Examining Budget Credibility in Ghana’s Agriculture Sector

Godson Aloryito, International Budget Partnership
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Introduction

Ghana’s government has made progress in achieving high levels of aggregate budget credibility. In recent years, the government has consistently met the overall total expenditure and revenue targets set out in the annual budget. Ghana’s central government spent an average of 98 percent of the total approved budget from 2017 to 2021. However, this achievement is undermined by larger deviations between budgets and actual expenditures observed within Ghana’s line ministries. Key social sector ministries, including the Ministry of Food and Agriculture (MoFA), Ministry of Water and Sanitation, and Ministry of Gender and Social Protection show higher spending deviations, underspending their revised budgets by 28 percent, 35 percent, and 19 percent, respectively, between 2018 and 2020.

Recurring deviations in social sector spending can undermine efforts to prioritize spending for the United Nations Sustainable Development Goals (SDGs). Shifts across sectors and ministries weaken the priorities set out by parliament in the country’s annual budget and can result in some sectors being deprioritized during budget implementation. A particular worry for sectors that chronically report underspent budgets is that key programs may be starved of resources, and services may fail to reach those who depend on critical government programs. The agriculture sector is of particular concern for the country; Ghana’s 2022 Voluntary National Review on the SDGs notes that, despite modest gains, food insecurity remains a challenge for Ghana and can be attributed to the government’s low prioritization of agriculture sector spending as well as inadequate investments to address food inflation and the decline in farm animal production.

This brief considers the budget credibility issues in Ghana’s agriculture sector by examining deviation trends in the overall MoFA budget as well as by economic classification of spending over a five-year period (2017-2021). The choice of expenditure categories for the study was informed by the publication of budget

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1 Ministry of Finance Fiscal Data, 2016-2021.
performance information for ministries, departments, and agencies (MDAs), including MoFA targets and outcome indicators, in the Ministry of Finance (MoF) budget performance reports. This brief: 1) analyzes the reasons budget deviations have occurred and the impact of spending deviations on the delivery of programs within the agriculture sector; recommends reforms required to improve the credibility of MoFA’s budget; and 3) considers the impact of budget deviations on Ghana’s efforts to achieve SDG 2, which calls on governments to “End hunger, achieve food security and improved nutrition and promote sustainable agriculture”.

The study uses a mixed method approach, including document reviews (of budget statements, annual performance reports, and audit reports) and semi-structured interviews and key informant interviews with MoFA and MoF officials to learn more about the causes of the observed credibility challenges and how these impact agriculture sector outcomes.
Budget Credibility Trends in the Agriculture Sector

MoFA budget implementation has been characterized by persistent underspending against both the initial and revised budgets in the last five years (2017-2021). Notably, underspending against the MoFA’s initial approved budget is lower (19 percent) relative to the revised budget (30 percent). On average, only 70 percent of revised budgetary allocations to the MoFA was disbursed for the execution of the ministry’s planned activities over the period, compared with an 81 percent execution rate against the initial budget. Lower execution rates of the revised MoFA budget are worrying because adjustments in budget estimates are often informed by changes in the assumptions underlying those estimates, which in turn should result in only marginal deviations from the revised targets during implementation. In Ghana’s case, these deviations are far from marginal. The highest underspend was recorded in 2017 and 2020, when only 51 percent and 62 percent, respectively, of revised allocated funds were expended. The other credibility challenge relates to the underutilization of funds released for the execution of MoFA’s activities between 2018-2021 (Figure 1).

Figure 1: Ministry of Food & Agriculture Budget Execution Trend (2017-2021)

Source: National Development Planning Commission (NDPC), Annual Progress Report, 2017; Ministry of Finance, Annual Budget Performance Reports 2018-2021. N.B.: MoFA’s actual expenditure for 2017 was not reported, so the paper used the “amount released” figure. Similarly, the initial budget figure was repeated for the revised budget figure for 2017.

www.internationalbudget.org
On average, 11 percent of funds transferred to MoFA, amounting to GHS 474 million, was unspent for the period 2017-2021. For instance, GHS 857 million out of GHS 1,211 million released by the MoF was used in 2020. This means that, for 2020, GHS 354 million that was released to MoFA was not utilized and returned to central government coffers. This underscores the cash management problem at MoFA.

MoFA’s budget is funded mainly by Government of Ghana (GoG) resources, including direct budget transfers, the Annual Budget Funding Amount (ABFA), internally generated funds (IGF), and funds sourced from Development Partner (DP) support. Usually, MoFA’s budget unit prepares and submits the sector’s budget estimates for the ensuing fiscal year to the budget office at the MoF in line with MoF budget guidelines. The conclusions reached at the budget hearings could inform adjustments to MoFA budget ceilings within the fiscal framework as may be determined by the Minister for Finance. When revenues are mobilized, the Ministry of Finance is then supposed to release funds on a quarterly basis to MoFA for the implementation of the ministry’s approved activities. However, the late release of funds has been a major weakness in the budget process and continues to restrain effective budget execution by ministries, departments, and agencies.

Different types of spending within the MoFA budget show different rates of funds released and executed. Annual Budget Performance Reports show the MoFA budget and expenditures by economic classification, for example, with details of spending on workers’ compensation; the wages and salaries of MoFA staff; goods and services, such as the provision of subsidized fertilizer and seeds to farmers; and capital spending, which funds the construction of irrigation systems, for example.

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6 ABFA refers to the allocations from the country’s oil and gas revenues in support of the government’s budget, agriculture modernization, roads, and other infrastructure.
7 Ministry of Finance (2022). 2023-2026 Budget Preparation Guidelines
Table 1: MoFA Budget Execution Trends by Economic Classification (2017-2021)

<table>
<thead>
<tr>
<th></th>
<th>2017 (GHS million)</th>
<th>2018 (GHS million)</th>
<th>2019 (GHS million)</th>
<th>2020 (GHS million)</th>
<th>2021 (GHS million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages &amp; Salaries budget</td>
<td>54</td>
<td>61</td>
<td>72</td>
<td>86</td>
<td>88</td>
</tr>
<tr>
<td>Wages &amp; Salaries revised budget</td>
<td>54</td>
<td>47</td>
<td>55</td>
<td>88</td>
<td>88</td>
</tr>
<tr>
<td>Wages &amp; Salaries funds released</td>
<td>-</td>
<td>46</td>
<td>42</td>
<td>74</td>
<td>81</td>
</tr>
<tr>
<td>Wages &amp; Salaries expenditure</td>
<td>48</td>
<td>46</td>
<td>42</td>
<td>74</td>
<td>81</td>
</tr>
<tr>
<td>% of deviation against initial budget</td>
<td>-12%</td>
<td>-25%</td>
<td>-42%</td>
<td>-14%</td>
<td>-8%</td>
</tr>
<tr>
<td>% of deviation against revised budget</td>
<td>-12%</td>
<td>-4%</td>
<td>-23%</td>
<td>-15%</td>
<td>-8%</td>
</tr>
<tr>
<td>Goods and Services budget</td>
<td>456</td>
<td>157</td>
<td>403</td>
<td>353</td>
<td>490</td>
</tr>
<tr>
<td>Goods and Services budget revised</td>
<td>416</td>
<td>148</td>
<td>524</td>
<td>854</td>
<td>877</td>
</tr>
<tr>
<td>Goods and Services funds released</td>
<td>-</td>
<td>148</td>
<td>524</td>
<td>854</td>
<td>877</td>
</tr>
<tr>
<td>Goods and Services expenditure</td>
<td>139</td>
<td>140</td>
<td>458</td>
<td>669</td>
<td>844</td>
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<tr>
<td>% of deviation against initial budget</td>
<td>-70%</td>
<td>-11%</td>
<td>14%</td>
<td>90%</td>
<td>72%</td>
</tr>
<tr>
<td>% of deviation against revised budget</td>
<td>-67%</td>
<td>-10%</td>
<td>-17%</td>
<td>-10%</td>
<td>-5%</td>
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<tr>
<td>Capital budget</td>
<td>250</td>
<td>251</td>
<td>493</td>
<td>526</td>
<td>606</td>
</tr>
<tr>
<td>Capital revised</td>
<td>205</td>
<td>201</td>
<td>579</td>
<td>545</td>
<td>606</td>
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<tr>
<td>Capital funds released</td>
<td>-</td>
<td>167</td>
<td>474</td>
<td>282</td>
<td>183</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>72</td>
<td>157</td>
<td>473</td>
<td>114</td>
<td>180</td>
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<tr>
<td>% of deviation against initial budget</td>
<td>-71%</td>
<td>-38%</td>
<td>-4%</td>
<td>-78%</td>
<td>-70%</td>
</tr>
<tr>
<td>% of deviation against revised budget</td>
<td>-65%</td>
<td>-22%</td>
<td>-18%</td>
<td>-79%</td>
<td>-70%</td>
</tr>
</tbody>
</table>


MoFA’s capital spending had the least credibility of all categories in its approved budget, with significant spending deviations. MoFA’s capital budget recorded the highest average deviation during budget implementation, with nearly half of planned capital outlays not implemented as planned in the last five years (a budget underspend of 51 percent). Capital spending was heavily shortchanged in 2020: Only 21 percent of revised planned capital expenditure was implemented. This amount increased to 30 percent in 2021. The revised budget for the use of goods and services and workers’ compensation at MoFA recorded higher execution rates compared to capital spending. The budget execution rate averaged 88 percent for wages.
and salaries and 78 percent for goods and services over the last five years (2017-2021). Table 1 confirms the earlier hypothesis about cash management problems within MoFA; although the amounts released for the execution of MoFA’s budget are often below the initial and revised budgetary allocations, the released funds are not fully utilized. This holds true for the goods and services and capital budgets. For instance, between 2018 and 2021, while the approved capital expenditure budget for MoFA was GHS 1,932 million, the amount released was GHS 1,106 million. However, GHS 924 million was utilized, with a difference of GHS 182 million not used and returned to central government. Similarly, the goods and services budget recorded an unused balance of GHS 292 million for 2018-2021.\textsuperscript{8} In effect, MoFA appears not to have issues with spending on salaries, so cash management problems are likely linked to expenditure requests or procurement, which impact goods and services and capital expenditure but not wages.

\textsuperscript{8} 2017 amount released data by economic classification was not published, hence the exclusion of 2017 in the discussion in this section.
Impact of Budget Credibility Challenges on Sector Outcomes

MoFA’s inability to implement its budget as planned continues to impact the delivery of key sector programs and activities. The persistent underspending of MoFA’s budget could deprive programs of required resources and weaken efforts to achieve the SDG targets. Official accounts note that while MoFA implemented 77 percent of all approved activities in 2017, budget implementation was hampered by the outbreak of fall armyworm and infestation in maize fields, among other “unidentified” factors. 9

A review of budget performance data published by the MoF between 2018 and 2021 suggests there could be a link between the budget credibility challenges identified above and MoFA’s inability to achieve its sector outcomes. The credibility problem is reflected in the accumulation of payment arrears for the provision of key infrastructure projects and services. For instance, MoFA paid only 45 percent of the revised contract sum for 18 capital projects initiated in 2020 and less than a third of the revised contract sum for 42 capital projects begun in 2021. This underpayment implies that key capital projects, such as the construction of irrigation systems, warehouses, and green houses, are delayed and not completed as scheduled due to cashflow challenges.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Projects</th>
<th>Total Revised Contract Sum (GHS million)</th>
<th>Actual Payments to Date (GHS million)</th>
<th>Balance (GHS million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>18</td>
<td>855</td>
<td>385</td>
<td>470</td>
</tr>
<tr>
<td>2021</td>
<td>42</td>
<td>826</td>
<td>218</td>
<td>608</td>
</tr>
</tbody>
</table>

Source: MoF, Annual Budget Performance Reports, 2020 and 2021

To further the MoFA’s efforts to boost food production and the productivity of major crops as well as ensure food security, the government in 2021 committed to supply 43,905 Mt of improved seeds at sub-
Examining Budget Credibility in Ghana’s Agriculture Sector

sidized rates to smallholder farmers for food crop production. However, MoFA delivered only 78 percent of subsidized seeds, amounting to 34,278 Mt, to farmers that year. Similarly, MoFA could only supply 56 percent of planned organic and inorganic fertilizer supplies to farmers in 2021—amounting to 277,975 Mt against a target of 496,250 Mt.10 To develop a competitive and more efficient livestock industry, MoFA planned to purchase and distribute 531,100 improved breeds of small ruminants, pigs, and poultry to farmers; however, only 183,969 were delivered, representing only 35 percent of this performance target in 2021.

Similar targets for the preceding years of 2018 through 2020 were only partially met. In 2020, to enhance farmers’ access to agricultural inputs (fertilizer, agrochemicals, and veterinary drugs and vaccines), MoFA exceeded its targeted fertilizer and improved seeds supplies by 6,000 Mt and 410 Mt respectively. This contrasts with MoFA’s achievement of only 31 percent of its target for veterinary vaccine supplies, providing 13.5 million doses against the planned 43 million doses. To reduce post-harvest losses and improve storage and distribution systems, MoFA committed to operationalize 57 storage warehouses. However, only 22 storage warehouses were functional by the end of 2020, representing 39 percent of the target. To facilitate access to efficient mechanized services along the value chain and develop irrigation schemes in 2020, the value of public investments in irrigation recorded a significant overrun of GHS 60 million, exceeding the target of GHS 80 million. The payment for the Pwalugu irrigation project accounted for the 75 percent excess expenditure on irrigation investments (MoF, 2021).11 However, the cumulative area developed under formal irrigation systems fell short of the planned 14,934 hectares by 1,925 hectares (a supply gap of 13 percent). In 2018, MoFA had an objective to provide access to efficient mechanized services along the value chain by facilitating individual or enterprise access to mechanization services. Although 300 operators, mechanics, and agricultural mechanization services (AMSEC) managers, out of a target of 500, were trained in efficient use of farm machinery, only 168 mechanization centers were established against a target of 200. Also, 9,800 hectares of irrigable land could not be developed in line with MoFA’s irrigation scheme development plan.

Clearly, the agriculture ministry’s inability to execute its budget as approved means that the government continues to under-provide planned essential agricultural support services, quantities of subsidized inputs (seeds and fertilizers), irrigation infrastructure, mechanization services, and storage facilities required to boost crop production in the country. This is in addition to the undersupply of essential veterinary vaccines to safeguard the health of animals and livestock production. Actual spending from the

central government does not seem to prioritize the most underachieving sectors, like agriculture. For instance, only one percent of expenditures from 2018 and 2020 went toward agriculture, a sector critical for reducing hunger\(^\text{12}\). Data on SDG trends show that “major challenges” remain in achieving SDG 2 on hunger, while the trend also shows stagnation rather than improvement.\(^\text{13}\) To reverse this trend, MoFA must have a credible budget premised on realistic estimates for the sector’s priority needs. The government, accordingly, must release approved funds, on time, for their implementation.

\(^{13}\) Sustainable Development Report 2022 (sdgindex.org)
Drivers of MoFA’s Budget Credibility Problem

Budget execution by MDAs seems to be based on the amount of cash available to pay bills. This “cash rationing” leads to significant unpredictability in executing the approved budget.\textsuperscript{14} The late release of funds by the MoF to execute planned MoFA activities adversely impacts both the strategic allocation of resources (often less optimum than planned) and the efficiency of service delivery. The MoF is expected to release or transfer funds to MoFA and other MDAs quarterly, but the releases are not regular and usually happen two quarters in arrears. The late transfers constrain MoFA’s ability to spend these much-needed resources fully and efficiently before the end of year. Moreover, there is limited fiscal space, as public sector workers’ compensation, interest payments, and statutory and earmarked expenditures account for 75 percent of the government’s budget.\textsuperscript{15} MoFA’s inability to fully utilize funds released to it by MoF could well be linked to cash management problems. The MoFA budget is government’s promise to citizens to deliver key programs and services to improve the country’s food security situation, so it becomes imperative for MoFA to be more accountable on the use of public resources by providing explanations in the sector’s annual performance report and annual budget performance report published by MoF on why spending deviations have occurred and how they impact service delivery outcomes.

Conclusions and Recommendations

This brief makes a case for a credible agriculture budget for Ghana by drawing connections with how underspending against approved budgets and fund releases have hampered the achievement of sector outcomes. Food security is a major issue for Ghana as its builds on previous years of low budget allocations and underspending of the budget, which are correlated with an inability of the MoFA to hit their own service delivery targets for agricultural support programs. These challenges are also reflected in poor progress toward achieving SDG 2 on ending hunger by 2030 due to under-investments in the sector. The risks of government cutting spending are high because of the worsening economic conditions, increased debt levels, and servicing costs. However, if the government releases approved funds in a timely manner to strengthen budget credibility, the livelihoods of over four million farmers could be improved and the development goals achieved. MoFA should improve its cash management and ensure funds released for budget execution are efficiently and fully utilized. MoFA should deepen accountability by providing explanations, as part of the annual sector performance reports and budget performance reports published by the MoF, for spending deviations against the approved budget and how these deviations impact the delivery of promised key agricultural support services and programs.
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