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Speaking Notes

By

Her Excellency Dr. Athaliah I. Molokomme
Ambassador and Permanent Representative,
Permanent Mission of the Republic of Botswana to the United Nations Office and other
international organizations in Geneva

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

**SPEAKING NOTES FOR
HER EXCELLENCY DR ATHALIAH L. MOLOKOMME
AMBASSADOR AND PERMANENT REPRESENTATIVE
BOTSWANA MISSION TO THE UNITED NATIONS OFFICE IN
GENEVA**

**UNCTAD MULTI-YEAR EXPERT MEETING ON COMMODITIES
AND DEVELOPMENT, ELEVENTH SESSION**

**15-16 APRIL 2019
GENEVA, SWITZERLAND**

**PANEL DISCUSSION ON COMMODITY DEPENDENCE AND
RISK MANAGEMENT IN COMMODITY DEPENDENT
DEVELOPING COUNTRIES.**

(TUESDAY, 16 APRIL 2019, 15:00-17:30)

[10 - 15 Minutes]

SPEAKING NOTES ON THE EXPERIENCE OF BOTSWANA
WITH NATURAL RESOURCE GOVERNANCE AND VALUE
ADDITION STRATEGY

Excellencies, Distinguished Experts, Ladies and Gentlemen,

Chairperson, let me begin by joining others in congratulating you on your election, and to thank the Secretary-General of UNCTAD and his staff for the hard work they have put into the preparations for this meeting.

It is my pleasure to be here today and participate in this Panel and present on Botswana's experiences with the management of our natural resources and efforts towards value addition. While we have a number of other mineral resources we are currently exploiting, I will focus on the management of our diamonds. I will give a brief historical overview and outline how diamond mining contributed to our development trajectory. I will also share the challenges we confronted and our efforts in addressing those challenges in order to realize our development ambitions.

A. Introduction and Background

At the time of gaining independence from British rule on September 30, 1966, Botswana was among the poorest countries in the world. Our founding president the late Sir Seretse Khama would say: *'there was understandable pessimism on the part of many people both in Botswana and outside regarding Botswana's*

prospects for independent nationhood. Very little economic or social development had taken place in the then Bechuanaland Protectorate; nor were there any evident natural resources on which the future development of the country could be based (Seretse Khama 1980).

As fate would have it, diamond deposits were discovered in the early 1970s and reversed the fortunes of the country. Since then, through the prudent management and exploitation of diamond resources, Government was able to finance a robust network of economic and social infrastructure ranging from transport & communication, education and health infrastructure. Some highlights to flag in this regard include:

- Botswana realised exponential growth rates in education since independence, enrolment rates for primary school grew from less than 25% in 1966 to more than 100% in 2016;
- secondary school enrolments improved from 10% to more than 80%, and tertiary education is supported by Government up to Bachelor's degree level;
- Botswana achieved high adult literacy rate from a mere estimated 10% in 1966 to an estimated 87% in 2016;
- A road network of 8km in 1966 to achieving an extensive network of transport infrastructure (incl. road network) estimated at 18,507 km in 2016;
- Universal access to free public health care for all, more than 90% of the population is within a 15km radius of a health facility;

- Accessible and affordable telecommunications and broadband internet services (mobile cellular subscriptions stand at an estimated 146% subscriptions (per 100 people);
- GDP grew from US\$ 51.46 million in 1966 to US\$15.65 billion in 2016. GDP per capita grew from US\$ 38.74 in 1966 to an estimated US\$ 6,954 in 2016; and
- Botswana's good economic performance led to graduation to an upper-middle income status in 2004 (according to the World Bank's classification).

The Ingredients of Botswana's Relative Success

One might ask what the secrets to this success have been for Botswana, and others have asked whether we have not simply been lucky enough to have diamond deposits buried under our land.

However, our story goes beyond simple good fortune, and as another of our former Presidents, HE Mr Festus G. Mogae reminds us:

'although Botswana's economic success can in large part be attributed to the discovery of and subsequent exploitation of minerals, more especially diamond deposits; it should be further recognised that it has been prudence in the management of the economy that has enabled our country to avoid the downturns that have been suffered by many other mineral led economies around the world...

It has been our policy that all the mineral wealth of Botswana is entrusted to the state, irrespective of who owns the land on which such wealth is found. This ensures that our citizens as a whole have a common stake and enjoy common benefits from our mineral revenues, rather than just those few who by chance of birthplace or geography might find themselves sitting on diamonds or gold' (Festus Mogae, 2003).

Visionary leadership for national unity

I must add that this policy is in fact firmly embedded in legislation, and is based on a memorandum of understanding signed in 1967 in which the chiefs of the various groups ceded all mineral rights in their respective territories to the state. The Minerals Rights in Tribal Territories Act of 1968 continues to apply to this day, and transfers mining rights from specified tribes and tribal authorities to the State of Botswana as specified in the agreements, which are attached to the Act and have the force of law.

We are fortunate that our traditional leaders had the foresight to take such selfless steps in the interest of national unity, and there is no doubt that their sacrifices have contributed significantly to our stability and development. Minerals, especially diamonds, have indeed been good to us, but more importantly, we have managed them well and put them to good use.

Good governance and visionary leadership based on traditional values of consultation, transparency and accountability have also contributed to the sustained development of Botswana

Governance of mineral resources in Botswana

Mining in Botswana is guided by the Minerals Policy, with broad objectives to achieve among others the following:

- Maximizing the economic benefits to the nation while enabling private investor to earn competitive returns;
- Creating a competitive environment to stimulate private sector investment in minerals development;
- Encouraging linkages with the rest of the economy to expand value addition activities; and
- Strengthening local capacity for participation in mineral development, including generate employment and training for Botswana's citizens and the creation of a conducive environment for women participation in the mineral sector.

The legislative framework governing mining and its ancillary activities includes: the Mines and Minerals Act of 1999; the Diamond Cutting Act of 1979, and the Precious and Semi-Precious Stones Protection Act of 1969. The Mines and Minerals Act provides for security of tenure; a stable progressive fiscal regime that lessens the burden on marginal mines.

It also lays down clear licensing procedures; and environmental obligations that relate to international best practice (as legislated under the Environmental Act).

The Ministry of Mineral Resources, Green Technology & Energy Security is the competent authority on all matters concerning minerals policy and is in charge of implementing the legislation. The Diamond Hub was established in 2008, to coordinate the

different activities related to the diamond sector such as: the trading of rough and polished diamonds, cutting and polishing, and the manufacturing of jewellery.

As pointed out earlier, all mineral rights are vested in the state which effectively means no community has a higher claim than others over mineral exploitation and the revenue thereof. While diamond mining licences are negotiated, Government has the legislated option to acquire up to 15% working interest in any new mining project. Investing in mining projects grants Government access to information and dividends, as well as a window for influencing business in favour of development ambitions.

Botswana has over the years prudently managed its monetary and fiscal policies, mineral revenue and other Government revenue are consolidated under the national fund. They are distributed according to national development plans ranging from the annual, mid-term and long-term development plans. Diamond revenues have also contributed to the Pula Fund, a sovereign wealth fund managed by the central bank (Bank of Botswana) as a long-term investment portfolio.

The fund was established in 1994 with the objective of preserving part of the income from diamond exports for future generations – allowing for longer-term investment considerations in the management of revenues from the exploitation of diamonds.

Public – Private Partnership: Botswana Government and De Beers

Early on in the exploration and mining of diamonds, the Government of Botswana joined forces with De Beers Group and established Debswana Diamond Company Pty Ltd (Debswana), a 50:50 joint venture. Debswana is by far the largest diamond mining company in Botswana, producing some 90% of all diamonds, 70% of the country's exports, 50% of tax revenues, and the largest private-sector employer with 4,734 staff complement per 2014 estimates. Despite this longstanding relationship with De Beers and the dominant market position of Debswana, there are no restrictions prohibiting other companies from mining or marketing diamonds.

The relationship with De Beers has been mutually beneficial and Government has benefited tremendously from the technical know-how of De Beers and realized skills and technology transfer in the process. Government is paid royalties for the mining leases, receives favourable dividends as a shareholder in Debswana, and also benefits from substantial tax revenues.

In addition to the 50:50 joint venture mining company Debswana, Botswana Government and De Beers also set up Diamond Trading Company Botswana (DTCB), yet another 50:50 joint venture which processes and sorts rough diamonds in preparation for their sale. A suite of binding agreements that govern this relationship have been negotiated and implemented over the years, to ensure certainty for De Beers as an investor, and predictable revenue flows for the Botswana Government.

The Government has gone further to acquire 15% shareholding in De Beers so as to diversify its dependence on direct revenues and also play a role in influencing the development of the diamond value chain.

The joint ventures, of Debswana and DTCB, transcended mining as they have engaged in robust corporate social responsibility initiatives over the years. These include investments in philanthropic and socio-economic programmes in Botswana mainly providing access of communities to education and medical services (Jwaneng and Orapa mines serve as district hospitals and provide essential medical services to the local communities, and Debswana was a pioneer in granting free ARVs to employees). Other assistance has been in improving skills development programmes through a mentoring and business development programme for small, micro and medium-sized enterprises that encourages economic diversity.

Diamond beneficiation: a strategy to go beyond mining the resource

Despite these successes, the Government has been keen to ensure that the country is not condemned to the traditional position of producing resources that are processed and finished elsewhere, for the benefit of others. Consequently, the Government has over the years embarked on a number of beneficiation initiatives aimed at advancing national development through the optimisation of linkages in the mineral value chain. The diamond mining sector

has been targeted in this regard as a means to foster new growth trajectories.

A key element that has offered opportunity for Botswana to play a meaningful role in the diamond sector is the time bound diamond marketing and sales negotiations with De Beers, which have to be renegotiated every ten years to continue the partnership and to adjust to new and unfolding realities in the diamond sector.

A highlight of the last negotiations in 2010 resulted in the relocation of De Beers' diamond aggregation and sightholder sales to Gaborone from London.

In addition, a new window was created for 15% of the diamonds mined by Debswana to be sold through, ODC, a company wholly owned by the Botswana Government. This was meant to enable an alternative method of marketing diamonds and reduce dependence on a single partner. There has been significant strides made since the 2010 sales agreement with De Beers, this includes:

- An estimated 97% of Debswana's employment and about 80% of its external spend being localised;
- The relocation of the marketing and sales functions of DTC International from London to Gaborone has generated broad direct and indirect economic and social benefits, with an estimated 1,000 direct and indirect jobs created and a contribution to GDP estimated at US\$ 380 million;
- Over US\$ 800 million in rough diamonds have been offered to Botswana sightholders in the most recent years since 2013; and

- An estimated 2,300 jobs have been created in the cutting and polishing sector, while an estimated 5,800 additional jobs in the broader economy have also been generated.

Preparations are underway for a new round of negotiations between the Government and De Beers to begin this year, following a recent substantial capital investment by the partners at Jwaneng mine to extend operations into a superpit – growing further the world’s largest diamond producer by value, with an estimated investment of US\$ 2 billion. These are highly confidential in view of the sensitivity of the diamond market, but are expected to further strengthen the PPP which has been mutually beneficial to both parties.

Challenges

Despite these milestones, Botswana is however currently only capturing a fraction of its full beneficiation potential in terms of both fiscal revenues and employment. Regarding Botswana’s participation in the diamond value chain, there is extensive participation in the upstream activities (Botswana accounts for 12% share of global diamond exploration expenditure, and a 24% share of global rough diamond production – mining and sorting) and limited participation in cutting and polishing (Botswana represents less than 2% share of the global sector), in secondary trading and in jewellery manufacturing.

This, therefore, provides enough impetus for Government to continue in its strides to improve beneficiation in the diamond sector. A new Beneficiation Strategy is currently being considered

by Government and defines a roadmap to capture a number of significant opportunities.

Five core objectives have been defined and prioritized for the new Beneficiation Strategy:

- Creating a sustainable, leading global diamond centre, beyond the life of diamond mining in Botswana;
- Maximising Botswana's participation in and the economic impact of diamond-related activities;
- Driving greater citizen participation in the diamond sector;
- Increasing fiscal income from diamond-related activities for Botswana; and
- Leveraging proceeds from diamond-related activities to pursue economic or financial diversification (in particular through the creation of a sovereign wealth fund).

The Way forward

The new Beneficiation Strategy once approved will set in motion both short, medium to long term initiatives and efforts that would span a 20-year timeline. The Strategy is expected to contribute an estimated US\$ 390-450 million to GDP per annum, across the diamond value chain.

Additional benefits are also expected to include: improvement of human capital through additional training on vocational and managerial skills; promotion of entrepreneurship and increased participation of citizens in the diamond industry (especially in senior management roles); development of transferrable skills that

benefit the wider economy; and acceleration infrastructure investment as the diamond industry grows.

Diversification of the economy beyond diamonds – a continuing challenge

The need to intensify efforts to diversify Botswana's exports and government revenue sources cannot be overemphasised, mining continues to dominate the economy of Botswana. Diamonds continue to dominate the trade account, being the main revenue earner for Botswana and in 2016 dominated as the largest share to total exports at 88.1 %. Mineral and customs revenue account for over two-thirds of government revenues, while the mining sector's share of GDP stood at 18% in 2018.

In recognition of the systemic risks that come with dependence on one commodity for exports, and two major sources of revenues, Government has put in place a number of efforts to diversify the economy in general, and in particular diversify its exports and sources of government revenue: These include: the Economic Diversification Drive initiative introduced in 2010, which is based on the approach of Government using its purchasing power to support local production of goods and services; a Special Economic Zones policy adopted in 2011 to diversify the economic and export base of Botswana; the SPEDU Revitalisation Programme, with competitive value proposition like 5% corporate taxes for the first 5 years, as a means to encourage companies setting up businesses in an area affected by the closure of a copper/nickle mine and a mainstay for the region. A number of other initiatives to diversify

the economy include cluster development aimed at improving business productivity, value chains and competitiveness in identified priority sectors; the Government also endeavours to promoting the development of the private sector as a means to alleviate over dependence on government expenditure and make way for private sector led economic growth.

As I draw to a conclusion Chairperson, it would be remiss of me not to flag that while Botswana has benefitted from the prudent management of its natural resources including attempts at vertical integration (value addition) we also acknowledge the need to find sources of growth outside commodity dependence in order for us to realize transformational development in Botswana (all the while not abandoning altogether our traditional sources of growth).

HE President Masisi has set in motion the development of a Transformation Strategy that would help drive the development of Botswana into a knowledge-based economy. Botswana values its partnerships, especially with international organisation such as UNCTAD with competence on the trade and development issues that are key enablers for Botswana to move to higher levels of development.

It is on this note that HE President Masisi had invited Secretary General Kituyi and his delegation of eminent resource persons to Botswana to engage with his Cabinet this past month (29 to 30 March 2019). This was an opportune time for Botswana reflect on progress and challenges in our development roadmap, and map the next steps to inform the way forward.

We look forward to engaging further with UNCTAD, especially the Division on International Trade and Commodities to explore new and innovative ways in which we can champion new growth trajectories and effectively diversify away from commodity dependence.

Thank you Chairperson
