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Feed the Future Innovation Lab for Food Security Policy

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Synopsis: Institutions and Public Agricultural Investments: A Qualitative Study of State and Local Government Spending in Nigeria

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There is a renewed attention to the performance of the agricultural sector in Nigeria given its potential to serve as an engine of pro-poor growth, create jobs, and support economic diversification. Strategies to further transform agriculture need to be accompanied by efficient and effective public expenditures. In addition to analysis of the size and quality of agricultural spending, an understanding of the political-institutional setting within which public spending decisions are made is important. However, there is little known about the policy and political processes through which public agricultural expenditure allocations are decided upon. This policy note synthesizes the findings of an empirical analysis of how the political and budget institutions of the states and Local Government Areas (LGA) of Nigeria affect the incentives of actors involved in the public agricultural finance process, shape the interactions between them, and ultimately influence expenditure allocations.

Introduction

Public agricultural spending in Nigeria remains low by several measures. Between 2003 and 2014, only 3 percent of Nigeria's total budget, on average, was spent on agriculture (ReSAKSS 2016). This level of spending falls short of the Comprehensive Africa Agriculture Development Programme target of 10 percent—a prominent commitment of the Maputo and Malabo Declarations.¹ A more appropriate measure of public investment in agriculture is the sufficiency of public agricultural spending relative to the

¹ During the Second Ordinary Assembly of the African Union in 2003, African governments pledged in Maputo to allocate at least 10 percent of their national budgets to the agricultural sector in order to achieve 6 percent agricultural growth annually under the

Key Findings

- Even after a budget has gone through the standard processes and been passed into law, extant rules still create opening for government stakeholders to exercise discretion on revising budgets, even well after the execution of public expenditure has begun.
- The Nigerian budget institutions—due to their formal structure and to the particular way the budget rules have been applied—also generate quite differential abilities to exercise discretion over budget formulation and subsequent public resource allocation.
- Constitutional provisions are somewhat ambiguous and to some extent non-binding vis-à-vis actual roles and responsibilities regarding the relative roles and expenditure responsibilities of government tiers in developing agriculture.

sector's contribution to the economy—also known as the intensity of public spending (Mogues et al. 2012). During the same period, the intensity of public spending in Nigeria averaged 1.9 percent—a level too low to sustain the nation's investment needs in agriculture.

CAADP agenda (AU 2003). In 2014, during the Twenty-third assembly of the African Union in Malabo, African governments committed to enhancing investment finance in agriculture, in addition to other commitments (AU 2014).



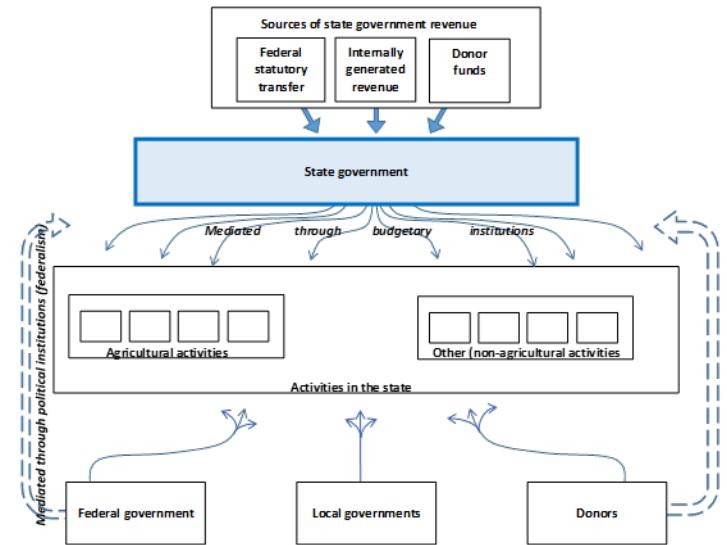
A reversal of substantial underinvestment in agriculture is needed to unleash the full potential of agriculture to support economic development in Nigeria (World Bank 2007; Kuyvenhoven 2008; Olomola et al. 2014). To make headway towards this end, an understanding of how public expenditure allocations are made and why public actors behave as they do is needed. This is particularly important in the context of limited public budgets and the diverse interests of actors that come into play in the budget process (Fan, Yu, and Saurkar 2008; Mogues 2015). Such insights will help guide efforts on how best to support improved efficiency and effectiveness in public spending.

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 south of the Sahara. This Policy Note is the summary of an NSSP Working Paper describing the findings of a study which used the framework of actor-centered institutionalism (Scharpf 1997) to understand the role that key institutions play in determining how public funds are allocated across competing needs, with a focus on the implications for public investments in agriculture. The analysis is based on qualitative interviews at the subnational government level in Nigeria—in three states (Cross River, Niger, and Ondo) and an LGA in each of the study states (Akamkpa, Wushishi, and Odigbo, respectively).

We focus on two types of institutions that are most salient in influencing the allocation of public resources to agriculture. The first are budgetary institutions, manifested in the rules and procedures underlying the budget process in subnational jurisdictions in Nigeria. The second is the political institution of federalism, which is the foundation for interactions and resource flows between federal, state, and local governments in the country. Figure 1 is a simplified illustration of how these two institutions feature in public resource allocations by a state-level government (that of a local government is analogous, but not shown here for economy of space). A state government's resource allocation depends, in the first instance, on the revenues at its disposal. The process of spending these funds—the actors, their preferences, constraints, and interactions with each other—is mediated by the budgetary institutions which oversee the public finance process. Similarly, the influence of the federal government over public expenditures undertaken by state governments is mediated by political institutions which govern the resource allocation process—that is, the various features of federalism

as practiced in Nigeria. The extent to which federalism creates opportunities for the tier below the state (local government) to influence state spending is minimal, and, therefore, does not feature in Figure 1.

Figure 1. Budget and political institutions mediating public expenditures at the state level



Source: Authors' depiction

Summary of Findings

Drawing on the conceptual framework of actor-centered institutionalism, we inquire into the constraints and opportunities that Nigerian subnational budgetary institutions create for different actors—for example those in executive versus legislative roles, in higher versus lower tiers of government, and with sector-specific versus non-sectoral responsibilities—to influence budgetary and spending allocations to agriculture. The empirical analysis reveals that, even after a budget has gone through all the standard processes and has been signed into law as an approved budget, the extant rules create openings for government stakeholders to exercise significant discretion on revising the budget through the use of the so-called reordered budget and supplementary budget—even well after public expenditures have begun to be executed. This renders fairly weak the commitments arrived at during the first and second stages of the budget process—planning and negotiation over the budget, and legislative approval.

Similarly, during the third stage of the budget process, that of budget implementation, the relevant stakeholders in the

process can make significant changes to the disbursement of funds, given the approval process needed for any funds to be released. Confirmation that there is a correspondence between the funds requested and the amount budgeted is not enough to enable release of the funds to state government line ministries from the state Ministry of Finance, or to local government line departments from the state Ministry of Local Government. Rather, a number of sectoral and non-sectoral government executives will have to express explicit support for each funding request, well after the budget allocations under which those funds are requested have been mutually agreed upon. This sets up a scenario in which these stakeholders can use these budget rules to make changes based on their own priorities, irrespective of the approved budget.

The Nigerian budget institutions—due to their formal structure and to the particular way the budget rules have been applied—also generate quite differential abilities to exercise discretion over budget formulation and subsequent public resource allocation. Despite the fact that presidential systems generally give relatively high leeway to legislative bodies in shaping public expenditure allocations, in the Nigerian subnational context, the role of the state House of Assembly appears fairly marginal in the budget process. Even more so, the role of the LGA legislative (as opposed to executive) council in shaping budgetary distribution is practically nil. The non-sectoral chief executives—the Chairman at the local government level and the Governor at the state level—respectively have been given significant authority within the budget rules to determine both budget and spending allocations. There is also a pronounced asymmetry in the ability of government tiers to control the budget process at their level. While the infringement of the federal government in the state's budget process is minimal, the influence of the state governments in the budget affairs of the LGAs within the state is strongly dominant. Given the differences in capacity between state and LGA agencies, some of this asymmetry may be expected. However, the severity of the asymmetric control of the state government in the budget processes of the LGAs cannot be explained by capacity differences alone.

Also within the framework of actor-centered institutionalism, we examine how Nigeria's federalism affects the roles of government tiers and structures intergovernmental relations—vertical and horizontal—to influence public resource allocations to agriculture. The study shows that federalism (and fiscal federalism) as it is

practiced in Nigeria differs from its formal structure. Nonetheless, both formal rules and actual practices of Nigeria's federalism shape the incentives and constraints of government tiers and their ability to achieve cooperative outcomes in agricultural policy, planning, and implementation.

Regarding the relative roles and expenditure responsibilities of government tiers in developing agriculture, constitutional provisions are somewhat ambiguous and to some extent non-binding vis-à-vis actual roles and responsibilities. Under provisions for concurrent legislation, federal government powers to guide and allocate resources to agricultural development are limited. It is the states that are assigned the powers to legislate on agricultural development—although without a specification of individual functions. Nonetheless, federal government intervention and investment in the development of agriculture is extensive. As implied by the Constitution, the provision of public agricultural goods and services is the responsibility of states, with the participation of local governments, but without a clear delineation of the relative functions. Ambiguities in the delineation of roles and responsibilities across government tiers creates room for overlaps, and possibly gaps, in the financing of public agricultural goods and services. Moreover, ambiguity around the authority and autonomy of local governments empowers states to exercise discretionary power over the public finances of local governments. This weakens the fiscal autonomy of local governments and the extent to which they are able to implement agricultural budgets.

Inequality in fiscal capacities across government tiers contributes to different capabilities for resource allocation to agriculture. States and local governments have limited revenue-raising authority relative to the federal government because the main sources of government revenue are within the federal's government tax jurisdiction and collection. For this reason, internally generated revenue represents a small part of the total revenue of subnational governments that is available to finance agricultural activities. Vertical fiscal imbalance is evident as the revenues of subnational governments from their own sources relative to that of the federal government do not match with their expenditure responsibilities, in spite of federal fiscal transfers. This enduring imbalance continues to drive overdependence of states and local governments on federal statutory transfers. With overreliance on statutory allocations from the center and disruptions in the release of allocations, accounts of poor implementation of capital agricultural budgets are many,

especially at the LGA level. This creates incentives for subnational governments to shift the blame for difficulties in resource allocation to the federal government, undermining subnational accountability. While fiscal arrangements governing the distribution of statutory allocations between higher and lower tiers of governments and among lower tiers of government are in place, enforcement mechanisms are weak.

Many participants in these budgetary processes recognize the need for improving the incentives of the three tiers of government to cooperate in the provision of public agricultural goods and services. In the context of the restructuring of the Federal Ministry of Agriculture and Rural Development (FMARD), it appears that change is in motion to strengthen intergovernmental coordination in the implementation of federal programs, but remaining challenges contribute to non-cooperative outcomes. Overlapping responsibilities between government tiers present coordination challenges, particularly in federal-state relations. State governments seem to frown upon the extensive intervention of the federal government in the implementation of agricultural programs. In relation to the implementation of Growth Enhancement Support Scheme (GESS), a flagship program of the Agricultural Transformation Agenda (ATA), some state governments and, to a lesser extent, local governments complained about their lack of participation in the planning and design of ATA programs. This deters the achievement of cooperative outcomes in the allocation of public resources to agriculture.

Conclusions and Policy Implications

The policy and political processes surrounding budget and expenditure decision-making in agriculture without a doubt are complex. Findings of the analysis here underscore the importance of having a rigorous understanding not only of the technical optimality of public expenditures, but also of their political and institutional feasibility. Such insights can help determine how best to target efforts to support efficient and effective public agricultural spending. Moreover, it can point to second-best options when first-best options may not be implementable. Comprehension of the dynamics of public agricultural expenditure policymaking can also guide support for public finance and agricultural policy reforms. Overall, the analysis leads to following three messages:

1) Enforce budgetary rules and strengthen legislative oversight. The implementation of rules that restrict opportunities in the subnational budget process in

agriculture to revise the budget after the first phase (executive negotiation and planning) and second phase (legislative approval) is key. Equally important, at the third and last phase, that of budget execution (spending), are rules that limit the use of both reordered budget and supplementary budgets for purposes other than emergencies. Both internal and external controls on discretionary budgetary powers will help secure the budget agreements that were reached earlier and improve credibility. Strengthening the role of state Houses of Assembly in providing oversight for the budget process will make available institutional checks and balances and ensure accountability.

2) Strengthen intergovernmental fiscal institutions. To change the structure of incentives facing government stakeholders, it is important to strengthen the intergovernmental fiscal institutions which govern the public finance process, particularly at the subnational level. The workings of such institutions overseeing vertical and horizontal revenue sharing—the Allocation of Revenue (Federation Account etc.) Act; the Revenue Mobilisation, Allocation and Fiscal Commission Act; and the Monitoring of Revenue Allocation to Local Governments Act—should line up with instituted rules. In parallel, related intergovernmental fiscal bodies need to be empowered to ensure compliance with these rules and prevent deflections. Of crucial importance is the need to check the infringement of higher-tier governments on the public finances of lower-tier governments, especially in the relationship between states and LGAs.

3) Strengthen coordination across government tiers in the implementation of agricultural programs. The restructuring of FMARD, including the deconcentration of staff to improve intergovernmental coordination was a step in the right direction. However, more needs to be done, given the tensions that this deconcentration introduced between the federal government and some of the state governments, resulting from suspicion of some state leaders about federal infringement on powers to make and implement agriculture policy and investments in the state, and frustration on the part of the federal government with the lack of participation and co-investment by the states on flagship agricultural initiatives such as the GESS. It is absolutely crucial, therefore, to properly understand, and then take into careful account, what each tier's incentives would be to adequately coordinate and harmonize agricultural planning, policy, and public spending across the three tiers of government in Nigeria.

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Please see [NSSP Working Paper 37](#) for a full list of references used.

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