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FAO AGRICULTURAL DEVELOPMENT ECONOMICS POLICY BRIEF 57

POLICY ANALYSIS

Unlocking public expenditure to transform agrifood systems in sub-Saharan Africa

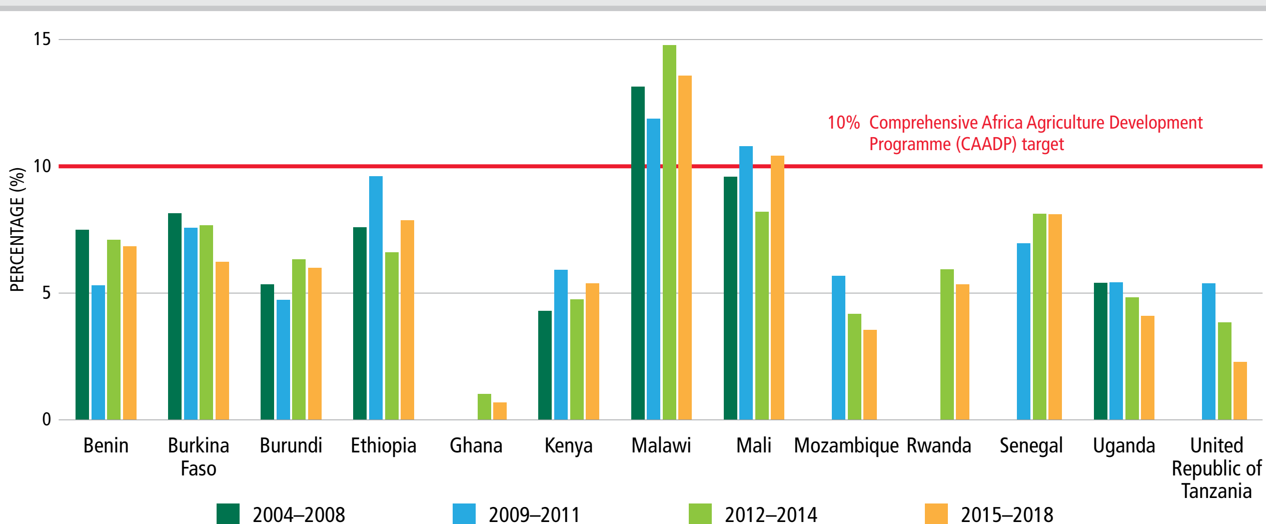
Public expenditure on agriculture is widely known as the most important and often most effective strategy to drive structural transformation and poverty reduction in developing countries (World Bank, 2008). In public policy this was recognized by Member States of the African Union who – under the Comprehensive Africa Agriculture Development Programme and through the Maputo Declaration (2003) and again in the Malabo Declaration (2014) – pledged to spend at least 10 percent of their annual national budget on food and agriculture. Despite this political will, many signatory countries are still struggling to achieve this target.

An in-depth review by FAO on public expenditure data for 16 sub-Saharan Africa (SSA) countries over the 2004–2018 period indicates that the share of actual spending on food and agriculture over national budget has remained constantly below the 10 percent target, with the exception of Malawi, and Mali (in some years). More importantly, this share has been overall stagnant, or even declining in recent years (Figure 1).

KEY MESSAGES

- Member States of the African Union committed to earmark 10 percent of their annual public spending to food and agriculture, but many in sub-Saharan Africa (SSA) struggle to do so.
- Constrained public budgets and limited fiscal space, against increasing demand for public resources from other economic sectors, are the main barriers to the 10 percent target, and make improving how already-available funds are used, necessary.
- SSA countries need to make private investments more attractive for investors, and prioritize public investments with the biggest returns on agricultural sector growth and poverty reduction.

FIGURE 1. Share of actual spending on food and agriculture over total budget



Source: Pernechele, V., Fontes, F., Baborska, R., Nkuingoua, J., Pan, X. & Tuyishime, C. 2021. *Public expenditure on food and agriculture in sub-Saharan Africa: trends, challenges and priorities*. Rome, FAO. https://doi.org/10.4060/cb4492en

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What is stopping countries from spending more on food and agriculture?

Rather than lack of political commitment, falling short of the 10 percent Maputo target is mostly due to constrained resources and limited fiscal space against an increasing demand for public resources from other sectors of the economy, mainly infrastructure, health and education. Central to these public budget constraints are substantial and rising debts and limited public revenue growth.[1] In many of these countries, there is little amount of resources available to service debts and little room for increasing taxation, which runs the risk of discouraging private-sector investment and encouraging informality.

This situation leaves governments with the challenge of prioritizing public spending to ensure the adequate financing of other critical sectors, and therefore fewer funds for inclusive agricultural development. This scenario has been exacerbated by the COVID-19 pandemic, and its ensuing effects on the economy, including recession.

Two additional critical issues emerging from the FAO study are the execution and implementation of budgets. In some countries, governments do allocate 10 percent of their overall budget to the primary sector, but a large portion of these funds goes unspent (over 20 percent, on average). This is especially the case for spending on capital investments such as in irrigation and road infrastructure. Some studies indicate that addressing low budget execution rates in Africa could increase spending by 50 percent without additional budget allocations required (Briceno-Garmendia, Smits and Foster, 2009).

By and large, budget bottlenecks are due to poor project and budget planning, the small share of recurrent expenditure in agriculture compared to other sectors (i.e. on salaries that are easier to execute), as well as lengthy and complex procurement processes that sometimes block the disbursement of funds.

[1] According to International Monetary Fund data, countries in SSA spend an average 10 percent of their public budget on debt interest payments and the average annual growth of tax revenues was limited to 16 percent over the 2004–2018 period, very close to the rate of growth in food and agricultural expenditure (13 percent).

What can governments do to ensure agricultural development priorities are properly funded?

Under difficult fiscal contexts, further strained by social and economic shocks, the 10 percent Maputo target is likely to remain a too ambitious objective for African countries, in the short to medium term.

Nevertheless, countries need to change course on declining expenditure trends and **leverage additional funds** for the sector at the political level, but also **improve the management and implementation of agricultural projects to use the available resources more efficiently**.

It is also important to shift donor contributions from project-based to direct national budget support. Budget support entails a direct donor contribution to the government's budget. Unlike project aid, these funds are usually more aligned with the overall country development strategy, more predictable and easier to execute. This would improve coordination, stability and coherence of public investments in agriculture.

As further and better public expenditure alone will not be sufficient to meet the challenges of agrifood systems in the future, governments also need to explore options to fund agricultural development priorities by:

- **Making private-sector investments more appealing.** Donors already fund about one-third of agricultural public budgets in SSA yet commercial bank lending to agriculture is less than 10 percent in SSA. Microfinance loans are usually too small and not suited for increasing capital in agriculture (FAO, 2013). In this scenario, private investors and in particular farmers, who are by far the largest investors in agriculture, will be key to bridging the agricultural expenditure gap. Governments should explore strategies to de-risk investing in the sector through, for example, market-based insurance schemes and hedging instruments.
- **Prioritizing spending that has the highest returns on inclusive agricultural development, under existing financing limitations.** This will require governments to seek technical support and policy advice on how to prioritize public investments in agriculture more effectively in order to meet short- and long-term development goals but within their fiscal space and expenditure ceilings.

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