

# Transformation of the Rural Economy in Myanmar: The Essential Role of Agricultural Public Expenditure

## Presentation Notes

Agriculture and Rural Development Sector Working Group, Yangon, February 16, 2016

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# Outline of points to introduce discussion

- Goal for next 10 minutes: to set the stage for a discussion of possible next steps to improve the contribution of agricultural public expenditure to NLD priorities

Three steps:

- Offer a working definition of agricultural public expenditure for the purpose of discussion today
- Confirm why agricultural public expenditure is crucial to the achievement of NLD priorities for agriculture and rural development
- Identify three key questions that government needs to consider related to agricultural public expenditure

# A working definition of agricultural public expenditure

- “APE is expenditure by a government to enable farmers and other private sector actors to harness the full potential of the agricultural sector for the benefit of society”
  - recognize there are a wide variety of important benefits such as income growth, employment, food and nutrition security, foreign exchange earnings, biodiversity and environmental sustainability
- Examples of public goods include agricultural research and extension services, quality standards for agricultural inputs, road and energy infrastructure, land property rights, financial market infrastructure
- Key characteristic of public expenditures in market economies: they target the provision of goods and services that the private sector does not currently have a market incentive to provide in the desired quantity, quality or accessibility (i.e., complementary to investments by the private sector)

# Why is agricultural public expenditure important to achieving NLD priorities for agriculture?

- The provision of public goods like the examples above transforms the potential for **profitability** of agriculture, especially for small farmers, through
    - Higher and more stable crop, aquaculture and livestock yields
    - Diversification from low value staples to include higher value commodities
    - Lower costs of market access and post-harvest value addition
  - Increased profitability, combined with lower risks, encourages greater private sector **investment** at all stages of agricultural value chains
  - Increased investment results in local spillovers for the rural economy AND improved competitiveness in regional and international markets
- > *Agricultural public expenditures have the potential to drive a virtuous cycle of private investment and growth for rural economic transformation*

# What package of agricultural public expenditure will address NLD priorities for the sector?

The answer involves three sub-questions:

- Is the current **level** of agricultural public expenditure appropriate? (is government spending enough)
- Is the current **composition** of agricultural public expenditure budget appropriate (are expenditures on the right things)?
- Are agricultural expenditures **effective** (achieving intended results)?

In most countries, regardless of stage of development, these are complex and politically sensitive questions. The challenge facing the NLD is that there have been few opportunities for an inclusive debate, and very little objective data and analysis to guide discussion.

# 1) Is the overall level of agricultural public expenditure appropriate?

- Current budget allocations for MOAI and MLFRD, at 1% of GDP and 4% of Union budget, are low relative to the potential contribution of the sector during transition, especially given decades of neglect (true even for paddy and but more so for non-rice enterprises like livestock, aquaculture and high value crops),
- In the short run, given overall union budget constraints, it is important to look for opportunities to use existing expenditure allocations more effectively

## 2) Are agricultural public expenditures being spent on the right things?

### ***SEE HANDOUT FOR DETAILED ANALYSIS – a few illustrative numbers***

- In MOAI the Irrigation Department accounts for almost 70% of the annual budget:
  - Almost 90% of the irrigation management is for construction even though much existing infrastructure is underutilized
  - In 2012 the Shwebo irrigation scheme had over 800 staff in the irrigation division to control water, compared to less than 20 in extension to guide farmers on how to use water (only half of whom had transport), and only 2 vets to keep farmers' major source of cultivation healthy
- Most countries spend between 50 and 100 times the budget on agricultural research that Myanmar does as a share of agricultural GDP
- In MLFRD, the SOE for livestock, feed and mill products (which competes with the private sector) receives 6 times the national budget for livestock breeding and veterinary services, and 8 times the national budget for fisheries (that complement the private sector)

### 3) Are agricultural expenditures effective?

#### ***ARE THE FOLLOWING STATEMENTS TRUE OR FALSE (MOSTLY)?***

- Over the past fifteen years paddy yields in Myanmar have declined while those in Bangladesh, the Philippines and Vietnam have all seen major improvement over the same period;
- Despite rapid growth in aquaculture in Myanmar over the past ten years the sector is dominated by large farms while in other countries in the region small farmers are the main source of production growth and the main income beneficiary;
- There is no source of improved varieties for Myanmar's most important export crop sector by value – pulses – and even for paddy most farmers do not have access to a source of improved seed;
- Most small farmers in Myanmar do not have access to a public extension worker and senior MOAI officials doubt whether their staff have the necessary communication skills to transmit knowledge to farmers;
- Many farmers feel they have to sell their produce at the earliest possible opportunity after harvest despite low prices due to loan repayment and crop storage risk;

# Next steps to improved effectiveness

- Public expenditure allocations need to be guided by a review of policy objectives and priorities for the agricultural sector in light of
  - Desired contribution of the agricultural sector to national economy and the rural economy (taking account of regional challenges and opportunities)
  - Statement of priorities for short, medium and long-term
- Preparation of strategies (roadmaps) with specific targets for each of the main components of agricultural public expenditure, for example:
  - Access to and improved water management for agriculture (the most important component of agriculture public expenditure at present)
  - Access to agricultural technology for rice and other livestock, aquaculture and crop enterprises: research, extension, seed systems, veterinary services (arguably one of the most underfunded components)
  - Capacity for land administration in support of NLUS
  - Access to finance for rice and high value enterprises, and equipment
- Thorough monitoring of strategy implementation necessary to know
  - what is working or not working and why
  - compare implementation rates with targets