

ENVIRONMENTAL MAINSTREAMING FOR ECONOMIC DEVELOPMENT AND POVERTY REDUCTION

Poverty and Environment Initiative
Mozambique



Empowered lives.
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PUBLIC ENVIRONMENTAL EXPENDITURE REVIEW, MOZAMBIQUE, 2005–2010

INVESTING IN OUR RESOURCES FOR DEVELOPMENT

For the period between 2007 to 2010 the environmental expenditures averaged about 3,5 billion per year, or 4.3% of the state budget, and 1.4% of GDP. This falls below what is required to significantly reduce the losses that the Mozambican economy is currently facing due to environmental degradation. A strategy should be developed on how to bridge the environmental expenditure gap.

The environment can be compared to our family farmhouse: this is the place we live, this the place we work, this is the place we raise our children, produce the food we eat, draw the water we drink, it is the basis for our livelihoods. If we take good care of our house and land, we will be able to stay there for generations. If we do not, the roof will soon leak, the food storage area will be infested by rodents, our children will be sick more often, the land will become less productive, and soon the formerly prosperous farm will become worthless. Similarly, we rely on the environment for our shelter, food, clean water and air. Hence, speaking in economic terms, the environment is part of the asset basis of our national economy and there is a clear link between economic development and the status of the environment.

Conducting a Public Environmental Expenditure Review, PEER, helps us to assess whether we are investing enough in sustainable management of the environment, and whether we are spending the money in the right areas (see Figure 1). Relating again to our com-

parison with the farmhouse – are we investing enough and in the right areas to maintain our farmhouse? Or are we spending excessively on painting the walls, while all windows are long broken and let the rains in?

The environmental assets of Mozambique play a significant role in the country's economy. To mention just a few examples: 50% of the Mozambican economy rests on the use of natural resources; more than 80% of jobs are directly related to the environment; dependency of poor on the quality of environment and natural resources is significantly higher than that of other population groups. It is therefore alarming to find that the yearly economic loss due to environmental degradation and the inefficient use of natural resources in Mozambique accounts for 17% of the GDP (around 45 billion MZN). The costs to remediate these damages are estimated to around 9% of the GDP (around 24 billion MZN)¹.

The PEER conducted for 2005–2010 in Mozambique was therefore designed to answer these questions, as well as to analyze

what revenues environmental resources are bringing to the State Budget.

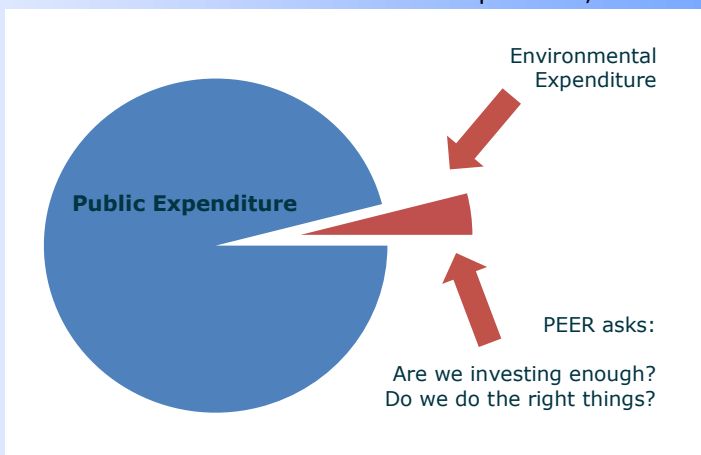


Figure 1: Scope of PEER

ARE WE INVESTING ENOUGH TO SAFEGUARD OUR RESOURCES?

The scope of the environmental sector is wide and it includes not only the core Ministry, MICOA, but a number of other Ministries, such as MINAG, MIREM, MOPH, the Ministry of Health, the Ministry of Energy to list just a few. The assessment of environmental expenditures has therefore looked into all those different government agencies. **For the period between 2007 to 2010 the environmental expenditures averaged about 3,5 billion per year, or 4.3% of the state budget, and 1.4% of GDP².**

An overall assessment of environmental expenditures as compared to other sectors shows that the environmental sector, with an average of 4.3% of the total state budget expenditure, falls well below PARPA II priority sectors such as Education (21%), Health (12%), and Infrastructure (15%)³.

The current environmental expenditure falls below what has been estimated to be required to significantly reduce the losses that the Mozambican economy is currently facing due to environmental degradation (9% of GDP required as compared to the current expenditure of 1.4% of GDP) and a strategy should be developed on how to bridge this gap.

ARE WE MAKING THE RIGHT INVESTMENTS ?

The Expenditure Allocation compared with National Priorities can be assessed using the PARPA II. According to PARPA II, the major environmental priorities in Mozambique for the period under analysis focused on the following areas: (i) sanitation, (ii) territorial planning (iii) prevention of land degradation, (iv) management of natural resources, including control of fires, (v) legal and institutional aspects,

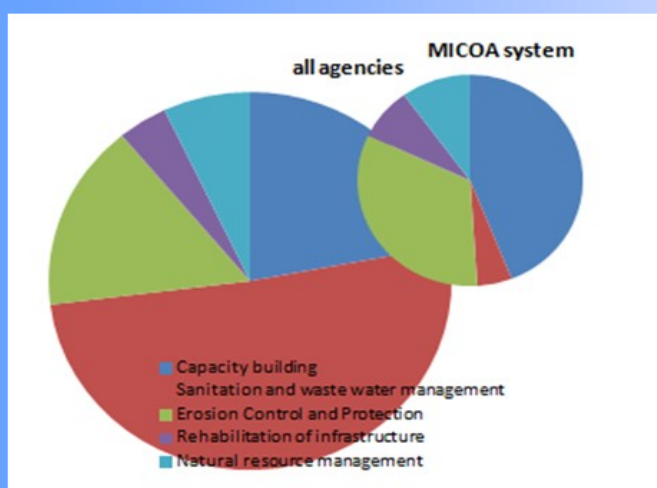


Figure 3: State Budget environmental investment expenditures per area of intervention.

NOTE: SISTAFE only reports areas of intervention for investment . For recurrent expenditure there is no distinction made between capacity building, sanitation or any other specific area of intervention, Hence, the thematic distribution of the budget focuses only on investment expenditure

If this pattern will not be changed by significantly increasing the budgets allocated to the environmental sector, the Mozambican economy will continue to experience estimated losses of 17% of the GDP every year due to environmental degradation and the inefficient use of natural resources⁴.

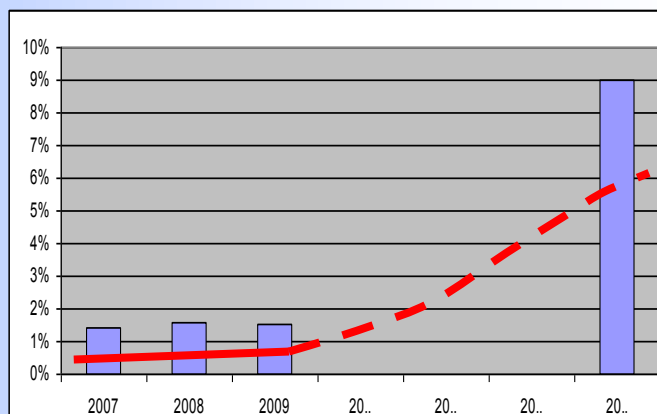


Figure 2: Evolution of environmental expenditure as compared to the GDP and to estimated needs

i.e. environmental education, compliance of the law and capacity building, (vi) reduction of air, water and soil pollution, pollution, and (vii) prevention and reduction of natural disasters.

The planning and budgeting practices in Mozambique, are still in the stage of integrating the links between the policy areas and the budgets, especially in the cross cutting sectors, for example, environment. Unfortunately, this still hinders a smooth establishment of a clear link between policies (e.g. the PARPA II priorities above) and budget allocation and expenditure. The budget does not provide sufficiently detailed information to indicate how resources are distributed across areas of intervention below the level of the ministry, provincial directorate or district administration. This is a key limitation to conducting a comprehensive expenditure analysis⁵.

Among the ministries MICOA has executed the greatest amount of expenditure (this includes the DPCAs and other institutions under MICOA). The Ministry of Public Works and Housing is the second largest accounting for 26% of on-budget project expenditures since 2008. In light of the fact that MICOA is a coordinating, not implementing ministry, this finding clearly poses a question whether other ministries are doing enough to ensure that Mozambique's environmental assets are being well maintained.

From the data available, we can see that for the **State Budget investment expenditures**, capacity building projects within MICOA system absorbed 44% of the investment resources, followed by the erosion control and protection measures (33%). In case of expenditures made by all agencies, water supply and sanitation investment captured main bulk with 51% (mainly due to the investments of the MOPH), followed by the capacity building projects

(22%) and soil erosion and protection (16%).

One remarkable fact is that the breakdown for environmental investment expenditures through budget codes **does not show any projects concerning waste management and pollution abatement.** This is not necessarily an indication of that the government is not allocating any budgets to these important issues, but rather highlights the level of disconnection between the budgets and policy priorities, and therefore the way the expenditures have been coded and classified between 2005 and 2010 does not allow for an easy analysis of allocations for different environmental priorities. This is also partly related to the fact that the current PEER was not able to capture data from the municipalities.

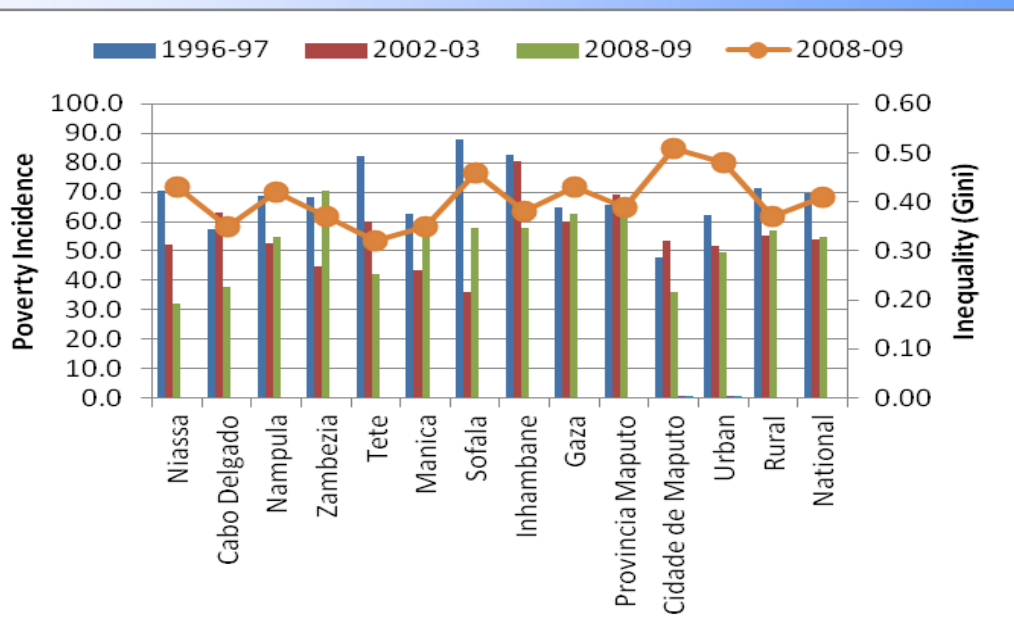
Additionally we can look at **poverty reduction benefits** of different areas of investments. According to the Environmental Economic Analysis of Natural Resources Management in Mozambique (2012), currently the areas offering the highest benefits to the wellbeing of Mozambican population and to the national economy are water supply and sanitation. **However, even with foreign financing the investments in water supply and sanitation averages to less than 2 billion MZM which falls well below the assessed needs of 7 billion MZM (or 2.7% of GDP) annually.**

Comparing geographical allocation and poverty levels can provide information on adherence to priorities. Expenditure by provinces shows that across all provinces funding has been rising since 2005. Overall, DPCA's were responsible for 36% of all the investment expenditure for the period 2008-2010. The execution rates of each DPCA have, on average, been lower than that of the national agencies over the 2005-2010 period, but the trend shows a general rise.

Looking at the overall distribution of resources across provinces vis-à-vis poverty pattern and inequality, the distribution of expenditure seems to fall in line with geographic distribution of poverty, see Figure 4. The exceptions seem to be the southern provinces of Inhambane and Gaza, which despite high poverty incidence, have had about the same level of expenditures as the least poverty hit provinces of Niassa and Cabo Delgado. Inhambane and Gaza provinces also have severe coastal erosion problems, and other climate change related problems. This makes it hard to come to conclusion that there is geographic prioritization of resource allocation.

Figure 4: distribution of resources and poverty patterns

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REVENUES TO THE STATE BUDGET AND MUNICIPALITIES

The total environmental revenues (such as fees, fines, licenses) reached 1,048.8 million MZN from 2008 to 2010, or 0.4% of the state budget and 0.1% of the GDP. The inclusion of tax revenues (the most substantial of which is for petroleum) would suggest higher total (11,546.7 million MZN or 3.9% of the budget and 1.3% of GDP). Over this period, there has been a rising trend in revenue collection, with a significant rise specifically in 2010 with introduction of fines and the fee for the fisheries development fund. The introduction of mining fees and a doubling of the FUNAB fees also contributed to the rise.

By sector, fishing and hunting have contributed the largest proportion to total revenues since 2008 (46%). Revenues

from the tourism sector (i.e. parks and wildlife) have also increased steadily over the period 2005 – 2010, mainly from hunting certificates and fees on park visitation.

Regarding the **revenues to local communities** little is known about the amount and the number of funds generated by the 20% earmarked revenue from the exploration of forest and wildlife resources stipulated by the Law to benefit Community Funds. Agencies such as DNTF are faced with serious challenges regarding data collection. Existing data, however, seems to suggest an upward trend both in terms of community funds and the amount of money channeled to them.

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RECOMMENDATIONS

As demonstrated by the PEER, major constraints remain in terms of the lack of linkage between environmental priorities and budget allocation and transparency of budget planning and accounting instruments, and the dependence of external funding. The particular governance difficulties also arise because MICOA, the government agency with overall responsibility for coordination of environmental activities, faces human and financial resources challenges. In order to overcome these difficulties, and after analyzing the allocation, disbursement of funds, and revenue to the environmental sector, this study makes the following recommendations:

✓ **Budget coding:** In order to establish an effective budget process, the environmental sector need to introduce the program based budget approach (Orçamento Programa). The correct coding of the program and its projects and activities, including recurrent costs, would allow the accurate accounting of all environmental activities across different Ministries and sectors. Additionally, environmental stakeholders outside MICOA need to cooperate in terms of providing data and information regarding their environmental activities. This task will be greatly facilitated with the introduction of COFOG coding across the sectors and down from programs to projects and activities. Similarly, in order to ensure that environmental activities at municipalities and private sector entities can be take into account in future PEER, the coding system needs to be introduced beyond SISTAFE into ODAMoz and private sector accounting charts. For the latter, a proper questionnaire into the private sector through usual statistical data collection

mechanism through the National Statistics Institute can capture the essence.

✓ **Revenues:** In order to reduce dependence of external sources of funding, the Government needs to undertake specific studies on potential sources of environmental revenues or other economic instruments to optimize the state budget efficiency. Further, key stakeholders in the environmental sector need to be encouraged to collect due revenues. More earmarked revenues to the environmental sector can facilitate the process of targeting not only priorities within the sector but also specific links between the development and the environment. The funds earmarked to the Community Funds from the exploration of forest and wildlife resources is an example of such approach, but similarly could be used in other areas. The relevant government institutions (e.g. AT, the fiscal authority) need to provide more detailed information on sources of data (geographic and thematic) to allow for proper trend and cross-sectional analysis with regard to sustainability of internal resources.

✓ **Prioritisation** of expenditure should be based on "evidence" on the ground rather than generic country wide interventions and much more emphasis is required in ensuring a clear linkage between planning and budgeting. As such, MICOA and CONDEs need to be more active in their roles, with a certain degree of predictability of their inter-sector coordination programs and activities.

Notes:

- ¹ MICOA, PEI, SBA & Ecosys, May 2012, Environmental Economic Analysis of Natural Resources Management in Mozambique.
- ² Public Environmental Expenditure Review, MICOA, 2012
- ³ Based on data presented in the budget analysis reports for 2006, 2008 and 2009 by the Ministry of Finance and the Budget Analysis Group (BAG)
- ⁴ The estimates of the Environmental Economic Assessment of Natural Resources Management in Mozambique (2012) have been used for these comparisons
- ⁵ Mozambique is currently in the process of introducing the program based budget approach. If this approach will indeed be consistently introduced across all ministries, the future PEERs will capture more accurate accounting of environmental activities across different institutions and sectors.



POVERTY AND ENVIRONMENT INITIATIVE, PHASE II IN MOZAMBIQUE MICOA/MPD/UNDP / UNEP

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