



Assessment of the Fertilizer Subsidy Program Under PFJ

Report on Study Findings and
Recommendations

June 2023

OUTLINE

1. Introduction
2. Rationale Behind GIRSAL's Decision to Assess FSP (Objective)
3. Our Approach (Methodology)
4. Key Data Analysis
5. Key Field Findings
6. Recommendations



1. Introduction





About the FSP

- Fertilizer subsidy was re-introduced in 2008 in response to the food crisis of 2007/2008.
- 2017 - Planting for Food and Jobs (PFJ) initiative with fertilizer and seed subsidies being the largest component of the program.
- FSP provided eligible farmers with a 50% input subsidy, reduced to 15% as of 2022.
 - PFJ is designed to **boost agricultural production** on smallholder farms, facilitate market linkages and create jobs along several agricultural value chains.
 - PFJ initially targeted **maize, rice**, sorghum, **soya**, and vegetables (onion, tomato, and chili pepper). Extended to groundnut, cowpea, various root crops, and several other vegetables (in 2018)



About the FSP

- **Specific objectives of PFJ include:**
 - Ensure immediate and adequate availability of selected crops,
 - Improved productivity and intensification of food crops,
 - Extended support to private sector service providers, and
 - Create job opportunities (youth).
- **Expected Outcomes:**
 - Structural transformation of the national economy,
 - food security, food sufficiency and commodity export,
 - employment opportunities, and
 - reduced poverty.
- **PFJ Pillars:**
Fertilizer, Seed, Extension service, Market and E-Agriculture



However, there are some contentious issues about the FSP

- Whether the subsidy program is necessary
- Whether the approach is the best option in terms of cost efficiency, value for money, and effectiveness of implementation and delivery of quality fertilizers.
- Rent-seeking behaviour.
- Effect of smuggling.
- The impact of FSP juxtaposed with the current food prices.
- The implementing agency (MoFA), lacks a system for monitoring PFJ program impacts at the farm level.

2. Rationale Behind GIRSAL's Decision to Assess FSP





Rationale of the Study

- GIRSAL is mandated to de-risk agricultural financing and stimulate increased lending to the agricultural sector by financial institutions.
 - Assist FIs to identify and mitigate risks in the agricultural value chains.
 - Aim to minimize the perception of agriculture as a risky sector and enhance the sector's attractiveness for investment.
 - Proactively address sector challenges that could threaten the performance of the agribusiness sector.
- Challenges faced by the FSP are a major concern for stakeholders in the agricultural sector and need to be addressed.
- GIRSAL, under the ASCAP initiative, initiated a study to find effective and efficient ways to deliver fertilizer to farmers on a sustainable basis under the FSP.



Objectives of the Study

1. Rational analysis of the implementation of FSP and its impact, by investigating:
 - a. **Program design**, targeted subsidized inputs, mode of implementation, rollout, and outputs
 - b. **Challenges** identified, associated with the program.
 - c. **Program impact**: Crop Yield, Farmers' Income, and National Food Security
 - d. **Value for Money** based on the cost to date
2. Provide Recommendations
To ensure efficiency and effectiveness

3. Methodology



Methodology

1. Primary Data

National Level :

- MoFA, MoF
- Fertilizer importers & distributors
- Individual farmers, FBOs, and CSOs in agric.
- Agro-input dealers, GAIDA
- Researchers etc.



Key informant interviews

- Volume. and value. of fertilizer imports
- Distribution of fertilizer 2017-2022
- Budget, actual disbursements
- Benefits of FSP
- Challenges of FSP
- Recommendations

District Level :

- Farmers (beneficiary and non-beneficiary)
- District Directors of the Dept of Agric
- PFJ Schedule Officers, District Extension Officers
- Input dealers
- Immigration/Custom officers



Key informant interviews & Focus group discussions

- Experiences with the program
- Benefits of FSP
- Challenges of FSP
- Recommendations

Methodology (Primary Data)

Distribution of sample for key informant interviews and in-depth interviews with farmers and other Stakeholders

- Study conducted in 12 districts/municipalities in 6 regions
- Based on data on the usage of fertilizer
- Sampled regions across 5 agro-ecological zones:
- 2 districts selected from each region based on cropping pattern and level of program participation.
- Multi-stage sampling to select farmers and key stakeholders.

Ecological Zones	Region	Key informant interviews	In-depth Interviews	
			Beneficiary*	Non-Beneficiary
Coastal Savanna	Volta (Dzodze, Ho)	6	4	4
	Greater Accra (Dodowa, Accra Metro)	5	4	4
Forest/Transitional	Bono (Sunyani West, Dormaa)	5	4	4
	Ashanti (Ejura, Mampong)	5	4	4
Guinea Savanna	Northern (Savelugu, Tamale)	5	4	4
Sudan Savanna	Upper East (Bongo, Paga)	6	4	4
Total		32	24	24

Methodology

2. Secondary Data

- Historical data on subsidy prices
- Production and yield data (2000-2022)
- Market price data on various commodities (2000-2022)
- Fertilizer import data, and food import data

(Source: SRID-MOFA, other reports)

3. Document Review

- PFJ end-of-year reports 2018 to 2021
- AgPER (2017)
- PFJ Strategic Plan (2017-2020)
- MoFA Annual financial reports (2017-2021)
- MoFA APR (2017-2021)
- Other studies by IFDC, IFPRI etc.

Methodology



Focus group discussion with farmers (Dzodze district, Volta Region)

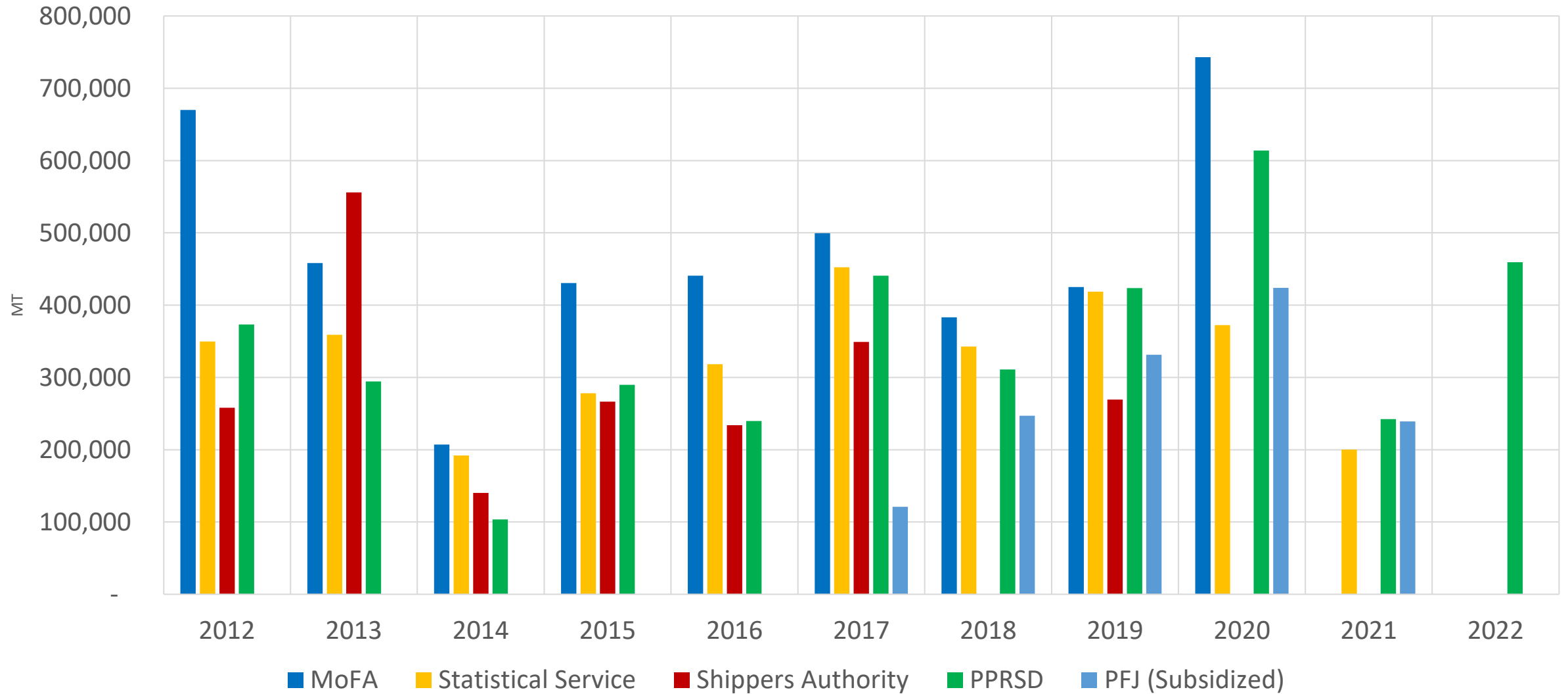


An input dealer being interviewed (Dormaa, Bono Region)

4. Key Data Analysis

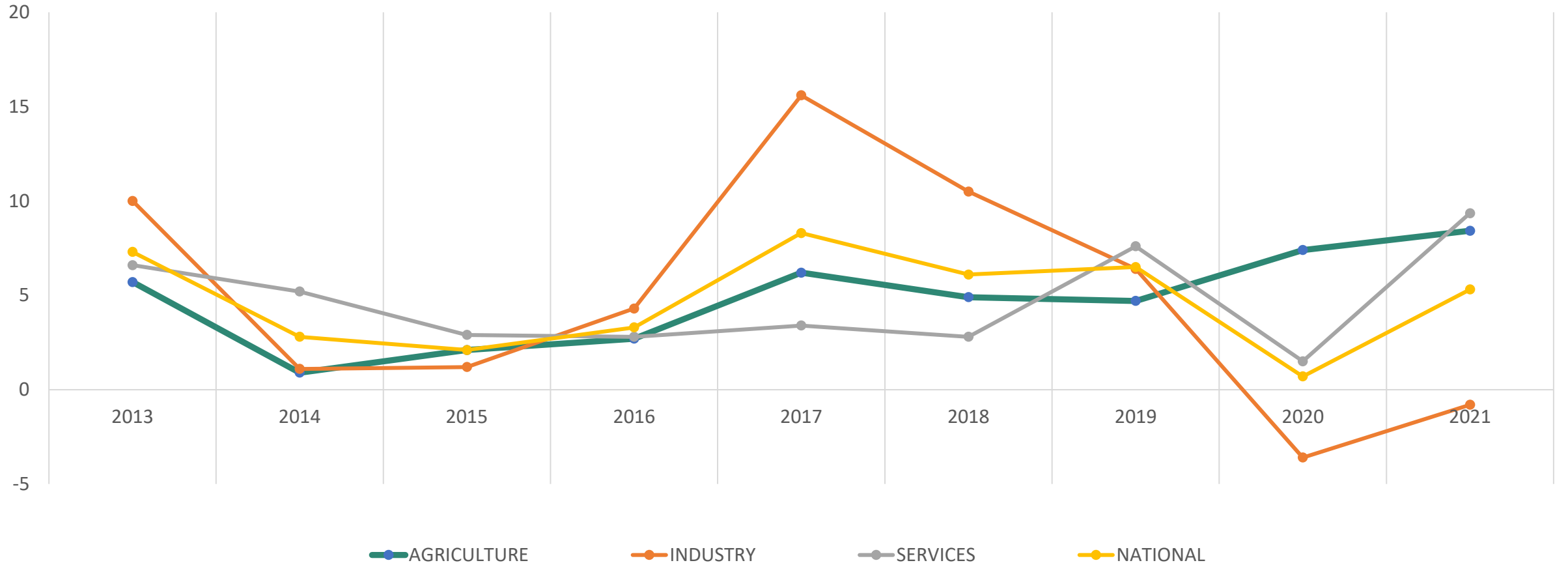


Fertilizer Imports (Various Sources)



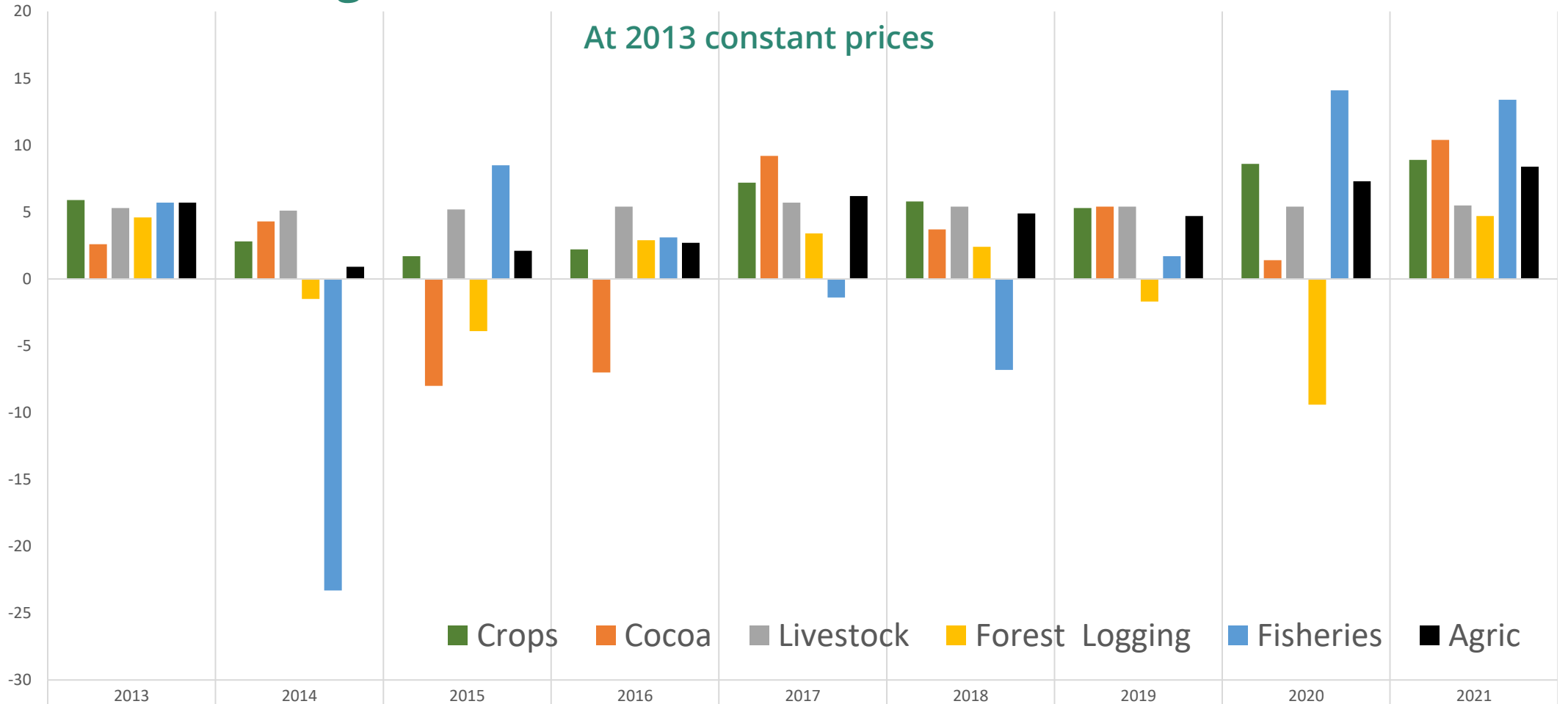
Agric & Other Sector GDP Growth Rates (%)

At 2013 constant prices



Agric Sub-Sector GDP Growth Rates (%)

At 2013 constant prices



	2013	2014	2015	2016	2017	2018	2019	2020	2021
■ Crops	5.9	2.8	1.7	2.2	7.2	5.8	5.3	8.6	8.9
■ Cocoa	2.6	4.3	-8	-7	9.2	3.7	5.4	1.4	10.4
■ Livestock	5.3	5.1	5.2	5.4	5.7	5.4	5.4	5.4	5.5
■ Forest Logging	4.6	-1.5	-3.9	2.9	3.4	2.4	-1.7	-9.4	4.7
■ Fisheries	5.7	-23.3	8.5	3.1	-1.4	-6.8	1.7	14.1	13.4
■ Agric	5.7	0.9	2.1	2.7	6.2	4.9	4.7	7.3	8.4

5. Key Field Findings



Reported Results

(2017 to 2021)



1,362,532 MT

Volume of Fertilizer
Supplied



GHS 2.7 B

Expenditure on Subsidy
(Fertilizer and Seeds)



1.09 Million (Annual Average)

Beneficiary Farmers



93,219 MT

Volume of Seed
Supplied



Input subsidy

Started with a 50% input subsidy, but
has been reduced to 15%

Findings/Issues: Prog Design, Implementation and Outputs

1. Fertilizer Procurement Process

- **Perception:** Lack of transparency on the basis of allocation on quotas for input suppliers
- Some of the companies or persons allotted FSP contracts to supply fertilizer bought them from fertilizer importers.

“ If some of these fertilizer companies cannot import the fertilizers, what is the basis for the award of contract to them? Who ensures that the fertilizer they bought in-country and distributed remain original and not adulterated? ”

Findings/Issues: Prog Design, Implementation and Outputs

2. Limitation of Retail Arrangement

- Farmers could only buy subsidized fertilizer from designated retail shops selling specific brands.
 - Limits farmer's brand choice
 - Creates a situation where some retailers may re-bag in bags of the farmer's preferred brand.
 - More of the less preferred fertilizer brands available contributed to smuggling.

Findings/Issues: Prog Design, Implementation and Outputs

3. Delays in Payment for Supplied Inputs

- Payment process bureaucracy results in excessive delays in payment (sometimes over one year)
- As a result, some fertilizer companies have opted out of the program.

4. Late Delivery of Subsidized Inputs

- Stakeholders identified the bureaucratic and time-consuming tendering process and administrative procedures as a major contributory factor to the late arrival of inputs.



Findings/Issues

Challenges
Associated with the
program

Findings/Issues: Challenges Associated with the program

Challenges

- Fertilizer quality issues (identified by most respondents)
- Financial challenges or burdens of the program
- Political interference in fertilizer distribution
- Smuggling and hoarding



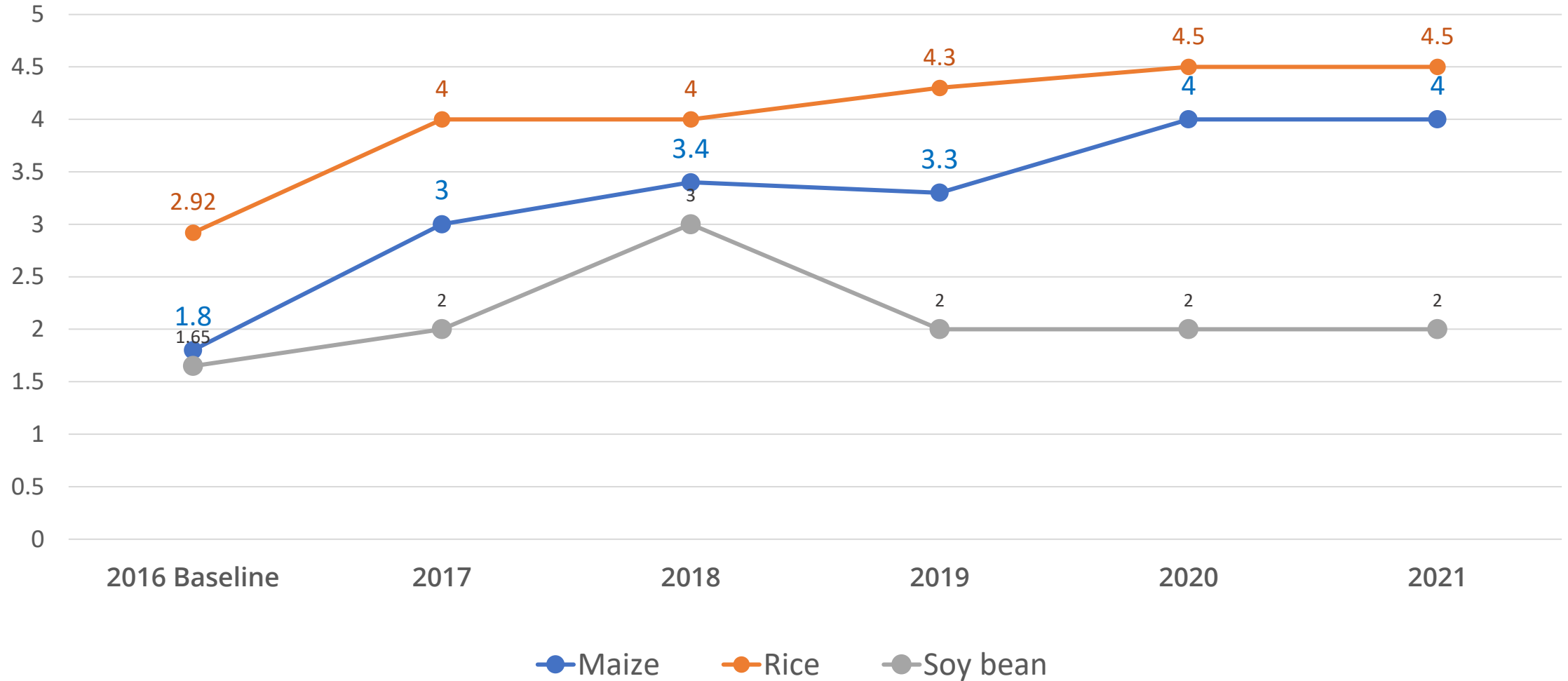
Findings/Issues

Program Impact

Findings/Issues: Program Impact

Most commodities under the FSP have witnessed an increase in productivity and production.

Increase in Productivity of Selected Crops (MT/Ha)





Findings/Issues

Program Impact

Findings/Issues: Program Impact

However, using commodity prices and import trends to assess the impact of the FSP provides a different picture.

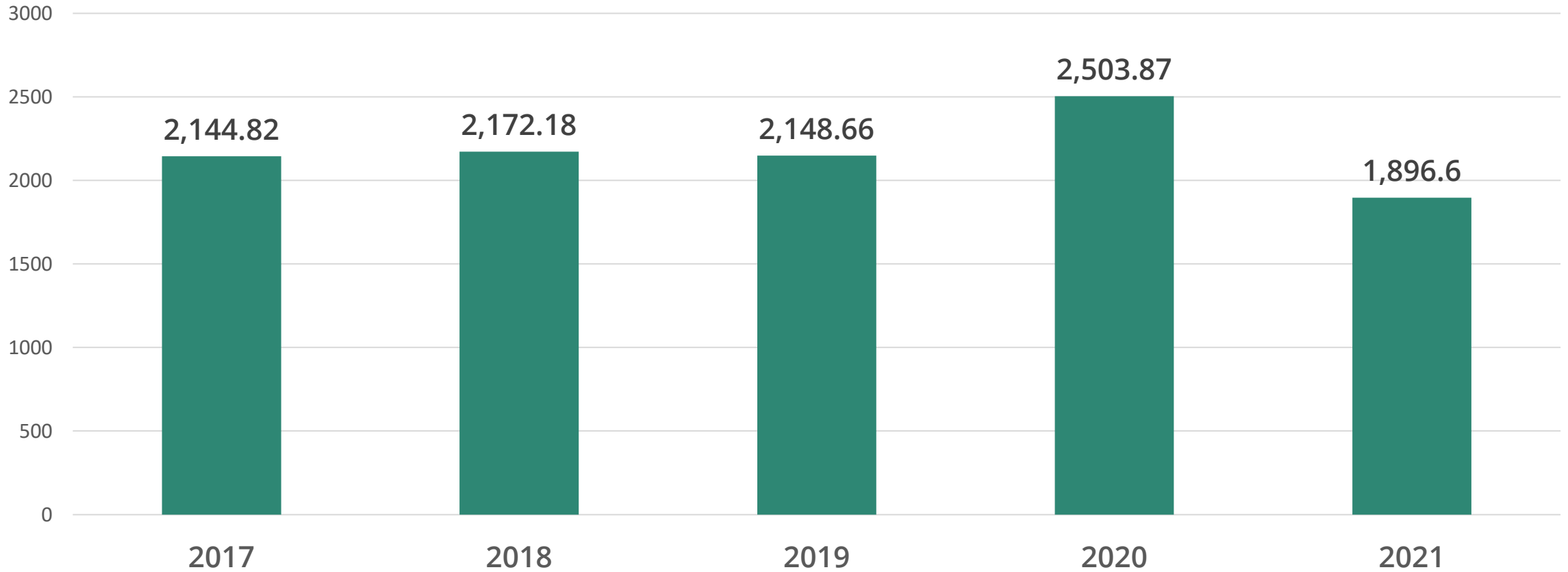
Annual Nominal Weighted Ave. Rural Wholesale Price for Maize

GHS per MT



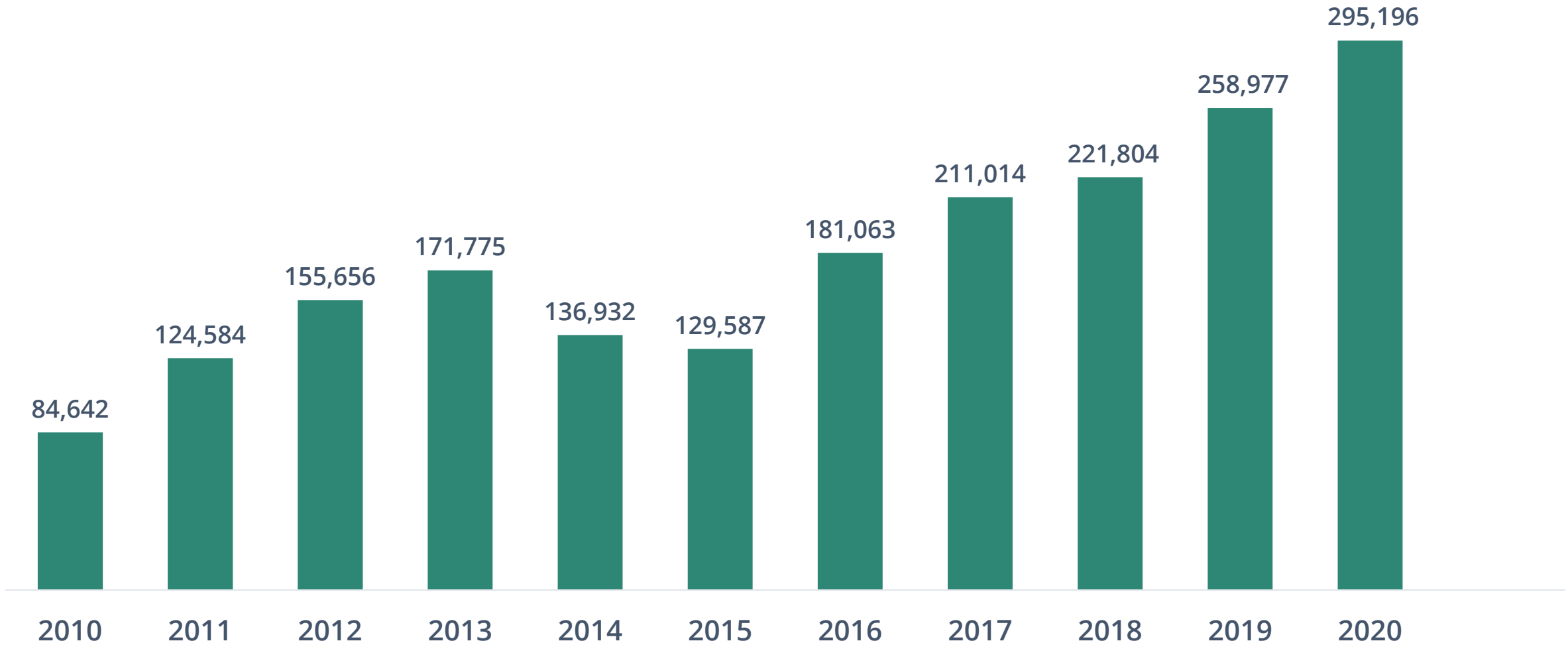
Ghana's Food Import Situation

Ghana's Agricultural and Related Imports for 2017-2021 (in millions of USD)



Source: USDA

Ghana Chicken Meat Imports -MT (2010 – 2020)



Source: USDA/GAIN – Voluntary Report: Ghana’s Agricultural Subsidy Program, March 2022

6. Recommendations





6.1 General Recommendations

1. Timely availability of subsidized fertilizers and seeds (Early distribution of inputs)
2. Subsidized Fertilizers should be provided all year round, to cover both minor and major seasons
3. Step up the provision of warehouses in the districts
4. Integrate commercial farmers into the FSP program
5. Digitize the distribution of fertilizer distributions in Ghana
6. Link farmers to markets. (This remains a challenge to farmers)



General Recommendations

7. Increase the percentage of government subsidy
8. Agrochemicals should be added to the subsidy program
9. GoG should ensure the quality of subsidized inputs under the program
 - PPRSD should be well-resourced to conduct testing of fertilizers in the country
 - To safeguard the quality of subsidized fertilizer, require continuous field monitoring

6.2 Proposed Approaches to have an Efficient Fertilizer Subsidy Program



4 Key Principles Informing Our Proposed Approach



Engage Fertilizer Industry Players

- To determine the best way forward to reduce burden on national budget



Smart Subsidy

- Subsidies payment in Kind, not in Cash
- Waivers and other cost reduction measures



Key Factors Affecting Fertilizer Prices

- World Fertilizer Prices
- Currency Exchange Rates



Farmer Freedom of Choice

- Farmers pay 85% of the price and should have the right to choose between brands.
- Allow private sector to openly compete (No allocation)

Approach #1

Payment of Subsidy in-kind

Cost Items	Prices	Proposed Subsidy (savings / bag)	Current Subsidy (15%)
1. FOB prices / MT	4,770		
2. Vessel freight / MT	954		
3. Freight insurance	50		
(A) Cost, Insurance and Freight (CIF) prices	5,774		
4. Port Charges	300	7.5/bag	
5. Cost of bags	120	3/bag	
6. Cost ex warehouse	6,194		
7. Logistics & Transport	600	15/bag	
(B) Estimated final costs at delivery point (GHS / ton)	6,794		
8. Estimated costs at delivery point (GHS / 25 kg bag)	170		
9. Margin Importers	25		
10. Margin Distributor	20		
(C) Final Retail Price (GHS)	215	25.5/bag	32.2/bag
FOB prices USD/MT	450		
2023 Full Price USD/MT	645		

Approach #1

Payment of Subsidy in-kind

The Government of Ghana (GOG) to absorb port charges, cost of bagging, and logistics & transport costs. This is estimated to reduce the final retail price of fertilizer per bag by GHS 25.5 while averting rent-seeking behaviours associated with the current subsidy model.

Approach #2

Credit Guarantee-backed Financing Arrangement to Reduce Interest Costs



Credit Guarantees to be provided to Financial Institutions (FIs) to establish Letters of Credit (LCs) for participating firms. The credit guarantees are to be issued by GIRSAL and backed by GoG promissory note.



This approach will reduce the cost of capital to participating firms (2%) based on a deferred LC for a maximum of 6 months. This should therefore reduce the interest component in the fertilizer price build-up



GIRSAL to submit returns on the 2% charge on LC to be absorbed by the Ministry of Finance



This cost reduction should bring fertilizer prices down and encourage competition to drive prices further down

Approach #2

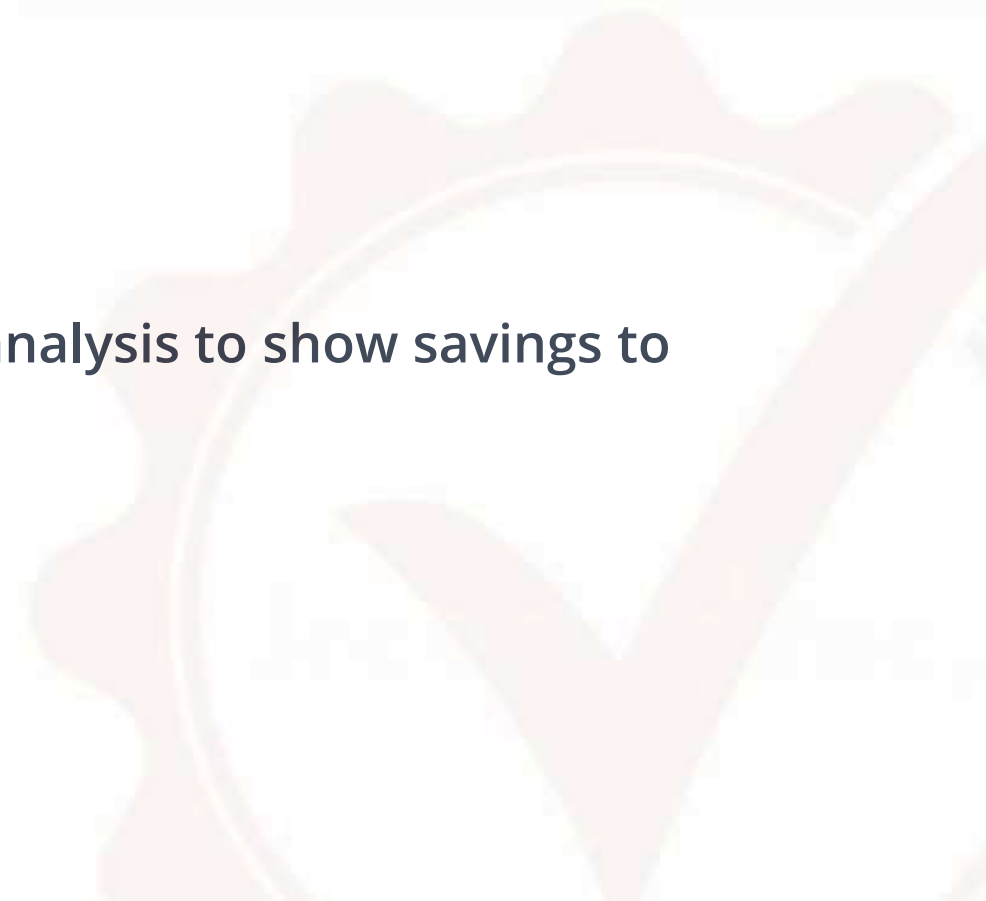
Credit Guarantee-backed Financing Arrangement to Reduce Interest Costs



GOG doesn't have to pay companies money for the supply of fertilizer, eliminating rent-seeking.



This recommendation would require further analysis to show savings to be made from this financing scenario.



Approach #3

Special Program to Support Indigenous Fertilizer Importers



Special initiative similar to the Nigerian Presidential Fertilizer Initiative

- GIRSAL is willing to facilitate learning from the Nigerian Presidential Fertilizer Initiative
– Govt to govt approach



Target commercial indigenous fertilizer importers



In this arrangement, the Government of Ghana (GOG) will sign contracts with selected fertilizer-producing countries by providing sovereign guarantees for fertilizer supply on credit to commercial indigenous fertilizer importers.

Approach #3

Special Program to Support Indigenous Fertilizer Importers



A system should be put in place to ensure fertilizer imports under this arrangement when sold are paid back by the importers.



This initiative will cut out the financing cost associated with fertilizer import, and hence reduce prices at the retail end.



This initiative will assist indigenous fertilizer importers to meet local demand.

Approach #4

Strengthen Fertilizer Quality Checks



Quality Control Mechanism at Port of Entry



Quality Control Mechanisms along the supply chain



Empower the relevant bodies under the Plants and Fertilizer Act, 2010 (Act 803), to monitor and ensure the quality of imported fertilizer.

Other Necessary Actions

- Engage fertilizer stakeholders as soon as possible
- Preferential exchange rate for fertilizer importers (as pertains to the oil industry)
- The need to reconcile all data on fertilizer consumption in Ghana, from various institutions (refer to Slide 16)
- Determine the current stock of fertilizer in the system at the moment.
- In order to set our price mechanism, there is the need to establish what the pricing regimes are in the neighboring countries.



THANK YOU

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