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SYNOPSIS OF NSSP WORKING PAPER 36

Synopsis: Who Influences Government Spending in Agriculture? The Roles of Public Actors in Subnational Funding Allocation in Nigeria

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A large body of evidence has focused on the drivers of agricultural policymaking in both developed- and developing-country settings. However, several applicable theories and empirical analyses on the dynamics of policymaking have not yet been applied to public expenditure decision-making in agriculture, particularly in Africa. The NSSP Working Paper on which this Policy Note is based makes a contribution to this literature by drawing on the framework of actor-centered institutionalism (Scharpf 1997) to understand the drivers of public agricultural expenditures in Nigeria. Actor-centered institutionalism provides a set of conceptual tools useful for understanding the dynamics of complex policy processes that take place among various actors within an institutional setting. Using this framework, we empirically examine how political and budget institutions affect the incentives of actors involved in the public agricultural finance process at subnational level in Nigeria, structures the interactions between them, and ultimately shapes expenditure allocations. In this study, we employ a single-case, embedded case study strategy which involves multiple sub-units of analysis that is appropriate in the context of Nigeria's complex federal and decentralized structure.

EMPIRICAL FINDINGS

We examine the influence of preferences, capabilities, and incentives of two groups of actors—politicians and donors—on public agricultural expenditure allocations. We selected three states (Cross River, Niger, and Ondo) and one LGAs within each state (Akamkpa, Wushishi, and Odigbo, respectively) as case study sites.

Politicians

Politicians are central in any examination of public expenditure decision-making. The preferences of politicians can take the form of partisan or ideological priorities of the politicians themselves. Ideological beliefs as driving public expenditure choices is remarkably absent from the literature on Nigeria. This could well reflect a reality that the broad ideological positions, such as the political Left and Right, are not relevant forces in domestic spending decisions.

Second, politicians' preferences can be submissive to the preferences of voters or interest groups. Elected officials have incentives to seek political or electoral support by transferring public resources to relevant constituencies.

Third, direct material or economic benefits can be the prime motivator of politicians' actions. This is manifested in a voluminous literature on corruption, which is a predominant concern in the Nigerian context (for example Omotoso, 2014).

Much of the literature on aspects of the bureaucracy that influence resource allocation for public services and infrastructure in the developing world emphasize the importance of bureaucratic capacity and skills. Indeed in Nigeria, capacity concerns remain; for example, Dibie (2003) finds that local governments provide practically no training for its bureaucrats. However, a capacity-lens usefully complements an incentive lens in examining what determines bureaucratic resource allocation. Recent work on Nigeria has considered the incentive effects of the ethnic makeup of the bureaucracy on the extent to which public service projects were successfully completed (Rasul and Rogger 2015).

Our empirical analysis finds that at any given government tier, the chief executive has an outsized influence over the allocation of public funds to agriculture as well as within the sector. Although it is expected that the political head of a jurisdiction, for example the Governor of a state or the Chairman of a local government area, would play an important role in public resource allocation, their role appears to be overwhelming in the public expenditure decision-making process.

INFLUENCE OF CHIEF EXECUTIVE AT STATE LEVEL

In the states of Nigeria, the Governor, rather than the state Ministry of Finance and state line ministries, controls capital budgets, resulting in the Governor's political interest driving the allocation of capital budgets across alternative sectors and activities. Governors not only can influence budget prioritization at the stage of budget drafting, but also can substantially alter public expenditure allocations away from what was budgeted for. In some cases, it is unclear to what extent these changes are approved by the State Assemblies.

Funding for the projects in a state that are identified as being "government priorities" are handled expeditiously by the state Ministry of Finance. In one of the case study states, the Accountant-General explained that projects in the health sector are considered high priority by the then administration, and thus treated as such by the Ministry of Finance. In agriculture, the Accountant -General explained, any projects related to the "cocoa revolution" also receive high priority by the state government and funds for those projects are released quickly by the Ministry of Finance.

The Governor's weight is clearly felt in orienting the activities of semi-autonomous agencies that focus on agriculture, such as a Wealth Creation Agency tasked with making agriculture an attractive proposition for unemployed youth, an agency responsible for agricultural input supply, and the ubiquitous Agricultural Development Projects (ADPs). The Commissioner of Agriculture (head of the state Ministry of Agriculture) was an important partner for coordinating the activities of the first two agencies (in the absence of a board that was supposed to be instituted but did not yet exist). However, all three agencies draft and defend their budget like other ministries, therefore engage most directly with

the Governor and the state Ministry of Finance for the approval of their budgets.

The significant role of the Governor in agricultural public expenditure allocation of the state also becomes apparent in federal-state coordination on agriculture. In recent major federal agriculture initiatives for which the approach of the Federal Ministry of Agriculture and Rural Development (FMARD) has been to explicitly engage states as co-funders and co-implementers, the primary and at times sole instance that FMARD needed to obtain buy-in from was the state Governor, not the state Commissioner of Agriculture. The committee that coordinates the implementation of the Agricultural Transformation Agenda (ATA) at the state level is also chaired by the Governor.[1]

The influence of the Governor in resource allocation takes place not only in the form of capital or project spending, but also in deciding what types of human resources to increase and decrease and the process of payment of these salaries. A public finance review by the World Bank (2007) pointed out that in most states the state line ministries do not have the power of recruitment and staffing. Moreover, the payment of salaries and other personnel cost was centralized in the state-level office of the Accountant-General. The lack of authority on the part of state Ministries of Agriculture to recruit agriculture staff was confirmed in our field work. Recruitment instead is in the purview of the Governor. This was evident, for example, in one state where the Governor wanted to expedite the completion of the farmers' registration process, and, thus, in short order, recruited hundreds of enumerators to complement the enumerators funded by a donor project and by the federal government.

Both pre-Joint Allocation Account Committee and main Joint Allocation Account Committee meetings are supposed to be held on a monthly basis. However, from 2012 through September 2013—the time when the interviews were conducted—local government officials of one state mentioned that they did not receive any funds, besides expenses to cover local government staffs' salaries. And as of January 2013 up to the time of the interviews, they had not been invited to go to the state capital for monthly Joint Allocation Account Committee meetings. There were no more funds in the State Joint Local Government Account, and thus there was no purpose for holding main Joint Allocation Account Committee meetings. The reason for the drying up of the State Joint Local Government Account was not clear to the local staff interviewed, but they mentioned that it did happen at the same time that salary levels dramatically increased, by between 13 percent to 22 percent in one respondent's state. These salary increases were decided upon by the Governor in early 2012, and state level elections took place in October 2012. Indeed, as officials reported, government staff were delighted with the salary increases. They however did not expect the subsequent consequences of capital expenditure cuts as well as layoffs, when the salary rise bore down on the state government's budget.

A method used by the state government to deal with fund shortage for salaries was by retiring some staff early and finding other ways to let civil servants go. The Governor had the authority to take these measures—in one case, the number of local government staff in that state was reduced by 35 percent within a span of a few months. The Governor also justified this in part to the staff by saying that, since the personnel could not carry out any projects given the lack of funds for the latter, only a small fraction of them even bothered to show up for work. The drastic degree of absenteeism of local government staff, however, was not unique to the period in which non-salary funds were absent from the State Joint Local Government Account. Another approach to cope with the absence of funds in the State Joint Local Government Account was borrowing: The Governor would obtain loans from banks to pay government salaries.

INFLUENCE OF CHIEF EXECUTIVE AT LOCAL GOVERNMENT LEVEL

At local government level, it is striking how little input the key agriculture official at this level of government—the Director for Agriculture—has in orienting agricultural investments to areas they deem appropriate. The process through which Directors of Agriculture obtain funds for activities in the sector involves multiple steps, which have to be followed whether the funds are for activities the local government agriculture team initiate themselves or for federal or state projects that require local government co-funding.

First, a request for funds is made to the Director of Local Government Administration. This individual, in turn, passes the request on to the local government Chairman. If the request is less than 100,000 Naira, the Chairman can approve or reject it without further processes. If it is above this amount, it gets passed on to the Finance and General Purpose Committee. If the request passes muster of this committee, it is channeled to the state-level Ministry of Local Government Affairs. After evaluation there, and after consideration of availability of funds, the project is either funded or not funded.

When we inquired with a Director for Agriculture at the local government level about the odds of getting funds for projects they initiated through this process, they stated that none of their requests have been successful since 2010. It is apparent that funding an agriculture project always has to go through the local government Chairman, whether it is locally initiated by the agricultural department or whether it is in relation to a cross-tier initiative. The same holds also for any other agricultural public spending out of the State Joint Local Government Account.

In the case of use of internally generated revenues, the Chairman has significantly more discretion on how to spend these resources. All withdrawals from the internally generated revenue account have as signatories the Directors of Finance and of General Services and Administration, but the Chairman must sign the authorization for each withdrawal—without which the bank will not accept the check. This translates into significant authority for the Chairman on guiding spending allocations.

Unless funds come from sources that instruct directly how the funds are to be spent—for example, resources given to a local government by certain federal government projects or donor projects—the local government Executive Council (ExCo) is to be the key body that makes decisions on the distribution of local government funds. Typically the ExCo consists of the local government Chairman, the Director of Finance, Director of Budget, and other sectoral Directors, such as for agriculture. In other

[1] However, it should be noted that this is more in line with the fact that ATA is intended to involve other sector agencies beyond agriculture, and mirrors the federal setup whereby the Agricultural Transformation Implementation Council's (ATIC) secretariat is chaired by the president, while the ATIC is coordinated by the federal Minister of Agriculture

words, the ExCo is the local government equivalent of a cabinet. However, as reported by local government officials, the voice of the Chairman carries an unambiguously dominant weight in this decision-making process.

CHARACTERISTICS OF INVESTMENTS INFLUENCING POLITICIANS' RESOURCE ALLOCATION

The characteristics of public goods and services have implications for the type of political dynamics that such goods and services are likely to attract. Attributability and temporal lag, two key features of agricultural expenditures, can influence the incentives of politicians to prioritize the allocation of resources to agriculture (Mogues 2015). Specifically, these features influence the weight that politicians assign to different types of expenditures and the extent to which they serve as substitutes or complements for other expenditures. Attributability—which is a function of the visibility and measurability of public goods and services—is the level of ease or difficulty with which public goods and services and its outcomes are attributable to specific politicians. Temporal lag refers to the gap between the time when public investments in a good or service are made and the time when outputs or outcomes are assessed.

Information asymmetry makes it difficult for citizens to assess and link the quality of public goods and services vis-à-vis the performance of politicians. This possibility of imperfect or even incorrect attribution, in turn, can weaken politicians' incentives to improve provision of public goods and services, such as agricultural R&D and extension, or tilt their incentives toward short-term and easily attributable outcomes, such as agricultural subsidies.

The visibility of different types of expenditures also influences policymakers to see them as complements or substitutes for other expenditures. At the local government level in Niger State, for example, responses to the devastating flood in 2012 had to be prioritized over agricultural input and equipment supply. Resources for agricultural interventions were diverted to crisis management expenditures, such as resettlement of villages displaced by the flood, and rebuilding of schools, hospitals, and houses. Huge debt was additionally incurred to finance these expenditures. While the paucity of funds may have led to this tradeoff in investments, it likely was politically advantageous to prioritize such a social problem—flood response—with high visibility over one with less visibility—agricultural investments.

While tangible or visible results in agriculture are important for politicians to demonstrate, the nature of agriculture makes this difficult. Outcomes of agricultural investments are not instantly visible. The lapse between the time when expenditures are made and the time when benefits are observed weakens the incentives of politicians to invest in public agricultural goods and services. In contrast, if a market is to be built, it can be completed quickly. The difficulty of attributing to their own credit the benefits of certain goods and services which manifest after their tenure in office is complete steers political leaders toward investments that offer less opportunity for misattribution.

Donors

Foreign donors are another set of actors who have significant influence on public spending in developing countries through the provision of development assistance. There are various mechanisms through which this happens, including through the use of conditions on how aid resources should be allocated; underwriting plans for the allocation of overall government budgets through a negotiation process; and exerting political and financial influence to ensure that aid is allocated appropriately in support of development.

Government-donor coordination in Nigeria is primarily project-based and counterpart financing mechanisms are commonly used to fund agricultural programs. For many of these programs, the federal government negotiates loans with donors, such as the World Bank and IFAD, on behalf of state governments. Funds are disbursed through the federal government to the states and loan repayments from the states are deducted at source by the federal government.

The Fadama III programs aims to sustainably increase the incomes of farmers and other economic interest groups, including fadama (irrigable land along watercourses, particularly in northern Nigeria) land and water resource users employing a community-driven development approach. Co-financing for Fadama III is provided by the World Bank, federal government, state government, and beneficiaries. The majority of grants allocated directly to beneficiaries is financed by the World Bank, and these funds cannot be used for project operations. State counterpart funds, thus, are mainly used to cover operation costs, such as salaries, operations, and maintenance.

The objective of the Community-Based Natural Resource Management Programme (CBNRMP) is to improve the livelihoods of rural households in nine Niger Delta states—including two of our case study states. The program is co-funded by the International Fund for Agricultural Development, the Federal Government of Nigeria, the Niger Delta Development Commission, state governments, local governments, and beneficiaries through counterpart financing. Financing arrangements between stakeholders vary by project type and by state.

Overall, accounts on the availability of counterpart funds for both Fadama III and the CBNRMP program was mixed. The outlook at the local government level was the least favorable due to low payment or lack of actual release of counterpart funds. For both programs, local government counterpart funds were designed to be deducted at source from joint allocation accounts and disbursed to project offices. As local governments would usually fall behind on their contributions, alternative arrangements to meet shortfalls were not uncommon. With the Fadama III project, for example, state project coordination offices would hold back deducted local government counterpart funds meant for project operations and disburse them in tranches (on the basis of screened monthly budgets) rather than en bloc, with the stated reason being to better monitor the use of funds.

However, as of the time of the interviews in 2013, deductions at source of local government contributions had been stopped since 2010. This development was attributed to the lack of funds, stemming from dwindling federal and state statutory transfers to local governments. Interview accounts revealed that stop gap measures were implemented. With the CBNRMP program in Ondo State, for example, IFAD had to step up their contributions to make up for the deficit in local government counterpart financing for community development activities. Similarly, the state government had to cover local government contributions for project operations. While this is a positive development for project continuity, it seemed to be contrary to the role counterpart financing was expected to play.

IMPLICATIONS FOR POLICY AND PROGRAMMATIC ACTION

The analyses in the case study states and local government areas in Nigeria identified, consistently, that subnational chief executives—Governors and local government Chairmen—have an outsized influence on how much budgetary attention agriculture receives from the revenue sources of their jurisdiction and, within the agricultural sector, what investments are prioritized. Other key agents who could be expected to play a role in resource allocation to and within the sector, for example, the Commissioner of Agriculture at the state level, the Director for Agriculture at the local government level, and the legislative councils at both levels, are de facto fairly marginal players in this regard. This can be a significant concern when both the representative bodies of government as well as the officials with technical knowledge about agriculture play such a limited role in public investment prioritization in support of the agricultural sector.

This constellation is entrenched in Nigerian political arrangementsand not easily subject to change. Changes of a modest degree, however, are possible. External financial and technical support to agricultural programs at the state- or local level can be more explicit about the processes that are necessary to arrive at identification of investments for the sector, ensuring that these processes are substantively inclusive of key stakeholders besides the chief executives. Domestic organizations can also take measures to ensure that public expenditure decision-making for the agricultural sector does not lie overly in the hands of one individual in a given subnational jurisdiction. Non-governmental organizations with a focus on agriculture can work together with other institutions of civil society, such as local radio stations and other media, to publicize, discuss, and explore the sectoral consequences of budgetary allocations as well as the actual expenditures undertaken, thus creating fertile ground for citizens to use the information they are equipped with to engage representative politicians of their jurisdiction and articulate demands for changed allocations through them. Complementary activities should be undertaken to facilitate collective action to increase citizens' leverage in this process. This is another arena in which domestic advocacy organizations can play a constructive role.

A nontrivial influencing factor in terms of which types of agricultural infrastructure and services get budgetary attention is the extent to which these services are visible and the extent to which there is a relatively short duration from the incurring of public expenses to the completion of the outputs. A key reason for this is that the political returns to public investments are often deemed by decision makers as being as important, if not even more important, than the social welfare or economic returns to public investments. Rather than seeking to do away with this reality, which may nearly be infeasible in the short run, it may be more effective to, instead, first be acutely aware of the importance of these political incentives, and then make them in fact work for smallholder farmers and the agricultural sector in general. Options should be explored for how to raise the profile of invisible yet vital investments. For example, where the quality of agricultural advisory workers is exceedingly low, improving their training and skills may be crucial for farmers to access and adopt needed modern inputs or agricultural practices. However, improvements in extension agent quality is likely to not be explicitly recognized by farmers as a conscious investment on the part of public officials. Explicit programs that bring such efforts to the attention of agricultural households through information campaigns, along with information on the benefits for which these investments have been responsible, may enable public officials to gain political credit for such good public investments, which in turn will increase the likelihood that officials will prioritize these in public expenditure decisions.

The fact that donor assistance for agriculture comes in great part through projects for which co-investments by the state or local governments is necessary, means that external financial support can have significant influence on the allocation of domestic subnational spending. At the same time, frequently local governments are unable to provide their share of agreed-upon co-financing. In these cases, either donor agencies or state governments have supplied the local governments' portion of the costs, or, in some cases, the projects were not implemented in the affected local government areas. While the failure of local governments to come up with their cost-share may seem like a minor concern, given the small size of this cost-share, it is in part a function of the extremely poor functioning of cross-tier (state vis-à-vis local government) fiscal relations, resulting in local governments' lacking funds that they were supposed to receive from or through states. Donor assistance in agriculture in Nigeria should become more attuned to this problem in order to avoid local governments being inadvertently penalized in receiving agricultural donor projects in their area due to malfunctioning intergovernmental fiscal arrangements.

REFERENCES

See **NSSP Working Paper 36** for a full list of references used.

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