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**Strengthening National Comprehensive Agricultural Public Expenditure**

**in Sub-Saharan Africa**

**Basic Agricultural Public Expenditure Diagnostic Review**

**Template Terms of Reference**

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## 1. Background

The programme “*Strengthening National Comprehensive Agricultural Public Expenditure in Sub-Saharan Africa*” financed by the Bill and Melinda Gates Foundation and implemented by The World Bank, seeks to improve the impact of scarce public resources spent by Sub-Saharan African governments on agricultural sector development activities, thereby improving the welfare of predominantly poor rural populations. It operates in the context of the Comprehensive Africa Agriculture Development Programme (CAADP) of the African Union’s (AU) New Partnership for Africa’s Development (NEPAD) which encourages governments and development partners (DPs) to target public expenditure on the agriculture sector as the most effective way of stimulating growth in the sector, thereby reducing hunger and poverty.

The overall objective of the project is, through providing analytical support, to promote the articulation and implementation of strengthened national comprehensive agricultural public expenditure programmes so as to build consensus for increased levels of public expenditure in the sector in Sub-Saharan Africa, and to enhance its efficiency, effectiveness and equity.

The programme is intended to provide evidence-based recommendations that will address, *inter alia*, budgetary planning, budget execution, and accountability in the agriculture sector, the creation of a reliable data base, and more effective intra- and inter-sectoral coordination. It is also aimed at stimulating larger donor resource allocations, and enhanced harmonization and alignment of resources behind national strategies. In the specific context of CAADP, the programme will focus on: the level of expenditure on agriculture, with particular reference to the explicit target by African Heads of State in the Maputo Declaration to allocate 10% of national budgets to the sector; the composition and priorities of expenditure with respect to stated national strategies, evidence of impact, sustainability and absorptive capacity; and, budget planning and implementation so as to strengthen public financial management in general and in particular budget coherence, outputs, outcomes and supporting mechanisms such as procurement and audit.

### Template Terms of Reference

Two different levels of analytical support will be provided through the programme: (a) to conduct a basic agriculture sector public expenditure review (PER) in countries where this work has not already been undertaken recently (the subject of these terms of reference), and (b) to carry out specialised public expenditure analyses in situations where an agriculture sector PER already exists. The three specialised studies are: the development of a sectoral medium term expenditure framework (MTEF); public expenditure tracking surveys (PETS); and, expenditure component impact evaluation. The existence of an agriculture sector PER is the prerequisite for conducting the other specialised studies. This should provide the essential understanding of the structure of public support for the sector and of the flows of funds that result. The public expenditure tracking survey (PETS) which examines outputs of public programmes, and the expenditure component impact evaluation study which looks at outcomes, are both backward looking exercises designed to inform policy and programme design. They both feed into sector investment programmes as part of the sector MTEF which is forward looking. The output of the analytical support will be country-specific reports that have been prepared jointly by government staff from the Ministries of Agriculture and of Finance together with external technical assistance.

The purpose of preparing template terms of reference (TOR) is to provide a clear framework which defines the scope, methodology and processes that should be adopted when carrying out each country study, whilst allowing flexibility for the task to be tailored to the specific needs, data availability and analytical capacities that exist in each country. The terms of reference serve as a checklist of items that should be covered in each study together with an indication of the level of detail that should be attempted and possible data sources and approach [*shown in parenthesis in the section on methodology below*]. The template framework aims to ensure that, as far as possible, data and analyses can be compared across different countries.

The Basic AgPER (where one has not already been conducted) will form a fundamental underpinning of the CAADP process leading into financed sector projects and programmes. It aims to enhance donor (and MoF) confidence in the potential of the sector to absorb substantially increased resources and to use those resources effectively. It will also form the first step towards formulating a sector medium-term expenditure framework (MTEF). A vital element of a sector MTEF is a sound, multi-year sector investment plan and it is this which the CAADP Post-Compact process will support.

The template TOR draw heavily for their methodology upon the “*Toolkit for Agriculture Public Expenditure Analysis*” (APEA) put together by World Bank and DFID<sup>1</sup>. It also refers to various elements of the CAADP country level processes and documents including the “*Stocktaking and Institutional Analysis*” which forms part of the CAADP Country Roundtable process, and the “*Post Compact Review: Guidelines*”<sup>2</sup> which are intended to help governments move swiftly into sector investment plans that can be financed.

## **2. Scope**

The basic agricultural public expenditure diagnostic review (Basic AgPER) is intended to compile basic expenditure data and to assess the extent to which expenditures reflect and contribute to stated national sectoral priorities. It also aims to draw lessons from the analysis that will be used to enhance the efficiency and effectiveness of public expenditure in the agriculture sector. The scope of the exercise is a function not only of the time and resources available, but also the state of the national accounts concerned, which means that more detailed analysis will be feasible in some countries than in others. However, as a general principle, the Basic AgPER will need to focus on important sub-sectors or major areas of expenditure and will not attempt to achieve the same level of detailed analysis across the entire agricultural sector.

## **Expenditures**

The exercise is essentially retrospective, aiming to assemble a report of all public expenditures in the agriculture sector<sup>3</sup> with reasonable accuracy, over the previous 10 years (to cover “before” and “after” the commitment by Heads of State under the Maputo Declaration to increase financing of agriculture). It would assess expenditure trends and composition at central and lower levels of government. The latter would be particularly important where fiscal decentralisation has been introduced. It is particularly important to understand the recurrent budget in the sector since the structure, financing and governance of the recurrent budget will determine the sustainability of investments that are made on the capital (development) budget. The analysis should be sure to capture “supplementary” budgets and expenditures

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<sup>1</sup> “Practitioners’ Toolkit for Agriculture Public Expenditure Analysis”, World Bank and DFID (draft)

<sup>2</sup> NEPAD/CAADP “Post Compact Review: Guidelines” (draft)

<sup>3</sup> This includes “Development” account (also called “Capital” or “Investment”) which in most African countries is largely financed externally, and “Recurrent” account (also called “Revenue”)

and any special expenditures in the sector that are not part of the MoA budget, for example, under the President's Office. As far as possible, "off-budget" expenditures financed by Development Partners should be included and may require a specific data set development. It is important to attempt to estimate private sector investment in the sector in order to assess the leveraging achieved by public investment. However, unless a separate study has been undertaken, it is likely that data on private investment will be hard to find.

## Definition of Agriculture

The sectoral scope of the study will be guided by the classification of the functions of government (COFOG) system (see Appendix I), even though the classification may not be actually in place in the country concerned<sup>4</sup>. This will usually mean focusing on the Ministry of Agriculture but could involve related ministries if, for example, forestry, fisheries or livestock are in one or more separate ministries, and related agencies. Care should be taken to exclude non-agriculture related expenditures where there is a Ministry of Rural Development, such as rural roads, health and education. The study will present expenditure data in two ways: for analytical purposes it will use COFOG, but for the purpose of presenting results and engaging in dialogue on recommendations, it will adhere to the local budget nomenclature and structure.

## Implementation

The study will examine implementation both in terms of the way in which budget expenditures are executed as well as sector outcomes. An understanding of the budget planning and "flow of funds" aspect of budget implementation is important as a source of recommendations to improve budget planning and execution. Budget outcomes in the sector will be reviewed in terms of major sector performance indicators as part of the analysis of consistency between budgets and sector priorities and the identification of major funding gaps.

## Institutional Context

The Ministry of Agriculture will be the centre of the exercise, together with the Ministry of Finance (and Planning). However, as stated above, depending upon the institutional structure within the sector in the country concerned, other ministries (forestry, fisheries, livestock) may need to be involved as well as agencies, authorities or other entities that perform public sector roles within the COFOG boundaries of "agriculture". An understanding of the links between central government and lower levels of administration will be necessary so as to provide insights into "flow of funds" and "use of funds" issues, especially in cases where fiscal decentralisation has been introduced.

## 3. Methodology

The dual starting points for the Basic AgPER will be:

- To formulate, in close collaboration with counterparts in the Ministries of Agriculture and of Finance, a **sound descriptive overview of the public expenditure budget in the agriculture sector** and its links with the macro economy, the fiscal context and Ministry of Finance processes. A key element of this will be to identify and agree upon sources of poor sector performance and budget outcomes that will serve as the focus for the study; and

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<sup>4</sup> See NEPAD, "Guidance Note for Agriculture Expenditure Tracking System in African Countries", September 2005.

- To assemble a **synthetic set of budgets for analytical purposes** (from all the concerned ministries, agencies and other entities) that cover public expenditure in the sector for the previous 10 years.

## Sectoral Context

The main elements of the sectoral context [and potential information sources] comprise:

- Main macro issues affecting the sector [*PRSP, existing studies*]
- Budget planning instruments that influence resource allocations and management of expenditures in the sector [*focus group discussion with MoA and MoF*]
- Role of agriculture in national development [*national sector strategy documents*]
- Sector performance [*existing studies, for example, CAADP “stocktaking”*]
- Sector policies and strategies [*national sector strategy documents and CAADP country roundtable documents*]
- Institutional mapping in the sector including intra- and inter-sectoral coordination mechanisms [*focus group discussion with MoA and MoF; to be illustrated by an organisation chart*]
- Political economy including recent or imminent changes in government, the role of parliament in resource allocation and oversight, the roles of CSOs and the private sector, and any inherent policy biases [*focus group discussions*]
- Role of public and private sectors in agriculture and their classification in the national budget [*MoF*]
- Assessment of major expenditure trade-offs between sectors and between types of expenditure within agriculture (e.g. subsidies) [*MoF, MoA, CSOs*]

## Scale and Characteristics of the Sector Budget

The principal task of the study will be to put together a comprehensive set of public expenditure budgets for the agriculture sector, preferably covering a period of 10 years. This will be the data set for the analysis of the budget, and identification of gaps and inconsistencies. It will also shape the description of the budget, its particular features and the changes that have occurred over time. When determining sectoral and total government expenditures, a number of conventions should be followed<sup>5</sup> in particular: (a) excluding public enterprises and financial institutions except for any subsidy or capital support payments made by government; (b) include any special funds; (c) only include in the sector expenditure any multi-sector projects in which over 70% of expenditure falls within agriculture; (d) for the sake of simplicity, assess expenditures on a “cash” rather than “accrual” basis.

**Expenditure level and trends:** The elements of the sector budget will be compiled to include all relevant ministries and other entities<sup>6</sup> and include:

- Share and trend (over 10 years) of approved budgets (inclusive of any mid-year revisions) and actual expenditures in agriculture with respect to total government expenditure [*budget documents*]
- Share and trend (over 10 years) of approved budgets and actual expenditure in agriculture with respect to agriculture GDP [*budget documents, macro reports*]

<sup>5</sup> For definitional details refer to AU/NEPAD Guidance Note for Agriculture Expenditure Tracking System in African Countries, September 2005

<sup>6</sup> Wherever possible (in terms of scope and countries covered) the exercise will collaborate with the parallel programme “*Monitoring African Food and Agriculture Policies*” (MAFA) in data gathering

- Share of expenditure by level of government, and when available, disaggregated budgets at lower administrative levels; impact of changes in fiscal decentralisation on sector budget [*budget reports*]
- Per capita expenditures and trends; rural-urban comparisons; comparisons with other countries [*budget documents, demographic data*]
- Alignment of budgets with stated policies and priorities to include underinvestment and mis-investment [*broad judgement on underinvestment by comparing the share of agriculture in the budget with its contribution to GDP; mis-investment by comparing the share of agriculture in the budget with the shares of other sectors and against indicative shares shown in the PRS, poverty action plans etc*]
- A data set of off-budget expenditures by donors and NGOs should be constructed, focusing on public good-type activities and excluding any private sector-type support, identifying main types of expenditure and sub-sectors; alignment with national priorities; steps to bring “on budget” [*data from interviews with DPs using a standard questionnaire on commitments and disbursements; broad judgement on alignment*]
- Private sector investment (including small farmers, traders, small- medium- and large-scale agribusiness) and foreign direct investment (FDI) in the sector , so as to determine leverage impact of public expenditure; judgement on extent to which public expenditure “crowds out” private investment [*existing studies, if they exist; recorded FDI statistics; Ministry of Trade and Commerce data*]

**Expenditure composition:** Broad examination of the structure of expenditures covering:

- Capital (development) vs recurrent (revenue) budget balance; recurrent budget items in development budget; trends (over 10 years) [*budget documents*]
- Composition of recurrent budget in particular wage vs non-wage, allocation to SOEs; international comparisons [*budget documents, studies*]
- Comparison of expenditures on public as opposed to private goods and services; trends (over 10 years); implicit trade-offs [*definition of public and private goods and services*]
- Expenditure composition at lower administrative levels [*budget reports, studies*]
- Alignment of policies and expenditures focusing on major expenditures or key areas; identification of any obvious discrepancies [*budget documents, national policy and strategy documents*]

**Financing the budget:** Identifying the main sources of financing the budget including:

- Government
  - Central and local government financing volume and share of total [*budget documents*]
  - Revenue-generation sources within the sector; mechanisms for reporting and utilisation of revenue (ear-marking etc); stability of revenue collection
  - Public sector borrowing generated by the sector
  - Seasonal revenue generation variations and impact on expenditure patterns
  - Public financing of private goods and services
  - Fiscal decentralisation mechanisms in terms of revenue generation and central government grants
- Donors
  - Loans and grants volume (both commitments and disbursements) and share of total
  - Scale of off-budget financing [*budget documents; may need data set generation*]

- Share of total expenditure financed by donors
- Extent of harmonization of donors funding [*donor data, donor coordination mechanisms, code of conduct*]
- Trends in financing (over 10 years) [*budget documents*]
- Extent to which expenditures form part of a programme-based approach (PBA) or SWAp with donor funding
- Extent of public-private partnerships (PPP) identifying different types, financing and cost recovery mechanisms, assessing their cost effectiveness and strategic role [*special studies*]

**Subsidies and cost recovery:** Identifying the main subsidies and sources of cost recovery, their incidence and impact including:

- Levels and trends in major subsidies [*budget documents*]
- Policies and mechanisms to manage and monitor subsidies
- Political and economic justification for subsidies [*policy statements, studies*]
- Main areas where cost recovery is operated; level, adequacy and incidence
- Role of donors in subsidy operations

## **Budget Performance**

The synthetic budgets assembled and descriptive framework will be used to assess various indicators of budget performance.

**Flow of funds:** A detailed assessment of many flow-of-funds issues will normally necessitate undertaking a specialized Public Expenditure Tracking Survey (PETS). In the Basic AgPER, the aim is a more limited, while broad and largely qualitative' assessment of the ways in which budget resources are channelled to operating units within the sector and different administrative levels so as to determine whether this constitutes a serious impediment to budget performance. It will include:

- MoF rules and procedures for the release of funds [*MoF*]
- Timing of fund release through the year, related to seasonal patterns of expenditure by different units; impact of delayed release and end-of-year effects [*focus group discussions in MoA*]
- Procedures for modifying budgets during the year including moving resources from one budget line to another (virement) and its impact on overall expenditure [*MoF*]
- Procedures for delegating budget responsibility (AIEs) to different operating units [*MoA*]
- Procedures for delegating budget responsibility to lower administrative levels and impact of fiscal decentralisation [*focus group discussions at sub-national level*]
- Assessment of the quality of outputs and outcomes at decentralised levels vs central level

**Public financial management:** An assessment will be made of the basic public financial management capacity in agriculture sector entities, within the context of the overall status of PFM in the country:

- Gap between planned budgets, approved budgets and actual budget outturn; changes over time and reasons
- Value for money, indicators of unit costs of delivering specific services and scope for cost-cutting measures
- Accountability of budget holders and sanctions

- Adequacy of audit processes, especially at decentralised levels
- Procurement, financial management and audit
- Processes for monitoring budget expenditures and use of funds

**Institutional arrangements:** An assessment will be made of the institutional mechanisms in place to ensure consistency between stated policies and strategies and budgets, including:

- Extent to which a results-based budget system has been implemented overall and specifically within the agriculture sector [*MoF*]
- MoF procedures within the budget cycle from planning, through budget implementation, to budget management; description of the processes and qualitative assessment of extent to which they constitute an impediment to effective budget processes
- MoF budget preparation guidelines, effectiveness of prioritization criteria and process of issuing budget ceilings [*MoF*]
- Decentralised budget processes, allocation of conditional and unconditional block grants
- Systems for evaluating absorptive capacity and effectiveness of outputs at sector level [*MoF*]
- Mechanisms for coordinating inter- and intra-agency programmes and budgets [*MoA*]
- Role of the legislature/parliament in approving budgets, reviewing performance; forms of accountability

**Outputs and outcomes:** In the Basic AgPER it will not be possible to carry out a detailed examination of sector outputs and outcomes across the sector. However, for major expenditures and key programmes in the sector (agreed with counterparts in MoA) limited studies will be carried out which might include:

- Agricultural research programme
- Agricultural extension services
- Soil and water conservation activities
- Fertilizer subsidy

When the studies which are carried out identify major problems in terms of efficiency and/or effectiveness in terms of outputs and outcomes, they could form the starting point for a subsequent special study to track public expenditure, or to assess impact.

## Recommendations

Although the study will necessarily be limited in the depth of its analysis, it will aim to identify major inefficiencies or implementation issues, indicate where additional analysis might be required, and present tentative recommendations. Although many recommendations are likely to be straightforward and accepted by government, others could be contentious. In this respect, close collaboration with the DWG would be valuable in gauging potentially difficult areas and providing the DWG itself with an agenda for dialogue with government on budget issues.

**Expenditure levels:** The main areas of recommendations with respect to expenditure levels will include:

- Overall underinvestment in agriculture with respect to its contribution to GDP
- Mis-investment in the sector, identifying disconnects between stated priorities and shares of the sector in the budget
- Options for integrating “off-budget” activities into the overall national budget



- Ways of enhancing the recognition by MoA (and MoF) of the important role played by private sector investment, identifying areas where public expenditure “crowds out” private investment and proposals for “crowding in”

**Expenditure composition:** The study will draw attention to areas where the sector budget appears to be unbalanced including:

- Balance between development and recurrent budgets
- Balance between wage and non-wage expenditures
- Distortions to salary and incentive structures resulting from incentive salary payments to staff on development projects under project implementation units (PIUs) and regular (recurrent budget) civil service pay scales
- Areas where private goods and services are being delivered with public funds, proposing priorities for disengagement from certain services
- Identification of mismatches between national priorities and actual expenditures at decentralised levels; reasons for the mismatches and proposals for rectifying them

**Financing:** Proposals for enhancing the financing of the sector budget will cover:

- Ways of enhancing the local level financing of the sector budget
- Areas where revenue generation and cost recovery could be enhanced
- Ways of overcoming seasonal revenue generation constraints on expenditures so as to provide greater stability and predictability in the flow of funds
- Assessment of reliance upon donor funding and specific areas where this is excessive; assess degree of harmonization and alignment by donors and propose ways to enhance volume, coherence and predictability of donor funding

**Subsidies:** The study will be limited in its ability to make firm recommendations on subsidies and cost recovery, but will identify areas of concern and opportunity and propose further research and analysis.

**Budget performance:** The study will identify areas of inefficiency in budget implementation, including:

- Ways of improving the budget cycle and flow of funds so as to enhance the effectiveness of annual work plan and budget processes
- Identification of areas where public financial management is weak, such as procurement, audit, monitoring and accountability; however, many of the issues related to PFM are likely to be economy-wide rather than sector specific
- Institutional weaknesses in terms of intra- and inter-sectoral coordination, decentralised budget operations and systems for oversight.

## 4. Sources of Data and Information

In view of time and resource constraints, official published budget-related documents will form the primary source of data and little or no generation of original data from studies will be possible. Wherever possible, existing special studies on the sector as well as unpublished material should be used to add depth and documentation to the formal data collected. Where such sources are used, they should be validated and

fully referenced. Focus group discussions in the key ministries (MoA, MoF) will be an invaluable source of information when formulating a sound descriptive overview of the public expenditure budget in the agriculture sector.

**Official sources:**

- Published budget estimates
- Published reports on budget outturn
- Electronic data from MoA and MoF
- Published reports and statistics from MoA and associated agencies such as the Ministry of Trade and/or Commerce

**Studies and “Grey” sources:**

- Donor reports and interviews on “off-budget” expenditures
- Sub-sector project appraisal documents for more detailed information on focus areas and expenditures
- Special surveys or evaluation reports
- CAADP Country Roundtable reports
- Sector project evaluations (ICRs) or mid-term reviews

**Sources for sector outputs and outcomes:**

- MoA studies and reports
- Project appraisal documents, mid-term reviews, ICRs
- Focus group discussions with project managers and teams
- Donor evaluation reports
- Beneficiary impact assessments

## **5. Process**

The countries in which a Basic AgPER is undertaken will have responded positively to an invitation to be part of the continent-wide exercise. A fully participatory approach is to be adopted for the task. The most important first step in starting the exercise is to establish a good working partnership with the key stakeholders: MoA, MoF, the donor working group (DWG) for agriculture, CAADP Focal Point, parliamentarians, representatives of the private sector, and CSOs. In the case of MoA and MoF, technical level counterparts must be assigned to work with the technical assistance team (international and national) on the task for a period of at least six months. Contact should be established with local think tanks with expertise in agricultural expenditure analysis in order to identify a competent national consultant and to facilitate capacity building and continuity in institutionalising the AgPER process in the country.

The main stages in the study process will include:

**Stakeholder briefing:** All key stakeholders<sup>7</sup> must be briefed on the purpose and proposed outputs of the study and agree on the main milestones and the timeline. Agreement should also be reached upon the definition of agriculture to be adopted and the institutional scope of the study.

**Inception workshop:** A formal workshop for all key stakeholders should be scheduled within two weeks of the commencement of the study to present and discuss an Inception Report that includes:

- the revised terms of reference for the study
- queries and outstanding issues with respect to the study
- agreed milestones and timeline for implementation
- designation of counterpart staff
- definition of the institutional scope for the study

The workshop should solicit the support of government officials in facilitating access to published and electronic expenditure data including items outside the regular MoA budget, and from DPs (through the DWG) to provide details of their off-budget programmes.

**Technical workshop:** Within one month, a technical workshop should be scheduled to:

- Present the framework for the formulation of the synthetic set of sector expenditures
- Discuss the descriptive overview of public expenditure in the sector, agree priority focus areas and identify key issues, and
- Discuss and schedule the technical working papers that should be prepared

**Draft report workshop:** A formal workshop should be scheduled after five months to discuss the key conclusions and recommendations of the study presented in a draft report.

## 6. Reports and Database

### Reports

The consultant team, in close collaboration with counterparts from MoA and MoF, and following consultation with all the main stakeholders, will prepare the following reports:

- **Inception report:** within two weeks, which presents the revised terms of reference for the study, raises issues and defines the institutional scope of the study
- **Working papers:** during the study, technical working papers will be produced on key elements in the analysis
- **Draft report:** within 5 months, which presents the sector public expenditure analysis, conclusions and recommendations
- **Final report:** within 6 months, incorporating the comments and discussion of the draft report

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<sup>7</sup> The CAADP Country Roundtable consultative process provides a possible scope for relevant stakeholder consultations.

## **Database**

During the assignment, the consultant team in collaboration with MoA and MoF will establish a dual database including the synthetic sector budget sets using COFOG, and a parallel data set using the existing government budget nomenclature and structure; background documents and sources, and analytical working papers that will be accessible online by all stakeholders.

## **7. Timeline**

The overall timeline for the Basic AgPER is six months (see Fig. 1)

## **8. Resources**

The Basic AgPER will be conducted by a consultant team comprising one senior international expert with methodological expertise and cross-country experience, plus one national expert. Both experts will devote 12 weeks of work to the exercise within the overall time frame of six months. The international expert will make three visits to the country.

The Ministries of Agriculture and of Finance will be requested to provide at least one full-time counterpart or team equivalent for each consultant. Think tanks, universities and other local contributors to the exercise will not be remunerated.

### Annexe – Timeframe

**Fig 1: Basic AgPER Template Terms of Reference**  
**Indicative Implementation Timeline**

