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Botswana Monthly Briefing January 2023

Botswana Summary 9 January 2023

Parliament approves President Mokgweetsi Masisi's (2018-present) plans to postpone the start of the next National Development Plan by two years to 2025, allowing him to set the development agenda ahead of the 2024 general elections. The finance ministry tables a P554m (\$43.38m) supplementary budget on 20 December for the 2022/23 financial year with the bulk of the funds going towards agriculture and Botswana's military deployment in Mozambique. Statistics Botswana releases 2022's third-quarter gross domestic product (GDP) figures in December which indicates the economy grew by 6.3% in the period driven by the diamond and coal sectors. The finance ministry has set the pula to depreciate by 1.51% in 2023 in a bid to maintain a stable real effective exchange rate. Botswana has issued a warrant of arrest against former president Ian Khama (2008-2018) who is on self-imposed exile in South Africa, drawing possible diplomatic repercussions for both countries.

Masisi postpones next National Development Plan (NDP) to 2025...

Parliament has approved President **Mokgweetsi Masisi's** (2018-present) plans to postpone the start of the country's next medium-term **National Development Plan (NDP)**, which was set to begin in April 2023, in favour of a two-year **Transitional National Development Plan (TNDP)**. Masisi is looking to build his legacy by aligning NDPs with presidential terms in a bid to set his development agenda ahead of the next elections in 2024.¹ **Botswana** normally sets its medium-term development agenda through 5-year NDPs, the last of which, NDP 11 was to end in March 2023 and be succeeded by NDP 12 from April 2023 to March 2028. However, NDP 12 will not begin in April 2025, just a few months after the 2024 general elections.

The country will now operate under the two-year TNDP with a P64 billion (\$5.01 billion) budget for financing public investments in infrastructure including roads, land, water infrastructure development and support to key state-owned enterprises – specifically, P26.8 billion (\$2.1 billion) has been earmarked for new projects while P37.2 billion (\$2.91 billion) has been set aside to fund existing projects, some of which saw implementation slowed down by the **Covid-19** pandemic. P29 billion (\$2.27 billion) or 45.2% will be used during the 2023/24 financial year, while P35.1 billion (\$2.75 billion) or 54.8% is for the 2024/25 financial year.

This will only be the second time in history that the country has introduced a TNDP, the first was in 1966, which was a precursor to the first NDP of 1968 – 1973. At that time, the transitional plan was necessitated, first, by the need to bridge the period of constitutional transition from internal self-rule to full independence, and second, by the need to cover the period of change from rudimentary protectorate planning to full resource planning which the new republican government intended to introduce.²

¹ Parliament 20 Dec

² Transitional National Development Plan (TNDP) Draft

The public investment programme appears to be a large cash injection into the economy as it tries to recover from the pandemic and will be a huge boost for Masisi's next election campaign. Masisi, who is set to contest his second term in office at next year's general election, is currently implementing a new reforms process dubbed 'the reset agenda' where he is trying to set the country on a different growth trajectory domestically and internationally.

Masisi has also tried to put Botswana back on the global map and so far, he has successfully lobbied for Botswana to head the **Southern African Development Community (SADC)** secretariat and for the country to host the **Kimberley Process** secretariat. The **United States** announced in December that Botswana will host the **2023 US-Africa Business Summit** in June, a development Masisi will also take credit.³ The strategy by Masisi looks set to cement his re-election in 2024 amid a divided opposition.

...as finance ministry tables \$43m supplementary budget

Parliament approved a P554m (\$43.38 m) supplementary budget tabled by the finance ministry on 20 December for the current 2022/23 financial year which ends in March.⁴ The ministry had originally requested P1.6 billion (\$125.29m) but this was not approved. The supplementary budget requests comprise P133.4m (\$10.44m) for recurrent expenditure, namely Botswana's military deployment to **Mozambique** and the associated costs of this, which will be financed from the general revenue account. The outstanding P419m (\$32.81m) development budget request, to cover subsidy schemes and other agricultural-related issues, will be financed by budget reallocations from slow-moving projects - as of November 2022, only 53% of the P16 billion (\$1.25 billion) development budget for the 2022/23 financial had been spent leaving very little chance that the full budget will be utilised in the year.

The finance ministry expects this financial year to produce a P7.7 billion - 3.4% of gross domestic product (GDP) - deficit, which is being funded through borrowing from the local capital market and external sources.

Figures released by the finance ministry on 6 January 2023 show that in the first six months of the 2022/23 financial year (March 2022 to September 2022), the budget posted a small surplus of 0.55 % of GDP, attributed to a strong performance in the diamond sector. As of the end of September, mineral revenues accounted for 55% of total revenues with prospects remaining positive on the back of stronger than anticipated demand for diamonds.⁵

Coal and diamonds drive Q3 real GDP growth

Statistics Botswana's December report has revealed that real GDO increased by 6.3% during quarter three (Q3) 2022, with the growth attributed to the strong performance of the coal and diamond sectors which rose by 35.1 % and 28.5 % respectively.⁶

The water and electricity sector contributed growth of 63.2%, an improvement on the negative 14% growth registered in the corresponding quarter of 2021. The Statistics Botswana report indicates that the electricity sector alone grew by 36.3% due to improved coal demand from external markets and uptake by **Morupule Power Station**. The war in **Ukraine** has forced a reverse in global sentiment towards coal lifting prospects for the industry and Botswana has in 2022 ramped up coal exports to **Europe** via **Mozambique** and **Namibia**, with the country's two operating mines looking to secure more new deals with countries such as **Poland** Due to a strong performance by the diamond sector, State-owned **Morupule Coal Mine (MCM)** is set to

³ Mmegi, 13 Dec 2022

⁴ Parliament Hansard, 20 Dec 2022

⁵ Ministry of Finance, 6 Jan 2023

⁶ Statistics Botswana

see a significant jump in coal exports after it commissioned a new 1.4 million tonnes per annum open cast mine in October which will boost its output by 50% to 4.2 million tonnes per annum.⁷ As coal export prices remain high, **Minergy**, the country's only other coal producer, has ramped up output to the maximum capacity of 125,000 tonnes per month as it capitalises on viable export opportunities through **Walvis Bay** (Namibia) and **Maputo** (Mozambique) through the establishment of new sales agreements with coal traders.

The report also indicates that diamond trading was the other big driver of economic growth in the quarter recording a higher growth rate of 29.8% due to favourable diamond prices from global markets. **Bank of Botswana** (central bank) released data in October showing that sales of rough diamonds by **Debswana Diamond Company**, an equally owned joint venture between the government and **United Kingdom**-headquartered **De Beers** which produces almost all of the country's diamond output, jumped 37.5% in the first nine months of 2022 to \$3,578 billion, driven by continued steady demand for diamond jewellery (*see ARC Briefing Botswana Oct 2022*).⁸ Debswana sells 75% of its output to De Beers with the balance taken up by the state-owned **Okavango Diamond Company**.

All other industries recorded positive growths of more than 1.9% in Q3 except agriculture which only grew by 0.4%. Real GDP is forecast to grow by 4.2% in 2022 before moderating to 4.1% in 2023.⁹

Government sets exchange rate to depreciate by 1.51% in 2023

The government has forecast that the pula will lose value at a lower rate of 1.51% in 2023, down from 2.87% in 2022, citing a favourable inflation outlook. Under a crawling peg regime, the value of the pula is attained through a system that links the currency to a basket of other currencies, which include the **South African** rand and the **Special Drawing Rights (SDR)** basket of currencies which includes the US dollar, **British** pound, euro, **Japanese** yen and **Chinese** yuan. 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. Currently, the pula exchange rate is constituted of 55% SDR currencies and 45% South African rand, and the government will maintain the basket weights at the same levels for 2023.

The rate of the crawl was adjusted down as it was determined that inflation in Botswana would on average be 1.51% higher than in the trading partner countries and, therefore, a 1.51% annual downward crawl would be implemented through small daily adjustments over 12 months to maintain the competitiveness of producers in Botswana through a stable real effective exchange rate.

The annual inflation rate was at 12.2% in November 2022, recording a drop of 0.9% from the October rate of 13.1% due to the drop in retail pump prices for petrol and diesel by P1.83 (\$0.14) and P0.15 (\$0.011) per litre respectively, which was implemented on the 27 October.¹⁰

The central bank now forecasts inflation to drop significantly in 2023 from an average of 11.2% in the first quarter to 7.3% in the fourth quarter before it falls within the 3-6% objective range by the third quarter of 2024. In addition to the base effects, the projected decrease in inflation

⁷ Reuters, 22 Sep 2022

⁸ Reuters, 1 Nov 2022

⁹ National Budget Strategy Paper 2023/23

¹⁰ Statistics Botswana

into the medium term is also due to subdued domestic demand, current monetary policy posture, and expected decrease in global inflation and international commodity prices.¹¹

Khama sets Botswana on diplomatic clash with South Africa

A regional magistrate issued an arrest warrant for former president **Ian Khama** (2008-2018) in late December who has been in self-imposed exile in South Africa for over a year, indicating Botswana's intention to apply for his extradition possibly setting itself on a course of a diplomatic tiff with its neighbours.¹²

Khama was charged in absentia with 14 counts related to firearms offences in April last year but has still not appeared in court and in late December a regional magistrate presiding over the matter issued a warrant of arrest against the former president. Khama is being charged together with his ally, former spy chief **Isaac Kgosi** who faces 33 charges, suspended police chief, **Keabetswe Makgophe** and **Victor Paledia**, the former **Directorate on Corruption and Economic Crime (DCEC)**.

The charges include amongst others, unlawful possession of a firearm, receiving stolen property, procuring the registration of a firearm by false pretence, aiding and abetting unlawful possession of a firearm and ownership of a firearm not registered by the **Arms and Ammunition Act** of 2018.

Khama, who has fallen out with his hand-picked successor Masisi, left Botswana in November 2021 for South Africa saying he feared for his life. Khama has now applied to the high court for the arrest warrant to be set aside but if he loses the appeal, Botswana will ask for mutual legal assistance from South Africa for the former president to be arrested and brought back to Botswana.¹³ This might turn out to be a difficult task due to Khama's profile and close relations with South African elites.

The former president has close relations with **Bridget Motsepe**, the sister-in-law of South Africa's President **Cyril Ramaphosa** (2018-present). Khama and Bridget have previously been accused by Botswana of trying to overthrow Masisi as well as being involved in money laundering activities in Botswana.¹⁴ The matter has already caused some diplomatic tensions between the two countries after Botswana accused South Africa of not cooperating in a Mutual Legal Assistance request during the money laundering case investigations. The matter will now leave Ramaphosa in a difficult position where he must choose between preserving diplomatic relations with its smaller northern neighbour or protecting deep-rooted personal relations with the influential Khama.

Planner

13 Jan 2023 **Gaborone (Botswana) Statistics Botswana** publishes December 2022 inflation data;

Jan/Feb 2023 **Gaborone (Botswana) Finance minister** announces 2023/24 national budget

Feb 2023 **Gaborone (Botswana) Bank of Botswana** governor announces 2023 Monetary Policy Statement

Feb 23 **Gaborone (Botswana) Monetary Policy Committee** announces first policy rate decision of 2023

¹¹ Bank of Botswana, 1 Dec 2022

¹² Voice of America, 30 Dec 2022

¹³ Reuters, 6 Jan 2023

¹⁴ SABC News, 19 Nov 2019

June 2023 **Gaborone (Botswana)** 15th U.S-Africa Business Summit

Jun 2023 **(Botswana)** End of current **De Beers**-government diamond sales deal;

2024 **(Botswana)** Presidential elections

Chronology

8 Jan 2023 **Gaborone (Botswana)** *Office of President*. President **Mokgweetsi Masisi** holds talks with his **Namibian** counterpart **Hage Geingob** on bilateral and regional relations and other issues related to self-sufficiency in food production, the establishment of medical facilities and the official opening of a one-stop border gate between the two countries;

6 Jan 2023 **Gaborone (Botswana)** *Reuters*. Former president **Ian Khama** files an urgent court application seeking to strike down an arrest warrant issued against him by a regional magistrate last week;

3 Jan 2023 **Gaborone (Botswana)** *Diamonds.net*. **Botswana Diamonds** is in talks to begin exploration work in **Zimbabwe** after a previous project in the country failed to materialise;

23 Dec 2023 **Gaborone (Botswana)** *Mmegi*. **Botswana** has taken up shareholding in **Africa 50**, an **African Development Bank**-backed continental financier, in the hopes of improving infrastructure development by better structuring Public Private Partnership (PPP) transactions;

21 Dec 2023 **Gaborone (Botswana)** *diamonds.net*. **United Kingdom**-headquartered **De Beers'** rough sales slow in December, grossing \$410m at its 10th and final sales cycle of the year;

16 Dec 2023 **Gaborone (Botswana)** *Mmegi*. Government approves P300m (\$23.49m) guarantee for the **Botswana Meat Commission (BMC)** which will be used to finance the BMC's new growth strategy;

16 Dec 2023 **Gaborone (Botswana)** *Voice of America*. Defence minister, **Kagiso Mmusi**, says **Botswana** is developing a national security strategy amid fears of heightened terrorism threats, noting that emerging global security challenges, such as cybercrime, terrorism, poaching, human trafficking, distribution of drugs, money laundering and transnational organized crimes, continue to threaten the country's sovereignty and territorial integrity;

16 Dec 2023 **Bulawayo (Zimbabwe)** *Chronicle*. **National Railways of Zimbabwe** and **Botswana Railways** sign a memorandum of understanding (MOU) aimed at increasing efficiency and reducing delays in the delivery of freight between the two countries by no longer needing to stop at the **Plumtree** border post;

16 Dec 2023 **Washington (US)** *Mmegi*. President **Mokgweetsi Masisi** tells an audience at the **Brookings Institution** that **Botswana** and **Africa** need fairer debt deals that do not focus repayments on commodities and punish missed payments;

15 Dec 2023 **Gaborone (Botswana)** *Projects Magazine*. **Diamond Trading Company Botswana**, another joint venture between **United Kingdom**-headquartered **De Beers** and the government, is planning a strategic overhaul that would enable it to process rough diamonds from producers other than **Debswana**, the other joint venture between government and De Beers;

14 Dec 2023 **Kalahari (Botswana)** *Market Herald*. Two **Australia Stock Exchange (ASX)** listed companies, **Cobre (CBE)** and **Sandfire Resources** have partnered to conduct survey work in the **Kalahari** copper belt;

12 Dec 2023 New York (USA) *Market Screener*. **United States**-based **MCC Worldwide** signs a long-term memorandum of understanding (MoU) with **Botswana** to enter into a 99-year lease agreement for a 150 hectares piece of land near the **Sir Seretse Khama International Airport** for the development of an MCC Worldwide Free Trade Hub Zone with direct flight line access;

7 Dec 2023 Abidjan (**Côte d'Ivoire**). *www.afdb.org*. **African Development Bank** board of directors approves a \$179.66m loan to support government reforms to restore post-pandemic fiscal stability and economic recovery;

7 Dec 2023 Gaborone (**Botswana**) *Reuters*. **Botswana** is investigating a new spate of elephant deaths in the north of the country, two years after authorities said naturally produced toxins had killed more than 300 elephants. The dead elephants were first found by conservation group **Elephants Without Borders (EWB)**, which counted 57 carcasses by the end of October, mostly in an area adjacent to the wildlife-rich **Chobe National Park**;

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