

**Uganda: Agriculture Sector Public Expenditure Review**  
**A Joint GOU, DFID, WB, ~~and Danida~~, and ReSAKSS (ILRI) Study**  
**Concept Note**

### **Introduction and Rationale**

The national budget is under increasing stress with, on the one hand, demands to respond to large unforeseen crises or other government obligations, and on the other, limited progress on domestic revenue generation combined with the need for prudent macro-economic management of aid flows. Given the annual cycle of complaints about insufficient budgetary allocations by sector ministries and implementing agencies that accompany the annual budget cycle, there are increasing calls for additional analyses to help prioritize expenditures to sustain aggregate and agricultural growth and poverty reduction. In particular, the Ministry of Finance, Planning and Economic Development (MFPED) is constantly challenging line Ministries for value-for-money analyses of current expenditures as a basis for considering increased budgetary allocations. Unfortunately, because of weak information bases, the annual sector Budget Framework Papers fall far short of providing adequate information on how the previous years expenditures were spent or what was achieved and at what cost, to enable a more educated allocation for the coming year. As a result, with few exceptions, annual budgets and MTEF ceilings present only marginal incremental changes irrespective of emerging sector priorities.

This shortcoming is also realized by the top leadership in the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), who are concerned about insufficient space to align the ministry's expenditures to high priority activities as laid out in the MAAIF Development Strategy and Investment Plan (DSIP). The budget received by MAAIF is by and large already pre-allocated to specific activities, either as budgets for the core agencies (NARO and NAADS) or as allocations to activities agreed to under different projects that the government is committed to. MAAIF has thus expressed a strong interest in a comprehensive PER for the sector, both to better align future expenditures to its priorities and also to "make the case" for an appropriate level of funding for the sector.

The demand for this PER comes from several other quarters as well. It is part of a larger annual Public Expenditure Review, a core diagnostic, undertaken collaboratively by the Government and the World Bank. For 2006/07 and following year, the PERs will focus on strategic prioritization across sectors, assessing the scope for additional expenditures or "fiscal space" to meet high priority expenditures and public investments, and the fiscal sustainability of such expenditures. The objective is to look for allocative efficiency in public expenditures. This year, the PER will address issues of efficiency in the education sector, sources and uses of funds in the health sector, and value-for-money in the roads sectors. This is to be followed in 2007/08 with value-for-money in education, health, agriculture and possibly other sectors. The reason for spanning two years is that in some sectors, the data and information needed for a proper analysis need to be generated, and the time for the 2006/07 budget cycle did not permit such in depth analysis in, e.g., the agriculture sector.

Additional justification for an agriculture sector PER follows the call from NEPAD to its member states to allocate 10% allocation of their annual budgets to agriculture, an agreement signed on to by the African Heads of State. Such prescriptive allocations however need to be approached with caution, as the quality of expenditures is of equally if not more important than the total volume of resources spent. Under the CAADP Pillar of NEPAD, one of the first tasks under individual country programs is to undertake a public expenditure review to document the extent, nature and quality of expenditures on agriculture. Uganda is one of the first five pilot countries for implementing the CAADP Pillar and has committed itself to conducting an agricultural PER in the coming year.

Finally, development partners, including DFID and the World Bank, are increasingly concerned about the low levels of investment and expenditures in agriculture despite strong evidence that agriculture expenditures yield high returns and are strongly linked to poverty reduction. The underlying concern is that despite the roles of public and private sectors in stimulating productivity and pro-poor growth, it is increasingly being recognized that there is a legitimate role for public expenditures in creating the appropriate enabling environment for growth and poverty reduction. And while this role will evolve with stages of development, given the current state of agriculture development in countries like Uganda, there are several reasons that may justify a pro-active government role in promoting agricultural growth. This is through creating the policy and institutional environment for better decision making, but also in financing certain types of investments to foster agricultural growth. Yet, accessible evidence on which public expenditures work best for pro-poor agricultural growth is limited at best. Ministries of Agriculture also lack the tools and capacity to make and influence key public expenditure management decisions in a manner consistent with the changing modalities of aid, namely budget support, and principles of the Monterrey Consensus.

To address some of these gaps, DFID and the World Bank have established a global program to analyze and disseminate evidence on the levels and patterns of public expenditures that stimulate pro-poor market-driven agricultural growth. Uganda has been selected as one of the case study countries for this program, based on the demand for such a study expressed by the government (both MFPED and MAAIF), ~~and~~ the local development partner group (and in particular the DFID and World Bank country offices), and the Regional Strategic Analysis and Knowledge Support System (ReSAKSS) node for Eastern and Central Africa which is mandated by COMESA to monitor agricultural sector spending by governments in the region. The rationale is to assess the robustness of the agricultural public expenditure management system to maximize development effectiveness of scarce resources; align public expenditures to national priorities; and “make the case” for the need and absorptive capacity for additional expenditures targeted at high priority expenditures.

## Objective and Scope

The objective of this study is to conduct a comprehensive review of public expenditures in the agriculture sector. Specifically, it will establish the overall levels and trends in

**Comment [GB1]:** Will it be possible to be more explicit on the several reasons?

**Comment [GB2]:** Will the study provide guidance on the actual investments where government needs to be pro-active?

expenditures on agriculture; the alignment of these expenditures with sector priorities; the efficacy of the budget processes, financing modalities and budget execution, as well as an assessment of the capacity and effectiveness of public institutions involved in various aspects of the budget; and the effectiveness and efficiency of these public expenditures. The latter will entail, to the extent feasible, an assessment of the impact of agricultural expenditures, and identify the types of expenditures that work best for pro-poor agricultural growth. For this study, the COFOG definition of agriculture expenditures will be used to establish the scope of the review (see Annex 1).

**Comment [GB3]:** We need to be more explicit – impact on what? Two things: impact on agricultural growth and productivity; and impact on agricultural incomes or poverty in general.

## Audience

The primary audience for this study are the Ministries of Agriculture, Animal Industry and Fisheries (MAAIF), Finance and Economic Development, and other line Ministries who are engaged in providing critical services to the sector. A key group this study hopes to inform is the Agriculture Sector Working Group (SWG), which is responsible for drafting the budget framework papers and set priorities for the sector. The target audience also includes the Managements of the World Bank and DFID and other development partners with a view to streamlining their existing portfolio to maximize their development effectiveness and providing the rationale for future financial assistance to the sector.

**Comment [GB4]:** It is fine to use the COFOG definition for a host of reasons including comparison across countries, consistency, etc. But I would argue that we also need to be sensitive to the national definition of agricultural spending (assuming there is one) for political economy reasons. Can we do both?

## The Context

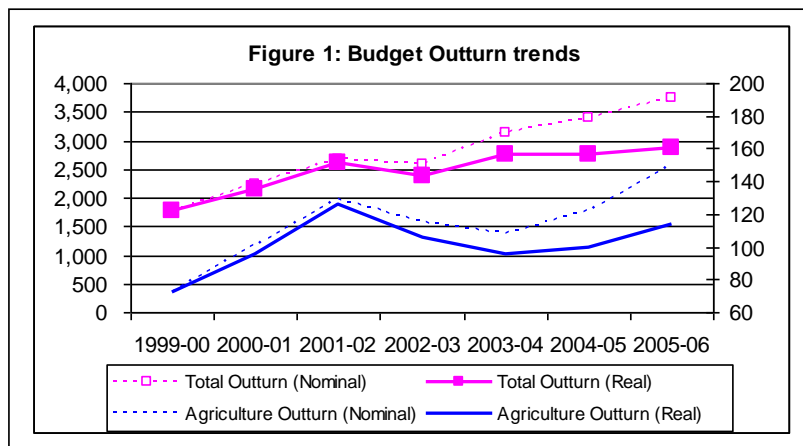
Uganda has done remarkably well in both economic performance and in poverty reduction over the past almost two decades. Aggregate economic growth has averaged 6.5% over the past 10 years, though growth has slowed in the last three years to an average of about 5.5%. The proportion of people living below the poverty line has dropped from 56% in 1992/93 to 31% in 2005/06. Agriculture has also done very well over the past 15 years, averaging an annual growth rate of 3.8%, but in recent years, the growth rate has slowed down considerably raising concerns about the sustainability of the trends in poverty reduction and welfare improvement for the rural masses.

There is ample evidence, both globally and from Uganda, showing that agriculture is important for both economic growth and poverty reduction. Agriculture performance has a direct impact on poverty incidence given the very large share of the population (86%) living in rural areas and dependent on agriculture - 3.8 million (75%) households are directly engaged in the sector. The sector contributes 36% of Uganda's GDP, 90% of its exports and employs 70% of its labor force. Within agriculture, the crop sector is dominant with 61% of the rural population living in crop farming households. This is important to note since, among all sectors, poverty is the highest among those dependent on crop agriculture. Despite the good past performance, growth in the sector remains volatile, being highly dependant on weather using rudimentary technology.

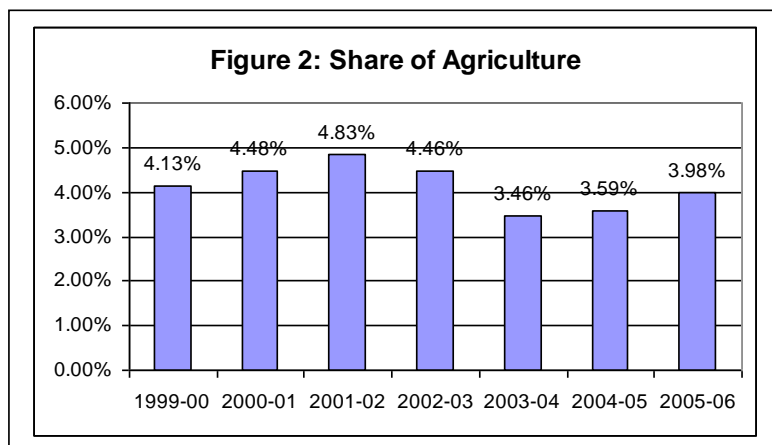
To sustain Uganda's poverty reduction and rural growth agenda, and further the structural transformation of the sector from the traditional subsistence orientation to a commercial orientation, requires sustained efforts from the government to maintain a conducive

policy and institutional environment, as well as to ensure that critical public investments are made in a timely and efficient manner. Here Uganda's record has been mixed.

A cursory look at public expenditure trends show that agriculture's share has, as with other Sub-Saharan countries, steadily declined from about 10% in 1980 to less than 4% (measured as budget allocations to MAAIF). Over the past seven years, as shown in Figure 1, while the overall budget has grown in real terms, albeit slowly, the expenditures on agriculture (specifically by MAAIF) have remained below the peak of 2001/02 in real terms. The expenditures recovered in the last couple of years but the figure shows a clear shift away from agriculture in favor of other public expenditures over the past few years.

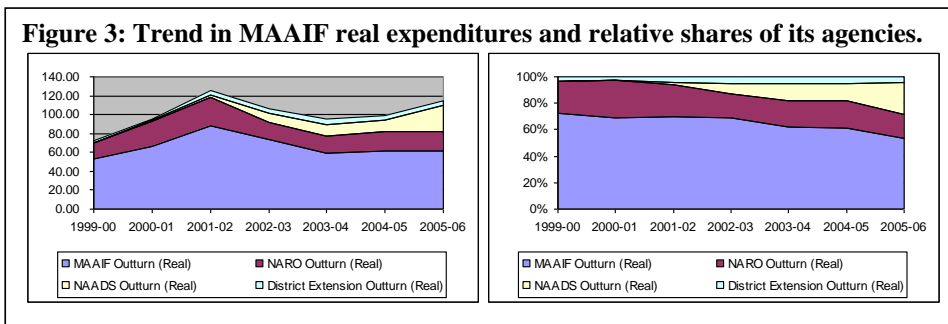


As a proportion of aggregate budget expenditures, agriculture has fared poorly in the past few years as shown in Figure 2. The highest share since 1999/00 was just under 5% in 2001/02 and the lowest at about 3.5% in 2003/04. The share has increased in the past two years but is still at 4%.



In interpreting these trends, two things need to be kept in mind. On the one hand, there was some justification for the early (1980s) reduction in expenditures as the agriculture and development policy adopted by Uganda shifted from heavy state intervention and large, often mis-directed or failed public investments and subsidies, to a more supportive policy and institutional environment to allow the private sector to do its job. Core public sector functions have been retained by the Public Sector, with the overall policy and institutional environment provided by the PMA framework. With the PMA in place since 2001, a key question is whether the current level of expenditures (which are guided by the budget allocation process) are sufficient given the close linkages between agricultural performance and poverty reduction.

On the other hand, the figures generally brandished are the allocations and expenditures by MAAIF, the key but not the only Ministry with the mandate of providing critical services to the agricultural sector. MAAIF expenditures are generally allocated among four main categories: Agricultural Research (NARO), NAADS, District Extension services (non-NAADS) and all other MAAIF expenditures. Figure 3 shows how these four categories have evolved over the recent years.



The trends show a rise in the share of NAADS, but also a continual increase in the expenditures on district extension, which is contrary to government policy. As NAADS expands to cover a greater part of the country as the primary source for extension, the expenditures on traditional district based extension services were expected to decline, but the trend shows that they have continued to increase. On the other hand, agricultural research a core public function, which has been empirically shown to have a large impact on growth both in Uganda and elsewhere, has seen its budget decline in real terms. This is particularly worrisome as the Parliament has just enacted a new law to establish a much more innovative and effective NARS, yet the budget allocations for the new NARS remain well below the level that is required in its formative years.

To put the overall public expenditures in perspective and derive a more accurate picture, it is important to accurately define what agriculture means. Clearly for agricultural growth, complimentary investments are needed in other sectors (e.g., infrastructure, energy, education, etc.) which is the basic principle underlying the PMA. Nevertheless, it is important to distinguish between the core agricultural functions and the complimentary

investments in rural space. For the purposes of this PER, the broader expenditures in other sectors will not be reviewed for the sake of time and resources. The study will use the guidance provided by NEPAD for the definition of agriculture. As noted earlier, according to the Maputo Declaration, African Heads of States have committed to allocating 10% of national budgets to agriculture, where agriculture is defined using the international standards for sector classification as embodied in the COFOG definition. This definition is given in Annex 1. While the 10% target is debatable, nor is it clear what the basis of this target is, the definition of agriculture provides a good starting point for this PER.

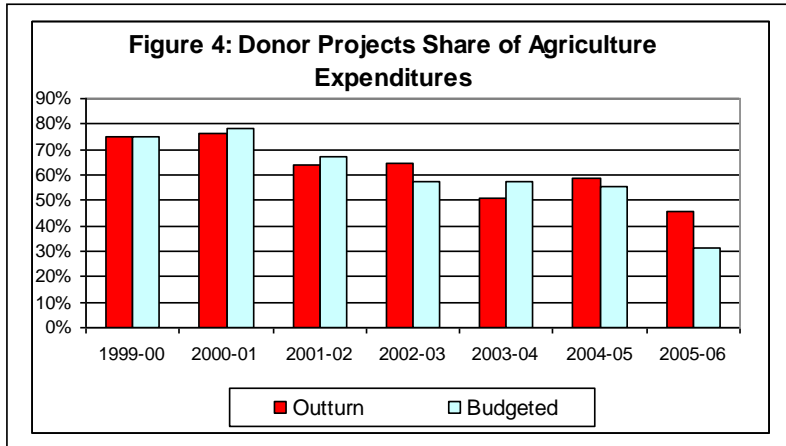
**Comment [GB5]:** Time and resources are never enough. But for who are we doing this Ag PER? If part of it is to persuade governments to increase the share of the budget to agric, then we need analysis by NEPAD definition as well as current government definition and make a comparison.

Using this definition, two other sets of expenditures (in addition to MAAIF's budget) need to be taken into account to get the full picture of what is currently being expended on agriculture. One is the expenditures by other line ministries (such as MWE which has the mandate to invest in irrigation development and in forestry sector development, MLHUD which has the mandate to invest in land related institutions and land reforms). The second is the expenditure by local governments, which on average get over a third of the overall budgetary resources in the form of unconditional grants, other discretionary grants and transfers and central development projects. Only a part of these are captured in the MAAIF budget (specifically district NAADS allocations and the district extension expenditures). In addition to the district allocations for NAADS and extension, it is estimated that some proportion of about USH 170 billion that was transferred to the district governments in 2005/06 were spent on agricultural activities but the exact amount is not known. Compared to this, the overall expenditures generally attributed to MAAIF are about USH 150,000 (including NAADS, NARO and district extension). There is thus the need to get a better understanding of how much is being spent in totality on agriculture, and also to understand how these different expenditures are being coordinated given that MAAIF is generally held accountable for the sector's performance.

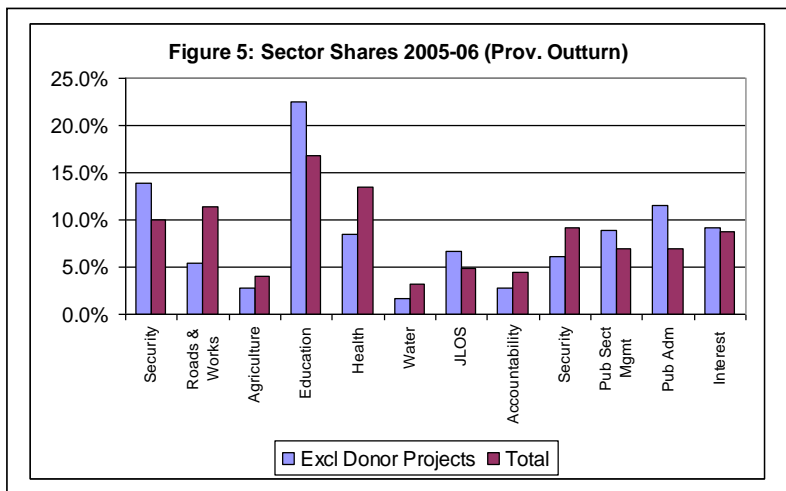
**Comment [GB6]:** This study should establish this for a few districts, carefully selected using agreed criteria.

Two issues that are critically important for the quality of public expenditure management, particularly when the overall budget is stressed as in Uganda, are the alignment of expenditures to sector priorities and the effectiveness and efficiency of public expenditures. Given that the data are not readily available data on the types of expenditures and the source and modes of financing make evaluating the former difficult. However, these can be compiled. It is important to understand how the different modalities of financing are aligned to the stated priorities for public expenditures. Over the years, as shown in Figure 4, the project mode of finance has declined in terms of the share of actual expenditures, from about 78% in 2000/01 to 31% in 2005/06, although in terms of the budget allocations, the share of projects is still 43%. This suggests that the efficacy of project financing needs to be assessed, considering that the outturns over the years have tended to be close to budget allocations.

**Comment [GB7]:** While there has been a push to budget support in recent years, with all its merits (freedom for gov't to plan better (?), flexibility in resource allocation, etc), I have not seen evidence to indicate that budget support has led to better agricultural outcomes: productivity and farm incomes, than project funding. Have you? This is probably an empirical question.



Looking across sectors (Figure 5), with the exception of water, agriculture’s share is the lowest in total expenditures. However, if projects are excluded, allocations are even more skewed against agriculture. Also, the share of project financed expenditures in agriculture is not the highest across sectors; only 5 sectors have a lower percentage of financing through projects (security, education, justice law and order, public sector management and public administration)



The level or the decline in project financing, however, does not necessarily imply that GOU funding from domestic resource generation has increased, as over time increasing amounts of donor aid has taken the form of budget support. It is important to find out what the share of domestic resources is in the overall budget, and what the share of earmarked or sector budget support is relative to general budget support. The relative effectiveness of these different types of expenditures, their alignment with sectoral priorities and efficiency in achieving desired outcomes needs to be assessed to provide

Comment [GB8]: I strongly agree

guidance on appropriate modalities for financing agriculture expenditures. It should be noted that the analysis and figures presented here are only for MAAIF expenditures and budget allocations. Expenditures on agriculture related activities by other line ministries or central projects, as well as by districts also need to be analyzed to get a complete picture.

This analysis combined with what types of expenditures are most effective and efficient is necessary to identify what type of public spending works best for pro-poor agricultural growth, knowledge on which is still very limited. There is also a perception that governments and development partners lack the tools and capacity to make and influence these decisions in a manner consistent with the new aid instruments.

### Issues to be addressed in the Agriculture Sector PER

This PER will focus on three major elements. The first is to identify how much is being spent, at what level, how well they are aligned to sector priorities, and how they are financed. The second will look at the budget process and performance to identify the weaknesses and constraints in the budget process and how to improve upon them. The last section will focus on the quality of expenditures, and specifically focus on the outcomes and efficiency of public expenditures.

**1. The Level and Patterns of Allocation in the Agriculture Sector.** The study will look at the current and historical patterns of allocation within the sector. As noted above, about 37% of the annual budget goes directly to the districts, which under the decentralization process, are responsible for providing most of the services. The analysis thus needs to be conducted both at the national or central level and at the district or local government levels. Among the issues to be reviewed would include:

- Overall trends in allocations in the sector (going back upto 20 years if feasible), in absolute terms and relative to other sectors, the overall budget and sector GDP,
- Functional and economic classification of agriculture sector budget and changes therein overtime,
- The levels and trends of recurrent and development expenditure, clearly identifying the salary, operational costs and development components (which are included in both the recurrent and development expenditure categories)
- Sub-sectoral allocations against core functions (set out in the MAAIF DSIP and PMA core document) and by commodity (i.e., crop, livestock and fisheries).
- Allocations against policy priorities set out in the PEAP and PMA.
- The scale and management of allocations to the sector functions (from COFOG) made through central government ministries and local government.
- Composition and performance of agriculture budget by funding source - government vs external/donor, and external/donor financing by funding modality (projects, sector budget support, general budget support, etc.)
- Changes overtime in the share of agriculture's budget spent at the centre and transferred to districts,

**Comment [GB9]:** This is at the center of the political economy issues. I hope the study can provide some insights into this very important issue.

**Comment [GB10]:** Overall I like this section. It addresses most of the issues I thought were missing. It is well thought out, I would say.

**Comment [GB11]:** This is fine, but something that needs to be explicit as well is source of funding. For the last 20 years, the study should show where the funds have been coming from: which donors and how much? domestic resources. For donor funds, also differentiate between grants and loans.

**Comment [GB12]:** But these are wider than COFOG! Now you see why I am arguing that the study follow two definitions.

- Estimation of the amount of off-budget expenditure going into the agriculture sector by activities (sub-sectors).

**2. The Budget Process and Performance.** The study will critically review the formulation and execution of the budget by government agencies. It will assess the overall budgeting process and system, identify weaknesses and suggest options and implementation strategy for its improvement with a view to attaining long-term efficiency in public spending. Among the other specific issues to be addressed include:

- The budget allocations to the sector, corresponding outturns (based on actual expenditures), implicit variances and overall sector budget execution by agency, as well absorptive capacity issues
- Allocations and expenditure against key policy priorities, along with a description of the process underlying this prioritization. Are the linkages between objectives, organizational functions, outputs and resources available adequate?
- Influence and impact or performance of differing funding sources (eg: projects vs earmarked budget support) on the allocation to agriculture, and the alignment and execution of the budget against sector priorities
- The agriculture sector budget performance by item and agency
- The capacity of the institutions in the sector to formulate and execute their budgets, and make a convincing claim for scarce public resources
- The overall budget process – formulation, implementation, monitoring and evaluation of budgets, programmes, outcomes; including value for money issues,
- The links between and the impact of decentralization on the budget process, including the accountability of services
- The performance and effectiveness of the budget process; making recommendations on how to improve them where necessary,
- Political economic analysis of agricultural public expenditures and processes, and an implementation strategy to implement recommended reforms.

**3. Effectiveness and Efficiency of Agricultural Public Expenditures.** This part of the study will assess how well are the expenditures being used, and what expenditures are most effective in promoting pro-poor growth. To the extent feasible and data permitting, it will focus on three areas of interest: value-for-money, benefits incidence, and impacts on poverty and growth.

- Value for Money:
  - Is the balance between operational, salary and investment expenditures appropriate to deliver outputs and results?
  - How much of the money makes it to where it is supposed to go, what are issues and constraints in the financing channels – public expenditure tracking
  - Are the final expenditures in line with allocations and what is the money being actually spent on – public expenditure tracking
  - Cost effectiveness in the delivery of goods and services

- What percentage of the outturn is spent on delivery of final services, as opposed to overheads and other expenditures
- What percentage of expenditure is on public versus private goods, and is this consistent with government policy
- Benefit incidence analysis:
  - Identify the nature of benefits financed by public funds
  - What is the benefit incidence of major items of public expenditure, that is, who benefits from public goods and services – by geographic location with particular emphasis on remote rural areas, income category, farm size, gender, etc.
  - Can public goods and services be better targeted to maximize development impact?
- Effectiveness/impact on poverty and growth and efficiency of public expenditures
  - Develop the unit-cost coefficients for goods and services financed by public expenditures and compare where feasible with other countries/sectors
  - Identify the impact of alternative expenditures on poverty and growth
  - Where feasible, estimate the returns to investment in various activities
  - Make recommendations on reallocation among activities and sectors to improve the efficiency of government spending.

### **Methodology:**

Detailed methodologies to address the above issues will be proposed by the consultants, in collaboration with MAAIF, MFPED and the study team (core team comprising DFID, World Bank and other DP country office representatives). Broadly speaking, the analysis of the three major elements of the study will be based on the following:

- 1) Level and allocation of expenditures: this part of the study will be conducted at two levels: the central or national level and the district or local government level. It will be based primarily on detailed and disaggregated time series of budget data from line ministries and local governments, surveys of development partners to identify the full extent of financing including off-budget funding.
- 2) Budget process and performance: same as above, involving detailed and disaggregated data on budget allocations, outturns and actual expenditures by item, institutional review to assess capacity to budget, implement and execute budgets, and for monitoring and evaluation of budgets. A detailed review of current and past budget framework papers and a review of the budget process based on key informant interviews and discussions with key persons involved in the budget process, including members of the SWG.
- 3) Effectiveness and efficiency: This part will involve a several different tools and methods. It will involve field visits to selected districts to review the final expenditures and their consistency with original plans and budgets, Public Expenditure Tracking study to trace the flow of funds through each intermediate step to establish their use and accountability from the center to final destination. This study will also assess how well the funds are being used, what activities are

actually financed, what the bottlenecks are in the flow of funds or financial management, assess the status and quality of bookkeeping and records management at each step, and what the cost-coefficients are based on the quantity of goods and services provided relative to the total budgetary costs of providing those goods and services. The incidence analysis will be based on a combination of existing survey data and to the extent feasible additional limited field surveys, beneficiary assessments and/or staff surveys. The efficiency and effectiveness assessment, and the impact by type of public expenditure will be based on household level survey data using econometric tools.

**Timeframe:**

The study will commence by February 1, 2007, and the consultants will be expected to submit their inception reports for each aspect of the study by February 15, 2007. A first draft of report will be expected by June 1, 2007, and the final draft to be submitted, incorporating comments received on the first draft by August 1, 2007. Throughout the study, the consultants will be expected to liaise regularly, provide regular updates on progress made and consult on key next steps to be taken with the core team for this study.

**Budget:** TBD DFID + ARD-WB + Danida + ~~ReSAKSS-IFPRI-ILRI~~ + Others?

**Core Team:**

**MAAIF and Ag SWG:** Boaz ~~.....~~ Keizire (CAADP focal point)

**MFPEd:** TBD

~~IFPRI~~ **ReSAKSS-ILRI:** Godfrey Bahigwa (??)

**DFID:** Alan Tollervey and Peter Oumo

**World Bank:** Madhur Gautam and Wilson Onyang Odwongo

## **Annex 1: Core Areas of Government Functions Relevant to the Agriculture Sector Based on Classification of Functions of Government (COFOG)**

### **Agriculture (Includes Crops and Livestock):**

- Administration of agricultural affairs and services; conservation, reclamation or expansion of arable land; agrarian reform and land settlement; supervision and regulation of the agricultural industry;
- Construction or operation of flood control, irrigation and drainage systems, including grants, loans or subsidies for such works;
- Operation or support of programmes or schemes to stabilize or improve farm prices and farm incomes; operation or support of extension services or veterinary services to farmers, pest control services, crop inspection services and crop grading services;
- Production and dissemination of general information, technical documentation and statistics on agricultural affairs and services;
- Compensation, grants, loans or subsidies to farmers in connection with agricultural activities, including payments for restricting or encouraging output of a particular crop or for allowing land to remain uncultivated.
- Administration and operation of government agencies engaged in applied research and experimental development related to agriculture;
- Grants, loans or subsidies to support applied research and experimental development related to agriculture by research institutes and universities.

### **Forestry:**

- Administration of forestry affairs and services; conservation, extension and rationalized exploitation of forest reserves; supervision and regulation of forest operations and issuance of tree-felling licenses;
- Operation or support of reforestation work, pest and disease control, forest fire-fighting and fire prevention services and extension services to forest operators;
- Production and dissemination of general information, technical documentation and statistics on forestry affairs and services;
- Grants, loans, or subsidies to support commercial forest activities.
- Administration and operation of government agencies engaged in applied research and experimental development related to forestry;
- Grants, loans or subsidies to support applied research and experimental development related to forestry and undertaken by research institutes and universities.

### **Fishing:**

- Administration of fishing affairs and services; protection, propagation and rationalized exploitation of fish stocks; supervision and regulation of freshwater fishing, coastal fishing, ocean fishing, fish farming and issuance of fishing licenses;
- Operation or support of fish hatcheries, extension services, or stocking activities, etc.;

- Production and dissemination of general information, technical documentation and statistics on fishing affairs and services;
- Grants, loans, or subsidies to support commercial fishing activities, including the construction or operation of fish hatcheries.
- Administration and operation of government agencies engaged in applied research and experimental development related to fishing;
- Grants, loans or subsidies to support applied research and experimental development related to fishing undertaken by research institutes and universities.

