

# Water and Sanitation Sector

## Budget Brief 2012<sup>1</sup>

### Key Message:

- **The National Water Directorate (DNA) does not have an individualised budgetary classifier**, therefore monitoring the resources of the Water and Sanitation Sector remains difficult.
- The total envelope of resources available for the Water and Sanitation Sector in 2012 is **3,254,133 million MT**. An **increase of 3.2%** when compared with what was spent in the Water and Sanitation Sector in **2011**.
- There has been an **increase of 212% in the total volume of resources of the Sector between 2006 and 2012**. The **internal investment component grew by about 147%**, while the **foreign component** grew by **226%** in the same period.
- The sector has, on average, accounted for about **3.2%** of the global envelope of resources since 2006. In 2012, the weight of the sector is only **2.2%**.
- **Running costs have increased greatly since 2006 (1143%)**, but this budget line represents only 9% of the total budget of the Sector in 2012, which raises questions as to whether there is enough specialised labour and whether the operational costs for maintaining the major investments once they have been concluded have been taken into account.
- Continuous dependence on aid, **which funds about 80% of the Sector's budget in 2012**.

### 1. Challenges in the Definition of the Sector

The Water and Sanitation Sector
MOPH (water investment)
Administration of Water Infrastructures
Regional Water Administration
Southern Regional Water Administration
Water Supply Investment and Assets Fund
Water Supply Regulation Council

The definition of the Water sector used here is the same as that in the table of Priority Sectors, reflected in the Budgetary Execution Reports (REO) issued quarterly by the Ministry of Finance. This definition was agreed in the context of the Action Plan for the Reduction of Absolute Poverty (PARPA II).

However, analysing this sector in the State Budget (OE) is difficult. The National Water Directorate (DNA), for example, does not have its own organic classifier, unlike some directorates in other sectors (Interior, Planning and Finance). DNA is accounted for within the Ministry of Public Works and Housing (MOPH).

Thus it is necessary to separate manually the MOPH investments that go towards water and sanitation from those that cover public works and housing programmes. In addition, the running costs of the MOPH are excluded from the Water and Sanitation Sector (and are within the Public Works Sector). The same happens with the Provincial Directorates of Public works (DPOPH), whose costs are accounted for in the Public Works Sector and not in the Water and Sanitation Sector.

This is a difficult exercise, particularly for civil society, and may lead to inadequate analyses. In addition, over the years, the composition of the institutions in this sector may be altered, making year to year comparison difficult.

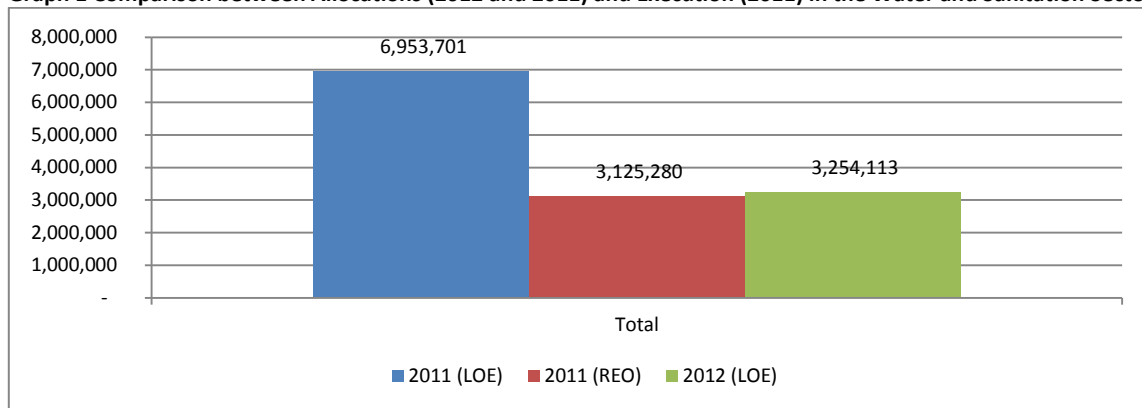
### 2. The Budget of the Water and Sanitation Sector in 2012

For the present year, about **3,254,113 million MT** (US\$ 121 million<sup>1</sup>) has been allocated to the Water and Sanitation Sector, representing **2.2%** of total public expenditure (excluding debt charges). The Water and Sanitation Sector represents **0.8%** of nominal GDP in 2012.

One notes an increase of **3.2%** in nominal terms compared with the *execution* in 2011 (REO 2011). But in comparison with what was planned in 2011, there is a reduction of 53% (Graph 1). These trends should be interpreted cautiously. This may be a case of more realistic planning, with the Sector allocating funds for 2012 that are closer to what was really spent in 2011. A further explanation is the conclusion of some projects (manly those related with FIPAG) which involves a reduction in funds.

<sup>1</sup> US\$ 1 = 27 meticaís

**Graph 1 Comparison between Allocations (2012 and 2011) and Execution (2011) in the Water and Sanitation Sector**

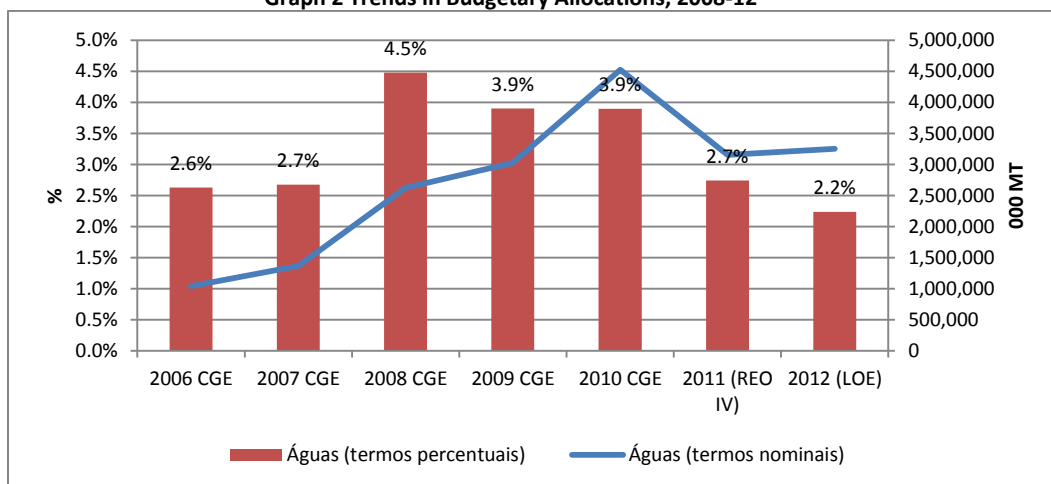


Source: REO 2011 and LOE 2012

### 3. Trends since 2006

The sector expenditure varies over the years (Graph 2). In nominal terms, this variation is partly related with the very nature of the sector. That is, more funds are disbursed for the take-off and implementation of major jobs (2009 and 2010). When the projects are being completed, there is a subsequent reduction in capital expenditure (2011 and 2012). Since capital expenditure accounts for about 90% of the budget of the Water Sector, any alteration in this heading could modify the total amount of resources of the Sector.

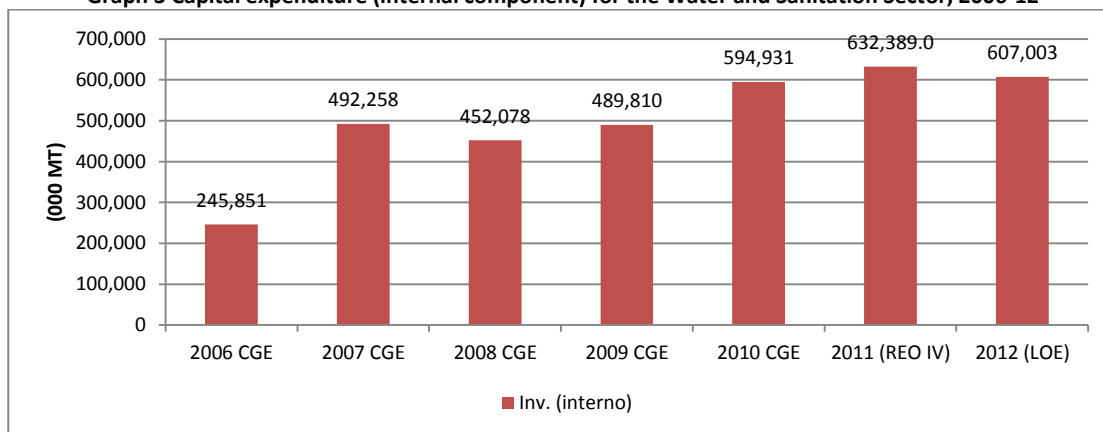
**Graph 2 Trends in Budgetary Allocations, 2008-12**



Source: CGE (2008, 2009 and 2010); REO 2011 and LOE 2012

Furthermore, the volume of resources of the State Budget has increased since 2006 thanks to greater capacity of the State to mobilise domestic resources. Although the weight of the Water Sector has not grown so much, internal investment in the Water Sector has been increasing consistently (Graph 3). However, internal resources for capital expenditure only cover 20% of the funds of the Sector.

**Graph 3 Capital expenditure (internal component) for the Water and Sanitation Sector, 2006-12**

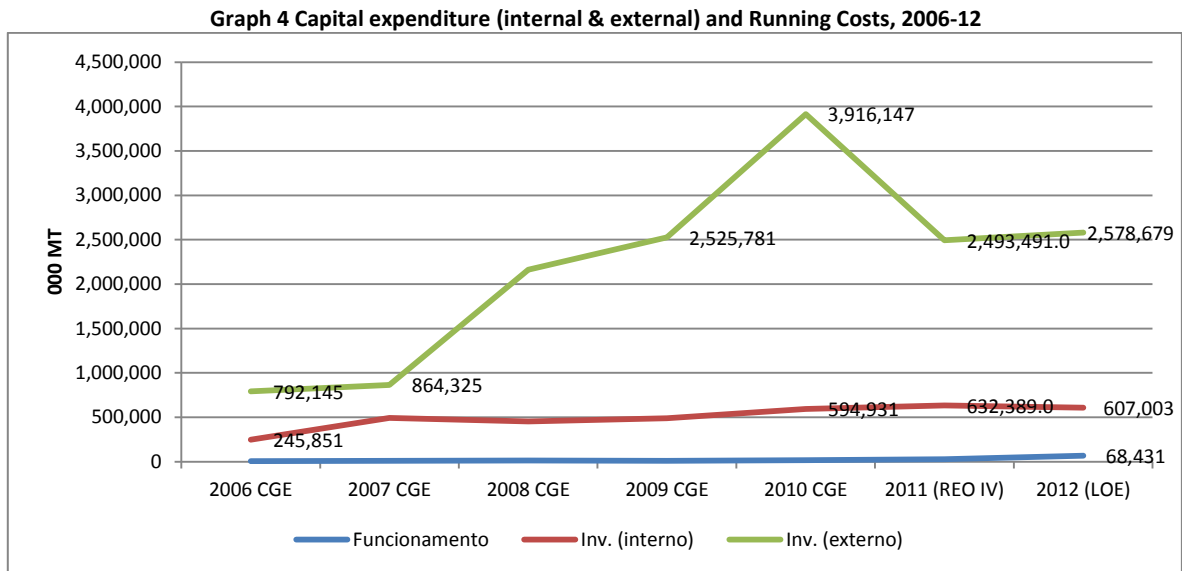


Source: CGE (2008, 2009 and 2010); REO 2011 and LOE 2012

#### 4. Capital Expenditure

As mentioned earlier, capital expenditure accounts for an average of 90% of the volume of resources of the Water and Sanitation Sector. In 2012, about 81% of the capital expenditure is financed with external resources.

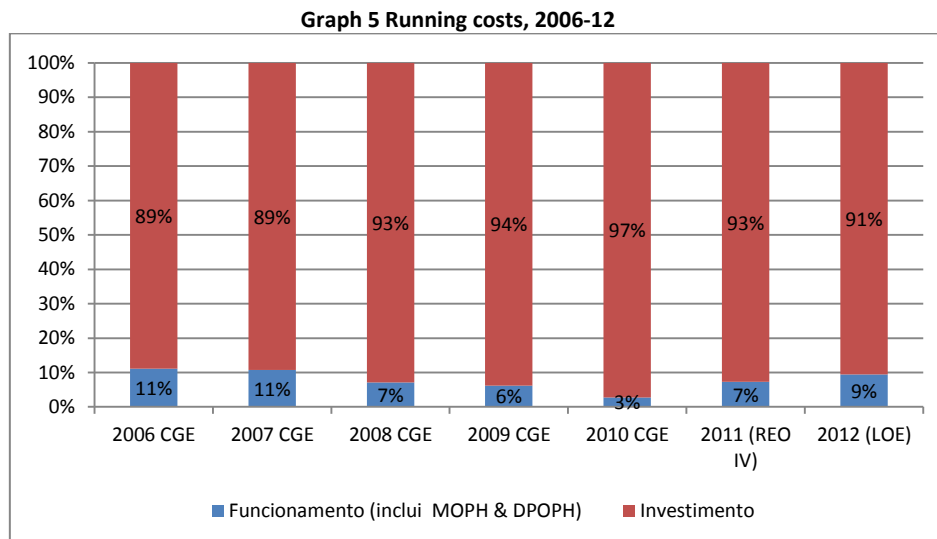
Although internal investment tends to increase, the Sector's dependence on foreign resources is clear (Graph 4), which increases the vulnerability of the sector vis-à-vis oscillations in aid.



Source: CGE (2008, 2009 and 2010); REO 2011 and LOE 2012

#### 5. Running costs

Comparatively, the weight of running costs in the Water and Sanitation Sector is much less (only 9% in 2012). However, this proportion may be even more limited. Graph 5 includes the running costs of the entire MOPH and the DPOPH (where not all running costs go towards water and sanitation programmes).



Source: CGE (2008, 2009 and 2010); REO 2011 and LOE 2012

This “disproportion” between capital expenditure and running costs is partly justified by the nature of the Sector, which is marked by heavy expenditure in the investment component. However, this raises some questions about sustainability: are there enough human resources and specialist labour to look after the level of investments made? Are there enough resources for maintenance and for other operational costs of the major projects, once they have been finished? Furthermore, just as happens in other sectors, it is estimated that part of the (external) capital expenditure ends up being used to cover running costs.

## 6. Foreign component

The foreign contribution to the Water and Sanitation Sector consists of the PRONASAR common fund (National Water and Rural Sanitation Programme) and bilateral projects included in the State Budget. In 2012, this heading is 2,578,679 million MT (or about US\$ 96 million), an increase of 3.4% compared with what was spent in 2011 (REO 2011).

PRONASAR pays for the expansion of the water supply systems, through the opening of new systems and the rehabilitation of small water supply systems, and the promotion of the construction of rural latrines. In 2012, the Programme consists of 27,485 million MT (internal component) and 248,479 million MT (aid), coming to a total of about US\$ 10,221 million.

The sector also faces the problem of *off-budget funds* (foreign funds that do not go through the State Budget). Several national and international NGOs receive resources from donors to implement projects related with the Sector. Failings in coordinating interventions may cause duplication and inefficient use of resources.

## 7. Investment by areas

About 80% of the Mozambican population lives in rural areas. Access to clean drinking water and to decent sanitation is scant in these areas. Only 30% of people living in the countryside use improved sources of drinking water, compared with 70% of people in urban areas. More alarmingly, only 6% of people in the countryside have access to adequate sanitation (sanitation services to eliminate/treat excrement), compared with 47% in the urban environment.

According to the programmatic classification, the Water and Sanitation Sector has three strategic programmes in the 2012:

Government Programmes	Investment
Provision of and access to drinking water in rural areas and towns	561,816
Rural sanitation	9,644
Urban water supply	1,462,498
Urban sanitation	439,261

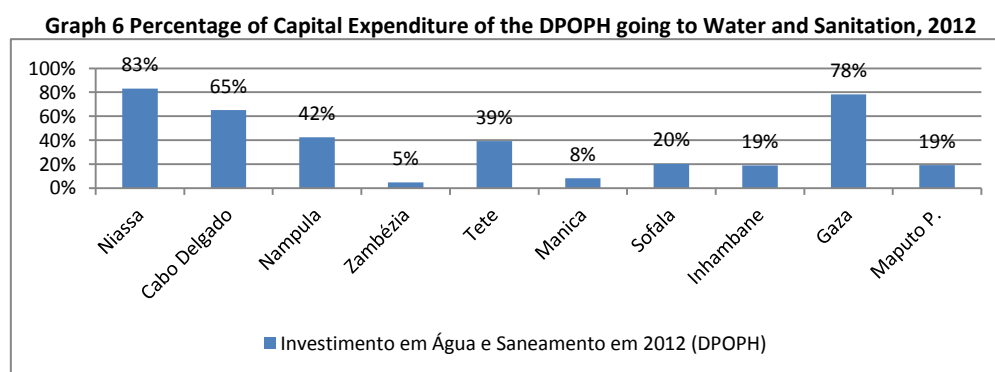
Source: OE 2012

The lack of detail in the composition of the budget lines for the above programmes makes it difficult to analyse investment expenditure in the Sector (it is thought, for example, that the PRONOSAR funds which have an impact on the rural areas were not included in the above table). More information is required about the allocation of investment in the Sector in accordance with zones of impact.

## 8. Decentralisation

It is difficult to understand the trends in the budget for the Water and Sanitation Sector at decentralised levels. The DPOPH, for example, are accounted for in the Public Works Sector. Graph 6 shows the percentage of the Capital Expenditure of these Provincial Directorates going towards Water and Sanitation programmes in 2012.

The DPOPH of Zambézia province, for example, is spending only 5% of its investment on the “promotion of actions of basic safe sanitation in households and schools.” However, only 8% of the households in this province have access to improved sanitary installations (MICS 2008). It is estimated that about 42% of the total amount of investment in Zambézia province is spent on public works across all provincial institutions.



Source: LOE 2012