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# Agribusiness Investment in Agricultural Commercialisation in Ghana: Rethinking Policy Incentives

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## Key messages

- The most important determinants of agribusiness investment in Ghana are access to market, potential for higher profit, interest of the business leaders and political stability.
- Foreign investors are choosing Ghana over competing destinations because of Ghana's image of peace and stability.
- Although fiscal incentives are beneficial to agribusiness investors, they are not adequate for attracting investments into the agriculture sector.
- Business leaders have responded more positively to financial incentives in the form of challenge funds and matching grants provided by donors.
- Locational tax incentives have not significantly influenced investments in the agricultural sector because of poor infrastructure, which tends to increase the production cost in rural areas.
- Agribusiness investments can be enhanced by addressing unfavourable land tenure systems, poor infrastructure, high interest rates and lack of access to finance.

Cover photo: REUTERS/Thierry Gouegnon

## Introduction

Agriculture is a major economic activity in Ghana, contributing 20 per cent to Gross Domestic Product (GDP) and employing over 42 per cent of the active labour force. Despite efforts to modernise the agricultural sector, it remains largely subsistence based. In recognition that increased investment can help transform the agricultural sector, the government of Ghana and its development partners have implemented various programmes to attract private investors into the sector. There is, however, little understanding of how businesses respond to incentive packages in the Ghanaian agricultural sector. The brief, which is based on primary data collected through in-depth interviews with agribusiness leaders and key informants, argues that the most important factors that influence investment decisions in the agricultural sector in Ghana are access to market, potential for higher profit, interest of the business leaders and political stability. Although tax incentives are beneficial to farmers, they do not really stimulate investments in the agriculture sector. The brief calls on the government and its development partners to address the barriers to investment in the agricultural sector, which include unfavourable land tenure systems, poor infrastructure, high interest rates and lack of access to finance.

## Incentives created to attract investments in the agricultural sector

In order to attract commercial investment in the agricultural sector, the following fiscal incentives are available to both foreign and domestic investors in Ghana:

- Corporate tax holidays: The general corporate income tax (CIT) rate is 25 per cent. However, agribusinesses enjoy tax holidays of five years for cash crops, livestock production and companies involved in processing of agricultural products; or ten years for tree crop farming commencing from first harvesting.
- Location corporate tax incentives: After five years of tax concession, businesses engaged in agri-processing in benefit from reduced tax rates based on location.

- Tax for free zone enterprises: Agri-processing businesses registered with the Ghana Free Zone Authority are exempt from income tax on their profits for a period of ten years. A reduced tax rate of 15 per cent is chargeable on free zone enterprises after ten years of tax concession.

- Custom import duties: Import duty on raw materials is 0 per cent, whereas the import duty on equipment ranges from 5 per cent to 35 per cent. Companies registered with the Ghana Investment Promotion Centre and Free Zones Authority are entitled to a 0 per cent duty on the importation of equipment.

- Double taxation: Relief from double taxation in cases where the foreign investor's country of origin has signed a Double Tax Treaty (DTA) with Ghana.

Other incentives provided to people who invest in Ghanaian agriculture sector include:

- Access to finance: The Export Development and Agricultural Investment Fund (EDAIF) Act 823 made provision of financial resources for the development and promotion of agriculture, making agri-processing and its industries a key priority. In 2016, the Ghana Export-Import (GEXIM) Bank Act 2016 (Act 911) was established to bolster the Ghanaian government's quest for a sustainable export-led economy.

- Other incentives: Export promotion drive (trade partnership agreements); Full repatriation of dividends and net profit attributed to investment; No restrictions on remittance transfers back home by foreign investors; and Protection of investments through the 1992 constitution.

- Incentives offered by donors: Finance in the form of grants and challenge funds; technical assistance; infrastructure (e.g storage facilities).

### *Most important factors of investments in the agricultural sector*

The most important (first order) factors which have driven investments in the agricultural sector of Ghana are passion or interest of the business leaders, potential for higher profits, access to markets, and political stability.

**Interest of the business leaders:** Passion for agriculture was a key driver of investment among Ghanaian individual agribusiness leaders. Some of these leaders reported that this passion was developed as a result of previous training. A female CEO of a large Ghanaian farm developed her passion for food and agriculture because of her training in food and nutrition and involvement in gardening when she was young.

**Potential for high profits resulting from supply and demand dynamics:** The potential for high profits was also a key driver of investments for both Ghanaian agribusiness leaders and foreign firms operating in Ghana. A medium scale farmer spoke about how potential for profits influence investment decisions in the following words: "… there is huge profit in agribusiness if you do it well". The potential for higher profits also motivated foreign-owned firms to invest in Ghana. For instance, a fertiliser distribution company was reportedly established in Ghana because of the realisation that there was a huge potential to increase demand for fertilisers and associated profits.

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**Access to markets:** Access to market was found to be a key determinant of investments. While demographic factors created the required market for some of the agricultural products, such as maize and rice, a number of farmers have invested in the fruit production sector as a result of enhanced access to international markets, brought about by trade partnership agreements between the government of Ghana and other countries. Access to international markets have also been enhanced by international donor projects. For instance, a mango farmer at Somanya responded positively and benefited from the Trade and Investment Promotion for Competitive Export Economy (TIPCEE) project funded by USAID. A fruit production agribusiness also benefited from the Export Marketing and Quality Awareness Project (EMQAP) through receipt of planting materials, training and enhanced access to international markets.

**Rule of law, political stability and public security:** The foreign owned companies reported that they came to invest in Ghana because of the country's track record of rule of law, political stability and public security. These findings highlight the importance of Ghana's non-fiscal incentives such as guarantee of investment against nationalisation and expropriation. The representative of a foreign fertiliser company in Ghana reported that as a result of political stability and relatively better infrastructure, the company intended to use Ghana as a gateway to Africa. Investors of a biofuel producing company were also said to be attracted to Ghana because of the peaceful environment.

### *Secondary drivers of investments in the agricultural sector*

In addition to the main drivers of investments above, the factors discussed in this section have some influence on investment decisions in the agribusiness sector.

**Ecological conditions:** Favourable climatic conditions and existence of fertile soils to produce a variety of crops has some moderate influence on the decision of some of the business leaders to invest in crop production in Ghana. A representative of the biofuel producing company explained that the company came to invest because Ghana's tropical climate and forest soils are conducive for the production of jatropha. Similarly, the manager of the foreign-owned fruit production agribusiness made reference to the role of climate in influencing their investment in the production of pineapple in Ghana: "You know the climate condition is very good for pineapple growing….The weather is very good here for growing pineapple".

**Access to land:** About 80 per cent of land in Ghana is held by customary authorities for the intended benefit of their communities or owned by families. Despite efforts by the Lands Commission to improve access to land though the Land Administration Project (LAP 1 and 2), only one of the five businesses studied reported that it was attracted to Ghana because of access to large tracts of land. Many of the agribusiness leaders complained about difficulties in acquiring land from traditional authorities and conflicts over land. Some state officials supported these complaints, arguing that some of the investors that came to Ghana were disappointed when they were told to go and negotiate with customary authorities for land because they thought they could get free land from the state.

**Financial incentives provided by the government, private sector and donors:** Commercial banks, which provide about 87 per cent of all lending in Ghana, allocate only about 5 per cent of their loan portfolio to agribusiness. Many of the business leaders reported that they cannot access adequate credit from the banks because of several factors including lack of collateral security, high interest rates and unfavourable terms of loan repayment, such as the requirement to start the repayment of a loan before harvesting any crops: "If you are a farmer taking a loan from the bank and you are paying 27 to 30 per cent interest annually ….assuming someone is planting mango which might take four to five years to bear fruits [sic], by the time the mango bears fruit, the money would have tripled or quadrupled. So, it is just not possible".

In order to deal with the challenges of accessing loans, the government of Ghana has implemented a few initiatives to provide financial and technical support to Ghanaian farmers. Several large-scale Ghanaian owned businesses responded positively to donor grants.

**Training and technological support:** Many of the business leaders responded positively to training and support in the form of machines. One mango farmer, for instance, benefited from the Trade and Investment Promotion for Competitive Export Economy (TIPCEE) project. A female farmer has been helped by a grant from German Society for International Development (GIZ) under the Competitive African Rice Initiative (CARI) since 2015, the project provided funds for training and purchase of machinery.

**Input subsidies:** After several years of withdrawing input subsidies, the Government of Ghana introduced a subsidised mechanisation programme in 2007. The government also re-introduced a direct fertiliser subsidy in July 2008. Some of the large-scale agribusiness leaders reported that although they do not qualify to get subsidised fertilisers, the smallholder outgrowers they work with benefit from such subsidies, reducing the cost of production for them and the large-scale business leaders. A few agribusiness leaders, however, complained that subsidies affect private investment. One business leader reported that some small firms in the patronage networks of the government have been assigned huge allocations which they cannot supply, with negative impacts for the availability of high quality fertilisers. Some of the business leaders also complained that as a result of corruption and patronage networks, tractors supplied under government subsidy programmes usually only benefit a select few close to government.

**Infrastructure:** Despite government officials' reports of state investment in the construction of feeder roads and electrification in rural areas as incentives, investors in Ghana report infrastructure to be inadequate. The GCAP project, for instance, has a component for infrastructure development and many farmers have taken advantage of it. However, many of the business leaders complained that poor roads and lack of electricity were deterrents and described the high cost of electricity and water to farmers as a challenge. They argued that there is need for preferential pricing for energy used by agribusinesses.

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### *Third order drivers of investments*

**Fiscal incentives:** Fiscal incentives have been identified as having extremely low influence on investments in the agribusiness sector. Although a few of the business leaders benefited from fiscal incentives, these did not influence their overall investment decisions. Complex bureaucratic procedures also hinder their use, sometimes forcing business leaders to pay bribes before enjoying some of the tax concessions they are entitled to, such as import duties. In effect, many of the business leaders do not think that tax incentives in general, even those associated with free zones, are adequate to influence their investment decisions. They argued that tax incentives are less important to other elements of the business environment, such as access to finance, infrastructure and access to market.

## Conclusions and recommendations

The brief argues that the most important factors that influence investments in the agricultural sector of Ghana are access to market, potential for higher profit, passion or interest of the business leader and political stability. Secondary factors that influence investment decisions are ecological conditions, access to land, infrastructure, and donor financial incentives. Tax incentives are beneficial to farmers but are not enough to motivate businesses to invest and cannot make up alone for a lack of infrastructure and other faults in the country's investment environment. Based on the findings, the following recommendations are made:

- The government and its development partners should invest in infrastructure development (e.g provision of electricity, water etc), especially in rural areas.
- The government should work with traditional authorities to address land acquisition and tenure insecurity challenges.
- The government should better coordinate with development partners and financial institutions to provide loans to agribusinesses at appropriate interest rates and terms which allow farmers to start servicing such loans only when they start harvesting crops.

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## Image captions:

Cover - Cocoa farmers spread cocoa beans to dry, Enchi, Ghana

Page 2 - Palm Oil production

Page 3 - In Ghana, the Mamfe-Aburi road has significantly increased safe road transport to inland regions and the Aburi Hills.

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