



## A Policy Brief on **Redirecting Ghana's Public Agriculture Expenditure and Fertilizer Subsidies for Greater Benefits to Smallholder Farmers**



Commissioned by The Center for Indigenous Knowledge and Organisational Development (CIKOD) and Peasant Farmers Association of Ghana (PFAG)

### **Problem Investigated and the Issues**

Ghana, a lower middle-income country, relies heavily on agriculture as a key sector of her economy. Agriculture plays very significant roles in GDP1 (20.2% in 2016) and employment2 (44.7% in 2014). Indeed, in 2014 above 51% of households in Ghana owned or operated a farm; with about 83% of rural households engaged in farming. Since 2003, successive governments have committed to the African Union's Maputo declaration to spend 10% of national budget in support of agriculture. Ghana embarked on fertilizer subsidies in 2008, and spends a large part of annual public spending on agriculture on farm input subsidy programs (FISPs). The reach of these subsidies remains limited whilst efforts to improve targeting for superior performance appear unsuccessful. Of course, the reach continues to expand though lack of credible data on beneficiaries makes it difficult to defend any estimates (of both beneficiaries and performance).

However, smallholder farmers continue to face diverse challenges such as declining soil fertility, and soil organic matter; land degradation caused by reduced vegetative cover and soil and water erosion and, forest depletion. Others are declining farm output, and increased risks of crop failure; caused by reduced and irregular rainfall, and increased spikes in temperature during the growing season, due to climate change. All these factors contribute to making smallholder farmers, more vulnerable to food and nutrition insecurity; especially in more fragile, risk prone agro-ecological areas.

This brief provides insights into Ghana's agriculture expenditures and the performance of the farm input subsidy programs so far (2008 – 2017), using verifiable evidence. The brief explores how to best promote sustainable agriculture for the greater benefit of smallholder farmers and consumers. It addresses the following questions:

What is Ghana's performance in terms of public expenditure on agriculture (commitments under Maputo/Malabo Declarations)? What is the structure of current public expenditure on agriculture? Are Ghana's farm input subsidy programs

effective in delivering the desired increased crop productivity, food production and sustainable food security to smallholder farmers as envisaged?

## Why the Issues are Important

Evidence on public expenditure over the past 10 years will indicate whether or not government of Ghana is meeting its commitments under the Maputo/ Malabo Declarations; showing the extent of any shortfalls. Evidence on shortfalls in public expenditure on agriculture as well as its distribution will guide policy makers, development partners, civil society organizations, and other stakeholders in agriculture in future budget discussions and resource allocation.

Also, evidence on whether the subsidy programs in their current form can achieve the goals of increased crop productivity, food production and sustainable food security among smallholder farmers will guide policy makers in reforming the programs for improved performance. Given the importance of agriculture to the livelihoods of millions of Ghana's smallholder farmers, including women, the need for evidence that will guide future efforts to restructure public expenditure on agriculture and reform subsidy programs to better deliver the intended benefits to smallholder farmers cannot be over-emphasized.

## Method of Analysis

The study mainly employed literature search and desk review of information in published public expenditure review and other reports, papers and policy documents. Secondary data from both domestic sources and international databases was used, and supplemented with key informant interviews involving face to face in-person interviews, telephone and email communication. Qualitative data and information obtained was synthesized and summarized whilst simple statistical tools were used to analyze the quantitative data obtained for the report.

## Key Findings

### **Ghana's public spending on agriculture is low both by regional and international standards; worse still it's increasingly redirected to the subsidy programs**

Public agriculture expenditure in Ghana has been fluctuating and on decline; between 5.7% in 2008 and 1.2 in 2014<sup>3</sup> with a CAADP funding gap above 50%<sup>4</sup>. Worse still, within this decline, fertilizer subsidies constitute a growing percentage of the total public expenditure on agriculture; from 6.8% in 2008, the share of the subsidy program rose to 13.7% by 2011. Indeed, as a proportion of total expenditure of the Ministry of Food and Agriculture the cost of the subsidy program rose from about 20% in 2008 to 32.5% in 2011<sup>5</sup>. Whilst expenditure on the farm input subsidy programs increased substantially, the allocation of resources to agriculture-specific expenditures on knowledge transfer activities such as training, technical assistance and extension decreased sharply.

### **Ghana's public spending on agriculture is donor-dependent; government's share in capital expenditure is close to zero**

The share of MoFA's total investment expenditure provided by donors rose from 40% in 2006 to 61% in 2013. Not only did public agriculture expenditure decline, 35% of it was also administrative costs<sup>4</sup>. In 2016, almost all of the planned capital expenditure on agriculture for the year was from donors (98.92%), with only a miserable 1.08% from IGF. In addition, about 91.55% of the total agriculture sector expenditure on goods and services was from donors. In a nutshell, the government of Ghana is just responsible for compensation to employees in the agriculture sector. The combined allocation to the METASIP program areas of 'management of land and environment' and 'marketing of agricultural produce/ products' was less than one percent of planned public expenditure on agriculture for the year.

### **The FISP in its current form cannot deliver the desired crop productivity, production and food security to smallholder farmers as envisaged**

There is no consistent and disaggregated data on fertilizer use and application rates. However, crop production data show that there's no appreciable increase in the yields of the target crops; maize, rice, sorghum and millet. To a large extent, estimates of value-cost ratios suggest that fertilizer use among maize farmers in Ghana is not profitable, in some cases even under the subsidy. Farmers seldom cover their costs, and can thus not be expected to win themselves off the subsidy.

## Policy Implications

- Current levels of Ghana's public spending on agriculture are woefully low; continuing along this trend would only demonstrate government's lack of commitment to the Maputo/Malabo Declarations of spending 10% of the national budget on agriculture.
- Ghana's public expenditure on agriculture is highly biased towards compensation to employees leaving the burden of critical public expenditure on donors; maintaining the current structure will weaken Ghana's ability to transform its agriculture for increased productivity.
- Current structure of public expenditure by Government of Ghana is highly biased towards the FISP, which keeps rising at the expense other critical areas; maintaining current trends will lead to intra-sectoral distortions that can thwart agricultural growth and productivity.
- Current efforts to reform the FISP remain limited with heavy emphasis on chemical fertilizers; maintaining the FISP in its current form even if it is expanded to cover all smallholder farmers will not achieve the desired outcomes.
- Current trends in the rising cost and share of the FISP in public expenditure raise questions about the fiscal sustainability of the program; failure to reform the FISP will only exacerbate the budgetary squeeze on other critical areas.

## Key Recommendations

- Government of Ghana needs to increase public expenditure on agriculture, as a matter of urgency, and quickly move towards achieving its Maputo/ Malabo commitments.
- Government also needs to restructure its budget to significantly raise the levels of capital expenditures and shift the burden of this critical public expenditure from donors, in terms of both budgetary allocation and actual expenditure in order to transform its agriculture.
- Government of Ghana needs to re-orient public expenditure priorities in order to focus more on important agricultural development priorities such as skills training and knowledge transfer activities; even if this implies cuts to the expenditure on the current FISP.
- FISP reforms by Government needs to more aggressively embrace and promote sustainable agriculture to smallholder farmers is key; this will require an integrated soil fertility management approach that:
  - Promotes the joint use of organic and inorganic fertilizers.
  - Promotes and encourages farmer managed natural regeneration of trees, agroforestry, composting and management of farm yard manure to produce organic sources of nitrogen.
  - Promotes and encourages various approaches to sustainable land management (e.g. agroforestry, inter-cropping and crop rotation with legumes, and soil and water conservation technologies).
  - Promotes efforts to increase availability of quantity and quality organic inputs.
  - Promoting improved agronomic and soil management practices including soil testing for crop-soil-specific fertilizer recommendations.
  - Promote decentralized, community based small dams for irrigated dry season agriculture.
  - Promote effective land development and management at farmer level.
- Above all, stakeholders in agriculture especially CSOs and donors need to be proactive and actively engage in assessment and evidence-based advocacy on the Maputo/ Malabo Declarations in order to sustain the interest and commitment government to the achievement of set targets.

## References

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