ANNUAL REPORT | 2023

STRATEGIC INTENT STATEMENTS

VISION

The Bank aspires to be a world-class central bank with the highest standards of corporate governance and professional excellence.

MISSION

The mission of the Bank is to contribute to the sound economic and financial well-being of the country. The Bank seeks to promote and maintain:

- monetary stability;
- a safe, sound and stable financial system;
- an efficient payments mechanism;
- public confidence in the national currency;
- sound international financial relations; and to provide:
  - efficient banking services to its various clients; and
  - sound economic and financial advice to Government

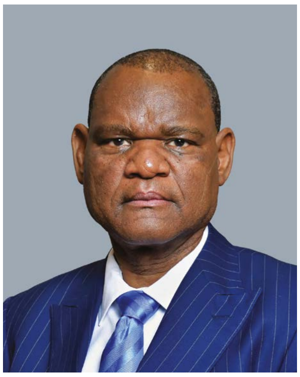
BANK OF BOTSWANA ANNUAL REPORT 2023

17938, Khama Crescent, Gaborone, Botswana Tel: 360 6000
Website: www.bankofbotswana.bw

Board Members 2023

Daphne K. Briscoe
Interim Board Chair

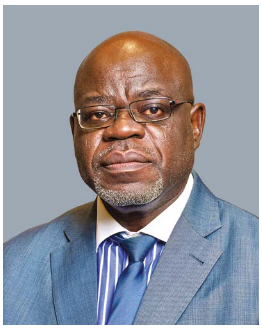
Cornelius K. Dekop
Governor*



Moses D. Pelaelo
Former Governor**

Olesitse H. Masimega#

Bernard M. Ditlhabi



Lisenda Lisenda##

Kenneth Molosi

Lipalesa G. Makepe

*Governor Dekop was appointed to office on 21 October 2023
**Former Governor, Tenure ended on 20 October 2023
#Permanent Secretary, Ministry of Finance
##Tenure ended 31 August 2023

Board Members 2023

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Cornelius K. Dekop
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#Permanent Secretary, Ministry of Finance
##Tenure ended 31 August 2023

TABLE OF CONTENTS

TABLE OF CONTENTS

Tables

TABLE OF CONTENTS

Boxes, Figures, Charts And Tables

Boxes

Figures

Charts

Tables

ABBREVIATIONS USED IN THE REPORT

AACB	-	Association of African Central Banks
AfDB	-	African Development Bank
AML	-	Anti-Money Laundering
ARC	-	Audit and Risk Committee
ARV	-	Antiretroviral
BAB	-	Bankers Association of Botswana
BACH	-	Botswana Automated Clearing House
BoBCs	-	Bank of Botswana Certificates
BDC	-	Botswana Development Corporation
BES	-	Business Expectations Survey
BEFS	-	Botswana Economic Financial Statistics
BGI	-	Botswana Geoscience Institute
BHC	-	Botswana Housing Corporation
BISS	-	Botswana Interbank Settlement System
BSB	-	Botswana Savings Bank
BSEL	-	Botswana Stock Exchange Limited
CAR	-	Capital Adequacy Ratio
CCBG	-	Committee of Central Bank Governors
CEDA	-	Citizen Entrepreneurial Development Agency
CEO	-	Chief Executive Officer
CF	-	Credit Facility
CFT/P	-	Combating the Financing of Terrorism and Proliferation
CSDB	-	Central Securities Depository Company of Botswana
DBGSS	-	De Beers Global Sightholder Sales
DCI	-	Domestic Companies Index
DISB	-	Deposit Insurance Scheme of Botswana
DTCB	-	Diamond Trading Company Botswana
EDD	-	Economic Diversification Drive
EDRMS	-	Electronic Documents and Records Management System
EFT	-	Electronic Funds Transfer
e-GDDS	-	Enhanced General Data Dissemination System
EPS	-	Electronic Payment Services
ERTP	-	Economic Recovery and Transformation Plan
ESAAMLG	-	East and Southern Africa Anti-Money Laundering Group
ESG	-	Environmental, Social and Governance
FDI	-	Foreign Direct Investment
FIA	-	Financial Intelligence Agency
FSAP	-	Financial Sector Assessment Programme
FSC	-	Financial Stability Council
FSR	-	Financial Stability Report

ABBREVIATIONS USED IN THE REPORT (Continued)

GDP	-	Gross Domestic Product
GEC	-	Governance and Ethics Committee
GFC	-	Global Financial Crisis
GFCF	-	Gross Fixed Capital Formation
GHG	-	Greenhouse Gases
HRC	-	Human Resources Committee
ICT	-	Information and Communications Technology
IFRS	-	International Financial Reporting Standards
IIP	-	International Investment Position
IMF	-	International Monetary Fund
IOSCO	-	International Organisation of Securities Commissions
LAR	-	Liquid Asset Ratio
LKI	-	Lazare Kaplan International
MCM	-	Morupule Coal Mine
MDCB	-	Mineral Development Company Botswana
MEFMI	-	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MoF	-	Ministry of Finance
MoPR	-	Monetary Policy Rate
MPC	-	Monetary Policy Committee
MPR	-	Monetary Policy Report
MPS	-	Monetary Policy Statement
MSCI	-	Morgan Stanley Composite Index
MVA	-	Mining Vision for Africa
NBFIRA	-	Non-Bank Financial Institutions Regulatory Authority
NCSS	-	National Clearance and Settlement Systems
NDB	-	National Development Bank
NDP	-	National Development Plan
NEER	-	Nominal Effective Exchange Rate
NEO	-	Net Errors and Omissions
NFWG	-	National Fintech Working Group
NPLs	-	Non-Performing Loans
NPS	-	National Payments System
NRA	-	National Risk Assessment
NRPS	-	National Retail Payments Switch
ODC	-	Okavango Diamond Company
OPEC	-	Organisation of Petroleum Exporting Countries
PDDF	-	Pula Diamonds for Development Fund
PLR	-	Prime Lending Rate
PRRA	-	Primary Reserve Requirement Averaging
REER	-	Real Effective Exchange Rate

ABBREVIATIONS USED IN THE REPORT (Continued)

RPC	-	Regulatory Policy Committee
RTGS	-	Real Time Gross Settlement
SAA	-	Strategic Asset Allocation
SACU	-	Southern African Customs Union
SADC	-	Southern African Development Community
SAFDICO	-	South African Diamond Corporation
SCF	-	Standing Credit Facility
SDF	-	Standing Deposit Facility
SDR	-	Special Drawing Rights
SED	-	Socio-Economic Development
SEZs	-	Special Economic Zones
SLF	-	Senior Leadership Forum
SMMEs	-	Small, Micro and Medium Enterprises
SOEs	-	State Owned Enterprises
SONAs	-	State of the Nation Addresses
SWF	-	Sovereign Wealth Fund
SWIFT	-	Society for Worldwide Interbank Financial Telecommunication
TBT	-	Transaction Balance Tranche
TNDP	-	Transitional National Development Plan
ToR	-	Terms of Reference
TWG	-	Technical Working Group
UNDP	-	United Nations Development Programme
USA	-	United States of America
USD	-	United States Dollar
VAT	-	Value Added Tax
WUC	-	Water Utilities Corporation
WTI	-	West Texas Intermediate
ZAR	-	South African rand

Part A

Statutory Report On The Operations And Financial Statements Of The Bank 2023

PART A

SENIOR LEADERSHIP - 2023

Deputy Governors

K. S. Masalila

T. A. Kganetsano

R. H. Nlebesi
Chief Operating Officer

S. M. Sealetsa
Advisor, Banking, Currency and Settlement

Heads of Department

J. Selwe
Director, Corporate Management Services

K. M. Mothusi
Director, Internal Audit Services

J. Ghanie
Director, Information and Communications Technology

C. S. G. Chepete
Director, Human Capital

M. M. Kgokgothwane
Director, Protective Services

P. C. Tumedi
*Business Conduct and Regulatory Compliance**

L. S. Senatla
Director, Statistics, Data Management and Analytics

D. N Loeto
Chief Financial Officer

L. C. Moseki
Director, Financial Markets

A. B. Kgathola
Director, Strategic Planning and Risk Management

I. Molalapata
Director, Research and Financial Stability

G. S. Seganabeng
Director, Banking, Currency and Settlement

G. Ngidi
Director, Prudential Authority and Payments Oversight

*Tenure ended 30 September 2023

PART A

STATUTORY REPORT ON THE OPERATIONS AND FINANCIAL STATEMENTS OF THE BANK 2023

Governor's Foreword

The 2023 *Annual Report* is published in accordance with Section 68(1) of the Bank of Botswana Act CAP (55:01). The *Report* provides a summary of the operations and audited financial statements of the Bank for the year ended 31 December 2023.

The *Report,* therefore, covers the Bank's key functions and responsibilities including the governance and accountability framework for its performance. These functions and responsibilities can be grouped into eleven broad categories, namely: conduct of monetary policy; implementation of the exchange rate policy; maintenance of financial stability; currency design and management; regulation and supervision of banks and other financial services entities under the purview of the Bank's supervisory mandate; oversight of the payments systems and market infrastructures; foreign exchange reserves management; provision of banking and settlement services to Government, commercial banks and selected public institutions; economic research; policy advice to Government; and production and publication of macroeconomic statistics including balance of payments, financial and monetary statistics.

The new Bank of Botswana (Amendment) Act 2022, ushered in new reforms to the governance structure of the Board of Directors. As at end of December 2022, the Board was chaired by the Governor, but that ceased with the amended Act, and the Board is chaired by a non-executive Chairman with effect from 15 June 2023. The Minister of Finance appointed Ms Daphne Kgalaletso Briscoe from amongst the Board members as Interim Chair of the Board. Subsequent to the retirement of the former Governor, Mr Moses Pelaelo, on 20 October 2023, His Excellency the President approved my appointment as the new Governor of the Bank effective 21 October 2023. I would like to take this opportunity to relay my sincere gratitude to former Governor, Mr Pelaelo, for his dedicated service to the Bank for many years. He will forever remain part of the history of this institution.

The 2023 *Annual Report* contains a theme chapter titled *'The Role of the Mining Sector in Botswana's Future Development'*. The theme chapter addresses the potential for the mining sector in contributing to the Botswana's goal of transitioning to high-income status by 2036 and realisation of other Vision 2036 aspirations. Similar to the 2022 theme chapter, this theme highlights key aspects in fostering overall economic resilience but with specific focus on prospects for unlocking value-chain development and enhancing inclusivity in the minerals sector. Aligned to the mindset change theme, it is recognised that exclusive focus on diversification away from mining implies foregoing the economic potential and benefits of the mineral endowments. Thus, the need for deliberate focus on elongating and widening the beneficiation potential in the mining sector as an aspect of economic diversification, inclusivity and long-term resilience. In this regard, the discussion identifies the range and quantum of mineral endowments, exploitation potential, evaluation of ownership, cost and income sharing arrangements, beneficiation and industrialisation prospects, as well as implications of macroeconomic policy and the role of the financial sector. This is well in line with Pillar 1 of the National Transformation Strategy (2023-2030).

For 2023, the Botswana economy (GDP) grew by 3.6 percent in the year ending September 2023, compared to a higher growth of 5.6 percent in the year to September 2022, with comparatively weaker performance with respect to both the mining and the non-mining sectors. Mining output grew by 3.9 percent in the year ending September 2023, a notable deceleration from 9.3 percent in the corresponding period in 2022, driven by lower output at Orapa Mine due to planned maintenance in the third quarter of 2023. Non-mining GDP also increased by 3.5 percent in the year ending September 2023, compared to 4.6 percent in the corresponding period in 2022. Despite overall slowdown in economic activity in 2023, the balance of payments reported an improved surplus of P5.1 billion compared to a surplus of P4.5 billion in 2022. The 2023 surplus is mainly attributable to substantial Southern African Customs Union (SACU) receipts resulting from recoveries from the 2021/2022 underpayments.

The Bank recorded a total comprehensive income of P8 billion as at December 2023. This outcome resulted from a combination of earnings on the foreign exchange reserves, unrealised fair-value (market) and currency gains. Market gains were due to strong recovery in global bond and equity markets in 2023 in response to expectations of monetary policy easing as inflation fell. Against this background, the value of the foreign exchange reserves increased by 16.9 percent from P54.5 billion in December 2022 to P63.7 billion in December 2023. In foreign currency terms, the foreign exchange reserves increased from USD4.3 billion in December 2022 to USD4.8 billion in December 2023, while increasing by 9.4 percent from SDR3.2 billion to SDR3.5 billion over the same period. At this level, the foreign exchange reserves were equivalent to 8.8 months of import cover of goods and services. In the circumstances, total assets of the Bank increased by 16.6 percent from P56.3 billion in December 2022 to P65.7 billion in December 2023.

Monetary policy in Botswana in 2023 was conducted in the context of projected lower inflation in the short-to-medium-term, in the absence of increase in administered prices (and reduction in fuel prices); subdued domestic demand; declining trading partner countries' inflation; while the economy operated below potential. These conditions provided scope to ease monetary policy in support of stronger output growth. Consequently, the Monetary Policy Rate (MoPR) was reduced by 25 basis points to 2.4 percent in 2023, following a cumulative 151 basis points policy rate increase in 2022.

In response to the reduction in the MoPR, the prime lending rates of commercial banks decreased from 6.76 percent to 6.51 percent. Following the monetary policy reforms implemented in 2022, there has been a noticeable improvement in policy transmission and market interest rate structure operating as expected. However, the market continues to be characterised by excess liquidity as indicated by the increase in Bank of Botswana Certificates from P3.3 billion in December 2022 to P6 billion in December 2023.

During 2023, the exchange rate policy continued to focus on the maintenance of a stable and competitive real effective exchange rate (REER) of the Pula to support international competitiveness of the domestic industry. The Pula basket weights were maintained at 45 percent for the South African rand and 55 percent for the SDR and the downward rate of crawl at 1.51 percent. Consequently, the REER depreciated by 1.8 percent in the same period because of the combined effect of the depreciation of the NEER and lower inflation in Botswana than the average for the trading partner countries, and this suggested a gain in international competitiveness of domestic firms in international markets. Overall, the combination of modest interest rates and relatively stable inflation-adjusted exchange rate was broadly conducive and supportive of economic growth.

The Financial Stability Council (FSC) met four times in 2023 and observed that risks to financial stability mainly relate to global and regional developments and include high interest rates to combat inflation and, therefore, adversely affecting debt servicing and sustainability for sovereigns (governments), businesses and households. Domestically, the resilience and effectiveness of the financial system in providing financial services to the economy was anchored on strong capital and liquidity buffers, profitability, continuous innovation and adaptability, as well as an enabling and robust regulatory environment. The enduring stability of the financial system is further supported by a conducive macroeconomic environment, characterised by accommodative monetary conditions and positive economic growth prospects. In recognition of the widening use of more efficient and inclusive digital payments platforms, the country discontinued the use of cheques as a payment instrument effective 1 January 2024; a decision that is aligned to the National Digitalisation Strategy.

In 2023, the rating agency, Moody's Investor Services (Moody's) affirmed the Government of Botswana's long-term local and foreign currency issuer ratings at "A3" for 2023 and maintained a stable outlook. The affirmation of the ratings was underpinned by the country's robust institutional frameworks (compared with that of regional peers), which has supported the prudent management of the country's natural wealth; and very low susceptibility to political, liquidity and banking-related risks, all of which support durable macroeconomic stability. The economic outlook remained stable, reflecting strong demand for Botswana's diamonds against downside risks presented by the weakening global outlook for diamond prices.

In fulfilment of its statutory obligations, the Bank's *Annual Report* and *Banking Supervision Annual Report* for 2022 were submitted to the Minister of Finance on 31 March 2023, and 30 June 2023, respectively. The Bank also continued to produce a variety of publications which dealt with monetary policy, financial stability, prudential regulation and supervision, economic, financial and other macroeconomic statistics. The key publications, in this regard, included Botswana Economic and Financial Statistics, Monetary Policy Statement, Monetary Policy Reports, Financial Stability Report, the Research Bulletin, the Business Expectations Surveys, and the Household Indebtedness Report. The Bank's publications serve to meet the public's expectation of a transparent and accountable central bank in fulfilling the monetary and financial stability policy mandate set out in the Bank of Botswana Act.

The focus on skills development, through appropriate short- and long-term training programmes, and staff welfare improvement was maintained, with a view to sustaining the Bank's operational productivity, durable capacity and leadership capability.

External stakeholder relations were maintained during the year, while the Bank participated in meetings and conferences organised by, among others, the Bank for International Settlements, the International Monetary Fund and the World Bank. At a regional level, the Bank participated in meetings organised by the SACU, the Southern African Development Community (SADC) Committee of Central Bank Governors, the Association of African Central Banks, Financial Stability Board Regional Consultative Group for Sub Saharan Africa and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa.

The Bank of Botswana (Amendment) Act, which was passed into law in 2022, commenced on 14 February 2023. Consequently, the Monetary Policy Committee (MPC), which has a full complement of nine members, including four external members, appointed by the Minister of Finance, was established. The principal remit of the MPC is to formulate monetary policy. Furthermore, a Financial Stability Council was elevated to a statutory body, and the Deposit Insurance Scheme of Botswana was established. The two entities provide oversight and ensure trust in the financial system. Meanwhile, Parliament, on 24 May 2023, enacted the Banking Act, 2023. The Act provides a more robust legal foundation for the licensing, regulation and supervision of banks and deposit-taking institutions. These legislative reforms are consistent with maintenance of conducive macroeconomic policy and regulatory frameworks, as well as institutional arrangements that support Botswana's transition to high-income status by 2036.

Overall, the Bank was successful in discharging its mandate. In that regard, the management and staff of the Bank owe a debt of gratitude to the Board for the guidance and support in implementing the 2023 work programme. I hope that stakeholders will find the 2023 Annual Report informative.

Cornelius K Dekop

GOVERNOR

Statutory Report On The Operations And Financial Statements Of The Bank – 2023

THE BANK'S MISSION AND OBJECTIVES

The primary objective of the Bank, as stipulated in Section 4(1) of the Bank of Botswana (Amendment) Act, 2022 is to achieve and maintain domestic price stability. Subject to attaining its primary mandate, the Bank shall contribute to the stability of the financial system and foster and maintain a stable, sound and competitive market-based financial system. Based on this statutory mandate, the Bank's functions and responsibilities are grouped under the following categories:

(a) Price Stability – the principal objective of the Bank is to preserve the purchasing power of the Pula; the domestic currency, by keeping the rate of inflation low, stable and predictable. Price stability contributes to a sound and stable macroeconomic environment, which is conducive for sustainable economic development, employment creation and rising standards of living. Price stability is achieved through monetary policy formulation and implementation, which involves the setting of the policy rate (Monetary Policy Rate) and conduct of open market operations through weekly and monthly auctions of Bank of Botswana Certificates (BoBCs). The Bank also conducts repo and reverse repo transactions and extends an overnight credit facility to banks. These operations enable the Bank to influence real monetary conditions and ensure that short-term market interest rates are aligned to the policy stance, also serving to foster the orderly and efficient functioning of the financial system.

(b) Financial Stability – the Bank's policymaking considers the impact of global, regional and domestic economic and policy developments, shocks and other events on the resilience and stability of the domestic financial system; including recognising the crucial interrelationships between macroeconomic policy, real sector and financial sector developments. Accordingly, vulnerability assessments and performance monitoring of the financial sector are conducted with a view to inform policy and adoption of appropriate macroprudential measures to respond to any financial sector imbalances and, therefore, foster financial stability.

(c) Exchange Rate Policy Implementation – the Bank implements the country's exchange rate policy, the objective of which is to promote and maintain the international competitiveness of domestic firms and exports as well as contribute to overall macroeconomic stability. The Bank buys and sells foreign exchange at rates determined in accordance with the exchange rate policy and ensures adequacy of foreign exchange to achieve the Bank's objectives and for conduct of international payments by the rest of the economy.

(d) Banking Regulation, Licensing and Supervision – the Bank regulates, licenses and supervises deposit taking institutions to ensure operational safety, soundness, and prudent management of individual banks. Furthermore, the Bank encourages competition, fair business practices and adherence to the bankers' code of conduct, as well as continuous improvement of services and accessibility for the benefit of the public. Moreover, the Bank is responsible for licensing, regulation and supervision of credit bureaus, foreign exchange dealers (FX Bureaus) and Electronic Payment Services (EPS) or money-value transfer services. In addition to the general powers granted by the Bank of Botswana Act, regulatory functions and responsibilities are carried out pursuant to legal powers granted by the Banking Act (Cap 46:04), Credit Information Act, 2021 and National Clearance and Settlement Systems Act. In addition, the Bank conducts regulatory functions on behalf of Government, for example, with respect to the National Development Bank.

(e) Design and Issuance of Currency (banknotes and coin) – currency management ensures an adequate supply of high-quality banknotes and coin to facilitate transactions, convenient conduct of payments and economic activity. This entails adherence to stringent standards in design, security and production to sustain integrity and confidence in the national currency; Pula and Thebe, and to avert counterfeiting. In this regard, the Bank withdraws from circulation and destroys soiled and damaged money and replaces it with banknotes and coin of acceptable and high standard.

(f) Central Banking Services – the Bank serves as the banker, economic and financial advisor, and fiscal agent of the Government. The Bank also provides banking services to commercial banks, selected public institutions and international organisations and is a member of the Botswana Automated Clearing House (BACH) operated by the Bankers Association of Botswana (BAB).

(g) Payment Infrastructure and Settlement – facilitation and maintenance of the integrity and reliability of payments systems enables the flow of payments, timely and efficient settlement. Moreover, oversight and regulation entrench confidence in the payments and settlement systems and mitigates systemic risks. In this regard, the Bank ensures adherence to internationally recommended principles for market infrastructures.

(h) Management of Official Foreign Exchange Reserves and Making Foreign Payments on Behalf of Government – the Bank manages the country's foreign exchange reserves. The management of foreign exchange reserves enables the country to meet international financial obligations and payments in foreign currency. The Reserves Management Policies and Investment Guidelines ensure that the foreign exchange reserves are managed prudently to guarantee safety, liquidity and, also generate return within acceptable risk parameters. These are implemented judiciously to benefit from greater diversification of global markets, while ensuring strong institutional governance, including risk management and compliance practices. In that regard, these policies and guidelines are reviewed regularly.

(i) Economic Analysis and Policy Advice – the Bank conducts research and economic analysis directed at the production of reports that form the basis for policy review and, where appropriate, decisions. Furthermore, the Bank provides advice to Government on macroeconomic and financial policy matters. Overall, it is intended that the output of such research and reviews, will assist Government in addressing national economic issues.

(j) Statistical Services – the Bank compiles and consolidates economic, monetary, financial and external sector statistics to inform policy formulation and support the conduct of research. The statistics service extends to the production of internal corporate metrics and analytics, necessary for assessment of progress on internal dynamics in the Bank. Furthermore, there are prospects for Big Data – unstructured data – analysis and integration of such information into the Bank's information management and analysis frameworks.

In order to achieve its mission and objectives, the Bank utilises various strategies, activities and supportive infrastructure as indicated in Figure 1. In addition to functionality, the construct and design of these institutional arrangements are purposefully meant to reflect the Bank's value system of a transparent, accountable and responsive institution. The Bank manages its affairs in an efficient manner and ensures that its internal administrative policies, systems and controls protect national interests at all times. Furthermore, the Bank continues to improve capacity and resilience to maintain the status of a well-functioning central bank with the highest standards of governance and professional excellence. In this regard, the Bank ensures policy credibility and public trust, and plays its role in the country's attainment of the objectives of Vision 2036 and the National Transformation Strategy (2023 – 2030).

Figure 1: Mission, Objectives, Strategies And Supportive Structures

SUPPORTIVE INFRASTRUCTURE

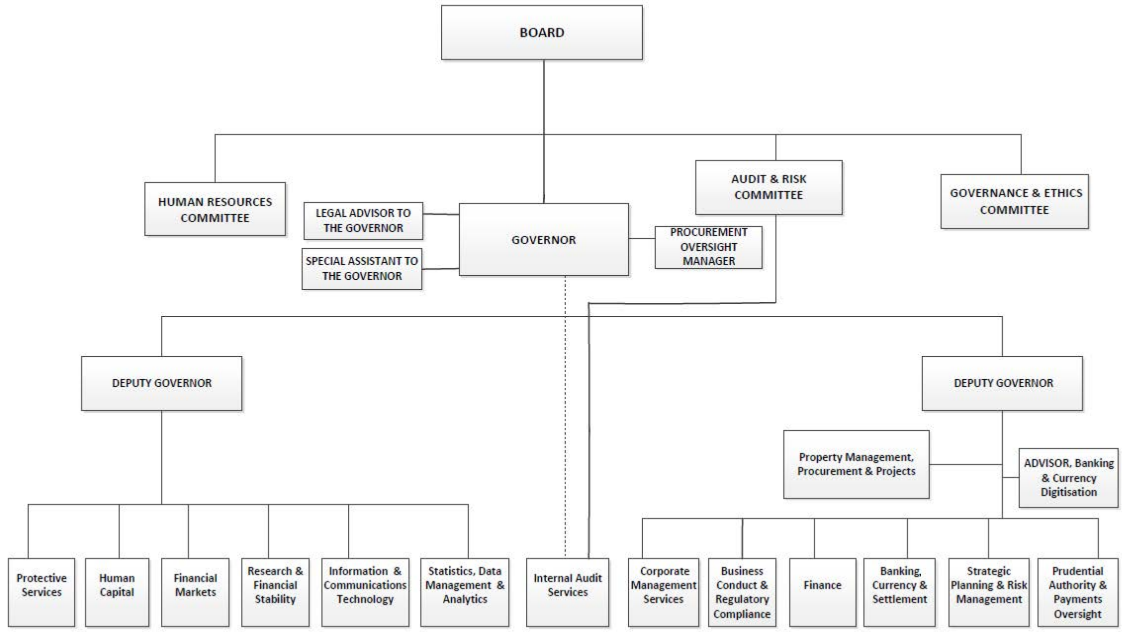
- Governance Structures: Board and Management Committees.
- Strategic Planning, Capacity Building and Staff Welfare
- Assurance: Legal and Compliance, Risk Management, Internal Audit, Security, Business Continuity Planning and Cyber Security
- Operating Platforms: Information Technology Systems, Physical Infrastructure and Facilities
- Accountability, Stakeholder Feedback and Communication

MISSION, OBJECTIVES AND FUNCTIONS	INSTRUMENTS AND ACTIVITIES
Price Stability and Monetary Operations	Monetary Policy Rate, Open Market Operations, Exchange Rate Management, Primary Reserve Requirement, Policy Focused Research, Inflation Modelling and Forecasting and Policy Communication
Financial Stability	Macroprudential Policy, Surveillance and Monitoring
Sound Banking System	Banking Regulation, Licensing, Supervision, Enforcement Action and Market Conduct; Transparency Pricing, Effective Complaints Management and deposit insurance
Efficient Payments System	Banking, Payments Systems, Regulation and Oversight, Clearing and Settlement Systems
Issuance Of Quality Banknotes and Coins	Currency Management, including Quality and secure Currency in Circulation
Banker For Government, Banks, and Selected Institutions	Maintenance of Customer Accounts and Credit Facility or Lender of Last Resort
Foreign Exchange Reserves Management and Domestic Markets	Foreign Exchange Reserves Management and Investment Guidelines, Foreign Exchange Trading and Dealing and Domestic Market Development
Economic Analysis and Policy Advice to Government, Collection, Production and Publication of Statistics	High-Level Bank Representation, Direct Advice, Joint Committees, Research and Other Publications, Public Education on Banking and Financial Matters

GOVERNANCE, MANAGEMENT AND ORGANISATIONAL STRUCTURE OF THE BANK

The Board has the primary accountability for the governance and performance of the Bank. It is constituted in accordance with Section 9 of the Bank of Botswana (Amendment) Act of 2022. In that regard, the Board is the apex body responsible for good corporate governance, an outcome of good performance, ethical culture, effective control and leadership. In the first half of 2023, the Board was chaired by the Governor, who is also the Chief Executive Officer (CEO) of the Bank, as stipulated in Section 13A of the Bank of Botswana (Amendment) Act of 2022. However, following the promulgation of the Bank of Botswana (Amendment) Act of 2022, which separates the roles of Governor and Chairperson of the Board, the Minister of Finance appointed Ms Daphne Kgalaletso Briscoe as Interim Chairperson of the Board with effect from 15 June 2023.

Figure 2: Organisation Structure As At 31 December 2023



Source: Bank of Botswana

Board Functions, Membership and Appointments

The principal role of the Board is to oversee and guide the Bank's general strategic direction, policy formulation and general administration in accordance with the Bank of Botswana (Amendment) Act, 2022 and Bye-Laws. Accordingly, the Board is responsible for ensuring that the policies, management capabilities, administrative systems, security and financial controls necessary to achieve the Bank's statutory mandate and objectives are effective and implemented in an efficient manner. To this end, the Board establishes a broad framework of monetary, financial, banking, human capital, information technology and security, administrative and other policies to enable the Bank to achieve its objectives. This includes approval of the Bank's staff establishment, annual budget, and monitors the financial and operational performance of the Bank, ensuring that the Bank is run in accordance with the Bank of Botswana Act and Bye Laws.

The Board comprises nine members, two of whom are ex-officio members, being the Governor and Permanent Secretary of the Ministry of Finance (MoF). The other seven members are appointed by the MoF from among persons of good standing and experience in business, professional or academic matters; two of whom may be public officers. The Board has executed its business during 2023 with six (6) members and three vacancies.

The Board is required to meet at least once a quarter, although in practice, it typically meets six times in a year or as may be necessary. In 2023, six ordinary Board meetings and a special meeting were held as shown in Table 1. The Board has three committees namely: the Audit and Risk Committee (ARC), Human Resources Committee (HRC) and Governance and Ethics Committee (GEC), which are chaired by, and exclusively comprise non-executive Board members. The Committees deliberate on matters pertaining to their respective mandates, as set out in their respective Terms of Reference or Charter and make recommendations to the Board.

The ARC is assigned responsibility to review accounting policies, financial regulations and internal controls, as well as appointment of independent external auditors. In this regard, it plays a key role in assisting the Board in the oversight of the Bank's management of strategic, market, credit, liquidity, and other financial, operational, information and cyber security risks. It also assists the Board in the evaluation of the adequacy and effectiveness of the Bank's risk management systems, fraud and other risk assessments, internal control systems, accounting practices, information systems and monitoring processes applied by the Management in the day-to-day management and operations of the Bank. During the period under review, the Committee made several approvals, including the Bank's audited financial statements for the year ended 31 December 2022, appointment of external auditors for the ensuing financial year and recommended to the Board, approval of the 2023 operating expenditure budget. In general, the ARC has overall oversight for financial reporting and integrity of financial statements of the Bank.

The HRC's primary responsibility is to determine appropriate remuneration policy, staff establishment and retention strategies, general conditions of employment, staff welfare and approve senior staff appointments (other than Deputy Governors and the Governor). Among key activities, the HRC guided the development and ongoing implementation of a Human Resources Strategy.

The GEC is responsible for fostering a culture of high ethical standards and good governance within the Bank and advise the Board accordingly. Together with the ARC, the GEC provides overall oversight of the Bank's Whistleblowing Policy, including investigating any whistleblowing reports involving Senior Management of the Bank.

Table 1: Board Meetings And Attendance In 2023

Meetings	BB 1/23 (Feb 10)	BB 2/23 (Mar 24)	BB 3/23 (June 16)	BB 4/23 (Aug 25)	BB 5/23 (Oct 27)	BB 6/23 (Dec 8)	BB 6/23 (Dec 18)
D K Briscoe (Interim Chairperson)	✓	X	✓	✓	✓	✓	✓
C K Dekop (Governor)	-	-	-	-	✓	✓	✓
M D Pelaelo (Governor)	✓	✓	✓	✓	NM	NM	NM
O H Masimega (Ex-Officio)	X	✓	X	X	X	✓	✓
B M Ditlhabi (Chairperson HRC)	✓	X	✓	✓	✓	X	✓
L Lisenda (Chairman GEC)	✓	✓	✓	✓	NM	NM	NM
L G Makepe (Chairman ARC)	✓	✓	✓	✓	✓	✓	✓
K Molosi	✓	✓	✓	✓	✓	✓	✓

Key: ✓ Attended
x Did not attend
BB Regular Board Meeting
NM No longer member
\- Not yet appointed

Source: Bank of Botswana

Note: Mr Moses D. Pelaelo during his tenure as Governor, chaired the two Board meetings on 10 February and 24 March, while Ms Daphne Kgalaletso Briscoe chaired the subsequent Board meetings following her appointment as Interim Chairperson effective 15 June 2023.

Governor

The Governor serves as the CEO of the Bank responsible to the Board for the prompt execution of Board decisions and Bank policies, as well as general direction and control of the operations of the Bank. On accountability to the key stakeholders, the Governor submits the *Annual Report* on the operations and financial performance, including the audited financial statements of the Bank, to the Minister of Finance within three months (not later than end of March) following the end of the financial year, as stipulated in the Bank of Botswana Act. In turn, the Minister presents the *Annual Report* to Parliament within 30 days, following receipt of the *Report*. Furthermore, as mandated by the Banking Act, the Governor submits the *Banking Supervision Annual Report* to the Minister by the end of June each year. The Governor also publishes in the Government Gazette the monthly statement of financial position of the Bank and submits a copy of the same to the Minister of Finance.

The Governor chairs the Monetary Policy Committee (MPC) and the Financial Stability Council (FSC). The MPC is the highest decision-making body for monetary policy, responsible for fostering high-level and comprehensive policy analysis, accountability and transparency in formulating, guiding and implementing monetary policy within the framework determined by the Minister of Finance and objectives of the Bank. The MPC comprises nine members, five whom are employees of the Bank and four external members who are appointed by the Minister of Finance. The FSC is a statutory interagency body responsible for maintaining and promoting domestic financial stability. It comprises principal officers or Chief Executive Officers of MoF, the Bank, Non-Bank Financial Institutions Regulatory Authority (NBFIRA) and Financial Intelligence Agency (FIA) and Deposit Insurance Scheme of Botswana (DISB). The Botswana Stock Exchange Limited (BSEL) is invited as an observer member, in recognition of its role in capital market development and stability. In effect, these institutions are involved in developing legislation and regulations, policymaking and supervision with respect to the whole or facets of the financial sector. The Governor also chairs several management committees including the Senior Leadership Forum, Investment Committee, Regulatory Policy Committee (RPC) and Board of Trustees of the Bank of Botswana Defined Contribution Staff Pension Fund.

The Governor represents the Bank at relevant local, regional and international fora, and is the Governor for Botswana in the Non-Executive Board of Governors of the International Monetary Fund (IMF). In addition, the Governor chairs industry-wide consultative fora, namely, the Banking Committee, National Payments Council and bilateral meetings with individual banks.

Senior Leadership Forum (SLF)

The SLF comprises Deputy Governors and Heads of Department and is chaired by the Governor. Senior advisors may be co-opted as members. The Committee has the collective responsibility for advising the Governor on day-to-day administration, including policy formulation, risk and financial management, as well as overall governance of the Bank. It meets at least once a month to monitor, coordinate and review implementation of the Bank's work programme, as well as other developments in the Bank.

Departments and Divisions

The Research and Financial Stability Department (RFSD) undertakes macroeconomic forecasting and policy review to support the Bank's conduct of monetary policy and implementation of the exchange rate policy. The Department also conducts macroprudential assessments and facilitates coordination with other relevant external entities to ensure macroeconomic and financial stability. Furthermore, the RFSD undertakes research and macroeconomic analysis, monitors the financial sector and evaluates emerging risks and other developments emanating from the macroeconomic environment. In addition, the Department is responsible for the content of the Bank's publications, namely, the Statutory *Annual Report*; *Financial Stability Report (FSR)*; *Research Bulletin*; *Monetary Policy Statement (MPS)*; *Monetary Policy Report (MPR)*; *Business Expectations Survey (BES)* and the *Household Indebtedness Survey*.

The Prudential Authority and Payments Oversight Department (PAPOD) licenses, regulates and supervises commercial banks and other financial institutions that fall under the Bank's regulatory and supervisory purview; it also publishes the

Banking Supervision Annual Report. Furthermore, the PAPOD coordinates, and provides advice on the development of regulatory policies and guidelines by the RPC.

The Business Conduct and Regulatory Compliance Department (BCRCD)'s mandate encompasses regulating and supervising the business conduct of commercial banks, bureaux de change, money remitters, and credit bureaus to ensure compliance with the respective statutes under which these entities are licensed, and/or regulated through other enabling laws such as the Financial Intelligence Act (as amended). The mandate to provide oversight on anti-money laundering and combating the financing of terrorism and proliferation (AML/CFT/P) matters includes the investigation of incidences of financial crime such as ponzi schemes and other illegal deposit-taking activities, while the business conduct mandate focuses on ensuring that regulated institutions treat customers fairly and, exercise a duty of care and skill by always acting in the best interest of customers. Specific to lending institutions, BCRCD strives to foster disclosure and transparency by entities when dealing with clients, ensuring that there is truth-in-lending and that customers are adequately informed of the benefits and disadvantages associated with products and services being offered. The reduction of information asymmetry helps minimise non-performing loans (i.e., bad debts) which in turn augment financial stability.

The Financial Markets Department (FMD) manages foreign exchange reserves and implements decisions of the Investment Committee, carries out foreign exchange dealings and implements monetary policy through open market operations. The FMD also conducts other money and capital market activities, including issuing government bonds and treasury bills, and foreign exchange trading with banks. Policy development and market improvements are undertaken under the auspices of the Bond Auction Committee, involving the Bank and the MoF, while consultations with the market are undertaken through the Botswana Financial Markets Committee (comprising the Bank and commercial banks officials).

The Banking, Currency and Settlement Department (BCSD) oversees the management of currency (Pula banknotes and thebe coin) and the provision of banking services to the Government, commercial banks and selected institutions. The BCSD is also responsible for the oversight and regulation of payments systems and settlement of transactions, as well as operating the Real Time Gross Settlement (RTGS) system, known as the Botswana Interbank Settlement System (BISS), and overseeing the BACH, owned and operated by commercial banks.

The Finance Department (FD) is responsible for accounting and reporting the Bank's financial activities, including production of International Financial Reporting Standards (IFRS) compliant monthly and annual financial statements of the Bank, as stipulated in the Bank of Botswana Act. The Chief Financial Officer is also the principal officer of the Bank of Botswana Defined Contribution Staff Pension Fund. The Human Capital Department (HCD) is responsible for human resources planning, talent management, staff recruitment, staff development and training, performance management, compensation and general staff welfare, such as administering health and wellness programmes, disciplinary code and staff loans schemes and supports the work of the HRC of the Board. The Information and Communications Technology Department (ICTD) ensures that the Bank's information technology systems and infrastructure are robust and effective in meeting the needs of the Bank. The Protective Services Department (PSD) is responsible for ensuring the safety and security of Bank staff, information and property, including the safety and environmental function. The PSD liaises with the national law enforcement agencies to ensure that Bank facilities, designated as national key points under the Protected Places and Areas Act, are safe and meet the requisite security standards and practices and, also, in investigations involving currency counterfeits and other financial crimes.

The Strategic Planning and Risk Management Department (SPRMD) ensures coordination of strategic planning, risk management (including insurance management, business continuity and information security management), procurement oversight, digitalisation and fintech related initiatives for the Bank. In this regard, the Department developed and maintained frameworks, systems and strategies for effective strategic planning, business continuity, and risk management.

The Corporate Management Services Department (CMSD), through three functional areas of legal affairs and board secretariat, communications, and information management, provides support and contributes towards achievement of the Bank's mandate and roles with respect to legal and board secretariat, communication, library and records (information services), printing of publications, as well as public education and external relations. The Legal Affairs and Secretariat

Division manages the Bank's legal, compliance and reputational risk and is, therefore, responsible for all matters of a legal nature, including legislative review, interpretation of laws, litigation, management of contracts and compliance-related matters. The Division also provides secretarial services to the Board (including the GEC and Senior Leadership Forum and ensures good governance in the Bank. The Communications and Information Services Division coordinates communication in relation to media and effective transmission of information relating to the Bank's mandate and policies to stakeholders. The Division also coordinates the Bank's Public Education Programme and related policies to promote financial and economic literacy and improve the public's understanding of the Bank's role in the economic development of the country. This ensures an overall positive image of the Bank. Furthermore, the Department is responsible for the library, website and records management, and coordinates the printing and dissemination of Bank publications.

The Statistics, Data Management and Analytics Department (SDMAD), is mandated with collecting, compiling, analysing and disseminating quality data, maintaining dashboards and preparing data visualisations to facilitate the formulation and implementation of the Bank's monetary policy decision, conduct of professional economic research and use by interested stakeholders. SDMAD is also responsible for the content of the Botswana Economic and Financial Statistics (BEFS). In collaboration with other statistics producing entities, the SDMAD represents the Bank in various statistics related stakeholder committees including, Statistics Producer Committee and its technical group, the Statistics Producer Technical Committee, aimed at enhancing the country's data production and quality standards as per the IMF's international data standards, such as the Enhanced General Data Dissemination System (e-GDDS). The Internal Audit Services Department (IASD) ensures that the Bank's operations are sound and comply with established financial and operational controls as well as governance structures in line with the Bank of Botswana Act, Audit Committee Charter and international best practice, and supports the Board ARC. Its activities are enshrined in the Internal Audit Charter.

Other support services are undertaken through the specialised activities of the Procurement and Property Management Division, which undertook facilities management, initiated and managed physical developments (projects) and procurement (including coordination of the tendering process), custody and maintenance of immovable and movable assets of the Bank, including related equipment.

REVIEW OF THE BANK'S MAIN ACTIVITIES IN 2023

Monetary Policy

The Bank conducts monetary policy primarily through the setting of the Monetary Policy Rate (MoPR), open market operations and primary reserve requirements. While the Bank may use prudential regulations, macroprudential tools and moral suasion to achieve monetary policy objectives, the primary instruments used to manage liquidity and influence short-term deposit and lending interest rates in the economy are the BoBCs. In addition to the secured credit facility to commercial banks (for intra-day and overnight liquidity management), the Bank operates an interest rate corridor with a 200-basis points width, comprising the Standing Deposit Facility (SDF) at 100 basis points below the MoPR and Standing Credit facility (SCF) at 100 basis points above the MoPR, available to commercial banks for their daily liquidity management. The interest rate corridor is intended to help ensure that short-term, money market interest rates move within a reasonably close range around the MoPR and the close relationship between the policy rate and market interest rate provides the fundamental basis for monetary policy transmission. In addition, the Bank conducts, albeit infrequently, fine-tuning operations (repos and reverse repos) to smoothen the flow of liquidity in the banking system. These are issued at the discretion of the Bank and are offered at the MoPR.

Monetary policy was conducted in the context of projected lower inflation in the short-to-medium-term, associated with dissipating impact of the increase in administered prices in 2022 (base effects), impact of the reduction in fuel prices during the year, subdued domestic demand and declining trading partner countries' inflation, while the economy operated below potential. These conditions provided scope for an accommodative monetary policy in support of stronger output growth. It was judged that monetary policy was accommodative, and as such, the MoPR was maintained at 2.65 percent in 2023, until the 25 basis points cut to 2.4 percent in December 2023. This followed a cumulative 151 basis points policy rate increase in 2022. Similarly, the prime lending rate (PLR) of commercial banks declined from 6.76 percent in December 2022 to 6.51 percent in December 2023. However, deposit interest rates generally increased, mainly because of competition for corporate deposits that are volatile and form an important component of the deposit base for many of the commercial banks. The nominal 3-month (88 day) deposit interest rate of commercial banks increased from 1.53 percent in December 2022 to 2.69 percent in December 2023. Meanwhile, inflation, as measured by the consumer price index, has generally been on a downward trajectory since September 2022 and was mostly within the medium-term objective range of 3 – 6 percent since May 2023, averaging 5.2 percent in 2023.

The Bank held six MPC meetings in 2023, followed by media briefings to facilitate dialogue between the Bank and the media, thus enhancing the Bank's transparency, accountability, policy credibility and prospects for influencing inflation expectations. The Bank published the MPS in February 2023 and three Monetary Policy Reports (MPRs) in April, August and October 2023. These publications are the main media through which the Bank informs the public about the formulation and implementation of monetary policy and, therefore, serve to meet the public's expectation of a transparent and accountable central bank in pursuit of the monetary policy objective. The MPS and MPR provide a comprehensive assessment of economic and financial developments that are likely to influence the inflation path in the medium-term and, in turn, the Bank's policy choices predicated on a forward-looking monetary policy framework. The Bank increasingly uses the communication tool to enhance awareness and clarify its mandate, policy performance and guidance. In this respect, the publications promote an understanding of the conduct of monetary policy and help anchor public expectations of a low, predictable and sustainable level of inflation.

Money and Capital Markets

Open market operations remained the main liquidity management tool in the domestic market, as well as in implementing the decisions of the MPC. This entailed the use of BoBCs to mop-up excess liquidity[1] to maintain interest rates that are consistent with the monetary policy stance. Open market operations in 2023 were conducted in an environment of increased market liquidity, supported mainly by government spending.

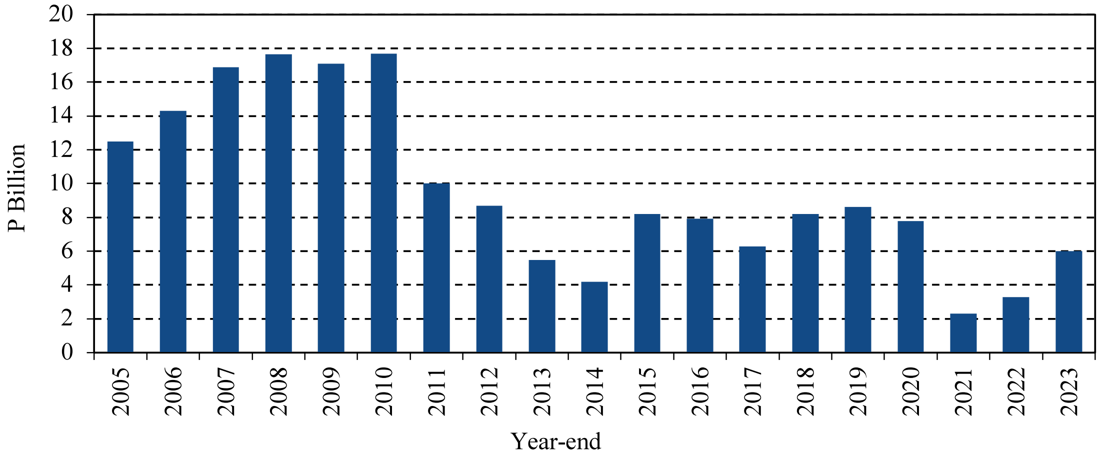
The Bank evaluates its monetary policy implementation framework on a regular basis for effectiveness, with a view to introducing refinements where necessary. In this regard, the reforms to monetary operations introduced in April 2022 are now embedded and there is noticeable improvement in monetary policy transmission and the interest rate structure is operating as expected. In addition, the interbank rate consistently trends within the interest rate corridor but tends to trade closer to the floor of the corridor SDF due to structural excess liquidity in the market. However, the funding structure of banks, which is uneven across individual banks and mostly dominated by large mobile corporate and asset funds managed deposits, have the effect of raising wholesale deposit rates and suppressing interest rates on retail savings deposits.

With effect from 1 April 2023, commercial banks were allowed to independently determine their own PLRs. This move is expected to contribute positively to banking sector developments through promoting competition and, thus, deepening the banking industry. The Bank publishes average PLR to the market for transparency.

Meanwhile, some commercial banks continue to actively use the Primary Reserve Requirement Averaging (PRRA) as a tool for effective management of liquidity. As a result, the averaging framework of the Primary Reserves accounts has contributed to reduced demand for excess reserves held by commercial banks for precautionary purposes, thereby, helping free up additional resources for productive lending and interbank activity. Outstanding BoBCs amounted to P6 billion in December 2023, an increase from P3.3 billion in December 2022 (Chart 1), reflecting an increase in liquidity resulting mainly from government spending. As at the end of 2023, funds held in the SDF amounted to P3.5 billion. There were no outstanding SCF balances, repos and reverse repos as at the end of 2023 (Table 2).

1 Excess liquidity in the banking sector is defined here as the sum of commercial banks' overnight deposits at the central bank (current account), commercial banks' deposits in the Standing Deposit Facility (SDF), money absorbed through BoBCs, outstanding reverse repos less repos, Standing Credit Facility (SCF) and the credit facility. This is 'excess' in the sense that it is the net liquidity that the central bank has to absorb (take out of the system), over and above the structural liquidity that is held by the banks in the Primary Reserve Requirement accounts.

Chart 1: Bank Of Botswana Certificates 2005 – 2023



Source: Bank of Botswana

Table 2: Money Market 2022 – 2023

	End-2022			End-2023		
	Outstanding balances[2] (P billion)	Interest rate (Percent)[1] Nominal	Interest rate (Percent)[1] Real	Outstanding balances[2] (P billion)	Interest rate (Percent)[1] Nominal	Interest rate (Percent)[1] Real
3-month Treasury Bills[1,3]	2.505	4.32	-7.93	3.350	4.30	0.38
6-month Treasury Bills	2.091	5.10	-7.10	1.870	4.50	0.58
12-month Treasury Bills	0.445	5.47	-6.90	780	4.98	1.04
7-day[1]	2.775	2.65	-9.55	5.000	2.40	-1.44
1-month	0.500	3.18	-9.02	1.000	2.79	-1.07
Standing Deposit Facility	0.341	1.65	-10.55	3.487	1.40	-2.41
Standing Credit Facility	0.249	3.65	-8.55	-	3.40	-0.48
Reverse repos	-	2.65	-9.55	-	2.40	-1.44
Repos	-	2.65	-9.55	-	2.40	-1.44
88-day deposits	1.29	1.26	-10.94	-	-	-
Prime rate		6.76	-5.44		6.51	2.51
MoPR		2.65			2.40	

1. Stop-out yield is used for Treasury Bills, while weighted average yield is used for BoBC yields.
2. Book value
3. Original date to maturity

Source: Bank of Botswana

The 7-day BoBC yield decreased from 2.65 percent in December 2022 to 2.40 percent in December 2023, in line with the downward adjustment in the MoPR in December 2023. There was one secondary market trading for BoBCs worth P25 million in 2023 compared to none in 2022.

Outstanding Government Bonds of various maturities and Treasury Bills (T-Bills) increased from P25.8 billion at the end of 2022 to P29.1 billion in December 2023 as Government made additional issuances on the existing securities and new issue through a new bond (Table 3). Primary Dealers and their customers held P11.9 billion (41.1 percent) and P17.2 billion (58.9 percent), respectively, of the government securities at the end of 2023. Liquidity in the Government Bonds market has improved substantially and, therefore, secondary market activity has increased from the previous period.

Table 3: Government Bonds And Treasury Bills 2022 – 2023

Bond Code	End 2022			End 2023		
	Outstanding (P million) [1,2]	Market Yields[3] (Percent)		Outstanding (P million) [1,2]	Market Yields[3] (Percent)	
		Yield	Real		Yield	Real
3-month Treasury Bills	2 505	4.26	-7.94	3 350	4.30	0.38
6-month Treasury Bills	2 091	5.40	-6.80	1 870	4.50	0.58
12-month Treasury Bills	445	5.50	-6.67	780	4.98	1.04
Botsgb0623	3 006	5.36	-6.84	-	-	-
Botsgb0325	3 417	6.43	-5.77	2 217	5.38	1.42
Botsgb0527	1 312	8.13	-4.07	3 029	6.50	2.50
Botsgb0929	3 716	8.38	-3.82	4 399	7.13	3.11
Botsgb0931	4 742	8.56	-3.64	5 795	7.91	3.86
Botsgb0635	2 907	8.70	-3.50	772	8.35	4.28
Botsgb0640	1 648	8.86	-3.34	3 479	8.48	4.41
Botsgb0943				3 443	8.62	4.54
	25 789			**29 134**		

1. Where outstanding values differ for the same bond code between the two years, it means the bond was reopened for issuing an additional amount.
2. Book value.
3. Indicative yields.

Source: Bank of Botswana

Exchange Rate Policy

The Bank is responsible for implementing the exchange rate policy. In accordance with Section 21 of the Bank of Botswana (Amendment) Act, 2022, the framework for the determination of the external value of the Pula is set by His Excellency, The President, on recommendation by the Minister of Finance after consultation with the Bank. In 2023, the Pula basket weights were maintained at 45 percent and 55 percent for the South African rand (ZAR) and the IMF's Special Drawing Rights (SDR), respectively, reflecting Botswana's trade pattern and financial relationships with the external world. The Bank implemented an annual downward rate of crawl of 1.51 percent with a view to enhance domestic industry competitiveness.

In 2023, the trade-weighted nominal effective exchange rate (NEER) of the Pula depreciated in line with the rate of crawl of the Pula exchange rate. Similarly, the real effective exchange rate (REER) depreciated by 1.8 percent in the same period because of the combined effect of the depreciation of the NEER and a negative inflation differential, and this suggested a gain in international competitiveness of domestic firms. Beyond the exchange rate, durable competitiveness of domestic producers is also achieved through a sustained improvement in productivity, which contributes to lower inflation.

Financial Stability

The promulgation of the Bank of Botswana (Amendment) Act, 2022 in February 2023 strengthened oversight for financial stability. Specifically, the amended Act provides a legal backing for the Bank of Botswana's financial stability responsibility, which ranks second to price stability. The Act also elevated the FSC to a statutory body, responsible for maintaining and promoting financial stability. Its work entails assessments of financial sector vulnerabilities and risks to financial stability, and undertaking policy responses, including macroprudential policy measures. During the year, the Council adopted and re-aligned the 2019 Memorandum of Understanding as its Charter or Terms of Reference (ToRs). The Charter outlines the roles and working arrangements of the Council. Furthermore, to enhance the work of the FSC, the FSC Technical Working Group (TWG) was established to undertake background and preparatory work for the Council. The TWG membership comprises of technical staff from member institutions of the FSC.

In fulfilment of its mandate, the FSC held four meetings in 2023. Among others, the Council assessed the potential implication of South Africa's grey listing on Botswana's macroeconomic and financial stability and consideration of policy options to mitigate the potential systemic risks or spillovers arising from the grey listing. It was determined that the domestic financial system was resilient to South Africa's grey listings. The Council approved publication of two FSRs in May and November 2023, in which the domestic financial system was assessed to be resilient and robust; safe and sound; and unconstrained in providing and growing the range of financial services to support the economy. The FSC observed that risks to financial stability mainly related to global and regional developments and included high interest rates to combat inflation and, therefore, adversely affecting debt servicing and sustainability for sovereigns (governments), businesses and households; the threat to viability of banks with business models premised on maintenance of low and stable interest rates; as well as economic and trade disruptions induced by geopolitical tensions and economic fragmentation. Nevertheless, it was noted that the global financial system remained stable and resilient to shocks, underpinned by effective post-2008/09 global financial crisis regulatory reforms and continuous improvement of supervisory frameworks.

Furthermore, regulatory enhancements underpinned by new legislation and regulations (including amendments), designed to, among others, improve the robustness of the domestic financial system and contribution to economic development continued in 2023. In this regard, following the establishment of a Deposit Insurance Scheme, enabled by the Bank of Botswana (Amendment) Act, 2022, the DISB Regulations outlining the governance arrangements and establishment of the deposit insurance fund, came into operation on 21 July 2023. The Regulations provide for governance of the DISB, membership and premium contributions, deposits to be covered and the maximum level of cover, and funding and payment of deposits in the event of a bank failure; thus, facilitate full operationalisation of the DISB. Additionally, Parliament, on 24 May 2023, enacted the Banking Act, 2023. The Act provides a more robust legal foundation for the licensing, regulation and supervision of banks and deposit-taking institutions. It has provision for the establishment of financial safety nets, ensure compliance with the Basel Core Principles for Effective Banking Supervision, enhance the Bank's sole mandate of licensing deposit taking institutions, as well as designating the Bank as a resolution agency. The MoF in conjunction with the Bank, are working on the Banking (Amendment) Regulations, 2023, Banking (Deposit-Taking Institutions) Regulations, 2023 and the Banking (Appeal Tribunal) Regulations, 2023 to align them with the Banking Act.

Parallel and similar developments with respect to the non-banking sector legislative architecture continued in 2023. The Non-Bank Lenders Bill, 2023 has been tabled before Parliament and it consolidates the regulatory framework for micro-lenders, pawnshops, financing, and leasing companies. The NBFIRA Act, 2023 and the Securities (Amendment) Act, 2023 were enacted by Parliament on 10 August 2023, and commenced on 15 January 2024. The NBFIRA Act, 2023 seeks to enhance the regulatory capacity of NBFIRA and align it with international requirements and best practices. The Securities (Amendment) Act, 2023 ensures consistency and align definitions in the Act with definitions under the NBFIRA Act and for both statutes to conform to the International Organisation of Securities Commissions (IOSCO)[2] principles.

During the year, the Bank published the annual Household Indebtedness Survey report. The survey assessed trends in household indebtedness in the domestic economy using primary data from commercial banks, micro-lenders and hire purchase stores; as well as data on arrears on rent and water bills from the Botswana Housing Corporation (BHC) and Water Utilities Corporation (WUC). The 2022/23 Household Indebtedness Survey results indicated that household debt posed minimal risks to financial stability, characterised by low default rates. Most borrowers are employed, with a large percentage employed in the public sector, thus underpinning income stability. In addition, the largest credit providers (banks) deduct monthly loan repayments at source, that is from the payroll, hence reducing the probability of default by borrowers. The age profiling of borrowers indicated consistency with the life cycle hypothesis (permanent income hypothesis) of borrowing for welfare enhancement on expectation of future income growth and less borrowing by the older generation. In this regard, credit extension remains positive for economic activity and welfare enhancement.

Supervision and Regulation of Banks and Payments Systems

During 2023, the Bank continued to monitor the performance of banks through established processes, such as off-site and on-site examination for adherence to prudential and payments and market infrastructure requirements. Furthermore, the Bank held separate bilateral meetings with banks and their respective external auditors, and also arranged trilateral meetings with each financial institution and its external auditor during the year. In addition to the prudential supervisory role, the Bank continued to promote an efficient payments system through continuous upgrade of processes and risk-mitigation measures in payments, clearing and settlement infrastructure and operations, as well as regulate and oversee the payments system and respective payment-services providers in the country, as enshrined in the National Clearance and Settlement Systems (NCSS) Act (Cap. 46:06); and the Electronic Payments Services Regulations, Statutory Instrument No 2 of 2019.

The banking industry comprised nine commercial banks and two statutory banks. Commercial banks[3] were profitable, with an after-tax profit of P3.1 billion in 2023, signifying a 15.2 percent increase from P2.7 billion reported in 2022. The increase in profitability was attributable to a 17.3 percent increase in total income from P8.4 billion in 2022 to P9.8 billion in 2023. Asset quality deteriorated as non-performing loans (NPLs) increased by 9.3 percent from P2.7 billion in December 2022 to P3 billion in December 2023. The ratio of NPLs to gross loans and advances fell slightly from 3.8 percent in December 2022 to 3.7 percent in December 2023. The average Capital Adequacy Ratio (CAR) and Liquid Asset Ratio (LAR) for commercial banks were 19.7 percent and 20.1 percent, respectively, in December 2023. Both ratios were higher than the prudential and statutory thresholds of 12.5 percent and 10 percent, indicating that the industry was adequately capitalised and liquid during 2023. Table 4 shows the banking industry financial soundness indicators.

2 IOSCO is an international body that brings together the world's securities regulators and is the global standard setter for the securities sector.

3 BBS Bank Limited was issued a banking licence in October 2022. However, the analysis for commercial banks in December 2022 does not include BBS Bank Limited.

Overall, the statement of financial position for commercial banks grew with total assets increasing by 14.2 percent from P117 billion in December 2022 to P133.6 billion in December 2023. The increase in total assets was due to a 57.7 percent and 11.8 percent increase in BoBCs, and loans and advances from P3.2 billion and P73.2 billion in December 2022 to P5.1 billion and P81.8 billion in December 2023, respectively.

Deposits remained the main source of funding for the banking industry at P110.3 billion (December 2023: P96.1 billion). Total deposits comprised customer deposits amounting to P104.1 billion and bank deposits of P6.2 billion. The industry average intermediation ratio remained within the 50 – 80 percent recommended prudential range, at 80 percent (December 2023: 78.6 percent). Overall, the banking sector was assessed to be profitable, adequately capitalised, liquid and in compliance with the statutory and prudential requirements.

Table 4: Financial Soundness Indicators And Range Of Statutory And Prudential Requirements For Licensed Commercial Banks 2020 – 2023

Financial Soundness Indicators	Statutory Requirement (Percent)	Prudential Benchmark (Percent)	Range of Indicators for Local Banks (Percent)			
			2020	2021	2022	2023
Capital adequacy ratio	≥12.5		16.6 – 69.9	15.2 – 26.9	15.1 – 22.0	13.2 – 22.6
Liquid asset ratio	≥10		13.8 – 51.7	14.0 – 20.9	14.9 – 25.6	17.6 – 23.9
Profitability (return on assets)		Positive	(0.1) – 2.2	0.4 – 3.0	0.6 – 3.8	(1.5) – 4.2
Profitability (return on equity)		Positive	(1.8) – 23.2	3.3 – 36.7	5.1 – 33.4	(8.5) – 32.6
Asset quality (NPL/total loans)		≤2.5	1.1 – 6.4	0.7 – 6.2	0.6 – 5.9	1.8 – 6.0
Intermediation ratio (advances/ deposits)		50 – 80	70.2 – 110.6	62.9 – 106.6	61.4 – 100.3	67.3 – 98

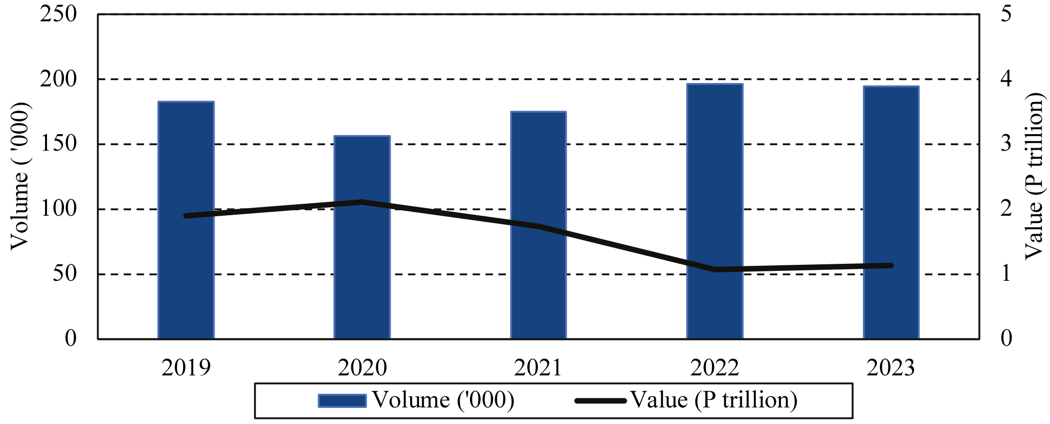
Source: Bank of Botswana

In 2022 and early 2023, the Bank participated in the joint IMF/World Bank Financial Sector Assessment Programme (FSAP) for Botswana through coordination of activities of the programme, self-assessment of the Basel Core Principles for Effective Banking Supervision and discussion of preliminary findings and impressions of the assessors. The objective of the joint exercise was to provide a comprehensive review of the financial sector of Botswana and recommend appropriate policy responses to address identified gaps and vulnerabilities in the financial sector. The FSAP report was completed and published in 2023 on the IMF website. The report indicated that the financial sector remained stable, sound, and resilient, although there were observed deficiencies relating to the legal framework, which have been addressed by the re-enacted Banking Act, 2023 and Bank of Botswana (Amendment) Act of 2022. Moreover, there was notable progress in strengthening the financial supervisory and regulatory frameworks since the financial sector assessment conducted in 2007.

In accordance with Section 39 of the Banking Act, the Bank continued to administer abandoned funds. As at 31 December 2023, the abandoned-funds balance was P27 088 850; claims amounted to P152 146, while P1 789 498 was transferred to the Guardian's Fund.

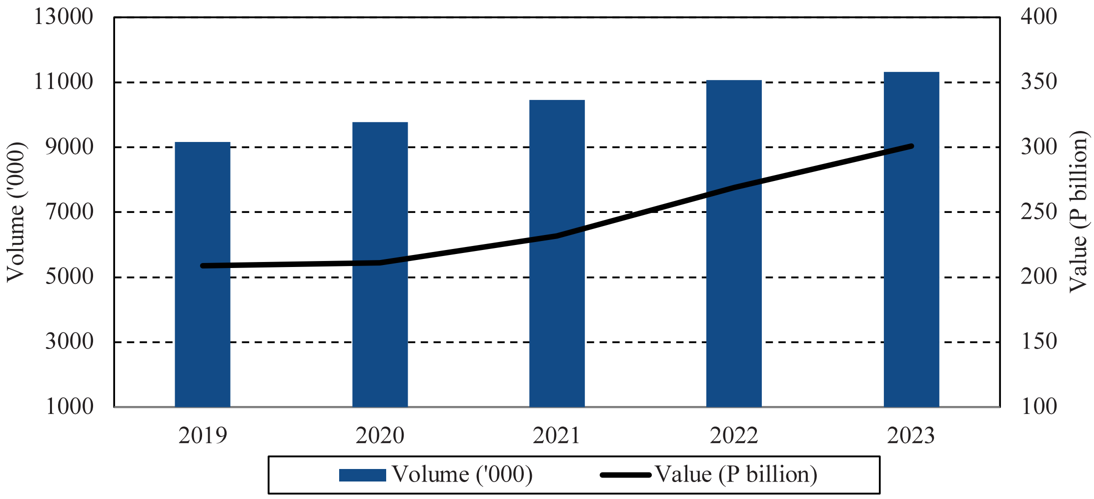
The Bank continued to safeguard the safety, integrity, and efficiency of the National Payment System (NPS). This was achieved through close monitoring of the various components of the NPS, implementation of the NPS strategies and discharging the oversight function through established processes such as off-site and on-site inspections, to ensure adherence to international best practice risk management standards. The NPS remained safe, stable, efficient, and resilient ensuring the smooth functioning of the financial system. Notably, all systemically important payment systems have proven to be sound and robust, with minimal prospects for contagion or systemic risk.

Chart 2: Botswana Interbank Settlement System (BISS) Transactions 2019 – 2023



Source: Bank of Botswana

Chart 3: Botswana Automated Clearing House – Electronic Fund Transfer 2019 – 2023



Source: Bank of Botswana

During 2023, the Bank conducted on-site inspections of two financial market infrastructures (FMIs), namely, the BACH and Central Securities Depository Company of Botswana (CSDB). Overall, the FMIs were generally found to be secure, reliable, and efficient in providing clearing and settlement services. In addition, the BISS remained resilient and efficient in facilitating safe and secure interbank payments.

The RTGS system, the BISS, continued to provide settlement for large values and time-critical payment transactions. The volume of transactions settled in the BISS decreased by 0.79 percent, from 196 261 in 2022 to 194 708 in 2023, while there was an increase in value by 5.6 percent, from P1.07 trillion to P1.13 trillion (Chart 2). BACH on the other hand catered for low-value transactions through cheques and electronic funds transfers (EFTs). EFT transactions increased by 2.3 percent in volume, from 11.06 million in 2022 to 11.31 million transactions in 2023 and 11.8 percent in value, from P269.1 billion in 2022 to P300.9 billion in 2023 (Chart 3).

The Bank in collaboration with the BAB discontinued the use of cheques as a form of payment on 31 December 2023. Bank customers had received prior sensitisation about available alternative digital payment solutions for easy migration to digital payment platforms. As at December 2023, 96 percent of customers had registered for alternative digital channels.

In 2023, the Bank received two applications for an EPS licence and licensed Afritec Pay (Pty) Limited, to provide electronic money issuance services. The assessment of the other application was ongoing As at 31 December 2023. Consequently, as at end of 2023, the number of operating Electronic Payment Services Providers (EPSPs) was 25, with an agency network of more than 1 500 countrywide. During 2023, the Bank undertook on-site inspections on four EPSPs, namely, Mukuru Bureau de Change, Orange Money Botswana (Pty) Limited, Mascom Wireless Botswana (Pty) Limited and Monyglob (Pty) Limited. The entities were found to have generally complied with most of the requirements of the EPS Regulations. Furthermore, the Bank through off-site surveillance, continued to investigate cases of unauthorised payment operations[4] and fraud to maintain trust and confidence in the national payment system and protect consumers.

Regionally, in support of the SADC cross-border payments integration initiatives, the Bank facilitated the participation of Botswana commercial banks in the regional payments infrastructure, the SADC–RTGS system. As at end of December 2023, four Botswana commercial banks participated in the SADC–RTGS with a total value of settled messages of P78.6 billion in 2023. Additionally, four other banks have expressed interest in joining the SADC–RTGS when the next onboarding window opens post June 2024.

Business Conduct and Regulatory Compliance

(a) AML/CFT/CPF Supervision and Monitoring of Banks and Other Supervised Entities

The Financial Intelligence Act, 2022, (FI Act) mandates supervisory authorities (Bank of Botswana included) to regulate and supervise specified entities for compliance with the Act. The Bank supervises banks, bureau de changes, electronic payments services and money or value transfer service providers. During 2023, the Bank monitored its supervised entities to ensure that they have effectively implemented risk-based anti-money laundering and countering the financing of terrorism (AML/CFT) measures, as prescribed in the FI Act. Supervisory activities were conducted through off-site monitoring, on-site examinations of some selected institutions, and AML/CFT bilateral meetings with some regulated entities.Overall, the supervised entities' adequacy and effectiveness of AML/CFT measures were rated satisfactory. However, there were issues of supervisory concern noted in some institutions, and in such instances, the entities were directed to adopt corrective measures and, where necessary, monetary fees were levied by the Bank[5].

4 For instance, unlicensed payment systems and operators who may be undertaking unauthorised activities and, thus, contravening Section 14 of the EPS Regulations, which requires EPSPs to seek prior approval when introducing new products.

(b) ESAAMLG 46th Task Force of Senior Officials and the 23rd Council of Ministers Meetings

The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) 46th Task Force of Senior Officials and the 23rd Council of Ministers Meetings were hosted in Kasane, Botswana on 1 – 8 September 2023. The meetings were preceded by the 6th AML/CFT Public-Private Sector Dialogue, which was held under the theme "Detecting and Preventing Illicit Financial Flows Associated with Illegal Wildlife Trade". The meeting was attended by participants from the private and public sectors of ESAAMLG countries. The common message among the speakers centred around the need to adopt a regionally coordinated response to preventing illegal wildlife trade by establishing tailor-made structures at national, regional, and global level, harmonising legislative processes and procedures, as well as strengthening institutional and regulatory frameworks.

(c) Market Conduct Issues

In 2023, the Bank continued to monitor business conduct and regulatory compliance of banks to ensure fair and transparent pricing of products and services, and that banks practised truth-in-lending. One of the ways to achieve this is through conducting consumer compliance on-site examination. Consequently, in 2023, consumer compliance on-site examinations were conducted at two banks. The examinations were meant to assess if banks were transparent when dealing with customers. Overall, the examinations revealed that both banks were compliant as they were found to have applied the recommended tariffs when dealing with customers, effected deposit and lending interest rates that were advertised for public information. However, there were instances where anomalies were observed and, in such cases, they were directed to adopt corrective measures within a prescribed timeline. The Bank also investigated activities that violate the Banking Act, such as the use of restricted words in any business activity.

(d) Credit Information Sharing

In fulfilment of section 6(1) of the Credit Information Act, 2021, two of the three existing credit bureaus, namely TransUnion (Proprietary) Limited and Credit Reference Bureau Africa (Pty) Ltd, submitted applications for credit bureau licences in 2023. However, the applications were found to be incomplete in terms of the licensing requirements. As at 31 December 2023, the credit bureaus were still in the process of submitting the outstanding information so that the Bank could comprehensively assess the applications. Although advised to regularise, Micro-Finance Credit Bureau (Proprietary) Limited had not applied for a licence as of December 2023.

(e) 2022/2023 National Risk Assessment

Botswana carried out its first National Risk Assessment (NRA) in 2017, with the assistance of the World Bank, utilising the World Bank methodology. The second NRA was conducted in 2022/2023 using the World Bank tool and it covered the period January 2017 to December 2022.

The 2023 NRA report highlighted that drug trafficking, obtaining money by false pretences, theft of motor vehicles, poaching, and tax crimes were identified as the major predicate crimes that pose a higher risk of money laundering. Robbery of cash in transit and unlawful keeping of live animals under confinement were identified as emerging high-value trends.

The banking sector's vulnerability was rated medium, denoting that the sector could be moderately abused for money laundering and terrorism financing. The medium rating was on account of large volume and high value of transactions that go through the banking sector, high level of cash activity, increased digital payment platforms, and high frequency of international transactions.

5 The Bank imposed an administrative sanction of P1.5 million on First National Bank of Botswana Limited for failure to report suspicious transactions related to Ecoplexus Solar Equipment (Pty) Limited to the Financial Intelligence Agency within the prescribed period. FNBB paid the monetary penalty.

Foreign Exchange Reserves Management

The Bank manages the official foreign exchange reserves in accordance with the Board approved Reserves Management Policies and Investment Guidelines. The Investment Guidelines, approved by the Investment Committee, are underpinned by the key objectives of safety, liquidity and return based on the Bank's risk tolerance assessment. Accordingly, the Foreign Exchange Reserves are trenched into two portfolios, the Liquidity Portfolio and the long-term investment portfolio (Pula Fund), and managed prudently, investing in a diversified pool of high-quality financial instruments traded in liquid and developed global markets. In addition to the internally managed funds, the Bank uses selected international fund managers to manage part of the foreign exchange reserves and employs the services of a reputable global custodian to safeguard the reserve assets. In addition, the Bank has engaged a portfolio consultant, Lane Clarke and Peacock (LCP), to advise primarily on asset allocation, portfolio distribution and fund manager selection.

The Bank maintained the Strategic Asset Allocation (SAA) of 45:50:5 for equities, bonds and high-yield asset classes, respectively, as prescribed by the Reserves Management Policies and Investment Guidelines approved by the Board in 2018 (and implemented in 2019). The split between the internally managed and externally managed funds was 33:67 as at the end of November 2022. The allocation significantly deviated from the policy prescribed target of 50:50 mainly due to drawdowns from the Transaction Balances Tranche (TBT) to fund Government obligations and economy-wide foreign currency demand by commercial banks and institutional investors.

The Investment Committee continued to prudently select investments based on careful assessment of prevailing market conditions and outlook. In 2023, volatility remained elevated due to uncertainty surrounding the direction of monetary policy and widely varying expectations for a global recession. Markets experienced various shocks including a banking crisis that led to a collapse of some regional banks in the US and the ultimate acquisition of Credit Suisse by UBS in Switzerland, via a government backed agreement. Geopolitical tensions remained challenging for investors as the Russia/Ukraine war raged on while the outbreak of the Israel/Hamas war in the Middle East added to the already volatile environment, threatening disruption to global trade and risking an upsurge in oil prices. Global inflation fell gradually, which prompted central banks to pause monetary policy tightening. Interest rates fell, reflecting a cautious shift in expectations towards monetary policy easing. Against this backdrop, bond markets rallied strongly, particularly in the last two months to end the year with the Bloomberg Global Aggregate Index registering gains of 5.7 percent. Equities delivered stronger returns, as the Morgan Stanley Composite Index (MSCI world) rose by 20.1 percent during the year. Globally, equities outperformed bond markets in 2023, recovering most of the losses suffered in 2022. That notwithstanding, financial markets were largely influenced by the evolving market expectations for future monetary policy actions, especially by the Fed. At its meeting on 1 November 2023, the Fed provided its strongest signal that it was starting to tilt towards monetary policy easing, based on its assessment that inflation was on track to reach target. Consequently, interest rates fell sharply as investors rushed to position ahead of the prospective cuts, leading the Bloomberg Global Aggregate Index to end the year with positive total return of 5.7 percent. Similarly, equities rallied significantly, as the MSCI world recorded a return of 20.1 percent in 2023.

Of the 22 eligible global markets for placement of foreign exchange reserves, investment was made in 13 markets for the internally managed portfolio, a slight increase from 12 in the preceding period. Emerging markets continued to face unfavourable market conditions as investors moved capital to developed markets. Overall weak growth in emerging markets was mainly attributable to subdued growth in China, which accounts for the biggest proportion of the emerging market basket. Growth in China was undermined by crisis in the property sector and the underwhelming domestic demand recovery.

Overall, the portfolio remains well diversified as markets are expected to gradually recover in 2024. Investment is made based on careful assessment of risk factors including among others, credit ratings, volatility levels, interest rate risk and liquidity risks. Table 5 shows all the eligible markets within the internally managed portfolio.

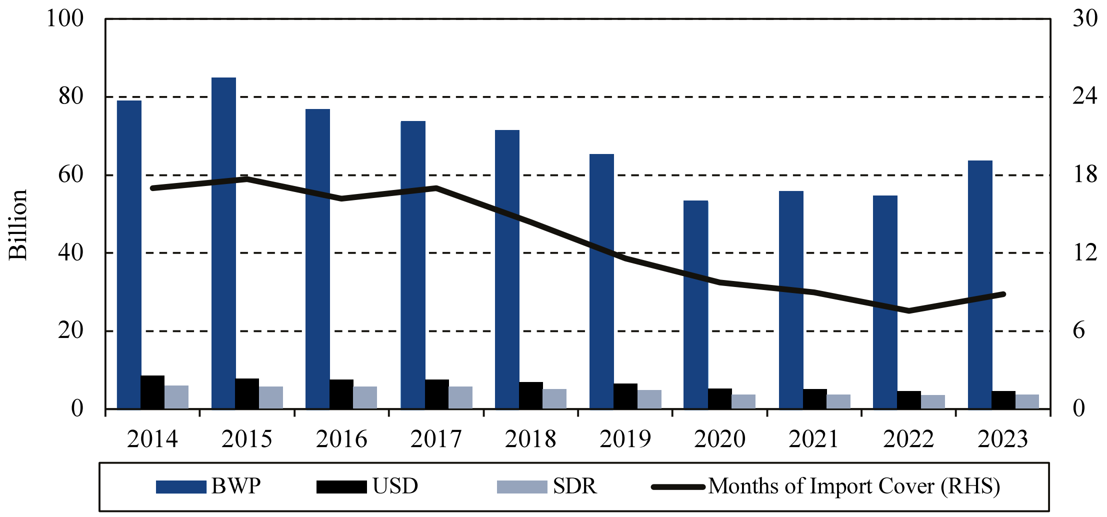
Table 5: Invested And Non-Invested Markets For The Internally Managed Portfolio

	Invested		Non-invested	
Americas	United States of America		Chile	
	Canada		Peru	
Europe	Euro-zone		Sweden	Poland
	Norway		Switzerland	Czech Republic
	United Kingdom		Denmark	
Asia-Pacific	Australia	Singapore	Thailand	
	Japan	Republic of Korea	Israel	
	Malaysia	China		
	New Zealand	Hong Kong		

Source: Bank of Botswana

At the end of December 2023, foreign exchange reserves amounted to P63.7 billion, an increase of 16.9 percent from P54.5 billion in December 2022 (Chart 4). The increase in foreign exchange reserves mainly reflects higher SACU receipts in 2023. In US dollar terms, the level of the foreign exchange reserves increased by 11.6 percent from USD4.3 billion in December 2022 to USD4.8 billion in December 2023. In SDR terms, the foreign exchange reserves increased from SDR3.2 billion to SDR3.5 billion. At these levels, the foreign exchange reserves were equivalent to 8.8 months of import cover of goods and services as at 31 December 2023, compared to 7.6 in December 2022.

Chart 4: Level Of Foreign Exchange Reserves 2014 – 2023



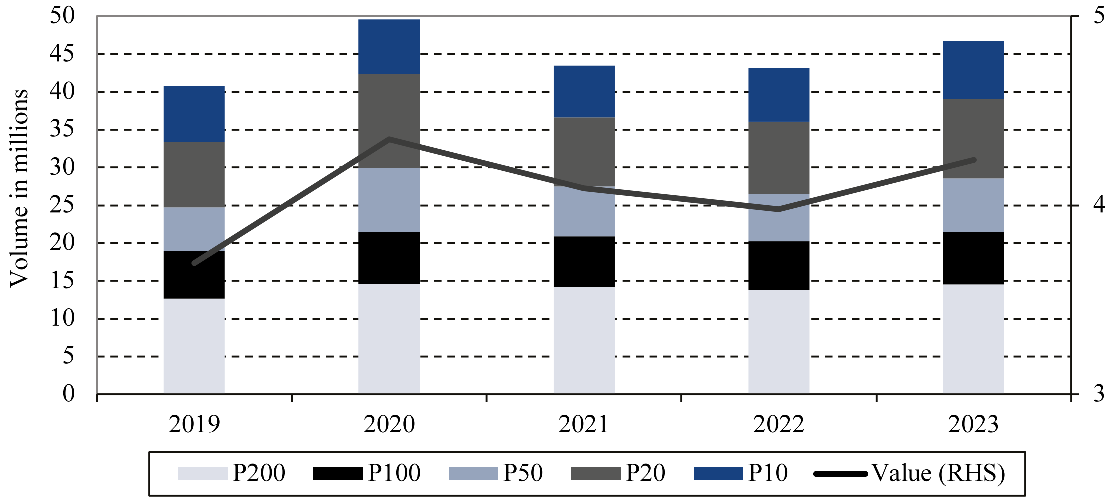
Source: Bank of Botswana

Banking, Currency, Payments and Settlement Operations

The Bank continued to manage the supply of banknotes and coin to ensure availability of high-quality currency in circulation. This was achieved through automated and advanced currency processing systems that ensure compliance with the Clean Banknotes and Coin Policy. Consequently, the process of destruction and disposal of unfit coin for re-circulation, with a total value of P23.2 million, will ensue in 2024.

The number of banknotes in circulation increased by 8.3 percent from 43.2 million in December 2022 to 46.8 million in December 2023. Consequently, the total value of banknotes in circulation increased from P4.1 billion to P4.2 billion during the same period. The net issuance of the P200, P100, P50, P20 and P10 banknote denominations increased significantly by 5.5 percent, 7 percent, 12.5 percent, 10.3 percent, and 8.6 percent, respectively, implying that the public were increasingly using cash as a means of payment during the period under review. The P200 denomination continued to have the highest share of total issuance at 31 percent, followed by the P20 denomination at 22.5 percent. The P100, P50 and P10 denominations' share was 15 percent, 15.2 percent, and 16.5 percent, respectively (Chart 5).

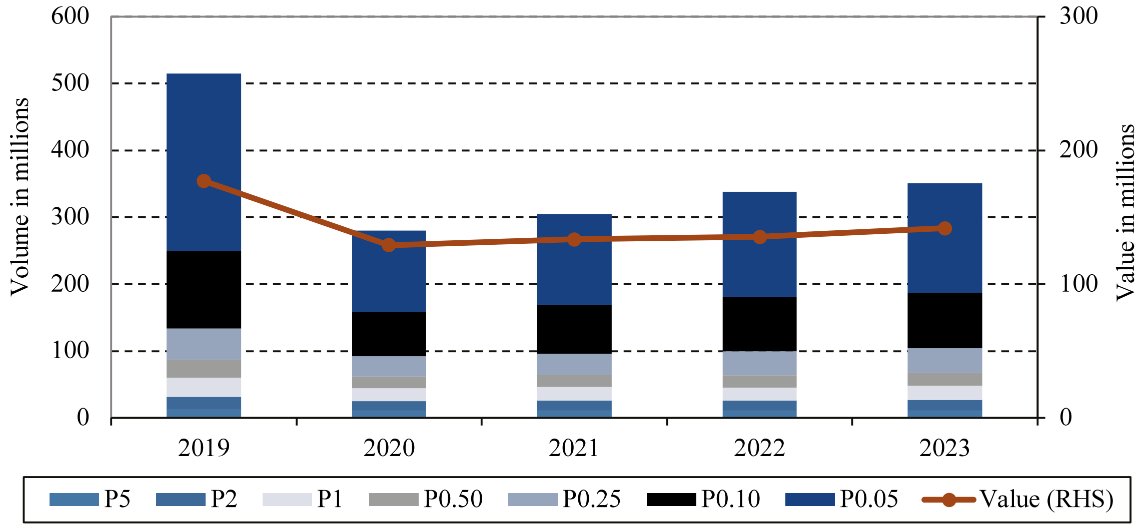
Chart 5: Volume And Value Of Banknotes In Circulation 2019 – 2023



Source: Bank of Botswana

The total net issuance of coin denominations increased by 3.8 percent from 338 million in 2022 to 351 million in 2023. This led to a marginal increase of the value of coin in circulation of 5.2 percent from P135.3 to P142 million in 2023. The 5 thebe and 10 thebe denominations had the highest share of total coin net issuance at 46.6 percent and 23.8 percent, respectively (Chart 6).

Chart 6: Volume And Value Of Coin In Circulation 2019 – 2023



Source: Bank of Botswana

The Bank discharged its obligations of providing efficient and reliable banking and settlement services to the public, Botswana Government, commercial banks, Botswana Unified Revenue Service and other customers. Thus, the Bank performed settlement of transactions (domestic and foreign) and was responsible for operating the SWIFT system, BISS, core banking system (T24) and Aperta system.

The ongoing migration to ISO 20022 Messaging Standard by the local community, which commenced at the beginning of 2022 is at implementation and testing phase of the roadmap. The Bank and the local community had envisaged the project to go live in November 2023. However, that has since been postponed to the second quarter of 2024 to accommodate other projects that are running concurrently and have dependencies for adoption of the ISO 20022 Messaging Standard. For instance, the ongoing BISS Upgrade project was necessitated by the need to align it to the ISO 20022 Messaging Standard. It is critical that the internal systems of the respective stakeholders, including Bank of Botswana, should ready their systems to accommodate the new messaging standard.

The Bank has embarked on the digitalisation of Government revenue collection as part of the strategic initiative of the Bank named "Digital BoB2024". The objective of the digitalisation of banking services is to develop, design and implement modern digital cash handling and management solutions to revolutionise Government revenue collection services and increase efficiency, reduce manual interventions, and facilitate real time processing. The project aims to introduce new cash handling and management solutions, such as Teller Assisted Machines in banking halls and other technology driven platforms to facilitate direct transfers to Government accounts through various payment platforms.

The Single Central Securities Depository project, which partially went live in September 2022, awaits the commencement of Phase two to onboard Government bonds, T-Bills and BoBCs to be custodied at the BSEL. This Phase is planned to go live in the second quarter of 2024.

To execute its mandate of performing the agency role to Government, the Bank diligently processed foreign currency payments and adhered to the stipulated turnaround time for straight forward payment requisitions. The Bank also attained reasonable settlement success rates in processing and settlement of foreign exchange reserves management transactions. In its facilitative role, the Bank continued to lead discussions on establishment of a suitable National Retail Payments Switch (NRPS) model for the Botswana market consistent with the Fintech Development Pillar of the National Payment System Vision and Strategy, 2020 – 2024, which seeks to leverage fintech to broaden access to financial services, promote financial inclusion and payments efficiency. Industry engagements pertaining to the gathering of market requirements for a suitable NRPS model were undertaken, involving key market stakeholders, and were concluded in October 2023. The market requirements blueprint is expected to form the basis for acquisition and implementation of an inclusive NRPS solution for Botswana, which will form foundational infrastructure for innovation in financial services.

Fintech

Consistent with the Fintech Development Pillar of the National Payment System Vision and Strategy 2020 – 2024, the Bank embarked on research work on emerging fintech developments to pave way for initiatives that are intended to leverage fintech in the broader development of the digital financial services infrastructure and the deepening of the digital economy. Aligned to that, the Bank facilitated establishment of a National Fintech Working Group (NFWG) mandated to provide strategic direction on matters relating to fintech adoption and regulation at a national level. The NFWG comprises key stakeholders including Government, regulatory authorities, financial services infrastructure providers, and other competent authorities impacted by the emergence of fintech services. The Digitalisation and Innovation Hub actively monitored local and global fintech developments and their impact on mandates of the Bank, with a view to inform the requisite regulatory policy responses.

Information Technology

The Bank embarked on several initiatives to improve the operational efficiency and security of the Bank information systems.

(a) *Network Access Improvements*

Through the Pula Thebe (Headquarters Redevelopment) project, a new network was deployed at the Headquarters and plans are underway to extend the deployment to the other Bank facilities. The improved network is designed to enable users to connect using both wired and wireless connections, to access the Bank's resources and facilitate user mobility within the buildings.

(b) *Key ICT Projects*

On 20 October 2023, the Bank launched the Electronic Documents and Records Management System (EDRMS). This application, designed for efficient management of electronic documents and records, offers various benefits such as quick and easy document storage, better document versioning, improved document collaboration, enhanced security and increased productivity. The phased rollout of the application will run in parallel with completion of post-go live activities, such as training of the rest of staff, interfacing the EDRMS with different Bank applications and scanning of current physical records. The post-go live activities will span a period of at least 5 years, particularly interfacing of EDRMS with other Bank applications as well as scanning and indexing extensive volumes of physical records.

(c) *IT Service Outreach*

In 2023, extensive training was undertaken to familiarise staff with ICT service offerings. The training aimed to achieve three primary objectives: educate staff members on various products and services available in the Bank; promote self-service to equip employees with reasonable skills to resolve minor ICT issues on their own; and lastly, solicit feedback and suggestions from staff members regarding ICT services. To date, 450 staff members have undergone training.

(d) *Cyber Resilience*

There is continuing engagement on cyber risk management initiatives to ensure that the Bank's network services are resilient to potential cyber disruptions. This included, among others, regular update of information assets, monitoring of network security as well as conducting cybersecurity training for end users.

(e) *Digital BOB 2024*

The Bank embarked on a project to develop a Digital Transformation Strategy. This year marked the strategy's completion, marking a significant turning point in the preparatory work required to launch the Bank's digital transformation. Management applauds Digital Transformation Task Force members for their dedicated effort in ensuring that the development of the Digital Transformation Strategy was a success.

The purpose of the Digital Transformation Strategy is to enable the Bank to harness the benefits of digital transformation. This is among others regarding internal and external collaboration, agility, efficiency and productivity. Digital BOB 2024 commenced in earnest in 2022 and will be implemented in a phased approach over a 5-year period. It is envisaged that the Bank should start to experience the effects of digital transformation towards the end of 2024 and beyond.

Human Resources, Staff Welfare and Pension Fund

(a) *Staff Establishment*

As at 31 December 2023, the Bank's Staff Establishment was 623, which was higher than the 606 on 31 December 2022. There were 38 vacant positions (6.1 percent) in 2023 compared to 17 vacancies (2.8 percent) as at December 2022. A total of 14 new staff joined the Bank, while 23 terminated employment during the period under review. Of the 38 vacancies, 78.9 percent were in the professional cadre, while the remaining were at clerical levels and below.

(b) *Training*

The Bank continued to prioritise staff development, and, in this regard, several staff members benefited from both short- and long-term training. As at the end of 2023, 14 staff members were on long-term postgraduate training (Masters and Doctorate) in various disciplines relevant for the Bank's operations. Staff also continued to attend and participate in both online and in-person short courses, workshops/seminars and conferences dedicated to skills development, networking and collaborations.

(c) *Health and Wellness*

In addition to the strategic and operational role and impact of the Human Capital Department, several staff committees and clubs coordinate staff welfare activities, including health and wellness and sports. The Wellness Programme, which is instrumental in disseminating information on various health topics and providing screening tests to staff, has been ongoing to manage staff wellbeing. Staff on antiretroviral (ARV) treatment continued to be fully supported through CD4 and viral load laboratory monitoring and provision of pharmaceuticals. The compliance rate for 2023 was maintained at 95 percent, an acceptable score by the Ministry of Health standards.

Following declaration that COVID-19 was no longer a Public Health Emergency of International Concern, the Bank reduced stringency of measures and protocols put in place to mitigate the spread of the disease. However, monitoring of respiratory related manifestations continued at the Bank's Health and Wellness Centre.

(d) *Staff Pension Fund*

The Bank of Botswana Defined Contribution Staff Pension Fund declared the final investment returns for the financial year ended 30 September 2023, as shown at Table 6 below and in line with its investment strategy. The strategy has three-age based portfolios, which put members into less aggressive portfolio as they get closer to retirement after the age of 54 years. The rates of return were higher than the average inflation of 7.5 percent in Botswana for the 12-months to 30 September 2023, thus ensuring that all members of the Fund received real rates of return for the year, despite volatile markets and uncertainty from the geopolitical tensions.

Table 6: Declared Interest Rates For The Financial Year Ended 30 September 2023

Age group	Active Members (Percent)	Deferred Members (Percent)
Less than 55 years	17.5	16.9
55 to 60 years	15.0	14.4
61 to 65 years	13.0	12.4

Source: Bank of Botswana

Legislation and Governance

The Bank of Botswana (Amendment) Act was passed into law in July 2022 and commenced on 14 February 2023. The re-enacted Banking Act was passed into law at the Parliament sitting of 14 April 2023. It was assented to by the President and published in the Government Gazette as Act no 8/2023 on 26 May 2023. The Act awaits announcement of the commencement date as well as approval of the Banking Regulations, to come into operation. The Bank progressed review of the National Payments Law and commenced the process of implementing the Data Protection Act.

External Relations and Communication

The Bank collaborated with various stakeholders, locally, regionally and globally, on issues of mutual interest through membership and participation in inter-institution committees, working groups, task forces and technical fora. The Bank used various methods of interaction, including media briefings, Press Releases, website and regular Bank publications to provide information to the public and also manage reputational risks.

(e) *External Relations*

The Bank facilitated and/or participated in relevant regional and international meetings, as well as consultation, surveillance and technical assistance missions to Botswana. In this regard, the Bank took part in meetings and conferences, organised by the Bank for International Settlements, the International Monetary Fund and the World Bank. At a regional level, the Bank participated in meetings organised by the SACU, the SADC Committee of Central Bank Governors (CCBG), the Association of African Central Banks (AACB) and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI).

(f) *Communications, Information Management and Public Education*

The Bank continued to maintain public trust and accountability through effective communication. In 2023, the Bank continued with engagements with key stakeholders through media briefings, participation at trade fairs, events, and economic briefings, among other activities. The Bank also conducted a media training workshop to enhance understanding of monetary policy issues in attempt to improve reporting on the subject, thus contributing to effective policy transmission. In 2023, the Bank's media coverage improved as reflected by the continued positive coverage of the Bank. Likewise, social media content pages were well received by the public, as evidenced by views, shares and visits.

In compliance with statutory requirements, the Bank submitted the 2022 *Annual Report* on the Bank's operations and financial statements and the *2022 Banking Supervision Annual Report*, to the Minister of Finance on 31 March 2023, and 30 June 2023, respectively. As part of information dissemination, stakeholder engagement, accountability and transparency, the 2022 Annual Report was launched and disseminated through economic briefings conducted for Cabinet and the media. The 2023 *MPS*, *MPRs*, *FSR*, monthly *BEFS*, the quarterly *BES, the Household Indebtedness Survey Report,* the *Research Bulletin* were also published, while the Bank's website provided timely access to data, publications, press releases and policies of the Bank, including the *Monthly and Annual Financial Statements* and *Directory of Financial Institutions Operating in Botswana*.

Part A (Continued)

Bank Of Botswana Annual Financial Statements For The Year Ended 31 December 2023

TABLE OF CONTENTS

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

Statement Of Responsibility Of The Board And Approval of the Annual Financial Statements

The members of the Board are responsible for the preparation of the annual financial statements of the Bank of Botswana ("the Bank") comprising the Statement of Financial Position at 31 December 2023, Statement of Profit or Loss and Other Comprehensive Income, Statement of Distribution, Statement of Cash Flows and Statement of Changes in Shareholder's Funds for the year then ended.

These financial statements include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and in the manner required by the Bank of Botswana Act.

The Board members are also responsible for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Board members have made an assessment of the ability of the Bank to continue as a going concern and have no reason to believe that the Bank will not be a going concern in the year ahead as provided in Note 37 of these financial statements.

The independent external auditor is responsible for reporting on whether the annual financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of the Annual Financial Statements

The annual financial statements of the Bank, as identified in the first paragraph, were approved by the Board on 26 March 2024 and signed on behalf of the Board by:

Cornelius K Dekop
Governor

Lipalesa Makepe
Board Member and Chairman
(Audit and Risk Committee)

EY
Building a better working world

Firm of Chartered Accountants
2nd Floor
Plot 22, Khama Crescent
PO Box 41015
Gaborone, Botswana

Tel: +267 397 4078 / 365 4000
Fax: +267 397 4079
Email: eybotswana@za.ey.com
Partnership registered in Botswana
Registration No: 10829
VAT No: P03625401112
www.ey.com

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF BANK OF BOTSWANA

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Bank of Botswana ("the Bank") set out on pages 8 to 51, which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, the statement of changes in shareholder's funds and statement of cash flows for the year then ended, and notes to the financial statements including a summary of material accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Bank of Botswana as at 31 December 2023, and of its financial performance and of its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with other ethical requirements that are relevant to our audit of the financial statements in Botswana. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Resident Partner: B Ndwapi (Managing Partner)
A full list of Partners is available from this office
and the Register of Companies
Independent member of Ernst & Young Global Limited.

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Key Audit Matter	How the matter was addressed in the audit
Valuation of Foreign Assets Significant auditor attention was given to the Level 1 classification of the financial assets measured at fair value. The disclosures associated with the financial assets are set out in the the financial statements: • Significant Accounting Policies - Financial Instruments • Note 1.1 - Liquidity Portfolio • Note 1.2 - Pula Fund • Note 12 - Categories of Financial Instruments • Note 30 - Risk Management in Respect of Financial Instruments • Note 31 - Fair Value of Financial Instruments *Level 1 Financial Assets* Level 1 financial assets total P50,7 billion (2022 - P40,6 billion). Significant auditor attention was given to the valuation of Level 1 financial assets due to the large volume of the instruments as well as the sourcing of observable inputs which required the assistance of the EY specialists in the evaluation of market consistent methodologies and assumptions relative to IFRS 13 requirements, and the quantification of deviations between external market prices and the Bank's prices. In the current year, the components which make up the financial assets balance required significant auditor attention and effort in order to perform the required procedures.	Our audit procedures included the following, amongst others: • We obtained an understanding, evaluated the design, implementation and tested the operating effectiveness of the key internal controls over financial assets. • We obtained an understanding of management's processes for assessing the IFRS 9 classification of the financial assets and the valuation techniques and processes for the Level 1 fair value assets in line with IFRS 13 - Fair Value Measurement. • We assessed the competence and objectivity of Management's specialists involved in determining data sources and inputs in the valuation of the financial assets with reference to their professional capabilities. • We assessed the reasonability of the exchange rates used in translating asset values into the Bank's reporting currency and for compliance with the Bank's approved methodology. • We compared the pricing inputs used by management to external data sources and assessed the inputs used in the reported fund and investment custodian positions. This was performed with the assistance of the EY specialists. • We evaluated the appropriateness of the valuation approaches and methodologies used by Management's specialists against IFRS requirements and generally accepted market practice (price quotation convention) to evaluate the appropriateness of the methodologies applied under the varying circumstances. With the assistance of the EY specialists, we also reperformed the fair value calculations using independent pricing sources. • We assessed the appropriateness of the indirectly observable market data input into the valuation models and tested it back to source systems and client data and assessed that the valuations were

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	performed at the appropriate date. This was performed with the assistance of the EY specialists. • We assessed the adequacy and completeness of the disclosures regarding the financial assets in the financial statements to determine they were in accordance with IFRS 7 - Financial instruments disclosures and IFRS 9 - Financial instruments and IFRS 13 - Fair value measurement.

Other Information

Other information comprises the information included in the 51-page document titled "Bank of Botswana Annual Financial Statements for the year ended 31 December 2023" which includes the Statement of Responsibility of the Board and Approval of the Annual Financial Statements and the Statement of Distribution, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. The Board members are responsible for the other information. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Board members for the Financial Statements

The Board members are responsible for the preparation and fair presentation of financial statements in accordance with International Financial Reporting Standards and the requirements of the Bank of Botswana Act (CAP. 55:01) as amended by the Bank of Botswana (Amendment) Act, 2022 and for such internal control as the Board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board members are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board members either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting processes.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- Conclude on the appropriateness of the Boards' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board members with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with the Board members, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other Legal and Regulatory Requirements

In accordance with the Bank of Botswana Act (CAP. 55:01) as amended by the Bank of Botswana (Amendment) Act, 2022 ("the Act), we confirm:

- We have received all the information and explanations which, to the best of our knowledge and belief were necessary for the performance of our duties as auditors.
- The accounts and related records of the Bank have been kept in a reasonable state; and
- The Bank has complied with all the financial provisions of the Act.

Ernst & Young
Firm of Certified Auditors
Practicing member: Thomas Chitambo (CAP 0011 2024)
Gaborone

28 March 2024

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	2023 P'000	2022 P'000
ASSETS			
Foreign Assets			
Liquidity Portfolio	1.1	6 301 900	5 960 397
Cash and cash equivalents*		6 301 900	5 960 397
Pula Fund	1.2	51 829 427	43 342 303
Investment in equities*		27 411 329	21 696 865
Investment in bonds*		23 255 563	18 923 931
Short-term deposits*		1 162 535	2 721 507
International Monetary Fund (IMF)			
Reserve Tranche	2.1	1 002 248	966 136
Holdings of Special Drawing Rights (SDR)	2.2	4 526 840	4 239 750
General Subsidy Account	2.3	27 367	25 888
Total Foreign Assets		63 687 782	54 534 474
Domestic Assets			
Standing Credit Facility	28	-	248 965
Receivables and Other Assets	3	585 499	376 574
Property, Plant and Equipment	4	1 414 191	1 162 285
Total Domestic Assets		1 999 690	1 787 824
TOTAL ASSETS		65 687 472	56 322 298
LIABILITIES AND SHAREHOLDER'S FUNDS			
Foreign Liabilities			
Allocation of IMF Special Drawing Rights	5	4 433 919	4 194 350
Liabilities to Government (IMF Reserve Tranche)	6	503 200	467 089
Total Foreign Liabilities		4 937 119	4 661 439
Domestic Liabilities			
Notes and Coin in Circulation	7	4 360 102	4 085 884
Deposits	8	5 621 384	3 782 814
Standing Deposit Facility	29	3 487 185	341 077
Bank of Botswana Certificates	9	5 998 068	3 273 810
Dividend to Government	10	238 758	273 205
Payables and Other Liabilities	11	509 728	287 109
Total Domestic Liabilities		20 215 225	12 043 899
Total Liabilities		25 152 344	16 705 338
SHAREHOLDER'S FUNDS			
Paid-up Capital	13	150 000	25 000
Government Investment Account			
Pula Fund and Liquidity Portfolio		8 577 425	14 816 612
Currency Revaluation Reserve		15 557 760	26 759 120
Fair Value Revaluation Reserve		1 249 943	(3 598 772)
General Reserve	14	15 000 000	1 600 000
Unappropriated Net Income		-	15 000
Total Shareholder's Funds		40 535 128	39 616 960
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		65 687 472	56 322 298
FOREIGN ASSETS IN US DOLLARS (000)[1]		4 757 477	4 280 956
FOREIGN ASSETS IN SDR (000)[2]		3 541 041	3 206 627

*Refer to Note 1 for details of change in presentation.

1 United States dollar/Pula – 0.0747 (2022: 0.0785)

2 SDR/Pula – 0.0556 (2022: 0.0588)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 P'000	2022 P'000
INCOME			
Interest – foreign exchange reserves*	15	1 421 838	774 014
Interest Income: amortised cost		770 843	311 862
Interest Income: FVTPL		650 995	462 152
Dividends – foreign exchange reserves	16	498 048	375 559
Net unrealised fair value gains	20	4 848 715	-
Net realised currency gains	18	1 519 240	1 543 389
Net unrealised currency gains	19	885 269	364 382
Impairment reversals on financial assets	30	278	-
Profit on foreign exchange deals		28 493	38 337
Net sundry income		15 986	19 886
		9 217 867	3 115 567
EXPENSES			
Interest expense	21	170 394	70 383
Interest (lease liability)		137	119
Administration costs	35	901 552	786 550
Depreciation expense	4	64 001	48 329
Net realised fair value losses on disposal of securities	17	48 920	36 647
Impairment losses on financial assets	30	-	6 519
Net unrealised fair value losses	20	-	7 995 787
		1 185 004	8 944 334
NET INCOME/(LOSS)		8 032 863	(5 828 767)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME/(LOSS)		8 032 863	(5 828 767)

STATEMENT OF DISTRIBUTION

For the year ended 31 December 2023

	Notes	2023 P'000	2022 P'000
TOTAL COMPREHENSIVE INCOME/(LOSS)		8 032 863	(5 828 767)
Transfer of net currency gains to currency revaluation reserve	22	(2 323 640)	(1 726 565)
Transfer of unrealised fair value (gains)/losses to fair value revaluation reserve	23	(4 848 715)	7 995 787
NET INCOME TO GOVERNMENT		860 508	440 455
Dividend		(829 000)	(203 000)
Residual Net Income	10	(31 508)	(222 455)
UNAPPROPRIATED NET INCOME FOR THE PERIOD		-	15 000

* Refer to Note 15 for more details of change in presentation for interest – foreign exchange reserves.

STATEMENT OF CASHFLOWS

For the year ended 31 December 2023

	Notes	2023 P'000	Restated Note 38 2022 P'000
OPERATING ACTIVITIES			
Cash generated from/(used in) operations before movements relating to currency in circulation	26	5 750 782	(2 275 349)
Movement in currency in circulation		274 218	(112 502)
Cash generated from/(used in) operations		6 025 000	(2 387 851)
Interest income		1 300 913	694 223
Dividends income		501 660	367 748
Interest expense		(170 394)	(70 383)
Cash generated from/(used in) operating activities		7 657 179	(1 396 263)
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		2 827	948
Purchase of property and equipment	4	(324 371)	(279 712)
NET CASH USED IN INVESTING ACTIVITIES		(321 544)	(278 764)
FINANCING ACTIVITIES			
Dividend to Government	10	(894 955)	(3 327 385)
Government (withdrawals)/investments		(6 239 187)	8 708 860
Interest on lease liability		(137)	(119)
Lease Liability: right-of-use	4.2	(4 425)	(3 968)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		(7 138 704)	5 377 388
Net increase in Cash and Cash Equivalents		196 931	3 702 361
Net foreign exchange difference		154 384	(130 525)
Impairment loss		(9 812)	(8 422)
Cash and Cash Equivalents at beginning of year		5 960 397	2 396 983
CASH AND CASH EQUIVALENTS AT YEAR END		6 301 900	5 960 397

STATEMENT OF CHANGES IN SHAREHOLDER'S FUNDS

For the year ended 31 December 2023

	Paid-up Capital	Currency Revaluation Reserve	Fair Value Revaluation Reserve	General Reserve	Government Investment Account	Accumulated Profit/(Loss)	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000
BALANCE AT 1 JANUARY 2022	25 000	25 032 555	4 397 015	1 600 000	6 107 752	-	37 162 322
Total net loss for the period	-	-	-	-	-	(5 828 767)	(5 828 767)
Government Investments	-	-	-	-	8 708 860	-	8 708 860
Transfer of Gains to Currency Revaluation Reserve	-	1 726 565	-	-	-	(1 726 565)	-
Transfer of Gains to Fair Value Revaluation Reserve	-	-	(7 995 787)	-	-	7 995 787	-
Dividend to Government	-	-	-	-	-	(203 000)	(203 000)
Residual Net Income	-	-	-	-	-	(222 455)	(222 455)
BALANCE AT 31 DECEMBER 2022	25 000	26 759 120	(3 598 772)	1 600 000	14 816 612	15 000	39 616 960
Transfer to Deposit Insurance Scheme	-	-	-	-	-	(15 000)	(15 000)
Total net income for the period	-	-	-	-	-	8 032 863	8 032 863
Government Investments	-	-	-	-	(6 239 187)	-	(6 239 187)
Transfer of Gains to Currency Revaluation Reserve	-	2 323 640	-	-	-	(2 323 640)	-
Transfer of Gains to Fair Value Revaluation Reserve	-	-	4 848 715	-	-	(4 848 715)	-
Dividend to Government	-	-	-	-	-	(829 000)	(829 000)
Transfer to Paid-up Capital (Note 13)	125 000	(125 000)	-	-	-	-	-
Transfer to General Reserve (Note 14)	-	(13 400 000)	-	13 400 000	-	-	-
Residual Net Income	-	-	-	-	-	(31 508)	(31 508)
BALANCE AT 31 DECEMBER 2023	150 000	15 557 760	1 249 943	15 000 000	8 577 425	-	40 535 128

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2023

REPORTING ENTITY

Bank of Botswana ("the Bank") is the Central Bank of the Republic of Botswana established by the Bank of Botswana Act. The physical address of the Bank's registered office is 17938 Khama Crescent, Gaborone. These financial statements apply to the financial year ended 31 DECEMBER 2023 and represent the Bank's statutory financial statements. The Government of Republic of Botswana is the Bank's sole shareholder.

BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Statement of Compliance

The principal accounting policies applied in the preparation of the financial statements are stated below. These policies have been consistently applied to all the years presented and comply with the Bank of Botswana Act and the International Financial Reporting Standards in all material respects unless otherwise stated.

The financial statements were approved by the Board on 26 March 2024.

Basis of Preparation

The financial statements are prepared on a historical cost basis, modified by fair value accounting for financial instruments held at fair value.

Functional and Presentation Currency

The financial statements are presented in Pula, which is the Bank's functional currency. Except as otherwise indicated, financial information presented in Pula has been rounded to the nearest thousand.

ADOPTION OF REVISED STANDARDS AND INTERPRETATION

As at the date of finalisation of the financial statements, no standards relevant to the Bank's operations were available for adoption.

STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET EFFECTIVE

As at the date of finalisation of these financial statements, the following standards relevant to the Bank's operations, are in issue and not yet effective.

Standard	Effective for annual periods beginning on or after
Classification of Liabilities as Current or Non-current - Amendments to IAS 1 In January 2020 and October 2022, the International Accounting Standards Board (IASB) issued amendments to International Accounting Standard (IAS) 1: Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current. The amendments clarify: • what is meant by a right to defer settlement; • that a right to defer must exist at the end of the reporting period; • that classification is unaffected by the likelihood that an entity will exercise its deferral right; • that only if an embedded derivative in a convertible liability is itself an equity instrument, the terms of a liability would not impact its classification; and • disclosures. The combined impact of the 2020 amendments and the 2022 amendments will have implications for entities applying them. Entities will, therefore, need to carefully consider the impact of the amendments on existing and planned loan agreements. The amendments must be applied retrospectively. The Bank is assessing the impact on the financial statements resulting from the application of the amendments to IAS 1.	**1 January 2024**

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2023

STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET EFFECTIVE (Cont'd)

Standard	Effective for annual periods beginning on or after
Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 In September 2022, the IASB issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16). The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application (i.e., the amendment does not apply to sale and leaseback transactions entered into prior to the date of initial application). The date of initial application is the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments are not expected to have any material impact on the financial statements of the Bank.	**1 January 2024**
Disclosure: Supplier Finance Arrangements Amendments to IAS 7 and IFRS 7 The amendments to IAS 7 clarify the characteristics of supplier finance arrangements. In these arrangements, one or more finance providers pay amounts an entity owes to its suppliers. The entity agrees to settle those amounts with the finance providers according to the terms and conditions of the arrangements, either at the same date or at a later date than that on which the finance providers pay the entity's suppliers. The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted, but will need to be disclosed. The amendments provide some transition reliefs regarding comparative and quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendment is not relevant to the Bank since the Bank pays its suppliers directly without engaging a finance provider.	**1 January 2024**
Lack of exchangeability – Amendments to IAS 21. The amendment to IAS 21 specifies how an entity should access whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a timeframe that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date between market participants under prevailing economic conditions. In view of this, the entity should disclose information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows. The amendment is not relevant to the Bank since the Bank does not use currencies which are not exchangeable to other currencies.	**1 January 2025**

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2023

STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET EFFECTIVE (Cont'd)

Standard	Effective for annual periods beginning on or after
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28. The effective date for the amendments to IFRS 10 and IAS 28 was deferred in December 2015 until such a time that the IASB has finalised any amendments that result from its research project on the equity method. However, early application of the amendments is still permitted. The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendment is not relevant to the Bank since the Bank does not have associates or joint ventures.	**Applied prospectively**
The International Sustainability Standards Board (ISSB) issued IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures on 26 June 2023. IFRS S1 and IFRS S2 are the first two IFRS Sustainability Disclosure Standards developed by the ISSB and serve as a comprehensive global baseline of sustainability disclosures for the capital markets. IFRS S1 and IFRS S2 have an effective date of 1 January 2024. The standards have been issued with the rationale that better information leads to better economic decisions. The following are attributes to note regarding IFRS S1 and IFRS S2: IFRS S1 requires companies to communicate the sustainability-risks and opportunities they face over the short, medium, and long term. The requirements are designed to ensure that companies provide investors information relevant to decision-making. IFRS S2 sets out specific climate-related disclosures and is designed to be used with IFRS S1. Both standards are based on recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). To enable entities to focus their initial efforts on providing climate-related information for investor needs, the ISSB decided to provide a temporary relief allowing an entity to elect to report on only climate-related risks and opportunities in accordance with IFRS S2 in the first year it applies IFRS S1 and IFRS S2. This means that the Bank would have to report in full on its sustainability-related risks and opportunities from the second year (2025). This relief would enable the Bank to familiarise itself with important concepts in the standards and to understand its value chain in the context of climate. IFRS S1 and IFRS S2 are expected to have a significant impact on the Bank's Financial Statements.	**1 January 2024**

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2023

FINANCIAL INSTRUMENTS

General

Financial instruments carried in the Statement of Financial Position include all assets and liabilities, including derivative instruments and receivables, but exclude property and equipment and other assets (prepayments and other).

Fair Value Measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

The Bank measures the fair value of a financial instrument using the quoted price in an active market for that particular instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. For financial assets or liabilities with a quoted price, the Bank measures assets at a bid price, and liabilities at an ask price.

When quoted prices in an active market are not available, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction (see valuation models in Note 31).

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Financial Assets

Financial assets are initially measured at fair value plus, in the case of financial assets not measured at fair value through profit or loss, incremental direct transaction costs that are directly attributable to the acquisition of the financial asset are subsequently accounted for depending on their classification as either measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification of financial assets is dependent upon the Bank's business model for managing its financial assets, and the contractual cash flow characteristics of the financial asset.

Business Model Assessment

The Bank's business model is determined based on how it manages groups of financial assets in order to achieve set objectives. The Bank, therefore, makes an assessment of the objective of its business model in which assets are held at portfolio level, and not on individual instrument basis. The information considered in assessing the business model include:

- the stated policies and objectives of the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual revenue, maintaining a particular earnings profile, or realising cash flows through the sale of assets;
- how the portfolio is evaluated and reported to the Board;
- the risks that affect the performance of the business model (and the financial assets held within the business model) and how those risks are managed;
- how managers of the funds are compensated, that is, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about the future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objectives for managing the financial assets is achieved and how cash flows are realised.

Contractual Cash Flow Characteristics Assessment

The Bank considers the contractual cash flow characteristics of the financial assets it holds in terms of whether the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. The assessment includes determining whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2023

FINANCIAL INSTRUMENTS (Cont'd)

Financial Assets at Amortised Cost
Financial assets are measured at amortised cost if held within a business model whose objective is to hold assets to collect contractual cash flows; and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Assets at Fair Value through Profit or Loss (FVTPL)
Financial assets are measured at fair value through profit or loss where the business model does not meet the criteria for classification at either amortised cost or fair value through other comprehensive income, that is a residual category. The business model is neither hold-to-collect nor hold-to-collect and sell, and the cash flows are not solely payments of principal and interest on the principal amount outstanding. The Bank's investments in fixed income securities, derivatives and equity instruments are held-for-trading, hence are all classified at fair value through profit or loss.

Fair value gains and losses of financial assets measured at fair value through profit or loss are recognised in profit or loss.

The classification and measurement of the Bank's financial assets is detailed as below.

The Bank's investments in fixed income securities, derivatives and equity instruments are held for trading, and hence are all measured at fair value through profit or loss. Short-term deposits (mainly balances with banks) for both the Liquidity Portfolio and Pula Fund and asset held with IMF are measured at amortised cost. Receivables and Other Assets includes staff advances which are also measured at amortised cost.

Long-term Investments (Pula Fund)
This is a long-term fund intended to generate returns and maintain the purchasing power of the foreign exchange reserves. It is invested in foreign global financial markets. It is the long-term fund as provided for under Section 35 of the Bank of Botswana Act (CAP 55:01). The Fund invests in bonds, equities and derivatives. These investments may be sold in response to needs for liquidity, changes in interest rates, market prices and exchange rates. Investments in debt securities, equity and derivatives are classified at fair value through profit or loss. These securities are initially recognised at fair value and are subsequently remeasured at fair value, based on bid prices.

All realised and unrealised currency gains/losses are recognised in profit or loss. However, in line with the Bank policy, all currency gains/losses for this Fund are not distributable and are, therefore, transferred to the Currency Revaluation Reserve.

All realised and unrealised fair value changes in investment securities are recognised in profit or loss. Unrealised gains and losses arising from fair value changes of the instruments in this Fund are non-distributable as per the Bank's policy and are transferred to the Fair value Revaluation Reserve. However, when the investment securities are disposed of, the related accumulated fair value gains/losses are distributable.

All purchases and sales of investment securities in the portfolio are recognised at trade date, which is the date the Bank commits to purchase or sell the investments.

Short-term Deposits
Short-term deposits are placed with different deposit taking institutions in the international markets. The duration of the fixed deposits are typically one week to three months. Most are in the Liquidity Portfolio specifically to meet international payments and other transactional needs. The deposits are held with central banks and other high investment graded institutions, with the exception of South Africa where deposits are always held despite the rating because of the important economic and business relationship that exists between Botswana and South Africa. South Africa is Botswana's largest trading partner.

The deposits are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. The resulting gain or loss on disposal of the deposits is recognised in the profit or loss. The expected credit loss model is applied to the deposits under this category. Risk assessment of default to calculate expected credit loss is detailed per Note 30.

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2023

FINANCIAL INSTRUMENTS (Cont'd)

Receivables Other Assets
These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the Bank provides a service directly to a counterparty. Receivables and other assets include prepayments, advances to banks and staff advances initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortised cost using the effective interest method less any identified loss allowance at the end of each reporting period.

Derivative Instruments
The Bank uses a variety of derivative instruments to manage its exposure to interest rate and foreign exchange risks. These include interest rate futures, foreign exchange forward contracts, cross-currency swaps and options.

Derivative instruments are initially recognised at fair value and are subsequently remeasured at fair value, based on bid prices for assets held or liabilities to be issued, and ask/offer prices for assets to be acquired or liabilities held. The resulting gain or loss is recognised in the profit or loss.

Standing Credit Facility (SCF)
In April 2022 the Bank undertook monetary policy operations reforms to enhance the efficacy and potency of monetary policy transmission. The reforms included introduction of the Monetary Policy Rate (MoPR) anchored on 7-day BoBCs as the policy rate and collateralised standing lending facility linked to the new monetary policy rate. SCF interest rate is set at 100 basis points above the MoPR and allows commercial banks to borrow from the Bank provided they have the eligible collateral. Instruments eligible for collateral include Bank of Botswana Certificates (BoBCs), Botswana Government bonds and treasury bills. Financial assets arising from the SCF are classified and measured at amortised cost.

Credit Facility
Under the Credit Facility, the Bank provides emergency and intermittent funding to solvent banks, intended to bridge intra-day and overnight liquidity shortages. The advances are secured by any Government of Botswana bond of any maturity, International Finance Corporation Pula denominated note listed on the Botswana Stock Exchange, BoBCs and any other eligible Government guaranteed securities, valued at fair value prices on the date of the transaction. Only high quality, marketable and freely transferable paper with a minimum amount of risk is acceptable as collateral at the discretion of the Bank. A margin/haircut is applied to mitigate risk. The Bank has the right to call for additional collateral, should the value of the security decline during the tenure of the facility. Interest earned on the advances is credited to profit or loss, while advances outstanding as at the Statement of Financial Position date are recorded under "receivables and other assets".

Impairment of Financial Assets
The Bank applies the IFRS 9 expected credit loss model under the general approach for recognition and measurement of impairment losses on financial assets measured at amortised cost. The impairment model is forward looking and recognises expected credit losses (ECL) on financial assets at the end of each reporting date. The standard states that if there has been significant increase in the credit risk of the financial asset after initial recognition, a lifetime expected credit loss should be recognised. However, the Bank only invests in high quality investment grade financial instruments which are considered to have close to zero risk of default, except South Africa deposits held for transactional purposes despite the rating being lower than investment grade.

The Bank also has other domestic financial instruments resulting from its monetary policy, considered low credit risk due to the general assumption that sovereign debt denominated in local currency is extremely low risk of default (usually referred to as "risk-free" from market participant perspective).

In the foregoing the Bank, therefore, measures impairment on financial assets using the 12-month expected credit loss. The Bank at each reporting date determines if financial assets measured at amortised cost are of low credit risk.

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2023

FINANCIAL INSTRUMENTS (Cont'd)

Impairment of Financial Assets (Cont'd)
Financial assets are credit impaired when there is objective evidence that as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been adversely impacted. Evidence that a financial asset is credit-impaired include the following observable data:

- significant financial difficulty of the deposit taker;
- a breach of contract such as a default or past due event;
- it is becoming probable that the deposit taker will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a money market instrument because of financial difficulties.

Staff advances are categorised as low risk assets, with controls on issue of loans and their recovery in place. An annual assessment of materiality of any ECL is undertaken. The Bank recognises impairment loss amounting to 12-months ECL for all staff loans. Staff loans are considered low risk as repayments are deducted at source and probability of default is less likely. In the case of ex-staff debts, where there are no terminal benefits to recover the outstanding debt, the remaining debt is wholly impaired. However, determined effort is undertaken to recover the debt. Advances to Bank's are collaterised against Bank of Botswana Certificates, therefore there is no risk of default.

For financial assets carried at amortised cost, the amount of the expected credit loss allowance is the difference between the asset's gross carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Financial Liabilities
The Bank's financial liabilities comprise the following:

(a) Foreign liabilities
Allocation of SDR (IMF Reserve Tranche), Liabilities to Government (IMF Reserve Tranche).

(b) Domestic liabilities
Bank of Botswana Certificates, reverse repurchase agreements, deposits, dividend to Government, payables and other liabilities. Financial liabilities are initially recognised at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

(c) Bank of Botswana Certificates
As one of the primary tools for maintaining monetary stability in the economy, the Bank of Botswana issues its own paper, BoBCs to absorb excess liquidity in the market and thereby influence short-term interest rates. BoBCs are issued at a discount to counterparties. These are measured at amortised cost using the effective interest method, with interest expense recognised on the effective yield basis.

The Bank's liability in respect of BoBCs is stated at offer prices on auction date, adjusted for movements in matured and unmatured discount recognised in profit or loss.

(d) Standing Deposit Facility (SDF)
SDF was introduced as part of monetary policy reforms in April 2022. It is an interest-bearing deposit placement with the Bank by the commercial banks. The SDF interest rate is set at 100 basis points below the MoPR.

Derecognition
The Bank derecognises a financial asset when it loses control over the contractual rights that comprise the asset and transfers substantially all the risks and benefits associated with the asset. This arises when the rights are realised, expire or are surrendered. A financial liability is derecognised when its contractual obligations are discharged, cancelled or expire.

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2023

FINANCIAL INSTRUMENTS (Cont'd)

SECURITIES LENDING PROGRAMME

The Bank takes part in a Securities Lending Programme administered by its global custodian, The Northern Trust Company on its behalf. Where securities are lent, the Bank holds collateral in the form of cash or other securities. The securities lent continue to be recorded in the Bank's Statement of Financial Position.

The Bank's global custodian administers the Securities Lending Programme and monitors the securities lent and related collateral against requirements agreed by the Bank.

The Bank records income from lending securities as it accrues.

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

This facility is one of the mechanisms designed to deal with short-term liquidity fluctuations in the domestic money market. It is available to primary counterparties which are solvent institutions licensed and supervised by the Bank.

The term of a repurchase agreement and reverse repurchase agreement can vary from overnight to 91 days, depending on the liquidity conditions in the domestic market.

Interest earned by the Bank on repurchase agreements and interest paid by the Bank on reverse repurchase agreements is recognised in profit or loss.

OFFSETTING FINANCIAL INSTRUMENTS

The Bank offsets financial assets and liabilities and reports the net balance in the Statement of Financial Position where:

(a) there is a legally enforceable right to set off; and
(b) there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

FOREIGN CURRENCIES

All transactions denominated in foreign currencies are translated to Pula at the mid exchange rate at the transaction date. All assets and liabilities denominated in foreign currencies are translated to Pula using mid rates of exchange at the close of the financial year. Foreign currency differences arising on translation are recognised in profit or loss. However, all gains and losses relating to disposals whose proceeds are reinvested in foreign assets, and all the unrealised gains/losses arising on financial instruments are not considered distributable in terms of Bank policy; these items are appropriated to the Currency Revaluation Reserve.

RECOGNITION OF PROVISIONS AND CONTINGENT LIABILITES

Contingent Liabilities
The Bank discloses a contingent liability where there is a possible obligation depending on whether some uncertain future event occurs or a present obligation, but payment is not probable, or the amount cannot be measured reliably.

Provisions
The Bank recognises provisions when:

(a) it has a present legal obligation resulting from past events;
(b) it is probable that an outflow of resources embodying economic benefits will be required to settle this obligation; and
(c) a reliable estimate of the amount of the obligation can be made.

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2023

FOREIGN CURRENCIES (Cont'd)

Measurement of Provisions
The Bank measures the provision at the amount which is the best estimate of the expenditure required to be settled. Risks and uncertainties are taken into account in measuring the provision. Provisions are re-measured at each reporting date. If an outflow is no longer probable, provisions are reversed.

INCOME AND EXPENSE RECOGNITION

Financial Assets Measured at Amortised Cost
Interest income from financial assets measured at amortised cost is calculated using the effective interest method and is recognised in profit or loss. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes transaction costs that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability. For financial assets measured at amortised cost, future cash flow estimates are based on the carrying amounts of financial assets adjusted for loss allowances. Changes in carrying amounts are recognised in profit or loss (refer to Note 15).

Financial Assets Measured at FVTPL
For financial assets measured at FVTPL the measure of revenue is the net interest income received from investment securities. Dividends on fair value through profit or loss equity instruments are recognised in profit or loss when the right to receive payment is established. Usually, this is the ex-dividend date for quoted equities (refer to Note 15).

GENERAL RESERVE

Under Section 7 of the Bank of Botswana Act (CAP 55:01), the Bank is required to establish and maintain a General Reserve sufficient to ensure the sustainability of future operations. The Bank may transfer to the General Reserve funds from other reserves, which it maintains, for the purposes of maintaining the required level of the General Reserve.

CURRENCY REVALUATION RESERVE

Any changes in the valuation, in terms of Pula, of the Bank's assets and liabilities in holdings of Special Drawing Rights and foreign currencies as a result of any change in the values of exchange rates of Special Drawing Rights or foreign currencies and in realised currency gains reinvested in foreign assets are transferred to the Currency Revaluation Reserve.

The proportion directly attributable to the Government Investment Account is transferred to such investment account.

FAIR VALUE REVALUATION RESERVE

Any changes in the value of the Bank's long-term investments as a result of any change in the fair values of such investments are transferred to the Fair Value Revaluation Reserve.

The proportion directly attributable to the Government Investment Account is transferred to such investment account.

GOVERNMENT INVESTMENT ACCOUNT

The Government Investment Account, which was established on January 1, 1997, represents the Government's share of foreign exchange reserves in the Pula Fund and Liquidity Portfolio including its share of unrealised fair value and currency gains and losses.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

For the year ended 31 December 2023

PROPERTY, PLANT AND EQUIPMENT

At each Statement of Financial Position date, items of Property, Plant and Equipment are stated at cost less accumulated depreciation and impairment losses, if any. This includes the cost of improving or replacing part of the Property, Plant and Equipment provided the recognition criteria are satisfied. Cost includes expenditure that is directly attributable to the acquisition and construction of an asset.

Intangible assets acquired or internally developed/modified are measured on initial recognition at cost. Costs directly associated with development or obtaining the software are capitalised while indirect costs related to the software development are expensed as incurred. The intangible assets are operating system software and are capitalised as part of Property, Plant and Equipment because they are an integral part of that item. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed as indefinite unless useful life can be reliably estimated.

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

The estimated residual values of Property, Plant and Equipment are reviewed at least annually. The useful lives and depreciation methods of these items are reassessed at each financial year-end and adjusted prospectively. In this financial year, no change was made to the useful lives.

The Bank considers the patten of use, technological and commercial obsolesce and regulatory requirements in its assessment of expected useful lives and estimated residual values.

An item of Property, Plant and Equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use.

Any gain or loss arising on disposal or retirement of an item of Property, Plant and Equipment is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss.

Repairs and maintenance costs are recognised in the statement of profit or loss during the financial year in which these costs are incurred. The cost of major renovations is included in the carrying amount of the related asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the entity and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset or over the period until the next planned renovation, whichever period is shorter.

Improvements that can function independently of the underlying asset are capitalised separately based on their specific useful lives. Replacements to Property, Plant and Equipment are accounted for based on the substitution approach. The cost and the accumulated depreciation of the existing assets are removed from the asset register and the new or replacement asset independently recorded over its own useful life.

Depreciation is recognised on a straight-line basis over the estimated useful lives of each part of Property, Plant and Equipment. The depreciation rates are as follows:

	Percent
Buildings	2.5 – 6
Other Assets	
Furniture, fixtures and equipment	5 – 25
Computer hardware	25
Computer software	20
Motor vehicles	5 – 25
Right-of-use: Land	4
Right-of-use: Building	25 – 50

SIGNIFICANT ACCOUNTING POLICIES (Continued)

For the year ended 31 December 2023

PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Intangible Assets
The Bank's intangible assets are subjected to amortisation and are depreciated using the straight-line method over their estimated useful lives. The Bank's intangible assets are computer software and are held as part of Property, Plant and Equipment. In determining the useful life of computer software, the Bank considers the shelf life of the operating system, alternative technologies and obsolescence.

Impairment
The carrying values of the Bank's property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated to determine the extent of the loss. However, the valuation of land and buildings takes place every three years. These are valued on a fair value basis and the recoverable (revalued) amounts disclosed by way of a note to the financial statements.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. The recoverable amount of an asset is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value that reflects current market assessments of the time value of money and the risk specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indication that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment was recognised.

EMPLOYEE BENEFITS

Retirement benefits
Pension benefits are provided for employees through the Bank of Botswana Defined Contribution Staff Pension Fund, in accordance with the Retirement Funds Act, 2022. The contribution per pensionable employee is at the rate of 21.5 percent of pensionable salary, which comprises 16 percent and 1.5 percent payable by the Bank as its contribution to the Fund and for administration costs of the Fund, respectively, and a 4 percent contribution by each active pensionable employee. Other than the contributions made, the Bank has no commitments or obligations to the Fund. Obligations for contributions to the pension fund are recognised in profit or loss in the periods during which services are rendered by employees.

Short-term employee benefits
Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Other benefits
Employee benefit expense consists of staff subsidy on staff loans charged as a period cost based on the differential between the market interest rate and staff rate over the period of the loan.

LEASES

The Bank assesses whether a contract is, or contains a lease, at the time of inception, that is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank applies a single recognition and measurement approach for all leases and recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and leases of low value assets.

For new leases the asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses. The Bank depreciates the right-of-use assets on a straight-line basis over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain pre-measurements of the lease liability.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

For the year ended 31 December 2023

PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The lease liability is subsequently remeasured by increasing the carrying amount to reflect interest on the lease and by reducing the carrying amount to reflect the lease payments. It is re-measured when there is a change in future lease payments arising from a change in the rate, or in cases of extension or termination option or if there is a revised in-substance fixed lease payment.

The Bank has one leased property which is a piece of land in which the Sports and Recreation facility is built. The office space and the warehouse leases expired during the year and were not renewed. Lease agreements are negotiated on an individual and separate basis and would normally have an option for renewal upon expiry of the original agreement.

All leases are recognised in the Bank's statement of financial position.

RELATED PARTY TRANSACTIONS

The Bank enters into various transactions with other wholly owned or partly owned Government institutions and its key management personnel (related parties). All related party transactions are entered into a mutually agreed terms and conditions in the ordinary course of business. The transactions with key management personnel are staff benefits provided under the General Conditions of Service of the Bank.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Determination of fair values of financial instruments with unobservable inputs (or market data) - level 2
If the market for a financial asset is not active, the Bank establishes fair value by using valuation techniques (level 2). These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants (refer to Note 31).

Determination of expected credit losses
The Bank has adopted the Probability of Default and Loss Given Default models in the determination of ECL. In applying these models, the Bank considers factors such as current economic circumstances of the markets in which it holds investments, forward looking economic and financial indicators to consider the likelihood of a default occurring within the next 12-months (refer to Note 30 on the measurement of ECL).

Right-of-use rate for IFRS 16 lease
The lease liability is initially measured at the present value of the lease payments not paid at the commencement date discounted using the rate implicit in the lease or, if that rate cannot be readily determined, at the applicable Monetary Policy Rate plus a margin as determined by the Bank, which is the interest rate the Bank is willing to lend in its role as a lender of last resort.

Useful life and residual value of assets
The Bank estimates useful life of each part of Property, Plant and Equipment (refer to significant accounting policies – Property, Plant and Equipment). The useful lives and depreciation methods of these items are reassessed annually. The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2023

	2023 P'000	2022 P'000
1. FOREIGN EXCHANGE RESERVES		
1.1 Liquidity Portfolio*		
Amounts due from Pula Fund: amortised cost***	-	363 589
Short-term deposits: amortised cost*	6 311 712	5 605 230
Less: impairment loss (Note 30)	(9 812)	(8 422)
	6 301 900	5 960 397
1.2 Pula Fund*		
Equities: FVTPL*	27 411 329	21 696 865
Bonds: FVTPL*	23 255 563	18 934 626
Derivative instruments: assets (Note 12.3)**	-	1 588 289
Amounts due to Liquidity Portfolio: amortised cost	-	(363 589)
Derivative instruments: liabilities (Note 12.3)**	-	(1 598 984)
Short-term deposits: amortised cost	1 163 273	3 087 565
Less: impairment loss (Note 30)	(738)	(2 469)
	51 829 427	43 342 303
(a) Statement of Financial Position		
Capital Employed		
Government	8 308 096	14 316 612
Bank of Botswana	43 521 331	29 025 691
	51 829 427	43 342 303
Employment of Capital		
Investments	51 829 427	43 342 303
Investments expressed in US dollars ('000)[3]	3 871 568	3 402 371
Investments expressed in SDR ('000)[4]	2 881 716	2 548 527
(b) Statement of Profit or Loss and Other Comprehensive Income		
Income		
Interest and dividends	1 196 382	877 596
Realised currency revaluation gains	1 488 923	1 216 018
Unrealised currency revaluation gains	745 849	462 334
Realised fair value losses	(48 920)	(36 647)
Unrealised fair value gains/(losses)	4 848 715	(7 995 787)
Impairment reversal/(loss) on financial assets	1 731	(1 048)
	8 232 680	(5 477 534)
Expenses		
Administration costs	(314 745)	(222 736)
	(314 745)	(222 736)
Net income/(loss)	7 917 935	(5 700 270)
Other comprehensive income	-	
Total comprehensive income/(loss)	7 917 935	(5 700 270)

* These additional line items have been presented in 2023 Statement of Financial Position (with relevant comparatives) to provide further disaggregate information relating to the composition of the Liquidity Portfolio and Pula Fund.

** Included in the Pula Fund are net derivative positions (which qualify for offset) of net derivative liability of P35.5 million (2022: net derivative liability of P10.7 million) made up of derivative assets of P41.3 million (2022: P1.588 million) and derivative liabilities of P76.8 million (2022: P1.599 million). This has been aggregated within the Bonds: FVTPL line item as it not considered significant to warrant separate disclosure.

*** The Liquidity Portfolio amount for 2022 includes a reclassification of P363 589 000 from the Pula Fund.

3 United States dollar/Pula – 0.0747 (2022: 0.0785)

4 SDR/Pula – 0.0556 (2022: 0.0588)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

	2023 P'000	2022 P'000

2. INTERNATIONAL MONETARY FUND (IMF)

2.1 Reserve Tranche

This asset represents the difference between Botswana's Quota in the IMF and IMF Holdings of Pula. Botswana's Quota is the membership subscription, of which at least 25 percent was paid for in foreign currencies and the balance in Pula. The holding of Pula by the IMF, which initially was equal to 75 percent of the quota, has changed from time to time as a result of the use of the Pula by the IMF in lending to member countries.

The IMF has created an international reserve asset called the Special Drawing Right (SDR). All rights in, and commitments to the IMF are denominated in SDR. The value of the SDR is calculated on the basis of a currency basket comprising the US dollar, euro, Chinese renminbi, Japanese yen, and Pound sterling.

	2023 P'000	2022 P'000
Quota SDR 197 200 000 (2022: SDR 197 200 000)	3 548 007	3 356 304
Less: IMF Holdings of Pula	(2 545 759)	(2 390 168)
Reserve Position in IMF	1 002 248	966 136

The IMF Holdings of Pula are represented by the Non-Interest-Bearing Note of P1 477 900 684 (2022: P1 477 900 684) issued by the Government of Botswana in favour of the IMF, maintenance of value currency adjustments and the amount in the current account held at the Bank (included in other deposits in Note 8).

2.2 Holdings of Special Drawing Rights

	2023 P'000	2022 P'000
Balance at the beginning of the year	4 239 750	4 097 651
Net interest & remuneration	44 596	10 808
Currency revaluation	242 494	131 291
	4 526 840	4 239 750

The balance on the account represents the value of Special Drawing Rights (SDR) allocated and purchased less utilisation to date.

2.3 General Subsidy Account

	2023 P'000	2022 P'000
Face value (SDR 1 520 000)	27 348	25 870
Interest	19	18
	27 367	25 888

This is an investment with the IMF, the purpose of which is to augment the resources of the Poverty Reduction and Growth Trust Fund. The term of investment agreement of August 22, 2022 was extended to August 30, 2027.

3. RECEIVABLES AND OTHER ASSETS

	2023 P'000	2022 P'000
Staff loans and advances (Note 12.1)	213 132	193 995
Prepayments	9 959	7 772
Donor funds – Government projects	345 561	150 050
Advance Payment – PulaThebe Project	11 513	19 835
Trade Receivables (Note 12.1)	994	694
Other	4 340	4 228
	585 499	376 574

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

4. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Leasehold Land	Buildings	Capital Works in Progress (Redevelopment Project)	Capital Works in Progress (Other Assets)[5]	Rights of Use Assets	Other[6] Assets	Total
Cost - 31 DECEMBER 2023	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Balance at the beginning of the year	2 065	4 932	694 785	371 945	10 998	17 985	411 147	1 513 857
Additions	-	-	176 104	7 955	81 825	3 146	55 341	324 371
Disposals	-	-	(20 311)	-	-	(20 525)	(11 462)	(52 298)
Transfers from WIP	-	-	329 222	(371 945)	(38)	-	42 761	-
Balance at year-end	2 065	4 932	1 179 800	7 955	92 785	606	497 787	1 785 930
Accumulated Depreciation								
Balance at the beginning of the year	-	-	144 953	-	-	16 659	189 960	351 572
Charge for the year	-	-	18 936	-	-	4 399	40 666	64 001
Disposals	-	-	(14 733)	-	-	(20 525)	(8 576)	(43 834)
Balance at year-end	-	-	149 156	-	-	533	222 050	371 739
Net book value at 31 DECEMBER 2023	**2 065**	**4 932**	**1 030 644**	**7 955**	**92 785**	**73**	**275 737**	**1 414 191**
Cost - 31 DECEMBER 2022								
Balance at the beginning of the year	2 065	4 932	694 785	185 859	19 849	16 399	316 681	1 240 570
Additions	-	-	-	191 412	8 811	1 586	77 903	279 712
Disposals	-	-	-	-	-	-	(6 425)	(6 425)
Transfers from WIP	-	-	-	(5 326)	(17 662)	-	22 988	-
Balance at year-end	2 065	4 932	694 785	371 945	10 998	17 985	411 147	1 513 857
Accumulated Depreciation								
Balance at the beginning of the year	-	-	126 761	-	-	13 190	168 622	308 573
Charge for the year	-	-	18 192	-	-	3 469	26 668	48 329
Disposals	-	-	-	-	-	-	(5 330)	(5 330)
Balance at the beginning of the year	-	-	144 953	-	-	16 659	189 960	351 572
Net book value at 31 DECEMBER 2022	**2 065**	**4 932**	**549 832**	**371 945**	**10 998**	**1 326**	**221 187**	**1 162 285**

5 Capital works (other assets) comprises work in progress relating to computer hardware and software projects.

6 Other assets comprise of furniture, fixtures and fittings, computer hardware, computer software and motor vehicles (Note 4.3).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

PROPERTY, PLANT AND EQUIPMENT (Cont'd)

4.1 Breakdown of the right-of-use assets	Land P'000	Buildings P'000	Total P'000
Balance at 1 JANUARY 2023	606	17 379	17 985
Additions	-	3 146	3 146
Matured Leases	-	(20 525)	(20 525)
	606	-	606
Accumulated depreciation	533	20 525	21 058
Depreciation on matured leases	-	(20 525)	(20 525)
	533	-	533
Net book value at 31 DECEMBER 2023	73	-	73
Balance at 1 JANUARY 2022	606	15 793	16 399
Additions	-	1 586	1 586
	606	17 379	17 985
Accumulated depreciation	(509)	(16 150)	(16 659)
Net book value at 31 DECEMBER 2022	97	1 229	1 326

4.2 Lease liability: right-of-use

	2023 P'000	2022 P'000
Balance at the beginning of the year	1 396	3 791
Lease payments: right-of-use	(4 425)	(3 968)
Additions	3 146	1 573
Balance at the end of the year	117	1 396

4.3 Other Assets

	Motor Vehicles P'000	Furniture, Fixtures, Equipment & Other P'000	Computer Hardware P'000	Computer Software P'000	Total P'000
Cost – 31 DECEMBER 2023					
Balance at the beginning of the year	24 396	224 075	120 173	42 503	411 147
Additions	2 227	48 311	4 519	284	55 341
Disposals	(3 999)	(5 736)	(1 727)	-	(11 462)
Transfers from WIP	-	42 205	373	38	42 616
Balance at year-end	**22 624**	**308 855**	**123 338**	**42 825**	**497 642**
Accumulated depreciation					
Balance at the beginning of the year	8 937	109 324	36 139	35 560	189 960
Charge for the year	1 833	14 212	22 448	2 174	40 667
Disposals	(2 086)	(4 855)	(1 636)	-	(8 577)
Balance at the end of the year	8 684	118 681	56 951	37 734	222 050
Net book value at 31 DECEMBER 2023	**13 940**	**190 174**	**66 387**	**5 091**	**275 592**

As per IAS 16.73 disclosure of classes of assets have been presented separately to enhance presentation with no impact on the numbers presented.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

	2023 P'000	2022 P'000
5. ALLOCATION OF IMF SPECIAL DRAWING RIGHTS (SDR)		
Balance at the beginning of the year	4 194 350	4 064 893
Currency revaluation gains for the year	239 569	129 457
	4 433 919	4 194 350

This is the liability of the Bank to the IMF in respect of the allocation of SDR to Botswana.

	2023 P'000	2022 P'000
6. LIABILITIES TO GOVERNMENT (IMF RESERVE TRANCHE)		
Balance at the beginning of the year	467 089	321 808
Repurchase/purchase of SDR	(19 148)	112 269
Revaluation currency gains for the year	55 259	33 012
Balance at the end of the year	503 200	467 089

This balance represents the Bank's liability to the Government in respect of the Reserve Tranche position in the IMF (Note 2.1).

	2023 P'000	2022 P'000
7. NOTES AND COIN IN CIRCULATION		
Notes	4 218 291	3 950 535
Coin	141 811	135 349
	4 360 102	4 085 884

Notes and coin in circulation held by the Bank at the end of the financial year have been netted off against the liability for notes and coin in circulation to reflect the net liability to the public. Notes and coin are a cost to the Bank which becomes a liability on distribution to the public. Notes and coin in circulation are payable on demand.

	2023 P'000	2022 P'000
8. DEPOSITS		
Government	1 139 754	1 177 679
Bankers - current accounts	101 455	37 327
- statutory reserve accounts	2 778 723	1 214 459
- IMF No 1 & 2 accounts	1 040 273	809 855
- other	561 179	543 494
	5 621 384	3 782 814
9. BANK OF BOTSWANA CERTIFICATES		
Face value	6 000 000	3 275 000
Unmatured discount	(1 932)	(1 190)
Carrying amount	5 998 068	3 273 810

Bank of Botswana Certificates are issued at various short-term maturity dates (Note 30) and discount rates.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

	2023 P'000	2022 P'000
10. DIVIDEND TO GOVERNMENT		
Balance due at the beginning of the year	273 205	3 175 135
Dividend to Government from Pula Fund	829 000	203 000
Paid during the year	(894 955)	(3 327 385)
Residual net income	31 508	222 455
Balance due at the end of the year	238 758	273 205

The final instalment of the pre-set dividend of P207 250 000 and the residual net income of P31 507 830 unpaid As at 31 December 2023 has been provided for in accordance with Section 6 of the Bank of Botswana (Amendment) Act, 2022; which requires that net profits of the Bank be distributed to the shareholder, the Government.

10.1 Government Investments/(Withdrawals)

	2023 P'000	2022 P'000
(a) Pula Fund		
Balance at the beginning of the year	14 316 612	5 607 752
Investments	15 255 346	16 062 720
Withdrawals	(21 263 862)	(7 353 860)
Balance at the end of the year	8 308 096	14 316 612
(b) Liquidity Portfolio		
Balance at the beginning of the year	500 000	500 000
Withdrawals	(230 671)	-
Balance at the end of the year	269 329	500 000
Total Government Investments	8 577 425	14 816 612

	2023 P'000	2022 P'000
11. PAYABLES AND OTHER LIABILITIES		
Accounts payable	22 342	17 195
Donor funds – Government projects	345 561	150 050
Lease liability	117	1 396
Provisions (refer to Note 11.1)	132 603	113 848
Accruals and Other Payables	9 105	4 620
	509 728	287 109

11.1 Provisions

	Provision for Audit fees P'000	Provision for Fund Manager's fees P'000	Provision for leave P'000	Provision for Gratuity P'000	Total P'000
Balance at 1 JANUARY 2023	1 434	58 441	30 599	23 374	113 848
Cost paid during the year	(1 434)	(152 619)	(16 788)	(21 838)	(192 679)
Provision arising during the year	1 066	174 341	25 094	10 933	211 434
Balance at 31 DECEMBER 2023	**1 066**	**80 163**	**38 905**	**12 469**	**132 603**

Details for each class of provision for the period have been provided as per IAS 37.84 disclosure requirements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

12. CATEGORIES OF FINANCIAL INSTRUMENTS	2023 P'000	2022 P'000
12.1 Financial Assets		
Measured at FVTPL		
Equities	27 411 329	21 696 865
Bonds	23 291 026	18 934 626
Derivative assets	41 349	1 588 289
	50 743 704	42 219 780
Measured at Amortised Cost	5 556 455	5 231 774
IMF Reserves	213 132	193 995
Staff loans and advances	7 464 435	8 681 904
Short-term deposits	994	694
Trade Receivables	-	248 965
Standing Credit Facility	13 235 016	
Total Financial Assets	63 978 720	56 577 112
The above is disclosed in the Statement of Financial Position as follows:		
Total Foreign Assets	63 687 782	54 534 474
Add: Derivative instruments (liabilities) (Note 1.2)	76 812	1 598 984
Standing Credit Facility	-	248 965
Receivables and Other Assets - staff loans and advances (Note 3)	214 126	194 689
	63 978 720	56 577 112
12.2 Financial Liabilities		
Measured at FVTPL		
Derivative instruments (Note 1.2)	76 812	1 598 984
Measured at amortised cost		
Bank of Botswana Certificates	5 998 068	3 273 810
Allocation of SDR (IMF)	4 433 919	4 194 350
Liabilities to Government (IMF)	503 200	467 089
Deposits	5 621 384	3 782 814
Standing Deposit Facility	3 487 185	341 077
Dividend to Government	238 758	273 205
Payables and Other Liabilities	164 167	137 059
	20 523 493	14 068 388

The payables and other liabilities figure excludes Donor funds - Government projects, which do not meet the definition of a financial liability.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

CATEGORIES OF FINANCIAL INSTRUMENTS (Cont'd)

12.3 Derivative Instruments

The Bank's Reserve Management Policies and Investment Guidelines authorise the use of derivative instruments. The derivatives are held for managing risk.

The table below shows the market values and the total notional exposures of derivative instruments as at year end.

		Asset 2023 (P'000)	Liabilities 2023 (P'000)	Notional Amount 2023 (P'000)	Assets 2022 (P'000)	Liabilities 2022 (P'000)	Notional Amount 2022 (P'000)
Futures	-Buy	-	-	-	1 562 945	-	1 613 452
	-Sell	-	-	-	-	(1 496 780)	(1 544 820)
Swaps	-Buy	41 222	-	31 077	25 344	-	27 474
	Sell	-	(76 758)	(5 125)	-	(102 204)	(9 391)
Options	Buy	127	-	658	-	-	-
	Sell	-	(54)	(163)	-	-	-
		41 349	(76 812)	26 447	1 588 289	(1 598 984)	86 715

The above derivatives are classified by type of asset and instrument. The assets and liabilities reflect the net position between the market values and the notional amounts.

Futures
A futures contract is an agreement executed on the floor of an exchange to buy or sell a specific amount of a security or cash at a specified price and time. A futures contract would be an agreement to either buy or sell a specified amount of a security at a specified price and date, while a currency futures contract will be an agreement to either buy or sell a specified amount of currency at a specified exchange rate and date. Futures contracts are collateralised by cash or marketable securities and changes in the futures contract values are settled daily.

Swaps
A swap is an agreement between two or more parties to exchange sets of cash flows over a period in the future, typically either in the form of interest rate swaps or currency swaps. The cash flows that the counterparties make are linked to the value of the underlying debt financial instrument or the foreign currency.

Options
An option is an exclusive right, usually obtained for a fee, but not the obligation to buy or sell a specific financial instrument within a specified time. A fixed income option is the exclusive right to either buy or sell specified units of a fixed income security by a specific date. A currency option is an option to either buy or sell a specified currency by a specific date.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

13. PAID-UP CAPITAL

	2023 P'000	2022 P'000
Balance at the beginning of the year	25 000	25 000
Transfer from Currency Revaluation Reserve	125 000	-
Authorised and Paid-up Capital	150 000	25 000

The capital is the amount subscribed by the Government in accordance with Section 5(1) of the Bank of Botswana (Amendment) Act, 2022. Following the enactment of the Bank of Botswana (Amendment) Act, 2022, the Paid-up Capital of the Bank was increased to P150 million from P25 million effective February 14, 2023. The amount was fully funded by a transfer of P125 million from the Currency Revaluation Reserve. The Bank is not subject to any externally imposed capital requirements. Therefore, capital is not actively managed. Management considers the Paid-up Capital and the General Reserve to be capital.

14. GENERAL RESERVE

	2023 P'000	2022 P'000
Balance at the beginning of the year	1 600 000	1 600 000
Transfer from Currency Revaluation Reserve	13 400 000	-
General Reserve	15 000 000	1 600 000

In the opinion of the Board, the General Reserve, taken together with other reserves which the Bank maintains, is sufficient to ensure the sustainability of future operations of the Bank. In accordance with Section 7 of the Bank of Botswana Act (CAP 55:01), the Bank's Board resolved, and the Minister of Finance approved that the General Reserve be increased to P15 billion from P1.6 billion effective February 14, 2023. The amount was fully funded by a transfer of P13.4 billion from the Currency Revaluation Reserve.

15. INTEREST – FOREIGN EXCHANGE RESERVES

	2023 P'000	2022 P'000
Liquidity Portfolio		
Short-term deposits: amortised cost	694 368	260 379
IMF Reserves: amortised cost	44 597	11 597
Pula Fund	31 878	39 886
Short-term deposits: amortised cost	650 995	462 152
Bonds: FVTPL	1 421 838	774 014

The "interest – foreign exchange reserves" line in the Statement of Profit or Loss and Other Comprehensive Income has been disaggregated to show the interest from financial assets measured at amortised cost separately from the interest income from financial assets measured at fair value through profit and loss. The total amount has not changed.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

	2023 P'000	2022 P'000
16. DIVIDENDS – FOREIGN EXCHANGE RESERVES		
Pula Fund		
Equities: FVTPL	498 048	375 559
17. NET REALISED FAIR VALUE GAINS/(LOSSES) ON DISPOSAL OF SECURITIES		
Pula Fund		
Bonds: FVTPL	(466 270)	(719 930)
Derivative instrument: FVTPL	(108 438)	(93 856)
Equities: FVTPL	525 788	777 139
	(48 920)	(36 647)
18. NET REALISED CURRENCY GAINS/(LOSSES)		
Liquidity Portfolio		
Short-term deposits: amortised cost	30 318	327 294
Bonds: FVTPL	-	77
Pula Fund		
Derivative instruments: FVTPL	(3 321)	(63 045)
Short-term deposits: amortised cost	64 812	69 283
Bonds: FVTPL	682 507	705 887
Equities: FVTPL	744 924	503 893
	1 519 240	1 543 389
Included above are net currency gains of P64 812 000 (2022: P69 283 000) on disposal of short-term deposits measured at amortised cost.		
19. NET UNREALISED CURRENCY GAINS/(LOSSES)		
Liquidity Portfolio		
Short-term deposits: amortised cost	135 018	(99 796)
IMF reserves: amortised cost	4 402	1 844
Pula Fund		
Short-term deposits: amortised cost bonds: FVTPL	19 367	(30 729)
Bonds: FVTPL	498 143	231 055
Equities: FVTPL	217 195	255 133
Derivative instruments: FVTPL	11 144	6 875
	885 269	364 382
20. NET UNREALISED FAIR VALUE GAINS/(LOSSES)		
Pula Fund		
Bonds: FVTPL	1 141 030	(2 348 313)
Equities: FVTPL	3 809 962	(5 543 189)
Derivative instruments: FVTPL	(102 277)	(104 285)
	4 848 715	(7 995 787)
21. INTEREST EXPENSE		
Bank of Botswana Certificates (BoBCs)	140 051	55 272
Reverse Repurchase Agreements	-	808
Standing Deposit Facility	30 343	14 303
	170 394	70 383

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

	2023 P'000	2022 P'000
22. NET CURRENCY REVALUATION GAINS/(LOSSES) RETAINED IN PROFIT OR LOSS		
Total net realised gains (Note 18)	1 519 240	1 543 389
Total net unrealised gains (Note 19)	885 269	364 382
Total net currency revaluation gains	2 404 509	1 907 771
Appropriated to Currency Revaluation Reserve:		
Net realised currency gains reinvested in foreign assets	(1 438 371)	(1 362 183)
Net unrealised currency gains (Note 19)	(885 269)	(364 382)
Transfer of net currency gains to Currency Revaluation Reserve	(2 323 640)	(1 726 565)
Net currency revaluation gains retained in profit or loss	80 869	181 206
23. NET FAIR VALUE GAINS/(LOSSES) APPROPRIATED TO FAIR VALUE REVALUATION RESERVE		
Total net realised losses (Note 17)	(48 920)	(36 647)
Total net unrealised gains/(losses) (Note 20)	4 848 715	(7 995 787)
Total net fair value gains/(losses)	4 799 795	(8 032 434)
Appropriated to Fair Value Revaluation Reserve:		
Transfer of unrealised fair value (gains)/losses to fair value revaluation reserve	(4 848 715)	7 995 787
Net fair value losses retained in profit or loss	(48 920)	(36 647)

24. COLLATERAL

(a) Credit Facility

There were no open positions As at 31 December 2023 (2022: Nil) under the Credit Facility accounted for as "Advances to banks".

(b) Securities Lending Programme

Under the Bank's Securities Lending Programme, the Bank has lent securities with a fair value of P8.4 billion (2022: P7 billion). The Bank has accepted collateral with fair value of P8.8 billion (2022: P7.3 billion) consisting of government bonds (P4 billion), cash (P3.4 billion) and equities (P1.4 billion).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

25. STATEMENT OF CASH FLOWS

The definition of cash in IAS 7 is not wholly appropriate to the Bank. Due to its role in the creation and withdrawal of currency in circulation, the Bank has no cash on hand or physical coins asset balances in its Statement of Financial Position (see Note 7). However, the Bank has the ability to create cash when needed.

	2023 P'000	2022 P'000
26. CASH GENERATED FROM/(USED IN) OPERATIONS		
Net income/(loss) for the year adjusted for:	8 032 863	(5 828 767)
Unrealised Exchange Gains	(885 269)	(364 382)
Unrealised Fair Value (Gains)/Losses	(4 848 715)	7 995 787
Depreciation Expense	64 001	48 329
Interest On Lease Liability	137	119
Impairment (Reversals)/Losses on Financial Assets	(278)	6 519
Losses On Disposal of Property and Equipment	(5 636)	147
Other Impairments	4 911	3 849
Provisions	131 111	113 848
Other Liabilities – Accruals	4 218	3 309
Accrued Interest Income	117 313	87 602
Interest Income	(1 421 838)	(774 014)
Dividend Income	(498 048)	(375 559)
Interest Expense	170 394	70 383
	865 164	987 170
Deposits – banks and other	1 861 495	(551 699)
Deposit Insurance Scheme	(15 000)	-
Deposits – Government	(37 925)	9 834
Bank of Botswana Certificates	2 724 258	973 966
Reverse Repurchase Agreements	-	(1 478 950)
Standing Deposit Facility	3 146 108	341 077
Standing Credit Facility	248 965	(249 164)
Receivables and Other Assets	(208 926)	(142 949)
Payables and Other Liabilities	90 223	12 409
Movement in Pula Fund – Foreign reserves	(2 923 580)	(2 177 043)
Cash generated from/(used in) operations	5 750 782	(2 275 349)

Cash generated from/(used in) operations in the form of Interest: Foreign Exchange Reserves and Dividends: Foreign Exchange Reserves have been renamed as Interest income and Dividend income on the face of the cash flow statement, respectively, to enhance presentation with no impact on the numbers presented.

	2023 P'000	2022 P'000
27. CAPITAL COMMITMENTS		
Approved and contracted for	95 654	287 137
Approved, but not contracted for	92 574	236 346
	188 228	523 483

These capital commitments will be funded from internal resources.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

28. STANDING CREDIT FACILITY

	2023 P'000	2022 P'000
Amortised cost	-	249 164
Less: impairment loss	-	(199)
	-	248 965

The Standing Credit Facility (SCF) acts as the ceiling of the interest rate corridor, and it is 100 basis points above the anchor rate (MoPR). Individual banks borrow from the Bank at the SCF rate.

29. STANDING DEPOSIT FACILITY

	2023 P'000	2022 P'000
Amortised cost	3 487 185	341 077

The Standing Deposit Facility (SDF) acts as the floor of the interest rate corridor and is 100 basis points below the anchor rate (MoPR). The SDF is used as an overnight deposit facility at the SDF rate.

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS

Risk is inherent in the Bank's management of financial instruments comprising primarily foreign currency denominated assets, which are held in various financial instruments and currencies. This risk is managed through a process of ongoing identification, measurement and monitoring that is subject to an extensive framework of risk limits and other controls. The process of risk management is critical to the Bank's ongoing operations, with the day-to-day management of the financial instruments being conducted by the Financial Markets Department. A key element in the risk management of the foreign exchange reserves is safety, defined as the preservation of purchasing power of the foreign exchange reserves. To this end, the Bank has continued to pursue a prudent and diversified investment strategy. The Bank's objectives, policies and procedures for managing the risk exposures and the method used to measure the risks have remained consistent with the prior year. The risk management framework remains sound and effective.

Risk Management Governance Structure

The Bank's risk management governance structure is broadly as follows:

(a) Board

The Board is responsible for the Bank's overall risk management and for approving Reserves Management Policies and the strategic asset allocation. The Board receives quarterly reports on the performance of the portfolio.

(b) Investment Committee

The Investment Committee, which is chaired by the Governor and comprises representatives from relevant areas of the Bank, reviews and approves the Investment Guidelines for the foreign exchange reserves. It meets regularly to review developments in the international financial and capital markets. Where necessary, the Investment Committee makes strategic and tactical decisions on Bank-managed portfolios. The Investment Committee also monitors the performance of the external fund managers and reports on same to the Board.

(c) Financial Markets Department

The Financial Markets Department is responsible for the management of the foreign exchange reserves and has a specialised Risk Management Unit focusing on the risks associated with all the investment portfolios and ensures compliance with the Bank's Reserves Management Policies and Investment Guidelines.

(d) External Fund Managers and Custody

External fund managers are engaged to complement the Bank's reserve management activity. The Bank uses the services of a custodian which provides custodial services and performance measurement for the Bank's portfolios. The custodian is also responsible for the securities lending programme and ensures that sufficient collateral is provided to mitigate associated risks.

(e) Segregation of Duties

At an operational level, the main feature of risk control is the segregation of duties relating to dealing, settlement, risk monitoring and recording. These responsibilities are split among three Departments: Financial Markets, Banking, Currency and Settlement and Finance.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Tranching of Foreign Exchange Reserves – Liquidity Portfolio and Pula Fund

The Bank of Botswana Act requires the Bank to maintain a primary international reserve, that is, the Liquidity Portfolio, while Section 35 provides for the establishment and maintenance of a long-term investment fund, the Pula Fund. In compliance with the statutory requirements, a major feature of the foreign exchange reserves management strategy is, therefore, to allocate a certain level of reserves to the Liquidity Portfolio, with the remaining amount invested in the Pula Fund.

Pula Fund

Investments of the Pula Fund comprise long-term assets, such as long-dated bonds and equities actively traded in highly liquid global markets, with the expectation of earning a higher return than the risk-free rate. The asset allocation between bonds and equities is determined using a combination of historical data and assumptions. Exercises are also conducted in respect of the Pula Fund risk/return sensitivity analysis, using different portfolio options, where risk is measured by a standard deviation on the rate of return. A small allocation (5 percent) is made to a high yield portfolio with the aim of enhancing the return potential of the reserves. To mitigate currency risk in the high yield portfolio hedging is used to limit non-US dollar currency exposure to no more than 25 percent.

Liquidity Portfolio

In terms of the investment guidelines, liquidity takes precedence over return in the Liquidity Portfolio, given the recurring need to provide foreign exchange to finance international transaction payments. While the eligible investment currencies are similar to those of the Pula Fund, the Liquidity Portfolio is largely invested in shorter-dated assets. The Liquidity Portfolio is sub-divided into the Liquidity Investment Tranche (LIT) and the Transaction Balances Tranche (TBT), comprising highly liquid investments in the Bank's international transaction currencies. During 2023, the LIT invested only in eligible money market instruments.

Types of Risk Exposure

The Bank's investment guidelines cover basic types of risk exposures, namely, market risk (currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. These types of risk apply to the foreign assets and liabilities.

(a) Currency Risk

Currency risk or exchange rate risk arises when exchange rates move against the reporting currency. The reserves are invested in diverse currencies to mitigate the impact of exchange rate movements. The Bank's policy is to invest only in currencies with investment grade ratings assigned by Moody's Investors Services, Standard and Poor's and Fitch Ratings. Through a diversified currency allocation, the Bank ensures that the purchasing power of the foreign exchange reserves is preserved. In terms of the investment guidelines, a maximum deviation from the neutral level is 10 percent for currencies rated AAA to AA-, 6 percent for currencies rated between A+ and A-, 5 percent for BBB+. At the end of 2023, the Bank's total exposure to major investment currencies was P58.1 billion (2022: P49.3 billion). The Bank is also exposed to SDR currency risk on net IMF balances amounting to P0.62 billion (2022: P0.57 billion).

Exposure to Currency Risk

The Table below shows the investment currencies to which the Bank had exposure As at 31 December 2023.

Major Investment Currencies	2023 (P'000)	2022 (P'000)
AUD	1 126 269	1 087 703
CAD	915 868	1 196 586
EURO	6 962 625	5 504 322
GBP	2 216 358	1 884 473
ZAR*	2 565 314	2 048 883
JPY	5 468 304	3 995 810
USD	30 009 787	25 375 167
Other [7]	8 877 352	8 220 647
Impairment loss on financial assets	(10 550)	(10 891)
	58 131 327	**49 302 700**

* Previously, the balance excluded ZAR balances of P2,049 million in 2022, this has been corrected in the current year.

7 Includes emerging markets currencies.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

(b) Interest Rate Risk

Interest rate risk is the possible loss in the value of a fixed income asset resulting from an adverse movement in interest rates and a consequent change in price. Interest rate risk is measured by modified duration, which measures the sensitivity of the price of a bond to changes in interest rates expressed in years. The Bank benchmarks the interest rate risk for the Pula Fund (fixed income assets) to reflect the long-term nature of the portfolio, with emphasis on higher return. The higher interest rate risks generally compensated by higher returns expected from longer maturity bonds. The modified duration benchmark will vary over time, as changing market conditions and index weights impact the global modified duration of the index. At the end of 2023, the average modified duration of the fixed income portion of the Pula Fund was 6.4 years (2022: 6 years). The Pula Fund's total exposure to interest rate risk was P23.3 billion (2022: P18.9 billion). The Liquidity Portfolio gives priority to liquidity over return and given the constant need to provide foreign exchange to finance international transaction payments, the portfolio is exposed to minimum interest rate risk. At the end of 2023, the Liquidity Portfolio value of P6.3 billion (2022: P5.6 billion) comprised of cash and cash equivalents, therefore, total exposure to interest rate risk was nil (2022: Nil).

(c) Equity Price Risk

Equity price risk is the risk that the value of equities decreases as a result of changes in the level of equity indices and diminution of value of individual stocks. The geographic allocation of equity exposure follows generally the market capitalisation among the equity markets. The investment guidelines stipulate the holding levels of equities. Holdings of more than 10 percent of the voting rights of any one company are not permitted and the portfolio must hold a reasonable number of stocks. A reasonable spread among the industry sectors is maintained in the portfolio. There are no investments in private placements or unquoted stocks. At the end of 2023, the equity portion of the Pula Fund was P27.4 billion (2022: P21.7 billion).

Market Risk Sensitivity Analysis

The set of assumptions used for each of the risk factors hereunder are not forecasts, but merely "what if" scenarios and the likely impact on the current portfolio, based on selected changes in risk variables over a one-year horizon.

The Table below gives an indication of the risk sensitivities of the portfolio to various risk parameters. Assuming that the probability of the beneficial change in the risk variables are as likely to happen as an adverse change, both potential increase and decrease are shown for the indicated scenarios.

31 DECEMBER 2023

Risk Variable		**Adverse market change**		**Beneficial market change**	
		Scenario	Effect on Statement of Profit or Loss and Other Comprehensive Income[8] (P'000)	Scenario	Effect on Statement of Profit or Loss and Other Comprehensive Income (P '000)
Interest Rate Risk		Increase in yields by 400 basis points	5 948 784	Decrease in yields by 400 basis points	(5 948 784)
Currency Risk	Investment currencies	Strengthening of the Pula by 1 percent	561 854	Weakening of the Pula by 1 percent	(561 854)
	South African rand	Strengthening of the Pula by 1 percent	25 653	Weakening of the pula by 1 percent	(25 653)
Equity Risk	Global Equities	Decline in global equity prices by 12 percent	3 289 359	Increase in global equity prices by 12 percent	(3 289 359)

8 The effects are expected to have the same impact on shareholder's funds.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

31 DECEMBER 2022

Risk Variable	Adverse market change			Beneficial market change	
		Scenario	Effect on Statement of Profit or Loss and Other Comprehensive Income[9] (P'000)	Scenario	Effect on Statement of Profit or Loss and Other Comprehensive Income (P '000)
Interest Rate Risk		Increase in yields by 400 basis points	4 534 066	Decrease in yields by 400 basis points	(4 534 066)
Currency Risk	Investment currencies	Strengthening of the Pula by 1 percent	524 856	Weakening of the Pula by 1 percent	(524 856)
	South African rand	Strengthening of the Pula by 1 percent	20 489	Weakening of the pula by 1 percent	(20 489)
Equity Risk	Global Equities	Decline in global equity prices by 10 percent	2 169 687	Increase in global equity prices by 10 percent	(2 169 687)

The market risk estimates as presented in the Tables above are based on sensitivities to the individual risk factors. The correlation between the risk variables is not reflected in the effect on the Statement of Profit or Loss and Other Comprehensive Income. In view of prevailing market conditions, the Bank revised the equity risk variable from 10 percent to 12 percent to reflect the average movement of the MSCI World Index in global equity prices. For market risk estimates, the interest rate risk variable remained the same at 400 basis points relative to the 2-year average bond yield movements.

(d) Credit Risk

This is the risk that would arise if an entity that the Bank conducts business with is unable to meet its financial obligations or in the event of an adverse credit event or default. This may be a commercial bank accepting a deposit, a sovereign, supranational or corporate entity issuing a bond or a counterparty with whom the portfolio manager has contracted to buy or sell foreign exchange or money or capital market instruments. In the Bank's endeavour to control credit risk, it deals with only high-quality investment grade institutions or counterparties, as determined by international rating agencies.

Consistent with the Reserves Management Policies and Investment Guidelines, the Bank disinvests whenever the rating of an instrument falls below investment grade. This is with the exception of the "Strategic Yield" portfolio, where a minimum rating of B- is applied. The Strategic Yield portfolio comprises not more than 5 percent of the Pula Fund. In cases where the new lower rating necessitates a lower exposure, holdings are reduced to ensure that the new limit is not exceeded.

The Bank mitigates credit risk by addressing the following underlying issues:

- defining eligible investment instruments;
- pre-qualifying counterparties (financial institutions, brokers/dealers, and intermediaries) doing business with the Bank; and
- diversifying investment portfolios so as to minimise potential losses from securities or individual issuers.

9 The effects are expected to have the same impact on shareholder's funds.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Exposure to Credit Risk

The Table below shows the maximum exposure to credit risk for the components of the Statement of Financial Position, including derivatives. The maximum exposure is shown gross, before the effect of the above mitigation factors.

	Notes	2023 P'000	2022 P'000
Financial Assets			
Liquidity Portfolio			
Short-term deposits: amortised cost	1.1	6 301 900	5 960 397
Pula Fund			
Bonds: FVTPL	1.2	23 291 026	18 934 626
Derivative instruments: FVTPL		41 349	1 588 289
Short-term deposits: amortised cost		1 162 535	2 721 507
International Monetary Fund - amortised cost			
Reserve Tranche	2.1	1 002 248	966 136
Holdings of Special Drawing Rights	2.2	4 526 840	4 239 750
General Subsidy Account	2.3	27 367	25 888
Standing Credit Facility	28	-	248 965
Receivables and Other Assets - staff loans and advances: amortised cost	3	214 126	194 686
Total		36 567 391	34 880 244
Analysis of Credit Exposure by class:			
Measured at fair value			
Bonds		23 291 026	18 934 626
Derivatives		41 349	1 588 289
Measured at amortised cost			
IMF Reserves		5 556 455	5 231 774
Receivables and Other Assets - staff loans and advances		214 126	194 686
Short-term deposits		7 464 435	8 681 904
Standing Credit Facility		-	248 965
Total		36 567 391	34 880 244

While some financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure, but not the maximum risk exposure that could arise in future as a result of changes in values.

Under staff advances, the amount of P148 991 989 (2022: P138 521 301) was for owner-occupied residential mortgage loans. The Bank is the first holder of the mortgage loan bonds. As at year-end, the total value of this collateral was a fair value of P195 280 499 (2022: P195 280 499), based on the property valuation report as at November 2020 (refer to page 49 valuation of properties).

The Tables below reflect the credit exposure based on the fair value of the assets with counterparties As at 31 December 2023.

Credit Exposure on Bonds

			2023	2022
Moody's/S&P Rating	Government (P'000)	Corporate (P'000)	Total (P'000)	Total (P'000)
AAA	8 872 267	527 780	9 400 047	7 928 691
AA+	1 021 181	34 008	1 055 189	755 581
AA	2 333 197	116 766	2 449 963	1 644 657
AA-	209 740	237 400	447 140	592 042
A+	2 919 823	610 767	3 530 590	2 711 507
A	433 135	517 384	950 519	787 113
Other[10]	1 405 896	4 051 682	5 457 578	4 515 035
	17 195 239	6 095 787	23 291 026	18 934 626

10 Other includes investments rated below A-, but still remain within the acceptable investment grade (BBB-) as per the investment guidelines.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Credit Exposure to Banks (Short-term deposits)

Fitch Rating	2023 (P'000)	2022 (P'000)
AAA[11]	2 312 603	3 000 835
AA+	290 604	74 625
AA	255 063	359 926
AA-	2 092 671	1 386 206
A	27 351	363 254
A+	22 506	258 934
A-	-	901 867
BBB	-	298 265
BB+	2 474 187	2 048 883
	7 474 985	8 692 795

Credit Exposure on Securities Lending Programme

The Bank's global custodian manages a Securities Lending Programme as agent of the Bank. Due to the short-term nature of the securities lending transactions, the collateral received under this programme changes on a short-term basis. The securities lending is regulated by a securities lending agreement with the global custodian and follows the general criteria for the Bank's credit exposure. The global custodian monitors the market value of the collateral and, where necessary, obtains additional collateral in line with the underlying agreement.

(e) Instrument Risk

i. Sovereign Bonds

In accordance with the Reserves Management Policies and Investment Guidelines, the Bank invests in eligible investment grade instruments that are direct obligations or obligations explicitly guaranteed by governments or local governments. Exposure limits are assigned to the specific sovereign countries in accordance with the ratings assigned by at least two credit rating agencies. If an issuer is rated by one rating agency its exposure limit will be downgraded by one notch.

ii. Corporate Bonds

The Bank invests in investment grade corporate bonds rated BBB- or higher, with the issuer being incorporated and tax resident in a country whose sovereign debt is eligible for investment by the Bank. A reasonable geographical spread of issuers is maintained. This is with the exception of the Strategic Yield Portfolio, which can invest in issuers rated below investment grade with a credit limit of B-.

(f) Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due, hence liquidity is an integral part of the Bank's foreign exchange reserves policies. To limit this risk, the Management manages the assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. The Bank is exposed to daily Pula liquidity requirements on the deposits it holds on behalf of the shareholder, Government of Botswana, the banking system and other clients holding deposits with the Bank (mainly parastatals). For the purpose of managing foreign exchange reserves, the Bank keeps some of its assets in short-term deposits and other liquid money market instruments to enable the availability of liquidity to meet outflows without incurring undue capital loss and to provide flexibility to respond effectively to changing market requirements.

Credit Quality Analysis

The Bank uses the following criteria to assess issuer risk

Normal – an issuer or bank will be considered as normal if its credit rating is maintained within investment grade. For staff loans, the Bank mitigates the credit exposure by considering the staff overall indebtedness and all loans are deducted at source.

Concerned – the Bank will be concerned if the credit rating falls to the lowest scale within the investment grade category. Such an issuer will be placed under watch for regular review. The Bank may decide to disinvest if such an issuer is under negative watch for an extended period. For ex-staff debts carrying amounts are recovered from terminal benefits.

11 Included in AAA, AA+, AA, A and BB+ are deposits held with central banks.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Credit Quality Analysis (Cont'd)

Sub-investment grade – an issuer is considered to be in sub-investment grade if the credit ratings fall below investment grade rating.

Default – an issuer is considered to be in default if it is rated below investment grade by two rating agencies. If the rating falls below investment grade, all investments on the issuer will be terminated immediately. In case of deposits, such deposits are expected to be repaid on their due date. For ex-staff debts, where there are no terminal benefits to recover from, the whole outstanding debt is impaired.

The Bank uses international rating agencies namely, Moody's, S&P Global (S&P) and Fitch Group for its credit risk assessment. For commercial banks and other deposit taking institutions investments are allowed only in investment grade rated issuers with a minimum rating of BBB- or equivalent (investment grade). Central banks assume the credit rating of their sovereign.

The Table below shows the Bank's risk criteria mapped to external ratings for short-term deposits.

Risk Criteria	Fitch	Moody's	S&P
Normal	AAA AA+ AA AA- A+ A A- BBB+ BBB	Aaa Aa1 Aa2 Aa3 A1 A2 A3 Baa1 Baa2	AAA AA+ AA AA- A+ A A- BBB+ BBB
Concerned	BBB-	Baa3	BBB-
Default		Bbb	BB

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Inputs, Assumptions and Techniques used for Estimating Impairment

The key judgements and assumptions adopted by the Bank in addressing the requirements of IFRS 9 for calculation of expected credit losses are discussed below.

Amounts arising from ECL

ECL is measured on a 12-month basis on initial recognition, subsequent measurement where there is no significant increase in credit risk and for low-risk financial assets. A 12-month ECL represent financial assets' lifetime ECL that are expected to arise from default events that are possible within 12-month period following origination of an asset or from each reporting date.

Significant increase in credit risk

The Bank carries high quality financial instruments whose risk is low. An annual assessment of the risk of default at the reporting date is done.

Measurement of ECL

For financial assets relating to foreign assets, the Bank has adopted the Probability of Default and Loss Given Default models in the determination of ECL. In applying these models, the Bank considers factors such as current economic circumstances of the markets in which it holds investments, forward looking economic and financial indicators to consider the likelihood of a default occurring within the next 12-months.

The key inputs into the measurement of ECL are the following:

- Probability of Default (PD) – is the likelihood of default over a given time horizon of one year. The PD is based on the issuer's credit rating such that the probability of default increases as the credit quality deteriorates
- Loss Given Default (LGD) – is the magnitude of the likely loss, if there is a default by the issuer. It is a percentage of the exposure at default or the share of the exposure to a financial asset that the Bank could lose in the event of default;
- Exposure at Default (EAD) – represents the expected exposure in the event of a default. This is the total value holding of a financial instrument at the time of default.

In determining LGD, the following formula is used:
LGD=1-Recovery Rate (RR); where
RR= Value of Collateral/Value of the fair value of investment.

The Bank places time deposits with approved correspondent banks, central banks and other reputable international deposit taking institutions. These depositories are considered to have minimum risk of default in line with international ratings. As such, the Bank's short-term deposits are not collateralised, consequently the RR is zero; thus, the LGD remains constant at one. This results in the loss rates being equal to the PDs. The loss rates are determined as per applicable Probabilities of Default Fitch Ratings.

Financial instruments are grouped on the basis of shared risk characteristics that include instrument types, credit risk gradings, collateral type, date of initial recognition, remaining term to maturity, industry and geographical location of the borrower.

The Bank recognises impairment loss amounting to 12-months ECL for all staff loans, which is based on the outstanding ex-staff loans over the total of the same category. In determining the LGD, the LGD is 1 (The percentage of the amount lost in case of default), while the EAD is the total value of each class of loans outstanding at the reporting date.

Model Inputs: 1-Year Default Risk

In determining the Probability of Default for the various sovereigns, PD sourced from Bloomberg are used. These probabilities are derived from models based on economic and financial data that the Bank considers sufficiently comprehensive to provide credible estimates of default risk. The variables listed below are the main inputs in the calculation of the PD for each country the Bank holds investments in cash and cash equivalents:

i. expenditure (as a percentage of GDP);
ii. revenues (as a percentage of GDP);
iii. debt due in twelve months (as a percentage of GDP);
iv. long-term debt (as a percentage of GDP);
v. refinancing ability;
vi. budget surplus/deficit (as a percentage of GDP);
vii. non-performing loans (as a percentage of total loans);
viii. GDP growth; and
ix. political risk score.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2023

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Loss allowance

The following Table shows reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

	2023 12-month ECL P'000	2022 12-month ECL P'000
Short-term Deposits at Amortised Cost		
Opening balance	11 157	4 638
Reversals during the year	(266)	-
Net remeasurement of loss allowance	(278)	6 519
	10 613	11 157

Financial and Lease Liabilities at Undiscounted Cash Flows

The table below summarises the maturity profile of the Bank's financial and lease liabilities As at 31 December 2023, based on contractual undiscounted repayment obligations.

31 DECEMBER 2023	Less than 3-months (P'000)	3-12-months (P'000)	1-5 years (P'000)	Over 5 years (P'000)	Total (P'000)
Financial Liabilities					
Derivatives	54	6 362	7 437	62 959	76 812
Bank of Botswana Certificates	5 998 068	-	-	-	5 998 068
Deposits	5 621 384	-	-	-	5 621 384
Standing Deposit Facility	3 487 185	-	-	-	3 487 185
Allocation of SDR - IMF	-	4 433 919	-	-	4 433 919
Liabilities to Government - IMF	-	503 200	-	-	503 200
Dividend to Government	238 758	-	-	-	238 758
Payables and Other Liabilities	164 167	-	-	-	164 167
	15 509 616	4 943 481	7 437	62 959	20 523 493

31 DECEMBER 2023	Less than 3-months (P'000)	3-12-months (P'000)	1-5 years (P'000)	Over 5 years (P'000)	Total (P'000)
Lease Liability	-	-	117	-	117

31 DECEMBER 2022	Less than 3-months (P'000)	3-12-months (P'000)	1-5 years (P'000)	Over 5 years (P'000)	Total (P'000)
Financial Liabilities					
Derivatives	1 496 781	1 313	16 922	83 968	1 598 984
Bank of Botswana Certificates	3 273 810	-	-	-	3 273 810
Deposits	3 782 814	-	-	-	3 782 814
Standing Deposit Facility	341 077	-	-	-	341 077
Allocation of SDR – IMF*	-	4 194 350	-	-	4 194 350
Liabilities to Government – IMF*	-	467 089	-	-	467 089
Dividend to Government	273 205	-	-	-	273 205
Payables and Other Liabilities	137 059	-	-	-	137 059
	9 304 746	4 662 752	16 922	83 968	14 068 388

31 DECEMBER 2022	Less than 3-months (P'000)	3-12-months (P'000)	1-5 years (P'000)	Over 5 years (P'000)	Total (P'000)
Lease Liability	53	1 191	152	-	1 396

As per IFRS 16.58 – Maturity analysis for current year lease liability has been presented separately from financial liabilities with no impact on the numbers presented.

*Previously the Allocation of SDR – IMF was included in the "over 5 years" column and it has now been restated to be included in the "3-12-months" column based on the earliest period that it could contractually be required to be repaid.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Interest Rate Benchmark Reform

The Bank's exposure to IBOR in respect of externally managed portfolio as of 31 DECEMBER 2023, had been converted to interbank offered rates (IBORs) with alterative Risk-Free-Rates (RFR). For conversions made during the year, there were no significant changes in contractual cashflows due to the transition mechanisms used to close out positions. Furthermore, no additional risk management policies were introduced.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation models and techniques

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes). Multiple price types of bid/offer are sourced from pricing providers including last traded price, settlement, evaluated and primary exchange close time pricing.

The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models and valuation techniques. The fair values are based on net present value, discounted cash flow models and comparison with prices from observable current market transactions and dealer quotes for similar instruments. The Bank uses widely recognised valuation models for determining the fair value of financial instruments, such as interest rates yields, that use only observable market data and require little management judgement and estimation.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risk affecting the specific instrument.

The fair values of Government bonds are derived from market quotations. These are prices dealers will be willing to pay for similar instruments.

The Bank uses discounted cash flow analysis to value Bank of Botswana Certificates (BoBCs), with the yield curve providing the discount factors needed.

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value of financial instruments measured at fair value- fair value hierarchy

Fair values are categorised into different levels in a fair value hierarchy, which reflects the significance of the inputs used in making the measurements. If the inputs used to measure the fair value of an asset or a liability are categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

31. FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont'd)

(a) Fair Value of financial instruments measured at fair value

The following Table provides an analysis of the fair value of financial instruments, including their levels in the fair value hierarchy.

31 DECEMBER 2023	Level 1	Level 2	Total
	P'000	P'000	P'000
Financial Assets			
Investments Measured at FVTPL			
Bonds	23 291 026	-	23 291 026
Derivative Instruments	-	41 349	41 349
Equities	27 411 329	-	27 411 329
Total financial assets accounted for at fair value	50 702 355	41 349	50 743 704
Financial Liabilities			
Derivative Instruments	-	76 812	76 812

31 DECEMBER 2022	Level 1	Level 2	Total
	P'000	P'000	P'000
Financial Assets			
Investments Measured at FVTPL			
Bonds	18 934 626	-	18 934 626
Derivative Instruments	-	1 588 289	1 588 289
Equities	21 696 865	-	21 696 865
Total financial assets accounted for at fair value	40 631 491	1 588 289	42 219 780
Financial Liabilities			
Derivative Instruments	-	1 598 984	1 598 984

Financial instruments measured at amortised cost are excluded from the above table. The comparative amount for 2022 has been revised to align to the improved presentation

There were no transfers between levels during the year.

(b) Fair Value of financial instruments measured at amortised cost

At accordance with its accounting policies, the Bank accounts for certain financial instruments at amortised cost and considers that the carrying amounts recognised in the financial statements at amortised cost approximates their fair value. All financial assets measured at amortised cost shown in Notes 12.1 and 12.2 are considered level 2.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2023

32. CLASSIFICATION OF ASSETS AND LIABILITIES

	Current P'000	Non-Current P'000	Total P'000
As at 31 December 2023			
ASSETS			
Liquidity Portfolio	6 301 900	-	6 301 900
Pula Fund	1 127 072	50 702 355	51 829 427
International Monetary Fund (IMF)			
Reserve Tranche	-	1 002 248	1 002 248
Holdings of Special Drawing Rights (SDR)	-	4 526 840	4 526 840
General Subsidy Account	-	27 367	27 367
Receivables and Other Assets	372 310	213 189	585 499
Property, Plant and Equipment	-	1 414 191	1 414 191
TOTAL ASSETS	7 801 282	57 886 190	65 687 472
LIABILITIES			
Allocation of IMF Special Drawing Rights	4 433 919	-	4 433 919
Liabilities to Government (IMF Reserve Tranche)	503 200	-	503 200
Notes and Coin in Circulation	4 360 102	-	4 360 102
Bank of Botswana Certificates	5 998 068	-	5 998 068
Standing Deposit Facility	3 487 185	-	3 487 185
Deposits	5 621 384	-	5 621 384
Dividend to Government	238 758	-	238 758
Payables and Other Liabilities	509 728	-	509 728
Total Liabilities	25 152 344	-	25 152 344

As at 31 December 2022	Current P'000	Non-Current P'000	Total P'000
ASSETS			
Liquidity Portfolio	5 960 397	-	5 960 397
Pula Fund	2 710 811	40 631 492	43 342 303
International Monetary Fund (IMF)			
Reserve Tranche	-	966 136	966 136
Holdings of Special Drawing Rights (SDR)	-	4 239 750	4 239 750
General Subsidy Account	-	25 888	25 888
Receivables and Other Assets	182 859	193 715	376 574
Standing Credit Facility	248 965	-	248 965
Property, Plant and Equipment	-	1 162 285	1 162 285
TOTAL ASSETS	9 103 032	47 219 266	56 322 298
LIABILITIES			
Allocation of IMF Special Drawing Rights	4 194 350	-	4 194 350
Liabilities to Government (IMF Reserve Tranche)	467 089	-	467 089
Notes and Coin in Circulation	4 085 884	-	4 085 884
Bank of Botswana Certificates	3 273 810	-	3 273 810
Standing Deposit Facility	341 077	-	341 077
Deposits	3 782 814	-	3 782 814
Dividend to Government	273 205	-	273 205
Payables and Other Liabilities	287 109	-	287 109
Total Liabilities	16 705 338	-	16 705 338

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

33. RELATED PARTY BALANCES AND TRANSACTIONS

Balances and Transactions with the Government

The Bank provides several services to its shareholder, the Government. The main services during the year to 31 DECEMBER 2023 were:

(a) Provision of banking services, including holding of the principal accounts of the Government and

(b) Being agent for government bonds and treasury bills.

The aggregate balances in Government accounts are disclosed in Note 8.

No charge is made to the Government for provision of these services.

Other Related Party Balances and Transactions

(a) Amounts due to related parties.

Included in the balance of outstanding "Deposits – Other" in Note 8 are the following balances with Government-owned institutions.

	2023 P'000	2022 P'000
Botswana Savings Bank	640	1 921
Botswana Unified Revenue Service	11 139	23 198
Total	11 779	25 119
The amounts outstanding are unsecured and have no fixed repayment terms		
(b) Deposit Insurance Scheme of Botswana	25 000	-

The Bank established the Deposit Insurance Scheme in line with Section 43A of the Bank of Botswana (Amendment) Act, 2022 to provide insurance against the loss of part or all deposits in a bank. The Scheme is administered by a body independent of the Bank. The Bank has seconded staff to the Scheme, provides office accommodation and meets all the operating costs and may advance funds to the Scheme on such terms and conditions as it deems fit. The Deposit Insurance Scheme levies premiums on banks and shall be charged all costs associated with the payment of deposits and any restructuring of banks, including paying costs of their liquidation. Government provided seed capital of P15 million for the Scheme.

(c) Remuneration of Key Management Personnel
Key management personnel comprise the Board Members, Governor, Deputy Governors, Chief Operating Officer and Heads of Department.

Gross emoluments of the key management personnel are:

	2023 P'000	2022 P'000
Non-Executive Board members	281	225
Executive Management		
Salaries, allowances and other short-term benefits	34 760	32 152
Post-employment benefits	9 517	7 390
	44 558	39 767

Of the Staff Loans and Advances per Note 3, P7 372 535 (2022: P2 979 786) are attributable to Executive Management.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

34. GOVERNMENT OF BOTSWANA BONDS AND TREASURY BILLS

In accordance with Section 56 and 57 of the Bank of Botswana Act (CAP 55:01), the Bank acts as agent of the Government for the issuance and management of the Government Bonds and Treasury Bills. An analysis of the Bonds and Treasury Bills issued is provided below:

Government of Botswana Bonds and Treasury Bills issued during the Year 2023

Bond/ Treasury Bill	Date of Issue	Date of Maturity	Interest Rate Percent (per annum)	Nominal Value (P' 000)	Discount /Premium (P' 000)	Net Proceeds (P' 000)	Interest Paid (P' 000)	Interest Accrued (P' 000)
BOTSGB0325/876	Nov 22	Mar 10, 2025	8	(1 200 000)	-	-	-	(29 802)
BOTSGB0931/1213	Mar 1, Mar 29, May 3, Aug 30, Nov 29, 2023	Sept 10, 2031	7.75	1 053 000	(28 128)	1 024 869	36 928	25 334
BOTSGB0640/1437	Mar 1, May 3, Aug 30, Nov 29, 2023	June 13, 2040	6	572 000	(121 512)	450 487	22 320	1 781
BOTSGB0929/1981	Nov 1, Nov 29, 2023	Sept 5, 2029	4.8	682 936	(30 851)	269 147	9 190	10 626
BOTSGB0943/1999	Feb 1, Mar 29, May 31, Jul 5, Oct 5, Nov 1 2023	Sept 2, 2043	5.3	1 794 590	(333 901)	713 099	25 095	31 617
BOTSGB0527/2740	Feb 1, Mar 1, Mar 29, May 31, Jul 5 Aug 30, Oct 5, 2023	May 5, 2027	5.5	1 717 332	(61 408)	903 591	33 935	14 790
BOTSGB0635/3995	May 31, Jul 5, Oct 5, Nov 1, 2023	June 6, 2035	8.6	772 000	15 302	787 302	34 378	4 716
BOTSTB0423/3623	Jan 4, 2023	Apr 5, 2023	-	150 000	(1 591)	148 408	1 591	-
BOTSTB0723/3631	Jan 4, 2023	Jul 5, 2023	-	50 000	(1 287)	48 712	1 287	-
BOTSTB0523/3789	Feb 1, 2023	May 3, 2023	-	335 000	(3 675)	331 325	3 675	-
BOTSTB0823/3797	Feb 1, 2023	Aug 2, 2023	-	450 000	(11 722)	438 277	11 722	-
BOTSTB0523/3821	Mar 1, 2023	May 31, 2023	-	400 000	(4 536)	395 464	4 536	-
BOTSTB0823/3839	Mar 1, 2023	Aug 30, 2023	-	250 000	(6 672)	243 327	6 672	-
BOTSTB0723/3896	Apr 5, 2023	Jul 5, 2023	-	300 000	(4 080)	295 920	4 080	-
BOTSTB1023/3904	Apr 5, 2023	Oct 4, 2023	-	400 000	(12 276)	387 724	12 276	-
BOTSTB0823/3227	May 3, 2023	Aug 2, 2023	-	420 000	(5 649)	414 351	5 649	-
BOTSTB1123/3946	May 3, 2023	Nov 1, 2023	-	780 000	(24 414)	755 586	24 414	-
BOTSTB0823/3979	May 31, 2023	Aug 30, 2023	-	650 000	(8 742)	641 257	8 742	-
BOTSTB1123/3987	May 31, 2023	Nov 29, 2023	-	550 000	(17 215)	532 785	17 215	-
BOTSTB1023/4084	Jul 5, 2023	Oct 4, 2023	-	620 000	(8 432)	611 568	8 432	-
BOTSTB1123/4134	Aug 2, 2023	Nov 1, 2023	-	420 000	(5 678)	414 321	5 678	-
BOTSTB1123/4449	Aug 30, 2023	Nov 29, 2023	-	350 000	(4 707)	345 292	4 707	-
BOTSTB0124/3805	Feb 1, 2023	Jan 31, 2024	-	950 000	(50 673)	899 327	-	46 496
BOTSTB0424/3912	Apr 5, 2023	Apr 3, 2024	-	100 000	(6 200)	93 800	-	4 616
BOTSTB0124/4092	Jul 5, 2023	Jan 3, 2024	-	270 000	(8 572)	261 427	-	8 478
BOTSTB0124/4142	Aug 2, 2023	Jan 31, 2024	-	480 000	(13 944)	466 056	-	11 645
BOTSTB0724/4159	Aug 2, 2023	Jul 31, 2024	-	280 000	(15 834)	264 166	-	6 612
BOTSTB0224/4456	Aug 30, 2023	Feb 28, 2024	-	550 000	(15 207)	534 792	-	10 361
BOTSTB0124/4514	Oct 5, 2023	Jan 3, 2024	-	500 000	(6 330)	493 670	-	6 189
BOTSTB0424/4522	Oct 5, 2023	Apr 3, 2024	-	520 000	(13 546)	506 454	-	6 586
BOTSTB0124/4720	Nov 1, 2023	Jan 31, 2024	-	300 000	(3 630)	296 370	-	2 433
BOTSTB0424/4738	Nov 1, 2023	Apr 30, 2024	-	650 000	(15 723)	634 276	-	5 299
BOTSTB1024/4746	Nov 1, 2023	Oct 30, 2024	-	500 000	(24 875)	475 125	-	4 168
BOTSTB0224/4829	Nov 29, 2023	Feb 28, 2024	-	300 000	(3 183)	296 817	-	1 154
BOTSTB0524/4837	Nov 29, 2023	May 29, 2024	-	600 000	(13 170)	586 830	-	2 388
TOTAL				**17 516 858**	**(872 061)**	**15 961 922**	**282 522**	**175 487**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2023

34. GOVERNMENT OF BOTSWANA BONDS AND TREASURY BILLS (Cont'd)

Government of Botswana Bonds and Treasury Bills issued during the Year 2022

Bond/ Treasury Bill	Date of Issue	Date of Maturity	Interest Rate Percent (per annum)	Nominal Value (P' 000)	Discount /Premium (P' 000)	Net Proceeds (P' 000)	Interest Paid (P' 000)	Interest Accrued (P' 000)
BOTSGB0325/876	May 4, 2022 Mar 3, 2021	Mar 10, 2025	8	23 000	1 677	24 677	920	574
BOTSGB0931/1213	Feb 2, Mar 2, Mar 30, May 4, June 1, July 6, Aug 31, Oct 5, Nov 2, Nov 30, 2022	Sept 10, 2031	7.75	1 218 000	(37 980)	1 180 020	30 186	29 466
BOTSGB0640/1437	Feb 2, Mar 30, June 1, Aug 31, 2022	June 13, 2040	6	678 000	(139 600)	538 399	38 220	2 123
BOTSGB0943/1999	Mar 2, May 4, Jul 6, Oct 5, 2022	Sept 2, 2043	5.3	414 000	(127 222)	286 778	7 844	7 334
BOTSGB0527/2740	Feb 2, Jun 1, Jul 6, Aug 31, Oct 5, Nov 2, Nov 30, 2022	May 5, 2027	5.5	730 000	(38 514)	691 486	19 250	6 322
BOTSTB0422/3003	Jan 5, 2022	Apr 6, 2022	-	300 000	(1 080)	298 920	1 080	-
BOTSTB0522/3029	Feb 2, 2022	May 4, 2022	-	250 000	(887)	249 112	887	-
BOTSTB0622/3177	Mar 2, 2022	Jun 1, 2022	-	500 000	(1 770)	498 230	1 770	-
BOTSTB0722/3011	Jan 5, 2022	Jul 6, 2022	-	280 000	(2 147)	277 852	2 147	-
BOTSTB0722/3193	Apr 6, 2022	Jul 6, 2022	-	300 000	(1 065)	298 935	1 065	-
BOTSTB0822/3037	Feb 2, 2022	Aug 3, 2022	-	100 000	(757)	99 243	757	-
BOTSTB0822/3227	May 4, 2022	Aug 3 2022	-	350 000	(1 778)	348 222	1 778	-
BOTSTB0822/3185	Mar 2, 2022	Aug 31, 2022	-	315 000	(3 109)	311 891	3 109	-
BOTSTB0822/3243	Jun 1, 2022	Aug 31, 2022	-	100 000	(504)	99 496	504	-
BOTSTB1022/3201	Apr 6, 2022	Oct 5, 2022	-	780 000	(7 698)	772 301	7 698	-
BOTSTB1022/3276	Jul 6, 2022	Oct 5, 2022	-	300 000	(2 265)	297 735	2 265	-
BOTSTB1122/3235	May 4, 2022	Nov 2, 2022	-	200 000	(2 462)	197 538	2 462	-
BOTSTB1122/3334	Aug 3, 2022	Nov 2, 2022	-	650 000	(5 167)	644 832	5 167	-
BOTSTB1122/3250	June 1, 2022	Nov 30, 2022	-	550 000	(6 770)	543 229	6 770	-
BOTSTB1122/3474	Aug 31, 2022	Nov 30, 2022	-	265 000	(2 292)	262 707	2 292	-
BOTSTB0123/3284	Jul 6, 2022	Jan 4, 2023	-	75 000	(1 382)	73 617	-	1 359
BOTSTB0123/3490	Oct 5, 2022	Jan 4, 2023	-	300 000	(2 961)	297 039	-	2 863
BOTSTB0223/3045	Feb 2, 2022	Feb 1, 2023	-	1 150 000	(34 155)	1 115 845	-	31 246
BOTSTB0223/3342	Aug 2, 2022	Feb 1, 2023	-	150 000	(2 826)	147 174	-	2 344
BOTSTB0223/3516	Nov 2, 2022	Feb 1, 2023	-	300 000	(3 108)	296 892	-	2 049
BOTSTB0323/3482	Aug 31, 2022	Mar 1, 2023	-	300 000	(6 585)	293 415	-	4 450
BOTSTB0323/3540	Nov 30, 2022	Mar 1, 2023	-	230 000	(2 410)	227 589	-	847
BOTSTB0423/3219	Apr 6, 2022	Apr 5, 2023	-	401 000	(12 403)	388 597	-	9 200
BOTSTB0423/3508	Oct 5, 2022	Apr 5, 2023	-	300 000	(7 299)	292 701	-	3 529
BOTSTB0523/3524	Nov 2, 2022	May 3, 2023	-	775 000	(18 987)	756 012	-	6 259
BOTSTB0523/3557	Nov 30, 2022	May 31, 2023	-	615 000	(16 113)	598 887	-	2 833
BOTSTB0823/3359	Aug 3, 2022	Aug 2, 2023	-	195 000	(7 928)	187 071	-	3 289
BOTSTB1123/3532	Nov 2, 2022	Nov 1, 2023	-	250 000	(12 550)	237 450	-	2 068
TOTAL				**13 344 000**	**(510 097)**	**12 833 892**	**136 171**	**118 155**

(a.) Net proceeds realised from the issue of the bonds of P15 961 922 000 (2022: P12 833 892 000) were invested in the Government Investment Account. The nominal value of holdings of total outstanding Government Bonds and Treasury Bills As at 31 December 2023, was P29 133 858 050 (2022: P25 789 000 000).The nominal value of redemptions during the year to 31 DECEMBER 2023, was P13 857 000 000 (2022: P9 993 000 000).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2023

34. GOVERNMENT OF BOTSWANA BONDS AND TREASURY BILLS (Cont'd)

(b.) Interest is payable on all interest earning bonds on a semi-annual basis in arrears. During the year to 31 DECEMBER 2023, total interest payments of P1 624 940 668 were made (2022: P1 302 122 080) and were funded from the Government's current (remittances) account maintained with the Bank.

(c.) Government Bonds and Treasury Bills are liabilities of Government; and are, therefore, not accounted for in the Statement of Financial Position of the Bank.

35. ADMINISTRATION COSTS

	2023 P'000	2022 P'000
Operating Costs	291 226	231 240
Personnel Costs	564 118	509 364
General Costs	46 208	45 946
	901 552	786 550

Administrative Costs have been presented by function as per IAS 1:104 disclosure requirements. The comparative amounts for 2022 have been included to align to the improved presentation.

The Bank's contribution to the Bank of Botswana Defined Contribution Staff Pension Fund For the year ended 31 December 2023 was P57 408 088 (2022: P51 372 600).

36. EVENTS AFTER THE REPORTING DATE

There were no post balance sheet events noted as at the reporting date.

37. GOING CONCERN

The annual financial statements have been prepared based on accounting policies applicable to a going concern. The basis presumes that funds will be available to finance operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business and the Bank will be able to continue for the foreseeable future.

The volatile global financial markets associated with geopolitical tensions and elevated global inflationary pressures had an adverse impact on the foreign exchange reserves in terms of inflows and returns. However, the Investment Committee continued to maintain its primary focus of managing the foreign exchange reserves with the key objectives: of preservation of capital (safety); liquidity; returns; and employment of appropriate diversification strategies through investments in emerging markets to optimise the value and return on the foreign exchange reserves, in line with the Reserves Management Policies and Investment Guidelines.

Management has re-assessed the appropriateness of the use of the going concern assumption in the preparation of these financial statements. Based on the assessment performed, Management is of the view that the ongoing geopolitical issues which are likely to heighten uncertainty are not anticipated to result in material uncertainty related to such events or conditions that may cast doubt on the Bank's ability to continue as a going concern. Despite the foregoing, the expected improvement in global demand in 2024 is likely to result in increased inflows from both diamond sales and receipts from SACU, underpinned by the implementation of the planned medium-term fiscal condition. The Board concurs with this assessment, supported by the increase of the General Reserve funding and recapitalisation of the Bank, mandated by the Bank of Botswana (Amendment) Act, 2022 on February 14, 2023. In addition, the Bank is established by statute as the central bank of the Republic of Botswana with powers generally conferred upon a central bank/monetary authority of any jurisdiction.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2023

38. RESTATEMENT OF STATEMENT OF CASHFLOWS

Reassessment of the classification of the liquidity portfolio
The liquidity portfolio comprises of foreign nostro accounts. The accounts are accessible on demand by the Bank of Botswana. Therefore, per IAS 7, they have been assessed to meet the definition of cash. Previously the movements in the foreign nostro accounts were included in the investing activities section "Net investment from foreign exchange reserves". They have now been restated to be shown as "Cash and cash equivalents".

Reassessment of the classification of the assets in the Pula Fund
The Bank of Botswana has reassessed the nature of its investment in foreign reserves assets that form part of the Pula Fund. The returns from the assets generate the principal revenue of the Bank (i.e., the fair value gains/loss, interest and dividend income). In addition, the Bank is actively involved in managing these assets and therefore it is more appropriate to classify the cash flows from these activities as operating in nature as opposed to investing.

The above changes have resulted in the following restatements to the previously reported 2022 cash flow:

	Restated 2022	Restatement	As previously reported in 2022
	P'000	P'000	P'000
CASH GENERATED FROM/(USED IN) OPERATIONS			
Unrealised exchange gains	(364 382)	1 362 183	(1 726 565)
Movement in Pula Fund – Foreign reserves	(2 177 043)	(2 177 043)	-
Cash used in operating activities	**(2 541 425)**	**(814 860)**	**(1 726 565)**
INVESTING ACTIVITIES			
Net (investment)/withdrawals from foreign exchange reserves	-	4 517 221	(4 517 221)
Net cash used in investing activities	**-**	**4 517 221**	**(4 517 221)**
Net increase in Cash and Cash Equivalents	3 702 361	3 702 361	-
Net foreign exchange difference	(130 525)	(130 525)	-
Impairment loss	(8 422)	(8 422)	-
Cash and Cash Equivalents at beginning of year	2 396 983	2 396 983	-
CASH AND CASH EQUIVALENTS AT YEAR END	5 960 397	5 960 397	-

PART B

CHAPTER 1: THE BOTSWANA ECONOMY IN 2023

1. Output, Employment and Prices

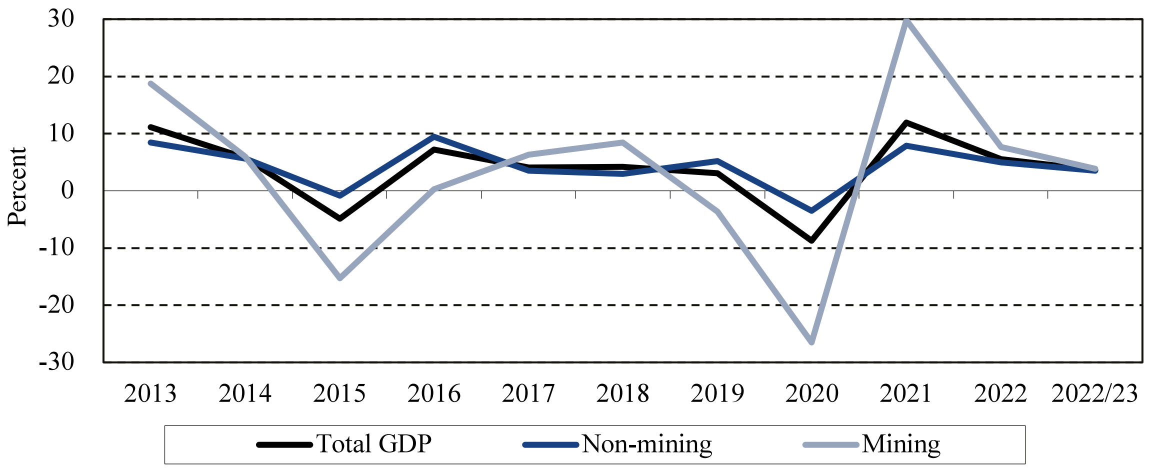
(a) National Income Accounts

Overview

1.1 Real GDP increased by 3.6 percent in the twelve months to September 2023, compared to a higher growth of 5.6 percent in the year to September 2022. The slowdown in growth was attributable to both the *mining* (mostly diamond mining) and the *non-mining* sectors. *Mining* output grew by 3.9 percent in the year ending September 2023, a notable deceleration from 9.3 percent in the corresponding period in 2022, driven by lower output at Orapa Mine due to temporary cessation of mining for planned maintenance in the third quarter of 2023.

1.2 *Non-mining* GDP increased by 3.5 percent in the year to September 2023, compared to a higher growth of 4.6 percent in the corresponding period in 2022, due to the deceleration of output growth for several sectors, namely, *manufacturing; wholesale and retail; diamond traders; information and communication technology; water and electricity; and agriculture.*

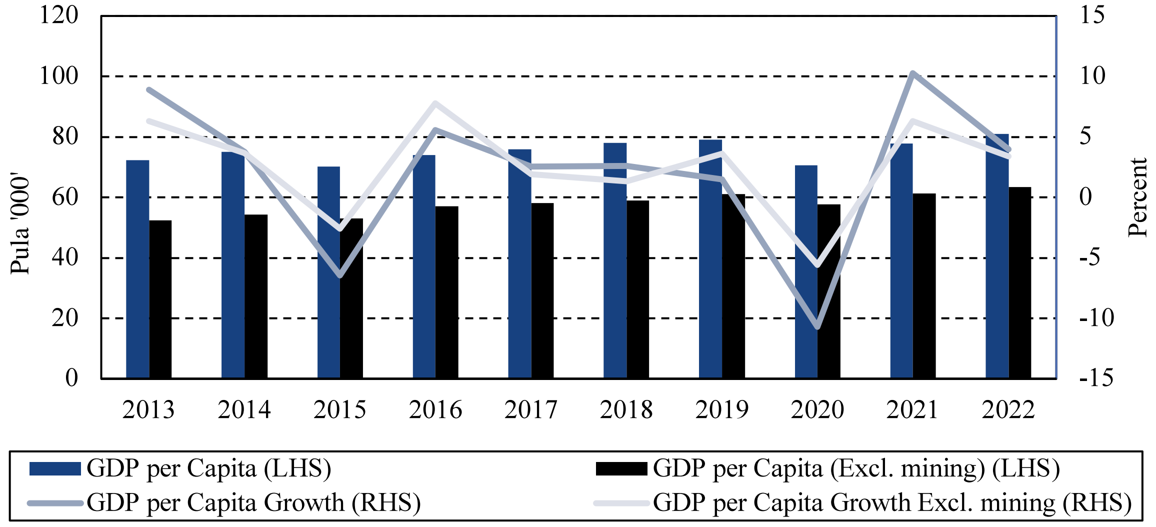
Chart 1.1: Real GDP Growth 2012 - 2022/2023 (Percent)



Note 1: Data for 2022/23 are for the twelve-month period to September 2023.
Source: Statistics Botswana

1.3 As shown in Chart 1.1, over the last ten years to 2023, annual rates of economic growth have been generally low, with sharp contractions in 2015 and 2020 due to the adverse impact of a drastic fall in commodity prices and the impact of COVID-19 pandemic, respectively. While the ten-year growth profile was similar for both the mining and non-mining components of GDP, the former exhibited higher volatility. Related thereto, the profile was also similar for the per capita income growth rates (Chart 1.2). Overall, per capita income increased from P66 358 in 2012 to P80 963 in 2022, a 22 percent increase over ten years, albeit with a big drop from P79 088 in 2019, to P70 628 in 2020 in the advent of COVID-19 pandemic. Annual growth averaged 3.5 percent for GDP and 1.8 percent for per capita income over the same decade.

Chart 1.2: Real GDP Per Capita Trends (2013 – 2022)



Source: Statistics Botswana

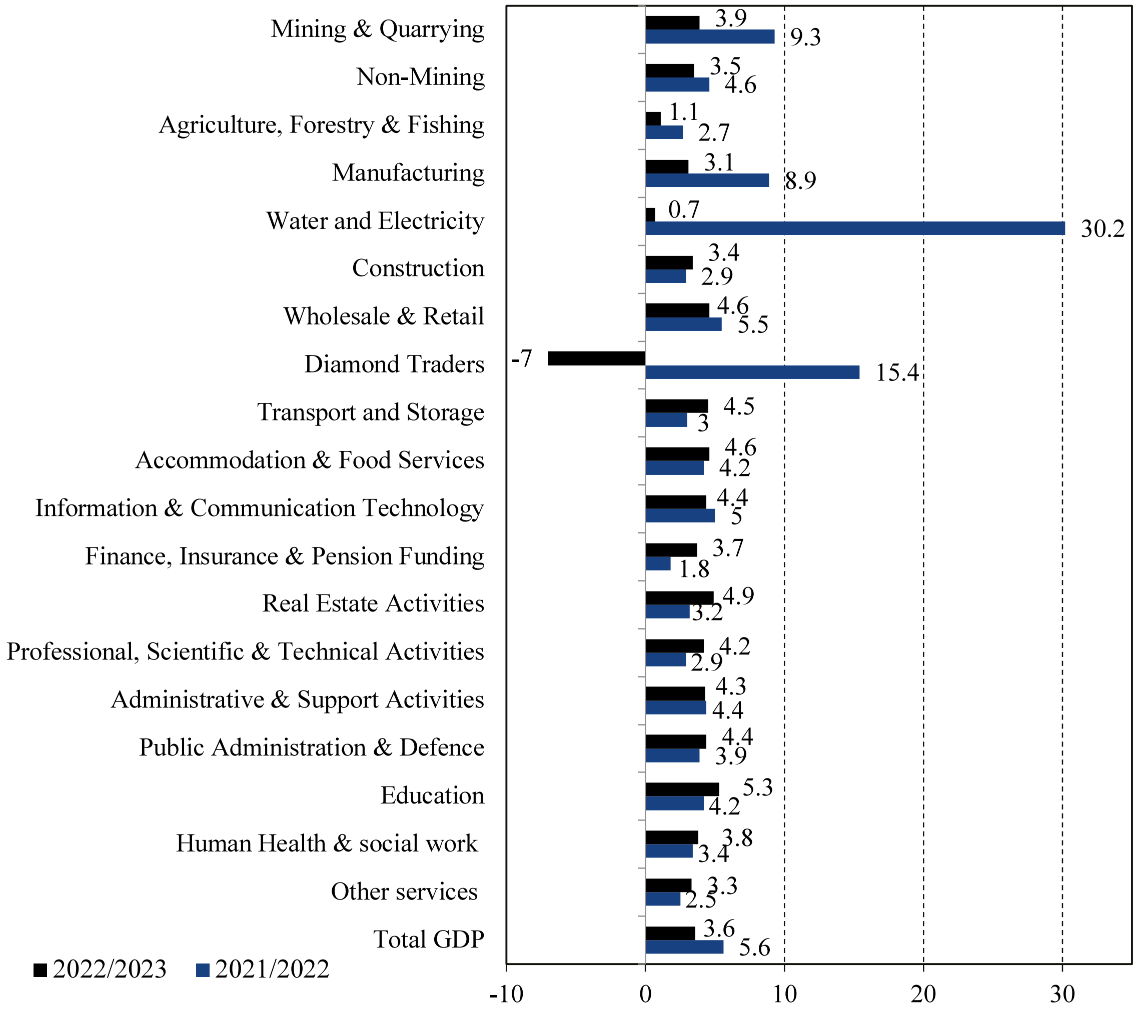
Sectoral Performance

1.4 The economy experienced slowdown in real economic activity across a number of sectors in the year ending September 2023 compared to the year ending September 2022. However, some segments of the economy exhibited growth in the same period owing to continued economic recovery following the COVID-19 pandemic. Sectors that recorded stronger growth in 2023 compared to 2022 include *Other Services*[12]*; Human Health and Social Work; Education; Public Administration and Defence; Professional, Scientific and Technical Activities; Real Estate Activities; Finance, Insurance and Pension Funding; Accommodation and Food Services; Transport and Storage; and Construction.* Sectors that contributed the most to overall GDP expansion in the year to September 2023 were *Mining and Quarrying; Public Administration and Defence; Wholesale and Retail*; and *Construction,* with shares of *0.8; 0.7; 0.5;* and *0.3* percentage points, respectively (Chart 1.4).

1.5 Despite the positive contribution to overall economic growth, growth in *mining and quarrying* output decelerated, due to weaker performance of most of the subsectors, led by the *mining of diamonds,* which expanded by a lower rate of 3.7 percent in the year to September 2023, compared to an 8.9 percent increase in the year to September 2022. At the same time, *copper* production slowed significantly in the same period, recording an annual growth rate of 68.2 percent in September 2023 vis-à-vis 298.6 percent in September 2022. The surge in *copper* production in 2022 was due to commencement of mining in the third quarter of 2021 following a two-year hiatus caused by the collapse of global copper demand between 2015 and 2019. The growing demand for copper in the last two years was due to increasing global demand for electric cars.

12 Other services include arts, entertainment, recreation, activities of membership organisations as well as other services like dry cleaners, hairdressing and other beauty treatment, funeral and related activities and households as employers of domestic personnel.

CHART 1.3: REAL GDP GROWTH BY SECTOR (PERCENT)



Note: Data are for the 12-month period ending September 2022 and September 2023.

Source: Statistics Botswana

1.6 Meanwhile, annual growth in *coal* output also decelerated to 0.4 percent in the year to September 2023, from a significant increase of 15 percent in the corresponding period in 2022, possibly due to operational challenges realised at Morupule B Power Station (therefore, low demand) in the second quarter of 2023. Further, output of other mining subsectors, such as *mining of gold and other metal ores*, *mining of soda ash and salt* and *mining support services* contracted in the year to September 2023. The contraction in the output of gold was due to resource depletion as the lifespan of the Mupane Mine approaches its end, while plant care and maintenance at the Sowa Pan Mine conducted in the second quarter of 2023 decreased mining of *soda ash and salt* output.

1.7 *Water and electricity* output increased by 0.7 percent in the year to September 2023, from a substantial expansion of 30.2 percent in the 12-months to September 2022. The slowdown was mainly due to a fall in electricity production, attributable to operational challenges realised at Morupule B Power Station in the second quarter of 2023. Meanwhile, the *water collection* subsector contracted by 1.3 percent compared to a growth of 3 percent in the prior year, also contributing to the deceleration in output growth of the *water and electricity* sector.

1.8 *Diamond traders* sector output contracted by 7 percent in the year to September 2023, compared to a significant growth of 15.4 percent in the corresponding period ending September 2022, on account of reduced demand for rough diamonds due to unfavourable global economic conditions in the review period.

1.9 Output of the *transport and storage* sector increased by 4.5 percent in the 12-months to September 2023, compared to a growth of 3 percent in the corresponding period ending September 2022, led by growth in *air transport* (26.6 percent), because of increased international and domestic passenger movements.

1.10 *Information and communication technology* output increased by 4.4 percent in the year to September 2023, from a growth of 5 percent in the corresponding period in the previous year.

1.11 *Accommodation and food services* sector output increased by 4.6 percent in the year to September 2023, compared to 4.2 percent in the corresponding period ending September 2022. The marginal acceleration in growth was mainly driven by the expansion in both the *accommodation* and *food services* subsectors output, which increased by 4.1 and 5.5 percent, from 3.9 and 4.7 percent, respectively.

1.12 *Wholesale and retail* output growth declined to 4.6 percent from 5.5 percent in the previous period. This could be attributable to reduced demand following the surge in food prices that resulted from supply disruptions during the Russia-Ukraine war.

1.13 *Finance, insurance and pension funding* output grew by 3.7 percent in the 12-month period to September 2023, compared to 1.8 percent growth in the year ending September 2022. Growth in this sector was led by *central banking* (4.1 percent), *monetary intermediation and financial services*[13] (4.1 percent), *insurance and pension funding* (3.9 percent), and *financial and insurance and auxiliary services (*2.3 percent).

1.14 Output of the *construction* sector expanded by 3.4 percent in the 12-months to September 2023, compared to a slower growth of 2.9 percent in the corresponding period ending September 2022. The higher growth in the sector was partly due to the ongoing construction projects, including shopping malls, commercial and residential properties across the country.

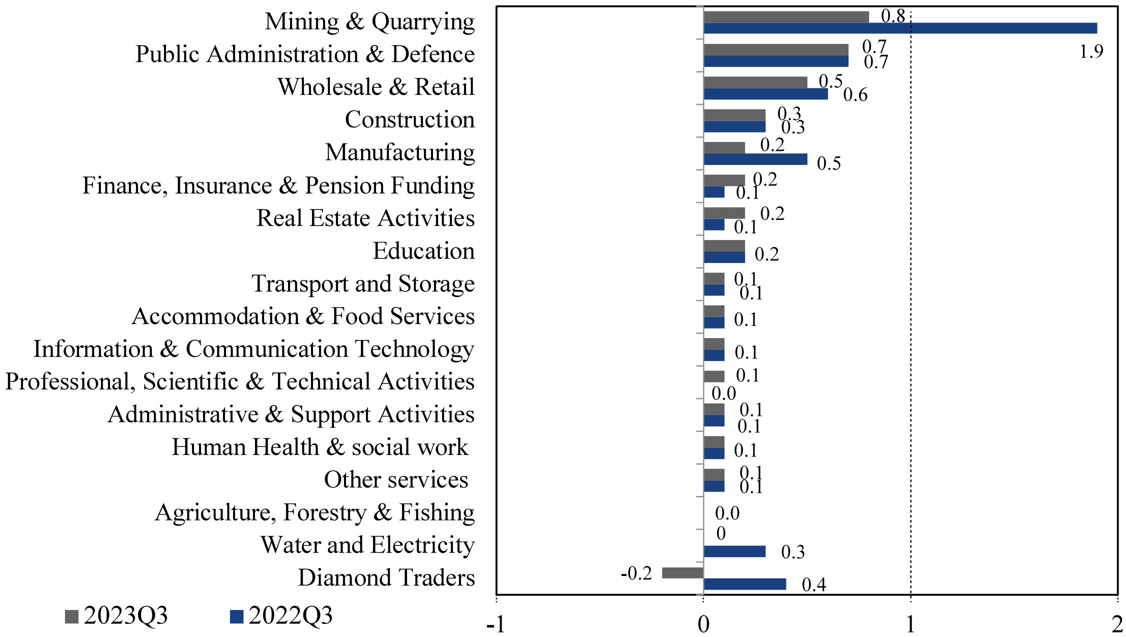
1.15 *Agriculture* output increased by 1.1 percent in the year to September 2023 compared to a higher growth of 2.7 percent in the previous year. The lower increase in *agriculture* production reflects the slowdown in output of all *agriculture* subsectors, possibly due to the effects of drought. The rainfall pattern (combined with high temperatures) for the 2022/23 ploughing season was not conducive and, therefore, resulted in a poor crop output, hence declaration of drought year and sub-sequent introduction of Government subsidies to relieve farmers until 30 June 2024.

1.16 *Manufacturing* output increased by 3.1 percent in the year ending September 2023, compared to a higher increase of 8.9 percent in the corresponding period in September 2022. The deceleration was attributable to the slowdown in sub-sectoral output growth, led by *diamond sorting, cutting and polishing*, which decelerated to 3.6 percent, from 48.9 percent in the review period.

1.17 *Public administration and defence* increased to 4.4 percent in the 12-month period ending September 2023, from a 3.9 percent growth in the corresponding period ending in September 2022. The increase was primarily attributable to an increase in employee compensation.

13 *Financial services* refer to economic services provided by the finance industry, which encompasses a broad range of businesses that manage money, such as credit unions; banks; insurance companies; accountancy companies; stock brokerage; and investment funds.

Chart 1.4: Contribution To Real Gdp Growth By Sector (Percent)



Notes
1. Percentage contribution to growth is measured by multiplying the current sector growth by the sector's share of GDP in the previous year.
2. Data for the two periods are for the twelve-month period ending September 2023 and 2022.

Source:Statistics Botswana

1.18 Output of *real estate activities* rose by 4.9 percent in the 12-month period ending September 2023, compared to a growth of 3.2 percent in the corresponding period ending in September 2022. Expansion in this sector's output was due to the good performance of the *real estate* subsector as demand for rental in both the residential and office space markets improved in the review period.

1.19 *Professional, scientific and technical activities* grew by 4.2 percent in the year to September 2023, compared to a growth of 2.9 percent in the corresponding period ending in September 2022.

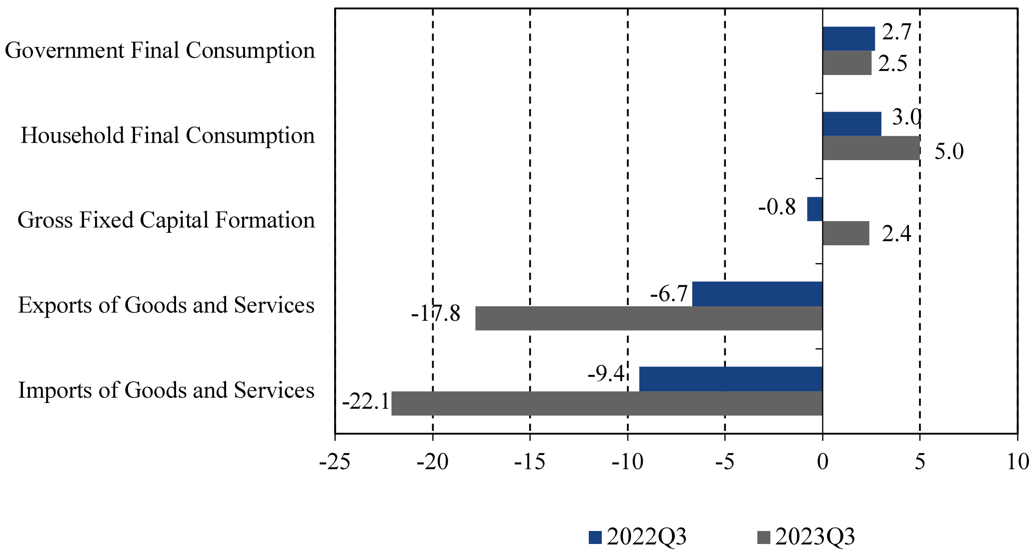
1.20 *Administrative and support activities* output increased by 4.4 percent in the year ending September 2023, the same growth recorded last year in the same period.

1.21 *Education* output grew by 5.3 percent in the 12-month period ending September 2023, compared to a lower increase of 4.2 percent in the corresponding period ending in September 2022.

1.22 *Other services* output increased by 3.3 percent in the year to September 2023, compared to a lower growth of 2.5 percent in 2022. The acceleration was attributable to growth in *activities of membership organisations* and *other services* subsectors such as dry cleaners, hairdressing and other beauty treatment, funeral and related activities and households in their capacity as employers.

1.23 *Human health and social work activities* output increased by 3.8 percent and 3.4 percent in the years ending September 2023 and September 2022, respectively.

Chart 1.5: Real Gdp Growth By Type Of Expenditure (Percent)



Source: Statistics Botswana

GDP by Type of Expenditure

1.24 Growth in *government final consumption* increased by 2.5 percent in the 12-months to September 2023, compared to 2.7 percent in the corresponding period in 2022 (Chart 1.5). This was largely due to deceleration in growth of *collective consumption*[14], which fell from 2.5 percent to 1.7 percent in the review period. Meanwhile, *individual consumption*[15] increased by 5.4 percent, from 3.5 percent in the previous period. On the other hand, *household final consumption* grew by 5 percent in the year ending September 2023, compared to a slower growth of 3 percent in the corresponding period ending in September 2022.

1.25 *Gross fixed capital formation (GFCF*) increased by 2.4 percent in the year to September 2023, compared to a decrease of 0.8 percent in the corresponding period in the previous year. The increase in GFCF was due to the 14.4 percent and 3.7 percent expansion in *investment in transport equipment, and the buildings and construction* subsectors, respectively. Meanwhile, *investment in plant, machinery and other equipment* subsectors recorded contractions.

1.26 *Exports of goods and services* contracted by 17.8 percent in the year to September 2023, compared to a lower contraction of 6.7 percent in the corresponding period in the previous year. By component, exports of goods contracted by 18.3 percent, while for services, the decrease was 9.6 percent. Likewise, *imports of goods and services* contracted by 22.1 percent in the year to September 2023, compared to a contraction of 9.4 percent in the corresponding period in 2022. Imports of goods fell by 24.3 percent while services experienced a 2.7 percent decline. Developments in the exports and imports were mainly due to challenges in the diamond trade, characterised by weakened demand and increased inventories. Furthermore, the fall in imports was exacerbated by the decrease in fuel imports in the review period, owing to a decline in international crude oil prices.

14 Collective consumption expenditure made by general government on services that benefit households, collectively.

15 Actual consumption of goods and services by individuals, irrespective of who purchased them between households, government and non-profit institutions serving households.

(b) Economic Growth Prospects

1.27 Global economic growth is forecast to remain subdued at 3.1 percent in 2024, unchanged from 2023 (Table 1.1), against the backdrop of continued challenging prospects for advanced economies. The challenges are partly because of lower consumer demand associated with higher borrowing costs resulting from monetary policy tightening, fiscal consolidation amid high sovereign debt, the Russia-Ukraine war, low underlying productivity growth and extreme weather conditions. Growth in advanced economies is projected to decline slightly from the expansion of 1.6 percent in 2023 to 1.5 percent in 2024, mostly due to maintenance of tight monetary policy and less favourable credit conditions.

1.28 For emerging market and developing economies, growth is expected to remain at 4.1 percent in 2024 as in 2023. India's growth is expected to remain strong at 6.5 percent in 2024, due to resilience in domestic demand. Output expansion in China is projected to slow down from 5.2 percent in 2023 to 4.6 percent in 2024, largely due to a slump in the real estate market and stagnant consumption. Overall, risks to the global economic outlook are assessed to be broadly balanced. Upside risks include possibility of stronger-than-expected global performance that could arise from lower inflation, slower-than-assumed withdrawal of fiscal support, stronger structural reform momentum and faster economic recovery in China. On the downside, new commodity price spikes from geopolitical shocks, including the continued Houthi militants' attacks on commercial ships in the Red Sea, as well as supply disruptions or more persistent underlying inflation, could prolong tight monetary conditions. Moreover, the possibility of systemic debt distress in emerging market countries, due to a combination of higher borrowing costs and subdued economic activity, could result in lower output expansion. Overall, the global growth forecast for 2024 remains below the historical (2000 - 2019) annual average of 3.8 percent.

Table 1.1: Global Growth Estimates And Forecasts 2022 - 2024 (Percent)

	2022	2023	2024 (Projection)
Global	3.5	3.1	3.1
Advanced economies, of which,	2.6	1.6	1.5
USA	1.9	2.5	2.1
Euro area	3.4	0.5	0.9
Japan	1.0	1.9	0.9
Emerging markets, of which,	4.1	4.1	4.1
Sub-Saharan Africa	4.0	3.3	3.8
China	3.0	5.2	4.6
India	7.2	6.7	6.5
Russia	-1.2	3.0	2.6
South Africa	1.9	0.6	1.0
Botswana	5.5	(3.2)	4.1 (4.2)

Note: Figures in parentheses are forecasts by the MoF.
Source: IMF WEO Update January 2024 and Ministry of Finance (MoF) for Botswana

1.29 Domestically, real GDP is estimated to have expanded by 3.2 percent in 2023 and is forecast to moderate to 4.2 percent in 2024. It is anticipated that the performance of the non-mining sectors will improve, underpinned by, among others, improvements in electricity and water supply, as well as finance, insurance and pension funds sectors. Furthermore, it is anticipated that government interventions to support economic activity, including the potentially expansionary two-year Transitional National Development Plan (TNDP) and reforms to doing business, would further improve the business environment and contribute to improvement in incomes; facilitate expansion of productive capacity; accelerate economic transformation; and build economic resilience. However, given the downside risks to global economic activity, including weaker global demand and adverse impact of the Russia-Ukraine and Israel-Hamas wars, the growth trajectory remains uncertain.

(c) Employment

1.30 According to Statistics Botswana's Quarterly Multi-Topic Survey for the third quarter of 2023, total employment (formal and informal sector), was estimated at 788 616 persons, compared to 717 725 in the fourth quarter of 2022[16]. Government (Public administration) continues to be the single largest employer, constituting 18.3 percent of total employment in the third quarter of 2023 (Table 1.2a). In this regard, personal emoluments constituted the largest share (above 50 percent) of the government recurrent budget, and about 13 percent of GDP. The quarterly survey also indicates an unemployment rate of 25.9 percent in the third quarter of 2023 (youth unemployment at 34.4 percent). Formal sector employment amounted to 490 625 persons in the third quarter of 2023, compared to 486 376 in the fourth quarter of 2022 (Table 1.2b). Related to that, formal sector average earnings per month were estimated at P7 396 for citizens, P15 863 for non-citizens and P7 692 for all employees in the third quarter of 2023.

16 Statistics Botswana did not conduct the Labour Force Survey in the third quarter of 2022 and fourth quarter of 2023.

Table 1.2a: Total Employment By Industry And Gender As At Third Quarter 2023

Industry/ Economic Activity	Male	Female	Total 2023	Share of Employment (Percent) 2023	Total 2022	Share of Employment (Percent) 2022
Agriculture, Forestry & Fishing	66 287	11 209	77 497	9.8	67 839	9.5
Mining & Quarrying	8 942	2 469	11 412	1.4	12 723	1.8
Manufacturing	29 798	27 149	56 947	7.2	50 853	7.1
Electricity, Gas, & Air Conditioning Supply	3 357	285	3 641	0.5	3 563	0.5
Water Supply, Sewage, Waste Management & Remediation Activities	3 733	2 319	6 052	0.8	5 166	0.7
Construction	55 096	3 788	58 884	7.5	50 041	7
Wholesale Trade, except Motor Vehicles & Motorcycles	52 512	71 857	124 369	15.8	125 506	17.5
Transport & Storage	18 292	3 303	21 595	2.7	20 023	2.8
Accommodation & Food Service Activities	11 856	26 805	38 661	4.9	30 955	4.3
Information & Communication	4 054	2 960	7 014	0.9	7 508	1
Finance & Insurance Activities	3 438	5 444	8 883	1.1	10 378	1.4
Real Estate Activities	685	2 696	3 382	0.4	3 121	0.4
Professional, Scientific & Technical Activities	9 596	5 032	14 628	1.9	16 679	2.3
Administrative & Support Service Activities	34 081	19 339	53 420	6.8	44 212	6.2
Public Administration	54 551	89 650	144 200	18.3	131 650	18.3
Education	21 169	44 361	65 530	8.3	57 902	8.1
Human Health & Social Work Activities	10 157	19 274	29 431	3.7	30 703	4.3
Arts, Entertainment & Recreation	1 821	1 124	2 945	0.4	4 555	0.6
Other Service Activities	6 987	11 567	18 554	2.4	11 823	1.6
Households as Employers	7 088	33 587	40 674	5.2	31 156	4.3
Activities of Extraterritorial Organisations	216	681	897	0.1	1 371	0.2
Total	**403 717**	**384 899**	**788 616**	**100.0**	**717 725**	**100.0**

Source: Statistics Botswana

Table 1.2b: Formal Employment By Industry And Gender As At Third Quarter 2023

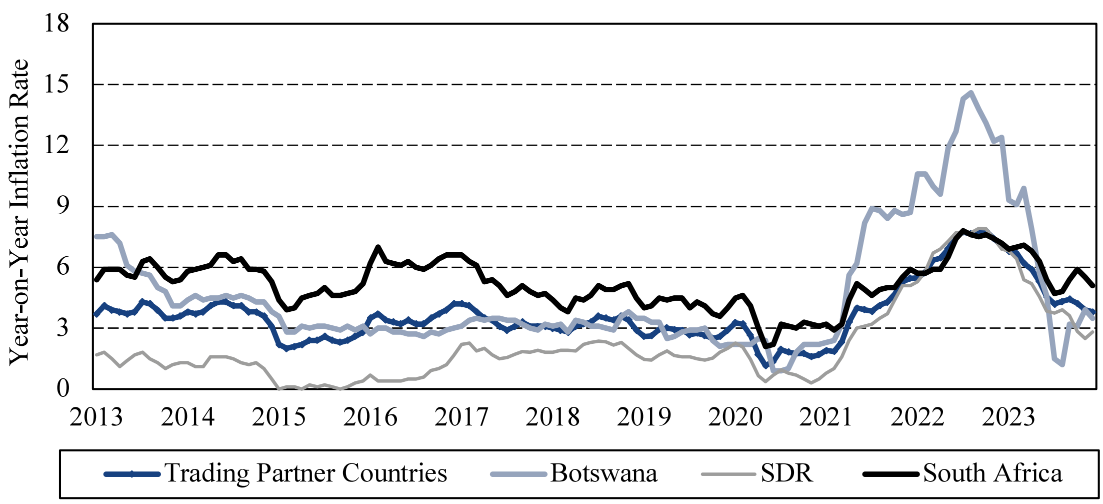
Industry/ Economic Activity	Male	Female	Total 2023	Share of Employment (Percent) 2023	Total 2022	Share of Employment (Percent) 2022
Agriculture, Forestry & Fishing	8 949	3 500	12 446	2.5	14 114	2.9
Mining & Quarrying	8 171	2 186	10 357	2.1	11 607	2.4
Manufacturing	20 229	11 726	31 954	6.5	32 954	6.8
Electricity, Gas, & Air Conditioning Supply	3 357	285	3 641	0.7	3 563	0.5
Water Supply, Sewage, Waste Management & Remediation Activities	3 733	2 319	6 052	1.2	4 403	0.9
Construction	16 548	3 575	20 122	4.1	20 080	4.1
Wholesale Trade, except Motor Vehicles & Motorcycles	31 994	29 494	61 488	12.5	68 987	14.2
Transport & Storage	7 371	2 001	9 372	1.9	9 885	2.0
Accommodation & Food Service Activities	6 562	13 331	19 893	4.1	23 162	4.8
Information & Communication	3 603	2 548	6 152	1.3	6 956	1.4
Finance & Insurance Activities	3 439	4 849	8 288	1.7	9 392	2.9
Real Estate Activities	168	997	1 164	0.2	1 537	0.3
Professional, Scientific & Technical Activities	6 646	4 652	11 297	2.3	15 184	3.1
Administrative & Support Service Activities	29 820	17 094	46 913	9.6	40 877	8.4
Public Administration	53 997	89 650	143 647	29.3	130 924	26.9
Education	19 545	42 607	62 151	12.7	56 351	11.6
Human Health & Social Work Activities	9 922	18 295	28 218	5.7	28 939	5.8
Arts, Entertainment & Recreation	1 152	853	2 005	0.4	2 856	0.6
Other Service Activities	1 879	2 925	4 804	1.0	3 650	0.6
Activities of Extraterritorial Organisations	216	681	897	0.2	1 371	0.3
Total	**237 295**	**253 566**	**490 861**	**100.0**	**486 432**	**100.0**

Source: Statistics Botswana

(d) Inflation

1.31 In 2023, global inflation moderated though it remained high compared to historical levels. The receding inflationary pressures were mainly due to relatively lower food and fuel prices, continued tight monetary policy conditions and constrained household budgets (reduced demand). Global inflation decreased from 8.7 percent in 2022 to 6.8 percent in 2023. The price of the Organisation of the Petroleum Exporting Countries (OPEC) reference crude oil basket, Brent crude and West Texas Intermediate (WTI) decreased by 16.7 percent, 16.8 percent and 17.3 percent to an average of USD83.10 per barrel, USD82.95 per barrel and USD77.93 per barrel in 2023, respectively. The decrease in oil prices was mainly due to restrained demand resulting from continued interest rate hikes by most central banks, particularly in advanced economies, and subdued economic activity in China, the world's largest importer of crude oil. The increase in shale oil inventories in the US also exerted downward pressure on oil prices. Similarly, international food prices declined by 13.7 percent in 2023, from an increase of 13.3 percent in 2022, driven by the decrease in prices of vegetable oils, dairy, cereals and meat. The decrease was attributable to, among others, increased seasonal supply from some commodity exporting countries[17]; the Black Sea grains export deal between Ukraine, Russia, Turkey and the United Nations which, however, ended in July 2023; modest demand due to global economic slowdown; and easing of international oil prices, an input in food production. Overall, international oil and food prices exerted downward pressure on domestic inflation in 2023.

Chart 1.6: Botswana And Trading Partner Countries' Inflation (2013 – 2023)



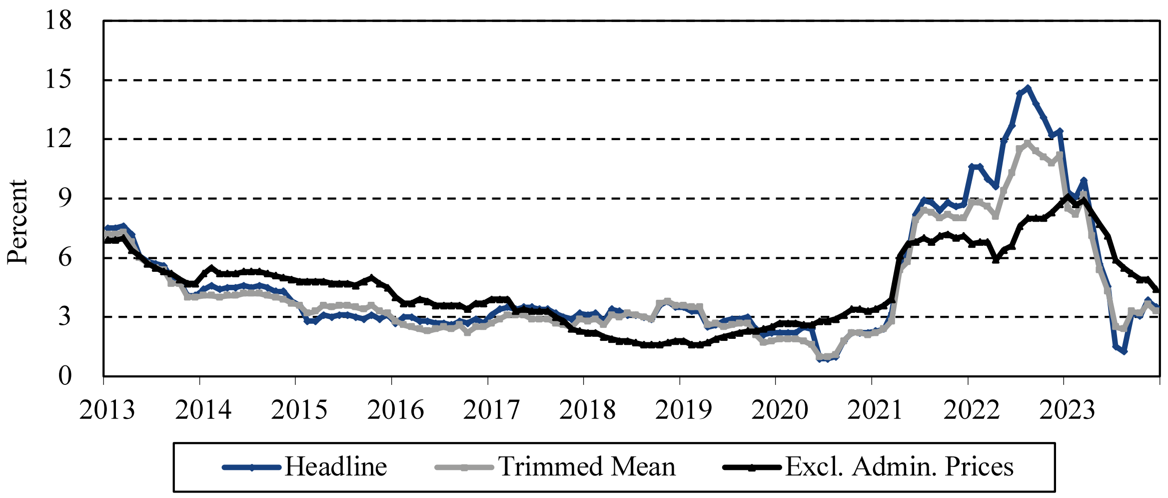
Source: Statistics Botswana, Bank of Botswana and Bloomberg

17 Generally, there was increased seasonal supply of maize from Brazil and the US, vegetable oil from the US and South Asia, as well as meat from Australia.

1.32 Inflation for the Special Drawing Rights (SDR) countries (the USA, Eurozone, China, Japan and the United Kingdom) fell significantly from an average of 7.1 percent in 2022 to 3.8 percent in 2023. Similarly, headline inflation in South Africa decreased from an average of 6.9 percent in 2022 to an average of 6 percent in 2023, reverting to the country's target range of 3 – 6 percent in June 2023. Consequently, the trade weighted average inflation for Botswana's trading partner countries decreased from 7 percent in 2022 to 5 percent in 2023 (Chart 1.6), thus moderating the impact of imported inflation on domestic prices.

1.33 In response to global and domestic developments, domestic inflation decreased significantly over the review period, from an average of 12.1 percent in 2022 to an average of 5.2 percent in 2023. Inflationary pressures eased in 2023 on account of subdued domestic demand; the dissipating impact of the upward adjustment in administered prices in 2022; the reduction in domestic fuel prices during the year; the decrease in trading partner countries' inflation; higher appreciation of the Pula against the South African rand; and the restrained growth in the prices of food and non-alcoholic beverages. Food price inflation decreased from 16.9 percent in December 2022 to 6.1 percent in December 2023, in the context of reduced rate of price increases for bread and cereals, oils, mineral waters, soft drinks, juices, as well as fruits and vegetables. Regarding core inflation measures, the 16 percent trimmed mean inflation declined from an average of 10.2 percent in 2022 to 5.1 percent in 2023, while inflation excluding administered prices decreased from an average of 7.3 percent to 6.7 percent in the same period.

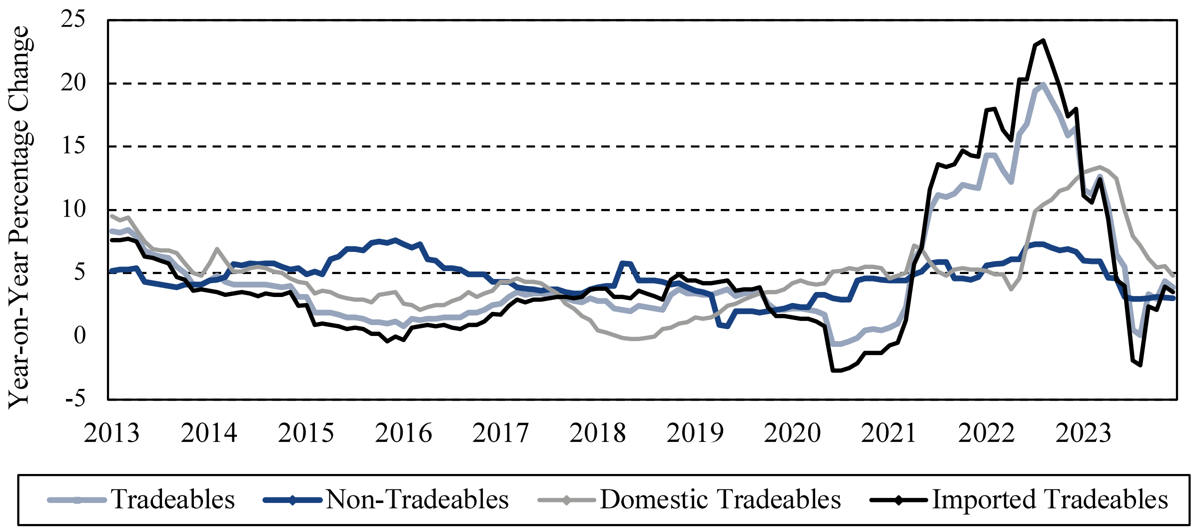
Chart 1.7: Botswana Headline And Core Inflation (2013 – 2023)



Source: Statistics Botswana

1.34 Inflation for domestic tradeables averaged 9.4 percent in 2023, higher than the 8.1 percent in 2022, largely due to the broad-based price increase of some domestically produced food items as well as the increase in private school fees. Conversely, imported tradeables inflation declined from an average of 19.3 percent to 5 percent in the same period, reflecting downward adjustments in domestic fuel prices in 2023, deceleration in vehicle prices owing to the appreciation of the Pula against the South African rand, as well as the base effects associated with the increase in domestic fuel prices in 2022. As a result, all tradeables inflation decreased from an average of 16.2 percent in 2022 to 6.1 percent in 2023. Nontradeables inflation also decreased from an average of 6.5 percent to 4 percent in the same period, mainly due to the base effects associated with the increase in Botswana Housing Corporation (BHC) rentals, domestic air fares and insurance premiums in 2022 (Chart 1.8).

Chart 1.8: Inflation For Tradeables And Non-tradeables (2013 – 2023)



Source: Statistics Botswana

(e) Inflation Outlook

1.35 Global inflationary pressures are projected to moderate in 2024, in response to monetary policy tightening in 2023 and resultant impact on consumption and investment, squeezing of household budgets, as well as anticipated lower commodity prices. Thus, inflation for advanced economies is forecast to ease from 4.6 percent in 2023 to 2.6 percent in 2024, while for emerging market economies, it is forecast to decrease from 8.4 percent to 8.1 percent in the same period. Consequently, global inflation is expected to ease from 6.8 percent in 2023 to 5.8 percent in 2024.

1.36 In Botswana, headline inflation is forecast to remain within the 3 – 6 percent objective range into the medium-term. Inflation could be higher than projected if international commodity prices increase beyond current forecasts and supply and logistical constraints persist, as well as due to the reversal of global economic integration (geoeconomic fragmentation). Furthermore, possible upward adjustment in administered prices that is not factored in the current projection and any increase in domestic food prices due to manifestation of El Niño conditions in Southern Africa, may lead to higher inflation. However, inflation could be lower than currently anticipated because of the possibility of both weaker domestic and global economic activity, as well as any decrease in international commodity prices. The 2024 Monetary Policy Statement provides a detailed analysis of the medium-term outlook for inflation.

2. Public Finance And The 2024/25 Budget

2.1 The 2024/25 Budget Speech presented to Parliament on 5 February 2024, marked the final year of the TNDP, and paved way for National Development Plan 12 (NDP 12). The TNDP served to align the national development planning process with the electoral cycle, allowing a newly elected administration to establish its own development programmes and priorities. The TNDP theme of *"Towards a High-Income Economy: Transformation Now and Prosperity Tomorrow"* is at the core of the 2024/25 financial year budget objectives. To ensure achievement of this goal, the 2024/25 budget proposals are significantly larger than those for 2023/24. The stimulus budget will anchor a people-centred and transformational plan while being facilitative of other national priorities as outlined in the Reset and Reclaim Agenda. Some of the actions that will be undertaken to expedite key national strategic priorities include digital transformation, business environment reform, infrastructure development, value chain development, research and development, and transition to green economy.

2.2 The Budget was presented against the backdrop of extraordinary circumstances, in the context of the continued uncertainty about the recovery of the global and domestic economies due to the Russia-Ukraine and the Israel-Hamas wars. Accordingly, the public revenue prospects for the domestic economy are uncertain due to the vulnerability of the mineral and trade taxes to shocks affecting global economic activity, demand and commodity prices (including for rough diamonds).

(a) Budget Performance: 2022/23 and 2023/24[18]

2022/23 Budget Outturn

2.3 The preliminary budget outturn for 2022/23 was a deficit of P1.3 million, a notable decrease compared to the revised budget deficit of P4.9 billion, reflecting better performance in revenue and grants, as well as lower public expenditure (Table 1.3). Overall, revenue increased by 3.2 percent to P74.1 billion in 2022/23. Chart 1.9 shows the movements in the budget balance to GDP ratio and highlights the advent of structural deficits in the recent past.

2.4 Total expenditure and net lending increased from P68.7 billion in 2021/22 to P74.1 billion in 2022/23 but was below the revised budget estimate of P76.4 billion, due to underspending of the development budget. Of the total spending, recurrent expenditure amounted to P59.7 billion, compared to P60.1 billion in the revised budget estimates, representing a decrease of 0.7 percent, thus indicating the effectiveness of the cash saving and cost containment measures put in place by Government towards the end of 2021. Development spending was P14.3 billion, representing a 13.1 percent underperformance compared to the revised budget estimate of P16.4 billion. The underspending of the development budget was due to project implementation challenges, such as late commencement of projects, public sector capacity constraints[19], procurement inefficiencies, ineffective monitoring and delays in processing payments.

2023/24 Revised Budget Estimates

2.5 The revised budget estimates for 2023/24 show a deficit of P7.1 billion (2.6 percent of GDP), compared to the original budget deficit of P7.6 billion (Table 1.3). The revised deficit is lower on account of the good revenue performance driven by higher than expected mineral receipts that arose from exchange rate gains owing to the depreciation of the Pula against the US dollar over this period.

2.6 The projection for expenditure and net lending has been revised upwards, from P87.4 billion to P88.8 billion, which is equivalent to 31.8 percent of GDP (slightly above the fiscal rule limiting total expenditure to 30 percent of GDP). The P1.4 billion

18 Calculation of percentages is based on figures from tables in this section and may differ from those calculated from rounded off figures in the text.

19 Public sector capacity constraints include inadequate human, technological, organisational, institutional and resource capabilities.

upward revision in the expenditure estimate mainly reflects the increase in personal emoluments, particularly due to an increase in salaries of public officers. The estimated increase in expenditure is also due to use of part of the revenue from the fuel levy to replenish the National Petroleum Fund (NPF), which depleted as fuel prices were held below cost recovery levels for some time.

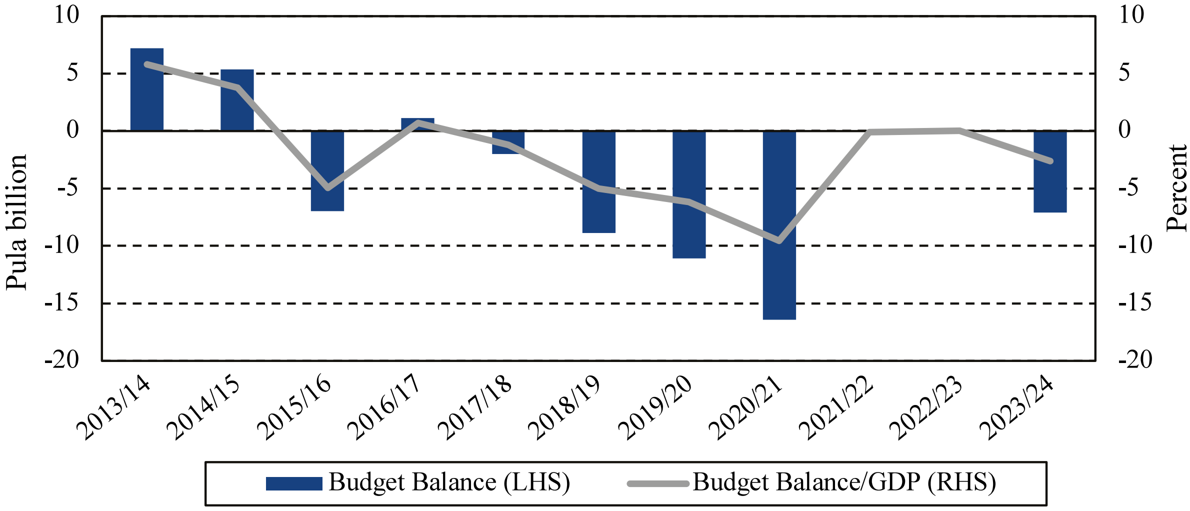
(b) The 2024/25 Budget Proposals

2.7 The proposed budget allocation for 2024/25, in the main, addresses the imperatives of economic transformation and inclusive growth, with emphasis on supporting and sustaining livelihoods, creating sustainable jobs and eliminating abject poverty. It focuses spending on priorities and needs, as outlined in the TNDP, National Transformation Strategy, as well as the Reset and Reclaim Agenda, which are also aligned to Sustainable Development Goals. Compared to 2023/24, the 2024/25 expenditure budget is significantly higher. This increase is intended to fund projects that are necessary to unlock constraints to economic growth and facilitate transition to a high-income status. Consequently, the budget prioritises infrastructure development and spatial planning; sustainable livelihoods; agriculture development; supporting the private sector through business environment reforms and value chain development; research and development; innovation and digital transformation; education and human capital development and tourism development.

Revenue

2.8 Revenue, including grants, for 2024/25, is projected at P93.6 billion, which is 14.6 percent higher than the revised budget for 2023/24 (Table 1.4). This largely reflects a projected 11.6 percent increase in Southern African Customs Union (SACU) receipts, from P23.9 billion in 2023/24 to P26.7 billion in 2024/25, mainly due to higher-than-expected collections in customs, as well as specific excise and ad-valorem duties. SACU receipts are the largest source of revenue for the 2024/25 financial year, representing 28.5 percent of the total, followed by mineral revenue at 26.9 percent. Non-mineral income tax is the third largest contributor at 23.5 percent, followed by value added tax (VAT) at 16.2 percent. The balance is accounted for by other sundry revenue items, such as Bank of Botswana revenue.

Chart 1.9: Budget Balance At Levels And As A Percentage Of Gdp 2013/14 – 2022/23)



Source: Ministry of Finance

Table 1.3: Government Budget 2022/23 – 2024/25 (P Million)

	2022/23			2023/24		2024/25
	Original	Revised	Preliminary	Original	Revised	Budget
Revenue	**67 867**	**71 788**	**74 098**	**79 788**	**81 669**	**93 584**
Mineral Revenue	24 081	30 183	33 815	23 339	26 457	25 191
Non-Mineral Revenue	43 786	41 605	45 326	56 449	45 326	56 449
Expenditure	**74 844**	**76 413**	**74 099**	**87 378**	**88 794**	**102 278**
Recurrent Expenditure	58 510	60 122	59 714	66 511	67 928	72 606
Personal Emoluments	28 304	29 638	31 777	34 438	35 103	35 462
Grants & Subventions	17 174	17 344	15 553	16 600	16 913	16 773
Public Debt Interest	1 856	1 856	1 615	2 369	2 369	2 621
Other Charges	11 175	11 284	10 769	13 104	13 543	17 751
Development Expenditure	16 430	16 430	14 281	21 008	21 008	29 766
Net Lending	-189	-139	104	-141	-141	-94
Balance	**-6 977**	**-4 878**	**-1.27**	**-7 590**	**-7 126**	**-8 695**

Source: Ministry of Finance

Expenditure

2.9 Total expenditure and net lending for 2024/25 is budgeted at P102.3 billion (34.2 percent of forecast GDP), an increase of 15.2 percent from the P88.8 billion in the revised estimates for 2023/24. Recurrent expenditure is projected to increase by 6.9 percent, from the 2023/24 revised budget projection of P67.9 billion to P72.6 billion in 2024/25, accounting for 70.9 percent of total spending and slightly breaching the expenditure allocation rule of 70 percent to recurrent expenditure and 30 percent to development spending. The development spending budget (29.1 percent of total spending) is projected to increase by 41.7 percent, from the revised P21 billion in 2023/24 to P29.8 billion in 2024/25. As a result, a budget deficit of P8.7 billion or 2.9 percent of GDP is forecast for the 2024/25 fiscal year.

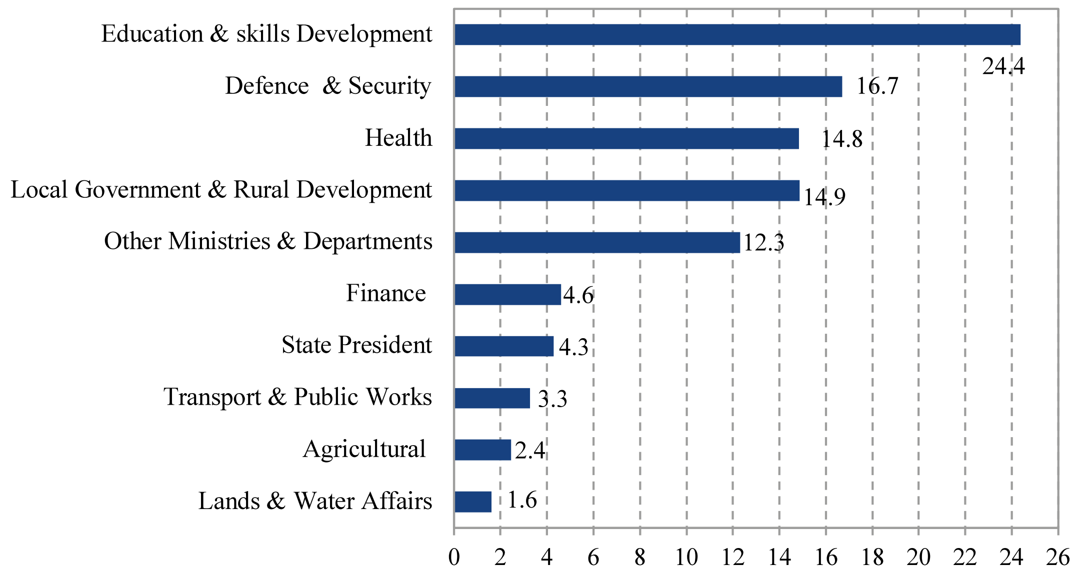
2.10 Personal emoluments, which include public sector wages and salaries, pensions and gratuities, constitute 48.8 percent (P35.5 billion) of recurrent spending in the 2024/25 fiscal year. The balance (51.2 percent) is allocated to grants and subventions to parastatals and local authorities (P16.8 billion or 23.1 percent), "other charges" (P17.8 billion or 24.4 percent), and interest on public debt (P2.6 billion or 3.6 percent). Recurrent spending on Education and Skills Development leads the ministerial allocations with a share of 24.4 percent (Chart 1.10).

2.11 Regarding the development spending, the largest share of P8 billion or 26.9 percent (Chart 1.11) was allocated to the Ministry of Lands and Water Affairs, mainly to improve water reticulation and management across the country. The Ministry of Transport and Public Works received the second largest proportion (P4 billion or 13.3 percent) of the development budget to cater for the ongoing major roads projects, such as Traffic Signal Modernisation and Centralised Traffic Control for Gaborone, Makalamabedi-Motopi road, and the Mmandunyane-Shashemooke-Borolong-Chadibe-Mathangwane road. In addition, the proposed budget will cater for air, rail and bridge infrastructure projects. The Ministry of Local Government and Rural Development was allocated the third largest proportion (P2.9 billion or 9.7 percent), mostly for continued implementation of social protection programmes including the revamped Ipelegeng and Remote Area Development, as well as to boost Local Government Infrastructure. The Ministry of Defence, Justice and Security was allocated P2.8 billion (9.3 percent), mainly for provision of infrastructure, vehicles and equipment, and defence and communication equipment for Botswana Defence Force, Botswana Police Service and the Department of Prisons and Rehabilitation Services.

2.12 Furthermore, the Ministry of Mineral and Energy was allocated P2.4 billion (8 percent) of the development budget for network reinforcement projects for purposes of power importation into the country as well as to facilitate the annual loan repayment of Botswana Power Corporation. The Ministry of Agriculture received P2 billion (6.8 percent) of the development budget to promote national self-sufficiency in food production. As such, the bulk of the 2024/25 proposed budget for the Ministry will cater for the Temo-Letlotlo Programme. The Temo-Letlotlo programme budget will cover the provision of grants to farmers for procurement of inputs and production services for the household food security component. Meanwhile, the Ministry of Communications Knowledge and Technology was allocated P1.7 billion (5.8 percent) of the development expenditure. The proposed budget will cover Information and Communications Technology (ICT) Projects, such as Online Services Implementation, Government Data Network Expansion, National ICT Backbone, International Connectivity, as well as Local Access Network, Aggregation of Citizen Identifiers, and Service Management Robotics and Analytics. Further, the proposed budget will cater for Cyber security, Orphan Radioactive Storage Facility and Border Detection Systems projects and Research Fund.

2.13 The Ministry of State President was allocated P1.5 billion (5.1 percent) of the development expenditure to fund the following programmes and projects: Village Connectivity to facilitate digital transformation across the economy, facilitation of Creative Industry, National AIDS and Health Promotion Agency Programmes, Social Protection and Disaster Preparedness programme, as well as strengthening of the Directorate of Intelligence and Security. Additionally, as a measure of strengthening democracy, the proposed budget will cover political party funding. The remaining Ministries share the balance of the proposed budget of P4.5 billion (15 percent).

Chart 1.10: Ministerial Allocation Of The Recurrent Budget (Percent)



Source: Ministry of Finance

Table 1.4: Government Budget 2019/20 – 2024/25

Fiscal Year (FY)	2019/20	2020/21	2021/22	2022/23	2023/24 *	2024/25*
GDP, current prices	180 941	171 905	214 112	258 872	279 331	299 063
(P million)	2.5	-5.0	24.6	20.9	7.9	7.1
Growth rate GDP, current prices (percent)						
Budget (P million)					**Revised Budget**	**Budget**
Revenue & Grants	54 300	49 375	68 570	74 098	81 669	93 584
Recurrent Expenditure	51 813	55 627	56 920	59 714	67 928	72 606
Development Expenditure	13 644	10 228	11 863	14 281	21 008	29 766
Net Lending	-57	-66	-85	104	-141	-94
Expenditure & Net Lending	65 400	65 789	68 698	74 099	88 794	102 278
Balance	**-11 144**	**-16 415**	**-128**	**-1.27**	**-7 126**	**-8 695**
Share of GDP (percent):	30	28.7	32	28.6	29.2	31.3
Revenues & Grants	28.6	32.4	26.6	23.1	24.3	24.3
Recurrent Expenditure	7.5	5.9	5.5	5.5	7.5	10
Development Expenditure	36.1	38.3	32.1	28.6	31.9	34.2
Expenditure & Net Lending						
Balance	**-6.2**	**-9.5**	**-0.1**	**0.0**	**-2.6**	**-2.9**

Note: * indicates projections

Source: Ministry of Finance

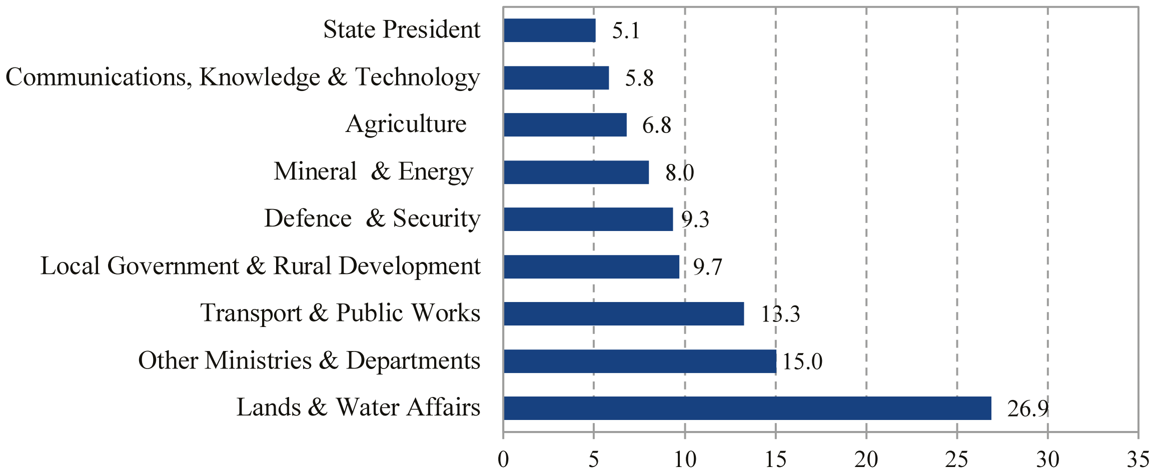
Debt Management

2.14 Government and government-guaranteed debt as at the end of March 2024 is projected at P61.6 billion[20], of which P54.6 billion is Government's own debt, while the balance is government-guaranteed debt (Table 1.5). Total external debt amounts to P29.5 billion or 10.6 percent of GDP, while domestic debt (P32.1 billion), accounts for 11.5 percent of GDP. Overall, total projected Government debt as of March 31, 2024, is equivalent to 22 percent of forecast GDP for the 2023/24 financial year and below the statutory ceiling of 40 percent of GDP, with each domestic and external debt falling below the 20 percent of GDP limit for each category[21].

20 This is an increase of 6.3 percent compared to the balance outstanding at the end of 2022/23 fiscal year.

21 Figures were sourced from the 2024/25 Budget in Brief.

Chart 1.11: Ministerial Allocation Of The Development Budget (Percent)



Source: Ministry of Finance

Table 1.5: Government Debt And Guarantees 2020/21 – 2024/25 (P Million)

	Actual			Projection	
Financial Year	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
External					
External Debt	13 282	17 367	18 864	24 340	22 684
External Guarantees	6 903	5 635	5 639	5 154	4 684
Total External Debt	**20 185**	**23 002**	**24 503**	**29 494**	**27 332**
Internal					
Internal Debt	20 424	23 523	27 216	30 214	43 272
Internal Guarantees	1 765	1 735	1 701	1 853	1 890
Total Internal Debt	22 189	25 258	28 917	32 067	45 162
Grand Total	**42 374**	**48 260**	**53 420**	**61 561**	**72 494**
GDP for FY	176 512	214 112	258 973	279 331	299 068
Percent of GDP					
External Debt & Guarantees	11.4	10.7	9.2	10.6	9.1
Internal Debt & Guarantees	12.6	11.8	11.5	11.5	15.1
Total Debt & Guarantees	**24.0**	**22.5**	**20.7**	**22.0**	**24.2**

Source: Ministry of Finance

3. Exchange Rates, Balance Of Payments And International Investment Position

(a) Exchange Rates

3.1 The exchange rate policy supports competitiveness of domestic industries in international and domestic markets, by maintaining a stable real effective exchange rate (REER)[22] of the Pula against a basket of currencies of major trading partner countries. In 2023, the weights of the Pula basket currencies were maintained at 45 percent and 55 percent for the South African rand and the SDR, respectively.

3.2 Consistent with the policy objective of maintaining a stable REER of the Pula, a downward rate of crawl of 1.51 percent for the nominal effective exchange rate (NEER) was implemented in 2023. Consequently, the NEER of the Pula depreciated accordingly (Table 1.6). Bilaterally, the nominal Pula depreciated by 5.7 percent against the SDR but appreciated by 3.9 percent against the South African rand in 2023. The Pula depreciated by 10.2 percent against the British pound, 8.4 percent against the euro, 4.8 percent against the US dollar and 3.1 percent against the Chinese renminbi, while it appreciated by 1.5 percent against the Japanese yen. The movement of the Pula against the SDR constituent currencies largely reflected the performance of the South African rand against the SDR constituent currencies. The South African rand was weaker against major trading currencies in 2023, due to both domestic and global factors. Domestically, investors' risk sentiments were dented by concerns over the country's fiscal outlook, amid dwindling tax revenue, rising debt costs, state-owned company bailouts and persistent power shortages. On the global front, ongoing tensions in the Middle East weighed on the demand for the South African rand due to risk aversion in the global markets as investors sold emerging market assets for safe-haven assets, such as the US dollar.

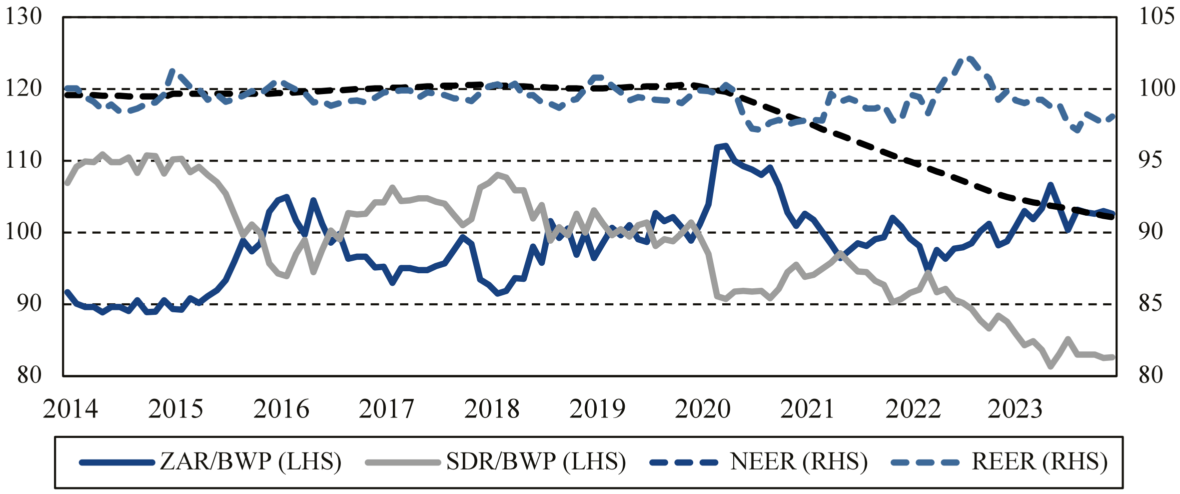
3.3 In real terms, the Pula exchange rate (using headline inflation) appreciated by 2.3 percent against the South African rand and depreciated by 5 percent against the SDR in the twelve months to 2023 (Chart 1.12). The REER depreciated by 1.8 percent in the review period, due to the depreciation (rate of crawl) of the NEER (1.5 percent), and a lower inflation in Botswana (3.5 percent) than the average for the trading partner countries (3.8 percent). This depreciation of the REER suggests a marginal gain in competitiveness of domestic firms in international markets. However, it should be noted that the exchange rate alone is not sufficient to ensure sustainable competitiveness of local producers. Durable competitiveness of domestic producers is mainly achieved through a sustained improvement in productivity, which also contributes to lower inflation.

(b) Balance of Payments

3.4 Provisional balance of payments figures for 2023 indicate an overall surplus of P5.1 billion, compared to a surplus of P4.5 billion in 2022 (Chart 1.13). The 2023 surplus is mainly attributable to substantial SACU receipts resulting from recoveries from the 2021/2022 underpayments.

22 The REER is a trade-weighted exchange rate of the Pula (against a fixed basket of currencies, after allowing for relative inflation). It is used as an indicator of changes in the relative competitiveness of the country's tradeable goods and services.

Chart 1.12: Pula Exchange Rates (Indices, December 2018 = 100)



Source: Bank of Botswana

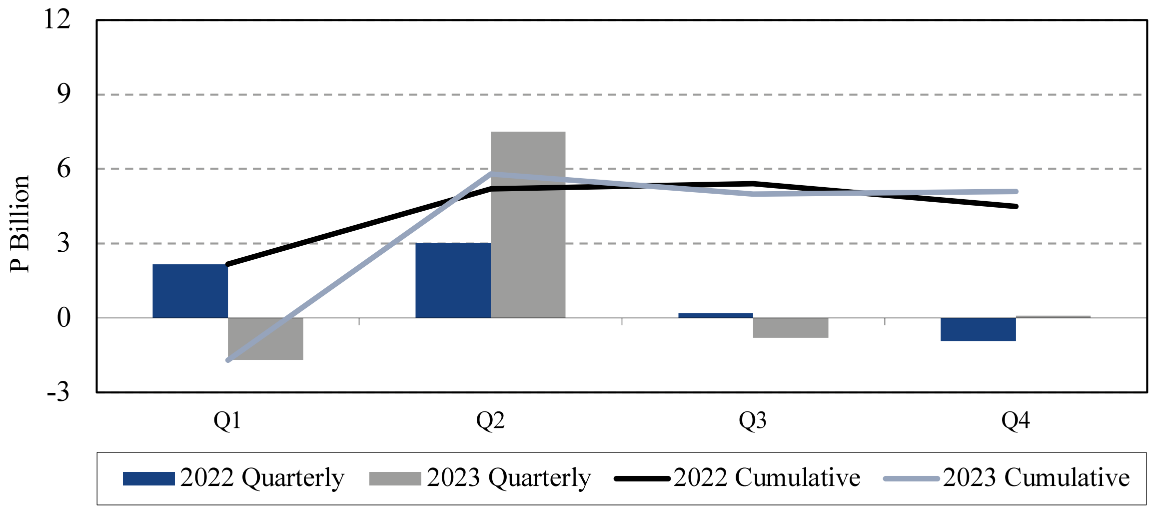
Table 1.6: Pula Exchange Rates against Selected Currencies

Nominal Exchange Rates (Foreign Currency per Pula)			
Currency	**December 2022**	**December 2023**	**Change (Percent)**
SA rand	1.3281	1.3796	3.9
SDR	0.0587	0.0554	-5.7
US dollar	0.0783	0.0745	-4.8
British pound	0.0650	0.0584	-10.2
Japanese yen	10.37	10.52	1.5
Euro	0.0735	0.0673	-8.4
Chinese yuan	0.5454	0.5285	-3.1
NEER (Dec. 2018 = 100)	92.5	91.1	-1.5
Real Pula Exchange Rate Indices[1] (Dec. 2018 = 100)			
SA rand	103.6	106.0	2.3
SDR	96.9	92.1	-5.0
US dollar	90.7	86.5	-4.6
British pound	95.1	85.1	-10.6
Japanese yen	123.3	126.2	2.4
Euro	99.4	91.6	-7.9
Chinese yuan	100.3	101.0	0.7
REER	99.9	98.1	-1.8

1. All real indices calculated using headline inflation.

Source: Bank of Botswana

Chart 1.13: Quarterly Balance Of Payments 2022 And 2023



Source: Bank of Botswana

Table 1.7: Balance Of Payments 2019–2023 (P Million)

	2019	2020	2021*	2022*	2023#
Current Account	-12 422	-17 620	-3 676	-2 004	-5 655
of which:					
Goods	-11 464	-22 540	-7 236	6 775	-6 223
Services	-4 316	-10 304	-8 331	-4 395	-3 230
Primary Income	-9 423	278	-2 005	-16 604	-16 132
Secondary Income	12 780	14 946	13 897	12 220	19 931
Financial Account	4 690	7 681	5 142	-7 950	-3 933
Net Errors and Omissions[23]	5 090	5 242	5 947	-1 461	6 788
Overall Balance	**-12 022**	**-20 059**	**-2 871**	**4 485**	**5 067**

* Revised
# Provisional
Source: Bank of Botswana

23 The net errors and omissions (NEO) occur due to overestimation/underestimation of credits (capital inflows, exports of goods and services and other current account receivables) or debits (capital outflows, imports of goods and services and other current account payables). Positive NEO suggest underestimation of credits or overestimation of debits, while negative NEO suggest underestimation of debits or overestimation of credits.

Current Account[24]

3.5 The current account deficit is estimated to have widened to P5.7 billion in 2023 from the revised P2 billion recorded in the previous year (Table 1.7). The larger deficit was on account of negative balances on trade in goods and services (larger imports than exports), which recorded a combined deficit of P9.5 billion from a surplus of P2.4 billion in 2022. The primary income deficit, which slightly narrowed down to P16.1 billion from P16.6 billion also contributed to the current account deficit. The deficit was partly offset by the secondary income account surplus of P19.9 billion, which increased from the P12.2 billion recorded in 2022.

Merchandise

3.6 The merchandise trade account was in a deficit of P6.2 billion in 2023, a complete shift from a surplus of P6.8 billion recorded in the previous year. The deficit reflected a larger decline in the value of exports, from P102.6 billion to P77.7 billion (24.3 percent) than the decline in imports, from the revised P95.8 billion to P83.9 billion (12.4 percent). Trade in goods continued to be driven by diamond trade, predominantly undertaken by the De Beers Global Sightholder Sales (DBGSS), (Table 1.8). In 2023, diamonds accounted for 79.3 percent of exports and 14.8 percent of imports in Botswana's international merchandise trade. The major export destinations for the past three years were the United Arab Emirates, followed by Belgium, India, South Africa and Israel. These five countries collectively accounted for an annual average of 77.3 percent of Botswana's total diamond exports during 2018–2023 (Table 1.9)[25].

3.7 Diamond exports registered a substantial decline of 31 percent, from P89.3 billion to P61.6 billion, amid weak performance of the global rough diamond markets, predominantly during the second half of 2023 (Table 1.8). Following a notable post COVID-19 resurgence in 2021 and 2022, global demand for diamonds slowed down, leading to high inventory accumulation, and resulting in a plunge in diamond prices. During this period, the world's largest consumers of diamonds, the US and China, both faced economic struggles as the former battled rising inflationary pressures, while the latter's recovery from the pandemic slowed down due to among others, domestic property market downturn and weakened demand for locally manufactured goods, which negatively affected consumer confidence in the country. In addition, diamond sales were adversely affected by the increasing visibility of lab grown diamonds. Other commodities that contributed to the decline in exports include live cattle[26] (47.4 percent), vehicles and transport equipment[27] (19.6 percent) and gold (7.1 percent). The decline in exports was slightly offset by increases in exports of copper and nickel (75 percent), meat and meat products (138.3 percent), textiles (17.4 percent), salt and soda ash (10 percent) and other goods (3.8 percent).

3.8 Diamond imports, which accounted for 14.8 percent of total merchandise imports, decreased by a record 52.5 percent, from P27.3 billion in 2022 to P13 billion in 2023, following a difficult year in diamond trade, characterised by weakened demand and increased inventories. Fuel imports also fell by 2.2 percent, from P18.3 billion to P17.9 billion, and this was mainly due to a decline in international crude oil prices. Commodities that registered increases were food, beverages and tobacco (6.9 percent), machinery and electrical equipment (1.3 percent), chemical and rubber products (4 percent), metals and metal products (5.6 percent), textiles and footwear (3.9 percent), vehicles and transport equipment (9.1 percent) and other goods (2.2 percent).

24 The current account comprises trade in goods and services, primary and secondary income accounts.

25 This is based on the average of exports by destination from 2018 to 2023.

26 The decline in live cattle exports was a result of the scaling down of the dispensation of live cattle exports by Government.

27 These mainly includes re-exports of passenger cars.

Table 1.8: Diamond Trade 2021–2023 (P Million)

Period	Domestic Sales (1)	Rough Exports (2)	Polished Exports (3)	Total Exports 4 = (2)+(3)	Imports (5)
2021	38 135	64 741	9 389	74 129	32 661
2022	56 545	71 213	18 091	89 304	27 289
2023					
Q1	14 112	14 259	3 908	18 167	3 111
Q2	19 256	15 399	4 120	19 519	2 405
Q3	8 709	12 012	4 592	16 604	2 790
Q4	3 439	3 721	3 601	7 321	4 660
Total	**45 516**	**45 391**	**16 221**	**61 612**	**12 965**

1. **Domestic Sales** refer to the value of rough diamonds sold by Debswana to DBGSS and Okavango Diamond Company (ODC). These are local sales.

Source: Bank of Botswana

Table 1.9: Total Exports By Destination 2018–2023 (Percent)

Country	2018	2019	2020	2021	2022	2023	Average
United Arab Emirates	12.0	18.5	21.3	25.4	27.5	29.5	22.4
Belgium	23.6	19.9	22.8	23.4	18.7	17.2	20.9
India	16.9	21.7	22.4	17.2	15.4	12.4	17.6
South Africa	8.9	9.2	14.3	9.0	10.0	12.1	10.6
Israel	6.7	7.1	5.2	5.8	6.0	3.7	5.8
Hong Kong	5.1	5.7	3.7	4.7	6.2	6.0	5.2
Namibia	2.9	3.1	1.8	1.0	2.2	1.2	2.0
United States of America	2.0	1.4	1.4	1.4	2.1	2.0	1.7
Canada	0.6	0.3	0.1	0.1	0.0	0.0	0.2
United Kingdom	0.8	0.4	0.0	0.0	0.0	0.0	0.2
Others	20.5	12.7	7.2	12.0	11.8	15.9	13.4
Totals	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Bank of Botswana

3.8 Diamond imports, which accounted for 14.8 percent of total merchandise imports, decreased by a record 52.5 percent, from P27.3 billion in 2022 to P13 billion in 2023, following a difficult year in diamond trade, characterised by weakened demand and increased inventories. Fuel imports also fell by 2.2 percent, from P18.3 billion to P17.9 billion, and this was mainly due to a decline in international crude oil prices. Commodities that registered increases were food, beverages and tobacco (6.9 percent), machinery and electrical equipment (1.3 percent), chemical and rubber products (4 percent), metals and metal products (5.6 percent), textiles and footwear (3.9 percent), vehicles and transport equipment (9.1 percent) and other goods (2.2 percent).

TABLE 1.10: EXPORTS 2022 – 2023 (P MILLION)

	2022	2023	Percent Share 2022	Percent Share 2023	Percentage Change
Total Exports	102 571	77 703			-24.2
of which:					
Diamonds	89 304	61 612	87.1	79.3	-31.0
Copper-Nickel	3 966	6 938	3.9	8.9	75.0
Meat and Meat products	137	326	0.1	0.4	138.3
Live Cattle	1 183	623	1.2	0.8	-47.4
Salt and Soda Ash	1 006	1 106	1.0	1.4	10.0
Gold	308	286	0.3	0.4	-7.1
Textile	320	376	0.3	0.5	17.4
Vehicles and Transport Equipment	651	523	0.6	0.7	-19.6
Other Goods[28]	5 697	5 913	5.6	7.6	3.8

Source: Bank of Botswana

TABLE 1.11: IMPORTS 2022 – 2023 (P MILLION)

	2022	2023	Percent Share 2022	Percent Share 2023	Percentage Change
Total Imports	**99 884**	**87 642**			**-12.3**
Diamonds	27 289	12 965	27.3	14.8	-52.5
Fuel	18 337	17 938	18.4	20.5	-2.2
Food, Beverages and Tobacco	13 341	14 255	13.4	16.3	6.9
Machinery & Electrical Equipment	11 996	12 152	12.0	13.9	1.3
Chemicals & Rubber Products	9 669	10 053	9.7	11.5	4.0
Metals & Metal Products	4 446	4 696	4.5	5.4	5.6
Textile & Footwear	2 386	2 480	2.4	2.8	3.9
Vehicles & Transport Equipment	5 963	6 505	6.0	7.4	9.1
Other	6 457	6 597	6.5	7.5	2.2

Source: Bank of Botswana

Services

3.9 The services account deficit narrowed to P3.2 billion in 2023 from the P4.4 billion deficit recorded in the previous year (Table 1.7). The deficit was driven by imports of transportation services and 'other' services. Exports of transportation services[29] increased from P932 million in 2022 to P995 million in 2023, while imports of the same declined from P4.5 billion to P4.1 billion, resulting in a lower deficit of P3.1 billion compared to P3.6 billion in the previous year. The decline in imports of transportation services

28 These include hides and skin, iron and steel products, machinery and electrical equipment, plastic and plastic products.

29 Transportation services include passenger fares; freight (road, sea, air, rail and clearing charges); and 'other' services (landing fee, aircraft hire and air charter).

was attributable to a decrease in freight of imported goods. Exports and imports of 'other' services declined from P1.8 billion to P1 billion and P5.9 billion to P5.8 billion, respectively, in the same period. This resulted in a deficit of P4.8 billion in 'other' services category in 2023, up from P4.2 billion in the previous year. The larger shortfall was driven by an increase in imports of intellectual property services, telecommunications services, as well as professional and technical services. Exports of travel services grew from a revised P4.6 billion in 2022 to P5.9 billion in 2023, while imports of the same was unchanged at P1.2 billion, resulting in a larger surplus of P4.7 billion from P3.4 billion in 2022. The increased travel services exports were predominantly driven by non-residents expenditures on local tourism. Although the tourism industry continues to recover from the effects of the pandemic, it is yet to reach the pre-COVID levels of around P7 billion annually. The travel services account surplus helped to reduce the combined effect of deficits in both transportation and 'other' services categories, resulting in a lower services account deficit.

Primary Income Account

3.10 The primary income account, which records wages, salaries, investment income and 'other' primary income (taxes, subsidies, rent) between residents and non-residents, registered an estimated deficit of P16.1 billion in 2023, compared to the previous year's revised deficit of P16.6 billion. The deficit was primarily a result of investment income payments to non-residents. Dividends and retained earnings[30] are the major drivers of investment income outflows from Botswana and these are estimated to have increased from P14.5 billion in 2022 to P15 billion in 2023. A larger proportion of this component in 2023 was dividends paid by Debswana to De Beers. The credit side of the primary income account is dominated by the country's foreign exchange reserves earnings and, in 2023, income earned from the reserves was estimated at P2 billion, compared to P1.2 million in 2022.

Secondary Income Account

3.11 Secondary income consists of government and private transfers, with the former constituting the largest share. The account registered a record surplus of P19.9 billion in 2023, an increase of 63.1 percent from the previous year's surplus of P12.2 billion. The larger surplus was a result of higher SACU receipts during the 2023/2024 financial year, as the country received revenue amounting to P21.6 billion in 2023 from the Customs Union, 54.3 percent higher than the P14 billion received in 2022. The higher receipts were mainly due to recoveries from the 2021/2022 financial year underpayments. Net private transfers, dominated by Non-Governmental Organisations, registered deficits of P964 million and P919 million in 2022 and 2023, respectively.

Financial Account

3.12 The financial account, comprising direct investment, portfolio investment, financial derivatives and other[31] investment sub-accounts, is estimated to have registered a net inflow of P3.9 billion in 2023[32], from the revised net inflow of P7.9 billion in 2022. The net inflow was mainly attributable to direct investment inflows.

3.13 The direct investment account is estimated to have registered a higher net inflow of P8.9 billion in 2023, in comparison to a revised net inflow of P8.6 billion in 2022. During 2023, Botswana residents participated in foreign direct investments amounting to P129 million, in comparison to a revised P125 million in the previous period. The residents incurred foreign liabilities amounting to P9 billion in 2023, compared to P8.8 billion in 2022. The bulk of the inflows were intercompany loans extended to locally based subsidiaries to finance daily operations.

30 Retained earnings by foreign-owned businesses are an imputed outflow in the income account, matched by an offsetting inflow of foreign direct investment referred to as reinvestment of earnings.

31 Other' investment comprises borrowing from/lending to foreign entities not classified as direct investment and portfolio investment. These include government and non-government loans, currency and deposits, trade credits and 'other' equity. Other equity is an investment that is below 10 percent and not tradable i.e., investments or shareholding in limited liability enterprises.

32 The 2023 balances are based on preliminary estimates.

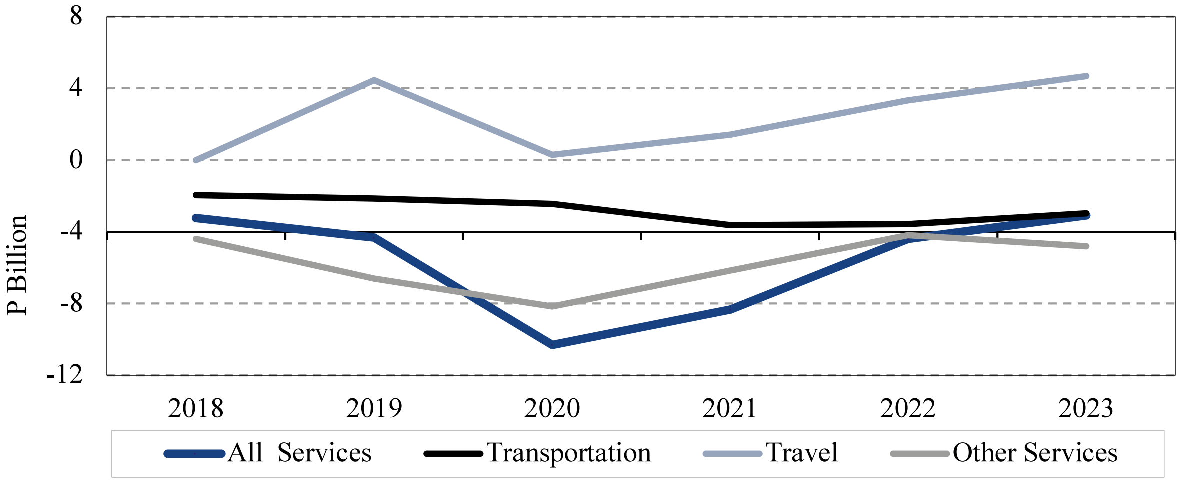
3.14 The portfolio investment account is estimated to have recorded a net outflow of P3.7 billion in 2023, compared to the revised net inflow of P7.4 billion in 2022. Portfolio investment assets, which mainly comprise offshore investments in equity and debt securities by the local pension funds, are estimated to have increased by P4.1 billion in 2023, compared to a decrease of P7 billion in 2022. The increase was partly due to the recovery of the international equity markets after a challenging 2022. Portfolio investment liabilities are on the other hand, estimated to have grown by P396 million during the year under review, compared to an increase of P340 million in 2022.

3.15 'Other' investments are estimated to have recorded a net outflow of P1.3 billion in 2023, in comparison to the revised outflow of P8 billion recorded in 2022. Both assets and liabilities in this account increased, with the former growing by P1.7 billion while the increase in liabilities was comparably low at P460 million. The net outflow is due to larger deposits in foreign banks compared to foreign residents' deposits in local banks.

Foreign Exchange Reserves

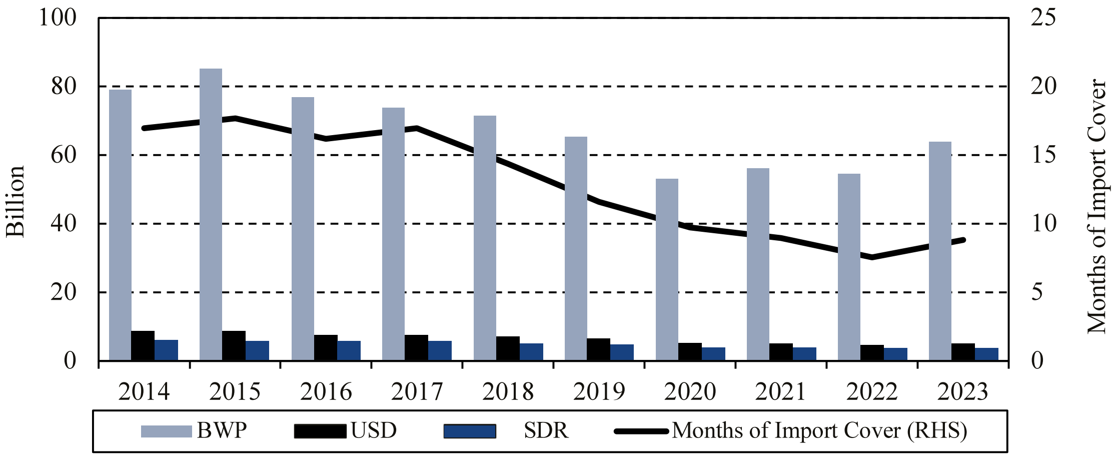
3.16 Botswana's foreign exchange reserves were estimated at P63.7 billion as at the end of December 2023, an increase of 16.9 percent from P54.5 billion in December 2022 (Chart 1.15). The substantial increase was primarily a result of higher SACU receipts in 2023, as reflected in the balance of payments surplus. In foreign currency terms, the reserves increased by 11.6 percent from USD4.3 billion in December 2022 to USD4.8 billion in December 2023 and by 9.4 percent from SDR3.2 billion to SDR3.5 billion over the same period. The level of foreign exchange reserves in December 2023 was equivalent to 8.8 months of import cover of goods and services, compared to 7.6 in December 2022.

Chart 1.14: Balance Of Trade In Services (2018 – 2023)



Source: Bank of Botswana

Chart 1.15: Level Of Foreign Exchange Reserves



Source: Bank of Botswana

(c) Balance of Payments Outlook

3.17 The uncertainty that continues to prevail in the diamond industry's largest end consumer markets, the US and China, is likely to negatively affect demand for Botswana's rough diamonds and hence the current account in the short to medium-term. The relatively high interest rates that persist in the US market, as well as China's economic slowdown resulting from the ongoing property crisis have translated into overall weaker demand for diamonds. The negative external sector outlook is however, expected to be cushioned by SACU receipts and the anticipated improvement in the non-mining sector performance underpinned by, among others, the proposed stimulus budget and accommodative monetary conditions, in the context of promotion of export-led economic growth. In addition, the recent strong recovery witnessed in the tourism sector combined with Government's renewed commitment to ensuring attainment of the Tourism Policy of 2021 are expected to boost receipts from the sector, in turn, supporting the current account balance and the overall balance of payments.

3.18 The revision of the Botswana pension funds foreign assets/domestic assets minimum/maximum proportions from 70/30 to 50/50 is expected to affect the portfolio investment and, ultimately, the financial account. The financial account, which is dominated by portfolio investment is projected to register net capital inflows in the short-to-medium-term, as pension funds repatriate assets held abroad, in line with the new pension law requirements. Total external debt (public and private sector) is also expected to decline in the medium-term, as both sectors continue to make repayments of existing loans, assuming there are no new loans. Overall, the narrow export base continues to make the domestic economy susceptible to external shocks, especially in the diamond markets, which could undermine the outcome of the external sector in 2024.

International Investment Position (IIP) and Foreign Investment

(i) *International Investment Position*

3.19 Preliminary figures for 2023 indicate that the country's net international investment position was P75.3 billion, a 9.1 percent increase from the revised position of P69 billion in 2022. Contributing to the positive net position were, foreign assets, which increased by 6.8 percent to P179.8 billion, from a revised amount of P168.4 billion in 2022, against a lower increase of 5.1 percent in foreign liabilities, which increased to P104.5 billion, from a revised position of P99.4 billion in 2022.

3.20 The stock of portfolio investments held abroad is estimated to have grown by 6.6 percent from P71.3 billion in 2022 to P76 billion in 2023. The stock, which accounted for the largest share (42.3 percent) of Botswana's foreign assets in 2023, comprises investments in foreign equity, debt and 'alternative' investments by local pension funds. The effects of the revised pension funds domestic/offshore limits were insignificant during 2023 as the envisaged change is expected to take place gradually over a period of 5 years. The official foreign exchange reserves, which accounted for 35.4 percent of total foreign assets as at the end of 2023, increased by 16.9 percent, from P54.5 billion in 2022 to P63.7 billion. The notable increase was primarily on account of the large SACU receipts during 2023 and to a lesser extent, diamond exports proceeds. 'Other' investment stock abroad shrunk by 6.5 percent from P29.2 billion to P27.3 billion in 2023, mainly due to a decline in deposits held with deposit taking corporations abroad. The stock of direct investment abroad decreased from P13.3 billion to P12.8 billion, while the stock of financial derivatives was unchanged at P7.6 billion in both periods.

3.21 The stock of foreign direct investment continued to dominate Botswana's foreign liabilities, accounting for 65.7 percent of the total liabilities in 2023. The stock is estimated to have registered a moderate increase of 3.5 percent, from a revised amount of P66.4 billion to P68.7 billion in 2023. The stock of 'other' investment liabilities, which accounted for 32.9 percent of foreign liabilities in 2023, grew by 8.9 percent from a revised position of P31.6 billion to P34.4 billion. Although most components of the sub-account registered increases, bank deposits and loan advancement by non-residents to 'other' sectors in Botswana contributed the most to the growth. The stock of portfolio investment and financial derivatives held by foreign residents remained the same at P1.4 billion and P7 million, respectively, during both periods.

(ii) *Investment in Botswana by Industry and Country Classification in 2022*

3.22 As at the end of 2022, the country's stock of foreign investments from various countries across the world amounted to P99.4 billion (Tables 1.12 and 1.13), an increase of 10.2 percent from the 2021 position of P90.2 billion. Accounting for the largest share was foreign direct investment (FDI), which increased from P58.8 billion to P66.4 billion. Mining, Wholesale and Retail, and the Finance sectors constituted the largest share of the FDI stock at 34.7 percent, 34.3 percent, and 18.2 percent, respectively. Europe continued to dominate as a major source of FDI, particularly in the mining sector. FDI originating from Europe amounted to P41.8 billion (63 percent) at the end of 2022, with the United Kingdom accounting for most of the European FDI, at P37.7 billion. FDI originating from Africa amounted to P18.1 billion (27.2 percent), with South Africa accounting for a larger portion at P12.5 billion, and most investments spread across the Finance and Retail sectors.

3.23 Other investments stock, which comprises stocks of portfolio investments, financial derivatives, and 'other' investment, amounted to P33 billion as at the end of 2022, a moderate increase from the revised P31.3 billion position reported in 2021. The stock of investments in this category includes SDR allocations by the IMF and loans originating from international organisations and countries such as South Africa, China and Japan. The public administration sector, which mainly constitutes Government debt from the African Development Bank (AfDB) and World Bank, accounted for about 51 percent of other investment stock. 'Other' sectors, which constitute, among others, SDR allocations by the IMF, loans and deposits by non-residents accounted for about 28 percent while the Finance sector, dominated by commercial banks, accounted for 17 percent of other investment stock.

Table 1.12: Level Of Foreign Investment In Botswana By Industry 2022 (P Million)

Industry	Foreign Direct Investment	Other Investment	Total
Mining	23 056	113	23 170
Manufacturing	4 599	49	4 648
Mining Related	*2 106*	*5*	
Finance	12 064	5 622	17 687
Commercial Banks	*9 383*	*5 591*	
Wholesale and Retail	22 792	504	23 296
Wholesale	*20 100*	*49*	
Electricity, Gas and Water	0	450	450
Real Estate and Business Services	330	26	356
Transport, Storage and Communication	2 006	139	2 146
Construction	548	10	558
Hospitality	897	0	897
Public Administration	0	16 936	16 936
Other	83	9 138	9 220
Total	**66 376**	**32 987**	**99 364**

Source: Bank of Botswana

Table 1.13: Level Of Investment In Botswana By Region 2022 (P Million)

Country	Foreign Direct Investment	Other Investment	Total
America	**1 116**	**500**	**1 617**
of which			
United States	9	492	501
Canada	954	2	956
Europe	**41 812**	**1 776**	**43 589**
of which			
United Kingdom	37 650	787	38 436
France	691	159	850
Netherlands	650	8.18	659
Luxembourg	6	0	6.4
Other Europe	2 815	823	3 637
Asia	**1 374**	**29**	**1 403**
of which			
India	692	7	699
China, Hong Kong	477	22	499
China, Mainland	67	0	67
Africa	**18 073**	**4 445**	**22 518**
of which			
South Africa	12 450	2 705	15 154
Mauritius	4 747	156	4 903
Middle East	**164**	**5**	**169**
Other	**3 837**	**26 231**	**30 068**
Total	**66 376**	**32 987**	**99 364**

Source: Bank of Botswana

4. Money And Capital Markets

(a) Monetary Policy and Liquidity Management

4.1 During 2023, monetary policy in Botswana was conducted in the context of projected lower inflation in the short-to-medium-term, associated with the dissipating impact of the increase in administered prices in 2022 (base effects), impact of the reduction in fuel prices during the year, subdued domestic demand and declining trading partner countries' inflation, while the economy operated below potential. These conditions provided scope to ease monetary policy in support of stronger output growth. Hence, the MoPR was reduced by 25 basis points to 2.4 percent in 2023, following a cumulative 151 basis points policy rate increase in 2022. Similarly, the prime lending rate (PLR) of commercial banks decreased from 6.76 percent to 6.51 percent in the same period. Wholesale deposit interest rates generally decreased, mainly because of increased liquidity in the domestic market and reflection of well anchored inflation expectations.

4.2 Open market operations remained the main liquidity management tool in the domestic market, as well as in implementing decisions of the MPC. This entailed the use of BoBCs to mop-up excess liquidity[33] to maintain interest rates that are consistent with the monetary policy stance. Open market operations in 2023 were conducted in an environment of increased market liquidity, supported mainly by government spending.

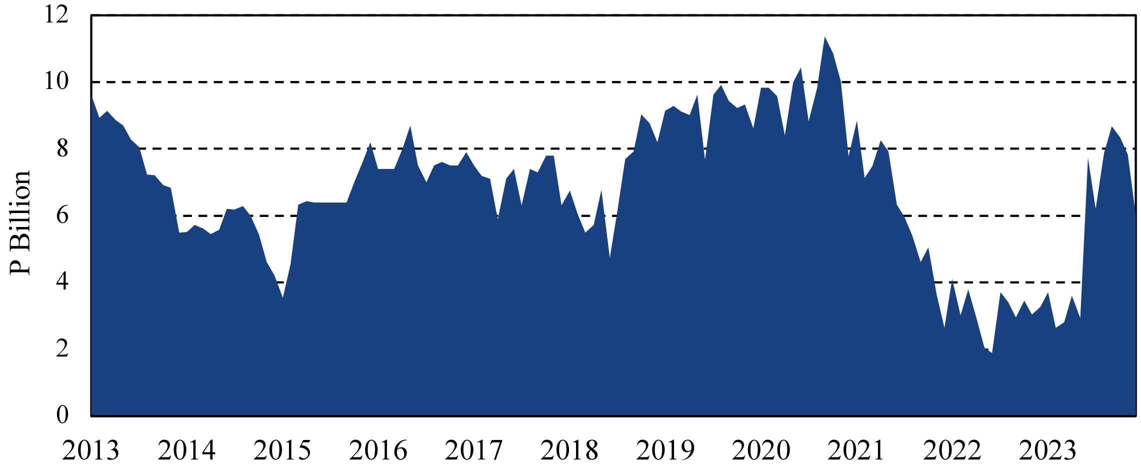
4.3 Moreover, commercial banks continue to actively use the Primary Reserve Requirement Averaging (PRRA) as a tool for effective management of liquidity. Outstanding BoBCs amounted to P6 billion in December 2023, an increase from P3.275 billion in December 2022, reflecting an increase in liquidity resulting mainly from government spending. Due to the larger decrease in the inflation rate compared to the nominal interest rates between December 2022 and December 2023, the real rate of interest for the 7-day BoBC increased from -8.67 percent to -1.50 percent. The nominal yield on the 1month BoBCs decreased from 3.18 percent in December 2022 to 2.79 percent in December 2023. Furthermore, P3.487 billion worth of Standing Deposit Facility (SDF) was outstanding at the end of December 2023. However, there were no outstanding reverse repos, Standing Credit Facility (SCF) and repos as at the end of 2023.

4.4 The reforms to monetary operations introduced in April 2022 are now embedded in the Bank's monetary policy operations and as expected, there is some noticeable improvement in policy transmission and the interest rate structure is operating as expected. In addition, the interbank rate consistently trades within the interest rate corridor but tends to trade closer to the floor of the interest rate corridor (SDF Rate) due to structural excess liquidity in the market. However, the funding structure of banks, which is uneven across individual banks and mostly dominated by large volatile corporate and asset funds managed deposits, have the effect of raising wholesale deposit rates and suppressing interest rates on retail deposits.

4.5 With effect from 1 April 2023, commercial banks were allowed to independently determine their own PLRs. This move is expected to contribute positively to banking sector developments through promoting competition and, thus, deepening the banking industry and improve monetary policy transmission. Commercial banks report their PLRs to the Bank, and the Bank publishes the average PLR to the market for transparency. In December 2023, commercial banks decreased their PLRs by 25 basis points to 6.51 percent following the change in MoPR by the same magnitude.

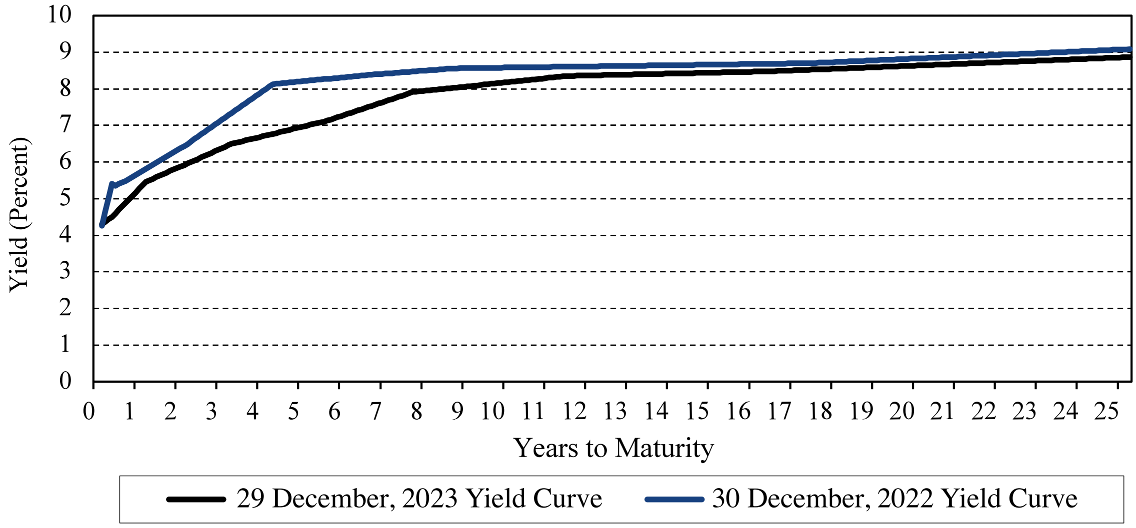
33 Excess liquidity in the banking sector is defined here as the sum of commercial banks' overnight deposits at the central bank (current account), commercial banks' deposits in the Standing Deposit Facility (SDF), money absorbed through BoBCs, outstanding reverse repos less repos, Standing Credit Facility (SCF) and the credit facility (CF). This is 'excess' in the sense that it is the net liquidity that the central bank has to absorb (take out of the system), over and above the structural liquidity that is held by the banks in the Primary Reserve Requirement accounts.

Chart 1.16: Outstanding Bank Of Botswana Certificates



Source: Bank of Botswana

Chart 1.17: Yield Curves For 30 December, 2022 And 29 December, 2023



Source: Bank of Botswana

4.6 The P30 billion Government Bond Programme increasingly plays an important role as an alternative source of government funding. Outstanding bonds of various maturities and Treasury Bills increased from P20.7 billion in December 2022 to P29.1 billion in December 2023. The number of Government bonds was unchanged at 7 in 2023, with BOTSGB0623 (matured in June 2023) replaced by a new 10-year benchmark bond (BOTSGB0635) issued in May 2023. Primary Dealers and their customers held P12 billion (41.1 percent) and P17.1 billion (58.9 percent), respectively, of the government securities at the end of 2023.

4.7 Chart 1.17 shows Government bonds and Treasury Bills (T-Bills) yields as at the end of December 2023 compared to December 2022. Over the review period, a comparison of T-Bills and Government bonds yields indicates that yields generally decreased across the maturity spectrum. The decrease in the yields was on the back of increased liquidity conditions in the market emanating from government spending and the decline in the inflation rate. The government securities market improved owing to institutional and operational changes, including enhanced transparency and market innovations. Some of the innovations undertaken during the year include introduction of switch auctions to help support the management of refinancing risk and liquidity in the domestic bond market and the publication of an Issuance Calendar and Government Annual Borrowing Plan. The outcome of these initiatives will continue to be monitored and refinements made as necessary. Overall, the demand for Government bonds was robust in 2023, supported by Government budget financing and capital market development.

(b) Financial Stability Developments

4.8 In 2023, the domestic financial system was assessed to be resilient, robust, safe, sound, and unconstrained in providing, innovating, and growing the range of financial services to support the economy and that it is well supported by policy and regulatory frameworks. Strong capital position, liquidity buffers, profitability and an enabling as well as effective regulatory and supervisory regime anchored financial stability during the year. Commercial bank lending was commensurate with the rate of increase in gross domestic product (GDP) and, at below 4 percent, the ratio of non-performing loans to total loans is relatively modest; thus, credit developments pose minimal risk to financial stability. Moreover, the stress tests for banks validated the strong solvency and resilience. In addition, there was some notable recovery in the domestic capital market as reflected in the appreciation of key market indices and improved turnover, while financial market infrastructures remain stable and robust, thus promoting domestic financial stability.

4.9 The macroeconomic environment was also conducive for financial stability, underpinned by positive economic growth, well-managed government fiscal position, modest inflation and, therefore, moderate interest rates, as afforded by predictable and effective macroeconomic policy frameworks. Accordingly, financial sector vulnerabilities remained generally contained and risks mitigated. In the circumstances, macroprudential policy actions or responses were not warranted in 2023.

(c) Banking System

Domestic Credit

4.10 Annual growth in commercial bank credit accelerated to 7.1 percent in December 2023 from 5.8 percent in December 2022 (Chart 1.18). The faster growth in commercial bank credit was, in part, indicative of the increase in loan uptake by businesses in the period under review. The increase in the utilisation of credit facilities by businesses was associated with the recovery phase of the economy. Business sector credit grew annually by 11.4 percent in December 2023, from 8.6 percent increase in 2022, driven by increased use of credit facilities by parastatals. Meanwhile, credit to businesses excluding parastatals increased by 5.2 percent during December 2023, compared to an expansion of 8.9 percent in 2022. The increase in allocation of credit to businesses was in the form of utilisation of overdraft facilities and loans extended to some companies in the electricity and water, agriculture, as well as transport and communications industries.

4.11 For households, annual credit growth accelerated from 4.5 percent in 2022 to 5 percent in 2023. The higher credit growth was mainly attributable to the increase in property lending and motor vehicle loans. Conversely, annual growth fell with respect to personal unsecured and credit card-based loans. Thus, the share of mortgages in total household credit increased from 26.8 percent in December 2022 to 27.6 percent in December 2023, while that for motor vehicles increased from 4 percent to 4.3 percent in the same period. Meanwhile, the share of credit card exposures in total household credit was unchanged at 1.5 percent in the same period. Overall, it is assessed that modest increase in lending to households reflects the impact of the 2022 policy tightening on credit demand as borrowing became more costly, as well as restricted supply of loan facilities by banks to guard against possible defaults, therefore, a balanced response to market conditions.

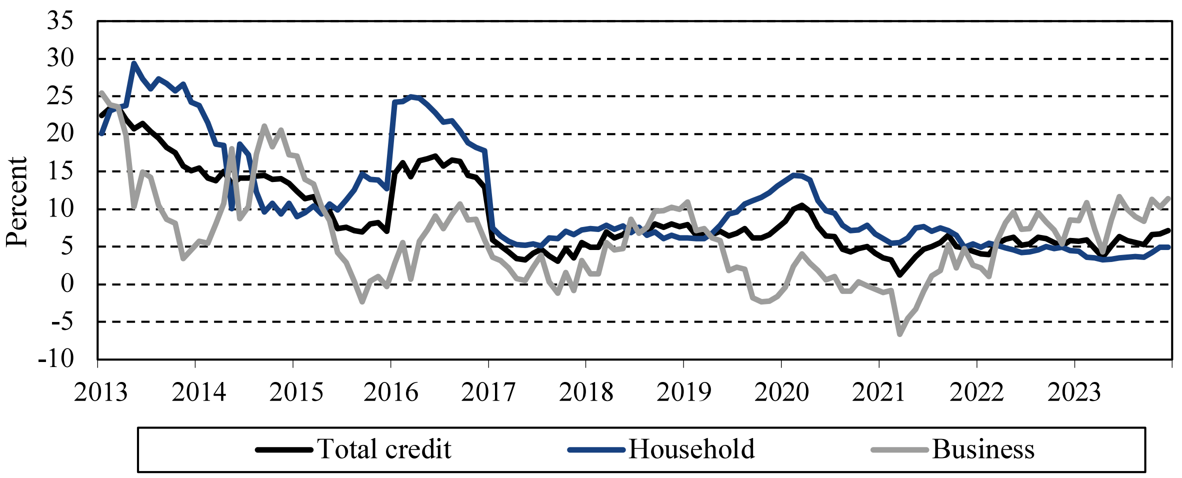
4.12 The ratio of private sector credit to GDP remains relatively low at 30.1 percent in 2023, falling from 36.9 percent in 2019, while that of private businesses declined from 12.9 percent in 2019 to 10.7 percent in 2023 (Table 1.14). This suggests scope for further relative expansion of the sector to widen its support for economic activity, while retaining appropriate risk management frameworks, soundness and stability.

Table 1.14: Sectoral Credit and GDP, 2019 – 2023 (P billion)

	2019	2020	2021	2022	2023 (Sept)
GDP (current)	179.9	171.7	207.9	251.4	266.8
Private Credit*	66.3	69.1	72.2	76.4	80.2
***Ratio** (percent)*	*36.9*	*40.3*	*34.7*	*30.4*	30.1
Private Business	23.1	23.0	23.6	25.6	28.5
***Ratio** (percent)*	*12.9*	*13.4*	*11.3*	*10.2*	10.7

* Private credit refers to total bank credit excluding central and local government.
Source: Bank of Botswana

Chart 1.18: Commercial Bank Credit Annual Growth (2013 – 2023)



Source: Bank of Botswana

4.13 Banks maintained good quality assets in 2023. The ratio of non-performing loans (NPLs) to total bank credit declined from 3.8 percent in December 2022 to 3.7 percent in 2023 and was lower than the 4.2 percent in December 2021; the NPLs ratio for individual banks ranged from 1.4 percent to 6 percent in December 2023. By sector, the ratio of NPLs to total loans for households slightly increased from 3.1 percent in December 2022 to 3.2 percent in December 2023, while for businesses, it declined from 4.7 percent to 4.5 percent in the same period, reflecting improvement in business performance.

4.14 Household debt as a proportion of household income was estimated at 38.8 percent in the third quarter of 2023, a slight increase from 37.9 percent in the fourth quarter of 2022. The level of household indebtedness is low relative to international counterparts. However, it is observed that household credit is highly concentrated in unsecured lending (68.1 percent in December 2023), hence could potentially cause financial distress in the sector, given the inherently expensive nature of such credit, especially in the event of monetary policy tightening and/or widespread loss of employment. Nevertheless, the levels of household borrowing are in line with trends in economic and personal income growth and, therefore, present low risk of debt repayment challenges. Overall, levels of credit continued to be supportive of economic activity, while risks are sufficiently mitigated by income; collateral; default insurance cover; as well as strong supervisory oversight by the Bank.

Monetary Aggregates

4.15 Growth in broad money supply (M2) was 9.2 percent in the year to December 2023, higher than the 6.8 percent recorded in the corresponding period in 2022 (Table 1.15). The growth of money supply resulted from an increase in credit to the private and parastatals sectors to fund growth enhancing opportunities post COVID-19 restrictions. Moreover, there was a decrease in public sector deposits at the Bank of Botswana, which also had an expansionary effect on M2. Meanwhile, there was an offsetting impact from the increase in net foreign assets. By component, current account (transferable) deposits increased by 27 percent, while interest bearing deposits increased by 4.2 percent in the year to December 2023. Deposits in foreign currency accounts increased by 14.5 percent in the same period. The ratio of money supply to GDP[34] (a measure of financial deepening) increased slightly to 40.3 percent in the year to September 2023, compared to 40 percent in 2022, signalling increased provision of financial services evidenced by the increase in credit extension to the private and parastatal sectors.

Bank of Botswana

4.16 Total assets and liabilities of the Bank of Botswana increased by 16.6 percent from P56.3 billion in December 2022 to P65.7 billion in December 2023. The increase in the statement of financial position of the Bank was mainly due to the 16.8 percent increase in foreign exchange reserves which includes the 18.6 percent expansion in the Pula Fund and 7.4 percent in Liquidity Investment Tranche. Transactions Balance Tranche as well as assets at the IMF also increased by 12.6 percent and 6.2 percent, respectively. Fixed assets increased by 21.7 percent in the year to December 2023 compared to 24.7 percent in the corresponding period in 2022. On the liability side, the total shareholder's funds, which largely comprise the Currency Revaluation Reserve, increased by 2.3 percent from P39.6 billion in December 2022 to P40.5 billion in December 2023. Commercial bank deposits at the Bank of Botswana (including primary reserve requirement balances) increased by 18.3 percent from P1.4 billion in December 2022 to P1.6 billion in December 2023.

34 Because of the revision in GDP figures, the ratio differs with the one reported in the Monetary Policy Statement of 2023.

Table 1.15: Aggregate Indicators Of Depository Corporations

	Levels (P billion) Annual percentage change in parenthesis				
	2023	2022	2021	2020	2019
M2/GDP (Financial Deepening)	40.3*	40.0	45.3	52.3	47.1
Net foreign assets	70.0	65.0	64.4	62.0	72.9
	(7.7)	*(0.9)*	*(3.8)*	*(-14.9)*	*(-8.2)*
Net credit to government	3.4	-4.9	-0.1	-0.7	-18.7
	(168.3)	(-4 404)	(84.1)	(96.3)	(29.4)
Credit to private and	87.0	80.9	76.6	72. 9	68.9
parastatal sectors	*(7.5)*	(5.7)	(5.0)	(5.8)	(7.6)
Other items net	-8.3	-7.2	-6.1	-12.9	-13.8
	(-15.6)	(-16.3)	(52.4)	(6.4)	(-8.3)
M1	31.0	24.9	24.4	23.5	20.0
	(24.5)	*(2.0)*	*(3.8)*	*(17.4)*	*(15.7)*
M2	110.0	100.7	94.3	89.8	84.8
	(9.2)	*(6.8)*	*(5.0)*	*(5.9)*	*(8.0)*
Government deposits	10 706	16 940	10 954	7 122	23 289
	(-36.8)	*(54.7)*	*(53.8)*	*(-69.4)*	*(-22.2)*
of which at BoB	10 459	16 735	10 789	6 979	23 115
	(-37.5)	*(55.1)*	*(54.6)*	*(-69.8)*	*(-22.2)*

*As at September 2023

Source: Bank of Botswana and other depository corporations.

Other Depository Corporations

4.17 The statement of financial position of commercial banks grew by 14.2 percent from P117 billion in December 2022 to P133.6 billion in December 2023. On the assets side, gross loans and advances (largest component of assets at 61.2 percent) increased by 12 percent from P73 billion in December 2022 to P81.8 billion in December 2023, while the balances due from foreign banks decreased by 7.5 percent. Holdings of Bank of Botswana certificates increased by 57.7 percent in December 2023, while holding of Government T-bills increased by 48 percent over the same period, indicating some appetite for the two assets. With respect to liabilities, government deposits and deposits at commercial banks rose by 20.7 percent and 14.5 percent, respectively, while capital and reserves increased by 14.3 percent, in December 2023. Wholesale business deposits continue to be the main source of funding for commercial banks (77.1 percent of total deposits in December 2023). The ratio of commercial bank credit to GDP was 40.3 percent in September 2023, a decrease from 42.2 percent in September 2022.

4.18 For Botswana Savings Bank (BSB), total assets and liabilities decreased by 0.5 percent, from P3.4 billion in 2022 to P3.3 billion in December 2023. Gross loans and advances and cash and deposits at banks (liquid assets) decreased by 51.8 percent and 1.8 percent in December 2023; while other assets increased by 196.9 percent. On the liabilities side, savings deposits decreased by 6.8 percent in

December 2023, from P2.6 billion to P2.4 billion, compared to a decrease of 0.7 percent in December 2022. Capital and reserves increased by 7.8 percent compared with a growth of 9.5 percent in 2022.

(d) Other Financial Corporations

4.19 The statement of financial position of the National Development Bank (NDB) increased by 6.4 percent, from P1.2 billion in December 2022 to P1.3 billion in December 2023, compared to an increase of 0.6 percent in 2022. The increase in the statement of financial position of NDB was attributable to increased capital and reserves by 42.8 percent, while loan liabilities (borrowings to fund own operations) and other liabilities decreased by 14.6 percent and 49 percent, respectively. On the assets side, liquid assets increased by 180.2 percent whereas loans and advances, fell by 12.4 percent.

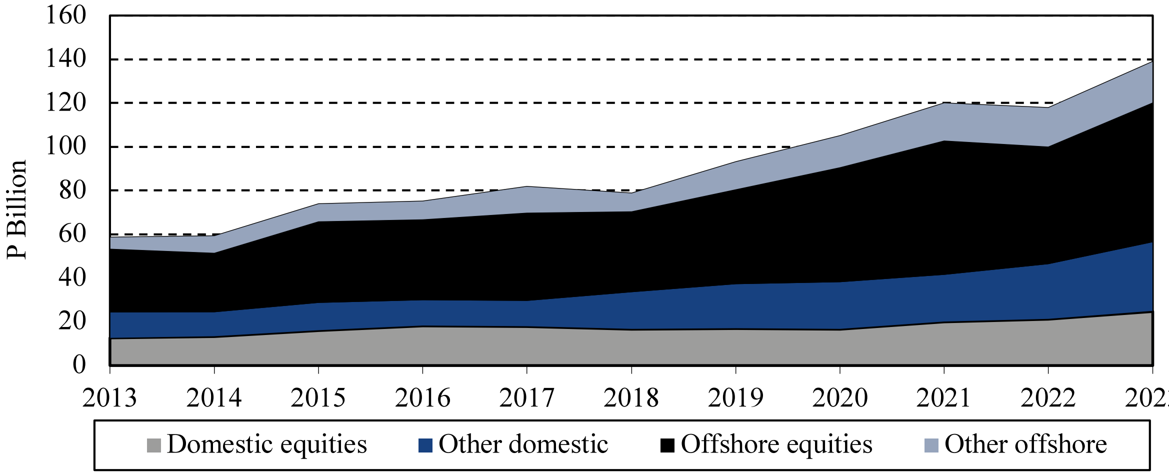
4.20 The statement of financial position of Citizen Entrepreneurial Development Agency (CEDA) increased by 25 percent to P1.8 billion in December 2023, from P1.4 billion in December 2022. The increase in the statement of financial position was due to an increase in loans and advances, cash balances and investments in related companies by 13.7 percent, 168.5 percent and 10.8 percent, respectively, during the period under review. On the liability side, capital and reserves increased by 25.3 percent in the same period.

4.21 Total assets and liabilities of Botswana Development Corporation (BDC) increased by 3.5 percent from P5 billion in December 2022 to P5.2 billion in December 2023. This performance was largely attributable to an increase of 10.1 percent and 13.2 percent in reserves and other liabilities. Meanwhile, there was an increase in loans, advances and leasing by 9.5 percent and other assets by 18.2 percent. Deposit holdings at commercial banks and Fixed assets decreased by 19.4 percent and 12.9 percent, respectively, in the same period.

4.22 The Domestic Companies Index (DCI) of the Botswana Stock Exchange (BSE) increased by 15.6 percent to 8 929.6 in December 2023, compared to 10.2 percent in 2022. This improvement in performance reflects the continued recovery of the local equity market following the economic decline brought about by the COVID-19 pandemic. The market capitalisation of domestic companies rose by 16.7 percent, from P41.1 billion in 2022 to P48 billion in 2023, due to the increase in share prices of most listed companies. In terms of price per share movements, several companies recorded increases, namely: Standard Chartered (84.7 percent), Chobe (87.7 percent) and Seedco (29.6 percent). The Foreign Companies Index increased by 57.7 percent to 2 464.7 in 2023, compared to 0.8 percent in 2022, with share price of CA Sales recording an increase of 65.9 percent. There were 561.5 million shares worth P4.1 billion traded in 2023 compared to 514 million shares valued at P1.2 billion traded in 2022. The number of listed domestic companies increased from 31 in 2022 to 36 in 2023.

4.23 Assets of pension funds increased by 17.9 percent from P118 billion in December 2022 to P139 billion in December 2023 (Chart 1.19), reflecting the increase in fair value gains. By asset class, investment in primary listed domestic equities increased by 22.6 percent to P19.4 billion in the twelve months ending December 2023, while holdings of offshore equities increased by 19.5 percent to P63.7 billion due to the increase in prices (valuations). Meanwhile, the value of domestic bonds held by pension funds rose by 18.5 percent to P13 billion, while offshore bonds increased by 35.6 percent to P9.8 billion in December 2023. Investment in local property increased from P3.6 billion to P3.9 billion in the same period. The proportion of assets invested offshore by pension funds decreased from 60.5 percent in December 2022 to 59.4 percent in December 2023. The ratio of assets of pension funds to nominal GDP was 48.8 percent in the third quarter of 2023 compared to 47.1 percent in the corresponding period in 2022.

Chart 1.19: Botswana Pension Fund Assets (2013 – 2023)



Source:NBFIRA

(e) Sovereign Credit Rating

4.24 The annual Credit Analysis Update Report, released in October 2023 by Moody's Investor Services (Moody's) affirmed the Government of Botswana's long-term local and foreign currency issuer ratings at "A3" for 2023 and maintained a stable outlook. The ratings are underpinned by the country's very low debt levels, and its robust institutional frameworks and governance strength, balancing economic concentration in mining and related activities, as well as very low susceptibility to political, liquidity and banking-related event risks. The stable outlook owes to balanced risks premised on expectation that the demand for Botswana's diamond will remain strong, despite a softened global outlook for diamond prices.

4.25 There was no credit rating action by S&P Global Ratings (S&P) in 2023, following its August 2023 consultations, but publication of a full surveillance report in September 2023. The report highlights the country's robust institutional frameworks (compared with that of regional peers) which have supported the prudent management of the country's natural wealth; the strong monetary policy framework and independent central bank; and robust mineral revenues that should sustain a broadly balanced fiscal position. Furthermore, S&P forecasts robust current account surpluses in the medium-term, expected to strengthen foreign currency reserves and, thus, support the exchange rate framework. Therefore, S&P expects a stable economic outlook on account of stronger demand for Botswana's diamonds against downside risks presented by the weakening global economic activity.

Part B

Chapter 2: The Role Of The Mining Sector In Botswana's Future Development

PART B

THE ROLE OF THE MINING SECTOR IN BOTSWANA'S FUTURE DEVELOPMENT

1. Introduction

1.1 Botswana's desire to transition to high-income status, aligned to the nation's Vision 2036 aspirations, is well-entrenched. The execution plans in this regard are reflected in, among others, the structural transformation initiatives, policy reforms and the Reset Agenda. Some of the immediate transition initiatives are included in the 2020/21 – 2022/23 Economic Recovery and Transformation Plan (ERTP) and the April 2023 – March 2025 Transitional National Development Plan (TNDP), as well as related pronouncements in the recent President's State of the Nation Addresses (SONAs) and annual Budget Speeches.

1.2 Critical attributes of the transition include traction of higher rates of economic growth (GDP) estimated at more than 6 percent annually over the next 13 years, as well as enhanced inclusivity as indicated by significant reduction in unemployment, poverty rates and inequality. Both the statistical measures of economic performance relative to potential output (output gap) and conjecture or inference from poverty, unemployment rates and productivity levels suggest sub-optimal economic activity and, therefore, potential to raise productivity and output to levels commensurate with the transition to high-income status. Viewed from this perspective, the required pace of economic growth and related productivity levels to transition to high-income status by 2036 should be achievable.

1.3 In pursuit of this transition, there is conventional and long-standing understanding that key to the nation's growth prospects, and inclusivity is economic diversification. However, economic diversification continues to proceed at a relatively slow pace. In 2022, the mining sector accounted for about 20 percent of nominal GDP, with diamonds contributing nearly 93 percent of the total mining sector share in GDP, and approximately 90 percent of total exports of goods. More recently, Botswana's National "Mind-Set Change" campaign, which recognises the human mind as a key resource in transforming the economy towards high income status, is being promoted to, among others, generate and inculcate appreciation of the various channels of economic and resource potential that could accelerate productivity, economic diversification and the requisite pace of output expansion. Through the mind-set change campaign, a positive change in ways of thinking and doing things can expose hidden and latent resources and economic potential, such as individual skills and intellect, culture and heritage attributes, national resources and endowments, markets and emerging global trends (including opportunities that could be harnessed from digitalisation and climate change transition and mitigation initiatives).

1.4 Among the various sources of economic potential, it is considered that Botswana's endowments of minerals continue to present potential for economic diversification and higher rates of growth. This is the case given the related and enduring industrial and consumption needs, that also encompass backward and forward linkages, that if appropriately harnessed and exploited, can deliver the desired socioeconomic targets. In some respects, this observation does not resonate with the existing dominating view that promotes diversification away from the mining sector. Botswana is the world's largest producer of gem diamonds, accounting for about 21 percent of the total world output. As such, overall, both the economy and the Government heavily depend on diamond production and revenues; essential factors that drive socioeconomic progress. Hitherto, the impact on the economy and development progress also reflects beneficial execution of the minerals policy, the ownership as well as cost and revenue sharing arrangements in place, which have been the subject of progressive review and implementation over time. Overall, this has been the main driver for the country's transition to upper middle-income status attained in the mid-1990s.

1.5 Weak global economic performance, as well as industry specific challenges, such as the declining mineral reserves; increasing extraction costs as the diamond mines age; the emergence of lab-grown diamonds; and cyclicality of commodity markets have recently led to the slowdown in mining production, thereby undermining the contribution of the mining sector to Botswana's economy. For instance, the contribution of mineral revenues to Government revenues has decreased from approximately 50.9 percent in the ten-years period prior to the 2008/09 global financial crisis (GFC), to an average of 35 percent post the GFC, thus greatly posing a threat to fiscal sustainability. It is, therefore, reasonable to expect Botswana to continue pursuing diversification away from mining by exploring other sources of economic activity to reduce vulnerability and to build sustained economic resilience.

1.6 However, aligned to the mind-set change campaign, a complementary value-adding perspective to the conventional narrative on prospects for the mineral sector could be explored. First, minerals represent a significant economic endowment and potential for the nation and should be considered as inherent to domestic economic activity. The lack of large-scale exploitation (to the extent there are markets and industrial opportunities), would suggest sub-optimal economic activity and a constraint to growth prospects. Second, even as market fluctuations represent vulnerabilities and economic fragility, evidence suggests that the exploitation of minerals has overall been beneficial to Botswana and key to economic resilience and policy discretion (and related macroeconomic stability).[35]

1.7 Third, in a new environment that promotes beneficiation, secondary processing, and impactful linkages to domestic industrialisation and inclusivity, related initiatives, including acceleration of ease of doing business and targeted operational frameworks could contribute to economic diversification. Fourth, the projection of mining potential, including with respect to more potential for enhanced mineral exploration and beneficiation through digitalisation of processes and artificial intelligence innovations, should also result in continued attraction of investment (both domestic and foreign) and integration of related products into global value chains (and the new global economy). Fifth, resource-based industrialisation should also contribute to continuous research, innovation and skills development that aligns to product and market development, adaptation and improvements in productivity. Sixth, being localised, mining activity tends to create a cluster of economic activity and improvement in living standards for the community subject to adequate attention to socialisation and empowerment aspects that also address potential social ills.

1.8 In considering the potential of the mining sector, it is equally important to recognise some requirements necessary for lasting beneficial impact. Among others, are protocols for award of mining rights, ownership, cost and revenue sharing arrangements, which may vary according to mineral types and uses. Another dimension is to mitigate against enclave operations with limited linkages to the rest of the economy. The two aspects to this are frameworks and policies for addressing beneficiation opportunities to impact domestic industrialisation and entrepreneurial development prospects; and second, providing opportunities for inclusive economic participation and empowerment. In addition, given the characteristics of mining (for example, exhaustible resource, environmental degradation, and market volatility), it should be accompanied by frameworks for addressing economic stabilisation needs, local community development and sustainability, and intergenerational equity. Significantly, there is a continuing need to address the linkages between sectoral performance and macroeconomic policy aspects, such as the exchange rate and fiscal policy (revenue raising and spending rules calibrated to sustainability of performance of the mineral sector). Equally important is that the promotion of mining activity should continue to relate to export-led economic growth, albeit involving substantial secondary processing, and should be private sector led.

35 For example, positives can be discerned from diamonds (high economic growth rates, infrastructure, social services, skills, economic cluster), copper (economic cluster) and coal (hitherto singular source of electricity generation). Even as challenges are evident, it is possible to mitigate or surmount these by, among others, governance, cost/revenue sharing and beneficiation arrangements, and community development/empowerment support initiatives.

1.9 This Annual Report theme chapter addresses the issues highlighted above as follows: Section two gives a concise overview of the mining sector in Botswana; Section three deals with investment and ownership arrangements and implications for cost and income sharing; economic, beneficiation and industrialisation prospects are discussed in Section four; while Section five assesses both the role and implications of macroeconomic policy and financial sector development for the mining sector. Section six concludes the theme chapter and highlights key takeaways.

2. Overview of the mining sector in Botswana

I. Geological Mapping – National Mineral Deposits and Operating Mines

2.1 In the quest to unlock the potential of mineral[36] deposits, the Government of Botswana has since independence, embarked on geological, geophysical and geochemical surveys. Notably, by the end of 2022, 87.5 percent of the country had been covered by geological surveys (Figure 2.1). At the same time, geophysical surveys, which involve collecting information associated with subsurface features, have covered over 80 percent of the land area in high resolution aeromagnetic and 25 percent of the land area in high resolution gravity survey (Figure 2.2 and Table 2.1). Furthermore, in 2023, the Botswana Geoscience Institute (BGI) undertook both geological and geophysical surveys in the Southwestern Botswana region, specifically the Nossop-Ncojane Basins area (Figure 2.1 and Figure 2.2).

2.2 Geochemical surveys, which involve the systematic collection and analysis of collected samples of rocks, soil, water, and vegetation to assess the concentration of chemical elements and compounds, were undertaken only in the Ngamiland and Molopo Farm areas, thus covering roughly 20 percent of the country (Table 2.2). The rest of the country remains with no systematic geochemical surveys except for some portions surveyed by individual companies during exploration programmes. However, the Government of Botswana has, through BGI, decided to carry out a full survey of the country through National Geochemical Survey under the TNDP, which aims to compile all historical geochemical data from exploration companies and Department of Geological Survey reports. The project is expected to produce a national geochemical database and maps showing the concentration and distribution of various elements across the country.

Figure 2.1: Coverage of Geological Surveys

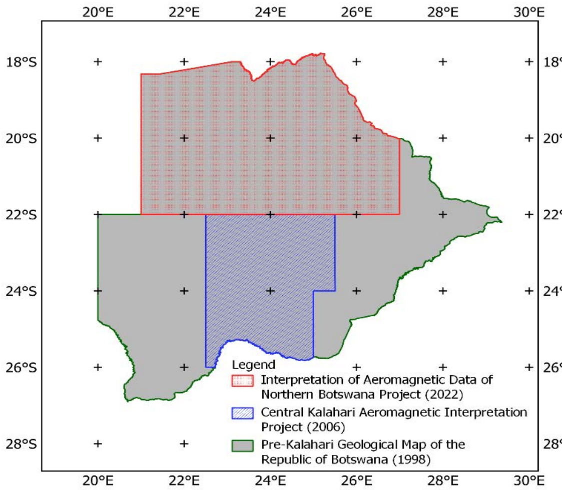
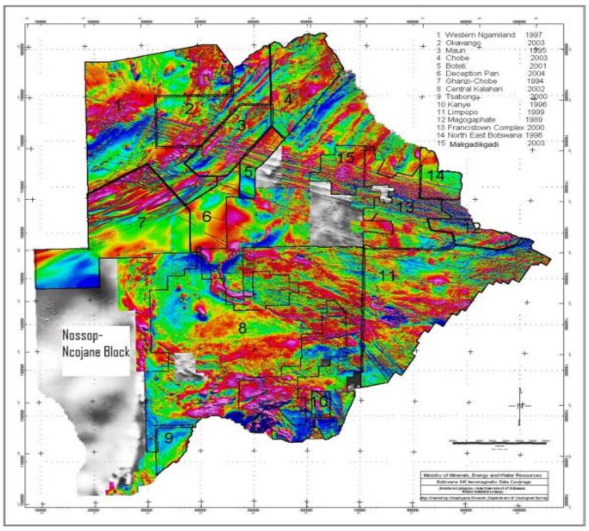


Figure 2.2: Coverage of Geological Surveys



36 Minerals here encompass precious stones, precious and base metals, as well as energy and industrial minerals.

Table 2.1: Coverage Of National Geophysical Surveys

	Year Flown	Name of survey
1	1989	Magogaphate
2	1994	Ghanzi-Chobe
3	1995	Maun
4	1996	Kanye
5	1996	Northeast Botswana
6	1997	Western Ngamiland
7	1999	Limpopo
8	2000	Francistown Complex
9	2000	Tsabong
10	2001	Boteti
11	2002	Central Kalahari
12	2003	Chobe
13	2003	Makgadikgadi
14	2003	Okavango
15	2004	Deception Pan

Table 2.2: Coverage Of National Geochemical Surveys

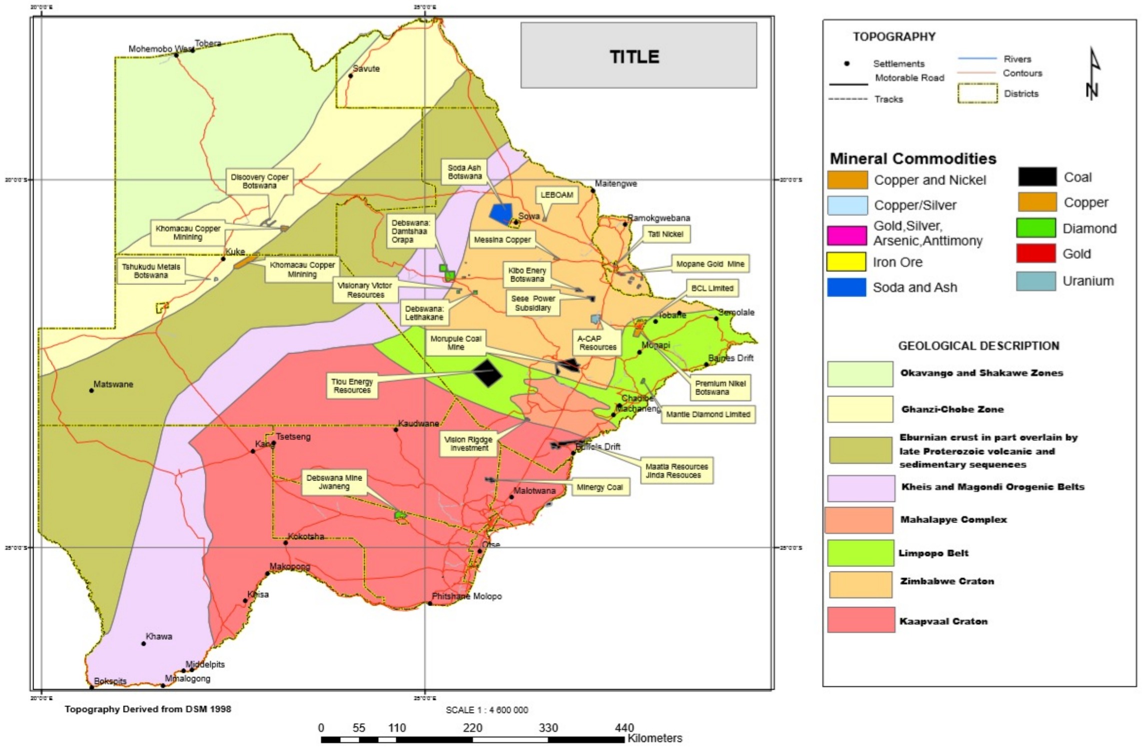
	Area Covered (Km2)	Name of survey
1	16950	Xhwihaba-Ipopeng
2	338	Xhwihaba West
3	854	Aha Hills Ring
4	385	Dobe North
5	582	Xhwihaba East
6	710	Zeniwe South
7	294	Zeniwe North
8	2175	Makakung-Nokaneng
9	894	Qurube
10	1798	Sepopa
11	389	Shakawe
12	1490	Tsau
13	1727	Gabba

Source: Botswana Geoscience Institute

2.3 Overall, the combination of geological, geophysical and geochemical surveys identified indicative mineral potential areas for exploration. Accordingly, more than 1000 mineral exploration licences were issued to various individuals and companies for prospecting of precious stones, metals, as well as energy and industrial minerals. However, most of these are inactive and are assumed to be speculative licence holders. Of those that are active, the challenges lie in the cost of moving from exploration to mining, making it difficult for Botswana to tap into the inherent mineral deposits and diversify the mineral industry from the current diamond-dominated mining sector[37]. Figure 2.3 shows a map of current mineral deposits and potential for mineral deposits across the country.

37 There are no direct government funding schemes aimed at financing mining exploration activities. However, government has created a conducive environment that supports financing needs of companies involved in mining activities. Meanwhile, most exploration activities are undertaken by junior miners who use their individual savings or financial institutions loans to conduct these activities. Only after a discovery would there be appetite for a large mining company to engage with a junior miner (Botswana Chamber of Mines).

FIGURE 2.3: POTENTIAL MINERAL OCCURRENCES IN BOTSWANA



Source: Botswana Geoscience Institute

2.4 Table 2.3 further profiles, in detail, minerals that have been identified across the country. The table indicates that the country has considerable coal deposits that remain largely unexploited, currently estimated at around 28.2 billion tons, with Mmamabula Coalfield accounting for more than one third of all the coal deposit discoveries in the country. In terms of diamonds, a large number of kimberlite pipes are distributed across several fields in the country, with the Orapa Kimberlite field having the largest number of kimberlites. Gold occurrences have been identified in the Francistown area (north east). There are also significant occurrences of various industrial minerals (Table 2.3).

Table 2.3: Potential Mineral Deposits In Botswana

Mineral	Fields	Quantity (Billion tons)	
Coal	Dukwi	0.92	
	Dutlwe / Letlhakeng	3.07	
	Foley / Sese	5.01	
	Masama	0.39	
	Mmamabula	10.41	
	Mmamantswe	1.24	
	Morupule	7.11	
Copper and Silver (Cu-Ag)	Khoemacau/Boseto (Zone 5, Zeta Northeast (NE), Zone 5 North, Mango NE, Banana and other resources)	449.5 million tons	• 1.4 percent copper • 18.2 grams per tonne of silver
	Sandfire's T3 and A4 Motheo Cu-Ag deposit	49.6 million tons	• 0.96 percent copper • 13.6 grams per tonne of silver • 474 000 tonnes of copper and 21.3 million ounces of silver
Copper, Silver, Lead, Zinc, Cobalt, Germanium, Vanadium	Kihabe Complex	…	
Diamonds		**Number of Kimberlites**	
	Gope	6	
	Jwaneng	27	
	Kikao-Khutse	23	
	Kokong	34	
	Lekgodu	8	
	Martins Drift	8	
	Nxauxau	17	
	Okwa	8	
	Orapa	80	
	Tsabong	50	
Nickel, Copper and Gold	Limpopo Mobile Belt	…	
	Maitengwe Schist Belt	…	
	Matsitama Schist Belt	…	
	Tati Schist Belt	…	
	Vumba Schist Belt	…	
	Zimbabwe Craton	…	

Mineral	Fields	Quantity (Billion tons)
Industrial Minerals	Clay Deposits	…
	Construction Aggregate	…
	Gravel Barro Pit	…
Zinc and Lead	Kihabe	14.4 million tons at 2.84 percent zinc equivalent 3.3 million ounces of silver
	Nxuu	10.9 million tons at 3.20 percent Zinc equivalent
Gold, Iron, traces of Platinum Group Metal (PGM), Rare Earth Elements, carbonatites	Molopo Farms	…
Critical Battery Metals		
• Manganese (Kgwakgwe Hill Manganese Project)	Kanye Basin	2.03 million tons
• Cobalt	….	….
• Lithium	….	….
• Nickle	….	….
• Graphite	….	….
Uranium	Letlhakane (A-CAP Letlhakane Uranium project)	…
	Serule (Serule Uranium deposit)	…

Source: Botswana Geoscience Institute
Note: … indicates information not available.

2.5 Despite the presence of a wide range of mineral deposits in the country, as indicated in Table 2.3, only a few are currently being mined (Table 2.4). The mining activity is dominated by diamond mining, with others being coal, cobalt, copper, gold, nickel, iron ore, salt, sand and gravel, soda ash, semiprecious gemstones, and silver. While the lifespan of the mines is usually determined by the mineral deposits, most operating mines have a lifespan exceeding ten years.

Table 2.4: Minerals Currently Mined In Botswana

Mineral Deposits	Name of mine	Owner	Life of Mine
Coal	Morupule Coal Mine	Minerals Development Company Botswana	2032 (period of lease)
	Masama Coal Project (Medie)	Minergy Coal	100-year mine life (as of September 2018)
	Mmamabula Coal Mine	Jindal Steel & Power	25-year mine life (as of 2014)
Coal (Coal Bed Methane)	Serowe Coal Bed Methane Project	Sekaname (Pty) Ltd	…
	Lesedi Project	Tlou Energy Limited	…
Copper	Motheo Copper Project	Tshukudu Metals Botswana	10-year mine of life (as of May 2023)
	Khoemacau Mine	Cuprous Capital Ltd	20-year mine life (as of 2023)
	Kopano (Mowana) Mine	Leboam Holdings (Pty) Ltd	2046
Copper- Nickle-Cobalt	Selebi Mine Project (Selebi and Selebi North Shafts)	Premium Nickel Resources Limited (PNRL)*	Exploration Stage
	Selkirk Mine (Tati Mining)	Pnrl	Exploration Stage
Diamonds	Damtshaa Mine	Debswana	31-year mine life (as of 2023)
	Jwaneng Mine	Debswana	Cut-9, end of lifespan 2035 with further underground potential
	Letlhakane Mine	Debswana	2043 end of lifespan
	Orapa Mine	Debswana	Cut-3, 2055
	Karowe Mine	Lucara Botswana Proprietary Limited	Open pit operation to 2026 with further underground potential
Gold	Mupane Mine	Jims Luck, Francistown	5-year mine life (as of January 12, 2023)
		Mupane Mine Pty (Ltd), Francistown	10-year mine life (as of September 5, 2023)
		Mupane Mine Pty (Ltd), Matsilotje	10-year mine life (as of November 7, 2015)
		Shashe Mine – Golden Eagle, Francistown	12-year mine life (as of December 10, 2012)
Iron Ore	Ikongwe Mine	Botswana-registered Vision Ridge Investments	10-year mine life (as of 2021)
Pit Sand and Gravel	Kumakwane, Kopong and Bela-Bela farms	…	…
River Sand	Metsimotlhabe and Ditlhakane Rivers	…	…
Salt and Soda Ash	Botswana Ash Mine	Part state-owned and Chlor Alkali Holdings (Pty) Ltd	61 years (as of 2017/2018 financial year)

Source: Botswana Geoscience Institute
… indicates information not available.

* PNLR, a Canadian firm, revealed that construction of a new mill for the Selebi shaft is expected to start in the third quarter of 2025, with commissioning of the mill and operations kicking off in the last quarter of 2026. Furthermore, the firm is targeting completion of pre-feasibility study at the Selebi North Shaft and planned preliminary economic assessment at Selkirk by the fourth quarter of 2024.

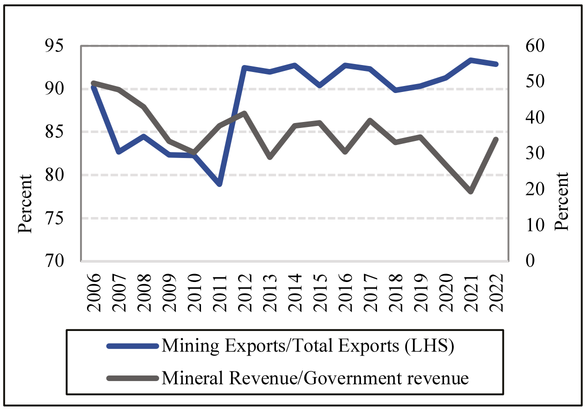
1. Note: Three diamond mines, namely, BK11 Mine, Ghaghoo Mine and Lerala Mine are currently under care and maintenance. The initial phase of production at the BK11 Mine (wholly citizen-owned company, Visionary Victor Resources) began in August 2010 but was halted in February 2012 due to the plant's inability to effectively extract diamonds. The second phase, involving secondary and tertiary crushing circuits, as well as connection to the current electrical power infrastructure, is yet to commence. In addition, the Ghaghoo Mine has been under care and maintenance since 2017 due to lower diamond prices. Gem Diamonds, its owner, is contemplating a final shutdown of operations after unsuccessful efforts to find a buyer. Meanwhile, in 2024, the government approved the transfer of a mining licence for the Lerala Diamond Mine to Maroon Capital. This significant development necessitates the firm to recommence mining operations that were halted in 2017 due to financial constraints and operational challenges.

II. Economic Contribution of the Mining Sector

2.6 Botswana's mining industry continues to be one of the best and most lucrative in the world, especially diamond mining, with the country currently being the world's leading producer of diamonds by value. Notably, diamond mining has influenced Botswana's development path in terms of export earnings providing funding for development of physical infrastructure and provision of public services. In addition, the resultant buffers have enabled macroeconomic policy discretion, maintenance of credible fiscal, monetary and exchange rate policy frameworks and related institutional arrangements. Thus, Botswana has largely succeeded in avoiding the 'resource curse' by investing diamond revenues in a transparent and productive manner in support of national objectives. Going forward, more intense economic beneficiation of endowments, including minerals, is expected to accelerate economic activity and development towards high-income status by 2036. This section, therefore, highlights the importance of mining in terms of its contribution to the country's GDP, exports, government revenue and domestic industrial linkages, and highlights some challenges associated with over reliance on the sector.

2.7 The contribution of mining, in particular diamonds, is evident in its relative size to the overall economy, share of exports and government revenue, and resultant influence on the expenditure path. Regarding export earnings, diamonds contribute approximately 90 percent to the total exports of goods (Chart 2.1). As a result, the sector has been, and continues to be the major source of government revenue, contributing significantly to the country's overall income despite the declining share from 49.6 percent in 2006 to 33.9 percent in 2022 (Chart 2.1). Even though the mining sector's contribution to GDP has been on a downward trend and below 30 percent since 2009, the sector still leads in terms of value-added contribution to

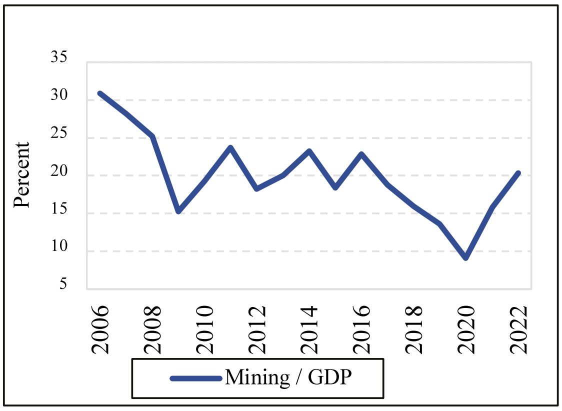
Chart 2.1: Contribution Of Mining To Total Export And Government Revenue



Source: Statistics Botswana

Note: The surge in the ratio of mining exports to total exports in 2012 was mainly attributable to the relocation of DeBeers diamond aggregation and sales functions from the United Kingdom to Botswana.

Chart 2.2: Contribution Of Mining To Gdp



Source:Bank of Botswana

GDP (Chart 2.2). However, the mining industry is capital intensive and accounts for less than 2 percent of total employment (Quarterly Multi Topic Survey for Quarter 3, 2023). From this perspective, the sector's growth (except for deployment of earnings) has not been sufficiently inclusive to bring down unemployment and reduce inequality. The 25.9 percent unemployment rate in 2023 and income inequality, as measured by the Gini index of 53.3, are among the highest in the world (World Bank, 2023).

2.8 In addition to the capital intensity (inherent to the activity) argument, there are at least two explanations for this outcome. First, that the more dominant mining activity, diamonds, copper nickel and soda ash, do not involve significant secondary processing or beneficiation in the domestic economy, that could generate downstream economic opportunities. Second, infrastructure and social programmes are not sufficient for scaling up industrialisation necessary to impact the relevant social indicators to levels, and in the time horizon desired.

2.9 In a more appropriate context, the mining sector is not only direct through own sectoral output but relates to backward and forward linkages that include transportation, construction, manufacturing, water and electricity, as well as education and research, among others. Thus, dedicated beneficiation initiatives would potentially multiply the economic and diversification benefits beyond secondary processing of mineral products. It is also observed that where mining is a dominant enclave in an undiversified economy, its inherent cyclicality of demand and volatility of commodity prices could be a source of fluctuations in output and unstable revenues. In addition, minerals can be depleted, or economic/social benefits diminish over time, hence the need for sustainable resource management. For Botswana, this entails mechanisms for saving for future generations and transmuting the earnings into expansion of economic and production capacity to underpin sustained and inclusive economic growth.

III. Prospects for the Mining Sector

2.10 Hitherto, perspectives on economic growth and diversification prospects for Botswana mostly focus on developing alternative sectors to mining. It is observed, nevertheless, that mineral endowments are integral to the Botswana economy; therefore, there is scope to harness the related economic opportunities that entail within-sector diversification, enhanced beneficiation and integration with other sectors and community development, that potentially generate economic diversification and inclusive sustainable growth. In this regard, in addition to harnessing benefits of existing mines, there is need to exploit mineral deposits with potential, with view to broaden the mining sector; thus expand the scope to impact industrialisation and inclusivity of economic performance. Below are some examples of specific minerals that have the potential to positively impact the country's development trajectory.

(a) Coal

2.11 As indicated earlier, Botswana has large reserves of coal, for which the economic benefits include power generation, secondary processing (gasification and liquefication to fuels and household products), and export potential, all of which could contribute to the country's energy security and economic diversification and development. With the country currently importing over 25 percent of its electricity and projections indicating an upward trend in local electricity demand up to the year 2040, there is a growing local market for the coal as resource for electricity generation and, beyond, that for export.

2.12 Worth noting, Jindal Energy Botswana is in the process of constructing a 300-megawatt thermal power plant, utilising clean coal technologies that adhere to stringent international environmental standards. This initiative involves the establishment of a large-scale coal mine and associated infrastructure in the Mmamabula Coalfield. Upon completion, coupled with the refurbished 520-megawatt Morupule B thermal plant (currently the primary baseload generation source in the country), Botswana is expected to achieve a total generating capacity of 820 megawatts, exceeding the anticipated local demand of 800 megawatts.

Notably, the electricity access rate for African countries stands at just over 40 percent, the lowest globally, thus the project is not only anticipated to enhance electricity supply security but also create an opportunity for Botswana to fully exploit the export market, or alternatively, export coal to support other countries' coal powered electrical plants across the region. Overall, exploiting coal for electricity generation has the potential to diversify the economy, generate employment opportunities, grow the economy and reduce the country's import bill.

2.13 In addition, coal could facilitate gas-to-liquid projects, thus help the country grow its economy to satisfy the growing local and global demand for liquefied gas. Coal could also be leveraged for the production of carbon-based products, such as carbon, carbon-fibre, and graphene, which have a wide range of industrial applications. The production of high-efficiency fertilisers could also be explored to reduce dependence on imported fertilisers. Furthermore, coal provides around 90 percent of the energy consumed by cement plants around the world and, hence, subject to mitigating environmental harm, there is an opportunity to leverage on coal to manufacture cement. This would meet the rapidly expanding infrastructure demand in the country and reduce the need to import cement and with potential to generate new industries and jobs, thereby expanding the country's economic base.

(b) Copper

2.14 As the shift towards renewable energy gains momentum, copper has emerged as a focal point for both domestic and global mining companies. This is mainly due to its essential use in electric vehicles, electrical wiring, and the growing demand for power grids. Therefore, projections suggest that copper prices will rise over the long-term, driven by sustained demand for renewable energy, and this is expected to benefit the country's local copper mining operations and the economy as a whole. There is also an opportunity of developing copper refinery that will generate employment in the manufacturing sector and lead to increased value addition from the product. Consideration could be made to revive the now defunct BCL smelter to cater for local copper miners and those in neighbouring countries, similar to previous arrangements between the BCL Mine and the Nkomati Mine in South Africa.

(c) Diamonds

2.15 The discovery of kimberlites as indicated in Table 2.3, continues to offer opportunities for economic expansion. However, given that most of the diamonds produced in Botswana are processed abroad, the country does not derive maximum benefit from its resource endowment. Therefore, there are opportunities to expand the diamond jewellery industry in Botswana and raise the level of beneficiation in general. In particular, the recent agreement between the Government of Botswana and De Beers opens up avenues for increased local beneficiation activities, including jewellery making. Also, with the cutting and polishing industry expected to expand due to increased local beneficiation, there is an opportunity for the country to explore industrial application of diamonds, such as the manufacturing of cutting tools and polishing abrasives for the industry. Furthermore, beyond secondary processing and enhanced beneficiation, there is an increasing consumer demand for sustainably and ethically sourced diamonds and, as such, continued adherence to ethical and sustainable practices by Botswana has the potential to bolster Botswana's position in the global diamond market. The relocation of the Kimberly Process Permanent Secretariat to Botswana also offers credibility and integrity to Botswana sourced diamonds in global markets.

(d) Gold

2.16 There are several uses of gold including in jewellery, wealth protection, electronics and space exploration. Meanwhile, there have been growing gold discoveries in the country which, given the current strong demand and favourable pricing for the mineral, as well as renewed interest in space exploration (for example, gold is used for making space suits, shuttles and satellites), could be benefit Botswana in terms of generating more value from the resource endowment. Furthermore, potential for gold mining in Botswana may also lead to the development of downstream industries, such as refining, jewellery manufacturing, and gold trading, creating additional economic opportunities for the country.

(e) Battery Minerals

2.17 Botswana possesses five of the six key minerals; cobalt, nickel, manganese, lithium and graphite, utilised in rechargeable batteries for electric vehicles. It is observed that electric vehicle batteries market is poised for growth globally, mainly due to rising demand for renewable energy. This positions Botswana as a potential contributor to the battery materials supply chain and a hub for electric vehicle battery manufacturing, given its location in the region. Therefore, this would create an opportunity for economic diversification, employment creation and sustainable economic growth.

(f) Manganese

2.18 Manganese deposits have notably been found within the Kanye Basin Prospects. Among these discoveries is the Kgwakgwe Hill Mine project, also known as the K-Hill project, slated to commence commercial production in 2025. Although manganese mining is not prominent in Botswana as other minerals, it is a critical component in steel production and, thus, experiencing a steady global demand. Botswana could trap into this market by developing its manganese mining industry and exporting the mineral to steel-producing countries. Additionally, manganese finds utility in various industries beyond steel, including battery manufacturing, fertilisers production, ceramics, and pigments. This broad spectrum of applications enhances the versatility and appeal of manganese across different sectors, further bolstering its demand worldwide.

(g) Uranium

2.19 Botswana also hosts one of the world's top ten largest undeveloped uranium deposits and investors are increasingly keen to mine the mineral due to the increasing popularity of nuclear power use as a source of renewable energy. For example, A-Cap Energy, an Australia-based resources company, initiated its drilling campaign for uranium at the Letlhakane Uranium project in 2023. Meanwhile, the sustained growth in demand for uranium is also influenced by the targets to meet zero-carbon goals and the need to significantly reduce global warming. Furthermore, sentiment on nuclear energy continues to improve, in part, due to the disruption to energy markets caused by the Russia-Ukraine war. As such, Botswana, with its known uranium deposits, could capitalise on this demand by exporting uranium to international markets for countries investing in nuclear energy as part of their energy mix. This has the potential to diversify export earnings and reduce heavy dependence on volatile diamond receipts.

(h) Zinc, Lead and Silver

2.20 The Kihabe and Nxuu prospects are important mineral deposits, located in the south east of Botswana, known for containing significant amounts of zinc, lead, and silver. There are various industrial uses of zinc that can be leveraged on including galvanising iron and steel against corrosion. Furthermore, mining of zinc could benefit from its increasing use in batteries and alloys. The health benefits of zinc are also well understood, including for aiding proper growth and development of humans, animals and plants. Similarly, there are opportunities for the lead market mainly due to the rising demand for lead-acid batteries in automotive and renewable energy applications. Additionally, Botswana's silver market could benefit from rising demand for electronics and renewable energy technologies, which require silver for conductive properties. Therefore, based on the foregoing, development of zinc, lead, and silver mining projects in Botswana could enhance economic activity, industrialisation and create employment opportunities.

(i) Iron Ore

2.21 Iron ore serves as a primary component in the manufacturing of steel. Steel, in turn, is utilised in various industries, such as construction, automotive manufacturing, infrastructure development, and machinery production. Therefore, market expectations regarding iron ore exploration and development in Botswana are optimistic, propelled by the global demand for steel, as well as ongoing and anticipated expansion of construction projects, infrastructure development initiatives, and prospects for beneficiation, including manufacturing activities for the global market.

(j) Salt and Soda Ash

2.22 Botswana, as one of the largest soda ash producers and exporters in Africa, has significant opportunity to increase its benefit from the product. Currently, Botswana and Kenya, cannot meet the 1.8 million tonnes African demand for soda ash. Therefore, there is an opportunity for the country to expand its production capacity to meet the demand of the continent. Soda ash is also integral in the production of glass for use in buildings and motor vehicles, as well as PVC pipes for water reticulation and water treatment, all of which are in high demand from the local market. Tapping on these opportunities could generate more value for the economy. Furthermore, there is an opportunity for the production of potash, which is a premium fertiliser that significantly increases agricultural yields. Also, more value addition could be derived from local processing and packaging salt for the food industry.

(k) Platinum

2.23 Platinum is a rare mineral with wide industrial usages, including the production of optical fibres and turbine blades. The demand for platinum is expected to increase in future due to the global development of low-carbon clean energy and the surge in demand for fuel cell electric vehicles and green hydrogen. In addition, platinum group metals are increasingly used in jewellery due to its durability and in a variety of environmentally related technologies, as well as electrical and electronic components. Platinum also has a wide range of applications in the medical field because it is chemically inert and a good conductor of electricity. Therefore, it could become a significant export commodity, contributing positively to the country's revenue in the long run.

(l) Sand

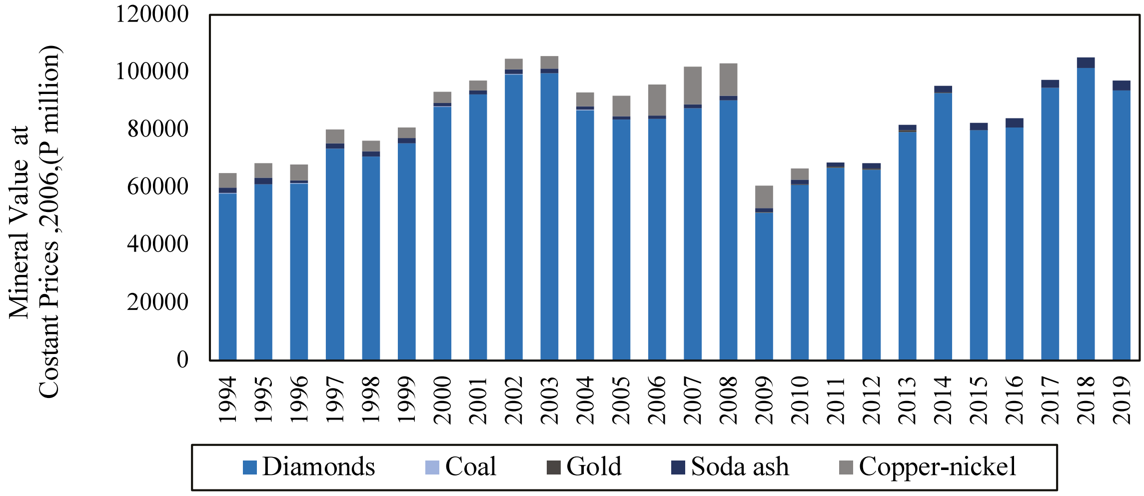
2.24 Sand is one of the most consumed natural resources that has many industrial uses as depicted in Table 2.5 below. Therefore, engaging in secondary processing of sand holds significant economic benefits for the country, potentially fostering substantial domestic industrialisation.

Table 2.5: Sand And Its Applications

Type of Sand	Area	Uses
Concrete Crushed rocks Gravel	Basement rocks of the Kaapvaal Zimbabwe craton extend into Botswana	Concrete Manufactured sand Mortar, Road stone Asphalt Drainage courses Bulk fill Railway ballast
Granite	Southern and north eastern parts of Botswana	**Indoor:** Kitchen and bathroom countertops **Outdoor:** Monuments, paving, buildings
Slate	Southern and eastern parts of Botswana	Roofing material Tiling Paving
Clay	Mined at Lobatse and Dipotsana	Brick making Pottery (e.g., Gabane Pottery)
Limestone Sand	**Gasita** has a total calcrete resource of 1 773 631 tonnes. **Letlhakeng** (Calcrete deposits of 139 000 Mt) in Southern part of the country	Cement Concrete paving Landscaping
Sandstone	Mmamabula, along the Tropic of Capricon	Glassmaking Ceramics Filtration and water production Construction Recreational products

2.25 Chart 2.3 shows the mineral economic value of the unmined mineral stock, for diamonds, coal, gold, soda ash and copper nickel, as calculated by the BGI, using dataset up to 2019. As shown, the majority of the expected economic value returns are from diamonds and soda ash.

Chart 2.3: Estimated Mineral Value 1994 – 2019



Source: Botswana Geoscience Institute

3. Investment and ownership arrangements and implications for cost/income sharing

I. Overview of Ownership Arrangements

3.1 Over time, the mining industry globally has been a focus for government regulation and control, whether it has been state or privately owned. Prior to the 1980s, state control of the mines was high, limiting the participation of international mining companies in many countries to minority holdings and non-equity arrangements with state owned companies. However, by the 1980s, the trend had reversed because of the political climate, with emphasis on 'free market' and private sector roles spearheaded by Prime Minister Margaret Thatcher in the United Kingdom and President Ronald Reagan in the United States of America. Furthermore, weaker management and ineffectiveness of state-owned companies in several countries, coupled with falling commodity prices during the 1990s and early 2000s and consequential poor revenue outcomes, resulted in a number of countries opening their economies to foreign direct investment (FDI) into the mining industry, thus privatising the mining industry (World Bank, 2011).

3.2 Although state control globally has decreased considerably since the late 1980s, it still prevails in some major mining jurisdictions. For example, government ownership of the mining industry remains relevant with significant shares in some mines Botswana, Chile and Australia (Table 3.1). Meanwhile, ownership arrangements of mineral deposits vary from country to country. For some countries, the state has exclusive ownership and control of all mineral deposits. However, any individual or legal entity (whether domestic or foreign) can acquire the rights to explore or mine the deposits and comply with relevant procedures. Entities under a variety of formations are granted rights to explore and mine within stipulated duration (for example, South Africa), while some, such as Chile, have indefinite duration, provided they pay annual tax. Meanwhile, for some countries, partnerships of private companies and governments are a critical part of the mining business model, facilitating shared responsibility for funding and operations (Table 3.1).

(a) Implications for Cost/Income Sharing

3.3 Ownership arrangements of mines have implications for income and cost sharing. Table 3.1 shows that in cases of joint ownership, the costs and revenue are distributed among the owners. However, for those partnerships involving government and the private sector, in most instances, the private sector takes a larger share of revenue than the government (for example, Australia and Chile). Furthermore, mining operations pay taxes and royalties to governments. In Botswana, the Government[38] receives what is due in terms of its 50 percent share ownership and 15 percent stake in De Beers. The country currently follows a resource-based system with respect to the taxation of mineral income, stated in the Income Tax Act (explained on paragraph 3.7).

3.4 Beyond the direct financial implications of ownership arrangements, there are also community development costs, that are invariably borne by government, albeit deemed to be offset over time by taxes. This includes the provision of infrastructure and social services. Thus, there is scope for mining agreements that explicitly recognise these imperatives and, therefore, provide for related/commensurate taxation, as well as cost and income sharing arrangements. On the other hand, in the event of viable and long duration mining operations, there are prospects for multiplication of economic activity that can self-compensate for the government expenditure, in terms of higher rates of economic growth that is inclusive (generate employment and other income earning opportunities) and raises living standards. It is notable, in this regard, that while not perhaps

38 Although government has a stake in some mining operations, such as Debswana, it is worth noting that some mines in Botswana are privately owned, with some fully owned by citizens, such as Mupani Gold Mine, while others are exclusively foreign owned, such as Khoemacau Copper Mine (See Table 3.2).

to full potential, revenue generated by Debswana have played an instrumental role in Botswana's economic growth and development. This chapter also seeks to explore and highlight opportunities for multiplying the benefits of mining beyond direct revenue derived from mining operators (premised on the understanding that being a national endowment, mining should be recognised as being integral to the economic and welfare fortunes of the nation).

3.5 Regarding examples of revenue sharing arrangements, mining companies in Russia are subject to a corporate tax set at the minimum rate of 20 percent; of which 2 percent goes into the federal budget, while the remaining 18 percent goes to the budget of the region where mining takes place. Russia also imposes varying taxes on the mineral resource extracted, for example, 8 percent for diamonds and copper; 6 percent for gold; and 4.8 percent for iron ore. In Chile, mining entities pay royalties for exploitation of metallic or non-metallic mineral resources, which range from 1 – 12 percent of profits. Meanwhile, royalties for Canada and Australia are based on taxable incomes, at a rate of 7 percent and 6 percent, respectively.

3.6 In some countries, communities have equities in the mines and the revenues are distributed directly to them, bypassing central government. For example, in South Africa, historically disadvantaged communities hold 26 percent equity, while in Australia, traditional aboriginal landowners hold an equity of 5 percent in any project developed as a result of exploration of their land. In Chile, indigenous communities have an equity of 3.5 percent of the mines' annual sales to support relations between the private company and communities that inhabit mineral extraction sites. This is unlike in other countries (Botswana and Canada) where all taxes and royalties from mining operations are centralised and the benefits shared nationwide through government spending and social programmes, as well as non-discriminatory access to employment and business contracts.

Table 3.1: Illustration Of Ownership, Cost And Income Sharing Arrangements Of Selected Mining Operations

Country (Mine)	Mineral	Ownership		Private Investors	Cost/Income sharing
		State	Private		
Canada *(Fording River)*	Coal	…	100 percent	Teck Resources Limited	**Costs:** Incurred fully by Tech Resources Limited. **Royalty rate:** Applied at 7 percent of taxable income.
Russia *(Aikhal)*	Diamonds	…	100 percent	Alrosa	**Costs:** Incurred fully by Alrosa **Corporate tax** set at the maximum rate of 20 percent: 2 percent goes to federal budget; remaining 18 percent to budget of the region in question. **Mineral tax rate** on the value of diamond extracted is set at 8 percent.
Australia *(Mount Whaleback)*	Iron ore	15 percent	85 percent	BHP Billiton, Rio Tinto	**Costs:** Government/private: 15/85 **Royalty rate:** 6 percent of sales revenue; 5 percent of beneficiated ore.
Chile *(Escondida)*	Copper	28 percent	72 percent	BHP Billiton (12.5 percent), Rio Tinto (30 percent)	**Costs:** Government/private: 28/72 **Royalty rate:** Ranges from 1 – 12 percent over quarterly net sales of copper.
Norway *(Hjerkinn Mine)*	Copper	…	100 percent	Norsulfid A/S	**Costs:** Incurred fully by Norsulfid A/S **Royalty rate:** Applied at 4 percent of taxable income.
South Africa *(Venetia)*	Diamonds	…	100 percent	De Beers Consolidated Mines	**Costs:** Fully incurred by De Beers **Revenues:** De Beers/Ponahalo Holdings: 74/26
Botswana *(Orapa, Jwaneng, Letlhakane, Damtshaa)*	Diamonds	50 percent	50 percent	De Beers	**Cost:** Government/De Beers: 50/50. Government owns 15 percent stake in De Beers **Income (sales):** Government/De Beers 80.8/19.2 **Royalty Rate:** 10 percent of gross income **Corporate Tax Rate:** 22 percent of profits **Withholding Tax on Dividends:** 7.5 percent

Source: Various Ministries and Shareholders Websites

Note: The details for Botswana under cost/income sharing are part of Debswana's proprietary information that is not publicly disclosed.

II. Ownership Arrangements Across Operating Mines in Botswana

3.7 Ownership arrangements for entities undertaking mining operations differ in Botswana, with some fully private operations, while others involve partnership with the Government or state-owned enterprises. Among the eight diamond mines licensed in Botswana, four of them (*Orapa*, *Jwaneng, Letlhakane* and *Damtshaa*) are owned by Debswana Diamond Company which is a 50/50 percent joint venture between De Beers Consolidated Mines and the Government of the Republic of Botswana. The other four diamond mines are fully owned by private companies: *Karowe* is owned by Lucara Diamond Corporation; *Ghaghoo* by Gem Diamonds Botswana; *BK11 Diamond Mine* by Visionary Victor Resources - a 100 percent citizen-owned company, while *Lerala* is owned by Kimberly Diamonds. Similarly, copper mines (*Khoemacau Mine, Kopano Mine* and *Motheo Copper Project*) are privately owned by Cuprous Capital Ltd, Leboam Holdings (Pty) Ltd and Tshukudu Metals Botswana (subsidiary of Sandfire Resources), respectively. Meanwhile, the Government has full ownership of *Morupule Coal Mine,* with Minerals Development Company Botswana acting as the Government's technical and commercial advisor (See Table 3.2 for more details).

(a) Cost and Income Sharing

3.8 As in other jurisdictions, ownership structure of mines in Botswana has cost/income sharing implications. Table 3.2 shows that private companies with full ownership of mines incur all the mining related costs, while those in partnership with the Government share costs. However, mining companies are liable to a minimum standard corporate tax rate of 22 percent of profits and withholding tax on dividends of 7.5 percent. Furthermore, mining companies pay royalties to the Government, for example, 10 percent, 5 percent and 3 percent for precious stones, precious metals, and mineral products, respectively. Meanwhile, a 15 percent tax rate (basic rate of 5 percent and an additional company tax rate of 10 percent) is applied for downstream processing (cutting, polishing and refining of minerals).

Table 3.2: Ownership Arrangements Of Mines In Botswana

Mine	Ownership (percent)		Private Investor	Cost/Income sharing
	Government	Private		
Diamonds				
Orapa, Jwaneng, Letlhakane and Damtshaa Mines	50	50	De Beers	**Cost:** Government/De Beers: 50/50. Government owns 15 percent stake in De Beers **Income (sales):** Government/De Beers 80.8/19.2 **Royalty Rate:** 10 percent of gross income
Karowe Mine	…	100	Lucara Diamond Corporation	**Costs:** Incurred fully by Lucara Diamond Corporation **Royalty Rate:** 10 percent of gross income
Ghaghoo Mine	…	100	Gem Diamonds Botswana	**Costs:** Fully incurred by Gem Diamonds Botswana **Royalty Rate:** 10 percent of gross income
BK11 Diamond Mine	…	100	Visionary Victor Resources	**Costs:** Fully incurred by Visionary Victor Resources **Royalty Rate:** 10 percent of gross income
Lerala Mine	…	100	Kimberly Diamonds	**Costs:** Fully incurred by Kimberly Diamonds **Royalty Rate:** 10 percent of gross income
Coal				
Morupule Coal Mine	100	…	Minerals Development Company Botswana	**Costs:** Fully incurred by the Government **Royalty Rate:** 3 percent of gross income
Masama Coal Project	…	100	Minergy Limited	**Costs:** Fully incurred by Minergy Limited **Royalty Rate:** 3 percent of gross income
Nickle				
Tati Mining Mine	15	85	Norilsk Nickel	**Costs:** Government/Norilsk Nickel: 15/85. **Royalty Rate:** 3 percent of gross market value on production from nickel
Copper and Silver				
Motheo Copper Project	…	100	Tshukudu Metals Botswana, subsidiary of Sandfire Resources	**Costs:** Fully incurred by Sandfire Resources **Royalty Rate:** 5 percent of gross market value on production
Khoemacau Mine	…	100	Cuprous Capital Ltd: 88.1 percent by Cupric Canyon Capital LP and 11.9 percent by Resource Capital Fund VII LP	**Costs:** Fully incurred by Cuprous Capital Ltd **Royalty Rate:** 5 percent of gross market value on production
Kopano (Mowana) Mine	…	100	Leboam Holdings (Pty) Ltd	**Costs:** Fully incurred by Leboam Holdings (Pty) Ltd **Royalty Rate:** 5 percent of gross market value on production

Source: Various Mines and Shareholders Websites.

III. Country Experiences (Success Stories: Beneficiation Policies, Value Chains: Australia, Canada, Chile, Norway, Russia and South Africa)

(a) Beneficiation Policies and Value Chains

3.9 Generally, the mining sector is regulated by 3.9 Generally, the mining sector is regulated by complex and wide-ranging statutes and policies that govern various aspects from exploration to operations. In this regard, beneficiation is integral to mining policies and arrangements in most economies. This is premised on the recognition that, to generate inclusive and diversified economic growth, the benefits of mineral endowments should go beyond extraction and export of the raw minerals but propagate in the economy through secondary processing activities and value addition. Table 3.3 outlines beneficiation policies adopted by various countries for strong value creation and impact on domestic economic prospects, and they encompass initiatives, strategies, and plans. Meanwhile, value chains for these countries are discussed extensively on Box 3.1.

Table 3.3: Beneficiation Policies

	Policy/Strategy/Initiative/ Plan	Purpose
Australia	Iron Ore Beneficiation Agreement Act and Iron Ore-Direct Reduced Iron Agreement Act, 1996	To foster downstream beneficiation by requiring major exporters of iron ore to engage in beneficiation beyond that of just iron ore concentration. The two acts were passed to promote employment opportunities, industrial development, as well as establish further processing facilities in the country.
	Future Battery and Critical Minerals Industries Strategy, 2019	To position Australia as a world leader in future battery production and to focus on growing and diversifying the country's battery and critical minerals industries to capture emerging opportunities across the value chains through a range of clear and coordinated actions.
	Renewable Hydrogen Strategy, 2019	An approach for the country to become a significant producer, exporter and user of renewable hydrogen, and to provide substantial benefits for the industry and communities, in both decarbonisation and new economic activities.
	ARC Centre of Excellence for Enabling Eco-Efficient *Beneficiation of Minerals*	To progress scientific knowledge to establish transformational improvement in minerals beneficiation, essential for meeting global demands for metals. The Centre also ensures sustainability of the minerals industry in Australia through a significant reduction in cost, environmental impact, and through lower energy and water usage. Australia is committed to achieve net zero emissions by 2050 and reduce greenhouse emissions by 43 percent by 2030.
	Critical Minerals Strategy (2023-2030), June 2023	To guide the Government's future policy decisions to maximise the national benefits of Australia's internationally significant critical mineral endowments. The imperatives for this Strategy are threefold: First, Australian critical minerals domestic supply chains are vital to strategic interests; Second, Australian critical minerals are fundamental to the global transition to net zero emissions; and finally, the development of critical minerals will create jobs and national wealth.
Canada	Mining Association of Canada, 1935	National voice of the Canadian mining industry since 1935 and seeks to generate greater awareness around important areas in the sector from reclamation to partnerships with indigenous communities.
	Mines to Mobility Initiative, 2019	To build a sustainable battery innovation and industry ecosystem in Canada.
	Canadian Minerals and Metals Plan	To address systematic challenges and issues in the mining industry, focusing on competitiveness, participation of indigenous people, community benefits, respect for the environment, scientific and technological innovation, as well as global leadership.
	Mining and Mineral Policy	States the importance of involving indigenous people in decision making and to participate in economic benefits derived from exploration
	Canadian Centre for Clean Coal/Carbon and Mineral Processing Technologies	Research centre that supports sustainable and responsible energy and mineral development.

	Policy/Strategy/Initiative/ Plan	Purpose
	Extractive Sector Transparency Measures Act	To advance efforts that support collaboration on transparency and traceability in the critical mineral supply chain.
	Critical Minerals Research, Development and Demonstration Program, 2021	To support innovations through research, deployment to advance sustainable technologies towards commercialisation in identified priority value chains.
	Critical Minerals Strategy, December 2022	To create value chains in Canada, from exploration to recycling and advanced manufacturing. Its focus is on lithium and handful other minerals that are key to building electric vehicles, to ensure that Canada takes advantage of the global rush for the raw materials needed to make batteries.
	Canada's Carbon Management Strategy	To accelerate the development of strategic projects in critical mineral mining, processing, manufacturing, and waste reduction (through recycling and mining value from waste).
	Ontario Mining Act	Provides that, unless an exemption has been obtained, ores and minerals extracted in that province must be treated and refined in Canada.
Chile	National Lithium Strategy, April 2023	To promote exploration, exploitation and beneficiation of lithium. The strategy involves proposal to exploit lithium in Chile's salt flats through public-private partnership in which the state will participate through companies in the production cycle. In addition, as part of the strategy, there is an intention to create the *National Lithium Company* which, if approved by Congress, should lead negotiations with private companies wishing to explore and exploit Chilean salt flats. The strategy also involves encouraging companies to create value added lithium products in the country. That way, the country will not only ship raw materials but also capture the benefits of value adding to the natural resource.
	2050 Mining Policy	Guides Chilean mining industry into the future. It helps the private industry and government to navigate the future economic, social, environmental and governance aspects of the industry in Chile.
	Empresa Nacional de Minería (ENAMI)	The national mining corporation, founded to promote small and medium size private sector in Chile. It does so by providing incentives aimed at correcting market failures, and by supplying technical, financial, metallurgical production and trading services to help the mining companies to be competitive.
Norway	National Battery Strategy, June 2022	To develop a coherent and profitable battery value chain, from sustainable mineral extraction to battery recycling. The *Strategy* is part of the government's green industrial strategy that aims to create new jobs throughout Norway, strengthen investments, increase exports and cut greenhouse gas emissions.
	Fast Track Mining Initiative, June 2023	To ensure access to minerals for Norway, its allies and partners, while reducing reliance on non-European supply chains. The *Initiative* seeks to strengthen cooperation on raw material access and value chains with the European Union and European countries and complimentary to the *European Commission's Critical Raw Materials Act of March 2023*.
	Minerals Strategy, June 2023	To help the country to generate value creation and develop the world's most sustainable mineral industry.
	The Research Council of Norway	Funds all fields of research linked to mineral resources in the economy.
	Science Strategy	Developed in cooperation with key players in education, research, business and industry to strengthen interest for, and recruitment to mathematics, other sciences and technology, as well as increase recruitment of women to these subjects since the mineral industry, like other science dominated industries, is male dominated.
Russia	Mining Policy	To expand Russia's revenue sources, while also weaning itself from excessive dependence on hydrocarbons.
	Energy Strategy of Russia (for the period up to 2030), November 2009	To utilise entire potential of energy sector in a maximum efficient manner, to promote sustainable economic growth and improve the living standards of Russians, as well as enhance the country's external economic position.
	National Technology Initiative	To develop high-tech value chains and modernise the industrial sector that will not be affected by sanctions.

	Policy/Strategy/Initiative/ Plan	Purpose
South Africa	Minerals and Mining Policy of South Africa, 1998	Focuses on the realisation of optimal value from extraction and local processing of the country's mineral resources. The policy also highlights how mineral beneficiation can promote industrial development in the country.
	Mineral and Petroleum Resources Development Act of 2002	Designed for equitable access to the nation's mineral resources to all the people of South Africa to redress past racially discriminatory practices that were perpetuated during the apartheid era.
	Precious Metals Act, 2005	Encompasses all the regulatory standards concerning the reining, beneficiation, use and disposal of the country's precious metals
	Diamonds Second Amendment Act, 2005	Enacted with the objective to increase access to rough diamonds for jewellery manufacturing in South Africa; maintain security of supply of rough diamonds; promote the beneficiation industry in South Africa thus, creating jobs; and increase participation throughout the diamond value chain.
	Minerals and Petroleum Resources Royalty Act	Stipulates that those involved in the extraction of the country's mineral resources must pay a fee for the permission granted to extract that mineral resource.
	Beneficiation Strategy	Aims at providing a strategic focus for the economy's mineral industry in terms of developing mineral value chains and facilitating the expansion of beneficiation initiatives in the country, up to the last stages of the value chain.
	Artisanal and Small-Scale Mining Policy, 2021	To foster the creation of a formalised artisanal and small-scale mining that can operate optimally in a sustainable manner, while contributing to the economy in the form of taxes and royalties, and through job creation, among others.
Botswana	Diamond Beneficiation Policy	Development of downstream capabilities in the wider diamond processing industry and creation of employment. The policy requires that local processing be equivalent to 15 percent of Botswana's rough diamond production.
	Diamond Cutting (Amendment) Act, 2021	Seeks to ensure that diamonds mined in Botswana create benefits locally to stimulate employment creation, skills and industry development, citizen empowerment and transform Botswana into a world class diamond sector.
	Botswana Minerals Policy, 2022	Developed considering emerging issues, such as beneficiation and value addition, provides a strategic direction on management and development of the country's finite mineral resources. The policy aims to achieve creation of a competitive environment to stimulate private sector investment in mineral development and creation of linkages with the rest of the economy, and conservation and protection of the environment.
	Mines and Minerals Act	Botswana is currently reviewing the Act to encourage downstream beneficiation and ensure increased participation of citizens in the minerals economy and ensure sustainability of the sector.
	Debswana Citizen Economic Empowerment Policy	Designed to strengthen local supply base through greater participation of citizen owned enterprises in the supply of goods, services and works to Debswana.
	Socio-Economic Development Strategy (Reviewed every 5 years)	Aims to promote sustainable development in Debswana's host communities and nationally to create long-term impact beyond the lives of the mines.

Source: Various governments websites

Box 3.1: Value Chains

Australia

Australia is not just a producer and exporter of raw minerals; it is one of the world's suppliers of mining equipment technology and services. It is estimated that at least 60 percent of the world's mines operate with Australian-made and designed software. Australia provides specialised equipment for extraction and processing, highly sophisticated technology, and expert services, such as engineering, mapping and geological analysis. This leverages Australia's comparative advantage in mining.

- Australia has robust manufacturing industries that specialise in structural steel and sheet metal products. The country was successful in establishing a *domestic steel industry* that fully met the domestic demand for steel for over 80 years, leveraging locations with close proximity to inputs, easy access to markets, availability to labour and relatively low transport costs. The industry was supported by strong government intervention in the form of steel import restrictions and bounties. Further, location and good infrastructure led to success of steel industry. The government also partnered with steel producers and the iron ore sector as a co-investor in supporting infrastructure. However, after protective barriers were lifted in 2011, and Broken Hill Proprietary (BHP) Billiton was increasingly forced to compete with other international producers, but it became clear that the industry was not competitive enough. In addition, the increasingly globalised steel market and the 2008 global financial crisis also contributed to the post protection demise of the steel industry in Australia.

- Australia is also one of the major global producers and exporter of aluminium, the success stemming partly from rich domestic deposits of bauxite ore, the primary ingredient in aluminium. The country used its natural resource advantage coupled with proactive policy efforts to become global aluminium superpower. However, while the extraction of raw bauxite continues to expand, and Australia consistently ranked the world's largest bauxite mixer, the country's value-added manufacturing activity related to aluminium has declined over the past five years, due to closure of one alumina refinery and two aluminium smelters. Thus, Australia's position in the global chain associated with production and use of aluminium has become more concentrated on raw resource extraction.

- Australia's lithium mining companies are moving towards value adding by producing lithium phosphate salts. The aim is to supply battery chemicals, including lithium ferro phosphate to battery cathode makers, along with lithium carbonate and lithium hydroxide. Some lithium producers (for example, Pilbara Minerals) are at the initial stage of constructing a demonstration plant, while others (for example, Mineral Resources) have recently built a hydroxide plant, and initially treating ore as production ramps up. Meanwhile, technological advancements are often proven in Australian mines and refineries. The mining industry is the world leader in developing and adapting transformative and low emission technologies and exports technology abroad. Another industry under development is the production of potash from brine. Potash is a premium fertiliser that significantly increases agricultural yields and productivity.

Australia is a global hub for various activities, such as exploration, mining production, research, and innovation. The country has managed to create a dynamic *minerals innovation complex* based on close ties between mining related research and innovation organisations and mining sites, both in Australia and increasingly abroad. Australia's mining industry invests significantly in research and development and sought to align its education system to the needs of the mining industry. The Australian government has set up *Industry Growth Centres* to target six specific growth sectors of the Australian economy, one of which is mining equipment, technology and services sector, with a purpose to improve engagement between research and industry, as well as facilitate access to global value chains. A *growth centre for the mining equipment, technology and services sector* was launched in 2015, as an industry-led but government-funded initiative to contribute to increased prosperity and jobs.

Canada

Canada is a major leading mining country, hosting numerous mining firms that are headquartered in its financial hub and home to several global mining giants. The sector is a major economic driver in the Canadian economy, contributing 5 percent to GDP, 20 percent to total exports and 5 percent to employment. Canada is an important producer of critical minerals, such as coal, aluminium, cobalt, copper, graphite, nickel and uranium.

- To build competitive value chains in Canada, different stages of industrial processes are nationally integrated. The country has built an industrial ecosystem where all stages of the value chain are available and integrated domestically, instead of exporting mineral resources for processing and reimportation as final goods or components. Steel is produced at 13 plants in 5 provinces of Canada using iron ore. The steel industry is a large industrial energy user, accounting for 2 percent of Canada's primary energy consumption. Iron and steel manufacturers melt and refine iron ore into pig iron, which is processed into steel and shaped in various shapes for downstream construction and manufacturing related industries. These industries manufacture basic steel shapes, such as bars, plates, rods, sheets, strips and wire and support the country's significant steel exports to over 130 countries and territories. Meanwhile, Canadian steelmakers, such as Algoma Steel and ArcelorMittal Dofasco, have announced investments in recent years to build electric arc furnace operations in the country.

- Lithium has taken centre stage among critical minerals because of its use in lithium-ion battery technology, being the current technology of choice for electric vehicle batteries. Working with provincial partners and the private sector, the government of Canada has made significant investments in attracting cell, battery and electric vehicle manufacturing. The country has made significant progress in the global lithium-ion battery supply chains. The developments in Canada's lithium-ion battery supply chain demonstrate the country's commitment to becoming a prominent player in the global electric vehicle and battery industry. The country continues to establish electric vehicle manufacturing plants, expanding production facilities and forming partnerships to capitalise on diverse opportunities in the sector.

- For the diamond industry, the manufacturing or cutting and polishing sector is growing in several regions of Canada. In addition, the jewellery manufacturing is established in major centres, but also includes many artisans working on a small scale. The government of Canada intervenes in the marketing of rough diamonds by employing various mechanisms, such as forcing marketers to withhold a portion of production from the market for sale to only Canadian manufactures. Canada's mining sector continues to supply the materials required for manufacturing, including medical technologies and medications, and it has been critical that supply chains stay open so that mined products are readily available for the people and businesses who rely on them. Minerals mined in Canada, such as gold, carbon, zinc, uranium and nickel are required in the instruments used in hospitals around the globe.

Overall, Canada hosts many specialised suppliers that provide goods and services to keep the mining industry going. These products range from underground mining and tunnelling products to shell lubricants. Furthermore, the firms offer comprehensive services around systems including on-site supervision, drilling services, research and development demonstration, transportation, digital mining technology, among others. Meanwhile, there was a total of 3,762 mining suppliers in Canada in 2022.

Chile

Chile is the top global copper producer and the world's second largest producer of lithium. Chilean mining sector is investing in new technologies to become more sustainable and support the country's climate change goals. Mining projects incorporate desalination and renewable energy to reduce their carbon footprints. Mining companies also deploy automation and remote operations technologies to improve efficiency and safety.

- Historically, the mining industry was comparatively risk-averse and slow to innovate. However, new technologies and innovative approaches are filtering through the industry at all levels of the Chilean mining value chain, from camp construction to drilling and building a more efficient mining sector. Despite that, a significant proportion of the mining services value chain are international players with a local presence (mostly Australian companies) rather than locally developed companies.

- Chile produces lithium essential for electric vehicle batteries. The country extracts lithium from the brines that lie beneath the salt flat and process some of it into battery grade lithium. Meanwhile, Chile plans to turn more of the country's mined lithium into battery chemicals, as well as moving into manufacturing of batteries and electronic vehicles. Lithium has become an essential component of modern technology, powering contemporary devices and electric vehicles. As the world seeks to reduce its carbon footprint, the demand for lithium has skyrocketed, with countries vying for a slice of the lucrative market. Chile is currently considering a partnership with India to tap into the lithium value chain.

Through global value chains, Chilean firms draw on global markets for intermediate inputs and increase its competitiveness in copper and non-copper sectors. Chile imports copper to manufacture copper products, such as copper cathode and drawing pins for exporting. Having strong position in upstream segments of copper chains created opportunities to add other activities for copper products, for example, further chemical or manufacturing processing, thereby increasing sophistication and diversification of the exported product bundle.

Norway

The Norwegian government has implemented various policies to ensure sustainable development of its mineral resource and has recently focused on reducing the environmental impact of mining activities and ensuring the safety of workers. Additionally, the government has prioritised the transition towards renewable energy sources and sustainable mining practices, resulting in increased focus on other minerals, other than copper. In addition to primary production, Norway imports raw mineral resources for value addition. The country has high-level expertise in metallurgy and in mineral processing.

- The mineral sector in Norway has been important for the economy and supported other sectors. The government's objective is to develop a profitable mineral sector with strong value creation and good growth. Increased research effort through *Research Council of Norway* supported the project 'From quartz sand to solar cells' which was completed in 2005. The project was an example of the type of research needed to add value to resources. To date, Norway manufactures the most environment friendly silicon for solar cells. The method used has been demonstrated to be the fastest and with far greater energy efficiency. Meanwhile, coal is used in the metallurgical industry and in the manufacture of cement.

- Metal industry is one of Norway's largest export industries, mainly based on aluminium production. The country uses aluminium in construction, as well as for packaging and production of electrical cables in the car and transport industry, among others. Around 60 percent of the silicon metal is used to make aluminium, while the rest is used in the chemicals and electronics processes. The industry employs approximately 200 000 full time jobs throughout the country, with preference given to the host and neighbouring municipalities.

The Norwegian aluminium industry represents a distinct area of expertise developed in collaboration with technology and other supplier companies. Aluminium is a versatile metal and plays a role in green transition: It is used in transportation and significantly reduces energy consumption.

- Norway is home to a circular battery ecosystem encompassing raw material processing and sustainable battery cell production. The Norwegian battery ecosystem seeks to attract investments to bolster the value chain and export high-quality products to deliver sustainable batteries globally. The country is part of an emerging Nordic battery value chain that will support the European battery industry by reducing the carbon footprint of battery production and developing advanced system integration, as well as solutions for reusing and recycling batteries. Norway has increased the industry's access to critical raw materials through trade and recycling, as well as increased primary production from mining.

- To improve value chains, Norway imports mineral resources which form part of mineral production and basis to manufacture processed mineral and metallic products in the country. For example, the country imports alumina for production of aluminium; iron ore from Russia and Sweden for use in ferroalloy industry; zinc ore and concentrate from several countries including Canada for production of zinc and aluminium fluoride, with sulphuric acid as a by-product. Meanwhile, Norway plans to open seabed for mining activities to reduce its dependence on the gas and oil industry. The country's seabed holds a substantial number of metals and minerals including copper. However, environmentalists and fishermen opposed this proposal on grounds of potential impact on the seabed ecosystem.

Overall, mineral industry creates employment and positive ripple effects in local communities of Norway. This is achieved through profitable operation, using modern technology and efficient operating methods and by setting stringent requirements for sustainable and environmentally responsible operation. Norway's existing infrastructure, rail roads and waterways support efficient and effective transportation of mined mineral ores

Russia

Russia has a wider mineral resource base, which is the basis for the country's economy and is one of the top exporters of mineral raw materials. In addition to Russia's abundance of gas and oil, the country possesses vast geological resources that place it among global leaders. For instance, in 2021, the country ranked first on natural resource abundance. Economic development, national security and living standards in Russia depend largely on a vigorous mining industry and reliable mineral resource base.

- In Russia, the fertiliser sector is one of the most complete and accomplished value chain, from the extraction phase to distribution and to the market. Russia's fertilisers account for 20 percent of the global market. Among a group of companies dominating the fertiliser market in Russia is PhosAgro; established in 2001 as a vertically integrated group and Europe's leading supplier of phosphate-based fertilisers mined from highly concentrated phosphate rock. PhosAgro is the main distributor of fertilisers, with 30 percent of production destined for the domestic market. Other Russian fertiliser production companies include Acron, EuroChem and Uralchem.

- While natural diamonds are reserved primarily for jewellery, their characteristics make them a unique material for industrial purposes. Due to their abrasive properties resistance to wear, Russia uses natural diamonds in the extractive industry for drilling, grinding and polishing hard rocks and structural materials, such as alloys. To meet the needs of the high-tech industry, the production of synthetic diamonds is growing rapidly and is shaking up the sector, with China, Japan and India emerging as top competitors. To respond to this competition, Russian company Synthesis Technology has opened a factory for production of synthetic diamonds and plans to expand it. Meanwhile, the country intends to maintain its dominant position in the diamond sector, despite sanctions following the invasion of Ukraine. Russia's diamond manufacturing companies have well developed support structure including diamond cutting training schools, tool manufacturers and suppliers, training institutes and grading labs, among others.

- Russia has 600 large thermal power plants, more than 100 hydroelectric stations and several nuclear power plants that generate electricity. About one third of thermal generation is from oil and gas. Furthermore, there is steel production in every economic region. The country produces about one-sixth of the world's iron ore and one-tenth of all nonferrous, rare and precious metals. Russia's machine building industry provides most of the country's needs including steam broilers and turbines, electric generators, grain combines, among others.

Meanwhile, with immense reserves and a very high level of industrial expertise, Russia's mining industry faces a constraint including the capacity to continue to manage value chains competitively due to obsolete infrastructure.

South africa

Closer to home, South Africa is the world's biggest producer of platinum and chrome and a leading producer of gold and diamonds. Equity partnerships in South Africa contributed to transformation of the country's world supplier of raw materials to being an industry leader that is focused on driving greater returns on capital.

- The concept of value addition is not new to South Africa, but it intensified during the 1990s. During this period, the South African mining sector changed from being a predominantly primary commodity exporter to becoming a world exporter of processed minerals. In 2004, South Africa accounted for 45 percent of world's production of ferrochrome, used in stainless steel production. This resulted from the construction of several large scales, resource-based investment projects, such as Columbus Stainless, Hillside Aluminium, Namakwa

Sands and Saldanha Steel, which engaged in the production of mass intermediate products. Despite these developments, South Africa still has the potential to further raise the level of beneficiated mineral output, particularly in the production of finished goods.

- South Africa engages in iron and steel value chain which consists of five distinctive stages spanning multiple industries: exploration and extraction, mining beneficiation, metallurgical beneficiation and shaping and conversion/fabrication and manufacturing/end user industries. The South African iron ore industry supplies the domestic market's full demand for iron ore and the remaining volumes are beneficiated and exported. In addition to iron ore, other input materials, such as scrap, manganese and coking coal are used in the manufacturing of steel. South Africa is self-reliant in terms of scrap and manganese but imports coking coal. Meanwhile, in terms of steel, the local industry is large enough to supply all domestic and regional overland demand. South Africa is the third largest exporter of steel in the world after Ukraine and Russia.

- The coal value chain has been central to South Africa's development and feeds into important downstream industries, such as electricity generation and petrochemical production. Around 40 percent of coal is exported directly by the mining companies. Almost two thirds of the remaining is used for electricity generation. The South African coal value chain is highly localised to a handful of local municipalities in Mpumalanga where most of the coal mines, Eskom power stations, and Sasol coal-to-liquids (Secunda) facilities are located. As a result, changes in demand for coal can affect employment and growth in this province through downsizing in both mining and generation. Due to the impact of coal on the environment, the coal value chain faces significant threats in the long-term. The main climate-change related impacts on the coal value chain derive from a decline in demand for coal at home and abroad, as countries seek to reduce their greenhouse gas emissions especially from electricity production, but also from other uses.

- Meanwhile, the downstream value chain of heavy mineral deposits in South Africa is limited, with the bulk of the country's production exported in raw state or with minimal beneficiation. To maximise benefit from the country's mineral resources, the government has supported various initiatives aimed at increasing the country's technological capacity to improve the production of value-added minerals. These include the establishment of a titanium metal industry and the manufacturing of zirconium products. This has a potential to contribute positively to social development and sustainable economic growth of the country. Meanwhile, South Africa primarily uses the bulk of titanium bearing minerals to produce pigments, while 10 percent is used as titanium metal and chemicals regarded as by-products of the white pigment industry.

Botswana

- In the diamond industry, there is a midstream chain where activities include valuing, sorting and polishing, as well as the selling and marketing of polished diamonds. The downstream strategy in Botswana has shown signs of success in moving further in the value chain, creating employment in second-tier supplier industries. The vision for diamond beneficiation has gone further than cutting and polishing; it has included creating competencies in diamond trading, jewellery manufacturing and ancillary businesses. There are currently 46 diamond cutting and polishing companies in Botswana, increasing from 43 in the past two years. Meanwhile, in 2013, De Beers progressively moved its aggregation business (selecting and mixing the diamonds from the De Beers Mines in Botswana, South Africa, Namibia and Canada for its customers) from London to Gaborone. The process represented a significant transfer of professions, skills, equipment and technology. This has been one of the examples of a country successfully beneficiating raw mineral resources and retaining optimal value and profits.

- Meanwhile, the new Sales Agreement between Government and De Beers to increase Botswana Government's entitlement, through the Okavango Diamond Company (ODC), is expected to fast track value chains for cutting, polishing and manufacturing of jewellery, thereby ensuring provenance and branding of the country's diamonds. Furthermore, commencement of operations of Kimberly Process Secretariat in Gaborone effective January 2024 is an indication of the confidence that the international community has in the country's governance processes and expected to add value to the mining industry and other sectors of the economy.

- Botswana currently generates the bulk of its power from coal, largely supplied by Morupule Coal Mine. Morupule Power Station produces approximately 70 percent of the country's electrical energy requirements, while the balance is met through imports, mainly from ZESCO, Zambia. Morupule Power Station is a thermal power plant which combusts coal to produce heat energy, thus supports downstream extraction activities in the mining of coal. The Plant is linked to creation of local employment and business opportunities. Meanwhile, the general development of transport infrastructure is key to the enhancement of regional integration and trade facilitation and value. For example, the proposed Mmamabula (Botswana) – Lephalale (South Africa) link project opens up logistics path for local and many other mineral exports, such as coal.

- Botash products are used in various value chains in industrial and consumer markets across eight countries in Southern Africa. Botash products include light and dense soda ash, chemical grade coarse salt, food grade coarse and fine salt. About 60 percent of soda ash is sold to the glass industry in South Africa, where it is used as fluxing agent, reducing energy requirements as it lowers the melting temperature of pure silica (raw material used for glass production).

- Procurement processes of the mining industry have become one of the largest value chains, with the Botswana Chamber of Mines[39] playing a crucial role in the engagement of the commercial sector for supply of goods and services. The suppliers receive mentorship support on financial prudency, as well as good customer care to maintain high standards. To add value through local production, and given that most supplied goods originate outside Botswana, the strategy has been modified to grow the manufacturing sector to produce goods domestically. This will help create employment and retain monetary value within the country. Meanwhile, the State of the Nation Address (November 2023) indicates that 64 percent of Debswana's suppliers are citizens who have access to finance through partnership with local banks. Further, the Government has recently introduced 'Mining Cadaster', an electronic platform designed to enable stakeholders in the mining sector to engage directly with the Ministry of Minerals and Energy, thus providing the platform for the public to explore and search all mineral concessions in Botswana.
- Meanwhile, mineral value chains in Botswana face some challenges including absence of copper refineries, which compels the country to export raw copper ore without value-added refinement processes. Mining companies and the Government collaborated on initiatives to construct the smelter, but the plans were disrupted by closure of the BCL Mine. For the coal industry, challenges encompass various aspects, such as logistics to efficiently transport coal, market for the diamond sector, sightholders prefer exporting to markets abundant in skills, leveraging economies of scale for greater efficiency and competitiveness. Furthermore, the manufacturing expenses associated with producing a polished diamond are higher in Botswana than elsewhere, particularly India. In addition, limited access to financial resources or investment capital among local individuals is an impediment to the progress and growth of diamond value addition.

(b) Lessons for Botswana

3.10 To improve Botswana's mining industry, and to harness value addition opportunities for industrialisation, as well as inclusive and lasting benefits, the following aspects are highlighted:

(a) as required by the Extractive Industries Transparency Initiative, there is a general need for transparency to promote understanding of mining arrangements, as well as to underpin good governance and equalisation of opportunities;

(b) in addition to highlighting the economic and welfare benefits, there should be a fostering of awareness of cost implications of state involvement, impact on community, including impact on access to land and environmental effects and any mitigation measures;

(c) integration and alignment with broader developmental and economic transformation initiatives of employment creation, fostering a competitive environment for investment, protection of the environment, sustainable economic growth and upliftment of living standards, among others;

(d) research for product development and innovation involving local institutions and external collaborations, to address and provide solutions to local needs and challenges, including for industrial and consumption needs;

(e) deliberate pursuit of forward and backward linkages of the local economy and community, beyond the supply of labour;

(f) integration of mining products and related activities, including research outcomes into global corporate production value chains;

(g) while also integrating mineral exploration into growth of the manufacturing sector, it is crucial for the country to create and/or adapt technologies and mining methods to maintain and extend commercial viability of mining operations; and

(h) continuing to leverage on the extractives industry for expansion of infrastructure and social services, business and enterprise opportunities and optimising financial investments (from resource earnings) and returns.

39 The Botswana Chamber of Mines is an organisation established to serve the interest of the mining and exploration companies together with associated industries.

4. Economic Beneficiation And Industrialisation Prospects

i. Mineral Beneficiation: Overview

4.1 Mineral beneficiation is broadly defined as a transformation of minerals from their natural form through value adding downstream processing into higher value, semi/finished products and enhancing local participation in extracting and harnessing economic value of mineral endowments. Thus, countries undertaking secondary processing generate more local economic activity and diversity that both meets local demand and establishes a wider range of channels for linkages with export markets. In turn, this will lead to enhanced prospects for sustained higher rates of inclusive growth, sustainable external sector performance and better fiscal outcomes in terms of more stable government revenue derived from a wider tax base. However, historically, developing economies, such as Botswana, tended to export most of their minerals as raw materials (81.8 percent as at 2021). Among others, this is due to marketing arrangements, initial weak local industrialisation, the requirement for substantial investments in globally competitive secondary production, lower skills and processing competitiveness (lower productivity), as well as perceived immediate benefits of foreign exchange earnings.

4.2 Against this background, mineral policies in developing countries have in the recent past, tended to promote downstream beneficiation, thus progression from exportation of raw natural resources to focus on secondary production and other supportive economic activity in order to stimulate structural transformation and inclusive growth. Relatedly, the February 2009 African Union's Mining Vision for Africa (MVA) objective is to promote "Transparent, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development", and "a knowledge-driven African mining sector that catalyses and contributes to the broad-based growth and development of, and is fully integrated into, a single African market". Further, the Mining Indaba of 2014 indicated that it was necessary for Africa to "shift from exporting of largely raw materials to ensuring that minerals serve as a catalyst for accelerated industrialisation through mineral value addition"[40].

4.3 While emphasis is normally on downstream beneficiation, it is noted, however, that beneficiation can also be in the form of side-stream, which provides opportunities to generate incomes and jobs through construction of infrastructure to service mines, such as roads, railway lines, electricity, water and skills and technology development, as well as related research. An important consideration in this regard is that infrastructure development and provision of social services is often dominated by or is the preserve of government. It is considered, however, that fostering private sector involvement as promoters and entrepreneurs in the provision of infrastructure and social services, rather than as contractors, could generate larger economic and inclusive opportunities. There is also up-stream beneficiation which entails production of mining capital goods, consumables, and services. The MVA posits that "only countries that have industrialised from the use of mineral resources have utilised these seminal linkages" and these include South Africa and Canada (Section 3).

4.4 Botswana, so far, has limited beneficiation of its lucrative natural diamond resources. The result hitherto, has been fast overall economic growth and relatively high per capita income with reference to the African continent, coexisting with relatively high levels of poverty, unemployment and income inequality. It is commonly recognised that part of the reason for this is the low direct employment opportunities that are afforded by the mining industry and the absence of extensive linkages with the rest of the economy and/or low rate of beneficiation. Similar arguments apply with respect to other minerals, such as copper-

40 The statement was made by Susan Shabangu, the then South Africa's Minister of Mines, during the Ministerial Symposium at the Mining Indaba, which is Africa's biggest mining conference in Cape Town, South Africa in early February 2014.

nickel, soda ash and coal and that, if sufficiently explored and harnessed, may entail more and readily accessible beneficiation opportunities compared to diamonds. Moreover, deliberate focus and evaluation of prospects with respect to other currently unexploited minerals undertaken in the context of economic transformation and policy reforms and related campaigns, could unearth further economic and beneficiation opportunities.

4.5 With new applications for copper in antimicrobial touch surface, high-tech copper wires and heat exchangers, the demand for copper continues to increase. This is in addition to the demands of fast-growing economies like China and India, for which industrialisation continues to increase their appetite for copper. Another factor influencing the increasing demand for copper is that many countries are also shifting from fossil fuels to electricity to mitigate global warming.

4.6 As an example, in the context of the extraordinary increase in the demand for clean energy and renewable energy technologies, the market for battery minerals is estimated to have more than doubled between 2017 and 2022[41]. There is, therefore, scope for industrialisation strategies and development that capitalise on the growing global demand for minerals for both conventional and emerging high-technology applications. This should entail deliberate and supportive strategies to promote all aspects of beneficiation, including downstream processing, upstream supplies and side-stream infrastructure and services. The long-term aim would be to grow an internationally competitive mining industry in which beneficiated and value-added minerals become the feedstock in the domestic manufacturing of semi-finished and/or final products that fulfil the export-led growth strategy. As alluded to above, the value of mineral commodities (for example, coal, copper, diamonds and soda ash) could be increased locally through beneficiation and diversifying into the manufacturing and selling of jewellery, chemicals and other industrial glass products.

ii. **Beneficiation: Policies, Strategies and Initiatives**

4.7 Over time, Botswana has developed policies and strategies focused on broader structural transformation to achieve economic diversification and inclusive growth, as well as beneficiation initiatives targeting specific minerals, notably diamonds. More recently, there has been clarity with respect to the desire for the country to transition from upper-middle to high income status, with broad-based prosperity and higher living standards encompassing key elements that include digitalisation; value-chain development; economic diversification; skills enhancement and knowledge harnessing; research and development; a broad range of supportive infrastructure (legal, physical, and policies); international competitiveness; sound and supportive macroeconomic frameworks and institutions; and commitment to effective implementation of transformative structural policies and strategies.

4.8 The 2011–2016 Economic Diversification Drive (EDD) strategy aimed to enhance the resilience of the economy and prospects for more inclusive growth that addresses unemployment, poverty and income inequality. It was aligned to the export-led growth strategy that recognises sustainable beneficiation and development of value chains and business linkages globally as a channel for promoting industrialisation and expansion of local production. The strategy, therefore, hinged on maintenance of a favourable environment for private sector development, market access and international competitiveness.

4.9 The export-led strategy, economic diversification and beneficiation aspects are further reinforced in the 2020/21–2022/23 ERTP, 2023/24–2024/25 TNDP, the Reset Agenda and the National mindset change campaign. The ERTP outlines strategies for transitioning towards a more diversified economy through expediting privatisation, amplifying the private sector's role in the economy, and fostering export-oriented growth, while concurrently enhancing efficiency, promoting research and innovation capabilities, and fortifying

41 International Energy Agency, 2023 Annual Report.

economic competitiveness. To facilitate export-driven growth, the ERTP alludes to broadening economic diversification and promoting exports beyond the diamond industry, chiefly through the establishment of special economic zones (SEZs). However, it is equally important to emphasise the need to diversify economic opportunities within the diamond industry and the mining sector broadly. Aligned with the concomitant need for digital advancement, there is also an endeavour to improve, adapt and align the country's ICT landscape to what pertains globally.

4.10 These themes are also reinforced in the TNDP, which alludes to the importance of attracting FDI and the economic benefits of green transitioning. Moreover, as one of the TNDP projects, the Ministry of Minerals and Energy is working on a national strategy[42] to address the challenges in the mineral sector and, therefore, deliver a robust mineral exploration and beneficiation framework. Among others, the strategy seeks to develop a programme for the feasibility study of mineral exploration and beneficiation industries in Botswana. Furthermore, it will provide clear fiscal incentives and infrastructure for mineral exploration and beneficiation projects; and encourage mining companies to include considerations for beneficiation and value addition in their mineral development plans.

4.11 It is recognised that mineral beneficiation was declared a national policy in 2008 as part of the economic growth strategy aimed at enhancing the domestic economic benefit from the country's mineral endowments, mainly through downstream value addition and creation of wider linkages with other sectors of the economy. The potential benefits associated with mineral beneficiation therefore include:

(a) **Employment creation:** Beneficiation implies creation or expansion of industries and service providers, hence multiplication of economic activities and a wider range of employment opportunities. Notably, in contrast to capital intensive mineral extraction, secondary processing or manufacturing and the provision of services invariably involves extensive use of labour. In turn, there is inherent development of deep and diverse skills to support such activities. Thus, beneficiation has the potential to significantly raise the mining industry's current contribution to employment of about 19 000 jobs (less than 2 percent of the total labour force), helping to alleviate unemployment, inequality and poverty challenges.

(b) **Increased economic value, diversification and export opportunities:** The export of raw minerals generally implies limited opportunities in fully harnessing the economic and welfare benefits of the mineral endowment. In addition to the employment opportunities, beneficiation entails localisation of value chains, sustaining the growth of domestic industries and income earning opportunities. In turn, the multiplication of industries engendered by beneficiation imply reduced need for imports, while there is potential to increase the variety and volume of exports. At the same time, the resultant expansionary demand capacity for the economy, amplifies enterprise and business opportunities. In addition, it generates expansion of the tax base and, thus capability of the state to sustain the provision of infrastructure and social services. Chart 4.1 illustrates the unbalanced tax revenue structure existing over time. Overall, therefore, enhanced beneficiation helps in moderating vulnerabilities and reinforcing economic resilience.

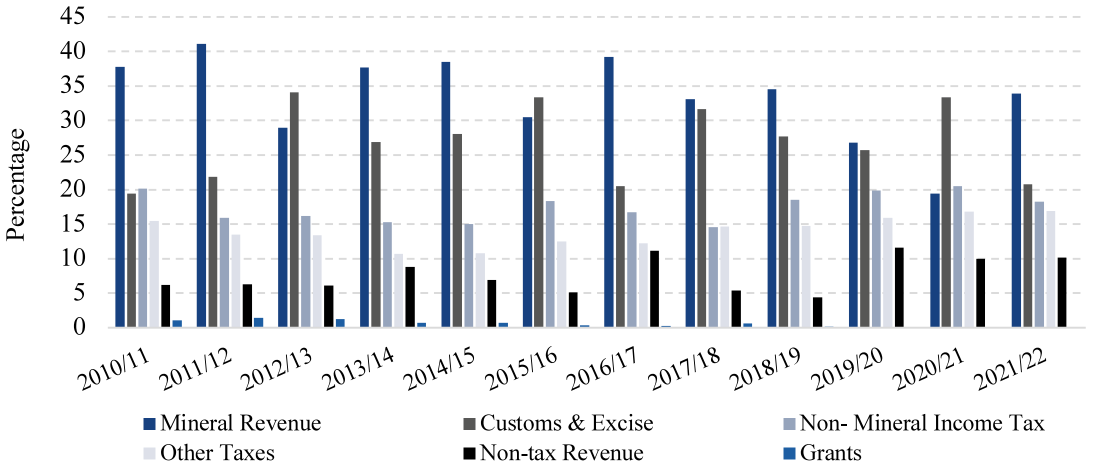
(c) **Innovation, research and development:** A corollary of industrial growth and skills development is that it engenders continuous innovation and product development that sustains business and enterprise regeneration and adaptation, as well as being commensurate with productivity and international competitiveness trends; thus, generating sustainable growth over the long-term.

42 Mineral Resource Development, Exploration, Exploitation and Value Chain (Beneficiation) Strategy.

(d) **Infrastructure development:** Successful beneficiation requires appropriate and adequate infrastructural investment including energy, water, as well as transport and communications networks. Adequate infrastructure is crucial for viability and competitiveness of local industries and, therefore, key in the beneficiation journey. The implementation of a Public Private Partnership strategy would facilitate the involvement of the private sector in public works, thereby allowing government to leverage the resources and expertise of the private sector, through risk and revenue-sharing arrangements, to efficiently deliver public infrastructure and provision of social services (for example, education, skills development, and health). Indeed, it is considered that, in the context of economic transformation agenda, private sector role should increasingly be promoted. Notably, the funding framework for infrastructure development by the private sector also presents an investment opportunity for households through asset managers and pension funds.

(e) **Reinforcing macroeconomic stability and policy discretion:** It is recognised that economic performance ultimately falters in the instance of continued dominance of mineral extraction as a backbone to economic performance and in the absence of beneficiation. Mining that involves mineral beneficiation industries significantly contribute to a healthy macroeconomic environment by, among others, generating foreign exchange reserves from export receipts and fiscal revenues from taxes, royalties, and fees paid by mining companies to the government, which are used to finance socio-economic development, while contributing to fiscal sustainability and economic resilience. Further, mining and beneficiation activities have potential to stimulate enterprise and demand for goods and services in supportive sectors, such as equipment manufacturing, transportation, and construction activities, thus a multiplier effect that accentuates the impact of mining activities on the economy. There is also room for policy discretion, enabled by the fiscal buffers generated from mining related earnings by the public sector. For Botswana, where mineral revenue makes up a significant share of the Government revenue (Chart 4.1), beneficiation can strengthen fiscal resilience and sustain economic activities past mineral depletion.

Chart 4.1: Composition Of Government Revenue, 2010 – 2022 (Percentage)



Source: Bank of Botswana

4.12 In alignment with the beneficiation objective, the 2022 Botswana Minerals Policy provides for implementation of effective measures to create a favourable and competitive environment for attracting and sustaining investment in mining and related beneficiation projects. To this end, in addition to other supporting policies and initiatives (outlined in Table 3.3 in Section 3), tax incentives and exemptions, and import duty exemptions on machinery and equipment used in mineral beneficiation, entities, such as the Mineral Development Company Botswana (MDCB) and the Diamond Trading Company Botswana (DTCB), were instituted to help promote local value addition. To offer policy, legislation and regulatory traction in this respect, the Government of Botswana committed P540.9 million of its development budget to value chain development (2023 Budget Speech), while the Mines and Minerals Act is also undergoing review. There is also an intent to take advantage of the opportunities provided by the African Continental Free Trade Area, SADC, and the Southern African Customs Union free trade agreements to help anchor Botswana's export-led growth model through integration of mineral exploitation and beneficiation into regional and continental value-chains.

4.13 Table 4.1 illustrates potential beneficiation and secondary production that can be derived from minerals in Botswana. Given this potential, there are ongoing efforts to make improvements with respect to beneficiating several minerals including diamonds, copper-nickel, coal and soda ash. For example, ODC allocates a portion of the rough diamonds produced by Debswana to local cutting and polishing factories (Table 4.2). Moreover, the mineral beneficiation strategy seeks to have 15 percent of the country's rough diamond output cut and polished locally. The cutting and polishing industry is more labour-intensive than diamond mining and can remain sustainable even after depletion of diamonds. There, nevertheless, continues to be scope to extend beneficiation to consumer goods anchored on innovation, research and development and related skills development.

Table 4.1: Selected Minerals' Use And Potential Beneficiation

Mineral	Primary Uses and Applications	Potential Beneficiation
Diamonds	Jewellery, cutting tools, abrasives, electronics components	Cutting and polishing, and manufacturing of jewellery
Coal	Electricity generation, industrial processes, heating	Cement, methane gas, fertiliser, liquified gas
Copper	Electrical wiring, plumbing, electronics	Refining and smelting to produce higher-grade copper products for export
Gold Nickel	Jewellery, investment, electronics, dentistry	Processing to extract pure gold and create higher-value gold products
Nickel	Stainless steel production, batteries, alloys	Nickel refining and processing to produce specialised alloys and products
Soda Ash	Glass manufacturing, detergents, chemicals, metallurgical processes	Value addition through processing, product diversification, and quality improvement
Salt	Food processing, water treatment, industrial applications	Further refining, such as salt iodisation, and packaging for diverse uses and export
Limestone	Cement, construction, metallurgical processes	Processing to produce high-quality limestone products and diversification
Silver	Jewellery, electronics, solar panels	Refining and processing for higher-purity silver, product development
Uranium	Nuclear power generation	Uranium enrichment and processing for nuclear fuel, export opportunities

Source: The U.S. Geological Survey (2016)

Table 4.2: Botswana's Cutting And Polishing Factories

Company	Origin
Dalumi Botswana	Israel
Diamond Manufacturing Botswana	Belgium
Eurostar Botswana	Belgium
H&A Cutting Works Botswana	Thailand
Lazare Kaplan International (LKI) Botswana	Israel
Leo Schachter Botswana	Israel
Motiganz Botswana*	Israel
Pluczenik Botswana	Belgium
Rand Diamonds Botswana	South Africa
Sherenuj	India
South African Diamond Corporation (SAFDICO)	South Africa
Steinetz*	Israel
Suashish	India
Teemane Manufacturing Company*	Belgium
Yerushalmi Bros Botswana	Israel
Zebra Diamonds	Belgium

Source: Botswana Diamond Manufacturers Association

4.14 To contextualise, the June 2023 Agreement between De Beers and Botswana Government is deliberate about advancing economic diversification in Botswana, as reflected by the noticeable, earlier alluded, increase in the share of Debswana supply sold via ODC to 30 percent initially, and progressively to 50 per cent by the final year of the contract. The larger ODC share will permit the Company to increase its allocation to local cutting and polishing companies, thus directly enhancing domestic diamond beneficiation prospects.

4.15 Additionally, the new Agreement provides for establishment of a multi-billion Pula Diamonds for Development Fund (PDDF), with an upfront investment by De Beers of P1 billion and a commitment to make further contributions over the next 10 years, potentially amounting to P10 billion. The investment is aimed at creating substantial value addition to the Botswana economy. The PDDF will support Government's efforts to diversify into other sectors, such as manufacturing, tourism, agriculture, and services. This is in line with ongoing efforts, as part of Botswana's economic transformation agenda, to actively explore linkages between the mining sector and other industries, as well as enhance diversification within the mining sector.

4.16 Regarding coal, the 2022 Botswana Minerals Policy aims to, among others, promote the utilisation of clean technologies and technology transfer to exploit the country's coal resources, and establish Botswana as a sustainable and environmentally friendly coal beneficiation hub in Southern Africa. As alluded to earlier in the Chapter, various activities in the coal industry value chain provide opportunities to diversify the economy involving, among others, research and development and venturing into innovation around clean coal technologies; extraction of coal bed methane gas and production of cement, fertilisers and liquid fuels (Table 4.1). These opportunities and products have the potential to generate productive impact in other sectors and industries.

4.17 In the context of Botswana, beneficiation initiatives could benefit from favourable international perceptions that the country is a conducive investment destination. For example, in 2022 Botswana ranked second globally in the Fraser Institute's Investment and Attractiveness Index[43] , up from 31 in 2012, and the only African country in the top 10, suggesting that policies and institutions in Botswana remain relatively supportive of foreign investment. Botswana offers investment opportunities, including joint ventures, exploration of new mines, processing facilities, smelting and marketing opportunities, which support beneficiation and economic diversification efforts. This covers minerals such as diamonds, coal, copper, silver, uranium, manganese and iron ore. Thus, against this background, the country's substantial mineral endowment continues to provide opportunities to harness the potentially transformative power of its natural resources to achieve a dynamic, diverse, and internationally competitive industrial sector.

iii. **Key Considerations for Beneficiation**

4.18 Among the important considerations in pursuing beneficiation is that for any mineral, it requires economically viable deposits, robust infrastructure, a skilled workforce, and adaptation of advanced technologies to levels prevailing in competitor markets to ensure efficient and sustainable mineral processing. An evaluation of the relevant considerations shows that Botswana has the critical mass with respect to coal, copper-nickel and diamonds, while there are good prospects with respect to minerals that are still under exploration. For example, the untapped battery minerals in Botswana, notably lithium and cobalt, present opportunities for mining and beneficiation, thus significantly contributing to the potential manufacture of various components used in electric vehicles and the storage of relatively large amounts of solar energy for longer periods, especially from renewable sources, such as solar, for which Botswana has a comparative advantage due to long hours of sunshine.

4.19 The immediate challenges in transitioning to enhanced industrialisation relate to the intensity of imported inputs needed for secondary processing, barriers to entry in the supply chain, and lack of industry-related skills. Manufactured inputs are imported due to the lack of local suppliers, while high-skill services, such as maintenance of equipment, involve bringing in technicians from abroad. The local economy currently supplies the industry mainly with catering, cleaning, and security services, significant for the businesses involved, but low-level impact in the broader industrialisation and development needs context.

4.20 Other challenges relate to the absence or low level of industrial capacity; relatively high cost of production due to the paucity of the necessary infrastructure and logistical dynamics compared to competitor countries or incumbent producers; local entrepreneurs finding it difficult to obtain finance from financial institutions; and low appetite for locally beneficiated and manufactured products at national, regional and international level, among others due to quality, branding and marketing issues. Examples of these challenges include inadequate refinery for copper, which is a necessary first stage preceding production of industrial and consumer goods. This compels the country to export copper ore without undergoing the value-added refinement process domestically. For the diamond sector, the manufacturing expenses associated with producing polished diamonds are higher in Botswana than in other economies, particularly India.

4.21 Regarding coal, except for use in generation of electricity, there is virtually no secondary processing, despite its abundance in Botswana. The same applies to sand, for which economic value remains stunted in Botswana despite the numerous glass products that are derived from sand and are extensively used locally. The value addition in the mineral sector has, therefore, been lacklustre and in the absence of rapid growth in secondary production, the economy has

43 The Fraser Institute's Investment and Attractiveness Index assesses how mineral endowments and public policy factors, such as taxation and regulatory uncertainty, affect exploration investment.

transitioned to modest growth rates. Indeed, there have been episodes of a decrease in processing and manufacturing activities resulting in employment and income losses. Overall, this indicates that the value addition potential of the mining and mineral beneficiation sector is yet to be fully realised.

4.22 Over the medium-to-long-term, however, there are business, enterprise and skills development opportunities to surmount these challenges and these transition aspects need to be adapted to be integral to the beneficiation strategies. In addition to more industrial activities, there are related opportunities in transportation; insurance; legal services; specialised financial services; software applications; and gem certification and brokering. These services align with the desire to transition to a knowledge-based economy, thus should be facilitated by traction of ongoing economic transformation initiatives, policy reforms, including the mindset change campaign, as well as effective support from a vibrant financial sector.

iv. **Profile of Potential Economic Impact and Value Addition**

4.23 The government's beneficiation policy aims to foster economic diversification away from diamond mining through the creation of employment and the development of downstream capabilities. For a country like Botswana, with specific economic and industrial development requirements as outlined in Vision 2036, there is need for a strategic approach to dovetail mineral exploitation with industrialisation. The beneficiation strategy in the Mineral Policy, therefore, complements key national development initiatives by enabling mineral-based feedstock for competitive manufacturing and product development. The value chain in this regard, therefore, includes more inclusive job creation, skills development, technology transfer and progression of knowledge-based economy, opportunities for enterprise development, economic diversification, and broadening of the export potential and related earnings.

4.24 Specific to diamonds, the main objective of Government's diamonds development and beneficiation strategy is to transform Botswana into a competitive world diamond centre through increased value from the mining and selling of rough diamonds to local cutting and polishing, jewellery manufacturing, retail, and other downstream activities. This involves, facilitating, among others, the development of a diamond cutting and polishing industry; a rough diamond trading sector; the development of a diamond exchange centre; a diamond cluster; and citizen participation and skills development in the diamond industry. Second, the focus is to promote: the development of the jewellery manufacturing industry; the growth and sustainability of essential diamond industry support services; and networking and collaboration between academia, public and private sector to enhance skills development in the industry. Third, is to monitor developments and trends in the diamond industry, such as synthetic diamonds, funding, competition etc, and cooperate with other diamond producer countries in a bid to have their raw and uncut diamonds sold to processing facilities in Botswana. As a result of the diamonds development and beneficiation strategy, citizen companies are getting involved in the diamond cutting and polishing space. This is expected to multiply as the policy seeks to get some parts of the mining (extraction) disaggregated to widen participation of citizens in the initial stages of the mining sector such as drilling activities and transport activities.

4.25 There are linkages in the industry and there is a high potential for localisation in the linkages. Wage bill estimates show that consumption linkages resulting from employment in the cutting and polishing industry have a greater proportion of local value added in the supply chain, with about 46 percent of the manufacturers wage bill accruing to locals[44]. The most significant local linkages taking place are through local employment directly in the cutting and polishing factories. The industry's supply chain is still being developed and Botswana has managed to attract major suppliers, particularly

44 Mbayi, L. (2011). Linkages in Botswana's diamond cutting and polishing industry'. Making the Most of Commodities Programme (No. 6). Discussion Paper.

suppliers of knowledge intensive services to open offices in Botswana's diamond hub (see Table 4.2).

v. **Local Community Development and Livelihoods Considerations**

4.26 Local community development through mineral beneficiation in Botswana is crucial for ensuring that the benefits of mineral processing cascade to local communities in mining areas to improve their living standards, while contributing to overall national sustainable and inclusive growth and development. Economic empowerment programmes by mining companies can contribute immensely to addressing the socio-economic challenges in Botswana such as, unemployment, poverty and income inequality. Thus far, the corporate social responsibility activities by mining companies include the provision of localised roads; education; health; sponsorships for skills development; sporting activities; horticultural farming; gender equality initiatives; and support for electricity and water reticulation in some villages. Against this background, community development deriving from mineral beneficiation can be explored through the following.

(a) **Community Engagement and Participation:** this encompasses the active involvement of local communities in the planning and decision-making processes related to mineral beneficiation projects, including through consultations, community meetings, and feedback mechanisms.

(b) **Sustainable Employment and Skills Development:** mineral companies need to prioritise local hiring and skills development for community members in their jurisdictions. Where possible, there is also a need to offer training programmes to equip the communities with the necessary skills for various roles within the beneficiation sector, thus enhancing their employability and overall contribution to economic prosperity.

(c) **Value-Added Enterprises and Entrepreneurship:** mining companies should inculcate, encourage and support local community members to start their own beneficiation-related enterprises by providing access to funding, mentorship, and business development assistance.

(d) **Local Procurement and Supply Chain Integration:** policies should be in place to promote procurement of goods and services from local suppliers and businesses to stimulate the local economy, thereby develop local businesses to be part of the supply chain of beneficiation projects.

(e) **Community-Owned Enterprises (COEs):** Mineral companies should facilitate the formation of COEs that are directly involved in the mineral beneficiation process and for service outsourcing. These enterprises would allow the community to have a stake in the project's success and revenue generation.

(f) **Benefit Sharing Agreements:** at the level of government, there is need to develop clear benefit-sharing arrangements that outline how the local community will benefit from mineral projects. These arrangements may include revenue sharing, investments in community development, and infrastructure projects.

(g) **Strengthen Community Development Projects:** mining companies should strengthen the implementation of projects that directly address the needs and priorities of local communities. This can include investments in education, healthcare facilities, housing and sustainable infrastructure.

(h) **Infrastructure Development:** investment in infrastructure improvement within the community, such as roads, energy facilities, and water supply systems to enhance living conditions and to support economic activities related to mineral beneficiation.

(i) **Environmental Responsibility and Sustainability:** ensure responsible and sustainable beneficiation practices to minimise the environmental impact on the community's surroundings and protect the local environment from degradation. Sustainable practices are essential for community well-being.

(j) **Gender Equality and Inclusion:** mining companies should promote gender equality and inclusion in employment and the beneficiation arrangements, ensuring that opportunities are accessible to women and other marginalised groups. This creates a more equitable and diverse workforce and access to opportunities.

(k) **Collaborate with government to address social ills in mining communities:** mining communities sometimes experience social ills as a result of the fast urbanisation of mining towns, leading to health and behavioural challenges that could be potentially destructive. Thus, mining companies should put in place frameworks to circumvent this challenge.

4.27 To exemplify the social responsibility role of the mining sector, the following discusses some of the initiatives by the Debswana Mining Company to ensure meaningful benefit to communities near mines in Botswana.

(a) **Citizen Economic Empowerment Policy:** Through its Citizen Economic Empowerment Policy, Debswana leverages on the Company's supply chain to create economic opportunities for citizens. The policy is anchored on growing citizen spending to P20 billion, creating 20 000 jobs by 2024 and increasing local value creation, primarily through manufacturing, repairs, and maintenance, and supply of some key production inputs (bulk fuel and lubricants), involving localisation of contracts.

(b) **Social Infrastructure:** Debswana has established social infrastructure at its various mining operations and extends its social services to support host communities as the population in proximity to the Company's various operations grows. According to Debswana, it remains the largest private sector employer in the country, with about 5 500 direct employees and 6 000 contractors, as at the end of 2023.

(c) **Socio-Economic Development Strategy:** Debswana develops and reviews its socio-economic development (SED) strategy every five years in conjunction with key stakeholders and in line with best practice principles. The company's SED strategy seeks to promote sustainable and inclusive economic development in Debswana's host communities and nationally. The current SED Strategy is aimed at delivering high-impact projects in the zones of influence for Debswana's operations at Jwaneng and Orapa (including Letlhakane and Damtshaa) to create long-term impact beyond the lives of the mines. The Debswana SED strategy consists of three broad thematic areas of Alternative Economy, Partnerships Building and Sustainable Impact. Through these, the company seeks to build sustainable, resilient and thriving communities through non-mining economic activities like agriculture, manufacturing and tourism.

(d) **Tokafala Enterprise Development Programme:** in collaboration with the Government of Botswana and Anglo America plc, Debswana developed the Tokafala Enterprise Development Programme to capacitate small, micro and medium enterprises (SMMEs) for increased economic growth and employment. The programme supports SMMEs across the country including in Francistown, Gaborone, Jwaneng, Kasane, Letlhakane, Maun, Orapa and Selebi Phikwe. It also prioritises a targeted value-chain approach in the areas of mining, manufacturing, agro-processing, horticulture and tourism. To address the challenge of rising youth unemployment, Tokafala also runs a youth-focused programme, which annually targets 200 youth based in communities around mines.

4.28 The Morupule Coal Mine (MCM) also has a socio-economic development program that focuses on building sustainable communities and stakeholder relationships and partnerships with strategic business partners to achieve sustainable development beyond the Mine's lifespan. The programme has seven pillars to achieve these goals:

(a) **Corporate Social Investment:** the Mine supports local communities by funding projects and sustainable developments in eligible areas, such as education, sport, arts, culture, heritage, health and wellness.

(b) **Synergies with Mine Infrastructure:** MCM is committed to collaborating with communities to provide support for mine infrastructure, including fire and emergency rescue services.

(c) **Local Employment:** MCM aims to promote equitable wealth distribution and community upliftment by hiring local labour through job advertisements at Kgotla and regional labour offices.

(d) **Local Procurement:** the mine is committed to assisting SMMEs by sourcing goods and engaging in frequent service provision. Similar efforts are noted in respect of mobilising local suppliers within the mining value chain, with expected gains on employment creation. The "Citizen Spend" initiative by MCM, has supported 640 jobs since inception in January 2022.

(e) **Enterprise Development:** create a conducive environment and programmes that will help local entrepreneurs and enterprises to do good business through in-house and expert partner training.

(f) **External Capacity Building:** programmes are directed at youth development and skill strengthening to equip them for the ever-changing markets.

(g) **Employee Volunteerism:** employees are dedicating their time to promote the business ideals by engaging with the community, youth, and school-aged children through motivational talks, mentoring, and assignment assistance.

4.29 The foregoing demonstrates that mining companies can play a pivotal role to support mineral beneficiation in local communities through deliberate preference for locally produced goods and procurement of local services.

vi. **Climate Adaptation**

4.30 There is wide acceptance of the critical role played by the mining sector in the development of mineral endowed countries. However, at the same time, there is recognition of inherent environmental degradation and adverse impact on climate change, if not sufficiently mitigated. Alignment of mining practices to the Environment, Social and Governance (ESG) framework, therefore, remains a topical and pertinent issue. In this regard, deliberate focus on climate change considerations is addressed through the Botswana National Climate Change Policy. The policy promotes low carbon development pathways and approaches that significantly contribute to socio-economic development, environmental protection, and reduction of Green-House-Gases (GHG) emissions.

4.31 Adherence to the policy, therefore, presents opportunities for innovation, climate change adaptation and mitigation, as well as transitioning, particularly for the mining sector toward alleviating the environmental impact of traditional mining practices. For its part, the Government intends to mobilise climate financing through issuance of green bonds, partaking in carbon credit markets as well as accessing the Green Climate Fund for which, thus far, Botswana has 7 approved projects amounting USD81 million. To support the climate change mitigation, the European Union is providing funding of Euro 3 million to Botswana's Green Transformation initiatives aimed at, among others, improving the country's energy mix and reducing Botswana's vulnerability to climate change. Overall, the commitment to greening the Botswana economy is underpinned by a development budget allocation of P1.37 billion towards funding climate change adaptation and mitigation activities[45].

45 2023 Botswana Budget Speech.

5. Macroeconomic Policy And Financial Sector Development Implications For The Mining Sector

I. The Role of Macroeconomic Policy on the Mining Sector

5.1 Aligned to broader national objectives of economic diversification and sustainable economic development, it is observed that macroeconomic policies and environment play a crucial role in positively influencing investment and efficient resource allocation, as well as prospects for productivity and international competitiveness and, therefore, long-term growth potential. Thus, prudent fiscal, monetary and exchange rate policies continue to support domestic mining activity and development and prospective beneficiation.

(a) Fiscal Policy

5.2 The management of mineral resources in Botswana is supported by fiscal rules and operation of a quasi-sovereign wealth fund, the Pula Fund. Fiscal sustainability has, overtime, been achieved through focusing on medium-term budget balance to accommodate volatility and fluctuations in diamond export earnings, and the expenditure path calibrated to align with the economy's absorptive capacity and related to implementation of periodic (6-year duration) national development plans. In addition, the sustainability and long-term impact of the diamond endowment was underpinned by the spending rule that allocates mining revenue only to capital expenditure and human capital development (allocations to education and health) and the rest of the mining revenue was saved. In this manner, the intention is to use the earnings from an exhaustible endowment to expand productive capacity and enhance resilience of the economy, as well engender inclusivity, human progress and welfare enhancements. Aligned to this is the guide provided by the Sustainable Budget Index (the ratio of government recurrent expenditure, less education and health, to non-mineral revenue). Regarding the savings, the accumulation of surpluses over the years has enabled a build-up and maintenance of foreign exchange reserves, with three objectives: ensuring continuous access to foreign exchange for the economy's needs; affording stabilisation in times of need, including sustained policy discretion; and building a fund for future generations (ensuring inter-generational equity). Going forward, it is intended to strengthen the governance, as well as augmentation and withdrawals rules for the Pula Fund to sustain its organic growth. The statutory debt ceiling of 40 percent of GDP (20 percent each for domestic and external) stipulated in the Botswana Stocks, Bonds and Treasury Bill Act also anchors fiscal sustainability, while facilitating the development and growth of domestic capital markets. It also enables government to augment foreign exchange requirements with respect to external borrowing.

(i) *Implications of Mining Expansion on Fiscal Policy*

5.3 As a significant contributor to GDP and government revenues and given its backward and forward linkages with other sectors of the economy, mining has been a major driver of the economy. The prospects for the mining sector remain good and well entrenched given continuing need for related and derivative industrial and consumption goods. This relates to mines that are currently operating, those that are under prospecting and exploration and minerals still to be mined. The fiscal considerations relate to taxation regime; handling of mining revenue and allocation to spending; accommodating and managing inherent volatility, especially with respect to primary production; and ownership arrangements involving the state and, therefore, cost and revenue sharing formulae. Aspects of these were discussed earlier. However, there is special interest in addressing export earnings deriving from diamond mining and prospects for creation of a ring-fenced sovereign wealth fund to safeguard and organically grow the financial savings, while using part of the returns to augment the annual government budget.

5.4 The other special aspect of interest is the impact on the fiscus of ownership arrangements and the choice of minerals or ventures for state involvement. Generally, such choices are premised on strategic interest and the desire to influence the benefits, in addition to taxes, accruing to the nation, including beneficiation and community development. It is observed that while the sharing of profits could be equal, there is a tendency for government to bear a proportionately higher cost, especially where the private sector partner is opting to pull out in marginally viable (or loss making) ventures. In the circumstances, governments are often under pressure to safeguard employment and communities in such situations. Related thereto is the recognition that mines generate communities and dependencies that continue, even after the life of a mine. In the absence of extensive beneficiation and economic diversification within the community, governments are compelled to address social challenges that emerge after closure of a mine. The impact on the fiscus is, therefore, the loss of taxes/revenue and increase in social and rehabilitation spending.

5.5 In addition to spending on investment in the mine, government is also obligated to provide infrastructure, social services and amenities to mining communities. Thus, extension of mining ventures necessarily entails additional outlays by government. If viable and durable, however, there are prospective offsetting benefits in terms of taxes, industrialisation, employment and long-term economic growth. From this perspective, it is critical that the beneficiation components of the economic transformation agenda are well entrenched and implemented to safeguard fiscal sustainability.

(ii) *Case for a Sovereign Wealth Fund (SWF)*

5.6 The mining sector export earnings, mainly from diamonds, helped to build significant foreign exchange reserves, from the 80s to early 2000s, generated through balance of payment surpluses and growth in market value of assets. The foreign exchange reserves have helped to sustain macroeconomic stability by affording stabilisation and continuity of the desired government expenditure in the advent of economic shocks. Adequate foreign exchange reserves also support a managed exchange rate regime under Botswana's crawling peg exchange rate policy framework. As such, foreign exchange reserves are used as an anchor for discretionary macroeconomic policy making (exchange rate policy and fiscal stabilisation).

5.7 The past 15 years have, however, experienced a steady decline in foreign exchange reserves as a result of transition to structural fiscal and balance of payment deficits, associated with faster increase in imports, while the rate of growth in export earnings has tapered. At the same time, government expenditure increasingly exceeds revenue mobilisation. More recently, the fiscal space was further narrowed by the economic consequences of the COVID-19 pandemic and related policy responses, with significant draw down of foreign exchange reserves. Fundamentally, the reduced buffers reflect a significant reduction in the growth rate of diamond revenue, which calls for meaningful diversification of the export base, backed by substantial local production, including significant beneficiation within the mining sector.

5.8 It is recognised that although commonly referred to as a Fund for future generations, the current Pula Fund is primarily an 'overflow' or 'residual' account for surplus reserves, subject to short-term trade and capital account fluctuations. Given the recent developments in the balance of payments and government spending requirements, there is a risk of depletion of the foreign exchange reserves, thus impacting on maintenance of macroeconomic stability and policy discretion. Therefore, as indicated above, it is considered prudent to, going forward, maintain two distinct components of the foreign exchange reserves. Thus, a liquidity portfolio of the foreign exchange reserves to support ongoing needs of the economy for the foreign exchange, to anchor the exchange rate policy and to afford short-term economic stabilisation. Second, a ring-fenced Pula Fund for capital preservation and to enable organic growth through reinvestment of returns. In turn, the withdrawal rules would allow for a portion of the returns to be used to augment budget financing and this would increasingly become significant and impactful with sustained expansion of the Fund.

(b) Exchange Rate Policy

5.9 Conventionally, new mining discoveries or expansion, as well as an increase in international mineral prices lead to an increase in income, expenditure and consumption. Any resultant boom in resource exports often causes real appreciation of the domestic currency and associated harmful effects commonly known as the Dutch-disease. In the instance of substantial increase in foreign currency earnings and in a floating currency arrangement (a fixed currency can also be kept high backed by large foreign currency inflows), there will be appreciation of the local currency, which causes productive resources to move from nonmineral traded goods, the output of which declines, to non-traded goods, the output of which increases. In turn, the currency appreciation erodes the competitiveness of local producers of tradeable goods and services, hence undermines other exports (and the production of other tradeable commodities in general) and, ultimately, constrain economic diversity. Local currency appreciation may thus cause deindustrialisation, hence contributing to reduced employment and income earning opportunities, reversal of economic diversification and, therefore, poor long-run economic performance.

5.10 In the light of these risks, the objective of the Botswana exchange rate policy is to promote the competitiveness of domestic tradeable commodities and services. The current exchange rate framework, the crawling band exchange rate, adopted in 2005, has an inherent flexibility to accommodate discretion in the event of any significant deviation from policy objectives and external shocks. Thus, to-date, the framework has served the country well in three respects; first, in ensuring stability of the real effective exchange rate (REER), essentially mitigating against manifestation of the Dutch disease; second in sustaining congruence and complementarity with the monetary policy framework (a stable REER enables the exchange rate to act as a monetary policy inflation anchor); and third, engendering and anchoring policy transparency and predictability and, therefore, integrity; important attributes to attract and retain investments necessary for industrialisation and employment creation. Notwithstanding, considerations for economic transformation and diversification necessarily warrant continuous monitoring of the impact of the exchange rate policy framework on prospects for growth of local businesses, industrialisation and broadly, congruence with the export-led growth strategy for Botswana.

(c) Monetary Policy

5.11 Botswana's monetary policy continues to play a pivotal role in ensuring broad macroeconomic stability. The intent of the policy is to foster monetary, credit and financial conditions conducive for orderly, balanced and sustained economic development through maintenance of a low and predictable level of inflation. Successful monetary policy formulation fosters stable and predictable inflation which, in turn, creates a favourable and more predictable business environment, which is conducive for long-term planning and investment, including in the mining sector. In general, low and predictable inflation contributes to preservation of the value of a currency, safeguarding incomes and the value of investments, and fosters access to credit through resultant modest interest rates. Inflation that is low or modest relative to what pertains globally also fosters competitiveness of domestic industries, promoting economic diversification and beneficiation of the mineral endowment, among others. The related monetary operations, in turn, enable liquidity management and pricing in the money and capital markets that is aligned to the financing and development needs of the economy.

5.12 Significantly, the conduct of monetary policy is in the context of a dual mandate of price stability and financial stability for the Bank of Botswana (central bank), respectively ranked. The financial stability aspects relate to safeguarding the roles of the financial sector (intermediation of funds, risk management and facilitation of payments); thus, enabling the conduct of economic activity by a range of other sectors, including mining and related entities and across income level cohorts. The resultant economic progress generates enhanced employment and other income earning opportunities, as well as domestic resource mobilisation that aids public spending.

II. **Potential for the Financial Sector Role in Mining Sector Development**

5.13 As with other sectors, the financial sector can support and help harness the potential of the mining sector and related beneficiation through its intermediary role that includes direct funding or facilitating the pooling of funds for investment in mining ventures. Moreover, the financial sector supports operations and trade through enabling cash flow management facilities. Additionally, it has a role in risk management through providing insurance products fit for purpose along the mining sector value chain. The financial sector, therefore, has a role in facilitating mineral extraction and value addition activities that support economic growth

5.14 The financial sector role in supporting mining can be discerned from at least two angles. One is the extent and trend in commercial bank lending to the sector. The second is the provision of funds through the capital market. The other dimension is, however, direct investment (partly indicated by FDI). Chart 5.1 shows the trend in commercial banks loans and advances to the mining sector, while Figure 5.1 has the relative shares of sectors in total credit to businesses. In the period between 2012 and 2023, lending to the mining sector has, while fluctuating, generally decreased, compared to annual average growth of 8.6 percent for credit to business and 10.4 percent for total credit. The share of mining in business credit, totalling P21.4 billion, is also small at around 2 – 3 percent. The overall reduction in funding to mining activities by commercial banks is in part due to the global financial crisis of 2008/09, the commodity price crunch of 2015/16 (and resultant closure of large copper and nickel mines), and the COVID-19 pandemic.

5.15 Notwithstanding, it is observed that part of the reason for relatively low rate of lending to the mining sector is the unique needs, especially in relation to capital investment, as well as the external trading arrangements and related risks. Mining tends to be capital-intensive and, therefore, presents a unique financial lifecycle that requires a well-timed and firm-specific financial solutions. For example, the closer a mine is to exploration, the more likely it will be funded with equity, while the further it moves through the development cycle, the more likely it will be funded through debt financing. Accordingly, mining companies in Botswana have been active in the capital markets to obtain operational and capital funding. Similarly, FDI has filled the domestic funding gap. There are 6 mining ventures listed on the Botswana Stock Exchange, with capitalisation of P527.3 billion out of P600.8 billion overall, as at March 2024, representing a 87.8 percent share, while FDI dedicated to mining was P23.1 billion out of a total of P66.4 billion.

5.16 Botswana's capital market is, however, relatively small, underdeveloped, and illiquid in comparison to peer countries with annual turnover to market capitalisation at 3 percent in 2022 and nominal value of listed domestic securities at about 11 percent of GDP, compared to 64 percent and 48 percent of GDP for Namibia and South Africa, respectively. There continues to be a paucity of structured long-term funding, hence an ongoing need to develop capital and money markets (which are integral to financial sector development) with offerings of instruments of varied maturities. Activity and vibrancy of the capital market is constrained largely due to the small size, concentration of institutional investors, as well as the government-centric nature of the domestic economy.

5.17 In addition to modest activity in equities, the market for non-government debt instruments is also underdeveloped, with only a few state-owned enterprises (SOEs) offering debt securities in the stock exchange. At the same time, the inherently volatile nature of the mining industry demands sophisticated risk management strategies, hence creating opportunities for the development of innovative financial instruments, such as commodity futures and options, to help mining companies hedge against market uncertainties. It is also observed that the new Retirement Funds Act, that legislates for equal shares for foreign and domestic holdings by pension funds and entails the repatriation of some foreign holdings, creates an opportunity for beneficial use of these resources to intensify mining activity and related beneficiation. This, therefore, presents the opportunity for channelling these funds to productive ventures that manifest long-term viability and return opportunities. Thus, overall, prospects for enhanced issues of securities in the capital market by the private sector, including mining ventures, and commercial SOEs. Larger participation and a wider range of instruments would generate a deeper and liquid capital market that can support a variety of corporate funding and investment needs.

Chart 5.1: Commercial Bank Lending To The Mining Sector

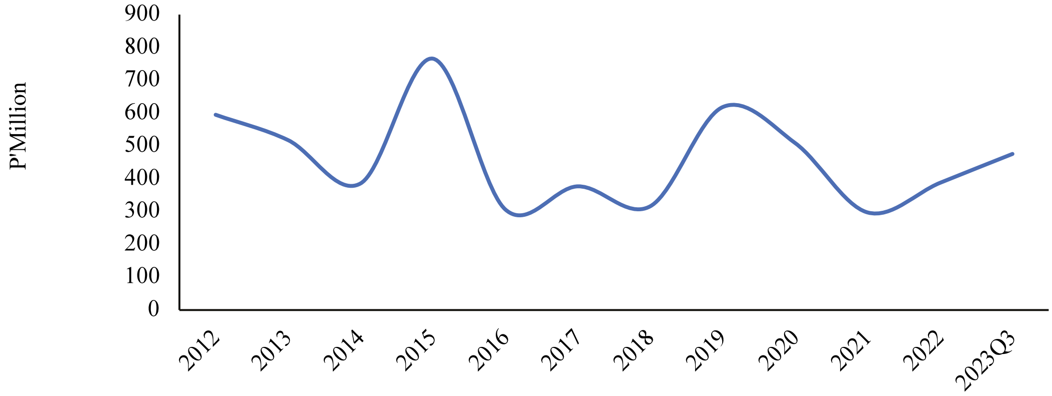
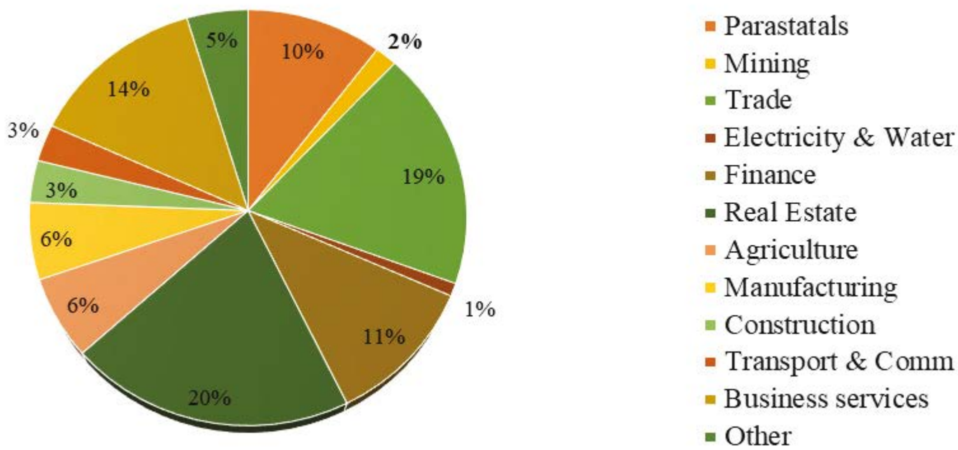


Figure 5.1: Structure of Business Lending (2023)



Source: Bank of Botswana

5.18 Conclusions from the 2023 IMF Financial Sector Assessment Programme (FSAP) point out to challenges in Botswana's financial sector development posed by the small undeveloped capital markets dominated by government debt issuance; an inactive repo market due to the unclear legal framework; poor performance by state-owned financial institutions; constrained digital market services due to unclear regulatory framework; and the need for credit infrastructure reforms to close the financing gaps to other sectors. In this context, work is ongoing on formulation of the third financial sector development strategy to outline medium-term initiatives and reforms towards enhancing the financial sector contribution to national development and economic transformation aspirations.

5.19 Financial institutions can also play a pivotal role in steering the mining sector towards sustainability. Through green financing practices and ESG considerations, financial institutions can encourage mining companies to adopt environmentally friendly technologies and practices. This not only aligns with global efforts to combat climate change but also ensures the long-term viability of the mining industry. Therefore, a developed financial sector can promote green financing initiatives, directing capital towards mining projects that prioritise environmental sustainability, while penalising carbon intensive projects. The integration of carbon disclosure requirements in financial reporting can also enhance transparency and encourage mining companies to measure, manage, and disclose their carbon emissions. This, in turn, incentivises the adoption of greener technologies and processes that contribute to the overall goal of making the mining sector more climate friendly. The Nordic countries offer a noteworthy example of how financial sector development can support sustainable mining practices. With stringent environmental regulations and a well-developed financial sector, countries like Sweden and Finland have successfully integrated climate considerations into their mining activities. Financial institutions in these countries have played a vital role in driving investments towards environmentally responsible mining projects.

6. Conclusion And Recommendations

6.1 Botswana has a wide range of mineral deposits with varying levels of feasibility for extraction and commercial/economic viability. However, overtime feasibility and viability are subject to market conditions and global use trends, while the scope for secondary processing and beneficiation can also impact on economic benefits. That said, mining activity has been dominated by diamonds, soda ash, coal and copper-nickel. Diamond mining, in particular, has influenced Botswana's development path, in terms of export earnings being used for development of physical infrastructure and provision of public services. In addition, the resultant buffers from diamond mining have anchored maintenance of credible fiscal, monetary and exchange rate policy frameworks and related institutional arrangements.

6.2 Mining activity is, however, capital intensive and from this perspective, the dominant mining activity has not been sufficiently inclusive with respect to employment creation. In addition, the structure and trends for employment and other income earning opportunities were not sufficiently progressive to meaningfully reduce inequality and help achieve economic diversification. The modest social outcomes that are despite the overall economic value and potential of minerals are mainly because the more dominant mining activity does not involve significant secondary processing or beneficiation in the domestic economy that could generate sufficient downstream, upstream and side stream economic opportunities.

6.3 Against this background, Botswana, like many other developing countries, is increasingly recognising the potential benefits of mineral beneficiation in accelerating industrialisation, diversification, economic development and growth, premised on local endowments. Deliberate focus on beneficiation has potential to generate a range of economic and income earning opportunities in a variety of areas including innovation, research and product development, secondary processing and manufacturing, support services, enterprise and business development. Notably, this will also potentially expand the role of the private sector.

6.4 Recognition that the critical mass of natural resources in Africa has vast potential to contribute to sustainable development and inclusive growth in the continent, has seen several countries strengthen their resolve to widen and lengthen value-chains for their local endowments. Thus, formulation of economic diversification, industrialisation, mineral and mining policies which emphasise beneficiation as a catalyst for inclusive and sustainable economic growth and development.

6.5 For Botswana, these include policies and strategies, such as the 2011 - 2016 Economic Diversification Drive; the 2020/21 – 2022/23 Economic Recovery and Transformation Plan; the 2022 Minerals Policy; the 2023/24 – 2024/25 Transitional National Development Plan; the Reset Agenda and the National Mindset Change Campaign. These were preceded by the declaration of mineral beneficiation as a national policy in 2008, as part of the economic growth strategy aimed at enhancing the domestic economic benefit from the country's mineral endowments, mainly through downstream value addition and creation of wider linkages with other sectors of the economy. The June 2023 Agreement between De Beers and Botswana Government demonstrates a deliberate effort in this regard.

6.6 It is recognised, however, that the availability of raw minerals is not a sufficient condition for a successful beneficiation programme, and neither is the promulgation of policies. Key is effective implementation of economic transformation and policy reform initiatives to achieve ease of doing business and seamless access to government and other services by the whole spectrum of businesses, entrepreneurs and income level cohorts, as well as continuous improvements and renewal and provision of infrastructure and utilities. In addition, there is a need for quick transition with respect to adaptation of relevant skills and aptitude, impactful use of advanced technologies, enhanced levels of productivity, as well as greater infusion of local resources in production and in product development, and related branding.

6.7 Botswana is perceived as a conducive country for investment, as reflected in the very high ranking according to the Fraser Institute's Investment and Attractiveness Index and one of the best business environments in Africa as per the Ease of Doing Business Index, which among others, considers the macroeconomic state of the country. This gives the country a potential competitive edge in attracting FDI. However, the country is facing challenges of a lack of both local inputs needed for secondary processing and industry-related high-technical skills, leading to high reliance on imported goods and services as inputs of production; thus, making it difficult for the domestic industry to have a competitive and comparative advantage against its competitors. Other challenges relate to difficulty in sourcing business finance from financial institutions, and inadequate branding and marketing of locally beneficiated and manufactured products at national, regional, and international level.

6.8 While the foregoing challenges may seem to be an obstacle to beneficiation, economic diversification, and growth, they may also be catalytic to these processes. For example, the lack of necessary skills provides opportunity for side stream beneficiation in terms of setting up of specialised training and research and development institutions, as well as innovation hubs. There is also a general need for transparency to promote understanding of mining arrangements, as well as to underpin good governance and equalisation of opportunities.

6.9 The role of the mining sector in economic development is not only limited to potential it has towards directly growing the economy through beneficiation, related industrialisation and mineral revenues, and poverty alleviation through corporate social responsibility programmes. The sector can also be instrumental in greening economies, by promoting use of low-carbon technologies, such as electric vehicles, wind turbines and solar photovoltaics (technology that produces electricity from sunlight). This will give impetus to demand for raw materials required for these technologies, thus creating opportunities for further growth in the mining sector and enhanced economic diversification, while helping to reduce fossil fuels usage and contribute to decarbonisation of industrial operations.

6.10 Against this background, it is suggested as follows:

Macroeconomic Policies

(a) Maintenance of good macroeconomic policy frameworks, with the key tenets of sustainability, transparency, predictability and facilitative of economic activity. In the fiscal policy realm, this involves continued application of fiscal budget and debt sustainability rules, as well as maintenance of buffers for economic stabilisation in times of need and to retain policy discretion. In addition, a deliberate focus on intergenerational equity, given that the mining endowment is ultimately exhausted. This is achieved by beneficiation that generates inclusive and sustainable long-term growth and a robust ring-fenced sovereign wealth fund (fund for future generations). Monetary policy should continue to be pursued towards safeguarding the value of incomes and to generate moderate interest rates (cost funds) that positively impact on growth enhancing investments, business operations and consumption. At the same time the exchange rate policy should remain supportive of competitiveness of the domestic industry in international markets and against imports.

Expansion of Trade and Export Markets

(b) Appropriately contextualise measures to accelerate citizen economic inclusion in terms of reinforcing the need to enhance expansion of export markets, integration of locally produced goods and services into global production and value chains, as well as attracting investments, innovation and adaptation to technological transitions. Given the size of the domestic market, it is recognised that the larger global markets present enhanced opportunities for long-term viability of local businesses, prospects for beneficiation, as well as economic diversification and inclusive growth. Even if there are issues to address, the history with respect to copper, diamonds, beef and the tourism service shows the contrasting domestic and export markets capacity.

Monitoring Implementation of Economic Transformation Initiatives

(c) Maintain a monitoring and evaluation mechanism for implementation of economic transformation and policy reforms, in terms of traction of economic diversification, inclusivity and prospects for transition to high-income status within the desired time frame. This includes dedicated focus on ensuring transformation of state-owned enterprises towards the desired impact.

Mapping of Beneficiation and Product Development Opportunities

(d) Mapping, advocacy and publication of beneficiation, product development and service opportunities across the variety of minerals (Table 4.1 for reference) to stimulate enterprise, business as well as research and development interest. This also relates to enterprises requiring inputs and products that can be substituted for imports.

Institutional Research and Innovation Collaboration

(e) Related to the above, is the need for deliberate fostering of independent, as well as collaborative research and product development by universities and dedicated institutions with businesses/enterprises. Such deliberate focus on beneficiation prospects for endowments, with a view to generate enhanced economic activity would catalyse and accelerate use and market opportunities for derivatives of minerals.

Procurement Specifications

(f) It is possible, where appropriate, to specify beneficiated products, wholly or as input for certain procurements in order to stimulate and generate long-term economic viability of such products.

Financial Sector Support

(g) Greater alignment could be achieved by raising the role of the financial system in the development of the mining sector and related beneficiation activities. While recognising the peculiar and unique investment and capital needs in the mining sector, coupled with structural issues, such as market size, concentration of institutional investors and a government-led economy, the financial system has the potential to integrate financial instruments, markets, institutions and intermediaries alongside growth in demand and use of mining related services. As such, there is an ongoing need to develop reforms that would enhance financial sector contribution to economic development and growth, inclusive of mining sector growth. Along these lines, there is ongoing work on an updated financial sector development strategy to facilitate the role of the financial system in catalysing economic transformation, inclusive income and growth opportunities and ultimately transition of the economy to high income status.

Execution of Exploration Licences

(h) Consider prescribing time limits on execution of exploration licences in order to curb hoarding, thus promoting quicker generation of economic activity.

Gaborone Headquarters
17938, Khama Crescent, Gaborone, Botswana

(267) 360 6000

Private Bag 154, Gaborone, Botswana

Francistown Branch
9597, Thapama Circle, Francistown, Botswana

(267) 241 0450 / 240 0400

Private Bag F212, Francistown, Botswana

www.bankofbotswana.bw