

## Financing Agriculture for Agro-Industrialization: What lessons can Uganda learn from Ghana?

By Brian Sserunjogi

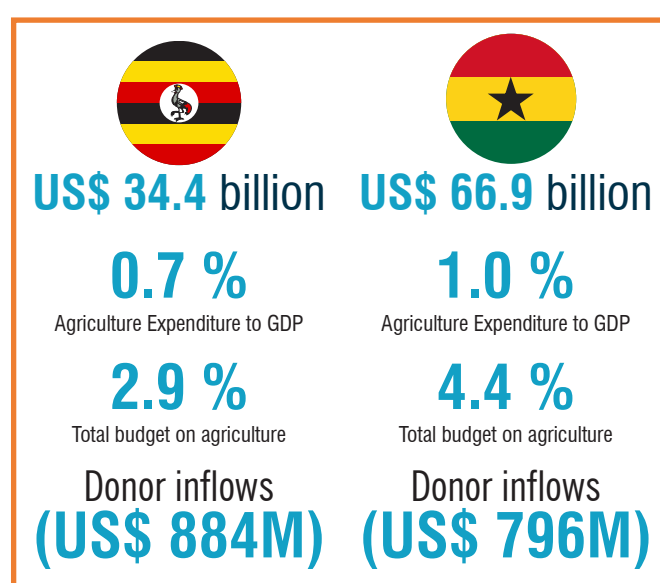
### Executive Summary

Despite Uganda and Ghana having a similar economic structure—especially the reliance on agriculture for employment and presence of dominant cash crops—overall agriculture in the two countries differ markedly. Ghana allocates a substantially higher share of its budget to the agricultural sector. This policy note examines the reasons behind Ghana's higher public spending on agriculture and what lessons Uganda can learn as it prioritizes agro-industrialization during the implementation of the National Development Plan (NDP) III (2020-2025). We find that the two countries have taken diverging paths in the quest to support agriculture. Starting in 2007, Ghana re-introduced major subsidy and support programs for: fertilizer, mechanization, block farms, and marketing. Most important, Ghana spends a large portion of her public agricultural finance towards supporting the state controlled cocoa industry. The coffee sector in Uganda is yet to receive support of similar magnitude. In addition, unlike Uganda, Ghana has since 2006 attracted larger share of development partner financing towards its agriculture sector by prioritizing growth and the development of the country's productive sectors and undertaking several political and economic reforms. Finally, Ghana has also demonstrated superior abilities in attracting high foreign direct investments into its agriculture sector both through its natural geographical locational advantages but also through establishment of a competitive business environment. The favourable business environment has come through undertaking regulatory reforms that ease doing business in Ghana.

### Background

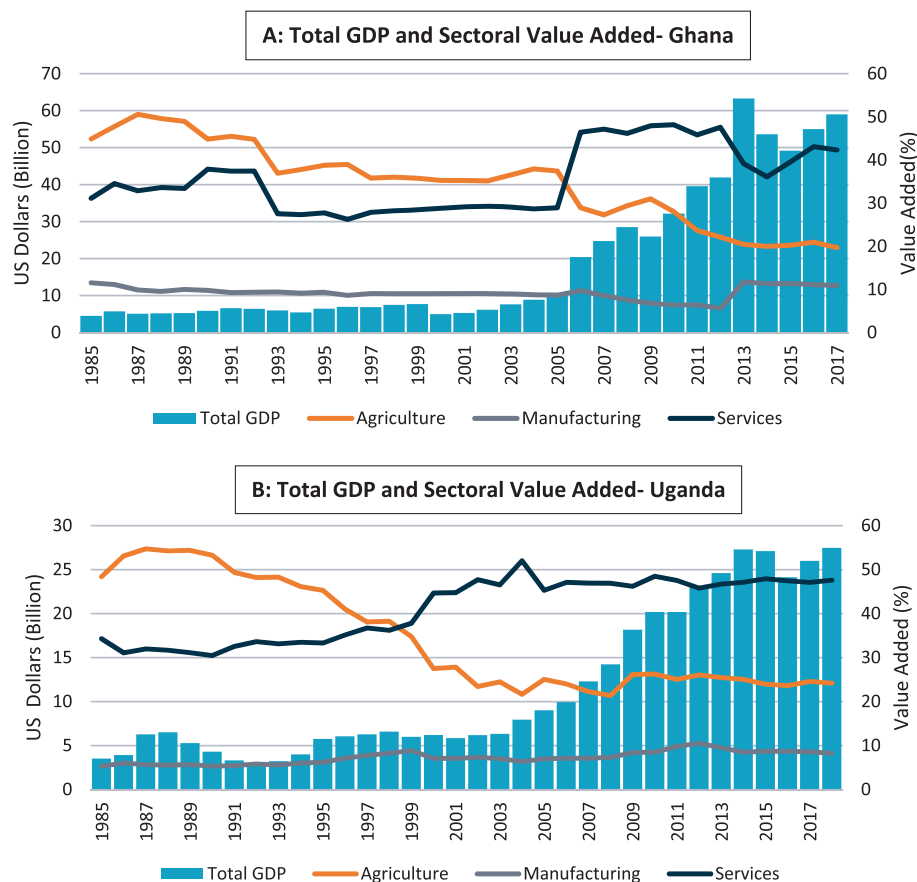
Ghana allocates relatively more resources to financing its agricultural sector than Uganda. In Ghana, the agricultural expenditures account for 4.4 percent of total government expenditure, and 1.0 percent of the gross domestic product (GDP). In contrast, Uganda spends 2.9 percent of the total budget on agriculture which is 0.7 percent of GDP. While the size of Ghana's economy is more than twice that of Uganda (GDP of 66.9 billion vs 34.4 billion respectively in 2019)<sup>1</sup>, both countries have a similar economic structure. Both countries depend heavily on agriculture for both employment and foreign exchange earnings. Although Ghana's agriculture's share in the GDP has declined by more than half between 1985 and 2017 (Figure 1), the sector provides employment to 45 percent of the country's total population<sup>2</sup> and contributes about 45 percent of foreign exchange earnings. Nonetheless, despite the sector's importance, the average growth rate has stagnated at 3.5 percent between 2010 and 2017.

Cocoa, is Ghana's largest cash crop and foreign exchange earner. In 2017, cocoa production contributed 9.2 percent to the growth of agriculture GDP and about 59 percent of total foreign earnings from agricultural exports.<sup>3</sup> Other crops of export importance include cashew nuts, oil palm, rubber, oilseeds and wheat flour.



This policy note examines how Ghana finances its agriculture sector in comparison to Uganda's in light of the prioritization of agro-industrialization during NDP III. The focus is on the following issues as drivers of overall agricultural financing: (i) public financing of the agricultural sector (ii) Private sector financing (iii) Development partner financing (iv) Foreign direct investments into the country's agriculture sector. This brief uses secondary data from various sources namely, Food and Agriculture organisation of the United Nations, Bank of Uganda,

Figure 1 Structure of the Economy



Source: Author's computation based on World Development Indicators database

Bank of Ghana, Ministry of Finance Planning and Economic Development Uganda, World Development indicators database of the World Bank, various issues of Government Financial Statistics reports, Ghana, the OECD Credit reporting system. The secondary data is supplemented by literature on agriculture finance in the two countries.

### What accounts for the differences in Agricultural financing between Ghana and Uganda?

#### Government Financing to Agriculture

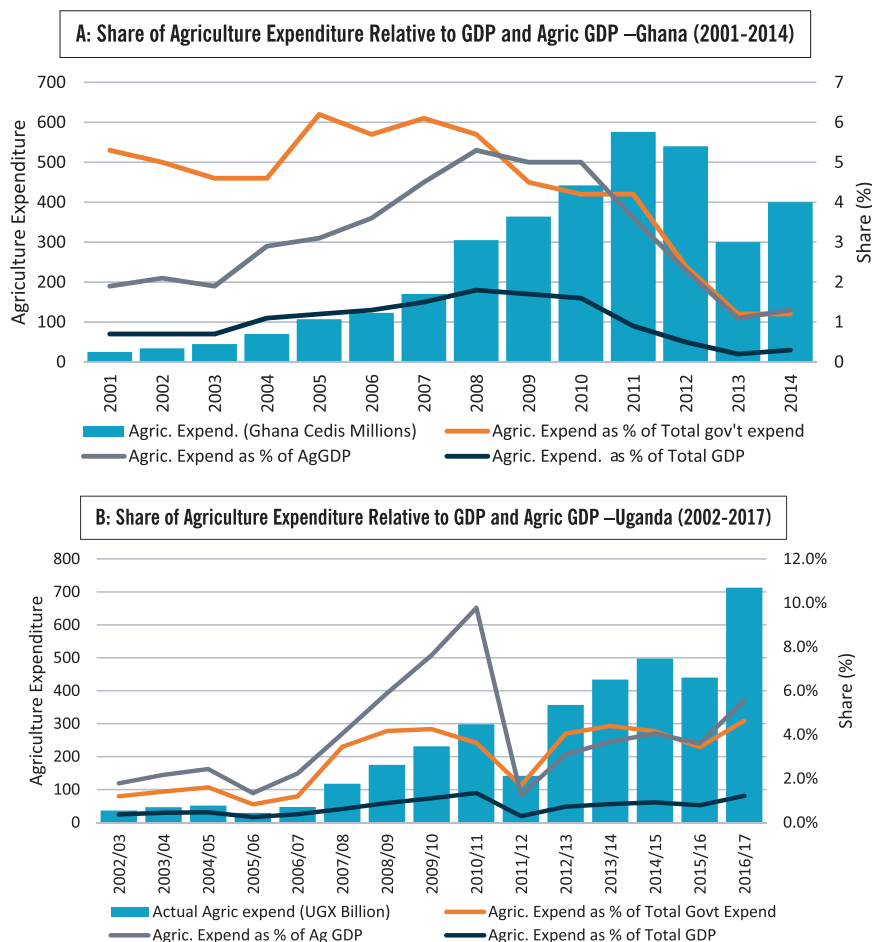
Considering absolute government resource allocation to the agriculture sector, both Ghana and Uganda have registered significant growth in public financing in the last decade (Figure 2). However, in relative terms, Ghana registered high agricultural expenditure relative to its total agriculture GDP, total gross domestic product and total government expenditure during the study period. Previous studies show that the relatively high public expenditure towards Ghana's agriculture sector is attributed two major factors namely (i) high public financing on agricultural input and farm support subsidies

(ii) high public financing towards the state-controlled cocoa subsector (FAO, 2015<sup>4</sup>; Benin, 2019<sup>5</sup> and World Bank, 2013<sup>6</sup>).

#### Public financing of Agricultural Input and Farm support subsidies

Subsidization of farm production has been a major agricultural policy in Ghana's agriculture development agenda. After two decades of no large-scale government intervention in the fertilizer sector, in 2007, Ghana re-introduced major subsidy and support programs on fertilizer<sup>7</sup>, mechanization<sup>8</sup>, block farms<sup>9</sup>, and marketing<sup>10</sup>. The policy shift had similar characteristics to state-run programs of the pre Structural Adjustment Programme period. The national Fertilizer Subsidy Programme accounts for bulk of the support. FAO, (2015) reported that the programme was scaled-up from US\$ 10.8 million in 2008 to US\$ 63 million in 2012. However, after 2012, the share of subsidy declined by 21 percent due to budget constraints (*ibid*). The concurrent implementation of these large subsidy programmes explain the higher public agriculture financing in Ghana. Benin *et al*, (2013) estimated that by 2010 the combined cost of the fertilizer subsidy, block farming,

**Figure 2** Government Expenditure on the Agriculture Sector



Sources: Author's computation based on data from various issues of Government Financial Statistics reports, Ghana and Annual Performance Budget report, MoFPED.

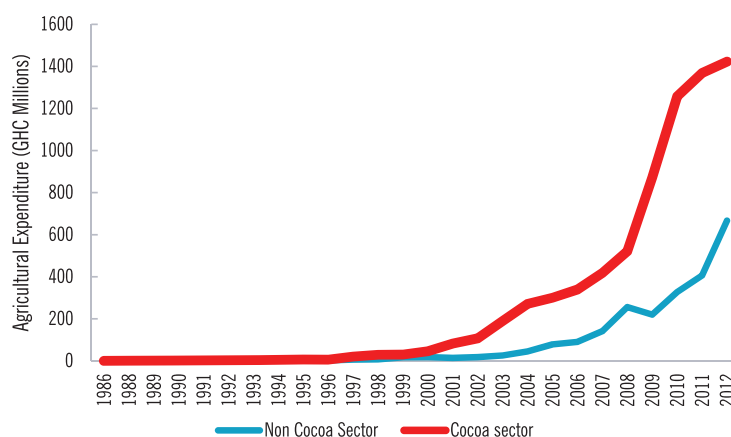
and mechanisation subsidy programs was 25 percent of the Ministry of Food and Agriculture's total budget. Furthermore, IFPRI (2014) estimated that these programmes together comprised about 85 percent of the ministry's capital budget in 2014.<sup>11</sup>

### Public financing of the major cash crops: Cocoa in Ghana and Coffee in Uganda

Public support to major cash crops differs in the two countries. In Uganda, the government's support to the coffee industry is limited to towards research, promoting production, controlling the quality and providing market information. In Ghana, government has a monopoly over the cocoa industry. Through the Ghana Cocoa Board, government controls producer prices, export and internal marketing of cocoa beans, oversees agricultural research, bonus payments, sell of seeds, quality control, extension services and implements high tech programs including fertilizer application. The state

monopoly over the cocoa industry offers additional avenues for increasing public financing towards the sector. Indeed, previous research shows that between 1961 and 2012, Ghana's agricultural policy and expenditure favoured the cocoa sub sector (Benin, 2016).<sup>12</sup> As indicated in Figure 3, during this period, the share of expenditures on the cocoa subsector as a share of the subsector's agricultural output was 57.6 percent per year, compared to only 3.7 percent per year for the non-cocoa subsector. Furthermore, between 2003 and 2011, a total of GHC 862.39 million (US\$ 156.7 Million) was spent as subsidy on the subsidized fertilizer program for both cocoa and non-cocoa subsectors (World Bank, 2013). Nonetheless, the share of the subsidy was 87.5 percent for cocoa and only 12.5 percent for non-cocoa crops (*ibid*).

**Figure 3** Public expenditure between the Cocoa and Non-cocoa sub sectors, Ghana (1986-2012)



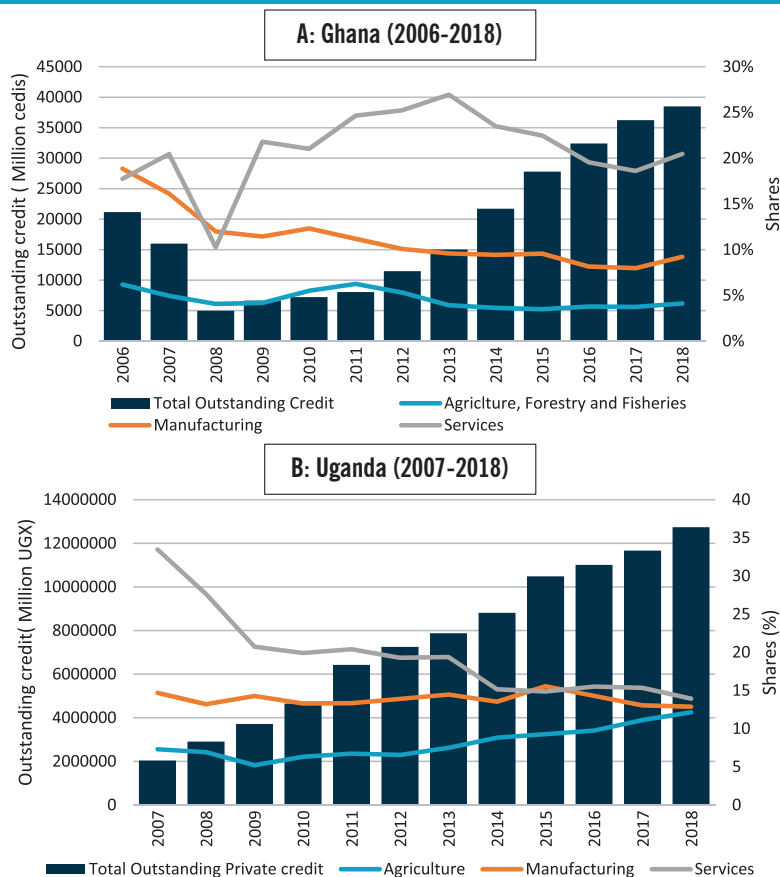
Authors computation based on data obtained from Benin (2016)

### Private Financing to Agriculture

With regards to private financing, Figure 4 reveals that in both countries, a large share of private sector credit is directed towards the services and manufacturing sectors of the economy. In both countries, private sector credit to the agriculture sector in absolute terms has registered a

significant upward trend. However, in relative terms, the share of private sector credit towards Ghana's agriculture sector in total private sector credit is lower than Uganda's. Between 2006 and 2018, the share of agriculture credit in total private sector credit in Ghana averaged at only 5 percent compared to Uganda's 8.2 percent. Previous research notes that the

**Figure 4** Share of Private sector Credit to the Agriculture Sector



Source: Author's computation based on data obtained from Bank of Ghana & Bank of Uganda.

low share of agriculture in total private sector credit in Ghana is due to the perceived high risk associated with the sector, high cost of credit and low market potential of produce due to reliance on weather Kwakye (2013).<sup>13</sup>

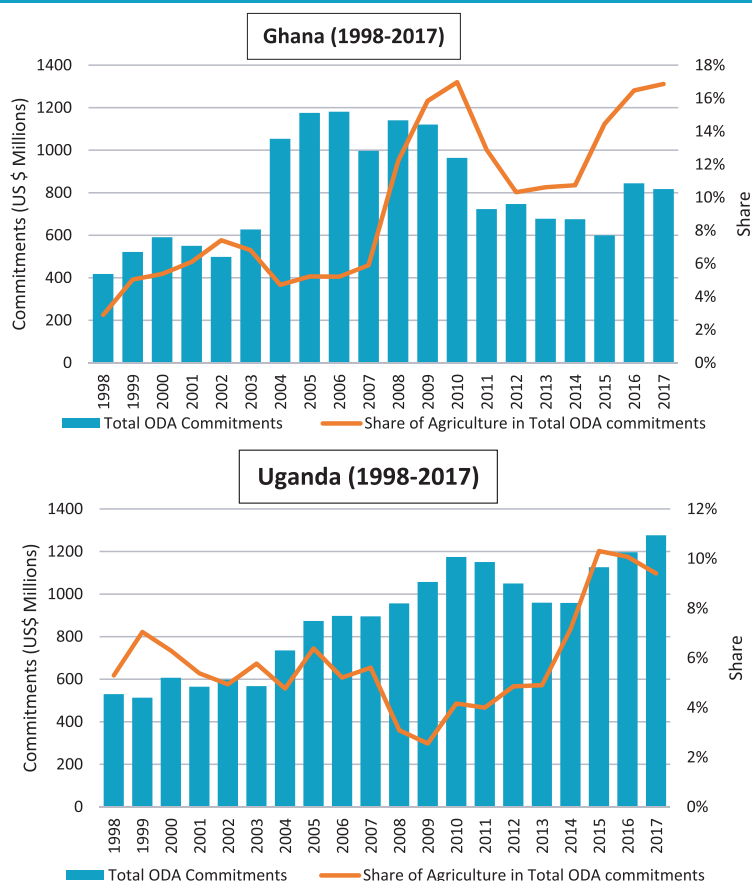
Both countries operate schemes to support private sector access to agricultural credit. Unlike Uganda which started its risk sharing scheme- the Agriculture Credit Facility in 2009 to encourage commercial banks to lend more to the agriculture sector, Ghana only launch the Ghana Incentive-based Risk Sharing System for Agricultural Lending (GIRSAL) in 2016 albeit having established an Agriculture Development Bank (ADB) since 1965.<sup>14</sup> An earlier study by Shirazu and Thomas (2012) reported that inefficiencies in the management of the state owned bank resulted in loan defaults.<sup>15</sup> Moreover, subsequent removal of subsidies on agricultural inputs, and production-related losses led to the rapid deterioration of the bank's overall credit portfolio. This resulted in its re-capitalization in 1990s and a further restructuring in 2010. Moreover, the bank's current critical challenge in its quest to finance and support agricultural investors at all scales is the lack of medium- to long-term financing for on lending (*ibid*).

### Development Partner Financing to Agriculture

Overtime, Uganda registered a slightly higher total donor inflows (US\$ 884M) compared to Ghana (US\$796M). However, with respect to overall support to the agriculture sector, Ghana appears to be a better “donor’s darling”, owing to its political stability and commitment to economic reforms. Specifically, the share of the agriculture sector in total Official Development Assistance (ODA) commitments in Ghana averaged at 10 percent compared to Uganda’s 6 percent during the study period. Between 2004 and 2009, Ghana registered a drastic growth in the share of ODA agriculture in total ODA commitments due to the introduction of the Multi-donor Budget support framework in 2003.<sup>16</sup>

The framework brought on board eleven development partners to assist in the implementation of Ghana’s development and poverty reduction policies. Moreover, since 2006, Ghana put greater emphasis on growth and the development of the country’s productive sectors, with the agriculture sector at the forefront. An examination of the share of agriculture ODA (Figure 5) to total ODA between 2008 and 2018 for Ghana reveals that donors have followed suit. Despite the differences

**Figure 5** Trends in total ODA commitments



Source: Author's computation based on OECD Credit reporting system<sup>20</sup>

in the share of ODA agriculture in total ODA between Ghana and Uganda, several similarities exist with regards to the allocation of ODA and channels of ODA delivery to the agricultural sector. For example, 2016 study by the Overseas Development Institute (ODI) reported that in Ghana, ODA has mostly supported national level capacity through policy development and administrative management efforts as well as agricultural development and agricultural services (ODI, 2016).<sup>17</sup> Nonetheless, the OECD notes that most donor support in the agricultural sector in Ghana was still provided in the form of projects (OECD, 2008).<sup>18</sup> A similar environment is evident in Uganda (EPRC, 2018).<sup>19</sup>

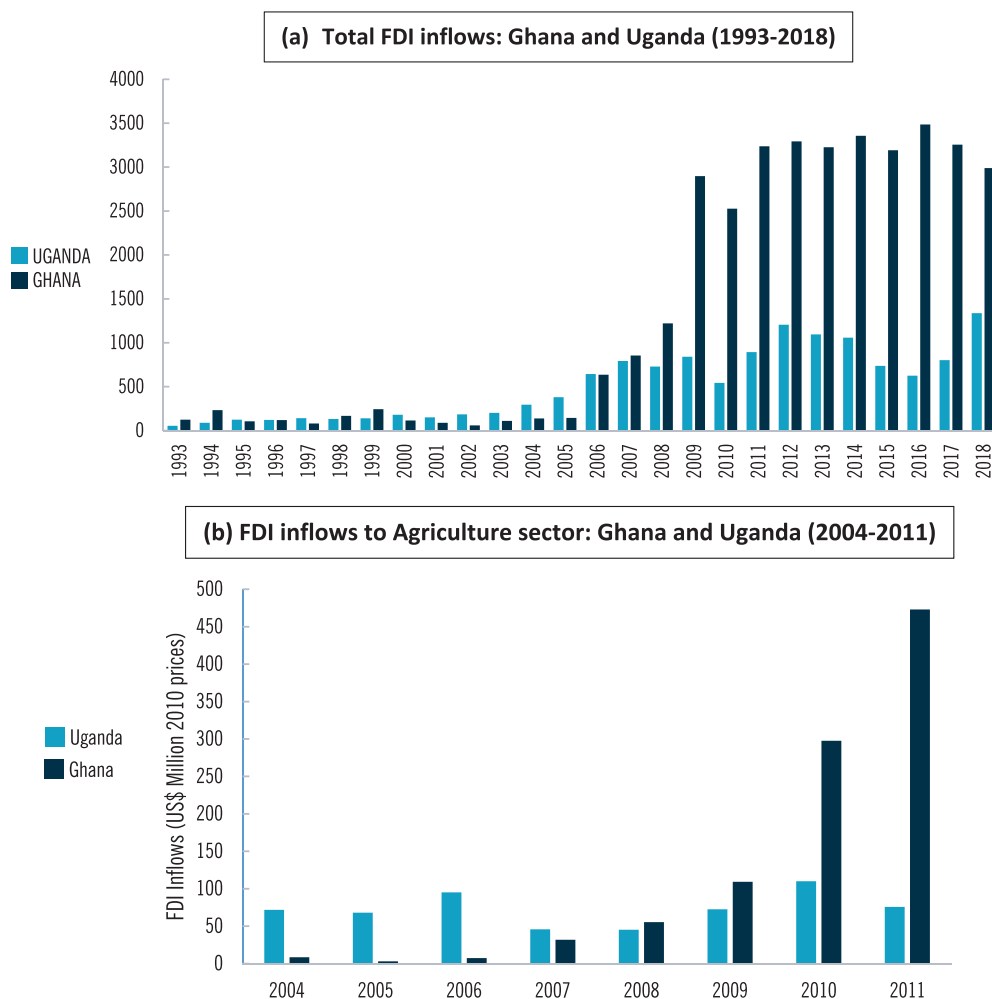
### Foreign Direct Investment (FDI) to Agriculture Sector

Overall, Ghana registered significantly higher total FDI inflows than Uganda (Figure 6) during the study period. Ghana's FDI growth was triggered by the adoption of policies in 1986 to attract investment mainly it's in natural resources sector. These

included divestiture programme of state owned enterprises. Due to these favourable policies, Ghana's FDI inflows peaked at US\$ 233 million in 1994 with the partial privatization of Ghana's largest gold mining, the Ashanti Goldfields Corporation. More recent surge in FDI growth for Ghana was registered in 2007 with the major off shore oil discovery.

With regards to FDI inflows to the agriculture sector, (Figure 6, panel B) reveals that during the period of 2007-2011, Ghana witnessed a significant increase in agricultural FDI inflows compared to Uganda. According to available data, FDI inflows to Ghana's agriculture sector rose from US\$32 million in 2007 to US\$473 million in 2011. There is evidence to show that multinational companies were attracted to Ghana due to its strong macroeconomic and political stability, huge market size, and presence of two seaports and extent of natural and physical resources in the country (Aryeetey *et al.* 2009).<sup>21</sup> Indeed, Ghana is strategically and centrally located within the West African sub

**Figure 6 Foreign direct investment towards the Agriculture sector**



Source: Authors computation based on FAOSTAT database, 2019

region with access to 400 million people. In addition, according to the 2019 Global Ease of doing business report, Ghana was ranked in 114<sup>th</sup> position compared to Uganda's 127<sup>th</sup> position out of 190 countries (World Bank, 2019).<sup>22</sup> According to the report Ghana's regulatory environment for doing business has consistently performed better than Uganda's.<sup>23</sup>

Furthermore, the Food and Agriculture Organization (FAO) reported that in the last decade (2008-2018), Ghana undertook programmes to attract FDI in support of the production and export of non-traditional products with an aim of improving its trade balance (FAO, 2013).<sup>24</sup> As such since 2003, Ghana has witnessed increased attention by private firms to invest in large tracts of land for agricultural related activities. Moreover, Ghana's state controlled cocoa sub sector has also attracted foreign direct investment. This is through the commitment of the COCOBOD State Marketing Board to license more exporting companies in the internal marketing system to ensure effective competition has increased investments.

## Conclusions and way forward for Uganda.

This study reveals some of the reasons for the differences between agricultural financing between Ghana and Uganda. These include:-

- (i) The strong re-introduction of major subsidy and support programs on fertilizer, mechanization, block farms, and marketing into the Ghanaian agriculture with similar characteristics to government-run programs that existed before the structural adjustment programme.
- (ii) High prioritization of public financing towards the state controlled cocoa sub sector in Ghana over a long time compared to Uganda's coffee sub sector.
- (iii) On the other hand, early implementation of a risk sharing facility in Uganda (i.e. the ACF) boosted the share of agricultural credit in total private sector credit.
- (iv) Ghana's strong ability to attract larger share of development partner financing towards the agriculture sector by putting greater emphasis on growth and the development of the country's productive sectors, with the agriculture sector at the forefront.
- (v) Ghana's ability to attract high foreign direct investments into its agriculture sector both through its natural geographical locational advantages but also through establishment of a competitive business environment.

## Endnotes

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- 3 The Budget Statement and Economic Policy, 2018 Financial Year. Government of Ghana & FAO
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- 6 World Bank. (2013). Basic Agricultural Public Expenditure Diagnostic Review: Ghana's Ministry of Food and Agriculture. Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/16734> License: CC BY 3.0 IGO."
- 7 Subsidization of fertilizers via the national Fertilizer Subsidy Program (FSP).
- 8 Subsidization of agricultural mechanization services via support to the establishment and operation of Agricultural Mechanization Service Centers (AMSECs).
- 9 Establishment and management of block farms that benefit from subsidized mechanization services and inputs (fertilizers, improved seed, and pesticides) and extension services.
- 10 Stabilization of output prices via the establishment and operation of the National Food Buffer Stock Company (NAFCO).
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  - 23 This relates to: starting a business ,Dealing with construction permits ,Getting electricity ,Registering property, Getting credit ,Protecting minority investors ,Paying taxes ,Trading across borders ,Enforcing contracts Resolving insolvency
  - 24 FAO, (2013) Trends and impacts of foreign investment in developing country agriculture. Evidence from case studies. Accessed at [http://www.fao.org/fileadmin/templates/est/INTERNATIONAL-TRADE/FDIs/Trends\\_publication\\_12\\_November\\_2012.pdf](http://www.fao.org/fileadmin/templates/est/INTERNATIONAL-TRADE/FDIs/Trends_publication_12_November_2012.pdf)