



2012/13 BUDGET ANALYSIS FOR THE AGRICULTURE SECTOR

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List of Acronyms and Abbreviations

CISANET	Civil Society Agriculture Network
FIDP	Farm Income Diversification Project
FISP	Farm Input Subsidy Programme
Ha	Hectare

EXECUTIVE SUMMARY

Introduction

This report presents an analysis of the 2012/13 budget estimates for the *Agriculture and Food Security* sector. Civil Society Agriculture Network (CISANET) commissioned this study to assess government's commitment to promote growth in the country's agriculture sector. The assessment involved analyzing Government's funding for key programs areas, which have high potential of accelerating agricultural growth in the country. The key areas include, irrigation, extension, livestock, research, diversification, farm input subsidy programme and marketing

This analysis is designed to bring out salient issues for advocacy, debate and budget monitoring with regard to the agricultural sector. It is expected that the findings of this report will help stakeholders to lobby for sufficient financial allocation to the sector before the budget is passed as well as forming the basis for budget monitoring during the implementation period.

Summary of major Findings

The following are the major findings of this analysis:

- The education, science and technology sector has been given the lion's share in the 2012/13 national budget
- Agriculture and food security sector has taken the second largest share of the national budget
- The sectors of education, agriculture and health have remained government's three top priority sectors
- Funding for lead farmers under conservation farming has not been provided for in the 2012/13 budget
- Resources for cotton development have shrank by 85% from the previous year's allocation

- The government has not allocated funding for procurement of cross dairy animal breeds in the 2012/13 financial year
- Extension targets have been set very low and also given little funding
- Little resources have been allocated for agribusiness
- Target for new cooperatives in 2012/13 financial year has dropped from 42 last year to 30
- The budget has allocated funds for opening new irrigation schemes but the sizes of the schemes have not been disclosed
- The policy on irrigation is silent on land tenure issues
- Government has planned to increase area of land under irrigation, but not allocated sufficient resources to support the initiative
- Funding for treating dairy animals has gone up by 122%, but the targeted number of dairy animals to be treated is low
- There has been no budgetary allocation for risk management of trans-boundary diseases
- Early warning has not received the due attention with only 20 modernized weather stations planned in the budget despite many EPAs operating without those facilities.
- The budget has allocated funds for producing composite varieties but the target is on the lower side in relation to the population of farmers in Malawi
- Resources for the farm input subsidy programme have increased by 133% and number of beneficiaries has gone up by 7%.

In view of the conclusions above, the analysis suggests a number of recommendations as follows:

- There is need for the activities under FIDP which include training of lead farmers in conservation farming to continue. In case FIDP has no resources

for the activity, the Ministry of Agriculture and Food Security should explore other alternatives of funding.

- It is recommended that the allocation for cotton development be reviewed upwards as it is the most reliable and viable alternative cash crop for resource poor small-scale farmers.
- It is recommended that the targeting for new cooperatives be revised upwards since farmers have better chances of negotiating power when selling their produce as a cooperative and also have an opportunity of learning from each other as they do their business
- Government should revise its decision on dairy breeds and allocate some resources for cross breeding, since dairy farming has high potential of boosting farm income
- There is need to revise upwards the number of groups targeted for extension services, particularly on training in modern farming technologies.
- There is need to increase the targeted number of dairy animals for treatment considering that most parts of Malawi like the Northern region and Shire Valley where livestock production is the highest are seasonally prone to livestock related diseases.
- It is recommended that the targeting for new cooperatives be revised upwards since farmers have better chances of negotiating power when selling their produce as a cooperative and also have an opportunity of learning from each other as they do their business
- There is need to look into the issue of dealing with customary land, which will be used for irrigation.
- There is need to increase resources for increasing land under irrigation since this is a potential area for effective operationalizing the Green Belt Initiative.
- The size of the schemes for irrigation should be elaborated for performance monitoring purposes.

- It is highly recommended that resources be set aside to assist in managing the risk of trans-boundary diseases.
- It is highly recommended that research should also make attempts to establish improved seed varieties that can be recycled without compromising on yield to avoid dependence on the seed industry
- There is need to stamp out corruption in the implementation of the FISP programme so that it may achieve its intended objectives.

1.0 INTRODUCTION

This report presents an analysis of the 2012/13 budget estimates for the *Agriculture and Food Security* sector, as presented by the Minister of Finance on 8th June, 2012 in the National Assembly. Civil Society Agriculture Network (CISANET) commissioned this study to assess government's commitment to promote growth in the country's agriculture sector. These areas include, irrigation, extension, livestock, research, diversification, farm input subsidy programme and marketing

The assessment involved analyzing Government's funding for key programs areas, which have high potential of accelerating agricultural growth in the country. This effort is designed to bring out salient issues for advocacy, debate and budget monitoring with regard to the agricultural sector. It is particularly expected that the findings of this report will help stakeholders to lobby for sufficient financial allocation to the sector before the budget is passed as well as forming the basis for budget monitoring during the implementation period.

1.1 Methodology of the Analysis

The focus of this analysis was on public funds allocated to the agricultural sector. Specifically, the study analyzed financial allocations to the selected programmes in the Ministry of Agriculture and Food Security. The selected programmes include, irrigation, extension, livestock, research, diversification, farm input subsidy programme and marketing.

In addition, the study conducted an analysis of the budget allocations to three key sectors namely; education, science and technology, agriculture and food security and Public Health, Sanitation and HIV/AIDS Management. The interest in respect of this aspect of analysis was to establish the proportion of the national budget, which has gone towards these sectors.

1.2 Limitations

The major limitation was with regard to the new budget framework, especially the Output Based Budget Document No 5 that it has been overly summarized to the extent that it only highlights planned outputs and objectives. It was therefore difficult to determine whether some targeted interventions have been addressed within these broad outputs in the budget and if so, to what extent have they been addressed. Further to this, there some mistakes in the budget document, whereby some outputs would appear under a wrong programme.

1.3 Outline of the Report

The next section (Section 2) of this report provides a review of the generic perspective of the 2012/2013 national budget in terms of both revenue and expenditure projections. The section further gives an overview of issues relating to government policy regarding the implementation of the 2012/13 budget. Section three focuses on the 2012/2013 budget allocations for key sectors, namely; education science and technology; agriculture and food security; and public health, sanitation, HIV and AIDS management. Section four presents an assessment of the extent to which key issues in the agriculture sector have been funded. The final section is a conclusion with some recommendations for the 2012/2013 budget.

2. OVERVIEW

The total revenues and grants are projected at K394.47 billion in the 2012/13 budget. Out of this amount, K270.39 billion will be domestic revenue and K124.08 billion in grants. Of the total domestic revenues, K236.46 billion will be raised from tax and K33.93 billion from non tax sources. In the 2011/12 budget, projection of total revenue was MK 307.7 billion. Out of this, MK 242.5 billion was domestic revenue and MK 65 billion as grants.

The most notable change in the 2012/13 revenue projection is the 28.2% increase in the total projected revenue, which is not surprising since Government has abandoned the Zero Deficit Budget that limited external resources inflows. There is an increase in both projected domestic revenue and grants as compared to the 2011/12 revenue projection. Domestic revenue and grants are projected to increase by 11.5% and 90.89%. The increase in projected revenue from grants reflects government's expectation of donor support following various improvements that have been done, especially on good governance and fiscal discipline. A number of donors had suspended their support because of these issues.

There will be a nominal increase in both the recurrent and development expenditure during in the 2012/13 financial year compared to the 2011/12 budget. The recurrent expenditure is projected at K328.91 billion, representing a 40.56% increase over the previous financial year; and development expenditure will be 77.17 billion, rising by 11.84%. Total Expenditure and Net Lending is projected at K 406.08 billion. The 2012/13 budget is expected to have a fiscal deficit of K13.49 billion and will be entirely financed from foreign sources.

3. SECTORAL ANALYSIS

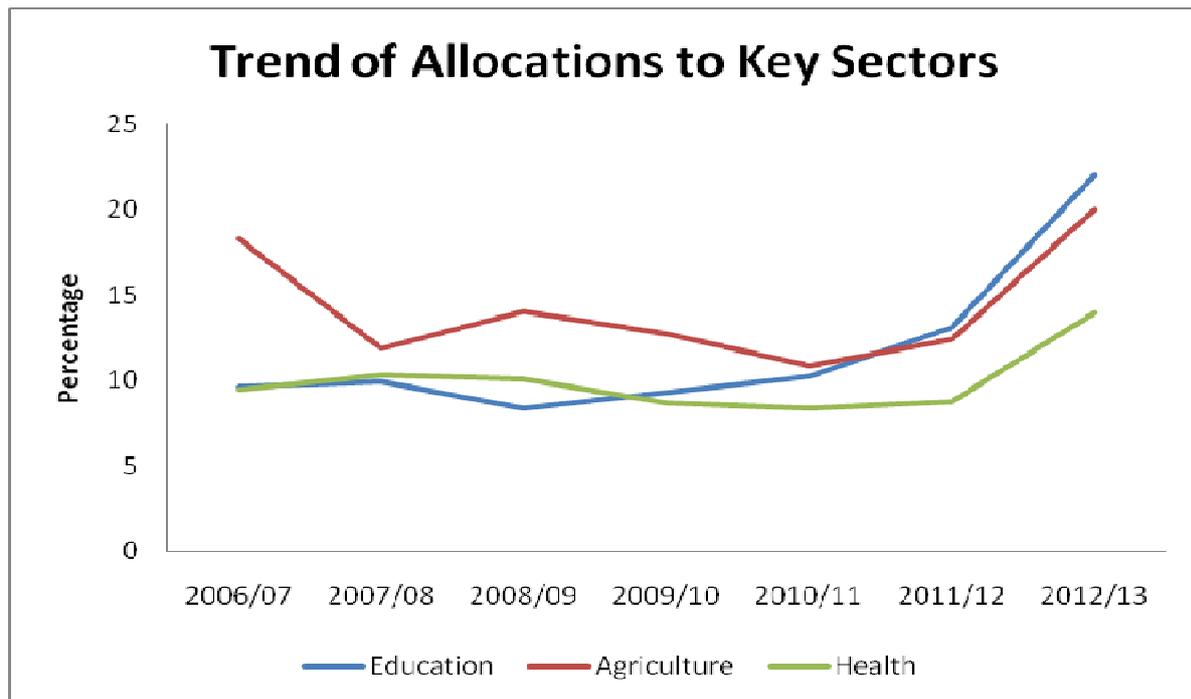
The Malawi government has for a long time maintained education, agriculture and health as three key sectors in terms of budget allocation. In 2011/12, education, science and technology got the lion's share. In 2012/13 the sector has again been allocated the highest share of the total budget. The sector has been allocated MK 74.7 billion, which accounts for 22% of the national budget. In the previous year, the sector was allocated MK 54 billion. The allocation has increased by 38.3%.

The second largest share has gone to the Agriculture and Food Security sector. The sector has been allocated MK68 billion, a rise from MK 38.3 billion in the previous financial year's allocation. This represents an increase of 77.5%.

The health sector, which includes public health, sanitation and HIV/AIDS management, has been allocated MK 47.8 billion. In the 2011/12 budget, the sector was allocated MK 43 billion. There has been a marginal increase in the allocation to the sector of 11.2%.

The key observation is that the 2012/13 budget is that the government has maintained education, agriculture and health sectors as top beneficiaries of the national budget. These three sectors have together been allocated close to 50% of the national budget. The following figure shows the trend of budget allocation towards the three sectors for the past seven (7) years.

Figure 1:Trend of budget allocations towards the key sectors



Source: Ministry of Finance

The agriculture sector used to get the lion's share since early 2000 until 2010/11 financial year when it was overtaken by education. Nonetheless, there is an upward trend for all the three sectors in terms of percentage share of the national budget.

4. KEY ISSUES IN AGRICULTURE AND FOOD SECURITY SECTOR

To ensure growth in the Agriculture and Food Security sector, there are some key areas, which require adequate support and focus. The areas include diversification, extension, marketing, irrigation, livestock development and research.

a. Diversification

The Ministry of Agriculture has been implementing a number of diversification programmes, including a project on Farm Income Diversification. In 2012/13, this project has not been funded, which raises a concern on the sustainability of activities funded under the project. The analysis has established that in 2011/12 financial year, this project managed to put 506 hectares (ha) of land under irrigation, 683 ha involving 4,803 farmers under conservation farming and also trained 438 lead farmers in agriculture technologies. These outputs are commendable. **There is need for the activities under the FIDP to continue through the lead farmers with support from the Ministry of Agriculture and Food Security.**

Table 1: Targets for selected areas under the diversification issue

Priority area	Whether in budget	target	Resources (mk million)	Remarks
Training of lead farmers	no	-	-	Not funded, need to identify alternative sources quickly
Cotton development	yes	200,000 hectares	240	Unlikely to be met as resources have

				shrank by 85%, and yet the target of hectares has remained the same
Procurement of dairy crosses	no	-	-	Worrisome, need to realign the budget and identify funds for this activity

The 2012/13 budget has allocated MK240 million for cotton development. The allocation for this programme was MK 1.6 billion last season. The shrinking in the allocation is worrisome. With MK 1.6 billion, the target was 200,000 ha. It is surprising that the same target will be achieved with 85% reduction in resources in the 2012/13 financial year, and yet there are effects of devaluation.

***It is recommended that the allocation for cotton development be reviewed upwards.**

Over the last years, emphasis on agricultural diversification has been on crops, leaving out livestock. The 2012/13 budget has not allocated resources for procurement of dairy breeds.

Government should revise its decision on dairy breeds and allocate some resources for cross breeding, since dairy farming has high potential of boosting farm income.

Notwithstanding the above, Government is applauded for the Presidential Initiative on Livestock Development, which has been allocated K900 million and the Promotion of Special Crops for the export market. MK1.5 billion has been provided for the promotion of special crops such as Soya Beans, Pigeon Peas, Sugar Beans, Groundnuts and Rice. However, this result area is not reflected in the Output Based Budget (OBB) thereby casting doubts on whether resources have really been allocated to the activity, let alone what tangible results should be expected at the end of the year.

It is recommended therefore that Government should therefore clearly indicate the activity in the OBB and spell out targets to be expected at the end of the year.

b. Extension

Effective delivery of extension services is a very crucial considering that illiteracy levels are high among the 3.7 million smallholder farmer households in the country. However, the 2012/13 budget shows that the agriculture sector has neither emphasized much on resources allocation to extension services, nor provided meaningful output targets, as indicated in table 2 below:

Table 2: Targets under Extension Services Program.

Priority area	Whether in budget	target	Resources (mk million)	Remarks
Training in good practices	Yes	200 farmer groups	201.05	- target set very low, the good practices not clearly spelt out - Resources are too little

				to cater for all farm families
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The government has targeted only 200 farmer groups across the country for the whole year, which roughly translates to less than 1 group per EPA. This is an issue of concern bearing in mind that illiteracy levels are high and most of the farmers would rely on Government delivered extension services and that the Pluralistic approach to delivering extension services has not yet taken roots.

There is need to revise upwards the numbers of groups targeted for extension services and also clearly mention the services to be accessed for accountability purposes.

c. Marketing

The 2012/13 budget has allocated MK 8.98 million for strengthening agribusiness stakeholder panels and another MK 30.90 million for registering 30 new cooperatives. The targets under marketing are as summarized in Table 3 below:

Table 3: Targets under the marketing issue

Priority area	Whether in the budget	Target	Resources (MK million)	Remarks
Strengthening agri-business stakeholder panels	yes	28 pannels	8.98	Very little resources have been earmarked for this area, hence

				doubtful if target will be achieved
Development of new Cooperatives	yes	30	30.90	Target has gone down from 42 in the previous year

It is commendable that issues of marketing have been included in the budget. But it is of great concern that the resources for strengthening agribusiness stakeholder panels are very little to make impact, let alone achieve the intended target. Another issue of concern is that the targeted number of new cooperatives has gone down from 42 in 2011/12 financial year to 30 in the 2012/13 financial year, and yet Government is continuously talking about strengthening the bargaining powers of traders particularly women.

It is recommended that the targeting for new cooperatives be revised upwards, so too the resources for implementing such initiatives since farmers have better chances of negotiating power when selling their produce as a cooperative and also have an opportunity of learning from each other as they do their business.

d. Irrigation

Small scale irrigation is one of the priority areas that need serious address in the budget more especially in view of the Green Belt Initiative (GBI). However, the budget shows that most of the strategic areas addressing irrigation have inadequate targets and corresponding resource packages as indicated in table 4 below:

Priority area	Whether in budget	target	Resources (MK million)	Remarks
Policy guidance on irrigation	yes	-	12.79	Target not specified, hence difficult to ascertain resources adequacy.
Increase land under irrigation	yes	700 hectares	178.3	Resources appear inadequate for the target.
Establish irrigation schemes	yes	8 Schemes	786.99	Commendable efforts, but size of the schemes are not disclosed

On irrigation, it is encouraging to note that the budget has allocated resources for policy guidance on irrigation, increasing agricultural land under irrigation and also establishing new irrigation schemes. Among other things, the 2012/13 budget has allocated MK 786.99 million for the development of 8 irrigation schemes. Whilst this is noteworthy initiative in promoting irrigation, the budget does not elaborate the size of the schemes. The targets need to be very clear and with meaningful resource allocations for tangible results. On policy issues, it would be very commendable to clearly indicate whether the land tenure issues would be addressed, considering that some land available for irrigation is under customary ownership.

It is therefore recommended that policy outcome also focuses on the issue of dealing with customary land, which will be used for irrigation and at the same time review the specified targets and increase resources to the set targets.

The size of the schemes for irrigation should be elaborated for monitoring purposes.

e. Livestock

The 2012/13 budget has made some allocations towards livestock production in the country, with critical areas like treatment for dairy animals taken on board. Government has planned to treat 1,000 dairy animals at a cost of MK 1.37 billion, representing over 120% increase in resources provision when compared to the 2011/12 financial year. However, the most of the crucial targets have not been clearly specified, let alone the indicative amount of resources to be employed (table 5 below).

Table 5: Targets under the livestock programmes.

Priority area	Whether in budget	Target	Resources (mk million)	Remarks
Treatment for dairy animals	Yes	1000	1,366.53	<ul style="list-style-type: none"> • Increase on the resources is commendable. (122% increase) • Targeted number of dairy animals still low. Just

				enough for a few farmers
Risk management for trans boundary animal diseases	No	-	-	<ul style="list-style-type: none"> Worrisome, as the gains from other efforts to improve livestock production might be eroded

It is highly commendable that resources have been increased in the current financial year. The issue of concern is the targeted number of dairy animals for the treatment since only 1000 animals are targeted for the whole country, translating into about 35 dairy animals per district.

While appreciating that the cost of treatment will go up, there is need to increase the targeted number of dairy animals for treatment. Dairy animals are also another area of potential exports and therefore require support.

The study also notes that the current financial year has no budgetary allocation for risk management for trans-boundary diseases. The issue of trans-boundary diseases requires handling with care as diseases from neighboring countries can wipe out the country's livestock.

It is highly recommended that resources be set aside to assist in managing risk of these trans-boundary diseases.

f. Research

Research is one of the critical areas in promoting agricultural growth and productivity in Malawi. The 2012/13 budget has provided MK 45 million for

producing composite seeds for maize, rice, sorghum, pearl millet and wheat as shown in table 6 below.

Table 6: Targets under the Research programme

Priority area	Whether in budget	target	Resources (mk million)	Remarks
Composite breeds	Yes	30-80tonnes OVP	45	Welcome development, but target not enough for the 3.7 million h/holds (gives only 0.2kg/farm h/hold)

The inclusion of OPV targets is a welcome development considering that improved seed varieties are very essential for achieving increased agricultural productivity. However, the target is not enough for the 3.7 farm families in Malawi, as the target roughly translates to only about 0.2kg per farm family.

Furthermore, it is sad to note that little is being done to find varieties, which can be recycled by farmers to avoid dependence on seed industries as it is the case with hybrid seeds.

It is highly recommended that research should also make attempts to establish improved seed varieties that can be recycled without compromising on yield to avoid dependence on the seed industry. If this is not immediately possible, then consider increasing the tonnage so that the proceeds are meaningfully accessed by the larger smallholder farming families.

g. Farm Input Subsidy Programme

The farm input subsidy programme is probably the most prioritized activity by Government in order to address national and smallscale farmers food security. However, issues of concern remain on whether the programme should adopt the universal approach as was the case with the Starter Packs. In the 2012/13 budget, about 40 percent of the small-scale farmers (1.5 million out of the estimated 3.7 million farming families) are expected to benefit from the programme (table 7).

Table 7: Targets for the Farm Input Subsidy Program

Priority area	Whether in budget	target	Resources (Mk billion)	Remarks
Farm Input Subsidy Programme	yes	1.5 million	40.6	Resources allocation is commendable in view of devaluation, but more needy farmers will be left out.

The 2012/13 budget has been allocated MK 40.6 billion towards the Farm Input Subsidy Programme (FISP). The money will be used for the purchase of 150,000 metric tonnes of fertilisers comprising 75,000 metric tonnes of Urea and 75,000 metric tonnes of NPK fertilisers which will be distributed to 1.5 million farm families at a price of K500 per bag. There has also been an allocation of K7.6 billion to be used for the procurement of maize and legume seeds for distribution to smallholder farmers across the country.

In 2011/12 financial year, FISP was allocated K17.4 billion to procure 140,000 metric tons of fertilizers comprising 70,000 metric tonnes of UREA and 70,000 metric tons of NPK Fertilizers to distribute to 1.4 million farm families at a subsidized price of K500 per bag. There was also an allocation of K3.6 billion for the procurement of hybrid and improved maize seed varieties

Clearly, the FISP allocation for the 2012/13 financial year has gone up by 133.3%. Total quantity of fertilizer has also increased by 7%. Furthermore, number of beneficiaries has also increased by 7%, and the cost price of subsidized fertilizer has remained the same.

The FISP will be more costly in the 2012/13 considering that there has been a huge devaluation and increased number of beneficiaries as well as increased quantities. Nonetheless, it is very commendable that the programme has been extended to more Malawians. It is expected that the benefits will outperform the cost considering that FISP has immensely contributed to the country's food security, brought about increased use of improved varieties, and low inflation rate, among others.

Another crucial policy issue is whether the target of only 1.5 million farm households is enough bearing in mind that many farmers will be poorer this year due to the effects of devaluation, and hence will qualify to enroll into the subsidy programme. Government needs to seriously look into this since those left out will contribute to the increase in numbers of food insecure households next growing season.

There is need therefore, for Government to seriously review the targeted beneficiaries of the FISP to ensure that more resource poor farmers are redeemed from the impending problem of food insecurity due to insufficient own production as a result of the devaluation effects. Again, there is need to stamp out corruption in the implementation of the FISP programme so that it the most deserving access the inputs.

5. CONCLUSION AND RECOMMENDATIONS

This analysis has focused on the 2012/13 budgetary allocation to the agriculture sector and has particularly assessed funding and targeting levels for selected key areas of diversification, extension, irrigation, marketing, livestock, research and farm input subsidy programme. The analysis has also assessed allocations to key sectors of education, agriculture and health and made the following conclusions:

- The education, science and technology sector has been given the lion's share in the 2012/13 national budget
- Agriculture and food security sector has taken the second largest share of the national budget
- The sectors of education, agriculture and health have remained government's three top priority sectors
- Funding for lead farmers under conservation farming has not been provided for in the 2012/13 budget
- Resources for cotton development have shrank by 85% from the previous year's allocation
- The government has not allocated funding for procurement of cross dairy animal breeds in the 2012/13 financial year
- Extension targets have been set very low and also given little funding
- Little resources have been allocated for agribusiness
- Target for new cooperatives in 2012/13 financial year has dropped from 42 last year to 30
- The budget has allocated funds for opening new irrigation schemes but the sizes of the schemes have not been disclosed
- The policy on irrigation is silent on land tenure issues

- Government has planned to increase area of land under irrigation, but not allocated sufficient resources to support the initiative
- Funding for treating dairy animals has gone up by 122%, but the targeted number of dairy animals to be treated is low
- There has been no budgetary allocation for risk management of trans-boundary diseases
- The budget has allocated funds for producing composite varieties but the target is on the lower side in relation to the population of farmers in Malawi
- Resources for the farm input subsidy programme have increased by 133% and number of beneficiaries has gone up by 7%. However, more farmers will be relatively poor due to devaluation, hence deserving subsidy.

In view of the conclusions above, the analysis suggests a number of recommendations as follows:

- There is need for the activities under FIDP to continue through the lead farmers with support from the Ministry of Agriculture and Food Security.
- It is recommended that the allocation for cotton development be reviewed upwards
- It is recommended that the targeting for new cooperatives be revised upwards since farmers have better chances of negotiating power when selling their produce as a cooperative and also have an opportunity of learning from each other as they do their business
- Government should revise its decision on dairy breeds and allocate some resources for cross breeding, since dairy farming has high potential of boosting farm income
- There is need to revise upwards the number of groups targeted for extension services
- There is need to increase the targeted number of dairy animals for treatment

- It is recommended that the targeting for new cooperatives be revised upwards since farmers have better chances of negotiating power when selling their produce as a cooperative and also have an opportunity of learning from each other as they do their business
- There is need to look into the issue of dealing with customary land, which will be used for irrigation
- There is need to increase resources for increasing land under irrigation
- The size of the schemes for irrigation should be elaborated for monitoring purposes
- There is need to increase the targeted number of dairy animals for treatment
- It is highly recommended that resources be set aside to assist in managing risk of trans-boundary diseases
- It is highly recommended that research should also make attempts to establish improved seed varieties that can be recycled without compromising on yield to avoid dependence on the seed industry
- There is need to review the targeted number of beneficiaries of subsidy in view of devaluation effects. This should be complemented with stamping out of corruption in the implementation of the FISP programme so that only the deserving receive the support.