

# SUBSIDISING WATER IN BOTSWANA: IS IT SUSTAINABLE?

Botswana is one of Africa's most stable countries: it is the continent's largest continuous multi-party democracy, it is relatively corruption-free, and it had the highest economic growth rate in the world from 1967 to 1997. Moreover, Botswana comfortably achieved the Millennium Development Goal of expanding access to safe water: according to WHO/Unicef, 96% of the country's population could access an improved drinking water source by 2015. This Finance Brief examines how that access was financed, and to what extent government water subsidies are sustainable at a time of intense water scarcity. Botswana enjoys significant tax revenues from mining, unlike many of its neighbours; but its experience is nonetheless interesting.

## MINING, TAXATION & SOCIAL EXPENDITURE

Mining revenues (from diamonds in particular) have driven Botswana's economic growth since it gained independence in 1966: from 1997 to 2003, mining generated one third of Gross Domestic Product (GDP), more than 70% of export earnings and over 55% of total government revenues.<sup>1,2</sup> Taxation also contributes a great deal to the government's total revenue (see Figure 1). In 2013, according to the Botswana Unified Revenue Service's (BURS) annual report, tax revenue was nearly US \$2.7 billion. However, Botswana's economic growth has not eased issues such as social inequality, poverty, unemployment and one of the world's highest rates of HIV/AIDS. This is despite the fact that 40% of GDP is spent on social development (including access to water and sanitation).<sup>3</sup>

## WATER PROVISION IN BOTSWANA: TARIFFS AND CHARGES

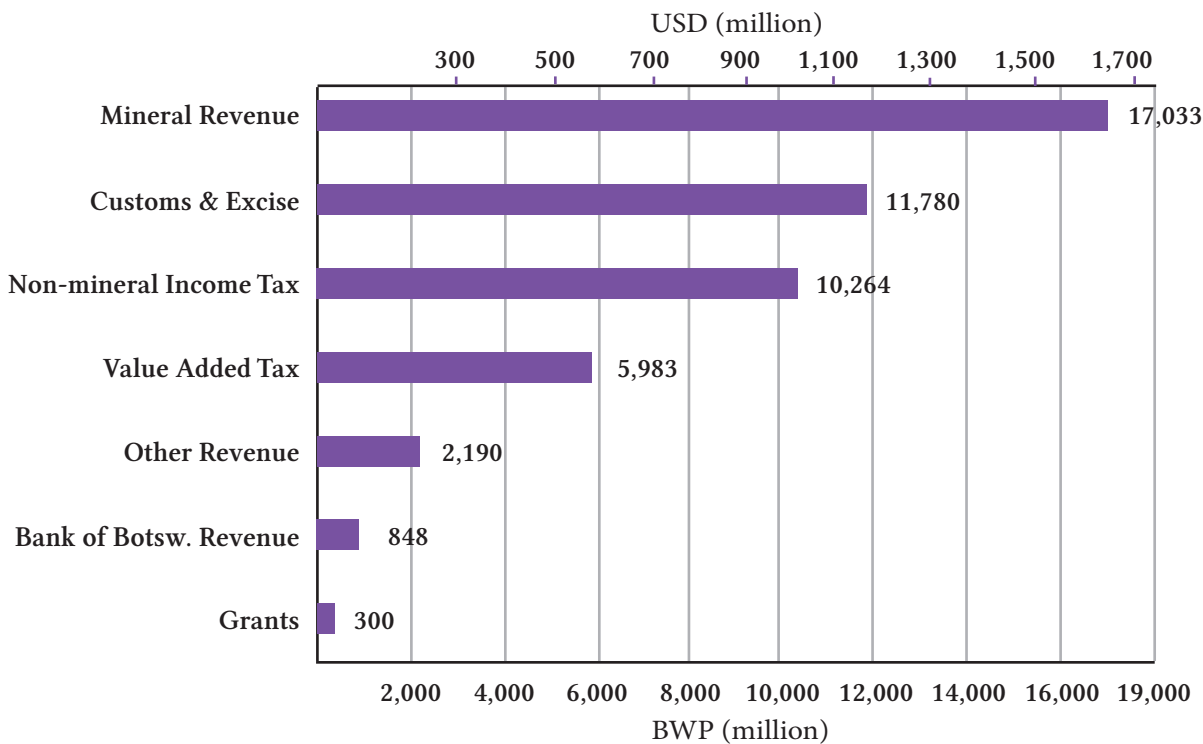
Botswana's water tariffs are some of the highest in southern Africa due to water scarcity, high water production costs and cost recovery policies.<sup>4</sup> The Department of Water Affairs (DWA) is not profit-driven, but the government does receive some revenue from water production. The government controls water tariffs in both urban and rural areas. In urban areas, the Water Utilities Corporation (WUC) proposes water tariffs which are approved by the Ministry of Minerals, Energy and Water Resources (MMEWR).<sup>5</sup> WUC charges water tariffs according to a rising block tariff system. In urban areas, tariffs are calculated based on full recovery of the marginal supply costs; in rural areas, tariffs aim to recover operation and maintenance costs, and part of the investment costs.

The government subsidises households and the private sector through the rising-block 'super tariffs' system, whereby the first 10m<sup>3</sup> of water are provided at a very low rate which gradually increases with consumption, so low-income consumers are subsidised by high-income consumers who use more water (at least in theory: we do not know whether water consumption is a reliable proxy for wealth in Botswana).<sup>6</sup> By 2006, spending no more than 5% of annual income on water had become the norm.<sup>4</sup> In April 2015, a simplified pro-poor tariff structure reduced the number of tariff blocks from 28 to 5.<sup>7</sup> A uniform national tariff of Botswana Pula 1.50 (US \$0.14) or P2.00 (US \$0.18) per metre<sup>3</sup> was adopted for the 0-5m<sup>3</sup> bracket. The rate was lowered to P2.00 in areas that had been paying more, and raised to P1.50 in areas previously paying less.<sup>8</sup> A new wastewater tariff based on consumption of potable water was added to monthly bills.<sup>7</sup> The WUC is introducing pre-paid meters for public water points (which were free of charge), hoping that this will encourage water saving.

## TOO GOOD TO BE TRUE?

As a consequence of the strong post-independence economic position of the government, most local authorities make little effort to recover the costs of wastewater service provision, and require only a minimal contribution to the construction of on-site sanitation facilities.<sup>9</sup> Many users are therefore reluctant to pay more for these services. Léo Heller, the UN Special Rapporteur on the Human Right to safe drinking water and sanitation, has expressed concern that utilities are not investing enough in operation and maintenance or expanding the network.<sup>10</sup>

Figure 1. Major revenue sources of Botswana national government (in BWP, millions): Ministry of Finance and Development Planning, Budget in Brief FY 2016/17.



The WUC is in deficit and heavily subsidised by the government: an initial recommendation would be to consider reducing the dependence on government subsidy, which could improve sector efficiency and financial sustainability. Botswana is often cited as a resource-rich country that has managed to avoid the ‘resource curse’ of slow economic growth and fractious domestic politics, but its reliance on the mining sector makes it vulnerable to price shocks and contractions in the global diamond economy. WASH services that rely on government subsidies have a lot to lose should these funding streams suddenly dry up - and analysts have estimated that Botswana’s diamond supply will only last for another 15-20 years.<sup>11</sup>

In the great majority of African countries, tax revenue generation is weak and government subsidy of pro-poor WASH is grossly insufficient: Botswana is in many respects an ideal case from which other countries could learn. But Botswanans perhaps need to carefully move in the opposite direction, reducing over-dependence on tax revenues from the mining industry, which may not last forever.

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**PUBLIC FINANCE for WASH**

The Public Finance for WASH initiative is grounded on two principles: i) that sustainable universal provision of high-quality water and sanitation services is fundamentally dependent on progressive domestic taxation systems, and that consequently ii) WASH-sector donors, donor-funded NGOs and in-country actors need to pay greater attention to ensuring that ODA is delivered in ways which support the development of effective and equitable domestic public finance systems.

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