Africa Business Initiative
U.S. Chamber of Commerce

Investment Climate Update: Botswana

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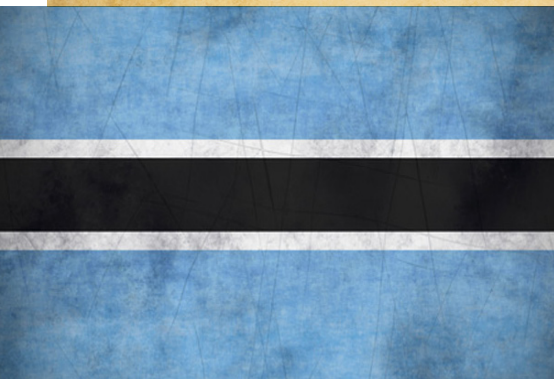
ABOUT ABI

The Africa Business Initiative (ABI) is an advocacy-driven initiative focused on market access and trade facilitation, financing, and engagement with the governments of the United States and African nations.

ABI engages the U.S. business community on legislative policies that foster foreign direct investment in Africa. It provides tailored guidance to American companies about doing business in African nations and introduces U.S. companies to the continent's vast economic opportunities.

Under ABI's leadership, working groups made up of U.S. corporate representatives engage key members of Congress, the administration, and foreign governments in strategic dialogues to promote private sector engagement. The established working groups include the Ghana Working Group and the Banking and Finance Working Group.



Botswana's Emerging Coal Industry

Botswana, home to 66% of Africa's identified untapped coal reserves, is well positioned to become a major coal producer and exporter. The government of Botswana has consequently signaled that it intends to make development of the sector a priority—both to meet urgent domestic power needs and to diversify the country's economy away from its present reliance on diamond exports.

Botswana has estimated coal resources of 212 billion tons, of which 7.1 billion tons are measured reserves. The only working colliery is at Morupule, located in Palapye Botswana. It produces about 3 million tons of coal annually to supply the 120mW Morupule power station, which is owned and operated by Debswana—a partnership between the government of Botswana and De Beers. Plans are under way to expand the site with the addition of the 600mW Morupule B power station in 2013 when a long-standing partnership with neighboring South African electricity provider ESKOM expires. ESKOM, pressed by growing power demands in South Africa, is already cutting back on electricity generation to Botswana, resulting in increased power outages to the country's residents and businesses. With the growing demand for and

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INSIDE:

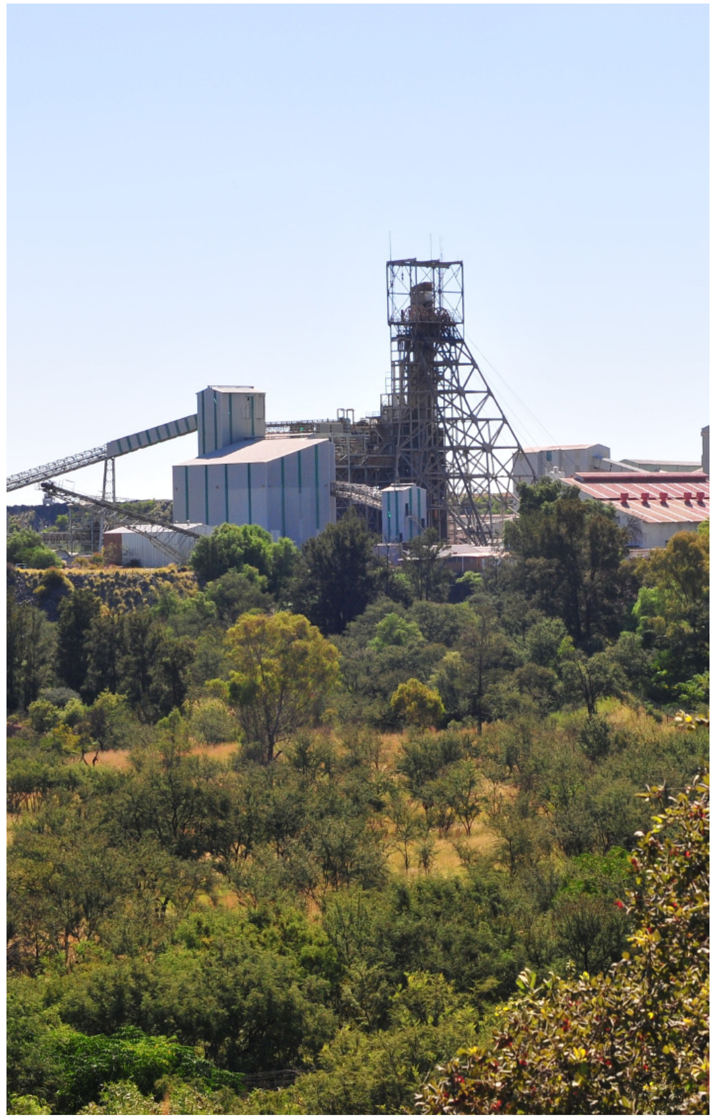
Win-Win Deal

The government of Botswana signed a groundbreaking deal in September 2011 with global diamond powerhouse the De Beers Group that will allow De Beers to process the raw diamonds from Botswana's Jwaneng and Orapa mines for the next 10 years. The contract period is the longest of its kind ever signed, and it commits De Beers to relocating its rough diamond sales from London to Botswana. This process, which includes sorting, valuing, and sales, is expected to be completed in 2013 and will require the relocation of some 100+ De Beers staff.

In past years, the U.K. has been the largest source of revenue for the De Beers group, bringing in $5 billion in annual sales. However, with the relocation process under way, Botswana, the world's biggest producer of gem-quality diamonds, is expected to quickly replace the U.K. as De Beers' premier revenue site. Botswana is also expected to benefit from a major influx of international diamond traders hoping to sight the new product. With the inevitable inflow of expertise and technology, Botswana is bound to be transformed from a supplier of raw product into one of the world's foremost diamond trading centers.

Although the global demand for diamonds is expected to be fairly weak in 2012 with a slight rebound in 2013, Botswana has positioned itself at a potential advantage. As part of the 2011 De Beers contract, the Botswana government will independently market 10% of Debswana production, with that figure rising to 15% in five years. In 2010 alone, Debswana Diamond Company Ltd., a joint venture between the Botswana government and the De Beers Centenary AG, produced two-thirds of De Beer's 33 million carats of diamonds, with that figure dropping to 31.3 million in 2011. This means that the government will market approximately 2 million carats annually for the next five years and 3 million carats annually subsequently, assuming that the global demand for diamonds remains steady.

While the 2008 global financial crisis and the current debt crisis in the eurozone have affected diamond sales in the U.S. and Europe, growing demand in Asia—particularly China and India—is expected to more than offset any losses going forward. The global management consulting



company Bain & Co recently predicted that the Chinese and Indian appetite for diamonds will fuel a growth in demand of more than 6% a year over the next decade. In 2011, China accounted for 11% of the demand for diamonds, with experts predicting that demand will drive between 18% and 22% within the next few years, with China overtaking the U.S. as the largest global market for diamonds by 2016.

While diamonds will continue to occupy a central place in Botswana's economy for the foreseeable future, the government is committed to diversifying its revenue base by channeling current and potential diamond revenues into other industries.

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Sustainability Through Diversification

Numerous investment opportunities for international firms exist. These include commercial and private property development, agriculture, management, insurance, and finance. Botswana's International Financial Services Center (IFSC) project, which aims to position the country as one of the region's leaders in the provision of financial services, is committed to attracting firms that can provide such services to international consumers. Along with the IFSC initiative, the government is working toward creating other projects that can help better position Botswana as a global competitor.

Although government and private sector stakeholders are focused on the inevitable and immediate revenues to be produced from the Botswana/De Beers 2011 agreement, government leaders are also aware of the volatility of the global market and are pushing to ensure sustainability through diversifying the national economy.

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Private Sector Engagement to Boost Railways

In a bid to improve railway transport systems throughout Botswana, a motion was presented in June 2012 encouraging the government to engage private companies in operating the country's railway services. The goal of such a move would not only be to improve transport systems throughout the country but also to relieve government of the burden of running the Botswana Railways at a loss.

In response to the motion, Minister of Transport and Communications Nonofo Molefhi indicated that several regulatory barriers, including the Botswana Railways Act of 1986, would have to be adjusted to allow for the privatization of the country's rail system. As stipulated by the law, which was amended in 2004, Botswana Railways is the sole operator and regulator of the rail system, permitting few opportunities for joint ventures.

Botswana's rail network has attracted interest from Chinese and Indian firms, with both countries offering to help develop the country's railways. In September 2011, India's Minister for State and Industry spoke about the need to deepen and diversify economic cooperation between the two countries, particularly in the rail sector. China's Export-Import Bank has also expressed interest in the sector, signing a $13 million loan agreement that included financial assistance for constructing workshops to service locomotives.

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Botswana's Emerging Coal Industry

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the decreasing supply of energy, the potential for international investment is unprecedented.

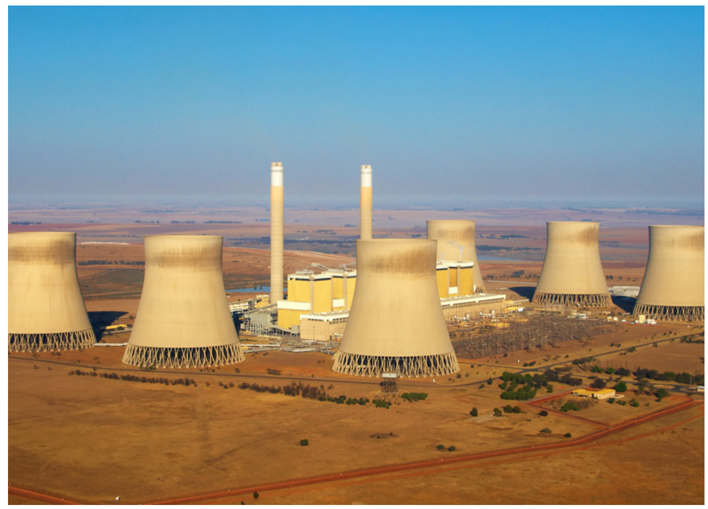
In 2011, the government developed the Coal Road Map, a strategic plan to plot development of the sector through 2018 and beyond. In the near term, the government is focused on producing enough coal to support extension of Botswana's power grid to the northwestern part of the country to meet the demands of new mines in the area and the soon-to-be constructed regional Zizabona power line.

This year alone, Botswana will generate a tender for the construction of two separate coal-fired thermal plants, and with the Vision 2016 goal to reach the nation's outlying villages with electricity, the need for transmission lines, diverse plants, coal handling, and other support services has never been more critical.

Botswana's road map also outlines an expansion of the coal industry, as it aims to become one of the world's top coal exporters. Market studies predict that global demand for seaborne thermal coal will continue to grow strongly, driven by a rapid increase in demand from the emerging economies of Asia, especially China and India. By 2020, Indonesia, Australia, Russia, Colombia, and South Africa are projected to be the suppliers of 90% of seaborne thermal coal. Botswana aims to capture the lion's share of the remaining 10%, which, experts say, will have to come from undeveloped sources.

The government has good reason for its optimism. Of the known coal deposits in Botswana, four on the eastern edge of the central Kalahari Karoo Basin—at Morupule, Mmamabula, Sese, and Mamantswe—could yield as much as 90 Mt a year, potentially overtaking South Africa's current 70 Mt annual production.

To reach this level of production, however, Botswana will have to attract considerable investments in prospecting, mining, and infrastructure development. In 2011, the government lifted a moratorium on the issuance of new prospecting



licenses that it had imposed while it developed the Coal Road Map. To strengthen the licensing process, the Ministry of Minerals, Energy & Water Resources is developing new licensing criteria.

By far the biggest challenge to Botswana's long-term coal export plans is the difficulty of moving the coal to ports. The government has committed to building a new rail line either to Walvis Bay in Namibia or through Zimbabwe to the port of Ponta Techobanine in Mozambique. The project—to cost upward of $10 billion—will be the biggest infrastructure investment in Botswana's history and will have a significant impact on its economic future and that of the region.

The government said that the rich rewards of developing the country's coal resources are worth the challenges. Government leaders, however, recognize that strategic private sector partners are crucial to the successful implementation of the road map.

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