Public expenditure review for environment in Rwanda, 2009

Policy brief

This report provides the first ever public expenditure review (PER) for environment and natural resources in Rwanda. It was written under the theme: "*Putting environment on budget*." The objective was to evaluate the appropriateness in the use of funds in the environment sector. It was supported by UNEP/UNDP funded Poverty-Environment Initiative (PEI). The intended outcome of the initiative is the integration of environment into national policy and district planning, policy and budget processes to implement the Economic Development and Poverty Reduction Strategy (EDPRS) 2008-2010, **Vision 2020** and the Millennium Development Goals.

The findings in this report are as a result of wide consultations within and across sectors, districts and the review of national documents and international literature from mid-September to end of October, 2009.The authors also benefited from being registered to access and analyze data from DAD and OECD. These sources also enriched their findings. Importantly, the contributions from validation workshop held in November 2009 are an invaluable input into this report.

From start, it was necessary to define environmental expenditure so as to determine the boundary for this review and possibly future ones. Experience from around the world points to the conclusion that 'this is not as straight forward as it seems'. Nonetheless, the consultants used four factors to define the boundary. They are national definition of environment, the classification of government functions, institutional mandates for environmental management and practices by other countries.

When the government's functional areas were reviewed, it was found that there is a functional area of environmental protection. However, many other aspects of environment fall under other government functional areas like agriculture, industry, infrastructure, to mention but a few. Accordingly, it was decided right from the start to focus the PER on ENR sector, as overseen by MINIRENA now, and across other sectors. It needs to be mentioned also that the cross-sectoral nature of environment makes it's PER extremely unique and demanding. The main lesson and recommendation therefore is that in future, it should be carried out concurrently by all the sectors under a unified guidance from MINECOFIN/MINIRENA/REMA. This recommendation was greatly sounded by the participants to the validation workshop after appreciating the findings from the baseline PER.

In Rwanda, the policy, legal and institutional framework for environment is both young and still evolving when compared with that of most East African Community (EAC) member states, and other states in Africa. For a country that is committed to 'green' its economy, it will require a coordinated, and systematic approach to capacity building, planning and resource mobilization, and a blend with long term critical technical assistance within and across sectors. A coordinated approach within and across is strongly emphasized after finding that the spread of programmes and sub-programmes for environment are wide spread in several sectors. However, in order for that type of coordination to work, MINEREMA will be required to define and constitute membership to a coordination committee and to define the *modus operandi* and minimum agenda.

Another finding is that as Rwanda's GDP continues to grow, it is depicting intra and inter-sectoral shifts. The natural resource based GDP estimated at 35% is still the highest. This is mainly constituted by GDPs from agriculture, energy and water use. It was also found and appreciated by the GoR that it has stretched its capacity to generate more revenue from new sources. It hopes to do so from the real GDP growth that will increase disposable income. The productive sector under which ENR falls is already prioritized for additional resources in future, particularly after the government completes its heavily funded infrastructure programme.

Under the circumstances, it will be imperative for the ENR sector to continually assess and document the extent to which environment contributes to the incomes, especially of the poor. In equal manner, the sector should also strive to establish the extent to which sustainable environmental management improves the quality of life and generates financial savings and revenue to the government, private sector in the long run. Presently, the evidence on this aspect is spread in several sectors and is not systematically pooled together to bear on high level decision making and operational planning.

As a starting point, has MINCOFIN recognized that climate change induced impacts may slow down agriculture's GDP. But beyond that, they could also impact on infrastructure and health. Thus, the cross-sectoral impacts of climate change should start to feature in the macro-economic framework by MINECOFIN, particularly where information permits. The main lesson and recommendation is that MINECOFIN should institutionalize a process by which sectors start to report on the both negative and positive impacts they impose on other sectors. In turn, this will enable it to establish the likely public expenditure implications. For example, it was estimated that Electrogaz lost revenue amounting to US$856,994 between 2003 and 2007 following the reduction in power generation at Ntaruka. The main cause was the decline in the water levels from Rugezi wetland ecosystem. This example serves to demonstrate the intangible and/or unaccounted for costs related to environmental degradation which the GDP does not capture across all sectors. It also demonstrates that negative environmental impacts in one sector (e.g ecosystem degradation) can have negative bearing to the performance of other sectors (e.g water supply, power generation, industry e.t.c).

Presently, Rwanda's dependence on aid is high with 49% of the total budget in 2009 expected to be financed by aid. The per capita ODA of US$ 64 and ODA as a percentage of GDP of 25.6% are the highest among the East African member states. The government's preference is for grants over debts. As long as Rwanda is still a favorite recipient of aid in grants, it should use it to its advantage to also invest in environment. The main reason is that impacts of investing in environment take long to be realized. It thus pays to use those types of resources (e.g grants) that do not put pressure on government to repay.

Rwanda's private funding is growing although the proportion of environment could not be discerned. FDI flows have steadily grown to even surpass that of giant Kenya for the first time in 2009 [UNCTAD, 2009]. Government should re-orient FDI so that it too, can benefit environment. The potential for FDI to increase even further has been improved by Rwanda's topping the global list of business regulation reformers [WB, IFC, 2009].

With guidance on budgeting by MINECOFIN, the variance between budgeted and actual expenditure is narrowing across all sectors. MINECOFIN has guided sectors to provide only 10% above their previous years' budget. But total tax revenue is not yet covering recurrent expenditure and the gap does not seem to be narrowing since 2004. That is leaving the country vulnerable to external support.

At macro level, transfers and subsidies have the highest expenditure between 2005 and 2008, at 25%. They are followed by goods and services (22%), wages and salaries (20%), capital development (18%), exceptional expenditure (10%), debt (8%) and finally arrears (1%). The proportion of development expenditure to total expenditure **on budget** has risen from, 11% in 2006 to 15% in 2007 and 23% in 2008.

It must be mentioned at this juncture that the budget execution reports cannot fully capture all the public expenditure for environment. This is because: (i) only 67% of ODA is recorded in the national budget, (ii) 45% of ODA is disbursed using GoR budget execution procedure and, (iii) 50% of ODA is disbursed using GoR financial reporting systems. Until all development expenditure forms part of budget reporting, it will be difficult to capture the true magnitude of environmental expenditure. CEPEX which is mandated to report on development expenditure does not classify it by government functional areas. Yet, it is through these that all expenditure on budget would best be captured. The main recommendation therefore is that MINECOFIN should hasten in its efforts to put all expenditure on budget as a necessary condition for it to have control over macro economic stability.

Environment and Natural Resource sector under MINIRENA has not yet absorbed any public expenditure level to boast of. In 2008, it commanded only 1% of both recurrent and development expenditure on budget. The high development expenditure in 2006 and 2007 is attributed to the water and sanitation, which after 2008 was transferred to MININFRA. The ministries absorbing the highest development expenditure in 2008 were: MININFRA (39%), MINAGRI (16%), MINEDUC (15%), MINISTR (19%), MINALOC (9%), and MINECOFIN (3%). ENR under MINIRENA only absorbed 1%.

On the other hand, recurrent expenditure in 2008 was mainly absorbed by MINECOFIN (18%) Decentralized Education (12%), MINADEF (10%), MINEDUC (10%), MININFRA (6%) and MINALOC (6%).

The implication is that both manpower and activities that could benefit the environment or could impact on environment are outside the sector. It equally conveys a mammoth task before the sector to engage others to put environment on budget using resources already allocated to them. That is the most promising strategy of putting environment on budget. In this respect, it is MINECOFIN that would have an upper hand in guiding sectors to budget for cross-cutting issues.

With regard to intra-sectoral absorption of expenditure, it was found that conservation and protection of environment led in 2008, taking 40% of the sectors budget. It was followed by land planning and management (25%), forestry resources (11%), mining and geology (9%), and integrated water resources (4%).The parent Ministry took 11%.

It becomes apparent that integrated water resources management is the least funded. Unfortunately, the low funding coincides with the growing desire for irrigation. The two do not match unless irrigation is to be predominately funded under donor funded projects. In any case, with emerging climate change issues, the integrated water resources programme should not be marginalized. Government should start to use its own resources to convey its prioritization. Mining and geology also command low proportionality. It was gathered that government considers it as commercial, fit for private sector investment.

With regard to execution rates, they were found to have improved over time for both recurrent and development expenditure under the sector. But a few shortcomings need mention. They could have been better if all units were fully staffed so that some expenses e.g wages and salaries are not refunded to the central government and delays in procurement are fully overcome.

Further, both efficiency and effectiveness cannot be fully ascertained because value-for-money audits are yet to be fully institutionalized at CEPEX through which much of development expenditure flows. Equally, it is imperative that all sectors carry out value for money audits, including for activities that benefit the environment. Neither has CEPEX introduced the concept of 'unit costs' to rationalize expenditure among homogenous items. In 2002, the office of the Auditor General was able to audit 31.5% of all the public entities. For the above reasons, it will be worthwhile in future for government to invest in additional public expenditure monitoring tools. They are the public expenditure tracking surveys, citizen report cards and Community score cards.

The programme of intensification and sustainable agricultural production systems under MINAGRI utilized more than 5 times the whole budget of ENR sector in 2008. However, analysis of its broken down development budget for 2009/2010 shows that sub-programmes on LWH, watershed management, swamp reclamation and irrigation would be equivalent to 40% of entire ENR sector budget. Accordingly, agricultural sector should be engaged to sustain environment on its budget, and to even increase it. This is because evidence from 42 developing countries over 1981-2003 showed that 1% GDP growth originating in agriculture increased the expenditures of the three poorest deciles at least 2.5 times as much as growth originating in the rest of the economy. But MINAGRI should study whether its subsidized fertilizer programme is not a disincentive to sustainable land use management.

MININFRA's action plan for 2008 was not detailed in breakdown of its budget. But, going by budget for 2009/2010, its budget for improving and substituting biomass energy for the poor is equivalent to 70% of the forestry resources budget under ENR sector for the same period. The main lesson and recommendation is that the ENR sector institutions should establish working relationships with other sectors over same types of interventions.

Further, MININFRA has spent and budgeted for sanitation and hygiene for schools. A more sustainable approach would be that MINEDUC budgets for such although it could solicit for technical backstopping from MININFRA. Only then would MINEDUC appreciate how to handle environmental issues associated with school populations. No doubt, the sectors' needs for environmental mainstreaming and budgeting will differ.
REMA working closely with MINECOFIN should encourage them to come forward and declare their interests or challenges so that they can receive focused technical assistance. Failure to declare these within ENR sector and across all other sectors is one of the barriers to learning, improvement and sustainable development. It thus recommended that MINECOFIN, working closely with MINIRENA and REMA should establish a fund to support ministries, agencies and districts so that they **pro-actively** seek guidance on how they can identify and address environmental issues pertinent to their sectors or locations.

MINECOM has been spending on biodiversity conservation through ORTPN and development of standards, including those for environment. It has more scope to enlist the private sector for environmental compliance. This is particularly because the market to which Rwanda is promoting exports is becoming environmentally sensitive.

MINALOC has included environmental protection as one of the areas to benefit from earmarked conditional grants to districts. It is so small (0.13% of 2009/2010 budget) that at best, it could be used to trigger additional resources rather than address environmental issues.

As the institutions close to the people, districts have strategic roles to make a difference in environmental management. Unfortunately, there is a mismatch between the funds allocated and responsibilities devolved to them. Districts utilized only 17.6% of the budget in 2008. Some of the expenditure directly incurred by Ministries benefits them. CDF, as an instrument for channeling demand driven capital development to districts is cost-effective. Its intermediation costs are only 4%. Environment was found to rank the 5th preferred area out of eleven and taking 12.6% of capital projects funded under CDF. MINELOC should expedite its costing for deepening decentralisation policy so that districts can get the right amount to deliver on their mandates, including those for environment.

As a Ministry overseeing both macro-economic planning and budgeting, MINECOFIN was found to have both the 'carrot and stick' to bring about improvement in public expenditure for environment and other sectors alike. The entry point for it lies in **the results-based approach to budgeting** it has introduced**.** This will then make it possible to assess the effectiveness of all public expenditure. The present focus on inputs, activities and outputs under the joint sector reviews are not enough to demonstrate the true progress towards the achievement of EDPRs targets. In other wards, it is possible to register increases in soil control measures or tree planting or registering land or making standards and regulations but when they are not related to the magnitude of the problems being addressed. If they fall short of that, Rwanda will not be making a positive score on environmental sustainability.

The planning, budgeting and MTEF Guidelines 2008 which MINNECOFIN introduced are a good rallying point for (i) link budget programmes to sector targets over a 5-year period, (ii) link budget programmes to sector activities, (iii) link sector programmes to EDPRS flagship programmes and their indicators. MINECOFIN should go a step further to train sectors in the use of the guidelines so that they appreciate their rationale rather than being seen to use them to satisfy reporting procedures. Equally it should train sectors on how to carry out public expenditures reviews.