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KPMG GLOBAL MINING INSTITUTE

Botswana

Country mining guide

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Strategy Series





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Executive summary

Since its independence in 1966, Botswana has witnessed good economic growth on the back of fiscal discipline and robust governance. The country has a strong legal framework, low prevalence of civil unrest or disorder and minimal government interference in the mining sector. Botswana also boasts infrastructure that is in better condition than several of its neighbors, which has assisted in boosting interest from international companies in the mining sector.

Botswana is one of the world leaders in diamond production, with Russia competing closely. While Russia was the largest diamond producer in the world in terms of production volume in 2012, Botswana produced the most in terms of value, accounting for 23.6 percent of total global diamond production. Botswana's coal industry is likely to see increasing investor interest in coming years, and has been identified as a vehicle through which to diversify the economy. The Botswana Chamber of Mines expects the country to export 115 million tons of thermal coal in the next 7–10 years. According to Business Monitor International (BMI), the country's mining sector is expected to grow at an average rate of 3.7 percent during 2013–17 to reach a value of US\$6.13 billion by 2017. This is expected to be driven by the steady growth in diamond production, combined with an accelerated growth in coal output.



US\$2.98 billion

Botswana was the world's largest producer in terms of the value of diamond production in 2012



20.55 million carats

Botswana was the world's second largest diamond producer in 2012



US\$4.8 billion

FDI into Botswana's mining sector in 2012



33 billion tons

Estimated mineable coal reserves

Source:

1. Kimberley Process Certification Scheme

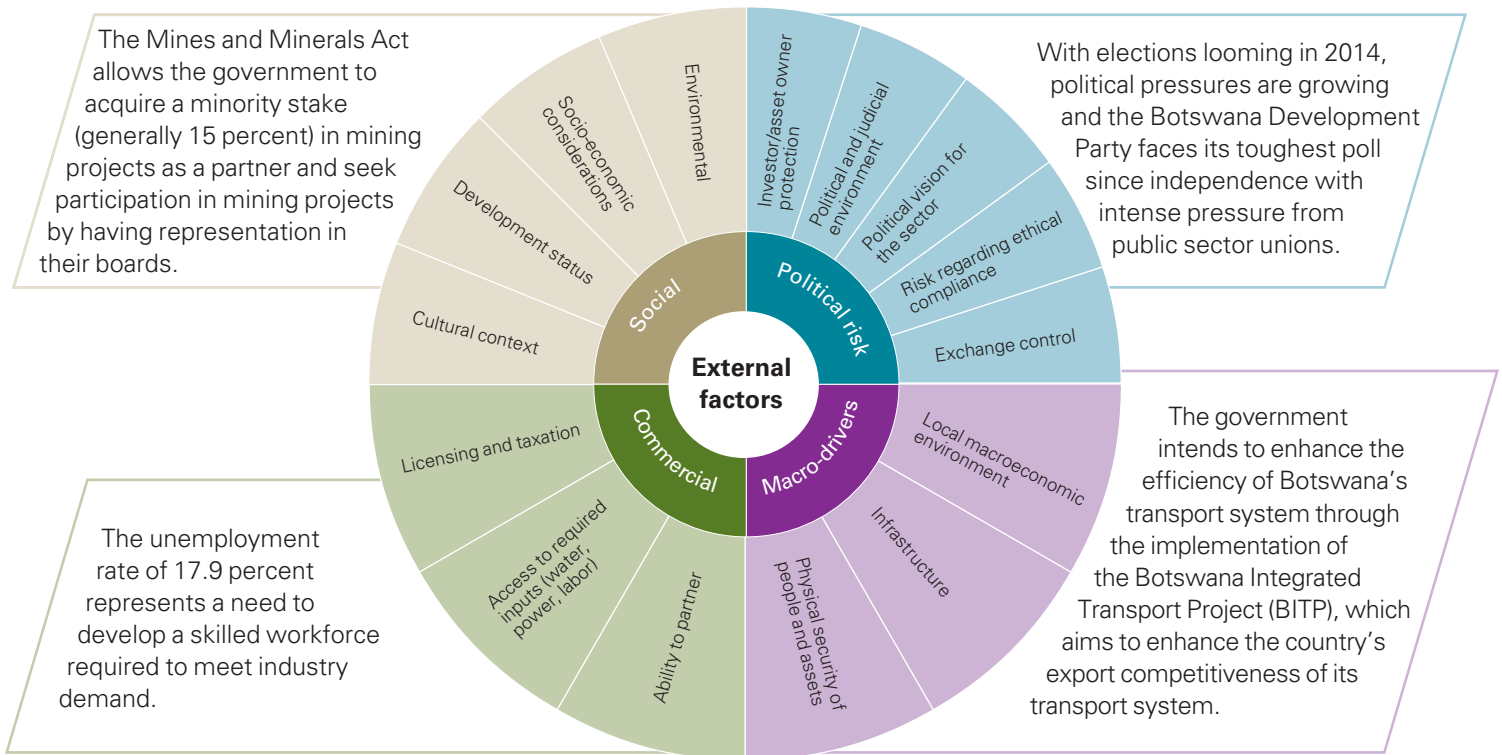
2. Business Monitor International – "BMI Industry View – Diamonds are forever", 28 August 2013, via Thomson Research/Investext, accessed 30 September 2013

3. Geologist views (page 25)

New geographic expansion risk framework


Risk framework to assess new geographic expansion

KPMG in Botswana's risk framework



Source: KPMG International 2012

Country snapshot

Botswana ^{1,2,3}	
Geography 	<p>Botswana is a landlocked country located to the north of South Africa, and it share its boundaries with Namibia (1,360km), South Africa (1,840km) and Zimbabwe (813km).</p> <ul style="list-style-type: none"> • Its coordinates are 22°00 S, 24°00 E and is spread over an area of 581,730km² and has a largely flat to gently rolling tableland terrain. About two-thirds of Botswana lies in the Tropics. The Tropic of Capricorn passes just south of the town of Mahalapye. The Kalahari Desert covers approximately 80 percent of the country's land area.
Climate	<p>The climate in Botswana is mostly semi-arid. It is hot and dry for most of the year.</p> <ul style="list-style-type: none"> • Seasons: The summer season lasts from November to March with usually very high temperatures. It also witnesses a lot of rain, which brings down the temperatures for a short period. The winter season lasts from May to August. This is also the dry season when there is almost no rainfall. • Rainfall: The rainy season lasts from October to April. January and February are generally the peak months for rain. The mean annual rainfall varies from a maximum of 650mm+ in the extreme north-east area of the Chobe District to a minimum of less than 250mm in the extreme south-west part of Kgalagadi District.
Population	<p>Botswana's population was estimated at about 2.1 million in July 2013. Its population is relatively young, with a median age of 22.7 years and life expectancy at birth of 54.5 years.</p>
Currency	<p>The official currency of the country is the Botswana Pula (currency symbol: BWP).</p> <p>The following were the average exchange rates in October 2013:⁴</p> <ul style="list-style-type: none"> • BWP8.50: US\$1 • BWP11.59: €1

Sources: CIA Factbook

¹ "The World Factbook: Botswana", CIA, accessed 18 September 2013

² "Geography & Climate", Botswana Tourism, accessed 18 September 2013

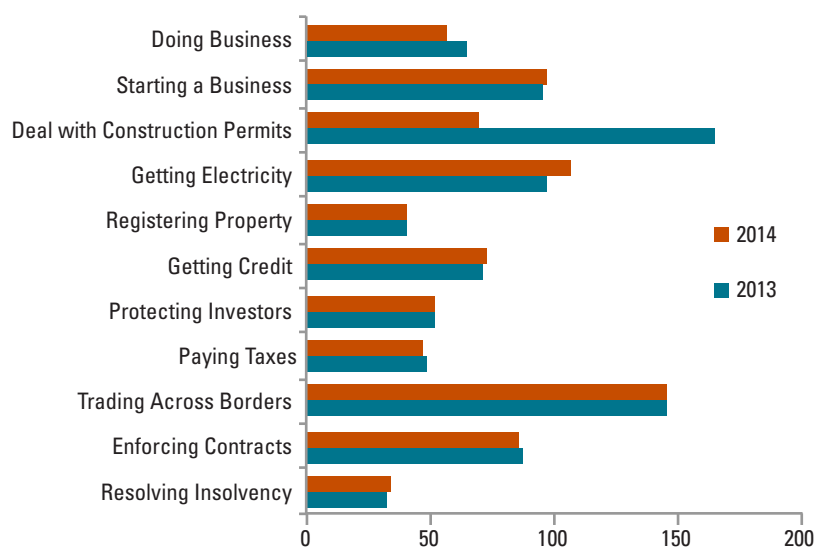
³ The Climate of Botswana: Botswana Seasons Guide", Siyabona Africa, accessed 18 September 2013

⁴ Reuters

World Bank ranking: Ease of doing business⁵

Botswana ranked 56th among the 189 countries covered under the World Bank Ease of Doing Business Index, 2014. It improved by nine ranking spots from its 2013 ranking, after last year's rankings were adjusted by the World Bank to reflect data corrections.

Botswana's rank in doing business



1=best; 189=worst; (Source: Doing Business 2014 and 2013 report, World Bank)

The largest movement by far with regard to Botswana's change in rankings is in dealing with the construction permits category. By eliminating the requirement for an environmental impact assessment for low-risk projects, the country improved its ranking in the category by 95 spots to 69th of 189. The largest downward revision was in the getting electricity category, where Botswana lost 11 spots to 107th. This category is, however, expected to show improvement once the country brings its power plants online. Botswana continues to score relatively well in the resolving insolvency (34th), registering property (41th), and paying taxes (47th) categories. On the other hand, the country still scores relatively lower in the trading across borders (145th) category.

⁵ "Doing Business 2014: Smarter Regulations for Small and Medium-size Enterprises", World Bank, October 2013

Table 1: Botswana's ranking in the World Bank Ease of Doing Business Index, 2013

Parameter	Rank
Starting a business	96
Dealing with construction permits	59
Getting electricity	107
Registering property	41
Getting credit	73
Protecting investors	52
Paying taxes	47
Trading across borders	145
Enforcing contracts	86
Resolving insolvency	34

Sources: *Doing Business 2014 report*, World Bank

Type of government^{6,7}

Botswana is a parliamentary republic. It has a two-tier system of government comprising the central government, headed by the president, and the local government, headed by a mayor in towns and a council chairperson in districts.

The president is the Chief of the State and heads the government, and appoints the cabinet and the vice-president. The president is elected for a five-year term and is eligible for a second term. The last election in the country was held on 20 October 2009 and the next is scheduled for October 2014.

The legislative branch is a bicameral parliament comprising the House of Chiefs and the National Assembly. The House of Chiefs is a 35-member body with eight ex-officio members consisting of the chiefs of the principal tribes and 27 non-permanent members serving five-year terms. Of these, 22 are indirectly elected and the remaining five are appointed by the president. The national assembly comprises 63 seats, where 57 members are directly elected by popular vote, four appointed by the majority party and two by the president and attorney general who serve as ex-officio members. All the members of the national assembly serve five-year terms. The last national assembly elections were held on 16 October 2009, with the next scheduled to be held in 2014.

The highest courts in the country are the Court of Appeal and the High Court. Both are constituted by a chief justice and a number of other judges as prescribed by the parliament. The chief justices are appointed by the president. The other judges are also appointed by the president upon the advice of the Judicial Service Commission. All the judges serve until the age of 70 years. The sub-ordinate courts are the Industrial Court, the Magistrates Courts, the Customary Court of Appeals, the Paramount Chief's Court/ Urban Customary Court, the Senior Chief's Representative Court, the Chief's Representative's Court and the Headman's Court.

⁶ "The World Factbook: Botswana", CIA, accessed 18 September 2013

⁷ "The local government system in Botswana: Country profile", Commonwealth local government forum, accessed 18 September 2013

Botswana remains a low political risk country and, despite some internal political rumblings, remains one of Africa's most stable democracies for the foreseeable future. A Botswana Democratic Party (BDP) poll victory in 2014 is on the cards though a far stronger opposition showing is likely and this will filter through to BDP behavior. While its political risk profile is likely to remain low into and beyond next year's elections, that may not be true of its short-term political environment that faces a number of unsettling issues that could easily be interpreted as tending toward instability.

With elections looming in 2014 and political pressures growing, it is becoming increasingly clear that the BDP faces its toughest poll since independence and consequently, the country may be facing the sternest test of its democracy since independence. The BDP is coming under intense pressure from organized labor, specifically the public sector unions where support for the BDP at next year's poll is all but non-existent.

With regard to the mining sector, Botswana continues to review its minerals legislative framework to attract non-diamond miners to the heavily diamond-dependent country.

Botswana was continuing to review its minerals legislative framework to attract non-diamond miners to the heavily diamond-dependent country, its Geological Survey Department director **Tiyapo Ngwisanyi** said at the opening of the tenth Botswana Resource Sector Conference held in 2013.

Economy and fiscal policy^{8,9,10,11,12,13,14,15,16}

Despite Botswana's attempts to diversify its economy, fundamentally, the economy still remains heavily dependent on the diamond mining sector. This dependence on the diamond industry reflects negatively on Botswana's credit worthiness, due to the country's over-exposure to external global developments. The global financial crisis led to a sharp downturn in global diamond demand, and the subsequent decline in diamond prices in 2008–09 was directly correlated with the economic malaise experienced in Botswana during that period. The robust global diamond demand and higher prices in 2010 through mid-2011 were instrumental in the economy's recovery, and as such it remains clear that Botswana's dependence on the diamond sector leaves the economy vulnerable to unreliable global diamond demand.

The authorities are well-aware of Botswana's exposure to the diamond sector, and have implemented several policies in an effort to diversify the economy – the most significant being the Economic Diversification Drive (EDD). At the forefront of potential alternatives to diamonds are the country's vast coal resources. The authorities have pointed out several times that Botswana is home to (but as yet unproven) more than 200 billion tons of estimated coal resources, the majority of which remains untapped. Recognizing this potential, and that the coal sector could be the most propitious new export sector and a potential substitute for Botswana's diamond revenue in time, development of the coal sector has become a key priority.

The latest data released by Botswana's Central Statistics Office (CSO), indicates that the real economy expanded by an estimated 7.4 percent y-o-y in the second quarter of 2013, following 3.3 percent y-o-y growth in the previous quarter. The mining sector showed the strongest sectoral growth, expanding by 15.6 percent y-o-y in the second quarter, stemming from a 19.2 percent y-o-y ramp-up in domestic rough diamond production during the same period. The real economy is projected by the CSO to have grown by 4.2 percent in 2012, reaching P110.5 billion (\$14.5 billion) when measured in nominal terms. NKC Independent Economist's latest quarterly report projects the real economy to grow by 4.1 percent in 2013, although that forecast is expected to be adjusted upwards, following the better-than-expected economic performance in the second quarter of the year.

⁸ "Botswana Economic Outlook", African Development Bank Group, accessed 19 September 2013

⁹ "Botswana profile", BBC News Africa, accessed 19 September 2013

¹⁰ "Fact Sheet", Republic of Botswana, accessed 19 September 2013

¹¹ Brain Benza, "IMF predicts 4.1 percent growth for Botswana in 2013", Mmegi Online, 19 April 2013

¹² "Botswana", Forbes.com, accessed 19 September 2013

¹³ "World Economic Outlook Database, April 2013", International Monetary Fund, accessed 19 September 2013

¹⁴ "Botswana: 2012 Article IV Consultation", August 2012

¹⁵ "Botswana 2012", African Economic Outlook, 2012

¹⁶ "Botswana: Risk Assessment", Global Edge, accessed 19 September 2013

With regard to Botswana's fiscal operations, the primary objective of fiscal policy in Botswana is to maintain macroeconomic stability by means of running a balanced budget over the medium term. Following budget deficits in the first three years of the 2010 National Development Plan (NDP 10), it is important to continue with modest budget surpluses for the 2013/14 fiscal year (April 1 to March 31) and beyond, in order to restore the government's reserves. This implies that new commitments should be identified within the available resources. In doing so, some planned projects have been put on hold while resources have been dedicated to projects that have already been started.

Heritage Foundation of Economic Freedom

2013 Index of Economic Freedom

The Heritage Foundation scores Botswana's economy as 70.6 percent free, which makes it the world's 30th freest economy. Its overall score is one point better than last year, due primarily to continuing improvements in freedom from corruption and the management of government spending. Botswana rank 2nd of 46 countries in the sub-Saharan African region, and its overall score is well above the regional and world averages. The 2013 index measures and ranks 177 countries across 10 specific freedoms.

The Foundation notes that Botswana's levels of economic freedom are consistently among the region's highest, while the country continues to set an example in the management of large endowments of natural resources. Corruption in the country is considered to be the lowest in Africa, and an independent judiciary system enforces contracts effectively, while protecting property rights.

Parameter	Score	Rank
Property Rates	70.0 percent	26th
Freedom from Corruption	61.0 percent	32th
Fiscal Freedom	79.5 percent	86th
Government Spending	65.1 percent	91th
Business Freedom	69.0 percent	79th
Labor Freedom	69.8 percent	59th
Monetary Freedom	72.0 percent	130th
Trade Freedom	79.7 percent	71th
Investment Freedom	70.0 percent	37th
Financial Freedom	70.0 percent	17th

Sources: 2013 Index of Economic Freedom, Heritage Foundation

Fraser Institute rankings

Economic Freedom of the World 2013 report¹⁷

Among the 152 countries covered in the Fraser Institute's Economic Freedom of the World 2013 report, Botswana ranked 52nd, with a score of 7.25 on a scale of 10.

The annual peer-reviewed report ranks 152 countries around the world on the basis of their policies that encourage 42 different economic measures in the following areas:

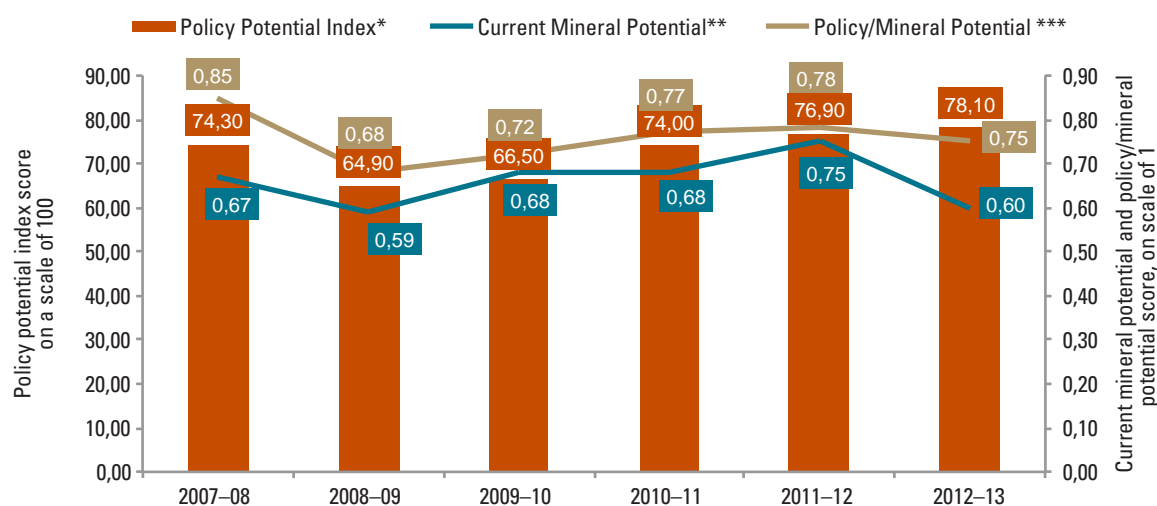
- Size of government: expenditures, taxes and enterprises
- Legal structure and security of property rights
- Access to sound money
- Freedom to trade internationally
- Regulation of credit, labor and business

Survey of Mining Companies 2012/2013¹⁸

Botswana ranked 8th on Policy/Mineral potential among the 96 jurisdictions covered by the Fraser Institute's Survey of *Mining Companies 2012/2013*. Figure 1 provides the country's scores on the key indices of the survey.

Figure 1: Botswana's scores, Fraser Institute's Survey Of Mining Companies, 2007–13

Botswana's scores, Fraser Institute's Survey Of Mining Companies, 2007–13



Source: Survey of Mining Companies, Fraser Institute Annual Publications

Notes:

In the Economic Freedom of the World 2013 report, a rating of 10 is taken as the highest, while 1 is the lowest.

* The Policy Potential Index is a composite index that measures the effects of government policies on exploration.

** The Current Mineral Potential index is based on respondents' responses to whether a jurisdiction's mineral potential under the current policy environment encourages or discourages exploration. It assumes current regulations and land-use restrictions.

*** The Policy/Mineral Potential Index is based on respondents' answers to the question about mineral potential of jurisdictions, assuming their policies are based on "best practices." It assumes no land use restrictions and considers the industry "best practices."

¹⁷ Economic Freedom of the World 2013 Annual Report", Freetheworld.com

¹⁸ "Survey of Mining Companies: 2012/2013", Fraser Institute, February 2013

Regulatory environment^{19,20,21,22,23,24}

The Ministry of Minerals, Energy and Water Resources (MMEWR) oversees the operations and development of the energy, water and minerals sector in Botswana. Mining activities are chiefly administered under the Mines and Minerals Act, 1999. The act consists of 14 parts and two schedules. The legislation allows the government to acquire a minority stake (generally 15 percent) in mining projects as a partner and seek participation in the mining projects by having representation in their boards.

The act regulates the issuance of exploration and mining licenses and tries to reach a balance between mining activity and environmental impact. The act states the following:

- all rights of ownership of minerals are vested in the Republic of Botswana subject to the provisions of mineral rights in the Tribal Territories Act
- the right to prospect or to mine minerals can be acquired and held only in accordance with the provisions of this act, and no person is allowed to prospect or mine minerals except as provided in this act
- the Minister of MMEWR is responsible for the most efficient, beneficial and timely investigation and exploitation of mineral resources of the country
- no right to explore or produce petroleum (as defined in section 2 of the Petroleum Exploration and Production Act) may be granted or exercised under this act. The following are the licenses and permits granted under this act.

Prospecting license

It enables the holder to intentionally look for minerals in the prospecting area and determine their extent and economic value.

The holder of a prospecting license shall:

- commence prospecting operations within three months of the date of issue of his license or a period as the minister may allow
- carry on prospecting operations in accordance with the program of prospecting operations
- notify the minister of the discovery of the mineral to which his prospecting license relates within a period of 30 days of such discovery
- notify the minister of the discovery of any mineral deposit of possible economic value within a period of 30 days of such discovery.

A prospecting license is valid for such period as the applicant has applied for and cannot exceed three years.

The holder of a prospecting license can apply for a renewal three months before the expiry of his license and specify the period for which the renewal is sought.

An applicant is entitled to the grant of not more than two renewals, each for the period applied for and not exceeding two years in either case.

Retention license

It provides a right of retention over a prospecting area.

¹⁹ "Ministry of Minerals, Energy and Water Resources (MMEWR)", Republic of Botswana, accessed 24 September 2013

²⁰ "Mines and Minerals Act, 1999", Government Gazette dated 17 September 1999

²¹ "Mining in Botswana", Knowbotswana.com, accessed 24 September 2013

²² "Botswana – Mines and Minerals Act", Revenue Watch Institute, accessed 24 September 2013

²³ "Explosives Act", Government of Botswana dated 10 April 1962

²⁴ "Mines, Quarries, Works and Machinery Act", Government of Botswana dated 1 November 1978

The holder of a prospecting license can apply for a retention license in relation to the area and a mineral covered by his license.

A retention license is granted if:

- the applicant has carried out a feasibility study of the deposit in accordance with good industry practice, and the study has established that the deposit cannot be mined on a profitable basis at the time of the application
- the approved prospecting programs of the area applied for has been completed
- the applicant is not in default.

The holder of a retention license is entitled to:

- retain the retention area to which the retention license relates for future mining operations
- carry on prospecting operations in the retention area from time to time to determine the prospect of mining any mineral to which the retention license relates on a profitable basis
- remove any mineral or sample of a mineral for any purpose other than sale or disposal in the course of prospecting operations to any other place within Botswana or outside Botswana with the permission of the director of mines
- carry on investigations and operations from time to time to determine the prospect of mining any mineral to which the license relates on a profitable basis.

Mining license

The holder of a prospecting license, retention license or a waiver (issued by the minister once being satisfied that the area over which a mining license is required has been sufficiently prospected and that no other person has exclusive rights to that area) can apply for a mining license for an area in respect of which the waiver has been issued or for an area within his prospecting area or retention area.

The holder of a mining license may enter any land to which his mining license relates and:

- take all reasonable measures on or under the surface to mine the mineral for which a mining license has been granted
- erect the necessary plant, equipment and buildings for the purposes of mining, transporting, dressing, treating, smelting or refining minerals recovered by them during mining operations
- dispose of any mineral product recovered
- prospect within his area for the mineral for which he holds a mining license or any other mineral
- stack or dump any mineral or waste product in a manner approved by the director of mines.

A mining license is valid for a period not exceeding 25 years.

The government has the option of acquiring up to 15 percent working interest participation in the proposed mine upon the issuance of a mining license.

Minerals permit

A person wishing to conduct small-scale mining operations may apply for a minerals permit for any mineral other than diamond over an area not exceeding 0.5km² per permit.

The holder of a minerals permit has to demarcate the area covered by such permit in the prescribed manner within three months of the issue of the permit.

A minerals permit is valid for a period not exceeding five years as determined by the minister and may be renewed for further periods not exceeding five years each.

The holder of a minerals permit can, subject to the provisions of this act and to any other written law, enter upon the area covered by such permit and:

- mine the minerals to which his permit relates
- dispose of the minerals to which his permit relates
- erect such temporary structures, other than residential buildings, as may be necessary for the purposes of mining.

In addition, the safety, health and welfare of persons engaged in prospecting, mining and quarrying operations, including any works that are parts of and ancillary to mining and quarrying operations, are regulated under the Mines, Quarries, Works and Machinery Act. The control of manufacture, import, sale, transport, storage, use and disposal of explosives is taken care of under the Explosives Act.

Sustainability and environment

Environmental regulations and challenges

The establishment of the National Conservation Strategy (NCS) Coordination Agency within the Ministry of Wildlife, Environment and Tourism came into being in 1992. The Agency liaises with other organizations to ensure that the NCS goals and objectives are achieved. These goals are to:

- increase the effectiveness with natural resources are used and managed, so that beneficial interactions are optimized and harmful environmental side-effects are minimized
- integrate the work of the sectorial ministries and interest groups throughout Botswana, thereby improving the development of natural resources through conservation and vice versa.

The NCS Coordinating Agency has core mandates, including Environmental Education, Environmental Information Management, Environmental Assessment and Audits and Program and Projects.

Botswana has ratified several multi-lateral environmental agreements, all with the themes of climate change, drought, desertification, biological diversification and waste management. Among these agreements are:

- Copenhagen Accord 2009²⁵
- Agenda 21
- Kyoto Protocol
- CBD (Convention on Biological Diversity)
- POPs Convention 2002 (Persistent Organic Pollutants).

Key risks to climate change

Botswana's vulnerability to climate change is the result of socioeconomic and environmental challenges such as pressure on water resources, degradation of veld and range land, pollution and deforestation. Erosion is as a result of wind, sheet wash and gullying. As a result of scarce surface water resources, human and animal populations are dependent on groundwater. Groundwater use has eased the effects of drought but has taken a toll on the land. Desertification is a natural occurrence in the semi-arid and drought-prone environment of the Kalahari Desert. Tendencies to overstock and mass migration have led to even further depletion of vegetation.^{26,27}

²⁵ Botswana Mission: Permanent Mission of the Republic of Botswana to the United Nations, Note No: UN/BOT/130(30)P1.

²⁶ "Environmental issues in Botswana", Wild World, accessed 25 September 2013

²⁷ "Desertification in Botswana", Michael B.K. Darkoh, Department of Environmental Science, University of Botswana

Greenhouse gas

Currently Botswana accounts for 0.02 percent of the total global emissions of green house gas (GHG). This is mainly because the economy depends on fossil fuels. The energy sector accounts for about 75 percent of these emissions, followed by agriculture and waste at 24 percent. There are currently no national targets for greenhouse gas emissions.²⁸ According to a recent study on GHG emissions from SADC countries, in 2010, Botswana's emission amounted to 4.52Mt CO₂.²⁹

Social license to operate

Botswana currently does not have an overarching policy around mining beneficiation and corporate social responsibility for the mining sector. Market participants have historically developed their own corporate social responsibility programs which typically support the local communities through the provision of infrastructure, health and education. The government, through the Botswana Institute of Policy Analysis, is developing a mining beneficiation policy with the key objective of encouraging linkages with the rest of the economy and expansion of value addition activities as well as employment generation for Botswana.³⁰

The Mines and Minerals Act of Botswana regulates the issuance of exploration and mining activities. The act makes a provision for the Botswana government to buy a stake in any mining enterprise.

Socio-economic development challenges in Botswana

Botswana signed the UN Millennium Development Goals (MDG) in 2000 with a view that poverty is an emergency that needs to be overcome to improve the well-being of its citizens. The MDGs, in sync with the country's development ideals as adopted in their National Vision of "Towards Prosperity for All", are commonly referred to as Vision 2016.

Botswana has made significant progress and has already achieved five of the eight MDGs. These are to:

- halve the population below the poverty line of US\$1 per day
- halve the population living in conditions of food scarcity
- ensure that all children complete junior education
- gender parity in education
- provide access to improved water sources and sanitation facilities.

Despite this impressive performance, the country faces the challenge of accelerating progress on the lagging MDGs, in particular, maternal and child health. The country has invested in developing its education expenditure and significant achievements in the education sector have been attained. However, the sector has not been able to create the skilled workforce that Botswana needs to diversify its economy.

Availability of land

Of the total land area of Botswana, 18.2 percent is protected either by a national park, game reserve or forest reserves. A further 23 percent falls under wildlife management areas. Botswana is rich in many heritage sites that have drawn the interest of activist groups such as Amnesty International.³¹ The Kalahari desert covers approximately 80 percent of the country's land area.

²⁸ Website <http://www.olddailynews.gov.bw/cgi-bin/news.cgi?d=20121218> visited 27 November 2013

²⁹ SADC Policy Paper on Climate Change: Assessing the Policy Options by David Lesolle (University of Botswana). Seen 27 November 2013

³⁰ Website: http://www.bcm.org.bw/new_percent20paper_percent20articles/bidpa_percent2040x_percent207_percent20sm.pdf . visited 4 December 2013

³¹ Website: <http://www.cbd.int/countries/?country=bw> visited 27 November 2013

Taxation^{32,33,34}

Botswana follows a progressive taxation regime. The gross income of a person is the total amount that is accrued or deemed to be accrued to that person in that tax year from every source situated or deemed to be situated in Botswana. However, it excludes any amount that is of a capital nature.

The Budget proposals for 2013–14 amended the Income Tax Act and the Value Added Tax Act.

The Income Tax Act was amended to:

- increase transparency and exchange of information between Botswana and other tax jurisdictions
- broaden the requirement to keep accounts and records to include each person liable to pay or collect taxes
- standardize the interest chargeable under the act at 1.5 percent per month compounded
- provide that the 10 percent withholding tax on bank and building society interest in excess of the exempt P7,800 p.a. payable to resident individuals shall be the final tax
- eliminate the 2020 sunset clause in the Financial Services Centre (IFSC) legislation.

The Value Added Tax Act has been amended to:

- increase the maximum penalty chargeable for failure to file a “nil” or “refund” VAT return from zero of P5,000
- zero-rate the first 5,000 liters per month of water, supplied by the Water Utilities Corporation to a residential dwelling
- expand the definition of capital goods to include mining capital expenditure
- increase accompanied passenger’s baggage threshold to UA*1,200 from UA500.

* The Unit of Account (UA) is used by the African Development Bank equivalent to the IMF’s Special Drawing Right (SDR) as its reporting currency. The value of the SDR may vary from day to day and is computed daily by the IMF in US\$. Currencies are translated into UA at the rate of exchange used by the African Development Bank and prevailing on the last day of the period presented.³⁵

Some of the key taxation features specific to mining in Botswana as follows:

- income from or deemed to be from a source within Botswana is taxable in Botswana
- income accruing from different businesses is deemed to accrue from one business except capital gains and income from farming and mining
- farming, mining and prospecting income/losses and capital gains/losses are ascertained separately
- assessed losses from business can be carried forward for no more than five years, except for farming, mining and prospecting losses, which can be carried forward indefinitely
- capital losses can be carried forward for one year only
- special provisions apply to IFSC companies, approved manufacturing and mining businesses
- mining capital allowances are granted to the extent of 100 percent of any mining capital expenditure.

³² “Ministry of Finance and Development Planning”, Government of Botswana, accessed 25 September 2013

³³ “Botswana Tax and Budget Summary 2013/2014”, KPMG, 4 February 2013

³⁴ “Botswana Direct Taxes”, Southern African Development Community, accessed 26 September 2013

³⁵ “Information Statement”, African Development Bank, August 2011

Corporate income tax rates

A. Resident company

Table 2: Resident company tax rates

Resident company	Basic (percent)
Approved manufacturing taxable income	15
Capital gains	22
Foreign dividends	15
Mining taxable income (excluding Diamond)	22-55
Other taxable income	22
Accredited innovation hub business taxable income	15
IFSC company – approved services income	15
IFSC – other taxable income	22

Source: Botswana Tax and Budget Summary 2013/2014, KPMG

B. Non-resident company: A standard tax rate of 30 percent.

Value Added Tax (VAT)

VAT is imposed broadly on an end-user basis at the rate of 12 percent on standard rated supplies.

Mining tax in Botswana

The two main activities in the mining industry are:

- acquiring a “mining or prospecting right”, prospecting, gathering information and establishing mining rights; these are the activities that precede the proper extraction of a mineral
- extracting and marketing the proper mineral that is defined as “mining operations” in the act.

The same taxpayer could have undertaken both phases or the first phase could have been carried out by one person and the second phase by a different person. If the latter happened, the disposal of such mining rights and information by a person (wherever residence), whose activity is limited to the first phase, is deemed to be the source of income from Botswana.

The mining income would thus include:

- disposal of the mining rights over the land in Botswana
- disposal of shares or rights in mining companies holding mineral rights over the land in Botswana
- disposal of mining or prospecting information over the land in Botswana.

Profits from diamond mining are taxed according to the following formula after the Amendment Act, 1998:

Annual tax rate = 70 percent – (1500/X) percent

Here X is the profitability ratio given by taxable income as a percentage of gross income.

For example:

If the gross income of a mining company for a year is P12m and the taxable income is P6m, the tax liability is computed as follows:

Profitability ratio is $6,000,000/12,000,000 * 100 = 50$

The tax rate applicable is $70 \text{ percent} - (1500/50) \text{ percent} = 40 \text{ percent}$

Power supply^{36,37,38,39}

Botswana's consumption of electricity has increased rapidly in recent years, with peak domestic demand currently estimated at 542 megawatts (MW) according to the state-owned power company, the Botswana Power Corporation (BPC). The BPC's 2012 annual report, for the year ended 31 March 2012, states that Botswana's access to electricity ratio is at 49.1 percent. To deal with the fast-rising demand, the country has been forced to source electricity from neighboring countries, principally from South Africa's electricity parastatal, Eskom, from whom the BPC imported approximately 70 percent of the country's energy needs in 2011. The remaining 30 percent is provided by Morupule A, the country's only fully-operational power station, which has a capacity of 132MW. However, given critical shortages of power in the region, and in South Africa in particular, which has forced Eskom to make the decision to substantially reduce its power exports to Botswana (and possibly terminate these in coming years), Gaborone has been forced to seek alternative sources to fulfil Botswana's current and growing power requirements that are presently being supplied by Eskom.

Borne out of the recognition that BPC will not be able to meet future power demand for the country, Gaborone has undertaken to prioritize power infrastructure investment. To this end, the energy ministry announced in late 2011 that the country plans to add 1,200MW of electricity to its national grid in the next six years to address its crippling power shortages. In addition to the Morupule B coal-fired power station (discussed below), which will add 600MW of electricity to the grid once commissioned, two other 300MW power stations are set to be built, with the first project scheduled to kick into the national grid by 2015/16. Given the country's large untapped coal deposits, expectations are that new power generation capacities will probably be based on coal.

In terms of the Morupule B project, the government has given BPC the green light to expand the power generation at the Morupule Power Station in order to meet the future demand for electricity. In fact, the lead investment to address the country's power crisis is the Morupule B project. The World Bank, together with the African Development Bank, and the Chinese and Botswana governments, are partners in developing the Morupule B power generation and transmission power project, which started in October 2009 and is scheduled to be completed in June 2014. Co-financed by the African Development Bank and the World Bank, the 600MW project comprises a generation facility of 4 x 150MW coal-fired units (for which coal will be sourced from Morupule Collieries Ltd (MCL)), related transmission lines, a substation and back-up water supply system. MCL already provides coal for the existing Morupule A power stations. In anticipation of the higher demand for coal from the power plants, plans are underway to increase production at MCL from 1.2 million tons p.a. to 2.8 million tons p.a. The power plant has been designed to cater to future expansion, with unit five and six a possibility should power demand exceed supply in coming years.

³⁶ "The World Factbook: Botswana", CIA, accessed 26 September 2013

³⁷ "About us: History", Botswana Power Corporation, accessed 26 September 2013

³⁸ Lawrence Seretse, "Last unit delayed at Morupule B", Mmegi Online, accessed 12 September 2013

³⁹ Dikato Selemogwe, "Botswana to import electricity after Morupule B", Botswana Guardian, 6 June 2013

Construction of the 600MW Morupule B coal-fired power station, which commenced in early 2012, will secure the bulk of Botswana's power supply for the foreseeable future, replacing imports from Eskom in South Africa and other utilities in the region. This expansion will enable it to supply BPC with all of its increased coal requirements for Morupule B under a long-term coal sales agreement, as well as to other existing customers in Botswana and the neighboring countries. According to the World Bank, construction of three (out of four) 150MW units at the power plant has been completed, and the completed units have gone through various commissioning tests and trial operations, which have resulted in the discovery of some technical problems. Construction of the fourth unit is still in progress, but the work on its boiler was halted after a third fatal accident at the site occurred in September 2012.

All told, the outlook for power generation capacity in Botswana is far better currently than it was a few years ago. This is due to a renewed drive by Gaborone to fast-track power generation infrastructure in a bid to boost power generation capacities and to ensure that the country becomes self-sufficient in terms of electricity generation. More importantly, Gaborone is increasingly looking to incorporate independent power producers into the grid. Additional power generation capacities, which are slated to be commissioned in 2015/16 (300MW) and 2018/19 (300MW) will further reduce the country's reliance on expensive electricity imports. The impending overhaul of the regulatory framework, together with private sector investment and activity stands to further streamline the sector, from a cost and efficiency perspective in particular.

Infrastructure development^{40,41,42}

Despite being landlocked, Botswana has a well-developed infrastructure in comparison to other countries in the region. The country's road sector remains strong, benefitting from many years of careful planning and investment, although more funding will need to be made available for routine and periodic maintenance. There are prospects for expansion of the railway network, particularly as a means to export coal from the Mmamabula coal fields through Namibia. The country has a thriving mobile telecommunications industry with one of the highest penetration levels in Africa. Botswana has 971km of rail lines, 18,482 km of roads (23 percent of which are paved) and 92 airports (12 of which have paved runways). The national airline is Air Botswana, which flies domestically and to other African countries.

Transport

According to the World Bank, Botswana has a relatively well-developed land transport infrastructure, road and railways, although management of these assets could be improved. Encouragingly, enhancing the efficiency of the country's transport system remains a priority. The government intends to achieve this via the implementation of the country's P2.6 billion Botswana Integrated Transport Project (BITP), which at the very broadest level aims to enhance the country's export competitiveness via the modernization of its transport system. More specifically, the project aims to build modern business management capacity, enhance regional transport integration along the A1 road/rail corridor, and build critical transport infrastructure. A more modern and efficient transport system in turn could create opportunities for export diversification, which remains a key objective for the diamond dependent economy. Additional modernization components include infrastructure investment studies on the Trans-Kalahari, Mmamabula–Ellisras and Mosetse-Kazungula rail lines, in order to ease congestion in the Gaborone area. The project, which is in place for the period 2009–20, is co-funded by the World Bank's International Bank for Reconstruction and Development, and the government of Botswana.

⁴⁰ "The World Factbook: Botswana", CIA, accessed 26 September 2013

⁴¹ "Botswana's Infrastructure: A Continental Perspective", The World Bank, November 2011

⁴² "Botswana - Infrastructure, power, and communications", Encyclopedia of the Nations, accessed 26 September 2013

Given the country's landlocked status, roads are the predominant form of transport, carrying over 90 percent of freight and passenger traffic. Significant investment and development of the sector in post-independence decades has resulted in an extensive network today, which includes 6,000km of paved road and 12,000km of unpaved roads. Investment in the sector has slowed significantly in recent years. However the battle for limited public financial resources between the social sector (including HIV/AIDS amongst others) and infrastructure has become more pronounced. A consequence of this conflict has been insufficient expenditure on maintenance of the road network. Tabled against fast-rising traffic growth, including hauliers, the condition of many roads has deteriorated, and as a result, needs rehabilitation. The government has, however, affirmed its commitment to maintaining existing infrastructure facilities. The 2013/14 fiscal budget (Botswana's fiscal year spans from April 1 to March 31) noted that the maintenance and repair of existing government assets continues to be a priority, with P388m put aside for road maintenance alone.

With regard to rail transport, the state-owned Botswana Railways (BR) operates the country's existing railway network, which comprises of a main line that runs from Ramatlabama in the south to Bakaranga in the north, three branch lines to the mines, and a number of private and service sidings. The network links with the South African railway in the south and the Zimbabwe railway to the north-east. Freight traffic remains the dominant activity, with commodities transported including cement, coal, copper, soda ash, grain, fuel and salt. That said, freight traffic has declined in recent years on increased competition from long-distance hauliers.

In terms of upcoming projects, with the continuing growth in demand for thermal coal around the world, Namibia and Botswana are set to begin issuing bids for the construction of 1,500km railway line connecting the coal fields in eastern Botswana to Walvis Bay Port. The railway line, to be called the Trans-Kalahari Rail Line, will be a crucial boon to Botswana's landlocked economy, as it is currently forced to export its coal products via South Africa and Mozambique.

With regard to telecommunications, Botswana has one of the highest mobile market line penetration rates in Africa (penetration rate of 150 percent in 2012, according to the International Telecommunication Union). The telecommunications space is considered to be one of the most liberalized in the region, thanks to regulatory reform. The mobile market is dominated by three mobile operators: Mascom Wireless, Orange Botswana and BeMobile, a subsidiary of state-owned Botswana Telecommunications Corporation (BTC). Regarding fiber optic cables, the government is participating in a joint venture investment with the private sector in the development of the undersea fiber optic cable systems and their links with other countries. The project is divided into two phases: the East Africa Submarine Cable System (EASSy), which involves provision of undersea fiber cable connecting countries along the east coast of Africa; and the development of the West Africa Cable System (WACS) connecting countries from South Africa to the United Kingdom via Portugal. The EASSy was completed in August 2010, while the WACS was opened for commercial use in May 2012. Both initiatives enable Botswana to have high capacity, high quality, diversified and affordable international communication services.

Labor relations and employment situation^{43,44,45,46,47,48,49}

Despite relatively high rates of economic growth and GDP per capita, Botswana faces key challenges of unemployment and inequality. Botswana had an overall unemployment rate of about 17.9 percent in 2010, according to the 2013 Vision 2016 and Millennium Development Goals Indicators Report. The report notes, however, that unemployment amongst secondary school graduates saw a decrease from 35 percent in 2006 to 24.3 percent in 2010. The overall unemployment rate is deemed to be mainly structural in nature, and is driven by a mismatch between demand in the labor market and the available labor skill set. Reducing unemployment in the country would require adopting prudent public employment policies, including aligning the curricula for university, tertiary education and vocational training to meet the demand for skilled labor in the economy. The country also faces the issue of child labor, especially in the agricultural sector. This has been due to factors such as poverty, social customs, attitude toward traditional and cultural practices, gender inequality, and low cost of child labor. However, now the Towards the Elimination of Child Labor in Botswana project is trying to rescue employed and potential child laborers and place them in school and training centers.⁵⁰

On the positive side, Botswana's population is relatively young, with approximately 55 percent being below 24 years of age. Thus, there is immense potential to train this age group and empower them with the requisite skill set for developing the Botswana economy.

Inbound and outbound investment^{51,52}

The relocation of De Beers' Diamond Trading Company (DTC), the diamond empire's sorting, valuation, marketing, and selling arms of rough diamonds, from London to Gaborone, remains at the forefront of Botswana's FDI landscape. Not only will the relocation potentially transform Gaborone into the world's diamond hub, but it will also attract investment opportunities in a wide array of sectors across the economy.

The most significant development with regard to the relocation of De Beers' DTC to Gaborone, is that Botswana is permitted to sell 12 percent of its domestic diamond production in 2013 independently, with this proportion set to rise to 15 percent by 2016. In this regard, the Government of Botswana established a state diamond trading company, the Okavango Diamond Company (ODC), in March 2012. The ODC was officially launched on 17 September 2013, after a successful pilot sale was held in July, where the ODC auctioned off about 123,000 carats of rough diamonds, translating to about \$20 million. When De Beers completes its relocation to Gaborone, the city is expected to see about \$6 billion worth of diamond sales per year.

⁴³ "The World Factbook: Botswana", CIA, accessed 27 September 2013

⁴⁴ "Understanding unemployment in Botswana", University of Botswana, accessed 27 September 2013

⁴⁵ "Local Market faces challenges" Government of Botswana, 16 December 2010

⁴⁶ "Botswana's unemployment rate among the worst in the world", Sunday Standard, 30 April 2013

⁴⁷ "Botswana Economic Outlook", African Development Bank, accessed 27 September 2013

⁴⁸ Morgen Chawawa, "Educating for employability in the global economy: the Diaspora option", Sunday Standard, 24 June 2013

⁴⁹ "Botswana", International Monetary Fund, August 2012

⁵⁰ Calistus Kolantsho, "NGO tackles child labor in Botswana", Mmegi Online, 22 April 2010

⁵¹ "World Investment Report 2013 – Global Value Chains: Investment and Trade for Development", UNCTAD, 27 June 2013

⁵² Mbongeni Mguni, "Botswana FDI inflows ease to P2.5 billion", Mmegi Online, 5 July 2013

Furthermore, the government has made it clear that diversification of the economy remains a priority. As such, increasing emphasis is also being placed on the development of the non-diamond extractive sector, that of the copper, uranium and coal sectors in particular. A specific industry that is likely to see increasing investor interest in coming years is the coal sector, which, given the country's extensive and relatively untapped resources, has been identified as a vehicle through which to diversify the economy. For this to happen, however, Gaborone will need to develop infrastructure to support coal activities in the country, something which until now remains the greatest constraint to development of the sector. The launch of the Coal Roadmap Pitso by the Ministry of Minerals, Energy and Water Resources in early 2012, which aims to provide a clear and transparent view of the government's intentions for the development of the coal resources, is a positive development on this front, although it will not be without challenges.

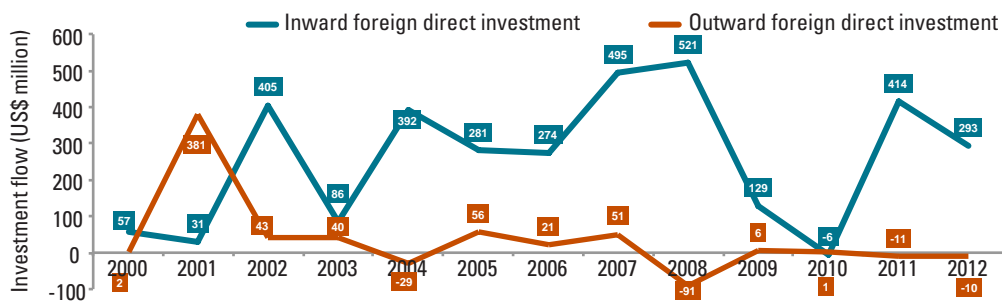
According to the 2013 United Nations Conference on Trade and Development (UNCTAD) World Investment Report, FDI into Botswana fell by 28.7 percent from \$424.6 million in 2011 to US \$302.6 million in 2012. Of the total FDI inflows to Botswana in 2012, US \$148 million was aimed at Greenfield investments, with the balance being attributed to merger and acquisition (M&A) and expansion activities.

Foreign investment has been relatively lacklustre of late, with investment in the region flowing more prominently to Mozambique, which recently discovered massive natural gas resources. The country had already seen significant levels of foreign investment aimed at its coal sector. Botswana, on the other hand, has exploited much of its natural resources, although the coal sector is likely to receive some interest in the coming years. Furthermore, the country's geographic location is considered disadvantageous, as its commodities are forced to be exported via either Mozambique or South Africa to reach a sea-port.

The accompanying graph illustrates historical inward foreign investment flows to Botswana, as well as outward investment flows stemming from Botswana. Please note that negative outward flows, as seen in 2008, reflect outward investment that originally stemmed from Botswana, and was then retracted. A likely cause of the negative outward FDI flows in 2008 was the global financial crisis, which had a dire effect on global diamond demand, adversely affecting Botswana's economy. A possible consequence of the difficult economic environment in Botswana at the time would have been the withdrawal of investment projects that Botswana had in other countries, as local companies consolidated their cash flows.

Figure 2: Trend of inward and outward direct investment in Botswana, 2000–12

Inward and outward direct investment in Botswana, 2000–12



Source: World Investment Report, 2013, 2007, 2004, United Nations Conference on Trade and Development

Key commodities: Production and reserves^{53,54,55}

The Botswana economy continues to be dominated by diamond mining and the services sector. Although the government is attempting to diversify away from the mining sector, diamonds remain the pillar of Botswana's economy and will continue to be so in the foreseeable future. The industrial sector's contribution to GDP peaked at 63.3 percent in 1983, after which it declined steadily to the current level of about 35 percent. The industrial sector is dominated by mining activities. Within the industrial sector, the manufacturing sector contributed around 6.4 percent to GDP in 2012, with activities in this sector focused on textiles and apparel. Downstream diamond activities are also gaining importance, and are likely to become increasingly important contributors to economic output in coming years.

The industrial sector employed an average of (from March 2009 to June 2011) 19.7 percent of the total labor force, and even though mining dominates the industrial sector, it only employs an average of 2.97 percent of all workers, according to labor force statistics from the Central Statistics Office (CSO).

Besides diamonds, other important minerals in Botswana include copper, coal, and nickel, with copper and nickel accounting for approximately 7.3 percent of total export earnings in 2012. Looking further ahead, coal production is likely to become of increasing value to the country following the lifting of a moratorium on new prospecting licenses for coal, coal-bed methane and related minerals in 2011. Uranium production is also likely to be of increasing importance in coming years following the discovery of additional uranium deposits by Botswana's premier uranium explorer, A-Cap Resources. The discovery of a 65 percent resource increase at the Letlhakane exploration project, from 158 million lbs to 261 million lbs, means that the project potentially has one of the largest undeveloped uranium deposits in the world.

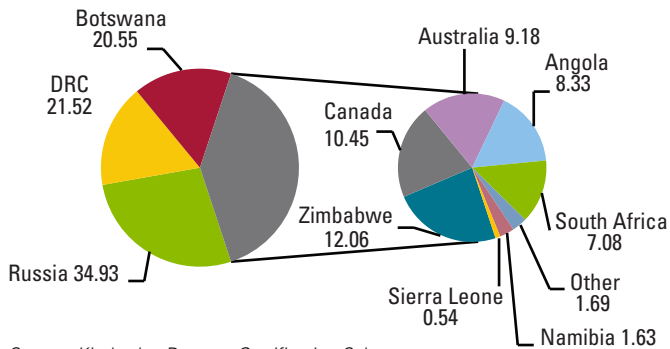
Botswana's mining sector is expected to grow in the coming years. As per Business Monitor International (BMI), the sector is expected to grow at an average rate of 3.7 percent p.a. over 2013–17, reaching a value of US \$6.13 billion by 2017. This is expected to be guided by the steady growth in diamond production and an accelerated growth in coal output.

⁵³ "Central Africa Mining Report Q4 2013", Business Monitor International, July 2013

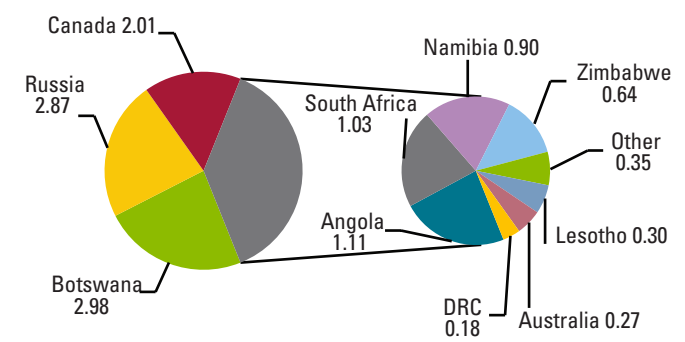
⁵⁴ Business Monitor International – "BMI Industry View - Positive Outlook for Diamonds & Coal", 29 August 2013, via Thomson Research/Investext, accessed 30 September 2013

⁵⁵ Business Monitor International – "Market Overview - Steady Growth Ahead", 28 August 2013, via Thomson Research/Investext, accessed 30 September 2013

Production level of key commodities in Botswana

Diamonds⁵⁶Diamond production by volume
(2012, millions of carats)

Source: Kimberley Process Certification Scheme

Diamond production by value
(2012, US \$' billion)

Source: Kimberley Process Certification Scheme

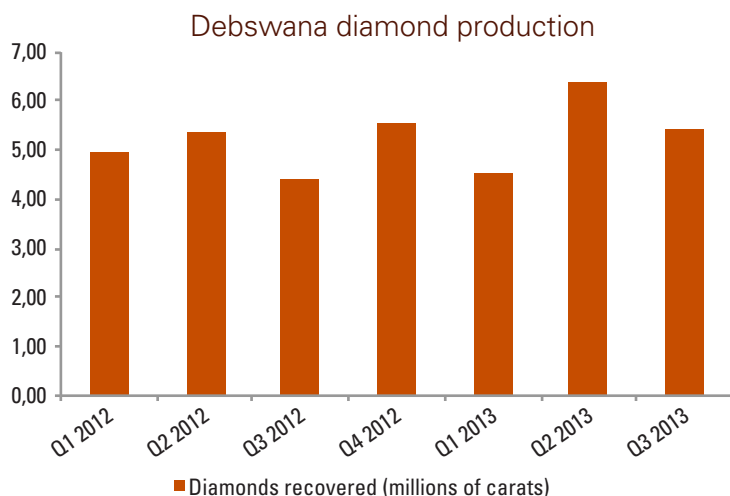
In terms of geographical diversification of global diamond deposits, an estimated 85 percent of the world's diamonds are produced in Africa and Russia, according to the Kimberley Process Certification Scheme's (KPCS) data for 2012. In terms of the largest players in the global diamond industry, De Beers, whose flagship mines are situated in Botswana and are incorporated in the 50:50 joint venture, Debswana, between the government of Botswana and the diamond empire, De Beers, and Russian state-owned ALROSA, dominate. While Russia was reportedly the largest diamond producer in the world in terms of production volume in 2012, Botswana was the world's largest producer in terms of the value of diamond production in the same year, as it has been for many years. This is, however, set to change, as Botswana's diamond mines cannot operate indefinitely. According to the Bank of Botswana's (BoB, the central bank) 2012 annual report, the most recent forecast done by the IMF concluded that Botswana will have exhausted its diamond resources by 2029, depending on the level of global demand. Significant efforts have been undertaken to extend the life of Botswana's diamond mines. Debswana is currently busy with "Cut 8" – a massive endeavor that will enlarge the mine's pit, allowing deeper extraction levels. Several news agencies recently reported on a planned project, which is set to go before Debswana's board in 2014, that will see another cut in the Jwaneng mine.

Debswana, which was established jointly by the Botswana government and De Beers on 23 June 1969, is the largest mining company in the country. Originally, the Botswana government's stake in the mining company was only 15 percent, but it was increased to 50 percent by 1974. Debswana is the largest producer of diamonds in the world by value and has played a significant role in the transformation of Botswana's economy. Foreign direct investment into Botswana's mining sector reached US\$4.8 billion in 2012, with diamonds accounting for over three-quarters of the total.⁵⁷ The company is the largest non-government employer and the largest earner of foreign exchange in Botswana.⁵⁸ According to Anglo American's press release on 18 October, Debswana recovered 5.45 million carats of diamonds in the third quarter of 2013, a 14.5 percent decrease from the previous quarter, but a 24.2 percent increase y-o-y. The accompanying graph depicts the most recently available data with regard to Debswana's diamond production. During 2012, the government's income from Debswana reached US\$701 million (P5.96 billion at current rates), representing a 35 percent drop from the US\$1.08 billion (P9.2 billion) recorded in 2011, Mmegi Business has learnt.

⁵⁶ Business Monitor International – "BMI Industry View – Diamonds are forever", 28 August 2013, via Thomson Research/Investext, accessed 30 September 2013

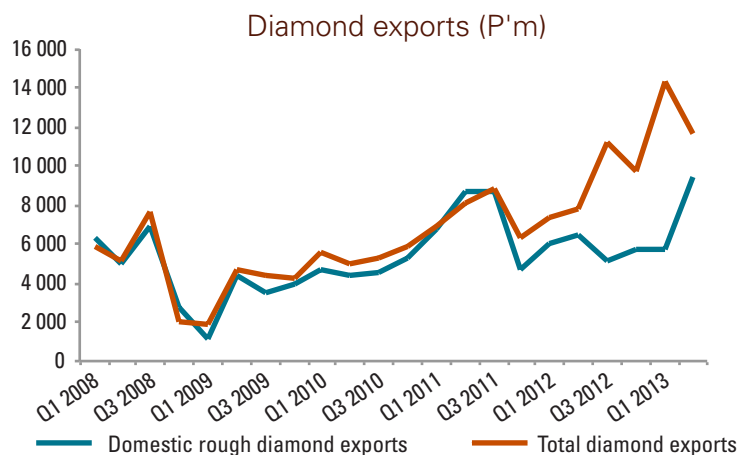
⁵⁷ Source: Business Monitor International, article Diamonds are Forever dated 21 November 2013

⁵⁸ Source: Debswana



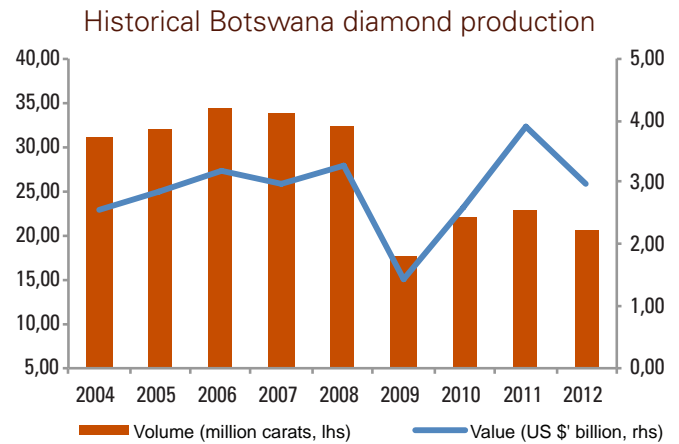
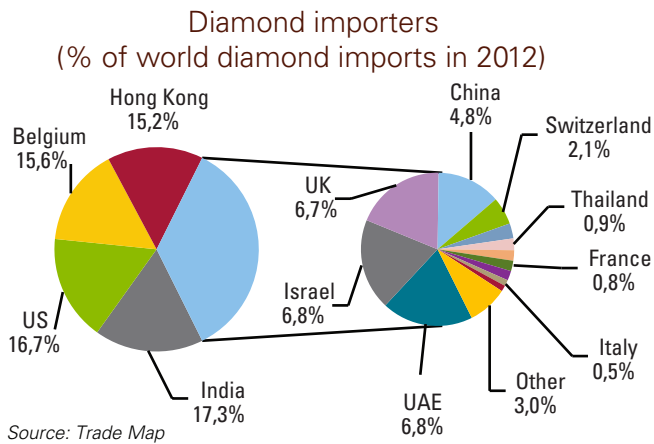
Source: Anglo American

Although new mines have recently commenced operations, the prospects for production of diamonds and diamond exports are uncertain due to slower global demand for rough diamonds, liquidity shortages in the main cutting centers, and technical constraints. Nonetheless, prospects for new discoveries of diamonds are high. Several firms are prospecting, including Gem Diamonds, which was awarded a 25-year mining license for its Gope diamond project in central Botswana, while Lucara Diamond Corporation commenced operations at its AK06 diamond mine in the second quarter of 2012, with prospects of producing 400,000 carats of rough diamonds in its first year of operations.



Source: Bank of Botswana

During the years following the global financial crisis, Botswana's diamond exports decreased significantly, and accounted for about 63 percent of total export earnings. However, in 2011, this figure climbed to 75.6 percent, and in 2012 to 79 percent. According to the CSO, total diamond exports (including domestic rough diamond exports, rough diamond re-exports, and polished diamond exports) grew by 92.1 percent y-o-y and 50 percent y-o-y in the first and second quarters of 2013, respectively. The sharp increase is, however, mostly attributed to the re-exportation of diamonds, which reflects the De Beers DTC relocation, as domestic rough diamond exports decreased by 4.1 percent y-o-y in the first quarter of 2013, before increasing by 46.4 percent y-o-y in the second quarter. Botswana exported almost P9.4 billion (approximately \$1.1 billion) worth of domestic rough diamonds from the beginning of April to the end of June, marking it as the quarter with the highest value of domestic rough diamond exports in the post-financial crisis era.



On the imports side, Botswana’s diamond imports continued to increase sharply (as compared to the previous year) in the first and second quarters of 2013, rising by 251.2 percent y-o-y and 227.4 percent y-o-y, respectively. As a percentage of total imports, diamonds are estimated to have accounted for 11.8 percent in 2011, before increasing significantly to 26.7 percent in 2012.

The most influential drivers in the diamond markets have historically been the US and Europe, with India and China becoming increasingly important. According to Trade Map, the US, Hong Kong, India and Belgium imported a combined 64.7 percent of the world’s diamonds in 2012, with India leading at US \$20.9 billion worth of diamond imports during the year. While economic growth in Europe has remained lacklustre at best, it is forecast to revive in the medium term, with demand for diamonds to increase alongside. In the short term, however, demand is likely to remain low from the European side, as well as in the US. This forecast lack of demand should be offset somewhat from an increase in demand for diamonds in China and India, which are both showing healthy economic growth rates.

Table 3: Main diamond projects in Botswana

Company	Mine/Location	Output/Deposit	Expected year of production
Lucara Diamond Corp.	Karowe (extension)	Increase from 303,000 to 400,000 carats per annum	2014
Gem Diamond	Ghagoo	Reserves of 20.5 million carats	2014
Debswana	Around Orapa Diamond mine	12 new exploration licenses	NA
Debswana	Jwaneng (extension)	Deposit: 100 million carats	NA

NA: Not available/ Not applicable

Source: Business Monitor International – “BMI Industry View – Diamonds are forever”, 28 August 2013

Coal^{59,60}

A specific industry that is likely to see increasing investor interest in the coming years is the thermal coal sector, which, given the country's extensive and relatively untapped resources, has been identified as a vehicle through the economy can be diversified. For this to happen, however, Gaborone will need to develop infrastructure to support coal activities in the country, something which up until now remains the greatest constraint to development of the sector. The launch of the Coal Roadmap Pitso by the Ministry of Minerals, Energy and Water Resources in early 2012, which aims to provide a clear and transparent view of the government's intentions for the development of the coal resources, is a positive development on this front, although it will not be without challenges. According to the permanent secretary at the aforementioned ministry, Boikobo Paya, the roadmap is executed into three phases, with phase one focusing on literature review and planning. The second phase, which focuses on technical studies, resource assessment, and evaluation, is behind its March 2013 deadline. Phase three is set to focus on technological and economic development options evaluations and selection, and is scheduled for completion in 2014.

On the logistical front, the chief executive of the Botswana Chamber of Mines, Charles Siwawa, announced that invitations would soon be issued for expressions of interest in developing a new route to the sea through Namibia. He indicated that this would facilitate up to 40 million tons of coal a year being exported within three to four years. At an estimated cost of US \$11 billion, the funding will inevitably require external investment. Furthermore, Botswana Railways, the state-owned railway company, has joined the Democratic Republic of the Congo (DRC), Zambia, and Zimbabwe by sealing an agreement with Transnet Freight Rail, the South African state-owned railway company, which envisions a unified cross-border railway system among the five countries.

Botswana's government has stated on several occasions that the country has estimated coal resources of approximately 212 billion tons, which, according to the 2012 BP Statistical Review of World Energy, is equivalent to 24.4 percent of current global coal reserves. The government's claims have, however, been called into question by two South African geologists, who presented at Gaborone's coal conference in April. According to the geologists, of the claimed coal reserves only 33 billion tons of the commodity is estimated to be mineable. Furthermore, the geologists stated that the government's estimate of total resources, which was assumed to be accurate when calculating the mineable coal, is hypothetical and speculative, as the coal is still mostly undiscovered. That being said, it remains clear that Botswana has vast potential in the coal-mining sector. Morupule Coal Mine (owned by Debswana) alone has reserves of 2.3 billion tons, while other mines bring confirmed coal reserves up to 33 billion tons.

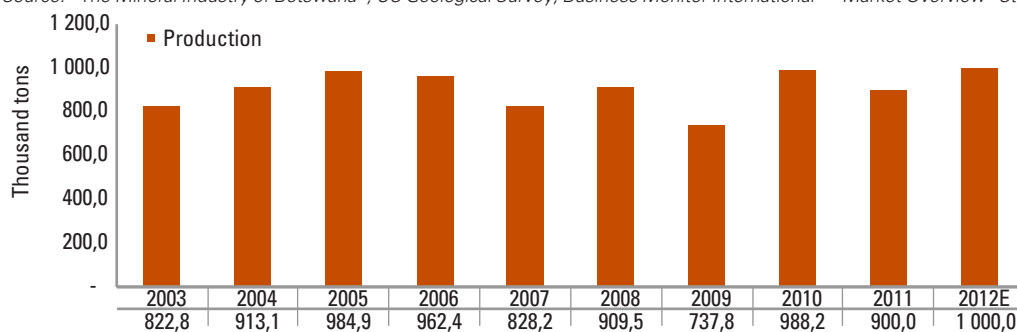
⁵⁹ Business Monitor International – "Market Overview - Steady Growth Ahead", 28 August 2013, via Thomson Research/Investext, accessed 30 September 2013

⁶⁰ Sarita C Singh, "Coal India plans to acquire assets in Botswana", The Economic Times, 18 July 2013; "UPDATE 1-Botswana aims to export 115 mln tons thermal coal", Reuters, 12 March 2013, via Factiva, accessed 30 September 2013

Figure 6: Botswana coal production, 2003–12

Botswana coal production, 2003–12

Source: "The Mineral Industry of Botswana", US Geological Survey; Business Monitor International – "Market Overview - Steady Growth Ahead",



28 August 2013

The following are some of the major coal mining projects being developed in the country.

Table 4: Major coal mining projects in Botswana

Company	Mine	Production/Reserves	Expected year of production
Jindal (India)	Mmamabula	4.5 million tons per annum	2016
African Energy	Sese	1 million tons per annum	2016
Minergy	Mmamabula	Inferred Resources: 2.8 billion tons	NA

NA: Not Available / Not Applicable

Source: Business Monitor International – "Market Overview - Steady Growth Ahead", 28 August 2013

Nickel^{61,62,63}

Nickel is another material receiving much interest in Botswana. According to the United States Geological Survey (USGS), an estimated 26,000 tons of nickel were mined in 2012, which translates to around 1.2 percent of global production. Norilsk Nickel – one of the leading global nickel producers – holds an 85 percent interest in Tati Nickel Mining Company, a sulphide nickel producer in Botswana. The Botswana government owns the remaining 15 percent. According to the latest statistics available from Norilsk Nickel, Tati Nickel's production has been declining over the last few years – from 20,861 tons in 2007 to 7,000 tons in 2011. Consequently, Norilsk Nickel planned to suspend operations at the Tati nickel mine in April 2013 after nickel prices fell by 10 percent since the start of 2013. The company devised a strategy to continue its mining operations at the mine in Phoenix. However, if the strategy is not achieved and the nickel prices do not recover by the end of 2013, the mine could be put on care and maintenance. "On 4 October 2013, Norilsk Nickel unveiled its "New Strategy" to investors indicating its forward-looking focus will be on its Tier 1 assets located in regions with high geological potential. Based on this strategic portfolio review, Norilsk may exit its Botswana assets in the near future."

Figure 5 shows the production levels of nickel in the country during 2003–12.

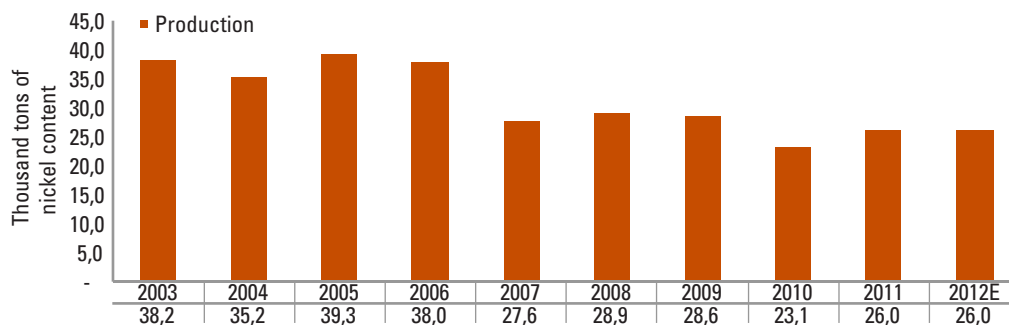
⁶¹ Business Monitor International – "Competitive Landscape - New Entrants On The Horizon", 29 August 2013, via Thomson Research/Investext, accessed 30 September 2013

⁶² "Norilsk Nickel may suspend Botswana mining ops", Mineweb, 24 April 2013

⁶³ Ryder Gabathuse, "Rescue plan for Tati Nickel mine", Mmegi Online, 16 May 2013

Figure 5: Botswana nickel production, 2003–12

Botswana nickel production, 2003–12



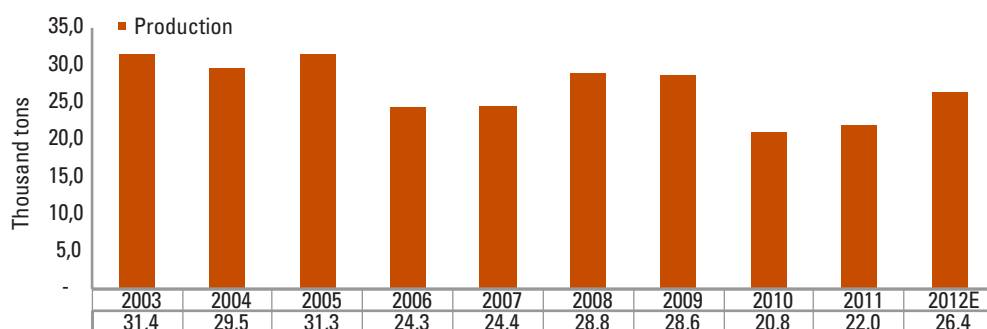
Source: "The Mineral Industry of Botswana", US Geological Survey; Mineral commodity summaries 2013: Nickel, US Geological Survey

Copper

African Copper, which is incorporated in England and Wales, owns the lucrative Mowana copper mine in Botswana, and according to its press release, produced 2,429 tons of copper in the first quarter of 2013. The latest data reflects an increase of 45.2 percent y-o-y. According to the chief executive officer, Jordan Soko, the company "achieved record copper production from the Mowana facilities in our fiscal year". According to the central bank's annual report, the Boseto copper and silver mine commenced operations in 2012, while other copper mines are still in various stages of development. Furthermore, maintenance work at the Bamangwato Concessions Ltd. (BCL) mine is ongoing, thereby constraining output. While there are plans for new copper mines, there are several impediments connected with the associated infrastructure. According to the United States Geological Survey (USGS), Botswana's mines produced an average of 27,140 tons p.a. of copper over 2006–10, while averaging 23,156 tons p.a. of copper smelter production over the corresponding period.

Figure 7: Botswana copper production, 2003–12

Botswana copper production, 2003–12



Source: "The Mineral Industry of Botswana", US Geological Survey; Business Monitor International – "Market Overview - Steady Growth Ahead", 28 August 2013

Table 5: Botswana mining industry production forecasts

Commodity	2013F	2014F	2015F	2016F	2017F
Coal (Thousand tons)	1,400.0	2,200.0	4,000.0	7,600.0	15,800.0
Copper (Thousand tons)	37.3	47.0	55.7	62.4	65.8
Diamond (Thousand carats)	24,100.0	24,600.0	25,100.0	25,700.0	26,200.0

Source: Business Monitor International – “Market Overview - Steady Growth Ahead”, 28 August 2013



Major mining companies in Botswana^{64*}

Key domestic players

- BCL Ltd

Foreign companies with operations in Botswana

- African Copper plc
- Anglo American plc
- Bonnyridge (Pty) Ltd.
- Daly City Ventures Ltd.
- Debswana Diamond Company (Pty) Ltd.
- Galane Gold Ltd.
- GMR Resources Pty Ltd.
- Gope Exploration Company (Pty) Ltd.
- Guerrero Exploration Inc.
- Impact Minerals Ltd.
- Kukama Mining and Exploration (Pty) Ltd.
- Matoko (Pty) Ltd.
- Nowak Investments (Pty) Ltd.
- Petra Diamond Botswana Ltd.
- RA Longstaff (Botswana) (Pty) Ltd.
- Stellent (Pty) Ltd.
- Tati Nickel Mining Company (Pty) Ltd.
- Wati Ventures (Pty) Ltd.

* **Note:** The methodology used for the identification of mining companies:

- For the identification of mining sector companies in Botswana, we accessed Capital IQ to generate a list in the following industry sectors: Aluminum (Primary), Diversified Metals and Mining (Primary), Gold (Primary), Precious Metals and Minerals (Primary) and Steel (Primary). The list was then filtered to exclude unwanted results.
- The domestic companies list includes companies whose country of ultimate parent and geographic location is Botswana.
- The foreign companies list includes companies whose geographic location is Botswana but the country of ultimate parent was not Botswana.

⁶⁴ Capital IQ, accessed 13 September 2013

Further insight from KPMG

Strategy series



Country mining guides

This series of country guides provides an overview of the mining industry from a geographical, economic and legislative context. These country guides are invaluable for those already operating or considering an investment in the country.

Compliance Series



Business resilience in the mining industry: Conditioning the organization to succeed in an increasing risk environment

With uncertainty on all sides, mining organizations have to re-evaluate their approaches to organizational resilience. KPMG International examined a number

of existing and emerging risks faced by mining organizations around the world and identified the attributes of more resilient organizations. This paper moves ahead of those findings and looks at some practical solutions that mining executives can employ to increase resilience and provide a platform on which sustainable, profitable growth can continue.

Growth Series



Growth in a time of scarcity: Managing transactions in the mining sector

A combination of demand from the East, dwindling mineral resources and rising costs is reshaping the mining sector. As mining companies attempt to manage their asset life cycle in

this new landscape, their three main strategic priorities are growth, performance and compliance. Whether organically or (increasingly) through mergers and acquisitions, growth is a perennial objective in an industry where assets continually erode. This guide is the first in a series that discusses how mining companies can best navigate the asset life cycle, and covers the five key elements of the transaction phase: geographic expansion, financing and mergers & acquisitions, tax structuring, due diligence and integration.

Sustainability Series



Capitalizing on sustainability in mining

This publication examines how mining companies can leverage sustainable development to tackle resource constraints and sociopolitical challenges in remote areas in the world.

Performance Series

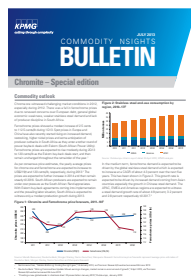


KPMG Mining Operational Excellence Framework

KPMG member firms have developed their own operational excellence framework over the last several years of association with leading mining companies. It helps organizations begin a journey of efficiency and then, over

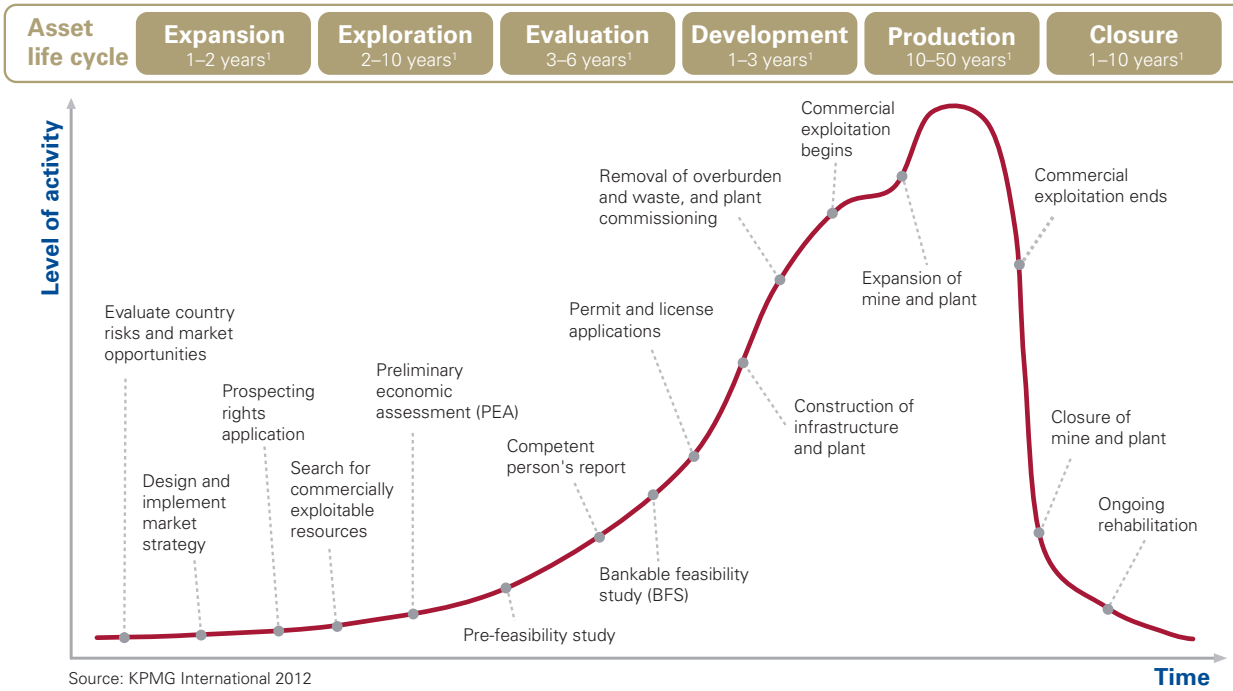
time, embeds such characteristics in order to make change sustainable over business cycles. This puts together all the capabilities necessary to assure the organization's leadership that it will be able to adapt to support their hunt for the next opportunity, whatever its nature.

Commodity Insights Bulletins

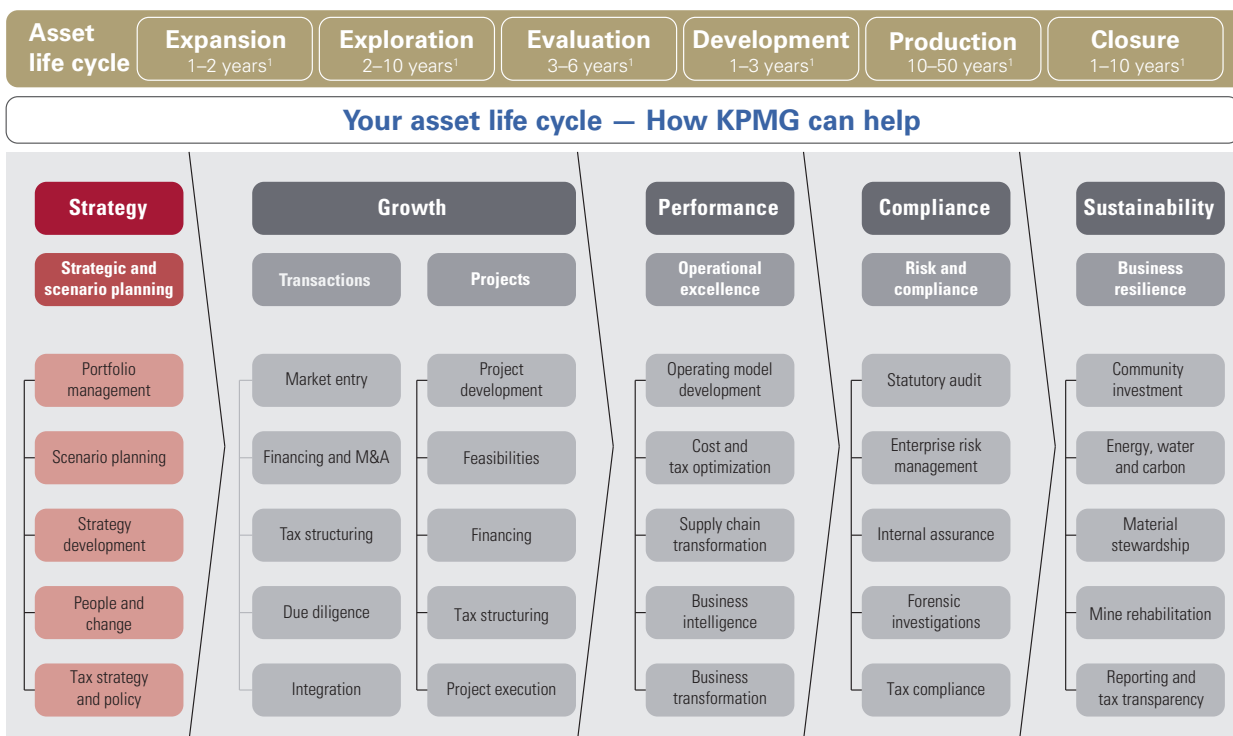


Our bulletins focus on key mining commodities. Each bulletin provides insight into trends, issues and changes within the key mining commodity sectors. The series currently includes bulletins focusing on our key mining commodities: Copper, Diamond, Gold, Iron ore, Metallurgical coal, Nickel, Platinum, Thermal coal and Uranium.

Mining asset life cycle



KPMG's mining strategy service offerings



KPMG's Global Mining practice

KPMG member firms' mining clients operate in many countries and have a diverse range of needs. In each of these countries, we have local practices that understand the mining industry's challenges, regulatory requirements and preferred practices.

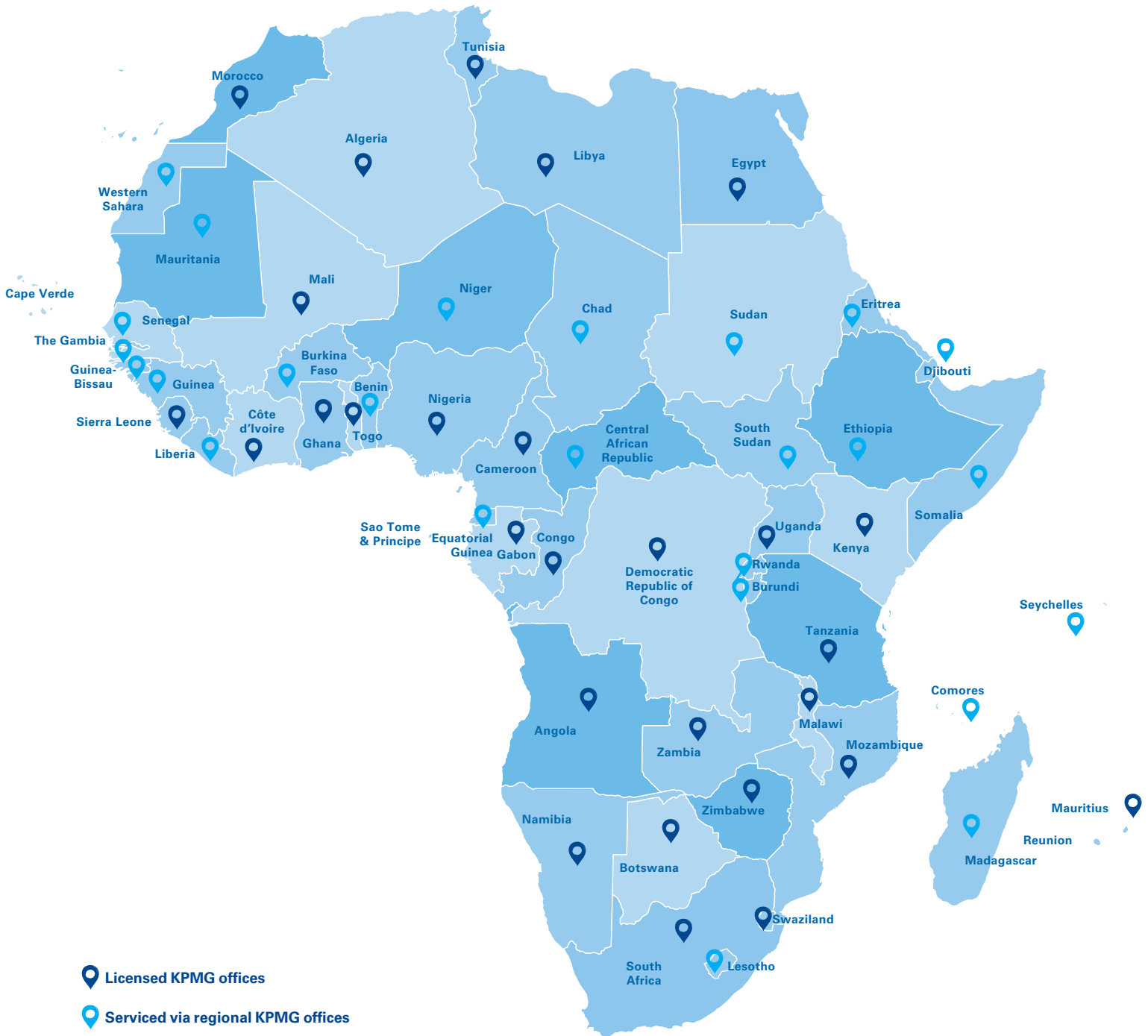
It is this local knowledge, supported and co-ordinated through KPMG's regional mining centers, that helps to ensure our mining clients consistently receive high-quality services and advice tailored to their specific challenges, conditions, regulations and markets. We offer global connectivity through our 14 dedicated mining centers in key locations around the world, working together as one global network. They are a direct response to the rapidly evolving mining sector and the resultant challenges that industry players face.

Located in or near areas that traditionally have high levels of mining activity, we have centers in Melbourne, Brisbane, Perth, Rio de Janeiro, Santiago, Singapore, Toronto, Vancouver, Beijing, Moscow, Johannesburg, London, Denver and Mumbai. These centers support mining companies around the world, helping them to anticipate and meet their business challenges.

For more information, visit kpmg.com/mining



KPMG's footprint in Africa



As of July 2013

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