

Ghana

Experience in policy action for transitioning from direct input subsidies to a smart input-credit system

Context

The agricultural sector is a key driver of Ghana's economy, contributing an average of 21% to gross domestic product and employing 38.3% of the workforce from 2012 to 2021. It also plays a significant role in generating export earnings, primarily through cocoa, which represents about 75% of agricultural exports. Agricultural exports averaged USD 3.23 billion per year between 2012 and 2021, constituting 24% of total export earnings.



Ghana's agricultural sector achieved robust growth with an annual average growth rate of 4.5% from 2012 to 2021, contributing to the country's overall economic growth, which averaged 5.2% annually during the same period. This growth resulted from increased productivity and land area expansion, with an average annual growth of 3.4% in real value added per harvested hectare. The period from 2017 to 2021 saw remarkable growth, as a result of Planting for Food and Jobs (PFJ) flagship programme, which has been linked to increased yields of major agricultural products.

Despite these successes, climate related factors like erratic rainfall and rising temperatures pose an increasingly significant challenge, added to other obstacles in post-production processing and marketing. The Ghanaian agricultural sector also faces challenges in use of modern inputs and services, as well as infrastructure for irrigation, transportation and storage. Limited research and development capacity has led, among other issues, to limited availability of quality seed that is resilient to pests, diseases and climate change.

Rationale

The Planting for Food and Jobs flagship programme (PFJ, 2017–2022) provided subsidized inputs for farmers cultivating targeted crops (maize, rice, sorghum, soya, groundnuts, cowpeas, vegetables, and root crops) and less than 2 hectares (5 acres). Despite its notable impact, several challenges limited PFJ's effectiveness.

First, the subsidies put the government under a heavy fiscal burden. The cost of the subsidies averaged USD 75 million between 2019 and 2022. This amount represented half (51%) of the Ministry of Food and Agriculture (MoFA)'s expenditures allocated through the central government. Moreover, subsidies cost three times capital expenditures, suggesting limited resources for value chain upgrading.

Second, although PFJ was originally organized around five pillars, only the first two – promoting fertilizer and seeds availability and access – received sufficient attention. Underfunding of the last three pillars (extension services, marketing and e-agriculture) has hindered PFJ's effectiveness. The present extension agent-to-farmer ratio of 1:745 is a concrete outcome of this matter. Other inefficiencies that limited PFJ's effectiveness are related to beneficiary targeting, crowding out commercial input sales, low input use efficiency, lack of marketing support, and weak monitoring and evaluation system. Repurposing the considerable input subsidies' resources to finance a more holistic, data-driven and value chain-oriented approach will promote sustainable and viable production systems.

Approach

In a second phase, MOFA decided to repurpose government support to farmers away from the provision of direct input subsidies, introducing the PFJ 2.0 in 2023. This is a bold transition from direct input subsidies to a smart input-credit model. PFJ 2.0 prioritizes 11 commodities. The input-credit model involves the provision of a package consisting of high-quality climate-resistant seeds, fertilizers and mechanization and extension services. These services will be accompanied by climate-smart information and adaptation practices, through digitization, aggregators and extension agents. In addition, PFJ 2.0 intends to provide storage and distribution infrastructures and promote off-taker arrangements.

The PFJ 2.0 also integrates the Ghana Agriculture and Agribusiness Platform (GAAP). The GAAP will centralize data and information essential for the development of stakeholder-specific applications. The e-extension system illustrates such applications. It will rely on the centralization of real-time climate and weather information, soil and fertility mapping, and a digital database recording farmers' cropping decisions, supporting farmers in adapting to climate change impacts – particularly floods, droughts and rising temperatures. This electronic system will not only allow the timely delivery of customized agricultural advice to farmers, but also allow a greater number of farmers to be reached through innovation. Considerable efficiency and productivity gains are expected.

