Reaping Richer Returns: Public Spending Priorities for African Agriculture Productivity Growth

Summary
Not only does agricultural public spending in Sub-Saharan Africa lag behind other developing regions but its impact is vitiated by subsidy programs and transfers that tend to benefit elites to the detriment of poor people and the agricultural sector itself. Shortcomings in the budgeting processes also reduce spending effectiveness. In light of this scenario, addressing the quality of public spending and the efficiency of resource use becomes even more important than addressing only the level of spending. Improvements in the policy environment, better institutions, and investments in rural public goods positively affect agricultural productivity. These, combined with smarter use of public funds, have helped lay the foundations for agricultural productivity growth around the world, resulting in a wealth of important lessons from which African policy makers and development practitioners can draw.

The rigorous analysis presented in this book provides options for reform with a view to boosting the productivity of African agriculture and eventually increasing development impact.

Chapter 1 - Why Look at Public Spending for Agriculture in Africa?
A crucial element in enhancing agricultural productivity growth is improving the provision of productive investments through more and better public spending in agriculture. This opportunity has been recognized by African policy makers, and over the past few years, ministries of agriculture and finance have intensified efforts to improve both the quantity (volume) and quality (effectiveness) of public spending.

This study shows significant differences in the rates of return to different categories of agriculture spending. Indeed, many studies find quite low returns to aggregate spending on agriculture, but almost all find high returns to specific types of spending (such as investments in core public goods related to technology generation and diffusion, market linkages, and irrigation infrastructure). Investments in broader rural infrastructure, health, and education matter as well, and wise investments must be complemented by a host of other policies. This includes spending not only by agriculture ministries but by other ministries dealing with hard and soft infrastructure in rural areas.

Chapter 2 - Agricultural Public Spending in Africa Is Low and Inefficient
In addition to agricultural spending in Africa lagging behind other developing regions it is also marred by misinvestment. Addressing the quality of public spending and the efficiency of resource use is perhaps even more important than addressing the level of spending.

Agricultural R&D capacity in Sub-Saharan Africa has remained low by international norms despite the strong evidence that returns to investments in this area are consistently high around the world and in Sub-Saharan Africa. Where information constraints are a major bottleneck in the uptake of modern inputs and production techniques, public funding (although not necessarily provision) of extension may be a cost-effective use of public funds. Investments in post-harvest processing facilities, access to markets, and accompanying infrastructure and policy reforms that foster commercial agriculture, are critical elements in agriculture’s transformation.

Chapter 3 - Smart Subsidies?
Notwithstanding the large and accumulating body of evidence that even ‘smart’ input subsidy schemes have seldom produced benefits commensurate with their fiscal costs, particularly if they crowd out complementary public investments and produce unwelcome ancillary effects, they remain politically attractive. Countries in Sub-Saharan Africa could create a bigger impact within the existing expenditure envelope by moving away from such a heavy focus on fertilizers and towards complementary investments crucial for robust agricultural growth. Reforming the design and implementation of these subsidy programs, while rebalancing government spending in favor of core public goods and policies, could produce massive dividends.

Chapter 4 - Planning, Implementing, and Rebalancing Budgets

In addition to the overall composition and efficiency of spending, a third dimension in a strategy to maximize impacts of public spending in agriculture is ensuring that the budget process supports efficient implementation. There is considerable variance in budget preparation and execution capacity among the different countries but there is undoubtedly scope for continuing improvement as shown by all existing agriculture public expenditure reviews sponsored by a joint World Bank-Gates Foundation program, which were examined as background for this book.

Chapter 5 - Managing the Political Economy of Pro-Poor Agricultural Spending

Improving the efficiency of public spending requires managing the political pressures that determine budget allocations. Groups of producers, who control a large proportion of national wealth, often have the means to influence public policies to their benefit. How then to marshal political support for reform? By increasing transparency about the distributional effects of such policies, by improving targeting and gradually phasing out subsidies, and by packaging and sequencing reforms in ways that reduce opposition.

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