Analysis of public expenditures in support of food and agriculture in Ethiopia, 2006-2012

July 2014
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<tr>
<th>ACRONYMS</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>ADLI</td>
<td>Agricultural Development Led Industrialization</td>
</tr>
<tr>
<td>AGP</td>
<td>Agriculture Growth Program</td>
</tr>
<tr>
<td>BMGF</td>
<td>Bill and Melinda Gates Foundation</td>
</tr>
<tr>
<td>BPS</td>
<td>Basic Public Service</td>
</tr>
<tr>
<td>CAADP</td>
<td>Comprehensive Africa Agriculture Development Programme</td>
</tr>
<tr>
<td>EDRI</td>
<td>Ethiopian Development Research Institute</td>
</tr>
<tr>
<td>ETB</td>
<td>Ethiopian Birr</td>
</tr>
<tr>
<td>EWRB</td>
<td>Early Warning and Response Building</td>
</tr>
<tr>
<td>FBG</td>
<td>Federal Block Grant</td>
</tr>
<tr>
<td>FSP</td>
<td>Food Security Program</td>
</tr>
<tr>
<td>FAO</td>
<td>United Nation Food and Agricultural Organization</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GTP</td>
<td>Growth and Transformation Plan</td>
</tr>
<tr>
<td>HABP</td>
<td>Household Asset Building Programme</td>
</tr>
<tr>
<td>MAFAP</td>
<td>Monitoring and Analysing Food and Agricultural Policies</td>
</tr>
<tr>
<td>MoA</td>
<td>Ministry of Agriculture</td>
</tr>
<tr>
<td>MoFED</td>
<td>Ministry of Finance and Economic Development</td>
</tr>
<tr>
<td>MoARD</td>
<td>Ministry of Agriculture and Rural Development</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PASDEP</td>
<td>Plan for accelerated Sustainable Development to End Poverty</td>
</tr>
<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
</tr>
<tr>
<td>PIF</td>
<td>Policy Investment Framework</td>
</tr>
<tr>
<td>PSNP</td>
<td>Productive Safety Net Program</td>
</tr>
<tr>
<td>RDPS</td>
<td>Rural Development Policy and Strategies</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>WDI</td>
<td>World Development Indicator</td>
</tr>
</tbody>
</table>
SUMMARY

Public expenditures for the food and agriculture sector in Ethiopia have been steady and have constantly surpassed 10 percent of the total expenditures in the country over the 2006-2012 period, with an average of 22.5 percent. There is, however, a striking drop in this share during the 2010-2012 triennium, with an average of 15.3 percent during these years. The dip in the budget to food and agriculture coincides with a decrease of the agriculture value added growth, which plunged twice to 5 percent during the 2010-2012 triennium.

The composition of public expenditures in support of food and agriculture has been unequally balanced, with 70 percent allocated to agriculture-specific expenditures as opposed to 30 percent for agriculture-supportive spending (rural education, health and infrastructure).

Within agriculture-specific expenditures\(^1\), the main categories supported were payments to consumers (23 percent), knowledge dissemination activities, i.e training, technical assistance and extension (22 percent in total), infrastructure (15 percent) and input subsidies (11 percent). The level of expenditures on payments to consumers is the highest out of all countries using the MAFAP monitoring system\(^2\).

The level of input subsidies has decreased over the period, from 14 to 9 percent between 2006-2008 and 2009-2012, whereas the level of transfers to agricultural infrastructure has expanded from 8 to 18 percent. Transfers to traders, processors and input suppliers have increased from 0 to 8 percent over the same period, due to the Agricultural Growth Programme (AGP). The Early Warning and Response Building (EWRB) project has also contributed to raising expenditures towards storage from 0 to 7 percent. Support to marketing strongly decreased, from 17 to 3 percent. Transfers to research, on the other hand, increased from 2 to 9 percent.

Within agriculture-supportive expenditures, expenditures have been slightly unbalanced on average, with similar shares devoted to rural infrastructure and health (34 and 32 percent respectively) but a lower share to education (26 percent). Nonetheless, expenditures towards rural education have been surging and have outmatched those of rural health, in absolute terms, in 2012.

Two complementary programmes, the Productive Safety Nets Programme (PSNP) and the Household Asset Building Programme (HABP), have accounted for 78.5 percent of public expenditures in support of food and agriculture. Their pro-consumer focus has impacted the structure of public expenditures for the sector, but their diversified activities have resulted in transfers to multiple categories such as agricultural and rural infrastructure and payments to producers.

Eight percent of budgetary transfers towards food and agriculture have targeted individual, or groups of commodities. A rise in the support to groups of commodities was observed in 2008, when the coffee and grains group received 34 percent of agriculture-specific expenditures through the Agricultural Marketing Improvement Programme (AMIP). Following this, group of commodities received 2.2 percent of agriculture-specific expenditures from 2009 to 2012, mainly through livestock

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\(^1\) Agricultural specific supports are subdivided into payments to agents and general sector support.

\(^2\) At the time of this analysis: Burkina Faso, Kenya, Ethiopia, Ghana, Malawi, Mali, Mozambique, Nigeria, Uganda and United Republic of Tanzania
inspection projects. Individual commodities benefited from 0.6 percent of agriculture-specific expenditures over the period.

Close to 90 percent of public expenditures in the analysis are policy transfers, which means budgetary transfers that are associated with a good or a service supporting the agricultural sector. Donor expenditures have recorded a higher rate of administrative costs, due to the elevated number of monitoring and evaluation activities in donor projects.

Donor aid has increased from 63.8 percent of food and agriculture expenditure in 2006 to 83.4 percent in 2012. The upturn was similar for agriculture-specific and agriculture-supportive expenditures. Within these categories, aid was very prominent, on average between 2006 and 2012, in payments to consumers (89 percent). On the other hand, government expenditures were high in payments to producers (52 percent). The government of Ethiopia is also the chief funder of technical assistance and extension services over the period (73 percent). The PNSP was externally funded at 98 percent during the period, while the HABP was 100 percent funded by the government until 2010, 11 percent in 2011 and 0 percent in 2012.

PURPOSE

The purpose of this technical note is to analyse the efficiency of public expenditures in support of food and agriculture in Ethiopia. The technical note does not intend to provide an in-depth analysis of the relationship between sector performance and public expenditures, nor does it provide an impact assessment of projects and programmes covered in the analysis. Instead, it focuses on a detailed analysis of the level, composition and coherence of public expenditure in support of food and agriculture in the country. The objective of such an analysis is to identify the patterns of support to food and agriculture sub-sectors (research, input subsidies, infrastructure...) and commodities over time, by type and sources of funding.

METHODOLOGY

This technical note uses the MAFAP methodology for analysing public expenditures in support of food and agriculture. The MAFAP methodology allows identifying, disaggregating and classifying all public expenditures in support of food and agriculture in the country, following a typology derived from the Organization for Economic Co-operation and Development (OECD) classification of public expenditures in support of agriculture (OECD, 2010). The MAFAP methodology entails the classification of all projects and programmes in support of food and agriculture in the country, based on the nature of the support to the sector that is provided under each project/programme activities. The MAFAP methodology provides a disaggregation of public expenditures by funding source (aid and government), by implementing agency, and the distinction between recurrent and capital expenditure, administrative and policy transfers, budgeted and actual expenditure. The methodology also allows determining the share of public expenditure going to each commodity in the country. More information on the methodology can be found in the methodological guidelines, available on the MAFAP website.
SCOPE

The main source of information to produce this analysis is the Ministry of Finance and Economic Development (MoFED).

This analysis covers expenditures for 107 projects and programmes supporting the food and agriculture sector, at federal level only, for capital expenditures and for the period 2006/2007 to 2012/2013. Budgeted amounts and actual spending, and donor and national expenditures were covered. Projects and programmes activities were identified, and represented up to 500 items that were classified according to the MAFAP methodology for measuring public expenditure support to food and agriculture. The expenditures hereby detailed will be referred to as public expenditures in support of food and agriculture.

Recurrent expenditures were not identified at this stage, as the analysis focused on policy transfers through projects and programmes. Recurrent expenditures are not associated with any particular project or programme. Instead recurrent expenditures are reported at the directorate level. A given directorate might be responsible for number of programmes and projects. Therefore we have not disaggregated the recurrent expenditure here. We will show below the share of recurrent expenditure in total expenditure. In general recurrent expenditure is only a maximum 10 percent of the federal government expenditure in agriculture and rural development.

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Figure 1. Capital and Recurrent Agricultural and Rural Development Actual Expenditure (Million ETB)

Regional level expenditure was only available in aggregate form, which was not sufficient for the MAFAP analysis. In general, federal expenditure is about 80% and regional expenditure is mainly recurrent (Figure 2).
With further investigation, a disaggregated regional data on expenditure can be obtained. Both types of expenditures will be collected and analysed in the next update of this technical note.

Also, the Regional Strategic Analysis and Knowledge Support System (ReSAKSS) is also working on Government public expenditures and is assessing the level of expenditures targeting the agricultural sector. This initiative is facilitated by the International Food Policy Research Institute (IFPRI) and associated with the Comprehensive Africa Agriculture Development Program (CAADP) agenda of the New Partnership for Africa’s Development (NEPAD) and African Union (AU) as well as other regional agricultural development initiatives in Africa (IFPRI website[^3], 2014). To support CAADP implementation, ReSAKKS is providing an assessment of the public expenditures that allows the monitoring of the financial commitment in the perspective of the Maputo target. These indicators have been consulted for this analysis. With no methodological guidelines and explanations on the calculations of these indicators, it has been difficult to draw conclusions on the difference with the MAFAP indicators.

ECONOMIC AND POLICY CONTEXT OF FOOD AND AGRICULTURE IN ETHIOPIA

General context
In Ethiopia, agriculture indeed plays an important role in the economy. As for many countries in Africa, the agricultural sector is a key contributor to Gross Domestic Product (GDP), employment, industrial linkages (as source of input for the industrial sector) and foreign exchange earnings. The agriculture sector in Ethiopia accounts for over 40 percent of GDP and remains an important contributor to employment (up to 79% in 2006) (Table 1).

Table 1. Overview of the economy and the agricultural Sector

<table>
<thead>
<tr>
<th>Economy</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita (constant 2005 USD)</td>
<td>253</td>
</tr>
<tr>
<td>GDP per capita (PPP 2005 USD)</td>
<td>971</td>
</tr>
<tr>
<td>Agriculture, % GDP – 2012/13</td>
<td>43</td>
</tr>
<tr>
<td>Employment in agriculture (%) - 2006</td>
<td>79</td>
</tr>
<tr>
<td>Poverty headcount ratio at 1.25 USD PPP a day (% of Population) - 2011</td>
<td>31</td>
</tr>
<tr>
<td>Poverty headcount ratio at 2 USD PPP a day (% of population) - 2011</td>
<td>66</td>
</tr>
<tr>
<td>Prevalence of undernourishment (%) - 2011</td>
<td>40</td>
</tr>
<tr>
<td>Demographics</td>
<td></td>
</tr>
<tr>
<td>Rural population (% of total population)</td>
<td>83</td>
</tr>
<tr>
<td>Population (million)</td>
<td>92</td>
</tr>
</tbody>
</table>

Source: WDI (consulted in 2014); a, b, c. MoFED (2014)

Agriculture and GDP growth moved together over the 2005-2012 period, as agriculture makes up over 40 percent of GDP. The agricultural sector and the overall economy expanded fast, as shown in Figure 3. Indeed, growth rates of both GDP per capita and agricultural value added have remained well above 4 percent for the period although the agriculture GDP growth has declined from a 10.9 percent rate in 2006 to 4.9 percent in 2012.
Notwithstanding this decline, the levels of agricultural value added per worker and the GDP per capita have been escalating steadily and the poverty headcount ratio has significantly decreased (Figure 4).

The growth of the agriculture sector in Ethiopia has been fostered by the recognition of agriculture in the country’s development vision and strategies. Ethiopia’s development road map, the Agriculture Development Led Industrialization (ADLI), was adopted in 1993 and states the importance of the agricultural sector for the transformation of the country. ADLI aims for a rapid growth in the
agricultural sector that will foster forward and backward linkages, where the relative weight of the agricultural sector in the economy should decline in time, in favour of industry and manufacturing. ADLI is still the standing pillar for the five-year strategies of the country:

- Plan for accelerated Sustainable Development to End Poverty (PASDEP) – 2005/06 – 2009/10
- Growth and Transformation Plan (GTP) – 2010/11 – 2014/15

Figure 5. Ethiopia development plans and vision

The Rural Development Policy and Strategies (RDPS) document provides specific policies and strategies to guide agricultural and rural development, based on the ADLI platform (MoARD, 2011). The Policy and Investment Framework (PIF, see Box 1) is a strategic framework specific to agriculture in line with RDPS, serving for the prioritization and planning of investments that will drive Ethiopia’s agricultural growth and development. It is designed to operationalize the CAADP Compact signed by the government in September 2009. The PIF is a 10-year road map for agricultural and rural development that identifies priority areas for investment and estimates the financing needs to be provided by Government and its development partners. It is anchored to, and aligned with, the national vision of becoming a middle income country (MoARD, 2011). In a nutshell, ADLI provides the overall development road map, RDPS provides strategy and policies for agricultural and rural development and PIF provides the framework where the investment projects and programmes fit into CAADP pillars. The thematic areas of PIF are in line with the four pillars of CAADP.
Box 1. The Policy and Investment Framework in Ethiopia

<table>
<thead>
<tr>
<th>Thematic Area</th>
<th>Strategic Objectives (SOs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity and Production</td>
<td>SO1: To achieve a sustainable increase in agricultural productivity and production.</td>
</tr>
<tr>
<td>Rural Commercialization</td>
<td>SO2: To accelerate agricultural commercialization and agro-industrial development.</td>
</tr>
<tr>
<td>Natural Resource Management</td>
<td>SO3: To reduce degradation and improve productivity of natural resources.</td>
</tr>
<tr>
<td>Disaster Risk Management and Food Security</td>
<td>SO4: To achieve universal food security and protect vulnerable households from natural disasters.</td>
</tr>
</tbody>
</table>

Source: MoARD, 2011

The commitments for agriculture made by the Ethiopian authorities in development strategy plans and frameworks have been complemented by the country’s agreement with the Maputo Declaration of 2003. Through this declaration, African Union member countries, including Ethiopia, have pledged to devote at least 10 percent of their national budgets to agriculture and to attain a growth of the agriculture GDP of at least 6 percent through the Comprehensive Africa Agricultural Development Program (CAADP).

Budgetary process overview

The Federal Constitution of 1995 established member states of Ethiopia, namely the regional states of Tigray, Afar, Amhara, Oromia, Somali, Benishangul Gumuz, Southern Nations, Nationalities and Peoples, Gambela and Harari. The two city administrations, namely, Addis Ababa and Dire-Dawa are considered equivalent of regions. The constitution underlines that adequate power shall be granted to the lowest units of government to enable people’s participation in the administration of such units. Thus, Regional states, in turn, have established lower administrative levels as they found necessary (MoFED, 2009). The Federal and Regional constitutions as well as the subsequent proclamations delineate different expenditure and revenue assignments to the federal and sub-national level of governments (World Bank, 2010) (Box 2). As most regions do not cover their budgetary expenditures from their own revenue sources, it is through the Federal Block Grant (FBG) transfers that regions obtain a large part of their budget. More than 80 percent of the budget sources in most regions and about 95 percent for the emerging regions, such as Afar, come from federal government subsidies (MoFED, 2009). This is in part because the federal government is tasked with collecting international trade taxes that make up half the total tax revenue.
Box 2 Expenditure Responsibilities in Ethiopia

<table>
<thead>
<tr>
<th>Level of Government</th>
<th>Expenditure Assignments</th>
</tr>
</thead>
</table>
| **Federal government** | • Defence  
                         • Foreign relations  
                         • Justice and internal security  
                         • Macro stabilization  
                         • International trade  
                         • Currency and banking  
                         • Immigration  
                         • National interest capital projects  
                         • Shared with regions: environment, airlines, and railways |
| **Regional government** | • Secondary education  
                          • District and referral hospitals  
                          • Nursing schools  
                          • Water supply  
                          • Regional and zonal roads  
                          • Regional police  
                          • Maintenance of irrigation systems  
                          • Maintenance of smaller-scale water supply projects and energy programs  
                          • Agricultural planning  
                          • Shared with federal: justice, environment, police, and vocational and preparatory schools |
| **Woredas** | • Primary education  
              • Basic health care  
              • Agricultural extension programs  
              • Veterinary clinics  
              • Land use administration  
              • Water development, wells construction and maintenance  
              • Local police  
              • Local roads  
              • Shared with regions: small-scale capital projects |

Source: IMF (2005)

Box 2 provides the expenditure responsibilities of different levels of government. Ethiopia has a political federal system but a process of decentralization has started. The federal government will be responsible for the capital projects that are of interest to the country and these are the main concern of MAFAP. Regions use their own revenue as well as transfers from MoFED for their expenditure obligations. MoFED also transfers a share of the budget to Woredas/Districts for service provision including agricultural extension services.
The budgetary process in Ethiopia involves different institutions and clearly defined procedures. The planning cycle and the budget cycle are the two main broad procedures involved. The planning cycle can be thought of as a process where the plan for each sector will be developed and the resource requirement and sources of finance are worked out. Based on this plan, the agency level budget will be worked out during the budget cycle. Chronologically, the planning cycle precedes the budget cycle.

The planning cycle involves the following activities.

- Preparation of the Macro Economic and Fiscal Framework (MEFF) that provides a rolling 5-year macroeconomic framework along with the sources of finances
- Estimating and notifying the 3-year Regional subsidy based on the formula approved by the House of Federations.
- The final activity is preparing and finalizing the Annual Fiscal Plan, which involves estimating the revenue, expenditure and sources of financing for the upcoming budget year.

The budget cycle involves a number of successive activities that can be broadly classified into three. Namely,

- Executive preparation and recommendation of budget proposals (see Figure 6 below)
- Legislative approval (approval of the budget by the Council of Peoples’ Representatives)
- Executive implementation (i.e. Notification of approved budget, receipt of approved budget and implementation of approved budget)

First, the Ministry of Finance and Economic Development (MoFED) prepares the budget ceilings (the maximum amount the federal public bodies are advised to request) for every federal public body (line ministries for e.g. education, health etc. and other government agencies) that receive their budget from the government treasury along with their respective guidelines. The regional governments are treated separately and are provided, later in the process, with a subsidy. The amount of the subsidy for each region is determined by a formula that takes into account their expenditure needs and their potential revenue. Notification of annual subsidy budget to the regional governments is another activity undertaken by MoFED. The regions decide on how to spend the resource available to them.

Returning to the federal public bodies, after the budget ceiling is prepared, MoFED issues a budget call for the relevant federal public bodies to submit their budget requirement. The budget calls mainly contains the budget ceiling for expenditure and types of financing. Following the calls, the federal public bodies submit their budget requests (based on their planned outputs) for the MoFED no later than March 22. Upon receiving all the budget requests, MoFED verifies and evaluates them against the government’s policies and priorities. MoFED then prepares a draft recommended budget based on the requests made. If need arises, a budget hearing process may be held between MoFED and the federal public bodies involved for the purpose of clarifying any issues. Upon agreement (between MoFED and the public bodies), MoFED then finalizes the draft budget and submits it to the Council of Ministers for approval. The Council of Ministers, after evaluating the draft budget, may then submit it for the House of People’s representative for final approval. This usually has a deadline of July 7.
Once the budget is approved by the Parliament, MoFED notifies the approved budget for every public body involved and requests their action plans (details of activities based on the approved budget). The action plans are expected to include both the financial and physical plans (i.e., activity plans) for the budget year. In the final stage of implementation, the public bodies are expected to submit a 3-month rolling performance (plan compared to implementation) report to MoFED, before Government Accounts Department of MoFED instructs the Government’s Treasury department to feed the accounts of the public bodies for the next quarter. The process will be similar for each quarter ending with annual report at the end of the year.

The sources of financing for the prepared budget mainly involve: domestic, external assistance and loan. Domestically raised financial resources are mainly used for recurrent expenditures and if sufficient also for capital expenditures. However, financial resources from the external loan and assistance are exclusively intended for capital expenditures. The exception to this is the Basic Public Service (BPS) program, which is mainly financed by international donor organizations such as the World Bank, as this allows for the possibility of using the financial resources for the recurrent expenditures too.

The decentralized nature of the political process allows regional governments to have a full power over the use and distribution of their own budget. It is on the regional governments mandate to allocate their budget on the basis of regional goals and priorities. Other than providing the block grants based on the formula prepared by the House of Federation, the federal government does not possess a power to dictate the budget allocation and utilization of regional governments.

According to the Ministry of Finance and Economic Development (MoFED), the Agriculture and Rural Development budget is disbursed to the federal public bodies identified below (Figure 6). It is important to note that this can change from year to year and Figure 6 applies only for 2012/13. The Ministry of Agriculture (MoA) previously Ministry of Rural and Agricultural Development is the largest public body with the largest budget. The other institutions have specific tasks within the agricultural sector.

**Figure 6. Federal agencies engaged in Agriculture and Rural Development in 2012/13**

Source: MoFED, Government Account Database, 2014
ANALYSIS OF PUBLIC EXPENDITURES IN SUPPORT OF FOOD AND AGRICULTURE IN ETHIOPIA

General trends in the global budget
Budgeted, federal capital expenditures increased by 408 percent between 2006/07 and 2012/13 while actual expenditures increased even faster by 462 percent, reaching 79.1 billion Ethiopian Birr in 2012/13 (Table 2). This increase is in nominal terms, but is still significant as the GDP deflator only experienced a 329 percent growth during the same period. A demand side analysis of growth in Ethiopia shows that public investment has played key part and its share has increased fast to reach one of the highest level in the world (World Bank, 2013).

Table 2. Federal public capital expenditures in Ethiopia: budget allocations and actual spending, in millions of ETB, 2006/2007-2013

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget allocation</td>
<td>17,345.72</td>
<td>23,718.12</td>
<td>30,422.10</td>
<td>32,731.37</td>
<td>47,661.54</td>
<td>62,310.39</td>
<td>88,242.89</td>
<td>408.7%</td>
</tr>
<tr>
<td>Actual spending</td>
<td>14,078.13</td>
<td>17,965.84</td>
<td>27,232.44</td>
<td>31,480.48</td>
<td>43,812.83</td>
<td>54,673.84</td>
<td>79,111.08</td>
<td>462%</td>
</tr>
</tbody>
</table>

Source: MoFED, Government Account Database, 2014

General trends in public expenditures in support of food and agriculture
The total approved federal capital budget in the agriculture and rural development sector grew by 253 percent, in nominal terms, from 2006/07 to 2012/13 reaching 12.6 billion ETB (Table 3). The total actual expenditures have grown at a slightly slower pace and have increased by 206 percent from 2006/07 to 2012/13 reaching 10.7 billion ETB. The growth in capital projects for agriculture and rural development is much slower than the total federal capital expenditure growth (Table 3).

Table 3. Public expenditures on agriculture and rural development in Ethiopia: budget allocations and actual spending (in millions of ETB)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget allocation</td>
<td>3,557.79</td>
<td>5,090.34</td>
<td>7,712.09</td>
<td>10,318.87</td>
<td>6,764.96</td>
<td>10,340.00</td>
<td>12,588.48</td>
<td>253%</td>
</tr>
<tr>
<td>Actual expenditures</td>
<td>3,487.58</td>
<td>4,174.47</td>
<td>9,128.87</td>
<td>9,557.98</td>
<td>6,679.60</td>
<td>9,334.66</td>
<td>10,681.34</td>
<td>206%</td>
</tr>
</tbody>
</table>

Source: MAFAP, from MoFED Database, 2014

In relative term, the MAFAP analysis reveals that the federal agricultural budget allocations for capital projects have declined from 20.5 percent of total government spending in 2006/07 to 14.3 percent in 2012/13.

Actual spending in relative terms has also decreased significantly in the analysed period. The highest share of agriculture sector expenditures in the total budget expenditures falls in the 2007/2008 financial year, both in terms of budget allocations and actual spending, reaching 25.3 and 33.5 percent respectively. Although recurrent expenditure is not considered in these calculations, the
figures reveal a significant effort from the government of Ethiopia towards the sector in the 2006-2009 period. From 2010 to 2012, however, the share of food and agriculture expenditures in the total government expenditures has been constantly decreasing, although it has remained well above the 10 percent threshold of the Maputo target (Figure 7). ReSAKKS has also assessed the level of the agriculture public expenditures up to 2010 and is presented in Figure 7. ReSAKKS initiative has drawn their data from IMF, Public Expenditures Review from the World Bank and national data (SPEED, 2013) but with no insight on the methodology, the difference with MAFAP indicators could not have been documented.

**Figure 7. Agriculture and rural development in total government expenditures in Ethiopia budgeted and actual spending from MAFAP and agriculture expenditures from ReSAKKS, in %, 2006-2012**

![Figure 7: Agriculture and rural development in total government expenditures in Ethiopia budgeted and actual spending from MAFAP and agriculture expenditures from ReSAKKS, in %, 2006-2012](source: MAFAP, 2014)

The decline of food and agriculture public expenditures has been particularly striking between 2009 and 2010, when it dipped from a 10.3 million ETB budget to 6.7 million ETB. The 35 percent fall does not correspond to the general budget trend: in that same period, it increased by 46 percent. The sudden gap in the budget for food and agriculture can be partly traced to the funding pattern of the Productive Safety Nets Programme (Figure 8). The PSNP, which is the flagship programme for the food and agriculture sector in Ethiopia (see Composition of public expenditures in support of food and agriculture), experienced a budget dip from 3622 million to 2176 billion ETB in that period, which corresponds to 40 percent of the general food and agriculture budget dip.
The drop in PNSP funding can be partly explained by the re-launching of the food security programmes in 2009 and the re-packaging of the projects and programmes in 2010 – the current PNSP indeed runs for the 2010-2014 period. The devaluation of the Ethiopian birr in 2010 also affected the total budget for food and agriculture, which is expressed in nominal terms in this analysis (Figure 9).

From 2008 onwards, there is a notable congruence between the level of growth of public expenditure in support of food and agriculture, and the level of growth of the agricultural value added. In 2011 and 2012, there is also congruence between the two aforementioned trends of growth and that of the gross domestic product of Ethiopia (see Figure 10). It is however difficult to ascertain there is a direct link between the three levels of growth with a simple congruence
observation based on a limited number of years: more in-depth econometric research would be needed, and the next update of MAFAP indicators for public expenditures will offer more robust means of comparison between the three trends.

**Figure 10. Growth of public expenditures in support of food and agriculture (right axis) and of agriculture value added and gross domestic product (left axis) in Ethiopia, in %, 2005-2012**

Table 4 provides detailed breakdown of the actual capital spending at the federal level with MAFAP classification.

**Table 4. Public expenditures in support of food and agriculture sector in Ethiopia (actual spending, capital budget) million ETB, 2006-2012**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Agriculture-specific policies</td>
<td>2,139.91</td>
<td>2,556.27</td>
<td>5,066.50</td>
<td>6,387.37</td>
<td>4,252.16</td>
<td>5,472.64</td>
<td>6,728.65</td>
</tr>
<tr>
<td>I.1. Payments to the agents in the agricultural sector</td>
<td>1,198.09</td>
<td>1,339.92</td>
<td>1,584.42</td>
<td>2,531.19</td>
<td>1,916.90</td>
<td>2,759.91</td>
<td>2,566.71</td>
</tr>
<tr>
<td>I.1.1. Payments to producers</td>
<td>599.94</td>
<td>1,339.92</td>
<td>1,584.42</td>
<td>2,531.19</td>
<td>1,916.90</td>
<td>2,759.91</td>
<td>2,566.71</td>
</tr>
<tr>
<td>A. Production subsidies based on outputs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B. Input subsidies</td>
<td>454.82</td>
<td>444.89</td>
<td>477.26</td>
<td>527.31</td>
<td>550.46</td>
<td>699.62</td>
<td>295.94</td>
</tr>
<tr>
<td>B1. variable inputs (seeds, fertiliser, energy, credit, other)</td>
<td>148.16</td>
<td>149.68</td>
<td>160.10</td>
<td>177.00</td>
<td>182.70</td>
<td>222.25</td>
<td>93.27</td>
</tr>
<tr>
<td>B2. capital (machinery and equipment, on-farm irrigation, other basic on-farm infrastructure)</td>
<td>146.17</td>
<td>148.30</td>
<td>159.45</td>
<td>179.38</td>
<td>187.16</td>
<td>233.66</td>
<td>94.08</td>
</tr>
<tr>
<td>B3. on-farm services (pest and disease control, veterinary services, on-farm training, technical assistance, extension etc., other)</td>
<td>160.48</td>
<td>146.92</td>
<td>157.71</td>
<td>170.94</td>
<td>180.61</td>
<td>243.71</td>
<td>108.59</td>
</tr>
<tr>
<td>C. Income support</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D. Other</td>
<td>145.12</td>
<td>142.37</td>
<td>142.65</td>
<td>148.92</td>
<td>158.17</td>
<td>189.62</td>
<td>37.36</td>
</tr>
<tr>
<td>I.1.2. Payments to consumers</td>
<td>598.15</td>
<td>752.66</td>
<td>957.62</td>
<td>1,144.06</td>
<td>951.99</td>
<td>1,779.66</td>
<td>1,476.86</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>------</td>
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<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>E. Food aid</td>
<td>299.08</td>
<td>376.33</td>
<td>478.81</td>
<td>572.03</td>
<td>475.99</td>
<td>889.83</td>
<td>738.43</td>
</tr>
<tr>
<td>F. Cash transfers</td>
<td>299.08</td>
<td>376.33</td>
<td>478.81</td>
<td>572.03</td>
<td>475.99</td>
<td>889.83</td>
<td>738.43</td>
</tr>
<tr>
<td>G. School feeding programmes</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>H. Non classified</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>I.1.3. Payments to input suppliers</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.94</td>
<td>25.51</td>
<td>52.80</td>
</tr>
<tr>
<td>I.1.4. Payments to processors</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>21.79</td>
<td>43.67</td>
</tr>
<tr>
<td>I.1.5. Payments to traders</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>21.79</td>
<td>43.67</td>
</tr>
<tr>
<td>I.1.6. Payments to transporters</td>
<td>-</td>
<td>6.89</td>
<td>710.90</td>
<td>255.35</td>
<td>616.41</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I.2. General sector support</td>
<td>941.82</td>
<td>1,216.35</td>
<td>3,482.08</td>
<td>3,856.18</td>
<td>2,335.26</td>
<td>2,712.72</td>
<td>4,161.94</td>
</tr>
<tr>
<td>I. Agricultural research</td>
<td>2.96</td>
<td>65.60</td>
<td>87.12</td>
<td>797.30</td>
<td>347.52</td>
<td>140.56</td>
<td>785.70</td>
</tr>
<tr>
<td>J. Technical assistance</td>
<td>150.33</td>
<td>185.03</td>
<td>159.67</td>
<td>156.21</td>
<td>162.98</td>
<td>214.03</td>
<td>107.74</td>
</tr>
<tr>
<td>K. Extension/technology transfer</td>
<td>321.87</td>
<td>393.88</td>
<td>1,361.16</td>
<td>534.51</td>
<td>984.21</td>
<td>866.25</td>
<td></td>
</tr>
<tr>
<td>L. Inspection (veterinary/plant)</td>
<td>145.12</td>
<td>152.80</td>
<td>180.43</td>
<td>179.35</td>
<td>203.57</td>
<td>63.59</td>
<td></td>
</tr>
<tr>
<td>N. Infrastructure (roads, non-farm irrigation)</td>
<td>156.92</td>
<td>238.41</td>
<td>346.51</td>
<td>1,164.04</td>
<td>644.26</td>
<td>984.21</td>
<td>1,433.33</td>
</tr>
<tr>
<td>N1. Feeder roads</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>N2. Off-farm irrigation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>N3. Other</td>
<td>156.92</td>
<td>238.41</td>
<td>346.51</td>
<td>1,164.04</td>
<td>644.26</td>
<td>984.21</td>
<td>1,433.33</td>
</tr>
<tr>
<td>O. Storage/public stockholding</td>
<td>1.06</td>
<td>7.69</td>
<td>9.03</td>
<td>723.81</td>
<td>265.50</td>
<td>11.98</td>
<td>609.58</td>
</tr>
<tr>
<td>P. Marketing</td>
<td>155.43</td>
<td>155.26</td>
<td>1,310.93</td>
<td>169.21</td>
<td>167.46</td>
<td>200.88</td>
<td>57.55</td>
</tr>
<tr>
<td>R. Non-classified</td>
<td>2.96</td>
<td>3.88</td>
<td>2.50</td>
<td>9.56</td>
<td>10.22</td>
<td>33.55</td>
<td>56.03</td>
</tr>
<tr>
<td>II. Agriculture-supportive policies</td>
<td>978.90</td>
<td>1,183.61</td>
<td>2,365.29</td>
<td>1,795.28</td>
<td>1,551.33</td>
<td>2,793.58</td>
<td>2,383.93</td>
</tr>
<tr>
<td>S. Rural education</td>
<td>213.35</td>
<td>268.89</td>
<td>376.58</td>
<td>473.95</td>
<td>407.89</td>
<td>787.53</td>
<td>815.13</td>
</tr>
<tr>
<td>T. Rural health</td>
<td>304.88</td>
<td>380.74</td>
<td>769.28</td>
<td>572.31</td>
<td>478.49</td>
<td>890.32</td>
<td>739.57</td>
</tr>
<tr>
<td>U. Rural infrastructure (rural roads, rural water, rural energy and other)</td>
<td>307.84</td>
<td>386.93</td>
<td>786.43</td>
<td>608.12</td>
<td>522.06</td>
<td>956.78</td>
<td>828.46</td>
</tr>
<tr>
<td>U.1 Rural roads</td>
<td>1.90</td>
<td>0.27</td>
<td>0.36</td>
<td>0.65</td>
<td>1.87</td>
<td>22.17</td>
<td>44.43</td>
</tr>
<tr>
<td>U.2 Rural water</td>
<td>305.94</td>
<td>384.35</td>
<td>771.42</td>
<td>585.93</td>
<td>499.54</td>
<td>913.24</td>
<td>776.43</td>
</tr>
<tr>
<td>U.3 Rural energy</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2.53</td>
<td>7.59</td>
<td></td>
</tr>
<tr>
<td>U.4 Other</td>
<td>-</td>
<td>2.31</td>
<td>14.66</td>
<td>21.54</td>
<td>20.65</td>
<td>18.84</td>
<td>-</td>
</tr>
<tr>
<td>V. Non classified</td>
<td>152.82</td>
<td>147.05</td>
<td>433.00</td>
<td>140.90</td>
<td>142.89</td>
<td>158.95</td>
<td>0.76</td>
</tr>
</tbody>
</table>

III. Total expenditure on agriculture and rural development (policy transfers) | 3,118.80 | 3,739.88 | 7,431.79 | 8,182.65 | 5,803.49 | 8,266.21 | 9,112.58 |

*Source: MAFAP, based on MOFED, 2014*
Composition of public expenditures in support of food and agriculture
On average for the 2006/2007-2012/13 period, agriculture-specific expenditures accounted for 71 percent of total expenditures toward the food and agriculture sector. The remaining 29 percent corresponded to agriculture-supportive expenditures. The respective shares of agriculture-specific and agriculture-supportive expenditures have stayed close to the 70/30 ratio for the period (Figure 11).

Figure 11. Composition of public expenditures in Ethiopia, agriculture-specific policies and agriculture supportive policies, actual spending, in millions ETB, 2006-2012

Agriculture-specific public expenditures
Over the period, on average, 55 percent of agricultural-specific expenditures aimed at providing general sector support, while the remaining share went to direct payment to agents of the sector (producers, consumers, processors...). In 2006, payments to agents corresponded to 55 percent of the agriculture specific expenditures, however, this share has fluctuated over the years and accounted for 38 percent in 2012 (Figure 12).
During the 2006-2012 period, agricultural-specific expenditure mainly supported payment to consumers (23 percent of total agricultural-specific expenditure, on average), training/extension/technical assistance (22 percent), agriculture related infrastructures (15 percent) and input subsidies (11 percent). These four categories accounted for 81 percent of agriculture-specific expenditures between 2006 and 2012 (Figure 13), the rest being mainly composed of support to marketing and research (7 percent each).

*Figure 12. Value and composition of agriculture-specific public expenditures in Ethiopia 2006-2012, general sector support and payments to agents in the agricultural sector (in millions of ETB)*

*Figure 13. Agricultural-specific public expenditures in Ethiopia, 2006-2012*
Expenditure in support of consumers rose up to 33 percent of the agriculture-specific expenditures over the period and has never gone below 18 percent. The strong support to consumers was solely provided through food aid and cash transfers under the Household Asset Building Programme and the Productive Safety Nets Programme (Figure 14). The HABP and the PSNP are two out of the four components of the Food Security Programme umbrella, the flagship programme of the agriculture sector in Ethiopia and one of the largest food and agriculture programmes in Africa, in terms of funding and number of beneficiaries. The Food Security Programme (FSP) was implemented over the whole period of analysis. The third and fourth components, namely the Voluntary Resettlement and the Complementary Community Investment, are included in the budget line of the HABP.

Figure 14. Share of support to consumers in Ethiopia coming from FSP and PNSP, 2006-2012

The PNSP aims at building resilience and long-term food sufficiency for millions of Ethiopians: when it was launched in 2005, the target was set at 7.5 million people, which was at the time 8 percent of the country’s population (World Bank, 2012). The PNSP essentially provides food and cash transfers against public works, with a share of unconditional food/cash transfers for beneficiaries in very difficult conditions (disabled, pregnant women, elderly). The HABP was launched in 2009 and complements the PNSP: it focuses on access to credit for the same households that are targeted through the PNSP. The food aid components of HABP and PNSP represented 24 percent of agriculture specific expenditures and 17 percent of total expenditures to agriculture in the country over the period (administrative costs excluded).

Interestingly, the balance of consumer support has gradually shifted from 50 percent between each programme in 2006 to a 100 percent for PNSP in 2012. Although the two programmes have tilted the balance of food and agriculture expenditure towards payments to consumer during the 2006-2012 period, the MAFAP analysis reveals that they have represented a heavy share of support in other categories such as input subsidies (equipment, on-farm services notably), training, infrastructure, rural health or rural education. In fact, the PNSP and the HABP together have represented an impressive 78 percent of total expenditure in support of food and agriculture over the period, administrative costs excluded (see Figure 15). The same share for the PNSP alone was of 52 percent.
The PNSP and HABP therefore weigh very heavily on the total food and agriculture budget, at the expense of the other programmes. They are distributed over several categories of support (Box 3) but their sheer magnitude leads to wonder whether they are implemented in coherence with overarching food and agriculture policy objectives.

**Box 3. Categories of the Productive Safety Nets Programme**

The MAFAP classification allows for a classification of public expenditures based on the breakdown of activities that are being implemented under each projects and programmes in the country. In the case of the Productive Safety Nets Programme, seven activities were identified: food aid, cash transfer, training, infrastructure (all agriculture-specific expenditures) and rural health, rural education and rural water (all agriculture-supportive expenditures). Additionally, programme administrative costs were identified. The total budget of the PNSP was divided by eight and equally distributed along each category. Indeed, no information on the exact budget breakdown per activity was available but would be of primary interest to get closer to a better assessment of the Programme impact.

Studies, such as (Gilligan et al. 2008) or (Sharp et al. 2006), have analysed the successes and failures of PNSP, however, there is currently no analysis that puts the PNSP in perspective with the broad food and agriculture policy context. This calls for in-depth research on the opportunity cost of the two safety net programmes that took 78 percent of budgetary transfers to the food and agriculture sector, leaving 22 percent to all other initiatives.

Contrarily to consumer support, the expenditures on agricultural infrastructure, input subsidies and extension/training/technical assistance have come from a great variety of projects and activities. This means that the support for these three categories is more diversified and does not rely as much, in terms of number of projects, on the PNSP and the HABP.
Figure 16 below provides insights on the balance of the budgetary support provided to the four
categories aforementioned. The budgetary transfers to training, extension and technical assistance
appear the most balanced, as they are supported by more than 50 different project activities (right
axis). Their share in the total food and agriculture is nonetheless almost equal to that of payments to
consumers although this latter category is, as previously discussed, based on 4 activities and 2
programmes only. Also, the size of the bubble indicates that the government own budget (versus the
donor aid) contributes significantly to the training/extension and technical assistance category, with
a 38 percent average over the period. It has to be noted that the number of activities in support of a
category does not necessarily correspond to a well-distributed funding of the category. The PNSP,
despite being one project in support of agricultural infrastructure out of 18, takes 62 percent of the
funding to this category.

**Figure 16. Number of projects supporting the main agriculture-specific categories (horizontal axis), share of**
**these categories in total food and agriculture expenditures (vertical axis), and share of government**
**expenditures in support of these categories (bubble size), Ethiopia, average 2006-2012**

Input subsidies are heavily based on the government budget (77 percent of input subsidy comes
from treasury) and supported through 31 project activities, which implies that this type of support is
well anchored in the food and agriculture policy set of the Ethiopian government. However, this is a
small proportion of the total support to the sector. Fifty two projects include knowledge
dissemination activities (training, extension services and technical assistance), and these activities
account for a significant share of total agriculture expenditures, at 16 percent. Knowledge
dissemination activities are indeed part of several types of projects, as donors and the government
recognize the necessity to better transfer capacity to producers and other agents in the value chains,
be it on infrastructure maintenance, farming techniques to use inputs or training on marketing skills. Conversely, the government is not a major contributor of public expenditures to infrastructure, compared to donors (with a tiny bubble size) – that is also supported through a limited number of projects. The share of aid in each category is further discussed in the last section of this note.

A noteworthy trend, the relative level of budgetary transfers to infrastructure has evolved over the period, with an increasing weight allocated to this category in the agriculture-specific expenditures. This is correlated with the contraction, from 2010 onwards, of government expenditure to this category as opposed to donor spending. The payments to consumers have remained steady in relative terms, while the share of training/extension/technical assistance payments and input subsidies has dwindled after 2008 (Figure 17).

**Figure 17. Shares of the categories within the Ag-specific expenditures (in percent) and trends in public expenditures supporting the main agriculture-specific categories in Ethiopia, 2006-2012**

![](image)

Source: MAFAP, 2014

The relative reduction of input subsidies in agriculture specific expenditure is difficult to explain. First, the aggregate budgetary transfers for this category come from a variety of activities (as shown above). Second, input subsidies are subdivided into three categories: fixed inputs (on-farm equipments and improvements, mainly), variable inputs (seeds, fertilizers, credit) and on-farm services (subsidized on-farm inspection, mainly). The budgetary transfers for input subsidies have been equally distributed among the three sub-categories over the period, with little variation over time. The matching trends of expenditures in support of the three sub-categories of input subsidies, shown in Figure 18, reveal that programmes and projects very often combine all three type of support to inputs. As a matter of fact, out of the 31 activities that support input subsidies, 13 only have been identified as supporting a sole sub-category (fixed, variable or on-farm services) of input subsidies. It is also clear that the dwindling relative weight of input subsidies in agriculture-specific expenditures is not due to an absolute shrinkage of input subsidies over the period, except in 2012 were input subsidies registered a very significant drop. Important programmes that provided
transfers to inputs were stopped or reduced during that year. The next MAFAP indicators update will provide insights on whether the drop of 2012 is exceptional or the sign of a switch of budgetary transfers towards more infrastructures and less subsidies.

Figure 18. Trend of subsidies to variable inputs, fixed inputs and on-farm services (all input subsidies) in Ethiopia, 2006-2012

When looking at the distribution of agriculture-specific expenditure over two sub-periods (2006-2008 and 2009-2012), one can clearly observe the trends described above, with a shrinking share of input subsidies and training expenditures due to a substantive increased share of infrastructure and payments to other agents (see Figure 19). The transfers to “other agents”, namely processors, transporters, traders and input suppliers, are largely related to the Agricultural Growth Programme (AGP), a programme heavily financed by the World Bank. The AGP aims at increasing market-led agriculture and supports various levels of targeted value chains, notably the processing stage. The AGP is complemented by the East Africa Agricultural Productivity Program (EAAPP), also largely financed by the World Bank, which funds input suppliers through its “improved availability of seeds and breeds” component. The increasing share of storage in agriculture-specific expenditures, after 2009, is principally due to a surge of donor funding for the Early Warning and Response Building project. This project includes a component on emergency storage (food and non-food, such as agricultural equipment) in three strategic warehouses. The Agriculture Sector Support Project is also an important support for storage.
Additionally, the abatement of public expenditure on marketing should be flagged. Indeed, marketing has received an average share of 6.8 percent of agriculture-specific expenditures, which
can be considered rather low with regards to the market-oriented agriculture development strategy promoted by the Ethiopian authorities. Furthermore, both the absolute and relative supports to marketing have decreased in 2011 and 2012 (Figure 20), after a peak in 2008 due to an important disbursement from the Agriculture Marketing Programme. It has to be acknowledged that several transfers have indirectly been in favour of marketing activities, such as agricultural infrastructure (feeder roads, notably). Nevertheless, one would expect stronger budgetary transfers towards the building of marketing infrastructure, market information systems and training of producers in designing marketing plans and strategies. This is crucial to ensure that production and productivity increases are linked to better access to markets and marketing knowledge of producers.

**Figure 20. Trend of marketing support in absolute expenditure (left axis) and share of agriculture-specific expenditure (right axis) in Ethiopia, 2006-2012**

![Graph showing the trend of marketing support](image)

*Source: MAFAP, 2014*

The share of support towards research should also be highlighted, as it has gone from 2 percent of agriculture-specific expenditures in 2006-2008 to 8 percent in 2009-2012. Support to research has been, in any case, highly volatile over the period (Figure 21).
The Agricultural Science and Technology Indicators (ASTI) of the International Food Policy Research Institute (IFPRI) are also providing an assessment of public investment for agricultural research and development. ASTI’s indicators for Ethiopia stopped in 2008 at the time of this analysis. ASTI’s indicators on agricultural research are always superior to those of MAFAP for 2006, 2007 and 2008. This could be explained by the fact that ASTI’s definition of public transfers to research include sale of goods and services by the research institutions themselves (ASTI, 2014), unlike MAFAP which focuses on budgetary transfers from the government and donors. The difference is not extremely significant, however, going from 5 percent of agriculture-specific expenditure to 1.25 percent (see Figure 22).
Agriculture-supportive public expenditures

The MAFAP methodology captures, on top of agriculture-specific expenditures, expenditures that benefit the agriculture sector indirectly. Public expenditures that contribute to the agricultural sector development by supporting rural areas are thus classified as agriculture-supportive expenditures. This embraces health and education in rural areas but also rural roads, hydraulic infrastructures and energy plants. The agriculture-supportive expenditures accounted, on average, for 30 percent of the overall support to food and agriculture sector in Ethiopia between 2006 and 2012. Except in 2009, when they recorded a dip to 22 percent, agriculture-supportive expenditures have oscillated between 26 and 34 percent of total expenditures in support of food and agriculture.

Ethiopian authorities and the donor community have clearly favoured agriculture-specific budgetary transfers as a mean of supporting the sector. Agriculture indeed represents, by far, the main
livelihood in rural areas and it is to be expected that governments and donors alike focus on direct support to the agriculture sector when targeting rural areas. Nonetheless, it is important to stress that compromising rural health, education and infrastructure support for more short-term impact transfers (especially consumer support, which is very high in Ethiopia), may jeopardize the sustainable development of the agriculture sector.

It has to be stated that, in absolute value, the budget allocated to rural development has gone up significantly, by 143 percent from 2006 to 2012 period (Figure 24). The trend in agriculture-supportive expenditure is strongly correlated with the budget of the PNSP, which represents 68 percent of the category. The Productive Safety Net Program (PNSP) and the other component of the Food Security Program, namely the Household Building Asset Program (HABP), accounted for 89 percent of agriculture-supportive expenditures (Figure 24).

**Figure 24. Trend and share of the PNSP and the HABP in agriculture-supportive expenditures, in millions ETB, 2006-2012**

Rural infrastructure (roads, water and sanitation, energy) represented the main category among agriculture-supportive expenditures over the period of analysis. Budgetary transfers in support of rural infrastructure averaged 628 million ETB over the period (). Transfers to rural health accounted to 590 million ETB on average, with a lower growth rate than those for rural infrastructure. The budget for rural education has grown at the highest rate, even though it had the lowest absolute value (477 million ETB on average). In 2008, agriculture-supportive expenditures peaked substantially, as reflected in the rural health and infrastructure budgets, which doubled that year (Figure 25). This is partly due to the HABP and PNSP budget increase.

Source: MAFAP, 2014
The support to rural education, health and infrastructure has been balanced with a slight bias for health and infrastructure. On average for the period education represented 26 percent of agriculture-supportive expenditures, while health accounted for 32 percent and infrastructure for 34 percent. Public expenditures in support of rural education have experienced a higher growth than the two other sub-categories, and despite a lower general average, its share in agriculture-supportive expenditures has constantly increased over the period. In absolute terms, rural education expenditures almost doubled in 2011, while the two other increased by a little more than 80 percent. In 2012, the budget for education has exceeded the health budget in absolute values (Figure 26).

Overall, the Ethiopian authorities invest heavily into infrastructure to foster the agriculture sector.
growth. This is especially visible when combining public expenditures for rural infrastructure with those for agriculture-specific expenditures. Over the period of analysis, the total budget for infrastructure indeed inflated by 386 percent, in absolute nominal value. This is twice as much as the increase of the total expenditures in support of food and agriculture in Ethiopia (192 percent).

Furthermore, investments in favour of agricultural and rural infrastructure are swelling, with a combined share of total expenditures rising from 11 percent in 2006 to 19.2 percent in 2012. This growth has been fuelled, in particular, by expenditure on agricultural infrastructure, notably feeder roads. The budget for agriculture infrastructure has indeed increased more exponentially than the one for rural infrastructure, albeit the share of the rural infrastructure expenditure is highly stable compared to that of agricultural infrastructure expenditure (Figure 27). This is due to the fact that rural infrastructure are overwhelmingly funded through the PNSP and FSP, whereas agriculture infrastructure are targeted through multiple, and volatile, project funds.

**Figure 27. Agricultural and rural infrastructure expenditures in absolute terms and share of the agriculture-specific and agriculture-supportive expenditures, in % and millions ETB, 2006-2012**

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural Infrastructure</th>
<th>Agricultural Infrastructure</th>
<th>Share of infras. in AG-specific</th>
<th>Share of rural infras. in AG-supportive</th>
<th>Expon. (Rural Infrastructure)</th>
<th>Expon. (Agricultural infrastructure)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>0</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2007</td>
<td>5</td>
<td>5</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>2008</td>
<td>10</td>
<td>10</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>2009</td>
<td>15</td>
<td>15</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>2010</td>
<td>20</td>
<td>20</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>2011</td>
<td>25</td>
<td>25</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>2012</td>
<td>30</td>
<td>30</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
</tr>
</tbody>
</table>

**Source:** MAFAP, 2014

**Public expenditures on key commodities**

Agriculture-specific expenditures can be decomposed by commodities which they intend to support. Each expenditure measure within this category has been attributed a commodity depending on whether it supports an individual commodity, a group of commodities or all commodities (transversal support). In Ethiopia, agricultural support for specific commodities is rather the exception than the rule and is almost negligible, at 0.6 percent over the period, as can been seen in the Figure 28.
In 2008, however, a significant support was provided to group of commodities. Indeed, the budget allocated to group of commodities increased from 35 million in ETB to 1.7 billion ETB in 2008, in nominal terms. This represented 34 percent of agriculture-specific expenditures. This surge can be attributed to the Agricultural Marketing Improvement Program (AMIP), which supported the grains and coffee value chain (Figure 29). The AMIP is one of the only programme in Ethiopia that explicitly promoted specific value chains during the period of analysis.

The AMIP ended in 2011, and subsequently, livestock became the main group of commodities support through public expenditures (Figure 30). Unlike coffee and grains, the support to livestock was provided through multiple projects. The most notable programmes promoting livestock are the Livestock Quality Control Project, the Pan African Control of Epizootics project, the Animal Health
Laboratory Construction project and the Holeta Bull Dam Farm Construction project. Interestingly, all these programmes except the last one are geared towards inspection/animal health, which reveals a gap in livestock support in terms of infrastructure or private equipment for livestock herders. From 2009 to 2012, groups of commodities benefited from 2.2 percent of agriculture-specific expenditures.

**Figure 30. Share of main groups of commodities into expenditures targeting groups of commodities in Ethiopia, 2006-2009 and 2010-2012**

![Pie chart showing share of main groups of commodities into expenditures targeting groups of commodities in Ethiopia, 2006-2009 and 2010-2012](source)

Over the period, the amount of expenditures targeting individual commodities did not exceed 1.5 percent of the agriculture-specific expenditures but it has increased in absolute, nominal terms from 5.6 million ETB to 94.2 million ETB between 2006 and 2012. This is mainly due to the launch of the new Eastern Africa Agricultural Productivity (EAAP) program in 2010, which accounted for 83 percent of the total budget for specific commodities in 2011 and 87 percent in 2012.

Among these expenditures in support of individual commodities, an important share was devoted to coffee. Coffee is a commodity with great national importance (i.e. the major foreign exchange earner) and was getting almost two third of the commodity-specific support between 2006 and 2009 (Figure 31). Over this four-year period, teff was also receiving significant support by the government, especially for research on breeding and genetic, with 13 percent of the single-commodity budget.

Wheat also received a special attention, but only over the last three years of the period. Indeed, in 2010, the new program EAAP started to produce and/or purchase and distribute certified wheat seeds, to train farmers and to support business development.
Nature of public expenditures in support of food and agriculture

The MAFAP methodology distinguishes policy transfers from administrative costs. Policy transfers are counted as all budgetary transfers that are associated to a good or a service supporting the agricultural sector – including for instance salaries of extension workers. On the other hand, MAFAP counts as administrative costs the expenditures that correspond to the functional costs of the Ministries such as offices infrastructure, wages of Ministry staff at central level or policy design costs.

In Ethiopia, the share of policy transfers throughout the study has ranged from 81 percent (2009) to 90 percent (2008). This reveals that the project and programmes funds attributed to the running costs of the Ministries are low, in line with what is observed in other countries using the MAFAP monitoring system.

Table 5 shows that with the exception of 2012, the share of administrative costs is higher for donors than for the government. This is chiefly the result of reporting and monitoring and evaluation activities associated with each donor financed projects. A stronger centralization of donor project reporting, and to some extent of the M&E, at the Ministry of Agriculture level would surely result in efficiency gains and lower share of administrative costs.

Table 5. Share of policy transfers within the total agricultural budget

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Share of Policy Transfer</td>
<td>89.43%</td>
<td>89.59%</td>
<td>81.41%</td>
<td>85.61%</td>
<td>86.88%</td>
<td>88.55%</td>
<td>85.31%</td>
</tr>
<tr>
<td>Share of Policy transfers in total donors' budget</td>
<td>87.67%</td>
<td>87.54%</td>
<td>78.24%</td>
<td>83.84%</td>
<td>85.28%</td>
<td>87.92%</td>
<td>85.44%</td>
</tr>
<tr>
<td>Share of Policy transfers in total national budget</td>
<td>90.47%</td>
<td>91.50%</td>
<td>91.26%</td>
<td>90.81%</td>
<td>89.97%</td>
<td>90.30%</td>
<td>83.70%</td>
</tr>
</tbody>
</table>

Source: Author calculation using MoFED data for MAFAP
Role of development aid in public expenditures in support of food and agriculture

At this point, it is important to recall that the MAFAP analysis in Ethiopia focuses on capital projects. The government treasury is used to cover both recurrent and capital expenditures, however. By contrast, donor funding is largely composed of capital expenditure. Therefore, one should consider that the share of aid in the expenditures covered in this analysis provides an accurate insight into the weight of donor funding in capital expenditure, but is an over-estimation when considering the total, non-MAFAP, budget for agriculture (that includes recurrent costs).

Donor support to the Government of Ethiopia has been increasing over the study period. In relative terms, aid has increased from 63.8 percent of total expenditures for agriculture and rural development (2006-2010) to 83.4 percent (2011-2012). This upturn has equally affected agriculture-specific and agriculture-supportive expenditures (Figure 32).

Figure 32. Share of aid in agriculture-specific expenditures, agriculture-supportive expenditures and total expenditures over the 2006-2010 and 2011-2012 periods, in %

Interestingly, the PNSP and the HABP, the two most important programmes for the sector in terms of funding, have followed opposite funding patterns until 2010. While the PNSP has been funded by donors at 98 percent during the period of analysis, the HABP was relying on national funds at a 100 percent until 2010. In 2011, donors contributed for 11 percent, and in 2012, they funded 100 percent of the programme.
Figure 33. Share of aid in total public expenditures, by category between the 2006-2010 period and 2011-2012 in Ethiopia (in Birr and percentage)

Source: MAFAP, 2014
The graph suggests a certain consistency between donor and government funding allocations in terms of broad categories: in 2011-2012, the overall share of aid in total expenditure on agriculture and rural development was of 83 percent and it reached a comparable 82 percent and 87 percent for agriculture-specific and agriculture-supportive expenditures. However, differences in allocations appear as one looks at the detailed breakdown of expenditure categories (Figure 33). When comparing budget allocations of donors and of the government, one has to take into account the issue of the fungibility of aid, that is “the idea that aid pays not for the items which it is accounted for but for the marginal expenditure it makes possible” (White and Dijkstra, 2003). In other words, it is difficult to correlate a low government share of expenditure in a specific category with a low priority given to this very category by the government. The government may decide to use the aid provided by donors towards specific sub-sectors to free up its own budget and allocate it to other sub-sectors that are not a priority for donors, which does not preclude that the donor-funded sub-sectors are not government priorities. It should also be noted that a growing number of studies argue that aid fungibility does not necessarily have negative effects on budgetary allocations and that there is no evidence that it ultimately impedes development: it all depends on the government’s vision and ability to soundly allocate aid and national budgets to the most appropriate priorities (Leiderer, 2012).

In Ethiopia, aid fungibility is well illustrated by the uneven donor to government funding ratios in payments to producers and consumers. Indeed, in the 2006-2012 period, Ethiopian authorities have contributed a very high share of the payments to producers (80 percent) as opposed to the payments to consumers (24 percent). Donors on the other hand have focused their transfers on consumer support (such as food aid and cash transfers) rather than direct payments to producers (such as input subsidies). Aid has also massively flowed towards input suppliers (94 percent of expenditures) and transporters (98.4 percent). Ethiopia has a long and well-documented history of aid dependency for consumer support, mainly food aid, that started in the 1980s. In 1999-2000 for instance, 16 percent of the estimated 62 million inhabitants benefited from food aid (Siyoum and Hilhorst, 2012). The PNSP and the HABP are the latest manifestations of food aid programmes, albeit with an innovative focus on building resilience and combining social safety nets (food for work, cash for work) with improved access to credit. The government claims that the PNSP, jointly with efforts in other agriculture sub-sectors and in developing the private sector, can help it move away from the food aid dependency by tackling the roots of food insecurity and creating strong safety nets. Notwithstanding this claim, the low share of the national expenditures in the support to consumers suggests that the government opted to keep, for the period, food aid as a donor-funded sub-sector while focusing its national budget on input subsidies. The low priority on input subsidies for donors (23 percent over the period) indeed reflects the current aid paradigm that input subsidies are not the most efficient development tool in Africa, as they are expensive private goods that can easily be misused. The Ethiopian government, over the period 2006-2012, has also been the chief funding source for technical assistance and extension activities (73 percent on average). This shows a policy will to sustainably bolster agricultural productivity by transferring capacities to the producers.

In terms of trends, aid has represented an increasing weight in public expenditures towards food and agriculture in Ethiopia, going from 64 percent in 2006-2010 to 83 percent in 2011-2012. This has logically negatively affected the share of government expenditures in all categories. Notably, the government’s share of direct support to producers has been also declining with an increasing budget from donors: it went from 90 percent to 52 percent. However, it appears that the government has
shifted its focus towards a more integrated approach, raising its budgetary support to different agents along the value chain in 2010-2011 compared to 2006-2009 – mainly through its contribution to the Agriculture Growth Programme (Figure 34).

**Figure 34. National share in direct payments to producers, consumer, input suppliers, processors and traders in Ethiopia, 2006-2010 and 2011-2012**

Source: MAFAP, 2014
CONCLUSIONS AND RECOMMENDATIONS

A variety of insights into public expenditures in support of food and agriculture in Ethiopia can be derived from the present analysis.

First and foremost, public expenditures in support of the food and agriculture sector in Ethiopia have represented a substantial share of the total budget of the nation. The share has constantly outmatched the 10 percent target agreed upon by the Ethiopian Government at the African Union meeting of Maputo in 2003, reaching impressive figures of 33.5 and 30.4 percent in 2008 and 2009. Nonetheless, there is a substantial decline in food and agriculture expenditure, in relative terms: from an average of 28 percent of the total budget in 2006-2009, it plunged to 15 percent in 2010-2012. The decrease in funding to agriculture in 2010 and the stall in 2012, have coincided with the agricultural added value growth dropping to 5 percent in both years – whereas the average growth for the agricultural added value over the 2004-2014 period was of 9.3 percent. The dip in the agricultural value added growth also corresponded, in 2011 and 2012, to a decrease in of the country’s gross domestic product growth. Although more in-depth analysis would be required to further investigate the causality relationship between public expenditures in the sector and GDP growth, the current findings call for a careful review of the budgetary allocations to the sector.

It is acknowledged that the government is pursuing an ambitious developmental policy, fuelled by considerable investments in non-agriculture sectors such as energy, industry and urban works. It is also clear that development policies for the agriculture sector are giving a growing importance to the private sector. Notwithstanding the conjunction of these two policy strands, the importance of public spending in the food and agriculture sector should not be underestimated. Indeed, agriculture still represents the livelihood of 83 percent of the population: in that sense a key challenge for the government – and donors – for the years to come, will be to provide adequate support to boost domestic production but also to enable the overall development of densely populated rural areas with adequate infrastructure, health and education. The latter investments are crucial to ensure middle to long-term economic growth, not only for agriculture but also for the nation at large. In this regard, the share of total public expenditure allocated to rural development (agriculture-supportive expenditure), at 5 percent in 2012, may be less than a strong effort.

Another striking result of the analysis is the budgetary magnitude of the Productive Safety Nets Programme, and its complement, the Households Assets Building Programme. The two programmes, together, account for a tremendous 78 percent of the capital expenditures for the sector, the PNSP for 52 percent. This level of predominance of one programme has yet to be measured in any other country using the MAFAP monitoring system, a possible exception being Malawi’s Farm Input Subsidy Programme (FISP). Unlike Malawi, where the government is opting for an offer-driven policy effort through input subsidies, the government of Ethiopia - backed by donors - has targeted demand through colossal investments in the innovative safety net programme. Aside from the chances of success or failure of the PNSP and the HABP, which is not the purpose of this analysis, the government and donor community have to be conscious that the budgetary effort invested in these two programmes represents an extremely high opportunity cost for other food and agriculture supportive measures, which benefit altogether from 22 percent of capital expenditures. On the other hand, the PNSP and the HABP offer a unified budgetary tool that contrasts with the myriad of project and programmes which typically compose the budget of African countries: this is a chance for the
government and donors alike to focus their efforts on the same sub-sectors. It thus becomes critical to question whether the PNSP and HABP are targeting the right sub-sectors. One of the main concerns related with the two programmes is that they tilt the balance of public expenditures in Ethiopia towards the consumer side, and appear to prolong the country’s notorious food aid dependency. Nonetheless, their approach – based on food and cash for work, combined with access to credit – leads the programmes to spill on the offer side with the building of infrastructures and improvement of access to credit that deliver short and long term incentives for production. This is reflected in the composition of public expenditures: although consumer support is weighty and solely channelled through PNSP and HABP (23 percent), infrastructure (15 percent) and payments to producer (11 percent) also take a large share of agriculture-specific expenditures.

The PNSP and the HABP are also contributing to rural development, and effectively account for 89 percent of agriculture-supportive public expenditure over the period. The heavy reliance on these two programmes to support rural development may hamper the sustainable growth of the rural sector. Rural health, education and infrastructure projects, reported under the Ministry of Agriculture, have represented, on average, a low 30 percent of total expenditures towards the food and agriculture sector during the period. Limited budgetary efforts towards the aforesaid areas may jeopardize the development of the sector that is sought through agriculture-specific expenditures. Indeed, among other crucial synergies between agriculture-specific and agriculture-supportive transfers, rural roads are essential to connect farmers to urban centres and allow them to market the production surpluses that should derive from the input subsidies expenditure; rural health is key to long-term increase of productivity and to reduce the reliance on safety nets and consumer support; rural education maximizes the chances of success for knowledge dissemination activities (extension, training, technical assistance).

The government and donors have indeed invested considerably in the latter activities, which held 22 percent of agriculture-specific expenditures for the period – the highest share after consumer support. In addition, knowledge dissemination activities were supported by means of 52 different projects, out of 107 recorded in the analysis. It is apparent that the donors and the government have integrated capacity building as a central component of their projects in support of the sector. This is an encouraging sign that public expenditures for the sector are including aspects of sustainability and roots-based ownership of the agricultural development. The knowledge dissemination support is, moreover, complemented with an increased budgetary effort towards research: share of the expenditures for that category in the Ag-specific expenditures has gone up by 7 percent over the 2006-2008 and 2009-2012 biennium. On the other hand of the development spectrum, input subsidies, which are generally considered short-term measure to sparkle agricultural productivity, have also been significant but have reduced over the period of analysis, going from 14 to 9 percent of agriculture-specific expenditures between 2006-2008 and 2009-2012. During the same time periods, investment in agricultural infrastructure has increased by 10 percent. Both the light decrease in input subsidies and the increase in infrastructure expenditures reflect a more structural approach to agriculture development, from boosting productivity with improved seeds to building hydraulic infrastructure and feeder roads that help sustain and market the production surplus. This balanced budgetary effort is not well complemented, however, by the abatement of expenditures towards marketing activities, from 17 to 3 percent of agriculture-expenditure over the two periods aforementioned. The building of markets, improvement of market information systems and training of producers in designing marketing plans and strategies are key components to ensure that
producers are able to predict the market signals, efficiently commercialize their production and benefit from adequate prices, in order to raise their income and invest in the sector.

The present study also reveals that targeted support to individual commodities, in Ethiopia, has been close to non-existent. On the contrary, a striking 92 percent of public expenditures have flowed to the sector without being destined towards specific individual commodities. This does reflect an effort to promote the development of the agricultural sector as a whole, without creating market distortions towards certain commodities. Per contra, the lack of targeted budgetary transfers is not a strong match to the trade and market policy efforts from the Ethiopian Authorities. This is especially the case for export crops, such as coffee, sesame, maize and haricot bean: the creation of the Commodity Exchange Market (ECX) in 2008 to improve the market structure would greatly benefit from significant and targeted expenditure towards these very value chains. One may mention areas such as training, technical assistance and extension services that would be needed to ensure that producers and other agents in the value chain are well able to adapt to the new ECX system. The lack of targeted support to teff and sorghum is also notable, given that the two commodities are of high importance for food security. The MAFAP price incentive analysis already shows that producers have been receiving low prices because of the trade-restrictive policy environment for these two crops: the current study also shows that neither do teff and sorghum producer receive significant budgetary support. The combination of input and output disincentives to production for such important commodities is a salient and surprising finding.

Furthermore, the analysis provides detailed figures on the donor versus government budgetary allocations to the sector. Globally, the weight of aid is on the rise, going from 63 percent in 2006-2010 to 83 percent in 2011-2012. The share of aid in consumer support is remarkable, at 89 percent on average over the period, and suggests that the donor focus on food aid, in Ethiopia, remains strong. The government appears to be making the most of this situation by concentrating its own resources on payments to producers (input subsidies mainly), an area which donors are typically reluctant to fund. The share of government funding in payments to producers indeed reaches 52 percent on average over the period – and 90 percent in 2006-2010. The clear differentiation of funding roles between donors and the government on consumer and producer support may be a risky strategy, as it contributes to fragment accountability for such complementary policy efforts. Furthermore, for this strategy to succeed, and for the government to move away from food aid dependency, it is crucial that the PNSP and HABP end up having their expected impact. As the PNSP expires in 2014, it is extremely important that the greatest care be devoted to, first, carry out a deep M&E study to have a strong analysis of the programme impacts and, second, ensure this programme, the backbone of the budget for the sector, effectively targets the constraints in the sector. Timely and accurate tracking of food and agriculture public expenditures level and composition, combined with a sound knowledge of trade and market policies effect, will certainly assist the government and donors in this task.
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ANNEXES

Annex 1: Public expenditure reporting

The reporting of public expenditures in Ethiopia is linked to the State’s federal structure. Ethiopia is indeed a federal system composed of regional states. MoFED maintains disaggregated and yearly records for the budgeted and actual expenditure at federal level for food and agriculture. The records are available for all the agencies engaged in Agriculture and Rural development. They yearly reports are made available at the end of each budgetary year. The expenditures are divided by source, domestic, external and loan and economic classifications (i.e. recurrent versus capital). MoFED maintains program level expenditure for federal capital projects. Regional expenditures are also available in aggregation (i.e. for the agricultural sector, etc.). The disaggregated data on public expenditures for food and agriculture, i.e. data by programme and project, is only available at regional level and requires physical trips to the regions in order to be collected. For recurrent budget, there is no project level breakdown available at MoFED. What can be found is the budget allocated for Directorate/Department.

Most donors/development partners have integrated their work with the government plan. For example, World Food Program works on project on PIF’s objective four, that is, Disaster Risk Management and Food Security. However, some might still work independently. There is thus a share of public expenditure that is off-budget that is not covered in this project.