

Guidance note on how to integrate the environment into the budget process in Malawi

16 August 2010

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* Disclaimer: The views presented in this paper are those of the authors
and do not necessarily represent the views of [name of funder]

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Acknowledgements and disclaimer

This guidance note was commissioned by the Ministry of Finance with support from the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP) as part of the Poverty-Environment Initiative (PEI). The report was prepared and written by ODI researchers Sam Moon and Lídia Cabral and concluded in April 2010 with revisions in August 2010 after the stakeholder workshop. It draws on literature reviews, interviews and contributions during the workshop in Lilongwe. In addition to the Ministry of Finance, the Environment Affairs Department of the Ministry of Natural Resources, Energy and Environment and the Ministry of Development Planning and Cooperation as well as other stakeholders in the environment domain provided substantial contribution to the drafts.

The authors would like to thank Catherine Fedorsky (UNDP-Malawi), Henry Kamlaka (Ministry of Finance), Mark Miller (Ministry of Finance), Michael Mmangisa (Project Manager, PEI-Malawi), Tithokoze Samuel (Ministry of Finance) and Bryn Welham (Budget Advisor, Ministry of Finance) for their support during field work and for comments to the report.

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List of acronyms

ASWAp	Agricultural Sector Wide Approach
CISANET	Civil Society Agriculture Network
CSO	Civil Society Organisation
CURE	Coordination Unit for the Rehabilitation of the Environment
DAD	Debt and Aid Department
DSOER	District State of the Environment Report
EAD	Environmental Affairs Department
EIA	Environmental Impact Assessment
EMA	Environmental Management Act
EPO	Environmental Protection Order
GoM	Government of Malawi
IFMIS	Integrated Financial Management Information System
MDPC	Ministry of Development Planning and Cooperation
MEPD	Ministry of Economic Planning and Development
MGDS	Malawi Growth and Development Strategy
MPRS	Malawi Poverty Reduction Strategy
MTEF	Medium Term Expenditure Framework
MWK	Malawi Kwacha
NCE	National Council for the Environment
NEAP	National Environmental Action Plan
NEP	National Environmental Policy
NSO	National Statistical Office
NSOER	National State of the Environment Report
OPC	Office of President and Cabinet
ORT	Other Recurrent Transactions
PEER	Public Environment Expenditure Review
PEFA	Public Expenditure and Financial Accountability
PEI	Poverty Environment Initiative
PER	Public Expenditure Review
PSIP	Public Sector Investment Program

SEA	Strategic Environmental Assessment
SOER	State of the Environment Report
SWAp	Sector Wide Approach
SWG	Sector Working Group
TCE	Technical Committee on the Environment
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
WESM	Wildlife and Environmental Society of Malawi

Summary of issues and recommendations

This note provides guidance on how to integrate the environment into the budget process in Malawi. Six stages of the budget process are analysed. These are: review policy, set policy and undertake planning, mobilise and allocate resource, implement planned activities, monitor activities and account for expenditure and evaluate and audit. For each stage, the guidance note identifies what needs to be done, what are the key entry points and main challenges faced. These are summarised in Table 1. Several issues discussed are worth highlighting here:

Review policy

Coherence between environment objectives and sector/national policies needs to be improved. Limited assessment and evaluation documentation is available to parliamentarians and policy makers, constraining policy review for coherence. Capacity and institutional constraints challenge the quest for close cooperation between environment domain stakeholders and strong leadership in drawing a coherent environment policy message from the annual and medium progress against the National Environment Policy.

Set policy and undertake planning

Sector working groups (SWGs) are potentially an important mechanism for developing a coherent approach to the implementation of the National Environment Policy. It is a key issue to initiate the Environment SWG and ensure strong technical membership as well as access to policy debate taking place in other SWGs of relevance to environmental management and sustainable development. The current finalisation of the Agricultural Sector Wide Approach and the upcoming formulation of the successor to the MGDS must have strong representation from stakeholders in the environment domain to ensure adequate integration of environment policy, particularly the National Environment Policy and the environment M&E framework.

Mobilise and allocate resources

The environment domain lacks earmarked funds for financing the environment policy activities over the medium term from both domestic and donor sources. Closer collaboration between environment stakeholders in the strategic and planning roles and the Cabinet and Parliamentary Committees for natural resources management is required to ensure that environmental objectives are adequately funded.

Implement planned activities

A clear analysis of financial and activity information in the environment domain is needed to ensure activities are being fully funded in a timely manner. The unhindered use of the Environment Impact Assessments and Environmental Stop Orders is critical to ensure investments are in line with the environment policy.

Monitor activities and account for expenditure

The environment M&E framework needs to be integrated into the successor to the current MGDS and into the M&E strategies of relevant sectors. The quality, timeliness and comprehensiveness of activity monitoring reports need to be improved.

Evaluate and audit

Without a broad assessment report on the environment domain such as the State of the Environment Report, or comprehensive annual reviews of progress in the environment domain, it is extremely difficult to feed concrete analysis and recommendations about implementation of environment policy back into the policy and planning cycle. A public environmental expenditure review is required to provide clear evidence on the effectiveness of environment funding and how this might be improved.

This note provides some context and recommended actions for integrating environment policy into the budget process at each of the stages of the budget cycle. These recommendations focus intentionally on a restricted number of issues, to ensure that they are operationally feasible in the short term.

Recommended action includes:

1. Undertake Strategic Environment Assessments for emerging policies, programs and plans as a step towards bridging the gap between policy and analysis on environmental management, informing policy reviews and influencing key policy processes such as the formulation of the MGDS' successor.
2. Support the operationalisation of the Environment and Natural Resources Sector Working Group by review experiences with sector working groups in cross-sectoral domains to identify the most suitable approach to mainstreaming the environment into policy debates and planning processes.
3. Conduct, through a collaborative effort between EAD, MDPC and DAD, a survey on donor funding to environmental-related investments and activities, which be used to identify resource gaps constraining the pursuit of environmental objectives.
4. Examine options for securing domestic revenue for the environment domain, including options for greater funds to be allocated to the Environment Fund.
5. Use the financial monitoring and activity quarterly reports, and cross reference with the environment domain activities described in the theme and sub-theme classifications in the budget, to ensure that planned activities are being fully funded in a timely manner.
6. Utilise the theme and sub theme segments in the budget classifications to track environment-related revenue, expenditure and activities.
7. Ensure the new Environment Outlook Report is regularly undertaken, as this is a key environment M&E tool which urgently needs to be revived. Ensure that the EOR is widely disseminated.

8. Enhance the implementation of EIAs for public sector projects and ensure resources are available for implementation of mitigation measures.
9. Conduct a detailed public environmental expenditure review as a joint effort between EAD, MoF and other relevant sectors, which collates available information on environmental policy, financing and expenditure and analyses relevance and coherence of plans and budgets and cost-effectiveness of expenditure in the environmental domain. Government leadership and engagement of all relevant sectors would be essential to ensure quality of the analysis and make it policy relevant. Such reviews should be updated on a regular basis.

Important institutional and political challenges remain to be addressed in order to ensure effective integration of the environment into the budget process. Chief amongst these is the insufficient political and institutional weight of the environment coordination agency in Malawi to mobilise and coordinate stakeholders from a complex institutional setting and address critical policy coherence challenges. It is, however, beyond the scope of this guidance to recommend action in relation to these issues. To conclude, success in bringing environmental policy into the budget process is strongly dependent on broader reforms. Among the most important these is the deeper integration of the MGDS into the national budget process with comprehensive usage of the MGDS theme and sub-theme classifications to track revenue, expenditure and activities in the environment domain across the budget.

Table 1. Incorporating the environment into the budget process in Malawi

Budget cycle	What needs to be done? (over the short to medium term)	Key stakeholders	Entry points	Challenges	Recommended action for the short term
Review policy	<ul style="list-style-type: none"> Undertake a comprehensive review of national and sectoral policies from an environment perspective and assess coherence across policy instruments. Ensure relevant assessments are available to inform policy review processes undertaken by various actors. 	<ul style="list-style-type: none"> Ministry of Development Planning and Cooperation Sectoral ministries¹ Environmental Affairs Dept Parliamentary Committee National Council for the Environment Cabinet Committee on Natural Resource and Environment Policy Research, Monitoring and Evaluation Division, Cabinet Office Technical Committee on the Environment 	<ul style="list-style-type: none"> Annual reviews on MGDS implementation by MDPC provide an entry point for reviewing national policy priorities and incorporating environmental sustainability issues. Sector policy reviews in sectoral areas where environmental management is most likely to be affected. The ongoing review of the agriculture sector policy framework (including the ASWAp process) is an important entry point for explore. 	<ul style="list-style-type: none"> Analytical capacity gaps for SEAs and lack of funding to undertake review activities. Institutional complexity of the environment domain which challenges harmonisation of concurrent policies on environmental issues. Insufficient participation of environment coordination agencies, such as EAD, in policy review processes at sector level, for institutional and operational reasons due to staffing numbers. 	<ul style="list-style-type: none"> Undertake a Strategic Environment Assessments for specific issues, assessments and policies as a step towards bridging the gap between policy and analysis on environmental management.
Set policy and undertake planning activity	<ul style="list-style-type: none"> Strengthening the institutional framework for the environment domain (EMA has not yet been enacted). Integrate environment policy objectives, priorities 	<ul style="list-style-type: none"> Ministry of Development Planning and Cooperation Sectoral ministries Parliament Committee on Agriculture and Natural Resources Natural Resource, Energy 	<ul style="list-style-type: none"> Formulation of the new MGDS, by MDPC, which is the overarching national policy instrument. Development of a sector wide approach in the 	<ul style="list-style-type: none"> Institutional complexity and capacity gaps of the environment domain which challenges policy coherence across relevant sector policies. Compromised position of 	<ul style="list-style-type: none"> Support the effective operationalisation of the Environment and Natural Resources Sector Working Group by review experiences with sector working groups in cross-sectoral domains to

¹ Relevant sector ministries from an environmental perspective include: Lands and Natural Resources; Agriculture and Food Security; Irrigation and Water Development; Energy and Mining; Tourism, Wildlife and Culture.

Budget cycle	What needs to be done? (over the short to medium term)	Key stakeholders	Entry points	Challenges	Recommended action for the short term
	and management principles into relevant sector policies (e.g. ASWAp and Greenbelt initiative are key sector policy processes to influence).	<p>and Environment Cabinet Committee</p> <ul style="list-style-type: none"> • Policy Research, Monitoring and Evaluation Division, Cabinet Office • Technical Committee on the Environment • Environmental Affairs Department • Parliamentary Committee • National Council for the Environment 	<p>agriculture sector, which is expected to attract significant investment to the sector.</p> <ul style="list-style-type: none"> • Fertiliser subsidy programme, which is currently one of the main government initiatives in Malawi. • Greenbelt initiative involves rural infrastructures development which will inevitable have an impact on natural resources. • If made operational the Environment and Natural Resources Sector Working Group would potentially provide an important platform for environmental policy debate and planning. 	<p>the EAD within the government system limits authority of the EAD, compounded by gaps in analytical and funding capacity.</p> <ul style="list-style-type: none"> • Lack of coherence between medium-term and short-term plans likely to aggravate inconsistencies between environmental objectives and sectoral policies. • No signs of an operational SWG. Also questions could be raised on whether having a separate environment SWG is the most effective way to ensure mainstreaming of environmental issues into sectoral policies. 	<p>identify the most suitable approach to mainstreaming the environment into policy debates and planning processes.</p> <ul style="list-style-type: none"> • Review examples in Malawi and other countries' experiences with sector working groups in cross-sectoral domains to identify the most suitable solution for mainstreaming the environment into the policy debate.
Mobilise and allocate resources	<ul style="list-style-type: none"> • Scrutinise resources available to environment protection and promotion activities, including external and internal sources of funding. • Develop a coherence approach for negotiating resource allocation to 	<ul style="list-style-type: none"> • Ministry of Finance • Ministry of Development Planning and Cooperation • Sectoral ministries • Environmental Affairs Department • Donors 	<ul style="list-style-type: none"> • Budget hearings conducted by the Ministry of Finance. • Project appraisals, conducted by MDPC as part of preparation of Public Sector Investment Programme. • Sector Working Groups, if these platforms were 	<ul style="list-style-type: none"> • Political – EAD's limited capacity to mobilise all key actors. • Institutional – difficult in coordinating all relevant players and therefore ensure cross-sectoral coherence in budget negotiations – EAD is only a department, which is 	<ul style="list-style-type: none"> • Conduct, through a collaborative effort between EAD, DAD and MDPC, a survey on donor funding to environmental-related investments and activities, which be used to identify resource gaps. • Examine options for securing domestic revenue for the

Budget cycle	What needs to be done? (over the short to medium term)	Key stakeholders	Entry points	Challenges	Recommended action for the short term
	environmental activities with the Ministry of Finance and MDPC.		made operational.	<p>expected to coordinate various ministries.</p> <ul style="list-style-type: none"> Operational – lack of resources to undertake the required analytical and coordination work, including operationalising SWGs. Lack of a fixed ceiling specifically for EAD limits the ability to fully exercise priority setting as a department. 	<p>environment domain, including the operationalisation of the Environment Fund.</p> <ul style="list-style-type: none"> Conduct, through a collaborative effort between EAD, MDPC and DAD, a survey on donor funding to environmental-related investments and activities, to identify funding gaps across all institutions and sectors that constrain the pursuit of environmental objectives.
Implement planned activities	<ul style="list-style-type: none"> Ensure resources are made available to carry out budgeted activities in the environmental domain Assess investment expenditures within the PSIP that may have an impact on the environment (environmental impact assessments) 	<ul style="list-style-type: none"> Ministry of Finance Environmental Affairs Department Ministry of Development Planning and Cooperation Sector ministries 	<ul style="list-style-type: none"> Quarterly expenditure reports Environmental impact assessments EMA (which empowers the EAD to issue environmental protection orders) 	<ul style="list-style-type: none"> Successful implementation of reforms within the treasury and accounting systems (to ensure greater efficiency in resource use) Lack of political will to enact EMA 	<ul style="list-style-type: none"> Use the financial monitoring reports and cross referencing with the theme and sub-theme classifications in the budget, to ensure that planned activities are being fully funded in a timely manner.
Monitor activities and account for expenditure	<ul style="list-style-type: none"> Expand ownership of the M&E framework for the environment and natural resources, including integrating it into other sectors' M&E strategies. Provide support to relevant sectoral ministries to improve the quality and timeliness of information in 	<ul style="list-style-type: none"> Monitoring and Evaluation Department, Ministry of Development Planning and Cooperation Budget Department and DAD, Ministry of Finance Planning division of Ministry of Natural Resources Energy and Environment 	<ul style="list-style-type: none"> MGDS formulation (to integrate the M&E framework for the environment and natural resources) The new chart of accounts implementation in the upcoming financial year. 	<ul style="list-style-type: none"> Fragmentation and insufficient quality of M&E systems although the Environment and NR M&E framework is now being more widely integrated. Limited human and financial resources to support data collection, processing and analysis. 	<ul style="list-style-type: none"> Utilise the theme and sub theme segments in the budget classifications to track environment-related revenue, expenditure and activities. Ensure the new Environment Outlook Report is regularly produced as this is a key environment M&E tool. Special attention to the effective

Budget cycle	What needs to be done? (over the short to medium term)	Key stakeholders	Entry points	Challenges	Recommended action for the short term
	<p>their quarterly activity reports, including integrating information on activities related to environmental protection and promotion and their outcomes.</p> <ul style="list-style-type: none"> • Clearer identification of cross sectoral environment-related expenditures through, for example, a grouping of relevant programmatic classifications of expenditure. 	<ul style="list-style-type: none"> • Environmental Affairs Department • Policy Research, Monitoring and Evaluation Division, Cabinet Office • National Audit Office • Donors 			<p>dissemination of this report is imperative to ensure the recommendations are integrated into the policies of other sectors.</p> <ul style="list-style-type: none"> • Include a short summarised version of key points and recommendations from EIAs in regular and broader evaluation reports such as the State of the Environment Report, or its successor the Environment Outlook Report.
Evaluate and audit	<ul style="list-style-type: none"> • Regular production of evaluation reports containing empirical evidence and analysis on environmental management – these should include both broad and strategic reviews as well as more targeted and detailed assessments. 	<ul style="list-style-type: none"> • Auditor General • Ministry of Development Planning and Cooperation • Ministry of Finance • Policy Research, Monitoring and Evaluation Division, Cabinet Office • Ministry of Natural Resources, Energy and Environment • Environmental Affairs Department • Sector ministries • Donors 	<ul style="list-style-type: none"> • State of the Environment Reports/Environment Outlook Reports, if regularly updated • Strategic Environment Assessments, if operationalised would provide valuable information to be used as reference in evaluation. • Public Expenditure Reviews (undertaken by Ministry of Finance at the end of each financial year) • Annual reports on MGDS implementation produced by MDPC 	<ul style="list-style-type: none"> • Lack of budget resources (part 1) for undertaking the EOR. • Insufficient capacity within the Ministry of Finance to produce expenditure reviews. • Ensure engagement by all key stakeholders in a Public Environmental Expenditure Review. 	<p>Conduct a detailed public environmental expenditure review, which collates available information on environmental policy, financing and expenditure and analyses relevance, coherence, and cost-effectiveness of plans and budgets in the environmental domain. Government leadership and engagement of all relevant sectors would be essential to ensure quality of the analysis and make it policy relevant. Such review would have to be updated on a regular basis (e.g. every 5 years).</p>

1. Introduction

1.1. Background

The Malawian economy depends heavily on natural resources. Agriculture represents about 35.1%² of the economy but provides approximately 75% of total employment across the country (ReSAKSS 2008). Fish provides 60% to 70% of total animal protein in the country. Lake Malawi outflow covers 95% of electricity production and wood fuel provides over 90% of the country's wood/charcoal energy requirements. Malawi is also home to 500-1000 endemic species of fish, which makes it the greatest fresh water biodiversity in the world (Government of Malawi 2002).

Yet, environmental degradation is a serious problem which constraints economic development. For example, agricultural productivity is below potential partly because of poor soil fertility caused by unsustainable land use practices. Wood demand exceeds supply by one third and deforestation has been occurring at the rate of 2.8% per year, resulting in a national loss of 2 million hectares of forest in the past 25 years (*ibid*).

Environmental management is receiving increased attention by government, development partners and civil society in Malawi. The key priority area of climate change, natural resources management and environment management was recently added in the Malawi Growth and Development Strategy 2006-2011. However, environment-related objectives have not been adequately operationalised in terms of budgets and monitoring indicators. Capacity and institutional coherence on environment and natural resource management issues are among the important challenges that need addressing.

The UNDP-UNEP Poverty-Environment Initiative (PEI) supports country-led efforts to mainstream poverty-environment linkages into national development processes. In Malawi, its objectives include: (i) incorporating environmental sustainability as a central objective in national development strategies; (ii) increasing national budget allocations to environmental management activities; and (iii) building government capacity to integrate environmental concerns into the design and implementation of development plans.

This guidance note aims to contribute to these objectives by providing government agencies, as well as other players working directly or indirectly with environmental issues, guidance on how to incorporate environmental objectives into budgetary processes. The note has been commissioned by the Ministry of Finance in collaboration with Ministry of Development Planning and Cooperation with support from PEI at a critical juncture, as the implementation period of the current MGDS is coming to an end and preparations for its successor begin. The note aims to emphasise a select number of key actions that should be achievable, and will serve to strengthen and deepen the integration of environment policy into both the annual budget cycle and into the medium term planning and policy dialogue.

² CIA World Factbook (2010)

1.2. Scope

This report looks at how to incorporate environmental protection and promotion objectives across the various stages of the budget process.

1.2.1 Environmental protection and promotion objectives

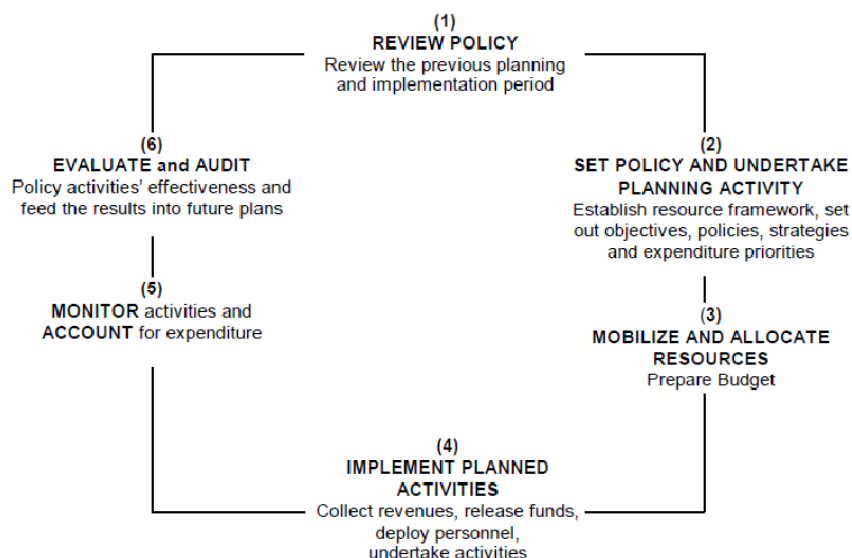
The notion of environment 'domain' is used instead of that of 'sector' to avoid the common but misleading attribution of environmental governance responsibilities to a particular government ministry whose denomination holds a direct association with the environment. Environmental governance should instead refer to all activities which include the protection and promotion of the environment and natural resource endowments and not only the activities carried out by the Environmental Affairs Department, but all stakeholders in the environment domain.

Environmental management, which can also be referred to as environment and natural resource management, is therefore not only about *protecting* the use of natural resources but also about *promoting* activities which enhance natural resource endowments, discourage natural resource degradation or entail deploying natural resources in a sustainable way. This means that environmental management should not be restricted to nature conservation, pollution control or waste and sewage management, but it should also include economic activities which directly or indirectly interfere with the quantity and quality of the country's natural resource capital. The latter may include water management, energy production, agricultural and industrial production, infrastructures development and tourism activities. These areas are often not directly linked with environmental management which instead tends to be associated with conservation and pollution control activities. They have however major impact in natural resource endowments and play a central role in ensuring sustainability. This guidance note therefore looks at the environmental domain from this broader perspective which considers both environmental protection and promotion objectives.

1.2.2 Stages of the budget process

The report draws on the stylised planning and budgeting cycle presented in the World Bank's Public Expenditure Management Handbook (World Bank 1998). The cycle is presented as having six distinct, although inter-related, stages: (i) policy review, (ii) policy setting and planning, (iii) resource mobilisation and allocation, (iv) implementation, (v) accounting and monitoring, and (vi) auditing and evaluation – Figure 1. These stages do not necessarily follow a linear sequence. The budget process is dynamic and there are constant overlaps between stages.

Figure 1. The budget process: from policy review to evaluation



Source: World Bank (1998).

1.3. Methodology

The report draws on reviews of the relevant general and Malawi-specific literatures on budget processes and environmental management as well as field work in Malawi. The latter consisted of individual and group semi-structured interviews with key informants from government, civil society, Parliament and donor agencies, carried out on 15-19 February 2010. The list of people interviewed is included in Annex 1. A presentation explaining the purpose of the exercise, made to those interviewed, is also provided.

1.4. Structure of the document

This guidance note is structured into five sections. After this introduction, Section 2 provides an overview of the budget process in Malawi. It briefly describes each of the five broadly defined stages of the process and identifies some challenges faced in each of them. Section 3 describes the environment-related policy and institutional setting in Malawi. It reviews the key policy instruments and priorities and the roles of the main institutional actors playing an active role in the environment domain. Those familiar with the Malawi budget process and the environmental policy institutional setting can skip Sections 2 and 3 and move directly to Section 4. The latter explains how environmental objectives can be incorporated into budgetary processes by discussing, for each stage of the budget process: what needs to be done, entry points, challenges and available tools to carry out the necessary work. Section 5 concludes by providing some operational recommendations.

2. The Malawi budget process

The Government of Malawi (GoM) operates in a financial year that runs from July 1st to June 30th. Preparation for the next years' budget begins in September as policy is reviewed, projects are appraised and reports from the previous year are assessed. Following on directly, the planning process for the budget takes place beginning in October and concludes in April/May when Parliament reviews the budget proposal, and the next years' budget policy is set in time for the beginning of the financial year. While the budget preparation is being undertaken, the Ministry of Finance is responsible for projecting the total resource envelope for the year, including debt, tax revenue and aid, and setting ceilings for the ministries and agencies. These are consolidated and discussed with the Cooperating Partners in March to allow clear guidance for finalising the planning process.

Budget execution takes place from beginning to end of the financial year with the Ministry of Finance responsible for releasing funds to the ministries and agencies in a timely manner to allow funded activities to be undertaken. Regular monitoring reports of expenditure as well as activities and outputs for each ministry and agency are provided and are consolidated in quarterly reports by the Ministry of Finance and Ministry of Development Planning and Cooperation (MDPC). Once the financial year closes, the accounts are audited and evaluations take place. Some evaluations will be scheduled annually, while others such as a sector specific expenditure reviews may only be undertaken at longer intervals.

The national budget for the year 2009/10 was a total of MWK 256bn with MWK 190bn of recurrent expenditure and MWK 66bn of development spending. There has been strong growth in national expenditure with a real growth rate of an average of 11.4% per annum from 2004/5 to 2009/10 supported by strong revenue performance and increasing, although somewhat erratic, grants³. The budget is separated into the recurrent budget, consisting of personal emoluments and other recurrent transactions (ORT), and the development budget, consisting of donor funded investments (Part I) and government funded investments (Part II). In 2009/10, the development budget was 25% of the total budget with donor projects making up 68% of development expenditure.

The 2003 Public Financial Management Act provides the legal foundation of the budget process. The budget calendar is not included in the Act, giving it no legal status, and perhaps contributing the relatively poor adherence to it.⁴

The Malawi budget process is broadly structured around the following stages: (i) policy review and planning (ii) resource mobilisation and allocation, (iii) budget implementation and accounting, and (iv) monitoring and evaluation.

³ Tavakoli and Hedger (2009).

⁴ Oduro, Quist and Steen (2008).

2.1. Policy review and planning

2.1.1 Reviewing policy

Reviewing policy entails examination of evidence on the effectiveness of current policies. This step is a bridge between evaluation and audit and the policy and planning process for the following year. To allow for effective review feeding into the revision of policy for the next cycle it is imperative that the audit, review and evaluation documentation is available well before annual planning and resource allocation occurs. MDPC has a central role in the policy review process.

Annual and 6-monthly expenditure and output reports on budget implementation are compiled. Relevant Public Expenditure Reviews (PER), from an environment perspective, include the recent one on sustainable development and the forthcoming on input subsidies, although dissemination and general access to these reports may be limited. 2) The Debt and Aid Department also produces regular reports on expenditure for the aid projects contained in its Aid Management Platform (AMP).⁵ These are broken down by sector and provide a synopsis of the donor contributions, both on and off budget. The annual MGDS review is produced by the MDPC with participation expected from the Ministry of Finance and line ministries.⁶ The annual and mid-year expenditure reviews from the Ministry of Finance as well as the output budget reports provide information on actual expenditure. Unfortunately, these two sets of annual reviews, policy and expenditure reviews, are not well linked, making it difficult to understand coherence between policy implementation and resource use and therefore assess the impact of policy in a structured manner.

As for environment specific reviews, according to the National Environment Policy, the National State of the Environment Report (NSOER) is compiled every two years alongside the District State of the Environment Reports (DSOER), which are also biennial. This report assesses progress of the 5-year National Environment Action Plan (NEAP), and its related District Environment Action Plans (DEAP). These documents provide the core policy review and analytical content, although in reality these have not been produced since 2002 due to funding and capacity constraints, resulting in no formal review of environmental policy since that time.

2.1.2 Planning

The planning stage consists of the elaboration of update of policy and planning instruments which provide guidance to the annual budget exercise. Central amongst these is the five year Malawi Growth and Development Strategy (MGDS), which the current version expires in 2011.

⁵ The AMP is a software tool designed to assist government in collecting and analysing aid information. It collects information on aid both on and off budget by drawing information from donor systems. The tool is a product of Development Gateway and is one of two dominant products in the market, the other being the Development Assistance Database, a product of Synergy.

⁶ Jere (2007).

The role of planning lies with the MDPC⁷ while budget preparation is the responsibility of the Ministry of Finance. However, frequent changes in this arrangement (including the planning function at one time being the role of the Ministry of Finance) have left a fragmented responsibility for strategic planning and budgeting.⁸ Main planning instruments is the MGDS while the Public Sector Investment Plan (PSIP) is the key operational tool for the MGDS... In recent years there has been a strong push to improve the link between the MGDS and the national budget which, thus far, has been very weak⁹.

Several reforms concerning the budgetary planning process are underway including a chart of accounts revision, an Integrated Financial Management Information System (IFMIS), the Medium Term Expenditure Framework (MTEF) reform and, most recently, the development of Sector Wide Approaches, for coordination of development assistance, after pilots in the health and education sectors.

Both annual and medium term planning are important areas for integrating environment that are not being engaged in to full effect. Budget planning tends to dominate at the annual cycle, while the MTEF, though existing in theory for over a decade, is extremely weak and does not provide any significant medium term budget planning role at present. There is generally weak integration of the medium term and the annual cycles, despite the fact that the MDPC is also responsible for the formulation annual development budget, the PSIP. Chronic problems with the integration of policy and planning cycles and with effective medium term planning are faced by all developing countries. Key international studies by the World Bank and the OECD have examined these issues in the broad context and in the context of the environment.¹⁰

The MDPC has the role in setting both the policy and the budget for the PSIP. In theory this should enable a close relationship between the two and a structured framework for setting policy. However, the resources envelope to fund the PSIP depends on financing from the donor funds and from the national budget which must be negotiated with these actors. A relatively weak, but improving link between the MDPC and Ministry of Finance means that the funding available for the PSIP is finalised relatively late. Final donor figures are also often late. As a result, the strategic approach drawing from Ministry led policies and coordinated by the MDPC has suffered. Ministries have been known to by-pass the MDPC and donors may not always use the government process for entering projects into the PSIP.

⁷ Until July 2009 this ministry was known as the Ministry of Economic Planning and Development.

⁸ Krause (2007).

⁹ Ibid.

¹⁰ The Minding the Gaps study (World Bank 2007) explores the link between poverty reduction strategies and budgets; the OECD Environment Working Paper no.7 (Petkova 2009) examines the integration of public environmental expenditure within medium term budget frameworks.

The need for a linkage between policy and budget implementation is well documented.¹¹ Krause (2007) states:

“The country’s fragmented policy cycle is an underlying factor that strongly constrains efforts to improve the links between [the MGDS] and budget implementation. Such fragmentation is a feature of public sector management in many countries, where new initiatives are often added without adapting or dropping existing mechanisms”

To gain a credible improvement in the integration of environment policy into the national budget cycle these overarching questions must be kept at the forefront. While harmonisation of sector policies with the MGDS is critical for developing a coherent national development strategy, the further integration of the planning process with the budget cycle is a crucial step in gaining a more coherent linkage of any of the strategy, whether national or sector specific, to the budget process.

2.2. Resource Mobilisation and Allocation

Budget preparation is undertaken by the Ministry of Finance, both for the recurrent and development side.¹² Mobilisation of resources is the responsibility of the Revenue and Debt and Aid Departments. In practice sector ministries and the MDPC also have a role in developing funding opportunities around projects and SWAp funding at the sector level. Budget allocation of the recurrent budget is the mandate of the Budget Department of the Ministry of Finance, while allocation of the development budget is the mandate of the MDPC.

Budget preparation begins around October each year with ministry level budget preparation being initiated. Budget ceilings may be developed, although these are not formalised until early March the following year when budget ceilings are discussed with the Cooperating Partners. Policy changes on allocation within the recurrent budget are few and tend to be dominated by high level policy initiatives. Budget ceilings tend to be incremental over the previous year. Malawi does not, currently, produce a formal sector budget framework paper in the process of budget formulation. This is partially due to limited capacity within the Ministry of Finance for delivering accurate sector ceiling early in the preparation process; a weak, although improving, relationship between the Ministry of Finance and the Economic Planning Department of the MDPC; and limited guidance and capacity in many of the line ministries for integrated policy and financial planning. This has meant that the opportunity for sector level policy discussion and any decisions on allocation is compressed into a short window during the budget hearings in April. Policy discussion in these hearings tends to be limited to smaller expenditures rather than key step changes in allocations. In sectors with an established Sector Wide Approach (SWAp) such as education and health, there is usually a more structured budget preparation that benefits from development partner technical and financial support that allows a more strategic approach to allocating the budget ceiling.

¹¹ Krause (2007) and Radev, Pattanayak and Kuteesa (2007).

¹² Responsibilities for the PSIP are shared to some extent between the MDPC and the MoF. The MDPC is responsible for the composition of the PSIP and approving the various projects within it. The MoF is responsible for setting ceilings and allocations. Given these related roles, close collaboration is imperative, but currently lacking.

The MDPC begins a separate process of appraisal of the PSIP projects in partnership with the relevant ministries overseeing the projects, usually around October-November. These meetings serve to assess the performance and future of existing projects. The Ministry of Finance is invited to these meetings but attendance has been poor, and the appraisals and decisions on the basic composition of the PSIP projects are generally developed at this point with inadequate representation from the Ministry of Finance attendance, and without budget ceilings as the resource framework is far from being finalised. The first draft of the PSIP is then prepared and, to date, has not been costed or subject to budget ceilings.

In February, indicative ceilings are produced by the Ministry of Finance in consultation with the MDPC. This negotiation between the budgeting and planning arms of government constitutes the first imposition of ceilings on the development budget and revision of the PSIP is usually required, with the MDPC negotiating on behalf of the ministries and agencies with PSIP projects. The budget calendar has recently been updated and now provides for an earlier communication on sector ceilings, although the reality remains that until the capacity of the macroeconomic forecasting within the Ministry of Finance improves, formal ceilings will not be communicated until the resource framework is finalized with the IMF mission, currently in March.

The national budget is presented in two formats, the detailed line item budget that is used for day-to-day operations by ministries; and the output based budget linked to national objectives that is presented to the legislature for approval accompanied by the detailed budget. Some inconsistencies between the two formats have led to a dependency on the line item budget and a reduced ability to link expenditures to objectives.¹³

Interviews with sector ministry staff have indicated that their budget priorities are often not upheld and in some cases, the ministries have directly approached the Ministry of Finance to allocate expenditure for specific projects within the development budget. In the past, the Ministry of Finance has accepted some of these requests leading to a break in the coherence between the MDPC developed PSIP and the enacted development budget. A further complication has been that several of these additional projects have not had approval by the relevant regulatory bodies, and therefore, while funded, these projects are not implemented. The MDPC and the Ministry of Finance have acknowledged these inconsistencies and in the current budget preparation additional consultations are scheduled between Ministry of Finance and MDPC to consolidate the PSIP into the budget plan earlier, and for the draft PSIP to be fully costed under agreed indicative ceilings.

2.3. Budget implementation and accounting

During budget implementation, monthly financial reports are submitted by spending agencies to the Ministry of Finance who consolidate these into quarterly reports. Activity reports are scheduled to be prepared monthly and submitted directly to the MDPC without being copied to Ministry of Finance by default.¹⁴ Desk officers, working under the Ministry of Finance's Budget Department,

¹³ Pretorius and Rothmann (2005).

¹⁴ Notes from interview with Budget Department Officials, February 2010.

undertake a quarterly physical monitoring role with reports submitted to the broader Ministry of Finance which, in theory, respond to the sector ministry activity reports.

While revenue collection has been relatively weak, the 2008 Public Expenditure and Financial Accountability report argues the predictability and availability of funds for budget execution has been reasonably good in recent years.¹⁵ Nevertheless, reports over the past decade have consistently mentioned the ‘informality’ of the budget process and also the volatility of funds both domestic and from aid. These factors have both led to frequent readjustments to the budget allocations during execution. In recent years the EAD has suffered some midyear reallocations, but the fact that they are not autonomous and hold the status of a department, rather than an independent vote, has meant that they are particularly exposed to reallocations within their Ministry.¹⁶

2.4. Monitoring and evaluation

The coordination of monitoring and evaluation is largely the role of the MDPC, particularly the Monitoring and Evaluation (M&E) Division, and the National Statistics Office. The latter has produced a number of surveys in the past years with the assistance from donors. However, it is the MDPC that holds responsibility for monitoring MGDS progress. The National M&E Master Plan was completed in 2004 in the last years of the predecessor to the current MGDS, the Malawi Poverty Reduction Strategy. The Master Plan is designed to identify the institutional framework for M&E coordination as well as provide guidance for Ministries and sectors to develop their own M&E plans to contribute to the national plan.¹⁷ The EAD has recently completed the M&E Framework for the Environment and National Resources Management Sector (2009). This now needs to be integrated into the new MGDS and a cross-cutting framework of indicators must inform the M&E strategies and plans of the relevant Ministries, most importantly the Ministry of Agriculture which is currently revising the Agricultural Sector Wide Approach.

Ministry level expenditure and activity progress reports are the key administrative monitoring tools. The Ministry of Finance compiles the expenditure data, while the MDPC compiles the activity based information from Ministries into quarterly reports based around MGDS themes. Prior to the MGDS, the MEPD (predecessor to the MDPC) produced Annual Progress Reports on the national development strategy using these Ministerial reports to provide the empirical content including outputs, although funding data is only linked to inputs.

The Ministry of Finance also has a Monitoring Section, the biggest section within the Budget Department, which has the mandate to make targeted monitoring visits to examine budget implementation. These monitoring visits are undertaken by desk officers and intended to respond to the findings of the Ministerial progress reports.

¹⁵ Oduro, Quist and Steen (2008).

¹⁶ Interview with Environment Affairs Department Officials, March 2010.

¹⁷ Jere (2007)

The State of the Environment Report (SOER), produced at national and district level, is the key document to present empirical and analytical information on the environment to policy makers. The document has not been produced since 2002, either at district or national level, and as a result the ability to review and influence sector policies and the MGDS is severely weakened. The SOER was replaced by the Environment Outlook Report which is produced every 5 years, with reviews expected to be undertaken by sector ministries and districts on an annual basis. The 2004 report was produced but not published as further research was necessary but not undertaken. The regular production and publication of such report is important for improving the overall strength and integration of environment policy with national and sectoral policy, although it must be widely disseminated and its recommendations must be taken up if it is to tackle the broader issue of linking policy better with the implementation process.

Targeted Public Expenditure Reviews (PERs) are implemented on a near annual basis by the Economic Affairs Department of the Ministry of Finance, with collaboration from Budget Department and usually significant input from relevant actors. For example the ongoing PER on the fertiliser subsidy programme¹⁸ has representatives from the Ministry of Agriculture and Food Security working with the Ministry of Finance officials to undertake the analysis. To date there has been no specific PER on the environment.

The MGDS will have a comprehensive review at the end of its 5 year cycle. The comprehensive review of the previous strategy, the MPRS provided a great deal of valuable analysis drawn from ministry and survey data.

¹⁸ The GoM has over the past two years been implementing a major programme led by the Ministry of Agriculture and Food Security to subsidise and distribute fertiliser.

3. The environment domain in Malawi: policy framework and institutional setting

This section of the report provides an overview of the environment domain in Malawi. The term ‘domain’ is used in contrast to that of ‘sector’ due to the cross-sectoral nature of the environment. As yet, the environment domain in Malawi has not been formally identified, although the recently implemented MGDS theme segment of the Chart of Accounts will allow a cross cutting issue within the budget, such as the environment domain, be relatively easily identified. The section briefly reviews the environment policy framework and the environment institutional setting in Malawi. The first concerns policy instruments and priorities whereas the second is about key actors and the relations between them.

3.1. Policy framework

The 1996 Environmental Management Act and the National Environmental Policy (2004) constitute the pillars of the environmental policy framework in Malawi.

The **Environmental Management Act (EMA)** provides the legal framework for the protection and management of the environment and the sustainable use of natural resources. It has been reviewed in recent years but the revised draft has yet to be approved by Parliament. The Act is supposed to provide guidance to all sectors on sustainable environmental and natural resource management issues and sectoral legislations are expected to conform to the EMA. The Act identifies responsibilities for different stakeholders and calls for the establishment of certain positions and entities for the coordination of environmental issues. It establishes the Environmental Fund¹⁹ and the National Council for the Environment (NCE), a Government advisory body which includes members from Government, CSOs, private sector and other relevant stakeholders. It also establishes specific instruments and procedures for environmental management, such as the National Environmental Action Plan (NEAP)²⁰ environment impact assessments (EIA) and environmental audits. The revised EMA focuses mostly on institutional arrangements and as such the majority of the policy issues and instruments remain consistent in both versions of the Act.

Provided for within the EMA is the Environmental Protection Order (EPO), a powerful instrument that enables the Director of the EAD to issue a stop order on any actions harmful to the environment and undertake ‘any measures necessary’ for the enforcement of the order, and ‘have power to inspect, at any reasonable time, any activity on any premises for purposes of determining whether the activity is harmful to the environment or the conservation of natural resources’. The Director is ‘entitled to recover in full from the person against whom the environmental protection order is made the expenses reasonably incurred by the Director for taking such action’ and if the expense remain unpaid they will become a civil debt payable by government (EMA, Paragraphs 33-34).

¹⁹ The Environment Fund is established within the legislation in Part X (paragraph 53) but has not been operationalised.

²⁰ To be produced every five years to promote and facilitate the integration of strategies and measures for the protection and management of the environment into plans and programmes for the social and economic development of Malawi.

The **National Environmental Policy (NEP)** lays out policy objectives and guiding principles for attaining the overarching goal of promoting sustainable social and economic development through sound environmental management in the country. Box 1 provides further details.

The policy was developed to guide all stakeholders integrating environmental considerations in their development policies, programmes and plans. It provides the framework for sectors to review their sectoral environmental policies and ensure they are consistent with the principles of sustainable development.

Box 1. National Environmental Policy (2004) objectives

The National Environmental Policy seeks to:

- (a) promote the efficient utilization and management of our natural resources;
- (b) facilitate the rehabilitation and management of essential ecosystems and ecological processes;
- (c) enhance public awareness of the importance of sound environmental management; and
- (d) promote cooperation between Government, local communities, and women groups, non-governmental organizations and the private sector in the management and sustainable utilization of the natural resources and the environment.

In order to promote effective implementation of sectoral environmental policies and strategies, the National Environmental Policy, amongst other things, calls for the strengthening of institutional mechanisms, reviewing and where necessary formulating environmental legislation and by-laws. It also calls for the integrating of environmental concerns into national, regional and district planning systems, developing and implementing systems and guidelines for assessing environmental impacts of development projects and programmes, undertaking training programmes to develop capacity for environmental management, increasing environmental education and public awareness, empowering local communities in the management of natural resources through community participation and involving the private sector and non-governmental organizations in all aspects of planning and management of the natural resources and the environment.

Source: National Environmental Policy.

The **Malawi Growth and Development Strategy (MGDS)** also provides guidance on environmental management. Climate change, natural resources management and environment management is one of the Strategy's priority areas. Key strategies in these fields include: promoting better disaster risk management and emergency response; providing high-quality climatic information and tools for risk management; improving the management of natural resources and the environment; and promoting effective adaptation and mitigation mechanisms for vulnerable communities. Sustainable environmental management objectives are also incorporated within specific strategies in the MGDS, such as agriculture, fisheries, irrigation, water, sanitation and energy development – Box 2.

Box 2. Environmental management strategies in the MGDS

Key strategies related to sustainable environmental management in the MGDS include:

Agriculture

- Promoting soil and water conservation techniques.

Climate change management

- Inter alia, strengthening and harmonizing the policy and regulatory framework for climate change, natural resources and environment management.

Energy development

- Promoting alternative energy sources including renewable energy.

Environmental management

- Inter alia, improving enforcement of environmental policies and legislation.

Fisheries

- Enforcing legislation to ensure sustainable production of fish.

Forestry

- Inter alia, improving enforcement of regulations for forestry management.

Green Belt irrigation

- Ensuring natural resource management with interventions such as irrigation scheme catchment conservation; river bank and lake shore conservation; pollution prevention; and land degradation prevention among others.

Sanitation

- Promoting integrated research on improved technologies for managing and disposing waste, which among others would facilitate the possibility of re-use and/or recycling of waste; apart from management options.

Water

- Improving sustainable access to water supply and sanitation in urban, peri-urban and rural areas by among others establishing water supply and sanitation systems using demand responsive and demand driven approaches.

Wildlife

- Inter alia, improving wildlife research and monitoring capacity.

Source: Malawi Growth and Development Strategy 2006-2011.

3.2. Institutional setting

There are a number of institutional actors playing an active role in the environment domain in Malawi. This section describes their main roles with regards to environmental policy and management. These actors are grouped into the following categories: environment coordination agencies, sectoral ministries with a role in environmental management, government coordination agencies, Parliament and civil society organisations.

3.2.1 Environment coordination agencies

The Constitution of the Republic of Malawi, Part 3 Section 13 D and E provides the underlying mandate for the coordination of the protection of the environment and sustainable development of natural resources.

The first guiding principle on the institutional framework in the National Environment Policy (2004) states the following:

Environmental management needs a powerful voice not only for advocacy for environmental protection and conservation, but also to ensure effective cross-sector coordination. This can best be achieved through establishment of a high level institution within the government administrative structure. (Environmental Affairs Department 2004)

The **Environmental Affairs Department (EAD)** is the coordinating unit for all environmental issues at national level and for all international conventions related to the environment. More specifically, it coordinates the production of Environmental Impact Assessments (EIAs) and State of the Environment reports and is responsible for biodiversity conservation promotion and pollution control and monitoring. Since its establishment in the 1990s the Department's institutional location has changed ministry regularly:

- In 1994 the EAD was under the Ministry of Health and Environment
- In 1996 it was under Ministry of Research and Environmental Affairs;
- In 1997 it was placed under Ministry of Forestry and Environmental Affairs;
- In 2002 it was made part of Ministry of Natural Resources and Environmental Affairs;
- In 2004 it was made part of Ministry of Mines, Natural Resources and Environment;
- In 2007 it was made part of Ministry of Lands and Natural Resources; and
- Since 2009 it is part of the Ministry of Natural Resources, Energy and Environment.

This instability, coupled with funding and human resources constraints in terms of numbers has compromised EAD's capacity to play the coordination role effectively. EAD is not involved in some of the relevant policy processes which have a bearing on the environment (e.g. was not involved in the development of the Agricultural Development Programme and is not yet involved in the development of its revised form, the ASWAp). It is sometimes not invited to these processes and also to be fully active across the entire environment domain, the EAD would need to be

comprehensively engaged in many sectors and current capacity in EAD is stretched very thin in terms of input to these sectors. EAD produces some important outputs, such as the State of the Environment Report (SOER), Environment Impact Assessments (EIAs) and national communications on environmental issues. The SOER has not been regularly reviewed and has not been updated since 2002.

At district level, coordination of environmental issues is to be done by **District Environmental Officers**. These officers are also responsible for the production of District Environmental Action plans and District State of Environment reports. However, their action has been limited due to lack of adequate financial compensation and technical gaps due to high staff turnover. Also, due to lack of incentives it is difficult to retain staff in these positions. At the end of 2009, only 8 of the 28 districts had Environmental Officers. By August 2010, recruitments of staff have increased to 20 out of 28, but the issue remains as to whether these staff will be retained.

The **National Council for the Environment** (NCE) is an advisory body, with EAD as secretariat, whose role is to advise Government on all issues related to the protection and management of the environment. This includes advising the Minister on environmental matters, recommending measures on how to integrate environmental considerations into economic planning and development and measures for the harmonisation of activities, plans and priorities of all agencies (governmental and non-governmental) concerned with the protection and management of the environment. The Council meets quarterly and its members include a number of academic, private sector and public sector stakeholders including all of the principal secretaries. A key problem is that attendance of the meetings tends to be by delegated lower ranking officers rather than the PS.

The **Technical Committee on the Environment** is a technical body, integrating experts in various fields of the environment and natural resources, tasked with examining documents and recommending action; the conducting of studies relating to the environment, the development of environmental guidelines and standards and the provision of technical advice to the NCE.

Other initiatives not mandated within the EMA but important to the environment domain include the **Steering Committee on Climate Change** is in principle a Principle Secretary level committee, involving all key sectoral ministries such as agriculture, energy and water. This Steering Committee has only just been approved by the Technical Committee in February 2010. The committee is chaired by the MDPC and is expected to have a role in policy direction and coordination on environmental matters.

3.2.2 Sectoral ministries

There are a number of sectoral ministries whose action has a bearing on the environment. These include the Ministry of Agriculture and Food Security, the Ministry of Irrigation and Water Development, the Ministry of Natural Resources, Energy and Environment and the Ministry of Tourism, Wildlife and Culture.

The relevant departments in these ministries are:

- **Department of Land Resources and Conservation**, Ministry of Agriculture and Food Security
- **Fisheries Department**, Ministry of Agriculture and Food Security
- **Department of Irrigation Services**, Ministry of Irrigation and Water Development
- **Water Resources Department**, Ministry of Irrigation and Water Development
- **Forestry Department**, Ministry of Natural Resources, Energy and Environment
- **Energy Department**, Ministry of Natural Resources, Energy and Environment
- **Department of National Parks and Wildlife**, Ministry of Tourism, Wildlife and Culture.

3.2.3 Central government agencies

Central Government Agencies, such as the Ministry of Finance and the Ministry of Development Planning and Cooperation are also important players in environmental policy and management processes.

The **Ministry of Finance** is responsible for the budget process and therefore plays a central role in the allocation of resources to environmental activities and to investments which have an impact on the environment.

The **Ministry of Development Planning and Coordination** (MDPC) coordinates economic and social policy development for national (e.g. Malawi Growth and Development Strategy) and sectoral issues, playing a central part in the formulation, monitoring and evaluation of policies which are directly or indirectly related to environmental management. MDPC is also responsible for the PSIP and therefore has also a key role in the allocation of resources to development spending.

The Cabinet Office is supported by the **Cabinet Committee on Agriculture and Natural Resources, Energy and the Environment**. This committee has the mandate to review and analyse issues within its domain for the whole Cabinet.

Finally, there is also the Office of President and Cabinet's (OPC) **Policy Research, Monitoring and Evaluation Division** which is responsible for reviewing and coordinating policy formulation by line ministries to ensure consistency with national policies. It also conducts policy analysis, monitoring and evaluation of government policies and provides guidance to donors and civil society on government policies.

Other agencies that also have critical bearing on the environment domain are Malawi Revenue Agency, Malawi Bureau of Standards, Malawi Water Resources Board Malawi Energy Regulatory Agency.

3.2.4 Parliament

There is a **Parliament Committee on Agriculture and Natural Resources**. It comprises MPs from different political parties and provides oversight functions to Ministries and Departments dealing with agriculture and natural resources, including the Ministries of Agriculture and Food Security, Lands and Natural Resources, Irrigation and Water Development and Energy and Mining. The

Committee meets on a quarterly basis and its responsibilities consist of reviewing policies, legislation, programmes, budgets and expenditure concerning their assigned ministries, statutory corporations and other bodies.

Challenges include that MPs have limited knowledge on environmental issues and the contribution of sustainable natural resource use to development objectives. Environmental issues do not come out strongly in Parliamentary debates. Parliamentary Committees also lack resources to carry out their responsibilities effectively.

3.2.5 Civil society organisations

There are several civil society organisations in Malawi working directly or indirectly on environmental and sustainable natural resource management issues. They potentially play an important role in contributing to policy formulation and conducting monitoring and evaluation of policies.

Examples of such organisations are:

- Coordination Unit for the Rehabilitation of the Environment (CURE). Its activities include communication of environmental policies and issues, capacity building, engagement with policy processes and coordination of activities among CSO working on environmental issues.
- Wildlife and Environmental Society of Malawi (WESM). Focuses on advocacy, environmental education and communication, facilitating community management projects for natural resources and facilitating conservation activities through research on biodiversity.
- Civil Society Agriculture Network (CISANET). Activities include advocacy on agriculture and food security and monitoring and evaluation of policies and projects in the area. Although their work does not focus specifically on environment or sustainable natural resource management they are an influential civil society actor and could potentially be an important advocator for the integration of environmental sustainability in agriculture policies, programmes and investments.
- Centre for Environmental Policy and Advocacy (CEPA). The Centre provides policy advice and advocacy on environmental issues.

4. Incorporating the environment into the budget process

This chapter examines each stage of the budget cycle and identifies the key actions that must be undertaken to ensure Malawi's environment policy is coherently integrated into the budget process. The chapter is structured generally according to the budget cycle with sections for (i) policy review; (ii) setting policy and planning; (iii) budget preparation; (iv) implementation; (v) accounting and monitoring; and (vi) evaluation and auditing. The structure of this section differs from the structure of the budget cycle section as it does not strictly follow a chronological cycle, but rather discussed separate processes that in many cases run concurrently. Each section indicates what needs to be done, identifies key entry points and discusses some of the challenges to be faced.

4.1. Policy review

4.1.1 What needs to be done?

This stage in the budget cycle requires a comprehensive review of national and sectoral policies to ensure each of these policies is consistent with the National Environment Policy, the Environment Management Act and other policy instruments including those agreed to by the signing of international treaties and conventions. There needs to be an assessment, led by the MDPC and the EAD, of the extent to which environmental protection and promotion objectives have been taken into account by existing policies, and the extent to which environmental policy is **coherent** across different policy instruments. EAD has a central role here, but the challenge is that when policy inconsistencies are identified across sector policies, the EAD is not able to initiate a review of the policies in other sectors. In the past EAD has had external funding available for initiating these reviews, but currently there are no resources available to EAD for initiating these reviews, nor does it have the leverage to pressure the relevant department to review its own policy.

Strategic Environmental Assessments (SEAs) potentially represent a valuable instrument to support such policy review process by assessing the environmental effects arising from policies and thereby promoting sustainable development in public policy making and strengthening coherence between policy, planning and budgeting across economic and social areas – Box 3. However, currently, this assessment tool is not being undertaken, despite EAD's insistence about its importance. The cost of undertaking the Environmental Impact Assessments (EIAs) is borne by the developer and a fee is provided that covers the cost of review by the EAD. The EIAs provide important guidance on specific interventions and projects but do not take a broader and more strategic view on environmental management issues across policies.

Box 3. Strategic Environmental Assessments

SEA refers to a range of “analytical and participatory approaches that aim to integrate environmental considerations into policies, plans and programmes and evaluate the inter linkages with economic and social considerations”. A good SEA is adapted and tailor-made to the context in which it is applied. This can be thought as a continuum of increasing integration: at one end of the continuum, the principle aim is to integrate environment, alongside economic and social concerns, into strategic decision making; at the other end, the emphasis is on the full integration of the environmental, social and economic factors into a holistic sustainability assessment. SEA is applied at the very earliest stages of decision making both to help formulate policies, plans and programmes and to assess their potential development effectiveness and sustainability. This distinguishes SEA from more traditional environmental assessment tools, such as Environmental Impact Assessment (EIA), which have a proven track record in addressing the environmental threats and opportunities of specific projects but are less easily applied to policies, plans and programmes. SEA is not a substitute for but complements, EIA and other assessment approaches and tools.

Source: OECD (2006).

In order to make such assessments possible, the relevant information should be available to those involved in the review process. Information on expenditure and policy outputs is required and should be reviewed by the National Assembly including the relevant Cabinet Committee and Parliamentary Committee, the Ministry of Finance, and particularly the Budget Department; the MDPC for both the development and review of the MGDS and the annual PSIP; relevant ministries for the examination of sector policy; and the Environmental Affairs Department for overall coordination and engagement in environmental-related policy. Additionally, these documents should be in the public domain, and as a result, should be made accessible, at the very least on the websites of the institutions involved.

4.1.2 *What are the entry points?*

Regular reviews of national or sector-specific policy by the MDPC and sector ministries constitute the most significant entry points. These provide an annual platform for analysis and discussion of policy and any adjustments based on successes or obstacles in implementation. If these annual reviews do not include an adequate assessment in the context of the national environmental objectives, then environment policy will not be properly adopted or gain coherence across government. Annual reviews of the MGDS are of particular importance as they constitute a comprehensive review of national development policy and represent the consolidation of sector or ministry level reviews.

The current MGDS is drawing to a close and a comprehensive review of the entire 5-year strategy will be undertaken by the MDPC. The review is expected to provide deeper and longer term analysis on the overall implementation of the MGDS and offer valuable input for the next strategic plan. This

is an extremely opportune entry point for actors in the environment domain. The approach to this review by environment stakeholders should involve a cross-institutional effort to target the inclusion of a limited number of the most critical environmental policy elements into the MGDS. This effort should be led by the EAD and the Environment and Natural Resources SWG as it emerges and include stakeholders from all other relevant ministries and PEI could have a strong role in supporting this. Hence, prior to the forthcoming deliberations and formulation of the 2011/12 to 2016/17 MGDS, the stakeholders in the environment sector must ensure they are fully engaged in the review of the outgoing MGDS to understand which areas failed to adequately represent the requirements of environment sector policy, including the EMA, NEP and NEAP.

Another key entry point is the ongoing review of the agriculture sector policy framework. The Agricultural Development Plan has been approved and is currently undergoing a review to ensure a harmonised approach to the Comprehensive African Agricultural Development Programme, the new Greenbelt Initiative, and the emerging sector wide approach. This review will culminate in a harmonised Agricultural Sector Wide Approach (ASWAp) policy paper. Stakeholders of the environment policy must ensure that the NEP, the EMA and the new Environment M&E Framework are integrated into the ASWAp to ensure policy coherence. Agriculture is a key sector in the Malawi economy and environmentally sustainable agricultural practices is essential to pursue environment objectives.

The key players in ensuring these reviews discuss and integrate environment policy are the Cabinet and Parliamentary Committees and the National Council for the Environment. These actors must be given full technical support by the EAD. Engagement between the EAD and the various committees, particularly the Parliamentary Committee, well in advance of the budget proposals being formally submitted for review would allow dialogue on policy to develop prior to the formal budget consultations with the National Assembly. The EAD has no regular link with the Cabinet Committee, however, this committee can be invited for lobbying purposes and this avenue should be promoted.

4.1.3 What are the challenges?

The key challenges to achieving comprehensive policy review and addressing inconsistencies relate to technical capacity constraints in terms of limited numbers of staff and the complexity of the institutional setting for the environment which undermines coordination and policy coherence.

Analytical work and capacity issues

The regular production and general availability of the various sector and national reviews, evaluations and targeted assessments is the key challenge for the review process. Without the availability of sound analytical evidence and recommendations on environment strategies the National Assembly and policy makers at sector Ministry level and at Ministry of Finance and MDPC level are unable to effectively make any recommendation for adjustments to policy. Additionally, these actors, particularly the different levels of Environment and Natural Resource Committee, at Cabinet, Principal Secretary and technical levels, suffer from limited funding and weak capacity for analysing the limited evidence they do receive. The Parliamentary Committee on the environment stated that they do not receive any policy advice or recommendation, and even consultations on expenditure come too late for adequate policy response or advice to be formulated.

Institutional complexity in the environment domain

The distribution of roles between the institutions involved in coordinating the environment policy across government is far from straightforward. Two committees are given a mandate for policy advice by the EMA and formally exist, the Parliamentary committee on Agriculture and Natural Resources and the Cabinet Committee on Environment and Natural Resources. However, a number of additional committees related to the environment domain exist but have unclear or overlapping roles, limited capacity and weak linkages.

The various institutions involved in environment policy must review sector policies generated by institutions in other sectors across government. Harmonising these varied policies is a major task, although the key issues have been identified, according to a number of the interviewees.

Currently, for example, the process of revision of the MGDS is beginning and the EAD hopes to ensure the M&E Framework for Environment and Natural Resources domain is fully integrated into the Strategy. However, the EAD has regularly been sidelined in policy formulation outside exclusively (narrowly defined) environmental policy, with a large majority of their substantive activity being confined to Environmental Impact Assessments which are more relevant to planning and resource allocation than policy. While capacity issues are certainly a concern, the fact that environment policy needs to be integrated into the policies of so many institutions is a further, and perhaps more significant, challenge.

4.2. Set policy and undertake planning activity

4.2.1 What needs to be done?

While the 2004 revision of the National Environment Policy (NEP) has been approved by Parliament, the key document underpinning the environment policy is the Environment Management Act (EMA). The Act has been revised, but has yet to be enacted by Parliament. The first step in the policy and planning domain should be to institutionalise key environmental policy instruments. Therefore, stakeholders in the environment domain must work with Parliament to accelerate the process of enacting the EMA. Ensuring this legislation is passed is vital in supporting the legal framework for the NEP and the roles and powers of the institutions within the environment domain.

The second step should be to ensure environment policy objectives, priorities and management principles are integrated into any relevant policies and plans being formulated. This includes not only policies and plans which are directly linked with environment objectives, such as those lead by EAD, but also sectoral policies for which the link with environmental management may be less apparent (Section 3 of this report identified sectoral areas which are likely to be of greatest relevance to environmental management). Engagement in both medium and annual planning processes, across relevant sectoral areas, is important to incorporate and harmonise activities which promote and protect the environment. There are policy areas which are of particular relevance to environmental management, such as agriculture and irrigation. The ASWAp and the Greenbelt initiative are key policy processes within these areas and therefore an environmental dimension to these policies needs to be strongly incorporated.

4.2.2 *What are the entry points?*

Key entry points in the policy review and planning stages include the formulation of the next MGDS and the formulation of policies and plans in key sectoral areas, such as agriculture and irrigation.

The preparation of the new MGDS, to replace the current version which is due to expire in 18 months, is a major entry point to be explored. The MDPC, and particularly the Economic Planning Department within it, are responsible for the formulation of the MGDS and for coordinating all national development policy processes, and are therefore the key players to work with to ensure environmental objectives are given due prominence and that consistency across sectoral interventions is guaranteed.

Although the MGDS is a fundamental policy process, other sector specific policy formulation processes, where they exist, are also important entry points. Again, the MDPC (in particular the Development Department) is a key player with capacity to leverage and influence sectoral policy processes as each Ministry or Department develops its own policies.

The ASWAp formulation is an example of an important entry point at sector level. The ASWAp strategy will set out policy for some of the largest interventions in the country, namely the massive fertiliser subsidy programme and the Greenbelt Initiative, both of which are likely to have significant impact on natural resources.

The Greenbelt Initiative has been proposed with a concept of investing in irrigation and other agricultural infrastructures. The policy and proposed implementation framework for this initiative is being integrated into the ASWAp and it is important that stakeholders in the environment domain engage in this step of policy making to ensure environment objectives are integrated and harmonised with agricultural objectives of increasing productivity and rural incomes. Actors in the Ministry of Agriculture and Food Security should be supported to actively engage the EAD and other stakeholders of the environment domain in the relevant areas of the policy making. The EAD should be supported to provide evidence and recommendations on overlapping areas of policy to ensure harmonisation and coherence.

The recently constituted Environment and Natural Resources Sector Working Group (SWG)²¹ is a potentially important platform to discuss environmental policy issues and identify policy areas where an environmental policy screening is required.

4.2.3 *What are the challenges?*

As mentioned before the complexity of the environmental institutional and policy framework poses considerable challenges to policy coherence and so does capacity gaps of environmental coordination agencies. This is compounded by insufficient political leverage by the EAD to influence sectoral policy processes.

²¹ Ministry of Finance and Ministry of Development Planning and Cooperation (2009).

There are a large number of policy documents and legislation within the environment domain²² and the harmonisation of such a large amount of policies is likely to be a significant strain on the capacity of the EAD and MDPC. If an effective and close relationship between the EAD and MDPC is enabled and the policy review and formulation activities are well funded, there may be scope for bringing a coherent policy framework for environment into the MGDS. However, if the EAD does not gain a sufficient engagement within the policy debates, it is likely that the MDPC may not have the capacity or give enough priority to the environment sector to effectively integrate environment policy into the MGDS and sector-specific policies.

Although environment policy has largely been developed by the EAD, the influence of this department on the implementation of the policy is limited. They remain a department underneath a regularly changing ministerial structure (formerly Lands and Natural Resource Management, currently Natural Resources, Energy and Environment) without direct autonomy within government. It does not have full discretion over budget planning, or a direct role in engagement with other ministries, as budget allocations and decisions of the department are coordinated and communicated by the ministry's Principal Secretary. The department has also limited recurrent funding, and is dependent on externally sourced finances to produce analytical work with sufficient depth and regularity to influence the integration of the environment into national and sectoral policy and planning processes. As a result, the ability to support the integration of environment policy beyond the Ministry of Natural Resources, Energy and Environment, and even beyond the EAD itself is limited. Relative priority in comparison to the largest actors in the environment domain, particularly the Ministry of Agriculture and Food Security is a further issue.²³

Some of the most high profile ministries with a relevance to the environment sector are the Ministry of Agriculture and Food Security and the Ministry of Irrigation and Water Development. These two ministries have been closely involved in the development of the Agricultural Sector Wide Approach and the Greenbelt Initiative, while the Ministry of Natural Resources, Energy and Environment (previously the Ministry of Lands and Natural Resources) was not initially included in the ASWAp, but later was brought in to have a role in the environment section of the ASWAp. As mentioned, the lack of government-wide commitment to implementing and monitoring the National Environment Policy may be largely the issue here, although the situation is not helped by limited capacity and political strength to engage and influence policy formulation at sector level.

A lack of coherence between medium term and short term plans are likely to aggravate inconsistencies between environmental objectives and sectoral policies. However, the recent enhancement of the Char of Accounts to include a segment linking the MGDS themes to the budget is an important step towards bridging this gap (an issue further discussed ahead).

²² Summarised in Annex 3.

²³ This has been partially due to the fact that the Ministry of Agriculture and Food Security has been empowered by a number of initiatives including the input subsidies programme and the Greenbelt Initiative, both very large presidential priorities. The President is also the Minister of Agriculture, further strengthening their role.

Finally, although the Environment and Natural Resources SWG could provide an important entry point for policy debate on environmental issues, there are no signs that this group is operational. The relocation of the EAD from the Ministry of Lands and Natural Resources to the Ministry of Natural Resources, Energy and Environment has left it unclear exactly what the composition or leadership of this SWG should be. It is critical that an immediate effort is made to clarify this situation and ensure there is a defined leadership and membership of the SWG in time for substantial input into the MGDS formulation process.

But there is a more difficult challenge, in that having a separate SWG to focus on environmental issues may not be the most effective approach to ensure mainstreaming into sectoral policies. As a cross sectoral domain, environment domain stakeholders must ensure the policy discussion includes actors and activities in all of the relevant sectors. The SWG should lead on policy discussion in the environment domain, but should invite and ensure the attendance of these stakeholders at key meetings for policy discussion.

4.3. Mobilise and allocate resources

4.3.1 What needs to be done?

With regards to resource mobilisation, a better scrutiny of available resources in the environment domain is needed. The Debt and Aid Department (DAD) should be one of the starting point for this work as it maintains a database of donor funding both on and off budget²⁴ and has the capacity for reporting to a detailed level on the projects being implemented by donors, and in collaboration with government. The information on aid projects held within the DAD database is unfortunately not reconcilable currently with the information within the PSIP although the projects described in each database are to a large extent the same. Supporting the DAD and MDPC to reconcile this data and gain a clear understanding of the donor expenditure within the environment domain would be an important step.

The work on donor funding to the environment should be complemented by an estimation of other domestic sources of revenue targeted to environment-related activities. This includes the Environment Fund which is addressed in the EMA but is not yet operational. Securing dedicated and predictable funding from domestic sources is important in an environment where donor funds may be volatile. The Revenue Department of the Ministry of Finance should be the key source of this data.

With regards to resource allocation, a coherent approach is needed to negotiate funding of environmental protection and promoting activities. So far, the negotiation of funding to support such activities is fragmented across the various sectors undertaking them. Undertaking an integrated assessment of environment expenditures across the budget under all the relevant themes and sub-themes of the MGDS is now possible under the new Charter of Accounts and would improve coherence as well as avoiding duplication and inconsistencies across sectoral plans and budgets.

²⁴ The database software was developed from the Aid Management Platform software and has been run for several years by the DAD. In the past year a number of changes, including the piloting of self reporting by donors is underway.

4.3.2 *What are the entry points?*

With regards to resource mobilisation, the DAD database of donor funding is an important entry point to explore. The DAD has a wealth of information that can be used to better analyse the aid projects and development partners engaged in the environment domain and as such is an important entry point for environment stakeholders. Domestic revenues earmarked for the environment domain could be secured through the Environment Fund which exists but does not receive funding. An increased effort to identify innovative sources to provided resources for this fund, or other mechanisms for earmarking funds for the environment domain are worthwhile pursuing.

As concerns resource allocation, the budget hearings, conducted by the Ministry of Finance (in March-April each year), and the equivalent project appraisals, run by MDPC as part of the PSIP process, are yet other entry points. The budget hearings relate to the allocation of funds to cover operational costs (recurrent budgets) whereas the project appraisals concern public investments.

SWGs could provide the platform for devising a coherent expenditure proposal for the environment domain. Engagement of all relevant sectoral ministries is key and the EAD has a central role to play in ensuring cross-sectoral coordination.

In order to have an influence in the recurrent and investment budgets, a close liaison with the Ministry responsible for environment and natural resources, the Parliamentary Committee on Agriculture and Natural Resources and the Cabinet Committee on Natural Resources and the Environment is important. It is critical that these stakeholders are provided with timely information on policy, budgets and financing gaps by the EAD primarily, but also the relevant sectors, well in advance of the final budget approval process in Parliament.

4.3.3 *What are the challenges?*

SWGs are a possible avenue for gaining a more coherent discussion during the budget hearing, but, while the structure of the SWGs has been designed²⁵, in practice, most sectors do not have functioning SWGs. Currently, only sectors with particular presidential or donor involvement have functioning SWGs. These are Health, Education and to some extent Agriculture. Additionally, the sector definitions and, as a result, the SWGs, are strictly defined by the Votes of which they are comprised. Recent changes in institutional structure have led the EAD to be relocated to a different Vote, and in theory this entails a shift of the 'environment sub-sector' to another sector, although this is not clear. Most importantly for the environment domain is that the environment objectives and activities within the EMA and the NEP have an impact on a number of sectors and certainly beyond the mandate of the Natural Resource, Energy and Environment SWG. If the structure of the SWGs serves to enhance policy coordination amongst votes within the sector, but exclude votes external to the sector then stakeholders within the environment domain may have difficulty in bringing some of the aspects of the cross-cutting environment policy into other SWG discussions.

²⁵ Ministry of Finance and Ministry of Economic Planning and Development (2008).

A key underlying challenge is the gap between policy, planning and budgeting. The recurrent budget allocation process at the macro level takes a significant amount of the budget preparation calendar, leaving limited space for meaningful policy discussion around within-sector and within-vote allocations. This condensed policy dialogue on recurrent expenditure generally means step changes in budget allocations are few, and usually driven by donor or presidential initiatives.

4.4. Implement planned activities

4.4.1 What needs to be done?

The first priority for environment stakeholders in this phase of the budget cycle is to ensure resources are made available to carry out budgeted activities in the environment domain. Additionally, the EAD has a mandate to assess the environmental impact of investment projects within the PSIP, although most of the projects assessed with EIAs are private sector projects.

A number of actors within the Ministry of Finance are responsible for ensuring that funds are made available and released in a timely manner to the ministries for implementing activities. Support to the MoF in enhancing cash management is already a priority of the GoM and several donors and reform programs are under way. With particular respect to the environment domain, it is vital that the consolidated quarterly expenditure reports are made available shortly after the close of each quarter which state the planned, released and actual expenditure financial figures for the ministries within the environment domain.

The EAD must be enabled and supported to issue and enforce environment protection orders to temporarily halt any investments that are potentially threatening to the environment until the corrective measures are put in place. Crucially, there is a conflict of interest when investments screened for projects within the same ministry. A critical barrier is that while the EAD is able to issue environment protection orders, the department is not always able to act independently as it is subject to the approval of the ministry in which it sits. Both the principal secretary and the minister have a controlling say on the decisions of the EAD which can slow the process down.

4.4.2 What are the entry points?

The Ministry of Finance needs to be requested to make fully available the consolidated quarterly expenditure reports, ideally by posting these documents on its website. This will enable budget implementation to be examined clearly. Environmental Impact Assessments are important tools for ensuring planned activities adhere to environmental policies. Supporting these assessments will ensure that all activities that could have an impact on the environment are fully screened for any negative effects, and are fully harmonised with environmental objectives. In the coming year, EIAs of irrigation and related projects falling under the Greenbelt Initiative is particularly important.

4.4.3 *What are the challenges?*

The revised EMA has been in draft form for six years at this point. As a legal document that is cross cutting by nature it must fully harmonise with, and to a large extent govern, the legislation and policies of the sector that falls under its domain. Many of the activities, institutions and undertakings described in the Act are already active despite the lack of parliamentary approval, nevertheless full approval is important to grant the EAD and other institutions power to implement some of their activities, particularly the environment protection order. It is not immediately clear why the passing of this Act has been delayed for such an extended period, but to a large extent political will and strong leadership at the ministerial level to push this legislation through parliament to gain approval is needed.

Commitment to more accurate medium term predictions of the resource envelope, improving tax revenue performance²⁶, and the finalisation of reforms within the accounting and treasury systems are challenges that remain at a system wide level. Reforms within the cash management system, and more broadly across public expenditure management are underway at a government wide level and are progressing at varying paces. To a large extent the environment stakeholders are subject to the successful implementation of these reforms for gaining efficiency in resource availability.

4.5. **Monitor activities and account for expenditure**

4.5.1 *What needs to be done?*

The new M&E framework for environment and natural resources has recently been completed and represents an important cross-cutting approach to monitoring. In order to gain operational strength, however, the framework now needs to be integrated into the M&E frameworks of the various relevant sectors.

Support to the relevant sectoral ministries within the environment domain, in enhancing the quality and timeliness of information in the quarterly activity reports submitted to MDPC and the monthly expenditure reports to the Ministry of Finance, would greatly improve the overall monitoring of activities within the environment domain. Such support should include the integration of information on activities related to environmental protection and promotion and their outcomes. Ensuring that these two sets of reports, on activities and expenditures, are fully accessible by both ministries, and ideally linked or even merged would greatly enhance the ability to monitor outputs of any expenditure related to the environment domain.

Furthermore, clear identification of environment-related expenditures is required. The implementation of the NEP spreads across various ministries and agencies and, while it is not explicitly identified in their functional classification of expenditures, the segment of the new Chart of Accounts that classifies the themes and sub themes of the MGDS is useful for identifying and tracking the cross-sectoral activities and expenditures in the environment domain.

²⁶ Oduro, Quist and Steen (2008).

4.5.2 What are the entry points?

The MGDS provides a valuable avenue for integrating the environment and natural resources M&E framework and implementing it in a cross-cutting manner. The upcoming formulation of a successor to the MGDS provides a key entry point for integrating the new environment and natural resources M&E framework into national policy, broadening ownership and embedding the implementation of the framework.

Reform of the chart of accounts is finalised with implementation of the reform currently scheduled for next financial year starting July 1st 2010. This provides an opportunity for environment stakeholders to engage in the reform process and investigate options for introduction of a programme classification that easily allows expenditure within the environment domain to be identified.

4.5.3 What are the challenges?

The successful operationalisation of the environment and natural resources M&E framework depends on the ability to harmonise it with other M&E frameworks and the capacity of government agencies to perform an M&E function, including having the required human and financial resources to support data collection, processing and analysis.

The national M&E Master Plan, led by MDPC, is ambitious but does not provide comprehensive guidelines for sector specific M&E frameworks, leading to weak compatibility between sector frameworks. This negatively affects cross-cutting frameworks that expect to influence multiple sectors such as the environment one. Additionally, the Master Plan suffers from limited buy-in from sector ministries. As Krause writes in 2007, “the MEPD is seen as the owner of the MPRS and other Government actors are not automatically committed to the designs the Ministry promotes... The most advanced sector ministries have other incentives to develop their own M&E capacity. In the health sector, for instance, there is strong donor support for monitoring the implementation and impact of the Health SWAp” (Krause 2007).

The monitoring function is considerably fragmented with almost every government institution interviewed claiming a role and some funding for conducting monitoring activities. This fragmentation, as well as the incentives surrounding the monitoring function, has led to considerable incoherence within monitoring role of government. Additionally, there are a number of disjointed M&E frameworks, pertaining to different sectors, policies and projects. The MDPC holds the monitoring function for the MGDS, but it also is responsible for developing and implementing the MGDS and, as such, it does not benefit from cross-government ownership of this process. Additional incentives, including significant donor engagement in several sectors, have led the various government agencies to develop their own M&E frameworks.

Yet, there is not enough commitment by sector ministries to carry out the monitoring function effectively. Participation in policy and expenditure review processes is weak and suffers from delays. According to Jere (2007), “in some cases, the non-reporting or non-complying sectors have been reported to OPC for enforcement and they end up complying upon the intervention of OPC”.

On a more general level, an overall strengthening and coordination of the M&E activities within Government is necessary to enable regular, accurate and valuable monitoring reports. Also, regular reports need to be made available and the MDPC and budget departments must be supported in compiling the half year output reports and the quarterly expenditure reports. A better integration between these reports is also important. Jere (2007) notes a number of additional challenges that relate to the institutional framework, collection and use of monitoring data, including the following:

- Lack of standardisation and guidelines in data collection processes making it difficult to compare data across sectors and times;
- Inadequate human and financial resources for data collection, processing and analysis;
- Poor coordination among stakeholders, such as data collection agencies, data users and districts; and
- Lack of a clear policy and legal framework on statistics to support the M&E system.

4.6. Evaluate and audit

4.6.1 What needs to be done?

The regular production of evaluation reports containing empirical evidence and analysis on the environment domain is essential to support the policy review and implementation. Such reports need to be available in a timely and accessible manner for stakeholders in the budget planning process. They should include both broad strategic reviews on the environment as well as more targeted assessments, focusing on specific policies which are critical to environmental management, such as the fertiliser subsidy programme. They should also include policy recommendations to feed directly into the policy review process.

Some important evaluation tools are already being produced, such as the national and district SOER, but there is scope for improving their policy orientation and timing in order to enhance their operational use.

4.6.2 What are the entry points?

As noted, one of the main instruments for this type of information and analysis should be the biennial national and district State of the Environment Reports. These reports have not been updated for some years and are likely to be replaced by the Environment Outlook Report.

EIAs are another important instrument. These are currently undertaken on a case by case basis, under the mandate of the EMA, for specific projects and investments that may have an impact on elements of the environment. While these are critical for a deeper understanding of the impact of particular budget items, they do not provide any strategic recommendations on a broader scope.

Targeted Public Expenditure Reviews (PERs) are implemented on a near annual basis by the Economic Affairs Department of the Ministry of Finance, with collaboration from Budget Department and usually significant input from relevant actors. For example the ongoing PER on the fertiliser subsidy has representatives from the Ministry of Agriculture and Food Security working with the Ministry of Finance officials to undertake the analysis. A Public Environmental Expenditure

Review (PEER) would be valuable in examining policy and funding of the environment sector. It would also be a useful way of promoting cross sectoral engagement with environmental issues. However, while it can be supported and engaged in by a number of environment sector stakeholders, it is important that a PEER is led by the Government of Malawi and ideally implemented within the existing process for PERs undertaken by the Ministry of Finance. This means that a PEER should be scheduled as soon as possible, but in reality may not be implemented for a year or more. A PEER could be undertaken external to this process, but in this event must still comprehensively engage all stakeholders, particularly the Ministry of Finance, and be led by government.

Annual reports on MGDS implementation, mentioned in the previous Section, provide monitoring data from sectors and constitute an important source of information for evaluators. The comprehensive review of the MPRS in 2005 conducted at the end of the 5 year cycle utilised the various surveys conducted by the NSO to complement the administrative data used in the APRs. The analysis had its weaknesses, but nevertheless provided valuable arguments for new priorities in the subsequent MGDS.²⁷ Therefore, engagement by the EAD and other actors influential in the environment sector, including the relevant Parliamentary Committee and Cabinet Committee as well as CSOs, in the comprehensive review of the current MGDS is important to build in concrete recommendations for the integration of environment policy into the forthcoming MGDS, as well as critically review progress in implementation of the environment policy.

4.6.3 *What are the challenges?*

Currently the SOER is stalled and has not been published since 2003. This report would provide a strong technical contribution into policy review and planning. This observation is by no means new²⁸, but nevertheless needs to be specifically highlighted again in this guidance note. The reasons given for the failure to produce this report have been lack of funding within the EAD. Indeed it is a major document and requires significant funding, especially given its large district level component. Fortunately, the Environment Outlook Report is nearing completion meaning that the MGDS comprehensive review and the formulation of the subsequent MGDS will benefit from the inputs of this report.

While a PEER would be a strong evaluative tool that would provide critical evidence to environment sector policy as well as broader policies where the environment may be relevant, a certain amount of caution must be taken on the priority afforded to the environment by the Ministry of Finance. Analytical capacity with the Ministry of Finance restricts the implementation of PERs to at most one per year. Undertaking a PEER with limited commitment or engagement from the key stakeholders, including the Ministry of Finance and MDPC, would dilute the policy impact and would likely lessen the quality of the report.

²⁷ Krause (2007).

²⁸ Jere (2007).

5. Recommended action and conclusion

This note provided guidance on how to integrate the environment into the budget process in Malawi. For each stage of the budget process, the guidance note identified what needs to be done, what are the key entry points and main challenges faced. These are summarised in Table 1. The table also includes nine recommended actions across budget stages which focus intentionally on a restricted number of issues, to ensure they are operationally feasible in the short-term.

Recommended action includes:

Review policy:

1. Undertake a Strategic Environment Assessments for emerging policies, programs and plans as a step towards bridging the gap between policy and analysis on environmental management, informing policy reviews and influencing key policy processes such as the formulation of the MGDS' successor.

Set policy and undertake planning activity:

2. Support the operationalisation of the Environment and Natural Resources Sector Working Group by review experiences with sector working groups in cross-sectoral domains to identify the most suitable approach to mainstreaming the environment into policy debates and planning processes.

Mobilise and allocate resources:

3. Conduct, through a collaborative effort between EAD, MDPC and DAD, a survey on donor funding to environmental-related investments and activities, which be used to identify resource gaps constraining the pursuit of environmental objectives.
4. Examine options for securing domestic revenue for the environment domain, including the operationalisation of the Environment Fund.

Implement planned activities:

5. Use the financial monitoring and activity quarterly reports and cross reference with the environment domain activities described in the theme and sub-theme classifications in the budget, to ensure that planned activities are being fully funded in a timely manner.

Account for expenditure:

6. Utilise the theme and sub theme segments in the budget classifications to track environment-related revenue, expenditure and activities.

Monitor activities:

7. Ensure the new Environment Outlook Report is undertaken to replace and improve upon the earlier State of the Environment Report, as this is a key environment M&E tool which urgently needs to be revived. Ensure that the EOR is widely disseminated.

8. Enhance accessibility and understanding of EIAs by including the key points and recommendations made in these assessments in regular and broader evaluation reports on the environment which can be used by analysts and policy-makers, such as the State of the Environment Report/Environment Outlook Report. Improve compliance and enforcement role

Evaluate and audit:

9. Conduct a detailed public environmental expenditure review, which collates available information on environmental policy, financing and expenditure and analyses relevance and coherence of plans and budgets and cost-effectiveness of expenditure in the environmental domain. Government leadership and engagement of all relevant sectors would be essential to ensure quality of the analysis and make it policy relevant. Such reviews should be updated on a regular basis.

To conclude, it should be stressed that important institutional and political challenges remain to be addressed in order to ensure effective integration of the environment into the budget process. Chief amongst these is the insufficient political and institutional weight of the environment coordination agency in Malawi to mobilise and coordinate stakeholders from an intricate institutional milieu and address critical policy coherence challenges. It is, however, beyond the scope of this guidance to recommend action in these complex domains. And finally, success in bringing environmental policy into the budget process is, as with any sectoral policies, heavily dependent on the success of broader reforms within and between policy and budgeting. Important among these is the effective integration of the MGDS into the national budget process, i.e. coherence between policy objectives and targets and the distribution and use of public resources.

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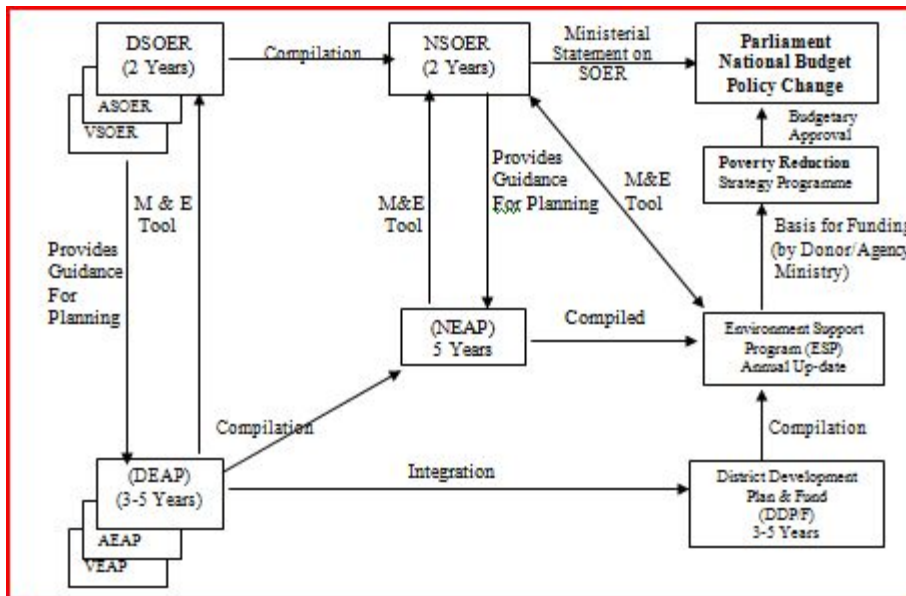
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Annex 2 **Summary of policies and acts implemented after 1994 relating to the environment and natural resources management in Malawi**

S#	Policies/Laws	Year of Enactment
A	Environmental Management	
1	Environmental Management Act	1996
2	The National Environmental Policy	1996
B	Decentralization and Natural Resources Management	
3	The Local Government Act	1998
4	The National Decentralisation Policy	1998
C	Land Use and Management	
5	National Land Resources Management Policy and Strategy	1998
6	Land Policy	2002
D	Water and Irrigation	
7	The Water Works Act	1995
8	The Irrigation Act	1998
9	The Water Resources Act (draft)	1999
10	Water Resources Management Policy and Strategies	1994
11	Water Resources Management Policy and Strategies (draft)	1999
12	National Irrigation Policy and Development Strategy (draft)	1998
E	Forestry	
13	The Forestry Act	1997
14	The National Forest Policy of Malawi	1996
F	Fisheries	
15	The Fisheries Conservation and Management Act	1997
16	National Fisheries and Aquaculture Policy	1999
G	National Parks and Wildlife	
17	The National Parks and Wildlife Act	1992
18	The National Parks and Wildlife (Amendment) Act draft	1999
19	The National Wildlife Policy	1998
H	Population	
20	National Population Policy	1994
I	Energy Policy	2002
J	Waste Management and Sanitation	No principle statute
K	Air and Noise pollution	No principle statute
L	Toxic substances and chemicals	No principle statute
M	Transboundary Water Resources	No principle statute

Source: National Environment Action Plan (2002).

Annex 3 Process map for Environmental Policy in Malawi



Source: Environmental Affairs Dept (2001 and 2002) [SOER and NEAP].

Annex 4 Dissemination Workshop Program and summary

PROGRAMME FOR PEI WORKSHOP		
TIME	TOPIC OF DISCUSSION	PRESENTER
08:30	Registration	PEI/MOF
9:00 AM-9:15am	Opening Remarks	
9:15 -9:30 AM	Introduction to workshop, ODI, participants and program	Mr. M. M'mangisa
09 :30 to 10:00 AM	Overview of the Guidance Note	Samuel Moon
10:30-11:00	Break	
11:00-12:00	Emerging Recommendations and discussion	Samuel Moon
12:00-12:30	The MGDS Planning Process and the role of the environmental policy in the MGDS	MDPC
12:30-13:30	Lunch	
13:30-14:00	MGDS linkage in the budget and reporting for the environmental sector	Budget Division
14:00-15:00	Environment Outlook report	EAD-Mr. B Yassin
15:00-15:30	Tea break	
15:30-16:00	Applying the Guidance Note - Group Discussion Sessions	Samuel Moon
	Discussion Groups	Samuel Moon/ M'mangisa
16:30-16:45	WRAP UP	Director Budget - Budget Division
16:45-17:00	Closing Remarks and way forward	

The workshop was structured with a presentation of the guidance note and discussion of each of the recommendations one by one as a group in the morning. The afternoon session saw a set of presentations from stakeholders on specific aspects of the policy-budget issues in the environment domain. After these presentations, the workshop broke into group sessions to provide a number of edits and comments to the guidance note and deepening of the guidance on each of the specific recommendations. Finally the day was wrapped up by the Budget Director.

The workshop yielded a good set of comments, feedback and discussion. Key among these were:

1. **Edits to the Guidance Note** were requested to ensure that the document accuracy and content includes all comments from GoM departments that had not previously had an opportunity to provide commentary. This enabled the production of a document that was fully a government document rather than a PEI product submitted by the consultant. Some of the break-out sessions of the workshop went through and completed edits to the document. These edits were fully integrated into the final document.
2. After discussing the **recommendations** in detail as a group, another breakout session went through the recommendations and applied a number of questions to each recommendation (each slightly revised based on earlier discussion). The fine-tuned recommendations are now

accompanied by a set of milestones, key institutions and training needs and are included in Annex 5 of this report.

3. The recommendations were also **ranked in order of priority** by the group (also seen in Annex 5). The PEER delivery was considered by the group as the highest priority activity, with issues around securing domestic revenue (and rendering the Environment Fund operational) in second priority. This was followed by the resourcing, training and implementation of policy-specific SEAs and the dissemination of the Environment Outlook Report. Operationalising the SWG, undertaking an assessment of funding gaps and donor funding and the two recommendations relating to using the CoA MGDS theme segment were lower priority. The latter will, however, be an integral part of undertaking a PEER, the proposed highest priority of the recommendations.
4. **Budget Allocations for the Environment Domain** arose as a key issue. Lack of core funding for the oversight and coordination roles (EAD) was an issue, but more broadly the knowledge and systematic analysis of resources and execution of funding across the Environment Domain was unclear but vital. Utilising the MGDS Theme segment is a method of achieving this, but perhaps most importantly the undertaking of a PEER is important for establishing a baseline for the domain, and also for defining exactly the extent of the Environment domain, as opposed to the Environment Sector.
5. Related to this latter point, the **new Environment Management Act** is key to establishing the institutional arrangements – particularly for granting the EAD a role of Agency so it can have more predictable funding and independent authority to undertake EPOs. The reasons for exactly why this bill had not been enacted were unclear, but the workshop members resolved to follow up with the ministry of justice to understand why the delay and what were the necessary steps to progress on the bill.
6. The **profile of the sector** domestically, and amongst international actors was seen as poor and in need of greater promotion. Members agreed that documents such as the EOR will go a long way towards raising the profile of the environment. However, there is probably not enough emphasis on dissemination and broad access planned for the EOR and more generally across the sector promotion of activities, including the accessibility to EIAs is relatively weak, although members did disagree on this point to some extent. Greater emphasis on this element and securing resources to improve the access to information about the domain were recommended, and were integrated into the milestones for several of the key recommendations.

Annex 5 Detailed Recommendations

Recommendation 9: (Priority A) Conduct a detailed public environmental expenditure review, which collates available information on environmental policy, financing and expenditure and analyses relevance and coherence of plans and budgets and cost-effectiveness of expenditure in the environmental domain. Government leadership and engagement of all relevant sectors would be essential to ensure quality of the analysis and make it policy relevant. Such reviews should be updated on a regular basis. Comments: <i>The process should be undertaken as soon as possible now that the thematic segment of the MGDS is online and can be used to track expenditure in the environment domain. It should be targeted to undertake the PEER around every 3 years ideally, but if this is not possible, then it is recommended that a single module or chapter on the environment is included every 3 years as a cross-cutting issue.</i>	
Who needs to be involved?	Ministry of Finance (Economic Affairs Department), MDPC, Ministry of NR, E, E (incl. EAD), MDPC, World Bank, OPC, Economic Affairs Department,
Key milestones or hurdles?	Engage with the Ministry of Finance to secure a PEER Momentum on the implementation of the assessment when there are many offices required to be engaged. Cost, human capacity, effective collaboration and communication Dependence on the World Bank – don't have own capacity to undertake
How to overcome these?	Secure financial resources at the ministry (MoNR,E,E) level to support. Training to develop domestic capacity to deliver to avoid dependence on World Bank for analysis
What Training or support is necessary?	Training on benefit incidence analysis Delivery of PEER specifically
Prioritise	A

Recommendation 4: (Priority B)**Examine Options for securing domestic revenue for the Environment Domain, including the Operationalisation of the Environment Fund****Comments:**

On the revenue side it will be an uphill battle to establish an Environment Fund as the pressure centrally is to route all funding through the central account – MG1. Establishing a separate fund is discouraged unless there is a very strong argument. The justification is that ring-fencing funding is less efficient and moves backwards in terms of streamlining the budget.

A suggestion on this issue is to increase the retention of existing non tax revenues to contribute to cover environmental expenditures.

Who needs to be involved?	Local Government, Ministry of Finance (Budget and Financing), MoNREE (incl. EAD), MDPC, Ministry of Tourism, Wildlife and Culture, Fisheries Department, Forestry Department.
Key milestones or hurdles?	Guidelines for the Environment fund were made, but Regulations for sustainable financing mechanisms are not in place – there is already an account and a fund (environment fund) but this is not regularly filled
How to overcome these?	Regulations need to be put in place. Collection of the funds is the next step. Strong lobby with the MoF revenue department, but really it is needed above – ST or the minister (these are the final decision makers).
What Training or support is necessary?	Support for development of the regulations. Support for effective collection
Prioritise	B

Recommendation 1: (Priority C) Undertake Strategic Environment Assessment for specific issues, sectors and policies as a step towards bridging the gap between policy and analysis on environmental management, informing policy reviews and influencing key policy processes such as the formulation of the MGDS' successor.	
Who needs to be involved?	MDPC, Ministry of Justice, OPC, Ministry of Natural Resources, Energy and Environment (incl. EAD), Ministry of Finance, Parliamentary Committee on Agriculture and Natural Resources
Key milestones or hurdles?	<p>Guidelines are required for SEA.</p> <p>Human Capacity must be developed to undertake an SEA.</p> <p>Enactment of the EMA Bill.</p> <p>Raising the Profile of the Environment Domain.</p> <p>Limited funding</p>
How to overcome these?	<p>Follow up the EMA with Ministry of Justice</p> <p>Develop Human Resource Capacity, see below.</p> <p>Institutional and public awareness. Broad dissemination of EOR</p>
What Training or support is necessary?	<p>Develop human resource capacity – specific assistance on the development of the guidelines; training on how to do an SEA; with an output of a completed SEA.</p> <p>Support to integrate findings of SEA into Policy (this step is particularly difficult)</p>
Prioritise	C

Recommendation 7: (Priority D) Ensure the new Environment Outlook Report is regularly as this is a key environment M&E tool. Special attention to the effective dissemination of this report is imperative to ensure the recommendations are integrated into the policies of other sectors.	
Who needs to be involved?	Civil Society, Advocacy Groups, MDPC, MoF, EAD, Forestry, Fisheries, Tourism, Media, Parliamentarians(PCANR), Cabinet Committee (CCNRM)
Key milestones or hurdles?	Achieving wide dissemination Timely availability of the report.
How to overcome these?	Packaging the content of the report for different target groups. User Friendly Language. Training and resources for wider dissemination (printing, translation, citizens guide etc) Build the process into the domestic resource budget to ensure sustainability.
What Training or support is necessary?	Training in Environmental Economics Training in the methodology for the EOR (already undertaken) Resources for wider dissemination
Priority	D

Recommendation 2: (Priority E) Support the effective operationalisation of the Environment and Natural Resources Sector Working Group by review experiences with sector working groups in cross-sectoral domains to identify the most suitable approach to mainstreaming the environment into policy debates and planning processes.	
Who needs to be involved?	MDPC, NRM sectors, MoF, Internal Security, Department of Disaster Management Affairs
Key milestones or hurdles?	<p>Definition of the Sector – it's not clear who is responsible for being involved in the SWG.</p> <p>The mandate of the group is not clear.</p> <p>It is not clear who is to lead.</p> <p>An SWG with so many varied institutions needs resources to coordinate.</p>
How to overcome these?	<ol style="list-style-type: none"> 1. Define lead institution (MDPC role to assign) 2. Clarify the mandate for the SWG
What Training or support is necessary?	Resources for enabling the coordination due to the variety of institutions.
Prioritise	E

Recommendation 3: (Priority F) Conduct, through a collaborative effort between EAD, MDPC and DAD, a survey on donor funding to environmental-related investments and activities, to identify funding gaps across all institutions and sectors that constrain the pursuit of environmental objectives. Comments: This activity would be linked to the process of the PEER for greater analysis.	
Who needs to be involved?	Debt and Aid Department, MoF; Ministry of Finance; EAD, MoNREE,
Key milestones or hurdles?	The debt and aid department collects donor information on activities both on and off budget within the environment theme of the MGDS. The budget department captures all ORT spending within the theme. Utilising this information is important and this can be done in the most comprehensive manner in a PEER.
How to overcome these?	Access the reports produced by DAD and review the information within the IFMIS
What Training or support is necessary?	Training on accessing and using IFMIS data for analytical staff.
Prioritise	F

Recommendation 8: (Priority G)

Enhance the implementation of EIAs for public sector projects and ensure resources are available for implementation of mitigation measures.

Firstly the priority is the timely availability of the EIA reports and continued availability (electronically or in other ways) to inform existing projects before they are already undertaken, and future ones if there are lessons to be learned for the future.

Secondly, it is compliance with the recommendations of the EIA for public sector projects have been weak in the past and must be enhanced. Enforcement role of EAD is very limited.

Who needs to be involved?	MDPC, EAD
Key milestones or hurdles?	<p>The summaries are publicly available and publicly reviewed. Strengthening MDPCs involvement is important to ensure EIAs are carried out for all relevant public sector projects.</p> <p>Adherence to the recommendations of the EIAs and funding for mitigation are often not factored into PSIP projects</p>
How to overcome these?	<p>When projects are planned within the PSIP, funds for the EIA must be factored in.</p> <p>Independence of the EAD would enhance this authority to require and undertake EIAs for public sector projects.</p>
What Training or support is necessary?	none
Prioritise	G

Recommendation 5 and 6: (Priority H) Use the financial monitoring and activity quarterly reports, and cross reference with the environment domain activities described in the theme and sub-theme classifications in the budget, to ensure that planned activities are being fully funded in a timely manner. Utilise the theme and sub theme segments in the budget classifications to track environment-related revenue, expenditure and activities. Revisions: <i>None Significant</i>	
Who needs to be involved?	Ministry of Finance, EAD and all ministries in the Environment Domain, MDPC
Key milestones or hurdles?	Definition of the Environment domain is unclear Some training on utilising the IFMIS to extract the relevant expenditures from all ministries would be necessary
How to overcome these?	Undertaking of a PEER would utilise the theme segments to analyse the environment expenditure, and would provide the best method for training in the use of the CoA for analysing the cross cutting issue of the environment domain.
What Training or support is necessary?	Some training on using the CoA would be useful for those producing the analysis.
Prioritise	H