Expenditure Analysis of the Water and Sanitation Sector
2009 – 2015
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Executive Summary:

In Mozambique, access to clean water has improved over the past decade and half, albeit rather slowly. As of 2015, approximately half of the population received their water from an improved source, up 10 percentage points from 2000. However, this is significantly below the average of the country’s Sub-Saharan Africa peers and it is not catching up. At the same time, there are large discrepancies in access rates between rural and urban areas as well as between provinces. For example, urban residents are 40 percent more likely to have access to safe water than rural residents, and Maputo Province exhibits three times the access rates of Zambézia Province. The categories of access are also disproportionate; southern provinces show higher access to private and public piped water sources compared to central and northern provinces.

Access to improved sanitation facilities recounts a similar story. The country’s access rate has increased since 2000 – however, slower than water access – to include approximately 20 percent of the population; nonetheless, it still falls below that of African peers. Again, there are big differences in sanitation access between rural areas and northern, central, and southern provinces. While many boreholes have been dug and improved latrines built, the Government has faced challenges in translating outputs into outcomes as measured by an increase in access to improved services. This is in part due to the country’s fast growing population.

Expenditure in the Water and Sanitation Sector, responsible for these sector results, has been erratic and demonstrated no growth, in real terms, since 2010. This is partly due to the fact that donor spending—which has accounted for, on average, 80 percent of total spending in the past seven years—has decreased since 2013. The decrease relates to the conclusion of the US Government’s Millennium Challenge Account project which boosted spending in the sector from 2011 to 2013; but, is also visible in the gradual decline in funding provided to the PRONASAR common fund and phase-out of the ASAS common fund. Overall, sector spending as a share of the entire State Budget, priority sector budget, and GDP has generally declined since 2010 as Government and donor funding preferences lie in other priority sectors. In addition to this, budget execution in the sector has been much lower than the average execution rate of other priority sectors.

Spending in the sector has been poorly targeted. The urban-area residing, richest segment of the population benefits considerably more from water and sanitation expenditure. The result has meant the urban rich report excessively greater access and use of improved water and sanitation services compared to the rural poor. In fact, between the last two household survey measurement periods, the gap in access between the richest segment and poorest segment of the population increased for both water and sanitation services. Apart from the extremely centralized nature of planning, budgeting, and expenditure in the Water and Sanitation Sector, which has poorly steered investments to areas of need, inequality is driven by the logistical constraints to working in rural areas, the high breakdown rates in rural areas coupled with low institutional capacity for management and repairs, as well as numerous spending inefficiencies that impact not just equity, but access across the board.

While Mozambique has demonstrated overall gains in access to improved water and sanitation services in recent years, much more can be done. Among other recommendations, the Government should prioritize the expansion of water and sanitation infrastructure to small towns and rural areas, effective coordination among the sector’s stakeholders, as well as larger future allocations of domestic funds to the sector and efficiency gains for the use of current funds.
1. Background

1.1 Purpose

The objective of this expenditure analysis is to evaluate the volume and quality of public spending in the Water and Sanitation Sector. First, the study measures what was budgeted to the sector, how much was spent, which institution did the spending, and where the spending was realized. Second, it assesses quality of expenditure through budget execution, spending efficiency and equity, as well as by approximating impact on sector indicators. The study focuses on public spending through the State Budget between the years 2009 and 2015.

1.2 Definition of Water Supply and Sanitation Sector

The Water and Sanitation Sector, in general, refers to the provision and consumption of water and sanitation services. The water component of the sector concerns (i) water supply activities, including the construction and maintenance of water storage and treatment facilities, expansion of water pipe infrastructure, as well as the digging of wells and boreholes; and (ii) water resource management, referring to the development, conservation, and governance of water resources from watersheds. The sanitation component of the sector concerns (a) waste management, referring to the disposal of solid wastes, wastewater, excreta, industrial and agriculture wastes, as well as the management of surface runoff and sewage treatment processes. It also concerns the (b) provision of personal sanitation facilities such as toilets with septic systems, dry toilets, composting toilets, and pit latrines.

For the sake of this study, the Water and Sanitation Sector specifically refers to the group of public institutions providing and supporting water supply and sanitation services and water resource management. The sector has institutional presence at each of the three territorial levels – central, provincial, district– and across all eleven provinces. Although certain private sector water supply companies were active in Mozambique during the time period analyzed, this report focuses solely on expenditures made by public institutions.

1.3 Institutional architecture

The Water and Sanitation Sector’s institutional composition has evolved between 2009 and 2015, mainly due to certain institutions having been deconcentrated, as autonomous budget holders, from other larger institutions in the sector. The directorates composing sector institutions have also changed over the years, including most recently with the incoming, new Government in 2015.

The sector’s central level institutions include MOPHRH, CRA, FIPAG, AIAS, and ARA South. At the central level, presently, the Ministry of Public Works, Housing, and Water Resources (MOPHRH in its Portuguese acronym) governs the sector through the National Directorate of Water Supply and Sanitation (DNAAS) and the National Directorate of Water Resources Management (DNGRH). DNAAS is responsible for ensuring universal access to water and sanitation services and the DNGRH is responsible for the development, conservation, and sustainable use of water resources from watersheds for various uses such as household consumption, agriculture, hydropower, etc.¹ Other water and sanitation institutions at the central level are the Water Regulatory Council (CRA), which is the sector’s regulatory body; the Water Supply Investment Fund (FIPAG), which is the water supply utility responsible for supplying water to large cities and towns; and also the Water and Sanitation Infrastructure Management Agency (AIAS), which is responsible for supplying water and sanitation services to small towns. The Regional Water Resource Management Agencies (ARAs) are provincial level institutions with the exception of ARA South.

¹ Note: In the State Budget, the allocations to the DNAAS and DNGRH are concentrated in the allocation to MOPHRH. See: Relatório Anual de Avaliação do Desempenho do Sector de Aguas, 2015. Pg 45.
Figure 1: Institutional architecture of the Water and Sanitation Sector

Sector institutions at the provincial level include DPOPHRHs and ARAs. The Provincial Directorates of Public Works, Housing, and Water Resources (DPOPHRHs), through their Water and Sanitation Departments (DAS), extend MOPHRH’s mandate to the provinces and oversee the implementation of MOPHRH’s water supply and rural sanitation investment programs. Also at the provincial level, Regional Water Resource Management Agencies (ARAs) regulate the use of river basin waters by collecting regional hydrological information, providing water to irrigation systems, and collecting water usage fees. There are five autonomous ARAs: (i) ARA South is responsible for Maputo, Gaza, and Inhambane provinces; (ii) ARA Central is for Sofala and Manica; (iii) ARA Zambezi is for Tete and part of Zambézia; (iv) ARA North-Central is for Nampula and part of Zambézia; and (v) ARA North is for Cabo Delgado and Niassa2.

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

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2 Note: In the State Budget, the ARA South is considered a central level institution. Source: Development Finance International, WaterAid. “Financial Absorption in the Water, Sanitation, and Hygiene Sector”. Pg 8.
Table 1: Institutions and their Responsibilities within the Water and Sanitation Sector (2016)

<table>
<thead>
<tr>
<th>Institution</th>
<th>Acronym</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Public Works, Housing, and Water Resources</td>
<td>MOPHRH</td>
<td>MOPHRH is the lead ministry with a mandate for water and sanitation provision.</td>
</tr>
<tr>
<td>Water Regulatory Council</td>
<td>CRA</td>
<td>CRA is the regulatory body in the urban water and sanitation sub-sector, and reports directly to the cabinet. Its main role is to protect the interests of consumers.</td>
</tr>
<tr>
<td>National Directorate for Water Supply and Sanitation</td>
<td>DNAAS</td>
<td>DNAAS’s main role is to ensure universal access to water and sanitation services. Within this mandate, the directorate is responsible for: (i) proposing and implementing policies, rules, regulations, and technical specifications for water supply and sanitation; (ii) promoting investment in the construction, maintenance, and expansion of water supply and sanitation infrastructure; (iii) harmonizing planning and activities with the perspective of ensuring universal access to water and sanitation services; (iv) ensuring equal access to water and sanitation services; (v) incentivizing private sector participation in the provision of water supply and sanitation services, including public-private-partnership; and (vi) lending technical and methodological support to local State and municipal bodies in the area of water supply and sanitation.</td>
</tr>
<tr>
<td>National Directorate of Water Resources Management</td>
<td>DNGRH</td>
<td>DNGRH’s main role is to oversee the development, conservation, and sustainable use of water resources from watersheds. Within this mandate, the directorate is responsible for: (i) proposing policies; (ii) ensuring the availability of water quantity and quality for different uses; (iii) coordinating cooperation activities and compliance with international agreements for shared water resources; (iv) periodically evaluating water resources from watersheds and the national and regional water needs; (v) creating plans for use of water from watersheds and monitoring their implementation; (vi) promoting investments; (vii) ensuring integrated strategic planning for water resources management; (viii) creating, updating, and monitoring the implementation of the national construction plan for hydraulic infrastructure; and (ix) establishing flood early warning systems.</td>
</tr>
<tr>
<td>Water Supply Investment Fund</td>
<td>FIPAG</td>
<td>FIPAG is an investment fund with mandate through the Delegated Management Framework for the provision of urban water supply services in partnership with the private sector. It is also responsible for ensuring the financing and development of environmentally sustainable water supply infrastructure, guaranteeing return on investment and social equality. FIPAG is a full cost recovery agency which finances investments with loans channeled through the budget, which it is required to pay back. FIPAG is a semi-autonomous agency under MOPHRH.</td>
</tr>
<tr>
<td>Water and Sanitation Infrastructure Management Agency</td>
<td>AIAS</td>
<td>AIAS has a similar structure and mandate to FIPAG and provides water supply and sanitation services to urban areas not covered by FIPAG, particularly small towns. Like FIPAG, AIAS manages its expenditure on small towns’ water and sanitation from the center.</td>
</tr>
<tr>
<td>Regional Water Resources Management Agencies</td>
<td>ARAs</td>
<td>ARAs are the regional water administration entities responsible for water resources management. They are responsible for collecting hydrological information, providing water to irrigation systems, and collecting water fees. There are five ARAs under the tutelage of MOPHRH which have administrative and financial autonomy: (i) ARA South is responsible for Maputo, Gaza, and Inhambane provinces; (ii) ARA Central is for Sofala and Manica; (iii) ARA Zambezi is for Tete and part of Zambézia; (iv) ARA North-Central is for Nampula and part of Zambézia; and (v) ARA North is for Cabo Delgado and Niassa.</td>
</tr>
<tr>
<td>Provincial Directorates of Public Works, Housing, and Water Resources</td>
<td>DPOPHRHs</td>
<td>DPOPHRHs are the provincial government branch of MOPHRH for the Water and Sanitation Sector. In areas not yet covered by an ARA, the DPOPHRH is the authority responsible for water resources management in the province. There are 11 DPOPHRHs corresponding to the 11 provinces.</td>
</tr>
<tr>
<td>District Services for Planning and Infrastructure</td>
<td>SDPIs</td>
<td>SDPIs are the district government branch of MOPHRH for the Water and Sanitation Sector. There are 15 SDPIs and they are primarily responsible for implementing PRONASAR district activities.</td>
</tr>
</tbody>
</table>
1.4 Legal and strategic framework

Mozambique’s Water and Sanitation Sector is governed by a series of laws, decrees, and resolutions following the Water Law in 1991 (see Table 2). The Water Law (Lei de Aguas) defined the water resources in the public domain, the principles of water management, and the general legal regime for activities related to the protection, conservation, inventory, use and approval, control, and oversight of water resources. With Decree 26/91, later in the year, the five ARAs were created for water resources development and management in the provinces. In 1998, the Delegated Management Framework (Quadro de Gestão Delegada do Abastecimento de Água) established the separation of water operations from water asset ownership, and led to the creation of FIPAG and CRA through Decrees 73/98 and 74/98. In 2009, the AIAS was established with a similar role to that of FIPAG in the interest of extending the mandate for the development of water supply infrastructure to small towns not covered by FIPAG.

### Table 2: Non-exhaustive listing of Water and Sanitation Sector Legislation

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Law no. 16/91 from August 3, 1991</td>
<td>Water Law</td>
</tr>
<tr>
<td>Decree no. 25/91 from November 14, 1991</td>
<td>Defines the composition and mandate of National Water Council (CNA)</td>
</tr>
<tr>
<td>Decree no. 26/91 from November 14, 1991</td>
<td>Establishes five Regional Water Administrations (ARA)</td>
</tr>
<tr>
<td>Ministerial Diploma no. 134/93 from Nov. 17</td>
<td>Approved the statutes of ARA South</td>
</tr>
<tr>
<td>Ministerial Diploma no. 163/96 from Dec. 25</td>
<td>Approved bylaw of ARA South</td>
</tr>
<tr>
<td>Resolution no. 60/98 from December 30, 1998</td>
<td>Water Tariff Policy</td>
</tr>
<tr>
<td>Decree no. 72/98 from December 23, 1998</td>
<td>Delegated Management Framework for Water Supply</td>
</tr>
<tr>
<td>Decree no. 73/98 from December 23, 1998</td>
<td>Establishes Investment and Assets Fund for Water Supply (FIPAG)</td>
</tr>
<tr>
<td>Decree no. 74/98 from December 23, 1998</td>
<td>Establishes Regulatory Council for Water Supply (CRA)</td>
</tr>
<tr>
<td>Resolution no. 43/2007 from October 30, 2007</td>
<td>Regulation on Water Permits and Concessions</td>
</tr>
<tr>
<td>Decree no. 18/2009 from May 15, 2009</td>
<td>Expands CRA's mandate for water supply and sanitation in all urban zones</td>
</tr>
<tr>
<td>Decree no. 19/2009 from May 15, 2009</td>
<td>Establishes Water and Sanitation Infrastructure Management Agency (AIAS)</td>
</tr>
</tbody>
</table>


Planning in the Water and Sanitation Sector has been guided by a sequence of (i) multisector development plans, including, most prominently, the Government’s Five-Year Plan, as well as (ii) sector-specific strategic plans. Between 2009 and 2015 there were several strategies – multisector government-wide strategies and sector-specific strategies – that were relevant for the Water and Sanitation Sector. (i) The multi-sector government development strategies include the Agenda 2025 (Agenda 2025: Visão e Estratégia da Nação), National Development Strategy 2015-2035, (Estratégia Nacional de Desenvolvimento -END-), Integrated Investment Program 2014-2017 (Programa Integrado de Investimentos -PII-), Millennium Development Goals 2000-2015, Action Plan for the Reduction of Absolute Poverty 2006-2010 (Plano de Acção para a Redução de Pobreza Absoluta -PARPA II-), and the Action Plan for the Reduction of Poverty 2011-2014 (Plano de Acção para a Redução de Pobreza -PARP-). The MDGs, PARPA II, and PARP have concluded while the Agenda

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2025, END, and PII remain relevant post-2015. Separately, the Government’s Five-Year Plan 2015-2019 (Plano Quinquenal do Governo -PQG-) is an important document for Water and Sanitation Sector strategic planning as it describes the administration’s main development targets, of which nine are dedicated to the sector. The supporting Medium Term Fiscal Plan (Cenário Fiscal Medio Prazo -CFMP-) projects funding levels in support of the targets over the medium-term. And the annual Economic and Social Plan (Plano Econômico e Social -PES-) sets a yearly plan and set of targets to ensure progress towards the five-year objectives. (ii) Sector-specific strategies include the National Water Policy 2007 (Política Nacional de Aguas), the Strategic Plan for Rural Water and Sanitation 2007 (Plano Estratégico de Saneamento e Água Rural -PESA ASR-), the Strategic Plan for Urban Water and Sanitation (Plano Estratégico de Saneamento e Água Urbano -PESA ASU-), the National Strategy for Management of Water Resources 2007 (Estratégia Nacional de Gestão de Recursos Hídricos), and the plan for donor-Government cooperation through the PRONASAR program.

Table 3: Water and Sanitation Sector Strategic Framework

<table>
<thead>
<tr>
<th>Multisector Development Plans involving Water and Sanitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>END 2015-2035</td>
</tr>
<tr>
<td>Agenda 2025</td>
</tr>
<tr>
<td>PQG 2015-2019</td>
</tr>
<tr>
<td>PII 2014-2017</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Water and Sanitation Sector-Specific Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNA 2007</td>
</tr>
<tr>
<td>PESA-ASR 2007</td>
</tr>
<tr>
<td>PESA-ASU 2007</td>
</tr>
<tr>
<td>ENGRH 2007</td>
</tr>
</tbody>
</table>

Source: Author’s compilation.

According to the National Water Policy of 2007, there are six main goals for the sector⁴. The first iteration of the National Water Policy was released in 1995 and the second in 2005, with the 2007 Policy being a revised version of the 2005 Policy. According to the National Water Policy of 2007, the main sector objectives are: (i) guarantee universal access to safe and reliable water sources; (ii) improve sanitation as an essential tool for the prevention of water-borne illnesses i.e. malaria, cholera, diarrhea; (iii) ensure efficient use of water for economic development; (iv) promote the conservation of water through sound water resource management; (v) reduce vulnerability to floods and droughts; and (vi) promote regional integration through the joint management of shared watersheds and water resources.

1.5 Budget cycle ⁵

Planning is conducted through a bottom-up process across the three territorial levels (i.e. central, provincial, district). Districts assemble a strategic development plan (Plano Estratégico Distrital de Desenvolvimento -PEDD-) every five years; from which, they develop an annual operational plan and budget (Plano Econômico Social e Orçamental Distrital -PESOD-). District annual operational plans are aggregated into a provincial level plan. These provincial and district plans are then incorporated in the annual government-wide operational plan (Plano Econômico e Social -PES-).

The budgeting process is also conducted with participation across the three territorial levels. The central government issues a budget ceiling to the provincial governments around February as part of the CFMP creation process. The provincial governments then distribute budget ceilings to provincial directorates and district governments based on central government guidelines. Concurrently, budget limits are communicated to central level budget holding institutions.

The line ministries responsible for the economic and social sectors are also involved in the budget process through advocating sector priorities and spending needs in the interest of influencing budget limits. In the social and economic sectors, a national planning meeting is held where subnational sector priorities and spending needs are discussed for each province. The line

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ministry overseeing the sector is responsible for taking decisions on priorities and approving the sectoral spending needs. The sector then presents its spending needs to the Ministry of Economy and Finance (MEF) with the goal of influencing the budget ceiling for a given province. MEF prepares a draft PESA and State Budget which is submitted to the Council of Ministers and, later, to the Parliament for approval.

Spending through the State Budget is tracked through the e-SISTAFE and reported on in the REOs and CGE. Once the State Budget has been approved, the MEF releases initial funds via the CUT at the commencement of the fiscal year to each autonomous budget-holding institution and subsequently updates the allocation based on budget execution rates and available resources. The institutions track spending through the e-SISTAFE (Government integrated financial management information system), which sources quarterly budget execution reports (REOs) and the annual General State Account (CGE).

Table 4: Budget cycle

<table>
<thead>
<tr>
<th>Date</th>
<th>Step</th>
</tr>
</thead>
<tbody>
<tr>
<td>January – March</td>
<td>Districts review plans and collect statistics to inform spending needs</td>
</tr>
<tr>
<td>February – April</td>
<td>The Medium Term Fiscal Plan (CFMP) is created. Initial budget ceilings are communicated and budget proposals are submitted for central government review</td>
</tr>
<tr>
<td>May 31</td>
<td>The central government communicates the second budget limit and budget guidelines</td>
</tr>
<tr>
<td>June – July</td>
<td>Provincial and sectoral planning meetings are held</td>
</tr>
<tr>
<td>August</td>
<td>Budget proposals are submitted and consolidated for provinces, districts and sectors</td>
</tr>
<tr>
<td>September</td>
<td>The Economic and Social Plan (PES) and the budget (OE) are submitted to the Council of Ministers for approval by September 15th, then to Parliament for approval by September 30th</td>
</tr>
<tr>
<td>December 15</td>
<td>Final date for the approval of the PES and OE by Parliament</td>
</tr>
</tbody>
</table>


2. Methodology

There are two official sources of water and sanitation budgeting and expenditure data: the CGE from MEF and the REO/RADS from MOPHRH. (i) The MEF reports the initial budget allocations (dotação inicial) to the Water and Sanitation Sector in the State Budget Law (Lei de Orçamento do Estado -LOE-); the updated budget allocations (dotação atualizada) and expenditure (despesa) in the quarterly Budget Execution Reports (Relatório de Execução do Orçamento -REO-); and the final budget release and expenditure in the annual General State Account (Conta Geral do Estado -CGE-). (ii) The MOPHRH reports sector budgeting and expenditure in the annual Water and Sanitation Sector Budget Execution Report (Relatório de Execução do Orçamento do Sector de Abastecimento de Água e Saneamento -REO-). The same budgeting and expenditure numbers are then reproduced in the Annual Water Sector Performance Evaluation Reports (Relatório Anual de Avaliação do Desempenho do Sector de Aguas -RADS-).

However, neither source provides a perfect representation of the resources budgeted and then spent in the sector. The expenditure totals presented in the CGE and REO/RADS for individual institutions and for the sector as a whole do not always provide a comprehensive picture of all resources spent in the sector. Specifically, the annual CGE total, as presented in the priority sector summary table (Mapa I-1-1), fails to (a) include DPOPHRH, SDPI, and SD contributions and (b) does not effectively filter out non-water and sanitation activities from MOPHRH totals. On the other hand, the totals published in the REO/RADS fail to comprehensively account execution of external donor projects, specifically those on-budget, but off the single treasury account (CUT). Additionally, there have been certain inconsistencies in expenditure reporting in the REO/RADS. For instance, the REO/RADS total for 2010 does not include data on recurrent (funcionamento) expenditure and the total for 2015 seems

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6 The Water and Sanitation Sector REOs are traditionally published just a couple months after the end of the fiscal year. The RADS then reproduces the expenditure totals documented in the sector REOs. While this is good for providing timely feedback, it is not enough time to comprehensively collect information on all external investment projects implemented off-CUT. Since the CGE is published many months after the conclusion of the fiscal year, it is able to provide a fairer projection of total funds executed by donors.
to not have included expenditure for the ARAs. In the end, as a result of the inconsistencies between the two sources, the variation in the institutional and sector totals can be significant. For example, in 2013, the total Water and Sanitation Sector expenditure in the CGE was MT 6.5 bn, while the total in the REO/RADS was MT 3.5 bn.

The water and sanitation institution and sector totals in this report rely on CGE expenditure data and have been filtered for water and sanitation-only activities. The institution and sector totals presented in this report are the author’s calculations correcting for the main issues mentioned in the above paragraph. Particularly, the totals are (i) based on the same institutional composition as defined in the REO/RADS and (ii) use CGE numbers that were carefully filtered for water and sanitation-specific activities.

Recurrent spending is only trackable in water and sanitation-specific institutions. (a) For water and sanitation-specific institutions that only implement water and sanitation activities, such as: AIAS, CRA, FIPAG, and ARAs, the full value of recurrent and investment expenditure, as presented by the CGE, was included in the totals. (b) For the other institutions that implement water and sanitation activities in addition to other activities, such as: MOPHRH (formerly MOPH), DOPHRHs (formerly DPOPH), SDPIs, and SDs, a different methodology was employed. To arrive at investment expenditure totals, program-level expenditure data, extracted from the e-SISTAFE, was filtered for water and sanitation-only programming. Based on the Activity Designation (Acção_Designação), activities that seemed water and sanitation-focused were coded and, thereby, included in the filtered totals. For those activities where it was not clear if it was water and sanitation-related, further research was done to clarify. For the institutions with a mixed water/sanitation and non-water/sanitation portfolio, no recurrent expenditure was included in the total. This is because there is no program-level recurrent expenditure data; and because of this, it is impossible to disaggregate the water and sanitation-specific recurrent expenditure from the institution’s total recurrent expenditure. This means that for MOPHRH, DOPHRH, SDPIs, and SDs, only the investment component is included.

Despite the effort to define more accurate Water and Sanitation Sector expenditure totals, limitations still persist. As alluded to in the above paragraphs, the first main limitation is the inability to fully track the volume of water and sanitation recurrent expenditure. This is due to the fact that (i) it is impossible to disaggregate water and sanitation-specific recurrent spending from total recurrent spending for those institutions that implement mixed portfolios; and (ii) because of the standard accounting practice by MEF to automatically count all donor-funded projects as “external investment” despite the fact that many are recurrent in nature or have recurrent aspects. A second limitation is that projects that made no mention of water and sanitation-related activities in the Activity Designation were not coded, and thus, not included. This means the expenditure totals are potentially biased for undercounting. For example, an activity designated as “construção e reabilitação de infraestruturas de interesse comunitário” is not counted toward the expenditure total despite potentially having a water or sanitation component.

3. Water Supply and Sanitation Sector Performance

The following section discusses access to “improved water sources” and “improved sanitation sources” in Mozambique. By definition, “improved water source” refers to drinking water sourced from pipes on household premises (inside the user’s dwelling, plot, or yard) and other improved drinking water sources including public tabs or standpipes, tube wells or boreholes, protected dug wells, protected springs, and rainwater collection. And “improved sanitation source” refers to sanitation facilities that separate human excreta from human contact by flush or pour flush (to piped sewer system, septic tank, pit latrine), or through ventilated improved pit latrines, pit latrines with slab, and composting toilets.

3.1 Access to improved water sources

Access to improved water sources increased slightly during the past 15 years; however, only half of the population is afforded access (see Figure 2). In the year 2000, 41 percent of the country’s population received water from an improved source. In 2015, 51 percent of the population received water from an improved source, equal to an increase of 10 percentage points over 15 years.

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7 World Bank, World Development Indicators. Indicator long definition: “improved water source”.

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Despite the increase in access, Mozambique lags behind its peers in its ability to provide improved water access (see Figure 3). Providing clean water access to just 51 percent its population, Mozambique finds itself in the second worst position relative to its Southern African Development Community (SADC) peers. Compared to the average of Low Income countries, Mozambique provides clean water access to 15 percent less of its population. And compared to the average of Sub-Saharan African (SSA) countries, Mozambique provides access to 17 percent less. Although access to clean water in the country has been steadily improving, it is barely keeping pace with the increasing access provided by Sub-Saharan African peers (see Figure 2).

Urban populations in Mozambique have much greater access to improved water sources compared to rural populations (see Figure 2). Underpinning the increasing access (as a share of the total population) are the increasing trends for both urban and rural access shares. Over the past 15 years, access for rural areas increased by 10 percentage points and access for urban areas increased by 6 percentage points. Nonetheless, a vast difference in share of access exists between rural and urban areas. In 2015, just 37 percent of the rural population had access to improved water, while 81 percent of the urban population did. This is a difference of an overwhelming 44 percent.

The majority of the population is able to access water in less than 30 minutes (see Figure 4). Currently, 91 percent of the country can arrive at a water source in less than 30 minutes’ travel from their residence, compared to 4 percent that require between 31 minutes and 1 hour, and 4 percent that need more than 1 hour. This is an improvement from 2008/9 when 88 percent of the population...
accessed water in less than 30 minutes, 8 percent between 31 minutes and 1 hour, and 4 percent for more than 1 hour.

Seven of eleven provinces demonstrated a 10 percent or more increase in clean water access for its inhabitants between 2008/9 and 2014/5 (see Figure 5). According to the 2008-2009 and 2014-2015 Household Surveys, significant access gains were made in seven provinces, while negligent gains were made in three, and a worse result was registered in just one province. Maputo Province demonstrated the greatest percentage point gain and Inhambane Province exhibited the largest increase relative to its 2008-2009 value.

Nonetheless, large discrepancies in access to improved clean water sources exist across the provinces (see Figure 5). While Zambézia Province provides clean water access to 31 percent of inhabitants, Maputo Province, on the other hand, provides access to 87 percent, more than double the share of the population. In fact, according to the 2014-2015 Household Survey data, five provinces register less than half of the population with clean water access: Zambézia, Nampula, Niassa, Cabo Delgado, and Tete.

Likewise, large discrepancies exist in the type of access (see Figure 6). Whereas inhabitants of Maputo Province principally receive their water from a piped water supply or well/borehole with pump, Zambézia Province inhabitants, on the other hand, mainly receive their water from an unprotected well or river, lake, or lagoon. Considering the country as a whole, the most common water source is an unprotected well, which is an insecure water source relied on by 27 percent of the population. Following this, is piped water (22 percent), well/borehole with pump (19 percent), river, lake, or lagoon (15 percent); public water tap (9 percent); and well without pump, unprotected spring, rain water, protected spring, and bottled water account for the remaining share.

Instituto Nacional de Estatística (INE). “Relatório final do orçamento familiar – 2014/5”. Quadro 5.3, Pg. 54.
3.2 Access to improved sanitation sources

Just one-in-five Mozambicans has access to improved sanitation facilities (see Figure 7). Progress made towards increasing access to improved sanitation facilities has been slow. In fact, the share of the population with access to improved facilities has grown from 14 percent in 2000 to 20 percent in 2015. One reason for the slow gains is due to substantial population growth over the same period. Approximately 41 percent of the population practices open defecation: 58 percent in rural areas and 13 percent in urban areas. In fact, only 10 cities in the country have a sewer system, and these serve, on average, just 6 percent of the cities’ residents.

Urban populations enjoy substantially greater access to improved sanitation facilities compared to rural populations. Notwithstanding, gains in access to improved facilities have been slow for both population sets. While 42 percent of the population living in cities and towns has access to improved sanitation facilities, just 10 percent of the population based in rural areas has access. Essentially, the urban resident is four times more likely to have access than the rural resident. However, just because a given urban resident has access to an improved facility does not mean that sanitation and hygiene are guaranteed since a significant challenge has been ensuring adequate management of facilities (i.e. emptying sludge, servicing and repairs, cleaning, etc.). Between 2000 and 2015, growth in access was especially slow as the sector has struggled to keep pace with the growing population and urbanization rates. For urban populations, access grew from 37 percent to 42 percent, while for rural populations, access grew from 5 percent to 10 percent.

Mozambique has worse access to improved sanitation facilities compared to other countries in the same region and income category (see Figure 8). Whereas 20 percent of Mozambicans have access, on average 28 percent of low income country residents have access. Moreover, compared to countries in the region, Mozambicans have 10 percent less access than the average access of all Sub-Saharan Africa countries. Relative to the 15 SADC countries, Mozambique has greater access than just two countries: Madagascar and Tanzania. Since SSA countries have increased access to sanitation facilities at a comparable rate to that of Mozambique (see Figure 7), significant gains in access are required in order to be on par with its peers.

Figure 7: Access to improved sanitation facilities

Note: “SSA” represents the average of Sub-Saharan Africa countries

Figure 8: Access to improved sanitation facilities relative to peers

Source: World Bank, World Development Indicators, 2015

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9 World Bank, World Development Indicators, “Improved sanitation facilities (% of population with access)”, 2015.
Like access to safe water, large discrepancies exist in access to improved sanitation facilities between provinces (see Figure 9). In fact, while only 1-in-10 residents in Zambézia Province has access to improved facilities, 7-in-10 residents in Maputo Province do. There are four provinces that register access rates above that of the low income country average and two provinces above that of the middle income country average\(^\text{13}\). These two provinces – Maputo Province and Maputo City (a city deemed a province) – have access rates more than twice as large as the other nine provinces.

![Figure 9: Access to improved sanitation facilities by province](source)

![Figure 10: Access to improved sanitation facilities by type](source)

Of the percentage share of the provincial populations with access to improved sanitation facilities, the majority use improved latrines while only a small share have toilets connected to a septic tank\(^\text{14}\) (see Figure 10). While the majority of Mozambicans do not use any type of sanitation facility, approximately 36 percent use unimproved latrines, 21 percent used improved latrines, and just 6 percent use toilets connected to septic systems\(^\text{15}\). However, as general access improves so does the type of access. Between the Household Surveys in 2008/9 and 2014/5, as access rates increased, so did the growth in toilets with septic systems.

The four provinces that demonstrate the lowest access rates to improved water sources are the same provinces with the lowest access rates to improved sanitation facilities (see Figure 5 & 9). Zambézia, Cabo Delgado, Niassa, and Nampula Provinces are at the bottom of both the clean water and sanitary facility access rates list, while Sofala, Gaza, Maputo Province, and Maputo City are the same four provinces with the best access rates for water and sanitation. Clearly, there is unequal access to improved water and sanitation services amongst the provinces.

4. Water Supply and Sanitation Sector Expenditure

4.1 Sources of expenditure data

Both the MEF and MOPHRH report annually on Water and Sanitation Sector expenditure. As explained in the methodology, the MEF reports expenditure in the quarterly REOs and annual CGE and the MOPHRH reports sector expenditure in the annual REO/RADS. The MEF reports a sector expenditure total for both the organic classification and the functional classification. The organic classification presents total expenditure in the sector as the sum of the sector’s institutions, while the

\(^{13}\) The middle income country average for 2015 was 65 percent. Source: World Bank, World Development Indicators, “Improved sanitation facilities (% of population with access)”, 2015.

\(^{14}\) The shares with access to improved sanitation facilities differ by source: World Bank and National Statistics Institute (INE).

\(^{15}\) Instituto Nacional de Estatística (INE). “Relatório final do inquérito ao orçamento familiar – 2014/5”. Quadro 5.6, Pg. 62.
functional classification presents total expenditure in the sector as the sum of all Government projects that the MEF classifies as being related to the Water and Sanitation Sector. As a result of the different approaches employed by MEF and MOPHRH in the calculation of sector totals, there is significant variance in totals between the sources in certain years (see Table 5).

Table 5: Sources of Water and Sanitation expenditure data

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<td>5.2</td>
<td>6.5</td>
<td>3.5</td>
<td>3.4</td>
<td>4.8</td>
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<tr>
<td>Adjusted Calculation from MOPHRH &amp; MoEF Sources*</td>
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<td>5.1</td>
<td>5.5</td>
<td>6.5</td>
<td>6.9</td>
<td>5.5</td>
<td>6.4</td>
</tr>
</tbody>
</table>

Source: CGE 2009-2015 (Mapa I-1-1); REO/RADS 2010-2015

Note: REO/RADS total for 2010 does not include the “funcionamiento” category as this was never included in the reports. The REO/RADS total for 2015 appears to be missing the ARAs. * These are the numbers used for the Water and Sanitation Sector totals for the purpose of this study.

Institutional and sector expenditure totals presented in this report are the author’s calculations, drawing from both MEF and MOPHRH sources, for years 2009 through 2015. The expenditure numbers used for analysis are adjusted totals for water and sanitation-specific programming (see bolded figures in last row of Table 5). A full explanation of the methodology for calculation can be found in the Methodology Section. Although certain limitations exist (also explained in Methodology), the author utilizes the adjusted totals believing them to be the most comprehensive, accurate totals.

4.2 Allocation and expenditure

The Ministry of Economy and Finance releases initial funds via the CUT to each autonomous budget-holding water and sanitation institution and subsequently updates the allocation based on budget execution rates and available resources. Institutions execute the budgets made available, tracking expenditure through the e-SISTAFE, which sources the quarterly REOs and annual CGE. While the

Figure 11: Budgeting and Expenditure in the Water and Sanitation Sector


16 Note: the volume of hygiene specific programming is very small relative to that of water and sanitation; nonetheless, hygiene activities are included in the expenditure totals for the time series presented.
sector’s revised budget allocation and expenditure totals have generally increased, in nominal terms, over the past seven years, the initial budget allocation has varied greatly from year to year (see Figure #11A). In nominal terms, the revised budget allocation increased more than 70 percent and expenditure increased more than 100 percent between 2009 and 2015. However, since 2010, the revised allocation and expenditure have grown only slightly more than 25 percent. The erratic trend of initial budget allocations to water and sanitation is the partial result of donor project funding cycles in the sector. Since donors accounted for roughly 80 percent of the sector’s expenditure over the past few years, donor project decisions—in theory made in collaboration with MOPHRH—are a main determinant of the volume of the sector budget; because of this, the water and sanitation budget rises and falls as big donor projects commence and conclude over different years. Separately, the overall discrepancy between initial allocation, revised allocation, and expenditure shows the difference between what donors commit and actually disburse, but is also a reflection of the challenge faced by MEF in tracking external donor resources. Since a large share of donor funds are placed on-budget, but off-CUT, MEF has difficulty in accurately documenting donor commitments, and then, donor expenditure made on those commitments. For this reason, donor commitments and disbursements are not always captured in the sector totals.

In real terms, Water and Sanitation Sector expenditure has increased only slightly (see Figure #11B). Between 2009 and 2015, the Water and Sanitation Sector grew slightly more than 50 percent. However, since 2010, there has been no real growth in sector expenditure. The nonexistent real growth in the sector is predicated on an average inflation rate of 5.6 percent between 2009 and 2015, with 12.7 percent in 2010 and 10.4 percent in 2011 being the highest rates during the time series.

4.3 Water and sanitation compared to other priority sectors
Prior to 2014, Priority Sector spending has grown in nominal terms, but not as a share of the State Budget. Spending on Priority Sectors—more recently termed “Social and Economic Sectors”—grew, in nominal terms, on average 20 percent per year from 2009 to 2014; however, because the volume of the State Budget grew, on average, slightly more than 20 percent per year during the same time period, the percentage share of Priority Sector spending relative to the State Budget did not increase. Priority Sector spending in 2009 was worth MT 47 bn while in 2014 was worth MT 122 bn. This mirrors the growth of the State Budget that was worth MT 84 bn in 2009 and MT 227 bn in 2014. In real terms, Priority Sector spending grew, on average, 14 percent per year, while the State Budget grew, on average, 15 percent per year. In 2015, both the value of the Priority Sectors and State Budget decreased 15 percent relative to their 2014 value.

The Government of Mozambique calculates sector shares of the State Budget by excluding financial operations, debt servicing, and subsidies from the denominator. Instead of calculating

**Figure 12: Percentage share occupied by Priority Sectors relative to the State Budget**

Source: CGE 2009-2015 (Mapa I-1-1)
Expenditure on Priority Sectors has occupied, on average, 56 percent of the State Budget between 2009 and 2015. In 2015, with the entrance of a new Government, the composition of Priority Sectors changed slightly. Through the current PQG, between 2015 and 2019, the main priority sectors are education, infrastructure, health, agriculture and rural development, and justice. The Water and Sanitation Sector is considered a sub-sector of the infrastructure sector. During the time period analyzed, Priority Sectors occupied the greatest share of public spending in 2012 and 2013 with a 62 percent share, and the least share in 2015, with 52 percent. According to the Government’s methodology, Priority Sectors have occupied, on average, 63 percent of the State Budget between 2009 and 2015.

The Water and Sanitation Sector has registered, on average, the sixth largest expenditure share relative to the State Budget, thus finding its average expenditure slightly greater than the Social Action Sector and less than the Agriculture and Rural Development Sector. While the Water and Sanitation Sector is considered a sub-sector of Infrastructure, it is funded more than several other priority sectors. By share size of the State Budget, the largest spending sectors between 2009 and 2015 were education, infrastructure (non-water/sanitation), health, good governance (no longer a priority sector post-2014), agriculture and rural development, Water and Sanitation, social action, judiciary, and employment.

### 4.4 Water and Sanitation Sector’s weight of State Budget and GDP

The Water and Sanitation Sector occupied, on average, 3.8 percent of the State Budget between 2009 and 2015. Over the seven-year time period, the sector reached a share as high as a 4.7 percent in 2010 and dropped as low as a 2.4 percent in 2014. According to the Government’s methodology, the sector averaged a 4.2 percent share while reaching a high of 5.3 percent in 2010 and a low of 2.7 in 2014.

The sector’s share of the State Budget, despite having fluctuated in recent years, has generally declined from the 4.7 percent share of 2010. The decline in the share of the State Budget is partly due to the expiration of the country’s Millennium Challenge Account compact, which contributed some MT 6 bn to large water supply and sanitation projects between 2010 and 2014; but the decline is also simply because the increase in the volume of the State Budget has been registered outside the Water and Sanitation Sector.

The Water and Sanitation Sector occupied, on average, 1.29 percent of GDP between 2009 and 2015. Over the time period, Mozambique’s GDP registered an average nominal growth of 12 percent per year, but an average real growth of 6 percent. The sector reached as low as 1.03 percent in 2009 and as high as 1.46 percent in 2010. Due to a lack of comparative water and sanitation expenditure...
data for other countries, at this time it is not possible to benchmark Mozambique’s water and sanitation expenditure relative to the State Budget and GDP with that of other countries.

4.5 Government expenditure compared to donor expenditure

The Water and Sanitation Sector in Mozambique is financed with both domestic and donor resources. (i) Domestic, or Internal, resources are raised through taxes, tariffs, duties, and internal credits, and are complemented by General Budget Support, which is un-earmarked development aid to the Mozambican Government from a group of 14 development partners (G-14). Specific to the Water and Sanitation Sector, internal resources are supplemented by revenues from water charges. FIPAG, the water asset holder, and CRA, the water regulator, and ARAs, the water basin agencies, raise revenues through the collection of water-related tariffs. FIPAG and CRA raise their revenues by charging utilities. It is important to note, however, that these revenues make up a very small part of total internal resources at the sector’s disposal. (ii) Donor, or External, resources, on the other hand, come from foreign aid, donations, and external credits.

External resources applied to the Water and Sanitation Sector fit into two general categories: contributions to Common Funds and donor investment projects. (i) There were two active Common Funds for the Water and Sanitation Sector during the 2009 to 2015 period: PRONASAR Common Fund and ASAS Common Fund. The PRONASAR and ASAS Common Funds resources were provided by foreign donors and used by the Government, as if they were internal resources, to implement water and sanitation projects. (ii) Donor investment project funds, on the other hand, are—in theory—coordinated between the donor and MOPHRH and applied through a variety of modalities including: (a) direct government support with government-only or joint agency-government implementation, often “On-Budget, On-CUT”; (b) agency or third party implementation, often “On-Budget, Off-CUT”; or (c) agency or third party implementation, but “Off-Budget”.

Donors have spent, on average, 80 percent of Water and Sanitation Sector total expenditure over the past seven years. This is much higher than the average overall share of donor spending in the State Budget, which is 33 percent (see Figure #14). Between funding provided for the PRONASAR/ASAS Common Funds and resources spent on sector investment projects, donors are responsible for an overwhelming share of the Water and Sanitation Sector’s financing. Moreover, when considering the estimated volume of off-budget resources—which are a real challenge to track in the sector—the share of external resources is even higher. Simply put, the Water and Sanitation Sector in Mozambique is donor-driven.

Nevertheless, in 2014 and 2015, the Government’s share of expenditure in the sector more than doubled (see Figure #15). Between 2009 and 2015, the Government spent, on average, 20 percent of total annual expenditures in water and sanitation, not including off-budget spending. However, two separate trends are identifiable during this time period. Between 2009 and 2013, the Government spent, on average, 14 percent of total annual expenditures in the sector; but in 2014 and 2015, the Government spent 36 percent and 32 percent, more than double the previous trend. The increased share in 2014

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and 2015 is due to (i) the decrease in real terms donor spending due to the conclusion of MCA and (ii) the increase in real terms Government spending to compensate for lower donor spending in the sector.\(^{18}\)

The ASAS common fund was phased out in 2015 after experiencing a steady decline in funding (see Figure 16). The Sectoral Support to the Water Sector (ASAS) funding stream, which was sourced by the Government of Holland, contributed MT 162 mn in 2009, equal to a 5 percent share of total sector expenditure during the year. However, after 2009, the ASAS Common Fund gradually declined in volume and was officially phased out in 2015.

The PRONASA\(_R\) Common Fund, however, is still an active funding modality for certain sector donors despite its own decline as a funding preference (see Figure 16). The National Rural Water Supply and Sanitation Program (PRONASAR) common fund was launched in 2010 and is financed by the Government of the United Kingdom, Switzerland, Austria as well as UNICEF. PRONASAR contributed nearly 9 percent of sector resources, worth MT 566 mn in 2012; however, it too declined in both nominal and real value and as a share of total Water and Sanitation Sector resources in 2014 and 2015.

Off-budget spending in the Water and Sanitation Sector has accounted for, on average, 8 percent of sector spending (including the off-budget expenditure) (see Figure 17). Off-budget donor spending in Mozambique was, for several years, tracked by the ODAMOZ aid-data platform. Whereas the off-budget share of total sector expenditure tracked by ODAMOZ between 2009-2011 averaged 14 percent, the shares since 2012 have averaged 4 percent. The fact that the nominal value of off-budget spending has decreased since 2012 suggests more donor projects are being inscribed on-budget.

\(^{18}\) It is important to note that the share of internal resources is likely higher than is projected due to the fact that it is impossible for track recurrent expenditure for MOPHRH, DPOPHRHs, SDPIs, and SDs (See Methodology).
Nonetheless, data from ODAMOZ needs to be interpreted with caution due to often inconsistent and incomplete donor reporting.

4.6 Recurrent expenditure compared to capital expenditure

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

To improve the understanding of the breakdown between investment and recurrent spending, Mozambique’s e-SISTAFE requires the ability to track external donor recurrent spending. According to how the Mozambican public accounting system is structured, the recurrent expenditure category is exclusively financed through internal resources, whereas Investment is both funded internally and externally. However, it is necessary to point out that all external funding is tracked in the budget as “external investment”, when in fact, it might have a portion dedicated to recurrent functions. In order to improve the understanding of investment levels in the Water and Sanitation Sector and other priority sectors, it is important for the MEF to create the possibility to track the recurrent aspect of externally-funded projects in e-SISTAFE.

Water and Sanitation resources are primarily devoted to investment (see Figure #18). However, the exact magnitude must be interpreted with caution. As previously mentioned, water and sanitation programs are bundled together with other public works and housing programs in the MOPHRH, DPOPHRs, SDPIs, and SDs; and for this reason, it is not possible to disaggregate the recurrent spending for the water and sanitation-specific programs for these institutions. Moreover, since the public accounting system does not track external donor recurrent spending, and since donors fund an overwhelming share of the sector, it is not possible to represent the true volume of recurrent resources dedicated to water and sanitation programming. Nonetheless, even if it were possible to measure the correct volume of recurrent resources devoted to the Water and Sanitation Sector, the ratio of investment to recurrent resources would still be very high.

Donor financed investment heavily outweighs domestically financed investment in the sector (see Figure #18). Nonetheless, in 2014 and 2015, internal investment has doubled its share of total investment and nearly doubled its volume in Meticals. While internal investment’s share of total investment expenditure averaged 13 percent between 2009 and 2013, it was worth 35 percent in 2014 and 30 percent in 2015. In Meticals, internal investment was worth less than MT 1.0 bn before 2013, but worth MT 1.9 bn in both 2014 and 2015. The large decrease in external investment in 2014 is due to the US Government’s Millennium Challenge Account program ending in the same year. In response

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</tr>
</tbody>
</table>

Source: Author’s calculations from CGE 2009-2015.
Note: * Due to data limitations, not all recurrent spending on water and sanitation programming is represented.
to the decrease in foreign investment in the sector, the Government has increased its own investment budget and spending.

4.7 Expenditure by functional delineation

The Water and Sanitation Sector requires better expenditure tracking by functional classification. The MEF tracks three functional classifications in the e-SISTAFE for the Water and Sanitation Sector, namely: urban water supply, rural water supply, and unspecified water supply. The MOPHRH, starting in 2014, began to separately track six functional classifications, which include: urban water supply, rural water supply, urban sanitation, rural sanitation, water resources, and institutional capacity. By improving its ability to track functional spending, the sector would have a better understanding of what, on the whole, resources are spent. Currently, the functional classifier totals for the sector fall well short of the institutional totals suggesting that a considerable amount of resources dedicated to the sector are not considered. Added to this, a large share of resource fall into the “undefined” category.

Between 2009 and 2015, the largest share of Water and Sanitation Sector spending, on average, went towards Urban Water Supply (see Figure #19). Urban Water Supply spending has occupied, on average, 63 percent of the functional classification total (not including the unspecified category) between 2009 and 2015. This is not in line with population demographics as 32 percent of Mozambique’s population lives in urban areas while 68 percent lives in rural areas 19.

According to the MOPHRH functional classification, water supply expenditure has outweighed sanitation expenditure by a ratio of 6 to 1 (see Figure #19). Within the Water and Sanitation Sector, spending on the water supply component was six times greater than the sanitation component in 2014 and 2015. And within the sanitation component, the overwhelming majority of spending was registered in urban areas 20.

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19 World Bank, World Development Indicators, “Rural population (% of total population)”, 2015.
20 It is necessary to exercise caution when interpreting the functional classification breakdown, especially comparisons between water supply and sanitation spending. This is because most WASH projects contain both water supply and sanitation components within the same project making it impossible to disaggregate one component’s spending share from the other. Also, it is difficult to separate the spending breakdown in “community education campaigns” and “PES monitoring activities”, for example. (REO/RADS, 2014)
4.8 Expenditure by water and sanitation institution

Between 2009 and 2015, the MOPHRH, through its water resources and water supply and sanitation directorates, has spent on average the largest share of the Water and Sanitation Sector budget (see Figure #20). Over the years, the directorates within the MOPHRH responsible for the Water and Sanitation Sector agenda have changed both name and function; regardless of the name, these entities have been responsible for, on average, more than a third of the sector’s expenditure between 2009 and 2015.

MOPHRH’s expenditure through its provincial arm—the DPOPHRHs—grew in real terms, while expenditure through its district arm—the SDPIs—remained unchanged. While water and sanitation expenditure through MOPHRH varied greatly between 2009 and 2015—mainly as a result of gaps between when large scale external donor projects ended and new projects began—expenditure through DPOPHRHs grew from a 4 percent share worth MT 112 mn in 2009 to an 8 percent share worth MT 489 mn in 2015. Sector expenditure at the district level was mainly through the SDs, until 2014 when the SDPIs were introduced. Funding to SDPIs is decentralized by MOPHRH together with PRONASAR funds for operational costs such as gasoline, cost support, salaries, vehicle repair, and other consumables. Between 2009 and 2015, regardless of whether it was an SD or SDPI responsible for executing the sector’s district portfolio, the share of expenditure at the district level remained the same.

**Figure 20: Expenditure by MOPHRH level**

Source: Author’s calculations from CGE 2009-2015

Note: * MOPHRH total only includes Water & Sanitation Sector spending through the directorates for water resources as well as water supply and sanitation.

** District level spending was through the District Secretaries (SDs) between 2009 and 2013, but through the District Services for Planning and Infrastructure (SDPIs) and SDs for 2014 and 2015.
In the absence of MCA spending, MOPHRH (water/sanitation only), FIPAG, ARAs, and AIAS have accounted for the largest increases in Water and Sanitation Sector expenditure (see Figure #21). During its height in 2013, the US Government’s Millennium Challenge Account (which, for its size, was listed together with other institutional expenditure totals in the CGE, Mapa I-1-1) executed MT 3.0 bn, equivalent to 43 percent of total WASH expenditure during the year. Since MCA’s conclusion in 2014, MOPHRH, FIPAG, ARAs, and AIAS have exhibited an upward trend in real expenditure, helping to fill the spending gap since the sector’s peak real expenditure level in 2013.

Of the five Regional Water Administrations, ARA South controls the largest share (see Figure #22). The ARA South, which is responsible for the Maputo, Gaza, and Inhambane provinces, was responsible for, on average, 8 percent of total water and sanitation spending between 2009 and 2015 and 88 percent of ARA spending over the same time period. The reason why ARA South exhibits the greatest share of expenditure is because (i) only it and ARA Center receive donor funding and (ii) an overwhelming share of ARA South expenditure between 2009 and 2015 was in support of renovations to the Massingir Dam as well as the Corumana and Macarretane Dams. In fact, much of the funding for the renovation of the Massingir Dam comes from external loans. Without spending on the Massingir Dam, ARA South would have spent less than a quarter of what it really spent during the time period.
4.9 Expenditure by territorial level

The Water and Sanitation Sector is highly centralized; in fact, the central level spent, on average, 94 percent of total sector resources between 2009 and 2015. Less than 1 percent is spent at the district level. (see Figure #23).

This is largely due to the fact that the four most funded institutions –MOPHRH (water and sanitation only), FIPAG, ARA South, AIAS– are all central level institutions. While the largest share of funds was spent by central level institutions, it does not mean that all of these funds were spent at the benefit of the capital city where the central level institutions sit. MOPHRH, FIPAG, and AIAS implement investment projects throughout the country and ARA South implements in multiple provinces.

Since 2010, the share of expenditure at the central level has slowly devolved to the provincial level (see Figure #23), which has largely come as the result of the decentralization of domestic resources (see Figure #24). In 2010, spending at the central level was worth 95 percent of total spending while in 2015 was worth 90 percent. Correspondingly, the share of spending at the provincial level rose from 4 percent in 2010 to 10 percent in 2015. The decrease in central level spending and increase in provincial level spending was driven mainly by the respective decrease and increase of internal specific expenditure.

While domestic expenditure in the Water and Sanitation Sector has decentralized from the central to the provincial levels, there has been minimal decentralization of spending in the sector by donors (see Figure #24). (i) Considering solely domestic resources, spending at the central level occupied 84 percent of the domestic total sector expenditure in 2009 compared to 75 percent in 2015. At the provincial level, in 2009, domestic spending represented 14 percent while, in 2015, it represented 25 percent. (ii) Considering solely donor resources, spending at the central level occupied 98 percent of the donor-provided total sector expenditure in 2009 compared to 97 percent in 2015. At the provincial level, the share in 2009 was worth 2 percent, and in 2015 was worth 3 percent. Clearly, the decentralization of expenditure has only occurred for the use of domestic resources. This is largely because (i) there are few provincial water and sanitation-designated institutions (i.e. ARA Center and the DPOPHRHs) that customarily receive external donor funding and (ii) the large external credits taken on by the sector have customarily been assumed by central level institutions. As a result of such practices, financial management of external resources is still highly centralized.

**Figure 23: Decentralization of spending**

Since 2010, spending at the central level has slowly devolved to the provincial level, which has largely come as the result of the decentralization of domestic resources. The decrease in central level spending and increase in provincial level spending was driven mainly by the respective decrease and increase of internal specific expenditure. The decrease in central level spending and increase in provincial level spending was driven mainly by the respective decrease and increase of internal specific expenditure.
Initial efforts to decentralize the sector have been made, principally by the Government. Still, there is much more to be done before a comparable share of water and sanitation resources are executed at the sub-national level. Efforts by both the Government and donors have been made to decentralize the sector. In 2014, MOPHRH established several SDPIs as autonomous budget holding units devoted to public works, housing, and water and sanitation activities at the district level. Additionally, PRONASAR funding, decentralized through the MOPHRH, is allocated to 14 districts across the country. The donors also use the PRONASAR mechanism to fund 15 different districts in Maputo, Gaza, and Zambézia. However, as a share of total sector spending, decentralized funding through the PRONASAR Common Fund is quite small. The first step towards greater decentralization will need to come through further deconcentration of funding by unbundling sub-national spending from central institutions. Second, the Government will need to facilitate donors’ ability to decentralize funding by building capacity of the civil service at the sub-national level in order to manage projects and budgets.

4.10 Debt

In order to supplement the financing of Water and Sanitation Sector investments, the Government has taken out both internally- and externally-financed loans. Between 2010 and 2015, several of the main water and sanitation institutions have taken on and held debt; namely, MOPHRH (DNA and select DPOPHRHs), FIPAG, and ARA (South and Zambeze). Sector debt consists of debt payment obligations (factura), money owed through the value-added tax (IVA), and money owed for Government subsidies (comparticipação).

With the exception of 2014, nominal sector debt has averaged MT 200 mn, equal to an average 3 percent of sector spending between 2010 and 2015. In 2014, nominal sector debt was worth MT 481 mn, equal to 9 percent of sector spending in 2014 (see Figure #25). The debt attributable to MOPHRH (DNA) is largely for the residual water treatment station (ETAR) at Vila Olímpica, the drainage system at Estadio Nacional de Zimpeto, African Development Bank’s Integrated Water Supply and Sanitation Project for Nampula and Niassa Provinces (ASNANI), debt attributed to the water Planning and Control Council (GPC), and for the Arab Bank for Economic Development of Africa’s (BADEA) Beira Sanitation Project. Debt attributed to FIPAG is due to the National Program for the Development of the Water Sector II. Debt attributed to ARA South was for the rehabilitation of the Massingir Dam. And debt attributed to ARA Zambeze was for a project dated before 2009. The large spike in debt in 2014 is due to the costly rehabilitation work to the Massingir Dam.

21 The 14 districts are: Ngauma e Marrupa (Niassa); Muidumbre e Chiure (Cabo Delgado); Meconta e Mogincual (Nampula); Cahora Bassa e Mage (Tete); Barue e Tambara (Manica); Chibabava and Caia (Sofala); Massinga e Morrumbene (Inhambane).
4.11 Budget execution
The WASH Sector has faced difficulties in executing its full budgets. As a whole, the sector has executed, on average 76 percent of its budget between 2009 and 2015; this is significantly lower than the average State Budget execution rate of 88 percent over the same time period (see Figure #26). The sector’s highest aggregate budget execution level came in 2013 when it spent 92 percent of total resources allocated. Its lowest came in 2009 when it spent just 57 percent of resources. In 2015, the sector has provisionally executed 84 percent; this will be confirmed with the release of the CGE later in the year.

Poor execution rates on the recurrent and external investment components of the budget are responsible for dragging down the aggregate execution rate (see Figure #26). While the Government has executed, on average, 99 percent of its investment budget since 2009, it has only managed to execute, on average, 80 percent of its recurrent budget. This is mainly due to the low rates registered for AIAS and CRA. Nonetheless, as previously mentioned, the sector’s recurrent budget is fairly small. The external investment budget, on the other hand, is very large. Donors have executed, on average, just 72 percent of their project budgets. It is important to note that besides tardy and incomplete disbursements, the low donor execution rate is also likely a reflection of poor donor reporting on projects inscribed on-budget, but funded off-CUT.
5. Expenditure and Equity

Benefit Incidence Analysis (BIA) conducted on the Water and Sanitation Sector, utilizing data from the 2008/2009 and 2014/2015 Household Surveys together with public expenditure data, helps explain who gained most from water and sanitation spending and what is the welfare distribution across households grouped in quintiles according to income. BIA considers two main elements: (i) household behavior in the decision to utilize improved water and sanitation facilities and services; and (ii) government behavior in the allocation of public resources to urban and rural areas. It is important to point out that the primary assumption made for BIA in infrastructure-related sectors is that expenditure targeting, in terms of percentage shares devoted to a sub-sector or province, is consistent over time. Since access to and use of a given improved service today may be the result of past years’ expenditure (and not necessarily today’s expenditure), one must assume consistent targeting of resources over the years preceding the exact year for which access to improved services was measured and expenditure data was considered.

5.1 Benefit incidence by quintile

5.1.1 Improved water source

The least poor (richest quintile) exhibit considerably greater use of improved water sources compared to the poorest (see Figure #27). When grouping the Mozambican population into five separate income categories ranging from the poorest (quintile 1) to the richest (quintile 5 or “least poor”), it is clear that the group of the population with the greatest income also demonstrates the greatest use of improved water sources. While the inequality is not surprising, the spread is. In fact, according to 2014/5 data, the least poor, with 84 percent usage, show more than double the use of improved water sources than the poorest, with 33 percent.

Figure 26: Decentralization of spending

Source: Author’s calculations from CGE 2009-2015
The largest improvements in safe water use between 2008/9 and 2014/5 were made by the least poor quintiles (see Figure #27). Between the two Household Surveys conducted, the least poor quintile demonstrated the largest gains in usage from 64 percent in 2008/9 to 84 percent in 2014/5, equal to 20 percentage points. In contrast, the poorest quintile demonstrated the smallest gain from 29 percent to 33 percent, equal to 4 percentage points. Correspondingly, quintile 2 showed larger gains than quintile 3, and quintile 3 showed larger gains than quintile 4.

Public spending on clean water provision is moderately regressive; the least poor segment of the population benefits more from public spending on clean water provision than the poorest segment (see Figure #28). When factoring in public spending along the water usage rates by quintile, according to BIA, it is apparent that the least poor quintile captures a greater share of the expenditure (31 percent) compared to the poorest quintile (12 percent). In fact, according to 2014/5 Household Survey and expenditure data, each household in the least poor quintile theoretically was the beneficiary of three times the amount of expenditure compared to the poorest quintile. Between 2008/9 and 2014/5, little change is noticeable in the distribution of benefit from public spending on water. In short, the poorest quintile lost a 2 percent benefit in water spending to the second and third quintiles.

5.1.2 Improved sanitation facility
Similar to improved water sources, the least poor show considerably greater use of improved sanitation facilities compared to the poorest (see Figure #29). Whereas 59 percent of the least poor segment of the population uses improved sanitation facilities, according to the 2014/5 Household Survey, just 2 percent of the poorest segment uses improved facilities. In fact, use of improved sanitation facilities is nearly exclusively by the richest strata; just one-in-five people of quintile four use the improved facilities, one-in-ten in quintile three use the facilities, one-in-twenty use in quintile two, and just one-in-fifty use in the poorest quintile.

No improvements in usage of improved sanitation facilities were observed by the poorest quintile between 2008/9 and 2014/5 (see Figure #29). Between the two Household Surveys, use of improved
facilities remained the same for the poorest quintile (at 2 percent) and quintile two (at 6 percent). Quintiles three, four, and five, on the other hand, showed improvement between the two surveys. The least poor quintile demonstrated the greatest increase of the three with a 12 percentage point gain.

Public expenditure on improved sanitation facilities is sharply regressive; the least poor segment of the country benefits substantially more from public spending on sanitation compared to the poorest segment (see Figure #30). The portion of the population with the highest income, according to the 2014/5 Household Survey data, captures 58 percent of sanitation public spending, while the portion with the least income captures just 2 percent of the spending. Clearly, public spending on sanitation has been pro-rich, improving access and use for the most well off segment of the population.

5.1.3 Improved water sources and sanitation facilities jointly considered

Considering the Water and Sanitation Sector as a whole, public expenditure benefits the wealthiest quintile more than the others (see Figure #31). According to 2014/5 data, 35 percent of public spending in the Water and Sanitation Sector benefited the richest segment of the population, while only 11 percent of spending benefited the poorest segment. Public spending in the sector is moderately inequitable. In order to improve equitable access to and usage of improved water sources and sanitation facilities, the Government needs to better target sector resources to the poorer share of the population as well as address long term inefficiencies.

Source: National Statistics Institute (INE), 2008/9 and 2014/5 Household Surveys

Figure 29: Use of improved sanitation facilities by quintile

![Figure 29: Use of improved sanitation facilities by quintile](image)

Source: National Statistics Institute (INE), 2008/9 and 2014/5 Household Surveys

Figure 30: Benefit incidence of public spending on sanitation facilities

![Figure 30: Benefit incidence of public spending on sanitation facilities](image)

Source: Author’s calculations from CGE 2008/9, 2014/5 and National Statistics Institute (INE), 2008/9 and 2014/5 Household Surveys

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5.2 Benefit incidence by urban and rural dwelling

**Figure 31: Benefit incidence of public spending on Water and Sanitation Sector by quintile**

Urban area residents report more than double the usage of improved water sources compared to rural area dwellers. Use of improved sources increased substantially more for the country’s urban population compared to the rural population over the past seven years (see Figure #32). According to the 2014/5 Household Survey, 83 percent of city-dwellers retrieve water from improved clean water sources, compared to just 36 percent of the rural population. During the six years between the two Household Surveys, use of improved water sources increased more for the country’s urban-based population (18 percent increase) than the rural-based population (5 percent increase). This is partly because the return on investment of building a new water source in an urban area is greater since the same source in a city can provide for a larger number of people than if the source was built in the low density rural areas. Additionally, in rural areas, high breakdown rates at rural water points complemented by poor decentralized capacity for repairs has hampered improvements in access.24

**Per capita public expenditure on water provision is significantly more per urban resident than per rural resident.** Based on year 2015 population figures and water expenditure totals, per capita spending on water provision would be MT 290 per urban-based citizen and MT 77 per rural-based citizen, based on the assumption that targeted water provision resources reach every urban and rural citizen. However, since it is not the case that water provision spending benefits every urban and rural citizen. Considering solely those with access to and who use improved water sources in urban (83 percent) and rural (36 percent) areas, the per capita spending on water provision for beneficiaries-only is MT 351 per urban resident and MT 214 per rural resident. Notwithstanding the fact that water provision expenditure is poorly targeted to the rural citizenry (since they show less use), urban citizens still receive 60 percent more per capita than their rural compatriots.

5.2.1 Improved water source

**Figure 32: Use of improved water sources by urban/rural dwellers**

Source: National Statistics Institute (INE), 2008/9 and 2014/5 Household Surveys

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25 Author’s calculations based on REO/RADS 2015 and World Bank, World Development Indicators, “Rural population”, 2015.
Despite the fact that close to two-thirds of Mozambique’s population lives in rural areas— and only slightly more than one-third of them have access to and use improved water sources—the rural areas receive just one-third of public spending on improved water provision. In Mozambique, 32 percent of the population resides in urban areas while 68 percent resides in rural areas; this is equivalent to roughly 9 mn urban inhabitants and 19 mn rural inhabitants. However, when factoring in the different usage rates between the urban and rural communities, the estimated number of beneficiaries is fairly similar despite rural areas having more than double the number of people than urban areas: 7.4 mn urban beneficiaries (83 percent of 9 mn) and 6.8 mn rural beneficiaries (36 percent of 19 mn). Next, the fact that in 2015 MT 2.6 bn was spent on water provision activities in urban areas and MT 1.5 bn was spent in rural areas suggests the current urban:rural funding pattern shows close to two-thirds of water provision resources going to urban areas and one-third of resources going to rural areas. Clearly, spending on water provision is inequitable since the larger share of resources are targeted to a smaller proportion of the population that demonstrates less relative need. Nonetheless, the targeting of improved water provision spending has improved between the 2008/9 Household Survey and the 2014/5 edition (see Figure #33).

**Figure 33**: Benefit incidence of public spending on water provision by urban/rural dwellers

![Figure 33: Benefit incidence of public spending on water provision by urban/rural dwellers](image)

**5.2.2 Improved sanitation facility**

Like use of improved water sources, urban residents enjoy substantially greater use of sanitation facilities compared to rural residents (see Figure #34). According to the 2014/5 Household Survey data, 58 percent of city-dwellers use improved sanitation facilities compared to just 13 percent for rural area dwellers. In other words, approximately six-out-of-ten urban residents use...
improved facilities, while just one-out-of-ten rural residents use improved facilities. Usage rates increased for both urban and rural residents between the two Household Surveys.

**Urban residents capture an overwhelming share of public spending on improved sanitation facilities** (see Figure #35). In 2015, urban areas benefited from 97 percent of sanitation spending, compared to the 3 percent for rural areas. However, this ratio must be interpreted with caution since the MOPHRH has stressed the difficulty of tracking rural sanitation spending due to the inability to disaggregate the sanitation component from water component in joint water and sanitation programming.

5.2.3 Improved water sources and sanitation facilities jointly considered

Considering the Water and Sanitation Sector as a whole, it is clear that expenditure is unequally distributed between urban and rural areas (see Figure #36). According to the 2014/5 data, urban areas benefit from public spending on water and sanitation provision considerably more than rural areas. As mentioned in Section 5.2.2, the distribution of sanitation spending might be biased in favor of urban spending due to data limitations. Nonetheless, given the volume of water spending to sanitation spending (water is greater by a ratio of approximately 6:1), a fairer distribution of sanitation spending between urban and rural areas still would not move the benefit incidence for the sector by a large margin. Therefore, it is evident that public expenditure in the Water and Sanitation Sector unequally favors the urban areas.
6. **Recommendations**

A. **Prioritize the expansion of water and sanitation infrastructure to small towns and rural areas.**
   In view of attaining universal WASH coverage by 2030, new infrastructure needs to be better targeted to those with need. For small towns, AIAS’s capacity should be strengthened at the provincial level and it should be provided more concessional funding and grants to develop further infrastructure. For rural areas, better planning is needed to ensure water and sanitation points are not built in clusters only near roads; costs of maintenance of water and sanitation facilities should be built into investment decisions and budgets; responsibility for water and sanitation should be mainstreamed into other sector activities (i.e. construction of schools and health posts), and capacity of SDPIs should be strengthened for improved local service delivery. Aligned with this, the Government needs to commit more domestic resources to sector investment to compensate for declining proportional donor funding. Doing so will help ensure spending in the sector is more pro-poor.

B. **Improve spending efficiency.**
   To maximize the quality of spending in the Water and Sanitation Sector, the Government and donors should consider the following: address the high breakdown rates of water points, strengthen the supply chain of equipment and parts, ensure better regulation of the private sector companies responsible for management and maintenance of sanitation facilities, focus increased investment on sub-national institutional capacity building, accelerate decentralization, improve financial and operational performance of water utilities, and improve use of the CFMP for longer-term planning. Making efficiency gains in the sector will be especially important given the perceived tightening fiscal environment in the short to medium-term.

C. **Ensure effective coordination among the sector’s stakeholders.**
   It is essential for the Government to maintain a strong coordination role for the sector given that donors are responsible for the large majority of spending in the sector. The Government should prepare a long-term investment strategy to ensure a harmonized approach among the water and sanitation donors. Doing so will improve the predictability and reliability of donor funding and help avoid duplication, fragmentation, and parallel systems.

D. **Improve the ability to track Water and Sanitation Sector public expenditure.**
   In order to improve the quality of expenditure analysis in the sector, the Government should deconcentrate DNAAS and DNGRH from MOPHRH. By unbundling the water and sanitation directorates from MOPHRH, it will be easier to understand the level of budgeting and expenditure for water and sanitation activities within the multi-purpose ministry. The same should be done with the water departments in the DPOPHRHs. Additionally, the sector should move to programmatic budgeting. In this way, it will be easier to track exactly what type of activities are being funded, where they are being implemented, and how those activities relate to sector strategic goals. This will also improve the ability to track budgeting and expenditure by functional categories; for example, what share of the budget is devoted to new constructions versus what share is put towards repairs and maintenance of already existing construction. Also, efforts should be made to bring off-budget assistance on-budget. Finally, the sector should publish information on revenues for sector institutions and how those revenues are used.

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Glossary

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

Acronyms

- **AIAS**: Water and Sanitation Infrastructure Management Agency
- **ARA**: Regional Water Resource Management Agency
- **ASAS**: Sectoral Support to the Water Sector Common Fund
- **BIA**: Benefit Incidence Analysis
- **bn**: Billion
- **CGE**: General State Account (Final Budget Report)
- **CAN**: National Water Council
- **CRA**: Water Regulatory Council
- **CUT**: Single Treasury Account
- **DNAAS**: National Directorate of Water Supply and Sanitation
- **DNGRH**: National Directorate of Water Resources Management
- **DPOPHRH**: Provincial Directorates for Public Works, Housing, and Water Resources
- **e-SISTAFE**: Mozambique Integrated Financial Management Information System
- **FC**: Common Fund
- **FIPAG**: Water Supply Investment Fund
- **GBS**: General Budget Support
- **GDP**: Gross Domestic Product
- **LOE**: State Budget Law
- **MCA**: Millennium Challenge Corporation
- **mn**: Million
- **MEF**: Ministry of Economy and Finance
- **MOPHRH**: Ministry of Public Works, Housing, and Water Resources
- **MT**: Mozambican Metical (Local Currency)
- **PES**: Economic and Social Plan
- **PRONASAR**: National Rural Water Supply and Sanitation Program Common Fund
- **PQG**: Government Five Year Plan
- **RADS**: Annual Evaluation Report on Water Sector Performance
- **REO**: State Budget Execution Report (Budget Update Report)
- **SADC**: Southern African Development Community
- **SD**: District Secretary
- **SDPI**: District Services for Planning and Infrastructure
- **SSA**: Sub-Saharan Africa
- **UGB**: Beneficiary Management Unit
- **US$$**: United States Dollar (Currency)
- **WASH**: Water, Sanitation, and Hygiene
- **WB**: World Bank
- **WDI**: World Development Indicators