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2015-2019 SHADOW BUDGETS FOR SMALL SCALE AGRICULTURE DEVELOPMENT IN GHANA

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1.0 GROW Campaign

Soon there will be nine billion of us on the planet. Our societies must grow to meet our needs, so we can put enough food on the table for everyone. But already almost a billion of us go to bed hungry every night. Not because there isn't enough, but because of the deep injustice in the way the system works, and because too many of the ways we grow today are using up and destroying the natural resources on which we all rely. The system is broken. But together we can fix it. We can grow in a better way – one that contributes much more to human well-being. We can grow more food, more fairly and sustainably. And we can come together to share solutions so that our children and our grandchildren can join us at the table.

Welcome to **GROW**, Oxfam's new campaign for better ways to grow, share and live together, to help build a future where everyone on the planet always has enough to eat.

A number of Civil society organisations in Ghana are partners to the GROW campaign and have committed to working towards the attainment of the campaign objectives. It is in this light that this 5-year shadow budget is developed to influence budgeting in favour of small scale agriculture and to facilitate the formulation of inputs for the annual national budgets for the period 2015 to 2019.

Other issues that are of concern to the GROW campaign are the following:

- Nearly one billion people face hunger every day.
- International prices of some basic foods are set to more than double by 2030, with about half of that rise caused by climate change.
- Providing women with the same access to farming resources as men could increase yields by 20-30 percent, reducing the number of hungry people worldwide by 100-150 million.
- According to one estimate, three big multinational agricultural companies – Cargill, Bunge and ADM – control nearly 90 percent of the grain trade.
- The emissions cuts currently offered by world governments could still see global temperatures rise by 3-4oC. This would have a catastrophic effect on farming in many countries.

2.0 Agriculture and Food Security

Agriculture is the main economic sector in Ghana, accounting for about 36 percent of GDP. The agriculture sector is also the main source of employment and income for 56 percent of the total economically active population and is the largest foreign exchange earner. The share of women in agricultural labour force in 2005 stood at 45 percent. In addition, this sector contributes an average of 12 percent and 8 percent to tax revenue and total revenue. The sector consists of the cocoa sub-sector (incl.; coffee, and shea nuts), 13 percent; other crops, 64 percent; livestock (incl. poultry), 7 percent; fisheries (marine, freshwater), 5 percent; and forestry and logging, 11 percent. The major role played by agriculture in the improvement of Ghana's economy presently has been dominated by the cocoa sub-sector. Ghana can therefore not achieve economic growth and poverty reduction without significant improvement in the agriculture sector.

Agriculture is predominantly practiced on smallholder, family-operated farms using rudimentary technology to produce about 80 percent of Ghana's total agricultural input. It is estimated that about 2.74 million households operate a farm or keep livestock. About 90 percent of farm holdings are less than 2 hectares in size.

Although production levels of the major staple food crops in Ghana in a normal-rainfall year are adequate, with estimated self-sufficiency ratios of 100 percent for roots and tubers, fruits and vegetables, fats and oils, and 90 percent for cereals (excluding rice), seasonal food insecurity is wide-spread. This is due to almost total dependence on rain-fed agriculture thereby making the fortunes of the sector follow the rainfall patterns, minimal use of fertilizer among farmers culminating generally in low productivity (avg. yields 30 percent-50 percent of achievable yields), insufficient purchasing power of a large proportion of the population and inadequate storage, marketing and processing structures in most rural areas. With the population growth rate estimated at 1.7 percent (2004) and the growing demand for more improved crops for local industries and for export, irrigated agriculture is an important factor in promoting agricultural growth.

3.0 The case for small scale agriculture

Agriculture in Sub-Saharan Africa still provides a relatively large share of the gross domestic product (GDP), but productivity in the sector lags considerably behind that of other continents, as well as the region's potential. On average, about 65 percent of Africa's labor force is employed in agriculture, yet the sector accounts for about 32 percent of GDP, reflecting relatively low productivity. Africa's rural population, therefore, has been unable to move out of poverty principally because of inability to transform their basic economic activity—agriculture—to high productivity levels (AGRA- Africa Agriculture Status report, 2013).

Agriculture has a central role to play in promoting growth and poverty reduction in the Ghanaian economy at this stage of our development and Ghana needs an agricultural revolution based on productivity growth; this will raise almost a million more Ghanaians out of poverty by 2015, improve rural livelihoods significantly, and make a dent in the poverty of the rural savannah, especially in the North. However, this will require civil society organizations, the private sector and the media, and especially our leadership to play critical roles in carving a way forward. (Gobind Nankani, 2009)

Agriculture plays a strong role in reducing poverty. The most compelling evidence for this comes from comparing China and Africa. China's poverty rate fell from more than 50 percent in 1981 to about 20 percent in 1991 and 5 percent in 2005. In 1981, China's poor outnumbered Africa's by almost 4:1. Yet by 1996, Sub-Sahara Africa had more poor people than China: 500 million Chinese moved above the poverty line, between 1981 and 2004, whilst 130 million more Africans moved below the poverty line in the same period. (Gobind Nankani, 2009)

The implication is that countries experiencing increases in agricultural productivity are able to release labor from agriculture into other sectors of the economy. This is particularly important because the data also shows that in most poor countries, output per worker in non-agriculture is substantially higher than in agriculture. Hence, a shift of workers from agriculture to non-agriculture increases average productivity. For example, shifting a worker from agriculture to non-agriculture in 1960 would have tripled their output in Korea or Malaysia; it would have increased it by a factor of nine in Thailand.

Most analysts agree that the context for agricultural development has changed significantly over the last 40 or so years, and is probably now less conducive to the type of smallholder led agricultural development seen in Asia in the 1960s and 1970s. However, opinion is sharply divided on what these changes really mean for agriculture's role in poverty reduction and, in particular, what they imply for small-scale farming as a route out of poverty for millions of poor people. Two broad views exist: the smallholder optimists and the smallholder pessimists. Each offers a different interpretation of the impact of the changes outlined above on the role of agriculture in poverty reduction and suggests a very different development strategy for agriculture.

The smallholder pessimists

Pessimists (e.g. Maxwell, 2004) argue that with the changes described above, smallholder agriculture is becoming progressively less viable in many parts of the world. If these trends continue, the point will soon be reached where small-scale agriculture is so uncompetitive that it ceases to offer a direct route out of poverty for the rural poor.

This vision is consistent in many ways with the way agriculture has progressed in the developed world. It sees agriculture based around farmers who can operate within the framework of new conditions, with consolidation of small farms into larger commercial units being an inevitable consequence. While this process took generations to occur in the developed world, the pace of globalisation is such that it is occurring far more rapidly in the developing world today. Policy makers need to be aware of the possible outcomes.

As smallholder agriculture declines and rural areas become better connected to urban centres, offering new opportunities, the future for rural people may lie less in agriculture and more in other economic sectors. Pessimists note that this is already starting to happen in some places. Rural people are already diversifying their livelihoods away from agriculture and, for many, income from the non-farm rural economy, remittances, seasonal migration and even commuting are more important than that from agriculture (Lanjouw and Lanjouw, 2001; Start, 2001). Pessimists argue that while agriculture was important to poverty reduction in the past and remains an activity conducted in rural areas, this does not mean that it will automatically remain the primary means of earning a livelihood for millions of rural poor, nor does it represent an effective route out of poverty.

The smallholder optimists

This view, championed by Lipton (2004) and IFPRI (2002a and 2002b), takes a totally different tack. It states that the basic Green Revolution recipe is as valid today as it was in the past. With the right policies and support, smallholders will innovate and increase productivity, which will directly reduce rural poverty and stimulate wider economic growth and development through the transmission mechanisms described above.

Optimists argue that the classic links between agriculture and the wider economy that worked so well in Asia, can work elsewhere today and only the smallholder works at the scale required to have any meaningful impact upon poverty. Agriculture remains the most effective engine of growth and poverty reduction and investing in the small-scale farm sector represents the most effective way of stimulating growth and reducing poverty.

Optimists acknowledge the changes in context emphasised by the pessimists, but question the extent to which they represent terminal damage to the future of small-scale farmers,
for example:

- While global consolidation in food marketing has occurred, its impact on small-scale farmers, particularly in Africa, may be relatively insignificant as the value of staple food consumption in Africa exceeds that of export commodities by a factor of three (IFPRI, 2004).

- African farmers may face increasing difficulties operating in world markets, but abundant opportunities remain in domestic and regional markets for commodities such as maize, cassava and legumes, which are grown and consumed mainly by the poor. Furthermore, the local price of these goods is generally less affected by global price trends, because of high transport costs relative to value.
- Removal of state-provided input subsidies might have had less impact on the profitability of small-scale farming than would appear. A balanced assessment of the impact of liberalisation must take account of the frequent bias against output prices often implicit in state marketing systems, and the concealed taxation of farm sales through foreign exchange manipulation.
- While the non-farm economy is of greater importance to livelihoods of the rural poor than has perhaps been recognised in the past, evidence consistently shows that it is itself largely driven by the performance of the agricultural sector (Lanjouw and Lanjouw, 2001).
- For optimists, the bottom line is that 70 percent of the world's absolute poor are rural, and agriculture remains critical to their livelihoods, either directly through the on-farm economy or indirectly through agriculture's influence on the non-farm economy.

Projections indicate that even by 2035 (well past the date for the MDGs) 50 percent of the poor are likely to be rural dwellers. Reducing poverty will only become feasible when the livelihoods of the rural poor are improved directly.

4.0 Supportive Legal Frameworks

Agriculture is the dominant sector in Ghana. It provides employment to the majority of people and also the biggest opportunity to development and improved incomes and livelihoods. The Ghana National Constitution and other international frameworks provide the legal basis for investing in the development of agriculture and mandates governments to do that.

4.1 Ghana National Constitution

In Chapter 6, The Directive Principles of state policy, Article 35 (3) The State shall take appropriate measures to promote the development of agriculture and industry.
(5) For the purposes of the foregoing clauses of this article, within two years after assuming office, the President shall present to Parliament a coordinated programme of economic and social development policies, including agricultural and industrial programmes at all levels and in all the regions of Ghana.

4.2 African Charter on People and Human rights

Preamble
Considering that the enjoyment of rights and freedoms also implies the performance of duties on the part of everyone; Convinced that it is henceforth essential to pay a particular attention to the right to development and that civil and political rights cannot be dissociated from economic, social and cultural rights in their conception as well as universality and that the satisfaction of economic, social and cultural rights is a guarantee for the enjoyment of civil and political rights;

Article 21(5) States parties to the present Charter shall undertake to eliminate all forms of foreign economic exploitation particularly that practiced by international monopolies so as to enable their peoples to fully benefit from the advantages derived from their national resources.

5.0 The Policy framework

5.1 National Development Plan

Currently, Ghana's agriculture is made up, predominantly of subsistence small holder production units, with weak linkages to industry and the services sectors. The sector is dominated by women and accounts for much of women's labour. It is characterised by low level of technology and productivity, low income and un-competitiveness in production, processing and distribution.
Given its central role in generating income and providing livelihood for majority of the people as well as its potential to lead the transformation of the economy, agriculture is expected to drive the new development agenda.

The main focus of agricultural development, over the medium-term, will be to accelerate the modernisation of agriculture through the implementation of the Food and Agriculture Sector Development Policy (FASDEP II) and the corresponding investment plan as detailed in the Medium-Term Agricultural Sector Investment Plan (METASIP) and ensure an effective linkage between agriculture and industry. The modernised agriculture sector is expected to underpin the transformation of the economy through job creation, increased export earnings, food security, and supply of raw materials for value addition. This will contribute to rural development and reduction in the incidence of poverty. This will be complemented by an effective natural resource management and environmental governance regime.

Improved Agricultural Productivity

Low productivity in the Agricultural sector has been a perennial problem. The causes, which are many and varied, include the following:

- Low level of mechanization;
- Inadequate post-production infrastructure (i.e. storage, processing facilities, transport etc);
- Low uptake of research findings by stakeholders;
- Limited availability of improved technological packages, especially planting materials and certified seeds;
- Limited participation of beneficiaries in extension programme planning and implementation; and
- Limited access to guaranteed markets for farmers and producers, especially women.

5.2 Comprehensive Africa Agriculture Development Programme (CAADP)

The CAADP is at the heart of efforts by African governments under the AU/NEPAD initiative to accelerate growth and eliminate poverty and hunger among African countries. The main goal of CAADP is to help African countries reach a higher path of economic growth through agriculturally-led development which eliminates hunger, reduces poverty and food and nutrition insecurity, and enables expansion of exports. As a program of the African Union, it emanates from and is fully owned and led by African governments.

It provides a shared framework for strategic planning and implementation, and for partnership and development assistance in the sector. Further, CAADP offers the prospect for political, technical and financial support for countries with plans and strategies that are aligned with the CAADP principles and framework. In aligning with CAADP, countries adopt the Maputo Declaration of: (i) achieving an annual agricultural growth rate of at least 6 percent and (ii) allocating at least 10 percent of the national budget to agriculture. The CAADP also reflects broader principles of mutual review and dialogue, mutual accountability, and partnership.
The First Conference of Ministers of Agriculture of the African Union (AU) was held in Maputo on
2nd July 2003. The meeting discussed issues related to agricultural production and food security within the context of the NEPAD Comprehensive Africa Agriculture Development Programme.
Resolve to:

1. **REVITALIZE** the agricultural sector, including livestock, forestry and fisheries, through the creating of enabling conditions for private sector participation paying attention to human capacity development and other elements crucial to agricultural development and combating constraints to agricultural production and marketing, such as soil infertility, poor water management, inadequate infrastructure, pests and diseases.

2. **IMPLEMENT**, as a matter of urgency, the Comprehensive Africa Agriculture Development Programme (CAADP) and flagship projects and evolving Action Plans for agricultural development, at the national, regional and continental levels. To this end, we agree to adopt sound policies for agricultural and rural development, and commit ourselves to allocating at least 10 percent of national budgetary resources for their implementation within five years;

5.3 The Economic Community of West Africa Agriculture Policy (ECOWAP)

In the West Africa region, the Economic Community of West African States (ECOWAS) has been mandated to support and coordinate the implementation of the program. In this context, ECOWAS developed the regional agricultural policy (ECOWAP). The ECOWAP is the framework of reference that provides the principles and objectives assigned to the agricultural sector and guides interventions in agricultural development in the region. During 2005, ECOWAS and the NEPAD Secretariat developed a joint ECOWAP/CAADP action plan for the period 2005-2010 for the development of the agricultural sector.
Although regional and continental in scope, the ECOWAP/CAADP agenda is an integral part of national efforts to promote agricultural sector growth and economic development. Therefore, it is proposed to formulate and implement concrete investment programmes at national and regional levels to improve the livelihoods of the populations.
In the case of Ghana, the focus of the CAADP process is to strengthen and add value to the Food and Agriculture Sector Development Policy II and the Sector Plan under the National Development Programme. The current agenda of the Government of Ghana (GoG) stresses the essential nature of strong plans in all sectors and calls for the improvement of existing policies and strategic plans. Also, the need for a coordinated approach for effective development of the agricultural sector has become paramount in the face of global crisis with the potential to undermine development efforts aimed at combating food insecurity and poverty reduction. Overcoming the increasing risks of food insecurity and poverty reduction requires that the right policies and working approach be adopted. This can be achieved through effective planning,

monitoring and review of policies and plans in a manner that is inclusive and participatory. It is in the light of ensuring that key stakeholders play a critical role in the shaping of the agricultural sector that this agreement is designed. It is expected that signatories will be committed to the letter and spirit of the agreement.

The ultimate goal of the ECOWAP/CAADP process in Ghana is to support strategic planning in Ghana's agricultural sector, by: (i) helping define a coherent long term framework to guide the planning and implementation of current and future FASDEP II programmes; and (ii) developing synergies and complementarities between existing and new strategic analysis and knowledge support systems to facilitate peer review, dialogue, and evidence based planning and implementation of agricultural sector policies and strategies. Furthermore it is intended that the compact will provide a basis and inputs into the formulation of a supporting regional compact.

5.4 The Medium Term Agriculture Sector Investment Plan (METASIP)

Government of Ghana commitments under the FASDEP II Agenda and Partnerships

The Government of Ghana (GoG) confirms its commitment to a modernized agriculture culminating in a structurally transformed economy and evident in food security, employment opportunities and reduced poverty as defined in the National Development Plan. GoG confirms FASDEP II as its framework to achieve the objectives related to the above vision through the promotion of sustainable agriculture development, thriving agribusiness, research and technology development, effective extension and other support services to farmers, processors and traders for improved livelihood. It will endeavor to ensure efficiency and effectiveness in pursuing the implementation of the FASDEP II agenda through its Sector Plan to achieve and exceed the 6 percent CAADP growth target over the next 7 years. It commits to work towards fulfilling the Maputo decision of the heads of state and government of the African Union of allocating at least 10 percent of the national budget to the agricultural sector within this period, in order to contribute to meeting the investments required to meet the outcomes in the Sector Plan programmes. In this regard, it will work to ensure maximum efficiency and effectiveness of utilization of resources in the sector through improvements in the sector monitoring and evaluation framework and systems together with the broader efforts to strengthen public financial management. It commits to dialogue, coordination, mutual review, and accountability mechanisms and modalities. Finally, the Government of Ghana agrees to the coordination of Ministries, Departments and Agencies through planning, the budget, performance reviews and implementation of measures and reforms necessary to promote and secure investments in the agriculture sector.

The national vision for the development of the food and agriculture sector is a structurally transformed Ghanaian economy where modernised agriculture has culminated in improved food security, employment opportunities and significantly reduced poverty, particularly in rural areas. FASDEP II aims to modernize agriculture in a way that provides critical linkage between agriculture and industry, and is based on application of science and technology and sustainable land management and environmental practices. The agricultural sector is targeted to grow at 6-8 percent per annum to support the national output growth and the achievement of a middle income status by 2015.

FASDEP II provides a sector wide framework for guiding investments and interventions in the sector. A seven year agriculture sector investment plan is designed as an instrument for implementing the policy and would be rolled out in annual plans under the Medium Term Expenditure Framework (MTEF).

In line with the FASDEP, GoG has defined in the sector plan, the following six major programmes for the period 2009-2015. These programmes will provide the basis for this 5 year (2015-2019) shadow budget. Where the sector programmes differ after 2015 the budget will be reviewed. These together represent Ghana's priorities across the four CAADP pillars as shown in Table 1:

FASDEP Objectives and their Alignment with CAADP Pillars and the Investment Plan

Corresponding CAADP Pillars and crosscutting issues	**FASDEP Objectives**	**Medium Term Agriculture Sector Investment Plan (2009-2015), programmes and components**
Increasing Food Supply and Reducing Hunger Across the Region by Increasing Smallholder Productivity and Improving Responses to Food Emergencies. Includes emergency food supply management, nutrition, school feeding schemes, HIV/AIDS support strategies, attention to priority livelihood sectors (pillar 3). **Sustainable Development of Livestock, Fisheries and Forestry Resources.**(cross-cutting) **Extending the Area Under Sustainable Land Management and Reliable Water Control Systems.** Includes soil fertility management and conservation, agricultural water use and irrigation, and land policy and administration. (pillar 1)	1. **Food Security and Emergency Preparedness.** Includes vulnerability in food security through contingency planning, emergency preparedness including establishment of strategic stocks to address the negative effects of climatic change and natural disasters.	• Productivity improvement • Support to improved nutrition • Support for Diversification of Livelihood Options of the poor with Off-farm Activities Linked to agriculture • Food storage and distribution • Early Warning Systems and Emergency preparedness • Irrigation and water management • Mechanisation services

Corresponding CAADP Pillars and crosscutting issues	FASDEP Objectives	Medium Term Agriculture Sector Investment Plan (2009-2015), programmes and components
Increasing Market Access Through Improved Rural Infrastructure and Other Trade Related Interventions. Includes supply chain development, quality control and management system development, export infrastructure, and global trade policies and agreements (pillar 2) **Sustainable Development of Livestock, Fisheries and Forestry Resources.** .(cross-cutting)	**2. Improved Growth in Incomes and Reduced Income Variability.** Includes income diversification activities involving a range of commodities including cash crops, livestock and indigenous commodities. This will be done through the value chain approach and application of science and technology to improve productivity.	• Promotion of cash crop, livestock and fisheries production for income in all ecological zones • Development of new products • Development of pilot value chains for one selected commodity in each ecological zone • Intensification of FBOs and out-grower grower schemes concept • Rural infrastructure • Support to Urban and Peri-urban Agriculture
Increasing Market Access through Improved Rural Infrastructure and other Trade Related Interventions. Includes supply chain development, quality control and management system development, export infrastructure, and global trade policies and agreements (pillar 2)	**3. Increased Competitiveness and Enhanced Integration into Domestic and International Markets.** Includes enhancing capacity of players to access markets, improving quality standards, safety and provision of infrastructure such as cold chain facilities.	• Marketed output of non-export smallholder commodities increased. • Export of non-traditional agricultural export commodities by men and women smallholders increased. • Grading and standardization systems made functional.
Extending the Area under Sustainable Land Management and Reliable Water Control Systems. Includes soil fertility management and conservation, agricultural water use and irrigation, and land policy and administration. (pillar 1)	**4. Sustainable Management of Land and Environment.** Includes sustainability in utilisation of resources through programmes, policy, regulation and mitigation measures against environmental degradation.	• Policies and regulations to support SLM at all levels reviewed and strengthened. • Institutional capacity at all levels within the food and agriculture sector built to support the promotion of SLM. • Technology dissemination and adoption

Corresponding CAADP Pillars and crosscutting issues	FASDEP Objectives	Medium Term Agriculture Sector Investment Plan (2009-2015), programmes and components
		for scaling-up of SLM. • Technical capacity at all levels built to support promotion and dissemination of SLM technologies. • SLM knowledge to support policy and investment decision making generated and adequately managed. • An effective, efficient and motivating incentive system for SLM established
Improving Agricultural Research and Systems to Disseminate Appropriate New Technologies and Increasing the Support Given to Help Farmers Adopt Them. Includes technology development, access and dissemination; innovation systems platforms; building research capacity and training (pillar 4)	**5. Science and Technology Applied in Food and Agriculture Development.** Includes enhancing application of science by all economic agents, improved technologies to support priority areas and client linkage systems to ensure demand driven research and utilisation of results.	• Adoption of improved technologies by men and women farmers increased. • Agricultural research funding increased. • A MOFA Unit to coordinate research output of the agricultural sector is well resourced and made functional. • A sustainable funding mechanism for RELCs established and operational.
Institutions. (cross-cutting)	**6. Enhanced Institutional Coordination.** Includes enhanced partnership and harmonisation of efforts in order to achieve maximum results in growth and development of the sector.	• Strengthen Intra-ministerial coordination • Inter-ministerial coordination • Partnership with Private sector and Civil Society Organisations • Coordination with Development Partners

Source: ECOWAP/CAADP Ghana Compact

6.0 Global trends in agriculture

Global agricultural production is expected to grow 1.5 percent a year on average over the coming decade, compared with annual growth of 2.1 percent between 2003 and 2012, according to a new report published by the OECD and FAO.

Limited expansion of agricultural land, rising production costs, growing resource constraints and increasing environmental pressures are the main factors behind the trend. But the report argues that farm commodity supply should keep pace with global demand.

The report says agriculture has been turned into an increasingly market-driven sector, as opposed to policy-driven as it was in the past, thus offering developing countries important investment opportunities and economic benefits, given their growing food demand, potential for production expansion and comparative advantages in many global markets.

However, production shortfalls, price volatility and trade disruption remain a threat to global food security. The OECD/FAO Outlook warns: "As long as food stocks in major producing and consuming countries remain low, the risk of price volatility is amplified. A wide-spread drought such as the one experienced in 2012, on top of low food stocks, could raise world prices by 15-40 percent."

Presenting the joint report in Beijing, OECD Secretary-General Angel Gurría said: "The outlook for global agriculture is relatively bright with strong demand, expanding trade and high prices. But this picture assumes continuing economic recovery. If we fail to turn the global economy around, investment and growth in agriculture will suffer and food security may be compromised."

"Governments need to create the right enabling environment for growth and trade," he added. "Agricultural reforms have played a key role in China's remarkable progress in expanding production and improving domestic food security."

FAO Director-General José Graziano da Silva said: "High food prices are an incentive to increase production and we need to do our best to ensure that poor farmers benefit from them. Let's not forget that 70 percent of the world's food insecure population lives in rural areas of developing countries and that many of them are small-scale and subsistence farmers themselves."

7.0 The Macroeconomic Framework

Improved macroeconomic management and enduring political stability have not significantly transformed the structure of Ghana’s economy over time. Mining and construction have sustained the industrial sector, while manufacturing has been declining as a share of GDP over the past 20 years. The country needs to develop new, labour-intensive economic sectors such as manufacturing and agro-processing in order to tackle the employment challenge and provide economic opportunities to rural areas. This will require coherent public policies to raise agricultural yields, improve the competitiveness of the economy and overcome land tenure issues. Decisions on how to spend the country’s increasing oil revenue, projected at several billion US dollars (USD) over the next two decades, will be crucial to future economic transformation. The increased oil revenue and foreign direct investment (FDI) inflows may result in strong upward pressure on the exchange rate and threaten prospects for industrialisation. In

2010, Ghana enacted a legal framework for sound management of its oil wealth, and thus far its programme of hedging oil imports and exports has succeeded in maintaining macroeconomic stability.

The Medium-Term Macroeconomic Growth Targets and Underlying Assumptions

On the base of the old GDP series, the medium-term, per capita income is projected to reach at least US$1,035 by 2013 with a projected non-oil average real GDP growth rate of 7 percent per annum, and an oil average real GDP growth rate of at least 9 percent. This is to enable Ghana to achieve and sustain per capita income levels consistent with the long-term objective of a per capita income of at least US$3,000 by the year 2020 without compromising macroeconomic stability. These growth targets assume that the trend of buoyant prices for Ghana's two main exports, cocoa and gold, will continue and Ghana would take advantage of the favourable world market prices and increase the volumes of exports of these commodities. It is also assumed among others that:

- The population growth rate will not exceed 2.2 percent per annum;
- Inflation rate is contained within single digit; and
- Stable foreign exchange rates.

7.1 The fiscal policy

By definition, fiscal rules are statutory or constitutional restrictions that set specific limits on fiscal indicators such as budgetary balance, debt, government spending, or taxation (Kennedy and Robbins, 2001). Primarily, fiscal rules seek to disengage fiscal policy from government influence much like the separation of monetary policy embodied in inflation-targeting frameworks. They also impose greater accountability on government finances, drive expectations and enhance transparency of the overall budgetary framework. Again as noted by Brunila (2002), such rules help tackle a country's predisposition to budget deficits by pre-empting possible spending overruns and thereby help to address the political and institutional tendencies to raise expenditures during economic booms.

Chart 1 and 2 provide data on the extent of fiscal discipline of government from 1983 to 2000. Election years are particular identified with noticeable spikes in budget deficit after four years of seeking stability and growth. The year 2012, an election year was no different with a reported budget deficit above 12 percent of GDP. After about 2 decades of fiscal indiscipline, there is no guarantee that this trend will not continue to the detriment of the growth of small scale agriculture and agro processing.

Within this context, Government has proposed legislation of a Fiscal Responsibility Law (FRL) to strengthen its commitment to fiscal discipline and debt sustainability. Chart

This raises a fundamental question as to whether such an Act will promote fiscal discipline similar to how BOG Act 612 has strengthened the formulation of credible and transparent monetary policies.

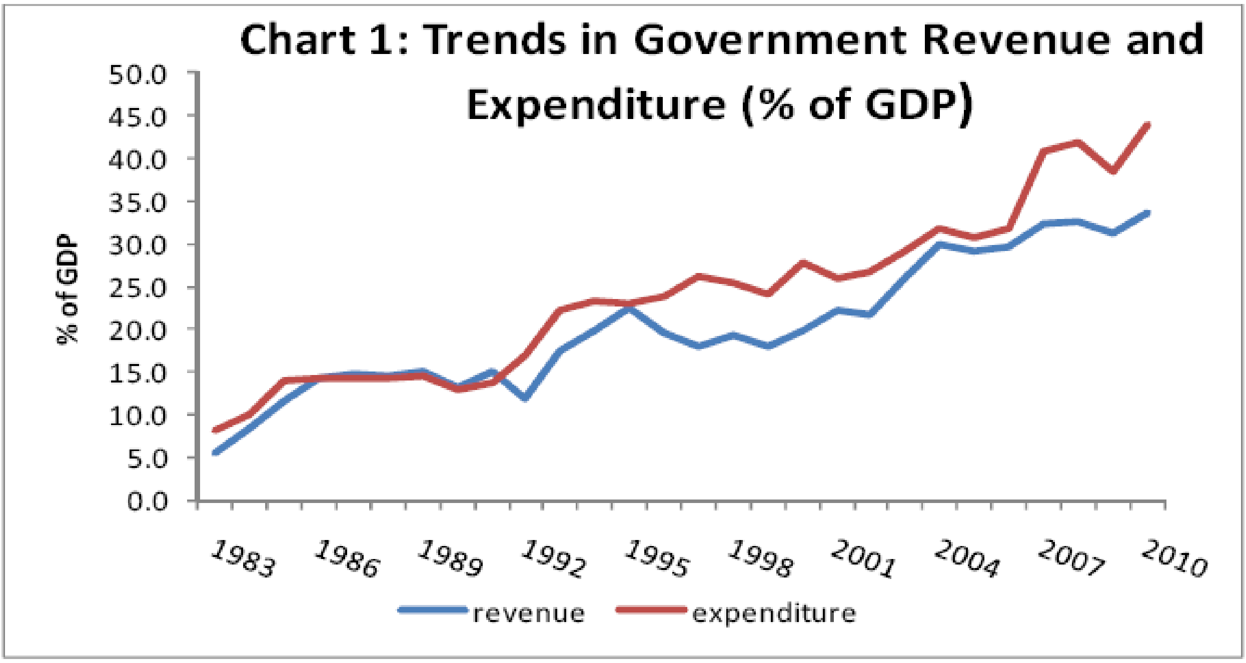
Fiscal policy involves the use of government expenditure and taxation to influence the level and direction of economic activity in an economy. In periods of economic slowdown, fiscal authorities can prop up growth in economic activity by either increasing government spending or lowering taxes or do both whereas in times of overheated economy, government expenditure is lowered or taxes increased or both.

Economists have traditionally tended to describe fiscal policy outcomes in the context of the budget balance; whether expenditures exceeds revenues, revenues are greater than expenditures or there is equality between revenues and expenditures with the outcomes described as budget deficit, budget surplus or balanced budget respectively.

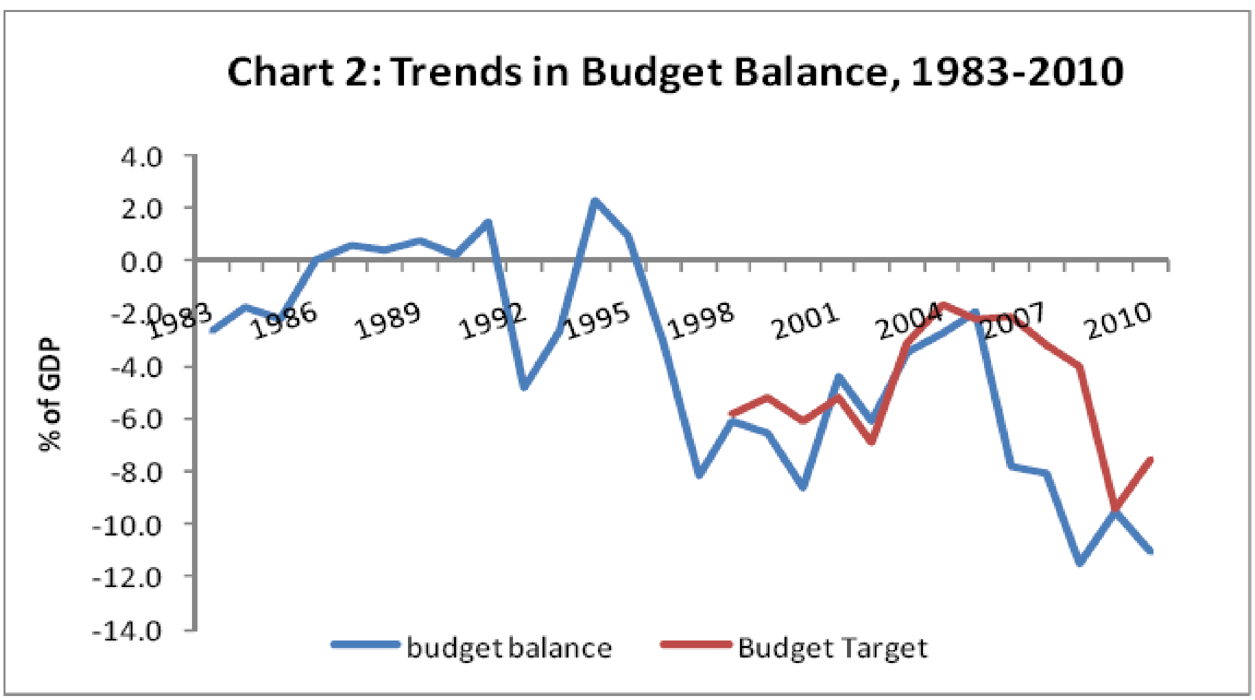
Although subsequent designs of fiscal rules vary across countries, they all subscribe to basic characteristics considered important for effective implementation (Kopits and Symansky, 1998). Namely, fiscal rules need to be:

- **clearly defined** in the set of indicators used, and institutional cover as well as specific escape clauses to avoid ambiguities and ineffective enforcement;
- **transparent** in terms of governmental operations, including accounting, forecasting and institutional arrangements;
- **simple**, for easy understanding by the public and appeal to the legislature;
- **enforceable,** that is, there must be legal or constitutional structures and competent authority to enforce rules together with credible sanctions for cases of non-compliance;
- **flexible** to accommodate exogenous shocks linked to situations beyond the authorities' control;
- **consistent** with each other, and with other macroeconomic policies objectives ; and
- **efficient**, to act as a catalyst of fiscal reform that would be, to a certain extent, necessary to ensure the sustainability of the budget process.

In addition to these guidelines, a robust fiscal rule must not be easily overruled or temporarily suspended by the legislature. In other words, fiscal rules require strong and supportive governance structures—an open and politically independent review panel or court (as opposed to a partisan body). Such independent institutions are critical in the enforcement of sanctions against violations of stipulated fiscal rules.



Source: Bank of Ghana, October 2011



Source: Bank of Ghana, October 2011

7.2 The monetary policy

The Bank's monetary policy objective is to ensure price stability – low inflation – and, subject to that, to support the Government's economic objectives including those for growth and employment. Price stability is defined by the Government's inflation target. This target is revised annually and spelt out clearly in the budget statement for each fiscal year. The object recognizes the role of price stability in achieving economic stability more generally, and in providing the right conditions for sustainable growth in output and employment. The 2002 Bank of Ghana Act 612 made the Bank independent to set interest rates. The Bank is accountable to parliament and the wider public.

The Inflation Target

The desired inflation target of below 10 percent is expressed in terms of an annual rate of inflation based on the Consumer Prices Index (CPI). Although the Bank is not bound by law to explain to the Ministry of Finance or to parliament if the target is not achieved, the Governor may be summoned to the Finance Committee of parliament to explain developments within the economy. A target of 10 percent does not mean that inflation will be held at this rate constantly. The economy is subject to shocks that can cause unnecessary uncertainty and volatility. When inflation stays above target for some obvious reasons, the Monetary Policy Committee's (MPC's) aim would be to steer interest rates so that inflation can be brought back to target within a reasonable period of time without creating undue instability in the economy.

The Monetary Policy Committee

The Bank seeks to achieve government's inflation target by setting an interest rate. The level of interest rates is decided by the Monetary Policy Committee. The MPC consists of seven members – five from the Bank of Ghana and two external members appointed by the Minister of Finance. The meetings are chaired by the Governor of the Bank of Ghana. The MPC meets bi-monthly for a three-day meeting, usually beginning on the third Tuesday of the month in which the meetings have been scheduled, ending on the Thursday of that same week. The meeting dates for each year are determined well in advance at the beginning of each year. Decisions are made by a vote of the Committee on a one-person one-vote basis with each member stating clearly with reasons why a particular rate decision.

Macroeconomic measures and agriculture

In a context where it is already difficult to access credit by small scale farmers, the inability of government through the MPC to stabilize prices of goods and services such as fertilizer (even with subsidy), tractor and equipment means that small scale farmers must invest more in the succeeding year to get the same outcome as the previous. Even then the price volatility associated with harvested produce does not always guarantee the desired outcomes for farmers. Clearly the inability of government to keep a tight lid on expenditure levels is a destabilizing factor. For the sustainable growth of small scale agriculture and more enhanced contribution to the sustenance and growth of employment the proposal to have a Fiscal Responsibility Law (FRL) is appropriate. It is hoped that the law will help rein in government expenditure, especially during election years. This step will require a higher level of political commitment from the government of the day. Tables 2 and 3 provide further evidence of the lapses in revenue as compared to expenditures in the years 2008-2010.

Table 2. Central Budget Execution 2008-10, Revenues and Grants (percent of GDP)

	2008	2009	2010
Total Revenue and Grants	16.04	16.52	16.75
Direct taxes	4.16	4.69	5.31
Personal income tax	1.74	2.11	2.19
Self-employed tax	0.23	0.20	0.22
Corporate tax	1.79	1.81	2.14
Mineral royalties	0.20	0.25	0.33
National stabilization fund / NRL	0.00	0.08	0.14
Airport tax	0.04	0.06	0.08
Other (fees, taxes, oil royalties)	0.16	0.18	0.21
Indirect taxes	6.01	5.32	5.29
Domestic VAT	1.38	1.29	1.40
Import VAT	2.22	2.17	2.10
National Health Insurance Levy	0.71	0.71	0.68
Petroleum tax	1.28	0.76	0.55
Excise duty/other indirect taxes	0.19	0.14	0.25
CST	0.23	0.24	0.30
Trade taxes	2.38	2.08	2.48
Import duty	2.25	2.04	2.27
Exports - cocoa	0.13	0.05	0.20
Nontax revenue	0.42	1.26	1.17
Fees and charges	0.25	0.21	0.41
Dividends and transfers	0.17	1.05	0.76
Grants	2.72	3.01	2.34
Project grants	1.33	1.49	1.28
Program grants	0.85	1.09	0.62
Flows from multilateral. funds (HIPC & MDRI)	0.54	0.43	0.43
Other Revenues	0.35	0.16	0.16

Source: MoFEP.

Table 3. Central Budget Execution 2008-10, Expenditure and Arrears Clearance (percent of GDP)

	2008	2009	2010
Total Expenditure	23.95	20.55	22.62
Wages and salaries	6.59	6.77	6.88
Goods and services (a)	2.15	1.70	2.08
Subsidies to utilities (b)	0.70	0.00	0.22
Social Transfers	2.91	1.65	1.99
Pensions	0.49	0.51	0.47
Gratuities	0.18	0.18	0.19
Social security	0.53	0.43	0.29
National Health Fund	0.85	0.42	0.76
Other transfers	0.86	0.11	0.28
Reserves fund	0.91	0.46	1.02
Domestic debt interest costs	1.60	2.11	2.43
Foreign debt interest costs	0.65	0.71	0.68
Domestically financed capital expenditures	6.11	2.70	3.14
Non statutory	3.32	0.78	0.77
Ghana Education Trust Fund	0.68	0.38	0.53
Road fund	0.34	0.33	0.27
District Assemblies Common Fund	0.84	0.42	0.89
Petroleum related fund	0.01	0.01	0.01
HIPC financed expenditure	0.61	0.56	0.53
MDRI financed expenditure	0.31	0.23	0.16
Net lending and Equity	0.00	0.00	0.00
Foreign financed capital expenditures	3.04	4.44	4.40

Source: MoFEP.

8.0 Implementation of budgeted programmes for small scale agriculture (field monitoring from the countryside based on selected projects over the last 5 years)

<u>This section will be discussed with PFAG and other GROW partners to identify projects that will be monitored</u>

8.1 Credit and Finance

8.2 Irrigation

8.3 Input support

8.4 Post harvest measures

8.5 Storage

9.0 Where must investment go?

Currently, three-quarters of the world's extremely poor—800 million people—live in rural areas and depend on agriculture and other rural jobs for their livelihoods. In Africa, the pervasive poverty in rural areas is often blamed on the fact that a substantial proportion of agricultural growth comes from area expansion instead of increased productivity. For instance, the area harvested in Sub-Saharan Africa between 1961 and 2001 increased by 89 percent, but yields increased by only 30 percent, whereas in Asia, the area dedicated to cereal production increased by 15 percent while yields increased by 144 percent. If poverty is to be tackled in Africa, the productivity of the agricultural sector—which employs the majority of the citizenry—must be increased. This is especially crucial at a time when food prices are surging as a result of increasing demand for food grains, animal products, and vegetable oils.

However, agricultural productivity will not increase if the capacity of farmers and other actors in the agricultural value chain remains low, preventing them from innovating. In agriculture, innovations can include new knowledge or technologies related to primary production, processing, and commercialization—all of which can positively affect the productivity, competitiveness, and livelihoods of farmers and others. By putting farmers and other operators in the agriculture value chain at the centre of innovative practices and encouraging learning through the interchange of ideas, successes, and failures, they can develop the capacity to operate efficiently in the knowledge economy.

The table below clearly illustrates the productivity challenge being encountered in Ghana in regards to average yields of the listed crops and the potential in achievable yields.

Table 4. Average yields compared to achievable yields for selected crops

Crop	Average yields	Achievable yields	Yield gap	Yield gap (%)
Maize	1.5	2.5	1.0	40.0
Rice - rainfed	2.1	3.5	1.4	40.0
Rice - irrigated	2.8	5.0	2.2	44.0
Millet	0.8	1.5	0.7	46.7
Sorghum	1.0	1.5	0.5	33.3
Cassava	11.9	28.0	16.1	57.5
Cocoyam	6.7	8.0	1.3	16.3
Yam	12.4	20.0	7.6	38.0
Plantain	8.1	10.0	1.9	19.0
Sweet Potato	8.5	18.0	9.5	52.8
Cowpea	1.0	1.3	0.3	23.1
Groundnut	0.8	1.0	0.2	20.0
Soybean	0.8	1.0	0.2	20.0
Pawpaw	25.0	40.0	15.0	37.5
Pineapple	60.0	100.0	40.0	40.0
Tomato - rainfed	25.0	35.0	10.0	28.6
Tomato - irrigated	30.0	65.0	35.0	53.8
Cocoa	0.4	1.0	0.6	60.0
Oil palm	12.0	15.0	3.0	20.0

Source: Authors' calculations based on MoFA 2007b.

Increasing agricultural productivity requires building the capacity of small-scale farmers to innovate and adopt new technologies. Local knowledge is crucial for survival, but for poor people to be agents of their own development, it is not enough. Agricultural research and development (R&D), which provides a knowledge base for technologies that can be used by farmers to innovate, is also necessary. Furthermore, agricultural R&D can drive sustainable agricultural growth at the national level. There is strong empirical evidence that high levels of R&D investments lead to high productivity and eventually, to increased economic performance. The rapid economic growth achieved by certain Asian countries in the 1990s can be partially attributed to the rapid generation of new technologies, many of which found their way to farmers who adopted them successfully.

After technological knowledge is generated through R&D, it must be transferred to farmers if they are to use it to innovate. For many years, government-run extension programs offered through the ministries of agriculture have been the main channel for linking farmers to research and increasing productivity in developing countries.

Traditionally, extension efforts have attempted to transfer technology, mobilize farmers, and build their capacity, though this has proven difficult for many governments due to the large number of rural inhabitants, high poverty levels, diverse farming systems, and low capacity among extension agents as well as farmers.

One of the problems with traditional, top-down extension efforts is that farmers do not necessarily receive the information they need. It is when farmers are able to specify what they need that the adoption and use of knowledge becomes effective. However, before farmers can make meaningful demands for agricultural advisory services they must themselves be empowered through the strengthening of their capacity to enquire about how their operations and performance can be improved.

All farmers need access to credit, but representatives of commercial banks explained that they face a wide range of problems in reaching out to farmers at the bottom of the pyramid. Transaction costs are high compared to the size of the loans. Many small farmers do not have bank accounts, and they lack the record-keeping and financial management skills needed to successfully secure a loan from a bank. The legal framework is not conducive to taking out loans. For example, small farmers often do not have the land titles they need to serve as collateral.

There is an important role for governments to promote and scale up inclusive business models. A government's commitment to inclusiveness and agricultural growth go together. Governments need to assume a leading role and make clear strategic choices that are simultaneously pro-poor and pro-market. Subsequently, governments need to mobilise key stakeholders around these strategic choices and create a conducive investment climate.

In Ghana, the under listed institutions created to support agriculture development have not been able to overcome the challenge of targeting small scale farmers through innovative methods.

- Savannah Accelerated Development Authority (SADA)
- VENTURE CAPITAL FUND
- Export Development and Agriculture Investment Fund (EDAIF)

SADA does not publicly publish annual budgets for the resources that are made available to it. Therefore it is not exactly clear what the annual programmes of SADA are, the budgetary allocation and how these specifically contribute to national and SADA zone objectives for the year.

The contribution of warehouse receipt systems to developing agricultural markets is well known. In addition to providing a source of collateral and facilitating access to credit, warehouse receipts help to create standards for weights and measures, and develop grading systems.

They also help increase awareness of quality issues, moderate seasonal price variability, and pave the way for the development of futures and derivative markets for managing price risks. However, the spread of warehouse receipts and inventory credit has been limited in those countries without trusted warehouse operators, with weak regulatory and supervisory capacity, and with heavy state intervention in markets. This is particularly the case for Sub- Saharan Africa, where postharvest price fluctuations are often large and benefits from storage are significant. Where inventory credit has been successful, it has generally excluded small-scale farmers due to high administrative costs and low produce volumes.

10.0 Budget proposals for 2015-2019

10.1 The Budget Process

The responsibility for preparing the budget usually lies with the Ministry of Finance with input from the line ministries and some smaller spending agencies. This exercise is normally controlled by a central budget department located in the MOFEP, or sometimes in a separate budget ministry.

The legal and institutional framework that is embodied in the budget cycle are - the constitution, the Financial Administration Act, 2003 (Act 654), the Financial Administration Regulations, the Standing Orders of Parliament and other enactments. Moreover, the key point is that any assessment of the institutional arrangements requires that both the formal and informal rules - and the nature of their enforcement – be understood.

In principle, the basic steps in a standard budget preparation system comprise the following:

1. The first step in budget preparation should be the determination of a macroeconomic framework for the budget year (and ideally at least the next two years). The macroeconomic projections, prepared by a macroeconomic unit in the ministry of finance or elsewhere, should be agreed with the minister of finance. This allows the budget department within the ministry of finance to determine the global level of expenditure that can be afforded without adverse macroeconomic implications, given expected revenues and the level of deficit that can be safely financed. In a few countries, there are fiscal rules in place that may limit total spending or recurrent spending.
2. The second step should be the allocation of this global total among line ministries, leaving room for reserves (a separate planning and a contingency reserve as explained below) to be managed by the ministry of finance.
3. The next step should be for the budget department to prepare a budget circular to give instructions to line ministries, with the indicative aggregate spending ceiling for each ministry, on how to prepare their estimates in a way that will be consistent with macro objectives. This circular will include information on the economic assumptions to be adopted on wage levels, the exchange rate and price levels (and preferably differentiated price levels for different economic categories of goods and services).
4. Step four is the submission of bids by line ministries to the budget department. Once received there needs to be an effective "challenge" capacity within the budget department to test the costing of existing and any new policy proposals.
5. The next step comprises the negotiations, usually at official and then bilateral or collective ministerial level, leading finally to agreement.
6. Finally, step six is Cabinet endorsement of the proposals for inclusion in the budget that will go to parliament.

In the last decade the budget process in Ghana has started with a public call to individuals, institutions, by MOFEP for input into the budget. This call is usually done in the months of July and August. A platform is thereafter provided to all who endeavour to provide an input to share their insights at a public forum. This is the key entry point for civil society organisations to make budgetary proposals. There is evidence that this stage of the budget process in Ghana has provided an opportunity for a number of civil society proposals to be considered in the final budget.

The other entry point for civil society to influence the budget preparation lies in parliament, even though the intervention of parliament is limited to changes in the composition of the expenditure or revenue plans but not the global total.

The macroeconomic framework adopted by government determines to a large extent the scope of revenue generation and expenditures for the year. This is controlled by government in collaboration with the International Monetary Fund (IMF) and World Bank (WB). GROW National campaigns alone may not be able to influence the decisions of government and the

International Financial Institutions on macroeconomic indicators for the year. This will require the global GROW campaign to make an impact.

Following the process of making input into the budget, it is imperative to be able to ascertain the extent to which implementation of the budget has taken place. The success of this endeavour lies in MOFEP providing another platform for civil society organisations to have access to information on transfer of funds to MDAs for projects and to work together towards ensuring that released funds are efficiently and effectively managed for better outcomes.

10.2 Long-Term Funding for Agricultural Growth, Poverty Reduction, and Food Security

The basis of this analysis is a CAADP study that targets 2015 to attain its development outcomes. The current level of progression by government investment towards these objectives is below and off the path of trajectory. However, the analysis will still be relevant after 2015 and therefore provides the basis for this shadow budget until 2019.

The level of funding required to achieve different growth and poverty outcomes is calculated on the basis of the estimated historical relationships between the rate of agricultural GDP growth and the change in the poverty rate, and between the level of public agricultural funding and the rate of agricultural GDP growth. Estimates of the first relationship indicate that a 1 percent growth in agricultural GDP leads to a 1.14 percent reduction in national poverty rates. On the other hand, estimates of the second relationship suggest that a 1 percent increase in agricultural spending raises the sector's growth rate by 0.15 percent. This is quite weak compared to the average value across Africa, which is twice as high at 0.366 percent. The effect of agricultural public spending differs substantially when estimated for the specific agro-ecological zones. The marginal effect of aggregate spending is relatively higher in the Forest and Southern Savannah zones, where we see elasticities of 0.45 and 1.30 respectively. The estimated elasticity of agricultural productivity with respect to public agricultural expenditures may reflect low spending efficiency. The long-term projections discussed below are therefore carried out using both the estimated elasticity for Ghana and an elasticity of 0.30 to simulate a more optimistic spending efficiency scenario.

Figure 1: Economic growth and government budget allocation

	2000	2001	2002	2003	2004	2005
GDP in constant (2000) million GH¢						
Ag GDP	950.3	994.1	1141.6	1237.3	1397.7	1453.8
NonAgGDP	1449.5	1516.2	1748.5	2190.1	2421.2	2584.4
GDP	2399.8	2510.3	2890.1	3427.3	3818.9	4038.2
Spending in constant (2000) million GH¢						
Ag	30.4	31.8	28.5	40.8	67.1	58.2
NonAg	919.9	645.0	703.3	775.8	934.3	944.4
Total	950.3	676.8	731.8	816.6	1001.3	1002.6
Shares (%)						
Ag spending/total spending	3.2	4.7	3.9	5	6.7	5.8
Ag spending/AgGDP	3.2	3.2	2.5	3.3	4.8	4
Total spending/GDP	39.6	27.0	25.3	23.8	26.2	24.8

10.2 Identifying investment priorities for achieving Middle Income Country (MIC) and CAADP targets

Estimating the total public resources needed to reach national agricultural growth targets is essential, but the choice of priority investments is more important. Figure 4 shows the marginal returns to public investments in agriculture, education, health and feeder roads for Ghana as a whole and for the four agro-ecological zones. Figure 4 shows that substantial returns to most types of public investments exist. However, there are also large differences among different types of public investments and across different agro-ecological zones. At the national level, agricultural public expenditures have the highest returns in terms of agricultural productivity. For one marginal cedi invested in agriculture, GH¢16.8 is returned.

In addition, there are positive and substantial returns of public spending in non-agricultural sectors. For example, investments in infrastructure, especially road development, are often ranked among the top two public spending sources of overall growth and poverty reduction. For Ghana, a marginal cedi invested in feeder roads returns GH¢8.8, while a cedi invested in health returns GH¢1.3.

Public investment in education yields a negative return indicating that the formal education system is not benefiting the agricultural sector as much as the non-agricultural sector. The government may need to make educational curricula more agriculturally relevant in order to retain educated persons on the farm. Marginal returns to the different types of public investments differ among the four agro-ecological zones. The returns to agricultural spending are highest in the Southern Savannah zone, followed by the Forest and Coastal zones. The Northern Savannah zone has the lowest returns to agricultural spending but the highest returns to health, followed by the Forest and Southern Savannah zone. Returns to spending on rural roads are highest in the Forest zone, followed by the Coastal zone. Together these results suggest that high benefits can be obtained from additional public spending on the agricultural sector, particularly developmental spending and capital investments. In addition, it could be helpful to target different investments to different regions, while it might also be useful to include more agriculturally-relevant information in the educational system.

For Ghana to become a middle-income country by 2015, which is consistent with it reaching the CAADP target of 6 percent agricultural growth, and associated with a decline in poverty rates of almost 70 percent, the share of agricultural expenditure in government spending would have to almost double from the current (2005 estimate) 8.5 to 14.1 percent.

Reforming public institutions to improve the provision of agriculture-related public goods and services could substantially lower this share.

Figure 2: Estimated resource allocation to the agricultural sector (2005-2015)

		MIC scenario	
	Baseline scenario	**Low-elasticity**	**High-elasticity**
Growth rate (%)			
AgGDP	5.3	6.9	6.9
NonAgGDP	5.8	8.2	8.2
GDP	5.6	7.6	7.6
Ag spending	10.5	19.6	15.1
Total spending	10.5	13.7	13.1
Ag spending/Total spending (%)			
2010	8.5	11.0	9.3
2015	8.5	14.1	10.1
Ag spending/AgGDP (%)			
2010	7.9	10.9	9.0
2015	10.1	19.1	13.0
Total spending/GDP (%)			
2010	35.5	36.9	36.2
2015	44.6	48.4	46.2

Figure 3: Required funding levels under MIC targets – in constant 2000 (GH¢ million)

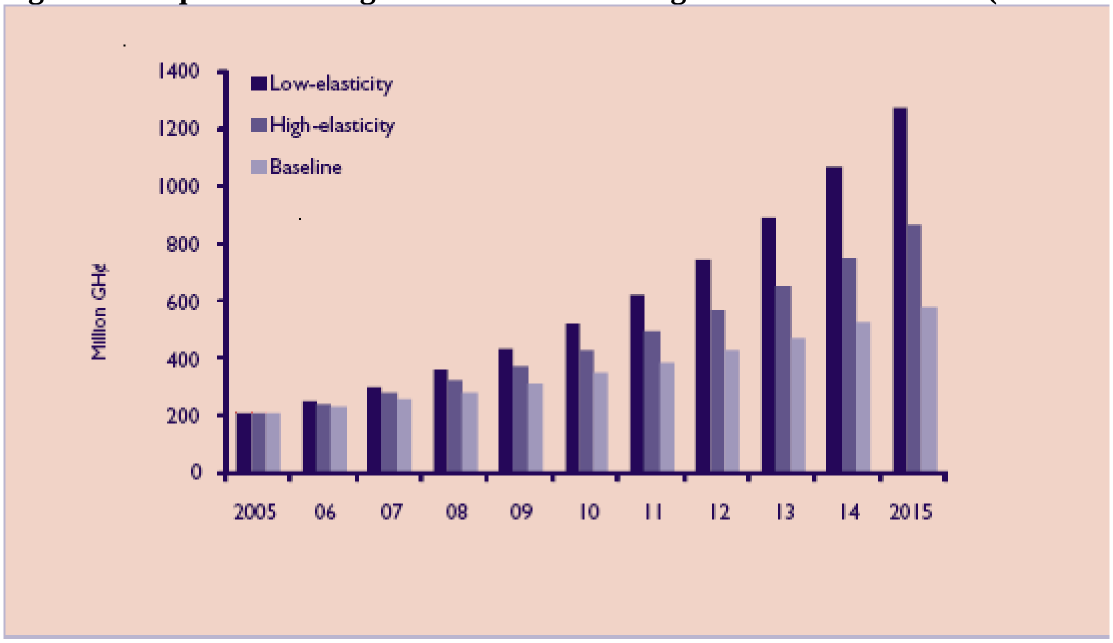
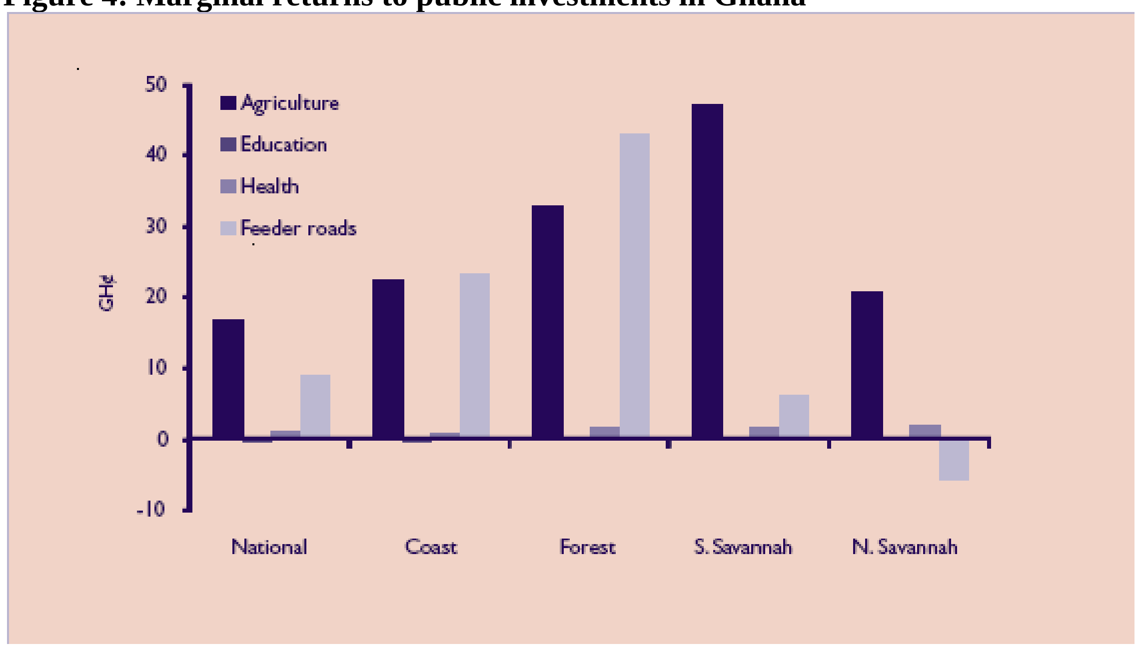


Figure 4: Marginal returns to public investments in Ghana



Improved macroeconomic management and enduring political stability have not significantly transformed the structure of Ghana's economy over time. Mining and construction have sustained the industrial sector, while manufacturing has been declining as a share of GDP over the past 20 years. The country needs to develop new, labour-intensive economic sectors such as manufacturing and agro-processing in order to tackle the employment challenge and provide economic opportunities to rural areas. This will require coherent public policies to raise agricultural yields, improve the competitiveness of the economy and overcome land tenure issues.

10.3 Internal revenue sources

The 2012 budget announced several new revenue-enhancing measures, following on from the 2009 Ghana Revenue Authority reforms. Tax receipts performed above projection, at an estimated 6.5% of GDP over the first five months of 2012. The tax-to-GDP ratio is estimated to have increased from 12.3% of non-oil GDP in 2011 to 16.3% in 2012 and is projected to reach 18% by end-2013.

Mining

The 2010 revision of the mining code is likely to increase the government's tax take. Key revisions include the renegotiation of stability agreements, a 5% flat-rate royalty (compared to the current 3-6% range), an increase in corporate tax from 25% to 35% and a 10% windfall tax on mining profits (this proposal was announced in the 2012 budget but had not yet received parliamentary approval at the end of the first quarter of 2013). Mineral royalties currently contribute up to 80% of mining revenues, compared to 15% for corporate taxes. Mining companies can opt for accelerated depreciation and the carry forward of losses, which limits the potential for corporate tax revenue. Implementation of a more balanced fiscal framework is hindered by capacity constraints in the Ghana Revenue Authority and asymmetrical information. The industry has warned, however, that the increasing tax burden may deter future exploration investments.

Oil and Gas – Annual Budget Funding Amount (ABFA)

The Annual Budget Funding Amount (ABFA) constitutes 70 percent of the Benchmark Revenue from Oil and Gas, where the benchmark revenue is the Total Petroleum receipts less transfers (Equity financing cost and 40 percent share of Net Carried & Participating Interest) to the National Oil Company.

ABFA remains the singular channel through which revenue from oil and gas will be sustainably generated for the agriculture sector. It is important therefore for agriculture to remain one of the key priority areas for the fund in the foreseeable future. Rather than subject the share of agriculture modernization in the fund to arbitrariness, a percentage of at least 30 percent of the ABFA revenue should be reserved for agriculture modernization.

The Petroleum Revenue Management Act, ACT 815 provides that, the use of the annual allocation of the Annual Budget Funding Amount shall be

(a) To maximise the rate of economic development;

(b) To promote equality of economic opportunity with a view to ensure the well-being of citizens;

(c) To undertake even and balanced development of the regions;

Agriculture, especially small scale already engages a larger percentage of Ghanaians along the value chain and therefore provides the best opportunity to achieve the 3 listed objectives.

Import Duties

In the foreseeable future, that is, until World Trade Organisation (WTO) rules take hold, and without government being careless in the Economic Partnership Agreement (EPA) negotiation with the European Union, import duties will remain an important part of annual government revenue. The Export Development and Agriculture Investment Fund (EDAIF) currently sources part of its funds from 0.5 percent levy on the dutiable value of imports of non-petroleum products. The 2013 budget provisions for the period 2012 to 2015 show the following provisional outturn and projected values of import duty.

- 2012 provisional outturn GH¢1,886,910,528;
- 2013 projected GH¢2,593,530,000 (37 percent over 2012 provisional outturn);
- 2014 projected GH¢3,112,236,000 (20 percent over 2013);
- 2015 projected GH¢3,734,683,200 (20 percent increase over 2014).

The implication is that without a downturn in global trade and imports to Ghana, there will be at about 20 percent increase year on year to the value of import duty. Therefore for the period 2015 to 2019 and with import substitution remaining at current levels or lower the projected minimum import duty will be as follows:

- 2015 - GH¢3,734,683,200
- 2016 - GH¢4,481,619,840
- 2017 - GH¢5,377,943,808
- 2018 - GH¢6,453,532,569.6
- 2019 - GH¢7,744,239,083.52

Import Exemptions

With some level of political commitment by government, the extent of import exemptions when reduced could serve as additional revenue to the national budget. The import exemptions for the period 2012 to 2015 amount to the following:

- 2012 provisional outturn is GH¢778,921,746 (41 percent of 2012 provisional outturn import duty);
- 2013 projected GH¢1,071,127,890 (41 percent of 2013 projected import duty);
- 2014 projected GH¢1,285,353,468 (41 percent of 2014 projected import duty);
- 2015 projected GH¢1,419,179,616 (38 percent of 2015 projected import duty).

Obviously the value of import exemptions for 3 consecutive years (2012- 2014) is 41 percent of import duties for the year. GROW campaign members consider this to be too high for a developing country such as Ghana that requires every pesewa to support her development. A limit (say not more than 15 percent of import duties for the year) should be agreed on, beyond which import exemptions will not exceed. This will ensure that government prioritises import exemptions to the most critical imports that will result in strategic social and economic outcomes.

At a maximum level of 15 percent of import duty, import exemptions for the period 2015-2019 will be as follows:

- 2015 – GH¢560,202,480
- 2016 - GH¢672,242,976
- 2017 - GH¢806,691,571.2
- 2018 - GH¢968,029,885.44
- 2019 - GH¢1,161,635,862.53

For the purposes of comparison, at a level of 15 percent, the projected 2015 import exemption is about a third of the government projected estimate for period.

Tax net
A Ghana News Agency (GNA) source published on 26th July 2012 reports that an estimated 1.5 million Ghanaians pay direct taxes. Clearly there is an urgent need to broaden the tax net to cover more working Ghanaians.

Consumption levy
Revise DVLA charges as follows for small scale agriculture investment:

- Charges on cars using premium with horse power more than 2500 CC should be increased by 30 percent per 500 CC increase.
- Charges on pickup trucks and SUVs using premium with engine capacity more than 3500 CC to be 30 percent more per 500 CC increase
- Charges on pickup trucks and SUVs using gasoline with engine capacities more than 4000 CC should be charged 40 percent per 500 CC increase.

10.4 External revenue sources (Grants and loans)

There is long list of agriculture projects being funded from external sources through grants and loans. The following loans and grants contracted by the Government on behalf of the People of Ghana and signed in 2012 come up for immediate scrutiny:

1. IDA: Ghana Fourth Agric. Development Policy Operation signed on 1st January 2012 with a maturity period of 40 years and 10 year grace period valued at DR 32,300,000 equivalent to US$49,757,535
2. IDA: Ghana Commercial Agricultural Project signed on 25th September 2012 with 40 year maturity and a 10 year grace periods and valued at SDR 64,500,000 and equivalent to US$99,474,124
3. IDA: West Africa Productivity Program (WAAP) – signed on 25th September 2012 with a 40 year maturity and 10 year grace periods valued at SDR 38,700,000 which is equivalent t0 US$59,684,474
4. IDA: West Africa Fisheries Program (WARFP)-Phase I signed on 27th January 2012 for a 40 year maturation and 10 year grace period valued at SDR 31,100,000 equivalent to US$ 47,957,414
5. INDG (Government of India): Komenda Sugar Factory signed on 14th December 2012 valued at US$ 35,000,000

This implies that a conservative estimate of over US$290 million will be invested in agriculture development in the next few years from loans signed in 2012 and before 2012. The use of these funds must be monitored to ensure that it is well invested for the people of Ghana.

10.5 Expenditure

The preferred and strategic areas for investment in the next 5 years have been alluded to in the analysis above. Investment that will increase the productivity of small scale agriculture while also strengthening the value chain that best serves small scale producers is the way to go.
A summary of areas for investment in the next 5 years are:

- Increase in productivity
- Agriculture Research and Development (R&D)
- Extension advice
- Entrepreneurship capacity strengthening for small scale farmers
- Better market access innovations. Warehouse receipt systems that is accessible to small scale farmers and increased agro processing.

All these areas are captured in the country strategy for agriculture, FASDEP II. However challenges in disbursements of budgetary allocations and the associated effectiveness and efficiency of disbursed funds remains a huge barrier to better returns to invested funds.

The METASIP provides a budget for investment to the priority areas until 2015. Unfortunately rather than sustain or increase the budget towards 2015 investment reduces drastically towards the end of plan without a necessary restructuring of the agriculture agencies to increase their efficiency and effectiveness in the use of resources as proposed by CAADP. Restructuring agriculture implementing agencies should be a priority in METASIP.

Table 5 provides a summary of the proposed budget for the 5 year period. It reflects programmes from the METASIP priority budget that correspond with the proposed areas for investment.

Table 5: Proposed Budgets 2015-2019 (The highlighted will be taken off this priority list).

	Programme/Component	Year					
		2015		2016	2017	2018	2019
		Allocated	Proposed	Proposed	Proposed	Proposed	Proposed
	Programme 1						
1.1	Productivity Improvement						
1.2	Improved Nutrition						
1.3	Off-farm Livelihoods						
1.5	Early warning systems and emergency Preparedness						
1.6	Irrigation and Water Management						
1.7	Mechanisation Services						
	Total Programme 1						
	Programme 2						
2.1	Promotion of Crop, Livestock and Fishery Production for income						
2.3	Pilot Value Chain Development						
	Total Programme 2						
4.1	Awareness Creation and Use of SLM Technologies						

	by Men and Women Farmers						
	Total Programme 4						
5.1	Uptake of Technology along the Value Chain and Application of Biotechnology in Agriculture						
	Total Programme 5						
	Total METASIP						

11.0 Conclusions

Investing in the growth of small scale agriculture still remains the best route to development and poverty reduction for Ghana

A guarantee to political rights (good governance) lies in the creation of better economic and social circumstances (incomes and livelihoods) for Ghanaians. Ghana should leverage small scale agriculture to achieve this right.

There exist comprehensive national and continental legal and policy frameworks that recognize the place of agriculture in the development of Ghana and therefore provide the basis for increased investment to the sector, especially to programmes that reduce poverty-small scale agriculture. Investing in agriculture is rights based.

The National agriculture policies of Ghana have their roots in CAADP and ECOWAS. Implementation at the national level must therefore not lose sight of the complimentarities and influences on other African countries. The place of Ghana like other ECOWAS countries is to motivate each other towards the attainment of common agriculture development objectives.

A fiscal discipline to control government expenditure as against expected revenue for the year is needed to ensure better sanity in price stability both for inputs acquired by small scale farmers and sale of their produce. This will ensure better forecast of returns on investment by small scale farmers.

Much more resources, than government is currently generating, is required to fund small scale agriculture development. Current revenue generation opportunities are not maximized enough to cater for needed capital investments that benefit small scale farmers.

Ghana is not getting optimum returns on agriculture expenditure due to inadequate value for money considerations to agriculture investments.

12.0 Recommendations

Ghana must not take unilateral decisions and measures, such as signing onto Economic Partnership Agreements (EPA) to distract the sub region from the attainment of common objectives.

Government should as matter of necessity formulate and pass a fiscal responsibility law by the 2015 budget reading. GROW Campaign partners should add their voice to the call for a Fiscal Responsibility Law.

In the next 5 years GROW partners should, in providing budget input to government, go beyond the presentation of programmes. Budget inputs should include, national, regional, Africa-wide and international perspectives of the programs being presented and how these perspectives may influence governments' delivery of desired programmes.

GROW campaign should monitor revenue generation by government and constantly remind government of its duty to be responsibly aggressive in the generation of more resources and more disciplined in its expenditure.

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