** yen, and 0.6 % against the **Chinese** renminbi.

7 Jul 2023 **Gaborone (Botswana) Mmegi**. Minerals and energy minister **Lefoko Moagi** says the ongoing winter parliament is expected to debate changes to the **Mines and Minerals Act** which propose that the government's existing entitlement to purchase a 15% stake in new mining ventures, be ceded to citizen investors. Amendments to the Act could also potentially see the 15% equity option for government increased to 26%;

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