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Nigeria Agriculture Public Expenditure Review

By Tewodaj Mogues, Michael Morris, Lev Freinkman, Abimbola Adubi, and Simeon Ehui
With Chinedum Nwoko, Olufemi Taiwo, Caroline Nege, Patrick Okonji, and Louis Chete

Most of Nigeria’s poor reside in rural areas and gain their livelihood from agricultural work. If the government’s poverty reduction goals are to be achieved, Nigeria will need an adequate level of strategically targeted investments in agriculture to upgrade rural infrastructure, boost productivity, and increase competitiveness. Before effective investment programs can be designed and implemented, however, it is important to have a clear understanding of the current pattern of public spending on agriculture.

The Nigeria Agriculture Public Expenditure Review (NAGPER), a collaborative study carried out by a research team from the International Food Policy Research Institute (IFPRI) and the World Bank, assesses the quantity and quality of public spending in agriculture and evaluates its degree of alignment with government policy goals.

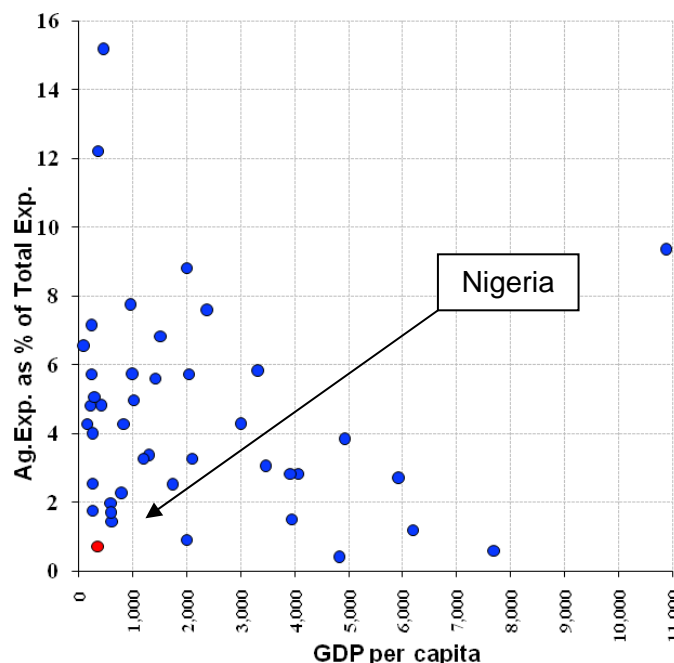
This brief summarizes NAGPER findings and key recommendations.

Main findings of the NAGPER

1. Public spending on agriculture in Nigeria is very low

Less than 2 percent of total federal expenditure was allotted to agriculture during 2001 to 2005, far lower than spending in other key sectors such as education, health, and water. This spending contrasts dramatically with the sector’s importance in the Nigerian economy, which ranged from 20 to 30 percent of total GDP since 2000; and falls well below the 10 percent goal set by African leaders in the 2003 Maputo agreement. Nigeria also falls far behind in agricultural expenditure by international standards, even when accounting for its level of income (see Figure 1). Normally, the relationship of income per capita and share of expenditure going to agriculture is inverse. Nigeria, however, does not conform to this general pattern: GDP per capita is very low, but so too is the agricultural spending share.

Figure 1: Nigeria’s Agricultural Expenditure in International Comparison



2. Agricultural spending is broadly aligned with policies, but there are important discrepancies

Broadly speaking, agricultural spending has followed government agricultural policies. However, spending is highly concentrated in a few areas. Three programs account for more than 81 percent of total spending: procurement and distribution of fertilizer, the National Special Program for Food Security (NSPFS), and buyer-of-last-resort grain purchase. Nearly 60 percent of total capital spending goes to government purchase of agricultural inputs and agricultural outputs alone.

In several instances, public funds are implementing approaches that differ significantly from those described in policy documents. And funding is very low for a number of activities considered vital for promoting agricultural productivity gains leading to pro-poor growth, such as basic and applied agricultural research, agricultural extension and capacity building, agricultural finance, irrigation development, and agribusiness development.

3. The pattern of public spending in agriculture raises doubts about the quality of spending

NAGPER analysis noted that many of the Presidential Initiatives—which differ greatly in target crops, technologies, research, seed multiplication, and distribution—have identical budgetary provisions. This pattern suggests that the needs assessment and costing for these initiatives may have been inadequate, and that decisions may have been based on political considerations rather than economic assessment.

4. Analysis of public spending is complicated by the preponderance of off-budget funds

Public spending on agriculture in Nigeria is not fully captured in official budget records. So-called “off-budget” expenditures overlap extensively with donor funds, because a substantial amount of external aid is typically not captured in government accounts. Reliable data on these two categories of funding proved extremely difficult to obtain, both from ministries and agencies in the sector, from the central ministries, and from the donor community.

5. Budget execution is poor

The Public Expenditure and Financial Accountability (PEFA) best practice standard for budget execution is no more than 3 percent discrepancy between budgeted and actual expenditures. In contrast, during the period covered by the study, the Nigerian federal budget execution averaged only 79 percent, meaning 21 percent of the approved budget was never spent. Budget execution at the state and local levels was even less impressive, ranging from 71 percent to 44 percent.

Government ministries and agencies are only able to plan and carry out effective agricultural programs and activities if approved budgets provide a good indication of actual resources. Other sectors showed similar low levels of budget execution, suggesting that the problem is a general one affecting not only agriculture but most sectors.

6. Information about the functional areas of public spending in agriculture is lacking

At all three levels of government, the budget classification system is not structured along functional lines, such as agricultural extension, agricultural research, input subsidies, and others. Capital spending is reported by subsector (such as livestock and crops) and/or by department and program. Recurrent expenditures are classified into salaries, benefits and operating costs. An additional classification determining the level of resource allocation to agriculture’s core functions would be useful for analysis as well as for policy planning—determining, for example, the reason for non-adoption of improved technology. At every level of government, there is a need to commit more effort to organizing, recording, and reporting public spending information in a way that makes transparent the functional allocation of public resources.

7. Poor data quality and availability hinder policy analysis, program planning, and impact assessment

One of the most significant findings of the NAGPER relates to the poor state of the systems for recording, verifying, and reporting data on public expenditure in agriculture. At the federal level, data

on public spending in agriculture were not available even in the Ministry of Agriculture's Department of Finance and Accounts, and had to be compiled from approximately one dozen technical departments of the Ministry. As two core technical departments (Agricultural Research and Cooperatives) were unable to provide any expenditure data, the database on federal spending remains incomplete. In cases where data were available, the quality was often questionable. The discrepancies between the data obtained from the individual line departments in the agriculture ministry and from the central ministry for budgets were often significant; in some instances figures doubled from one source to another.

Key recommendations

1. Need for improvement of public expenditure tracking systems

There is an urgent need to improve internal systems for tracking, recording, and disseminating information about public spending in the agriculture sector. Consolidated and up-to-date expenditure data are not available within the Ministry of Agriculture, not even for its own use. Without this information, authorities cannot undertake empirically-based policy analysis, program planning, and impact assessment. The lack of reliable data and information prevents Ministry officials from tracking and monitoring spending, increasing the risk of corruption.

2. Need for clarification of the roles of the three tiers of government in agricultural services delivery

With its federal system of government, Nigeria faces the same challenge faced by other developing countries with decentralized and federal systems: defining the roles and responsibilities of each tier of government with respect to public services and public investments. Government must clarify the roles and responsibilities of each tier of government. This is important to reduce overlaps and gaps in agricultural interventions and improve efficiency and effectiveness of public investments and service delivery in the sector.

In agriculture, as in other sectors, the distribution of responsibilities to the federal, state, and local

governments should take into account the following factors:

(i) Subsidiarity: Responsibilities should be assigned to the lowest level of government that can effectively carry out the function. (ii) Externalities: Assignment of responsibility should be at a jurisdictional level at which most of the impact of intervention is subsumed. (iii) Economies of scale: When possible, the provision of a service should be undertaken by a higher tier of government where it is potentially more efficient to do so. (iv) Expertise and capacity: Differing levels of technical expertise and capacity should be taken into account in the distribution of responsibilities.

Two more critical issues to consider in designing a decentralization strategy concern (i) state and local level access to and control over resources in accordance with expenditure assignments, and (ii) state and local government accountability. If subnational governments do not have discretionary power over their budgets, key benefits of decentralization—e.g. the ability of these governments to tap into local knowledge—may be undermined. And when local leaders are held accountable for their performance, decentralized management can ensure better quality service provision.

Finally, Nigeria faces a challenge more important than the depth of administrative decentralization. The legacy of corruption in administration at all three tiers of government is starting to be tackled, but corruption continues to undermine the efficiency and effectiveness of service delivery in agriculture, along with that of other sectors.

3. Need for applied research targeted at priority issues

Applied research is urgently needed to address critical knowledge gaps in several areas.

Fertilizer subsidies: Spending on fertilizer programs makes up a sizeable portion of overall agricultural spending in Nigeria, yet very little is known about the impact of this spending. Have government-supported fertilizer programs increased overall use of fertilizer? Has increased fertilizer use led to productivity increases, income growth, and poverty

reduction? Is subsidizing fertilizer the most efficient way to pursue these policy goals?

Strategic grain reserves: To date, only a small portion of the national grain storage system has been constructed, but if the entire network is completed as planned, the cost will be enormous. Supporting even the current modest level of grain marketing activities is consuming significant amounts of public resources. Is an investment on this order of magnitude desirable? What has been the impact of these investments? Have producers and consumers benefited?

Food security: There is a need for an analytical study focusing on the economics of the National Special Program for Food Security (NSPFS). The total cost of NSPFS II is estimated at 48.0 billion naira (US\$364 million). Detailed financial information about the NSPFS is not publicly available, however, making it difficult to assess whether the considerable investment in NSPFS I generated attractive returns, and whether NSPFS II merits support as currently designed. Anecdotal evidence suggests that the performance of the NSPFS has been mixed. Some pilot projects have clearly been successful, while others have failed to live up to expectations. A rigorous external evaluation is needed to assess the performance of NSPFS and generate information that could be used to make design adjustments.

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For more information:

IFPRI-Abuja
International Food Policy Research Institute
c/o International Center for Soil Fertility and Agriculture Development
Plot 18 Colorado Close
Maitama, Abuja
Nigeria
Tel: +234 (9) 413-5960
Fax: +234 (9) 4130873
E-mail: ifpri-nigeria@cgiar.org
www.ifpri.org