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Malawi

Policy Brief

Review of Public Expenditure on Environment and Natural Resources

Key Messages

- On average the annual expenditure on ENR is equivalent to 0.96% of GDP. This figure is low considering that unsustainable ENR use has been estimated to cost Malawi 5.3% of GDP annually
- 70 % of ENR expenditure occurred in sectors, which is important for ENR implementation. However, there is a need to ensure better links between ENR sector policies, budget processes and cross-sector coordination
- Only 1 % of Malawi's ENR expenditure is spent at the district level. The PER recommends to allocate more of ENR funding to the districts and to strengthen district officers' capacity to implement ENR objectives for better impact on the ground.
- The PER also suggests that sector ministries improve the application of ENR budget codes and that the Ministry of Finance and Economic Development Planning defines climate expenditure and explores the option of introducing a climate budget code

Introduction

Malawi's economy is largely dependent on **Environment and Natural Resources (ENR)** which makes the country highly vulnerable to the adverse impacts of ENR degradation and climate change. Unsustainable ENR use has been estimated to cost the country 5.3% of GDP annually and thus contributes to reducing annual rates of economic growth and poverty reduction.ⁱ Productivity of major crops is significantly below potential yields due in part to reduced soil fertility caused by unsustainable land use practices. It has been estimated that if the problem of soil erosion had been addressed and lost agriculture yields had been recovered, approximately 1.88 million people would have been lifted out of poverty between 2005 and 2015.ⁱⁱ In this context investment in pro-poor ENR sustainability is essential in order for Malawi to reach the goals of the Malawi Growth and Development Strategy II (2011-2016).

In 2014, the Ministry of Finance and Economic Development Planning with support from the UNDP-UNEP Poverty-Environment Initiative commissioned a **Public Expenditure Review (PER)** of ENR to assess the Government of Malawi's expenditure on ENR between 2006 and 2012. The Review examined the expenditure for the following sector ministries: Ministry of Environment and Climate Change Management; Ministry of Lands, Housing and Urban Development; Ministry of Agriculture and Food Security, Departments of Forestry and Fisheries; Ministry of Irrigation and Water Development; Ministry of Tourism, Wildlife and Culture; Ministry of Health; and Local Councils and Authorities and relevant Parastatals. This Policy Brief presents findings from the analysis, conclusions and policy recommendations.



Public Expenditure Review on Environment and Natural Resources

Harnessing public resources in support of pro-poor and environmentally sustainable development is important. In most developing countries public sector financing is key to implementing development policies and plans and as such the scope of a PER is to analyze the use of public funds that are allocated through the national budget system. The objective of the Review was to evaluate the investments and appropriateness of the use of funds for ENR across sectors and districts. The PER provides a baseline for future trend analysis in budget allocation and execution and is an important indicator of government commitment to achieving sustainable pro-poor development through the Malawi Growth and Development Strategy II and Vision 2020.

Key Findings

According to the PER, Malawi's total expenditure on ENR across Government ministries and local councils between 2006 and 2012 was MWK 44,063 million (USD 278 million). The average national expenditure on ENR during the six year period was equal to



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3.15% of the national budget or 0.96% of the country's GDP. When Malawi experienced economic growth between 2006 and 2010 the country's expenditure on ENR increased substantially, however, as the country entered into economic contraction in 2010/11 the environmental expenditure declined as sharply as it had once risen. From a regional perspective, Malawi's expenditure as a proportion of the national budget is higher than that of Rwanda (2.5%) but lower than that of Mozambique (4.3%).ⁱⁱⁱ

Table 1 provides a summary of the total ENR expenditure for the 2006-2012 period expressed in MWK. The equivalent dollar amount is included for reference purposes. However, it should be noted that the exchange rates fluctuated between 140 and 244 MWK in the period.^{iv}

About 70% of the ENR expenditure between 2006 and 2012 occurred in sector ministries and not in the Environment and Climate Change Ministry itself. For successful poverty-environment mainstreaming it is essential that sectors invest in sustainable ENR management and do not leave this to the ministries of environment in order for a country to achieve sustainable pro-poor development. The PER shows that ENR expenditure in sectors has positively contributed to food security, reforestation and land reforms for the benefit of the landless and

created rural employment. However, as the financing and expenditure on ENR declined for the ministries over the years, so did their level of achievements vis-à-vis ENR related policy objectives.

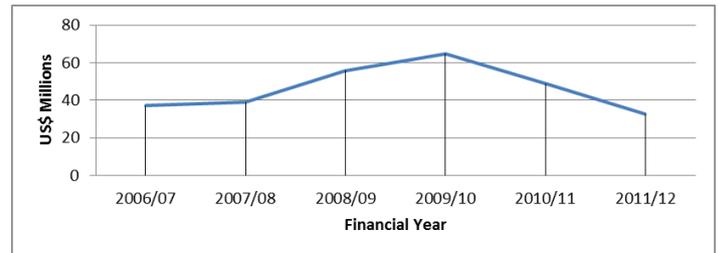


Figure 1. ENR Expenditure trend 2006-2012

The lack of financial resources for the implementation of ENR policy objectives can partly be explained by the disconnect between ENR policies and the national budgeting framework. ENR policies are developed outside the annual budget process and the Medium Term Expenditure Framework and without financial or investment goals and strategies resulting in insufficient funds for policy implementation. If ENR policies were better linked to the national budget framework the opportunity for improved cross-sector coordination would further be facilitated

Table 1. Summary of total ENR Expenditure across ministries 2006/07 to 2011/12 (Millions)

Ministry	06/07 MWK	06/07 USD	07/08 MWK	07/08 USD	08/09 MWK	08/09 USD	09/10 MWK	09/10 USD	10/11 MWK	10/11 USD	11/12 MWK	11/12 USD	Total MWK	Total USD
Environment	1340	9.57	870	6.19	1416	10.02	1599	10.70	2307	14.28	2325	9.53	9857	60.29
Land*	2019	14.42	2023	14.39	2271	16.07	2967	19.85	989	6.12	436	1.79	10705	72.64
Agriculture	267	1.91	540	3.84	695	4.92	811	5.42	600	3.72	1121	4.59	4034	24.40
Irrigation Water	1048	7.49	1372	9.76	2233	15.80	2740	18.33	2604	16.12	2881	11.81	12878	79.31
Tourism & Wildlife	77	0.55	202	1.44	625	4.42	629	4.21	490	3.03	284.5	1.17	2307	14.82
Housing	121	0.86	184	1.31	206	1.46	257	1.72	289	1.79	119	0.49	1086	7.63
Local Councils	-	-	-	-	-	-	168	1.12	148	0.92	159	0.65	475	2.69
Parastatals	334.6	2.39	331.3	2.36	431.3	3.05	531	3.55	483.5	2.99	609.5	2.50	2721	16.84
Totals	5207	37.19	5462	38.85	7877	55.75	9702	64.90	7880	48.79	7936	32.52	44063	278
US\$/MWK	140		140		141		149		161		244			

* The decline in expenditure for the Ministry of Land and Urban Development between 2009/10 and 2011/12 is due to the completion of two large donor supported projects (the Community Based Rural Land Development Project and the Customary Land Reform and Sustainable Rural Livelihoods Project).

which would strengthen joint efforts in reaching national goals and avoid conflicting sector policies. An example of two policies that could benefit from closer linkages is the fisheries and wildlife policy. The Review further notes that the slow process of approving the revision of key policies, such as environment, fisheries, forestry, and climate change and disaster risk management, is preventing progress in terms of financing and cross-sector coordination.

While the lack of financial resources is an important factor for explaining the reduced level of output achievements, the lack of human and technical capacity to implement and monitor the objectives are equally important. For example, district councils have been recognized to be well positioned to deliver on ENR objectives for an impact on the ground. Yet only 1 % of the ENR funds were spent at the district level due to low levels of allocation and capacity constraints among district officers. Furthermore, ENR related sectors at the district level (water, environment, fisheries and forestry) do not have budget mechanisms for the allocation of ENR funds resulting in ad hoc and subjective allocations unrelated to the policy goals.

In addition to the review of ENR expenditure, the PER, drawing on previous studies and government reports, also highlights the important revenues and employment opportunities that the ENR sector brings to the country. For example, nature based tourism contributes to 7.2% of Malawi's total GDP^v and between 2006 and 2012 forest revenues amounted to MK 1.2 billion (USD 7.3 million^{vi}) and the sector offered employment for some 160,000 people;^{vii} furthermore, nearly 1.6 million people in lake shore communities derive their livelihood from the fishing industry and fish landings as a source of income had a landed value of MK 19 billion (USD 116 million) while contributing to 40 % of Malawian's total protein supply. Under investments in sustainable ENR management across sectors reduce the positive contribution of ENR to the country's economy and people's livelihoods.

A challenge when conducting the PER was to separate the expenditure on ENR from expenditure on climate change since there is currently no specific budget code for climate expenditure or commonly agreed definition on what constitutes climate expenditure. The PER further noted that existing ENR budget codes are not always used or applied correctly by the sectors and that many parastatals lump ENR related expenditures under general expenses as they lack ENR budgets and budget codes. These are two common issues highlighted in PERs for other countries which in the case of Mozambique and Nepal have led to the introduction of climate budget codes and important work to correct the use of existing budget codes.^{viii}

In Malawi a significant proportion of the expenditure on ENR is supported by development partners (USD99 million 2006-2012)^{ix}, but the PER revealed that only about half of that support went

through the national budget system. This is problematic in light of the emphasis on national ownership coming out as a strong recommendation from the Busan and Paris Declarations on Aid Effectiveness, although understandable in light of the challenges that Malawi's public sector financial management system have faced in recent years. As the scope of a PER is to analyze the use of public funds that are entered through the national budget system this also means that almost half of the donor support is not analyzed in the Review.

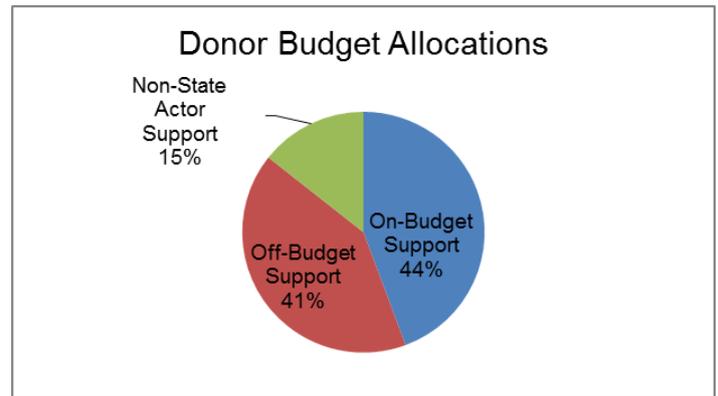


Figure 2 - Source: Aid Management Platform, Ministry of Finance

Conclusions

The Government of Malawi has in recent years made significant progress in integrating pro-poor environmental sustainability objectives into policy, planning and budgeting processes. For example, the Malawi Growth and Development Strategy and 10 include such objectives and the annual Government budget guidelines have for two consecutive years (2014 & 2015) included a chapter on the importance of sectors alignment with sustainability guidelines. Sectors account for 70% of ENR expenditure which is a major achievement, in particular as the expenditure contributed to food security, reforestation and land reforms to the benefit of the landless and has sustained ENR related revenues and employment opportunities.

Despite these positive outcomes and efforts, an average annual expenditure on ENR equivalent to 0.96% of GDP remains too low taking into account that unsustainable use of ENR has been estimated to cost the country 5.3% of GDP annually and prevent poverty reduction. Under-investment in ENR hamper the Government of Malawi from achieving national development goals, and is likely to reduce future revenues from the ENR sector that currently contributes significantly to the GDP and livelihoods of Malawians.

As the Government of Malawi starts developing its new national development framework in 2015 the links between poverty and

environment need to be reflected and pro-poor environmental and natural resource sustainability objectives should be at the core of the policy, planning and budgeting processes.

Policy Recommendations

Based on these findings the Government of Malawi, and in particular the Office of the President and Cabinet, is encouraged to speed up the policy approval process for ENR policies, in particular the environment, fisheries, forestry, climate change and disaster risk management policies that are still in draft form. The revised policies need to have a close link to the Medium Term Expenditure Framework and the annual budget process to ensure sufficient allocation of funding in line with policy priorities. ENR related sector policies further need to account for issues of investments and sourcing of finance for implementation.

Sector ministries are recommended to systematically coordinate work plans and budgets with central ministries including the Ministry of Finance and Economic Development Planning, and the Office of the President and Cabinet to align policies and budgets but also to ensure cross-sector coordination in the implementation of policies. The start of the process to develop further Malawi's next five year development framework provides an opportune moment to ensure that future policies and budgets integrate pro-poor environmental sustainability objectives.

To ensure that ENR policy objectives are implemented and have an impact on the ground there is a need to direct more of the ENR funding to the district level. However, it is equally important to conduct capacity assessments of district councils which will provide a basis for the development of district capacity empowerment plans to implement pro-poor ENR objectives at the local level. The Government of Malawi is further recommended to review the budget formulas for allocating ENR funds to district authorities as part of the review of Malawi's devolution guidelines.

It was not possible in the PER to separate the expenditure on environment and climate because of the lack of an existing budget code for climate expenditure which in turn likely is due to the absence of a national definition of what constitutes climate expenditure. Consequently, the government is encouraged to define climate expenditure and explore options for introducing a budget code for climate change. Mozambique is a country in the region that has pioneered the introduction of a climate budget code and lessons could be learned from here.

There is also a need to enforce the use of ENR budget codes by sectors, districts and parastatals in tandem with the provision of Section 78 of the Public Finance Management Act (2003). Generating information to effectively track ENR and climate expenditure is instrumental to strengthening the system of national account and to enable building blocks for a System of Environmental Economic Accounting as well as for accessing global environment and climate funds to bridge these gaps.

References

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- ^{iv} Reserve Bank of Malawi
- ^v Footnote i
- ^{vi} Based on the average exchange rate from 2006 to 2012
- ^{vii} Annual economic reports, Ministry of Economic Planning and Development
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