

AFRICA RISK CONSULTING

Botswana Monthly Briefing January 2025

Botswana Summary 8 January 2025

The finance ministry forecast the budget deficit will narrow to 3.6% in the 2025/26 fiscal year from 6.75% with minerals revenues expected to more than double in the year. The new government suspends 70 infrastructure development projects the former administration implemented ahead of the October 2024 general election to reassess their value versus construction costs. In another major policy reversal, the government lifts a ban on the importation of vegetables from South Africa the previous administration implemented. The government also changes Botswana's exchange rate policy parameters, increasing the weight of the South African rand in the basket of currencies that that determine the value of the pula.

Modest recovery seen in diamond market

Finance minister **Ndaba Gaolathe** on 6 December announced that the government forecast that the budget deficit to narrow to 3.6% in the 2025/26 fiscal year from 6.75% with minerals revenues expected to more than double in the year due to an expected modest recovery to the global diamond market. Due to the sharp downturn in the global diamond market, Botswana faced significant economic headwinds in 2024. Real GDP is expected to shrink by 2.7% while diamond production is expected to fall to 17.9 million carats from 23.8 million carats in 2023.

Gaolathe forecast that revenue in 2025/2026 will reach P85.4 billion (\$6.32 billion) with mineral revenues expected to reach P17.2 billion (\$1.27 billion) from an estimate of P8 billion (\$592m) in 2024. Total expenditure and net lending is estimated at P96.7 billion (\$7.16 billion), with the budget deficit anticipated to narrow to P11.3 billion (\$837m) or 3.6% of GDP.¹

Statistics Botswana figures, released on 30 December, show that real GDP decreased by 4.3% in the third quarter of the year after having shrunk by 5.1% and 0.5% in the first and second quarters respectively. The decline was attributed to real value added by diamond traders, mining & quarrying, agriculture, forestry & fishing, manufacturing and transport & storage, which decreased by 75.6%, 27.2%, 2.1%, 1.7% and 0.8% respectively. The decline in the real value added of mining and quarrying by 27.2% was mainly influenced by the decrease in the diamond real value added by 29.4%. Diamond production in carats decreased by 31.1% in the third quarter while diamond trading recorded a negative growth of 75.6% as opposed to a decline of 16.9% recorded in the corresponding quarter of the previous year.

On a positive note, Gaolathe noted there has been a slight improvement in retail sales in the **United States (US)** market at the start of the critical holiday season. Diamond analyst **Paul Zimmisky** has forecast that the US diamond market will rebound in 2025, driven by easier year-over-year comparisons and a more favourable macroeconomic environment.² However, the level of inventory in the pipeline is still on the high side and the expectation is that the economic pressures in the diamond market will largely continue through the first half of 2025.

New government suspends mega infrastructure projects and import bans

The new government has suspended 70 of 148 projects under the Development Manager (DM) model for review and to establish their value versus construction costs. The projects suspended include the

¹ Reuters, 7 Dec 2024

² Diamond World, 17 Dec 2024

construction of hospitals, schools and roads. Ahead of the October 2024 election, the previous **Botswana Democratic Party (BDP)** administration embarked on a major infrastructure drive despite a slowdown in diamond revenue in the past two years.

Transport and infrastructure minister **Noah Salakae** noted that the government has decided to review the DM model as an infrastructure delivery concept, as well as DM-related projects and their implementation, but that some projects will move forward:

"Seventy projects will be suspended, while 78 projects will not be suspended due to possible far-reaching legal and financial implications associated with destabilisation."³

The review comes as Boko indicated that Botswana loses billions of pula due to poor management and corruption and highlighted that the model may have resulted in inflated construction costs of projects.

The DM model, which the former government launched in 2023, is a construction, procurement, and engineering model used to implement projects, such as roads, schools, hospitals, and government houses. Initially, the model was said to ensure that projects would be completed within a stipulated time to prevent unnecessary additional costs to the government.⁴

The DM model outlines that the professional development manager executes the entire project, from inception to completion, including preliminary investigations, project design, management and supervision. However, application of the model might have resulted in inflated project construction costs and as a result, needs be reviewed to ensure fiscal sustainability and value chain redistribution.

The government will appoint a special task team to undertake the review of all the projects, including the manner in which the DM model was set up, its legal structure and rationale, the mandate of the DMs and their compliance with relevant laws. Nine DMs were awarded packages of individual projects in July 2023 with contracts signed in October 2023. The projects' totals were valued at P13 billion (\$950m).

The new government has also lifted a ban on importation of vegetable imports from **South Africa**, marking one of the first major reversal of policies implemented by the former administration. The lands and agriculture ministry made the announcement on 13 December, adding that the lifting of the ban would be implemented in through a phased approach.⁵

In January 2022, the government implemented a ban on the importation of the majority of fresh produce with former president **Mokgweetsi Masisi** (2018-2024) arguing that Botswana was seeking to achieve food self-sufficiency while cutting its fruits and vegetables import bill by about 71%. Masisi claimed the import ban saw Botswana saving over P500m (\$37m) in import substitution, income which was redirected to local farmers.⁶

Botswana's agricultural sector is quite small, making up approximately 5% of GDP. Farmers often struggle with droughts and cheaper imports from South Africa, which supplied about 80% of the country's food requirements before the two-year ban.

While the lifting of the import ban has left local farmers dejected as their relatively young industry is unable to compete with South African farmers, the news has been received with excitement by South African farmers who had lost a significant market with the import ban. Before the ban, Botswana constituted about 15% of South Africa's vegetable export market.

³ Projects Magazine, 6 Dec 2024

⁴ Daily News, 25 Oct 2023

⁵ Timeslive, 19 Dec 2024

⁶ Reuters, 4 Dec 2023

While Botswana's former administration said it is protecting its infant industries with the restriction, South African farmers who supply the bulk of Botswana's food needs, have been aggrieved by the import ban which they say violates the **Southern Africa Customs Union (SACU)** agreement.

Gaolathe dismissed the vegetable ban as a flawed policy with the potential to undermine Botswana's economic transformation agenda.

Responding to a question in Parliament from the **Maun East** member of parliament (MP) **Goretetse Kekgonegile** on 5 December, Gaolathe stated that there are more progressive ways to empower local farmers and develop the local horticultural sector without resorting to a vegetable ban:

*"I put it to you that a vegetable ban is bad economics—very bad economics. Anything that requires tariffs to sustain it, even in the short term, is bad economics. What is happening now is that food and vegetables have become more expensive in Botswana. Low-income groups—people who are already struggling—are spending a larger percentage of their income on food."*⁷

Gaolathe acknowledged that local farmers have benefited from the vegetable ban but emphasised that this is not a sustainable way to grow the sector. He suggested that more effective measures could include directly subsidising vegetable farmers by establishing a dedicated fund for them.

Changes to exchange rate policy parameters

The government on 31 December changed its exchange rate policy parameters, increasing the weight of the South African rand in the basket of currencies that determine the value of the pula. Under a crawling peg regime, the value of the pula is attained through a system that links the currency to the **International Monetary Fund's (IMF)** special drawing rights (SDR) - comprising the US dollar, the British pound, the euro, **China's** renminbi and the **Japanese** yen - and the South African rand. The value is then adjusted upwards or downwards at the beginning of each year using a rate of crawl that factors in the inflation differential between Botswana and its major trading partner countries.

The basket of currencies weights stood at 45% to the rand and 55% to SDR but the weights have now been moved to 50% for the rand and 50% SDR in a move that the government says it aimed at reducing the volatility between the local currency and that of South Africa, Botswana largest trading partner. The change in the basket weight parameters is aimed at influencing the course of the pula over a period against individual currencies resulting in a more stable pula against the rand, which is positive as the pula/rand exchange rate is the most important one for most companies in the country.

The **Bank of Botswana (BoB)** (central bank) has also increased the pula trading margin between the buy and sell rates for foreign currencies from +/- 0.125% to +/- 0.5% in a move it says is aimed at promoting the interbank foreign exchange market. The higher trading margins will encourage banks to trade foreign currency amongst themselves instead of relying on the central bank, which is already faced with depleting foreign exchange reserves due to lower diamond exports in the past two years.

This may also be seen as a first step in a long-term process of making the exchange rate more flexible and more responsive to market forces as under current mechanism, the overall value of the pula is not influenced at all by market forces, and this is probably not sustainable in the long term.

Planner

3 Feb 2025 Gaborone (Botswana) 2025/25 National Budget
3-6 Feb 2025 Cape Town (South Africa) Mining Indaba 2025

⁷ Projects magazine, 5 Dec 2024

Chronology

6 Jan 2025 **Gaborone (Botswana)** *Daily News*. President **Duma Gideon Boko** travels to **Accra (Ghana)** to attend the inauguration ceremony of president-elect **John Dramani Mahama**.

3 Jan 2025 **Gaborone (Botswana)** *Daily News*. The Gaborone high court sets aside a seven-year imprisonment term handed by the court of appeal to former permanent secretary to the president **Carter Morupisi** for money laundering and corruption;

29 Dec **Gaborone (Botswana)** *Daily News*. **Botswana Congress Party (BCP)** candidate **Gasetime Sefela** wins the **Chobe Enclave Central** ward which became vacant following the death of **Botswana Democratic Party's Mooketsi Jani** who won the seat in the 2024 general elections;

20 Dec **Gaborone (Botswana)** *Mmegi*. The **Botswana Stock Exchange's (BSE)** main platform, the **Domestic Companies Index (DCI)** rose by more than 12.2% in 2024 despite tightening conditions in the economy;

20 Dec 2024 **Gaborone (Botswana)** *Daily News*. **United Arab Emirates (UAE)** special envoy, **Sheikh Shakhboot Al Nahyan** pays a courtesy call on President **Duma Boko** as the two countries seek to expand on existing areas of cooperation;

20 Dec 2024 **Gaborone (Botswana)** *Mmegi*. **Norway's Scatec ASA** announces it has reached financial close for the second 60 megawatt (MW) of the \$108m 120 MW **Mmadinare Solar Complex** in eastern Botswana and is preparing for construction to start;

18 Dec 2024 **Gaborone (Botswana)** *Projects Magazine*. **Canada's Lucara Diamond Corp.** announces that the epic 2,488 carat diamond recovered in August 2024 at its **Karowe Mine** has been named **Motswedi**, which in Setswana, the local language in Botswana, means a water spring;

18 Dec 2024 **Gaborone (Botswana)** *Projects Magazine*. **Debswana Diamond Company**, equally owned by Botswana and **United Kingdom**-headquartered **De Beers**, appoints **Goitseone Gadifele** as the general manager of **Jwaneng Mine**;

18 Dec 2024 **Gaborone (Botswana)** *Daily News*. Vice president and finance minister **Ndaba Gaolathe** presents a draft amendment bill to repeal and re-enact with amendments, the **Virtual Assets Act No 3 of 2023** meant to regulate the sale and trade of virtual assets, licencing of virtual assets service providers and issuers of initial token offerings;

18 Dec 2024 **Gaborone (Botswana)** *Daily News*. Vice president and finance minister **Ndaba Gaolathe** says Botswana has until February 2025 to submit a progress report with a request for re-rating of the seven outstanding **Financial Action Task Force (FATF)** recommendations in preparation for the third round of mutual evaluations of **Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)** member countries;

17 Dec 2024 **Gaborone (Botswana)** *Daily News*. The **Chobe District Council** in northwest Botswana and the **Zambezi Region** in **Namibia** propose a new border post along the villages of **Satau** and **Parakarungu**;

17 Dec 2024 **Gaborone (Botswana)** *Daily News*. Minerals and energy minister **Bogolo Kenewendo** says the government intends to crack down on the widespread hoarding of mineral prospecting licences as the current system allows companies and individuals to secure licences without any immediate plans to develop the allocated areas;

16 Dec 2024 **Gaborone (Botswana)** *Mmegi*. **Statistics Botswana** reports annual inflation was 1.7% in November, a slight increase from 1.6% in October, with the primary drivers of the increase being the food & non-alcoholic beverages;

16 Dec 2024 **Gaborone (Botswana)** *Sunday Standard*. **Tax Justice South Africa** founder **Yusuf Abramjee** says Botswana is emerging as a key transit hub for illegal tobacco trafficking into South Africa;

13 Dec 2024 **Gaborone (Botswana)** *Mmegi*. **Debswana Diamond Company**, equally owned by Botswana and **United Kingdom**-headquartered **De Beers**, says the \$6 billion project to convert the **Jwaneng mine** into an underground operation is on track and has exceeded this year's drilling targets despite Debswana facing a stiff financial test due to the downturn in the diamond market;

9 Dec 2024 **Gaborone (Botswana)** *Sunday Standard*. Vice president and finance minister **Ndaba Gaolathe** says the government plans to reduce the public sector wage bill in a bid to cushion the economy which is grappling with declining diamond revenues;

8 Dec 2024 **Gaborone (Botswana)** *Sunday Standard*. Assistant trade and entrepreneurship minister **Baratiwa Mathoothe** says the 1500 hectare-**Selebi Phikwe Citrus Farm** is looking to acquire additional land to expand its operations, aiming to penetrate more external markets and that negotiations for more land acquisition were currently underway with local communities;

6 Dec 2024 **Gaborone (Botswana)** *Sunday Standard*. The **Bank of Botswana** (central bank) moves to reassure customers and financial markets following **Standard Chartered Bank Botswana Limited's** announcement of its intention to sell its wealth and retail banking business;

6 Dec 2024 **Gaborone (Botswana)** *Mmegi*. **United Kingdom**-headquartered **De Beers** says Botswana could have the industry's next mega-mine and under its soon-to-be-finalised deal with the government, it will be partnering with the state in local exploration;

6 Dec 2024 **Gaborone (Botswana)** *Mmegi*. The **Local Enterprise Authority (LEA)** acting CEO **Godfrey Molefe** announces plans to establish a hemp production incubator, marking a shift in its approach to agricultural innovation in the country;

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistle-blower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)