

Funding agriculture: Not ‘how much?’ but ‘what for?’



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‘Before calling for an increase in the volume of funding to agriculture, we need a better understanding of how resources are being used’

Aid and public expenditure in agriculture have fallen significantly over the past two decades. This decline can be explained in part by changes in the scope and role of the state, though concerns still exist that current funding levels are insufficient to address the challenges facing the sector, leading to pleas to reverse the trend, and increase funding. Before calling for an increase in the volume of funding to agriculture, however, we need a better understanding of how resources are being used.

Aid to agriculture has stagnated or declined since the early 1980s. Official development assistance (ODA) to the sector decreased in real terms by nearly half between 1980 and 2005, despite an increase of 250% in total ODA commitments over the same period. The share of ODA to agriculture fell from about 17% in the early 1980s to a low of 3% in 2005 (see Figure 1). In sub-Saharan Africa (SSA) the reduction in agricultural aid was less dramatic, but still sizeable, with a decline of about 35% over the period. Public expenditure on agriculture in SSA has displayed the same trend, even in areas where public investment is known to have high returns, such as agricultural research and development. The share of agricultural expenditure in total government spending dropped from 11% in 1980 to about 7% in 2002, according to a recent International Food Policy Research Institute study covering 44 developing

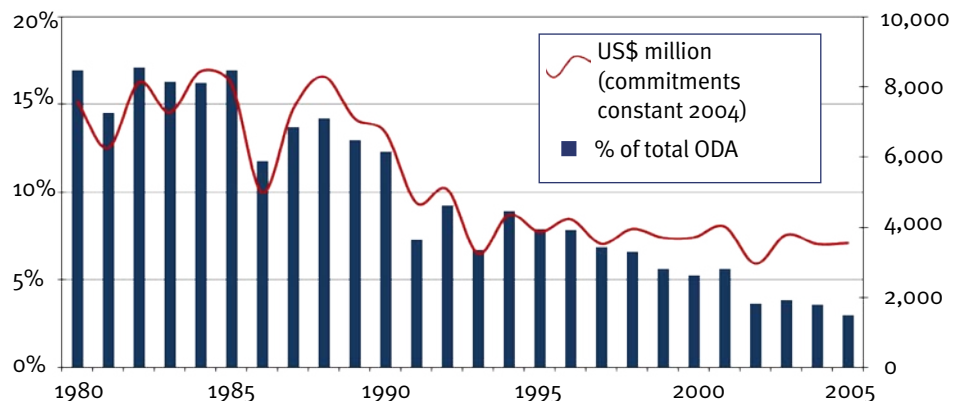
countries.¹ In 17 African countries, this share fell from 6.4 to 4.5% of total government spending over the period, falling well below the 10% commitment made by heads of African states.²

Various explanations have been offered for the falling development aid and public spending in the sector:³

- Changes in the role and scope of the state in the sector, driven by Structural Adjustment Programmes. These put significant pressure on governments in general, and agricultural ministries in particular, to withdraw from direct service delivery and dismantle costly and often inefficient parastatals.
- The widespread perception that many current agricultural problems can be addressed outside the sector (e.g. transport and communication infrastructure and international trade regulations).
- The increased attention, and share of public spending, being given to the social sectors, in line with Poverty Reduction Strategies (or at least the first generation of these) and the Millennium Development Goals (MDGs).

The decline in aid and public expenditure in agriculture is seen by many as a paradoxical neglect of a sector central to economic growth and poverty reduction. Indeed, in much of the developing world, and particularly in SSA, agriculture is still an important part of the economy and a significant proportion of the poor depend

Figure 1: Official Development Assistance (ODA) to agriculture, 1980–2005



Source: OECD International Development Statistics – Creditor Reporting System.

directly on it. Low levels of public and private investment in the sector have been matched by low levels of agricultural output and productivity, with a few localised exceptions in sub-sectors like floriculture and horticulture.

Insufficient public agricultural investment may be an important constraint to the development of the sector. But more clarity is needed about the root causes. Rather than worrying about low volumes of funding, governments and donors should be concerned about returns from funding. There seems to be surprisingly little discussion about the latter, particularly when talking about aid and public investment.

Some critical public goods remain under-funded, including infrastructure and research and development. Climate change adaptation, for example, will require a major effort from African governments in promoting the development of plant varieties and technologies suitable for increasingly extreme weather conditions. However, evidence from country studies suggests a number of unresolved problems when allocating and using public resources in the agriculture sector (some of which are also found in other sectors). These include:⁴

- A weak articulation between resource allocation and agricultural policy objectives, state functions and outputs.
- A dependence on external funding to pay for investment costs.
- An unbalanced budget structure, with too little spending on recurrent costs, particularly on salary payments – e.g. extension workers often absorb a significant proportion of salary costs, but lack sufficient logistical resources to fulfil their tasks.
- Significant transfers to state-owned enterprises and parastatals of questionable value – in Kenya, transfers to parastatals corresponded to 65% of the Ministry of Agriculture’s 2002/03 development budget, according to the 2005 Public Expenditure Review.
- A disproportionate concentration of resources at central level of the agricultural ministry.

On the whole there is still insufficient understanding of the composition and quality of agricultural spending and of how these might be (or not) affected by the decline in funding. Poor data, together with limited knowledge of unit costs, make it hard to assess scale, relevance, efficiency and effectiveness of public agricultural spending accurately. How, and how well, resources are being used needs to be understood before making a judgement on the need for more.

Therefore, before concluding that an increase in the aggregate volume of funding is needed for the sector irrespective of context (as the Maputo commitment suggests), an analytical basis is needed. This should provide a solid understanding of spending – its composition, its links to service provision and agricultural performance, and the factors that might constrain its relevance, efficiency and effectiveness. This is not, however, an easy task.

In addition to the fragmentation and incompleteness of currently available data sources, there are at

least three conceptual challenges to the analysis of public agricultural expenditure:

1. Not only is the definition of what constitutes agricultural public goods/services (and what should therefore be supplied by the state) highly disputed, but the supply of those goods/services also spreads across a number of providers (likely to vary from context to context). Public agricultural outputs are often seen as those supplied by agricultural ministries and hence public agricultural expenditure as the expenditure executed by them. However, there are also public sector goods/services of relevance to the agricultural economy which are provided by other government agencies, including transport, communication and marketing infrastructure, whose spending should be taken into account.
2. Linking agricultural performance to public agricultural expenditure is not straightforward; this is because of the difficulty in defining outputs, and also because of the significance of exogenous factors (such as weather and disease) affecting performance in the sector.
3. Funding sources and uses not captured by the official budget system and accounts are a concern, in a sector where it is often difficult to draw a line between what constitutes public and non-public sector activities. For example, should extension services provided by Non Governmental Organisations deploying government extension workers be accounted for as public expenditure?

The above challenges should not be seen as deterrents but justifications for developing a much-needed analytical basis. World Bank sponsored public expenditure reviews have been a laudable attempt to do so. However, it is necessary to step beyond isolated analytical exercises, often carried out by external consultants, and invest in the creation of national systems and capacity to integrate these exercises into the routines of the budget process. Reviews of public agricultural expenditure are, after all, only useful to the extent to which they feed into the setting of policy priorities and allocation of resources. Understanding public agricultural expenditure should be seen also as a major step towards understanding the role of the state in the sector and tracking how efficiently and effectively that role is performed.

Endnotes

1. See Fan, S. and Saukar, A (2006) ‘Public Spending in Development Countries: Trends, Determination and Impact’, International Food Policy Research Institute (mimeo).
2. African Union Summit, held in Maputo.
3. See for example, DFID (2004) ‘Official Development Assistance to Agriculture’, Natural Resources Team.
4. See Akroyd and Smith (2007) ‘Review of Public Spending to Agriculture’, a joint DFID and World Bank study.

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