



## WHY COUNTY GOVERNMENTS SHOULD PRIORITISE FUNDING FOR THE AGRICULTURE SECTOR

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### SUMMARY

Funding to the agricultural sector is an issue that has received considerable attention over the last two decades culminating in the Maputo Declaration in 2003 and later, the Malabo Declaration in 2014. In Kenya, the sector's importance to the economy has been steady, currently contributing a third of the country's GDP and two-thirds to household incomes. Therefore, investment in the sector has the potential to boost the economy. Following the transfer of majority of the functions in the sector to county governments in 2013, the governments allocated an average of about 6% of their total budget to the agriculture sector over a three-year period (2014-2017). Only seven counties allocated 10% or more of their budget to the sector at one point during the period under review. Case studies in Asia show that prioritising agriculture and rural development sectors will lead to greater improvement in the economy. This implies that there is an opportunity for the country to improve household incomes and the economy as a whole by increasing investments in the agriculture sector.

### BACKGROUND

The agriculture sector has been the largest contributor to the Kenyan economy over the past four decades. In addition, the sector accounts for 18% of formal employment, 60% of informal employment and 60% of export earnings and it supports 80% of rural population (MOALF, 2015). Despite its importance, the sector's growth has stagnated overtime, recording an annual average growth rate of less than half (2.2%) of the targeted 6.4% in the last planning cycle (2007-2012), although this improved to 4.5% average annual growth between 2013 and 2016. This performance can be attributed to several challenges such as climate variability and change; limited access to and prohibitive costs of key inputs such as improved seed and soil enriching inputs e.g. fertilizer; poor access and utilization of agricultural information; declining land sizes; and, natural resource degradation. The devolution of most of the functions in the agriculture sector to county governments is projected to have significant impacts on the sector. This is because it is expected that county governments will be able to allocate resources to local priorities, and agriculture is at the heart of majority of the county economies, either directly or indirectly through value addition and support services to the sector.

Although the national and county governments are interdependent, each county determines how to allocate its resources. In the years leading to devolution, resources were allocated at the national level and cascaded downwards to decentralized levels. Absolute financing to the sector had been increasing although the share of funds in the total budget allocated to the sector was declining. This was attributed to the expansion of the national budget and the focus by the government on other key sectors such as infrastructure, health and education. Given the importance of agriculture for the national and county economies, it is expected that resource allocation would mirror this reality. However, investments in the sector have not been commensurate with the sector's contribution to the economy, and the share of funding to the sector is declining. For instance, in 2017, the sector contributed 33% to the economy (KNBS, 2017) but it received only 2.8% of the national budget, down from 3.6% the previous year. Combined with what the county governments are likely to allocate, the total funding will be approximately 5%, half of the 10% target as per the Malabo declaration.

## Objectives

We analyse the trends in the agriculture sector funding by both national and county governments, focusing on the period when majority of the functions in the sector have been devolved to the county governments. We compare the level of funding against the importance of the sector in the economy. The level of financing signifies the investment priority attached to the sector by national and county governments. This is aimed at adding voice to the call for increased funding to the sector. Our key hypothesis is that increased investment in the agricultural sector is likely to spur growth not only in the sector but also in other sectors through sectoral linkages,

resulting in higher employment and incomes among populations in rural areas.

## Data and Methods

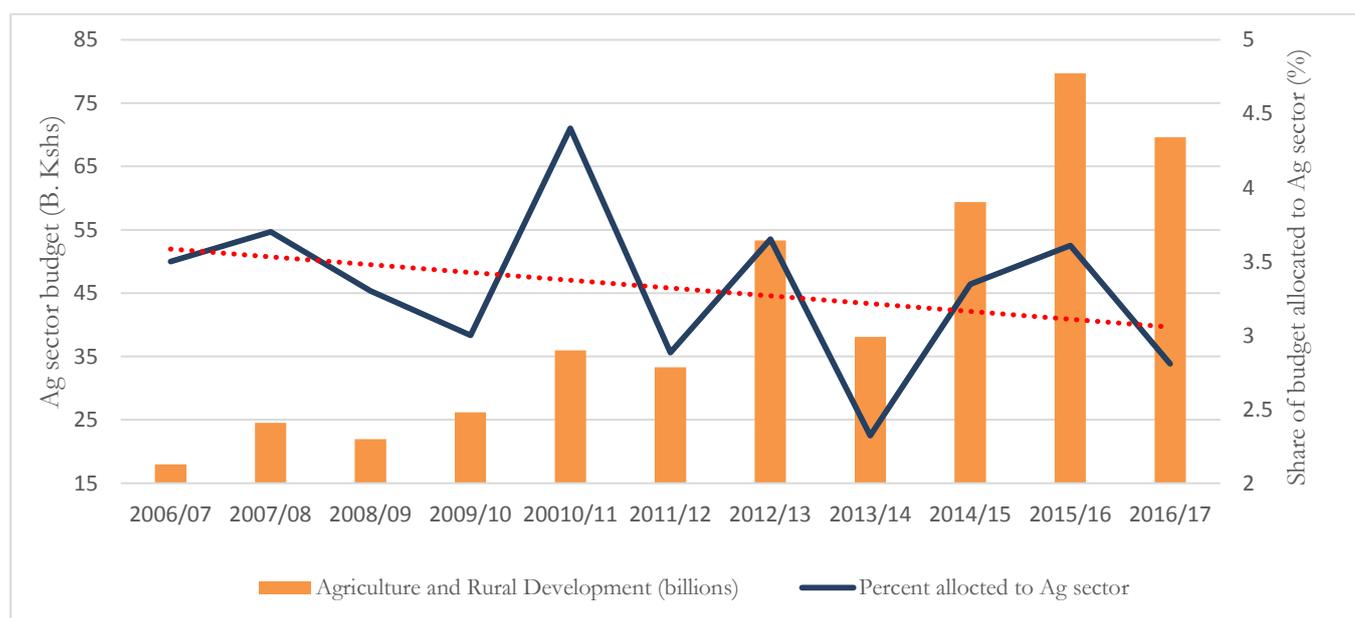
We use data on county government budgets from the Commission on Revenue Allocation and the Controller of Budget. At the national level, data was obtained from the National Treasury. We use descriptive analysis to explore the trends in allocation of funds to agriculture.

## Trends in Agriculture Sector Financing

The overall level of funding affects allocation within the sector. From mid 2000s, the sector's allocation to recurrent expenditure has been declining, while that for development expenditure has been increasing. By 2014/15, the sector's development expenditure at the national level was 70% of total budget for the agricultural sector ministries (ERA, 2015). In addition, the absorption rates averaged 85%.

At the national level, the budget allocated to agriculture has been increasing but the share of the budget to the sector declined over the same period (Figure 1). This is partly explained by growth in the overall budget, and the priority of the government over the last decade, with more focus towards health, education and the development of infrastructure in roads, rail and energy sub-sectors.

Figure 1: Trends in financing of the agriculture sector in Kenya



Source: The National Treasury, 2016

African countries through the Malabo Declaration in 2014 recommitted to allocate at least 10% of their budgets to the agriculture sector. Only 8 countries had met this target before the recommitment.

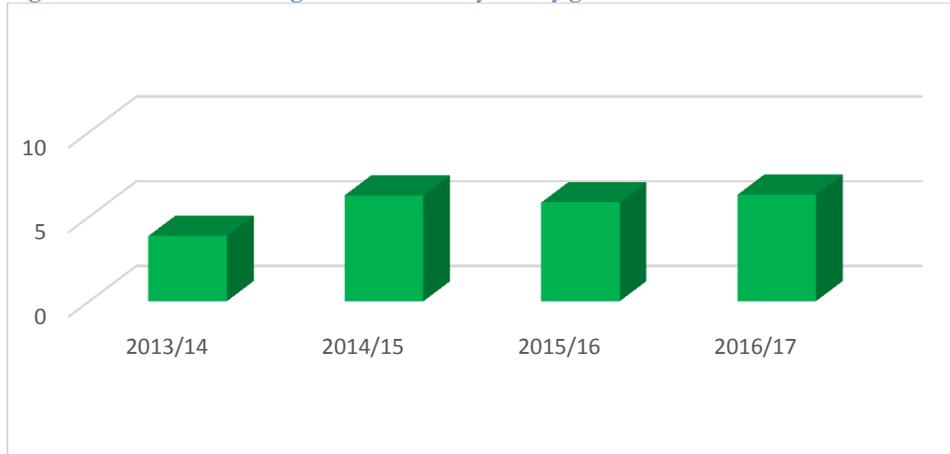
The transition phase at the county level was not smooth. In the first year, budgets for the counties had the development component only (Figure 2). In subsequent years, the sector budget comprised of both recurrent and development allocations. Over the last three years, allocation to the agriculture sector has been steady at about 6%. County governments are also investing heavily in the development of infrastructure and setting up of institutions at the county level.

Over the three-year period up to 2016/17, counties allocated an average of 6% to agriculture, which is just above half the target set in the Malabo declaration (Figure 2). The variations are, however, large with

the least allocation at 1.3% and the highest at 13.4% (Figure 3). Among counties that had larger allocations in the agriculture budget, Turkana, West Pokot and Kitui, had irrigation as part of the agriculture ministry. It is expected that a significant proportion of the budget will be used to develop irrigation infrastructure.

Further, the trend of funding varies over the three years. Some counties had very little investment in the sector in the first years, while others have allocated a consistent proportion of their budget to the sector, with a few other showing erratic patterns across the three years.

Figure 2: Allocation to the agriculture sector by county governments



Source: Controller of Budget, 2016; Data from 2013/14 is from Commission on Revenue Allocation. Note: in 2013/14 majority of the counties only budgeted for development expenditure. Recurrent expenditure was budgeted for under the gubernatorial office budget.

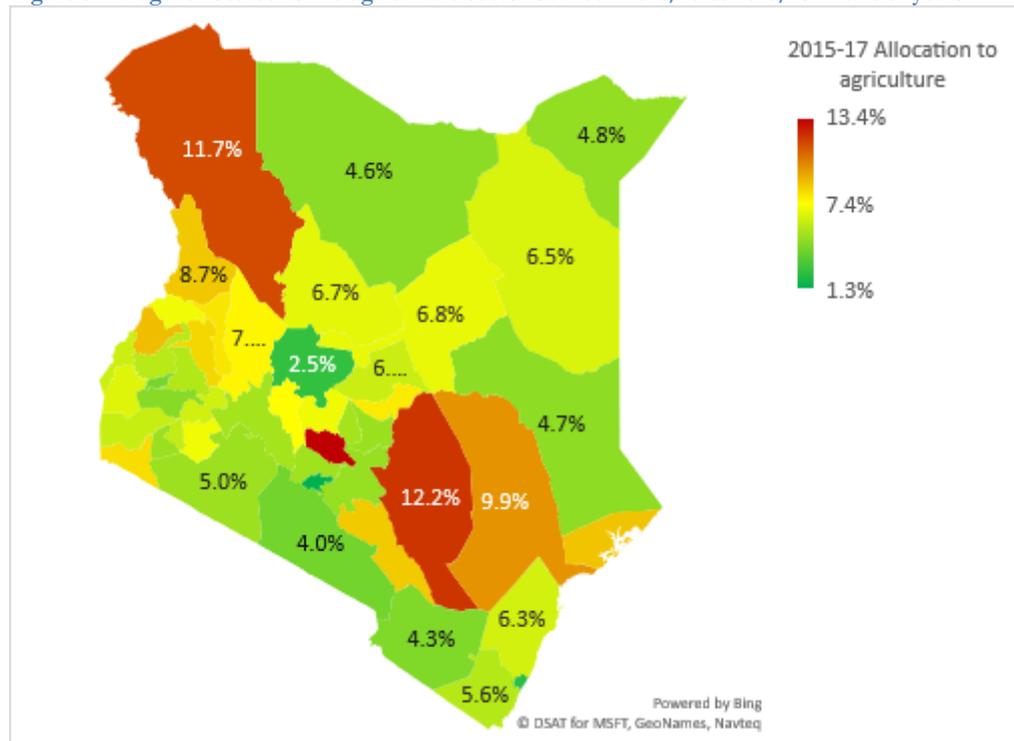
There is a positive correlation between funding for and growth of the agriculture sector in Kenya.

Increase in funding for agriculture and rural development led to the huge economic growth seen in East Asia (10% of total budget, 20% of development budget).

Average share of budget allocated to the agriculture sector by county governments is 6% over the last three years.

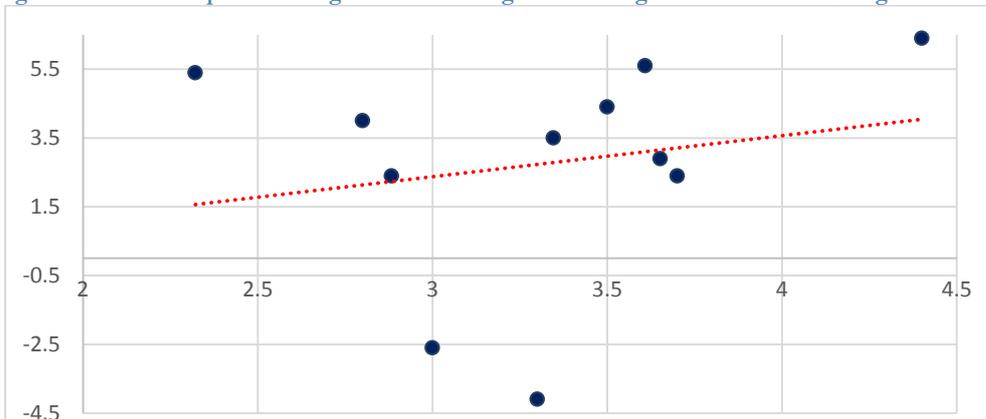
65% is the average contribution of agriculture to household income across selected counties.

Figure 3: Budget allocated to the agriculture sector between 2014/15 & 2016/17 financial years



Source: Data from Controller of Budget, 2014-2016

Figure 4: Relationship between agriculture sector growth and agriculture sector funding



Source: Data from Economic Surveys 2006-2016, KNBS

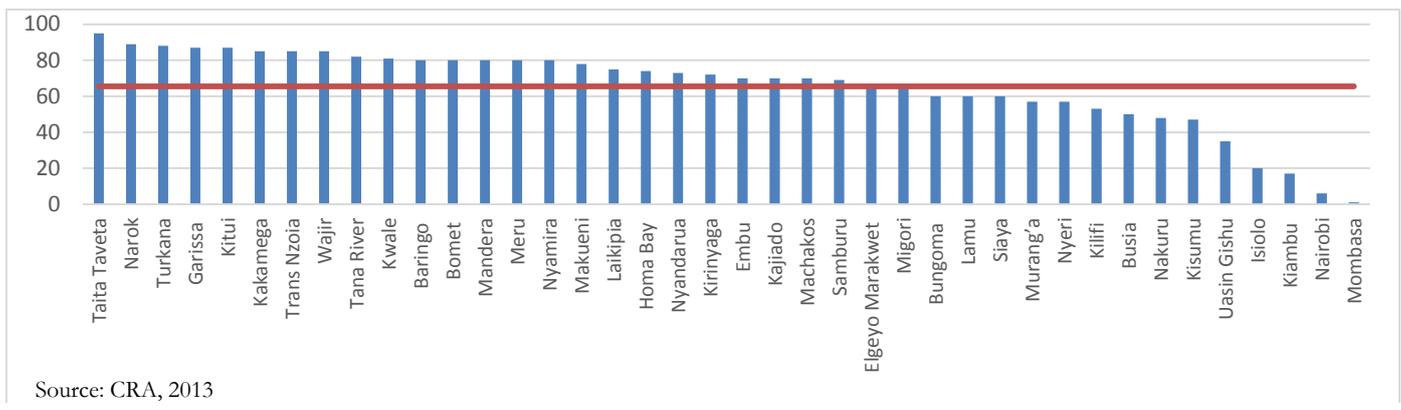
### Relationship between agriculture funding and agriculture growth rate

It is expected that increased funding to the sector implies more investments leading to greater performance of the sector. Figure 4 shows a positive correlation between agriculture sector funding and the sector's growth rate.

Henley (2012) and van Donge et al (2012) in reviewing economic growth between East Asia and Sub Saharan Africa argued that it was policy choices that led to the huge growth observed in East Asia. Countries such as Indonesia, Malaysia and Vietnam increased funding to rural and agricultural development to 10% of national budget and 20% of development budget. In addition, the funding favoured pro-poor programs in the rural areas. Henley (2012) warns that in SSA, programs have not been pro-poor and this partially explains why the growth rates in SSA have not been as significant as those of East Asian countries. Following this argument, the country and counties would have to double the current allocation to the agriculture sector to register any significant growth.

Figure 5 shows that on average, the sector contributes about 65% of household incomes across various counties. The contribution is higher than the national average for majority of the counties, demonstrating the importance of the agriculture sector to households and the economy as well.

Figure 5: Agriculture sector contribution to household income by county



### Conclusion and Policy Implications

The agriculture sector is important to the growth of the national and county economies. However, it is evident that public investments in the sector have not been commensurate with its growing importance. Majority of the functions in agriculture are now the responsibility of county governments. Hence they now face larger responsibilities in the sector, which include: recruitment and training of staff; facilitating the development of extension systems and access to agricultural inputs; integrating farmers into market systems; monitoring production patterns and trends; and, promotion of improved technologies, among other functions.

To effectively perform these functions and achieve the agricultural transformation agenda, there will be need for increased allocation of resources, even a doubling of the budget given lessons from the Asian countries. Apart from being pro-poor, the budget needs to target programs and activities that will have the largest impact in improving performance of the sector. These will include investments that improve productivity such as irrigation, extension, good agricultural practices and soil amendments. In addition, partnership with the private sector and civil society organizations working in the sector will be critical in enhancing investment and service delivery in agriculture.

Increasing funding to the sector will potentially lead to improved livelihoods and better economic growth. Further, as long as agriculture transforms, other sectors will grow resulting in overall growth in the rural sector and the economy. In SSA, countries such as Ethiopia and Rwanda have adopted this strategy and provide cases for learning.

Hence, we recommend that county governments prioritise the sector and increase budget allocations in line with the agricultural transformation agenda, while ensuring that adequate resources are provided for key programs that will unlock the performance of the sector.

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