

Reforming Subsidies for Biodiversity

VAT Exemptions for Agricultural Inputs



Botswana's biodiversity is a valuable national asset, driving tourism revenue, providing higher quality of life for citizens, and assisting in adaptation to climate change. However, research has shown that certain government subsidies can be harmful to biodiversity and result in other downstream effects. Ministry of Environment and Tourism, Department of Environmental Affairs, supported by Biodiversity Finance Initiative (BIOFIN) through the United Nations Development Programm (UNDP) have collaborated to analyze such subsidies for their biodiversity, social, and economic impacts, and recommend reforms for stakeholder consideration.

The Value Added Tax Act (2002) establishes levies on the supply of goods and services in Botswana. In an effort to enhance cash flow for farmers, purchases of agricultural chemical inputs such as pesticides and fertilisers are exempt from this tax.

Facts and Figures

- The **14% tax exemption** results in **BWP 35 Million foregone revenue annually**
- Intensity of fertiliser use per hectare has **increased by 394%** since the exemption was implemented



Impacts of the Value Added Tax Exemptions include :

Social Impact

- Research clearly indicates negative health impacts associated with agricultural chemical use, with regional case studies noting increased morbidity among citizens as more land is treated with chemical pesticides.



Biodiversity Impact

- The use of these chemicals directly drives pollution of Botswana's ecosystems, including:
- Pesticide use by poachers (e.g. carbofuran)
 - Bio-accumulation observed in birds in the Okavango River Basin
 - Eutrophication and soil acidification
 - Support for conversion of land for agriculture (15% increase from 2004 to 2015)

Economic Impact

- Limited cashflow relief due to market inefficiencies
- Threatens biodiversity-dependent travel and tourism sector that contributes 13% to GDP and 9% of employment



Recommendations to inform the reform options for VAT Exemptions include:

- Reducing the VAT exemption for synthetic inputs that drive biodiversity-harming pollution
- Promote the use of natural & sustainable inputs.
- Implementing sustainable farming training programs
- Removing barriers to cashflow relief (e.g., import license restrictions, price mark-ups by suppliers, reimbursement delays)

