

**Government institutions, public expenditure and the  
role of development partners: meeting the new  
environmental challenges of the developing world**

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March 2008**

**The country case studies:**

This synthesis report is based on the four following country case studies, carried out between September and December 2007.

Budget support, aid instruments and the environment: the country context. Ghana country case study. Final Report.

By Neil Bird and Cletus Avoka. December 2007.

Budget support, aid instruments and the environment: the country context. Mali case study. Final Report.

By Andrew Lawson and Seydou Bouaré. March 2008.

Environmental institutions, public expenditure and the role for development partners. Mozambique case study. Final Report.

By Lídia Cabral and Dulcídio Francisco. February 2008.

Budget support, aid instruments and the environment: the country context. Tanzania country case study. Final Report.

By Cecilia Luttrell and Innocent Pantaleo. January 2008.

## **Acknowledgements and Disclaimer**

We would like to express our special thanks to all the staff of the Governments, the NGOs and the Development Agencies working on the environment and related issues in the four case study countries. In almost all cases, they gave freely of their time and were forthright in expressing their opinions, enabling the study team to cover much ground in relatively short country visits. We would also like to extend our thanks to the country teams of the Development Partners who facilitated the meetings and in-country arrangements for the studies – the CIDA office in Bamako, the Royal Netherlands Embassy in Accra, the DFID and European Commission offices in Dar es Salaam and the UNEP/ UNDP offices in Maputo. In addition to logistical support, they provided useful technical advice and guidance.

Overall technical advice and guidance has been provided by the Steering Committee, led by Angus Mackay of DFID, London and comprising John Eby, Christian Alix, Camille Pomerleau and Ian Myles of CIDA, Jonathan Duwyn and David Smith of UNEP, as well as Sean Doolan and Tim Sumner of DFID. We would like to thank them for the consistent support provided to the study and for their flexibility in seeking the right technical and practical solutions to the different problems which have presented themselves over its course.

As always, responsibility for the content of this synthesis report and the accompanying country studies rests with the authors alone. In particular, no responsibility for the opinions here expressed should be attributed to CIDA, DFID or UNEP or to the Governments of Ghana, Mali, Mozambique or Tanzania.

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## List of Abbreviations

ABFN	Agence du Bassin du Fleuve Niger
AfDB	African Development Bank
CBF	Common basket funds
CBO	Community based organisations
CDMT	Cadre des Dépenses à Moyen Terme (MTEF)
CEA	Country Environmental Assessment
CF	Consolidated Fund
CGE	State General Account ( <i>Conta Geral do Estado</i> ) (Mozambique)
CIDA	Canadian International Development Agency
COFOG	Classification of functions of government
CONDES	National Council for Sustainable Development ( <i>Conselho Nacional para o Desenvolvimento Sustentável</i> )
CSCR	Cadre Stratégique pour la Croissance et le Réduction de la Pauvreté (PRSP2, Mali)
CSOs	Civil Society Organisations
CWG	Cluster Working Groups
DAC	Development Assistance Committee (of the OECD)
DC	Developing Country
DFID	Department for International Development of the UK
DINAPOT	National Directorate for Spatial Planning and Organisation ( <i>Direcção Nacional para o Planeamento e Ordenamento do Território</i> )
DNAC	National Directorate of Conservation Areas ( <i>Direcção Nacional de Áreas de Conservação</i> )
DNACPN	Direction Nationale de l'Assainissement et du Contrôle des Pollutions et Nuisances
DoE	Division of Environment (Tanzania)
DP	Development Partner
DPG	Development Partner Group
DPG – E	Development Partner Group – Environment
EADS	Environment Strategy for Sustainable Development ( <i>Estratégia Ambiental para o Desenvolvimento Sustentável</i> )
EC	European Commission
EIA	Environmental Impact Assessment
EMA	Environmental Management Act (Tanzania)
EMA-SP	Environmental Management Act Support Programme (Tanzania)
EPA	Environmental Protection Agency (Ghana)
EPM	Environmental Planning and Management
EWG	Environment Working Group
FAO	Food and Agriculture Organisation of the United Nations
FBD	Forest and Beekeeping Division (Tanzania)
FC	Forestry Commission (Ghana)
FUNAB	Environment Fund ( <i>Fundo do Ambiente</i> )
FY	Financial Year

GBS	General Budget Support
GDP	Gross Domestic Product
GEF	Global Environment Facility
GESS	Ghana Environment Sector Study
GOG	Government of Ghana
GoM	Government of Mali
GoMo	Government of Mozambique
GoT	Government of Tanzania
GPRS II	Growth and Poverty Reduction Strategy II (Ghana)
HIPC	Highly Indebted Poor Countries facility
ICCD	International Convention to Combat Desertification
IDA	International Development Agencies
IGFs	Internally Generated Funds
IMF	International Monetary Fund
JAST	Joint Assistance Strategy Tanzania
LGA	Local Government Authority
LGCDG	Local Government Capital Development Grant (Tanzania)
M&E	Monitoring and Evaluation
MATCL	Ministère d'Administration Territoriale et des Collectivités Locales (Mali)
MC	Minerals Commission (Ghana)
MDAs	Ministries, Department and Agencies
MDBS	Multi-Donor Budget Support
MDF	Mineral Development Fund (Ghana)
MDG	Millennium Development Goals
MEA	Ministère de l'Environnement et de l'Assainissement (Mali)
MES	Ministry of Environment and Science (Ghana)
MICOA	Ministry for the Coordination of Environmental Action (Mozambique)
MINAG	Ministry of Agriculture (Mozambique)
MINEN	Ministry of Energy (Mozambique)
MITUR	Ministry of Tourism (Mozambique)
MKUKUTA	National Strategy for Growth and Reduction of Poverty (Tanzania)
MLF	Ministry of Lands and Forestry (Ghana)
MMEE	Ministère des Mines, de l'Energie et de l'Eau (Mali)
MNRT	Ministry of Natural Resources and Tourism (Tanzania)
MOF	Ministry of Finance (Tanzania)
MoFEP	Ministry of Finance and Economic Planning (Ghana)
MOID	Ministry of Infrastructure Development (Tanzania)
MPD	Ministry of Planning and Development (Mozambique)
MPEE	Ministry of Planning, Economy and Empowerment (Tanzania)
MPs	Members of Parliament
MTEF	Medium Term Expenditure Framework
NEAP	National Environmental Action Plan (Ghana)
NEF	National Environmental Fund (Ghana)
NEMC	National Environment Management Council (Tanzania)

NGO	Non-governmental Organisation
NRM	Natural Resource Management
ODI	Overseas Development Institute (London, UK)
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation & Development
PAF	Performance Assessment Framework
PARPA	Poverty Reduction Action Plan ( <i>Plano de Acção para a Redução da Pobreza Absoluta</i> ) (Mozambique)
PEP	Poverty & Environment Partnership
PER	Public Expenditure Review
PES	Economic and Social Plan ( <i>Plano Económico e Social</i> ) (Mozambique)
PFM	Public Finance Management
PNPE	Politique Nationale pour la Protection de l'Environnement (Mali)
PPFD	Decentralised Planning and Financing Project (Mozambique)
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction & Growth Facility (of the IMF)
PROAGRI	National Programme for Agricultural Development (Mozambique)
PRS(P)	Poverty Reduction Strategy (Paper)
RNE	Royal Netherlands Embassy
SAA	Subvented Agencies Act (Ghana)
SBS	Sectoral Budget Support
SEA	Strategic Environmental Assessment
SEU	Sector Environment Unit
SNV	Netherlands Development Organisation
SWAP	Sector Wide Approach Programme
Tsh	Tanzanian shillings
UNDP	United Nations Development Programme
UNEP	United Nations Environmental Programme
URT	United Republic of Tanzania
USAID	United States Agency for International Development
USD	US Dollar
VPO	Vice President's Office (Tanzania)
WB	World Bank

## **Executive Summary**

E1. This report synthesises the conclusions of a four country study that has examined the linkages between environmental policies and outcomes, public expenditure on the environment and the influence of different modalities of development cooperation. It is based on four short country studies of Ghana, Mali, Mozambique and Tanzania, conducted between September and December 2007, and on a reading of relevant literature on the environment and on the treatment of other cross-cutting issues, such as gender, within budgets and budget support processes. It has been financed by the UK Department for International Development (DFID), the Canadian International Development Agency (CIDA) and the United Nations Environment Programme (UNEP).

### **Background and objectives of the study**

E2. The origins of the study lie in concerns expressed within the international development community over the inadequacy of public funding for environmental objectives in many Developing Countries and the apparently limited attention given to the environment within national development strategies and within the daily practice of public administration. With the advent of climate change and the likelihood of more severe environmental hazards arising from climatic variations, it has become increasingly important to find effective ways of addressing these concerns.

E3. In responding to this challenge, Development Agencies need to take on board the poor record of development assistance in supporting the growth of effective national institutions both within the environment sector and elsewhere. The commitment to improve aid effectiveness through the implementation of the Paris Declaration of 2005 now dictates that different approaches and aid modalities should be used. Notably, the Declaration places emphasis on the ownership of the development process and the use of aid modalities which are aligned to national policies and systems.

E4. General Budget Support (GBS) is seen as the aid modality which is most inherently aligned to national policies and systems. Its increased use holds the promise of addressing the problem of financing environmental objectives in a more creative way. Budget support can provide substantially increased and highly flexible funding for public sector budgets, through mechanisms which are low in transaction costs, serve to strengthen national financial management and accountability systems and give the beneficiary country a high degree of control over the use of the resources. This control is exercised through the democratic organs normally in charge of the budget process, thus promoting country ownership of, and responsibility for, the development process.

E5. In addition, the monitoring framework commonly utilised for General Budget Support provides a powerful mechanism for strategic dialogue between government and Development Partners over the policy and reform processes which should be prioritised. This offers the prospect of placing environmental policy and sustainable natural resource management more firmly amongst the policy priorities of the Developing Countries receiving GBS.

E6. The OECD Joint-Donor Evaluation of General Budget Support of 2005 - 2006 concluded that environmental considerations had received less attention in GBS arrangements than other cross-cutting issues such as gender (IDD and Associates, 2006). It emphasised the challenges in integrating environmental priorities into national planning processes, and highlighted that even where environmental issues

had been raised in a Poverty Reduction Strategy, the financial resources provided to tackle the issues were often modest and there was little or no follow-up by GBS donors during budget discussions.

- E7. As a result of the OECD evaluation, DFID, in collaboration with the Poverty Environment Partnership (PEP), commissioned a literature review of evidence on links between the environment, budget support and other aid instruments (ODI, 2006). This review of existing research emphasised the limitations of external influence upon national policy and budgetary priorities. However, it did suggest that in the presence of favourable domestic political factors, external agencies could exercise significant influence over the choice and sequencing of policy and over the degree of priority accorded to different policy objectives. What was required, then, was to understand more fully how to build up a domestic political constituency in support of the environment and how to guide this constituency through the policy choices necessary to make sustainable natural resource management a reality.
- E8. For the Development Partners, this would require first a better understanding of the interactions between national budgetary processes, budget support arrangements and national environmental actions. The present study aims quite explicitly to address this information gap and to provide guidance to Development Partners on the use of Budget Support, in combination with other aid modalities and approaches, as a method of addressing environmental financing, policy formulation and institutional development issues within aid dependent countries.
- E9. The purpose of this 4-country study has therefore been to analyse and document experience in transferring environmental priorities from national plans to budgets, and through into government implementation plans. It has also identified how Development Partners might facilitate and support such processes within the context of increasing budget support. The primary objective has been to analyse what lessons might be learned from the four case studies and to draw out key principles and best practices to help guide donor engagement within the environmental sector.

### **Five Key Lessons for securing effective public action on the environment**

- E10. Five key lessons have emerged from this study relating to measures which Governments and Development Partners might take to expand the scope of public actions on the environment and increase their effectiveness:
- i. Recognise the limitations of environmental mainstreaming through the PRS.
  - ii. Focus on raising recurrent not project financing for the environment.
  - iii. Control the use of taxes, fees and levies as a direct method of financing environmental agencies.
  - iv. Structure Thematic and Sector Working Groups so as to maximise the quality of policy dialogue and minimise transaction costs.
  - v. Use all avenues of dialogue within GBS arrangements and make prudent use of PAF indicators.
- E11. Fuller information on these key lessons and their implications are presented within text boxes in this Executive Summary and explained in more detail in the main text. Recommendations are also presented for Government and their Development Partners, in the light of the overall findings. These findings and recommendations are most relevant for aid-dependent countries, such as the four case study countries, which are either current or potential future budget support recipients

## Conclusions on policies, institutions and finance for the environment

### Policies, strategies and political support for the environment

E12. The existing body of environmental legislation and policies across the four study countries appears to be comprehensive and of reasonable quality. The main challenge concerning the policy framework is not so much the quality of the policy documents and legislation but rather the efficiency of governance institutions and the effectiveness of implementation. The importance attributed to environment and sustainable development in policy statements has, for the most part, not been reflected in resource allocation and implementation at sector level. This has been despite significant and, in the case of Mozambique and Tanzania, successful initiatives to mainstream environmental issues within Poverty Reduction Strategies. (See Key Lesson 1.)

#### **Key Lesson 1: Recognise the limitations of environmental mainstreaming through the PRS**

Technical assistance to support improved environmental mainstreaming within the PRS has been successful in Tanzania and Mozambique in promoting public dialogue and public awareness on environmental issues, in creating networks for policy dialogue between civil society, Government and its Development Partners, and in defining outcome level targets for environmental objectives embedded in the Poverty Reduction Strategies.

But these undoubtedly improved PRS documents and processes have had remarkably limited impact on the formulation of budgets and actual spending programmes. This lack of impact can be explained in terms of the inherent weaknesses of PRSPs as strategy documents and the intrinsic deficiencies of national strategy documents as tools for resource allocation and prioritisation.

The experience suggests three key lessons:

- 1) Realism is needed over the likely impact of greater environmental mainstreaming within Poverty Reduction Strategies. It may help to raise the profile of the environment within national policy dialogue, to promote more inclusive networks for environmental policy dialogue and to set appropriate higher level indicators and targets. But it is unlikely to have much impact on the level of financing assigned to environmental activities or on the specific programmes which will be given priority by environmental and natural resource agencies.
- 2) In order to impact upon budgets and public sector activities, environmental mainstreaming needs to be pursued in relation to sectoral legislation and regulations, as well as organisational missions and mandates.
- 3) Changing the magnitude and strategic orientation of environmental budgets is also likely to require direct attention to securing 'fiscal space' for environmental and natural resource agencies. This will require some combination of actions to increase the aggregate availability of funding with steps to secure greater control over externally financed project funding and to reduce unwanted costs and budgetary commitments. These actions would probably need to be embedded in a government-wide medium term fiscal strategy, and monitored through budget support arrangements.

E13. The effectiveness of public action on the environment is constrained in most countries by the lack of a genuine high level consensus across sectors on the importance of environmental protection and promotion objectives. In Mozambique, and Mali, the inter-ministerial committees designed to achieve this consensus and maintain high-level coordination on environment interventions are either weak or non-functional. A large part of the problem has been that these committees have been led by Environment Ministers. In Tanzania, the Department of the Environment

is within the Vice President's Office and this has helped to secure stronger Government-wide coordination on the environment. Moreover, in the wake of the droughts of 2005 and 2006, the environment has become a much 'hotter' political issue. It will be important for the environment lobby to find ways of sustaining this political profile in Tanzania, and of generating such a profile in other countries.

#### Financing of public actions on the environment

- E14. We estimate that in the study countries the average annual allocation to the Environment Protection function (following the COFOG classification of the functions of government) is between 1 % and 2.5 % of non-interest public spending. In Mali, the allocation was lower than the annual allocation to Culture, Youth and Sports or to Diplomacy and Foreign Affairs. As a consequence, the capacities of the environment regulation agencies are too limited to allow them to engage effectively with strategic debates, such as investment decisions which pose significant environmental threats, and their limited operating budgets prevent them from conducting effectively their basic environmental management functions such as monitoring and surveillance.
- E15. In parallel, each of these countries has seen high levels of development project finance. Important investments have been made but in the absence of effective agencies to control harmful environmental practices and to maintain a consistent promotion of sustainable natural resource management practices, the gains from these investments are difficult to sustain. Over 1990 – 2005, UNDP estimate the combined loss of forest area from the four study countries to have been in excess of 100,000 square kilometres: in the absence of effective control of forest exploitation, this high rate of depletion cannot be expected to have fallen since then.
- E16. Ironically, the large numbers of development projects are themselves part of the problem. In most cases, these projects operate in parallel to the national budget process and outside of an effective national prioritisation and coordination process. They tend to include significant salary supplements and fringe benefits in order to attract well qualified staff. As a consequence, many of the staff of the environment agencies who should be undertaking monitoring and control functions are either preparing or managing projects. Clearly, some of the projects do support core functions of monitoring and surveillance but in general the environment regulation agencies who have responded to their funding shortages with a project-based 'survival strategy' have had to divert their attentions away from their core functions.
- E17. In turning away from their core functions, they have also stopped giving attention to the recurrent budget as a source of financing. Despite justifiable complaints about inadequate recurrent funding, in none of the study countries was the study team presented with a coherent written or even oral argument to secure higher funding. In Mali, the approach was rather to argue for the creation of an "Environment Fund". In Tanzania, even when national resources for Sector Environment Units were promised, budget proposals were not forthcoming. There are clearly technical constraints underlying this, as well as attitudinal, but it suggests strongly that current incentives do not encourage environmental agencies to compete for funding through the budget.
- E18. Yet the budgetary positions of each of the four study countries have improved significantly in the last three years as a result of increased domestic revenues, higher GBS flows and debt restructuring. There are consequently higher levels of discretionary public funding available for environmental spending. In Tanzania in 2006, this permitted the allocation of the equivalent of US \$ 8 million to the Urgent Action programme on Land Degradation and Water Catchments. In Mali, over 2004 to 2006, spending by the Ministry of the Environment & Sanitation rose faster than total public spending, and the execution rate on the recurrent budget was close to

100 %. Yet, despite the improved context for expanded recurrent financing through the budget, environmental agencies still have strong incentives to pursue continued financing from projects or user fees and charges – both of which carry significant negative side-effects. (See Key Lessons 2 & 3.)

## **Key Lesson 2: Focus on raising Recurrent not Project financing for public environmental functions**

Across all of the case studies, the most important problem affecting the implementation of environmental policies and programmes has been the severe deficiency of recurrent budget funding. Most of the functions which need to be financed for environmental policy to be effectively implemented are recurrent functions. These should be financed from normal operating budgets but in the absence of an adequate level of funding, the historical response has been to seek either project funding (from an external funder) or financing from taxes and fees.

Externally funded projects have thus become the major source of funding for most environmental agencies, with the development budget representing approximately 40 % of financing recorded in the budget in addition to a significant amount of off-budget project financing.

The difficulty is that project funding is generally intended for investment activities. Environmental agencies seeking project financing therefore have to re-orient their activities towards investment functions and project management activities. As a result, the basic functions of monitoring, inspection and control, as well as public education and information dissemination have been increasingly neglected as energies have been devoted to winning and implementing projects.

This is not only because project funding is easier to obtain than government recurrent funding. It is also because projects offer opportunities for earning salary supplements of different kinds, for greater access to overseas travel and to opportunities for training, etc, etc. It is natural and rational that public servants should be attracted to these opportunities.

On the other hand, there are signs that recurrent budget funding is now less constrained, due to debt restructuring, the growth of domestic revenues and the expansion of General Budget Support.

What is now required is to find ways of promoting expansion of recurrent budgets, whilst controlling use of project budgets. This is likely to entail actions in the following areas:

- a. At the *Ministry of Finance* level, efforts to programme steady expansion over the medium term of recurrent budgets for environmental agencies and functions.
- b. For *ministries of planning and/or ministries of development cooperation*, measures to control the growth of project financing and to target it to the specific sub-sectors and institutions, where continued project financing is appropriate.
- c. For *environmental and natural resource agencies*, measures to improve the quality of recurrent budget formulation and execution, whilst controlling the use of project finance.
- d. For *public service ministries*, measures to improve the terms and conditions of the technical and management cadres, so as to avoid the need for project 'top-ups' and salary supplements.
- e. For *development partners*, actions to control the use of project finance in support of environmental actions, to make available additional budget support where necessary and, where appropriate, to provide technical assistance to budget formulation and execution.

### The use of environmental taxes and user fees

E19. The other 'survival strategy' commonly pursued is the procurement of 'internally generated funds' or 'own revenues' – taxes, fees and levies. Again, this is a source of funding that works largely in parallel with the national budget process, with information on revenue collections and their use frequently being substantially incomplete. In Ghana, the self-financing model for the environmental agencies has

become effectively institutionalised, with the designation of these agencies as “sub-vented agencies”. Whilst such a model might conceivably be workable for the management of Game Parks, for most other environmental functions it is not because the environmental functions which are most important are not typically those that attract fees.

### **Key Lesson 3: Control the use of environmental taxes and user fees for direct funding of environmental agencies**

‘Own revenues’ or ‘internally generated funds’ have become an important source of funding for environmental and natural resource agencies, especially in Ghana, Mozambique and Tanzania. These comprise a mix of two types of charges:

- Environmental taxes - licenses, royalties, export levies, etc, which are designed to raise the costs of natural resource exploitation in fisheries, mining, forestry and hunting so as to preserve the rate of exploitation at a sustainable level; and
- Service charges, which are designed to cover the costs of providing a service (such as the processing of an Environmental Impact Assessment, or the services of a park ranger), including the monitoring or ‘clean-up’ services necessitated by the private exploitation of natural resources.

The principles underlying these two types of revenues are very different. Service charges should be charged at their marginal cost, so as to prevent any extra burden on the public purse but without any intent to discourage the use of the service by charging an artificially inflated price. Environmental taxes are explicitly designed to raise the costs to the consumer so as to reduce consumption to a sustainable level. Because high value natural resource products, such as tropical hard woods, tend to have an inelastic world demand, the level of taxation may need to be high to achieve the desired reduction in consumption. The resulting revenues may therefore be substantial, generating a high risk of corrupt practices.

Experience suggests that it is important to establish separate collection procedures for these two types of revenues and to avoid excessive reliance on service charges as a source of finance for environmental agencies:

- National Revenue Authorities, although by no means always free of corruption, do have the virtue of having well established, transparent procedures for tax collection and thus are more likely to be able to collect environmental taxes efficiently and fairly.
- The primary role of environmental agencies is to protect the environment and promote sustainable development practices. Where their funding starts to become dependent on licensing fees, there will be a tendency to set fees and apply rules in such a way as to maximise revenue collection rather than to maintain a sustainable level of resource exploitation.
- Similarly, environmental agencies are likely to start to bias their work programmes not towards the most important conservation or environment protection activities but towards those that yield the most revenue.
- Where internally generated funds derive from genuine service charges and user fees, these are likely to be modest in volume and fairly volatile: this is not a good basis from which to try to obtain adequate and stable levels of financing.

E20. The establishment of retention arrangements for environmental taxes such as forestry licensing and export taxes, in which the natural resource agencies collecting such taxes are allowed to retain part or all of the receipts to finance operating costs, have also been associated with serious governance problems. The continued application of the Simple Licenses regime for Forest management in Mozambique seems a clear example of a conflict of interest, where a scheme supporting

unsustainably high forest exploitation rates is preserved simply because it appears to allow for higher income flows to the forestry department.

- E21. In Tanzania, the issue of under-reporting of forestry revenue has received recent high profile attention. The TRAFFIC report (Milledge et al., 2007) estimates that 97% of revenue is lost, amounting to some US \$ 40 million of annually uncollected forest revenues. It also identified discrepancies between the forest product export figures reported by authorities in Tanzania and China. 2004 trade statistics show China imported ten times more timber products from Tanzania than appear on Tanzania's own export records. Gross under-reporting of this kind suggests either that tax payments are being collected but misused or that exporters, probably in collusion with the collecting agencies, are evading tax obligations.
- E22. Fortunately, more attention has recently been devoted to these issues. Useful analytical work has been undertaken by Development Partners in Mozambique and Tanzania to begin to document the problem of missing revenues and to open up a dialogue with Government partners. Together it will be important for Governments and their Development Partners to find more effective ways of managing environmental revenues. (See Key Lesson box 3.)

### **Conclusions on aid modalities and the use of budget support**

- E23. Changing the nature of incentives facing government officials in environment ministries is perhaps the most important challenge facing the Development Partners. The DPs are a significant player in this process because it is exactly the 'project-based' survival strategies unwittingly encouraged and facilitated by DPs, which have created the situation in which environment ministry staff no longer look to the national budget as a solution to their funding problems. If this did not carry high transaction costs and even higher costs in terms of the distortion of work programmes, it would not be so serious but unfortunately it seems to be a major causal factor in the weakening of environmental institutions.
- E24. In each of these countries, Development Partner interventions in the environment domain are very fragmented in comparison to other sectors such as education, health or transport. Conventional projects with parallel financial management structures and international technical assistance components continue to dominate the landscape and spread across a range of sectoral domains making coordination difficult to establish, and – most importantly - diverting government officials away from their core business of promoting sustainable development practices.
- E25. Despite the commitments to the Paris Declaration made by the majority of Development Partners working in the environment sector, we found no significant initiatives currently in place at the country level that have reduced the number of projects or altered their mode of implementation - although the planned sector support programme in Ghana would achieve this change, if successfully implemented. In short, whatever progress is being made towards harmonisation and alignment is grossly insufficient in relation to the scope of the damage to domestic institutions caused by the prevailing modes of project financing.

### **The impact of General Budget Support**

- E26. There have, however, been efforts to promote sector wide policy dialogue and coordination. In Ghana, Mozambique and Tanzania, the GBS policy dialogue platform has been an important driver of such efforts. The mechanisms put in place for dialogue with the whole of government constitute, potentially, a powerful window for environmental mainstreaming.

- E27. Moreover, GBS is changing the nature of the budgeting process by increasing the volume of available discretionary resources. It is therefore important that the criteria for distributing the additional volume of discretionary resources become clear. For that to happen, government policy priorities need to be more clearly formulated, so that they can be converted at the sectoral level into clearly defined spending programmes. At the aggregate level, budget negotiation has to be conducted in a more coordinated fashion, based upon a comprehensive and accurate estimation of available resources, in which off-budget sources of funding are minimised. It is perhaps in these areas that the new avenues for dialogue created by GBS arrangements can be most influential.
- E28. GBS offers at least three entry points for policy dialogue with the whole of government: (i) the Performance Assessment Framework (PAF) which is the GBS monitoring tool that contains the priority indicators and targets on government policy, (ii) the sector working groups which provide the space for continuous exchange between the parties, and, perhaps the most important one, (iii) the Budget itself, the instrument through which funds are channelled under this modality.
- E29. In the more mature GBS recipient countries, including Mozambique and Tanzania, the annual budget, the quarterly budget execution reports and the annual accounts are major subjects of dialogue between governments and their GBS partners. Often this dialogue is undertaken within technical working groups and is conducted in a relatively informal way, not directly linked to decisions on annual GBS disbursements. Nevertheless it is an influential dialogue, which puts information on public spending into the public domain and helps to ensure greater consistency between stated priorities and actual spending. This provides a ready channel for influencing both the level and composition of spending on the environment – a channel of influence, to which DPs do not yet appear to be sufficiently attuned.

#### *Initial experience with Sector Working Groups linked to GBS arrangements*

- E30. The integration of environmental issues into GBS arrangements is still recent in Ghana, Mozambique and Tanzania and has not yet happened in Mali. So, environmental issues are still some distance from being integrated into the full range of GBS dialogue mechanisms. In Ghana, Mali and Tanzania, efforts have been focused in the first instance on the creation of sector working group structures and on the identification of appropriate PAF indicators. In both areas, activities still constitute work-in-progress and it is too early to make a definitive assessment. What has become clear is that these are complex processes, which need to be actively managed and require both high level analytical skills and strong inter-personal skills. It is probably true to say that none of the DP environment groups in these countries were adequately prepared for these challenges.
- E31. Where have the problems been? In relation to sector working groups, useful new avenues for dialogue have been created but there is a sense that the nature of dialogue has not always been truly strategic. The problem of the limited level of recurrent budget allocations for the environment has not been addressed and the question of the composition of environmental spending does not appear to have been a topic of discussion. While it is perhaps still too early in the dialogue process to expect much progress, there is a continuing absence of coherent and comprehensive institutional reform programmes for the environment sector. The rather prosaic PAF environment indicators chosen in these three countries are a good illustration of this.
- E32. Moreover, there is a sense that Sector Working Group processes have been more cumbersome than necessary and that structures with lower transaction costs are needed. These are common problems in the early stages of initiation of Sector Working Groups and there are a number of common sense solutions to these

problems, which emerge from the wider experience of sector working groups, established as part of the GBS dialogue process. We have brought these together in Key Lesson Box 4, below.

#### **Key Lesson 4: Structure Environment Sector Working Groups to maximise strategic dialogue and minimise transaction costs**

The environment (or natural resource and environment) sector working groups established under the GBS arrangements in Ghana, Mozambique and Tanzania have created useful new avenues for dialogue over environmental policy. Yet, there is a sense that the level of dialogue has not been sufficiently strategic, while the structures have been too cumbersome and transaction cost intensive. Experience suggests three good practices, which might help to avoid these problems:

- Firstly in establishing sector working groups on the environment, it is essential to keep a balance between the representation of government, of civil society and of Development Partners. Across the different domains of the environment, there are usually a large number of DPs who wish to be represented in these processes and it is important to have an effective structure for nominating representatives or 'spokespersons' from a separate DP environment group so as to ensure that the DPs do not outweigh the other stakeholders.
- Secondly, it is important to keep a balance between the amount of time spent in meetings and that spent in the analysis or the preparation and review of position papers of different kinds. As the purpose of working groups is to promote consultation and interchange of views, the natural assumption is that the best way to do this is to maximise time together in meetings. This is a mistaken assumption. In practice, it is important to strike a balance between periodic and well organised meetings and structured "thinking time" between meetings. This "thinking time" should also leave the space for smaller 'working groups' to prepare position papers on particular issues and/ or for research and analytical work to be undertaken and the results studied.
- Thirdly, a balance needs to be struck in the design of thematic and sector working groups between a pragmatic "narrow" approach, based on meetings within sub-sectoral groups (forestry, fisheries, etc) and an ambitious "sector-wide" approach which brings together all players and focuses on the environment as a cross-cutting issue. Both perspectives are needed and both are equally valuable but the mix between them needs to be a structured one. Structure is especially important because otherwise the end result will be an excess of meetings with no real strategic thinking or analysis behind them.

#### Selecting environmental indicators for the GBS Performance Assessment Framework

- E33. On the question of the design and selection of PAF indicators, the experience of Ghana, Mozambique and Tanzania suggests that it is easy to forget that the PAF itself is only one avenue of dialogue. Even in the absence of environmental indicators within the PAF, much can be achieved through sector working groups and through technical working groups on the budget. Discussions over the environment budget were rather limited, whereas it is perhaps here that analysis and discussion should have been initially focused.
- E34. They were instead concentrated on the identification of PAF indicators for the environment. In the final event, the indicators selected were probably not appropriate for inclusion in the PAF. The impression is that their presence took on a somewhat symbolic importance. It was more a way of establishing that the environment was an important part of strategic dialogue than a way of promoting the implementation of specific strategic reforms.
- E35. In retrospect, we would judge that it was a mistake to have rushed the identification of PAF policy triggers before there had been sufficient analysis and dialogue to

generate agreed programmes of strategic reforms. PAF indicators should be used only to support monitoring of specific, strategic reforms. The selection of a PAF indicator should therefore be the culmination of a process of strategic thinking not the starting point. (See Key Lesson Box 5.)

### **Key Lesson 5 : Use all avenues of dialogue within GBS arrangements and make prudent use of PAF indicators**

General Budget Support arrangements will usually include at least three avenues of dialogue, which can be adapted to facilitate the incorporation of environmental issues:

- a) Thematic and Sector Working Groups, which provide a forum for discussion of either thematic or sector-specific issues, from which a sub-set of policy measures is usually chosen for inclusion in the overall set of policy targets and triggers which comprises the Performance Assessment Framework (PAF).
- b) A technical working group on the budget, where budget documents, quarterly expenditure reports and annual accounts are reviewed and discussed to ensure consistency with the principles agreed within GBS memoranda of understanding, notably regarding the use of public expenditures to support implementation of the national poverty reduction strategy.
- c) The core group responsible for agreeing the content of the GBS Performance Assessment Framework (PAF) and for the monitoring of annual performance against the PAF and against the underlying principles agreed in the GBS memorandum of understanding.

There is a general tendency with most GBS arrangements to place excessive attention on the PAF, while often failing to maximise the potential of other avenues of dialogue. Initial experiences with the integration of environmental issues into GBS suggest a similar tendency. The following good practices are recommended:

- Firstly, maximum use should be made of thematic and sector working groups. These provide a space where environmental policies and programmes can be reviewed and discussed – either on a sector by sector basis (agriculture, forestry, mining, etc) or on a cross-cutting basis. Annual indicators of progress on the environment may be agreed, indicative targets established and progress monitored. Because most commitments made at this level are indicative and are not linked to GBS disbursements, dialogue is usually more open and, potentially, more constructive; and because the focus is narrower than in the overall PAF, dialogue can be more detailed.
- Secondly, environmental budgets and environmental spending need to be placed on the agenda of GBS budget technical working groups. These groups provide access to information on budgetary and spending decisions and may provide a mechanism for influencing the size and composition of environmental budgets.
- Finally, the PAF itself should be used only to support monitoring of specific, strategic reforms. Where strategic reforms to environmental budgets, policies or institutional arrangements have been designed by Government, it may be helpful both to Government and its Development Partners to publicly signal the expected path of progress through pre-defined policy triggers and targets within the PAF. The annual monitoring process then provides a public framework to assess progress, and to judge whether progress merits continuation and/ or an increased level of GBS disbursements.

### **Recommendations for Governments and Development Partners**

E36. There are serious weaknesses in the institutional and financial framework for environmental policy implementation. In a context of increasing vulnerabilities due to climate change, these weaknesses need urgent attention. Development Partners

can do much to help, notably by improving their aid delivery practices. Yet in the end, it is Governments who must take the lead in redressing the situation and creating a framework to maximise the potential of the environment for sustainable, broad-based growth. The study recommends four actions for Government and five for Development Partners.

*Recommendations for Governments:*

- Firstly, there is a need to strengthen the structures for mobilising and coordinating actions on the environment at the highest levels of Government. In three of the four case study countries, we found inter-ministerial committees on the environment which were either weak or non-functional. In large part, the reason for this is that these committees have been headed by Environment Ministers or their equivalents, rather than at more senior levels of Government, such as at the Prime Ministerial or Vice Presidential level. Reactivating these committees at the very highest levels of government must be the first step towards coordinated actions on the environment. Using a crisis narrative may be the best strategy to galvanise action and the most obvious opportunity is the challenge of responding to climate change.
- Secondly, it is necessary to find ways of raising the financing available through recurrent budgets for the main environment regulation agencies and the other government departments involved in the promotion of sustainable development practices:
  - The environmental agencies concerned should be directed to prepare realistic and comprehensive budget estimates of the recurrent resources required to implement fully existing environmental legislation, and where necessary should be provided the necessary technical support to do this.
  - These estimates should be reviewed by ministries of finance and, if considered appropriate, with Development Partners. Publication of budgetary estimates (both annual and medium-term) should be encouraged to promote greater public accountability.
  - In the short term, additional resources will need to be generated by controlling the growth of other sectors but with such small percentages of the national budget currently dedicated to the environment, even small savings elsewhere would make a difference.
  - In the longer term, greater fiscal space needs to be obtained by continued growth of revenues, expansion of general and sector budget support and continued reductions in debt commitments.
- Thirdly, methods need to be found to reduce the numbers of projects being managed by the environment regulation agencies whose primary responsibilities are to implement national legislation on the environment:
  - Environmental sector agencies should be directed to negotiate with their DPs to find ways of merging different projects currently working in the same or similar areas, and to ensure that all new projects are fully justified on cost-benefit grounds and make maximum use of co-financing and other opportunities for harmonisation.
  - In parallel, the central agencies responsible for aid coordination should re-state clearly for the benefit of Development Partners the circumstances under which project financing would be considered appropriate and the methods of implementation which should be

favoured. If possible, the policy document should also lay down norms for the payment of staff allowances from project funds.

- Simultaneous with this, Government initiatives aimed at improving the terms and conditions of scarce professional groups within the public sector need to be accelerated. Project allowances (which are often not transparent and discretionary) should be replaced with formal improvements to terms and conditions which are fully transparent and can be justified by reference to performance and professional qualifications. The Tanzanian SASE scheme (Selective Accelerated Salary Enhancement) may provide a good example of how progress might be made in this area<sup>1</sup>.

### Recommendations for Development Partners

E37. The actions of Development Partners in the environment sector have unwittingly weakened the very institutions which need to be strengthened if the benefits of environmental investments are to be sustained and the state of the environment effectively protected. Changing this is the most important challenge in the short term. There is also a need to raise the level at which environmental dialogue is conducted so that there is a political engagement with Developing Countries on environmental issues. Better preparation for political engagement is consequently needed, marshalling analytical skills to support policy dialogue and taking advantage of the new avenues for dialogue that have been created by budget support arrangements. This will make demands on DP's own human capacities, both at headquarters and in-country. It will be important to break down these grand elements of strategy into practical measures. Much of this is country specific but we would make five recommendations to help achieve progress:

- As a first step, DPs working on the environment should offer the support necessary for their Government partners to be able to address the agenda laid out above. This will involve high level engagement between Heads of Government and senior ministers on environmental issues: political level engagement is needed to stimulate political commitment to environmental issues in Developing Countries. It is also likely to involve technical assistance to support improvements in budgeting, revenue administration and the management of operations within environmental agencies. Support to policy development may also be needed either through TA or through the more informal provision of advice through participation in working groups, etc. Additionally, it will involve assistance in mobilising DP commitment to the rationalisation of project support and the expansion of budget support financing.
- This should be supported by direct actions amongst DPs engaged in the environment to accelerate the implementation of the Paris Declaration principles within the sector:
  - Instructions should be developed regarding the regular submission of information on project budgets and project expenditures to the Ministry of Finance and to the relevant sector ministries.

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<sup>1</sup> The SASE scheme is a medium term pay reform programme for the whole civil service, which allows certain key professional groups to receive their salary enhancements in advance, without having to wait until the moment when the overall scheme is financeable. We do not have up-to-date information on the effectiveness of the scheme but it seems a good example of the sort of change which is needed. Further information on this and other types of pay reform schemes may be found in Kiragu, Mukandala and Morin (2005).

- A process of rationalising and restructuring existing sector project portfolios should be initiated so as to maximise co-financing opportunities and eliminate unnecessary duplications.
- A crucial element of the strategy laid out above for Government partners is the achievement of a switch from project financing to higher recurrent financing through the Budget. This will almost certainly require higher levels of Budget Support and the introduction of environmental issues within budget support arrangements. We make the following recommendation to help make this happen:
  - At headquarters levels, policy teams should bring together the economists who generally lead GBS processes with environment and natural resource advisers. Simple guidelines for the integration of environmental issues into budget support should then be issued, drawing on some of the key lessons identified in this study. These should give attention to the use of analytical tools such as SEAs and PEERs, which might provide a stronger factual and analytical basis for dialogue on environmental budgeting and policy issues.
- At country level, more detailed planning is needed to manage the transition towards the use of budget support instruments for the environment. This process needs inputs from GBS specialists to help address the quite complex decisions and trade-offs involved. We would recommend that this take the form of feasibility and design studies for Budget Support for the environment. These studies would need to consider:
  - the choice between the adaptation of existing GBS arrangements and the design of new SBS explicitly focused on the environment and natural resources;
  - appropriate funding levels;
  - appropriate indicators and disbursement modalities;
  - the ways in which a multi-dimensional strategic dialogue on the environment should be built up;
  - the ways in which sector working groups might most effectively be structured; and
  - specific capacity building measures for DPs, government and other stakeholders to help these new approaches to work effectively.
- Finally, there is a need for a longer-term view to be promoted within DP agencies to avoid rushing the agenda and allow national ownership to take hold within the partner countries where they operate. Such a long-term view (with perhaps a 20-year planning horizon) would give prominence to new types of environmental analysis, including scenario planning, that would support the mainstreaming of higher-level environmental considerations in government strategic planning processes.

## **1. Introduction**

### **1.1. Background and study objectives**

1. This synthesis report represents the conclusion of a four country study that has examined the linkages between environmental policies and outcomes, public expenditure on the environment and the influence of different modalities of development cooperation. It is based on four short country studies of Ghana, Mali, Mozambique and Tanzania, conducted between September and December 2007, and on a reading of relevant literature on the environment and on the treatment of other cross-cutting issues, such as gender, within budgets and budget support processes. It has been financed by the UK Department for International Development (DFID), the Canadian International Development Agency (CIDA) and the United Nations Environment Programme (UNEP). It has been undertaken by the Overseas Development Institute (ODI), London in collaboration with the Centre for Democratic Development (CDD), Ghana, the Economic & Social Research Foundation (ESRF), Tanzania and individual researchers in Mali and Mozambique<sup>2</sup>.

#### Origins of the Study

1. The origins of the study lie in concerns expressed within the international development community over the inadequacy of public funding for environmental objectives in many Developing Countries and the apparently limited attention given to the environment within national development strategies and within the daily practice of public administration<sup>3</sup>. With the advent of climate change and the likelihood of more severe environmental hazards arising from climatic variations, it has become increasingly important to find effective ways of addressing these concerns.
2. In responding to this challenge, Development Agencies have had to take on board the rather poor record of development assistance in supporting the growth of effective national institutions both within the environment sector and elsewhere. The commitment to improve aid effectiveness through the implementation of the Paris Declaration of 2005 now dictates that different approaches and aid modalities should be used in future. Notably, the Declaration places emphasis on the ownership of the development process by DC governments and their citizens and the use of aid modalities which are aligned to national policies and systems. General Budget Support (GBS) is seen as the aid modality which is most inherently aligned to national policies and systems and its increased use appears to hold the promise of addressing the problem of financing environmental objectives in a more creative way.
3. Budget support offers the prospect of providing substantially increased and highly flexible funding for public sector budgets, through mechanisms which are low in transaction costs, serve to strengthen national financial management and accountability systems and give the beneficiary country a high degree of control over the use of the resources. This control is exercised through the democratic organs normally in charge of the budget process – namely the Executive, the Parliament and the national audit authority, thus promoting country ownership of, and responsibility for, the development process.

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<sup>2</sup> Details of the authors of the country case studies are presented at the beginning of this report.

<sup>3</sup> See for example, World Bank (2006b), "Where is the wealth of nations? Measuring capital for the 21st century", World Bank, Washington D.C, and the UNDP Human Development Report 2007-08.

### Box 1: OECD – DAC Definition of Budget Support

**Budget support** is defined as a **method of financing** a partner country's budget through a transfer of resources from an external financing agency to the partner government's national treasury. The funds thus transferred are managed in accordance with the recipient's budgetary procedures. [...] In the case of **general budget support**, the dialogue between donors and partner governments focuses on overall policy and budget priorities, whereas for **sector budget support** the focus is on sector-specific concerns.

**OECD/DAC**, *Harmonizing Donor Practice for Effective Aid Delivery: Volume 2; Budget Support, Sector-Wide Approaches and Capacity Development in Public Financial Management*, 2006.

4. In order for the provision of budget support to be a viable proposition, there clearly needs to be a certain level of trust in the quality of the mechanisms of democratic accountability and in the decision-making of the Executive. As a result, most budget support arrangements are based on pre-defined eligibility criteria<sup>4</sup> and include processes to assess the fulfilment of these criteria and to monitor progress in the implementation of the national poverty reduction strategy and the associated reforms to PFM and other aspects of public policy and public administration. These monitoring arrangements are typically structured around an annual review, at which progress against a common Performance Assessment Framework (PAF) is assessed.
5. A further reason for the interest of Development Agencies in GBS is that this monitoring process provides a powerful mechanism for strategic dialogue between government and the GBS agencies over the policy and reform processes which should be prioritised in the PAF. At the very least, this strategic dialogue allows for an effective forum for Development Partners to express their views on the development priorities of partner governments. In certain circumstances, it may allow the GBS agencies to have a considerable level of influence on the issues which become part of the policy agenda and on the relative degree of budget priority which they are given.
6. This scope for influence offers the prospect of placing environmental policy and sustainable natural resource management more firmly amongst the policy priorities of the Developing Countries receiving GBS. This characteristic and the fact that GBS and SBS (Sector Budget Support) permit quick increases in available budgetary financing has prompted closer examination of the potential use of this modality as a way of addressing environmental concerns.
7. The OECD Joint-Donor Evaluation of General Budget Support of 2005 - 2006 concluded that environmental considerations had received less attention in GBS arrangements than other cross-cutting issues such as gender (IDD and Associates,

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<sup>4</sup> Although the OECD-DAC provides guidance on good practice, there is no formal statement of common policies and procedures on budget support. Nevertheless, most budget support operations use common arrangements based on the use of unified performance assessment frameworks, which embody three eligibility criteria – firstly the existence of a national poverty reduction strategy (PRS) to which the Government (the Executive) is committed, secondly a functional (“on-track”) macro-economic programme supported by the IMF and thirdly a public finance management system, whose weaknesses have been formally assessed and for which there is in place an effective programme of reform and modernisation. [Lawson et al (2005) and IDD & Associates (2006).]

- 2006). It emphasised the challenges in integrating environmental priorities into national planning processes, and highlighted that even where environmental issues had been raised in a PRS, the financial resources provided to tackle the issues were often modest and there was little or no follow-up by GBS donors during budget discussions.
8. As a result of the OECD evaluation, DFID, in collaboration with the Poverty Environment Partnership (PEP), commissioned a literature review of evidence on links between the environment, budget support and other aid instruments (ODI, 2006). This review of existing research emphasised the limitations of external influence upon national policy and budgetary priorities. The experience both with budget support and with structural adjustment lending in the 1980s and 1990s showed that sustained implementation of development policies and reform initiatives had only occurred in contexts where there was a strong domestic political constituency in support. It also showed that domestic political constituencies were largely immune to the influence of policy conditionality.
  9. However, evidence did suggest that in the presence of favourable domestic political factors, external agencies could exercise significant influence over the choice and sequencing of policy and over the degree of priority accorded to different policy objectives. What was required, then, was to understand more fully how to build up a domestic political constituency in support of the environment and how to guide this constituency through the policy choices necessary to make sustainable natural resource management a reality.
  10. For the Development Partners, this would require first a better understanding of the interactions between national budgetary processes, budget support agreements and national environmental actions. The present study aimed quite explicitly to address this information gap and to provide guidance to Development Partners on the use of Budget Support, in combination with other aid modalities and approaches, as a method of addressing environmental financing, policy formulation and institutional development issues within aid dependent countries.

### Specific Objectives

11. The purpose of the overall 4-country study has been to analyse and document experience in transferring environmental priorities from national plans to budgets, and through into government implementation plans. In addition, the study has identified how Development Partners might facilitate and support such processes within the context of increasing budget support and the use of other aid instruments. **The primary objective has been to analyse what lessons might be learned from the four case studies and to draw out key principles and best practices to help guide donor engagement within the environmental sector.** In this synthesis report, the main lessons learned and good practices identified have been highlighted in text boxes both within the relevant sections of the main report and within the Executive Summary.
12. The study also provides information and guidance on the following specific issues<sup>5</sup>:
  - The main challenges in translating environmental priorities and plans into budgetary allocations and public spending
  - The role of Sector Working Groups in promoting environmental priorities, lobbying for increased funding and monitoring budgets and outcomes.
  - The relative importance of obtaining PAF indicators on the environment in relation to alternative options, such as 'indirect' PAF indicators and the use of different mechanisms of dialogue.

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<sup>5</sup> Detailed terms of reference are presented in the Annex.

- The use of other aid instruments to support environmental objectives and facilitate their eventual integration within budget support arrangements.
13. The primary audiences for the study are government officials in the respective countries and their environment/natural resources counterparts in development agencies. A secondary audience are non-environment specialists involved in the development of budget support arrangements.

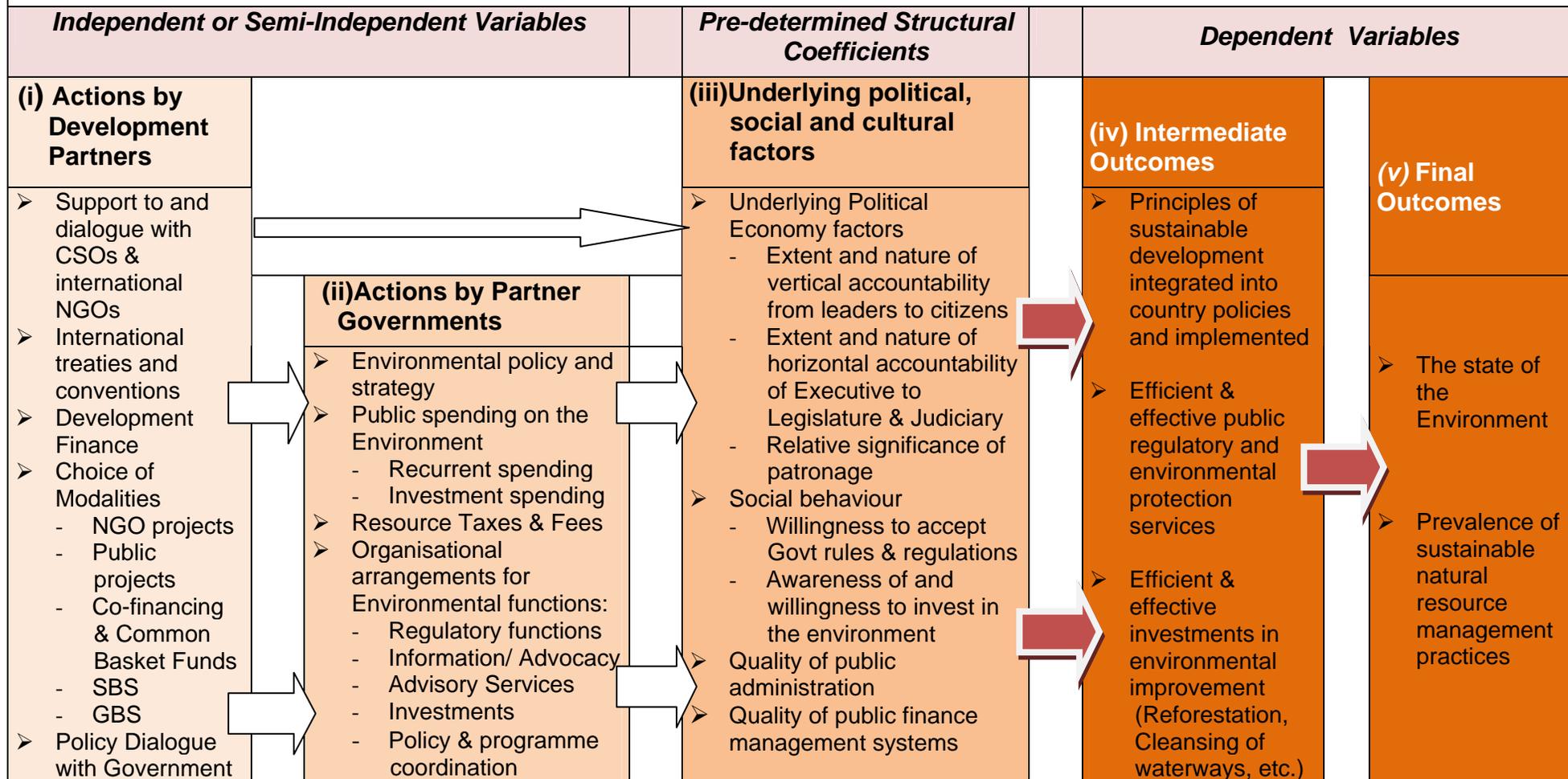
## **1.2. Methodology, Country Sample and Report Structure**

14. The objectives of the study are eminently practical and the methodology has been designed accordingly. The intention has been to undertake a *qualitative* appreciation of the relationship between Development Cooperation, government actions and the eventual impact on the state of the environment. The purpose has been to identify what is working and what is obviously not and to try to understand the reasons for this, rather than attempting a more comprehensive mapping of the factors at play. The reasons for this approach are essentially pragmatic: many of the relevant variables are not definable in a precise sense and even where they are, they are difficult to quantify. But there has also been a desire to save time, to use intuitive methods to identify the key relationships and move quickly to conclusions.

### Overview of the Variables and Behavioural relationships analysed

15. Figure 1 illustrates the relationships between the actions of Governments and Development Partners and the other factors likely to determine the final environmental outcomes. We have defined a simplified behavioural function with five sets of variables/ coefficients:
- (i) Development Partners' actions with respect to the environment, which are interpreted as a set of "independent variables" determined by the choices made by Development Partners.
  - (ii) Partner Governments' actions with respect to the environment, which we interpret as "semi-independent variables", reflecting the fact that they are determined predominantly by government choices but may be influenced by the actions of Development Partners.
  - (iii) Underlying political, social and cultural factors, which are interpreted as a set of predetermined structural coefficients with which the independent variables interact. In the medium to long term, they may be subject to the influence of actions by Governments and Development Partners but in the short term they are fixed.
  - (iv) Intermediate outcomes related to the quality and level of delivery of government services of a recurrent and investment nature; and
  - (v) Final outcomes related to the state of the environment and the take-up of sustainable natural resource management practices.

**Figure 1: Development Partners, Environmental institutions, Public Spending and the Environment – a simplified behavioural function**



16. The focus of the study, as dictated by the terms of reference, is essentially on levels one and two. We do not attempt to trace through the effects upon the quality and level of environmental services and investments nor upon the state of the environment itself. There would be significant methodological and data issues to address in doing this, although these should not be insurmountable and we would judge that a complete and robust analysis of this kind might be of value in the future.
17. For our purposes, there are three key points to note:
  - Firstly, the actions of Development Partners have both a direct impact on environmental outcomes (interacting with the 'structural coefficients') and an indirect impact through their influence upon the actions of Partner Governments. The direct impacts are likely to be more important in countries where development spending on the environment is channelled predominantly through NGO projects. There are limitations to the use of this modality in that it is unlikely to be a suitable method for providing support to recurrent regulatory and environmental protection, which are quintessentially public services, and secondly, it is likely to generate significant transaction costs. Nevertheless, in many SSA countries such a pattern of environmental spending is common.
  - Development Partners may also have a direct impact on environmental outcomes through their dialogue with local and international NGOs and through their support to international treaties and conventions.
  - However, this study is primarily focused on the indirect influence of Development Partners through their effects upon the actions of Partner Governments. In particular, we have focused on two sets of issues:
    - The policy choices of the Development Partners regarding a) the level of external finance provided for the environment; b) the choice of aid modalities and c) the nature of the accompanying policy dialogue; and
    - The immediate interactions between these variables and those that Governments control: a) the nature of policy and legislation on the environment; b) the level of public spending on the environment and c) the nature of the organisational arrangements to achieve environmental policy objectives.
18. The country case studies have adopted a mix of methods in order to address these issues, including detailed interviews with the key stakeholders at country level, a review of relevant documentation and reports, analysis of data on public budgets and expenditures and analysis of key environmental policy initiatives to understand how and why such initiatives do or do not receive budgetary support. However, the country studies were based only on limited inputs<sup>6</sup>, the primary intention being to pick out the most obvious lessons that might be of use at the international level. This synthesis report has drawn out the lessons emerging from the four country reports, contrasting and comparing the experiences of each and bringing to bear the experience with other 'cross-cutting issues', notably gender.

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<sup>6</sup> Each country report was based on 10 person days of field work from one international and 10 person days from one local consultant plus a modest amount of time for analysis and writing up. By way of comparison, this is about a quarter of the level of inputs which would normally be dedicated to a Public Expenditure Environment Review (PEER).

Key features of the country sample

**Table 1 Selected Economic, Social & Aid Statistics for Study Countries**

Data for 2005 (unless stated)	Ghana	Mali	Mozambique	Tanzania
Population (2004; millions)	22.5	11.6	20.5	38.5
GDP per capita*	2480	1033	1242	744
GDP (millions) *	55,800.0	11,982.8	25,461.0	28,644.0
Ranking in Human Development Index (2006; out of 177)	135	173	172	159
Total ODA (million)*	1,386.7	914.7	1,399.9	1,825.3
Total ODA as % GDP	2.5%	7.6%	5.5%	6.4%
Total ODA per capita*	61.6	78.9	68.3	47.4
* 2005 Purchasing Power Parity USDollars				
<u>Sources:</u>				
UNDP Human Development Report 2007-08				
OECD DAC, Statistics on ODA disbursements (excluding debt relief)				

19. The four countries to be studied – Ghana, Mali, Mozambique and Tanzania – were selected as low to middle income countries, with relatively high levels of aid dependence and significant environmental challenges. All receive annual flows of Official Development Assistance (ODA) of some US\$ 50 per capita or more, excluding debt relief (see Table 1.) Ghana has the largest economy and enjoys per capita incomes approximately twice as high as the other countries<sup>7</sup>. This is reflected in its ranking within the UNDP Human Development Index, which places it towards the lower end of countries classified as achieving Medium Human Development, whereas the other three countries all fall within the Low Human Development group.
20. In terms of the environment, Mali faces some rather particular challenges, as a land-locked country within the Sahel, confronting acute problems of desertification and addressing the special challenges of the sustainable management of the Niger River. In other respects, there are strong similarities between the countries. All four economies depend on the sustainable exploitation of natural resources in agriculture, forestry, mining, wildlife and, in the case of the three coastal countries, fisheries. They are also all countries with fast growing urban populations, which are generating new problems of sanitation and waste control, whilst also contributing to the pressure on forestry resources through the high urban demand for timber, wood-fuel and charcoal.
21. Table 2 provides some comparative statistics drawn from the UNDP Human Development Report, 2007-08. It illustrates the steady depletion of forest cover

<sup>7</sup> The presentation of income data in purchasing power parity terms would tend to raise GDP estimates in comparison with a presentation in unadjusted dollar terms. The Human Development Report adopts this format because it is considered a better reflection of the true value of incomes. It also has the advantage of being consistent with the OECD-DAC data on ODA flows.

occurring in each of these countries and especially in Ghana and Tanzania, the two countries with the highest population densities. It also illustrates the continuing dominance of biomass and waste (including wood-fuel and charcoal) as sources of the total primary energy supply (TPES). Although the HDR does not include equivalent data, we know from other sources that wood-fuel and charcoal also account for a majority of the TPES in Mali.

**Table 2: Selected Environmental Statistics for the Study Countries**

	Ghana	Mali	Mozambique	Tanzania
Forest Area in 2005 ('000s of Sq. Km)	55.2	125.7	192.6	352.6
Average Annual change in Forest Area 1990 - 2005	-1.7%	-0.7%	-0.2%	-1.0%
Net change in forest area 1990 - 2005 ('000s Sq. Km.)	-19.3	-15.0	-7.5	-61.8
Oil as % total primary energy supply:				
1990	18.9%	--	4.6%	7.6%
2005	28.7%	--	5.2%	6.3%
Hydro, solar, wind & geo-thermal as % TPES				
1990	9.2%	--	0.3%	1.4%
2005	5.1%	--	11.2%	0.7%
Biomass and waste as % TPES				
1990	73.1%	--	94.4%	91.0%
2005	66.0%	--	85.4%	92.1%
Sources:				
UNDP Human Development Report 2007-08				

22. Although the four study countries are HIPC countries with high, if declining, levels of poverty incidence, they have higher than average rankings within Sub-Saharan Africa for the quality of their economic management and their policy and institutional characteristics. This can be seen in the scores they receive within the World Bank's Country Policy and Institutional Assessment (CPIA), used as part of the IDA resource allocation process. All four of the countries have aggregate CPIA ratings of 3.5 or more, which places them within a relatively select group of 13 IDA-eligible Sub-Saharan African countries<sup>8</sup>. This reflects the fact that they have been conflict-free for ten years or more and have achieved steady improvements in economic management and in the quality of their public institutions. Despite the continuing institutional weaknesses in each of these countries, they are among the SSA countries generally assessed as being capable of absorbing development assistance more effectively. It is for this reason, and more particularly because of improvements in the quality of public finance management, that they are also significant recipients of General Budget Support<sup>9</sup>.

<sup>8</sup> In 2005, only eight IDA eligible countries within Sub-Saharan Africa had CPIA ratings of 3.7 or more: Benin, Burkina Faso, Cape Verde, Ghana, Mali, Senegal, Tanzania and Uganda. A further five had ratings of 3.5 or 3.6: Kenya, Lesotho, Madagascar, Mozambique and Rwanda.

<sup>9</sup> Tanzania is the most significant recipient of GBS, where over 2004 – 2006 it comprised, together with programme aid flows from HIPC and MDRI, some 35 % of ODA flows and represented 15 % of total public

Table 3 CPIA ratings for Study Countries, 2005

2005 Data	Ghana	Mali	Mozambique	Tanzania
<b>Overall CPIA rating*</b>	<b>3.9</b>	<b>3.7</b>	<b>3.5</b>	<b>3.9</b>
A. Economic Management *	4.2	4.3	4.2	4.5
D. Public Sector Management & Institutions*	3.7	3.6	3.2	3.8
D(ii). Quality of Budget & Financial Management*	3.5	4.0	3.5	4.5
* Lowest = 1; Highest = 6.				
Source: World Bank, IDA Resource Allocation Index, 2005.				

23. So overall, the sample represents four highly pertinent countries in which to analyse the themes addressed in the study objectives. They all face serious challenges of environmental management and of poverty; they are all significant recipients of external aid – including budget support; but perhaps most importantly they are all among the better managed low income SSA countries. By implication, one might judge that there is a reasonable chance of external support to the environment making a difference in these four countries. If examples of success and good practice can be found in these countries, then there is at the very least a group of 13 relatively similar SSA countries where such examples might be replicated. If by contrast, problems emerge and are seen to be common to these four countries, then it seems likely that such problems would occur in the vast majority of high aid recipient countries in SSA, and, indeed, that they would be more severe in those countries with more acute governance and management problems. Thus, the lessons emerging from these countries are likely to have widespread significance.

Structure of the synthesis report

24. Following this introductory summary of the objectives, methodology and country sample for the study, the synthesis report is divided into three further chapters. Chapters 2 and 3 review the key findings of the country studies, presenting in chapter 2 the principal conclusions regarding the policies, budgets and organisational arrangements for delivering environmental objectives and then summarising, in chapter 3, the key lessons emerging with regard to the modes of interaction of Development Partners with these processes. Chapter 4 considers the implications of these findings and presents recommendations for future actions by Governments and Development Partners.

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expenditure. In Mozambique and Ghana over a similar period, GBS with HIPC/ MDRI comprised some 30 % of ODA flows. HIPC/ MDRI flows have also been important in Mali but GBS is a recent but growing phenomenon.

## 2. Key Findings on Actions by Partner Governments

25. This chapter summarises the key findings from the four country studies with regard to the areas of action by Partner Governments [as defined in column (ii) of Figure 1 above]. It presents the conclusions on each of these, considering in turn:
- Environmental policy and strategy, including an assessment of the role and influence of the national Poverty Reduction Strategy (or its equivalent) upon the achievement of environmental objectives;
  - Public financing of the environment, including the use of resource taxes and fees; and
  - Organisational arrangements for undertaking environmental functions.
26. For each of these, we have assessed the current status and the nature and degree of influence of Development Partners. These appraisals have been done in relation to a set of “Assessment Questions” which are presented at the front of each section. As an over-riding criterion to judge progress and effectiveness, we have adopted the first target of the Millennium Development Goal 7 on environmental sustainability, namely:

*‘the degree of integration of the principles of sustainable development into country policies and programmes and the extent of success in reversing the loss of environmental resources.’*

### 2.1. Country policies and strategies on the environment

#### **Assessment Questions:**

##### **1. National Environmental Policies and Strategies:**

- ✓ Does environmental policy provide a clear statement of national objectives and legal requirements with respect to the environment?
- ✓ Are sustainable development principles adequately integrated in the policy?
- ✓ Are policy objectives and legal requirements coherent and feasible?
- ✓ Are policy objectives and requirements mainstreamed within the key national and sector strategy documents, such as the PRS and the sector policy?
- ✓ Do these strategy documents have a real influence over planning and budgeting priorities?

#### **Overview: sound policies but poor implementation**

27. The country studies found that environment policy and legislation is generally well articulated and clear. All four countries have promulgated new or updated legislation in the last ten years which has set the framework for promotion of sustainable development principles and protection of the environment. In each case, this legislation has led to revisions in related sectoral legislation and regulations, thus permitting a relatively comprehensive integration of sustainable development principles across national legislation. (See the examples of Tanzania and Mozambique in Table 4.)

**Table 4 Status & Quality of Environmental Policy & Strategy: the examples of Mozambique and Tanzania**

Country	Status & Quality of Policy and Strategy documents and processes	Nature of support & influence by Development Partners
<b>Mozambique</b>	<p>1997 Environment Law sets the policy and institutional foundations and is reflected in supporting legislation and regulations. Generally well crafted: the weakness is in the lack of means &amp; incentives to enforce regulation and policy, and in the frequency of conflicts of interest, e.g. over tourist development concessions.</p> <p>The 5-year Government Programme, the PARPA and PES are the key planning instruments, each with their own environment section specifying objectives, priority areas of intervention, monitoring indicators and corresponding targets. PARPA also achieved high score in the Bojo et al (2004) assessment of environmental mainstreaming in PRSPs.</p> <p>Major problem is that these strategies have limited influence on the allocation of external project resources and on the allocation of the annual Budget.</p>	<p>The Netherlands and more recently Danida have played a significant role in GoM's environmental policy processes, especially in advising on the drafting of legislation on Environmental Impact Assessment, and in helping to develop the Environment Strategy for Sustainable Development.</p> <p>During drafting of PARPA2, the Netherlands helped to set up the multi-stakeholder policy dialogue group on the environment, which led the successful mainstreaming of environmental policies into the PARPA.</p> <p>UNEP has assisted in mainstreaming environment into PARPA implementation at the provincial level.</p> <p>Overall advisory inputs have been well targeted and sensitively delivered but without clear links from strategy documents to budgets, their impact has been predominantly in awareness raising and promotion of consultation.</p>
<b>Tanzania</b>	<p>Tanzania has an impressive policy &amp; legislative framework based around the Environment Management Act and its supporting sector-level legislation.</p> <p>Environmental priorities are well integrated into the National Strategy for Growth and Reduction of Poverty (Mkukuta), with an extensive set of environmental indicators and targets under each Mkukuta outcome cluster.</p> <p>However, the Mkukuta does not have a clear relationship to the MTEF or the Annual Budget so it has limited impact on prioritising resource allocation.</p>	<p>Over 2002 – 2006, a programme was implemented to help the Vice President's Office integrate poverty-environment linkages within the Mkukuta. This was implemented by UNDP with support from a range of Development Partners. The technical advisor is seen to have played a critical back-stopping and facilitation role.</p> <p>However, an over-ambitious reading of the potential impact of the Mkukuta on resource allocation and budget prioritisation has meant the final impact has been disappointing.</p>

28. In all four countries, there are major problems in the actual enforcement and implementation of policies and regulations. To a large extent this is the consequence of deficiencies in the financial and technical resources dedicated to these functions. So it is worth asking whether this reflects legal standards which are simply unrealistic in the context of developing and transition countries or whether it reflects an inadequate level of prioritisation of environmental protection and regulation functions within the budget?
29. Our judgement is that it is primarily the latter, although there are examples of unrealistic legislative requirements. For example, there are aspects of Mali's *Politique Nationale de Protection de l'Environnement* (PNPE – the National Policy on Protection of the Environment of 1998) which are close to the boundaries of technical and financial feasibility<sup>10</sup>. Some simplification of the regulatory requirements for Environmental Impact Assessments was introduced in 2003 and a recent study has proposed further

<sup>10</sup> This is also the case for aspects of the regulatory requirements of forestry legislation in Ghana.

refinements, so as to simplify the requirements for small and standard projects where environmental impacts are relatively predictable. (Stoughton et al, 2006).

30. Most governments are also subject to conflicts of interest between economic and environment protection/promotion objectives and we found evidence both of legislation not being applied and of legislative revisions being delayed due to conflicts of interest. Hence, although EIA legislation in Mozambique requires EIAs to be produced for any tourism development project, there are many tourism development concessions being granted without the existence of an EIA – the substantial developments in Bazaruto and Ponta de Ouro being the best known examples. In Mali, the Government's own project to construct a new complex of Government offices in Bamako proceeded without the required EIA. In Mozambique, the considerable delays there have been in adapting forest management regulations to the current realities of forest exploitation practices and their impacts seem also to reflect conflicts of interest. (See Box 3.)
31. Nevertheless, on the whole the evidence suggests that the primary reasons for the fact that policy and legislation has been less than fully implemented do not derive from conflicts of interest or from the specification of overly ambitious environmental standards but rather from weaknesses in the financing and institutional frameworks for implementation. The problem is not simply one of inadequate financing, it is also an issue of inappropriate allocation of resources. While substantial funding is generally available for environmental projects, environmental agencies in the study countries all struggle to obtain adequate funding for recurrent activities such as regulatory functions, monitoring and inspection, information dissemination and advocacy and programme coordination. This is an issue which we examine in more depth below in relation to the overall financing of the environment. Here, we consider first whether the emphasis on raising the profile of the environment within national strategies has been relevant and useful in addressing the funding question.

*Environmental mainstreaming of the PRSP: a major focus but is it relevant?*

32. A national or sectoral strategy is in many respects a stepping stone between a policy and a budget. It specifies which of the many policy targets that a government is likely to have should be the priorities over the short to medium term and how exactly they should be addressed. As such, it seems logical and appropriate to give attention to the integration of environmental and sustainable development objectives into national poverty reduction strategies. This has been a significant focus of attention for the Development Partners in each of the study countries and most especially in Mozambique and Tanzania. In part, this was a reaction to concern over the rather limited attention and the often inappropriate focus given to the environment in the first generation of PRSPs of these countries.
33. In all four countries, the Development Partners provided support to the entities responsible for finalising the second generation PRSP documents. The purpose was to help ensure firstly that poverty-environment linkages would be given adequate attention, secondly that sustainable development objectives would be mainstreamed across all government strategies and thirdly that relevant links to actual programmes and areas of intervention would be identified. In Ghana and Mali, it only proved possible to dedicate modest technical assistance support to these objectives. As a consequence, although most observers acknowledge that the second generation PRSPs (the GPRS2 and CSCLP) are better in these respects than the first, there are still deficiencies with respect to environmental mainstreaming. In Tanzania and Mozambique, support to these efforts was more extensive and also succeeded in galvanising government and CSO staff involved in the Mkukuta and PARPA2 drafting

and consultation processes. Here, the results have been more significant and a number of independent assessments have attested to the high quality of environmental mainstreaming – notably Bojo et al (2004).

34. The question is what has been the impact of this work? Both in Tanzania and in Mozambique, work on environmental mainstreaming has achieved success in three areas:
- In promoting public dialogue and public awareness on environmental issues;
  - In creating networks for policy dialogue (and potentially monitoring) between civil society, Government and its Development Partners; and
  - In defining outcome level targets for environmental objectives embedded in the PARPA2/ Mkukuta, and, in the case of Mkukuta in Tanzania, in identifying interventions to help achieve these outcomes.
35. These are genuine and important successes. But in neither country is there sound evidence that these improvements have led to improved outcomes with regard to the scale, efficiency or effectiveness of environmental spending. Indeed, the impression is that these – undoubtedly improved – PRS documents and processes have had remarkably limited impact on the formulation of budgets and actual spending programmes. How can we explain this?
36. Let us first discount the theory that these were externally led initiatives to which domestic stakeholders acquiesced simply to appease the interests of external funding agencies. Although this is a real danger in initiatives of this kind, our country case studies and other research suggest strongly that these were genuinely tripartite initiatives between government officials, CSOs and the DP environmental advisers and technical assistants. It is probably true that there was less engagement at the political level than might have been desirable but equally the evidence suggests that the political engagement was no lower for the environmental elements of the PARPA2/ Mkukuta than for other aspects.
37. We believe that the lack of impact can be better explained in terms of the inherent deficiencies of PRSPs as strategy documents and the intrinsic deficiencies of national strategy documents as tools for resource allocation and prioritisation. In the first place, it needs to be recognised that the political context in which PRSPs have to be prepared makes it almost impossible for them to work as effective strategies: almost inevitably, the PRS as a process and as a document will be compelled to try to fulfil too many roles simultaneously and to please too many stakeholders at once.
38. Mali's second Poverty Reduction Strategy - the *Cadre Stratégique pour la Croissance et la Réduction de la Pauvreté* (CSCR) approved in October 2006, provides a good example of these tensions and contradictions<sup>11</sup>. On the one hand, it is a declaration of political intent (and in this respect, we would judge that it fulfils its purpose quite effectively) but it also aims to be a more detailed action plan, as well as a means of attracting additional external finance. Under the multiple pressures upon the Government of Mali coming from its Development Partners and from domestic stakeholders, it is not surprising that the PRS should take on this chameleon-like quality. This problem is addressed in part by the ingenious design which has been adopted for the CSCR. By including three levels of prioritisation - 3 principal "strategic thrusts" (*orientations stratégiques*), 13 "priority intervention areas" (*axes d'intervention*

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<sup>11</sup> The Ghana Poverty Reduction Strategy is rather similar – in style and structure – to the CSCR, and again permits the space for most priorities of different kinds to find their place in the national strategy.

*prioritaires*) and 17 sectoral policies – it has proven possible to assimilate most stated policy priorities, while still retaining some links to the ‘big ideas’ of growth and the development of infrastructure and the productive sectors, for which there appears to be a real political commitment.

39. Some governments – such as Tanzania and Mozambique - deal with these tensions better than others<sup>12</sup> but, almost inevitably, the PRS in any country must play multiple roles. The political economy of the PRS process and specifically its place as a ‘bridge’ between the respective objectives of governments and their development partners makes it an intrinsically handicapped mechanism for setting strategy<sup>13</sup>.
40. Yet, even if the PRS process did not suffer from these weaknesses, there would inevitably be gaps between medium term and annual budgets and national strategies (whether formulated as PRSPs or not). These gaps exist in OECD countries too and are the inevitable consequence of the different rules and constraints which bind budgetary processes on the one hand and strategy processes on the other:
  - Firstly, budget formulation and execution are fundamentally legal processes, in a way in which strategy formulation is not. The Public Finance Act defines the structure, format and timing of budget formulation processes and, within each ministry, department or agency it is the legally or constitutionally defined mission and the accompanying sector legislation which determines what must be budgeted. Strategy statements will be consulted but legal mandates inevitably take preference over strategic “mandates”<sup>14</sup>.
  - Secondly, budget formulation processes must start from an accumulated history of past decisions and commitments and not from the much simpler *tabula rasa* which is the common starting point for most strategies. In moving from one budget year to the next, ministries inherit an existing pool of staff and physical installations for which they have both legal and moral commitments even where these do not form part of their new strategic “mandate”. They also inherit ongoing projects and programmes which cannot be easily stopped or restructured. Medium term budgeting can help to address the rigidities of annual budgeting but it is also a constrained process.
41. In the four study countries and within most developing countries, the budget formulation process suffers from a third fundamental constraint which is that a large part of the externally financed activities within the public sector, in particular development projects, are not in practice subject to the control of the entities responsible for managing the budget process. In common parlance, these activities are ‘off-budget’. Where a large part of the resources ‘on-budget’ have to be dedicated to meeting existing commitments and constraints and a high proportion of the resources over which there is apparent discretion are in fact ‘off-budget’, then there is very little room for adjusting the budget to new strategic orientations.

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<sup>12</sup> An interesting question to examine is exactly why this should be the case. It goes beyond the scope of our terms of reference but it is worth noting in passing that Mozambique and Tanzania are ruled by deeply established political parties (Frelimo and the CCM), who enjoy large majorities in their national assemblies. They are thus able to establish a very powerful consensus over the direction of development policy – something which proves more difficult in Mali and Ghana where politics is considerably more competitive.

<sup>13</sup> See Driscoll and Evans (2004).

<sup>14</sup> In Tanzania, the officials of the Ministry of Natural Resources & Tourism quite explicitly stated that it was the Environment Management Act which provided their frame of reference for budgeting and not the Mkukuta.

42. There is ample evidence from the study countries that these are all significant constraints upon the budget formulation process. Once the force of these constraints is fully appreciated, the dissonance between strategies and budgets becomes much easier to understand. It also becomes clear that this dissonance need not be a reflection of different priorities but may be just a reflection of the difference between a highly constrained budget process and a much freer strategy process. These findings have important implications for the actions of Development Partners in relation to environmental as well as gender mainstreaming<sup>15</sup>. (See Key Lesson 1 in Executive Summary.)

## 2.2. Public financing of the environment

### **Assessment Questions:**

#### **2. Public financing of the environment:**

- ✓ Is there an adequate definition of the “environment” which allows the most important aspects of public spending to be adequately tracked?
- ✓ What is the overall level of spending on the environment and how is it divided between recurrent and investment budgets?
- ✓ Do allocations appear to be sufficient to address the main recurrent and investment needs?
- ✓ Is spending consistent with stated priorities?
- ✓ What are the sources of funding for public spending on the environment? Does this balance of sources hold any implications for the efficiency of spending or its sustainability?
- ✓ Is internal revenue collection a major component of financing? Is it pursued efficiently, fairly and transparently?

### **Defining public environmental expenditure**

43. The Classification of the Functions of Government (COFOG) is part of the United Nations family of international classifications and is widely used to identify the socio-economic objectives of government transactions. COFOG specifies ten broad functions of government.<sup>16</sup> One of these is ‘environmental protection’ (Division 05) which is broken down into six sub-categories: ‘05.1 - Waste management’, ‘05.2 – Waste water management’, ‘05.3 - Pollution abatement’, ‘05.4 - Protection of biodiversity and landscape’, ‘05.5 - R&D environmental protection’, and ‘05.6 - Other environmental protection services’.
44. COFOG’s exclusive focus on environment protection has been described as too narrow for leaving out natural resource management activities. Swanson and Lundethors (2003) suggest a definition of public environmental expenditure which accounts for these: ‘expenditures by public institutions for purposeful activities aimed directly at the

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<sup>15</sup> These same lessons could in our opinion be applied *pari passu* to gender mainstreaming. Here, our conclusions are at variance with the recommendations of COWI (August 2006) and Waldman (2005) who emphasise the PRS as the most appropriate focus for mainstreaming work.

<sup>16</sup> For the complete listing, see: <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4>.

prevention, reduction and elimination of pollution or any other degradation of the environment resulting from human activity, as well as natural resource management activities not aimed at resource exploitation or production' (Op. cit. page 36). The latter are somewhat difficult to capture since they often overlap with non-environmental government functions. The difficulty in producing a satisfactory typology of environmental activities and expenditure is reflected by the practice of World Bank Public Environmental Expenditure Review (PEERs). In ten PEERs conducted by the Bank five different definitions and classification systems were used (Op. cit. page 31).

45. Within the four case study countries, **the definitions of public environmental expenditure commonly utilised varied widely**, so it has not proven possible to construct a table of comparable expenditure data across the four countries. In general, the focus has been on the key agencies responsible for environmental protection functions. However, both Mozambique and Mali do include a functional classification of expenditure within their expenditure reporting. The Tanzanian accounting system also permits a functional classification to be easily derived, although it is not commonly used, and in Ghana the new BPEMS financial management system, once fully operational, will also include provision for the use of functional classifiers. Thus, from this country sample, it would appear that there is potential for promoting increased use of the COFOG classifier of expenditure on environmental protection.

Key features of public spending on the environment

46. The most direct comparison that is currently possible across the four countries is for public spending by the main environmental agency of government as a percentage of total government spending (acknowledging this is not a complete measure of public expenditure on the environment, for the reasons given above). This is shown in Table 5 below, along with details of the level of spending on "Protection of the Environment" in Mali and Mozambique.

**Table 5: Environmental Spending as % total public spending in study countries**

	Ghana	Mali	Mozambique	Tanzania
Main environmental regulation agency	Ministry of Environment & Science	Ministry of the Environment & Sanitation	Ministry for the Coordination of Environmental Actions	VPO - Division of Environment
Actual expenditure (local currency) 2004	175.3	3806495		0.92*
Total Govt spending (local currency) 2004	10110.2	608500000		
<b>Spending by main Env regulation agency as % total</b>	<b>1.73</b>	<b>0.63</b>	<b>0.48</b>	<b>0.04</b>
Source in case study report	Table 1	Page 17	Table 4	Fig. 2
		2006 Actuals	2007 Budget	
<b>Spending on Protection of the Environment (COFOG Classification No. 5) as % total</b>		<b>0.83</b>		<b>1.2 (GoM estimate)</b> <b>2.6 (Our estimate)</b>
* Recurrent expenditure only.	Sources: Country study reports			

47. The comparison across the main environment regulation agencies is not fully valid because their precise functions differ. For example, the Division of the Environment in

the Vice President's Office in Tanzania has predominantly a policy development and coordination role, with most environmental regulation functions housed in other ministries. By contrast, the remit of Ghana's Ministry of Environment & Science<sup>17</sup> is rather broader than simply environmental regulation, monitoring and co-ordination.

48. Nevertheless, notwithstanding the difficulties in making comparisons across the countries and across the different organisational structures, there are some key features of public spending on the environment which were common to all four country studies:

- The overall level of public spending on environmental functions must by any standards be considered low:
  - In Mali, Mozambique and Tanzania, substantially less than 1% of total spending is dedicated to the main environmental regulation agency.
  - In Ghana, the combined budgets of the ministries of Environment & Science and Lands & Forestry over 2003-2005 averaged 2 % of total non-interest public spending.
  - In Mali, less than 1 % of total spending was allocated to the whole Protection of the Environment function, as compared with percentage shares of 1.4 % for "Culture, Youth and Sports" and 1.9 % for "Diplomacy and Foreign Affairs"<sup>18</sup>.
  - In Mozambique, the Government's own estimate for spending on Protection of the Environment (1.2 %) represented a lower percentage share than that on "Recreation, Culture & Religion" (1.4 %).
  - In each of these countries, public servants and independent observers all attested to the remarkably low levels of recurrent funding being received by the environment agencies and to the serious operational constraints this imposed.
- On-budget Development spending represents some 40 % of the total budgets of the main environment regulatory agencies, with 60% for recurrent costs.
- In addition, there are high levels of off-budget externally financed development spending, making external project funding the most important single source of finance and the primary source of funding for non-fixed costs.
- Budget execution rates are frequently low – in particular with regard to development budgets where external finance predominates. This is indicative of problems in the accurate estimation of available budgets for development projects, in the timely recording of expenditures and, in most cases, in the efficient execution of disbursements.
  - In Tanzania, Mozambique and Mali, levels of execution of the recurrent budget were consistently above 90 %, whereas execution rates recorded for development budgets were very considerably lower – only 19 % for

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<sup>17</sup> The environmental remit was transferred in 2006 to the Ministry of Local Government, Rural Development and Environment.

<sup>18</sup> Mali Country Report (2007), p.18.

- MEA in Mali in 2006 and only 8 % for the Tanzanian Department of the Environment in 2005/06<sup>19</sup>.
- o In Ghana, low execution rates were recorded against both the recurrent and development budgets.
49. These four features emerged as consistent elements in the structure of public environmental spending over 2003 to 2007. On the positive side, it should be said that in so far as any trend changes were discernible over this short period, they were generally positive. Thus, environmental agency budgets, although very low in relation to total spending, are generally keeping pace with the growth of public spending and in some cases growing faster. In Mali, for example, spending by the Ministry of Environment & Sanitation (MEA) grew at an average annual rate of 22 % over 2005 and 2006, as compared with 18 % per annum for total spending.
50. Nevertheless, inadequate levels of recurrent spending were a dominant and consistent feature, combined with high levels of investment project financing.

Is the pattern of public spending consistent with stated priorities?

**Box 2: The disconnect between stated environmental priorities and budget spending in Ghana**

In Ghana, the tracking of policy priorities through the budget system is in principle possible through an examination of each ministry's Medium-Term Expenditure Framework and Annual Estimates and comparing these with the corresponding expenditures recorded in Quarterly Budget Execution Reports and in the Annual Accounts. The process is made considerably more complicated by the lack of a programme classification within the chart of accounts, although a description of programmed activities is now included within each ministry's quarterly performance reports. Two examples show that recent environmental priorities have not been supported by the release of funds, despite repeated statements of policy intent in these areas and Parliamentary approval of budgetary allocations.

The first concerns small-scale mining, which makes a significant contribution to national gold and diamond production and employs approximately 80,000 people. Much of this activity is illegal and the environmental impact of mining causes serious land degradation and water pollution. The Minerals Commission has developed a number of strategies to address these negative environmental impacts and a programme of work to support improved environmental management of small-scale mining appeared in the 2005 MTEF. However, implementation of this policy theme depended on the release of special funds (rather than the Consolidated Fund) and was subject to considerable disruption in 2006 when the planned funding did not materialise.

A second environmental theme which has not received the planned funding despite repeated statements of policy intent concerns government's attempts to reduce the extent of illegally harvested timber. This policy initiative began in January 2005, with the start of the Validation of Legal Timber Programme and has been highlighted in each subsequent Budget Statement. However, considerable delays have been experienced in the release of government funds for the VLTP. The budget figure of 19.8 Billion cedis allocated in the 2005 Annual Estimates was made available neither in 2005 nor 2006. After a further re-budgeting process, approximately a quarter of the amount was eventually obtained by the Forestry Commission in early 2007. The lack of government funding required the identification of alternative financial resources and in 2005 approximately €400,000 was secured under a bilateral grant from the Netherlands to complete a number of studies on the proposed design of the timber verification system. Without such support, it seems likely that the programme would have been seriously undermined.

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<sup>19</sup> As pointed out in the country reports, these figures would be influenced by the under-recording of expenditures against externally financed projects. However, the DPs' own records of disbursements point clearly to low levels of disbursements against budgets as the dominant factor in these statistics.

51. A major theme of this study is the analysis of the extent to which it is possible to set environmental priorities in a coherent way, to secure public funding for those priorities and to execute activities that serve to improve the status of the environment. We concluded above that the overall level of funding for the environment is generally inadequate and most especially in relation to recurrent activities. In such a situation of under-funding, it is clear that there will be certain environmental policy priorities which will go unfunded. What we have therefore attempted to explore is whether what does get funded is a) within the list of priorities and b) an appropriate choice of priorities, given the prevailing resource constraints.
52. In order to address this question comprehensively a full Public Expenditure Environmental Review (PEER) would have been necessary in each of the four countries. In the absence of the resources to do this, the team chose instead to examine the effectiveness of budgetary prioritisation processes and to supplement this with a more detailed investigation of how the 'top' priorities have been defined and how successful they have been in obtaining funding. A number of key conclusions emerged:
  - The first key point is that the assumption of a single, integrated budgeting process is simply not valid for any of the environmental agencies of the four countries. It makes better sense to conceive of three linked but essentially parallel budget processes:
    - A national budget process, limited essentially to the recurrent budget and the counterpart funding for externally financed projects, with the occasional potential for funding domestically financed investment projects.
    - A process for the allocation of external project finance, dictated to a large extent by the interests of external funders<sup>20</sup> and operating in a highly disaggregated way on the basis of agreements reached between the external funders and the specific agencies (or even sub-agencies, in some cases) responsible for implementation.
    - A process for negotiating rights to collect revenues and fees and to retain discretionary control over their use. In some cases and for some specific charges, this process worked relatively effectively with reasonably accurate estimates of likely collections, clear rules for the proportion to be retained and activities pre-budgeted in the national budget for funding from these areas. In other cases, the 'own revenues budget' was highly volatile, unpredictable and non-transparent.
  - As a consequence, a good part of the resources available to the environment sector is not under the effective control of the Ministry of Finance (or by implication, the National Parliament) and hence the mechanisms to ensure that available resources are allocated to the higher priorities are not in place. This fragmentation of budget systems also tends to mean that it is difficult to assemble complete data on budgets and spending for any single agency<sup>21</sup>.

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<sup>20</sup> We use the phrase 'external funders' deliberately because it includes not only the established Development Partners but also international NGOs and Foundations.

<sup>21</sup> The combination of this fact with the generally poor quality of reporting and the basic difficulties in accessing data made the task of compiling consistent and coherent financial data for the environment sector in Ghana especially difficult.

- Even within the national budget, the tools for programming priority activities and securing their funding do not always exist and/or are not always fully functional:
  - A key deficiency of the Mozambican and Ghanaian budget systems is the absence of a programmatic category within the budget classification system. Budgets are classified according to organisational entities (ministries, departments or agencies) and the economic classification of expenditures (salaries, operating costs, etc), which makes it virtually impossible to match budgets to activities or outputs and, hence, to protect the resources set aside for the highest priority activities.
  - Mali uses a formal programme classification and Tanzania has a sufficiently high level of organisational disaggregation within its budget classification to make possible a more precise identification of the intended purposes of budget allocations, and therefore to protect high priority activities.
  - A second key weakness in both Mozambique and Ghana is the inability to match aggregate spending to aggregate financing, which means that the approved budget cannot be executed as planned and significant within year changes in allocations become necessary. This is the result of: a) over-ambitious estimates of available revenues; b) an inability to accurately budget all of the most important political priorities, such as salary increases for example; and c) an inability to use the budget as a tool of discipline over short-term political decisions, for example, over fuel and energy subsidies. Until these problems can be solved, the environment sector budget is likely to be subject to a high level of unpredictability<sup>22</sup>.
  - In Tanzania and Mali it has generally proven possible to establish the necessary discipline at the aggregate level in order to permit predictable recurrent budgets with execution rates close to 100%.
  - Improvements are also being made in Ghana and Mozambique. This is in part a direct result of the injection of additional discretionary resources through General Budget Support, and also a consequence of the implementation of extensive Public Finance Management (PFM) reforms, supported and monitored through the dialogue which accompanies the GBS process.
- 53. Given these weaknesses in budgetary processes, it is not surprising that policy priorities often go unfunded. Within our sample, this was especially true in Ghana, where these PFM weaknesses are most pronounced. (See Box 2.) In all four countries, we found that the low allocations for recurrent activities and the consequent weaknesses in technical and administrative capabilities often made it difficult for policy priorities to be implemented, even where additional resources clearly were available:
  - The Tanzanian Environment Management Act (2004) mandated the creation of Sector Environment Units (SEUs) within each ministry to coordinate the fulfilment of their responsibilities in relation to the EMA.

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<sup>22</sup> The extent of these weaknesses can be measured through an analysis of the PEFA assessments of public finance management systems for these countries. The relevant indicators are P1 – P3.

To date, only the Ministry of Infrastructure Development has established such a unit with its own budget and plan of activities. The encouragement of the VPO's Department of the Environment has been insufficient to generate properly structured and well focused budget bids for SEUs, in the absence of direct technical support to the budgeting process.

- The introduction of comprehensive spatial planning at district level is a major political priority for Mozambique, reflected in the PARPA and the five-year Government Programme, and monitored as one of the 'environmental indicators' in the GBS PAF. A modest amount of recurrent resources have been made available for this by MICOA and significant additional resources were accessed from a DP supported provincial and district planning project. Unfortunately, with only three competent spatial planners within MICOA attending to the needs of 131 districts and with no available funding for capacity development, implementation has inevitably been poor.
54. Where Governments do have the necessary discretionary resources to give priority to environmental actions, there is evidence that this happens. The most striking example is Tanzania's National Strategy for Urgent Action on Land Degradation and Water Catchments of 2006. This was a political reaction to the drought of that year and to the associated problems of power rationing which resulted. Twelve specific challenges were identified as needing attention to address land and water catchments degradation and proposals were sought from the relevant ministries, under the coordination of the Department of the Environment. An amount of Tsh9.4 billion (US\$8 million) was allocated from government resources, under a supplementary budget<sup>23</sup>.
55. Overall, we found no evidence that the resources being allocated to the environmental agencies were being misused or significantly mismanaged. In Mali, for example, we found government staff dedicating an excessive amount of time to procuring (or attempting to procure) development projects and we also found certain units taking on project management responsibilities which were not fully consistent with their mandates. But alongside this, environmental protection activities were happening – the water quality in the river Niger was being monitored, factory inspections were taking place, EIAs were being reviewed and processed, the State of the Environment report was being prepared: the problem was that the scale and scope of these recurrent activities was not commensurate with the needs of an effective environment protection programme. In Mali and elsewhere, the evidence of our case studies suggests that the reasons why environmental priorities do not get adequately funded are not predominantly due to misallocation or mismanagement of resources but rather to systemic and funding problems.

#### *Sources of funding for public spending: the problem of managing environmental taxes*

56. The search for solutions to the problem of inadequate recurrent funding is a dominant motivation for the environment agencies in each of these countries. Environmental agencies actively pursue externally financed development projects and sources of

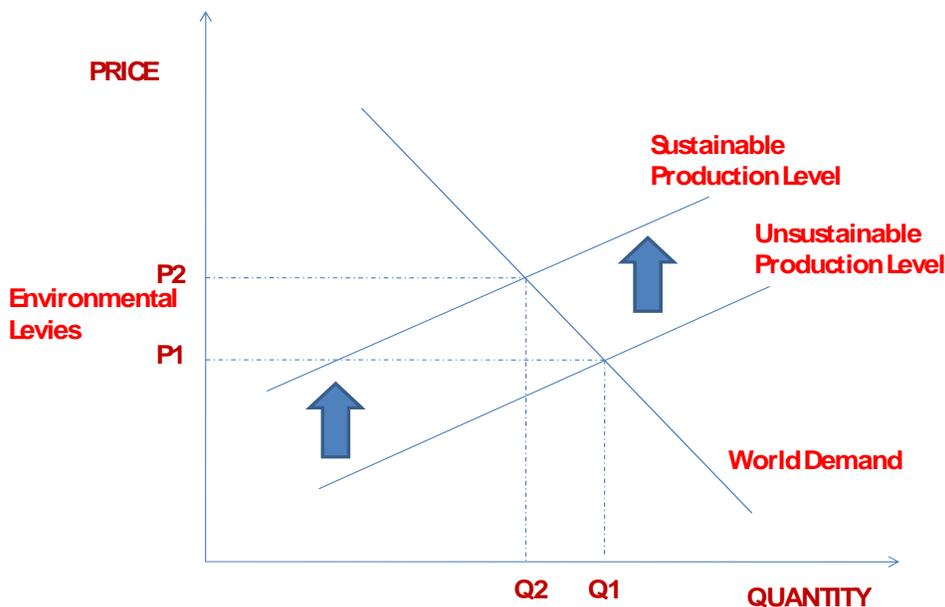
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<sup>23</sup> The speed with which the Urgent Action was introduced and the low levels of consultation resulted in some implementation difficulties and also in certain unintended effects but the key point is that high level political attention was given to the issue and resulted in concrete funded actions. See country report, pp 32-34.

direct revenue. These are the funding sources which are seen by the environmental agencies as being most readily available but also those over which they have greater control and flexibility. We consider in Chapter 3 the implications of the former and here the implications of the latter.

57. 'Own revenues' or 'internally generated funds' as they are referred to in different countries are an important source of environmental funding in each of these four countries and most especially in Ghana, Mozambique and Tanzania, on which the analysis in this section is focused. These revenues comprise a mix of two types of charges:
  - Environmental taxes of different kinds: licenses, royalties and, in the case of forestry, stumpage fees and export levies, which are designed to raise the costs of natural resource exploitation in fisheries, mining, forestry and hunting so as to preserve the rate of exploitation at a sustainable level; and
  - Service charges, which are designed to cover the costs of providing a service (such as the services of a park ranger), including the specific monitoring or 'clean-up' services necessitated by the private exploitation of natural resources. Here, the normal principle applied is that the user (who may also be the polluter) should pay, so that private costs are not incurred by the general public.
58. The principles underlying these two types of revenues are very different and would normally imply different types of collection strategies. Service charges should in general be charged at their marginal cost, so as to prevent any extra burden on the public purse but without any explicit intention to discourage the use of the service by charging an artificially inflated price. Environmental taxes and levies are very explicitly designed to raise the costs to the consumer so as to reduce consumption to a sustainable level. Because high value natural resource products, such as tropical hardwoods, tend to have a relatively inelastic world demand, the level of taxation needs to be high to achieve the desired reduction in consumption. The resulting revenues may therefore be very high. This is illustrated in Figure 2 below.

**Figure 2: An illustration of the intended effects of Environmental levies & taxes**



59. It is normally considered that environmental taxes should be collected by national revenue collection agencies and not by environmental or natural resource agencies. This is firstly because the high value of these taxes makes them more prone to corrupt practices: these practices are better controlled when responsibilities for collection are unified with other tax collection responsibilities and placed with a professional tax collection cadre, following well-established and transparent procedures. The second reason is because environmental taxes are not a charge resulting from the use of an environmental service, they are a deterrent tax, whose level should in principle be determined by supply and demand factors quite independently of the costs of activities being conducted by environmental agencies. Conversely, as the scope and quality of services which environmental agencies should provide is completely unrelated to the level of environmental taxes, there is no reason why their budgets should be linked to environmental tax collections.
60. Unfortunately, it is rare for these principles to be consistently applied and in the three countries where we examined environmental revenue issues (Ghana, Mozambique and Tanzania), we found significant examples of distortions and inconsistencies:
- Overall, revenue collections in the environment sector have increased fast:
    - In Tanzania, revenue collections by the Wildlife, Fisheries and Forestry divisions of the MNRT rose from approximately US\$ 24.4 million in 2003/04 to US \$ 31.1 million in 2005/06.
    - In Ghana, allocations to the Environment Protection Agency deriving from the fees and charges paid into the National Environment Fund rose from approximately US \$206,000 in 2002 to US \$959,000 in 2005. Over the same period, the Forestry Commission internal revenues rose from about US\$ 9 million to US\$ 13 million.
  - In the minerals sector, royalties and taxes have tended to be collected directly by the internal revenue agencies but most other environmental taxes are collected directly by the environmental agencies, including in particular the very substantial stumpage fees and export levies on timber.
  - To differing degrees, these arrangements have all proven untransparent, with significant problems of unrecorded collections, missing records on the use of funds and frequent cases where conflicts of interest appear to have led to non-application of levies and charges or to application of unnecessarily lenient tax regimes.
    - The continued widespread application of the Simple Licenses regime for Forest management in Mozambique, despite frequent reports of its inappropriateness, seems a clear example of a conflict of interest, where a low cost license regime is retained simply because it appears to provide a simple way of maximising revenue. (See Box 3.)
    - In Tanzania, the issue of under-reporting of forestry revenue has received high profile attention and has been highlighted by a number of recent reports (URT, 2004; Milledge et al., 2007). The TRAFFIC report (Milledge et al., 2007) estimates that 97% of revenue is lost from the FBD, amounting to some US \$ 40 million of annually uncollected forest revenues (Clarke and Nokkala, 2007). It also identified discrepancies between the forest product export

figures reported by authorities in Tanzania and China. 2004 trade statistics show China imported ten times more timber products from Tanzania than appear on Tanzania's own export records.

61. Undoubtedly, the most serious costs in this area are those arising from over-exploitation of resources due to the non-collection of taxes. The misuse of collected revenues is also a significant problem in specific sub-sectors and countries. But there are also significant negative effects upon institutional performance and sustainability in the environment sector. Indeed, we would judge that the evidence from the case studies suggests that the excessive reliance on "internally generated funds" and the indiscriminate mixing of environmental taxes and service charges are undermining the chances of creating effective and sustainable environment regulation agencies.

### **Box 3: Signs of Conflicts of Interest in Forest Management in Mozambique**

Mozambique has an extensive natural forest base with production capacity of an estimated 20 million hectares, corresponding to 24% of the national territory. But the forestry sector is vulnerable and depletion of forest resources has been reported as one of the most serious environmental problems in Mozambique.

The 1999 Forestry and Wildlife Law established a system of Simple Licences for *ad hoc* and small scale (500 m<sup>3</sup>) production and Forest Concessions for larger scale and long term production. The latter require detailed management plans for ecological sustainability and impact on local communities whereas the former has very few requirements. Most forest production is done under the undemanding Simple Licences system, with little consideration for sustainable resource use. In addition, the setting of quotes for cutting levels applying to Simple Licences is based on an outdated 1994 inventory. Furthermore, the annual allowable cut of 500,000 m<sup>3</sup> is thought to be too generous, considering that harvesting has been largely unregulated and concentrated in a small number of species.

The National Directorate of Lands and Forestry (DNLF) of the Ministry of Agriculture (MINAG) is the GoM agency mandated with the management of forestry resources. Its main activities consist of awarding and monitoring concessions and licences for forest exploitation. There are also forest and wildlife conservation activities. Such conservation activities do not feature, however, in MINAG's annual implementation report which focuses exclusively on the licensing activity.

Licensing and monitoring activities generate three main types of revenue: licensing fees, fines and revenue from the selling of apprehended products. The State Budget provides however no information about revenue collections. A recent paper produced by the GBS donors estimates that revenue from licences and concessions has been growing significantly and reached US\$ 6 million in 2006 (as compared with US\$ 270,000 in 1998).

Existing legislation stipulates that revenue from licences and concessions should be used to fund reforestation activities and to support community development priorities. Unfortunately, information on the use of this revenue is not readily available. The implementation report on the government's annual plan for 2006 (*Balanço do PES 2006*) only provides data on wood production and on the growing volume of licences and concessions granted. The 2006 Budget Execution Report does not provide sufficiently detailed information to identify the amount of forestry-related revenues or their use.

Thus, a combination of legal loopholes, reporting gaps and lax controls has led to a situation in which: a) the concessions system in place is widely accepted as inappropriate; b) there are signs of a bias towards this revenue generating function in DNLF's activities; and c) forestry-related revenue and its use is not recorded in official documents.

62. How have the Development Partners reacted and are their actions helping to control these negative tendencies? Certainly, through special studies which were commissioned by the GBS agencies in Tanzania and Mozambique, the DPs can be credited with successfully drawing attention to the problem of under-reported revenues. In Ghana, they have helped to initiate a debate on the development of a transparent and sustainable financing framework for the Forestry Commission. These are positive contributions but it should also be stressed that Development Partners as a whole have yet to develop a coherent and consistent view on the management of internal revenues and environmental taxes. This inconsistency is at the very least not discouraging but, potentially, even promoting the continuing confusion between environmental taxes and service charges which lies at the heart of these problems.
63. Within most Development Agencies, there would probably be a dichotomy of views over the appropriate place to locate the responsibility for collection of environmental taxes. Most economists would favour the accepted good practice in public finance, in which responsibility for collection of environmental taxes would rest directly with the central revenue authority or, at least, would be managed under their direct supervision. Many environmental advisers would favour placing tax collection responsibilities directly with environmental agencies, along with associated rights to retain a proportion of those collections. The rationale for this would be that this would give an increased assurance of a guaranteed level of expenditure by comparison with a situation in which the expenditure budget had to be fully justified, and negotiated with the Ministry of Finance.
64. Whilst there is a certain logic behind this latter position, our case studies suggest some good reasons for re-considering this:
- In the first place, national revenue authorities, although by no means always free of corruption, do at the very least have the virtue of having well established, transparent procedures for tax collection and thus are more likely to be able to collect environmental taxes efficiently and fairly.
  - The primary role of environmental agencies is to protect the environment and promote sustainable development practices. Where their funding starts to become dependent on licensing fees, there will be a tendency to set fees and apply rules in such a way as to maximise revenue collection rather than to maintain a sustainable level of resource exploitation. (The example of Mozambique is a powerful case in point.)
  - Similarly, environmental agencies are likely to start to bias their work programmes not towards the most important conservation or environment protection activities but towards those that yield the most revenue.
  - Where “internally generated funds” derive from relatively high-yielding environmental taxes – such as mineral royalties, forestry levies and international fishing licenses, then such taxes will inevitably attract political attention and are unlikely to remain available for environment protection activities<sup>24</sup>.
  - Where internally generated funds derive from genuine service charges and fees, these are likely to be modest in volume and fairly volatile: this is not a good basis from which to try to obtain adequate and stable levels of financing.

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<sup>24</sup> We have no indication of how the unrecorded revenue collections reported in Tanzania and Mozambique might have been used. However, it should be stated that at the international level, history holds many examples of such hidden revenues being used to finance political campaigns, to ‘top up’ military spending and to pay off political favours.

- The submission of a budget proposal and its negotiation and defence before the Ministry of Finance, the Cabinet and Parliament is an inherently good discipline. Similarly, the controls placed over the use of public spending may frequently be cumbersome but they do ensure a degree of transparency and accountability. It is natural that environmental agencies should prefer to secure their resources in easier and more flexible ways – such as through direct agreements with DPs or through retaining tax collections – but evidence suggests that there is a significant loss in transparency and accountability.
65. In relation to this last point, we observe that despite justifiable complaints about inadequate recurrent funding, in none of the study countries were the study team presented with a coherent written or even oral argument to secure higher budget funding. In Mali, the approach was rather to argue for the creation of an “Environment Fund”. In Tanzania, even when resources for SEUs were promised, budget proposals were not forthcoming. There are clearly technical constraints underlying this, as well as attitudinal, but it suggests strongly that current incentives do not encourage environmental agencies to compete for funding through the budget.

### **2.3. Organisational arrangements for undertaking environmental functions**

#### **Assessment Questions:**

##### **3. Organisational arrangements for environmental functions:**

- ✓ What are the organisational arrangements that have most commonly been for delivering environmental policies?
- ✓ Are the individual organisational mandates clear and precise?
- ✓ How is coordination across the sector achieved? Is it effective?
- ✓ Is there a demand for effective environmental services – either at the political level or within society as a whole?
- ✓ Is there a sustainable financing structure capable of supporting and re-inforcing the chosen organisational configuration?

#### **The chosen organisational structures for delivering environmental policies**

66. In each of the four case studies, we found an organisational framework, structured broadly as follows:
- One central agency or ministry holding primary responsibility for the protection of the environment, for coordinating actions towards this objective and the promotion of sustainable natural resource management practices, as well as for monitoring obligations in relation to international treaties.
  - A series of environment ‘units’, departments or commissions placed within other sector ministries and holding responsibility for promoting sustainable natural resource exploitation within their respective fields of competence, such as agriculture, energy, fisheries, forestry, mining, water and wildlife. In some cases, such units were also found within ministries, such as transport or infrastructure development, not directly responsible for natural resource management but with activities having a potentially significant impact on the environment.

- A range of more localised environmental services, such as waste clearance, water and sanitation and spatial planning generally located within local government or district authorities.
  - A central coordinating committee of some kind, responsible for promoting environmental mainstreaming across government and for adjudicating the assignment of responsibilities between environmental agencies in cases where mandates were found to be unclear.
67. There is some variation within this model. For example, the Ministry of Environment & Sanitation in Mali has relatively extensive functions while the Division of the Environment within the Vice President's Office in Tanzania, at the other extreme, focuses more narrowly on coordination and monitoring functions. Nevertheless, the ubiquitous presence of this basic model suggests that it responds in some sense to the practical realities of delivering environmental policy objectives within developing and transition countries. Certainly, we found no problems with the organisational model *per se*.

*The clarity and applicability of the organisational mandates*

68. The first question to ask is whether the roles and mandates of the different organisational entities are sufficiently clear and precise in their attribution of responsibilities to be in principle workable. Our answer would be that for the most part the attribution of responsibilities seemed reasonably clear in the case study countries. There do of course exist over-laps and duplications. In Mali, for example, responsibilities for control of desertification lie both with the Ministry of Agriculture and with MEA. Similarly, the sanitation control functions of MEA (performed by DNACPN) are shared with the *Collectivités Locales* (Local Authorities) and several of the persons interviewed expressed the view that MEA should have no sanitation functions at all. Nevertheless, we found no examples of overlapping mandates leading to significant organisational dysfunctionalities.
69. It is almost inevitable that there will be some over-lapping of organisational mandates: the key question perhaps is whether there exists a sufficiently strong coordinating body to impose order where these overlapping mandates create confusion and dysfunctionality. In Mali, national policy on the environment (the PNPE) starts from the premise that maintenance of the environment is a cross-cutting function, for which every government entity should retain some responsibility. Within this conception, it is much better for responsibilities to be assumed by two entities than by none at all! It was in large part in recognition of the likely overlaps and duplications that Malian legislation created an Inter-Ministerial Committee to coordinate the division of responsibilities.
70. Unfortunately, in the case of Mali, this Inter-Ministerial committee has never functioned effectively. Indeed, we were informed that it had never even met. Weak coordinating committees are a more common feature of the organisational landscape and we found this problem also in Mozambique. In Mali, the apparent reason is that the Ministers who make up the membership of this committee are unwilling to accept the position of the Minister of Environment and Sanitation as chair of this body. The Minister of the Environment and Sanitation is considered at best a peer but in reality a rather "junior peer", given the influence and standing generally accorded to most other ministerial portfolios. It would not be acceptable for a Minister of Environment and Sanitation to hold a direct position of authority over other ministers. In Mozambique, similar views were expressed about the low relative standing of MICOA.

71. In its original conception, the Malian Inter-Ministerial Committee was to have been chaired by the Prime Minister and most commentators agreed that such a structure would have been workable as a coordinating body. In Tanzania, by placing the “central environmental agency” within the Vice President’s Office (in the form of the Division of the Environment), a high level of political backing for environmental functions has been institutionalised from the outset.
72. This particular variant of the model described above would seem from the case studies to be closest to “best practice”. However, the fact that such a structure can be put in place and made to function effectively itself reflects the degree of political involvement and concern for the environment. (The funding of the ‘Urgent Action’ programme referred to above is another powerful example of political engagement with environmental issues in Tanzania.)
73. In Mozambique, the lack of a sufficiently strong political demand for action on the environment was identified as an important institutional weakness. Unfortunately, the degree of awareness of the environment within the wider Mozambican society is also rather low and is a factor underlying the weak demand for effective environmental policy implementation. In Tanzania, the recent drought and its immediate impacts in terms of power-rationing and increases in food prices seem to have galvanised public demand for government action on the environment, even if these demands may not always have been channelled in the most informed and helpful ways<sup>25</sup>.
74. Each of these examples suggests a continuing and important role for civil society organisations and international NGOs – supported in appropriate ways by DPs – to promote an active and informed public demand for effective action on the environment. Through dialogue with governments, DPs are also likely to be in a position to give environmental issues a high profile and to encourage direct involvement in environmental questions at the senior-most levels of government.

#### *The inadequacies of funding for recurrent activities*

75. Across all of the case studies, the most important problem affecting the operation of the organisational and institutional framework was the severe deficiency of recurrent funding. Without the benefit of more comprehensive PEER work, it is difficult to quantify this precisely but, in all countries, virtually all of the resource persons we interviewed - both within and outside of government - attested to this problem. Some examples from Mali and Mozambique serve to illustrate its magnitude:
  - Within the Malian Ministry of Environment & Sanitation, the DNACPN unit responsible for the monitoring and follow-up of EIA studies on a nationwide basis comprises only two permanent staff, both based in Bamako with very limited funding for travel elsewhere. (Stoughton et al, 2006)
  - Moreover, the DNACPN only has sufficient funds to undertake 9 factory inspections per year.
  - In Mozambique, the unit within MICOA responsible for spatial planning across the 131 districts of the country has only three adequately qualified spatial planners.
  - MICOA’s weak capacity across the board prevents it not only from engaging effectively with strategic debates, such as investment decisions which pose

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<sup>25</sup> See the comments in the Country Report on some of the unintended consequences of the Urgent Action programme mounted by government in response to this demand. (Tanzania Country Report, pp. 32-34)

significant environmental threats (e.g. the contested construction of the Mpanda N'cua Dam), but also from conducting basic environmental management functions such as monitoring and supervision.

76. Alix and Bérubé (2005) concluded with regard to Mali that the available levels of human and financial resources were grossly insufficient to permit effective implementation of the PNPE and questioned whether it was appropriate to have such an ambitious set of legal requirements in this context. They pointed not only to the scarce funding received by MEA but also to the very limited budgets allocated to the *Collectivités Locales* (Local Authorities). Funding constraints were less severe in Ghana and Tanzania but the differences were marginal and do not alter this fundamental observation<sup>26</sup>.

#### *The competition for project and fee-based funding*

77. Unfortunately, in each of the four countries, the nature of the response to the funding problem has served to further weaken the institutional framework for the implementation of environmental policy. Most of the functions which need to be financed for environmental policy to be effectively implemented are recurrent functions – the processing of EIA documents, the undertaking of regular inspections, monitoring, advocacy and information dissemination activities. These should be financed from the normal operational budgets of the government entities with responsibilities for the environment. In the absence of an adequate level of funding, the historical response (because this is not a recent phenomenon) has been to seek either project funding (from an external funder) or financing from taxes and fees.
78. We have discussed above the consequences of relying predominantly on “internally generated funds” to supplement recurrent budgets. This has been the primary response in Ghana, where the self-financing model for the environmental agencies has become institutionalised, with the designation of these agencies as “sub-vented agencies”. The notion of ‘sub-vented agencies’ in Ghana is similar to the concept of ‘executive agencies’ in the UK or Sweden. It denotes an agency which is given a semi-autonomous status on the grounds that it can become fully or partially self-sufficient through the sale of its services and products. These may be sold to other parts of the public service or to the general public – such as driving licenses or the services of ‘safari guides’ – or sometimes to both. The fact of having to cost out services and having to survive, at least partly, from their sale is intended to promote greater efficiency within the agencies. Whilst such a model might conceivably be workable for the management of Game Parks, for most other environmental functions it is not. This is because the environmental functions which are most important are not typically those that attract fees, so that over time environmental agencies living from fees move further and further from their core roles<sup>27</sup>. Where “internally generated funds” derive from environmental taxes, rather than real service charges, then this model seems to lead almost inevitably to the environmental governance problems discussed in section 2.2.
79. In those environmental agencies where the primary ‘survival strategy’ has been to seek project funding from Development Partners, distortions of a similar kind have been

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<sup>26</sup> This problem was probably least pronounced in Tanzania, where the DoE within the VPO enjoys relatively sound funding. However, in Tanzania the recurrent funding problem was certainly a constraint on the good performance of environmental functions within the NRM ministries and at the local government level.

<sup>27</sup> Financing from fees is less common in Mali than in the other three study countries but it provided us with a good example of this. The DNACPN within the Ministry of Environment & Sanitation obtain a good part of their recurrent resources from the sale of waste disposal containers. It would certainly be more efficient for these to be sourced directly and for the DNACPN to concentrate on monitoring fulfilment of sanitation regulations.

generated. The difficulty is that project funding is generally intended for investment activities – activities with a finite lifetime, which aim either to build new assets or enhance the value of existing assets. Many DPs do fund recurrent operations as a part of a project package but are generally reluctant to do so both because this can create a funding gap when project financing finishes and, more generally because their primary objective is to finance investment. Government entities seeking project financing therefore have to re-orient their activities towards investment functions and towards project management activities. To differing degrees, this is exactly what the entities responsible for the environment have done in each of the case study countries. The basic functions of monitoring, inspection and control, as well as public education and information dissemination have been increasingly neglected as energies have been devoted to winning and implementing projects.

80. This is not only because project funding is easier to obtain than government recurrent funding. It is also because projects offer opportunities for earning salary supplements of different kinds, for greater access to overseas travel and to opportunities for training, for receiving higher travel allowances than normal, etc, etc. It is natural and rational that public servants should be attracted to these opportunities. DPs who want their projects to be implemented quickly and effectively will naturally want to attract the best public servants and, as they need to compete with other Development Partners to obtain them, they will tend to offer the best conditions which their procedures permit.
81. Even where project resources have been used to run core functions, there have been distortions, as the example of the ministerial environment units in Mozambique shows. (Box 4). The overall result has been to draw attention away from the basic, recurrent functions necessary to implement policy and to maintain the environment.

**Box 4: How project structures can undermine institutions: the donor-funded environment units in Mozambique**

In Mozambique, there are five known environmental units in operation outside MICOA: in the Ministry of Agriculture (MINAG), the Ministry of Energy, the Ministry of Mineral Resources, the Ministry of Public Works (Roads Section) and the Ministry of Health. These units were all created under specific donor-funded projects/programmes as a requirement from the financier (the World Bank in most cases). The aim was to incorporate an environmental perspective into sectoral planning and to contribute to improved environmental impact assessments of development interventions.

There is no institutional link between these units and MICOA. Despite being a coordination agency, MICOA has little knowledge about these units' attributions and how they operate. These units are, reportedly, co-opted by the projects that created them (and from whom they derive various salary supplements and other benefits) and there is little sharing of information across environmental agencies. This has often resulted in duplication of work and coordination failure on the part of MICOA. For example, mining concessions have sometimes been granted without MICOA knowing about it.

To address this problem, MICOA is initiating a study to understand the functioning of these units, explore opportunities for the creation of new units, and strengthen inter-sectoral coordination and institutionalised links with MICOA. The establishment of environment units in strategic sectors is in fact one of the environment policy targets in the PARPA: according to the revised PARPA matrix, 8 new environmental units are to be created during 2007/ 08 in key economic sectors and municipalities. The major risk is that these initiatives may simply generate a proliferation of semi-autonomous project implementation units, owing their allegiance to their funders rather than to MICOA.

### **3. Key Findings on Actions by Development Partners**

82. This chapter presents conclusions on the actions of Development Partners, selecting in particular those which are explicitly designed to influence or support actions by Partner Governments [drawing from the areas of action in column (i), Figure 1.] Thus, Chapter 3 considers in turn:
- The choice of modalities for the provision of Development finance;
  - The experience with the use of General & Sector Budget Support; and
  - The DP contributions to the content and process of policy dialogue.

#### **3.1. The choice of modalities for the provision of Development finance**

**Assessment Questions:**

**4. The choice of modalities for the provision of Development finance:**

- ✓ What have been the dominant modalities for the provision of Development finance to the environment sector?
- ✓ What has been the impact of these modalities on sector outcomes?
- ✓ What has been the impact of these modalities on internal capacities and institutions?

*The dominant modalities for the provision of Development finance*

83. The dominant modality for the provision of development finance to the environment sector in the four study countries has been the project modality, within which we include both investment project finance and the provision of technical assistance. In Ghana, Mozambique and Tanzania, the relatively high levels of General Budget Support have also had an influence, which we discuss in more detail in section 3.2. There are also some examples of common basket funds within the environment sector both in Ghana and Tanzania but projects have been the predominant modality and the one which undoubtedly has had the most influence on the institutions of the sector and on the prevailing incentives, to which government officials and NGOs respond.
84. In each of the four countries, project-based technical assistance and investment finance have supported in important ways the development of the policy, legal and institutional building blocks of the environmental sector. There have also been a good number of successful project innovations, which for example have helped to develop new approaches to managing household fuel-wood resources, to protecting bio-diversity and to promoting sustainable natural resource management techniques. These achievements are important and should be acknowledged. Nevertheless, in relation to the basic problem of establishing and sustaining an adequate institutional framework to protect the environment and promote sustainable natural resource management, the perverse side-effects of project support have been serious and substantial.
85. Why is this? The large number of projects has been a major problem in itself, especially because the extent of harmonisation across Development Partners has been minimal: there are few examples of co-financing or common basket funding and for the most part each DP has used its own budgeting and reporting procedures, creating high

transaction costs for these four governments. Perhaps more serious, however, is the fact that projects in the environment sector have generally been very poorly aligned to government policies and systems. The case of Mali is perhaps the most extreme example (see Box 5) but we found a similar set of practices in each of the case study countries. The Ghanaian Environment Protection Agency, for example, is currently managing 28 separate projects, financed by ten different DPs. (SNV, 2007) The Mozambican budget for 2007 records 71 projects in the environment sector, implemented by 10 different government agencies with 19 different funding agencies.

**Box 5: Project mania? A Snapshot of Donor and NGO support to the Environment Sector in Mali**

External support to the environment sector in Mali is provided exclusively through projects, with the exception of the very small proportion of the FCFA 84 billion (US \$ 185 million) of General Budget Support that comes to the sector annually through the national budget process.

In 2006, there were approximately 92 externally financed projects supporting the environment, with annually allocated budgets of approximately FCFA 25 billion (US \$ 55 million) and disbursement levels probably equivalent to 40 % of this amount.

Of these 92 projects:

- ✓ 31 were managed directly by MEA and its departments and agencies;
- ✓ 14 by other Government departments;
- ✓ 37 by international NGOs; and
- ✓ 10 by international research institutes or other entities.

These 92 projects comprised 147 components, spread across the following activities:

- 25 projects/ sub-projects supporting Environmental Policies;
- 12 supporting Environmental Education & Information Dissemination;
- 9 supporting Sustainable Energy;
- 21 supporting Sanitation and Pollution Control;
- 6 supporting Bio-diversity and Conservation;
- 3 supporting Sustainable Natural Resource Management (NRM) in agriculture;
- 23 supporting NRM against desertification/ erosion/ forest depletion;
- 24 supporting sustainable management of water resources; and
- 24 providing general support to sustainable NRM.

20 different Development Agencies and at least 34 international NGOs were engaged in these projects.

**Source:** Lelong, B. (May 2006), *Annuaire des projets environnementaux des bailleurs de fonds et des ONG internationales au Mali*. GTZ, Bamako.

*The causal factors generating negative institutional effects*

86. Within a context of under-funded environmental regulation agencies and with a poorly paid civil service, the institutional impact of these practices has been very negative. It is probably most pronounced in Mali and least in Tanzania, where civil service salaries are highest, but in all four countries these effects have been significant. The chain of causality by which they are generated is worth detailing more carefully:
- Many of the activities which governments must undertake in order to oversee implementation of environmental legislation and ensure application of sustainable NRM practices are recurrent activities, which need to be undertaken in a routine manner each year. These include the review and processing of Environmental Impact Assessments, the inspection of factories, farm enterprises, Local Governments and other entities responsible for fulfilling environmental and pollution control norms, the monitoring of the physical status of the environment, the preparation of reports to Government and the public and the dissemination of information on sustainable natural resource practices.
  - In most cases, the annual budget allocations for operating expenditures are grossly inadequate to permit the effective performance of these essential recurrent activities.
  - Most environment agencies do not believe they have any feasible chance of increasing their budgets for operating expenditures to the level that would be required.
  - On the other hand, environment agency staff are aware that DPs are willing to provide substantial amounts of finance for investment projects in the environment sector, that these can generally be negotiated at the sector level, with limited interference from the Ministries of Finance or Planning, and that there is a relatively high degree of discretionary control over the management of these project budgets.
  - Moreover, it is known that many of these investment projects offer the prospect of different types of salary supplements as well as other types of fringe benefits. Better qualified public servants are often difficult to attract without the promise of such benefits.
  - There is therefore a very strong interest in winning project finance.
  - However, project finance is made available predominantly for investment activities.
  - Therefore, agencies set up with the primary mandate of protecting the environment through recurrent activities of inspection, supervision and information dissemination have had to find ways of embracing investment activities too. Indeed, these investment and project management activities have come to dominate their attentions to the detriment of the essential recurrent services necessary for the protection of the environment.
87. To a degree, these perverse incentives operate throughout the government structures in these countries but their effects are less noticeable in sectors more explicitly geared to service delivery, such as education, health, or agriculture where the differences between investment and recurrent activities are less pronounced. In a sector such as environment, where Government's role is predominantly regulatory, there are few projects which can effectively serve the needs of the ministry and promote its core mission.

Supporting the Paris Declaration: do DP's internal incentives need to change?

88. We have no doubt that the agencies engaged within the environment sector pursue the principles of the Paris Declaration. These are commitments which were entered into at the highest level and for which most agencies have now developed internal guidance and procedures. Yet, at the country level these do not appear to be the dominant incentives. Certainly in Mali, Mozambique and, to a lesser extent, Ghana and Tanzania, the two dominant incentives for most Development Agencies are, firstly, to seek maximum visibility – to be seen to be making a difference, and, secondly, to maximize project disbursements.
89. Visibility is especially important for the smaller development agencies and the smaller international NGOs, whose survival depends on being known amongst their domestic constituents. Even in larger agencies, visibility seems to have become quite important amongst environment advisers, whose positions in many agencies have been under threat as the focus of attention narrows to a small set of 'priority sectors' from which environment is frequently excluded.
90. For virtually all agencies, there is a political requirement (from Governing Boards or from Parliaments) to maintain high disbursement to administrative cost ratios. The combination of these two incentives tends to push agencies firstly to have their own 'high profile' projects and, secondly, to use their own structures to manage implementation. By using their own structures, DPs are better able to influence disbursement rates and to control the implementation process.
91. Clearly, the pattern of internal incentives is changing and its influence on the process of Development Cooperation is evolving. There are initiatives being pursued to improve the coordination of external support to the environment sector and to strengthen the harmonisation of processes and procedures. Similarly, some agencies are placing increased emphasis on the use of general and sector budget support as modalities which are more intrinsically aligned to Government policies and systems. We examine below the evidence on the impact of these initiatives.

### 3.2. Experience with the use of General Budget Support

**Assessment Questions:**

**5. The use of General Budget Support:**

- ✓ In what ways has the use of General Budget Support impacted upon the environment sector?
- ✓ What types of 'environment indicators' have generally been included in GBS Performance Assessment Frameworks and with what effects?
- ✓ In what other ways has GBS affected the institutional context for the implementation of environment sector policy?

The impact of General Budget Support upon the environment sector

92. The provision of General Budget Support may impact upon the environment sector in three principal ways:
  - By increasing the aggregate level of discretionary resources available through the Budget, it may make it easier for environmental agencies to secure

additional budgetary funding – notably for recurrent costs – and may also make it easier for the Ministry of Finance to execute approved budgets as planned.

- By enhancing the relative importance of the national budget and strengthening systems of public finance management, it may directly improve the transparency and accountability of the environment sector budget and also generate further indirect improvements, by encouraging DPs in the sector to bring projects on-budget.
  - Finally, by promoting new forms of dialogue, it may help to resolve outstanding policy issues and/ or to accelerate implementation of current policy reforms.
93. We consider the question of national and sector policy dialogue in Section 3.3 below, and confine ourselves here to comments on the first two of these effects. In Mozambique and Tanzania, GBS now represents a level of funding for the budget in excess of 15 % of total public expenditure: this is a major expansion of discretionary resources. Moreover, both countries have now been receiving GBS for some considerable time (since 2001) and it has therefore been possible to use past GBS flows to clear Government's payments arrears and to reduce the stock of domestic debt, both of which are measures which would themselves have served to increase the level of discretionary resources. Similar effects are also beginning to be felt in Ghana, although to a lesser extent – the magnitude of the Ghana MDDBS being closer to 10 % of total spending and GBS being a more recent phenomenon, having started in 2003 as opposed to 2001.
94. Thus, at the aggregate level, the cumulative effect of several years of high GBS will certainly have served to increase the availability of discretionary resources. On the other hand, it is clear from those environment sector stakeholders interviewed that viewed from the sector, the impression is that resources seem just as constrained as they have always been. To a large extent, this can be explained by the fact that the environment sector has not been the main beneficiary of increased discretionary resources. However, this in turn might simply reflect the failure of the sector (in all these countries) to gear itself up effectively to argue the case for increased budget funding.
95. What is indisputable is that at the aggregate level, available discretionary resources have increased significantly and a more objective analysis of the situation would probably identify signs of its impact within the environment sector. For example, the programme of Urgent Actions funded in Tanzania in 2006 would not have been possible in the absence of discretionary resources. Similarly, the scope of salary increases introduced in the Tanzanian civil service over the last five years – and from which the environment sector has also benefited - would also not have been possible.
96. The various evaluations of budget support arrangements in Tanzania (Daima Associates Ltd & ODI, 2005), in Mozambique (IDD & Associates, 2006) and in Ghana (Lawson et al, 2007) all point to a strengthening of budget processes and PFM systems, as a result of GBS and the associated reforms supported through its dialogue<sup>28</sup>. The beneficial effects of the strengthening of budget processes might, however, be more sector specific. In particular, where GBS has been accompanied by the continued use (or even expansion) of off-budget project modalities – as it has been in the environment sectors of all the case study countries, then it is quite possible that these effects would not be noticeable.

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<sup>28</sup> These effects are reported as being most pronounced in Tanzania and weakest in Ghana but discernible in all cases.

*Experience with selection of environment indicators within the GBS PAF*

97. The GBS arrangements in each of the four countries are monitored through the use of common Performance Assessment Frameworks (PAFs), which provide the basis for the assessment of progress at the annual joint reviews of budget support and, hence, for decisions on the level of annual disbursements. The four PAFs differ from each other in the way they use 'policy triggers' and 'policy targets' and in the precise importance attached to different indicators. Nevertheless, the broad structure of these four arrangements may be described as follows:

- *Underlying principles and base conditions* provide the basis both for defining the fundamental terms on which budget support can be provided and for setting the conditions for disbursement of the main 'base' tranche of budget support<sup>29</sup>.
- *Policy "triggers"* define the specific policy actions seen as the priorities within the reform programme. World Bank PRSC arrangements determine their annual disbursements on the basis of a combination of the base conditions and the policy triggers. Most other agencies now also follow this practice but the process of assessment may be 'holistic' – an assessment of overall progress against the 12-15 triggers – or each trigger may be interpreted as a single condition, with a percentage of a "Variable Tranche" disbursement attached to each<sup>30</sup>.
- *Policy "targets"* are indicators of progress against the overall reform programme used for discussion and monitoring purposes but not part of the decision criteria for disbursement.
- *Quantitative outcome indicators (and corresponding targets)* are used by the European Commission, and occasionally by other agencies, to decide on the proportion of the "variable tranche" which is to be disbursed. These would usually also form part of the "policy targets" but not always.

98. In referring to a "PAF indicator", one could potentially be referring to any of the latter three in this list but it is most usual to use the phrase in relation to "policy triggers" and this is the sense in which the phrase was used in Ghana, Mozambique and Tanzania, where the notion of "PAF indicators" for the environment was investigated. In most budget support arrangements, efforts are made to ensure that the number of policy triggers is kept to a maximum of 16 and 12 is perhaps the more usual number. The reason is simply that it becomes difficult to maintain a focused programme of reforms, when the number of priority reform targets starts to exceed this number. This small set of agreed priority policy actions is normally supplemented by a larger group of quantitative outcome indicators, which comprise the "policy targets" and from which the indicators for the EC variable tranche will often be chosen.

99. The range of options available means that there are significant choices to be made about the type of "PAF indicator" which is most appropriate for the environment. Some of the most important are as follows:

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<sup>29</sup> These usually entail three key conditions – firstly the existence of a national poverty reduction strategy (PRS) to which the Government (the Executive) is committed, secondly a functional ("on-track") macro-economic programme supported by the IMF (e.g. a PRGF or PSI) and thirdly a public finance management system, whose weaknesses have been formally assessed and for which there is in place an effective programme of reform and modernisation. [Lawson et al (2005) and IDD & Associates (2006).]

<sup>30</sup> This is the arrangement in place for the Ghana MDDBS.

- Should the fulfilment or non-fulfilment of the indicator have a direct effect upon the level of disbursements? In other words should the indicator be a policy trigger or a simple policy target?
  - Is Government in agreement about the proposed choice of indicator and its status as a policy trigger?
  - Can the indicator/ fulfilment of the trigger condition be unequivocally measured?
  - Would the reasons for non-fulfilment of the trigger be relatively straightforward to interpret? (So that the influence of external and internal factors could be distinguished and the grounds for a waiver and/ or an adjustment of the indicator would be reasonably clear?)
100. In deciding over which indicators should be adopted as policy triggers, it is important first to remember that the fundamental purpose of budget support is to provide additional discretionary funding to government so that priority public spending items may be better financed. Before entering into a GBS arrangement, an analysis of the PRS, of the budget and of the PFM system will have been done so as to judge that an investment of this kind can sensibly be made without undue risk. It is important within such a context to appreciate where and when it might be helpful to place explicit conditions upon the release of funding. The purpose is not to compel governments to undertake reforms which they would not otherwise have taken but rather to encourage good management to continue and to promote the fast implementation of the highest priority reforms. The generally accepted good practice is that there are two types of circumstances where this makes sense:
- Either to indicate a base condition which is considered of fundamental importance to the DPs and their domestic constituencies, such as the implementation of governance reforms or PFM reforms.
  - Or to signal a policy commitment which Government considers especially important and to which it is therefore willing to make a public and high-level commitment with financial consequences.
101. In the former case, DPs are quite explicitly insisting on a framework which reinforces the base conditions of the partnership. In the latter case, the initiative is more with Government. DPs are implicitly saying to Government, “we believe you are a good partner but we would like a sign of good faith, which would help you to advance the reform programme and help us to convince our Boards and Parliaments that GBS should continue and even expand.” Clearly, this is a subtle type of dialogue to hold and it is complicated by the fact that there are a variety of DPs involved, each with their own perspectives and interests. In most cases, the resulting PAFs fall some way short of this ideal and virtually all assessments of the use of PAFs and evaluations of GBS have pointed to shortcomings in the way they are negotiated and developed.
102. What has been the experience of attempting to include the environment within the PAFs of Ghana, Mozambique and Tanzania? How far have these good practice guidelines been followed and what have been the consequences?
103. Table 6 provides a summary of the choices made, the rationale for those choices and the consequences. From the nature of the indicators selected, it is clear that these conditions derived in all three cases from Government plans and priorities. In the case of Ghana, the originating agency was the Ministry of Lands and Forestry, who clearly sought to use the PAF arrangement as a way of securing more guaranteed funding from the Ministry of Finance. In the other two cases, the indicators derive from targets included within the PARPA2 and Mkukuta respectively.

**Table 6 The selection of environmental PAF indicators for GBS**

	Ghana	Mozambique	Tanzania
<b>PAF Indicator</b>	Timely annual release of the Forestry Commission allocation from the Consolidated Fund.	Target for number of finalised and approved district spatial plans produced per year.	Production of the 'State of the Environment' Report, 2006
<b>Objective of the indicator</b>	To establish a financial framework that would secure funding for the Forestry Commission, with the intent of helping to ensure the sustainability of this key sector.	To increase the number of District Development Strategy Plans with an elaborated and approved integrated spatial component (land-use).	Introduced into the PAF in 2007 as an indicator of the implementation of the Environmental Management Act (EMA)
<b>Relevance of indicator</b>	Clear targets set for the annual release of the budgetary allocation to the Forestry Commission. Availability of this information should facilitate monitoring and evaluation	Target reportedly set too high in relation to available capacities, raising doubts over the quality of the process.	The report has been produced, but wider challenges remain in achieving the implementation of the EMA.
<b>Origins of indicator</b>	In 2004, the then Ministry of Lands and Forestry (MLF) expressed an interest in having a forest-related indicator included in the PAF, in the context of the winding down of donor project support to the sector.	Preparation of spatial plans seen as a high priority by Government and given considerable prominence in PARPA2.	With donor support, environmental issues were strongly taken up in the PRSP (MKUKUTA) and included a large number of environmental indicators.
<b>Latest developments</b>	More recent discussions have focused on the possible inclusion of an indicator linked to the undertaking of a Strategic Environment Assessment (SEA)	Discussions are taking place over the potential inclusion of targets related to improved supervision of illegal logging and to improved control over the licensing of natural resource exploitation.	Environment currently only referred to in Cluster 2 (Quality of Life and Well-being) of the PAF. There is increasing demand from the Governance cluster to include indicators on environmental taxes and from the Growth cluster to include indicators on environmental impact.

104. Some general observations may be made on the basis of these experiences:

- All of the chosen targets/ indicators could be described as uncontroversial, if not actually superficial. None of them could be said to represent a substantive commitment implying significant administrative efforts in the pursuit of genuinely strategic objectives.
- While it seems likely that the respective governments may have been reluctant in the first instance to include more ambitious policy commitments without prior experience of PAF targets for the environment sector, one must question the use of these sorts of indicators as policy triggers. Policy triggers should be restricted to genuinely strategic reform actions and should not include routine performance indicators of this kind.

- A more appropriate alternative would have been to include these indicators as unconditional policy targets or simply to have included these actions as items for discussion within a wider process of dialogue.
  - Perhaps the mistake was to have rushed the identification of PAF policy triggers before there had been sufficient analysis and dialogue to generate a programme of strategic reforms in the environment sector. The selection of a PAF indicator should be the culmination of a process of strategic thinking not the starting point.
  - The selection of an inappropriately high target for the number of district spatial plans in Mozambique is again indicative of a rushed process of indicator selection. Some assessment of the feasibility of fulfilling indicators should precede the selection of specific targets.
  - On the positive side, the debates now taking place and the analytical work which has been undertaken in Tanzania and Mozambique on forest licensing and taxation suggest that dialogue has progressed quickly to a more strategic set of issues. Even so, the lessons of recent experience should not be forgotten: the design of a structured programme of reforms to forestry concession systems is not a straightforward issue and it would not be wise to set new PAF targets before it is clear that there is a feasible plan in place.
105. The wider lesson emerging from these experiences is that effective strategic dialogue is demanding of time and analytical efforts: it cannot be rushed. If advantage is to be taken of the opportunities which GBS offers for strategic dialogue on environmental issues, then Development Partners need to be well geared up for these processes. The indicators eventually included within a GBS PAF should be conceived as the tip of an iceberg, which rests on a much more substantial body of analytical work, verification of data, strategic discussion and detailed negotiation. The 'base of the iceberg' is likely to comprise joint work at a variety of different levels, sometimes working with specific organisations, on other occasions having more open debates with government, NGOs and other stakeholders, sometimes undertaking detailed negotiations. It is important that DPs in the sector should explicitly prepare for this process and should develop suitable approaches to the division of labour so that maximum use can be made of the combined set of resources available.

### **3.3. Development Partner contributions to Policy Dialogue**

#### **Assessment Questions:**

##### **6. Development Partner contributions to Policy Dialogue:**

- ✓ How effectively have Development Partners contributed to policy dialogue in the environment sector?
- ✓ What has been the role of Sector Working Groups in this process?
- ✓ What has been the contribution of GBS arrangements?

#### **Overview of experiences with sector working groups**

106. The four country studies show a range of experiences in relation to the organisation of structures for effective sector dialogue. There are a number of common problems which

emerge; in some of the countries these were effectively resolved, in others less so. However, it is not clear that there is any specific 'good practice' which emerges. More generally progress seems to be made through a combination of sensitivity and common sense. The role of GBS as a galvanising force does, however, emerge quite strongly:

- Mozambique has been relatively successful in organising a tripartite (Government-DP-Civil Society) sector working group under the leadership of MICOA. The initial impetus for this was the desire to develop an environmental dimension to PARPA 2 but the group has continued in existence as one of the sector working groups feeding into the GBS dialogue. Initial DP support from the Netherlands was important and the sensitive, low key way in which it was provided was especially appropriate.
- On the other hand, political structures to coordinate Government inputs into environmental policy making do not work well in Mozambique, a weakness we found also in Mali.
- An important contribution of the Multi Donor Budget Support arrangement in Ghana has been the creation of a structured process of dialogue between the sector ministries, departments and agencies and the Ministry of Finance & Economic Planning (MoFEP) at the centre of government. Environmental issues have been dealt with in the context of the Natural Resources & Environment Group (NREG), which has also been the forum to lead the development of an integrated sector-wide programme.
- The NREG sector programme remains an ongoing process which has to battle with the problems of maintaining a wide range of agencies on-board, whilst also trying to keep a balance between the relatively large (and generally vocal) set of DPs working in the sector and the government staff, who have less time to dedicate to these consultative processes. Despite these challenges, the impression is that progress is being made.
- In Tanzania, the problem has been an excess of structures for sector dialogue prompted by the existence of sector-based working groups to support GBS, a pre-existing (and slightly different) sector based structure for the annual Public Expenditure Review process and a new set of pillar/ cluster based groups to monitor implementation of PARPA. Government recently launched a review of these structures and a new, more integrated framework is now being put into place.
- Within the environment sector in Tanzania, the working group structure has focused on environmental protection functions with the NRM aspects of the environment addressed within specific sectors (agriculture, forestry, etc). There is some dissatisfaction with this approach amongst certain DPs and NGOs but a workable alternative has yet to be found.
- In Mali, the sector working group structures remain rather more informal at present, with a primary focus on exchange of information. The integration of environmental questions within the GBS arrangement seems likely to give these structures a more strategic focus.

## **4. Conclusions and Implications**

107. In this final chapter, we present a summary of our conclusions and consider their overall implications for governments and Development Partners working in the environment sector.

### **4.1. Conclusions on policies, institutions and finance for the environment**

108. On the whole, the existing body of environmental legislation and policies across the four study countries appears to be comprehensive and of reasonable quality. The main challenge concerning the policy framework is not so much the quality of the policy documents and legislation but rather the efficiency of governance institutions and the effectiveness of implementation. The importance attributed to environment and sustainable development in policy statements has, for the most part, not been reflected in resource allocation and implementation at sector level.

109. There are several reasons for the limited integration of environmental considerations into development interventions at sector level. These are related not only to the inadequate political and technical capacity of environmental governance institutions (the supply side of environmental policy) but also to the lack of a strong domestic constituency demanding effective environmental action (the demand side).

110. The supply side of environmental public action is constrained in most countries by the lack of a genuine high level consensus across sectors on the importance of environmental protection and promotion objectives. In Mozambique and Mali, the inter-ministerial committees designed to achieve this consensus and maintain high-level coordination on environment interventions are either weak or non-functional. A large part of the problem has been that these committees have been led by Environment Ministers. In Tanzania, the Department of the Environment is within the Vice President's Office and this has helped to secure stronger Government-wide coordination on the environment. Moreover, in the wake of the droughts of 2005 and 2006, the environment has become a much 'hotter' political issue and the location of the main environment and coordination agency (DoE) within the Vice President's Office has helped it to exploit this new-found political profile.

111. With the exception of Tanzania, the general picture across the study countries is that the government agencies mandated with the coordination of environmental action enjoy only rather modest political leverage. This is most powerfully illustrated by the scarce technical and financial resources assigned to such competences. All of the main environmental regulation and coordination agencies suffer from budget shortages – in particular from recurrent budget shortages.

112. Although such estimates are difficult to make with precision, we have assessed that in the study countries the average annual allocation to the Environment Protection function (following the COFOG classification of the functions of government) is between 1 % and 2.5 % of non-interest public spending. In Mali, the allocation was lower than the annual allocation to Culture, Youth and Sports or to Diplomacy and Foreign Affairs. This means that for the most part, the capacities of the environment regulation agencies are too limited to allow them to engage effectively with strategic debates, such as investment decisions which pose significant environmental threats, and their limited operating budgets prevent them from conducting effectively their basic environmental management functions such as monitoring and supervision.

113. In parallel, each of these countries has seen high levels of development project finance. Important investments have been made in reforestation, protection of bio-diversity, control of soil erosion as well as in sanitation and other types of environmental improvement projects. However, in the absence of effective agencies to control pollution and harmful environmental practices and to maintain a consistent promotion of sustainable natural resource management practices, the gains from these investment projects are difficult to sustain. Over 1990 – 2005, the combined loss of forest area from the four study countries is estimated to have been in excess of 100,000 square kilometres: in the absence of effective control of forest exploitation, this high rate of depletion cannot be expected to have fallen since then.
114. Ironically, the large numbers of development projects in the environment sector are themselves a large part of the problem. In most cases, these projects operate in parallel to the national budget process and outside of an effective prioritisation and coordination process which might otherwise avoid duplications between financiers and target resources to the most needy areas. They tend to include significant salary supplements and fringe benefits in order to attract well qualified staff. As a consequence, many of the staff of the environment agencies who should be undertaking monitoring and control functions are either preparing or managing projects. In 2005/06, the Ghanaian Environment Protection Agency was managing 28 separate projects financed by 10 different funding agencies. In 2006, the *Secrétariat Technique Permanent* of the Malian Ministry of Environment & Sanitation with only 18 professional staff was managing 9 projects. Clearly, some of the projects do support core functions of monitoring and surveillance but in general the environment regulation agencies who have responded to their funding shortages with a project-based ‘survival strategy’ have had to divert their attentions away from their core functions.
115. The other ‘survival strategy’ which many environmental and natural resource management agencies have pursued is the procurement of ‘internally generated funds’ – fees, sources and levies. Again this is a source of funding that works largely in parallel with the national budget process, with information on revenue collections and their use generally being substantially incomplete. In Ghana, the self-financing model for the environmental agencies has become effectively institutionalised, with the designation of these agencies as “sub-vented agencies”. Whilst such a model might conceivably be workable for the management of Game Parks, for most other environmental functions it is not. This is because the environmental functions which are most important are not typically those that attract fees, so that over time environmental agencies living from fees move further and further from their core roles.
116. The establishment of retention arrangements for environmental taxes such as forestry licensing and export taxes, in which the natural resource agencies collecting such taxes are allowed to retain part or all of the receipts to finance operating costs, have also been associated with serious governance problems. The continued application of the Simple Licenses regime for forest management in Mozambique seems a clear example of a conflict of interest, where a scheme supporting unsustainably high forest exploitation rates is preserved simply because it appears to allow for higher income flows to the forestry department.
117. In Tanzania, the issue of under-reporting of forestry revenue has received high profile attention and has been highlighted by a number of recent reports. The TRAFFIC report (Milledge et al., 2007) estimates that 97% of revenue is lost, amounting to some US \$ 40 million of annually uncollected forest revenues. It also identified discrepancies between the forest product export figures reported by authorities in Tanzania and China. The 2004 trade statistics show China imported ten times more timber products

from Tanzania than appear on Tanzania's own export records. Gross under-reporting of this kind suggests either that tax payments are being collected but misused or that exporters, probably in collusion with the collecting agencies, are evading tax obligations.

118. Fortunately, more attention has recently been devoted to these issues. Useful analytical work has been undertaken by DPs in Mozambique and Tanzania to begin to document the problem of missing revenues and to open up a dialogue with Government partners. In the context of the GBS arrangements existing in Ghana, Mozambique and Tanzania, environmental policy debates have been brought to a more strategic level.
119. Moreover, through a combination of increased domestic revenues, higher GBS flows and debt restructuring, the budgetary positions of each of the four study countries have improved significantly in the last three years. There are higher levels of discretionary public funding available for environmental spending. In Tanzania in 2006, this permitted the quick mobilisation and allocation of the equivalent of US \$ 8 million to the Urgent Action programme on Land Degradation and Water Catchments in response to the drought and the associated problems of power rationing. In Mali, over 2004 to 2006, spending by the Ministry of the Environment & Sanitation rose faster than total public spending and in each of these years, execution rates against the recurrent budget were close to 100%.
120. From the perspective of the environment sector stakeholders, the impression is that resources are just as constrained as they have always been. To a large extent, this can be explained by the fact that the environment sector has not generally been the main beneficiary of increased discretionary resources. However, this in turn might simply reflect the failure of the sector (in all these countries) to gear itself up effectively to argue the case for increased budget funding.
121. Despite uniform and justifiable complaints about inadequate recurrent funding, in none of the study countries was the study team presented with a coherent written or even oral argument to secure higher funding. In Mali, the approach was rather to argue for the creation of an "Environment Fund". In Tanzania, even when national resources for Sector Environment Units were promised, budget proposals were not forthcoming. There are clearly technical constraints underlying this, as well as attitudinal, but it suggests strongly that current incentives do not encourage environmental agencies to compete for funding through the budget.

#### **4.2. Conclusions on Development Partner actions and remaining challenges**

122. Changing the nature of incentives facing government officials in environment ministries is perhaps the most important challenge facing the Development Partners. The DPs are a significant player in this process because it is exactly the 'project-based' survival strategies unwittingly encouraged and facilitated by DPs, which have created the situation in which environment ministry staff no longer look to the national budget as a solution to their funding problems. If this did not carry high transaction costs and even higher costs in terms of the distortion of work programmes, it would not be so serious but unfortunately it seems to be a major causal factor in the weakening of environmental institutions.
123. In each of these countries, DP interventions in the environment domain are very fragmented in comparison to other sectors such as education, health or transport. Conventional projects with parallel financial management structures and international technical assistance components dominate the landscape and spread across a range of

sectoral domains making coordination difficult to establish, and, as we have noted above, diverting government officials away from their core business of protecting the environment.

124. However, there have been some efforts to promote sector wide policy dialogue and coordination. In Ghana, Mozambique and Tanzania, the GBS policy dialogue platform has been an important driver of such efforts. The mechanisms put in place for dialogue with the whole of government constitute, potentially, a powerful window for environmental mainstreaming.
125. Moreover, GBS is changing the nature of the budgeting process by increasing the volume of available discretionary resources. It is therefore important that the criteria for distributing the additional volume of discretionary resources become clear. For that to happen, government policy priorities need to be more clearly formulated, so that they can be converted at the sectoral level into clearly defined spending programmes. At the aggregate level, budget negotiation has to be conducted in a more coordinated fashion, based upon a comprehensive and accurate estimation of available resources, in which off-budget sources of funding are minimised. It is perhaps in these areas that the new avenues for dialogue created by GBS arrangements can be most influential.
126. GBS offers at least three entry points for policy dialogue with the whole of government: (i) the Performance Assessment Framework (PAF) which is the GBS monitoring tool which contains the priority indicators and targets on government policy, (ii) the sector working groups which provide the space for continuous exchange between the parties, and, perhaps the most important one, (iii) the Budget itself, the instrument through which funds are channelled under this modality. In the more mature GBS recipient countries, including Mozambique and Tanzania, the annual budget, the quarterly budget execution reports and the annual accounts are major subjects of dialogue between governments and their GBS partners. Often this dialogue is undertaken within technical working groups and is conducted in a relatively informal way, not directly linked to decisions on annual GBS disbursements but it is nevertheless an influential dialogue, which puts information on public spending into the public domain and helps to ensure greater consistency between stated priorities and actual spending.
127. The integration of environmental issues into GBS arrangements is still recent in Ghana, Mozambique and Tanzania and has not yet happened in Mali. So, environmental issues are still some distance from being integrated into the full range of GBS dialogue mechanisms. In Ghana, Mali and Tanzania, efforts have been focused in the first instance on the creation of appropriate sector working group structures and on the identification of appropriate PAF indicators. In both areas, activities still constitute work-in-progress and it is too early to make a definitive assessment. What has become clear is that these are complex processes, which need to be actively managed and require both high level analytical skills and strong inter-personal skills. It is probably true to say that none of the DP environment groups in these countries were adequately prepared for these challenges. This is something of which environmental advisers in Mali should be aware as they also prepare to integrate environmental issues into their GBS arrangements.
128. Where have the problems been? In relation to sector working groups, there are three key problems which present themselves. While there is no precise solution to them, there are some good practices which it is important to bear in mind:
  - Firstly in establishing sector working groups on the environment, it is essential to keep a balance between the representation of government, of civil society and of Development Partners. Across the different domains of the environment,

there are usually a large number of DPs who wish to be represented in these processes and it is important to have an effective structure for nominating representatives or 'spokespersons' from a separate DP environment group so as to ensure that the DPs do not outweigh the other stakeholders.

- Secondly, it is important to keep a balance between the amount of time spent in meetings and that spent in the analysis or the preparation and review of position papers of different kinds. As the purpose of working groups is to promote consultation and interchange of views, the natural assumption is that the best way to do this is to maximise time together in meetings. This is a mistaken assumption. In practice, it is important to strike a balance between periodic and well organised meetings and structured 'thinking time' between meetings. In addition, the organisation of periodic social events – lunches, informal workshops, etc – can help to facilitate a smooth transition between formal meetings and structured 'down-time'.
  - Thirdly, a balance needs to be struck in the design of sector working groups between a pragmatic 'narrow' approach, based on meetings within sub-sectoral groups (forestry, fisheries, etc) and an ambitious 'sector-wide' approach which brings together all players and focuses on the environment as a cross-cutting issue. Both perspectives are needed and both are equally valuable but the mix between them needs to be a structured one. Structure is especially important because otherwise the end result will be an excess of meetings with no real strategic thinking or analysis behind them.
129. On the question of the design and selection of PAF indicators, the experience of Ghana, Mozambique and Tanzania suggests that it is easy to forget that the PAF itself is only one avenue of dialogue. Even in the absence of environmental indicators within the PAF, much can be achieved through sector working groups and through technical working groups on the budget. In these three countries, discussions over the environment budget were rather limited, whereas it is perhaps here that analysis and discussion should have been initially focused. They were instead concentrated on the identification of PAF indicators for the environment. In the final event, the indicators selected were probably not appropriate for inclusion in the PAF. The impression is that their presence within the PAF took on a somewhat symbolic importance. It was more a way of establishing that the environment was an important part of strategic dialogue than a way of promoting the implementation of specific, strategic reforms.
130. In retrospect, we would judge that it was a mistake to have rushed the identification of PAF policy triggers before there had been sufficient analysis and dialogue to generate agreed, and well-focused, programmes of strategic reforms. The selection of a PAF indicator should be the culmination of a process of strategic thinking not the starting point. Colleagues in Mali should be careful to avoid repeating this mistake.
131. On the positive side, the debates now taking place and the analytical work which has been undertaken in Tanzania and Mozambique on forest licensing and taxation suggest that dialogue has progressed to a more strategic set of issues. In these countries and in Ghana, GBS arrangements have opened up new possibilities for environmental policy dialogue, which need to be exploited. The important point is to do this in a structured, thoughtful way on the basis of careful preparation.

### **4.3. Recommendations for Governments**

132. From the foregoing, it should be clear that we have identified some serious weaknesses in the institutional and financial framework for environmental policy implementation. In a context of increasing vulnerabilities due to climate change, these weaknesses need urgently to be addressed. Development Partners can do much to help, notably by improving their aid delivery practices, but in the end it is Governments who must take the lead in redressing the situation and creating a framework to maximise the potential of the environment for sustainable, broad-based growth.

133. There are four specific recommendations we would make:

- Firstly, there is a need to strengthen the structures for mobilising and coordinating actions on the environment at the highest levels of Government. In three of the four case study countries, we found inter-ministerial committees on the environment which were either weak or non-functional. This is consistent neither with the policy importance which has been given to the environment in each of these countries nor with the international commitments which have been made. Reactivating these committees at the highest levels of government must be the first step towards coordinated actions on the environment. Using a crisis narrative may be the best strategy to galvanise action and the most obvious opportunity is the challenge of responding to climate change.
- Secondly, it is necessary to find ways of raising the financing available through recurrent budgets for the main environment regulation agencies and the other government departments involved in the promotion of sustainable development practices:
  - The environmental agencies concerned should be directed to prepare realistic budget estimates of the recurrent resources required to implement environmental legislation, and where necessary should be provided the necessary technical support to do this.
  - These estimates should be reviewed by ministries of finance and, if considered appropriate, with Development Partners. Publication of budgetary estimates (both annual and medium-term) should be encouraged to promote greater public accountability.
  - In the short term, additional resources will need to be generated by controlling the growth of other sectors but with such small percentages of the national budget currently dedicated to the environment, even small savings elsewhere would make a difference.
  - In the longer term, greater fiscal space needs to be obtained by continued growth of revenues, expansion of general and sector budget support and continued reductions in debt commitments.
- Thirdly, methods need to be found to reduce the numbers of projects being managed by the environment regulation agencies whose primary responsibilities are to implement national legislation on the environment:
  - Environmental sector agencies should be directed to negotiate with their DPs to find ways of merging different projects currently working in the same or similar areas, and to ensure that all new projects are fully justified on cost-benefit grounds and make maximum use of co-financing and other opportunities for harmonisation.

- In parallel, the central agencies responsible for aid coordination should re-state clearly for the benefit of Development Partners the circumstances under which project financing would be considered appropriate and the methods of implementation which should be favoured. If possible, the policy document should also lay down norms for the payment of staff allowances from project funds.
- Simultaneous with this, Government initiatives aimed at improving the terms and conditions of scarce professional groups within the public sector need to be accelerated. Project allowances (which are often untransparent and discretionary) should be replaced with formal improvements to terms and conditions which are fully transparent and can be justified by reference to performance and professional qualifications. The Tanzanian SASE scheme (Selective Accelerated Salary Enhancement) may provide a good example of how progress might be made in this area.

#### **4.4. Recommendations for Development Partners**

134. As we have stated at various points throughout this study, the actions of Development Partners in the environment sector have unwittingly weakened the very institutions which need to be strengthened if the benefits of environmental investments are to be sustained and the state of the environment effectively protected. Changing this is the most important challenge in the short term. There is also a need to raise the level at which the environmental dialogue is conducted so that there is a political engagement with Developing Countries on environmental issues. Better preparation for political engagement is consequently needed, marshalling analytical skills to support policy dialogue and taking advantage of the new avenues for dialogue which have been created by budget support arrangements. It will be important to break down these grand elements of strategy. Much of this is country specific, but we would make five recommendations to help achieve progress:

- As a first step, DPs working on the environment should offer the support necessary for their Government partners to be able to address the agenda laid out above. This will involve high level engagement between Heads of Government and senior ministers on environmental issues: political level engagement is needed to stimulate political commitment to environmental issues in Developing Countries. It is also likely to involve technical assistance to support improvements in budgeting, revenue administration and the management of operations within environmental agencies. Support to policy development may also be needed either through TA or through the more informal provision of advice through participation in working groups, etc. Additionally, it will involve assistance in mobilising DP commitment to the rationalisation of project support and the expansion of budget support financing.
- This should be supported by direct actions amongst DPs engaged in the environment to accelerate the implementation of the Paris Declaration principles within the sector:
  - Instructions should be developed regarding the regular submission of information on project budgets and project expenditures to the Ministry of Finance and to the relevant sector ministries.

- A process of rationalising and restructuring existing sector project portfolios should be initiated so as to maximise co-financing opportunities and eliminate unnecessary duplications.
- A crucial element of the strategy laid out above for Government partners is the achievement of a switch from project financing to higher recurrent financing through the Budget. This will almost certainly require higher levels of Budget Support and the introduction of environmental issues within budget support arrangements. We make the following recommendation to help make this happen:
  - At headquarters levels, policy teams should bring together the economists who generally lead GBS processes with environment and natural resource advisers. Simple guidelines for the integration of environmental issues into budget support should then be issued, drawing on some of the key lessons identified in this study. These should give attention to the use of analytical tools such as SEAs and PEERs, which might provide a stronger factual and analytical basis for dialogue on environmental budgeting and policy issues.
- At country level, more detailed planning is needed to manage the transition towards the use of budget support instruments for the environment. This process needs inputs from GBS specialists to help address the quite complex decisions and trade-offs involved. We would recommend that this take the form of feasibility and design studies for Budget Support for the environment. These studies would need to consider:
  - the choice between the adaptation of existing GBS arrangements the design of new SBS explicitly focused on the environment and natural resources;
  - appropriate funding levels;
  - appropriate indicators and disbursement modalities;
  - the ways in which a multi-dimensional strategic dialogue on the environment should be built up;
  - the ways in which sector working groups might most effectively be structured; and
  - specific capacity building measures for DPs, government and other stakeholders to help these new approaches to work effectively.
- Finally, there is a need for a longer-term view to be promoted within DP agencies to avoid rushing the agenda and allow national ownership to take hold within the partner countries where they operate. Such a long-term view (with perhaps a 20-year planning horizon) would give prominence to new types of environmental analysis, including scenario planning, that would support the mainstreaming of higher-level environmental considerations in government strategic planning processes.

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## **Annex**

### **Terms of Reference**

#### **Budget Support, Aid Instruments and the Environment – The Country Context**

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#### **Background**

1. The provision of aid through budget support is becoming increasingly important to a number of development agencies, primarily because it can offer significant country ownership of the development process. Budget support has been defined as “financial aid which is provided in support of a government policy and expenditure programme, spent using national (or sub national) financial management, procurement and accountability systems” (DFID).
2. The OECD Joint-Donor Evaluation of General Budget Support suggested that environmental considerations have fared worse than other cross cutting issues such as gender. There are clearly still challenges in integrating environmental priorities into PRSPs, and the report has highlighted that a) even where environmental issues have been raised in a PRSP, there is little or no follow-up by donors during budget discussions and/or b) the financial support provided to tackle the issues is small/non-existent.
3. As a result of the OECD evaluation, DFID, in collaboration with the Poverty Environment Partnership (PEP), recently commissioned a literature review of evidence on links between the environment and budget support and aid instruments. This highlighted the relative paucity of information on what is actually happening in country in relation to budget dialogue and budget support agreements.
4. Additional work is now required, aiming to help donors to better understand and build on country level success factors and constraints in integrating environmental issues into the budget and related donor financial support .
5. The contributors to this work will be the UK Department for International Development, Canadian International Development Agency (CIDA) and United Nations Environment Programme (UNEP). CIDA’s contribution will be used to fund the travel, accommodation and subsistence costs associated with the proposed country case studies (see below).

#### **Purpose**

6. The purpose of this study is to analyse and document experience and best practice in transferring environmental priorities from national plans to budgets, and through into government implementation plans. In addition, the study will identify how donors can

facilitate and support such processes within the context of increasing budget support, and the use of other aid instruments.

7. The primary audience will be government officials in partner countries and their environment/natural resources counterparts in donor agencies. The secondary audience will be non-environment specialists.

### **Scope**

8. This study will focus on up to 5 countries – inclusive of Ghana, Tanzania, Mozambique and Mali.
9. The key tasks for the consultants will be to identify and document:
  - the plan (national or sectoral) to budget processes in-country, outlining the relative roles of different actors. In particular they should focus on taking environment considerations from PRSP and other plans to budgets and in particular how this fares in budget support dialogue and agreements.
  - the role of other aid instruments in supporting the eventual integration of environmental considerations into budget support agreements
  - analyse the lessons learnt from across the case study countries to draw out key principles and best practice to help guide donor engagement in-country.
10. In undertaking the work, the consultants should:
  - Use a similar approach/framework to that used for the OECD Joint Evaluation of Budget Support. This will need adapting for simplicity but the consultants should focus on monitoring the impact of the engagement in budgetary processes on policy, institutions, budgets and spending actions.
  - Seek to capture in a systematic way, the relative roles of government, donors and other stakeholders in the budget process i.e from PRSP or equivalent through to budget allocation and implementation and donor support to that process. The consultants should pay particular attention to:
    - The definition and role of sector working groups, paying attention to whether/how these groups work together, how non-environment/NR sector working groups (SWGs) incorporate the environment (eg. health) and whether there are any points of best practice which may be useful for TORs for SWGs.
    - The role of ministries of environment/finance/planning as well as other line ministries with roles in natural resources management (eg. agriculture, water, energy).
    - The intra-governmental dynamics relating to environment/natural resources, including relations between ministries, national vs local government and power distribution.
    - How environment has featured as a dialogue issue related to budget support even where it isn't reflected in the PAF
    - Division of labour between donors

- In relation to the role of donors, while the primary focus should be on budget support, the consultant(s) should also focus on how other aid instruments could support the integration of the environment into budget support or build overall environmental capacity and political commitment. For example, the consultant(s) should consider the usefulness of providing technical assistance, such as supporting economic analysis of natural resources as in Uganda in 2003 (see Annex). It will be relevant and useful to look at the experience of integration of environment both into environmental/natural resource sectors such as agriculture, forestry and energy and non-environmental sectors such as education, health, private sector development, and infrastructure development.
- The study should not only look at the PAF but also other levels of the budgetary process to see where the inclusion of environmental and natural resource issues have led to positive budgetary outcomes. A recent study on gender (by DFID Malawi) indicated that where there are no gender-related targets or gender-disaggregated targets in the PAF, this constrains the donors' ability to raise gender issues with the government – does this hold true for the environment? Are there alternative approaches – such as developing indirect environmental indicators that support what are perceived as key indicators in the PAF (eg. linked to health, growth etc.)?
- Finally, the study should also look at other cross-cutting issues such as gender and human rights and capture any lessons to be learnt from the approach to addressing them.

### **Outputs and Deliverables**

11. The main deliverable will be a synthesis report outlining key lessons learnt from the case studies. This will be supported by the individual, more detailed country study reports.
12. The reports should be written in English, with a French language version also produced for the study for Mali.
13. The main report should include information and best practice examples on the following:
  - main challenges experienced in translating environmental priorities and plans into budgetary allocation, and implementation
  - role of sector working groups with analysis of possible “best practice” approaches
  - the relative importance of obtaining PAF indicators/triggers in achieving environmental outcomes and options for alternatives (such as indirect PAF indicators)
  - the options for division of labour between donor agencies
  - the approaches being used to strengthen core government capacities in environmental management (EIA/SEA and natural resource management) at all appropriate levels (national, provincial, district)

- the use of other aid instruments to support environmental objectives and the eventual integration (if appropriate) into budget support – which ones are the most useful and the most efficient?
14. The case study reports should include as a minimum, the detailed information which responds to the points outlined in the paragraph above. Each case study should also include a section outlining the environmental context of that country.
  15. The consultants should provide a list of all those people interviewed and a detailed bibliography.
  16. The results of this study will contribute not only to policy development in DFID, but also in a range of bilateral and multilateral donors including CIDA, SIDA, Irish Aid, DGIS, UNEP, UNDP and others.

### **Constraints and Methodology**

17. The consultancy should build on and not repeat existing work, in particular the OECD Joint evaluation, the recent ODI study on Budget Support and the IDS study on integrating the environment into PRSPs. It should draw on the material already produced and use this to help inform the more detailed analysis in-country. A list of indicative sources and references is included as an annex. The consultants should also be aware of:
  - Ghana there is a brief summary of the process in the ODI report. The World Bank is including Ghana in a study of PRSP implementation and ODI has recently completed a joint evaluation of Multi Donor Support to Ghana.
  - Tanzania – DFID has recently funded a more detailed analysis of the role of Government and other stakeholders in efforts to integrate the environment into the PRSP.
  - Mozambique – DFID funded research into Gender and Aid Instruments which included interviews with DFID staff and others on the budget support process.
  - UNDP/UNEP Poverty Environment Initiative (PEI) – have undertaken activities in a range of countries, including Tanzania, Mozambique, Rwanda, Uganda and Mali, on supporting the integration of environment into PRSPs etc.
18. The consultancy will require detailed discussions with in-country staff, including donor agency officials (primarily but not solely environmental staff), partner government staff and representatives from non-state actors. The donors contributing to this study (DFID, CIDA, UNEP in particular) will help establish contacts with donor agency staff in-country.
19. The consultants should use local consultants in their work, in particular those who have already been involved in related pieces of work..
20. The consultants will need to include the following milestones:

- inception/start-up meeting with a select group of donors to clarify and agree the approach. This may be undertaken by teleconference.
- provision of an interim report mid-way through the study capturing key information in country studies to date, identifying any emerging key messages and outlining next steps for the rest of the work
- time to amend the report and possibly undertake further work in response to comments and questions from donors
- preparation and presentation of a final report to donors [and other parties]. The synthesis report should be prepared in electronic and hard copy, with a view to possible publication. At least 5 hard copies should be provided of the synthesis report. The case studies can be submitted in electronic form only.
- presentation of findings at a multi-donor workshop. This will be discussed during the course of the study.