

EXPLORING FINANCING OPPORTUNITIES FOR WATER AND ENVIRONMENT SECTOR INVESTMENT: ENR SUB-SECTOR

**9th GOU/DEVELOPMENT PARTNERS JOINT REVIEW OF
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INTRODUCTION

- Broadly, public financial management looks at four components;
 - planning and performance,
 - Revenue performance,
 - auditing and reporting, and
 - financing for decentralisation and local governments.
- The scope of the presentation is the review of **revenue opportunities**, although it should be noted that all components of public finance emerge throughout the discussion.
- Also, the scope of this paper is revenue generation for ENR sub-sector of the Water and Environment sector.

BACKGROUND NOTES FROM SPR 2017

- Sector funding is categorized as:

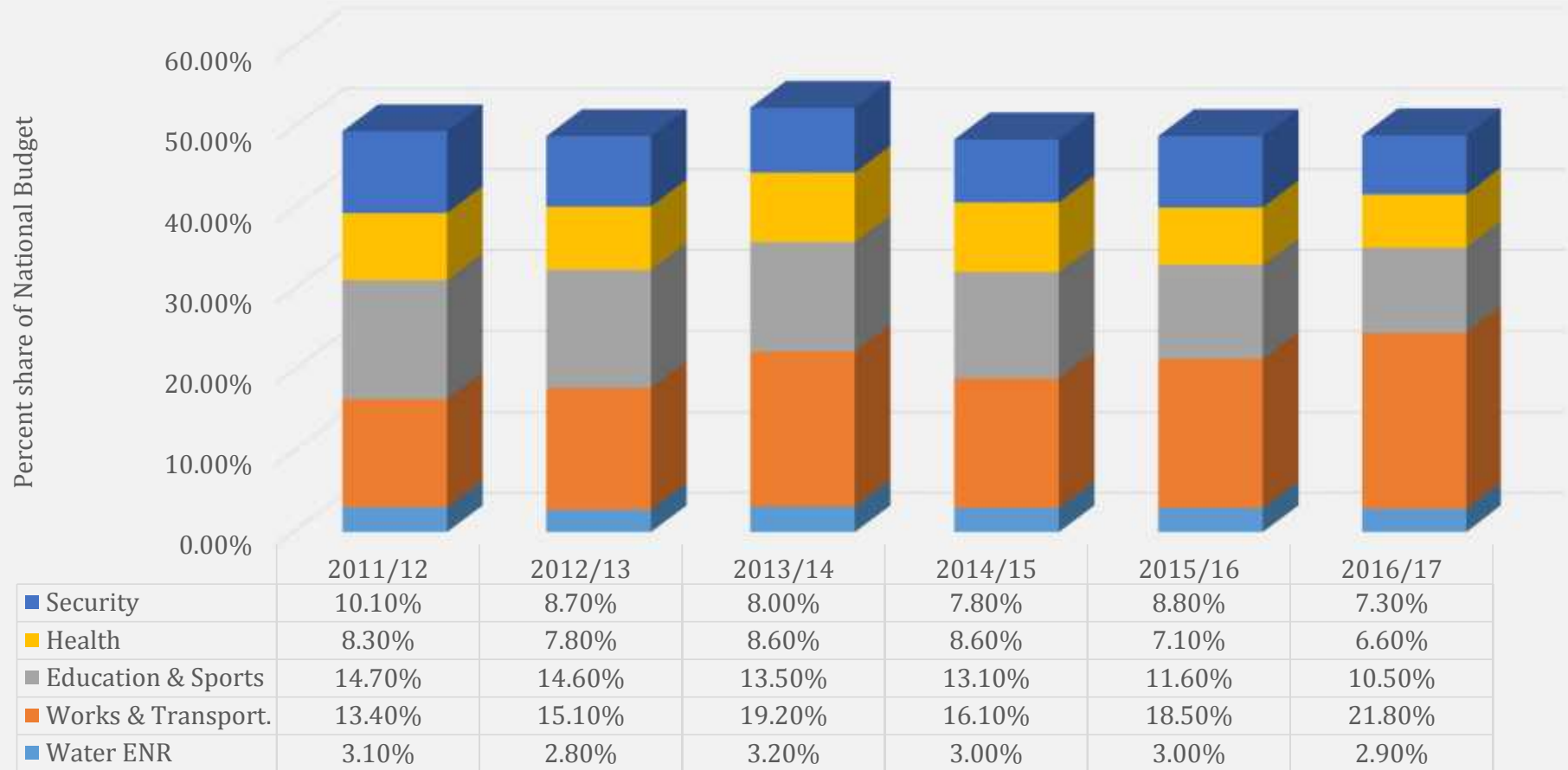
- (i) On-budget Funding consisting of government's revenue mainly from:

- taxation,
- budget support funding from Development Partners and
- Appropriation In Aid (AIA) that is internally generated funds by parastatals and agencies like NWSC, NEMA, NFA and UNMA that are appropriated (approved) by Parliament to be included in the parastatal/agency's budget;

- (ii) Off-budget funding that includes funds to the sector that do not go through the government budget system, but instead are spent by the funding partner themselves and the CSOs.

THE KEY CHALLENGE: The sector continues to receive around 3% of the national budget resources despite its strategic role in transforming Uganda into middle income status by 2020 and the economies of scale that would accrue there of as a result of strategic investment in agriculture, health, industry energy and infrastructure sectors.

COMPARISON OF NATIONAL BUDGET WATER & ENVIRONMENT VERSUS SECURITY, EDUCATION, WORKS & TRANSPORT AND HEALTH



2.1 MOTIVATION FOR NATIONAL BUDGET: ARGUMENTS FOR MAINTAINING CURRENT ALLOCATIONS

2.1.1 NATIONAL PRIORITIES IN VISION 2040 AND NDP II

- Government's development goal is to attain of Gross Domestic Product (GDP) growth; per capita GDP of \$9,500 by 2040 or of \$ 1039 by 2020.
- Vision 2040 lists the opportunities as:
 - (i) abundant labour force;
 - (ii) minerals, oil and gas;
 - (iii) agriculture;
 - (iv) tourism;
 - (v) knowledge and information communication technology (ICT);
 - (vi) industrialization;
 - (vii) water resources;
 - (viii) geographical location; and
 - (ix) trade.
- NDP II reduced the number of prioritized growth opportunities:
 - Three growth opportunities; (i) agriculture, (ii) tourism, and (iii) minerals, oil and gas
 - Two development fundamentals are; (iv) infrastructure and (v) human capital development

2.1.2 PERCENTAGE GDP ANNUAL GROWTH BY ECONOMIC ACTIVITY: CONTRIBUTION TO VISION 2040 AND NDP II:

Annual GDP growth for services and industry was consistently higher than the total aggregate per year, annual GDP growth of agriculture, forestry and fishing was consistently lower than the national aggregate

Description	2006/07	2010/11	2014/15
Total GDP growth, market price	8.4	6.6	4.7
Agriculture, Forestry & Fishing	0.1	1.2	1.5
COMPRISES; Cash crops, Food crops, Livestock, Forestry, Fishing			
Industry	9.6	7.9	5.6
COMPRISES: Mining & quarrying, Manufacturing, Electricity supply, Water supply, Construction			
Services	8.0	8.2	5.6
COMPRISES Wholesale and Retail trade and Repairs, Hotels & restaurants, Transport & communications, Financial services, Real estate activities, Other business services, Public administration & defence, Education, Health, other personal & community services			

2.1.3 ECONOMIC MULTIPLIERS BY SECTOR:

General investment in industrial sector drives growth faster, followed by the services sector and then the agricultural sector.

Sectors	2009/10 Multiplier			Public goods and infrastructure investment multiplier	
	Agriculture	Industry	Services	Government investment public goods	Private investment public goods
Agriculture	1.05	0.21	0.15	0.08	0.09
Industry	0.20	1.59	0.59	1.45	1.60
Services	0.31	0.70	1.51	1.21	1.01
Total sectoral income	1.56	*2.50	2.25	*2.73	2.70
Memo:					
Backward linkages	0.51	*0.90	0.74		
Forward linkages	0.35	0.80	**1.01		

2.2.1 ARGUMENTS IN SUPPORT OF CHANGING NATIONAL BUDGET SHARE: GDP CONTRIBUTION BY ECONOMIC SECTOR:

The national GDP share for Agriculture, forestry and fisheries at market price (Table 3), increased from 22.3% in 2006/7 to 23.7% in 2014/15' Industrial GDP declined from 25.2% 2006/7 to 20.4% in 2014/15, Services GDP increased slightly from 47% to 47.6%

Description	2006/07	2010/11	2014/15
Total GDP	100%	100%	100%
Agriculture, Forestry & Fishing	22.3%	24.7%	23.7%
<i>COMPRISES; Cash crops, Food crops, Livestock, Forestry, Fishing</i>			
Industry	25.2%	20.4%	20.4%
<i>COMPRISES: Mining & quarrying, Manufacturing, Electricity supply, Water supply, Construction</i>			
Services	47.0%	47.7%	47.6%
<i>COMPRISES Wholesale and Retail trade and Repairs, Hotels & restaurants, Transport & communications, Financial services, Real estate activities, Other business services, Public administration & defence, Education, Health, other personal & community services</i>			

2.2.2 ACTUAL CONTRIBUTION OF ENR TO ECONOMY AND LIVELIHOODS

- A 2011 synthesis of forestry sector data indicated that forest resources may have contributed at least \$1.3 billion/year to national income.
- A 2014 study was extrapolated to indicate that wetlands contribute ecosystem services estimated at \$4.9 billion/year.
- The costs of inaction under climate variability and change for agriculture, water, total infrastructure and energy showed that over the 40 year period 2010-2050 the damages associated with climate variability would average \$6.8-10.9 billion per annum.
- A study on Contribution of Water Resources Development and Environmental Management to Uganda's Economy showed that the beneficial effects of these investments would result into a 3.5% to 3.9% boost in GDP above business as usual (BAU) between 2014 and 2040

2.2.3 RESOURCE MAINTENANCE AND EFFICIENCY ARGUMENT IT IS LESS EXPENSIVE THAN WE THINK: THE GREEN GROWTH APPROACH

- A study conducted by the Ministry of Finance and Economic Development and the New Climate Economy (MFPED and NCE 2016) showed that implementing a green growth strategy was likely to impose annual cost of \$1.8 billion up to 2020.
- **SHIFT FUNDS TO RESOURCE MAINTENANCE AND EFFICIENCY FOR ENR Management:** Three-quarters of the investment required was already programmed under the NDPII while 44% is expected as a contribution from private sector. The net additional investment envisaged was about \$450 million/year of which \$200 million would be expected from public sector and the rest from private sector and other sources.
- A study conducted under the development of NBSAP II showed that the funding gap for ENR was \$440 million.
- For the Water Resources Development and Environmental Management under high investment scenarios, investments rate of \$4.3 billion for water development, and \$4 billion for environmental management over a 26-year period were required. Public investment required was estimated at an equivalent of \$153.8/year for ENR and \$165/year for Water Resource Development.

FINANCING SOLUTIONS EXPERIENCES FROM BIODIVERSITY FINANCE:

Financing solutions work through supporting existing and potential synergies, leveraging and building capacities, and establishing long-term sustainable financing that can be imbedded within a country's policy, legislative and institutional frameworks.

- Environmental Fiscal Reforms (EFRs). The prioritized EFRs are comprised of:
 - Revision of fiscal fees.
 - Design and capacity building at local government level.
 - EFR reforms for maintenance of maximum sustainable yield thresholds.
- Reinforcing environmental compliance surrounding Environmental Impact Assessment (EIA) and environmental audits by integrating biodiversity offsets to address the residual impacts of development projects.
- Sustainable livelihood and access to capital incentives to encourage ecosystem based approaches to watershed management at sub-catchment and catchment level.
- Building a Biodiversity and Business Platform to enhance private sector participation in biodiversity finance and management.

OTHER FINANCING SOLUTIONS

- Promote the use of Natural Capital and Ecosystem Accounting in policy and land use planning for biodiversity management.
- Establish and promote a market-based incentive structure for a sustainable forest products industry for the national forest product value chain.
- Business planning for sustainable financing of Central Forest Reserves to promote sustainable, feasible and financially viable forest management.
- Optimize synergies between biodiversity and climate change management and financing through enhancing co-benefits and coordination throughout the cycle of projects and programmes.
- Programme for promotion of biodiversity conservation funds in Uganda. To increase scope, funding sources, performance and contribution to biodiversity management in the country.
- Research the potential to establish economic incentives for private and communal land stewardship to ensure conservation and sustainable natural resource use.

4. CONCLUSIONS, EMERGING ISSUES & RECOMMENDATIONS

1. Equity in budget share by economic sectors

	Budgetary share	GDP contribution	Ratio of Budgetary Share to GDP	Equity level
industrial sector's	32.5 %	20.4%	1.59	1.0
services sector	59.5%	47.6%	1.25	1.0
agriculture, forestry and fisheries sectors	8%	23.7%	0.338	1.0

Even though the argument is made that altogether agriculture, forestry and fisheries had an annual GDP growth of only 1.5%., and that with working population growing at 2.6% per annum all natural resources sectors combined cannot sustain the tide of economic opportunities required, the historical performance of industry and services does not suggest that they are outpacing natural resources in a significant way. **The case for added public finance exists.**

OTHER CONCLUSIONS, EMERGING ISSUES & RECOMMENDATIONS

- *Investment is required to convert opportunities in the ENR sector into reality.* The GEF/IDA PAMSU Project made a \$35 million investment which has allowed institutions such as UWA, UWEC and MTWA headquarters to increase their internally generated revenues. For UWA annual revenues increased from UGX 11 billion (2002/3) to UGX 66 billion (2016/17). We may need to look beyond asset development and restoration to sustainable IGR investments.
- *Do we know the financing solutions needed, are they clearly described, feasible and viable:* A fundamental strengths of the financing solutions approach is that it is entirely focused on bridging the gap between a potential source of financing and the component or area for which financing is sought. This is where our greatest focus ought to be, if we are to increase revenue generation
- *What do we do about the existing financial system:* financial intermediation is required to increase the pool of resources, to provide liquidity insurance, transformation and transaction activities. But the priorities are skewed towards wholesale, and retail businesses.

THANKS...

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