

SUMMARY REPORT

ON

**PUBLIC EXPENDITURE REVIEW ON ENVIRONMENT AND DISASTER RISK
MANAGEMENT**



November 2014

A. Introduction

This report is a documentation of the joint public expenditure review of the Environment and Disaster Risk Management for the 2006 to 2012 period. The objective of this exercise was to conduct a review which will help to jointly evaluate the appropriateness in the use of funds and investments in the sectors. The PER provides a baseline for future trend analysis in the budget allocation and execution and effectively monitor progress on the contribution of these sectors towards sustainable development, the achievement of MDGs targets and Vision 2020. Trends and issues that have been analysed follow the major standard PER themes of public expenditure trends, public expenditure composition, efficiency of public spending, poverty targeting of expenditure and public expenditure management.

B. Methodology

The consultancy team reviewed several documents and reports of national and international character throughout the assignment. A structured questionnaire was designed which was used for collecting some data on budgets and expenditures in selected ministries and departments. A semi-structured questionnaire was used for guiding in-depth interviews that the team conducted with various representatives of stakeholders which included central and line ministries, parastatals and local councils. Interviews with carefully selected institutional respondents were made to corroborate the information secured through reading, and to gather their views, lessons and other contributions.

The monetary figures that have been used in the review were extracted from documents in ministries and departments that are directly involved in matters of environment and disaster risk management under the coding system as provided in the government accounting system. For budgetary data, the team used the Approved Estimates of Expenditure on Recurrent and Capital Budget for the six financial years. Actual expenditure figures were obtained from the Consolidated Annual Appropriation Accounts which were provided to the consultants by some of the respondent ministries and the Accountant General's Office. Budgets and expenditures for local authorities were obtained from the National Local Government Finance Committee. For international comparisons, the team used two PEER reports. One was entitled "Public Environmental Expenditure Review to Support Poverty Environment Initiative Rwanda" (2008 – 2013) which was produced in December 2013 for REMA. The other one was Public Environmental Expenditure Review Mozambique (2005 – 2010) which was produced for the Ministry for the Coordination of Environment Action in 2012.

C. Findings

- i. The total expenditure on environment that was incurred through the national budget by the key ministries of Environment and Climate Change Management, Lands, Housing and Urban Development, Agriculture and Food Security, Water Development and Tourism, Wildlife and Culture and Health adds up to US\$278 million for the six year period from 2006/07 to 2011/12. This includes expenditure incurred in local councils as a result of decentralisation which saw the devolution of some sectors to local councils, among them, environment, forestry, fisheries and water. All the sectors directly involved in environment and natural resources management have been devolved to the councils in the last three years of this study. The figure also includes environment expenditure that was incurred by subvented parastatals. The proportion of Malawi's environment expenditure to total

government expenditure and the country's GDP for the same period was 3.15% and 0.96% respectively. The total expenditure on disaster risk management that was incurred through the national budget for the six year period amounted US\$ 4 million. A combination of ENRM and DRM gives a total amount of US\$ 282 million. DRM constituted 1.4% of this total expenditure.

Over the six years under review, water has been the environment subsector that has incurred the highest expenditure at 30% of the total ENRM expenditure. This is followed by lands at 25%. This level of expenditure has principally been attributed to the financing of water projects under the National Water Development Programme and the Community Based Rural Land Development Programme by development partners. The least environmental expenditure has been ORT that has been incurred by local authorities in all the ENRM devolved sectors at 1% of the total environment expenditure during the review period.

Among many outputs and outcomes, the US\$ 282 million expenditure yielded the following results in the six year period:

- a) the sectors under review made a positive contribution to the agriculture. The total food surplus over the six year period was 5.6 MT.
- b) the Department of Forestry facilitated planting of more than 300 million trees over 125,000 hectares of land countrywide.
- c) the forestry sub-sector has been directly linked to, and has an influence on the attainment of other key priorities set in the MGDS. Apart from the key linkages with MGDS priority area, forests have also been important sources of employment and income, promoters of biodiversity that is important in ecotourism, and regulators of climate change. Full time employment in forestry is around 29,000 with a further 130,000 jobs involved in wood fuel supply¹.
- d) Malawi Government has generated revenue from forestry resources through revenue collection in a number of areas. For instance, the major sources of revenue in the sectors have been royalties on forestry produce on customary estate and administration fees, licences and concessions among others. The revenue from these sources over the six year totalled MK 1.185 billion².
- e) the Community Based Rural Land Development Programme in Ministry of Lands, Housing and Urban Development planned to improve incomes of 15000 rural poor households by implementing a decentralized, community based voluntary and market assisted approach to land reform through the provision of land to the landless and poor households. The 15142 households that had been relocated by 2010, their incomes rose by an average of 68% one year after relocations³.
- f) the tourism sector has received considerable public attention, recognizing it as a potential contributor to the GDP. For example in 2001 the sector contributed

¹ Economic Valuation of Natural Resource Use in Malawi, Ministry of Finance

² Annual Economic Reports, Ministry of Economic Planning and Development

³ Impact Evaluation Report of the Community Based Rural Land Development Project, Franklin Simtowe

approximately 1.8 percent of the country's GDP while in 2007, the figure increased to 5.8 percent. In 2012, tourism contributed 7.2 per cent of GDP.

- g) the Department of National Parks and Wildlife has been generating revenue through visitors' utilization of the wildlife resources found in the different protected areas. The revenue is generated from consumptive and non consumptive uses. Revenue from consumptive use is from sales of trophies, honey and others. Trophies include hippo teeth, skins and meat. Other sources of such revenue are bird licenses, game farming licenses, game ranching licenses and hunting licenses.
 - h) the fisheries sector directly employs nearly 60,000 fishers and indirectly over 500,000 people who are involved in fish processing, fish marketing, boat building and engine repair. Further nearly 1.6 million people in lakeshore communities derive their livelihood from the fishing industry⁴.
 - i) fish provides over 70% percent of the dietary animal protein intake of Malawians and 40 per cent of total protein supply. It also provides vital vitamins, minerals and micronutrients. Much of the fish is consumed in rural areas thereby contributing significantly to daily nutritional requirements to some of the vulnerable groups such as people living with HIV and AIDS, orphans and the poor. As a source of income, fish landings in 2011 had a beach or landed value of MK 19 billion.
 - j) the Department of Disaster Management Affairs developed a National Disaster Risk Management policy, reviewed the 1991 Disaster Preparedness and Relief Act, incorporated DRM in primary school curriculum, establishment of a National Platform as a coordination mechanism for DRM/DRR under UNISDR guidelines, developed and reviewed district based contingency plans for all 15 disaster prone districts, carried out capacity building for DoDMA staff and DRM focal points from key ministries and developed the DRM handbook and Operational guidelines.
- ii. It was also found out that from 2006/07 financial year the annual expenditure for these institutions kept rising but fell in 2010/11 and 2011/12 as there was little provision of resources for capital expenditure from development partners largely because of the Malawi budget reform measure called zero deficit budgeting that the government adopted in 2011. Also key at play was the fact that Malawi's programme with the IMF under the Extended Credit Facility (ECF) went off track in mid-2011 due to policy slippages, which triggered a suspension in donor support⁵. The 2011/12 expenditure figures in US\$ were significantly diminished following a 50% devaluation against foreign currency in that fiscal year.
 - iii. The development partners supported the environment and natural resources sector to the tune of US\$99 million over the six year period through direct support to 25 projects. US\$43.9 million was managed through the government budgeting system in 13 projects. For DRM, US\$44.15 million was spent through public institutions in 26 projects and US\$5.25 million through non-state actors and other organisations (18 projects) with no financing made through the government budgeting system. 86% of total environment financing by donors supported government projects, out

⁴ Annual Economic Report 2012, Ministry of Economic Planning and Development

⁵ African Development Bank

of which 48% was off-budget support. In DRM, financing to government institutions constituted 60% with the remainder having been channelled through non-state actors and other organisations

- iv. Inter country comparisons with two sub-Saharan countries show that Malawi is in line with these countries as far as spending on the environment is concerned. The country stands between Mozambique and Rwanda where the environmental expenditure percentage for Malawi is lower than for Mozambique but higher than that for Rwanda. The consulting team was unable to access DRM PER reports of other countries that would have aided comparative analyses in the sector.
- v. There is very little linkage between the policy framework and budgeting. Many of the policies in environment and disaster risk management have no deliberate connection with funding and financing issues that are necessary for the effective implementation of those policies. Since this is a general challenge, Malawi adopted a Medium Term Expenditure Framework (MTEF) in 1998 as a step towards addressing this challenge.
- vi. Many policies in ENRM (including the draft National DRM Policy) advocate for collaboration with local councils to deliver their agenda. Unfortunately the councils are poorly resourced and are said lack operational capacity. The study has revealed that the councils are spending 1% of total environment funds as ORT.
- vii. Distinguishing of programmes and expenditure between environment and climate change is very difficult. The dividing line between the two is not clear cut. In all ministries and departments, environment and climate change expenditures are coded as one. Further to that, Ministries such as Defence, Home Affairs, Transport, Health and Agriculture are involved in DRM activities, especially when there is need for response to disasters. However, they do not have budget lines for that.
- viii. ENRM and DRM policies (*the National DRM Policy is still in draft form:*) in the country have a very weak link with planning and budgeting. Progress remains to be made in strengthening the link between policy framework and budgeting in the environment and DRM sectors. Although Malawi was one of the first countries in Sub-Saharan Africa to introduce the Medium Term Expenditure Framework in the late 1990s and adopted an output based presentation and a new programme classification in 2010/11, the budgeting process is still very much input based, incremental in approach and little policy led.
- ix. On average 50% of donor support is off-budget despite Malawi being a country that adheres to the Paris Declaration on Aid Effectiveness (2005) and Accra Agenda for Action (2008) that advocate harmonisation of aid with national budget system. Whilst observance to the two declarations is necessary, Malawi Government financial management system has been weak as evidenced by a massive plunder of government resources by business opportunists, civil servants and politicians in 2013. Based on this weakness, it becomes difficult for donors and recipients to hold each other accountable for their commitments.
- x. Sectors that were devolved to councils earlier than 2009/10 such as education and health have clear formulas for allocating funds to them. Allocation of funds to ENRM sectors has been ad hoc and experiential, not based on formulas. In the absence of a resource allocation formula there has been be room for subjectivity and lack of fairness in resource allocation. DoDMA is working towards practical collaboration with district councils: for example the department is in the process of developing

devolution guidelines for DRM. It has also deployed Assistant District Disaster Risk Officers to councils in the 15 disaster prone areas whose primary responsibility is, in liaison with District Commissioners, to report occurrences of disasters in the districts.

- xi. Despite the existence of structures like NDPRC which is responsible for providing direction on the implementation of DRM programmes, the implementation is poorly coordinated, there is duplication of effort and wastage of resources⁶. Regardless of the fact that the Government of Malawi recognizes disasters as one of the key factors hindering economic growth and poverty reduction, the country still suffers from disaster response culture⁷ which results in adhoc expenditure management in the sector.
- xii. Save for the draft National Climate Change Policy (2012), most of the policies in ENRM have no financial or investment goals and strategies. The National Disaster Risk Management Policy (2013) sparsely touches on this.
- xiii. All the key ministries involved in ENRM were unable to achieve their plans in full due to resource constraints. Achievement on outputs has been at an average rate of 83%. Our finding is that in the early years of the scope of this study, levels of achievement on output could be as high as 100% but this has declined over time. The reasons for declining performance are basically inadequate financing. The effectiveness of disaster preparedness in the country is hampered by lack of multi-hazard contingency plans in most districts and communities. The few districts that have the plans do not allocate resources for their implementation and review⁸.
- xiv. The absence of duly approved policies coupled with lack of deliberate strategic responses have continued to frustrate achievement of national and international goals chief among them the Malawi Growth and Development Strategy and the Millennium Development Goals. Disaster Risk Management, National Climate Change, Aquaculture and Fisheries and Forestry policies are in draft form. It is necessary to ensure that these policies are finalized and approved so that they provide a direction towards achievement of institutional goals.
- xv. Many parastatals, even when they are directly involved in activities of environmental nature, do not have budgets for environment and natural resources. Such costs are lumped up together with general expenses or administration costs. This is against the generally accepted standards of budget transparency that provide stakeholders with greater leverage in demanding greater access to budget information.
- xvi. While section 10 (1) of the Public Finance Management Act (2003) compels all Controlling Officers to ensure that all accounts and records relating to the functions and operations of a ministry are properly maintained, it was found out that some ministries and departments hardly keep financial records. Stakeholders who seek to access financial data from the department are referred to the Accountant General's office, the office that manages the Integrated Financial Management Information System (IFMIS) and is the central repository of all accounting data in the government service.

⁶ Disaster Risk Management Coordination Structures in Malawi - Lilian Ng'oma/Harry Mwamlima

⁷ Draft Risk Management Policy – Department of Disaster Management Affairs

⁸ Draft National Disaster Risk Management Policy (2013)

D. Recommendations

- In the short term, government should provide more financing for environment and DRM at district level based on annual work plans and budgets which should be approved by the councillors who are now in place. In the medium term, a capacity assessment in terms of human resources, leadership and governance, equipment and systems should then be undertaken in the local authorities. The capacity assessment should provide a basis for development of capacity empowerment plans.
- A separate code for climate change to which all budgeting and spending on climate change will be attributed should be created in the national budgeting and reporting system. It is straight forward that with a code in place, CC will have all its budgets and expenditure lumped under that code. Ministries that are constantly called upon during disasters need to have a budget lines for DRM.
- All budgets that are submitted by ministries and departments should not prepared in an ad hoc manner but be based on policy aspirations. Adherence to the MTEF approach should be enforced despite the fact that there has been slow progress on the operationalisation of MTEF because of lack of political leadership and commitment to the MTEF and budgeting, inadequate management and coordination – the institutional rules and procedures for planning and managing the MTEF and budget across government have not been effectively applied and lack of focus of policies and budgets on the delivery of outcomes and outputs⁹. When revising policies, their link with the planning and budgeting system should be clearly deliberate. The key policy in environment, NEP, has been due for revision since 2009.
- Government already started putting aid on budget through the establishment of the AMP. The efforts should continue with government assurance of strengthened financial control systems. The weak controls in Malawi's financial systems has been a concern to many stakeholders including development partners. Government proceed with development and full implementation of IFMIS in all public institutions in order to get comprehensive and real-time budget execution data allowing effective public expenditure planning and management, in upgrading the IFMIS particular attention should be given to measures that will facilitate bringing donor project financing on budget.
- As provided for in the draft National Disaster Risk Management Policy, there should be forward planning for disasters. The approval process for the draft policy nshould hastened so that it provides a mandate for forward planning and budgeting for disasters.
- In view of observed adequacy, effectiveness, efficiency, poverty-targeting and appropriateness of analyzed spending in each year and the entire period, the ministries that are involved in environment and DRM should continuously discuss their work plans and budgets with central ministries for purposes of getting more financing as well as enhancing capacity.

⁹ Malawi Public Expenditure Review Report No. 79865 – MW – Document of the World Bank

- There is need to enforce introduction of budget codes for environment and natural resources management. Fulfilment of this requirement will be in tandem with the provision of Section 78 of the Public Finance Management Act (2003).
- Besides submission of all accounting data to the Accountant General and other stakeholders, ministries and departments should be keeping copies of financial records as a requirement of the law and generally accepted accounting practices.