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Budget Brief 2016: WASH

KEY MESSAGES

- ▶ In 2016, the WASH Sub-Sector was allocated MT 6.9 bn (US\$ 147.5 mn), representing 2.8 percent of the State Budget, which is a decrease compared to the 3.4 percent share allocated in 2015.
 - ▶ The WASH Sub-Sector in Mozambique is principally donor funded. Over the past seven years, donor resources have accounted for 80 percent of total sector resources executed, not including off-budget contributions.
 - ▶ Despite the ASAS common fund having phased out in 2015, the PRONASAR common fund attracted MT 290 mn in donor commitments in 2016. While this indicates an increase over last year's disbursements, it still falls significantly below the fund's disbursement peak of a nominal MT 566 mn in 2012.
 - ▶ ARA South received the largest allocation in the 2016 WASH budget, equal to 29 percent of total resources destined to the sub-sector. ARA South is followed by MOPHRH (with a 23 percent share), FIPAG (21 percent), and AIAS (19 percent).
- ▶ The WASH Sub-Sector is highly centralized; in fact, the central level has controlled, on average, 94 percent of WASH resources since 2009 and is budgeted to use 93 percent of resources in 2016. The district level, on the other hand, controls less than one percent of the sector's resources.
 - ▶ The WASH Sub-Sector has struggled to execute its full budgets. While the average State Budget execution rate between 2009 and 2015 was 88 percent, the WASH Sub-Sector executed just 76 percent over the same time period. Poor execution of external investment funds (provided by donors) has been most responsible for the low WASH aggregate budget execution rates.
 - ▶ WASH Sub-Sector budgeting and expenditure is challenging to accurately track due to WASH resources being bundled together with public works and housing resources in the MOPHRH and affiliated sub-national institution totals. In order for increased transparency and accountability, the sub-sector requires the deconcentration of WASH-related directorates and offices in MOPHRH, and its extension institutions, into separate UGBs.

Background

The original 2016 State Budget and Economic and Social Plan that were approved by Parliament on December 2015 were revised in July 2016 in response to changes in the country's macro-fiscal environment. In the face of lower commodity prices, decreased foreign direct investment and foreign exchange inflows, increased debt burden, frozen disbursements from donor General Budget Support, halted IMF Stand-by Credit

Facility, additional required public spending to alleviate effects of widespread droughts in the south of the country, and a resulting devalued currency and revised inflation projection to 16.7 percent¹, the Government of Mozambique revised the State Budget. Targets in the Economic and Social Plan were revised in accordance with the new expected spending levels.

Please note: UNICEF does not have access to e-SISTAFE (Mozambique's integrated financial management information system); therefore, all analysis was carried out with publicly available information. The viewpoints expressed in the brief are those of the author and do not necessarily represent those of UNICEF.

1) LOE Rectificado, Documento de Fundamentação, 2016. Pg.2.



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2.8% is the weight of the sub-sector in the 2016 State Budget, which is smaller than its weight in 2015

1. How is the WASH Sub-Sector defined?

The original 2016 State Budget was worth MT 246.1 billion (bn), while the 2016 Revised State Budget is worth MT 243.4 bn, representing a 1.1 percent decrease. In response to the altered macro-fiscal environment, in early-July 2016, the Government announced its plan to reduce the budget by MT 24 bn, equal to 10 percent of original value of the 2016 State Budget; however, the decrease was by just MT 2.7 bn. This is in great part due to the fact that foreign donor funding, provided in foreign currencies, is now worth more in Meticais than when the budget was first prepared, given the depreciation of the Metical. The budget cuts made were concentrated in the internally-financed investment category –which decreased from MT 41.3 bn to 28.9 bn– as all major construction projects have been put on hold².

Transparency of the Mozambican budget is in question and further fiscal austerity is expected following the disclosure of government guaranteed debt. In April 2016, Mozambican authorities acknowledged over US\$ 2.3 bn in previously undisclosed Government guaranteed debt. Even before the revelations, the International Budget Partnership's 2015 Open Budget Initiative evaluated Mozambique as having "minimal budget transparency", with the country having scored just 38/100 (compared to the 45 global average) on transparency indicators; and "almost no public participation in the budget process", scoring just 2/100 (compared to the 25 global average) on participation indicators³. Nevertheless, Parliament and the Ministry of Economy and Finance have started to engage on initiatives to increase public participation in the budget process⁴. With the recent disclosure, the country's debt-to-GDP (gross domestic product) ratio stands at more than 90 percent, one of the highest ratios in sub-Saharan Africa. The Government will likely be expected to reduce public spending in the short- to medium-term in order to service the public debt to be sustainable.

For the purpose of this budget analysis, the WASH Sub-Sector refers to the group of institutions supporting Water, Sanitation, and Hygiene (WASH) public services and water resource management. The organic structure of the WASH Sub-Sector changed with the incoming new Government in 2015. The Ministry of Public Works, Housing and Water Resources (MOPHRH in its Portuguese acronym), at the central level, governs the sub-sector through the National Directorate of Water Supply and Sanitation (DNAAS) and the National Directorate of Water Resources Management (DNGRH). DNAAS is responsible for ensuring universal access to water and sanitation services and the DNGRH is responsible for the development, conservation, and sustainable use of water resources from watersheds for various uses such as household consumption, agriculture, hydropower, etc.⁵ Other WASH institutions at the central level are the Water Regulatory Council (CRA), which is the sub-sector's regulatory body; the Water Supply Investment Fund (FIPAG), which is the water supply utility responsible for supplying water to large cities and towns; and also the Water and Sanitation Infrastructure Management Agency (AIAS), which is responsible for supplying water and sanitation services to small towns.

At the provincial level, the Provincial Directorates of Public Works, Housing, and Water Resources (DPOPHRHs), through their Water and Sanitation Departments (DAS), extend MOPHRH's mandate to the provinces and oversee the implementation of MOPHRH's water supply and rural sanitation investment programs. Also at the sub-national level, Regional Water Resource Management Agencies (ARAs) regulate the use of river basin waters by collecting regional hydrological information, providing water to irrigation systems, and collecting water usage fees.

There are five autonomous ARAs: (i) ARA South is responsible for Maputo, Gaza, and Inhambane provinces; (ii) ARA Central is

2) LOE Rectificado, Documento de Fundamentação, 2016. Quadro 7. Pg.19.

3) International Budget Partnership. Open Budget Initiative. 2015.

4) For example, in 2016 meetings were held between Government, Parliament and Civil Society to discuss how to improve participation and transparency, MoEF consulted CSO on how to improve the planning and budgeting cycle and the Citizen's Budget, Parliament brought onboard technical assistance to promote openness and participation, etc.

5) Note: In the State Budget, the allocations to the DNAAS and DNGRH are concentrated in the allocation to MOPHRH. See: *Relatório Anual de Avaliação do Desempenho do Sector de Águas*, 2015. Pg 45.

6) Note: In the State Budget, the ARA South is considered a central level institution. Source: Development Finance International, WaterAid. "Financial Absorption in the Water, Sanitation, and Hygiene Sector". Pg 8.

for Sofala and Manica; (iii) ARA Zambezi is for Tete and part of Zambézia; (iv) ARA North-Central is for Nampula and part of Zambézia; and (v) ARA North is for Cabo Delgado and Niassa⁶.

The District Services for Planning and Infrastructure (SDPIs) serve as MOPHRH's arm at the district level. The SDPIs oversee projects for the building of wells, boreholes, and small water supply systems as well as the construction of latrines. In addition to SDPIs, various district-level WASH-related activities are implemented under the authority of the District Secretaries (SDs).

2. What methodology is employed to calculate WASH Sub-sector totals?

Significant disparities in WASH Sub-sector budget and expenditure totals exist between MoEF and MOPHRH sources. Neither of the sources, however, provides a perfect representation of the resources applied, and then used, in the sub-sector. Summing either the total resources allocated to, or spent on, WASH activities is a challenging exercise since such activities are bundled together with other public works and housing activities in the published totals for MOPHRH, DPOPHRHs, SDPIs, and SDs. Thus, in order to arrive at accurate WASH Sub-sector totals, one must first filter out the non-WASH activities and then calculate WASH-specific, adjusted totals for each institution. Currently, WASH Sub-sector budgeting and spending totals are published annually in two main sources: (i) the General State Account (CGE) compiled by the Ministry of Economy and Finance (MoEF) and (ii) the WASH Sub-sector Budget Execution Report (WASH REO) together with the Annual Evaluation Report on Water Sub-sector Performance (RADS), both compiled by MOPHRH. The WASH Sub-sector totals published in the CGE (specifically in Mapa I-1-1) fail to (a) include DPOPHRH, SDPI, and SD contributions as well as (b) effectively filter out non-WASH activities from MOPHRH totals. On the other hand, the totals published in the WASH REO/RADS fail to comprehensively account execution of external donor projects, specifically those on-budget, but off the single treasury account (CUT)⁷.

Tracking the Sub-Sector resources is very challenging because WASH-related resources are bundled together with public works and housing in budget documents.



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The result can mean great disparities in budget and expenditure totals for the two sources. For example, in 2014, the most recent year for which state accounts have been finalized at the time of writing, the WASH Sub-sector total in the CGE was MT 2.6 bn, while in the WASH REO/RADS it was MT 3.4 bn.

WASH Sub-sector budget and expenditure totals in this report are based off of final expenditure figures in the CGE and Parliament-approved allocations in the LOE, both filtered for WASH-specific activities. The budget and expenditure totals in this budget brief are the author's calculations correcting for the two issues mentioned in the above paragraph: the totals here-listed are (i) based on the same institutional composition as defined in the WASH REO/RADS and (ii) use CGE and LOE numbers that were carefully filtered for WASH-only activities. It is important to note that the adjusted totals for the MOPHRH, DPOPHRH, SDPI, and SD institutions include only investment projects with WASH components. This is because it is impossible, given the level of current accounting detail, to disaggregate the WASH-specific portions from the recurrent totals. This is the main limitation to presenting accurate WASH Sub-sector budget and expenditure totals.

80% of the on-budget Sub-Sector's resources, on average, come from donors, which makes it extremely dependent

7) The WASH REOs are traditionally published just a couple months after the end of the fiscal year. The RADS then reproduces the expenditure totals documented in the WASH REOs. While this is good for providing timely feedback, it is not enough time to comprehensively collect information on all external investment projects implemented off-CUT. Since the CGE is published many months after the conclusion of the fiscal year, it is able to provide a fairer projection of total funds executed by donors.

3. What trends emerge from the WASH budget?

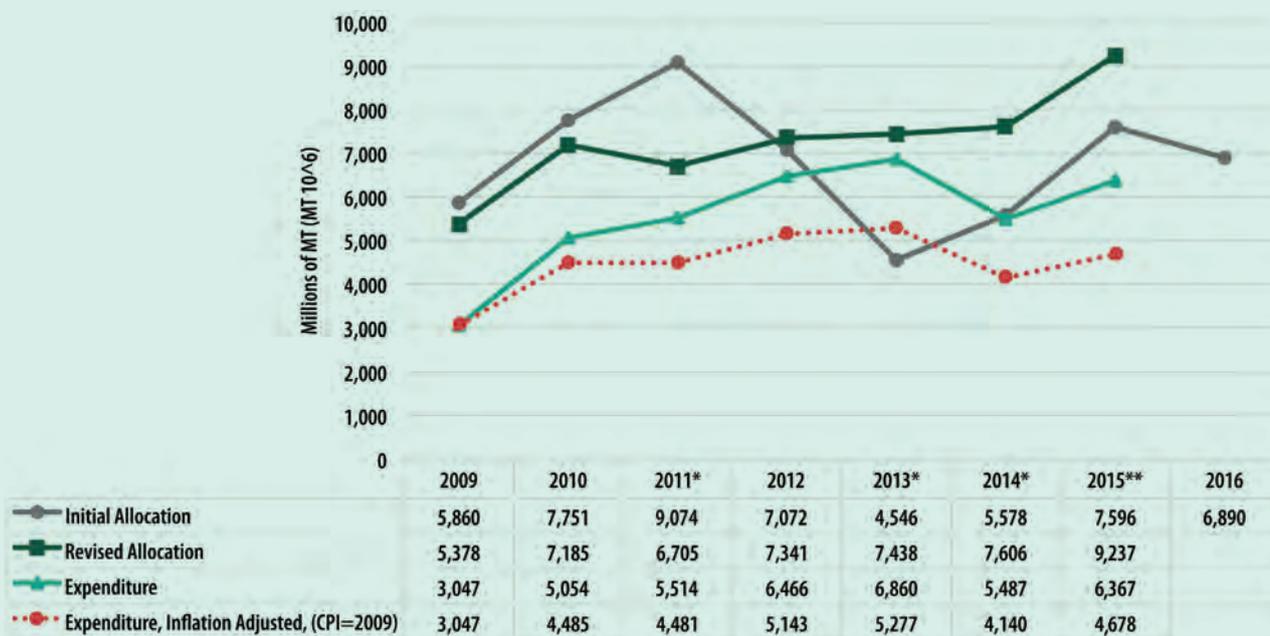
The analysis presented in this Budget Brief is based on the WASH Sub-Sector allocation in the original 2016 State Budget, which was implemented for more than half of the 2016 fiscal year, and is fairly similar in volume and substance to the 2016 Revised State Budget. Text boxes throughout the Brief explain the differences between the original and revised budgets.

In the original 2016 State Budget, the WASH Sub-Sector was allocated MT 6.9 bn (US\$ 147.5 mn). In Metical terms, this represents a nine percent decrease compared to last year's WASH budget, but an eight percent increase compared to last year's WASH expenditure (see Figure #1). However, due to the fact that a large share of resources provided to the WASH Sub-sector are from donor contributions made in foreign currencies –most of which have appreciated vis-à-vis the Metical– the comparison can be misleading since the same unit of foreign currency this year is worth more Meticaï than last year. Thus, while the 2016 WASH Sub-sector budget, in Meticaï, decreased slightly, the sub-sector budget, in currency of origin, decreased by much more. For example, in US Dollar terms, the allocation represents a 26 percent decrease compared to last year's budget and an 11 percent decrease compared to last year's expenditure.

In the 2016 Revised State Budget, Water and Public Works are aggregated as a single category within the larger "Infrastructure" budget. Yet, with the information given, it is not possible to separate the two sectors to ascertain the revised Water sector budget. As presented in the 2016 Revised State Budget, the "Water and Public Works" budget is MT 8.3 bn, which is equal to 3.4 percent of the total revised budget, or 4.1 percent of the revised budget excluding financial operations, debt servicing, and subsidies.

While the sub-sector's revised budget allocation and expenditure totals have generally increased, in nominal terms, over the past seven years, the initial budget allocation has varied greatly from year to year (see Figure #1). Since donor funding has accounted for roughly 80 percent of the sub-sector's resources over the past few years, donor project decisions, made in collaboration with MOPHRH, are a main determinant of the volume of the sub-sector budget. This

FIGURE 1 WASH Sub-Sector budgeting and expenditure



Source: Author's calculations from CGE 2008-2014, REO IV 2015, LOE 2016. World Bank, World Development Indicators, "Inflation consumer prices (annual %)" for 2008-2014 | IMF, World Economic Outlook for 2015-2016.

Note: * In 2011, 2013, and 2014, the State Budget was revised by Parliament. The figure represents the revised initial allocations for these years. ** At the time of writing, the 2015 public expenditures account has yet to be finalized; in this regard, it is likely the expenditure total is larger than portrayed.

8) The variation between allocation and expenditure also demonstrates the difference between the amounts that donors commit and disburse.

partly explains the variation in the year-to-year initial allocation. Moreover, the discrepancy between initial allocation, revised allocation, and expenditure (see *Glossary* for definition of terms) is largely a reflection of the challenge faced by MoEF in tracking external donor resources⁹. Since a large share of donor funds are placed on-budget, but off-CUT, MoEF has difficulty in accurately documenting donor commitments, and then, donor expenditure made on those commitments.

In real terms, WASH Sub-sector expenditure has increased just slightly. However, since 2010, there has been no real growth in sub-sector expenditure. Real expenditure in 2016 will likely register a significant decrease due to the projected 16.7 percent inflation rate.

The WASH Sub-sector’s budget occupies a 2.8 percent share of the entire State Budget; this is a decrease from the 3.4 percent share allocated in the 2015 budget. The sub-sector’s allocated weight also decreased relative to the weight of last year’s expenditure of 3.3 percent (see *Figure #2*). According to the methodology that the Government of Mozambique applies to calculate sub-sector shares, the WASH Sub-sector is worth 3.3 percent in 2016⁹.

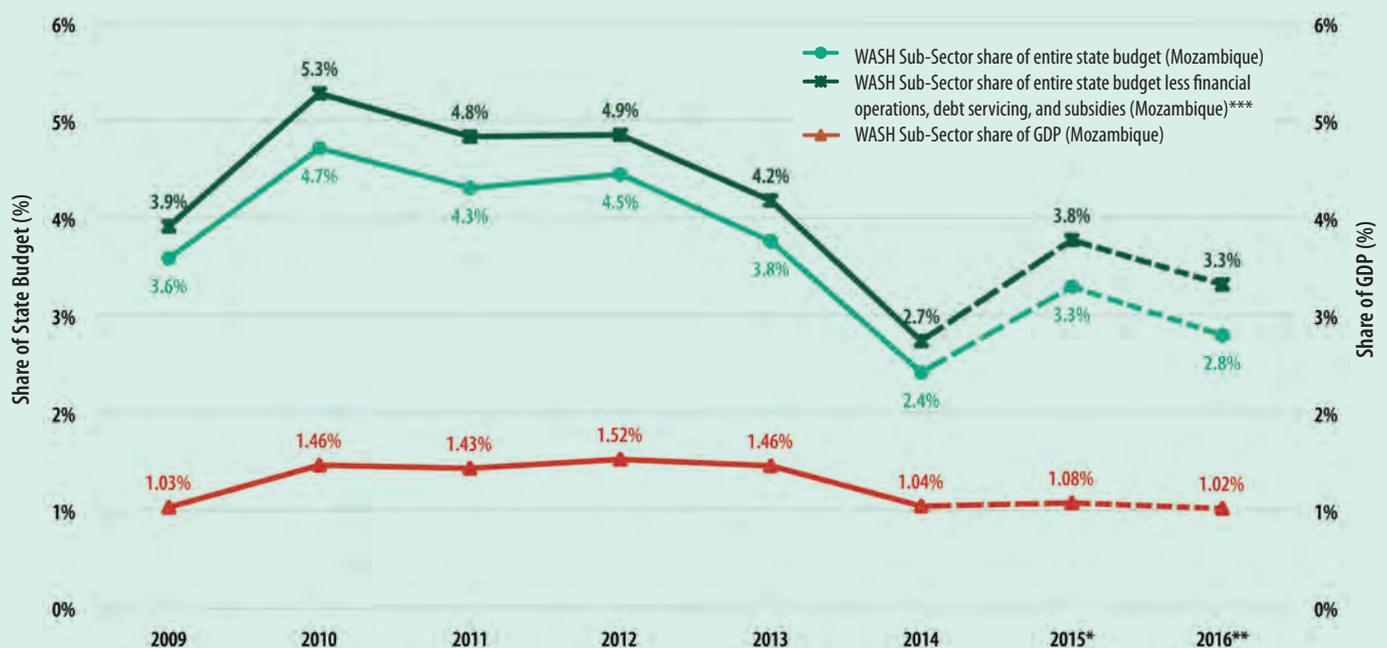
The sub-sector’s share of the entire State Budget, despite having fluctuated in recent years, has generally declined from the 4.7 percent share in 2010. The share of GDP has



Photo: ©UNICEF/Mozambique

held relatively stable in recent years at around one percent (see *Figure #2*). The decline in the share of the State Budget is partly due to the expiration of the country’s Millennium Challenge Account compact, which contributed some MT 6 bn to large water supply and sanitation projects between 2010 and 2014; but the decline is also simply because the increases in the volume of the State Budget have registered outside the WASH Sub-sector.

FIGURE 2 Trends in the share of the WASH Sub-Sector



Source: Author’s calculations from CGE 2009-2014; REO IV 2015; WASH REO/RADS 2015; LOE 2016; WB WDI, “GDP (current LCU)” for 2008-2013 | IMF, World Economic Outlook for 2014-2016.

Note: For 2008 through 2015, the weight is calculated based on nominal expenditure. * At the time of writing, the 2015 public expenditures account has yet to be finalized; in this regard, it is likely these shares are larger than portrayed. ** The 2016 shares are initial budget allocations and not expenditure. *** The Government of Mozambique calculates sector shares based on the total state budget less financial operations, debt servicing, and subsidies.

9) The Government of Mozambique, instead of using the total volume of the State Budget as a denominator, calculates the percentage share utilizing the total State Budget minus debt servicing, financial operations, and subsidies. This report calculates shares out of the total State Budget as is standard practice for international benchmarking.

4. Where do WASH Sub-sector resources come from?

The WASH Sub-sector in Mozambique is financed with both internal and external resources. Internal resources are collected through taxes, tariffs, duties, and internal credit, and are complemented by General Budget Support, which is un-earmarked development aid to the Mozambican Government from a group of 14 development partners (G-14). External resources comprise other foreign aid, donations, and external credits.

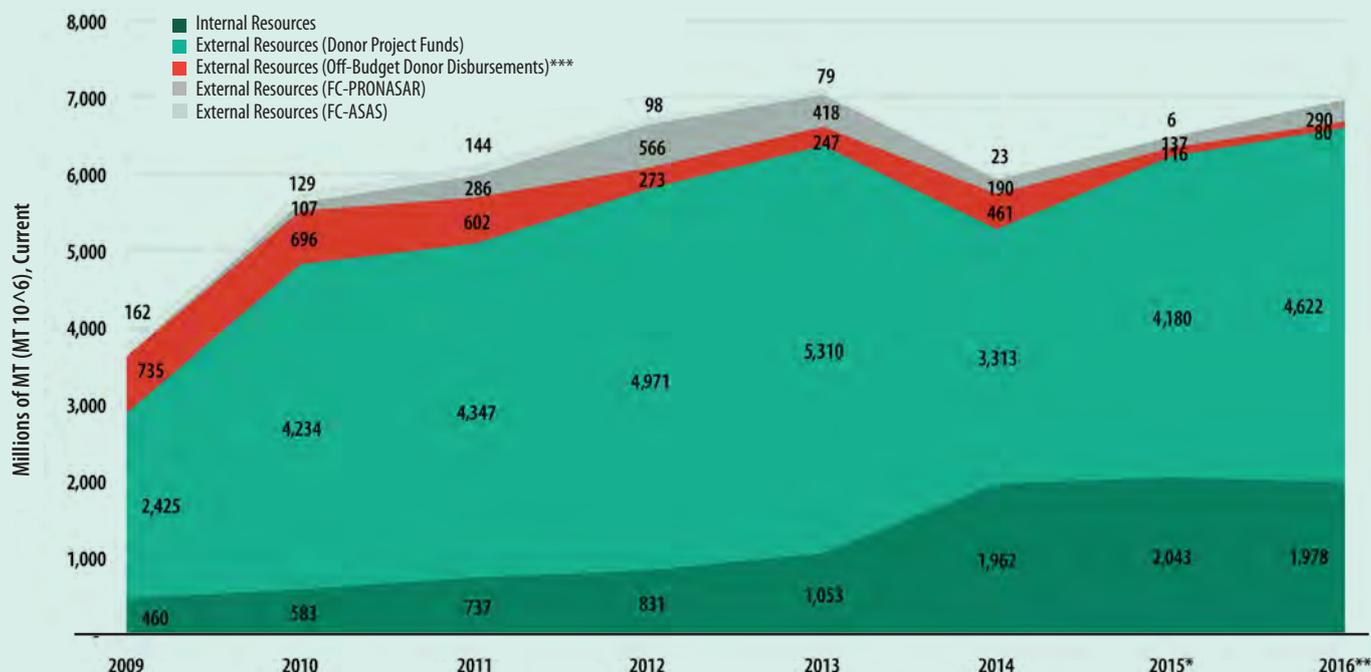
In the WASH Sub-sector, internal resources are: budgeted through the Medium Term Fiscal Plan (CFMP), negotiated with the Council of Ministers and Ministry of Economy and Finance, approved by the Parliament, and then utilized in accordance with the Economic and Social Plan (PES). External resources applied to WASH fit into two categories: (i) "PRONASAR contributions", which are donations from donors to the multi-donor Common Fund for WASH, and (ii) "Vertical Project Funds", which are all other grants and credits not channeled through the PRONASAR Common Fund. PRONASAR resources are utilized as if they were internal resources: they are inscribed on the budget and channeled through the CUT. Bilateral project funds, on the other hand, are –in theory– coordinated between the donor and MOPHRH and applied through a variety of modalities including: (i) direct government support with government-only or joint agency-government implementation, often "On-Budget, On-

In the 2016 Revised State Budget, internal resources account for 34 percent of total "Water and Public Works" sector resources, while external resources account for 66 percent. Again, these shares are not directly comparable to those of the 2016 State Budget since it is not possible to separate the Water sector budget from the Public Works sector budget.

CUT"; (ii) agency or third party implementation, often "On-Budget, Off-CUT"; or (iii) agency or third party implementation, but "Off-Budget".

Donors have provided, on average, 80 percent of WASH Sub-sector resources over the past seven years (see Figure #3). But when considering the estimated volume of off-budget resources –which are a real challenge to track in the sub-sector– the share of external resources is even higher. Simply put, the WASH Sub-sector in Mozambique is donor-driven; which stresses the important coordination role that DNAAS and DNGRH must play to ensure a Government-led strategic vision for the sub-sector.

FIGURE 3 WASH Sector resources: internal & external, on- & off-treasury



Source: Author's calculations from the CGEs 2009-2014; WASH REO/RADS 2015; LOE 2016. Off-Budget funding: ODAMOZ Website, "Water Supply and Sanitation" search option, 2009-2014, Off-Budget, Metical. 2015-2016, Off-Budget, Forecasts.

Note: FC-ASAS and FC-PRONASAR are the Common Funds for Support to the Water and Sanitation Sector. FC-ASAS (phased out in 2015) funded water supply and sanitation as well as water resource management, capacity building, and recurrent costs. FC-PRONASAR (commenced in 2010) and funds rural water supply and sanitation. * At the time of writing, the 2015 public expenditures account has yet to be finalized; in this regard, it is likely these totals are larger than portrayed. ** 2016 represents the initial budget, while 2008 through 2015 represent what was spent. *** The only public source for off-budget data, ODAMOZ, is not a consistently reliable source. For much of 2015, the aid data tracking platform was offline and thus was impossible for donors to report off-budget funding; for this reason, the numbers for 2015 and 2016 reflect estimated commitments rather than actual disbursements.

Nonetheless, the Government has increased its share of funding to the sub-sector over the past couple years. The Government has augmented its contributions to WASH from an average of 14 percent of total resources between 2009 and 2013 to over 30 percent for 2014 and 2015. In 2016, internal resources are budgeted to cover 29 percent of total funding (see Figure #3). This has been in partial a response to the fact that donor resources to WASH have decreased, in nominal terms, over the past few years; thus, to sustain sub-sector financing levels, the Government has had to increase internal contributions ¹⁰.

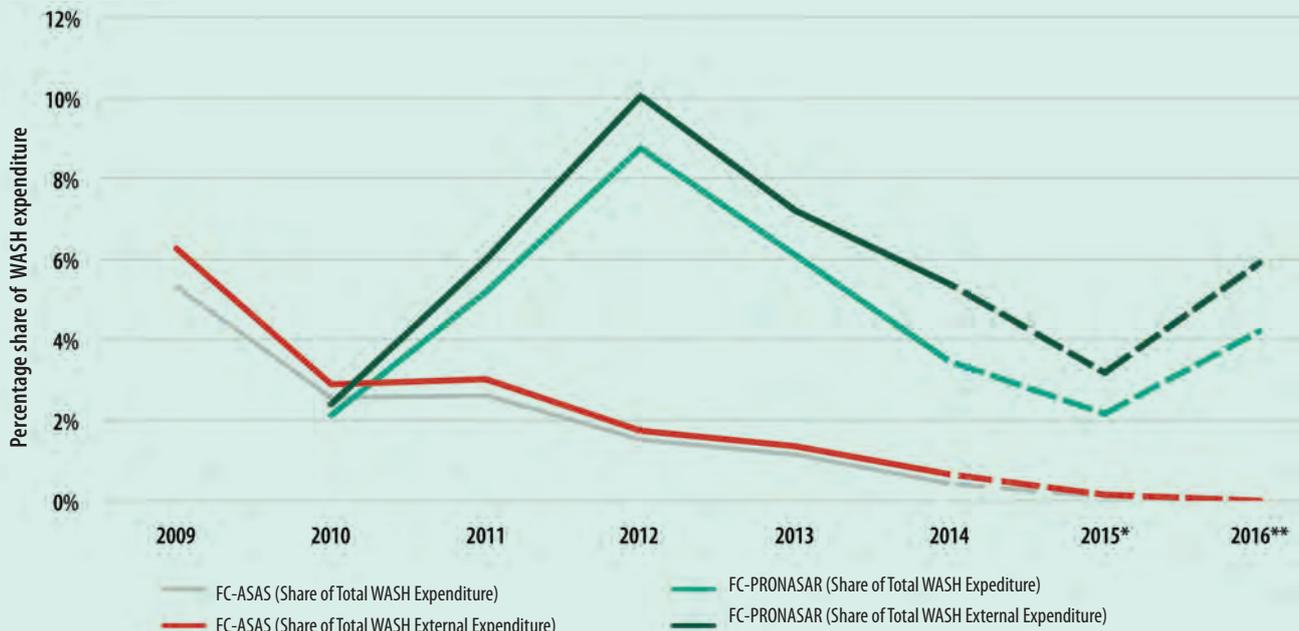
The ASAS common fund was phased out in 2015 after having experienced a steady decline in funding (see Figure #4). The Sectoral Support to the Water Sub-sector (ASAS) funding stream, which was sourced by the Government of the Netherlands, was worth 5 percent of sub-sector resources and contributed MT 162 mn in 2009; however, it thereafter declined in volume to the point of not attracting any funding for 2016.

However, the PRONASAR common fund is still an active funding modality for certain sub-sector donors, despite its own decline as a funding preference. PRONASAR commitments for 2016 are worth MT 290 mn (see Figure #4). The National Rural Water Supply and Sanitation Program (PRONASAR)



common fund was launched in 2010 and is financed¹¹ by the Government of the United Kingdom¹², Switzerland, Austria as well as UNICEF. PRONASAR contributed nearly 9 percent of sub-sector resources, worth MT 566 mn in 2012; however, it has declined in both nominal value and as a share of total WASH sub-sector resources in recent years.

FIGURE 4 Contributions of WASH common funds



Source: Author's calculations from CGE 2009-2014, WASH REO/RADS 2015; LOE 2016.

Note: * At the time of writing, the 2015 public expenditures account has yet to be finalized; in this regard, it is likely these totals are larger than portrayed. ** The 2016 figures are initial budget allocations and not expenditure.

- 10) It is important to note that the share of internal resources is likely higher, except that it is impossible for track recurrent resources for MOPHRH, DPOPHRHs, SDPIs, and SDs. See Section 5.1
- 11) The Government of Netherlands, starting in 2010, was one of the PRONASAR common fund contributors, but withdrew in 2013 to focus its financial aid to Urban WASH and water resource management
- 12) DFID withdrew from the PRONASAR common fund in 2016 due to the macro-economic crisis, but is still supporting rural WASH through other funding modalities



Photo: ©UNICEF/Mozambique

In the 2016 Revised State Budget, resources devoted to recurrent expenditure hold a 7 percent share, while resources devoted to investment hold a 93 percent share for the “Water and Public Works” sector. Within the investment category, internal investment holds a 28 percent share and external investment holds a 72 percent share of the revised budget. Once again, these shares are not comparable to those of the 2016 State Budget as it is not possible to disaggregate the Water budget from the Public Works budget with the information available.

5. How are the WASH Sub-sector resources spent?

The Ministry of Economy and Finance (MoEF) releases initial funds (*dotação inicial*) via the CUT to each autonomous budget-holding WASH institution and subsequently updates the allocation based on budget execution rates and available resources (*dotação atualizada*). The institutions track spending (*execução*) through the e-SISTAFE (Government integrated financial management information system), which sources quarterly budget execution reports (*REOs*) and the annual General State Account (*CGE*). The way the 2016 WASH budget will be spent can be analyzed from three perspectives:

5.1 RECURRENT VS. CAPITAL EXPENDITURE

The State Budget divides WASH expenditures into two categories: Recurrent and Investment. Recurrent describes spending on salaries/remunerations, goods and services, operating costs, transfers, and financial operations. Investment (i.e. capital) describes expenditure aimed at improving sub-sector infrastructure and longer-term productivity and efficiency.

According to how the Mozambican public accounting system is structured, recurrent expenditure is exclusively financed through internal resources, whereas Investment is both funded internally and externally.

FIGURE 5 Comparison between investment and recurrent expenditure



Source: Author's calculations from CGE 2009-2014; REO IV 2015, WASH REO/RADS 2015; LOE 2016.

Note: * At the time of writing, the 2015 public expenditures account has yet to be finalized; in this regard, it is likely these totals are larger than portrayed. ** The 2016 figures are initial budget allocations and not expenditure. *** Since not all activities for the Ministry of Public Works and Housing and its Provincial Directorates are WASH related, and because the budget does not offer details of recurrent costs on a program level, it was not possible to disaggregate the recurrent costs of WASH activities in the MOPHRH and DPOPHRHs; thus, the recurrent totals only contain recurrent expenditure for the WASH-specific institutions and do not include recurrent expenditure for MOPH and DPOPHs. Also, external funding is always accounted in the investment category, therefore, the breakdown can be misleading.

However, it is necessary to point out that all external funding is accounted in the budget as “external investment”, when in fact, it might have a portion dedicated to recurrent functions. In order to improve the understanding of investment levels in WASH and other social and economic sub-sectors, it is important for the MoEF to create the possibility to account the recurrent aspect of externally-funded projects in e-SISTAFE.

WASH resources are predominantly dedicated to investment (see Figure #5). But as previously mentioned, due to WASH programs being bundled with other public works and housing programs in the MOPHRH, DPOPHRHs, SDPIs, and SDs, it is impossible, given the current level of detail in the accounting system, to know the true volume of recurrent resources dedicated to WASH. Nonetheless, even if it were possible to measure the true volume of recurrent resources devoted to the WASH Sub-sector, the ratio of investment to recurrent resources would still be very high.

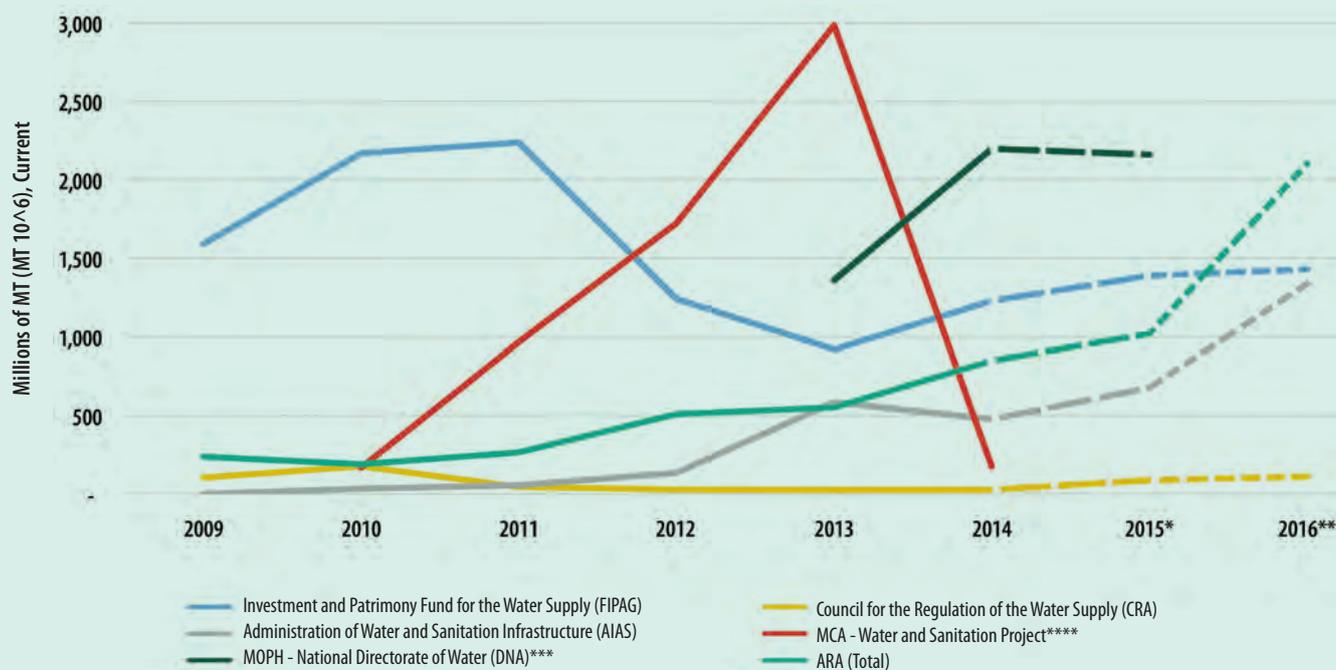
Donor-financed investment outweighs domestically financed investment; although, over the past two years, internal investment has doubled its weight of total investment and nearly doubled its volume in Meticaís. While internal investment was worth just 15 percent (or MT 1.0 bn) of the budget in 2013, it was worth 35 percent in 2014 (MT 1.9 bn) and 30 percent in 2015 (MT 1.9 bn). In 2016, internal investment is budgeted at a 27 percent share (see Figure #5).



5.2 EXPENDITURE BY WASH INSTITUTION

Since the conclusion of the country’s MCA compact, the AIAS and ARAs have shouldered the largest increases in WASH Sub-sector funding (see Figure #6). During its height in 2013, MCA executed MT 3.0 bn, equivalent to 43 percent of total WASH expenditure during the year. Since MCA’s conclusion in 2014, the AIAS grew from holding a 9 percent share of WASH expenditure to a budgeted 19 percent share for 2016. Similarly, the ARAs held a 15 percent share in 2014 and a budgeted 30 percent share for 2016.

FIGURE 6 Expenditure by WASH institution



Source: Author’s calculations from the CGE 2009-2014; WASH REO/RADS 2015; LOE 2016.

Note: Names in Portuguese: *Fundo de Investimento e Patrimônio do Abastecimento de Água (FIPAG), Conselho de Regulação de Abastecimento de Água (CRA), Administração de Infra-estruturas de Água e Saneamento (AIAS), MCA - Projecto de Abastecimento de Água e Saneamento, Direcção Nacional de Águas (DNA).* * At the time of writing, the 2015 public expenditures account has yet to be finalized; in this regard, it is likely these totals are larger than portrayed. ** The 2016 figures are initial budget allocations and not expenditure. *** The DNA, which was based in the MOPH, is not an autonomous WASH budget holder in the 2016 budget despite there being a similar mandated body in the MOPHRH. **** The MCA is not a WASH institution, rather a United States Government project, that due to its size, appeared in the MoEF’s organic classification between 2010 and 2014.

Of the five Regional Water Administrations, ARA South controls an overwhelming share of resources (see Figure #7).

The ARA South, which is responsible for the Maputo, Gaza, and Inhambane provinces, was responsible for, on average, 8 percent of total WASH spending between 2009 and 2015 and 88 percent of ARA spending over the same time period. In 2016, ARA South holds 29 percent of the entire WASH budget and 95 percent of the total ARA budget.

ARA South received the largest allocation in the 2016 budget, followed by MOPHRH, FIPAG, and AIAS (see Figure #8). In fact, these four institutions are responsible for around 91 percent of the 2016 total WASH budget. ARA South received a greater allocation this year compared to the other institutions because it took out three separate loans worth MT 1.2 bn in order for repairs to the Massingir Dam. Without these loans adding to the ARA South budget, the institution would control around 13 percent of the total WASH budget (instead of the current 29 percent) and would have a smaller allocation, in Meticaís, compared to MOPHRH, FIPAG, and AIAS.

FIGURE 7 ARA expenditure by region



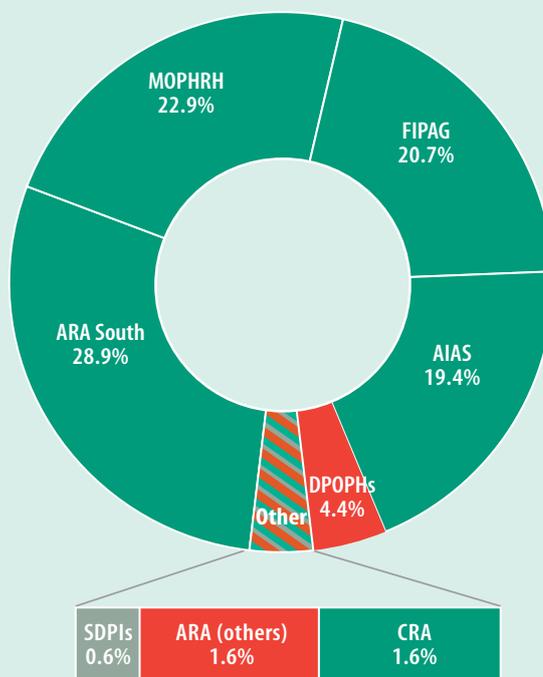
Source: Author's calculations from the CGE 2008-2014; and REO IV 2015; LOE 2016.
 Note: The ARA stands for Regional Water Administration (*Administração Regional das Águas*). * At the time of writing, the 2015 public expenditures account has yet to be finalized; in this regard, it is likely these totals are larger than portrayed. **The 2016 figures are initial budget allocations and not expenditure.

5.3 EXPENDITURE BY TERRITORIAL LEVEL

The WASH Sub-sector is highly centralized; in fact, the central level has controlled, on average, 94 percent of WASH resources since 2009 and is budgeted to use 93 percent of resources in 2016 (see Figure #9). The district level, on the other hand, controls less than one percent of the sub-sector's resources. Currently, the four institutions with the greatest allocations in 2016 are all central level institutions.

Initial efforts at sub-sector decentralization have been made; still, there is much more to be done before a fair share of WASH resources are allotted to the sub-national level. Several efforts, by both the Government and donors, have been made to decentralize the sub-sector. In 2014, MOPHRH established several SDPIs as autonomous budget holding units devoted to public works, housing, and WASH activities at the district level. Additionally, PRONASAR funding, decentralized through the MOPHRH, is allocated to 14 districts across the country¹³. The donors also use the PRONASAR mechanism to fund 15 different districts in Maputo, Gaza, and Zambézia¹⁴. Since donors source a great majority of the sub-sector's resources, decentralization is largely in their control. In order to facilitate donors' ability to decentralize funding, the Government must prioritize building capacity of the civil service at the sub-national level in order for them to be able to serve as viable implementing partners.

FIGURE 8 Allocation by WASH institution, 2016



Source: Author's calculations from LOE 2016.
 Note: Green represents "Central level" WASH funding; Red represents "Provincial level" funding; and Grey represents "District level" funding.

13) The 14 districts are: Ngauma e Marrupa (Niassa); Muidumbre e Chiure (Cabo Delgado); Meconta e Mogincual (Nampula); Cahora Bassa e Magoe (Tete); Barue e Tambara (Manica); Chibabava and Caia (Sofala); Massinga e Morrumbene (Inhambane).
 14) MOPHRH. Relatório de Execução do Orçamento do Estado do Sector de Águas, 2014. February 2015.

6. How well has the WASH Sub-sector executed its past budgets?

The WASH Sub-sector has faced difficulties in executing its full budgets. As a whole, the sub-sector has executed, on average 76 percent of its budget between 2009 and 2015; this is significantly lower than the average State Budget execution rate of 88 percent over the same time period (see Figure #10). The sub-sector's highest aggregate budget execution level came in 2013 when it spent 92 percent of total resources allocated. Its lowest came in 2009 when it spent just 57 percent of resources. In 2015, the sub-sector has provisionally executed 84 percent; this will be confirmed with the release of the CGE later in the year.

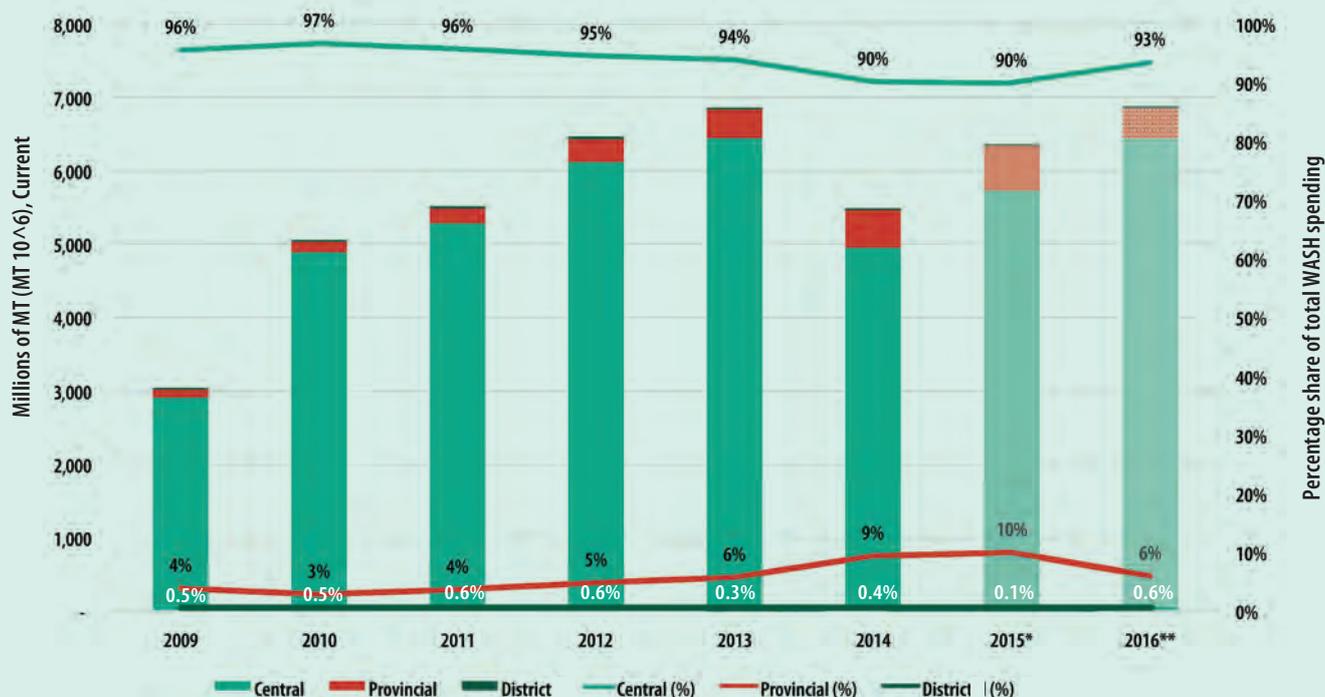
Poor execution rates on the recurrent and external investment components of the budget are responsible for dragging down the aggregate execution rate. While the Government has executed, on average, 99 percent of its investment budget since 2009, it has only managed to execute, on average, 80 percent of its recurrent budget. This is mainly due to the low rates registered for AIAS and CRA. Nonetheless, as mentioned in Section 5.1, the sub-sector's recurrent budget is fairly small. The external investment budget (financed by donors), on the other hand, is very large, and has been executed, on average, at just 72 percent. It is important to note that besides tardy and incomplete disbursements, the low donor execution rate is also likely a reflection of poor donor reporting on projects inscribed on-budget, but funded off-CUT.



76%

is the average execution rate of the sub-sector (2009-2015), significantly lower than the average State Budget execution rate (88%)

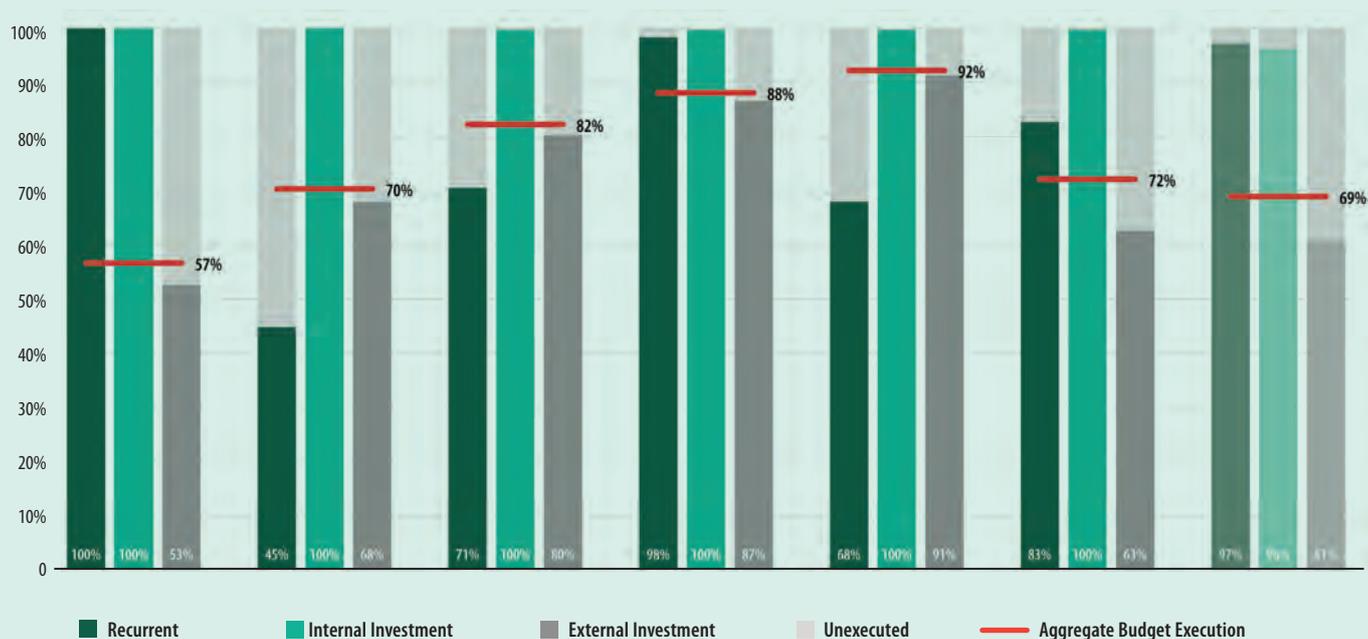
FIGURE 9 Expenditure by territorial level



Source: Author's compilation from the CGE 2009-2014; WASH REO/RADS 2015; LOE 2016.

Note: For MOPH and the DPOPHs, there is no recorded recurrent expenditure, only investment, since not all activities of the aforementioned are WASH related and because it is impossible to disaggregate recurrent expenditure for the specific WASH activities. * At the time of writing, the 2015 public expenditures account has yet to be finalized; in this regard, it is likely these totals are larger than portrayed. ** The 2016 figures are initial budget allocations and not expenditure.

FIGURE 10 WASH budget execution



Source: Author's calculations from the CGEs 2008-2014, REO IV 2015.

Note: * At the time of writing, the 2015 public expenditures account has yet to be finalized; in this regard, it is likely these percentages are larger than portrayed.

Acronyms

AIAS:	Water and Sanitation Infrastructure Management Agency
ARA:	Regional Water Resource Management Agency
ASAS:	Sub-sectoral Support to the Water Sub-sector Common Fund
bn:	Billion
CGE:	General State Account (Final Budget Report)
CRA:	Water Regulatory Council
CUT:	Single Treasury Account
DNAAS:	National Directorate of Water Supply and Sanitation
DNGRH:	National Directorate of Water Resources Management
DPOPHRH:	Provincial Directorates for Public Works, Housing, and Water Resources
e-SISTAFE:	Mozambique Integrated Financial Management Information System
FC:	Common Fund
FIPAG:	Water Supply Investment Fund
GBS:	General Budget Support
GDP:	Gross Domestic Product
LOE:	State Budget Law

MCA:	Millennium Challenge Corporation
mn:	Million
MoEF:	Ministry of Economy and Finance
MOPHRH:	Ministry of Public Works, Housing, and Water Resources
MT:	Mozambican Metical (Local Currency)
PES:	Economic and Social Plan
PRONASAR:	National Rural Water Supply and Sanitation Program Common Fund
PQG:	Government Five Year Plan
RADS:	Annual Evaluation Report on Water Sub-sector Performance
REO:	State Budget Execution Report (Budget Update Report)
SD:	District Secretary
SDPI:	District Services for Planning and Infrastructure
UGB:	Beneficiary Management Unit
UNICEF:	United Nations Children's Fund
US\$:	United States Dollar (Currency)
WASH:	Water, Sanitation, and Hygiene
WB:	World Bank
WDI:	World Development Indicators

Glossary of budget terms

Initial Allocation (Dotação Inicial):	The first allocation of funds, approved by Parliament
Revised Initial Allocation (Dotação Rectificativa):	A revised allocation of funds, approved by Parliament
Updated Allocation (Dotação Actualizada):	The total funds that arrive at the disposal of a given WASH institution
Expenditure (Despesa Realizada):	Allocated funds spent on WASH investment and recurrent costs
Budget Execution (Execução do Orçamento):	Percentage of allocated funds spent out of the total allocation
Nominal/Current Values:	Numbers not corrected for the effect of inflation
Real/Constant Values:	Numbers corrected for inflation
Per Capita:	Per person