

YEMEN: Agricultural Policy Review

Working Paper Number V.I

Public Expenditures of the MAI

by

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YEMEN: Agriculture Strategy

Working Paper on Public Expenditures

A. General

The low productivity of investments in agriculture, the lack of a sufficient recurrent budget to run the existing facilities as well as the low level of wages and salaries indicate that there is scope over time for restructuring of MAI's expenditures for greater efficiency. Work on analyzing and evaluating public expenditures in the sector has been going on since 1996 and is currently done under the Aden Agenda.

Public expenditures in agriculture represent approximately 3 percent of total public spending. The share of the sector in the investment budget is higher (7 percent) on account of strong donor involvement, but the share of recurrent expenditures is very low (less than 2 percent). The MAI budget includes expenditures for the headquarters, regional offices, authorities, equipment rental stations, state farms, public enterprises, the CACB as well as the Agriculture and Fisheries Production Promotion Fund (AFPPF).

The MAI expenditures are presented in table 1 for 1995 through 1997.¹ The total budget increased significantly from YR 5 billion in 1995 to YR 16 billion in 1997. It is important to consider that the figures for 1997 represent the budget while the 1995 and 1996 figures is actual spending. Since experience in the past shows that actual spending is usually lower than the budget, it is likely that the actual spending in 1997 was lower than table 1 indicates. Nevertheless, the data reveal a shift in spending pattern from the recurrent towards the investment budget (see table 1). The share of recurrent costs, e.g. wages and salaries and operating costs, on total MAI expenditures declined from 45% in 1995 to 28 percent in 1997.

Table 1: MAI expenditures (in YRls '000)

	<i>1995 (actual)</i>		<i>1996 (actual)</i>		<i>1997 (budget)</i>	
	<i>YR '000</i>	<i>%</i>	<i>YR '000</i>	<i>%</i>	<i>YR '000</i>	<i>%</i>
Recurrent						
Chapter 1. Wages and salaries	1,325,838		1,649,617		1,835,228	
Chapter 2. Other operating costs	449,161		456,438		1,143,277	
Chapter 3. Transfers to development authorities, research and public enterprises for recurrent expenditures	497,745		716,032		1,058,599	
Subtotal Recurrent	2,272,743	45%	2,822,087	36%	4,037,103	28%
Investment						
Chapter 4. Capital transfers to the development authorities etc.	849,101		1,358,377		2,107,670	
Chapter 5. Investment on national budget	1,055,130		2,699,879		7,392,038	
Agricultural Fund (AFPPF)	867,874		927,131		1,915,573	
Subtotal Investment	2,772,106	55%	4,985,388		11,415,281	69%
TOTAL	5,047,742	100%	7,835,261	100%	15,868,738	100%

¹ MAI expenditures as presented in table 1 do not include those for Marib Poultry and the CACB since these institutions are independent entities.

Source: Draft of the Bakhails Consultant Report on the MAI, CACB and Marib Poultry not included in the calculation. To be revised.

The work which has been carried out on public expenditures has led to a number of general recommendations which, taken together, can represent a restructuring plan for public expenditures (both recurrent and investment) in the sector. This plan should consider:

- “Other operating costs” in the MAI budget are rather low and account for only 6 to 8 percent of the total actual spending. They are also very low in relation to wages and salaries in MAI’s headquarters - a ratio of staff costs: other operating costs of 85:15. The same pattern can be observed in the budgets of regional offices, e.g. for the regional office in Abyan this ratio is 98:2. Public services cannot improve unless this ratio improves. Within existing budget envelopes, this would require restructuring of personnel, with downsizing.
- Transfers to authorities represent a very sizable share of the budget, and there is a need for greater accountability and transparency. It is expected that the Aden Agenda process will identify the scope for restructuring and savings within these authorities as part of the broader process of reviving agricultural services.
- There is a very heavy emphasis on investment expenditures relative to recurrent expenditures. Possibilities for reallocation to recurrent should be explored.
- Sustainability is often not assured as the recurrent budget cannot absorb the cost, and there is rarely provision for winding down project units or activities once the investment period is over.
- All remaining public enterprises in the sector should be divested.

B. Recurrent Spending Issues

The MAI budget suffers from inadequate recurrent resources. Many projects in the MAI investment budget in fact pay for running existing facilities. This has an impact on the sustainability of the ongoing as well as new investments. The recurrent budget for 1998 is YR 2.8 billion. Of this, nearly 93 percent is accounted for by wages and salaries and current transfers, leaving only YR 0.2 billion for operation and maintenance. This outlay is not enough even to operate the existing facilities. As a result, when the ongoing projects and new projects are completed the sector will require a large increase in recurrent resources.

The high expenditures for wages and salaries can be explained by rash hiring of returnees after the Gulf War as well as new college, school and university graduates. The MAI also retained workers of defunct public enterprises on the government payroll and allowed retirees to continue service beyond the normal retirement age.

In 1997, the MAI employed 16,419 people in its headquarters, regional offices, authorities, and projects. The MAI is overstaffed, thus the number of civil servants is inconsistent with the complementary goods and services, equipment and vehicles to make them effective doing their job. About 1000 people in the MAI are “political employees”. Almost 40 percent of the MAI staff is located in the regional offices with their affiliated projects and nine percent in the headquarters in Sana’a. A considerable number of staff is

employed by authorities. The public enterprises and cooperatives employ 2,000 people and 3,025 people in the staffing plan cannot be allocated to an institution (see table 2).

Table 2: Labor Force in Different Agricultural Agencies (1997)

Institution	Group						Total
	0	I	II	III	IV	V	
MAI	6	86	520	381	302	225	1,520
Projects	-	2	58	54	56	35	205
Authorities							
AREA		11	251	330	357	208	1,157
Eastern Area DA		4	78	77	84	69	312
Tehama DA		4	130	321	307	276	1,038
SSHARDA		12	182	210	179	199	782
Delta Abean and Toban DA		1	9	24	17	-	51
Total	-	32	650	962	944	752	3,340
MAI - Offices							
Aden		22	210	326	159	45	762
Taiz		3	162	145	85	85	480
Hadramout + Hadramout Rural Development P. Hodeidah		16	219	179	158	29	601
Lahj		2	23	67	53	50	195
Ibb		8	251	537	629	134	1,559
Abyan		2	73	101	29	55	260
Dhamar + Seed Project		8	252	349	511	47	1,167
Shabwa + Cooperative		2	70	67	63	84	286
Al-Mahara + Machinery Rental Station		20	159	235	161	38	613
Al-Beida + Radaa Project		4	28	30	15	-	77
Al-Mahwit + Road Maint. Project		3	40	64	60	21	188
Jaar Training Center		1	27	55	27	23	133
Total		92	1,536	2,180	1,980	613	6,401
Irrigation Division	-	-	50	101	633	88	872
Wadi Hadramouth Irrigation Div.	-	1	8	138	64	10	221
Drilling Cooperative	-	1	7	44	102	-	154
Poultry Wadi Hadramout	-	2	22	197	120	19	360
Marib Poultry	-	3	26	39	82	18	168
Cooperative Institute	-	2	9	19	9	6	45
Surduod	-	-	5	13	38	70	126
Rusaba	-	1	5	5	7	27	45
Not allocated	-	-	-	-	-	-	3,025
Total	6	222	2,896	4,133	4,274	1,863	16,419

MAI is conducting a program budget pilot, based on agreed priorities, for the three “pilot” extension areas that the Dutch are supporting under ASMSP/ETC (Hodeidah, Seiyun and Al Baidha). According to MAI’s account (Dr. Al Wadn), a strategy note is developed jointly, saying what are MAI priorities. The program budget is then developed. For example, YRIs 4 million was allowed by government to block centers under the extension pilot, in return for a commitment to specific deliverables.

C. MAI Investment Budget

Evaluation

The total volume of the 1998 MAI investment program is YRIs 7.6 billion. The investment program depends heavily on foreign donor funds; 80 percent of the investment program are foreign sources and only 20 percent, or YRIs 1.4 billion, local (see annex for more details). The foreign sources of YRIs 6.2 billion comprise loans as well as grants. At this stage of the analysis, it is not possible to estimate the loan and grant components. Furthermore, there is currently no reliable information available on the amount and conditions of the loans provided by Islamic Bank, Arab Fund, Kuwait Fund, Abudabi Fund, IFAD or IDA.

The current MAI investment program consists of 23 major projects with a total budget of more than YRIs 50 million. The 1998 resource allocation for these projects is over YRIs 7.2 billion, which is equivalent to 95 percent of the total investment program. Thus, the 21 remaining small projects account for only 5 percent of the investment program.

First results of the analysis carried out during the 1998 public expenditure review show the allocation of MAI investment projects to different sub-sectors in the 1998 public expenditure investment program:

Table 3: MAI 1998 Investment Program by Subsector (Local and Foreign Investments)

Rural and Agricultural Development , 16 Projects	2,432,133,000	39%
Water , 8 Projects	1,411,394,000	27%
Institutions , 5 Projects	901,266,000	12%
Environment , 4 Projects	265,425,000	9%
Credit , 3 Projects (CACB's own funds)	480,580,000	6%
Input Supply , 5 Projects	458,960,000	6%
Infrastructure , 1 Project	123,758,000	2%
Livestock , 2 Projects	19,067,000	0%
Total	7,643,919,000	100%
Financed by		
- local sources	1,414,825,000	19%
- foreign sources	6,229,094,000	81%
Total	7,643,919,000	100%

In addition to the projects listed in the investment program, MAI is administrating several small programs. Information on objectives, budget, location and duration of these programs is not available. Another area for which information is scarce are investment

activities carried out by other ministries which benefit directly or indirectly the agricultural sector. An example is the Flood Emergency Project which is administered by the MOP.

Observations arising from reviewing the available information:

- Many of MAI investment “projects” are not projects in the normal sense but rather spending institutions or long-term investment programs that go from one donor project to the next. So there is no clear beginning and ending, some of these projects do not create new facilities and the “projects” never disappear from the budget. Discussion with the DGPM revealed that there are around 8 “projects” in the investment budget which could be either closed or transferred to the recurrent budget.
- For several projects, donor funding sources have ended; these projects could be removed from the investment program to give a cleaner picture of the 1998 program (see above). There are the following three important issues which have to be considered in the discussion of the “cleaning” and consolidation of the investment budget.
The first issue concerns the common practice to use projects which have been already closed for implementing new projects. Due to this procedure, the MAI avoids the time consuming bureaucratic process to include new projects in the investment program. An example for this procedure is the Taiz Water Supply Project which is budgeted under the Southern Upland Rural Development Project (Ibb, Taiz). There could be other projects for which a similar budgeting procedure is applied.
The second issue is related to the budget allocation process of the MOP and MOF. The responsibility for the investment program is at the MOP, and projects which are transferred from the investment to the recurrent budget are instantly administered by the MOF where the provision of sufficient resources is not guaranteed. Thus, the MAI prefers to keep “closed projects” in its investment budget.
The third issue is related to the “inter-regional” balance of the investment budget. In order to serve all governorates equally, the MAI keeps projects in its budget which are already closed and/or which do not meet the development targets of the MAI. Political reasons and senior authorities might also play an important role in defining the investment program.
- Several projects are attached to regional offices of the MAI. These projects are the Hadramout Rural Development Project (regional office Hadramout), the Seed Project (Dhamar), the Cooperative Unions Project (Shabwa), Machinery Rental Stations (Al-Mahara), the Radaa Project (Al-Beida), and the Road Maintenance Projects (Al-Mahwit). Although these projects have their own budget allocated under the MAI investment budget, it appears that the salaries and wages for the staff of these projects as well as the office running costs are actually financed through the budget of the regional offices.
- Donor financing represents half of MAI resources and it is important that, for the future, MAI drive donor involvement through a coherent strategy (rather than vice versa) and that MAI develop appraisal procedures that allow objective screening and decisions on investment proposals.
- Upcoming projects (to be reviewed): (a) Seeds and Agricultural Services Project (IDA); (b) Southern Governorates Project (IDA); (c) Participatory Irrigation Project (IDA), (d) Market Information System Improvement (EU), (e) Agricultural Census (EU)

Next Steps

The following steps are required on the MAI budget analysis:

- DGPM to (a) provide information on total project costs, (b) provide information on resources needed to complete the projects, (c) estimate the resources needed to run the existing facilities as well as the facilities currently under construction.
- Specify projects which can be closed or transferred to the recurrent budget
- complete the grant data on the Project Sheets
- maintain the loan and grant data base in the original currencies rather than converting them to US\$, and indicate the effectiveness/ closing dates of the grants/loans;
- complete the loan/grant disbursement columns ((k) and (l) of the draft table);
- complete the ROY cumulative budget disbursement column (n).

D. Other “Off - Budget Financing”

In 1997, the EU agreed to the utilization of ECU 7,791,000 equivalent of counterpart funds in the MAI as follows:

Table 4: Indicative EU Counterpart Fund Investment Program 1997		
Ministry of Agriculture and Irrigation		
Counterpart Fund (Reflows from Sale of Food Aid)	Rls million	ECU
1. Central Highlands Agriculture Development Construction	150.0	974,000
2. Construction of Small Dams	400.0	2,600,000
3. Al Mahawit Road Rehabilitation & Maintenance Scheme Equipment & Machinery	60.0	390,000
4. Wadi Hajar Agriculture Development Construction	50.0	324,000
5. Integrated Rural Development in Abyan Construction	70.0	1,100,000
6. Tihama V Agriculture Development Construction	60.0	390,000
7. Eastern Regional Agricultural Development Construction	60.0	390,000
8. Northern Region agriculture Development Construction Equipment and Machinery	150.0 30.0	974,000
9. Emergency Flood Rehabilitation Construction	100.0	649,000
Subtotal	1,230.0	7,791,000
Direct Financing in ECU		
10. Establishment of the Early Warning System, Agricultural Statistics and Marketing Information System		
11. Contingencies (2.09%)		209,000
TOTAL		10,000,000