Strengthening National Comprehensive Agricultural Public Expenditure in Sub-Saharan Africa

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Guide for Carrying Out "Light" Agriculture Public Expenditure Reviews

– AgPER Lite Guide –

Draft

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Acronyms

AgPER	Agriculture Public Expenditure Review
AU	African Union
ATOR	Annual Trends and Outlook Report
CAADP	Comprehensive Africa Agriculture Development Program
COFOG	Classification of Functions of Government
FAO	Food and Agriculture Organization
MAFAP	Monitoring and Analysing Food and Agricultural Policies (carried out by FAO)
NAIP	National Agricultural Investment Program
NPCA	NEPAD Planning and Coordination Agency (also referred to as NEPAD Agency)
NEPAD	New Partnership for African Development (an AU Initiative)
PEFA	Public Expenditure and Financial Accountability (Report)
ReSAKSS	Regional Strategic Analysis and Knowledge Support System
SNCAPE	Strengthening National Comprehensive Agricultural Public Expenditure in Sub-Saharan Africa

Preface: About This Draft

This draft version of the AgPER Lite Guide was developed to eventually become an official document of AU/NEPAD. At this stage, it is not official.

Earlier drafts of this Guide were discussed internally within the World Bank, presented to two international workshops and discussed with some stakeholders in two countries who would potentially apply the tool. As a next step, the guide is planned to be piloted in tentatively six countries. This draft version is the one to serve as guidance document for this round of pilots.

Lessons from applying the concept and tool and feedback and comments will be highly appreciated and would be very useful for ultimately turning this draft into a final and official document.

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Summary

This Guide presents a framework for preparing annual Agriculture Public Expenditure Reviews and lays down the content and data compilation methods that allow such reports to be produced within approximately three months and about 40 expert days for each of three experts once its framework is established; more time is required for the first round. The Review, referred to as “AgPER Lite”, needs to be simplified as compared to a full-blown basic agriculture public expenditure review in order to be manageable within this time.

The AgPER Lite is simplified in comparison to a full-blown AgPER mainly in the sense that it: (a) selects few key issues that are strategic in nature and relevant to current debates on policy-expenditure-result linkages; and (b) is conducted annually as part of the budget planning and preparation process and joint sector review cycle. Its analysis is based on the most recent data that are available by providing annual updates on key figures while maintaining the historical perspective. The analytical section takes up relevant issues in stages, thereby providing a broader analysis over the sequence of several subsequent annual reports.

The AgPER Lite is designed to serve as background information to improve annual budget preparation and to be one of the key documents to underpin annual joint reviews with stakeholders. It serves to enhance decision-making based on evidence and to promote the CAADP principle of mutual accountability. It should be integrated into existing processes. The planning department of the key agricultural ministry would normally take the lead.

As all public expenditure reviews, the AgPER Lite continues to focus on the links between expenditure and priorities of agricultural policy and also the link between expenditure and results, and it identifies and interprets changes in the light of historic expenditure trends. It is an analytical tool for which substantial data collection is required, but not merely a statistical exercise. It should provide an overview about how much different spending units contribute to overall agricultural expenditure, present the composition of expenditure over time and identify major cost drivers if they exist. An AgPER Lite can be useful for identifying mismatches between policy and spending priorities while also indicating crucial areas of spending that appear under-financed and marginalized.

In the data compilation part, the AgPER Lite follows the approach and definitions recommended in the AU/NEPAD “Guidance on Tracking and Measuring Levels and Quality of Government Expenditure for Agriculture” and is designed to look at overall government expenditure on agriculture; its view should not be reduced to, for instance, only investment spending or only central government spending. However, the AgPER Lite approach proposes some simplifications. The Guide recommends to limit time spent on collecting information on small expenditure amounts in non-agricultural ministries and to use the method of apportioning expenditure of broader spending units to different sub-functions only in few important cases. Data should be compiled in spreadsheets that can easily be expanded by adding additional years to existing series and to use data sources which reliably provide annual data updates. The quality and plausibility of data still needs to be verified, though.

The focus on national decision-making makes it necessary to maintain the institutional classification of expenditure (this dimension is often aggregated out in studies designed to feed into international comparison exercises). More flexibility is possible in cases where some

spending items are not strictly covered by the definitions stipulated in the AU/NEPAD guidance, but are considered in the context of making choices about the allocation of agricultural budgets in the specific country. Selected off-budget projects funded by development partners should be included in the analysis if they are strategic and involve large amounts of funds.

The AgPER Lite should be focused on a small number (2-3) of current issues that relate to programs and initiatives with a major impact on the composition of spending and which are currently under consideration and debate (“hot issues”). In the analysis of these issues, which are the most prominent part of the exercise, the AgPER Lite can consider alternative approaches in view of spending implications; can make the case for needed resources for additional spending in high-priority areas which promise good results; can assess the robustness of the agricultural public expenditure management system to maximize the effectiveness of scarce resources and identify constraints and propose ways to overcome these. Possible issues are numerous. The key to making the review light, however, lies in selectiveness and a close relation of the choice of issues to imminent decisions about programs and budgets.

The AgPER Lite provides important analyses, raises questions about priorities and effectiveness and outlines solutions; but additional work is often required for defining policy measures or designing and re-designing programs. The AgPER Lite provides the rationale and describes the direction.

It will also provide a lot of information required for the compilation of reports to the NEPAD Agency in compliance with the Malabo Declaration of 2014 and support the preparation and presentation of annual budget proposals to the Ministry of Finance. However, the AgPER Lite is not meant to be a substitute for a more detailed exercise to monitor CAADP-inspired national agricultural investment plans or agreements like those concluded with the “G8 New Alliance”. There is substantial scope for synergies with regard to the collection of expenditure data for the different initiatives, which should be explored at country level when embarking on an AgPER Lite exercise.

It is understood that the rigor and robustness of the proposed AgPER Lite methodology and coverage will need to be customized to specific country conditions, taking country-level capacities, data availability, existing agriculture expenditure analyses and level of commitment into account. Accordingly, countries are encouraged to embark on adopting this exercise with the aim of improving its scope and rigor over time.

1. Introduction

This Guide sets out a framework and provides technical and methodological guidance for the preparation of a simplified, light-weight version of an Agriculture Public Expenditure Review, referred to as “AgPER Lite” in this document.

The motivation for introducing this light-weight approach to agriculture public expenditure reviews emerged from the observation that most documents used for planning, budget preparation and regular reviews of the implementation of agriculture sector policy make little reference to public expenditure analysis. Those documents which report on expenditure tend to use a short perspective of planned budgets and actual expenditure for one or two previous years. Explicit references to value-for-money, efficiency and effectiveness considerations of public expenditure or to the alignment and coherence between strategic priorities and fund allocations are rare. More depth is therefore required.

Full-fledged, or comprehensive AgPERs can (and did) serve as support documents for performance reviews and budget formulation, but their utilization and impact are constrained: they take up a lot of resources, a long time to prepare, and they are not inherently aligned to the review and planning calendar at the country level. By design, they are more backward than forward-looking. They do not provide up-to-date data because they are produced only in intervals of several years. The huge amount of time and effort required to produce a full-fledged AgPER, coupled with limited capacities at the country level, is the main constraint.

The AgPER Lite is simplified in comparison to a full-blown AgPER mainly in the sense that it (a) selects few key issues that are strategic in nature and relevant to current debates on policy-expenditure-result linkages; and (b) is conducted annually as part of the budget planning and preparation process and joint sector review cycle. The AgPER Lite is meant to permit systematic consideration of expenditure analysis in the various annual rounds of planning, budgeting, review, and processes in the context of ensuring mutual accountability. It is designed to facilitate evidence-based decisions by way of providing up-to-date expenditure analysis and underlying data.

The AgPER Lite is conceived as an annual study, which can be produced within about three months. It will focus on a small number of pre-selected, strategically important current issues and build mainly on available information. Data compilation is made simpler by way of spreadsheets that can be updated without too much time and effort by adding new columns for additional years. Changes are the main focus, although these will always be looked at in view of historic trends.

The intended main audience of this Guide is planners in core agricultural ministries and subsidiary agencies who are directly engaged in the preparation of medium-term and annual agricultural expenditure proposals. Secondary target audiences include other key stakeholders in the agricultural sector (private sector, civil society, farmer associations, development partners) who are tracking and/or advocating for enhanced expenditure priorities.

This Guide offers orientation rather than static templates. Adaptation of the AgPER Lite instrument to the specific country environment in which the concept is applied is necessary. Adaptation is required because of differences in budget classification and presentation, in the structure of the agricultural sector, the institutional setup, and the weight of donor funding and off-budget items that may not be captured consistently in budgets and expenditure reports. Adjustments are also required in view of existing studies and documents that are routinely prepared in the context of budget preparation and performance reviews. Redundancies should be avoided, while using this exercise to help consolidate fragmented information to sharpen expenditure priorities based on performance, and to drill down in strategic issues, as and when needed.

The concepts for compiling data on government expenditure on agriculture used in the context of an AgPER Lite are, in principle, identical to those presented in the revised AU/NEPAD “Guidance Note on tracking and monitoring the levels and quality of government expenditures for agriculture” of 2015.[1] The Guidance Note defines which expenditure should be considered as government expenditure on agriculture and should therefore be eligible to be included with regard to the AU target to spend ten percent of the budget on agriculture. Making calculations comparable across countries is a main concern.

At the same time, some details and dimensions are crucial at country level while they are not of particular interest for international comparison. The main such items are that the institutional classification should not disappear in the aggregation process because it is crucial in the context of preparing budgets; and programs that involve substantial spending should be identified and shown distinctly where appropriate. Large off-budget aid projects should be captured in the AgPER Lite context because they may be very instrumental for achieving national policy objectives, while the Guidance Note, focused on cross-country comparison of spending levels, recommends to leave such expenditure aside, primarily because of measurement problems. In addition, Some shortcuts and omissions can be allowed in the context of an AgPER Lite for the sake of speed and simplicity. In particular, small expenditure items in non-agricultural ministries can be omitted if the data are difficult to retrieve and amounts relatively small.

The structure of this Guide is as follows: The following Chapter 2 discusses the purpose, main audience and key features of an AgPER Lite in more detail. It gives guidance about how to achieve a quicker and less resource-consuming analysis and includes a synoptic table comparing comprehensive and light AgPERs. The relationship between the AgPER Lite and other reports and expenditure analysis that may exist at country level is discussed here as well.

Chapter 3 is about how to retrieve, compile and analyze expenditure information in an efficient manner. The coverage is discussed in greater depth, and the rationale for the need to compile disaggregated data is explained and illustrated. The following Chapter 4 deals with ancillary data required to assess the adequacy of expenditure patterns. GDP and agricultural statistics are the main focus.

Institutional and implementation issues are discussed in the final Chapter 5. It presents considerations about timing, the choice of the “makers” of the AgPER Lite and the dissemination of its findings.

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1 Final draft of June, 2015. The Drafting of the Guidance Note has gone through three consultation workshops involving state and non-state stakeholders from Sourthern, West, and Eastern Africa, held during 2015. The document has been finalized to reflect relevant feedback, and is awaiting final and formal issuance by the NPCA and AU to member countries.

Additional and very useful information about different types of agriculture public expenditure analysis and analytic tools is provided in a Practitioners' Toolkit published by the World Bank.[2] This AgPER Lite Guide is meant to be complementary; consultation of the Toolkit is highly recommended when conceiving the content and approach of an AgPER Lite in a specific country.

2. Purpose and Key Features of an AgPER Lite

2.1 Purpose and Audience

The "light" version of an Agriculture Public Expenditure Review, the "AgPER Lite", would provide inputs and background information to contribute to annual planning, budgeting and performance reviews being more evidence-based. Unlike the full-blown AgPER, the AgPER lite would select few key issues that are strategic in nature and relevant to current debates on policy-expenditure-result linkages.

Its focus is on national aspects of spending on agriculture. It is to provide analyses that are required and useful for making imminent choices and for fine-tuning expenditure decisions in view of policies and programs, taking observed or expected outcomes into account. Where spending on agriculture is dispersed across several spending units inside or outside the main agricultural ministries, the AgPER will also facilitate the broader view and locate a specific unit's expenditure into the overall sector context.

The ultimate objective is to help governments to make the case for needed resources for specified sub-functions with the potential of high effectiveness and impact; to align expenditure composition and levels better to policy priorities; and to assess the effectiveness of financial management mechanisms to make effective and efficient use of allocated budgets.

Prime audiences are national decision-makers in government agencies that provide public goods and services to the agriculture sector as well as the providers of funds for this purpose, i.e. the Ministry of Finance and the Development Partners.

The AgPER Lite also provides information about the overall level of government expenditure on agriculture, which allows to assess the compliance with the ten-percent target of the Maputo and Malabo Declarations. A brief annex to AgPER Lite report, which shows the calculation of the position of the country with regard to the ten-percent benchmark can be added; this annex could be used for compiling the biennial report to the AU Commission.

However, the main focus of the AgPER Lite is on the composition of expenditure, its alignment with policy priorities and on actual or expected effectiveness towards these priorities. Therefore, inaccuracies and omissions for the sake of speed and costs are acceptable. Thus, the calculation of the position with regard to the Maputo benchmark may not be entirely accurate (i.e., slightly on the low side).[3]

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[2] World Bank (2011): Practitioners' Toolkit for Agriculture Public Expenditure Analysis. Washington, D.C.

[3] The calculation in the Annex would possibly add some "educated guess"-type additions to captured expenditure for items that could only be known with more time to apportion expenditure made by units of which only part of the expenditure can be considered as eligible towards the

Box 1: The Maputo Target

The African Heads of State adopted the declarations of Maputo (2003) and Malabo (2014) in which they commit to providing ten percent of national budgets to agricultural development. The Malabo Declaration includes the requirements for countries to report on progress towards this benchmark as well as about the quality of expenditure. The CAADP program was designed to support governments in reaching this goal and ensuring effectiveness of expenditure. The ten-percent target is mentioned in most CAADP-inspired national investment programs.

Efforts were made to harmonize the measurement towards this target by defining what expenditure is eligible. The more one goes into details, the more complex the calculations become, in particular with regard to expenditure items that can only partially be considered as eligible and also with regard to expenditure financed by donors and, in particular, those contributions that do not appear in budget documents and financial reports.

While expenditure on agriculture has increased as percentage of total expenditure, most countries are far below the benchmark. Those who have surpassed the benchmark tend to operate very expensive input subsidy schemes with questionable sustainability and sometimes questionable impact.

Although the AgPER Lite will report on the share of public expenditure on agriculture at some stage, this is not its main focus. Rather, it addresses the challenge to align expenditure to policy objectives and ensure effectiveness. It may (and hopefully will) support agricultural ministries in presenting budgets to the respective ministries of finance, who might not endorse higher allocations to agriculture merely because of the Maputo target. They need to be convinced of the usefulness of the expenditure and need to be shown which gaps may exist and which opportunities would be missed. This is the main thrust of the AgPER Lite.

The AgPER Lite is meant to be aligned to existing review, planning and budgeting processes and serve as one of the supporting documents for such occasions. If used in participatory sector reviews, it will contribute to improve mutual accountability.

The AgPER Lite can contribute towards finding answers to questions like the following:

a) Is spending on routine services increasing in real terms, as it would be expected in an expanding economy and in the light of the political priority generally given to agricultural development? Or are there signs that routine spending is being crowded out by high-profile initiatives and non-agricultural spending?

b) Are policy shifts reflected in expenditure patterns? Are words backed up by deeds and by the allocation and release of funds?

c) Are new initiatives that involve a high level of expenditure likely to have an impact that justifies the expenditure?

d) How is spending distributed between central and local levels? Has the distribution become more adequate over time, in line with the country's decentralization policy and efficiency considerations?

e) Are previously identified mismatches between policy and the composition of expenditure being corrected?

f) Are there large and avoidable gaps between budgeted allocations of funds, releases and actual spending?

Maputo / Malabo target. Examples are the maintenance of feeder roads, debatable items like school feeding, the agriculture component in broader loan schemes etc. It is recommended to make these additions explicit and itemize them.

g) Can missed opportunities be identified at this global level? Are there indications that essential services are notoriously under-funded, can higher levels of production be expected by allocating more funds to this area? Are there promising investments that are not made because of lack of funds?

h) Are allocations consistent with the concept that government should provide public goods and services so as to stimulate expanded private investment in the agricultural sector?

The AgPER Lite can be particularly useful when different choices imply different costs and require a redefinition of spending priorities. It can contribute to better decisions by showing budgetary implications of alternative ways to reach objectives.

An AgPER Lite is not an audit, but rather a “think piece” which provides evidence-based insights and highlights what appears to be anomalies, misalignments between policy and spending or spending and results, without, however, proposing final solutions to identified mismatches on the basis of an expenditure analysis alone.[4] Policy formulation and budgeting require more technical data than an AgPER can provide. Recommendations therefore are typically to “reconsider policy/program xyz”; to review certain aspects of spending; to avoid that specific expenditure items are either marginalized or getting out of control; or to improve specific aspects of budgeting and financial management. In this respect, the AgPER Lite is not different from a full-fledged basic AgPER.

While the AgPER Lite supports the assessment of performance, it is not by itself a monitoring instrument for specific aspects. In particular, it does not systematically monitor the implementation of investment plans, individual players’ commitments against such plans, or agricultural sector or sub-sector policies. However, the AgPER Lite does monitor broad expenditure composition, backward as well as forward-looking, and thereby points to problematic areas that may arise from allocation decisions driven by a focus on individual initiatives’ requirements.

2.2 Key Features

2.2.1 Scope

The AgPER Lite compiles data and presents analyses with regard to all public expenditure made in <u>direct</u> support of agriculture. The selection of expenditure items depends on the purpose of the expenditure, not on the spending unit responsible for the funds.[5]

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[4] An example: A PER focused on expenditure analysis may find that the ratio of public expenditure to sub-sector GDP is significantly higher in crops than it is in livestock. This, however, is not sufficient evidence to recommend that expenditure on crop promotion should be reduced and expenditure on livestock should be increased. The optimal ratio between sub-sector spending and sub-sector GDP is determined by the need for public goods in each sub-sector and may well be lower in the livestock sub-sector than in crop production. A firm recommendation would require an analysis of unsatisfied needs for public goods / services and the identification of funding gaps for essential public services in the livestock sub-sector.

[5] For example, the Ministry of Public Works may build a dam for irrigation – it should be covered in spite of being included in the budget of that Ministry because the dam will benefit the agriculture sector.

The coverage of expenditure data includes, in principle:

- All agricultural sub-sectors (crops, livestock, fishing and production forestry) in line with the definition of the agriculture sector under the COFOG classification scheme (see Chapter 3 and the Annex for detailed lists and explanations);
- Spending on agricultural research;
- All spending units making such expenditure, also beyond the core agricultural ministries;
- Spending against internal as well as external sources of funds;
- Recurrent as well as development expenditure (as per budget classification in most countries) or current and capital expenditure (as per economic classification).

The coverage relates to the whole of sector expenditure. The scope should not be limited to investment or development programs (the additional spending defined in a variety of sub-sectoral investment or action plans), also not to a subset of initiatives (like the monitoring of commitments under a CAADP-inspired investment plan or commitments towards G8 New Alliance plans).

Expenditure on rural development in the wider sense (like, for instance, rural health and education, rural water and sanitation, electrification) should not be covered in the context of an AgPER Lite.

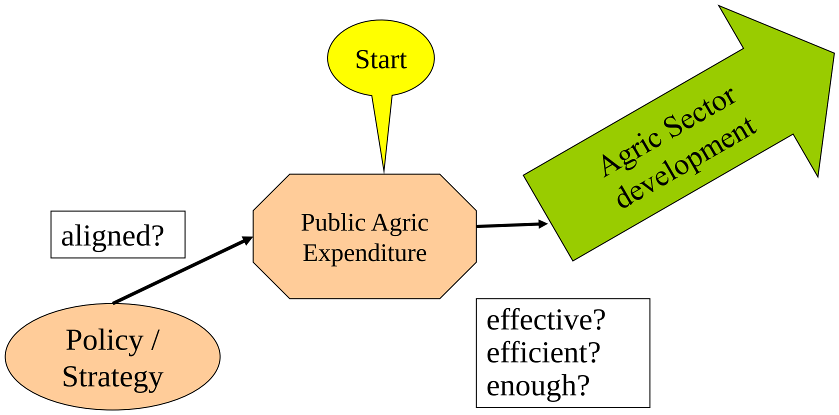
The coverage is essentially identical to that used in most full-fledged AgPERs and the definition of spending on agriculture as shown in the new AU/NEPAD Guidance Note.[6] However, some adjustments and omissions are necessary in order to reduce time and effort required to compile an AgPER Lite: small items where data are difficult to obtain can be omitted, and the scope to apportion parts of budget lines to agriculture should be very limited. This will be elaborated further down in this section.

2.2.2 Key characteristics to be maintained

The AgPER Lite focuses on the links between expenditure on one side and policy and results on the other (see illustration in Figure 1). Expenditure compilation is the starting point, albeit not the ultimate purpose. The analysis includes the three aspects in conjunction, the focus of the analysis is on expenditure level and composition as it develops over time and relates to policy and actual or expected results. This focus is the same as in all sector expenditure reviews.

[6] CAADP/NEPAD (2015): The AU Guidance Note on Tracking and Measuring the Levels and Quality of Government Expenditures For Agriculture. Draft, 18 June 2015.

Figure 1: Basic Approach of Sector-level Public Expenditure Reviews



The AgPER Lite focuses on recent changes and developments (say, over the past three years). The points to cover are as follows:

a) A presentation of the institutional settings and responsibilities for expenditure on agriculture and main policies should be offered, with a focus on significant changes and their expected impact on effectiveness and efficiency of spending.

b) The AgPER Lite should report on significant changes in the overall public finance management system that may affect the agricultural sector. These may be changes in financial management or procurement practices, the end of cash budget practices and cash rationing, introduction of cash flow management instead of fixed monthly allocations, or mechanisms and practices to channel funds to sub-national entities, and similar.

c) Key production and GDP data should be presented also in an AgPER Lite, since they can show if food availability and incomes derived from the agriculture sector are falling crucially short of expectations and targets. These data are generally taken from other publications which, however, may not be readily available to the reader. They are reported and should be kept in spreadsheets because they will be used as reference in parts of the analysis.

2.2.3 Making it "Light"

In a nutshell, the approach to reduce the time and effort required to produce an agriculture public expenditure review consists of

- Selecting a small number of current issues for each annual edition, which are of a strategic nature and can influence the annual budgetary allocations;
- Focusing on recent developments and significant changes in expenditure level and composition;
- Creating spreadsheets that can easily be updated by adding additional columns; and
- Using established channels for discussion and dissemination.

The approach to make the AgPER less resource intensive and up-to-date consists of presenting a broader analysis in stages over a series of AgPER Lite reports and re-using and updating numerical information and adjusting the interpretation and comments, rather than writing the whole report anew.

This is to be achieved by the following means:

1. Many policy issues and areas with insufficient information to make decisions based on evidence exist. The AgPER Lite approach consists in tackling these in sequence according to relevance and urgency. The treatment of issues not selected for a particular annual round is not eliminated, but rather postponed,

2. The AgPER Lite will focus on recent developments and significant changes rather than long-term trends. Yet, the analysis of recent changes will always be done against a historic series of several years and not only against the previous year.

3. Data are to be compiled in spreadsheets that can be updated by simply adding a year and by replacing provisional with final data. Each annual round will then add the most recent years to the time series. The historic perspective is maintained.

4. The AgPER Lite builds on data sources that are regularly available from clearly specified sources and that can be expected to be reliably available on an annual basis.

5. The compilation of data will be restricted to items of significance; small expenditure items which are cumbersome to collect and compile can be ignored. However, it must be verified that they continue to be of minor significance in relation to the total of public expenditure on agriculture.

6. The tabulation and analysis of spending against external sources of funds will normally be confined to items included in the budget book (on-budget) and selected significant off-budget items. The AgPER Lite will not collect data from donors, but rather make use of the budget documentation, aid databases that might exist in the country, and compilations available from local donor groups (like an Agriculture Working Group).

The issues will be pre-defined and agreed upon in the case of an AgPER Lite. The issues should be few (maybe three) and relate to imminent needs to make choices or to issues that are subject to a significant level of debate in the country and of strategic importance. These issues should have a strong relationship with costs and public expenditure.

Examples (not an exhaustive list) for issues that could be addressed through an AgPER Lite are:

i) Agricultural research: how much is spent, on what, and strategic outputs and immediate outcomes to the extent that information is available;

ii) Reasons for systemic under-spending on selected components of the development budget and possible remedies

iii) Preliminary assessment of expected costs and effects of a support scheme or large investment project under discussion

iv) Decentralization of budgets: mechanisms and consequences for financial management challenges

v) Investment incentives for large-scale private investments in agriculture, especially when they are made in the context of public-private partnerships;

vi) Overview of value-chain focused projects, costs and expected effects on farm incomes

vii) Need for and cost of an expansion of advisory services

viii) Options for recovery of operating costs of irrigation schemes from benefitting farmers and sustainability of the financing of operating costs

ix) Specific “big spenders” qualify, obviously, as items that can be discussed in the “issues” section on a selective basis.

The AgPER Lite should only address a small number of issues each year – selectivity and prioritization are required. Issues that are not picked in one year can be taken up in the following year.

In a situation where technical studies on effectiveness of specific programs are available which, however, lack detailed reference to costs, the AgPER Lite could report on findings in a summary way and add relevant financial information.

The mentioned “Practitioners’ Toolkit” provides further examples and ideas for methods and approaches, also on assessing the impact of public spending. Note, though, that the envisaged time frame of an AgPER Lite does not allow going into an in-depth impact analysis. However, the AgPER Lite can propose further and in-depth studies.

In spite of acceptable omissions and inaccuracies, an AgPER Lite has to be comprehensive enough to allow robust conclusions. The Box below lists some items that should not be omitted for the sake of simplicity and speed.

Box 2: Aspects That Must Be Covered And Identified

Expenditure by local governments on agriculture needs to be captured in a well-defined manner if it constitutes a significant part of overall expenditure. This is particularly important if a country is in the process of decentralizing responsibilities and funds. Otherwise, charts might give the impression that expenditure falls although, in reality, it has only been pushed into local budgets.

Often, a very limited number of expenditure items absorb a large share of total expenditure on agriculture. Examples are expenditure on buffer stocks and food reserves, which often vary tremendously across years; expenditure on input subsidy schemes; a program to improve the system of land titles and administer land use rights; emergency responses to disease, drought or variations of world market prices; or a large one-off irrigation scheme. These items, which may appear in the recurrent budget, need to be identified explicitly in order to avoid misleading percentages and conclusions.[7] They should appear explicitly in charts and tables.

The attempt to make the AgPER manageable and quick should not lead to severe shortening of time series; it is suggested that the series cover at least five years; but the choice depends on the amount of work required to collect and process the data.

[7] An illustration: if percentages of non-salary expenditure to total budget are calculated in order to assess whether the amount of funds available for operational expenses is adequate, the “total” has to exclude special items, particularly if they are volatile. Otherwise, the percentage of non-salary expenditure would only reflect the fluctuations of these special items.

2.3 Relationship with Other Reporting and Data Collection Instruments

Most African countries, particularly those engaged in the CAADP process, have various other reporting and data collection instruments:

- Planning departments in agricultural ministries analyze budget data for their own purposes and often present the results in their budget submission to the Ministry of Finance.
- Ministries prepare annual activity and (possibly) performance reports for the Cabinet or Prime Minister's Office.
- Planning departments prepare and submit biennial monitoring reports to the NEPAD Agency, thus complying with the obligation to submit data for the compilation of monitoring reports to the AU Heads of State. Annual Trends and Outlook Reports (ATORs) are a standardized instrument in this context.
- Development Partners require reports on overall sector development in situations where they support the sector as a whole and align their contribution to a broad sector development program.
- The CAADP approach and initiatives like the New Alliance call for mutual accountability, which requires the compilation of reports that monitor each party's commitments.
- The MAFAP project operated by FAO monitors agricultural policies and spending with a focus much broader than public expenditure and cooperates with local government staff and researchers to compile the required data required to feed into the database that can be consulted via the Internet.

Where does the AgPER Lite come in? The exact "fit" depends on how well the various instruments are developed in a specific country. The AgPER Lite is, in principle, a supporting instrument which can provide valuable inputs into the above-mentioned products. It then should be conceived as a stand-alone document that provides basic information, data and analysis from which other reports as well as the debate on policy choices and expenditure priorities can draw.

In other countries, the AgPER Lite methodology can improve an established reporting mechanism, especially by way of expanding the historic perspective and providing deeper disaggregation of expenditure by source of funds, sub-function, level of government and spending unit. Countries with an ATOR that is well developed with regard to content and process could integrate the AgPER Lite methodology into this instrument.

Yet, the AgPER Lite is more than a data compilation and analysis tool. Its main purpose is to provide evidence for debate and policy choices, for appreciating and aligning expenditure priorities and also for providing the information needed for a meaningful process of mutual accountability.

Important features of the AgPER Lite methodology are that it emphasizes:

- the historic perspective,
- the clear link to budget categories, which allow people to "recognize" the numbers and to indicate clearly the specific data sources,

- the focus on the composition of expenditure rather than the overall level as compared to total government expenditure, and a systematic attempt to identify big expenditure programs and their impact on overall expenditure, and
- the systematic inclusion of recurrent expenditure in the analysis.

This distinguishes the AgPER Lite from program monitoring instruments that focus on a subset of expenditure only.

2.4 Comparison between Comprehensive and Light AgPERs

The main differences between comprehensive and light expenditure reviews are shown in Table 1.

Table 1: Comparing Comprehensive and Light AgPERs

	Light	**Comprehensive**
Scope and focus	Few selected strategic issues under debate Forward-looking although based on historic reference data	5-10 year trends of historic, mainly actual expenditure Identification of arising issues and apparent misalignment of expenditure with policy and poor value-for-money
Frequency	Annual as part of the annual budgetary planning and joint review cycle	Once in a while, irregular intervals
Alignment	Embedded in processes for performance review and budget preparation	Stand-alone exercise
Coverage Expenditure	Same, but omitting items that are small and cumbersome to collect data on Use only existing lists of off-budget projects funded by donors	All public expenditure on agriculture (Enhanced COFOG definition) regardless of spending unit; include donor funds and off-budget expenditure if possible
Production and GDP data	Focus on recent developments and on “jumps” in data series	Assess past and current trends
Expenditure dimensions and classification	Same, but use shortcuts where data are difficult to collect. Show institutional classification (by spending unit). Avoid apportioning budget lines except in special cases.	Economic (salaries, RDCs, capital), sub-sector (crops, livestock etc.), sub-function (research, extension, land, administration etc.) Identify special and significant items
Data management	Rigorous specification of data sources and compilation in spreadsheets that can be updated annually with little effort.	No particular attention to making data series expandable
Monitor implementation of ASDPs, CAADP-inspired Investment Plans or similar	No; but provide data which can facilitate monitoring of implementation	To some extent, but not systematic

	Light	Comprehensive
Scope and focus	Few selected strategic issues under debate Forward-looking although based on historic reference data	5-10 year trends of historic, mainly actual expenditure Identification of arising issues and apparent misalignment of expenditure with policy and poor value-for-money
Monitor overall Maputo compliance (the “ten percent”)	Main focus is on changes of composition and quality; scope for monitoring of the “ten percent” is limited because of omissions and shortcuts	Partially, but emphasis on composition and quality in relation to policy and results
Credit to agriculture and private investment (companies and farmers)	Only if selected as “issue”	Yes, especially as an indicator for “inducive environment”
Donor funds	Only if on-budget or reliably captured by donor working groups; but look at selected big programs even if they are off-budget.	Substantial effort to capture, also with regard to off-budget items; only on-budget items according to the new AU Guidance Note.
Attribution of expenditure to sub-sectors and sub-functions	Sparing use of apportionment; rely mainly on budget and financial statements and accounting system information	Substantial effort on the basis of records and estimates obtained from spending units

The main differences between a “light” and a “comprehensive” AgPER therefore are:

- Considerably less efforts to capture all off-budget items; the question “is this relevant enough to warrant the effort” guides the collection of expenditure data;
- Cautious use of apportionment techniques to attribute expenditure to sub-sectors and sub-functions and less depth with regard to sub-functions;
- Emphasis on creating a database on key items that can be updated annually;
- Less analysis of past trends, more focus on the present and immediate future;
- Reduced coverage of spending outside the core agricultural ministries if data are cumbersome to collect;
- Closer links to annual budget preparation and review processes;
- High degree of selectivity in choosing issues, which must relate to current debate and have a strong link to expenditure levels and composition.

2.5 AgPER Lite Report Structure

The AgPER Lite encompasses (i) an update of key data and information and (ii) the analysis of a limited number of strategic topics or issues related to imminent policy choices and questions which have a strong impact on public expenditure level and composition. It is convenient to structure the report so that the two aspects are presented separately. In the case of an annual Agriculture Sector and Public Expenditure Review (ASR-PER) in Tanzania, this was achieved by splitting the report into two parts: Part A is the annual report, and Part B contains the updated data series, conveniently annotated and commented.

Part B could also be an annex. However, maintaining it as a distinct part of the core report may prevent that the readers simply skip the annex.

The contents of these two parts could be as shown below.

Part A: Analysis and Issues

Part A is the part that is different and therefore needs to be re-written every year. It starts with a chapter that highlights significant changes that arise from the analysis of the information contained in Part B. It presents developments of public spending during the past few years (say: five years) and explains to what extent the changes arise from shifts in activity levels, policy and sector requirements. Wherever possible, the analysis should combine policy and expenditure in conjunction; a presentation of policies and major programs and expenditure in separate sections should be avoided.

Which aspects to highlight depends on the data derived from Part B. It should always contain:

- a description of policy changes and a discussion of the impact that this is expected to have on the composition of public expenditure;
- a brief on major external factors that might influence expenditure on agriculture, such as climatic events like drought, floods or disease outbreaks, significant changes in the institutional landscape or changes in general public finance rules and procedures, new steps towards decentralization, general changes with regard to the availability of funds for government in general (like large increases of revenues from capital gains tax, or an austerity program);
- a presentation and analysis of the evolution of public expenditure on agriculture in total as well as by major groups of expenditure; agricultural research, special programs, capital expenditure and contributions by donors should always be shown and commented;

Then, Part A should present the selected issues, one by one. The “issues” section is where most of the analysis of the relationship between policy and expenditure and between expenditure and results is presented. Expenditure should be assessed in the context of policy and results where appropriate.

The AgPER Lite will have to use existing studies and secondary sources in most cases; elaborate field research would not be compatible with the aim to produce a light-weight report. The AgPER can propose detailed impact studies to be undertaken prior to next year’s AgPER Lite round, though.

In Tanzania, there was an additional chapter about a “special topic” that was selected by the Ministry and Development Partners prior to contracting the ASR-PER team of consultants. The “special topic” was an issue for deeper study and analysis than the normal issues. In most countries, the report would probably not have this chapter.

Part A is concluded by a chapter on recommendations.

In the Tanzania case, the main Part A also included a chapter on key characteristics, which is a short narrative of the features of the agricultural sector and public services for the sector, meant for those readers that are not very familiar with the country and sector background. Depending upon the context, this could be omitted in standard AgPER Lite reports.

Part B: Country and Sector Background and Expenditure

While Part A is to be written anew from scratch every year, Part B is only updated. It contains the presentation of data on production indicators for major crops and other production-related parameters for livestock, fishing and forestry, and of agricultural value-added in GDP statistics, and detailed charts and tables showing the development of the evolution of expenditure over time. The time series should be as up-to-date as available. Where series switch from “actual” to “revised allocation” and “budget”, this should be clearly marked.

Part B should also include basic information required to “make sense” of the expenditure data. There should be sections that explain:

- the basics of the PFM system, especially with regard to fiscal year, the practice to take supplementary budgets to the parliament, authority of ministries to re-allocate expenditure across line items or between spending units and ministries;
- the institutions which provide support to agricultural activities and farmers, including the division of responsibilities between central and local institutions;
- the rules and practices for including donor support in budgets and financial reports; and
- the broad classification of the budget, in particular with regard to recurrent versus investment / development expenditure, organic classification (institutional, by spending unit) and the visibility of subsidies and other payments related to the provision of private goods to the farming community;
- a brief overview of the structure of agriculture, with special reference to the farm sizes, farm ownership and the significance of estate-type farms owned by absentee landlords or international investors; this presentation should include a brief assessment of the percentage of the production actually sold via markets versus subsistence production, which is significant to assess the likelihood that farmers will react to price incentives and can take loans.

Some items can be summarized from the comprehensive sector reviews prepared in the run-up to a CAADP compact. Note that the information provided in Part B should be brief and restricted to aspects required in order to understand the expenditure series. This is not meant to be a comprehensive sector review.

Although many of these aspects are well-known to people working in the agricultural sector in the country, it is useful to provide a description in Part B because the AgPER Lite report will also be consulted by donor headquarters and researchers and analysists who are not particularly acquainted with the specificities of the country.

The combined report should contain a brief section on “Main Findings, messages and strategic recommendations”, which is similar to an executive summary.

A model Table of Contents is shown as Annex 3 of this Guide.

In addition, it is highly recommended to produce a separate "Briefing Note" of a maximum of two pages for distribution to high-level decision-makers and senior managers.

3. Compiling and Presenting Expenditure Data

3.1 Principles

Retrieval and compilation of expenditure data in the context of the AgPER Lite should be guided by the following principles:

1) The coverage of expenditure to be compiled and presented in an AgPER Lite is guided by the "Enhanced COFOG" definition as described in the AU/NEPAD Revised Guidance Note of 2015. "Public expenditure on agriculture" includes all expenditure meant to support agricultural activities directly, regardless of the spending unit, the level of government (central/local) and source of funds (own resources including local revenues if significant, grants and loans to government).

2) Data are compiled in spreadsheets that allow regular updates by adding further columns for additional years. Thus, over time, available time series become longer and more meaningful.

3) The data compiled in spreadsheets should be sufficiently detailed so that expenditure can be presented by various dimensions. It is important to save the detailed data even though only aggregates may appear in charts and tables in order to leave the option open to go into the components in subsequent reports.

4) The source of data should be stable across years, clearly identified, and it must be possible to obtain annual updates on a regular and reliable basis. If data from different sources are "chained" (i.e., filling a time series with data from different issues of one periodic publication), it must be ensured that the methodology is compatible.[8]

3.2 Data Sources

Expenditure data should be compiled primarily as "actual expenditure" for closed budget years; for the most recent years for which actuals are not yet available, "revised authorization" data can be used instead, but it should be clearly marked where time series switch from "actual" to "authorized" or "initial allocations". A manually inserted, colored vertical line in charts helps to make the conceptual differences between years clear.

Data on expenditure should always be obtained from the accounting system or the Ministry of Finance. They can be derived from budget books or directly from the public finance management systems. Both sources have advantages and constraints.

[8] For illustration: Production data may appear in each annual statistical digests of the Statistics Office only for five years. If tables from several years' publications are combined, one gets the wanted long data series.

Some countries' budget books show previous years' allocations for comparison on an item-by-item basis. If budget books show the current year's revised allocation (year n, which is the year when the budget for year n+1 is prepared) and a provisional final for year n-1, these figures can be used. A series of budget books then provides the data.

Box 3: Understanding the PFM System

Understanding the budget structure, classification system and practices is crucial. A non-exhaustive checklist of questions that the analysts should be able to answer is as follows:

If there is an IFMIS-type central financial management, payment and information system, which institutions are connected, which aren't?

- Are local government entities incorporated into the accounting system?
- How is the budget classified and in which order of the classifiers is it presented?
- Does the IFMIS have classifiers that can be useful although they do not appear in printed budget documents?
- How are donor-financed projects incorporated into the budget? Distinguish the Estimates (details presented to the parliament), the budget law, the usually more detailed content of the accounting system and the annual end-of-year financial report. How reliable are the amounts shown for actual expenditure in donor-financed projects that do not use national procedures?
- Can virements (transfers of spending authorization) be done administratively without consultation of the parliament? How frequently is this being used?
- Are amortizations of external (and possibly domestic) loans to government included in the "overall budget" figures? How significant are they?
- Is net lending to local companies and parastatals included in the "overall budget" line, is it significant?
- Where in the budget does one find the salaries? If the budget is broken down by departments of ministries, do these include salaries, or are all salaries of the ministries included under "administration" or similar?
- How is local government financed, and where do the flows appear in the budget? Is revenue shared, do local government entities receive block grants or earmarked grants for which they have to account to the central Ministry of Finance? Are own revenues of local government entities significant?
- Where do subsidies and capital injections to parastatals agricultural sector appear in the budget – under the Ministry of Agriculture or "below the line"?
- Where do the pensions appear in the budget?
- Are there transactions shown in the budget documents which are not recorded in the IFMIS? Are IFMIS totals equal to totals shown in printed budget documents?

Useful sources that help to understand the budget system are the IMF's report on Article IV consultations (available for virtually all countries) and PEFA reports (available for many countries).[9]

[9] PEFA stands for Public Expenditure and Financial Accountability. The reports are standardized, studies are undertaken occasionally in some countries, every three or four years in others. For more information and to retrieve country studies, see the PEFA website www.pefa.org.

IMF reports are also useful for a reality check of expenditure data – the totals of expenditure from the source used for the AgPER and the totals shown in fiscal tables in the IMF report should be rather close to each other. The IMF reports are also useful for getting information on overall growth and fiscal developments that may have a strong influence on expenditure on agriculture.

Often difficult to get are detailed end-of-year financial reports (the “Final Accounts”) that show actual expenditure for each item in the detailed breakdown of the approved budget. If they can be located and if they are sufficiently detailed, these financial reports are the most authoritative source.

Final accounts typically show a column denominated as “authorized expenditure” or similar in addition to “actual expenditure”. In most cases, this column refers to the final allocation after all redistributions (called “virements”) during the year, which may or may not have been approved by the national parliament. For assessing the relevance of budgets and the preconditions to enable sectors to actually manage their allocations, a comparison between actual expenditure and the final allocation is not useful in many cases because allocations tend to be adjusted to expenditure in the final reallocation and revision rounds.[10] In order to verify the relevance of budgetary allocations and to assess the reliability of promises, as expressed in the initial approved budget, as reliable basis for planning and prioritizing expenditure, actual expenditure should be compared to the initially allocated amount, which often is not shown in end-of-year financial reports.[11]

Box 4: Dual Budgeting

Many countries present their budgets in two distinct parts and classify expenditure as either recurrent or development expenditure. The “Development Budget” may also be called “Investment Budget”. Recurrent budgets are structured by spending units and line items (type of expenditure just as salaries, fuel, pencils, maintenance etc.). Development budgets contain projects.

Both budgets can contain current and capital expenditure. Although most capital expenditure is typically included in development budgets, current and routine expenditure may also be organized as projects. Some aid-financed projects are designed to top up allocations for recurrent expenditure and contain very little expenditure on capital goods. Expenditure against earmarked funds provided by Development Partners is almost always contained in development budgets.

The distinction is motivated by budgeting techniques and procedures. Projects are planned over several years and have a (more or less) well defined objective and an end date. The approval process for projects is typically different from that used for recurrent budget allocations.

Grossly misleading conclusions that stem from a lack of understanding that a “development” or “investment” budget may not a capital budget should be avoided.

The other source is the accounting system. Nowadays, most countries have computer-based integrated financial management and information systems (referred to as IFMIS) which contain information about authorized allocations and actual expenditure. The accounting staff in the ministries can usually access their respective institutional “window”, print the information and even extract tables as Excel or PDF files. The degree of detail may also be higher in IFMIS systems than in printed budget documents, which may allow to disaggregate a category like “transfers” into items that can be mapped more easily to sub-functions.

10 End-of-year financial reports are the basis for auditing. Therefore, the main focus is on legality, not on planning. For this reason, the reports tend to show only the last legal ceiling for expenditure items and not the initial allocation.

11 Budgets, particularly if they are very detailed, tend to contain errors. These are typically corrected administratively in the first weeks of a fiscal year. For this reason, the updated allocations some 4-6 weeks into the fiscal year may be an even better guide to the amount that spending units expect. Most often, however, such data are not consistently accessible.

This seems to be a rather comfortable way of getting the data, but attention should be paid to the following aspects:

a) While all systems allow financial staff of spending units to retrieve and print “their” data for the current fiscal year, access to historic data may not be possible by the sector. Ministry of Finance staff is usually able to retrieve historic data, but this may still involve quite a bit of effort.

b) The “window” that the spending unit can see may only refer to those items over which the unit (ministry) has authority. Agricultural budgets may contain items that are controlled by the Treasury, which may therefore not be visible to staff of an agricultural ministry. Where such extracts obtained from the ministries are used, the totals should always be compared with other sources in order to verify that the list of items seen by staff of the spending units covers all items in that unit’s budget.

c) Data extracts provided by a Ministry of Finance may not be easily readable because spending units, type of expenditure and designations come as long codes rather than text. While it is possible to replace codes by designation, it is a cumbersome process that requires a high degree of familiarity with the system and the chart of accounts. Finding someone (within the Ministry of Finance or an IT consultant) who can reliably ensure readability of data extracts by adding designation and re-arranging the data may be a serious constraint.

d) “Authorized expenditure” shown in extracts obtained from accounting systems most often refers to the allocated amount <u>after</u> the last supplementary budget and after administrative redistributions made by the Ministry of Finance. In many cases, this is not a useful reference for assessing the relevance of budgets.

Both sources can be used to complement each other, but it is highly recommended to check the consistency of totals. Overview tables are useful for this purpose, but often available only from the documents on paper or as PDF files, but not from accounting system extracts.

Box 5: Extracting Data from PDF Files

Converting a table in a PDF document to Excel (or another spreadsheet application) is far from trivial. Copy-and-paste from the PDF reader to Excel does not normally work because the sequence of the numbers in the PDF file is often not line-by-line.

If the PDF file has been produced by an application (and not from scanning pages), it may be possible to open the PDF file with the table in Excel directly; the functionality is available in newer versions, but we did not experiment with it.

Very reasonable results, which require little cleaning, were obtained using the application “PDF2XL” produced and sold by the company Cogniview. PDF2XL asks the user to verify (and modify if necessary) the structure of columns. The format can then be applied to a series of pages provided that the table structure and the location of the tables on the page are identical across pages. The resulting Excel table tends to looks reasonable already.

In many cases, the table will not need to be printed; it only serves to extract data. This can be achieved with the help of the filtering feature of Excel and the “SUMIF” formula. We (the Author of this note) often applied filters and then copied-and-pasted the filtered information as values into another sheet of the same file.

Particularly for historic data, it may be possible to tap data series collected by other institutions and international projects designed to allow comparison of spending data across countries. The respective teams may have collected relevant documents (like budgets, in-year budget execution reports and financial statements) and processed them and compiled the data in electronic format.

In particular the raw data may be useful, and considerable time can potentially be saved. However, the quality and coverage presumably varies from country to country, and the consistency with the most recent data to be collected in the AgPER Lite context has to be verified carefully.

Box 6: Coordination with Other Data Collection Initiatives

Since the adoption of the Maputo declaration in 2003, several initiatives have emerged to monitor agricultural spending and related parameters for Africa-wide comparison and for benchmarking. The question is whether data collection and compilation tasks can be coordinated and streamlined and to what extent these initiatives could themselves serve as a source of expenditure data for the annual AgPER.

A recent description of these initiatives[12], however, shows that the data series provided by most of them are not up-to-date enough for the purpose of an AgPER Lite. Several use secondary data from other publications, with the World Bank databases on general country data being the most prominent source. They strive to make international data comparable and therefore aggregate national data into common categories; the aggregation formula is not routinely provided. Therefore, these initiatives are of limited value for a study that is also forward-looking and requires expenditure data by institutional classification with a fair degree of detail.

At the same time, it would be useful to coordinate data collection with two of these initiatives: MAFAP (operated by FAO) and the ReSAKSS country and regional nodes. The raw data on public expenditure and also on data on production, productivity and agriculture's contribution to GDP are generally identical.

The MAFAP data collection in particular can be a useful source for historic expenditure data. However, one needs to get access to the internal spreadsheets and the raw data shown in these. MAFAP reports itself may not be a suitable data source because MAFAP frequently apportions expenditure and does not show expenditure by spending units in the reports.[13]

It is recommended to liaise with the local staff of these two initiatives who collects and compiles national data to feed the international databases in order to explore synergies.

3.3 Coverage and Enhanced COFOG

Expenditure data are to be compiled for all spending units that make expenditure in direct support of agriculture. The overall criteria is the purpose of expenditure: if it is meant to support and promote specifically and explicitly agricultural production and producers, it is to

[12] FAO: Initiatives for Agricultural Public Expenditures Monitoring and Analysis in Africa – A comparative review and analysis; by Alban Mas Aparisi, Léopold Ghins and Jean Balié. Rome, 2015.

[13] There may be other problems to overcome. The data collection for Mozambique, for instance, does not distinguish personnel costs from other recurrent expenditure. A close look at the MAFAP data collection is therefore required, and one is likely to need explanations from the authors in order to understand the structure of the sheets and tables. A cross-check with alternative sources is required.

be classified as expenditure on agriculture.[14] “Agriculture” includes the crop, livestock, fishing and productive forestry sub-sectors. It does not include neither conservation nor rural development. However, agricultural research should be included.

Detailed government budgets and expenditure reports are always structured primarily by **institutional classification** so as to identify the “budget holder” who is responsible for the day-to-day management of the budget and for accounting for the funds. For the AgPER, government expenditure on agriculture, on the other hand, is selected according to the criteria of the **purpose** of the expenditure. A transition table is required because expenditure on agriculture may be (and usually is) contained in the budgets of spending units outside the core agricultural ministries.

The international Classification of Functions of Government (COFOG) guides the choice of what to include and what not. The classification was created to allow international comparison and comparison of a particular country’s expenditure over time irrespective of institutional differences and changes. The COFOG perspective takes the purpose and type of service, not the institutional responsibility for those allocations.

Some Ministries of Finance prepare tables showing expenditure by functional classification for information; such tables may be available as part of the budget proposal or part of financial reports. Where they exist, such tables provide a good opportunity to cross-check data and attribution rules. To know, in detail, which criteria were used to map institutions or projects to functions generally requires clarification with the Ministry of Finance.

Note that this Guide’s author has never encountered a budget system in which tables showing expenditure by functional classification are binding and used for expenditure control. Their compilation and inclusion in budget documents is good practice. Yet, these tables are meant for information and meant to facilitate the broad view about budget priorities.

The NEPAD Agency has recently designing a revised guidance note that is a bit wider than the strict COFOG classification; it is referred to as “Enhanced COFOG” (as COFOG plus” in earlier drafts of this Note). The exact concept is explained in the 2015 Revised Guidance Note by AU/NEPAD mentioned earlier (see also the excerpts from that Note in Annex 1).

Selection criteria according to the “Enhanced COFOG” attempt to capture expenditure benefitting agriculture directly even where it is not shown explicitly in budgets. Examples are:

- a multi-purpose dam which produces electricity, provides drinking water and also some irrigation water;
- the construction and maintenance of agricultural feeder roads even though budget books and accounting systems rarely distinguish feeder roads from rural roads;
- promotion of the cultivation of certain crops in the context of nutrition programs.

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[14] The MAFAP project of FAO expands the view and collects information also on what is referred to as agriculture-supporting expenditure. Rural infrastructure, rural health and education and rural electrification as agriculture-supportive expenditure. A considerable amount of discussion has taken place about whether to include what the FAO called agriculture-supportive expenditure. It is not recommended, though, to include these in the context of an AgPER Lite.

The new Guidance Note proposes to apportion expenditure that benefits agriculture by way of transparent rules and criteria.

Apportionment may also be required if a significant portion of expenditure on agriculture is executed by sub-national entities. Decentralization (deconcentration or devolution) may have resulted in agricultural services being recorded in district budgets, for which details may or may not appear in the budget as presented to the national parliament, meaning that allocations to these local services no longer appear under the budgets of the agricultural ministries. While local government expenditure may be broken down by departments or services, the units may be broader than just agriculture.

Depending on the weight of agriculture, one can either take the whole service and explain that it also includes minor amounts for non-agricultural activities, or one can try to estimate the proportion of agriculture in those economic services. How to estimate the proportion depends on the specific situation. One should be aware, though, that the proportion of agriculture in the total of these units may differ considerably from district to district and is not necessarily stable across years. Whatever the method, the rationale and mechanism used for apportionment should be stated explicitly.

Expenditure on agriculture is often also contained in budgets of ministries of trade (which may operate a price information system), in programs for the promotion of youth or wider programs for the promotion of indigenous private enterprises. Such programs may also be budgeted under the President’s or Prime Minister’s Offices. Only a part of the scheme may constitute spending on agriculture, the share may not be known even with reasonable effort. As in the previous cases, one may attempt to identify or estimate the part that relates to agriculture.

A practical approach is to include expenditure by non-agricultural ministries when and where a project is explicitly designed to promote activities in the agriculture sector as its main component. The missing recurrent costs, which cannot be identified, are generally not very significant in relation to the overall spending on agriculture.

Lending and credit schemes that target agriculture should be included only with regard to the subsidy element of the loan, generally the interest subsidy.

Donor-funded projects in particular often have cross-cutting objectives, only some components relate to agriculture. Rural development and nutrition programs are such cases. One can either consider the whole project / program as agricultural expenditure if the main objective is to promote this sector, or try to apportion the expenditure and identify the value of the components that relate directly to agriculture. A practical rule is to consider the project as expenditure on agriculture if this is the main component, and ignore it otherwise.

In recent years, projects to support the development of value chains for agricultural products have surged in greater number. These projects analyze the path from the field to the consumer’s plate and try to identify gaps as well as potentials for cooperation. The objective is to reduce costs by improving the efficiency of intermediaries like processors, traders, marketing channels and storage, and to lead to faster innovation in transforming farm products to consumable food items. When gaps are identified, loans or matching grants are made available to private operators who would be willing to enter the market. The projects also strive to coordinate visions and plans so that the complementarity of private investments can be improved. They often include measures to facilitate the transition from subsistence farming to "farming as a business" and may include components of agricultural extension, institutional support and training for involved government agencies, and sometimes finance to farmers. It is hoped that value chain development will eventually increase income from farming.

Some of these projects involve very large amounts of funds; the part benefitting farmers directly is often not known. The question is whether to consider the spending as expenditure on agriculture. The answer can only be a practical advice to include these projects as spending on agriculture to the extent that they figure in the budget of agricultural ministries, while excluding it if all of the project is in the budget of ministries of trade or industry.

Some doubts will remain with regard to some other items. Box 7 below lists some common cases. The decision whether or not to consider such items as public expenditure on agriculture needs to be discussed; in the end, the choice depends on whether these items are discussed and debated in the context of agricultural budgets or not.

Box 7: Expenditure on Agriculture or Not? Some Special Cases

Some items are sometimes considered as expenditure on agriculture, but we would recommend to avoid diluting the concept and therefore recommend to <u>not</u> consider these as public expenditure on agriculture:

Prison services may have agricultural production units which requires inputs; these are shown in the detailed budget. We would not consider this as public expenditure on agriculture because the production unit operate like a farm and acquire inputs which are shown in the budget only because the prison service is an integral part of "government".

School feeding programs relate to the use of agricultural products. Instead of parents buying food for their children, the school provides the meals and budgets for the expenditure.

Distribution of special food by health services to improve the nutrition status of vulnerable persons: better exclude, same argument as for school feeding programs.

Subsidy to mills for soya-reinforced maize meal: although the motive is food security, these subsidies are designed to promote consumption of healthy and nutritious food, while they do not benefit farmers. Therefore: to be excluded.

Other items are less clear-cut. The choice of whether or not to include them depends on how stakeholders in the country see them. Examples:

Strategic grain reserve: We would not consider this as spending on agriculture in most cases. Take an extreme but not unusual case where a country stocks imported products in order to be able to bridge the weeks until the arrival of the next shipload of grains in case a planned delivery does not happen. In other cases, the reserve may be designed to help to get over drought-related shortfalls. The reserve agency may acquire the grain locally; however, the motive is not to support farmers but, rather, to prevent shortages and price spikes. We would therefore not consider spending on strategic grain reserves as spending on agriculture.

Buffer stocks are almost like strategic grain reserves except that they also have the mandate to regulate prices and smooth out unusual fluctuations. Price support measures are part of the COFOG definition of spending on agriculture, so the respective cost to government should be considered. Cases were strategic grain reserves turn buffer stocks happen, of course.

Import subsidies on food items: We would not consider them as spending on agriculture because they are meant to benefit consumers rather than farmers. In fact, subsidies lower the price level and therefore often lead to loss of income of farmers. Yet, import subsidies and subsidies on agricultural inputs meant to provide an incentive to farmers to grow in spite of unrewarding prices are alternative policy choices for the objective to ensure access to food by the non-farming population (affordability).

Food-for-work programs contribute to food security, but are not *per se* expenditure for the benefit of agriculture. However, of food-for-work programs are used in order to build dams or maintain feeder roads, the expenditure would qualify as agricultural investment.

Rural and feeder roads: According to the revised 2015 AU Guidance Note, feeder roads should be considered as expenditure on agriculture, but not rural roads in general. Two issues are imminent. First, farmers do not really care whether the road allowing them to transport their produce to markets is classified or whether the reads leads to other places in addition to their fields – the distinction between rural and feeder, between classified and unclassified roads it not relevant. Second, most budgets do not allow to distinguish between rural roads interconnecting classified roads and passing through a number of villages, and dead-end roads leading to a farming areas and nowhere else. It is recommended to include rural roads in the analysis only in cases where a special, specific project to build feeder roads exists. The approach needs to be adjusted to country conditions and, in particular, availability of robust data. In some countries, it may be possible to consider all non-classified rural roads in predominantly agricultural districts as expenditure on agriculture; in others, this approach may not be feasible and sufficiently intuitive.

Spending of parastatals for advisory services and inputs: Operations of parastatals of the marketing board type are normally not to be considered as government expenditure because they operate like private companies. Only subsidies or restructuring costs are to be considered as government expenditure; only these appear in budgets. However, if the parastatal enjoys some sort of monopoly which allows it to earn a high margin by buying products at low prices and selling the processed or packaged goods at high prices, it may use the extra profit to provide services which would qualify as public goods. Beneficiaries of these public are a defined group of farmers (e.g., coffee growers only). If the parastatal were a cooperative and if farmers do not side-sell, it could do the same. In effect, the cost of providing the public goods is shared among the beneficiaries. A public good has become a “club good” which is available only the members of the club who, by way of membership fees or low farmgate prices, finance the service.

In principle, the cost of public goods provided by parastatals should not be considered as government or public expenditure, but it should be mentioned if the amounts are significant.

Donor-funded expenditure captured in budget documents (“on-budget projects”) should always be included in the compilation of expenditure exercise. However, the analysts need to be aware of the frequent phenomenon of over-budgeting and under-reporting. Often, donor-financed projects are included in the budget, but the flows do not follow normal procedures – these projects are “on-budget” but “off-treasury”. The extent to which they are reflected in financial reports depends on whether donors report on actual expenditure (note: “expenditure”, not disbursement!) and whether the way they report allows the Ministry of Finance or the beneficiary ministries to enter the data into the accounting system. In practice, actual spending is often under-reported. At the same time, the estimate in the budget may be overly optimistic because nothing really depends on the amounts recorded in the budget. Apparently low execution rates therefore can result from over-budgeting, low implementation rates for various reasons, as well as under-reporting.[15]

In interpreting the figures, note that donor preferences may change over time. For example, if some donor decides to leave a basket funding arrangement (always on-budget) and rely more on self-administered projects (often off-budget), the share of external financing for agriculture may seem to decrease, although there was only a shift of modalities that has repercussions on the degree of capture of the expenditure in budget documents.

[15] This mechanism makes it very difficult to assess the share of agriculture in overall on-budget donor spending because the degree of projects being on-treasury and on-report varies across sectors. It tends to be high in road and other infrastructure construction and low in sectors that can be conceived as one of several beneficiary institutions if the project has cross-cutting objectives.

One should also look at the content of budgets of the main agricultural ministries in order to identify expenditure that may not be for the purpose of promoting agriculture. Sometimes, allocations to an agricultural university may be included in the budget of the Ministry of Agriculture; but tertiary education is, in line with the COFOG classification, not part of the agriculture function.

In the context of an AgPER Lite, some shortcuts, small inaccuracies and adaptation of concepts are quite acceptable. If an expenditure item is small, it is sufficient to verify that it really is and remains small and then mention the omission.

As mentioned, the main purpose of the AgPER Lite is to support national decision-making based on evidence and knowledge of past trends. Although the AgPER Lite also provides information that can be used for international comparison, this is not the prime objective. Therefore, the discussion on what to consider as expenditure on agriculture and what not should be taken as guidance and applied flexibly. If a country considers expenditure which falls somewhat outside the realm of the Enhanced COFOG list as expenditure on agriculture, it should be included so that the trade-offs in fund allocation are visible.

At the same time, it is recommended to show big items that were included although they contain activities which are not strictly part of "agriculture" according to the strict COFOG definition should be shown explicitly in tables or as slices of bars in charts.

3.4 Off-budget Expenditure

Off-budget expenditure, i.e. expenditure items that are not even captured in budget books, can be included if credible information is available.

Donor-funded expenditure is often off-budget, but may constitute a major contribution to agricultural development. It is recommended to pick out the five most significant ones and attempt to obtain information on planned and actual spending from individual donors or tabulations prepared by agriculture working groups.

Rules for inclusion of off-treasury projects differ from country do country. Some may record off-budget expenditure items for the sake of providing a more complete picture to members of parliament; others may have decided to include only expenditure items that are under full control of government and pass through the Treasury. Too understand the rules and the logic behind these is imminently useful.

In the context of an AgPER Lite, attempts to go from donor to donor in order to get information about planned and actual spending is discouraged, because it takes too much time. However, it is often worth discussing significant projects in strategic areas, even though the Guidance Note recommends not to include such projects. The recommendation is motivated by the fact that reliable figures are difficult to get and that the total (all sectors) off-budget donor expenditure is often not available. However, the AgPER Lite is not so much concerned with calculating the degree of compliance with the ten-percent target and more focused on the composition of current and planned expenditure. In order to get an overview about the overall composition of expenditure on agriculture, off-budget donor spending cannot be ignored.

Therefore, it is recommended to select a few strategically important donor projects even if they are not shown in the budget, list them in the annual AgPER Lite report and comment whether they appear to be reasonably aligned, whether the expected benefits justify the expenditure and how they are integrated into the planning and monitoring mechanisms of the country. If a meaningful table of donor-funded projects in the country can be obtained, it is probably worth reproducing it in the AgPER Lite report. Once more, focus and selectivity are important for deciding whether or not to spend time on getting the information.

Box 8: Off-budget Donor Spending and the Guidance Note

The AU/NEPAD Guidance Note recommends that countries should not include off-budget spending against donor funds in calculating the percentage of agriculture in total spending. This makes sense for two reasons. First, data on actual expenditure of such projects is often not robust or follows different concepts (like commitment instead of cash-based). Second, if off-budget spending on agriculture is included in the numerator of the formula for calculating the share of agriculture in total expenditure, the total of off-budget spending by donors has to be included in the denominator as well. In most countries, only rough estimates of total donor spending are available from third-party sources like the OECD/DAC database.

While the AU recommendation makes sense with regard to ensuring comparable concepts across countries for measuring the situation with regard to the ten-percent benchmark, it does not imply that an analysis of expenditure should also be blind with regard to off-budget spending. Off-budget spending is typically an important element of public spending that contributes to sector development and is – ideally – aligned to national policy and objectives. Therefore, it has to be taken into consideration in an agriculture public expenditure review.

The Guidance Note recommendation therefore applies to the use of off-budget expenditure in the formula, but should not be interpreted as excluding such expenditure from the analysis.

Expenditure by specialized government institutions may also be off-budget. For instance, an export tax on specific agricultural products may be paid directly to a promotion agency by the revenue or customs authority. The transaction may not appear in the budget. The institution may use this tax to provide services to farmers which would normally qualify as public goods.

A comparable situation exists in the case of export monopolies which use the margin to provide public goods (like quality control, grading or cheap credit) to producers.

In both cases, the cost of providing the public goods to producers is distributed to the beneficiaries; as economists say, the cost has been internalized to the group.

Whether or not to capture and include these cases depends on the amounts and is therefore country-specific. It is recommended to include these cases if the amounts are big or if the mechanism is controversial.

At times and in some countries, big donor-funded projects are included in the budget in some years, but not in others. Switches of big items between on-budget and off-budget should be identified in order to be able to interpret the time series correctly.[16]

[16] If a big project that existed all along suddenly goes on-budget, expenditure on agriculture may appear to have increased; but in reality, the expenditure level is the same, while only the rate of capture has changed. The opposite effect arises when donors leave a basket fund (captured) and run traditional projects from a certain point onwards which, however, are not captured in the budget and the financial management system.

3.5 How and What to Aggregate

During the analysis of expenditure data, one wants to present data structured by different dimensions. In order to do this, the initial compilation has to be detailed enough.

Disaggregation should be maintained for the following items:

a) Type of budget: recurrent | development from internal sources | development from external sources.

b) Type of expenditure: Personal emoluments | transfers to other institutions or units | special items (see below) | other recurrent cost.

c) Spending unit (sometimes referred to as “sub-vote”) as detailed as the budget documentation allows.

A break-down of spending by sub-functions is typically achieved by mapping spending units (directorates, departments, specialized units) to the function, occasionally also by picking out specific line items from the budget of a spending unit, and adding projects for which the project title or description suggest that they refer to a particular sub-function.

Furthermore, it is useful to save the raw data and, if PDF files are converted to Excel, the first conversion results in case one wants to look at additional details in future editions of the AgPER Lite.

Figure 2 below shows the data that are recommended to be retrieved and recorded in spreadsheets for each Ministry (“Vote level”) and for the interesting sections (generally equivalent to subvote level) of a ministry.

The details of the structure depend on how the budget and/or expenditure tables are presented. In a typical case, some sub-functions (see below) can be mapped with reasonable accuracy to sub-votes; these then would be a separate block like shown in Figure 2. The remaining subvotes are then added up to a category “other expenditure”.

In order to allow filtering and easy aggregation across spending units, the tables for each unit should be one below the next in one single sheet.

It is strongly suggested to separate the three categories of recurrent budget, development budget (sometimes referred to as investment budget) and off-budget items and collate the data even in separate files, from which they can be aggregated and copied into tables that appear in the AgPER report.

Figure 2: Structure of Table to Compile Expenditure Data by Spending Unit

				[Unit]
Vote / Subvote	*Expenditure*	*Year …*	*Year …*	*Year …*
	Recurrent budget			
	Total recurrent			
	Personnel			
	RDC, adjusted			
	Special programs Subtotal			
	a) [designation]			
	b) [designation]			
	c) [designation]			
	Transfers and grants (excl. Special programs)			
	Capital goods			
	Development budget			
	Total development			
	Internal			
	External			
	Significant off-budget items			
	(OB1) [designation]			
	(OB2) [designation]			
	(OB3) [designation]			

Some notes:

a) The vote / subvote should be copied into the left-most cell of each line so that the spending unit is visible when lines are filtered.

b) “Special programs” are big expenditure items such as national input subsidy schemes, the cost of maintaining a food reserve, unusual and significant emergency interventions or the recapitalization of a parastatal engaged in the sector. In some cases, these will be transfers (block grants).

If a program is selected as “special program”, its expenditure data should be shown for all years, i.e. also for those years when the expenditure was small.

c) It is recommended to single out the remaining transfers and grants paid to subordinate institutions. These are typically block grants to cover all operating expenses of the subordinate institution. They are considered as spent when the transfer occurs; the subordinate institution normally has its own audit arrangements.

d) The line “RDC adjusted” (RDC = Recurrent Departmental Charges) is calculated as the unit’s total expenditure less the values shown in the other lines. This is the non-personnel funds available to the spending unit for fuel, repairs, paper, communication, training etc.

e) The currency unit used in this table ought to be given some thought. When presenting tables and charts in the text, the unit should be big enough so that the number of digits remains below six or seven; too many irrelevant digits just confuse and make it difficult to see immediately what is big and what is small. Millions (possibly with one decimal digit) may be the most appropriate currency unit in many countries.

Yet, depending on the source of the data, it may be easier and more robust to errors to convert single currency units to millions at a later stage when the tables to appear in the report are prepared.

f) The distinction between internal and external expenditure (i.e., spending against internal treasury funds and earmarked funds provided by Development Partners) should always be maintained in the first set of tables. The main reason is that expenditure data for the internal component are more reliable than those for the external component, which often originate from reports of donors which can (and often do) have gaps.

Below the "Development Budget" block, one can insert a couple of lines showing selected projects of significance, as memorandum items ("of which …"). It is recommended to show such project if their expenditure profile is key to understanding fluctuations of development expenditure.[17]

g) In addition to information extracted from expenditure reports and budget, the "Off-budget" lines provide space for recording data on identified and big projects and items that are not recorded in the budget and expenditure documentation. Recording these projects under detailed spending units that are subsequently mapped to sub-functions makes it possible to show a reasonable estimate for total expenditure going to that sub-function.

Sub-functions

In order to allow a comparison of the composition of expenditure with policy priorities, it is necessary to distinguish the different "product lines" of the goods and services that an agricultural administration provides. The selection of the sub-functions to distinguish depends on the country's structure of the sector and the structure of the administration.

In general, one wants to be able to distinguish the following sub-functions:

- Agricultural research;
- Extension and farmer training;
- Emergency interventions;
- Pest and disease control and preparedness;
- Irrigation;
- Quality assurance and product certification;
- General administration;
- Provision of private goods, such as input subsidies, operating expenses of irrigation schemes, provision of vaccinations of animals over and above the big infectious diseases, subsidized tractor services, soil analyses;
- Feeder roads;
- The subsidy element of loan schemes;
- Subsidies or special payments (e.g., capital injections) to parastatals;

[17] Expenditure peaks and troughs are a typical feature of capital investment projects; and development projects in general (not only capital investment projects) have a limited lifetime. When a big project ends, overall development expenditure may drop significantly without, however, this implying a reduction of priority given to agriculture. Information about selected projects with high amounts of funds involved therefore is required for a reasonable interpretation of fluctuations of overall development expenditure.

- Facilitation of climate change adaptation; or
- Value chain development.

Box 9: Terminology: Sub-sector and Sub-function

In this Guide, we use:

Sub-sector to designate crops | livestock | fishing | forestry

Sub-function to designate the type of goods or service provided.

The use of these terms is sometimes confusing because “Agriculture” is designated as a function in the COFOG classification scheme, and the sub-sector could therefore also be defined as function at a more detailed level.

In the context of an AgPER Lite, the classification of expenditure by sub-function or sub-sectors is generally achieved by way of mapping of subvotes or explicit budget lines to sub-functions and sub-votes. Apportioning expenditure of spending units to the different sub-categories is discouraged except in really important cases.

In the context of an AgPER Lite, the classification of expenditure by sub-sectors and sub-function can be broader, more selective and less accurate. Expenditure is not apportioned, and the attribution to sub-functions and sub-sectors is achieved by way of mapping sub-votes or explicit budget lines to sub-functions. Thus, the bullet list with the various sub-functions shown above will presumably have to be much shorter. Where, like in Mozambique, the same ministry is responsible for crops and livestock and if no distinction is made between directories in budget documents and the accounting system, then one needs to accept that a division by sub-sector is far from ideal or even not possible.

Research departments and transfers to autonomous research institutions typically appear explicitly in budgets. Therefore, the research sub-function can be assessed also in the context of an AgPER Lite.

Subsidies can be captured because the expenditure is usually shown in a distinct budget line. Provision of vaccines typically appears in a line within the ministry or department of veterinary services with clear designation; clarifications may be required from the financial staff of the ministry. However, where a subsidy program is combined with additional extension services, it is typically not possible to break up the bundle. For policy analysis at national level, this is normally not a big constraint since the program bundle (rather than its components) is the item under debate.

The construction of irrigation schemes usually appears as a project in the development budget. Recurrent charges for irrigation schemes may be difficult to identify, but it is worth a try if they are known to exist.

Assessing expenditure for extension and farmer training is often difficult, sometimes virtually impossible. It is easy if there is an extension department the budget of which includes salaries of extension staff posted in the field. However, extension services are often provided by local agricultural offices in districts, and local offices’ budgets are not broken down by sub-functions or administrative divisions. Conceptual problems arise when extension services are provided by staff also responsible for pest and disease controls, the preparation of certifications, issuing permits and statistics. Therefore, situations can arise when the only practical approach is to show the expenditure allocated to local agricultural offices.

This expenditure should then be shown and the allocation over time should be analyzed. The text of the report would specify what this expenditure category covers.

In many cases, it may not be possible to map budget lines and subvotes to sub-functions, as budget items may include several sub-functions. The problem can be solved by way of apportioning the expenditure to sub-functions. The percentage share of sub-functions in items that appear in the budget is likely to fluctuate, the formula itself may not be convincing, and the result may obfuscate the overall picture. However, we discourage such apportionment except in very few and relevant cases. The resulting inaccuracy should be mentioned clearly in the text.

Box 10: Presentation Tips

Some of the following rules and tips are almost trivial. However, they are often ignored.

i) Indicate the unit.

ii) Numbers in a table should have the same number of decimals, should be right-aligned and use thousands separators consistently. Otherwise, it is difficult to distinguish the “big” and the “small” items.

iii) Reduce the number of significant digits. Example: The magnitude of an amount is much easier to grasp when it is presented as $201.8 million instead of $201834275.07.

iv) Ensure that titles are repeated in tables that span over more than one page.

v) Charts with stacked colums are useful to distinguish the portion which is expected to be stable or grow gradually from the “clatter” (like volatile projects and special programs). Putting the stable part at the bottom and the “clatter” on top makes it easier to grasp the message and assess the evolution of those items where continuity is expected.

vi) We (the authors of this note) found it useful to have notes below tables and charts which point to the file and sheet of the Excel file where the graph / table are located. Such notes allow to retrieve the chart / table and associated numbers and facilitate updating the information.

vii) Tables can be imported into Word documents as objects, as RTF or HTML formatted data, or as picture. We found inserting tables as pictures most convenient: tables can easily be scaled, numbers remain right-aligned and the lines and titles are transferred as shown in the original Excel table.

3.6 Deflating time series

The AgPER Lite focuses primarily on changes in the level and composition of expenditure for agriculture, rather than relating agricultural spending to total budget. Therefore, series should preferably be expressed in real rather than (or in addition to) nominal terms.

Time series in constant prices are particularly recommended for the following items:

i. Agricultural GDP,

ii. Overall government spending on agriculture, with distinction of recurrent and development spending and special high-cost items,

iii. Overall government spending on general services to agriculture (i.e., without special items and without transfers), subdivided into personnel and other recurrent costs,

iv. Overall government spending on agriculture by sub-sector,

v. External aid and spending from domestic resources.

For most of the above-mentioned series, a presentation in constant prices is superior to a chart showing percentage shares because loss of weight may occur only because the other part has increased, and vice-versa.

Often the best deflator is the implicit deflator for “General Public Services” in GDP statistics. Statistical offices publish implicit deflators as part of the regular GDP updates, or they can be calculated from tables in current and in constant prices. The national Consumer Price Index (CPI) is the other option. However, since the CPI is typically highly influenced by food prices, its use is recommended only as a fallback option (if the GDP deflator for General Public Services is not available). It is worth comparing the two indices to see how much difference the choice really makes.

Series converted to an international currency with low rates of inflation (US-Dollar or Euro) are sometimes used to remove the inflationary element from nominal series. However, in view of the strong fluctuations between the Dollar and the Euro and of special factors influencing the exchange rate of the national currency of the country under analysis, this method should be the last choice.[18] A presentation in terms of international currency is useful to visualize orders of magnitude, but generally not adequate for eliminating the effects of inflation.

Inflation rates and appropriate deflators are typically not yet available for the current year and the following year for which the budget has been submitted to the National Assembly or is under preparation. For these years, a reasonable estimate of the inflation rate and corresponding deflator has to be made. Note that the margin of error of the estimate may be higher than the observed change in the series!

3.7 Ratios of Public Expenditure on Agriculture to AgGDP

Standard presentations in the AgPER Lite should include charts and/or tables that relate public expenditure on agriculture to agriculture’s contribution to GDP (AgGDP).[19] In most instances, GDP statistics distinguish sub-sectors and show separate lines for crops, livestock, fishing, and forestry.

The report should therefore include charts which show:

- Public expenditure on agriculture over agriculture’s value-added (AgGDP),
- Sub-sector expenditure over sub-sectors’ value-added,
- Research intensity: R&D expenditure (and extension if available) over AgGDP (total and by sub-sector if available),

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[18] An example for a country with very high inflation rates is Malawi. Deflators could be used, but if changes of 5% or 10% of real expenditure are interpreted, the error margin by applying available deflators tends to obfuscate the real trends. Series can be converted to US-Dollars, but the exchange rate was highly regulated over several years. Therefore, the official exchange rate would not be appropriate, and the parallel exchange rate may have been just as skewed upwards, reflecting the severe shortage of dollars for very specific purposes.

[19] This is equivalent to the agriculture’s sector value-added. This is not quite the contribution to GDP because the elements also include adjustments for financial services and for “indirect taxes less subsidies”.

- Releases for agriculture by quarter if relevant,[20]
- Expenditure on agriculture as share of total government expenditure (ensure that the numerator contains only items that are also included in the denominator).

Other ratios that are often used can be misleading because the share of what one is looking at is influenced strongly by “the other” part. Examples are the share of decentralized and central expenditure in the total, non-wage recurrent over total recurrent expenditure, or non-wage recurrent over capital expenditure (i.e., composition of non-wage total expenditure), It is preferable to use stacked columns with values instead of percentages, because it allows to identify fluctuations of the total and of one item in the total due to special factors. It is recommended to show absolute values and ratios in one single chart with two Y-axes.

A frequently used yet potentially misleading indicator is the share of total agricultural as of total public expenditure over agriculture’s share in total GDP. While it is instructive to compare public spending and GDP contribution, the comparison of shares can be misleading: the charts mapping this indicator suggest that the ratio of sector in total expenditure should reflect the weight of the sector in the economy. This is not a reasonable target per se, since different industries require very different levels of public goods to operate and prosper.

Special expenditure (the “big items”) should be shown explicitly.

The change of these percentages over time is interesting, but difficult to interpret. With regard to Research intensity, the CAADP documents recommend spending of one percent of AgGDP on research and extension; most countries spend significantly less. The percentage of public expenditure related to AgGDP varies considerably across countries. Some small countries do spend well above ten percent, with Botswana being the extreme with over 50 percent. There are no standards because the requirement of public goods to complement private inputs into agricultural production varies across countries. A sector dominated by smallholders generally requires a higher percentage because more public services are required (large farms partly internalize the cost or procure the services from the market) and because smallholder productivity tends to be lower.

The interpretation is also not straight-forward because if production and value-added increase, the percentage-wise contribution of public services falls.

Yet, it is of interest to show these figures and charts because observed changes can point to overspending on public goods or show situations where the availability of funding for public goods is falling over time without a policy-induced reason.

Note that the optimal percentage of routine public services over sector GDP may be quite different across sub-sectors. There is no reason to assume that livestock would require the same share of public goods in total inputs as the crops sub-sector. Furthermore, there is no rationale to target for a percentage of agricultural in total spending that is equivalent to agriculture’s share in GDP, also since the requirements of public goods varies across sectors. Obviously, the requirement is higher in transport (because of roads) than it is in industry.

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[20] Low levels of releases can result from cash shortages at Treasury level, or reflect a low pace of spending at sector level to which the Treasury reacts by transferring only the funds that are needed to settle invoices.

3.8 Other dimensions and classifications

Conceptually important is the distinction between expenditure on routine services and expenditure made with the objective of expanding the production frontier. It is difficult to attribute expenditure to these two categories in practice because many departments make both types of expenditure. However, the distinction is useful as a paradigm, and it may be possible to produce charts which show the evolution of some key expenditure items over time. The idea is presented in Box 11 below.

Box 11: Growth and Public Expenditure

Should growth be expected from public expenditure? Ministries of Finance often raise this question. The assumption is also implicit in the Maputo Declaration, which recommends to increase public expenditure on agriculture in order to achieve an annual growth rate of ten percent. Should Ministries of Agriculture be criticized because production does not increase in spite of substantial budget allocations?

In fact, it is more complicated. It is useful to distinguish two types of expenditure in spite of the concept remaining vague in practice.

The first group of expenditure, which we call “routine expenditure”, provides public goods (services) for the agriculture sector. In order to produce, farmers need inputs which are obtained from markets, such as seeds and fertilizer. They also need public goods as a complement. The range of public goods required are, for example, a land regulation that ensures security of tenure, pest and disease control services, adequate market regulations and roads for bringing products to market. There is need for a certain level of expenditure on research in order to develop new varieties as bugs learn to like the existing ones. A basic level of extension services is required to complement the knowledge that new generations of farmers have acquired from their parents.

If these routine services are not available, production is likely to collapse over time. If they are not sufficient, production falls short of what is possible with existing potentials.

The second group is what can be called “elevator expenditure” (for lack of a better term). This is expenditure designed to expand the frontier of agricultural production by way of introducing new technologies or increasing the potentials. Examples for this “elevator expenditure” are the construction of additional irrigation schemes or efforts to disseminate new production methods. Part of agricultural research and parts of agricultural extension serves the purpose of introducing new technologies. An input subsidy scheme may be designed to reduce farmers’ risks for a defined period of time and provide an incentive to try new methods of cultivation, while the assumption is that farmers will purchase these inputs from the market at market prices once they have experienced the benefits of using inputs such as certified and improved seeds, fertilizers, pesticides and mechanization. Such a scheme (NAIVS in Tanzania is an example) would qualify as instrument for pushing technology for a defined period of time and hoping that production will remain at higher levels after the end of the subsidy program.

“Elevator expenditures” are an investment expenditure in the sense that they intend to lift the production frontier to a higher level, at which it will remain after the investment period. The measures are conceived as temporary with sustainable effects: after having introduced the new technologies or after having built the irrigation scheme or after having opened up new arable land, the expenditure is no longer required, production will remain at that higher level.

Unfortunately, this split into “routine” and “elevator” expenditure can not be readily used as a classifier of public expenditure. The concept does not coincide with the classification “current versus capital” or “recurrent versus development”. Many spending units are producing routine services as well as undertaking activities meant to expand the production frontier. Finally, in a situation characterized by under-supply of routine services, expanding the supply can also produce and facilitate growth.

Yet, as a paradigm, the distinction is useful for analytic purposes and formulating questions.

4. Non-financial data series and information

4.1 Introduction

In its analysis, an AgPER relates expenditure data to broad results indicators such as the contribution of agriculture to GDP and production trends of important crops, livestock and fisheries and forestry products. This section describes the sources and some intricacies in interpreting the data.

Data on GDP and production are collected and compiled by the national statistical offices and the statistics section of the agricultural ministries. They may be available in other publications, which could be referenced. However, it is recommended to compile them in separate spreadsheets in the context of an AgPER and to reproduce some of them in the report. Main reasons for doing so include:

- Publications typically refer to only a small number of years. However, in the context of an AgPER, one probably wants to look at longer trends. Such series should be available and verified.
- It is good practice to also present the data used in the analysis.
- Different sources may provide quite different figures for what is apparently the same items. It is therefore recommended to compare the sources and to understand the origin of these figures.

4.2 AgGDP

Agriculture's contribution to GDP is the value-added obtained from agricultural activities. Total GDP adds up all sectors' contribution to value-added and then, at the bottom of a typical GDP table, adds / subtracts lines that relate to imputed financial services and to the net of indirect taxes less subsidies. Agriculture's contribution to total value added is referred to as AgGDP in the following.

GDP data are usually available from statistical offices and often reproduced in reports of central banks. They are available and presented in current as well as in constant prices. Often, tables on implicit deflators are also available.

Care should be taken to identify the revision state of the data. Data evolve from preliminary to provisional to final. Some discrepancies found when comparing GDP data from different sources often find their explanation in differences in the revision stage.

Contributions of agriculture to total value added are most often detailed by sub-sector (crops, livestock etc.). The subdivisions should be maintained in the tables compiled in the AgPER context. Some countries also disaggregate the formal / monetarized and non-monetarized sector. In this case, the compilation should be done maintaining the distinction, since comparisons between the evolution of the different parts can be instructive. If specific elements of sub-sector (e.g., "cash crops") are shown separately, this distinction should also be maintained in the spreadsheets in which the data are compiled by the AgPER Team.

The recommended data source is spreadsheets obtained from statistical offices. However, they should be compared to data available in printed publications by the statistical office and the central bank and with data presented on websites of the two.

Note that the basic basket of GDP calculation is adjusted from time to time. At times, the data on the basis of the old and the new base year differ significantly, particularly when non-formal activities are captured in the new but not the old series or if base weights of sub-sectors are modified.

Interpretation of time series on agriculture's contribution to GDP may not be straight-forward. The caveats shown in the Box below may provide useful guidance.

Box 12: Interpreting AgGDP Series

The Maputo and Malabo Declarations and accompanying CAADP documents target for annual growth of six percent, without further specification. This target is generally interpreted as growth of AgGDP. A typical preliminary assessment of whether the targeted growth is achieved is done by looking at AgGDP in constant prices.

It is clear that a growth of AgGDP cannot be attributed directly to government interventions and government spending – prices and climatic factors are major variables determining production and AgGDP levels. But there are additional caveats to take into account:

a) Six percent of real growth is in the order of overall economic growth in well-performing economies. Since a growth rate of 6 percent for the entire economy is about what well-performing countries achieve, this target for AgGDP growth implies the vision that incomes derived from agriculture should grow about as fast as incomes from other sectors of the economy. The weight of agriculture in the economy should be maintained. However, transformation trends in emerging economies went almost always hand-in-hand with a gradual decrease of the weight of agriculture in GDP, as labor moved to other sectors as the agricultural sector become more productive and more mechanized. The target therefore is very ambitious.

b) Production in agriculture may well increase without a commensurate increase in AgGDP. Suppose production increases because of a higher level of input use. Inputs are a cost and are not included in AgGDP. Therefore, production growth under this scenario would be higher than AgGDP growth.

c) In addition, a higher degree of availability of agricultural products may lead to a gradual fall of prices – the benefit of productivity gains is passed on to consumers. Productivity gains can go in parallel with stagnant incomes derived from agricultural activities. Therefore, it is necessary to look at production data as well as AgGDP data series.

d) When farmers receive large amounts of input subsidies, the value-added in agriculture increases because farmers' costs are reduced. If farmers do not use more inputs with the subsidy than they would have used without it and if production levels do not increase because of the subsidy, AgGDP would still increase. Even if farmers react by increasing production and assuming that this is not the result of farmers switching from other crops to the one benefitting from the subsidy, the increase of AgGDP will be larger than the production increase.

e) The statistics office requires statistics about production in order to compile the data on AgGDP. Where production statistics are weak, this results in equally weak estimates of AgGDP.

The assessment of the evolution of AgGDP needs to take account of these effects. It should be complemented by a close look at production data.

4.3 Production and Yield for Major Crops and Products

Most agriculture development strategies have the objective of increasing the availability of food crops (or fish or livestock) for the sake of food security or for exports. Quite often, increasing land yields or increasing self-sufficiency rates are prominent objectives of policy.

In order to assess the broad overall success of these policies, a look at production figures is recommended.

As in the case of GDP data, it is recommended to keep spreadsheets with long series of production data on important crops and livestock / fisheries items in the context of an AgPER. The length of the series is of particular importance because short-term variations are likely to be the result of whether and prices rather than government action and agricultural support services.

Production data for major crops, area planted/harvested and yields are the key data to tabulate. If statistics distinguish between small and big farms, it is recommended to collect and tabulate the data maintaining this distinction. In particular, yields and yield changes tend to differ between the two sub-sectors, and policies are often very specific about the group of producers that they are designed to benefit.

Statistics on land use (area by crop) and production have been the most difficult to collect in many AgPERs, for two reasons. First, statistics can be derived from pre-harvest assessments (typically done in the context of an early warning system) and post-harvest surveys. The two sources often result in quite different numbers, mainly due to differences in methodology and coverage of small and commercial farms. The second reason is that the data, which typically originate from agricultural ministries, are frequently reproduced in publications by the statistics bureaus and central banks, but revisions (frequent and legitimate!) may not transit systematically from the agricultural ministries to these other publications. One needs to make a choice and select the series that are credible, readily available and reliably updated. However, it is worth to compare the different sources and to highlight significant differences. The exact source of data needs to be specified, and the data collection method of the source should be explained in a text box. “Ministry of Agriculture” as a source is generally not sufficient, because different departments may compile different sets of data.

In addition to GDP and key production data, other interesting data series may be available on a regular basis. They should be compiled in time series on a selective basis. Such data series can include:

- self-sufficiency rates for the principal staples,
- exports of major cash crops,
- data provided by processing units (for instance, the purchase of grains by mills).

4.4 Private Investment and Lending

Growth of agricultural production and income derived from agriculture requires private investment. The level and trend in investment is an important indicator about the success of agricultural policy and the attractiveness of the sector. Lending to agriculture can serve as a proxy for investment and is therefore also of interest. It is therefore recommended that data on private investment in the sector and bank lending are also collected and compiled in time series in the AgPER Lite context.

Unfortunately, meaningful data are often difficult to find. Investment by smallholders is crucial, but it can be captured only by way of surveys and censuses. Bank statistics may show outstanding loans to the agriculture sector, but the definition used in these statistics needs careful verification, since it may be quite broad and include loans for transport fleets, storage and processing or combine agriculture and food industry into one category. Investment promotion bureaus compile and frequently publish data based on investors' applications, but it may be unclear whether the investment has taken place; the bureaus often cover only investments for which tax and other benefits are applied for. Balance-of-payment data relate only to foreign investment.

Still, given the significance of investment activities for sector development, it is worth giving it a try to compile the data. For practical purposes, though, this can be conveniently postponed to later rounds of the regular AgPER Lite exercise.

4.5 Socio-economic Data

In the AgPER (light or not), reference to basic socio-economic data is useful. Such data may include:

- the number of households engaged primarily in agriculture, by size of holdings,
- the number of people stating agriculture as their main source of income,
- rural population,
- age profile of full-time farmers,
- all duly disaggregated by sex where appropriate.

Such data are available from general population or agricultural censuses and available only periodically rather than annually. Therefore, it is recommended to make reference to such indicators only sparingly in an AgPER Lite and only when new and interesting data come out from other studies and surveys.

Generally, it is not worth to keep data series on these parameters because they are not annual. However, it is useful to collect the publications and to report on recent results as and when they become available.

The static-but-updated part of the AgPER Lite should include a short section explaining the structure of the agricultural sector for those not deeply familiar with the sector, and also for the benefit of participants in the discussion who may be relatively new to the discussion fora.

4.6 Policy and Big Initiatives

The AgPER Lite should contain a section on recent and important policy changes and new initiatives which can be expected to have a significant and visible (in statistics) impact on expenditure (level or composition) and agricultural production.[21]

Initiatives that are currently under discussion are of particular interest in the context of an AgPER Lite, because the analyses in the AgPER Lite report can contribute towards assessing the expected value-for-money of costly programs and better choices.

It can also highlight where costly programs that promise to have a major impact and be economically viable are not taken up because of lack of budgetary resources. The presentation of a summary of an analysis of viability can support agricultural ministries in presenting and arguing their case vis-à-vis the Ministry of Finance in the context of budget negotiations.

5. Process and the Makers of the AgPER Lite

Establishing an AgPER Lite as a regular support element for decision-making and reviews requires several steps, which are discussed below.

Choosing the primary process into which the AgPER Lite is to be integrated (or with which it should be aligned) is the first step. Who would be the primary, first audience and recipient of the report? Which process can take ownership of the AgPER Lite and ensure that it is prepared on a regular basis? The choice is country-specific. The main candidates are the key agricultural ministries for their internal use (e.g., preparation of annual budgets) and the dialogue forum involving the ministries, development partners and other stakeholders and beneficiaries (farmer organizations, other private sector.

Second, a realistic estimate of the time required to prepare the AgPER Lite has to be made and agreed upon. We would think that three months from the start to delivery of the final product would be a reasonable assumption. In terms of person-months, the input would be in the order of 3 persons x 2 man-months for a regular annual update.

However, the first issue of the series of annual AgPERs needs more time and effort (possibly up to five months even) because the format has to be designed and agreed upon and data sources need to be identified. It is also necessary to verify the credibility of the sources and get assurance that data from this source will be available on an annual basis in a similar format. When choices between sources for the same type of data series exist, they should be compared for inconsistencies and unexplained gaps and fluctuations. The origin of the data needs to be ascertained.

21 For the benefit of readers not so familiar with the country and sector, a summary description of current policy and also the institutional structure of government agencies supporting the sector should be included somewhere in an annex. It would be referred to in the main section (Part A) of the AgPER Lite report only when significant changes took place recently.

Agreeing on the preliminary and final Terms of Reference[22], determining the sources of finance, negotiating the choice if "issues" and the process of tendering the work and selecting the consultants requires additional time – probably around two months.

The period during which the AgPER Lite should be prepared depends on the country-specific review calendar as well as the budget cycle. From the point of view of availability of expenditure data, a convenient moment would be the time of submission of the budget proposal to the national Parliament – the budget proposal could be taken into account in the data series. By that time, the previous year is not yet closed, but initial or adjusted allocations can be used as a proxy for expected actual expenditure.

Alternatively, the period of the AgPER Lite work could be timed to the availability of preliminary final expenditure outcomes of the year just ended and the initial or corrected authorizations for the current year as the most recent data in expenditure series.

Both options would allow the AgPER Lite to be finished before the next budget preparation round and possibly the fixation of planning ceilings so that it can influence the next budget.

Third comes a decision about who can and should prepare the AgPER Lite study. The range of choices includes:

- a local research institution,
- a local consultancy firm,
- government staff released from his/her ordinary duties for large parts of the duration of the study, or
- individually hired international and local consultants.

The report, in order to be credible, will have to be critical of policy or the management of funds by government at times. Therefore, independent staff would be preferred. While this may be an argument against attributing a leading role to government staff working in line in a ministry involved in delivering agricultural services, who might hesitate to be critical vis-à-vis its own work or decisions of superiors, an internal monitoring unit would still be a suitable choice. The tendency of good staff being "poached" whenever a special assignment (such as preparing a note for Cabinet or the minister or the World Bank) looms is another factor to be considered.

Two other aspects are important: at least one of the team must be able to work with complex spreadsheets; and it is advisable to have a team that is available for several years in the row with minor changes so that the task of preparing the AgPER can become a routine task where staff knows the source of data and the structure of the database of the previous year.

It is advisable to choose experts who are qualified for analysing policy and have a macro focus. They do not need to be agricultural economists and should not be experienced predominantly in project-level analysis only.

The group or institution that commissions the AgPER Lite needs to agree on some aspects before the work starts:

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22 See Annex 2 for a proposal for generic Terms of Reference for the study and the entire team.

- A preliminary decision about coverage in terms of spending units to be taken into account should have been made; but the possibility of expanding the coverage or dropping items that are small and cumbersome to collect should be left open.
- The main users of the AgPER Lite should agree on the annual issues which the team should look at in greater depth. The beneficiaries of agricultural services, i.e. representatives of farmers and bigger private producers, should be involved if possible.
- All major spending units should designate a contact person who serves as entry point of the team to the ministry or department.

The lead group or institution should also give some thought about the appropriate source of data and information about off-budget spending by development partners, a source that allows to identify the top ten biggest projects.

Finally, the commissioning group or institution should be ready to arrange meetings of a reduced number of stakeholders that receive intermediate input from the study team and provide guidance when choices need to be made.

It is recommended to also establish a technical “Support Group” of representatives from the main agricultural ministries plus the Ministry of Finance, which responds to technical queries and facilitates access to documents and data from the institution they represent. The members would be the study team’s entry point into the respective institutions (focal points).

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Annex 1: Enhanced COFOG

Extracts from draft Guidance, 18-Jun-2015

Core Areas of Government Functions Relevant to the Agricultural Sector Based on

"Enhanced COFOG": [23]
Agriculture, Forestry Fishing and Cross Cutting Sub Functions
(and corresponding activities/expenditures)

Agriculture (Includes Crops and Livestock):
• Administration of agricultural affairs and services; conservation, reclamation or expansion of arable land; agrarian reform and land settlement; supervision and regulation of the agricultural industry;
• Construction or operation of flood control, irrigation and drainage systems, including grants, loans or subsidies for such works;
• Operation or support of programs or schemes to stabilize or improve farm prices and farm incomes; operation or support of extension services or veterinary services to farmers, pest control services, crop inspection services and crop grading services;
• Production and dissemination of general information, technical documentation and statistics on agricultural affairs and services;
• Compensation, grants, or subsidies to farmers in connection with agricultural activities, including payments for restricting or encouraging output of a particular crop or for allowing land to remain uncultivated.
• Administration and operation of government agencies engaged in applied research and experimental development related to agriculture; *
• Grants and subsidies to support applied research and experimental development related to agriculture by research institutes and universities. *

Forestry:
• Administration of forestry affairs and services; conservation, extension and rationalized exploitation of forest reserves (including forest crops in addition to timber); supervision and regulation of forest operations and issuance of tree-felling licenses;
• Operation or support of reforestation work, pest and disease control, forest fire-fighting and fire prevention services and extension services to forest operators;
• Production and dissemination of general information, technical documentation and statistics on forestry affairs and services;
• Grants or subsidies to support commercial forest activities.
• Administration and operation of government agencies engaged in applied research and experimental development related to forestry; *
• Grants or subsidies to support applied research and experimental development related to forestry and undertaken by research institutes and universities. *

Fishing:
• Administration of fishing affairs and services; protection, propagation and rationalized exploitation of fish stocks; supervision and regulation of freshwater fishing, coastal fishing, ocean fishing, fish farming and issuance of fishing licenses;
• Operation or support of fish hatcheries, extension services, or stocking activities, etc.;

[23] The items with an * refer to important subfunctions which contribute directly to agricultural growth. (refers to applied research, which is under another category in the original version of COFOG (2001).

• Production and dissemination of general information, technical documentation and statistics on fishing affairs and services;
• Grants, loans or subsidies to support commercial fishing and hunting activities, including the construction or operation of fish hatcheries.
• Administration and operation of government agencies engaged in applied research and experimental development related to fishing; *
• Grants or subsidies to support applied research and experimental development related to fishing and undertaken by research institutes and universities. *

Other Agricultural Cross-cutting Sub Functions/Activities: (and their corresponding expenditures)

Cross-Cutting Sub Functions for Agricultural Sector **(comprises "Enhanced COFOG")** **(will require appropriate apportionment of costs) ***
1) Food and Nutrition Security
2) Rural/Feeder Roads
3) Rural Land Administration
4) Natural Resource Management and Climate Change Adaptation for Sustainable Agriculture Development
5) Multi-Sectoral / Multi-Purpose Development Projects
6) Mandated Functions of SOEs (for agric. devt.)
7) Agriculture Marketing
8) Capacity Development for Agriculture Development (up to the technical level)*
9) Rural Electrification for Agriculture
10) Rural Information and Communications Technology (ICT) for Agriculture
11) Sub National expenditures (which are on-budget, and which benefit directly the agricultural sector, and which comprise allocations from central government and from sub national own generated revenues)

* A general guideline is for each country (preferably through an Ag PER team, lodged with the MOA) to apportion to "agricultural expenditures" an estimated amount which is consistent with the proportion of total incremental benefits which can be attributed to the agricultural sector. It is recognized that these percentages will vary between and within countries, and hence it is important for each country (and assigned team) to make explicit its assumptions, based on available information. Over time, it is recognized that as the evidence base improves, there will be improved basis for the apportionment percentages. Cross-country exchanges can also enhance the estimates utilized by each country to promote reliable and consistent cross-country comparisons.

Guidance on "Cross-cutting" Components/sub-functions. The following guidance is provided for identifying and measuring the most relevant cross cutting elements to be included in the estimation of the expenditures (numerator and denominator) and its share:

(a) Food and Nutrition Security: These expenditures form part of high priority strategies and expenditures, and part of these expenditures are incurred by the Ministry of Health. Accordingly, there is a need to apportion an appropriate proportion of these expenditures to the agricultural sector;

(b) Rural/Feeder Roads: Rural feeder road expenditures should be included in the estimate of GEA to the extent the identified segments (and associated expenditures) link agricultural production areas (e.g., irrigated or rainfed areas) with markets (domestic, regional and international)**.** Since these feeder roads also provide multi-sectoral benefits, each country will need to make a judgment on the proportion of expenditures to attribute to the agricultural sector, based on an agreed set of criteria (e.g., proportion of the incremental benefits generated by the feeder road which can be attributed to the agricultural sector). Rural roads are considered to be too broad for attribution to the agricultural sector, and therefore, it is advisable to confine the estimation of agriculture expenditure costs to the "feeder road" classification.

(c) Rural Land Administration: To the extent there are rural land administration activities/expenditures which are supporting agricultural development (e.g., land titling, land adjudication, management of land registry), these expenditures should be included in the estimation of GEA. It will be important to ensure that urban-related land administration expenditures are not included. In the event the land administration expenditure data is not disaggregated sufficiently (e.g., total, urban and/or rural land administration), it will be important for the calculations to show explicit allocation assumptions, and use of relevant indicators (e.g. proportion of population residing in the covered area that rely primarily on the agricultural sector as their main source of livelihood).

(d) Sustainable Natural Resource Management (NRM) and Environmental Functions: To the extent there are sustainable NRM and environmental activities which are contributing directly to sustainable agriculture production, including NRM climate change adaptation activities, and sustainable forestry and conservation agriculture, these expenditure should be included in the calculation of GEA. Activities which are focused on "conservation" functions, such as most of the protected area activities, should be excluded from the calculation, unless justified for demonstrating important linkages to sustainable agriculture production. In each of the instances where "significant" environmental expenditures are included (say, more than 5% of total GEA), the inclusion of these estimates should be apportioned and justified with a brief explanation, in order to minimize overestimation.

(e) Multi-sectoral/multi-purpose projects. If a large and mega project (for example a dam construction) has multi-sectoral development objectives/activities (MSDO), including for example irrigation for agriculture purposes, the relevant portion of the MSDO expenditures should be included in the estimation of GEA. Each country should show the basis for this expenditure apportionment, based on relevant indicator(s) (e.g. proportion of total estimated benefits (ex-ante) which can be attributed to the agricultural sector; % of beneficiary population of the MSDP that relies primarily on the agricultural sector; and proportion of total benefits which contribute directly to increased agricultural production).

(f) Government Institutions (extra budgetary funds) are included. In some countries, extra-budgetary institutions which provide goods and services/activities in the agricultural sector (e.g. a Forestry Fund or Fisheries Fund) finance their operations through their own self-generated revenues by an act of law or an executive branch decision. Unlike public corporations, these extra budgetary funds are government institutions and constitute part of the general government expenditure, which should be included in reporting of government expenditures (see Table 2.1). It is recognized that since transactions of these extra-budgetary funds in some countries pass through the Treasury Department, they should easily be captured as part of agriculture expenditure and total government expenditure.

However, in countries where these funds operate their own accounting and banking functions, experience shows that reporting from these institutions to Finance Ministries are very weak, delayed, or does not exist. In the event that a country excludes these transactions from the scope of total government expenditures, this should be explained in the country report. Note that since these transactions are deficit-neutral, they may not have immediate fiscal impact of a country and budget deficit analysis, but are important for sectoral analysis.

(g) **Public enterprises and financial institutions are excluded, with specific exceptions.** In the estimation of GEA, public enterprises or state-owned enterprises or public corporations which incur public corporation agriculture expenditure, as well as financial institutions (government-owned banks and insurance companies, such as an agriculture development bank), which are incorporated in accordance with corporation laws or banking regulations of a country and produce profit and loss accounts and pay taxes, are not part of general government and should not be added to total government expenditures, even if they are active in agricultural sector. However, the exceptions for inclusion of the relevant expenditures in the GEA estimation includes the following instances: in the event that a government provides additional funds to these companies or institutions to compensate their operational losses (i.e. financial flows, at close of transaction, in accounting terms), or in the form of capital injection or servicing their guaranteed debt, or if a government engages SOEs/banks in carrying out mandated government functions, such as administering a Government-supported agricultural credit scheme, including possible interest subsidy. These expenditures should be included even if the transactions do not appear in the budget documents for as long as they are known to the Finance Ministries (Account-General and Treasury Departments).

(h) **Debt service payments are excluded.** Debt service (payment of principle and interest by government on its internal and external borrowing) or pension-related payments from government budget, in general, are statuary in nature or so-called non-discretionary expenditures, and governments have no control over them. In the vast majority of countries, the Ministry of Finance manages its debt strategy and inter-sectoral allocations on an aggregate basis, and takes into account various borrowing options based on varying criteria. Therefore, it is difficult to disaggregate debt payments according to each sector, without complicating or distorting the estimation and allocation/attribution process and estimates. Accordingly, debt service payments would not be computed as part of GEA. However, the exception is to include in the denominator only the estimates of interest rates of debt service payments.

(i) **Agriculture Public Revenues are excluded:** Tax concessions in agriculture can certainly be significant and useful to calculate. Yet they should not constitute agriculture spending per se. There is a difference between potential revenue that has never been raised and thus not spent and revenue raised and actually spent. If tax concessions in agriculture were regarded as agriculture spending, a government's abolition of these would instantly appear to decrease the amount of agricultural spending, but without actually doing so.

(j) **Agricultural Marketing Expenditures are included**: Agricultural marketing of primary produce would be included (generally about 100% of the total value marketed) in the calculation of the GEA, consistent with the calculation of Agricultural GDP growth.

(k) **Capacity Development Expenditures for Agriculture Development are included**: It is generally agreed that capacity development of key MDAs and its technical personal play a vital role in facilitating accelerated and sustainable agricultural growth. Accordingly, 100% of expenditures in capacity development should be included in the GEA estimate. Similarly, the estimate of TGE should also include all (100%) capacity development expenditures for all sector/functions incurred through the Government.

(l) **Sub National expenditures are included**: There is a need to track and estimate an appropriate proportion of the sub national expenditures which are targeted to the agricultural sector and directly promote agricultural growth. These estimates should include: (i) revenue funds generated by local government and used for the agricultural sector, based on an apportionment estimate; (ii) earmarked funds channeled by central Government MDAs for agricultural growth; (iii) expenditures which are funded through the sub national entity's own sources of budget which are supporting one of the key target groups.

(m) **ICT for Agriculture are included**: ICT is increasingly becoming an important tool for promoting technology dissemination and farmer adoption and competitive agricultural marketing. Accordingly, an appropriate proportion should be included in the estimates of GEA (in line with the proportion of benefits attributed to the agricultural sector);

(n) **Rural Electrification expenditures are included**: To the extent rural electrification is contributing to agricultural development, an appropriate proportion of these expenditures should be included in the estimate of the GEA.

(o) **Agriculture training and capacity development**, up to tertiary level, should be included in the estimates of GEA (with appropriate apportionment). Furthermore, it is noted that rural development in the COFOG system is not an independent sector, but its operations are split among many other sectors, including health, education, transportation, etc. The inclusion of agriculture-related activities (as defined and/or implied by the list of functions outlined in Appendix 5) of rural development is recommended. Also, in cases where other ministries, eg., the Ministries of Works implement agriculture-related construction projects, the relevant expenditures should also be identified and apportioned as part of the expenditure calculation, with an indication of clear rationale. Similarly, if a public university or a research center conducts agriculture-related work, the related expenditure should also be included in the estimate of GEA.

(p) **Off-Budget Expenditures** should not be included in GEA in the short and medium term, although for countries where off-budget expenditures are "significant", these countries should endeavor to track such off-budget expenditures as soon as possible (for both the numerator and denominator). Identifying and tracking spending from loans and grants needs more cooperation between Finance Ministries (external resource units), central treasuries, line ministries and development partners (DPs). In the case of spending from external grants the issue is even more complicated as most grant donors (ODA) do not usually report to aid receiving governments on the amounts they spend inside and outside a country; often these expenditures, constitute sizeable off-budget expenditures which aim to provide "public" goods/services and to directly support Government agricultural programs (e.g., agricultural extension). Each country, however, is encouraged to demand more transparency in the level and composition of off-budget expenditures and promote integration of off-budgets into the government's budgetary system.

…

Other Relevant Considerations

Recurrent and capital expenditures should be estimated and reported separately. Disaggregation of expenditures by capital and recurrent, based on the COFOG classification system, is recommended. This approach would allow for further expenditure analyses, and as well explain patterns in GEA; for example expenditures on a large project may be significantly high in the year when physical installations are made, but much smaller in subsequent years of operation – and hence disaggregation by capital and recurrent expenditures would provide clear explanations.

Annex 2: Generic Terms of Reference for the AgPER Lite

Note:

These TOR describe the task for an AgPER Lite study in a specific country. They need to be customized to build on available experience and capacities and specific aspects of the agriculture sector in the country. The TOR should also include reference to earlier PER work in the country, which have to be added.

This version of the TOR defines the tasks of the Study Team for the first round. For subsequent rounds, the task to enhance and improve specific aspects of the permanent-and-updated Part B should be added. The time available to implement the study can be reduced in subsequent rounds.

1. Context and Objectives

In most sub-Saharan African countries, the agriculture sector provides employment and income for a large number of the population and is crucial for ensuring sufficient supply of food to the countries' rural and urban population. Growth of incomes derived from agriculture is an essential factor to reduce rural poverty. Malnutrition, particularly of children, remains a cause of major concern, and requires that food is available and accessible; agricultural development can contribute to both factors.

<add some numbers on the specific country>

Agriculture therefore is a priority sector in most countries' development strategy. The Heads of States of the member countries of the African Union have emphasized the sector's significance by adopting the Maputo Declaration in 2003, in which they set the target to achieve an annual growth rate of agriculture of 6 percent and committed to provide 10 percent of national budgets for the promotion of agriculture and agricultural growth. The commitment was reconfirmed in the 2014 Malabo Declaration, which also expressed the commitment to ensure the quality (read: effectiveness) of public expenditure on agriculture and introduced mechanisms for biennial reporting on the progress to the AU Commission.

The task to improve the effectiveness of public expenditure on agriculture lies with the member countries. Strategies require funds to implement, the renewed emphasis on agriculture has to find its expression in the levels and the composition of public expenditure.

The AgPER Lite is expected to assist countries in assessing the evolution of levels and composition of expenditure over time and up to the most recent budget. It is designed to provide basic data and analyses that can be useful for annual budgeting, strategic planning and performance reviews and ultimately provide evidence to support informed decision-making. It will be conducted as part of the budget planning and preparation process and joint sector review cycles and be embedded into these processes.

The AgPER Lite will produce and later update data and essential country and sector information. But first and foremost, it will analyze a small number of key issues that are strategic in nature and relevant to the current debates on policy-expenditure-results linkages. The selected issues will reflect areas where there is insufficient information to make decisions based on evidence. Each annual round of the AgPER Lite will tackle selected issues according to relevance and urgency. Over time, many important issues will have been addressed. This means that issues not selected for a particular annual round are not eliminated, but rather postponed to a future round depending on their urgency.

A Guide for the elaboration of annual or biennial simplified public expenditure reviews was prepared by the World Bank, with finance by the CAADP Trust Fund and the Bill & Melinda Gates Foundation.

The task described in these Terms of Reference is to prepare the <first issue> of regular light agriculture public expenditure reviews in <country> in such a way that it can be updated in later years and provides useful inputs into review and planning processes. To the extent possible, the AgPER Lite for <country> will also provide some of the data and information required for complying with the reporting requirements to the African Union.

However, the AgPER Lite is not the report to the African Union itself, nor does it provide all the details and breakdowns of expenditure data required to monitor the national agriculture investment programs inspired by the CAADP process. The main purpose of the AgPER Lite report is to support national planning and review processes.

2. Methodology

2.1 Issues section

Two or three <specify!> issues are to be analyzed in greater depth in each AgPER Lite report. The issues are selected on the basis of relevance for the current policy and strategy debate and the link of options with public expenditure.

For this year, the following issues were identified:

a) <issue 1>

b) <issue 2>

c) <issue 3>

<Describe the issues, highlight their relevance and the rationale for selecting them!>

In order to provide in-depth information on the choices that arise from these issues and also in order to establish the facts, the Study Team may want to visit a reduced number of districts in the course of preparing the AgPER Lite report. The Study Team is expected to make proposals in the early stages of the study about the field visits to be scheduled.

2.2 Expenditure data

The AgPER Lite Guide provides basic instructions and tools and provides the basis for this work. Additional guidance documents to be taken into account are the World Bank's

AgPER Toolkit and the new “AU Guidance Note on tracking and measuring the levels and quality of government expenditures for agriculture” of 2015.[1]

Expenditure data should be retrieved from the budget documentation and, if possible, from the <IFMIS>.[2] All sectors that execute expenditure for the direct benefit of agriculture (crops, livestock, fisheries and productive forestry as well as agricultural research) should be covered. Expenditure data should preferably cover at least five years including the current fiscal year; ideally, the approved budget for the following year should also be included. Indirect expenditure on agriculture, defined as “agriculture supportive expenditure” by the FAO’s MAFAP project, is not to be covered.[3]

Coverage of expenditure data should include all administrative levels (central and local). Expenditure financed by development partners will be included if it is recorded in budget books (“Estimates”). Off-budget expenditure on agriculture is to be covered to the extent that data are readily available and credible; information on at least the big current projects should be provided.

Expenditure on agriculture incurred by non-agricultural ministries (e.g., the Ministry of Public Works for rural roads and construction of dams) will be covered to the extent that they can be identified with a reasonable degree of accuracy. The Study Team is expected to make proposals about what to cover, based on the criteria of accessibility of data and relevance of such expenditure.

Public expenditure on agriculture should be disaggregated at least by:

- Recurrent, internal investment (domestically financed) and externally financed investment;
- The cost of personnel and transfers to subordinate agencies that are outside the national accounting system should be identified within the block of recurrent expenditure;
- Provincial and district expenditure (<must be covered unless really significant>;
- If a small number of policies or initiatives absorb large amounts of expenditure, they should be identified and the background should be explained.

The expenditure series will be presented in charts or tables and variations should be explained by way of identifying the most prominent cost drivers. For example, if expenditure surges in one year and if this is due to a particular situation (drought or disease outbreak), this should be explained.

The AU Guidance Note explains how expenditure by institutions that are not core agricultural ministries can be apportioned to agriculture and non-agriculture expenditure, respectively. The technique is proposed to be used, for instance, in the case of multi-purpose dams, price information systems of a Ministry of Trade, feeder roads or loan scheme that also benefit agriculture. In the AgPER Lite context, such apportionment should be used sparingly and transparently, in particular because the robustness of

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[1] CAADP/NEPAD: Guidance Note on tracking and measuring the levels and quality of government expenditures for agriculture. Final draft, October 2015; and World Bank: Practitioners’ Toolkit for Agriculture Public Expenditure Analysis. March, 2011.

[2] The “Integrated Financial Management and Information System“ may have different names in specific countries; adapt the text!

[3] The MAFAP project is based on a wider perspective and it also collects data on rural infrastructure, health and education.

expenditure data calculated by way of apportionment is different. Apportionment should be used only if such expenditure is significant in the overall total of expenditure on agriculture. Inclusions and omissions need to be specifically mentioned in the text of the report.

2.3 Production and GDP data

In order to assess growth and broad composition of agricultural production and incomes derived from it, the Study Team will collect data on GDP by sub-sector and production of main agricultural products in time series of, ideally, at least 10 years. Data sources should be identified clearly, and the Study Team should attempt to understand how the data were collected.

2.4 Other relevant data

<adjust!> Data on export quantities and values of major export products may be required in order to interpret the production, income and expenditure data. If this is the case, they should also be collected and presented in time series.

Private investment and bank lending to the agriculture sector are further series that may be of interest. Private investment and bank lending can be used as indicator that shows the attractiveness of the sector, which is also the result of the availability of public services, adequate regulation and complementary public investment. The Study Team will attempt to identify sources of data with reasonable coverage and significance and make proposals about whether or not to include them in the data series to be compiled.[4]

3. Tasks and Sequencing

In the first stage of the work, the Study Team will identify available sources of the required data and check the consistency of available data from different sources. It will also assess the prospect of getting updated data on an annual basis from the identified sources. <adjust the following – relevant only if the country has carried out a MAFAP-supported expenditure study> It is strongly recommended that the Study Team contact the MAFAP team in the country in order to determine whether the data collected by MAFAP can be used in particular for historic expenditure data for the last closed 5 fiscal years.

The Study Team will also get an overview of the institutions that make public expenditure for agriculture, the institutions that provide services to the agriculture sector, and the main policies and programs that impact on public expenditure. This includes the need of a good perception about the division of tasks and responsibilities between the central and local levels.

After the first 10 calendar days of the work, the Study Team will present an Inception Report in order to get agreement on the further steps and content of the AgPER Lite report. This Inception Report will also include the Team's opinion about whether the pre-selected issues are feasible and relevant and whether field visits are considered necessary and/or useful. Finally, it should contain a draft annotated outline.

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4 The difficulties arise when bank statistics do not sufficiently differentiate between different groups of borrowers and use definitions of "agriculture" that include upstream industries like transport and processing. In many cases, investment by smallholders not financed by way of formal bank loans is not captured.

The subsequent steps are:

1. Data collection and analysis,
2. Field visits if appropriate (the Study Team will make proposals in the Inception Report),
3. Preparation of the Draft Report and presentation to stakeholders,
4. Finalization of the AgPER Lite Report, which takes comments received during the presentation and in writing into account.

4. Deliverables

The Study Team is expected to produce:

i) An Inception Report after about eight working days, which will be presented to and discussed by the Reference Group;

ii) A complete Draft AgPER Lite report for review and feedback;

iii) A presentation of the main findings, conclusions and recommendations for a meeting with the Reference Group and other stakeholders as the Reference Group sees fit;

iv) A final AgPER Lite report;

v) A Policy Brief of no more than two pages, intended to inform high-level decision-makers and to provide key inputs for their policy and expenditure decisions;

vi) A set of data in electronic format, in Excel, in such a form that it allows updating the data in the near future by adding data for additional years; the data set must be accompanied by notes which (a) explain the structure of the Excel sheets and how data transit from one sheet or file to another, and (b) identify the exact sources for data updates and the general procedures for introducing the updates into the data set.

Reports will be presented as soft copies in original editable format as well as in PDF format. In addition, three hard copies of each output are to be produced and submitted to the Reference Group.

It is intended to repeat the AgPER Lite exercise every year or every two years. Therefore, the report would ideally be structured so as to distinguish parts that need to be updated and sections that need to be newly written on every round. The AgPER Lite Guide contains a proposal to this effect.

5. Timeline

Work is expected to start on <date> and extend over a period of five months. Forty to sixty working days will be allocated to each team member, to be spread over this period.

<must be adapted to country specifics>

<Note: the allocation of days can be lower in subsequent AgPER Lite rounds.>

6. Institutional Setting

<adjust!> The AgPER Lite exercise is led by the Planning Department of the Ministry of Agriculture on behalf of main agricultural ministries in <country> and the developing partners providing support to the agriculture sector.

A Reference Group (steering committee) will be established, which includes representatives from the main agricultural ministries, the Ministry of Finance and one or two representatives of the development partners. The Reference Group will oversee and guide the work and will assist in giving access to the required documents and data.

In addition, there will be a Support Group with one representative from each of the main institutions providing services to the agriculture sector. The members will be the main entry point for the Study Team to these institutions and will provide support in identifying sources of data and documents. The Ministry of Finance will also be represented in this Support Group.

<to be elaborated according to country-specific setting and choices>

7. Qualifications of the Study Team members

The AgPER Lite Team should have, among its members, the following qualifications:

a) A good understanding of the concept of agriculture public expenditure reviews and the processes; at least one Team member should have hands-on experience as a member of a team that prepared an AgPER.

b) An understanding of financial management systems, also with regard to mechanisms used for incorporating aid into budgets and financial reports.

c) Good knowledge of the agriculture sector and the administrative structure of supporting institutions in <country>.

d) Very good skills in working with Excel in order to organize, group, analyze and visualize large amounts of data.

e) The ability to write in a concise style.

All team members must possess proven analytical and communications skills.

Key documents:

AgPER Lite Guide, Draft, December 2015. URL: <add>

AU Guidance Note on tracking and measuring the levels and quality of government expenditures for agriculture. Final draft, October 2015. URL: <add>

World Bank: Practitioners' Toolkit for Agriculture Public Expenditure Analysis. March, 2011. URL: http://documents.worldbank.org/curated/en/docsearch/projects/P125608%5EP090029

<add country-specific documents on analyses of expenditure on agriculture>

Annex 3: Model Table of Contents of AgPER Lite Report

Preface

Table of Contents

List of Tables, Figures, Text Boxes

Acronyms

Highlights and Key Messages (the Executive Summary)

1. Introduction

PART A: AgPER Analysis

2. Recent developments
   - 2.1 Recent policy changes and key programs
   - 2.2 Institutional changes and attribution of functions in agriculture support institutions
   - 2.3 Macro-economic context and changes of general financial management processes incl. aid management
   - 2.4 Production and productivity trends in agriculture

3. Expenditure analysis [with focus on changes]
   - 3.1 Level and main items

     [Includes presentation of items from Part B that point to significant changes in level by recurrent / internal development / external development expenditure, by central / local and for the big spenders. The interpretation of observed changes – whether it is good or bad, what explains the changes – is here rather than in Part B.]
   - 3.2 Expenditure by sub-functions

     [Cover here: research, public/private goods, spending on routine services versus spending for special programs, capital expenditure if relevant]
   - 3.3 Budget execution rates in the most recent years

     [distinguish aid by modalities and domestic financing from aid]

   [slot in big off-budget items where suitable]

4. Issues
   - 4.1 Issue no. 1
   - 4.2 Issue no. 2

[The structure of these sections depends on the issue. A helpful sequence may be: What is the concern, what policy options are under debate? What is the policy and institutional context? Expenditure and expenditure implications of alternative options. Conclusions and recommendations.]

5. Recommendations

   [for action and also for further study]

PART B: Country and Sector Background and Expenditure

6. Country Context
   - 6.1 General
   - 6.2 Fiscal Arrangements

7. Sector Context Agriculture
   - 7.1 Sector Structure

     [farm sizes, ownership, monocultures vs. mixed farming etc.]
   - 7.2 Production
     - 7.2.1 Crop Production
     - 7.2.2 Cash Crops
     - 7.2.3 Livestock
   - 7.3 Agriculture's Contribution to GDP
   - 7.4 Government Agencies and Policies in the Agriculture Sector
     - 7.4.1 Government Agencies

       [include reference to central / local agencies and indicate where the respective expenditure appears in the budget]
     - 7.4.2 Government Policies and Initiatives

8. Public Spending on Agriculture
   - 8.1 Concepts and Data Sources
   - 8.2 Big Spenders
   - 8.3 Weight of Development Expenditure and Development Assistance
   - 8.4 Composition of Normal Recurrent Expenditure
   - 8.5 Weight of Agricultural Recurrent Spending in Total Recurrent Expenditure
   - 8.6 Additional Features of Recurrent Expenditure on Agriculture
   - 8.7 Development Expenditure

References