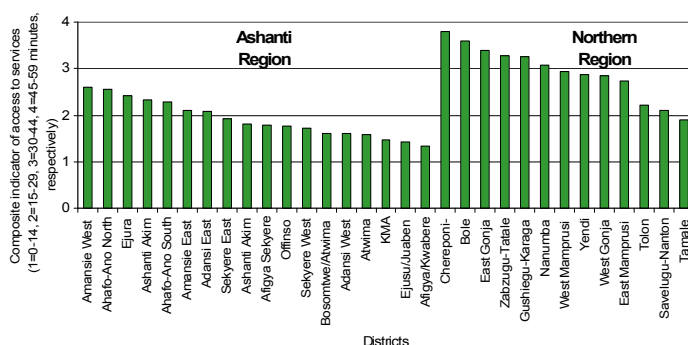


## Achieving Inclusive Agricultural Growth

**Agriculture is the backbone of Ghana’s economy, and this sector needs to play a key role if Ghana is to achieve the goal of becoming a middle income country by 2015. Despite its impressive progress in economic growth and poverty reduction, Ghana—like many other African countries—has had rather limited success in increasing smallholder agricultural production by enhancing productivity and competitiveness. Why? Like other countries, Ghana has to meet three challenges in selecting and implementing policies and programs for inclusive agricultural growth: the political feasibility challenge, the administrative feasibility challenge, and the fiscal feasibility challenge. This brief discusses options for overcoming these three challenges, and the role that current decentralization reforms can play in this regard.**

Agriculture is the backbone of Ghana’s economy, and this sector needs to play a key role if Ghana is to achieve the goal of becoming a middle income country by 2015. (GSSP 2007a). In addition to maintaining high agricultural growth rates, Ghana also needs to make agricultural growth more inclusive to overcome income disparities between the northern and the other regions, income disparities within these regions (see figure 1), and gender disparities.

**Figure 1—District-level inequality in access to public services**



Note: This diagram displays a composite indicator of access to public services. The diagram shows that districts located within the same region differ considerably in their capacity to make public services available to their citizens.

Source: Core Welfare Indicator Questionnaire, 2003

Moreover, to become sustainable, Ghana’s accelerated growth in agriculture needs to be driven by enhanced productivity rather than land expansion. Improving the provision of agricultural services to smallholders, who are the majority of Ghana’s farmers, will be essential to reach these goals (GSSP 2007b).

### The Triple Challenge of Achieving Inclusive Agricultural Growth

Like many other African countries, Ghana has had rather limited success in increasing smallholder agricultural production by enhancing productivity and competitiveness, in spite of numerous agricultural programs that were implemented to reach this goal. Likewise, efforts to make agricultural growth more inclusive have had limited success. Why? Like other countries, Ghana has to meet three challenges in selecting and implementing policies and programs for inclusive agricultural growth:

- the political feasibility challenge,
- the administrative feasibility challenge, and
- the fiscal feasibility challenge (Birner 2007).

#### The political feasibility challenge

Selecting policy instruments that are effective and efficient to achieve inclusive agricultural growth

requires analytical capacity and the ability to learn from past experiences. In developing its new Food and Agricultural Sector Development Policy (FASDEP II), the Ministry of Food and Agriculture (MOFA) has made outstanding efforts to leverage technical expertise and to consult widely with stakeholders at the national and regional level. However, identifying the appropriate mix of policy instruments is not enough. The challenge is to build political support for these policy instruments to ensure an appropriate budget allocation. In view of strict budget discipline, the political competition for public resources between agriculture and other sectors is high, and the social sectors have been more successful than agriculture in securing increased funding (Osei et al. 2007).

Some agricultural policy instruments, such as mechanization and protection from imports receive strong political support from agricultural interest groups, but these instruments are not necessarily the most effective ones for achieving inclusive agricultural growth. In contrast, policy instruments that have demonstrated high returns in terms of growth and poverty reduction, such as investing in agricultural research, often lack popular support. Likewise, policy instruments that focus specifically on marginalized groups and women often do not have strong support, as these groups lack a political voice.

### ***The administrative feasibility challenge***

Agricultural departments and agencies—in Ghana as well as in other countries—often face difficulties in implementing agricultural programs and projects effectively. This can be referred to as the administrative feasibility challenge. Many agricultural interventions, such as providing irrigation infrastructure, are technically complex, and they create potential for mismanagement and corruption. Promoting small-scale irrigation is a good example. A stocktaking survey of small reservoirs in the Upper East conducted by the International Food Policy Research Institute (IFPRI) under the Water Challenge Program showed that out of twenty-one small reservoirs constructed or rehabilitated between two and five years ago, only three reservoirs had stable dam walls and functioning canals and were actually used for irrigation. Problems with technical design,

procurement, and land rights appear to be among the major obstacles to making small-scale irrigation work. Another reason for the administrative feasibility challenge is the highly diverse nature of agricultural production, which requires flexible, context-specific approaches that cannot easily be standardized and supervised. For example, providing agricultural extension to smallholder farmers requires knowledgeable and highly motivated field staff, which is a challenge in view of limited operational resources and a lack of incentives in public service. Likewise, the agricultural administration often faces challenges to provide subsidies in such a way that they reach the poor farmers. The limited ability to show which programs have worked well in the past largely contributes to the political feasibility challenge: It undercuts MOFA's ability to argue for more funding for the sector.

### ***The fiscal feasibility challenge***

A third challenge in choosing agricultural policy instruments is fiscal feasibility. Some policy instruments, such as investment in irrigation, require considerable up-front investments, while others, such as agricultural extension, have high demands for recurrent expenditures. Promoting agricultural growth also requires investment in the nonagricultural sector, since growth in other sectors increases the demand for agricultural products. This also involves a feasibility challenge. As an IFPRI study (Benin et al., forthcoming) has shown, agricultural public expenditure would have to increase by an additional 4 percent per year in real terms between 2005 and 2015 to allow Ghana to reach middle income status. These estimates are higher than what is planned for total public expenditure under the Ghana Growth and Poverty Reduction Strategy (GPRS II). Without increasing the capacity of the state to increase the efficiency of public spending and to generate more revenues, it will not be feasible to increase public spending enough to achieve the necessary rates of agricultural growth while maintaining macroeconomic stability.

## **How to Overcome the Three Challenges?**

As Table 1 shows, virtually every policy instrument that MOFA could use to promote inclusive

agricultural growth is confronted with one or more of the three feasibility challenges. This section discusses strategies that Ghana can use to overcome those challenges.

### **Overcoming the political feasibility challenge**

Creating more political space for organizations that represent smallholder farmers and vulnerable groups is one important strategy to overcome the political feasibility challenge. Another important strategy is feeding the results of policy research on inclusive growth more effectively into political decision processes. An IFPRI study on research–policy linkages (de Grassi 2007) has shown that these linkages are comparatively weak in areas that are highly contested, such as import tariffs, and in areas that play a central role in the political discourse, such as agricultural mechanization. Strategies to increase the use of research-based evidence in these policy areas include the following: improving the access of the Parliament as well as farmers’ organizations to research-based information and strengthening their own analytical

capacity; establishing an online clearinghouse for food- and agriculture-related documentation; making specific research results available in easily accessible forms in critical phases of policy formulation; and creating more transparency on the trade-offs involved in contested policy issues, for example, by quantifying the income effects of import tariffs for different groups of producers on the one hand and consumers on the other.

Political decentralization can also help to give more voice to the rural poor in political decision making. As research, including a recent scoping study by IFPRI, has shown, elected district assembly members serve indeed as “door-step politicians”: they are highly accessible to their communities, and they play a very important role in channeling information about the needs, demands, and priorities of the rural population to the public administration. Yet their role is not matched by their actual ability to make discretionary decisions about budgetary resources, and to influence the public administration.

**Table 1—Feasibility challenges of various types of agricultural policy instruments**

<b>Type of Policy Instrument Examples</b>	<b>Political Feasibility</b>	<b>Administrative Feasibility</b>	<b>Fiscal Feasibility</b>
Investment in public infrastructure Irrigation, feeder roads	High demand by farmers, but limited support by lobby groups	High technical complexity and scope for corruption	Considerable financial resources required
Investment in advisory services Agricultural extension; nutrition education	No strong political support by lobby groups	Difficulties in motivating and supervising field staff	Constant flow of budgetary resources required
Investment in technology Agricultural research	No strong political support by lobby groups	Need to create effective and responsive research system	High returns to investment
Agricultural subsidies Input subsidies for seeds, livestock, fertilizer, tractors Subsidized agricultural finance	Very high political support from lobby groups	Difficulties to implement such that poor farmers benefit; scope for corruption	High levels of budgetary resources needed if subsidies are not targeted
Trade protection Import tariffs	Very high political support from lobby groups; opposition by development partners	Easy to implement	Generation of revenues

Source: adapted from Birner (2007).

Planned research by Ghanaian researchers and IFPRI/GSSP will help to identify whether these problems will be adequately addressed by the decentralization policy reforms currently under discussion, such as the election of all district assembly members and the district chief executive, the establishment of a District Development Fund, the increase in the composite budget, and the creation of incentives for women to run for district assemblies.

### ***Meeting the administrative feasibility challenge***

Overcoming the administrative feasibility challenge requires that the public administration have an improved capacity to provide better services and infrastructure (supply-side strategies) and that farmers have an enhanced capacity to demand better services and hold agricultural agencies accountable (demand-side strategies). Several supply-side strategies are currently promoted in the agricultural sector as part of general public sector management reforms, for example, adjusting the pay scales of civil service employees and strengthening systems used in managing procurement, auditing, and public expenditures. By promoting farmer-based organizations and community-based development approaches, for example, for irrigation infrastructure, MOFA has also engaged in demand-side approaches to improve service provision. However, agricultural services and infrastructure have, so far, received limited attention in citizen satisfaction surveys, such as the Core Welfare Indicators Survey and the surveys conducted by the National Development Planning Commission.

Decentralization also has a major potential to meet the administrative feasibility challenge. So far, decentralization in the agricultural sector has taken the form of deconcentration. District assemblies still lack effective oversight of agricultural staff. Moreover, the agricultural expertise required for backstopping field staff rests with MOFA rather than the District Assemblies. Research will be undertaken by IFPRI/GSSP and others to find out whether the agriculture-specific problems in this field will be adequately addressed by recent reform strategies, such as employing agricultural field staff under the new Local Government Service and introducing the Functional and Organizational

Assessment Tool to monitor district performance. There is still a need to identify which strategies are most effective in making the decentralized agricultural administration more gender responsive.

### ***Meeting the fiscal feasibility challenge***

Strategies to meet the fiscal feasibility challenge of agricultural policies include improving the quality and efficiency of public service provision on the one hand, and increasing revenue generation on the other. Fiscal decentralization has an important potential to contribute to both strategies.

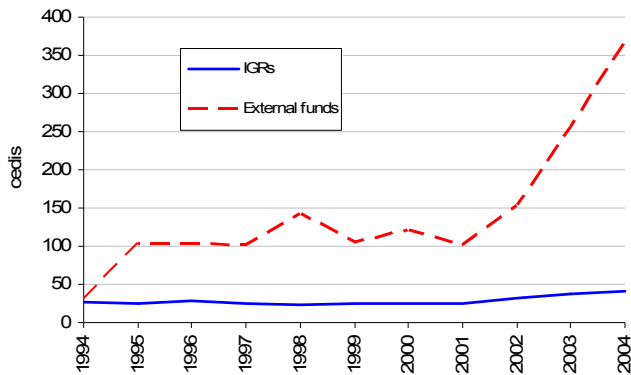
Public spending efficiency can be increased not only through administrative reforms, as discussed above, but also through the opportunity of local governments to draw on local information about what services are needed by their constituents. However, making use of this opportunity requires the district assemblies to have discretion over the allocation of their revenues. In Ghana to date, this discretion is extremely limited. A substantial share of district assemblies' revenues comes from intergovernmental transfers and donor funds, which for the most part are tied to particular activities, projects, or sectors. Revenues local governments generate themselves through tax and fee bases assigned to them can, in contrast, be used fully flexibly by local administrations. In this sense, local governments' fiscal autonomy is intimately tied to their ability to generate their own resources.

The quality of public services provided by district assemblies may also improve by increasing locally generated revenues, because citizens have stronger incentives to demand better services from local authorities if they pay taxes to them. Importantly, higher internally generated revenues at the local level may also open up greater possibilities to expand overall public revenue, as local governments may be able to tap into revenue bases which, for logistical and other reasons, are harder for the central government to effectively draw on.

The extent to which internally generated revenues (IGRs) will increase depends on the incentives created by intergovernmental and donor transfers. A recently commenced study by IFPRI investigates what impact the flow and size of outside (central government and donor) funds have had on the incentives of local governments to generate their

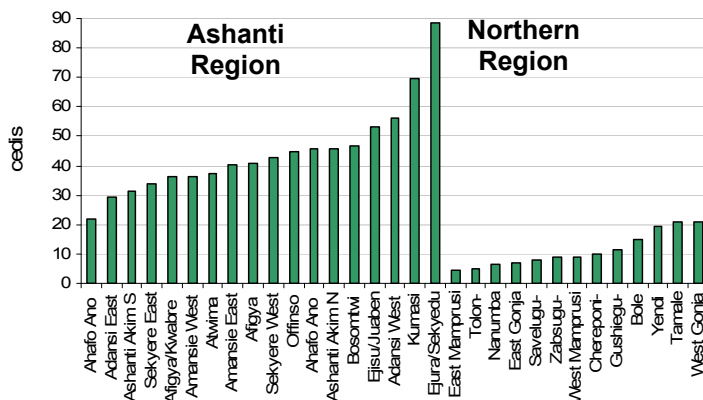
own revenues. Preliminary results from this new study show that, so far, IGRs make up a small but—contrary to common belief—not negligible fraction of district assemblies’ total funds. On average, they constituted 16 percent of total district government revenues for the study period of 1994–2004. The share of IGR in the revenues of the District Assemblies has gradually declined over a decade. This is because the district assemblies were hardly able to increase their revenue generation, whereas external funds grew precipitously, especially in the very early and the most recent years of the study period (see figure 2).

**Figure 2—Per capita internally generated revenues and external funds (constant 2000 values)**



The study also showed that IGRs vary substantially, even across districts located within the same region (see figure 3). This suggests that there may be considerable untapped potential for increasing the district assemblies’ own efforts to generate revenues.

**Figure 3—Per capita Internally Generated Revenues (constant 2000 values)**



The study seeks to inform the current debate on the question of how the incentives of the District Assemblies to increase own revenues can be improved. At present, the incentives to increase IGRs that are built into the formula for allocation of the District Assembly Common Fund are unlikely, on their own, to have any significant impact. Recent pilot reforms in some 25 districts intended to consolidate external resource flows to district assemblies, and to make these more incentive-based, hold promise and will be assessed as part of the above-mentioned study.

### Conclusions

Recent reform efforts, especially regarding decentralization, have placed Ghana in a unique position to meet the triple challenge of political, administrative, and fiscal feasibility inherent in the policy instruments to promote inclusive agricultural growth. Yet success cannot be taken for granted, because little attention has been paid to the specific requirements of the agricultural sector in the decentralization debate. Research, including the study planned under GSSP, will help to better understand how decentralization reforms can best contribute to inclusive agricultural growth. Yet it will be the stakeholders in the agricultural sector who will have to grasp these opportunities.

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This brief was written by: Regina Birner, Tewodaj Mogues, Kamiljon Akramov, Godsway Cudjoe, and Felix Asanta. It is intended to promote discussion and has not been formally peer reviewed.

The Ghana Strategy Support Program (GSSP) is a research, communication, and capacity-strengthening Program to build the capabilities of researchers, administrators, policymakers, and members of civil society in Ghana to develop and implement agricultural and rural development strategies. With core funding from the U.S. Agency for International Development (USAID)/Ghana and a mandate to develop a multi-donor-funded Program, the International Food Policy Research Institute ([www.ifpri.org](http://www.ifpri.org)) launched GSSP as a partnership between Ghana and its development partners.

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