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## Nigeria Agricultural Policy Project

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

By

Tolulope Olofinbiyi and Tewodaj Mogues



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## 1. INTRODUCTION

The effective delivery of public agricultural goods and services is fundamental to boosting the performance of agriculture in many developing countries, including Nigeria. Making public spending more efficient in providing public goods and services, such as agricultural research and extension, is critical for increasing productivity growth and farmer incomes (World Bank 2007a). While fiscal decentralization in Nigeria offered new opportunities for the provision of public goods and services, it also created challenges for the achievement of public spending efficiency due to inadequate capacity and accountability at the subnational level (Khemani 2006; World Bank 2007a). A review of public expenditures in Nigeria finds evidence for both technical and allocative inefficiency in public spending, particularly at the subnational level (Olomola et al. 2014). Low budget implementation or large differences between budgets and final expenditures, as well as large deviations between capital and recurrent spending, at the subnational level underscore the importance of understanding the drivers of public expenditure allocations in agriculture. This type of understanding will help to identify how best to support effective public expenditures in agriculture and to promote efficiency in the allocation of resources.

Although a large body of evidence has been accumulated on the impacts of different types of public expenditures in and for agriculture, there is more to be understood about what influences decisions to allocate public resources to agriculture (Fan 2008; Mogues and Benin 2012; Mogues, Fan, and Benin 2015). The idea of government as a benevolent social planner who can allocate resources in an optimal manner across competing needs—subject to a resource constraint—does not depict the realities of public expenditure decision-making (Scartascini and Stein 2009). Instead, public expenditure allocations are the outcomes of tactical interactions among different public actors who have their own interests and capabilities that may be used to influence outcomes (Scharpf 1997). These interactions, however, are shaped by the institutional setting within which they take place.

This study contributes to filling the knowledge gap on the determinants of public spending. It draws on the framework of actor-centered institutionalism to empirically examine how the characteristics, incentives, and exchanges of different actors affect the prioritization of public investments. The study also provides insights into how the characteristics of public investments interface with actors' incentives to influence expenditure choices.

In the section that follows, the framework of actor-centered institutionalism is briefly presented. We place emphasis on how the preferences, incentives, and interactions of actors—politicians, bureaucrats, and donors—influence public expenditures. In addition, we discuss how the features of public agricultural investments—attributability and temporal lag—interact with the incentives of politicians to affect the allocation of public resources. In section 3, we describe the methodology and data. Section 4 is a discussion of our empirical findings. In the final section, we provide some conclusions.

## 2. CONCEPTUAL FRAMEWORK: ACTOR-CENTERED INSTITUTIONALISM

Actors and institutions are increasingly understood as mutually constitutive of each other (Jackson 2010). To better bridge the gap between theoretical perspectives and the observed reality of political interaction between intentional actors, scholars have integrated elements of actor-centered theories and institution-centered theories into a single framework (Mayntz and Scharpf 1995; Scharpf 1997; Ostrom, Gardner, and Walker 1994). One such framework, actor-centered institutionalism, provides the conceptual framework for this study. 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 a specific institutional

setting (Scharpf 1997). According to the framework, the behavior of purposive policy actors or intentional action is explained based on subjectively defined interests and assessments of actors as well as their normative beliefs of how they think it is appropriate to act under specific institutional conditions.

This paper focuses on *actor-centered* explanations of policy outcomes, an element of the actor-centered institutionalism framework. Actor-centered explanations are those that offer insights on how the intentional actions of public actors under specific institutional conditions bring about policy outcomes—in this case public expenditure allocations in agriculture. Actors are categorized based on their perceptions and preferences (action orientations) and their capabilities (action resources). Perceptions are conceived as cognitive orientations of actors, while preferences are conceptualized as interests, norms, identities, and interaction orientations (Mayntz and Scharpf 1995; Scharpf 1997).<sup>1</sup> A distinction between preferences and interests by Milner (1997) sheds more light on intentional action. Interests signify the basic goals of actors and do not change much—in the words of Scharpf (1997), these are goals of self-preservation, autonomy, and growth. Preferences refer to the particular policy choices that actors believe will maximize these goals. While government actors may have similar interests, their policy preferences will vary based on the political situation—for example, the characteristics of their constituencies and their party affiliation. On the other hand, capabilities refer to action resources that allow actors to influence policy outcomes in certain ways and to a certain degree. Of crucial importance to policy research are action resources created by institutional rules defining capabilities and allowing or restricting rights of participation, of veto, or of discretionary decision-making in processes through which policy decisions are made.

Actor constellations are of crucial importance in explaining policy outcomes given that the policy choices of actors are likely to be interdependent. They refer to the set of actors involved in policy interactions; their capabilities (potential strategies); their perceptions and assessments of achievable outcomes payoffs; and the extent to which their payoff ambitions are compatible or incompatible with each other. These policy interactions occur when actors, mostly conscious of their interdependence, engage in intentional action under conditions in which policy outcomes are a collective product of their individual choices. Beyond the static picture of actor constellations, the mode of interactions among actors reveal the political dynamics in policy processes. These interactions may be played out as a non-cooperative game, cooperative game (strategies determined by negotiated agreement), voting game (strategies determined by majority), or hierarchical game (strategies of one or more actors determined by unilateral choices of another actor). In the case of the latter, for example, the ability of the executive to unilaterally decide on changes in budget allocations has implications for the strategies and influence of the legislature. Overall, actor characteristics (perceptions, preferences, and capabilities), actor constellations, and the modes of interactions between actors are the main factors driving explanations of the actor-centered institutionalism framework. In this study, the characteristics, incentives, and interactions of different actors—individuals and composites—are conceptualized as direct determinants or primary explanatory factors of budget outcomes at the subnational level.<sup>2</sup>

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<sup>1</sup> Actor-centered institutionalism takes perceptions and preferences as given, similar to rational-choice approaches, but emphasizes the need to empirically determine their content and to use institutional information to achieve such empirical determination. However, perceptions and preferences may change by way of learning and persuasion.

<sup>2</sup> It is important to note that features of the institutional environment structure the interactions between actors and shape the ensuing policy outcomes (Scharpf 1997, but also North 1990; Ostrom, Gardner, and Walker 1994). The characteristics of institutions which to a large extent define the games at play in policy processes are beyond the scope of this study.

## Politicians

### **Ideology, office-seeking behavior, and rents**

Politicians, of course, are central in any examination of public expenditure decision-making. The preferences of politicians can have various effects on policy outcomes (de Gorter and Swinnen 2002). First, preferences of politicians can take the form of partisan or ideological priorities of the politicians themselves. This is implicit, for example, in Fiva and Natvik's (2013) study on how variation in re-election probabilities affects the level and composition of total public spending. The ideological bent of political parties is reflected not only in the spending composition they undertake while in power, but also in the expenditures they make while in office that would influence future spending in their preferred ideological direction even if they are no longer in power. 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. This in fact is confirmed by one of the few studies considering ideology in Nigerian policymaking (Matusevich 2003).

Second, politicians' preferences can be submissive to the preferences of voters or interest groups—although structured by the institutional features that each group of actors are faced with. Elected officials have incentives to seek political or electoral support by transferring public resources to relevant constituencies. Various theories as well as empirical studies offer different ideas on what these relevant constituencies would be. For example, areas with voters who are not supporters of the political party or leader in question could be the prime target in order to expand the leader's political base. Kwon (2005) finds evidence for the distribution of national subsidies to regions with swing voters in South Korea: The more electorally contested a region is, the more likely it is for that region to receive more allocations of national subsidies. Alternatively, electoral incentives may dictate solidifying existing bases through public expenditure allocations to existing or likely supporters. Bates and Block (2010) argue that agricultural policies in Africa are influenced by the regional distribution of power: The regional ties of political leaders affect their preferred agricultural policy choices which are usually pursued with power resources.

More generally, geographic allocation of public funds in Nigeria has been described as influenced by the geographic distribution of political power. Ekpo (2006) proposes that at the time when the main revenue generating sectors were certain agricultural commodities, which were found in what he refers to as “power blocks” of the west (cocoa), north (groundnuts), and east (oil palm), the fiscal allocation rule stipulated that 50 percent of revenue from these resources needed to revert back to the states from which they came. However, as subsequently the primary revenue generator became crude oil, which is located in what he deems politically marginalized areas, the derivation principle was changed such that the above share was reduced from 50 percent to 13 percent. The reliance of the early geographic allocation system of funds in the federation account on population size considerations, rather than development criteria, has also been criticized as having political overtones (Phillips 1991).

Third, direct material or economic personal benefits can be the prime motivator of politicians' actions. The voluminous literature on corruption in state systems attests to personal benefit being an important driver in decisions on public expenditure, in particular on the private use of public financial resources (Bardhan 1997). Nigeria is referred to repeatedly in this literature (for example, Omotoso 2014).



## **CHARACTERISTICS OF PUBLIC INVESTMENTS AND THEIR INFLUENCE ON ACTORS' CHOICES**

The characteristics of public goods and services have implications for the type of political dynamics that such goods and services are likely to attract (Batley and McLoughlin 2015). Attributability and temporal lag, two key features of agricultural expenditures, can influence the incentives of politicians to prioritize the allocation of public resources (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 or voters to assess the quality of public goods and services vis-à-vis the performance of politicians. This imperfect or incorrect attribution, in turn, can weaken politicians' incentives to improve provision of public goods and services, such as agricultural research and development (R&D) and extension, or tilt their incentives toward short-term and easily attributable outcomes, such as agricultural subsidies. Attribution problems are defined by the characteristics of public goods and services. Visibility—that is, the more observable public goods and services are—influences the incentives for their provision (Batley and McLoughlin 2015; Mogues 2015). For example, politicians may find it electorally valuable to prioritize highly visible infrastructure improvements or fertilizer vouchers over less visible outputs like capacity strengthening which are harder for citizens to observe. For instance, higher visibility of large-scale irrigation schemes in Mozambique, made them better candidates for investments than small-scale schemes, despite the larger schemes having lower agricultural performance measures (Mogues and do Rosario 2015). During election periods in Portugal, Castro and Martins (2015) find evidence of governments choosing expenditure items that are more visible, for example general public services, social protection, and health care. Their findings indicate that government behavior is more opportunistic during elections as they favor public expenditures that offer them the largest political support.

Another characteristic of public goods and services which defines problems with attribution is the delay between the time when expenditures on goods and services are made and the time the benefits from those goods and services are realized (Batley and McLoughlin 2015). That is, it is difficult to judge the performance of politicians or give credit to them if the benefits of such investments materialize after they have left office. As Mogues (2015) explains, investment in agricultural R&D is a good example as it is characterized by a long temporal lag between the time of investment and the time long-term welfare impacts or intermediate outcomes are observed. The exposition by Grindle (2001) about the rationality of tradeoff decisions that politicians make for electoral support is useful here to understand their actions. The preferences of constituencies are very important because they constrain the options that politicians have and force them to make expenditure decisions that target resources to budget items that bring electoral gains. In addition, given the short horizon of elections, politicians have an incentive to greatly discount future utility—this means trading off public expenditure items that have high returns in the long term (such as agricultural research) for items (such as inefficient public subsidies) that provide short-term benefits of re-election.

### **Bureaucrats**

Much of the literature on the aspects of the bureaucracy that influence resource allocation for public services and infrastructure in the developing world emphasizes the importance of bureaucratic capacity and skills. Indeed in Nigeria, capacity concerns remain – for example, Dibie (2003) finds that local governments in Nigeria provide practically no training for their bureaucrats. However, a capacity lens has been importantly

complemented by an incentive lens in examining what determines bureaucratic resource allocation patterns. Recent work on Nigeria 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).

However, bureaucrats should be seen as more than actors who implement projects after public investment allocation decisions have already been made by others. The interface between politicians and bureaucrats—who are appointed agents of politicians—have important implications for public expenditure allocations. While these bureaucrats may have preferences and incentive structures that are consistent with those of politicians, they could also be motivated to pursue their own goals. Niskanen’s reformulated model of bureaucratic behavior posits that bureaucrats attempt to maximize discretionary budgets of their bureaus as a proxy for the maximization of expected utilities, such as wealth, perquisites of the office, reputation, and patronage (Niskanen 1991). Discretionary budget, as meant here, is the difference between the total budget approved by politicians and the minimum cost of producing public goods and services expected. He suggests bureaucrats are able to do this because of the information advantages they have regarding the cost of production and the decision power conferred to them by politicians. Niskanen’s model predicts as the general case that a bureau’s budget will become too large and its output will become too low with bureaucratic inefficiency. Blackburn, Bose, and Haque (2011) also develop a model which predicts that bureaucratic malfeasance leads to expensive public spending and misallocation of public expenditures. With conflicting preferences to that of politicians, bureaucrats can falsify information, such as through promising to deliver high quality public goods and services, but actually delivering low quality goods and services at low cost. This is done by inflating the amount of public resources needed to supply these goods and services, allowing for misappropriation and misallocation of public expenditures.

Drawing on evidence from various case studies, Lynn (1991) finds that bureaucrats attempt to maximize control over discretionary resources within their purview and sometimes seek to maximize the budgets of their bureaus as well. In addition, he finds that bureaucrats use different types of tactics to gain and exploit significant autonomy in directing public resource allocations. Most bureaucrats consider appropriations to be inadequate for the output levels mandated by politicians, although the evidence showed that not all bureaucrats explicitly advocate for bigger budgets. In some instances, goal-oriented activities by bureaucrats had little or no connection with maximizing budgets. While the evidence presented by Lynn (1991) is consistent with Niskanen’s hypothesis, the author points out that the concept of a bureau’s output can be very ambiguous and only rarely measured easily<sup>3</sup>.

### **International Donor Agencies**

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 influence is exerted, 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

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<sup>3</sup> Niskanen’s framework is plausible for further research but is unlikely to appropriately explain variance in public budgets as well as the level and composition of the outputs of bureaus. The model seems too simple to reflect key aspects of institutions and actual bureaucratic behavior. For example, the assumption that politicians submit passively to the dominant power of bureaucrats because of asymmetry of information is implausible, given that the budget process is a game involving many actors with different interests and strategies (Lynn 1991).

development. These mechanisms are employed under the implicit assumption that donors are able to improve public expenditure accountability of recipient governments (Mogues 2012)<sup>4</sup>.

To be sure, donors and recipient country governments have conflicting preferences. The way in which these preferences interact and the incentives that emerge from the interaction have effects on the pattern of public spending in recipient countries. For instance, donors may attempt to maximize ownership of recipient countries in the context of aid conditionality to provide incentives for countries to embrace their economic policy, governance, and social welfare system preferences (Fraser and Whitfield 2009). Recipient countries, on the other hand, may be primarily concerned with directing aid inflows to their domestic constituencies in return for electoral support. Aid inflows could also be diverted to other purposes against donor preferences. Motivations for foreign aid allocation to developing countries vary widely in the literature—donors do not give aid only for altruistic reasons. Alesina and Dollar (2000) provide evidence that aggregate bilateral aid allocations are driven by political and strategic considerations with major differences among donors. Donors may also be driven by external incentives to grow their loan portfolio (Mosley, Harrigan, and Teye 1991). Challenging studies that model economic and international strategic preferences as the sole determining factor of donor aid policy, Tingley (2010) finds that donor countries' domestic political ideology influences both the amount of aid allocated and the motivation for providing that aid. Using total aid commitments data, Berthelemy (2006) shows that a combination of self-interest and altruistic objectives determine donors' aid allocation behavior.

### **3. METHODOLOGY AND DATA**

To test for the presence or absence of hypothesized causal mechanisms between explanatory factors (such as preferences and powers of actors) and policy outcomes (public agricultural expenditure allocations), process tracing was used (Beach and Pedersen 2013). An understanding of causal mechanisms aided this study in making within-case inferences about the role that actors play in influencing public expenditure allocations. In the context of Nigeria's complex federal and decentralized structure consisting of 36 states, the Federal Capital Territory, and 774 Local Government Areas (LGAs), we employ a single-case, embedded case study strategy which involves multiple sub-units of analysis. We selected three states (Cross River, Niger, and Ondo) and one LGAs within each state (Akamkpa, Wushishi, and Odigbo, respectively) as case study sites. These states were selected based on the importance of agriculture in their economies, the need for diverse perspectives from different geographical zones in Nigeria, and in view of the fact that public expenditure management systems are relatively well developed in the study states in comparison with other states in Nigeria. Similarly, the LGAs were selected on the basis of the relevance of agriculture to the LGA's economy; anticipated good cooperation of the relevant LGA government offices; and the core socioeconomic, infrastructure, and agroclimatic characteristics that make the selected LGA fairly typical in the state, among other factors.

Over 100 key informants were interviewed in late 2013. The respondents include individuals from government parastatals and agencies, such as the state Ministries of Agriculture, of Finance, and of Local Government; budget, monitoring, and evaluation departments; State Planning Commissions; Accountant General offices; Internal Revenue service boards; state offices for the Federal Ministry of Agriculture and Rural Development;

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<sup>4</sup> A very relevant issue in this case is aid volatility associated with donor behavior. A number of studies have shown that aid volatility affects substantially the behavior of the aid-recipient country (see Bulir and Hammann (2008); Eifert and Gelb (2008); Kharas (2008); Hudson and Mosley (2008); Fielding and Mavrotas (2008) and Hudson (2015). Fielding and Mavrotas (2008) in particular found that the variance of shocks to aid to a particular country depends on the characteristics of both the donors and the recipients, and which casts doubts on the robustness of the Levin and Dollar (2005) results in their own study on 'difficult partnership countries'. Aid volatility is also related to the heterogeneity of aid flows (see Fielding and Mavrotas 2008, Mavrotas and Nunnenkamp 2007 and Mavrotas 2010 for a detailed discussion of aid heterogeneity issues).

and Agricultural Development Projects. Other public officials involved with donor projects in the case study states were also interviewed.

The semi-structured interviews with each informant lasted for approximately one hour. The interview instrument consisted of four modules and about 20 open-ended questions. The first module covered questions around the guiding policies, strategies, and plans for supporting agriculture in each state and LGA. The second module focused on questions about specific agricultural projects or programs to identify specific characteristics of agricultural investments and how such features influence the incentives of policymakers. In the third module, the questions aimed to shed light on the key actors involved in agriculture across government tiers (state and local government levels) and agencies within a tier, as well as the way they function and interact with each other. The fourth module focused on questions about the budget process in agriculture. The interviews were recorded and fully transcribed. The transcriptions were coded with the NVivo 11 analytical software based on themes developed according to the framework of actor-centered institutionalism. To supplement the empirical data, a desk review of key government and donor documents and other relevant documents was conducted.

#### **4. EMPIRICAL FINDINGS**

In this section, we examine the influence of preferences, capabilities, and incentives of two groups of actors—politicians and donors—on public agricultural expenditure allocations. First, we consider the influence of politicians that play a key role in the subnational public expenditure decision-making process in Nigeria. Specifically, the influence of the chief executive at the state level (Governor) and the chief executive at the local government level (Chairman). We also make an inquiry into how the characteristics of investments, namely attributability and temporal lag, interface with politicians' incentives to allocate public resources to agriculture. Second, we explore the role of foreign donors in shaping public agricultural spending, whether directly or indirectly.

##### **Politicians – Outsized Influence of Non-Sectoral Chief Executive**

At any given government tier, the chief executive has an outsized influence over the allocation of public funds to agriculture as well as allocations 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 across and to some extent within sectors, their role appears to be in many cases overwhelming in the expenditure decision-making process.

##### **Influence of the Chief Executive at the State Level (Governor)**

As found in an analysis of public finance management in Nigeria, in states the Governor, rather than the state Ministry of Finance and state line ministries, control capital budgets, resulting in the governor's political interest driving the allocation of capital budgets across alternative sectors and activities (World Bank 2007b). Governors not only influence budget prioritization at the stage of budget drafting, but can also substantially alter public expenditure allocations away from what was budgeted for. In some cases, it is unclear to what extent these changes are even approved by the State Assemblies. The outsized influence of the chief executive at state level is mirrored in the response of this state official: “[...] I can tell you that it is more about the disposition of the man in power to decide that this is what I want to do. Right or wrong, it becomes the policy. The national policy and the state policies are there, but you know each person decides on his priority area.”

The projects in a state that are “government priority” will be 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-current administration, and thus treated as such by the Ministry of Finance. In agriculture, that Accountant General explained, any projects related to the “cocoa revolution” also receive high priority by the state government and are released quickly by the Ministry of Finance. On the question of how projects even within a given ministry are prioritized, a state official explained as priority activities being *“the sacrosanct heads to Mr. Governor,”* referring with ‘heads’ to the public finance term for spending categories.

A Governor’s priorities while in office are primarily reflected in the public spending priorities of the state. As one respondent notes: *“You know each state has its own priority. Whatever happens depends on whatever government [governor] realizes that they have benefited from the program in terms of reporting their own achievement at the end of their tenure. This is one of the things that influences [the decision] to invest in agriculture.”* The priority accorded to agriculture by a governor is also influenced by the degree to which the state’s economy depends on the sector. As a state official notes: *“You know we are practically an agrarian state, so nobody as a governor or as a government can ignore agriculture.”*

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 their budget’s approval.

The significant role of the Governor as the state chief executive in agricultural public expenditure allocation of the state also becomes apparent in federal-state coordination on agriculture. In 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 seemingly sole actor that FMARD needed to obtain buy-in from was the state Governor, not the state Agricultural Commissioner. As the head of a state office of FMARD—known as Greenhouses—expressed, with regard to the federal government-led Growth Enhancement Support Scheme (GESS), a flagship program of the Agricultural Transformation Agenda (ATA), *“our state [governor] was one of the first 14 governors to fit in into GESS because immediately he came on board, met with them, and brought [it] to their meetings...they accepted and keyed in...If the Minister has anything for the Governor, it passes through me, that’s when I go over there, I bring it down and deliver to them. So we’re having cordial relationship.”* A manager of another state’s Greenhouse, when asked about the incentives of state governments to engage with the farmer registration exercise—a major component of the implementation of GESS—immediately referred to the willingness and incentive of the state governors, and not that of other leaders, such as the state Commissioners of Agriculture.

The committee that coordinates the implementation of the ATA at the state level is also chaired by the Governor. However, 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.

The Third National Fadama Project (Fadama III) is another large-scale program in the country that commands resources from multiple governmental tiers as well as from donors. In discussions with a state-level coordinator of Fadama III about how the program is co-funded by these various stakeholders, they often referred to the Governor as the source of funds when pointing out the extent of the state's contribution. A project officer speaks about the influence of the state government (Governor) in driving funding for donor-assisted projects: *"Yes the state government, but the agent of government is very critical. From our interactions over time with this project we realize that the individual is very important. The individual holding the political office will drive that."*

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 World Bank (2007b) points out that in most states the state line ministries do not have the power of recruitment and staffing, and 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; that was instead 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- and main Joint Allocation Account Committee meetings are supposed to be held on a monthly basis, usually with both meeting days taking place back to back. 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 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. This respondent suspected strongly that this increase was motivated by the Governor seeking to please civil servants in the state before elections. 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.

One of the ways local governments coped with the shortage of State Joint Local Government Account funds for salaries was by using their internally generated revenues for personnel payments. This was not the standard use of local government internally generated revenue. Rather, it typically would be used for operational and some capital expenses, such as equipment and work attire for local government staff, basic maintenance of community infrastructure, like local roads, etc. 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 go civil servants. The

Governor had the responsibility and authority to take these measures—in one case, within a few months, the number of local government staff in that state was reduced by 35 percent within a span of a few months. The Governor in part also justified this 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, as an interviewed local government official confirmed. As he stated, provision of salaries even to those not working was seen by the previous Governor as still useful because, as accounted by the local government official, the Governor “*said something that if we employ people it is for poverty alleviation, we are for social services, we are not profit-oriented business, it is for social services...if we employ someone now he is going to feed two, three, four people in his house and this is poverty alleviation.*” 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 the Chief Executive at the Local Government Level (Chairman)**

All local government chairmen, on an individual basis, are free to access funds from the State Joint Local Government Account through the state Ministry of Local Government Affairs for their development activities. After the Ministry approves an activity, the mandate for release of funds is issued by the Forum of Chairmen—representatives of all the local government chairmen in a state elected by their peers. An official in a state Ministry of Local Government Affairs explains: “*...in fact it’s not the forum that determines what is spent in any local government. It’s the local government chairmen to determine what they want to do, and then they can freely write to the Ministry, and then we now ask the Forum chairmen that this is what so and so local government wants and then they can say ok, they can give approval for the activity or we can. The chairman can [also] channel through the forum leadership and then they can bring you the data remaining, it’s informal.*” A local government official clarified that the use of joint accounts across local governments is one in which “*the Governor also stays with the local government chairman to look at priority areas where funding should go to, since it is one state.*”

Unless funds come from sources that require 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 is to be the key body that makes decisions on the distribution of local government funds. Typically the executive council consists of the local government Chairman, the Director of Finance, Director of Budget, and the other sectoral directors, such as for agriculture. In other words, the EXCO, as it is commonly referred to, 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. As a Director of Budget explains his contribution in EXCO meetings: “*my position there is to record all the proceedings and not to make inputs,*” with another local official making things even more blunt about the Director of Budget: “*You are to be seen there, not to be heard.*”

It is striking how little input key agriculture staff at the local government level—referred to as Director for Agriculture—has in orienting agricultural investments to areas they deem appropriate. In one state, an agriculture official pointed out as being a case of misguided resource allocation the excessive focus of the GESS on the distribution of fertilizer, which is less relevant to state farmers that focus on livestock. When asked whether he knew what the views of the local government leadership (outside of the agriculture department) were about this issue, he tersely replied: “*No, I don’t know.*”

The process through which Directors of Agriculture obtain funds for activities in the sector involves multiple steps that have to be followed whether the funds are for activities the local government agriculture team initiate themselves, or are 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—a local government level position which serves as the lowest instance of civil service administration. This individual, in turn, passes the request on to the local government Chairman. If the requested funds are 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, which consists of the Chairman, the Director for Local Government Administration—that is, the two officials just mentioned—the Director of Finance of the local government, and elected supervisors from each ward of the local government. 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 in the state-level Ministry of Local Government Affairs, the project is either funded or not funded. When we inquired with a Director of Agriculture at the local government level about the odds of getting funds for projects they initiated through this lengthy process, he made clear that none of his requests had been successful since 2010. But he does not stop developing proposals: *“We have to keep writing so as to keep us busy.”*

It is apparent from the above that funding for an agriculture project always has to go through the local government Chairman, whether it is locally initiated by the Department of Agriculture or whether it is in relation to a cross-tier initiative. The same holds also for any other public spending out of the State Joint Local Government Account. A local government finance official stated, when asked about the role of the Chairman in identifying the key needs of the local government for purposes of assigning expenditures: *“He is the final rule.”* A local government agriculture official made the same point also with regard to the allocation of funds in the local government more generally. When queried why actual expenditures may not reflect the approved budgets, he responded: *“You know how the local government operate, the local government Chairman operates with the funds that he is being given by the state. If those funds cannot take some of these areas, you know priorities are always given to some other things, maybe infrastructural development, education, schools, health, and by the time it trickle[s] down, we may not even have enough.”*

In the use of internally-generated revenues, the Chairman has even significantly more discretion on how to spend these resources, without having to deal with other layers of government. All withdrawals from the internally generated revenue account have as signatories the Directors of Finance and of General Services and Administration, but for each such check the Chairman must sign the authorization for withdrawal—without which the bank will not accept the check. This then translates into significant authority on guiding the spending allocation. When we asked a local government finance officer how the internally generated revenue of that local government is used for agriculture (without inquiring who makes this spending decision), he started out by explaining the Chairman’s inclination toward the sector: *“You see in this local government, this new Chairman is more or less a farmer. He is interested in these agricultural products,”* and then continued to explain how the Chairman instructed the agriculture officer on the purchase of oil palm and cocoa seedlings, and in what amounts. The greater the autonomy over local government revenue, the greater discretion the Chairman has in the use of this funds. One local government official pointed out how this greater discretion may have a detrimental side, in a discussion of what the consequences would be if local governments were granted greater autonomy over the local budget: *“If they can give local government autonomy, strongly and properly monitored by the federal government. If they don’t monitor it, the majority of the local government chairmen will just pocket the money.”*



## Characteristics of Investments Influencing Politicians' Resource Allocation

### Attributability

As discussed in Section 2, information asymmetry can distort a politician's incentives to invest in public goods and services. Since the characteristics of certain public goods and services can present information problems which make it hard to measure the performance of politicians, public goods and services—usually not in agriculture—which are easily attributable to politicians are more attractive. As stated by a local government official in the Department of Agriculture: *"They want something that must be attributed to them. At the end of the day, [it's] I did it while I was there. I did it, no other person did it. Even if it will outlive me, I will not be there to see it, but I did it. So there is always that consciousness in the policymakers, and it is one of the things that has made us to see this slow pace...in agriculture."*

Attribution matters to politicians because their ability to garner electoral support is dependent on the perception of citizens regarding their performance in the provision of public goods and services. Citizens' perception about the performance of politicians is, in turn, a factor of their knowledge of the links the provision of public goods and services and the efforts of politicians (Mogues and do Rosario 2015). As a result, politicians assign greater weight to highly visible goods and services which are easily traced to their efforts. As one official puts it: *He [politician] wants to do things quickly to ensure that he is re-elected, something visible; put up a town hall, put up the buildings, roads, these things people see, electricity, water, after all everybody is in farming, my mother is farming...so why do I need to carry money go there? The youths are even leaving farming because, in the first instance, it has not been made interesting to them, they are leaving there, they come and stay around here moving around with politicians, so what are you really going to do for everybody to see?"* Additional insights suggest that, although a highly visible large-scale agricultural intervention may not be well suited for to a particular need, the preference of a politician is to invest in such an intervention because *"you have something to show for the money spent."*

Politicians' preferences to target resources to public goods and services with high visibility is not only related to electoral support, but also to the short-term horizon of elections. One official at the local government level expounds on why preferences for highly visible goods and services outside of agriculture are linked to a politician's time in office: *To some extent it is very unattractive to a policymaker who comes in to stay for three years and he will not be able to see the dividends quickly, you know, so you tell him, for instance the next chairman that's going to come in, I say you raise the seedlings the first year, we distribute second year. Ha! I want to take all my money into that sort of a thing? I can easily build 70 culverts in rural areas and people will see, and then the ovation is high."*

The visibility of different types of expenditures also influences the decisions of 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, which affected many farmers, 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. Respondents added that huge debt was incurred to finance these expenditures. While the paucity of funds may have led to this tradeoff in investments, it may have been politically advantageous to prioritize such a social problem with high visibility over one with less visibility, as suggested by Batley and Mcloughlin (2015). The expectation is that both short-term emergency responses to the flood and long-term agricultural interventions are prioritized—one should not substitute for the other.

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While respondents agree that tangible or visible results in agriculture are important for politicians to demonstrate, they emphasize that the nature of agriculture makes this difficult: *“Agriculture is a time process,”* one respondent notes. Outcomes of agricultural investments are not instantly visible. As discussed previously, 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. Another respondent keenly states: *“Agriculture is not like social services, it is not like infrastructure.”* He explains further that, if a market is to be built, it can be completed in record time. In the case of agriculture, one has to consider, for example, procurement of assets, inputs, and advisory services as well as capacity building. He adds: *“Now, it is good to demonstrate achievement, but most politicians are not interested in demonstrating achievement in agriculture because they consider that the time it takes to show this is long. And if you are growing rice, for instance, and you tell somebody I have harvested rice from the field you cannot see the result out in the field, but if you say I built a market, you can always see the market.”*

The difficulty of assessing politicians’ performance or attributing the benefits of certain goods and services which manifest after their tenure in office indeed steers them toward investments that offer less opportunity for attribution. One respondent speaks to what motivates politicians to invest in public goods and services that demonstrate quick results: *“Every government will want to, if you are in power...say ok this is my achievement. You want to leave a legacy behind and...during your tenure you have some projects that you know will give you results and...will speak clearly for you to point out and say ok, this is what I did during the time I was in power...”*—those are the projects that will be prioritized.

In one of the study states, officials in the Department of Agriculture at the local government level discussed the need for proper orientation of politicians on how the agricultural sector functions and why they should invest in the sector. The officials advocated for a forum where technocrats like them can sensitize politicians on the merits of investing in agriculture as soon as they take office. They explain further that if politicians begin to appreciate that agricultural projects can outlive them—and at the same time be attributed to them—they are more likely invest in public agricultural goods and services.

## Donors – Their Direct and Indirect Effect on Agricultural Expenditures

The influence of foreign donors on agricultural spending in Nigeria is primarily through project financing using counterpart funding mechanisms. Major donor-assisted programs include Fadama III; the International Fund for Agricultural Development, Federal Government of Nigeria, and the Niger Delta Development Commission (IFAD/FGN/NDDC) Community-Based Natural Resource Management Programme; and the Commercial Agriculture Development Project. For 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, with loan repayments by states later deducted at source by the federal government.

Fadama III aims to sustainably increase the incomes of farmers and other economic interest groups, including fadama land and water resource users.<sup>5</sup> The project uses an integrated and community-driven development approach to diversify agricultural development and focus on the entire agricultural value chain. Component areas include advisory services and input support, asset acquisition, small-scale community-owned

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<sup>5</sup> Fadama is irrigable land along rivers, particularly in northern Nigeria.

infrastructure, and capacity building. Farmers are required to organize themselves into Fadama User Groups (FUGs) and subsequently into Fadama Community Associations (FCAs). Co-financing for Fadama III is provided by the World Bank, the federal government, state governments, and beneficiaries. At national level, an estimation of the financing arrangement is as follows: i) World Bank—56 percent; ii) state government—13 percent; iii) communities—13 percent; iv) federal government—9 percent; and local government—9 percent.

As the majority of grants allocated to beneficiaries is financed by the World Bank, these funds cannot be used for project operations. State counterpart funds are mainly used to cover operation costs, such as salaries, operations, and maintenance. One respondent notes an important restriction with the use of World Bank funds and the implications thereof: “...so that is to say that states that do not pay counterpart contribution[s], the staff will not get allowance[s], because you cannot use the World Bank fund to pay allowances for staff.”

To access project funds, beneficiaries are required to register FUGs and FCAs as cooperative groups; open and maintain an account with a commercial bank or financial institution; undertake a participatory rural appraisal; and, from the appraisal, put together a local development plan under the guidance of a community facilitator in the State Fadama Coordination Office. Approved funds are disbursed to FCAs which oversee the design and implementation of subprojects. Beneficiary counterpart funds are contributed in cash or in kind. The State Fadama Coordination Office verifies the payment of cash contributions into community accounts before funds are released. For markets or rural infrastructure, such as boreholes, 10 percent of the cost is required of beneficiaries. For asset acquisition and input supply, 30 percent and 50 percent are required, respectively. A respondent comments on the success of the arrangement: “...it has been working because we discover that when these farmers...have their own funds in a project, it is sustainable, it is more secured.”

The IFAD/FGN/NDDC Community-Based Natural Resource Management Programme is similar to Fadama III, albeit with its own distinct characteristics. The objective of the program is to improve the livelihoods of rural households in nine Niger Delta states—including Cross River and Ondo States—with particular emphasis on women, youth, and vulnerable groups. Project areas include provision of farm inputs, agro-processors or mills, and agriculture-related rural infrastructure; crop, livestock, poultry, and pig production; agroforestry; and sustainable livelihood development. Similar to the Fadama III project, beneficiaries organize themselves into community-based groups or community-based enterprise groups to access program funds.

The program is co-funded by IFAD, NDCC, federal government, state government, local government, and beneficiaries through counterpart financing. Financing arrangements between stakeholders vary by project type and possibly by state. For community development fund projects, such as the provision of rural infrastructure in Ondo State, the financing arrangement at the time of the interviews was: i) local government—40 percent; ii) IFAD—25 percent, iii) NDDC and federal government—25 percent; iv) community—10 percent (in-kind but valued as cash); and v) state government—nil. For non-community development fund activities, such as capacity building or program operations, the funding ratio was: i) state government—50 percent; ii) IFAD—25 percent; iii) NDDC/federal government—25 percent; iv) local government—nil; and v) community—nil.

Community-based groups request grants through their local government councils. Grants are approved by both the Local Government Development Committee and State Programme Support Office. Respondents emphasized that the responsibility of this office—which has a department status in the state Ministry of Agriculture—is not to implement projects, but to disburse funds and monitor how those funds are being utilized. Community development funds are disbursed directly to central community accounts. In terms of funding flows, NDDC grants are disbursed directly to state governments, while state counterpart funds are provided for through the state Ministry of Agriculture budgets. However, the requirement for state governments to receive IFAD funds, which come through the federal government, is that state counterpart funds are first expended. Once this requirement is fulfilled, a statement of expenditure is developed and a withdrawal application for funds is submitted to IFAD for approval prior to release of funds.

Overall, accounts on the availability of counterpart funds for both Fadama III and the IFAD/FGN/NDDC program were mixed. Beneficiary counterpart financing seemed secure as a result of control strategies employed by project offices, even though financing was not always in cash. Federal and state government counterpart funds seemed available, but were characterized by late or irregular releases of funds which had adverse implications on project implementation. The outlook at the local government level was the least favorable due to low payments or lack of release of counterpart funds. For both donor 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.

For example, State Program Support Offices of the IFAD/FGN/NDDC program allowed local governments to spread out their contributions during the year to facilitate easy payments. With the Fadama III project, a State Coordination Office held back deductions of local government counterpart funds meant for project operations and disbursed them in tranches (on the basis of screened monthly budgets) rather than en bloc. The State Coordination Office chose to do this so as to better monitor the use of funds. However, at 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 IFAD/FGN/NDDC 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 has had to cover local government contributions for project operations. While this is a positive development for project continuity, it seemed contrary to the role counterpart financing was expected to play.

## **5. SUMMARY**

The empirical analysis of this study in three states and corresponding local governments point to the outsized influence of Governors and local government Chairmen on how public resources are allocated to agriculture and how those resources are prioritized within the agricultural sector in Nigeria. The interests, capabilities (specifically political power resources), and incentives of these chief executives come into play in the way in which they exercise influence over expenditure decisions. The roles of other actors, such as the state Commissioner of Agriculture, the Director of the Agriculture Department at the local government level, and the legislative bodies at both state and local government levels, are relatively marginal. This has important

implications for the implementation and effectiveness of agricultural budgets. Regarding the characteristics of public agricultural investments, we find that politicians consider the political returns to these investments to be more important than their economic returns or their returns to social welfare. On the role of donors in influencing public resource allocation to agriculture, our findings highlight, in particular, the inadequacy of local government capacity to fulfill their share of counterpart funds in project co-financing. It was not uncommon for state governments and donors to help fill the financing gap.

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