



RESEARCH PROGRAM ON
Climate Change,
Agriculture and
Food Security



ASSESSMENT OF THE CURRENT AGRICULTURAL FINANCE SECTOR WITH A MAJOR FOCUS ON COCOA

Bank of Ghana (BOG) policy and strategies for financing sustainable
agricultural value chains

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About IITA

The International Institute of Tropical Agriculture (IITA) is a non-profit institution that generates agricultural innovations to meet Africa's most pressing challenges of hunger, malnutrition, poverty, and natural resource degradation. Working with various partners across sub-Saharan Africa, we improve livelihoods, enhance food and nutrition security, increase employment, and preserve natural resource integrity. The Climate Change Agriculture and Food Security (CCAFS) program in IITA-Ghana is determined to develop tailor-made stepwise climate smart management and finance packages to enhance the resilience and productivity of Ghanaian Cocoa farmers in the face of the adverse effect of climate change on Cocoa production.

About RAINFOREST ALLIANCE

Rainforest Alliance is an alliance of farmers, forest communities, companies and consumers committed to creating a world where people and nature thrive in harmony. By bringing diverse allies together, it believes to be making deep-rooted change on some of the most pressing social and environmental issues of our time. Rainforest Alliance is implementing proven and scalable solutions on the ground while testing innovative ways to drive change. On the CCAFS program in Ghana, Rainforest Alliance is partnering IITA to develop a *policy document and brief for engagement with government and private sector in cocoa sector on the critical subject of Climate-Smart Cocoa financing*.

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1. EXECUTIVE SUMMARY

INTRODUCTION

The International Institute of Tropical Agriculture engaged HENRYCONSULT to conduct an assessment of the current agriculture finance sector with a major focus on the cocoa sector as part of its efforts to boost climate smart cocoa practices to aid cocoa farmers realise maximum yield and income from their cocoa farms.

OBJECTIVE AND SCOPE OF WORK

The objective of the assignment was to assess the current agricultural finance sector with a major focus on the cocoa sector and propose measures on how to finance climate smart cocoa production and to develop a blueprint based on the key parameters identified which can be used to formulate a business case for climate smart cocoa financing.

WORK DONE

Our approach to the assignment included reviews of relevant policy documents from Bank of Ghana and the Ministries of Finance and Agriculture as well as financial information from the Banks, Financial NGOs and the Cocoa Buying Companies and Brands. The records were both in hard and electronic formats. We also conducted interviews with all the various stakeholders in the industry to ascertain their financing mechanisms and models for the cocoa sector particularly for the smallholder farmers. As part of our methodology, we did submit questionnaires to the stakeholders to obtain information from them.

SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS

1. Policy Documentation

Our review of policy documentation involved the review of the following Acts:

- Bank of Ghana Act 612 of 2002
- Bank of Ghana (Amendment) Act 918 of 2016
- Banks & Specialised Deposit Taking Institutions Act 930 of 2016
- Non-Bank and Financial Institutions Act 774 of 2008.
- Ghana Export-Import (EXIM) Act 911 of 2016.

We also reviewed policy documents from the Ministry of Food and Agriculture (MOFA) and the Ministry of Finance and Economic Planning (MOFEP). The regulatory framework of the Central Bank covers lending by Banks to all sectors of the economy. Hitherto, there was no specialised lending policy for agriculture in general not for the cocoa sector until the introduction of the Ghana Incentive-based Risk Sharing System for Agricultural Lending (GIRSAL) programme. The goal of this instrument is to reduce the perceived risk of agriculture financing and to crowd in private finance to support smallholder farmers across Ghana. The Central Bank however partners with financial intermediaries like the Outgrower and Value Chain Fund (OVCF) through the MOFA, EXIM Bank and Universal Commercial banks to facilitate financing for agriculture.

The MOFA's policies which guide development and interventions in the agriculture sector are the Food and Agriculture Sector Development policy (FASDEP II 2008) and the Medium-Term Agriculture Sector Investment Plan (METASIP II 2014 – 2017). The policy aims to achieve 6% year-on-year growth in agriculture. Other initiatives such as Planting for Food and Jobs (PFJ) and Planting for Export and Rural Development (PERD) are ongoing.

These initiatives assist smallholder farmers with the provision of inputs and extension services to enhance their productive capacity.

FASDEP acknowledges that the lack of credit is a key constraint in agricultural production and identifies both internal and external limiting factors to credit access. Measures to reduce risk of borrowing, the cost of lending to the sector and the unavailability of long-term funding are some of the supply side constraints.

FASDEP outlines strategies such as the education of farmers on loan procedures, the strengthening of informal and micro-financial institutions in the rural areas and strengthening the capacity of farmer-based organisations (FBO's) to facilitate delivery of financial services to their members, as some of the ways to mitigate these constraints. It also advocates the setting up of an Agriculture Development Fund to serve as a core source of medium to long term funding for the sector.

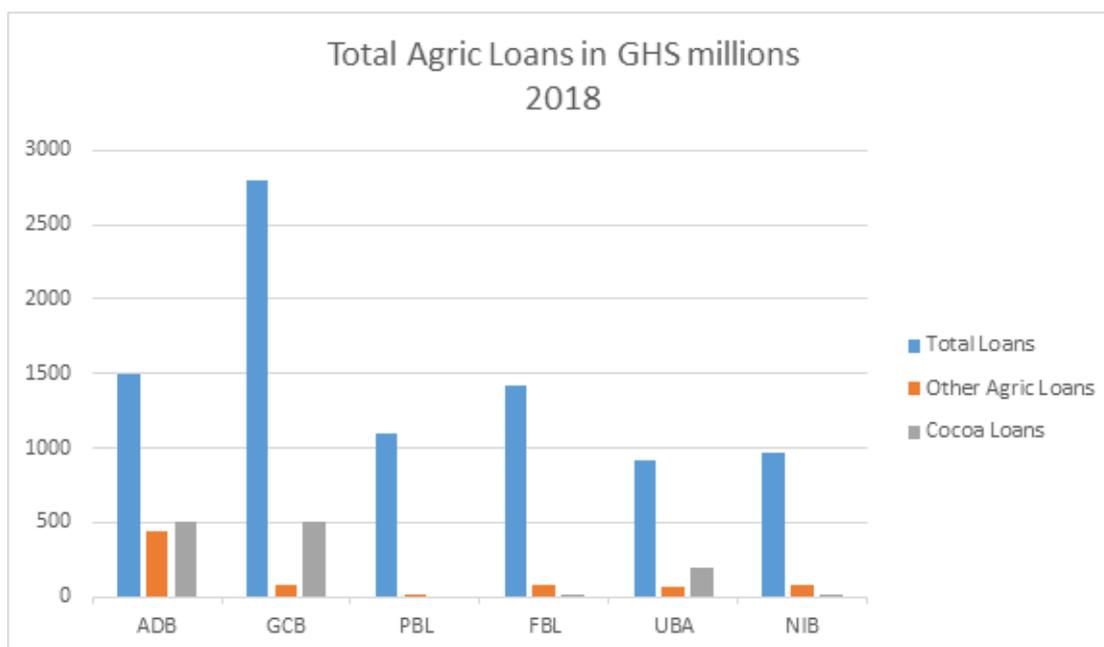
2. Local Banks agricultural financing models

Agricultural Development Bank (ADB), Ghana Commercial Bank (GCB), National Investment Bank (NIB), United Bank for Africa (UBA), Prudential

to build their capacity to access bank loans. The groups must be large enough to attract loans from the Banks as the Banks will not lend small amounts to individual farmers. In this way the Banks can offer lower interest rates and charges since the risk of default will have been largely mitigated.

The graph in table 2 below shows the Banks' exposure to agriculture and cocoa in 2018 as compared to their total loan book. Over 95% of the cocoa loans were granted to the LBC's in support of their cocoa purchases.

TABLE 2 - TOTAL AGRICULTURE LOANS OF SELECTED BANKS IN 2018*



Source: Banks published annual reports for 2018 and questionnaires. The NIB report was for 2015*

3. LBC's and Cocoa Traders financing mechanisms

The LBC's selected for the assessment were among the top ten in cocoa buying out of forty-eight companies licensed for the 2017-2018 cocoa season. They are OLAM, E-COM, KUAPA KOKOO, NYONKOPA, FEDERATED COMMODITIES and TRANSROYAL. Their combined purchases were 54% of the total purchases for the season. See Table 3 below.

Bank (PBL) and Fidelity Bank (FBL). The first three are state owned Banks and the rest are privately owned. GCB is the largest Bank by asset size in the country and ADB has a special mandate for agricultural lending and claims to be responsible for eighty-five per cent of institutional lending to the sector. The only foreign owned Bank is UBA. Table 1 below is a summary of their cocoa financing models.

TABLE 1 - BANKS' FINANCING MODELS

Banks	Financing Models			
	LBC Financing	Farmer Groups Financing	Smallholder Farmer Financing	Pre-financing
ADB	*	*	*	*
GCB	*			
NIB	*			
UBA	*			
PBL	*			
FBL	*			

We found that ADB is the only bank which is currently financing smallholder farmers. All the Banks however finance the LBC's to purchase cocoa. The reasons given by the Banks for non-finance of smallholder farmers and groups is the heightened default risk of farming and limited access to long term funds. Many Banks also do not appreciate the dynamics involved in farming such as crop life cycles and climate smart cultivation and the efforts being made to improve agriculture. To attract Bank financing the farmers have to be organised into groups of cooperatives or societies which are properly registered and have a management structure where the farmers guarantee for each other. These farmers must be within the same locality for easy accessibility and must be engaging in sustainability practices. They must be encouraged to engage business advisory groups for technical support

TABLE 3 – COCOA PURCHASES OF SELECTED LBC’S IN 2017-2018 SEASON



Source: COCOBOD research department

Even though the LBC’s selected purchased over half of the total tonnage of cocoa produced, their assistance to farmers in the way of financing is very limited, amounting to less than 2% of purchases and it was mainly in the form of inputs. They attribute the low level of financing to farmer disloyalty and the proliferation of LBCs. However, some of them are working in partnership with Banks, financial NGOs, Fintech companies (which use innovation and technology such as smart cards and mobile phones to deliver financial services) and other support groups to increase direct financing to smallholder farmers. Some of the ongoing initiatives are as shown in table 4 below:

TABLE 4 – FINANCING MODELS OF LBCS

LBC	Financing Models
E-COM	Conducting a feasibility for a possible Village Savings and Loans scheme (see below)
OLAM	Offer interest-free loans to farmers from OLAM group resources
NYONKOPA	Working with Solidaridad to develop a Village Savings & Loans Association as a first step towards eventually financing
KUAPA KOKOO	Finance farmers through direct bank loans obtained by the Group
FEDCO	Piloted a Village Savings & Loans Scheme for Farmers with Ecobank and Solidaridad. Ecobank provided finance to farmers.
TRANSROYAL	Financing Farmers through OVCF and Royal Bank/Consolidated Bank (see below)

Village Savings and Loans Association (VSLA)

A VSLA is a community based scheme designed to empower farmers to develop a savings culture and facilitate access to affordable finance. It is a self-managed, self-selected farmer group with elected executives – a chairman, treasurer and three key holders as well as the box keeper. The farmers make weekly contributions into a social fund kept in a box which is given out as loans to members to cater for social activities like health and education. A contribution is also made for shares in the association. The cost of a share is decided by members. Loans from the investment fund are given for farm development and are given out for an average of three months and at the end of the year the interest earned is shared among the members in accordance with their shareholding.

Outgrower and Value Chain Scheme

The Outgrower and value chain scheme is a tripartite arrangement structured to fill a gap in agricultural financing for smallholder farmers. This scheme provides medium to long term finance for Outgrowers and the tripartite agreement is between the farmer association (Outgrowers), the technical operator (the LBC) and the financial operator (the Bank). The Outgrower and value chain fund (OVCF) provides refinancing to the bank at low interest rates.

These financing models involve sustainable cocoa production, farm improvement, social support, digitalisation and benefit payment in order to increase farmer loyalty. They are also geared towards building up the farmers' capacity for training in climate smart practices to improve crop yield. Other initiatives being considered are insurance and pension schemes for the farmers. As more and more LBC's develop their farmer groups, Banks and financial NGOs will be attracted to partner them to develop impact finance products for them.

4. Cocoa Brands

The financing models of the cocoa brands follow a similar pattern to that of the LBC's and Traders. However, theirs are at the early stages. We reviewed the models of Mondelez and Hershey. Nestle did not respond to our enquiries. Mondelez is one of the largest producers of cocoa products in the world and they operate in Ghana through the Cocoa Life Initiative. Their financing models are shown in table 5 below.

TABLE 5 – FINANCING MODELS OF THE COCOA BRANDS

BRAND	Financing Models
HERSHEY	Working in conjunction with E-COM and others to develop farmer groups
MONDELEZ	Development of farmers into cohorts (cooperatives) for possible future financing. Partnered with other NGOs to establish VSLAs.

Mondelez is actively engaged in cocoa sustainability practices in the cocoa supply chain by engaging with the farming communities to improve their livelihoods and training the youth in the supply chain. They have partnered with ECOM, Solidaridad and OLAM to deliver the practices on the ground. They are working together to set up farmer cooperative groups and the farmers in the groups are paid premium for quality cocoa delivered. There is the likelihood that in the near future these farmer groups would be eligible for financing.

2. METHODOLOGY AND APPROACH

As part of our approach, we selected the various institutions to sample for the review based on their relevance to the assignment and sent questionnaires to them. We conducted interviews with specific persons pertaining to the scope of the assignment and we also obtained relevant information both hard and soft from the selected institutions. We purposefully performed the following:

- Interviews with officers in the selected institutions
- Reviewed the information on the questionnaires
- Reviewed documents from the institutions and information on their websites

2.1 INTERVIEWS CONDUCTED

We engaged with officers in the selected institutions (see appendix 1 for the list of officers) to obtain information and explanations on their policies for agricultural lending particularly to the cocoa sector. We wanted to, among other things, establish their philosophy for lending to

the sector and find out whatever constraints they had about lending to the sector. We also wanted to ascertain whether they were aware of efforts being made in the area of climate smart agriculture and whether they were likely to participate in impact lending to the sector.

The results of the interviews are summarised herewith (see appendix 6):

2.11 Universal Commercial Banks

Apart from ADB which had a clear policy for agricultural lending, all the Banks did not have a specific policy for agricultural lending. The Banks considered agriculture risky and their constraints with cocoa farming was that the farmers were not organised into groups large enough to attract financing. Another constraint was the remoteness of the farms which did not augur well for monitoring so their exposure to the sector was minimal. The Banks' financing for cocoa was heavily tilted towards providing funds for the LBC's to purchase cocoa. The Banks provided financing in the form of loans, overdrafts and seed fund guarantees. The Banks, except ADB, do not finance cocoa farmers or farmer groups and, apart from NIB, do not partner with NGOs to finance any form of agriculture. They were made aware of climate smart practices and would be interested to participate in climate smart cocoa financing only if it is done on a large scale, by registered organisations and managed by persons with the requisite skills and experience.

2.12 LBCs and cocoa traders

The LBC's traditionally did not finance the farmers. Whatever assistance they have given to the farmers has been in the form of inputs and fertilizer where the repayment is deducted from the farmers cocoa proceeds. A major constraint was farmer disloyalty. Currently however, the LBC's are involved in the organisation of the farmers into groups where geospatial and demographic data is being collected for sustainable cocoa production. They are working with cocoa traders and others to assist the farmers organise into credible groups for technical assistance and build their capacity for financial assistance. Some have started with the village savings and loans scheme for financial assistance to the farmers.

2.13 Cocoa brands

Mondelez has a policy for financial assistance to cocoa farmers but this

has been channelled into the payment of premiums to farmers for quality cocoa, the development of the farming community and the training of the youth to take up cocoa farming. Currently they are assisting farmers to build themselves into cooperative groups called cohorts. These groups can then be trained in climate smart practices to enhance their capacity for accessing finance. Hersheys do not finance cocoa but partners with OLAM and ECOM to develop sustainable cocoa. Mondelez has also partnered with CARE International and other NGOs to establish VSLA's in the cocoa farming communities.

2.2 COMPARATIVE ANALYSIS

We performed the following to address the scope of the engagement:

Reviewed the Banking Acts and other Bank of Ghana directives.

The Banking Acts provide the regulatory and supervisory regime for the operation of banking in Ghana and they promote the stability and soundness of the financial system. Under the Acts banks are authorised to take deposits and lend to the public. The Acts do not restrict lending to any sector except for illegal activities. We did not find any requirements for specific lending to the agricultural sector in the Acts.

Obtained and reviewed information from the Ministry of Finance (MOFEP) and the Ministry of Agriculture (MOFA)

The information reviewed were the Food and Agriculture Sector Development Policy (FASDEP II) and the Medium-Term Agriculture Sector Investment Plan (METASIP). The policy's vision for the food and agriculture sector "is a modernised agriculture culminating in a structurally transformed economy and evident in food security, employment opportunities and reduced poverty". The FASDEP policy acknowledges that cocoa is the driving force of agricultural growth in the country and therefore states in section 4.8.2 that the key strategy for cocoa development "has been the promotion of high technology package of improved hybrid seed, a set of fertiliser, pesticide and fungicide recommendations and improved husbandry practices". It also states that since 2001 "farmers have been supported with credit for the acquisition of fertiliser, and there is a cocoa disease and pest control programme funded from cocoa tax". The policy acknowledges that access to finance is a major constraint for the sector.

Obtained data from the Banks' annual reports on lending for analysis

Data from the Banks annual reports and from interviews with officials indicate that agricultural financing constitutes a small fraction of their lending portfolios due to the perceived risk of agriculture. Another factor is the Banks perception of agriculture requiring medium to long term funds which Banks do not have. Current interest rates are also too high for agricultural lending. (Average lending by Banks to the agriculture sector is 27.66%p.a. - Bank of Ghana Research Department).

Reviewed information received from the questionnaires

Information from the questionnaires revealed that all the sector players contacted would be interested in climate smart cocoa financing. For the Banks it was a risk mitigating tool and for the LBC's and Brands it was a way to increase crop yield and improve sustainability.

Reviewed information from the Outgrower and Value Chain Fund (OVCF) and Ghana Incentive-based Risk-sharing System for Agricultural Lending (GIRSAL)

The OVCF and GIRSAL have been established to provide medium to long term funding for the agriculture sector and to de-risk lending to the sector respectively. Both are designed to assist Banks lend to the sector.

Reviewed information from the LBC's, Traders and Brands.

Information reviewed from our interaction with the LBC's Traders and Brands indicate that they all have programs which are designed to engage the farmers more and to assist them improve their crop and yield. The assistance to the farmers in the form of training and farm development is expected to build their capacity to access finance.

The development of farmers into farmer-based groups with dedicated training in better farming practices and capacity building through the VSLA concept, coupled with training in climate smart practices, reduces the perceived risk associated with the sector and makes it attractive to financial institutions to provide access to finance.

2.3 DEVELOPMENT BANKS AND AGENCIES

We engaged with officials of the newly established GIRSAL, the EXIMBANK and the OVCF to find out the role they play in facilitating finance to the agriculture sector particularly cocoa.

a. Outgrower and Value Chain Fund (OVCF)

We found out that the OVCF is a medium to long term refinancing vehicle for Outgrowers in the agricultural sector. It was established to provide sustainable long term funding for agriculture as the lack of access to medium and long term credit facilities has affected “yields, technology adoption, efficiency, quality and competitiveness especially among smallholders”. The OVCF is a German government and MOFA collaboration through KfW, the German Development Bank. Its purpose is to provide finance to support the agricultural value chain. They provide medium to long term loan financing for all stages of the agricultural value chain and it is through a tripartite arrangement between the producer (farmers), the off taker (processor/buyer) and the financial institution (Bank) at concessionary interest rates. Currently they have a collaboration with TRANSROYAL COMMODITIES LIMITED and the Royal Bank/Consolidated Bank where they have provided a GHS7.5 million medium term funding for cocoa farm improvement. The OVCF started with an initial seed fund of 10 million euros signed between the Ghana government and KfW in August 2015. An additional amount of 23 million euros was added as phase II of the fund. Another 19 million euros has been pledged for phase III of the fund. The funding is under a bilateral agreement with the Ghana government under the International Development Association’s (IDA) forty year (40) year bilateral lending with a ten year moratorium. The maximum funding for an individual Outgrower (farmer) should not exceed 5000 euro.

b. Ghana Incentive-Based Risk-Sharing System for Agricultural Lending (GIRSAL)

GIRSAL has been set up to provide credit guarantees for Banks to lend to agriculture. Their objective is to de-risk agricultural financing by the financial institutions to enhance the total amount of credit to the agricultural sector. GIRSAL works with participating financial institutions and intermediaries to strengthen their institutional capacity to support new lending to agri-businesses in the selected value chains. They support agricultural value chains in horticulture, cereals, tree crops, poultry, roots and tubers and fisheries. GIRSAL guarantees up to 70% of Bank loans to the sector however, they do not do green lending i.e. Lending to start up agricultural farms. Additionally, GIRSAL provides technical support to FBOs and others in the agriculture value chain to build their capacity to enable them access loan facilities.

c. **Ghana EXIMBANK**

The EXIMBANK was established by the Ghana Export-Import Bank Act 911 of 2016 to take over the activities of three institutions namely:

- Export Trade, Agricultural and Industrial Development Fund (EDAIF)
- Export Finance Company (EFC)
- Exim guaranty company Limited

Its mission is to “facilitate the transformation of Ghana’s economy into an export one by supporting and developing trade between Ghana and other countries, overseas investments by Ghanaian companies and eliminate critical market failures in the Ghanaian economy thereby making Ghana competitive in the global marketplace”. The EXIMBANK supports the government in economic development and usually provides end to end support- develops the farms, builds the factory and assist in the procurement of markets. It is currently involved in Cashew, Shea, Oil Palm, Avocado and Sweet Potato production. It has limited involvement in Cocoa since it expects COCOBOD to develop cocoa financing. The EXIMBANK usually supports large scale farming ventures so it is not suited to cocoa since cocoa farmers are smallholder farmers and not aggregated.

3. CASE STUDIES

3.1 VILLAGE SAVINGS AND LOANS ASSOCIATION DEVELOPMENT BANKS AND AGENCIES

A COLLABORATION BETWEEN SOLIDARIDAD, FEDERATED COMMODITIES LIMITED (FEDCO) AND PRODUCE BUYING COMPANY LIMITED (PBC)

a. Introduction

In 2018 Solidaridad organised Village Savings and Loans Associations for farmers in the Nyinahin and surrounding districts in the Ashanti region. The collaboration was for farmers who normally sold cocoa to the Produce Buying Company Limited and Federated Commodities Limited.

b. Background

Solidaridad assisted the farmers to organise into groups by registration of the farmers and the provision of metal safe deposit boxes, passbooks,

calculators, pens, stamp/stamp pads and ink. They also facilitated the training of the executives in basic record keeping and financial management. In all seventeen (17) groups were established comprising of three hundred and seventy-four (374) farmers. Each group had a minimum of eighteen (18) members and a maximum of twenty-seven (27) members.

Each group elected a chairman, a record keeper (treasurer), a box keeper and three key holders each holding a key to a separate padlock. There were also two money counters to validate all cash received before depositing into the money box. Each group was assisted to write a constitution which governed their operations. The constitution included rules and conduct for the members and the terms, conditions and procedures for loans.

Members purchased shares in the association by contributing between GHS1.00 and GHS2.00 daily or GHS5.00 and GHS10.00 weekly into the investment fund. Another similar contribution was made into the social fund which was used to lend mainly to the farmers for medical and educational expenses. Other loans were given from the investment fund to members for farm improvement.

To qualify for loans a member has to contribute for at least three months and provide three members as guarantors for the loan. All loans were repayable in three months and interest rate was ten percent (10%) per month. At the end of the year interest earned on the loans were distributed to the members in accordance with their shareholding and some also redeemed their shares as lump sum investments.

c. Bank Partner - Ecobank

Solidaridad decided to link the VSLA scheme to the formal financial sector and therefore approached Ecobank who after due diligence acknowledged that the processes and education provided to the farmers has resulted in a reduction in the risk of lending to the groups and therefore agreed to participate by providing loans to the farmers. Many of the farmers with larger farms took advantage of the Ecobank loans for farm improvement and to develop other crops as well as for children's education. Solidaridad and the partners persuaded Ecobank to lend at two-and-half (2.5%) percent per month which was considerably lower than what was offered by the VSLA. Of the total number of farmers, two hundred and forty-four (244) were women (about sixty-five percent).

d. Repayment

In all Ecobank disbursed GHS3 million to the farmers out of which 98.6% was recovered within the repayment period. The remainder was repaid later making a recovery rate of 100%. The loans afforded the farmers the opportunity to develop other cash crops to generate additional income as well as develop their cocoa farms.

e. Success Story

The farmers who participated in the scheme were assisted with inputs and training on better farm management practices by the LBC's which resulted in increased crop yield and they were rewarded with benefits in the form of premium payments for the cocoa purchased. The recovery rate has also encouraged Ecobank to invest more in the VSLA's.

f. Going Forward

Because of the success of the project the farmers requested regular training on modern farm practices to increase their crop yield in order to generate higher incomes. Currently FEDCO and Solidaridad are organising eighteen (18) farmer groups in Anyinam and Suhum in the eastern region as VSLA's for the current cocoa season with more planned.

g. Climate Smart Cocoa

The VSLA scheme is a channel for the introduction of climate smart cocoa (CSC) practices since the farmers are constituted into groups for easy access and training. Climate smart cocoa practices would further mitigate the risk for Banks to finance the smallholder cocoa farmer and increase their crop yield on existing acreage.

3.2 OUTGROWER AND VALUE CHAIN FUND (OVCF)

FINANCING COCOA OUTGROWERS THROUGH TRANSROYAL AND THE ROYAL BANK LIMITED

a. Introduction

In 2016 Transroyal Commodities Limited, a licensed buying company, approached The Royal Bank to participate in a financing arrangement to provide funding to their smallholder farmer groups. The arrangement

involved the Outgrower and Value Chain Fund (OVCF) providing medium term refinancing to the Bank.

b. Background

Transroyal Commodities Limited, in a bid to increase its shareholding in the cocoa buying business, decided to provide financing to its Outgrowers through the provision of inputs and training to increase their crop yield per acre. The company approached the OVCF who agreed to finance the venture for the farmers to enhance productivity. In line with that the OVCF insisted that the farmers met the UTZ certification standards, the aim was also to stop farmers from cutting down forest trees to increase farm acreage. The tripartite agreement involved the Outgrowers (farmer groups), the offtaker (the LBC) and the financial operator (The Royal Bank (TRB)). The funds were channelled through the Royal Bank from the fund manager (OVCF). Transroyal obtained a GHS7.5 million five year medium term loan facility at an interest rate of 18.6% (OVCF rate of 11.6% plus TRB margin of 7%). The loan was disbursed in tranches to 2,500 farmers in the form of fertilizers, pesticides and fungicides and a small cash outlay for social expenses. In addition to that the farmers were provided training in better farm management practices.

c. Success Story

The farmers increased their crop yield by up to 25% and Transroyal purchased more bags of cocoa in the 2017-2018 season than previously from the same acreage. The Royal Bank opened accounts for 2,500 farmers and deployed e-zwich smartcards to them as part of the financial inclusion drive through digitalisation. The recovery rate of the loans was 96%.

d. Challenges

Farmer disloyalty was a big problem for Transroyal as many of the farmers tried to sell their cocoa to other LBC's to avoid the loan deductions. Others sold cocoa to the Transroyal purchasing clerks but under different names to try to avoid the loan deductions.

e. Going forward

To prevent farmer disloyalty the farmers should to be trained in financial literacy. Cocoa farmer financing and payments must be

channelled through a digitalised system (smart cards and mobile phones). Eventually all smallholder farmers would have to be linked to a network where all their loan information would be available for deduction before cocoa payment is made. According to the fund manager this is what is practised in la Cote D'Ivoire.

f. Climate Smart Cocoa

The OVCF fund manager intimated that climate smart cocoa is the way to go for the smallholder farmer. He said that the fund is interested in the increase in cocoa crop yield per acre in line with what is obtained in Malaysia and Indonesia. He said the German development bank partner KfW, together other development partners, want to preserve the forest cover and avoid the cutting down of trees so will finance any venture that will yield increase in tonnage without expanding the farm acreage.

4. RECOMMENDATIONS

Our study details the following recommendations on how to finance climate smart cocoa:

a. Through the Outgrower and Value Chain Scheme where a tripartite arrangement is made between a Financial Operator (a bank), a Technical Operator (an LBC, a cocoa trader or a brand) and a group(s) of Outgrowers (cocoa farmer cooperatives). Under this method the bank is assured of a market for the cocoa produced thereby securing loan repayment. The LBC works with the bank and the OVCF to design innovative agriculture and climate smart technologies, the use of certified seeds and quality inputs and training for impact lending to the Outgrowers. This also guarantees the availability of the cocoa to the buyer. This system can be used for medium to long term loans or for specific interventions in the value chain. Long term funding can be secured from the OVCF.

b. Another method is through the establishment of Village Savings & Loans Associations (VSLA) where farmers are mobilised into self-managed community groups with elected executives and encouraged to develop a regular savings habit. The farmers own shares in the association and loans for farm improvement and education are given to members from the investments. This scheme, when operated well, can

be linked to a formal financial institution which can provide loans to the farmers at a reduced interest rate because of the lower risk and default rate. This system has been piloted by Federated Commodities Limited with Solidaridad. Ecobank provided loans for farmers to the tune of GHS3 million at concessionary rates with a 100% loan recovery rate.

c. A third method is through direct financing by the Banks to well-organised farmer cooperative groups large enough to access financing from the banks. The Cocoa farmers must be organised into farmer groups based upon their location and be developed into well-structured and registered cooperatives or societies like Kuapa Kokoo. When these groups are properly constituted with technical support to build their capacities they will be able to access loan facilities from the Banks. This is already happening for other crops such as oil palm, rubber, cassava and pineapple. Credit risk mitigations and guarantees will be provided by the Ghana Incentive-Based Risk-Sharing System for Agricultural Lending (GIRSAL).

These financing models must be underpinned by sustainable practices and innovative digital solutions to manage communications and data transfers as well as financial delivery to the farmers. Incentive packages such as benefits and lower interest charges can be awarded to groups which achieve maximum recovery of loans.

Please find below a SWOT analysis of the recommendations:

	OVCF	VSLA	DIRECT BANK LOAN
STRENGTHS	Tripartite arrangement – provides all-round guarantee	Self-managed scheme	Banks can deal directly with farmer cooperative groups
	Provides medium- and long-term finance which is not usually available	Built in loan guarantee mechanism	Available for all aspects of the value chain
	Builds business and technical capacity of farmers	Community based scheme	Banks can obtain GIRSAL guarantee
	Guaranteed repayment to the fund from Bank for Refinancing	Can be operated indefinitely	

	OVCF	VSLA	DIRECT BANK LOAN
STRENGTHS	Lower interest rates	Easy access to credit	
	Can be used to develop large farms since it is long term financing	Farmers can access credit for social expenditure	
WEAKNESSES	Cannot be used for social expenditure – school fees, sicknesses, funeral	Only good for micro loans	Banks do not have effective monitoring capacity
	Dependent on Development Bank partner		High interest rates charged by banks
			Not all banks attracted to agricultural financing
OPPORTUNITIES	Good for all aspects of the value chain	Can be deployed in any community	Available to all organised farmer cooperatives
	Opportunity for other development partners to join	Used for entrepreneurial capacity building of farmers	Introduction of climate smart cocoa practices mitigates risk
	Opportunity for more LBC's to join	Opportunity to partner Banks for additional finance	
	Vehicle for deployment of climate smart cocoa practices		
THREATS	Fund provider pulling out due to change in national policy	Possibility of box holder absconding with the money	Loan default can affect further disbursement of loan

Each of the recommendations has its merits and demerits. The VSLA is a suitable starting point for the farmers to develop financial literacy. It helps them to organise themselves into groups and cultivate the savings habit. It is also a useful avenue for them to be trained in better farm management practices. The farmer can obtain micro loans through the VSLA. Loans from bank partners can be utilised to fund the Stepwise CSC practices in a systematic manner to increase crop yield and income.

Direct Bank loans are best suited to farmer cooperative groups like Kuapa Kokoo which are large and well organised. They can obtain loans for all aspects of their value chain and also for their working capital requirements to develop and expand their farms. Additionally, the loans can qualify for the GIRSAL guarantee, when they demonstrate risk mitigation factors like the CSC practices, which result in reduction in loan charges.

The OVCF scheme is the best of the three since it combines aspects of both the Direct Bank Loan and the VSLA. It allows the farmers to be organised into groups under the supervision of the LBC and it requires that best practices like the UTZ certification and CSC are mandatory before the agreement is signed. It also provides long term funding at lower interest rates suitable for cocoa farming and the maximum disbursement per farmer is the cedi equivalent of 5,000 euro which is more than what is obtainable under the VSLA.

5. CONCLUSION

It was evidenced from our findings and facts ascertained from the various financial sector laws that, there is no distinctive policy for lending to the agricultural sector. However, there are policy initiatives and programs geared towards creating an enabling environment for finance to the sector. These initiatives are led by the MOFA and other sector agencies and financial NGO's.

ADB Bank is the only Bank dedicated to the agriculture sector and its lending to the sector constitutes about 30% of its total exposure. However, the bulk of ADB's lending to the cocoa sector is in the form of lending to the LBC's to finance the purchase of cocoa which is similar to what other Banks do.

Climate smart cocoa practices, which have clearly identified and proven benefits in increased yield and income, must be introduced to the key stakeholders providing cocoa financing through the underlisted means:

- Get the buy-in of COCOBOD to make it standard requirement for farmer groups and LBC's to introduce to the farmers as best practice.
- Engage with the OVCF to include CSC as a prerequisite for any loans for cocoa farmer groups or LBC's. This falls in line with the philosophy of KfW, the German Development Bank (fund provider),

- which is concerned with sustainable cocoa production. They already require applicant farmers to conform to the UTZ certification.
- GIRSAL is a non-bank financial institution set up to de-risk agriculture by developing appropriate risk-sharing instruments to reduce the risk of banks in agricultural lending. They also provide technical assistance to farmer groups for farm improvement and they would support the financing of CSC practices as a way of risk-mitigation to enhance lending to smallholder farmers.

6. LIST OF APPENDICES

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- Appendix 9 – Links to Bank of Ghana Acts and Other Policies

Appendix 1 –List of officials interviewed

NAME OF CONTACT	CONTACT DETAILS	DATE OF INTERVIEW
Kwame Akobeng Deputy Head Agric Value Chain Desk, ADB Bank	Tel. +233 030 221 0210 kakobeng@agricbank.com	3rd September, 2019
Yaw Njorgnab Relationship Manager, UBA Bank	Tel. +233 030 263 4060 Yaw.njorgnab@ubagroup.com	3rd September, 2019
Duncan Avedzi Head Agric Desk, NIB Bank	Tel. +233 030 266 1701 davedzi@nib-ghana.com	9th September, 2019
Nana Abena Head, Agric Business, Prudential Bank	Tel. +233 030 278 1200 n.abena@prudentialbank.com.gh	9th September, 2019
Patrick Morttey Head, Domestic Corporate, GCB Bank	Tel. +233 030 267 2859 p.morttey@gcb.com.gh	2nd September, 2019
Alexander Taah Chief Finance Officer, GIRSAL	Tel. +233 024 442 8019 Alex.taah@girsal.com	3rd September, 2019
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Frank Enyimayew Head Agric Financing, EXIMBANK	Tel. +233 030 223 4668	18th September, 2019
Victus Dzah Corporate Affairs Manager, ECOM Tanguy Gravot Regional Head-Financial Inclusion, ECOM	Tel. +233 030 274 5445 Victus.dzah@ecomtrading.com Tel. +233 030 274 5445 Tanguy.gravot@ecomtrading.com	10th September, 2019 26th September, 2019
Samuel Apana Head Sustainability, CARGILL	Tel. +233 030 331 8370 Cargill_ghana@cargill.com	26th September, 2019
Suresh Kumar Head Sustainability, CARGILL	Tel. +233 024 433 5412	27th September, 2019
Tawiah Agyarko - Kwarteng Ghana Country Rep., HERSHEY	Tel. +233 054 443 1190 tagyarkokwarteng@hersheys.com	18th September, 2019
Jeff Oduro Mensah Manager, MONDELEZ	Tel. +233 030 393 5639	24th September, 2019

NAME OF CONTACT	CONTACT DETAILS	DATE OF INTERVIEW
Peter Baghr Digital Financing Services Coordinator, WCF	Tel. +233 030 221 0210 kakobeng@agricbank.com	26th September, 2019
aria Adamu-Zibo C.E.O., Federated Commodities	Tel. +233 030 263 4060 Yaw.njorgnab@ubagroup.com	19th September, 2019
Sulley Aziz P.R.O., TransRoyal	Tel. +233 030 266 1701 davedzi@nib-ghana.com	16th September, 2019
Abdulai Aliyu Ex. Solidaridad	Tel. +233 030 278 1200 n.abena@prudentialbank.com.gh	24th September, 2019
Vincent Akomeah Head - Research, COCOBOD	Tel. +233 030 267 2859 p.morttey@gcb.com.gh	19th September, 2019

Appendix 2 – Questionnaire to Banks

- Does your Bank have a policy for agricultural financing?
- If yes, is it a general agriculture policy available for all crops and farmers
- What are the available financing models for agriculture – pre or post production, inputs etc.
- Is there a specific policy on Cocoa financing?
- Do you finance smallholder cocoa farmers, farmer groups or LBCs?
- Does your bank partner other agencies/NGOs in agricultural financing? Are you aware of climate smart cocoa?
- Would you be interested in climate smart cocoa financing?
- What additional measures should be put in place by the farmers/LBC to secure financing from the bank.
- What is your institution's exposure to the agriculture sector particularly cocoa over the last four years?

YEAR	TOTAL EXPOSURE TO AGRIC SECTOR	EXPOSURE TO COCOA
2015		
2016		
2017		
2018		

Appendix 3 – Questionnaire to LBC’s and Traders

- Do you have a policy for cocoa financing?
- If yes, what are the available financing mechanisms for cocoa – pre or post production, inputs etc.
- Do you finance smallholder cocoa farmers, farmer groups?
- Do you partner other agencies/NGO’s in cocoa financing?
- In what cocoa growing areas do you operate?
- Are you aware of climate smart cocoa?
- If yes, are you involved in climate smart cocoa
- Would you be interested in climate smart cocoa financing?
- How much of your annual budget is spent on cocoa financing?

YEAR	ANNUAL BUDGET	COCOA FINANCING
2016		
2017		
2018		

Appendix 4 – Questionnaire to Brands

- Do you have a policy for cocoa financing?
- If yes, is it a general policy available for all farmers
- What are the available financing mechanisms for cocoa – pre or post production, inputs etc.
- Do you finance smallholder cocoa farmers, farmer groups?
- Do you partner other agencies/NGO’s in cocoa financing?
- Where do you purchase your cocoa from – COCOBOD, LBC’s or directly from farmers
- Are you aware of climate smart cocoa?
- Would you be interested in climate smart cocoa financing?
- How much of your annual budget is spent on cocoa financing?

YEAR	ANNUAL BUDGET	COCOA FINANCING
2016		
2017		
2018		

Appendix 5 – Question guide for Bank of Ghana Policy review

- What is Bank of Ghana’s policy on lending?
- Does Bank of Ghana have a policy for agricultural financing?
- If yes, is there a separate policy for cocoa?
- What are the available financing models for agriculture?
- Is it available to all Banks?
- Does Bank of Ghana engage directly in agricultural financing
- Does Bank of Ghana partner other agencies/NGO’s in agricultural financing?

Appendix 6 – Matrix of responses to questionnaires

BANKS RESPONSES MATRIX

Banks	Agric Policy	Cocoa Policy	Financing Models	SHF Financing	Partnership in Agric Finance	CSC Awareness	CSC Interest	Exposure to Agric
ADB	YES	YES	LOANS	YES	NO	YES	YES	HIGH
GCB	NO	NO	LOANS	NO	NO	NO	YES	LOW
NIB	NO	NO	LOANS	NO	OVCF	NO	YES	LOW
UBA	NO	NO	LOANS	NO	NO	NO	YES	LOW
PBL	NO	NO	LOANS	NO	NO	NO	YES	LOW
FBL	NO	NO	LOANS	NO	NO	NO	YES	LOW

LBC’s AND COCOA TRADERS RESPONSES MATRIX

LBC / COCOA TRADERS	Cocoa Financing Policy	Financing Models	SHF Financing	Partnership in Cocoa Financing	CSC Awareness	CSC Involvement	CSC Financing
ECOM	NO	NONE	NO	NO	YES	PARTIALLY	NO
OLAM	YES	LOANS	YES	NO	YES	PARTIALLY	NO
NYONKOPA	NO	NONE	NO	NO	YES	PARTIALLY	NO
KUAPA KOKOO	YES	LOANS	YES	YES	YES	PARTIALLY	NO
FEDCO	YES	VSLA	YES	YES	YES	PARTIALLY	NO
TRANSROYAL	YES	OVCF	YES	YES	YES	PARTIALLY	NO
MONDELEZ	NO	NONE	NONE	NONE	COCOBOD	YES	NO
HERSHEYS	NO	NONE	NONE	NONE	COCOBOD	YES	NO

Appendix 7- Question guide for MOFA and MOFEP policies review

- What is the policy on agricultural finance?
- Is there a separate policy for cocoa?
- What are the available financing models for agriculture?
- Do they engage directly in agricultural financing?
- Do they partner other agencies/NGO in agricultural financing?

Appendix 8 - Question guide for interviews with OVCF, GIRSAL and GHANA EXIMBANK

- What is the policy on agricultural finance?
- Is there a separate policy for cocoa?
- What are the available financing models for agriculture?
- Do they partner other agencies/NGO's in agricultural financing?

Appendix 9 - Links to Bank of Ghana Acts and Other Policies

- http://agricinghana.com/wp-content/uploads/2016/04/fasdep_ii.pdf
- <http://agricinghana.com/wp-content/uploads/2013/02/medium-term-agriculture-sector-investment-plan-ghana.pdf>
- www.bog.gov.gh/wp-content/uploads/2019/09/bank-of-ghana-act-2002-act-612.pdf
- www.bog.gov.gh/wp-content/uploads/2019/09/Bank-of-Ghana-Amendment-2016-ACT-918.pdf
- www.bog.gov.gh/wp-content/uploads/2019/09/BANKS-AND-SPECIALISED-DEPOSIT-ACT-2016.pdf



RESEARCH PROGRAM ON
**Climate Change,
Agriculture and
Food Security**



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About CCAFS Finance Strategy

The CGIAR Research Program on Climate Change, Agriculture and Food Security (CCAFS) is led by the International Centre for Tropical Agriculture (CIAT). CCAFS brings together some of the world's best researchers in agricultural science, development research, climate science and Earth System science, to identify and address the most important interactions, synergies and tradeoffs between climate change, agriculture and food security. Visit us online at <https://ccafs.cgiar.org>

This CCAFS finance strategy document is a brief report on the current status and possible strategies to help finance climate-smart cocoa production in Ghana. They are not necessarily peer reviewed. Please contact the author for additional information on their research.



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