Africa Growth Initiative at BROOKINGS

'Market-Smart' Subsidies? Analyzing the Agricultural Input Dealer Sector in Ghana

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In recent years, many governments in sub-Saharan Africa have adopted policies of subsidizing agricultural inputs, especially inorganic fertilizer, to boost agricultural productivity and increase food security. However, subsidy programs instituted in earlier periods were inefficient, distorted markets, diminished other investments required to enhance agricultural productivity and placed unsustainable fiscal burdens on governments. Governments are now more conscious of the need to make subsidies 'market smart' and targeted to particular groups. A much touted example of the success of voucher-based fertilizer subsidy programs is in Malawi where record harvests have been achieved with such programs. However, Malawi's programs are also known to have had deleterious effects on the private agricultural input sector as the government controlled the sourcing and distribution of the fertilizer.

In 2008, the government of Ghana instituted a voucher-based fertilizer subsidy program in which the sourcing and distribution of fertilizer were left to the private agricultural input dealer sector. The general belief was that by engaging the private sector, the subsidy program would not be disruptive and would serve as a way of developing the private markets. However, there are a number of questions about the conception and implementation of this program. On March 1, 2010, Afua Banful, a postdoctoral fellow at the International Food Policy Research Institute, visited Brookings with preliminary results from her study of the program. Ernest Aryeetey, Director of the Africa Growth Initiative, moderated the discussion following her presentation.

Banful's study drew from a number of sub-disciplines, including industrial organization, political economy, and geographical information systems. The bulk of her work involved an intensive survey of the agricultural input dealer sector. Although previous estimates of this sector found around 700 firms, Banful uncovered 3,400 firms, 83 percent of which sell fertilizer. The network demonstrates high turnover and moderate levels of training. Most dealers own bank accounts and are involved in both extending and receiving credit for their operations. They also provide customers with information about the inputs and assist with market access.

Geographically, Banful found that the dealers are connected through three main supply hubs in Ghana, and few have direct relationships with importers, instead relying on two or three levels of intermediaries for their operations. As a result of this structure, only 30 percent of dealers were able to accept government vouchers, meaning acceptance was correlated with market concentration, which may harm long-term competition in the sector. However, there did appear to be some positives: the use of the dealer network for voucher redemption appeared to limit exit from the sector and strengthen sales for those in the network.

The allocation of the vouchers was mixed, as vouchers were allocated to regions with more farmers, but also regions with higher concentrations of doctors, a proxy for development. The role of political considerations is unclear, as opposition districts actually received more vouchers. However, Banful noted that her analysis did not show a correlation between low vote margins and allocation, contradicting the idea that vouchers were given to win over "swing districts."

Banful ended her presentation with some suggestions for improvement of the program, which she described as “less bad” than past subsidy programs. In terms of redemption, she suggested that having vouchers redeemed by banks and by high-level retailers could solve the issue of low connectivity to importers. Banful also suggested that vouchers should be targeted towards certain types of farmers and that the subsidy for large 50 kg bags may bypass poorer farmers who would prefer to buy smaller quantities. Finally, there was some confusion over rules for the subsidy, as some retailers and farmers thought that transactions without the vouchers were illegal, which may have dampened demand.

After the presentation, a lively discussion followed. One participant questioned focusing the research on market smartness instead of agricultural productivity. Banful replied that she has done other studies on these aspects of subsidy programs, but this study aimed to fill a gap and offer a policy basis for other countries wanting to implement market-smart subsidy programs.

The participants showed a great deal of interest in the allocation of the vouchers, which were in high demand during the program. Banful’s regression results, which showed that districts held by the opposition actually received more vouchers, were considered in the lens of political economy. Political motivations were difficult to deduce, but Banful said that the program was executed in such a rushed and haphazard manner that the allocation resulted from decentralized, multi-level negotiations. She also said that there was no public debate about the program, and the announcement was a surprise resulting from meetings with top government officials and fertilizer suppliers. One participant asked whether corruption could be occurring at every level of allocation, and Banful acknowledged some reports of this, but also cautioned that the front-line distributors, the extension agents, had much to lose if caught. In fact, she noted that reliance on extension agents was a positive of the program, because they were close enough to farmers and had little enough power that their decisions would be less corruptible.

Another topic discussed was the fact that the vouchers displaced purchases that may have been made even in their absence. Banful presented this aspect as a downside, and noted that in Ghana’s case, some areas had almost full displacement. One participant, however, noted that if the voucher was a response to a food crisis, than perhaps this displacement was a good thing, because it offered critical cash support for farmers during a time of high input prices. Banful respectfully disagreed and argued that the high displacement made the vouchers a subsidy for the dealers, and perhaps the wrong dealers at that. The cost of the program, about $15-20 million, was also discussed in this context. The high displacement meant that even in areas of large productivity increases, the returns were extremely low.

At the end of the discussion, Banful was asked whether there were any examples of well-implemented subsidy programs, and Banful said that there are none in sub-Saharan Africa and those in India haven’t done well either, but that programs will continue because of political momentum. The discussion ended with Ernest Aryeetey, who moderated the panel, abstracting this issue into the broader context of development policy. He noted that poorly conceived policies are unlikely to have good outcomes and that in a democratic society, small groups of people should not be able to mobilize resources for them. He also commended Banful for her research, which can hopefully prevent poor policies in the future, but he challenged those present to think about why such a policymaking environment exists.

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