THE STUDY OF ABSORPTION CAPACITY OF SMES FOR TERM LENDING FACILITY IN THE THREE NORTHERN REGIONS OF GHANA

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**TABLE OF CONTENTS**

1.0 Executive Summary 4
1.1 Summary of Key Findings of the SME Study 5
2.0 Introduction 10
2.1 Key Objectives and Expected Outputs/Outcomes 10
2.2 Scope and Methodology 11
2.3 Desk Review Pre-Inception and Scoping Activities 12
2.4 Pre-Inception and Scoping Activities 12
2.4.1 Key Informant Interviews in the 3 Northern regions 13
2.4.2 Justification of the Approach in identifying SMEs for the term facility 14
2.5 Limitations of the Study and Key Issues 15
3.0 Overview of Supply-side and Demand-side Agricultural Value Chain Actors 16
3.1 National Policy Framework on Agriculture 16
3.2 Development Partner Programmes 16
3.2.1 Danida supported Agricultural Value Chain Facility 16
3.2.2 Northern Rural Growth Programme (NRGP) 19
3.2.3 Rural and Agricultural Finance Programme (RAFIP) 20
3.2.4 MiDA 20
3.2.5 ADVANCE Ghana Agricultural Development and Value Chain Enhancement 21
3.2.6 Export Development and Agricultural Fund (EDAIF) 21
3.2.7 Association of Church Development Projects in the 3 Northern regions 22
3.3 Financial Intermediation in the three Northern regions 22
3.3.1 Commercial Banks 22
3.3.2 Rural Community Banks 23
3.3.3 Microfinance Institutions 23
3.4 Characteristics of selected banking institutions in the three Northern regions 23
3.5 Agricultural Value Chain Actors 26
3.6 Characteristics of Demand-side Agricultural Value Chain Actors 28
4.0 Data Collection and Analysis 31
5.0 Analysis of Findings according to Key Outputs/Outcomes 59
6.0 Presentation of Key Recommendations and Conclusions 67
6.1 Key Recommendations 67
6.1.1 Matching Agric Sector SMEs Funding needs with Appropriate Lending instruments 67
6.2 Key Recommendations 68
**List of Annexes:**

<table>
<thead>
<tr>
<th>Annex</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annex 1</td>
<td>Questionnaires for SMEs (Aggregators/Marketers)</td>
</tr>
<tr>
<td>Annex 2</td>
<td>Questionnaire for SMEs (Agro input Dealers)</td>
</tr>
<tr>
<td>Annex 3</td>
<td>Questionnaires for Secondary FBOS</td>
</tr>
<tr>
<td>Annex 4</td>
<td>Questionnaires for Financial Institutions</td>
</tr>
<tr>
<td>Annex 5</td>
<td>Contact Details of SMEs Identified</td>
</tr>
</tbody>
</table>
1.0 EXECUTIVE SUMMARY

In line with global sustainable development efforts, most development partners in Ghana, particularly DANIDA, USAID, IFAD and others have targeted commercial farmers (aggregators, marketers, agro dealers and others) for agricultural value chain financing interventions in the three northern regions as part of integrated approaches to accelerate poverty reduction in these regions. Most of these programmes have rural finance components matched with business development services to improve access to credit to small businesses, farmers and agribusinesses. The interventions initially targeted rural banks as the main source of credit to small businesses and agribusinesses in the rural communities and strengthened their institutional capacities to deliver credit effectively. These rural banks could only deliver short term credit to the borrowers at high interest rates sometimes close to 40% through microfinance portfolios effectively.

Danida as a key development partner in Ghana identified the private sector as the engine of growth and initially provided wholesale finance which targeted rural banks as the main channel for credit delivery to small businesses including agro dealers. Based on lessons learned during the initial intervention, the second phase of the programme, in an attempt to scale up progress achieved, adopted the value chain approach and targeted the key actors in the three northern regions who had proven need for term finance for investments to expand their agribusinesses and provide employment opportunities for the youth in particular. The innovative model developed, linking commercial farmers with a commercial bank for long term credit facilitated by a 50/50 risk sharing arrangement and a mentorship facility was presumed to be an appropriate fit under normal circumstances. However, in the course of implementation, it has been discovered that the term facility has not met its target of providing term credit to the SMEs i.e. aggregators, marketers, nucleus farmers, off-takers and agro-dealers and others, effectively in the three northern regions.

The SME survey conducted in the three Northern regions assessed the absorption capacity of agricultural value chain actors and interviewed the various actors along the value chain particularly processors, off-takers, aggregators, marketers, nucleus farmers, agro dealers, secondary farmer-based organizations and other farmer groups to determine their need for term finance. The study sought to identify factors inhibiting the absorption capacity of the SMEs and to also explore challenges related to supply side issues namely the financial intermediation environment including the banks lending criteria and available financing schemes for agricultural value chain actors. Overall, 162 players in the agricultural value chain were interviewed with 62% of them engaged in agribusiness. 20.6% were secondary farmer based organisations members, 15% marketers, 1.3% in the financial institutions that support these farmers and 0.6% were value chain facilitators. In relation to geographical location, 64% of the SMEs were located in the northern region, 20% in the Upper East region and 16% in the Upper West region.
The SME study was conducted in ten districts in the Northern region namely, Tamale Metropolitan, Yendi Municipal, Savelugu District, Karaga District, Damongo District, Gushiegu District. Other districts are Saboba Chereponi, Bunkpurugu, East Mamprusi, West Mamprusi and Bimbila. 104 interviews were conducted in the Northern region. In the Upper East region, 33 interviews were conducted in the Bolga Municipal, Bawku Municipal, Navrongo (Kassena-Nankana), Talensi Nabdam, Buiisa-Sandema, Garu and Paga districts. Interviews in the Upper West region targeted 25 SMEs in Wa Municipal, Sissala East, Sissala West and Lawra districts respectively.

In accordance with the terms of reference, the team focused more on key players that could be targeted immediately for the term facility. These are Aggregators, Marketers, Nucleus farmers, Agro input dealers, Tractor operators and other service providers in the maize, sorghum, soybean, rice and other value chains. Overall, 76 viable SMEs classified mostly in the category of aggregators, marketers, off-takers, nucleus farmers and agro input suppliers were identified in the three Northern regions and can be targeted immediately for the Stanbic Facility. They players deal in the maize, sorghum, soybean and rice value chains.

The total term credit requirement per each region is stated as follows:

- **Northern Region**: GHC1,031,648,300
- **Upper East Region**: GHC7,995,200
- **Upper West Region**: GHC12,970,000

**Total potential term credit requirement**: GHC1,052,613,500

Secondary Farmer-based organizations linked to renowned aggregators, marketers and off-takers were also targeted for consideration in the medium to long term. This was based on the assumption that the current agreement with Stanbic under the ACVF could be reviewed to take advantage of the current and future opportunities. The list of the 76 SMEs identified with corresponding amount to term credit required by each of them is highlighted in Chapter Five.

1.1 Overview of Key Highlights of Findings and Recommendations

The key findings revealed the various types of existing financing schemes relevant to each category of the value chain actors. Processors are multinational companies which already have firm financial arrangements in place. Aggregators and marketers are the main category classified as SMEs and meet the term lending requirements of the commercial banks. For the purpose of the study, the consultants prioritized identification of SMEs that could meet the lending criteria of commercial banks.

- Out of the 162 agricultural value chain actors interviewed in the three northern regions, 76 SMEs mostly aggregators, marketers and nucleus farmers have been identified to be targeted immediately for the Stanbic facility. Most of these SMEs are working in the maize and sorghum value chains.
Factors inhibiting the ability of SMEs to access term financing includes the fact that 52% of the SMEs are not aware of the Stanbic facility. The regional breakdown of SMEs not aware of the Stanbic facility is highlighted below:

- Northern region: 40%
- Upper East region: 69.7%
- Upper West: 76%

88% of those who are aware of the facility indicated they have not applied for the facility based on the perception that their applications will not be considered. With Stanbic approving only 3 out of the 25 business plans submitted through Agricultural Value Chain Mentorship Programme AVCMP, there is a growing perception amongst the SMEs that Stanbic is not a ‘serious’ agric-oriented bank. Other factors include high interest rates and other requirements such as the 15% deposit. Furthermore, Stanbic does not seem to have adequate personnel in place like the other banks for example Barclays Bank, Ecobank, Bonzali Rural Bank and Sinapi Aba Trust which have established good relationship with agribusinesses.

Other facilities like EDIAF, and ADVANCE support credit exist but the SMEs are either considered ineligible or subjected to rigorous loan application processes making the credit facility irrelevant when disbursement is delayed. Rural banks only provide short term credit since they only mobilize short term funds.

Regarding term financing facilities available to the SMEs, a total of 46.1% of the respondents said their term financing needs was in respect of constructing storage facility or warehouse. 41.7% would require term financing for farm implements or equipments whilst 29.9% require term financing for working capital and 21.7% require credit to meet their transportation needs. These SMEs already have financial arrangements in place, either through their off-takers or short-term loans sourced from Rural Banks to finance production activities.

With most banks particularly Stanbic and Barclays avoiding financing of the production stage, the SMEs rely mostly on financing from their off-takers like Savannah Marketing Company, Guinness, Yedent, Premium Foods and others who work with them under vertical arrangements through aggregators or marketers to produce for them. It is interesting to note that most of the well established aggregators facilitating long term credit for the nucleus farmers and secondary farmer organizations also find it difficult to access credit from Stanbic thereby limiting their scope of operations.
About 20% of these players are located in the Upper West and Upper East regions which are not familiar with the AVCMP linking SMEs to the facility. These actors have a good profile and are currently managing huge amount of credit averaging over GHC1,000,000. As regards capacity to adopt best business practices to meet the diverse lending criteria more than 80% of the actors have received some form of training through the donor managed schemes like AVCMP, ADVANCE, MiDA, GAIDA, IFDC GYEEDA and others. However, only 50% of the respondents keep financial records. Regarding training needs in business development and financial services 78% of the respondents said they need to be trained in business management and development whiles 22% said they need to be trained on post harvest management. The SMEs also revealed that Stanbic Bank does not have the appropriate capacities to deliver value chain financing effectively. All the other banks interviewed also indicated they have peculiar problems ranging from capacity deficiencies in agricultural value chain financing and lack of bulk credit to onlend. The rural banks in particular revealed this capacity gap that need to be addressed.

It is also becoming obvious that eligibility criteria for bank loans go beyond capacity building of the SMEs. Stanbic has indicated that they are interested in disbursing huge credits to leverage transaction costs amongst other criteria.

On the supply side, most of the banks interviewed particularly ECOBANK expressed interest in financing the agricultural sector through donor support schemes such as ADVANCE but were quick to indicate that this would be done with creativity, innovation and caution given the perceived high risk associated with agribusinesses. This is partly due to the fact that agriculture is mostly rain-fed in Ghana. Most of the SMEs do not have diversified portfolios to mitigate risk.

When lending money to businesses, banks and financial institutions base their decision on different criteria which follow an order of importance known as the 5 ‘Cs’. Character is considered key to determine the level of trust. Capacity is the next level which assesses the SME’s ability to repay the loans. Capital analysis enables banks to determine the financial health of the company. Conditions prevailing in the external environment also determines business viability. Collateral constitutes the guarantee that cushions banks in the event of credit default.

The Banks already have arrangements in place with the aggregators and marketers who meet the banks’ lending criteria. The rural banks are playing a major role in financing the semi-formal SMEs who access credit through their off-takers but have limited funding to meet the needs of the numerous nucleus farmers, secondary farmer organisations and other actors including agro input dealers. Besides, they can only lend short-term due to the nature of their operations.
The full details of the findings are presented in Chapter Five to respond appropriately to the terms of reference as regards specific expected output and outcomes of the study.

Summary of Key Recommendations and Conclusions

- 52% of the SMEs interviewed are not aware of the facility and this factor requires extensive promotion of the facility extensively particularly in the Upper East and Upper West regions. With 78% of the SMEs expressing interest in the Stanbic facility in spite of substitute facilities such as the NRGP and EDIAF and 80.2% highlighting their capabilities to meet Stanbic’s lending requirements, it is recommended that Stanbic should adopt innovative measures to create value out of the 50/50 credit guarantee arrangement. Efforts should be made to adopt the innovative lending model put in place by ECObank which facilitates disbursement of the ADVANCE supported funds to eligible SMEs under a credit guarantee.

- Given the fact that 98% of the total amount required as term credit is in respect of aggregators and marketers located in the Northern region, the AVCMP should include more Aggregators and Marketers who could be eligible for the Stanbic facility as project SMEs targeted under the arrangement. Nevertheless, there are also viable aggregators in the Upper East and Upper West regions with huge demand for term credit who can also be part of the AVCMP. Stanbic already has in its depositors portfolio some aggregators and agribusinesses that are not able to access long term credit from the bank. It is recommended that these SMEs are made part of the AVCMP target group to be considered as project SMEs and become eligible for the Stanbic term lending facility.

- The current monopoly status being enjoyed by Stanbic is one of the major factors inhibiting the absorption of the facility. The AVCF Agreement should be reviewed as soon as possible to allow other commercial banks to participate in the term lending facility. This is due to the fact that other similar funding mechanisms i.e. FINGAP supported by USAID will soon be launched which could worsen the issue of low absorption of the term facility in the near future.

- Review of the Agreement would also make funds available to Rural Banks who are the main financiers for the producers and agribusinesses in the three Northern regions through Secondary farmer groups linked to large processors and commodity buyers such as Premium Foods, Guinness, Nestle, Yedent, Presby Agricultural Services, AVNASH and others.

- Critical synergies should be explored between the Danida Programme Components i.e. Agricultural Value Chain Facility and the Rural Finance component to facilitate wholesale lending from Stanbic to Rural Community Banks through the Rural Finance Component being implemented by ARB APEX Bank.

- The Financial Capacity Building Sub-component should be operationalised as soon as possible to ensure capacity building for Stanbic bank staff to position them
appropriately for agricultural value chain financing. This facility should also benefit future participating financial institutions in the AVCF.

The concluding part of the study report highlights clearly the need to identify financial institutions that combines both commercial and development strategies in credit delivery given the fact that the AVCF is donor-driven with some elements of development orientation. The Sinapi Aba Trust has a profile that positions it as banking institution that combines both commercial and development strategies to achieve results and addresses the needs of producers and other actors effectively and efficiently.

It is recommended that two levels of SME facilities be created to link each category of SMEs to the appropriate financial products that will be sustainable. The first category should comprise the 76 Aggregators and Marketers identified who are capable of meeting the lending requirements of commercial banks. These SMEs should be linked to the Stanbic Bank as soon as possible through the AVCMP. The other category should comprise project SMEs like those mentored by the AVCMP who should be linked to financial institutions with a development focus. This category also has greater opportunities since they are also capable of accessing short term credit from the Rural Banks.
2.0 INTRODUCTION

The SME study was undertaken to assess the absorption capacity of agricultural sector SMEs in the three Northern regions in line with the terms of reference for the study. Chapter One presents an overview of key findings of the study. Chapter Two presents the methodology adopted in achieving the objectives and key outputs of the study. Chapter Three presents a mapping of the supply-side and demand-side actors in the agricultural value chain with detailed analysis of their profile, i.e. strengths and weaknesses as well as opportunities and challenges identified for the term facility. Chapter Four highlights the key findings of the SME Study, with presentation of a detailed qualitative and quantitative analysis of the outcome of the study in the three Northern regions. Chapter Five presents a detailed analysis of the key findings based on the expected key outputs and outcomes of the study. Chapter Six is the last chapter highlighting key recommendations and conclusions for decision making purposes.

2.1 Key Objectives and Expected Outputs
The overall objective of the SME study is to assess the absorption capacity (the extent to which SMEs can absorb the loanable funds available under the Stanbic Bank Medium Term facility) of these SMEs in the three (3) regions of Northern Ghana. The target groups include but not limited to agrodealers, output aggregators, tractor service providers, millers, transporters, secondary FBOs and seed Companies or any other relevant actors in these agricultural value chains. The Key Output/Outcomes of the study are highlighted as follows:

- Clearly indicate whether or not the SMEs have the capacity to absorb loanable funds available under this Term facility in the three (3) regions of Northern Ghana.
- What factors inhibit or facilitate the ability of the SMEs to access the term financing
- Potentially how many SMEs can actually absorb the loanable fund over the remaining 4 years of the facility
• How many of these SMEs can be targeted immediately and quickly in the 3 regions and
• Capacity gap and what is required to fill those gaps based on sound analysis of the situation.

Additionally, the study is to determine:

o The growth potential of SMEs after the AVCF intervention
o Potential impact of the intervention in terms of income, employment, production and productivity
o Willingness of individual SMEs to commit to the loan application process and see it through
o Information on other similar loan facilities available to SMEs in the 3 regions of Northern Ghana provided by other development partners
o The Banks involved in agriculture Value Chain Term Financing and the capacity building needs of staff of such Banks to help improve access to agriculture Value chain Term financing.

2.2 SCOPE AND METHODOLOGY
A series of preliminary activities were undertaken by the Consultants after signing the contract on 28th August, 2013 to execute the assignment. Mobilisation funds were disbursed on 18th September, 2013 after which the Consultant met with AGRA’s Innovative Financing Unit to validate arrangements for field work activities in the three Northern regions. Field work activities began on Monday, 23rd September, 2013.

Prior to the commencement of the preliminary fieldwork, the consultants had undertaken some key activities deemed necessary for the assignment in Accra. The preliminary activities were in the form of desk reviews of existing documents and meetings and consultations with key stakeholders on the project in Accra and in the 3 Northern regions. These activities were deemed necessary in order to have an in-depth understanding of the study. It also provided an opportunity to build a cordial working relationship with key stakeholders identified at the initial stages.

The preliminary activities also informed the decision to make certain amendments to the consultant’s methodology as outlined in the technical proposal. Specifically, the study prioritize the identification of Aggregators, Marketers, Agro-dealers and Secondary Farmers Organizations who could be targeted immediately for the Stanbic term lending facility to complement the critical mass of SMEs identified by the AVCMP. These actors have linkages with commodity buyers like NESTLE, GUINNESS, Premium Foods, AVNASH Mill, Presby Agricultural Services who are based in Accra and Kumasi. It therefore became necessary to interview them in order to identify their suppliers and financial linkages in the 3 Northern
region who will constitute the focus of the study to identify SMES capable of accessing the Stanbic term facility.

The value chain actors that the AVCMP facility has mentored were also analysed critically to ascertain factors inhibiting their ability to access finance from Stanbic despite enormous efforts deployed by the AVCMP partners for this purpose.

2.3 DESK REVIEW
A desk review was undertaken on existing documents of the Agricultural Value Chain Facility and other related documents to provide preliminary inputs for the execution of the assignment. Information was sought from diverse sources, particularly:-

1. AGRA Technical Proposal to Danida
2. Ghana SPSD Document – Component 2.2
3. AGRA Strategy Document
4. Stanbic Term Facility Operational Progress report
5. AVMP Project document
7. Lessons Learned from Forerunner Programme i.e. SPEED Funding Facility
8. Northern Region Growth Programme (NRGP) document
9. USAID Enabling Agricultural Trade Programme (EAT) – The Market for Maize, Rice, Soy and Warehousing in the Three Northern Regions in Ghana
10. Food and Agricultural Sector Development Policy (FASDEP II)
11. Rural Enterprise Programme Baseline Survey Report

The desk review provided the Consultants with a better appreciation of the scope of the assignment and this facilitated identification of linkages and synergies to be explored amongst existing programmes and activities.

The initial activities undertaken also confirm our initial understanding of the assignment as regards identifying a critical mass of potential SMEs in the agricultural sector who can be targeted immediately and quickly for intervention. In this regard, the team undertook a scoping mission to all the three regions and assessed Aggregators, Marketers and other big players who already have their networks in place and could be targeted immediately to access the Stanbic term facility.

2.4 PRE-INCEPTION AND SCOPING ACTIVITIES
In line with the top-down approach adopted by the consultants to facilitate identification of SMEs in the agricultural sector capable of absorbing credit, preliminary key informant interviews were conducted in Accra prior to the field work in the 3 Northern regions in order to identify key supply-side as well as demand-side agricultural value chain players. Specifically, the team engaged with large commodity buyers with the Head Office in Accra and Kumasi e.g. Premium Foods, Nestle, WIENCO and others, who work backwards with well established
Aggregators, Marketers, Nucleus Farmers, Agro-dealers and other agricultural value chain actors in the 3 Northern regions. Contact details of these critical players were obtained which facilitated the actual key informant interviews in the three northern regions. In addition, one of the team members participated in the International Agricultural Value Chain conference which took place in Accra on 25th September, 2013 as part of the study, and engaged with several large agricultural commodity buyers. The team gathered information on the funding mechanisms adopted by these large organizations and the list of their backward linkages such as marketers, aggregators and farmer-based organizations for the supply of raw and processed agricultural products. The list included Savannah Marketing Company, Premium Foods, Presbyterian Agricultural services, WIENCO, ACDEP and others. Furthermore, the team obtained a list of secondary farmer organisations working in the three Northern regions from ACDEP. ACDEP is implementing a project supported by AGRA targeting farmer organisations in the Upper West region. A comprehensive list of the viable SMEs was also obtained from ACDEP. The preliminary list of SMEs obtained from AVCMP was also very useful for identification of key actors to be targeted for the interviews.

2.4.1 Key Informant Interviews in the three Northern regions

Based on the outcome of the pre-inception activities in Accra, the team proceeded to the three northern regions from 23rd September to 4th October 2013 to conduct key informant interviews and data collection on selected marketers and aggregators as well as other value chain actors.

The first point of call was the AGRA supported Agricultural Value Chain Mentorship Programme (AVCMP) in Tamale which involved meetings with IFDC and GAABIC. In the absence of the other AVCMP partners i.e. SARI and ADRA (who were not available for interviews), the AVCMP coordinator provided useful information on the role of all the partner institutions. The AVCMP provided the team with the list of SMEs targeted for support under the project.

The team also met with representatives of Northern Rural Growth Programme (NRGP), ADVANCE –ACDI-VOCI, MIDA Agricultural Business Centres, EDAIF, Rural Enterprise Programme, Ministry of Food and Agriculture. The financial institutions met include Stanbic Tamale, ECOBANK, Agricultural Development Bank, Bonzali Rural Bank, Sinapi Aba Trust, Global Trust Microfinance Services, ARB APEX. The team also visited ACDEP Financial Services which facilitates credit for the numerous secondary FBOs they are working with through rural community banks. The team also met key Aggregators such as Savannah Farmers marketing Company, Gundaa, AVNASH, WIENCO, 18th April, PETOZ, AgriAccess, Faranaya Business Centre to mention a few. In order to explore the huge financing opportunities presented by secondary FBOs, the team met with representatives at the ACDEP Head Office in Tamale and also interacted with the management of the Upper East and Upper East regions. The meetings with the ACDEP offices in the three northern regions proved very useful as they provided key information on their members as well as the key aggregators, marketers, input suppliers, processors and other downstream actors they work with in the value chain. The main off-taker for ACDEP’s SFBOs in all the three regions is Savannah Farmers Marketing Company. They also work with Premium Foods and other off-
takers. Other actors met include SAVBAN Marketing company, MiDA Agribusiness Center and some agro input suppliers.

Close to the end of the data collection process, the team participated in the Pre-harvest forum and interacted extensively with a large number of aggregators, marketers, off-takers and large procession companies who were brought together for marketing and financial intermediation. The team took the opportunity of the availability of the large number of aggregators at the forum and organized a validation meeting to ascertain the authenticity of data collected. All key value chain actors interviewed confirmed that information captured by the enumerators relating to their businesses was authentic. This was done as a cost-saving measure and to speed up the attainment of the outputs of the assignments.

2.4.2 Justification of the Approach in Identifying SMEs for the term financing facility

The team identified three types of informants: value chain facilitators, commodity buyers and technical operators comprising seed companies, aggregators, marketers, nucleus farmers, warehouse operators/owners and other players.

The team’s approach involved identification of inclusive market development models in the Northern regions or backward integration schemes led by commodity buyers. It involves identification of technical operators in the Northern regions that are engaged in buyer/seller arrangements with the commodity buyers. These arrangements along the supply chain require adequate cash flow and capital investment which for most of the time are provided by the value chain leaders or informal sources of financing or through actor’s own or family resources. This presents viable business opportunities for Stanbic Bank.

Market facilitators are generally NGOs, business associations or donor funded projects (e.g. USAID Advance, USAID and World bank funded Commercial farmers, USAID Agricultural Technology Transfer, Ghana Rice Inter-Profession Body). The role of these facilitators is to coordinate project activities, particularly analysing needs, identifying potential stakeholders and bring key actors on board to address challenges and to identify opportunities. The facilitators also use their own resources to provide incentives or reduce the risk level and also bridge the knowledge gap between buyers and producers with a view to stimulating private investment. The market facilitators do not engage in direct commercial transactions. Because of their network and linkage abilities, they constitute great channels for identifying commodity buyers and key value chain operators as well.

Commodity buyers are large corporate bodies (agroprocessors, agrodealers or marketing firms) who act as the pivot to drive the value chain. They provide direct market access to producer groups/nucleus farms or aggregators by purchasing the raw materials needed to operate their plants and manufactured fast moving consumer goods (eg. Premium Foods, Nestle, Ghana Nuts). Some of them also engage in direct commodity marketing (Wienco) and export (Savannah Marketing Limited). These players tend to invest in soft and hard infrastructure at rural and urban levels and provide input credit (farmer’s kit), extension services and technologies, direct market and sometimes pre-financing to smallholder producers.
Technical operators are the main target for the study and comprise seed companies, aggregators, nucleus farms, warehouse operators/owners. Support service providers (equipment, tractor, small on farm processors, labs, transport, etc.) also play a crucial role in agribusiness development.

The criteria for selecting the target group is as follows:

- Must be a registered business
- Must be part of a market system governed by a commodity buyer
- Must have an asset base
- Must have basic accounting records
- Must be capable of managing commercial credit
- Must have a business plan with annual and long term financial projections
- Must have a risk management/diversification plan

2.5 Limitations of the Study and other Key Issues
The main limitation of the SME study is the time allotted for the assignment. Thirty-one days proved to be inadequate to carry out a study covering the three northern regions. The team proposes a minimum of two months for future surveys to enable adequate data collection, entry, cleaning and analysis to be carried out. Also, the beginning of the data collection process coincided with the Eid celebrations which caused a break of 3 days in data collection process. Furthermore, collection of questionnaires from the three regions presented challenges due to risks such as breakdown of vehicle conveying the questionnaires from the various districts and regions. This was resolved with the help of the facilitators who worked hard to ensure that all the 162 questionnaires were duly submitted for analysis. The team also encountered bottlenecks in the key informant interviews with financial institutions. Most of them were unwilling to disclose details on their SME portfolios since the survey relates to a competitor which poses a threat to their operations. In relation to contractual issues, the study took off almost one month after the contract was signed due to unforeseen bureaucratic processes on the part of AGRA.
3.0 OVERVIEW OF SUPPLY-SIDE AND DEMAND-SIDE AGRICULTURAL VALUE CHAIN ACTORS IN THE THREE NORTHERN REGIONS

3.1 National Policy Framework on Agriculture
Ghana’s agriculture is dominated by subsistence small holder production units with weak linkages to industry and the services sector. The sector is also characterized by low level of technology and productivity, low income and weak competitiveness in production, processing and distribution. The main focus of agricultural development, over the medium-term, will be to accelerate the modernisation of agriculture through the implementation of the Food and Agriculture Sector Development Policy (FASDEP II) and the corresponding investment plan as detailed in the Medium-Term Agricultural Sector Investment Plan (METASIP) and ensure an effective linkage between agriculture and industry.

Agriculture is the main engine of economic growth in Ghana. Food crop production in Ghana is dominated by millions of smallholder farmers widely dispersed in the country. A wide range of food crops – food staples, vegetables and other common crops - are grown and include maize, rice, millet, sorghum, cassava, yam, groundnut, cow pea, soybean, shea nut and pepper. In the northern regions (northern, upper west and upper east) of Ghana which represent 41% of the total land area, poverty is rampant, yet the region has great crop production potential especially in the production of staple food crops. Rising poverty has been attributed partly to low and declining smallholder farm productivity. There are also factors relating to lack of improved and high cost of seed and other inputs, reliance on rain-fed agricultural production, post-harvest losses and limited access to credit due to high interest rates and stringent collateral requirements are the main constraints limiting crop productivity.

3.2 Development Partner Programmes
In line with global sustainable development efforts, most development partners in Ghana, particularly USAID, GIZ, DANIDA, IFAD, IFDC, MIDA and others have targeted farmers in the three northern regions for interventions as part of integrated approaches to accelerate poverty reduction in these regions. MIDA, ADVANCE and AVCMP seem to dominate donor-funded interventions in the three northern regions. Most of these programmes have rural finance components matched with business development services to improve access to credit to small businesses, farmers and agribusinesses.

3.2.1 Danida supported Agriculture Value Chain Facility
The Agricultural Value Chain Facility is a sub-component (Component 2.2) of DANIDA’s support to Private Sector Development in Ghana which seeks to apply a holistic approach to address three areas of constraints in an integrated and coordinated effort: (i) inadequate management, business and technical skills as well as market linkages among key players in the agricultural value chains; (ii) lack of expertise and limited experience in agricultural financing on the part of commercial banks and (iii) Banks inability to lend to farmers and SMEs due to shortage of funds or collateral gaps. The sub-component supports three interventions including establishment of a term facility targeting selected commercial banks starting from Stanbic Bank Ghana Ltd. to address in a holistic manner the key constraints in developing agricultural value chains. The Agricultural Value Chain Facility (AVCF) has a term
financing component implemented by Stanbic Bank. The facility seeks to provide long term financing to growth-oriented SMEs (aggregators, agro-dealers, processors and other categories of agricultural service providers) operating along the agricultural value chains for infrastructure and equipment acquisitions. The relevance of the facility is due to the fact that commercial banks are generally reluctant to lend to agriculture and rural SMEs, with particular reference to long term credit delivery. This is not only due to the perceived high risk and absence of sufficient security but also due to the fact that the banks would normally avoid a major mismatch of long assets with short liabilities. The strategy of the intervention was to provide some risk mitigation to the commercial banks under a 50/50 credit guarantee arrangement to motivate them to enter this market segment while at the same time optimising the leverage of the project funds.

The introduction and design of the AVCF has been guided by among other factors experiences from the value chain work of SPEED supported in the first phase of Danida's support to private sector development. In spite of the achievements of SPEED BDS, the absence of established links between BDS and financial services has been a key challenge. The approach to designing value chain support in the second phase was based on the following priorities: (i) BDS and other advisory services for development of value chains should have linkages to loan providers as value chain development generally requires investments; and (ii) BDS and loan provision should be done by efficient permanent organisations. Furthermore, in selecting areas for value chain development, special priority should be given to commercial agriculture due to its high job-creation and poverty-reduction potential.

The Alliance for a Green Revolution in Africa (AGRA)
Since it was established in 2006, AGRA has worked with partners across the focal countries in Africa to catalyze a broad-based agricultural revolution, with Ghana being one of the foremost countries. Working in concert with other partners in the public and private sectors in Ghana. AGRA is facilitating systemic but targeted investments in the agricultural value chain ranging from training and capacity building in seed systems development, soil health improvements and sustained policy change. Other programs include the development and dissemination of improved technologies, input and output markets development, innovative financing and support for farmer organization. Beginning from the Northern region, AGRA is also facilitating implementation of a strategy to demonstrate how successful systemic transformation in a few highly visible productive agricultural regions will help spark a broader Green Revolution.

AGRA is currently implementing an integrated agricultural Value Chain Facility (AVCF) in all the 20 districts of the Northern region of Ghana. The Facility focuses on improving access to long term finance combined with mentorship (technical assistance) to key players (farmers, FBOs, SMEs, agrodealers, aggregators, etc.) in the rice, maize and soybean value chains. The facility is primarily to stimulate critically needed Term financing for SMEs and agribusinesses in the selected value chains to enhance their competitiveness and efficiencies and to ensure that they are economically and financially profitable, viable and
sustainable and generate jobs in a sustainable way. To this end, a financing facility has been set up at Stanbic Bank that is now operational for at least 2 years. A particular challenge has been the low absorption capacity of the funds by the target groups.

**Agricultural Value Chain Mentorship Programme (AVCMP)**

The AVCMP launched in Tamale in September 2011 is a sub-component of the Agricultural Value Chain Fund with an aim to contribute towards achieving the national objective of achieving food security and become an industrial economy by strengthening the capacity of agro-dealers, small and medium enterprises (SMEs), farmer-based organizations (FBOs) and farmers throughout the value chain, turning it to a highly productive, efficient, competitive and sustainable system. The project seeks to address low rates of use of improved seeds and fertilizers, low rates of agricultural land use, inadequate extension services, Reliance on rain-fed production, insufficient agricultural marketing system, high transaction costs and limited access to credit. The AVCMP is being implemented under three key components such as Productivity component implemented by Savannah Agricultural Research Institute (SARI), The Agro-dealer support component is implemented by Ghana Agricultural Associations Business Information Centre (GAABIC), The SME Mentorship component is implemented by IFDC. IFDC has an additional role of coordinating activity implementation and reporting.

**Stanbic Bank**

Stanbic Bank is an international commercial bank operating in Ghana with its Head Quarters based in South Africa. Over the past few years, the bank has positioned itself as an agric focused bank in line with their global strategy to support the Agricultural sector. Stanbic bank is a project partner with AGRA together with the Agricultural Value Chain Mentorship Project (AVCMP) in the implementation of the Agricultural Value Chain Facility supported by DANIDA under the Support to Private Sector Development Programme. Lending requirements under the project arrangement is 15% deposit and an Interest rate of 25.2%. Currently, all agricultural credit requests from the 3 Northern regions are processed at the Head Office in Accra where the Agric Credit Officer is based. Stanbic Bank has received 25 proposals for term loans facilitated by the AVCMP and GAABIC but has approved only 3 proposals to date. Stanbic Bank however lends to other agricultural SMES not included in the AVCMP Portfolio of beneficiaries.

**Northern Ghana Pre-harvest Forum**

As part of the AVCMP outputs, the Northern Ghana pre-harvest forum was launched in collaboration with other development partners. It is an interface meeting organized between end buyers and target aggregators and marketers of value chain crops.

Adopting a market driven agricultural value chain has unearthed certain distortions. Notable among them are: limited availability of marketing outlets for smallholders as a result of low
absorption capacity of aggregators; thin markets; low purchasing power and difficulty in accessing markets in the south and abroad. Other issues include inadequate commodity value chain infrastructure such as bulking, processing and packaging facilities; failure of producers to meet market requirements and low yields from their farms, failure of producers and aggregators to adhere to contracts etc.

This year’s Northern Ghana Pre-Harvest Agribusiness Forum hosted by the Ghana Grains Council took place on the 24th of October, 2013 in Tamale with the theme Connecting Farmers to Competitive Markets. It was a one-day event which brought together buyers and sellers. NRGP, ADVANCE and IFDC (ATT and AGRA-funded project) supported the Ghana Grains Council to organize the event. The forum attracted actors in the agricultural value chain including processors, aggregators, farmers (both commercial and small scale), banks, input dealers, agric-equipment dealers, MOFA, commercial poultry farmers, NGOs etc. There were over 400 participants drawn mainly from the three Northern regions and Brong Ahafo of Ghana and large processors and buyers from the South.

The forum was climaxed by commodity exchange sessions where the farmers and buyers came together to discuss issues of price, quality, supply etc. With the exception of soya that came close to fixing a price for 100kg of soya between GH¢70 to GH¢80, the other two commodities ran into difficulties in fixing prices.

3.2.2 Northern Rural Growth Programme (NRGP) supported by IFAD
NRGP is an eight-year integrated pro-poor socio-economic development programme driven by the Value Chain Approach (VCA) in four commodity windows namely:

1. The industrial Crops Window (soya, maize, sorghum)
2. The Fruits and Vegetables Window (Papaya, okra, chilli)
3. The Women’s Crops Window (Shea, Sesame, moringa)
4. The animals Window (Guinea fowl, small ruminants)

NRGP is designed to address the constraints of agricultural production and productivity enumerated above. It is supposed to develop efficient, transparent, and sustainable contractual business relationship between and among the value chain actors and service providers aimed at transforming the structure and dynamics of the production and marketing of each of these crops i.e. “the transformation and modernization” of the agricultural sector”

The target area of NRGP comprises the three regions of Northern Ghana (Upper West, Upper East, and Northern) and five districts of the Brong Ahafo region contiguous to the Northern region.
3.2.3 Rural and Agricultural Finance Programme (RAFIP) by IFAD
RAFIP is designed to strengthen institutional performance outreach and client orientation in all segments of the rural financial system integrate them more closely with each other and with the financial system as a whole and link them to support systems (particularly regarding technical aspects and risk management of agriculture value chains) The focus of the programme therefore is on the rural banking system i.e. the Rural and Community Banks (RCBs), ARB Apex Bank and affiliated groups which account for about two thirds of the rural/micro clients and portfolio. RAFIP’s Strategic activities relate to efficiency and sustainability of the rural banking system as well agricultural value chain financing.

3.2.4 The Millennium Challenge Account Programme (MiDA)
The Commercial Development of Farmer Based Organisations(CDFO) Programme, the core of the Millennium Challenge Account, Ghana Program, describes the first three of the six components of the Agriculture Project for management purposes. (i.e. Farmer & Enterprise Training in Commercial Agriculture; Irrigation Development and Improved Post-Harvest Handling and Value Chain Services). The purpose of the CDFO Activity is to create the necessary platform to transition Ghana’s agriculture industry from subsistence to a more commercial orientation amongst groups of smallholder farmers, designated as Farmer Based Organisations (FBOs) in the Program’s Intervention Zones.

The training is to empower farmers to carry out farming as a business and has been divided into three stages. The first stage training offers six weeks of FBO Capacity building and the second stage is another six weeks of technical training in the various crops cultivated as well as postharvest handling and irrigation management. Of the six weeks technical training, three weeks are technical services offered to farmers on and off their farms to support their chosen activity. The final stage is training to increase sales volumes which focuses on Global G.A.P compliances and assistance to access larger markets. A reduction in post-harvest losses is expected to be achieved through MiDA’s post-harvest investments which will provide handling and storage facilities required for maintenance of good produce quality that meets the demands of the desired market; framers will also receive training to improve their capacity to negotiate for better prices. In the Northern region, MiDA has developed several Agribusiness Centres and warehouses for producers.

MiDA’s intervention also covered irrigation. The objective of investing in irrigation systems is to support all-year round cultivation of food and cash crops to be developed under the Agricultural Project. The Farmer and Enterprise Training in Commercial Agriculture activity has as one of its outputs Business Plans for FBOs. Some of these Strategies under the Plans include the use of irrigation to support maximum farm yields. Complementary MCS Ghana activities include Starter packs. MiDA’s free Starter-pack worth $230 is an incentive package to provide farmers with tangible rewards for successfully accomplishing the CDFO training. Most of the starter pack beneficiaries are in the Northern region.
3.2.5 ADVANCE (Ghana Agricultural Development & Value Chain Enhancement)
ADVANCE is a 4 year project awarded to ACDI-VOCA – a US based NGO by USAID. ACDI-VOCA is the lead implementing agency responsible for the overall management of the project aimed at facilitating a transformation of Ghana's agricultural sector in select industries to achieve increased competitiveness in domestic, regional & international markets. The objective is to Increase Competitiveness of Ghana’s Agricultural Sector in Domestic, Regional and International Markets. In addition, activities are developed to meet the results as outlined in the Global Food Security Response (GFSR), which aims to increase agricultural growth, stability and food security. The project adopted a comprehensive value chain approach which sought to facilitate the transformation of the agricultural sector, design and transfer new and innovative technologies, increase efficiency of production and linkages in the production and marketing chain, focus on value chains that have the potential to become and remain competitive in local, regional and/or international markets.

The strategy adopted was a Farmer-to-Farmer programme designed to facilitate the transformation of the agricultural sector in selected agricultural value chains to achieve increased sustainability of the value chains and commercialization of agriculture. The strategies among others include leverage, Offer, Ownership, Intensity, Exit at Entry, Orientation and training of staff on value chain system analysis & decision-making frameworks, Facilitation practices/tactics, Mediation, business mgmt, agric practices etc. Knowledge management. The implementing partners are TechnoServe, Winrock International, Opportunity International, PAB Consult, Association for Sustainable Rural Development (ASRuD) and ACDEP. ECOBANK is one of the main commercial banks working with ADVANCE managing funds facility by a credit guarantee. The USAID Advance project has played a key role (as an honest broker) in structuring actors and establishing formal relations and trust among technical operators: nucleus farms with agro-input dealers and financial service providers. Many agribusinesses have registered as limited liability companies thanks to the Advance project.

3.2.6 Export Development and Agricultural Investment Fund (EDIAF)
The EDAIF is a government policy to promote exports. The agro-processing component was included in 2011. EDAIF has two secretariats based in Accra and Tamale. The Tamale office was established in January 2013. The Fund has 2 components i.e. Grant and credit administered through commercial banks. The interest rate for the credit facility is 12.5% administered by commercial banks. The grant facility targets cooperatives and farmer organizations with a minimum grant size of GHC100,000 for each group. So far there has been a lot of applications for the grant components. Rejected applicants are advised to work on meeting requirements and resubmit their applications. The credit component is experiencing low patronage. Feedback received in the course of the interviews indicate that the application procedure is quite cumbersome and serves as a barrier for access to the funds i.e. grant and loans.
3.2.7 The Association of Church Development Projects (ACDEP) in the Northern, Upper East and Upper West regions

ACDEP is an NGO that has adopted the market development concept in working with secondary farmer organizations registered with Cooperatives, aggregators and marketers. Specifically, activities in the 3 northern regions involve identification of a crop that has markets, determine where they can be produced and volumes to be produced to meet market demand. They also identify producers that can be organized into groups to meet the market demand. They work in the maize, soya and sorghum value chains. Rural Banks fund most of ACDEP’s farmer organizations but for the past three years only 30% of the funding requirements have been met in spite of the 98-100% recovery rate for its members. ACDEP applied for over GHC3 million last year but only GHC 600,000 was granted due to inadequate funds on the part of the rural banks.

ACDEP established the Savannah Farmers marketing Company which is now the largest private aggregation firm in the 3 regions. ACDEP is an implementing partner for the NRGP Project and has also facilitated the implementation of the ADVANCE Programme.

ACDEP Financial Services (AFS)

The AFS is a subsidiary of ACDEP established in 2012 to facilitate access to the numerous secondary farmer organizations working with ACDEP across the 3 northern regions. The AFS was established to mitigate the constraints faced by its members on rigid term loan requirements by commercial banks including 3-year financial report, business plan etc. The AFS is aiming towards becoming an autonomous financial company to serve the needs of its numerous potential clients i.e. the secondary farmer groups who work with big marketing companies particularly Savannah Farmers Marketing Company.

3.3 FINANCIAL INTERMEDIATION ENVIRONMENT IN THE THREE NORTHERN REGIONS

There are various categories of financial intermediaries in the three northern regions ranging from Commercial Banks, Rural Community Banks, Microfinance institutions, NGO Financial facilitators and others. The rural community banks and some microfinance institutions lend short term to meet the bulk financing needs of semi formal actors in the agricultural value chain such as secondary farmer-based organizations and other smallholder farmers, agro input dealers etc. The team learned in the course of the key informant interviews that a new USAID supported programme called FINGAP targeting Agricultural value chain SMEs will soon be launched.

3.3.1 Commercial Banks

Commercial banks are well positioned to provide short term credit to aggregators, marketers and other big players in the agricultural value chain given their ability to mobilize donor funds in terms of deposits. Most of these commercial banks also play the role of participating financial institutions for most donor interventions eg. ADVANCE, NRGP, REP, AVCF, IFDC and many others.
Commercial banks are generally reluctant to lend to agriculture and rural SMEs, with particular reference to long term credit delivery. This is not only due to the perceived high risk and absence of sufficient security but also due to the fact that most of the banks’ liabilities are short term (current account deposits). Besides, the banks would normally avoid a major mismatch of long assets with short liabilities. Many commercials banks operate from Tamale. The major banks are Agricultural Development Bank, Ecobank, Stanbic Bank, UT Bank and Barclays Bank. The SMEs expressed dissatisfaction about the terms of lending by the Banks especially Stanbic Bank. However, the level of dissatisfaction is high among consumers. Some commercial banks, particularly Stanbic Bank and Barclays Bank have stated categorically that they are not interested in funding production sectors.

3.3.2 Rural Community Banks

The rural banking sector is the necessary catalyst that could propel the growth of the Ghanaian agricultural sector. There cannot be any meaningful and successful commercial agricultural growth and transformation without the strategic contributions of the banking sector particularly rural and community banks to provide credits, loans and savings of farmers to stimulate development. In the absence of commercial banks which are overly risk averse, rural banks which are community owned provide quick financial assistance to the people within 40km catchment area to fill the vacuum. There are currently 130 rural community banks in Ghana with more than 700 outlets. In the Northern region, Bonzali Rural Bank is well known amongst SMEs which are not able to access credit from commercial banks.

3.3.3 Microfinance Institutions

Microfinance institutions constitute a potential market segment for term lending. The sources are composed of short term deposits from their clients which limits their ability to grant term loans. In spite of this resource mismatch, the microfinance institutions are finding ways to extend term credit (up to 2 years) to finance the acquisition of agric capital assets. The Stanbic bank term facility is expected to further explore the possibility to lending to reputable and viable microfinance institutions which are willing to access wholesale products for onlending to their small business clients. The microfinance institutions have the advantage of the proximity and have established long term relationship with their clients which they desire to keep in their networks.

3.4 Characteristics of selected Banking Institutions in the three Northern regions

Stanbic Bank

Stanbic Bank is an international commercial bank operating in Ghana with its Head Quarters based in South Africa. Over the past few years, the bank has positioned itself as an agric focused bank in line with their global strategy to support the Agricultural sector. Stanbic bank is a project partner with AGRA together with the Agricultural Value Chain Mentorship Project (AVCMP) in the implementation of the Agricultural Value Chain Facility supported by DANIDA under the Support to Private Sector Development Programme. The Bank has representation
in the three Northern regions but all loan applications are administered at the Head Office. Feedback on enquiries made at the Tamale Office during the interviews were facilitated by the Agricultural Relationship Officer who provided details by telephone from Accra. Information gathered proved that the bank is purely a commercial bank and would not provide flexible terms for development oriented financial schemes to agricultural value chain actors, particularly those mentored under the AVCMP referred to as project SMEs. Stanbic however operates an agricultural term finance portfolio for purely commercial actors. Lending requirements for both AVCMP facilitated loan applications and independent agribusinesses are the same i.e. 25.2% in addition to 15% deposit. Analysis based on characteristics of banking institutions proves that Stanbic Bank may be interested in credit involving huge sums ranging from GHC100,000 to leverage transaction costs. The profile of the AVCMP project SMEs whose applications were not considered fell short of this target.

The AGRA-Stanbic Bank Term Facility is barely known to the technical players. The vast majority of players met have never heard of this facility. One of the reasons is that the bank does not have dedicated personnel to promote and market the facility.

**ECOBANK Ghana Ltd.**

The Bank is positioning itself as a development and Pan-African bank. In this regard, the bank has collaborated with development partners such as IFAD and USAID (ACDI-VOCI to deliver agricultural related financing in the 3 Northern regions. The Bank has in its portfolio, Input dealers, Aggregators, Processors and farmer groups. Ecobank works effectively with IFDC under the ACDI-VOCI programme to deliver capacity building services to its clients. They also provide technical assistance to Agricultural relationship officer to enhance service delivery.

ECOBANK is currently operating a credit guarantee scheme (50/50) for agricultural value chain actors supported by USAID since 2012 and the results have been positive with limited credit default. Repayments are made through aggregation arrangements agreed with commodity buyers such as Masara N’arsiki. The average loan size disbursed is approximately GHC 100,000. The bank highlighted effective loan monitoring as their key success factor.

**SINAPI Aba Savings and Loans**

The company started operations in Tamale after establishing distributor agreement with YARA, a Norway based international fertilizer supplier. Sinapi Aba Trust (SAT) is an autonomous private non-governmental organization registered on May 30th, 1994 under the company’s code 1963 (Act 179) as a company limited by guarantee. SAT seeks to provide microfinance services to entrepreneurs in small and micro enterprises in Ghana with the objective of improving their business and enhancing income generation opportunities of the low income people to alleviate poverty, improve their standard of living, and consequently
positively transform their lives. SAT is an implementing partner of Opportunity International Network (a US based financial services organization), as well as a member of Grameen Foundation. The Company’s headquarters are located in Kumasi. They have 49 branches in various parts of the country. Their resource base is primarily deposits from clients and grants from development projects.

The SAT has an agricultural financing portfolio and also provides microfinance services complemented by Business Development Services. In the northern region, the bank has offered term loans to nucleus farms for the acquisition of new or used capital assets, particularly tractors, harvesters, ploughers, shellers in particular. The bank is planning to develop the purchase voucher product. This instrument allows the institutions to establish a buyer/seller arrangement with equipment manufacturers or distributors. Clients who are granted this facility can acquire the desired equipment without receiving the corresponding cash. The bank issues a voucher which the client can present to the equipment supplier to take possession of the equipment. They are also planning to establish collaboration with solid equipment manufacturers and distributors in Northern Ghana.

SINAPI ABA TRUST is interested in a financing facility with Stanbic Bank at a competitive rate that will enable the company to expand in this segment without comprising its ratios.

ARB Apex Bank

The APEX Bank is the supervisory body for all rural community banks in Ghana. The rural banks provide short term credit to traders, workers and farmer groups to enhance local economic development in rural communities. The rural Banks in the Northern regions eg. Bonzali Rural Bank provide short term credit to secondary farmer organization based on the bank’s lending criteria through special arrangements. The rural banks are unable to meet the growing demand for term credit from agribusinesses since they cannot mobilize long term funds to take advantage of this opportunity. The ARB APEX Bank is also one of the implementing partners as regards the Rural Finance sub-component under DANIDA’s support to private sector development.

Opportunities for term lending exist with growing demand from aggregators and marketers. Currently, the ARB Apex bank has an arrangement with Barclays Bank for onlending to small traders who cannot borrow directly from Barclays. The ARB APEX bank recommended that a similar arrangement with Stanbic could facilitate credit to agribusinesses. Savannah Farmer Marketing Company and other aggregators source credit for their producers through Rural Community Banks.

BONZALI Rural Bank

BRB is a Rural Bank regulated and supervised by Bank of Ghana (BOG). The Banks provides services in the form of deposits, loans and money transfer services to micro and small enterprises, and low-income groups and individuals. BRB also undertakes distribution of fertilizers in Northern Ghana. The bank applies 28% interest rate for commercial loans and
25% for agricultural loans. BRB LTD is the major financial service provider of ACDEP in the Northern region. The Rural Bank provides short term facility to FBOs that are part of the ACDEP network with the guarantee of ACDEP. Loans to ACDEP attract 22% interest rate.

BRB is interested in a term facility (5 years) with Stanbic Bank which will enable the bank to expand on Long Term loans (wholesale onlending to the small players which are out of the bank’s reach) and respond to the demand of its long standing customers such as ACDEP. They may consider a facility of GHC1 million GHC for 5 years based on competitive pricing.

UT Bank
The bank operates in the Northern region and also targets agricultural sector SMEs. Following instructions from the AGRA Project coordinator, the team restrained attempts to interview them at this stage.

3.5 Issues relating to lending criteria in the banking sector and pricing of financial products

When lending money to businesses, banks and financial institutions base their decision on different criteria which follow an order of importance known as the 5 ‘Cs’.

1. Character

   Many decisions are based on a level of trust between individuals. The same rule applies when banks are lending money. The first element in importance when they evaluate a potential client is the character of the borrower, i.e. the quality of the management and their loan repayment capabilities. A business that has a good administration with a good reputation will have an easier time to exchange with banks and have access to credit. On a medium to long term, a company that is passing through a rough time but is managed by a competent administration has better chance to succeed than a successful company managed by unqualified people. The character of the borrower also integrates the years of experience, references of other business partners, advertising, employee turnover, history and the ethic code. These qualitative elements are the first step for a business relationship and goes in front of any quantitative data.

2. Capacity

   In second place of importance is the capacity of repayment of loans. This part is necessarily the element that will decide if a company can manage a loan. It is evaluated on the capacity of the company to generate revenues and profits, which is measured by exploring the Statement of Income and the Cash Flow. A business unable to generate revenues and profits will never be able to respect their credit engagements. Also, a business that generates an important sales number, but is increasing sales by giving credit and cannot be paid quickly enough, will be having cash flow problems and will not be able to repay its debt on time. In the case of a start-up company, banks ask to be provided with a business plan and cash flow projections. However, the level of education and the experience of the management on start-up companies will play a determinant role in the process.
3. **Capital**

The capital is the element where the financial structure of the company is analysed. In that case, the financial institutions look over the financial ratios (working capital, debt ratio, gross margin, etc.) This part enables the credit analyst to evaluate the long term aspect of the company in terms of solvency of the business, i.e. how much the assets can cover the liabilities. A business that accumulated an important amount of retained earnings over the years will have an easier time passing through rough periods and face deficit, and therefore would be better position to obtain a credit loan. A bank will be more comfortable lending to a company that was generously financed by the shareholders. In general, financial institutions request the shareholders to finance more than 25% of the assets. Under this, banks will feel that they take most of the risk and will ask the shareholders to inject a more important amount of money in the company.

4. **Conditions**

Conditions inform the potential lender about external elements that could influence the normal course of business and affect the performance of the company.

What can influence the general conditions is the economy, with its period of growth and recession, change rate, interest rate, tax rate, inflation, etc. Another critical factor is the competition, the conditions specific to the industry and the business's position in its sector. Other factors can influence the “business as usual” such as bad weather, natural catastrophes, political decisions, wars, terrorist acts, etc. They are all aspects that a company has no control over and can influence credit decisions.

5. **Collateral**

Collateral is the last element in importance. Collateral refers to guarantees that lenders have if the borrower is in default. A financial institution searches to secure itself on the company's assets such as the inventory, equipments, furniture, real estate or vehicles to recuperate the amount of money corresponding to the unpaid balance from the client. It is the last aspect in importance because, when a bank comes to seize the assets of the company to repay itself, it probably did record a loss. The loss is recorded when legal procedures are intended to recuperate assets; legal procedures cost money and banks probably may not recover the entire unpaid balance. Also, the bank is considering the opportunity cost, where they could have used the money to invest on a less risky client and generate profits. The collateral is considered mainly to minimize losses in case of default, but not as an acceptance criteria in the credit decision.

Most of the SMEs interviewed indicated that the interest rate regime of the financial intermediaries are the major factors limiting access to finance, particularly term loan facility as the return on capital investment is low and it would not make a business sense to borrow at any rate above 20%.
There are various factors available that could enable financial intermediaries reduce their interest rates such as low cost of credit provided by EDAIF and Outgrowers and Value chain Fund to enable them leverage their costs in lending to the SMEs. These institutions offer attractive refinancing windows in the range of 2% to 3.5% allowing the financial intermediaries to onlend at less than 18% to meet the demands of the SMEs.

3.6 Characteristics of Demand-side Agricultural Value Chain Actors (SMEs)

The agricultural value chain SME environment in the three northern regions is characterized by various players ranging from Aggregators, Marketers, Nucleus farmers, Agro input dealers, secondary farmer organizations and others. Most of the players do not operate at full commercial level. They are unable to meet the lending criteria of most commercial banks including Stanbic and normally access short term credit from the rural banks due to the nature of operations i.e inability to keep business records among other factors. Access to credit for these players is facilitated by vertical arrangements with Commodity Buyers, processors, aggregators and marketers who finance production processes on their behalf.

The demand-side agricultural value chain actors have various models with the nucleus farm model being the most dominant. The nucleus farmers normally have their own plots and work with out-growers to extend their production base. Access to market is normally a challenge as they are more focused on production and tend to operate on a small scale.

The marketing company model relates to the ACDEP/SAVANAH Marketing and Gundaa Produce Company arrangement. ACDEP and SAVANAH Marketing company are typical examples of vertically integrated businesses. ACDEP works with farmer based organizations (FBOs) to organize the production and improve productivity while SAVANAH Marketing company is in charge of marketing the commodity aggregated by FBOs at district levels. These companies develop buyer/seller arrangements with upstream large companies such as food and animal feed processors (Guinness, NESTLE, Premium Foods, Ghana), Poultry farmers and other industrial companies (Ghana Nuts and Yedent).

The Farmer’s kit model: Wienco/MASARA is also an example of a vertically integrated value chain. WIENCO/YARA as providers of fertilizers and agro-chemical supplies MASARA with all the necessary input (kit) to improve yield. These inputs are supplemented by extension services, agronomic practices as well as machinery services. Unlike the other models, WIENCO is not interested in product marketing but rather in ensuring a ready market for its products. Services rendered in credit are reimbursed in kind. Famers are free to sell their excess products to other buyers.
The “pricing” model is used by seed producers. During harvest time, the production is mobilized by the nucleus farm who secure the marketing of the certified seeds. The price paid to the outgrowers corresponds to market price reduced by the cost of the various input and services provided to the outgrower and the markup for the nucleus farm.

Even though these models do well in vertically integrating players, they are weak in integrating support service providers, particularly agro-input dealers, seed producers and financial intermediaries. These players act as auxiliaries and are risk adverse when dealing with nucleus farms and aggregators. They are reluctant in granting credit facilities to nucleus farms and aggregators engaged in crops production. Nucleus farmers by the nature of their operations are expected to raise significant amount of working capital to finance the acquisition of seed and fertilizer. These input are provided to FBO or farmers on credit basis and the amount is reimbursed in kind at harvest.

Machinery and logistics services model (tractor for ploughing, shelling, planting and harvesting, haulage truck, etc.) This model is also becoming popular. The machines and equipments are usually provided by nucleus farms to outgrowers on a fee-for-service basis. The agreed upon price is reimbursed in kind at harvest time. The cash flow generated by the provision of machinery services serves to pay back the credit utilized to finance the capital asset (tractor, Sheller, planter, harvester truck. etc.)

Commodity Buyers

**NESTLE Ghana** is a multinational company working very closely with the NRGP programme to produce high quality maize and groundnuts used in the production of its flagship products. Nestle places high premium on quality (from farm to fork). NESTLE’s main partner is Premium Foods which works with several aggregators in the Northern, Upper East and Upper West regions to meet specifications of NESTLE in the maize and soya and millet value chain. Nestle guarantees credit arrangements for their suppliers. They do not have any arrangements with Stanbic for their agricultural supply chain actors for the time being.

**GUINNESS Ghana Limited** is a multinational company also has a special arrangements with aggregators and marketers in the 3 Northern regions in the supply of sorghum for the production of its malted drinks. GUINNESS facilitates credit arrangements for its supply chain actors through Barclays Bank and other commercial banks. Attempts to source credit through Stanbic has not been successful.

**Ghana Nuts Limited** has emerged as one of the leading agro processors, manufacturers and exporter of edible oils, animal feed Meals, Shea Butter and
Stearin. They also work with aggregators and farmer groups which are big SMEs that can absorb credit based on the volume of activities carried out.

**Presbyterian Agricultural Services (PAS)**
Presbyterian Agricultural Services (PAS) has been providing a range of services including technical agricultural training, financial advising and health services in the Northern, Upper East and Upper West regions of Ghana since 1967. Their key activities currently include input sales to support various extension activities, livestock and crop production, dry season gardening, market linkages and value chain development, agribusiness and enterprise development, honey production and traction services (e.g. using donkeys and bullocks).

**Premium Foods** currently works with renowned aggregators and marketers in the three Northern regions such as Savannah Marketing Company, WIENCO, PETOZ and others. They have provided a list comprising 10 of their nucleus farmers who could be eligible for term lending arrangements with Stanbic.

**Savannah Farmers Marketing Company**
The SFMC is the largest aggregator in the 3 Northern regions and works with thousands of secondary farmer organizations across the 3 regions that produce maize sorghum and soya to commodity buyers such as Guinness, Yedent, Vesta, Intergro, Golden Web, Kobi, Alpha and Omega and Premium Foods. Due to constraints encountered in accessing credit from Stanbic for its producers, arrangements have been made with Oiko Credit which facilitates finance for the groups. SFMC operates bank accounts with Barclays bank, Bonzali rural bank and Stanbic Bank.
4.0 DATA COLLECTION AND ANALYSIS

In all, 162 questionnaires were entered onto the SPSS to generate the frequencies and then exported into excel to generate the diagrams. All the 162 responses have been used as the basis of this final analysis. Out of the 162 respondents 104 came from northern region, 33 from upper east and 25 from upper west.

Category of respondents: Regarding the categories of the respondents 62% of them were in the agribusiness, 20.6% were secondary farmer based organisations members, 15% were marketers, 1.3% said they were in the financial institutions that support these farmers and 0.6% said they were value chain facilitators.

Region of respondents: In terms of the region of respondents 64% of the respondents were from northern region, 20% came from upper east region and 16% came from upper west.
*The executive committee:* In the marketers and aggregators questionnaire respondents were asked to indicate if they had governance or executive committee 76% said yes they had whiles 24% said no they don’t have executive committee for their businesses or companies.

![Pie Chart: Executive Committee or Governance of Business]

*The executive committee or governance of business:* In follow they asked to indicate the number of the executive committee 36.4% of them said they had three members, 27.3% said they had five members, 18.2% said they had two members, and 9.1% each said they had four and six members each.

![Bar Chart: Executive Committee or Governance of Business]

*Agribusiness or secondary farmer based organisation registered:* As regards business registration, 88% of the respondents answered in the affirmative whiles 12% said they have not registered their businesses.
Number of years business has been in operation: Regarding the number of years in business operation 37.5% said the business has been registered between 6 to 10 years ago, 30.6% said since 1 to 5 years, 13.9% said 11 to 15 years and 9% said they had registered their businesses since 16 to 20 years ago. The rest of the responses were from 5% of the respondents.

Nature of respondents business: In connection with the nature of business they were engaged in 41.3% said they were engaged in aggregation and marketing of farm produce, 40.6% said they were engaged in agric or crop production, 27.5% said they were engaged in agric inputs, 13.8% said they were engaged in tractor services, 7.2% said they were into processing of agric products and 5.8% said they were into mobilising and managing FBOs.
**number of employees or members in the business or organisation:** In terms of the number of employees or members in the business or organisation 26.8% said the employees were less than five, 23.2% said they had employees between five to ten, 15.9% said they had between eleven to twenty employees and the rest of the respondents had below 10% of them responding to this question.

**Respondent’s seasonal turnover:** Respondents were asked to indicate their seasonal turnover some respondents indicated their turnover in terms of the number of bags they harvested whiles others were measured in monetary values. A total of 32.8% of the respondents said their turnover is between GHC10, 000-GHC79, 999. 19.7% indicated their turnover is
between GHC5, 000 – GHC9, 999 and 14.6% said they had a turnover of GHC1, 000,000 and above. The remaining responses were below 10%.

<table>
<thead>
<tr>
<th>respondents seasonal turnover</th>
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<tbody>
<tr>
<td>GHC500,000 - GHC999,999</td>
</tr>
<tr>
<td>GHC50,000 - GHC999,999</td>
</tr>
<tr>
<td>GHC5,000 - GHC9,999</td>
</tr>
<tr>
<td>GHC100,000 - GHC499,999</td>
</tr>
<tr>
<td>GHC10,000 - GHC49,999</td>
</tr>
<tr>
<td>GHC1,000 - GHC4,999</td>
</tr>
<tr>
<td>GHC1 million and above</td>
</tr>
<tr>
<td>100 bags - 999 bags</td>
</tr>
<tr>
<td>100 - 999 bags</td>
</tr>
<tr>
<td>10 - 99 bags</td>
</tr>
<tr>
<td>1,000 bags - 4,999 bags</td>
</tr>
</tbody>
</table>

Type of agricultural products being marketed: When respondents were asked to indicate the type of agricultural products being marketed 72.9% said they marketed farm produce or crops i.e. maize, sorghum, soya bean, rice etc. 24% said they marketed agric inputs and 3.1% said they marketed tractor service.

<table>
<thead>
<tr>
<th>type of agricultural products being marketed</th>
</tr>
</thead>
<tbody>
<tr>
<td>agric inputs</td>
</tr>
<tr>
<td>farm produce or crops</td>
</tr>
<tr>
<td>tractor service</td>
</tr>
</tbody>
</table>

Current volume of produce or service: In terms of the current volume of produce or services rendered by respondents 38.1% said they get between 100 to 900 bags of the produce they engage in, 32.8% said they get between 1,000 bags to 9,000 bags, 21.6% said they get 10,000 bags of the produce and above and 7.5% said they get 10 to 99 bags of the produce.
projected volume between 3 to 5 years: On follow up respondents were asked to also indicate their projected volume of their produce. 34.9% said they projected a volume of 1,000 to 9,000 bags for the next three to five years, 34.1% said they project a volume of 10,000 and above bags of produce, 20.2% said they project 100 to 900 bags and 10.9% said they project 10 to 99 bags.

end - users of respondents product or service: On the issue of who are the end-users of the products or services rendered by the respondents 52.1% said farmers were the end-users, 32.6% said agro processing companies were the end-users, 31.9% said the general public or open market, 7.6% said aggregators, 6.3% said organisations and another 6.3% said schools were the end-users.
Is your end market local or international: When the question ‘is your end market local or international’ was posed 91% of the respondents said their market was 100% local, 2.8% said their end market was 90% local, 1.4% said their market was 70% local and another 1.4% said their market was local. Regarding respondents who said their products also go international 33.3% of them said 10% of their market was international, 16.7% said their market was 40% international and the remaining 8.3% respectively.

<table>
<thead>
<tr>
<th>Respondents end market being local</th>
<th>Respondents end market being international</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% local</td>
<td>91.0</td>
</tr>
<tr>
<td>10% international</td>
<td>33.3</td>
</tr>
<tr>
<td>50% local</td>
<td>0.7</td>
</tr>
<tr>
<td>15% international</td>
<td>8.3</td>
</tr>
<tr>
<td>60% local</td>
<td>1.4</td>
</tr>
<tr>
<td>20% international</td>
<td>8.3</td>
</tr>
<tr>
<td>65% local</td>
<td>0.7</td>
</tr>
<tr>
<td>30% international</td>
<td>8.3</td>
</tr>
<tr>
<td>70% local</td>
<td>1.4</td>
</tr>
<tr>
<td>35% international</td>
<td>8.3</td>
</tr>
<tr>
<td>80% local</td>
<td>0.7</td>
</tr>
<tr>
<td>40% international</td>
<td>16.7</td>
</tr>
<tr>
<td>85% local</td>
<td>0.7</td>
</tr>
<tr>
<td>5% international</td>
<td>8.3</td>
</tr>
<tr>
<td>90% local</td>
<td>2.8</td>
</tr>
<tr>
<td>50% international</td>
<td>8.3</td>
</tr>
<tr>
<td>95% local</td>
<td>0.7</td>
</tr>
</tbody>
</table>

name of off-takers, aggregators or marketers: Respondents were asked to write out the names of off-takers/aggregators/marketers 59.5% of the respondents who answered this question said agro processing companies were their aggregators or marketers, 20.6% said local buyers, 19.1% said open market or general public, 16% said organisations especially...
non-governmental and governmental organisations, 4.6% said farmers and 3.1% said schools.

Outline the marketing strategy of the company: The marketers and aggregators were asked to outline their marketing strategy of their companies. 35.3% of the respondents said they supply produce of off-takers and mobilise produce of farmers from farmers and market queens, 23.5% said their strategy is to increase product quality and quantity, 17.6% said their strategy is always to link with bigger companies, 11.8% said they sell produce that has ready market and another 11.8% said they make sure that they deliver produce on time.

Describe any existing commitment or buyer or seller arrangements: Respondents were asked to describe any existing commitment or buyer/seller arrangements. 35% said they usually engage in contracts or memorandum of understanding with their partners, 17.6% said they do not engage in any commitment, 17.6% said they engage in barter tillage services or input supply with produce, 11.8% said they engage in bilateral or mutual agreements, another 11.8% said they engage in advance payment and 5.9% said they engage in oral commitment.
vertical and horizontal relationship along the value chain: Respondents were asked to describe the vertical and horizontal relationships along the value chain. 40.5% said they had a vertical relationship with the farmers, 31.7% said they had a vertical relationship with banks, 19% said they had a horizontal relationship with companies, 17.5% said they had a horizontal relationship with retailers, 15.1% said they had a horizontal relationship with farmers, 13.5% said they had a vertical relationship with spare parts dealers, and 12.7% said they had a vertical relationship with retailers. The remaining responses were below 10% of the respondents answering to this question.

type of support services provided to develop the value chain: Respondents were asked to indicate the type of services provided to develop the value chain. 40.6% said they provide input services to develop the value chain, 34.4% said they provide tillage or tractor service, 32% said they support farmers with loan or credit support, 29.7% said they build the farmers' capacity, 28.1% said they purchase farm produce and 3.1% said they provide warehouse.
number of farmers working with the company: 50% of the respondents said the number of farmers working with their companies was between 1-100 farmers, 32% said they work with farmers between 101-1,000 farmers, 10.2% said they work with farmers above 2,000 and 7.8% said they work with farmers between 1,001-2000 farmers

technical assistance received: A little over half (51.1%) of the respondents who answered this question said they received training on best agronomic practices, 46.6% said they received training on business management and development, 18.8% said they were trained on post harvest management and 13.5% said received training on dynamics.
Existing term financing facilities available to the enterprise

term financing needs: A total of 46.1% of the respondents said their term financing needs was storage facility or warehouse, 41.7% said their term financing was farm implement or equipments, 29.9% said term financing needs was working capital and 21.7% said it was transport.

Accounting system available: Respondents indicating availability of financial statements availability were divided while 50% of them said they had no financial statements while the other 50% said they had financial statements.
Description of accounting system: Respondents were also asked to describe their accounting system. 75% said they use bank statement to account, 13% said they use balance sheet to enable them account and 12% said they use quick books to account.

Who are your bankers or financial service providers: On the question of ‘who are your bankers or financial service providers?’ 61% mentioned rural banks located in their various locations as their bankers or financial service providers, 51% said their bankers were the regular commercial banks such as Ghana commercial bank, agricultural development bank, 5.9% mentioned other financial institution such as Sinapi Aba trust and 2.6% said their financial institutions was credit unions.
Do they satisfy your financial needs: Respondents were also asked if their bankers or financial institution satisfied them adequately. 54% said no, 41% said yes and 5% said they were satisfied sometimes.

What banking products are you able to access: When it came to the banking products respondents access from their banks or financial institution, 62.9% said they access their working capital, 54.5% said they access deposits, 26.5% said they are able to access current accounts, 9.8% said they are able to do overdrafts, 5.3% said they are able to access loans and 4.5% said they are able to transfer money.
**indicate financial arrangements with aggregators and marketers:** Respondents were asked to indicate their financial arrangement with aggregators and marketers. 30.9% said the aggregators and marketers usually pre-finance, 20.2% said they deal with cash and carry with the aggregators and marketers, 19.1% said they engage in later financing with the aggregators and marketers after supplies, 16% said they is no arrangement between them and the aggregators and marketers and 13.8% said they engage in memorandum of understanding.

**in which particular area or stage of your business do you require term finance:** When it came to the issue of the area or stage of respondents business require term finance 60.3% said the term finance is required at the production stage, 30.2% said it at storage stage, 22.2% said it is in the area of working capital, 14.3% said it is at marketing stage, 10.7% said it is in the area of transportation and 9.9% said it is in the area of equipment.
Awareness of the Stanbic term funding facility

*Respondents have heard of the term facility available at Stanbic for commercial farmers:* On the question of if respondents heard of the term facility available for commercial farmers 52% said no, they had not heard of Stanbic facility whiles 48% said yes they have heard of it.

<table>
<thead>
<tr>
<th>Area</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>production stage</td>
<td>60.3</td>
</tr>
<tr>
<td>marketing stage</td>
<td>14.3</td>
</tr>
<tr>
<td>working capital</td>
<td>22.2</td>
</tr>
<tr>
<td>storage</td>
<td>30.2</td>
</tr>
<tr>
<td>transportation</td>
<td>10.7</td>
</tr>
<tr>
<td>equipment</td>
<td>9.9</td>
</tr>
</tbody>
</table>

*Respondents have applied for credit to Stanbic bank:* Respondents were also asked if they applied for credit to Stanbic bank 83% said no, they have not applied for the credit whiles 17% said they have applied for it.
if yes, respondents mode of application that is supported by: Still on follow up respondents were asked to indicate their mode of application 30.4% said they applied through IFDC support, 21.7% said they applied through GAABIC support, 17.4% said they personally applied for the credit, 13% said they were supported by ADVANCE, 4.3% each said MiDA, GYEEDA, GAIDA and group application.

![Graph showing respondents mode of application](image)

respondents company capable of meeting Stanbic bank's requirement: Asked 'is your company capable of meeting the Stanbic bank’s requirement’ 80.2% of the respondents said yes their company is capable of meeting Stanbic bank requirement whiles 19.8% said no they are not capable of meeting Stanbic bank requirement.

![Graph showing respondents company capable of meeting Stanbic bank's requirement](image)

what respondents would like to see changed in Stanbic: On the question of ‘what would you like to see changed in the Stanbic agriculture financing 52.1% of the respondents said the process of applying for the credit should be made flexible, 29.4% said the downward payment being demanded should be reduced to 10% or be completely removed, 23.5% said the interest on the credit is too high and therefore should be reduced, 20.6% said the credit facility should be more accessible to the farmers, 8.8% said the credit facility should be

46
maintained because it is good, 8.7% said the farmers should be helped to acquire farm implements and 4.3% said education should be carried out about the credit facility.

### what respondents would like to see changed in Stanbic

<table>
<thead>
<tr>
<th>Perception</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>flexible application process</td>
<td>52.1</td>
</tr>
<tr>
<td>reduce interest rate</td>
<td>23.5</td>
</tr>
<tr>
<td>it is good and should be maintained</td>
<td>8.8</td>
</tr>
<tr>
<td>reduce or abolish or stop downward payments</td>
<td>20.6</td>
</tr>
<tr>
<td>make the facility more accessible</td>
<td>8.7</td>
</tr>
<tr>
<td>help farmers acquire farm implements</td>
<td>4.3</td>
</tr>
<tr>
<td>education of the facility</td>
<td>4.3</td>
</tr>
</tbody>
</table>

**Training needs in business:** When it came to training needs in business development and financial services 78% of the respondents said they need to be trained in business management and development whiles 22% said they need to be trained on post harvest management.

### training needs in business

- **78%** business management and development
- **22%** post harvest management

### Financial leverage

**Equity:** When it came to equity of respondents companies 43.8% said their equity is between GHC10, 000-GHC90, 000 25% said their company equity is above GHC10, 000 18.8% said their equity was the capital resources of the company and 12.5% said the company equity is between GHC1, 000-GHC9, 000.
Loan: Still on financial leverage 50% of the respondents who answered this question said they can obtain loan between GHC10,000-GHC90,000 33.3% said they can obtain loan between GHC1,000-GHC9,000 and 16.7% said they can obtain loan more than GHC100,000.

Annual financial requirements

Capital investments: When it came to the capital investment of respondents companies 45% of them said their capital investment annually is between GHC10,000-GHC90,000 25% said their annual capital investment is above GHC100,000 and 15% each said their annual capital investment is between GHC1,000-GHC9,000 and capital resources.
Operating finance: Still under the annual financial requirements 53% of the respondents said their operating finance is above GHC100, 000 37% said their operating finance is between GHC10, 000-GHC90, 000 and 10% said their operating finance is between GHC1, 000-GHC9, and 000.

Financial requirements for off taker: Respondents were asked on the financial requirements for off-taker activities 46.2% said the off-taker requires between GHC10, 000-GHC90, 000 30.8% said the off-taker requires GHC1, 000-GHC9, 000 and 23.1% said the off-taker requires above GHC100, 000.
comments on commercial banks about form of collateral required: Respondents were asked to comment on what form of collateral is required. 62.5% of the respondents said their company capital assets or equipment are usually required as collateral, 25% said guarantors are usually required, 12.5% said downward payments are usually required, and 5% said land or house are usually required.

![Bar chart showing the percentage of respondents who require different forms of collateral.](image)

Market system and the business: Respondents were asked to indicate the market system and the business model. 64% of the respondents who answered this question said the market and business is buyer driven model whiles 36% said the market and business is facilitator driven model.

![Pie chart showing the percentage of respondents who indicate different market systems.](image)

describe assets base: Respondents were equally asked to describe their company assets base. 82.4% said their assets was vehicles, 71.4% said it was warehouse, 60% said the company assets was farmland, 20% said it stores, another 20% said the assets base of the company was house, 14.3% said it stock, 5.9% each said their assets were grinding mill, processing machine and profits.
current performances, including financials: Asked about the current performances including financial performance 52.9% said the performance was good, 23.5% said the performance was poor, and 5.9% each said performed by getting GHC2.5million, GHC20,000, GHC40,000 and GHC8,000.

Is your company supported by IFDC, GAABIC, SARI, Mentorship services: A total of 80% of the respondents said their company has been supported by IFDC, GAABIC, SARI or Mentorship services whiles 20% said no, they have not been supported.
kind of support by IFDC, GAABIC, SARI, Mentorship services: On follow up respondents were asked in a close ended question the kind of support they were given by IFDC, GAABIC, SAR I and Mentorship services 63.3% said they were supported in financial and other record keeping, 53.4% said they were supported with technical assistance, 52% said they were supported with business management skills, 31% said they were supported with bank statement and 25.5% said they were supported on auditing of accounts.

Risk diversification

respondents have a risk management plan: A total of 57% of the respondents said no, they do not have a risk management plan whiles 43% said they had a risk management plan.
**Description of respondents risk management plan:** On follow on that, respondents were asked to describe how they manage the risk. 66% of the respondents said they engage in diversification that is engaging in other economic activities other than farming.

**Other businesses respondents engage in apart from agric products or services:** When it came to the question ‘apart from agric products/services, which other business are you engaged in?’ 24.6% of the respondents said they do retailing of grains in the lean season, 19.3% said they sell building materials, 10.5% said they do construction, another 10.5% said they are into animal or livestock rearing. The rest of the respondents had less than 6% of the respondents responding to each of them. These ranges from transport, teaching, sheanut, selling spare parts, provision, petty trading, electrician, catering services, drug or chemical stores and agro processing business.
which of your partners along the value chain has the highest: On the question of which partners along the value chain has the highest risk profile 61% of the respondents who answered this question said the farmers are the highest risk partners, 21% said it is the financial institution and 18% said it is the buyers or aggregators that are the highest risk partners.

Projections for term financing needs for the next five years

respondents plan for the next five years: A total of 77.3% of the respondents said in the next five years they intend to expand their company business, 60.6% said they intend in the next five years to diversify their business and 57.8% said they also intend in the next five years to improve the productivity of the business.
respondents corporate financial needs estimate for the next five years: Respondents were asked to estimate their company or business corporate financial needs for the next five years. 44.6% of the respondents said they estimate between GHC10,000-GHC90,000 for the next five years, another 44.6% said they estimate between GHC100,000-GHC900,000 for the next five years, 8.3% said they estimate GHC1 million and above for the next five years and 2.5% said they estimate GHC1,000-GHC9,000 for the next five years.

how respondents expect to meet them: the respondents were asked how they expect to meet these estimated financial needs for the next five years. 61.5% said they will do these through loans from the financial institution, 35.4% said they will do that by ploughing back profits made from business, 34.4% said they will do that by expanding their business, 29.2% said they will do that through personal savings, 14.6% said they will do that through group funds or contribution and 11.5% said they expect meet these estimates by receiving grants from organisations.
Respondents have an updated business plan and financial projections: Finally respondents were asked ‘do you have an updated business plan and financial projections?’ 67% of the respondents said no, they do not have whiles 33% said yes they had an updated business plan and financial projections.
When the three regions were cross tabulated against the question if respondents have heard of the term facility available at Stanbic for commercial farmers 60% of the respondents from northern region said they had heard of the facility at Stanbic, 30.3% of the respondents in upper east also said they have heard of the facility while 24% of the respondents in upper west said they had heard of the facility.

On follow up the three regions were cross tabulated against whether respondents have applied for credit from Stanbic bank 22.5% of the respondents in the northern region said yes they had applied for the facility, 12.5% of the respondents from the upper east said they had applied for the facility and 4.8% of the respondents from the upper west region said they applied for the facility.
Furthermore, respondents from the three regions were asked to indicate their mode of application all that is 100% of the respondents from upper west who said they applied for the facility said they applied personally, 40% of respondents from upper east said they were supported by IFDC, 20% of the respondents from upper east each said they were supported by GAIDA, GYEEDA and another 20% said it was in the form of group application. When it came to northern region respondents 29.4% each said they were supported by IFDC and GAABIC, 17.6% each of the respondents said they personally applied and ADVANCE also supported and 5.9% said MiDA supported them.
5.0 ANALYSIS OF FINDINGS ACCORDING TO KEY OUTPUT/OUTCOMES OF THE SME STUDY

In order to respond appropriately to the terms of reference of the study, the analysis of findings is presented according to the key outputs/outcomes of the study as follows:

- **What factors inhibit or facilitate the ability of the SMEs to access the term financing**

  52% of the SMEs responded that they were not aware of the Stanbic facility. The breakdown of knowledge of the Stanbic facility is such that 40% of such SMEs are in the Northern regions while only 69.7% are based in the upper east region. Majority of SMEs not aware of the Stanbic facility are in the Upper West region, constituting 76%. 88% of those who are aware of the facility indicated they have not applied for it based on the perception that their applications will not be considered. With Stanbic approving only 3 out of the 25 business plans submitted through AVCMP, there is a growing perception amongst the SMEs that Stanbic is not a ‘serious’ agric-oriented bank. Other factors include high interest rates and other requirements such as the 15% deposit. Some of the respondents also indicated that Stanbic is not well positioned to deliver term credit to the agricultural sector. Stanbic does not seem to have adequate personnel in place like the other banks for example Barclays Bank, Ecobank, Bonzali Rural Bank and Sinapi Aba Trust which have established good relationship with agribusinesses. This concern is justified given that loan applications from the three northern regions to Stanbic Bank are processed in Accra.

  Stanbic’s Agricultural relationship officers are all based in Accra and there is virtually no representation of the Agric finance team in the three northern regions. The Tamale office refers all enquiries on the term facility to the Head Office in Accra where the two officers are based. The study also showed that the AVCMP focused mainly on interventions in the northern region. SMEs in the Upper East and Upper West regions who arguably qualify as project SMEs to meet Stanbic banks requirement are not able to access the huge capital they require to meet both short and long term financial needs. Due to lack of training, these SMEs are exposed to risks related to undiversified products and markets thus exposing them to external shocks. Most of them have sole buyers like Guinness. Other inhibiting factors could be linked to the fact that most of the SMEs are exploring other funding opportunities available to them offering better terms such as NRGF matching grant arrangements, ADVANCE flexible lending terms including matching grant (70/30), EDIAF grant and loans (12% interest rate).

  Even though most of the secondary FBOs operate at the level of SMEs and mobilize huge amount of credit, Stanbic’s lending criteria does not make them eligible for the
term facility. They have not yet identified opportunities to target this growing sector. Stanbic should be advised to take advantage of such numerous opportunities. Furthermore, most of the upscale aggregators interviewed in the Upper East and Upper West regions were among those who are not aware of the AVCF linking SMEs to the Stanbic facility through the AVCMP. Awareness of the facility could have translated their status into project SMEs to position them to access term credit from Stanbic.

Potentially how many SMEs can actually absorb the loanable fund over the remaining 4 years of the facility

Based on the findings of the survey, several opportunities remain unexplored as regards absorption of the term facility. Rural banks constitute about 90% of financing sources of both primary and secondary farmer-based organizations and other agribusinesses but most of the rural banks are not able to meet their term financing needs. Under the financing arrangements put in place by most aggregators such as Savannah Farmers Marketing Company-ACDEP, WIENCO-Masara N’Arsiki, for the thousands of SFBOs to facilitate access to credit for them, it can be stated categorically based on the findings that over 200 SMEs including farmer-based organizations can meet the lending criteria of Stanbic. In addition to the SMEs, microfinance institutions could be targeted to access bulk credit for onlending to SMEs who do not meet Stanbic Bank’s lending criteria directly. Commodity buyers such as Nestle, Guinness, Premium Foods and others are looking for term credit for their numerous suppliers and Stanbic could promote the term facility to them.

How many of these SMEs can be targeted immediately and quickly in the 3 regions

Overall, 76 SMEs classified in the category of Aggregators, marketers, off-takers, nucleus farmers and agro input suppliers were identified in the three Northern regions. The SMEs included a few service providers such as ploughing businesses and tractor services. An analysis of their profile as shown in the questionnaires revealed that they were registered businesses and have other characteristics that position them to meet Stanbic’s term lending criteria. Surprisingly, some of the SMEs expressed deep concern that in spite of conscious efforts made to meet Stanbic’s requirements, follow up on the part of the bank is very slow and they end up not getting the credit to meet their needs at the right time. For most of the SMEs, meeting Stanbic’s lending requirements including the 15% is not a problem. In spite of Stanbic’s low profile in terms of visibility, the SMEs consider it as a bank of choice they would like to work with. The 76 SMEs identified are listed below. The contact details of the SMEs have been compiled and attached as annex to this report.
### Northern Region

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of the Company/Enterprise</th>
<th>Capital/GHC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Savannah Farmers Marketing Company</td>
<td>500,000</td>
</tr>
<tr>
<td>2.</td>
<td>Gundaa Produce Company</td>
<td>1,000,000</td>
</tr>
<tr>
<td>3.</td>
<td>Germinal Enterprise Tamale – Aggregator</td>
<td>1,000,000</td>
</tr>
<tr>
<td>4.</td>
<td>Sankpaglado Ent. Commercial farmer</td>
<td>100,000</td>
</tr>
<tr>
<td>5.</td>
<td>Tabsirah company ltd. Nucleus farmer</td>
<td>100,000</td>
</tr>
<tr>
<td>6.</td>
<td>Zoccof Farms Ent.</td>
<td>100,000</td>
</tr>
<tr>
<td>7.</td>
<td>Wuni Zalogo Enterprise Gushiegu</td>
<td>100,000</td>
</tr>
<tr>
<td>8.</td>
<td>IB Zakis Ent. Yendi</td>
<td>300,000</td>
</tr>
<tr>
<td>9.</td>
<td>Dininai Enterprise East Mamprusi</td>
<td>100,000</td>
</tr>
<tr>
<td>10.</td>
<td>Yaba Ent. Nalerigu</td>
<td>150,000</td>
</tr>
<tr>
<td>11.</td>
<td>Jido Farms, Saboba</td>
<td>60,000</td>
</tr>
<tr>
<td>12.</td>
<td>Tignan farms Saboba</td>
<td>75,000</td>
</tr>
<tr>
<td>13.</td>
<td>Kakakyi Ent.</td>
<td>155,000</td>
</tr>
<tr>
<td>14.</td>
<td>Ndo Agro chemicals</td>
<td>150,000</td>
</tr>
<tr>
<td>15.</td>
<td>Bash-Wunti-Ent. Maize, Soya</td>
<td>141,900</td>
</tr>
<tr>
<td>16.</td>
<td>Excel Bit Company Producer and marketer</td>
<td>3.0 million</td>
</tr>
<tr>
<td>17.</td>
<td>Bash Wumti Ent. Bulk buying and farming</td>
<td>141,400</td>
</tr>
<tr>
<td>18.</td>
<td>Durga Agric Limited Aggregator, Warehousing</td>
<td>4,000,000</td>
</tr>
<tr>
<td>19.</td>
<td>Basa Agrobusiness</td>
<td>10 million</td>
</tr>
<tr>
<td>20.</td>
<td>A. Alhassan Agro inputs</td>
<td>1 billion</td>
</tr>
<tr>
<td>21.</td>
<td>Wumpini Agro Chemicals</td>
<td>500,000</td>
</tr>
<tr>
<td>22.</td>
<td>Samford company Ltd. Producer, tractor combine services</td>
<td>150,000</td>
</tr>
<tr>
<td>23.</td>
<td>Tumteya Lisonayili Shea butter centre</td>
<td>350,000</td>
</tr>
<tr>
<td>24.</td>
<td>Maligu Farming Enterprise Producer</td>
<td>250,000</td>
</tr>
<tr>
<td>25.</td>
<td>Yong Dakpemiyili Farmer</td>
<td>640,000</td>
</tr>
<tr>
<td>26.</td>
<td>Gbulbraliga Ent. Agro dealer</td>
<td>500,000</td>
</tr>
<tr>
<td>27.</td>
<td>Dobiir Ent. Tillage and input support</td>
<td>100,000</td>
</tr>
<tr>
<td>28.</td>
<td>JB Ramatu Ent.Aggregator School feeding prog,</td>
<td>3 billion</td>
</tr>
<tr>
<td>29.</td>
<td>Yelmag Enterprise Agro dealer</td>
<td>100,000</td>
</tr>
<tr>
<td>30.</td>
<td>Ndow Agro chemical NR Agro dealer</td>
<td>150,000</td>
</tr>
<tr>
<td>31.</td>
<td>Tawakaltu Ent. NR agro dealer</td>
<td>100,000</td>
</tr>
<tr>
<td>32.</td>
<td>J.S.Y. Ent Marketer</td>
<td>100,000</td>
</tr>
<tr>
<td>33.</td>
<td>Laminu Enterprise Aggregator</td>
<td>100,000</td>
</tr>
<tr>
<td>34.</td>
<td>Esther Paradise Ent. Marketer</td>
<td>300,000</td>
</tr>
<tr>
<td>35.</td>
<td>Mbanaa Enterprise Agro input dealer</td>
<td>200,000</td>
</tr>
<tr>
<td>36.</td>
<td>KAMA FARMS ENT. Producer/Aggregator</td>
<td>250,000</td>
</tr>
<tr>
<td>37.</td>
<td>Alabani Farms Commercial Farmer</td>
<td>130,000</td>
</tr>
<tr>
<td>38.</td>
<td>Asafanga Ent. Tractor service provider</td>
<td>5,000,000</td>
</tr>
<tr>
<td>39.</td>
<td>Azum Deorah Ent. Marketer</td>
<td>3,000,000</td>
</tr>
<tr>
<td>40.</td>
<td>Abdul karim Tahidu Ent. Ploughing, post harvest services</td>
<td>150,000</td>
</tr>
<tr>
<td>41.</td>
<td>Katachi Ent. Ploughing and Aggregator</td>
<td>155,000</td>
</tr>
<tr>
<td>42.</td>
<td>Musah Ent. NR Aggregator</td>
<td>100,000</td>
</tr>
<tr>
<td>43.</td>
<td>Heritage Seeds</td>
<td>100,000</td>
</tr>
<tr>
<td>44.</td>
<td>FAB Farms NR</td>
<td>150,000</td>
</tr>
<tr>
<td>45.</td>
<td>Tumteya Lisonayili Shea butter</td>
<td>350,000</td>
</tr>
</tbody>
</table>
TOTAL AMOUNT REQUIRED: GHC 1,031,648,300

Upper East
1. Akokobia and Sons  Talensi  GH₵160,000
2. Alokodongo and sons  Talensi district SPV Farmer  GH₵200,000
3. Awudu karim Ent. Kassena Nankana  GH₵180,000
4. Theresa Enterprise  Bolga Municipal  GH₵100,000
5. Alhaji Osman Mahama Ent.  Bolga Municipal  GH₵150,000
6. Petasgo Ent. Agric inputs Bolga Municipal  GH₵250,000
7. Adatali Ent. Kassena Nankana Agric input dealer  GH₵65,000
8. Tentee Ent. Commercial farmer  Talensi  GH₵200,000
9. OSDA Ent. Agric input dealer Bolga municipal  GH₵100,000
10. Abodsom Group Garu Tempane Producer group  GH₵2,000,000
11. Helsumber Ghana ltd. Bawku West  Farming and service  GH₵50,000
12. GARU Tempane Farmers Association  GH₵2,000,000
14. Zurigaluu Jabkane Builsa North FBO  GH₵110,000
15. NONGTABA Company Garu Tempane  GH₵500,000
   (Fertilizer)
16. Amokowa Glory Enterprise Builsa North Agro input dealer  GH₵1,000,000
17. Anabiga enterprise Garu Tempane  GH₵70,000
18. Simple Prince Enterprise Bolga Agro input dealer  GH₵200,000
19. Faranaya Agribusiness Centre  Garu  GH₵700,000
20. Tentee Ent. School Feeding prog,Farming  GH₵200,000

TOTAL AMOUNT REQUIRED:  GH₵7,995,200

Upper West
1. 18th April – Osman Hussein Sulley (Aggregator)  GH₵5,000,000
2. PETOZ – (Aggregator)  GH₵700,000
3. AGRIACCESS (Aggregator)  GH₵5,000,000.00
4. SUAT Brothers Co. Ltd. Gwollu,  GH₵500,000
5. Dori Enterprise  GH₵300,000
6. Koharituo Coopertive Farmers Marketing Co.  GH₵100,000
7. Mwinikuubu Babadaha  GH₵570,000
8. Dalawulla Company  GH₵75,000
9. Hamida Iddrisu  GH₵100,000
10. Antika Company Ltd. (Seed, chemical fertiliser)  GH₵500,000
11. Yahaiddris Enterprise (Aggregator-maize, rice etc)  GH₵200,000

TOTAL AMOUNT REQUIRED:  GH₵12,970,000
5.1 Overview of Regional Distribution of Eligible SMEs identified for the Stanbic facility.

Northern region

The total amount of credit required by SMEs in the Northern region is GHC1,031,648,300 approximately 98% of the total required for the entire three regions. 90% of the aggregators and marketers identified in the Northern region are based in Tamale and have backward integration arrangements with nucleus farmers and other actors in the Municipalities and districts namely Yendi, Saveligu, Gushiegu, Saboba, Chereponi, East Mamprusi and West Mamprusi. Other districts include Karaga, Damongo, Bimbilla and Bunkpurugu.

Upper East region

In the Upper East region, most of the Aggregators are concentrated in Bawku Municipal which is considered as a business hub for producers and other actors. Some of the SMEs are scattered in Bawku West, Bolga, Builsa, Talensi Nabdam and Garu. One of the biggest aggregators working for GUINNESS called Faranaya Business Centre is located in Garu and works with several secondary farmers associations as well as well established nucleus farmers. The total amount of funding
for SMEs identified in the Upper East region is GHC 7,995,200 constituting approximately 0.8% of the total amount required for the three regions.

Upper West Region

Most of the big players to be targeted immediately are Aggregators located in Wa Municipal requiring huge sums of credit in the short to medium term. Nucleus farmers and other actors working with them are located in Lawra, Sissala East and Sissala West districts. The total amount of credit required for the region is GHC1,031,648,300 constituting approximately 1.2% of the overall total required for the three regions.

- Capacity gap and what is required to fill those gaps based on sound analysis of the situation.
  The AVCMP has mentored a critical mass of SMEs in the 20 districts of the Northern region. However, most of the SMEs in the Upper East and Upper West region particularly the high level aggregators have not benefitted from the training programmes. The study revealed that 78% have benefitted from the AVCMP which offered capacity building in business management, financial management, marketing, post-harvest management among others. The study revealed that 50% of the actors interviewed still lacked skills in financial record keeping and post-harvest management. The SMEs also revealed that Stanbic Bank does not have the appropriate capacities to deliver value chain financing effectively. All the other banks interviewed also indicated they have peculiar problems ranging from capacity deficiencies in agricultural value chain financing and lack of bulk credit to onlend. The rural banks in particular revealed this capacity gap that need to be addressed.

- The growth potential of SMEs after the AVCF intervention
  67% of the SMEs have updated business plans for their future growth strategies. 24.2% plan to expand their business in the next 5 years, 20.8% have projections to improve productivity. 48.3% indicated their expectation to meet their corporate financial needs for the next 5 years through bank loans. 27.5% will plough back profit
to finance their growth strategies. 21.7% expect to use their personal savings for expansion. 11.7% would expand through group contribution but 9.2% expect to obtain grants to meet their corporate financial needs. 18.3% plan to diversify into other businesses in the next five years. It is to be noted that 48.3% have indicated their intention to finance their growth strategies through bank loans. Lack of access to finance, particularly term finance hinders business growth making the AVCF term facility very relevant.

- **Potential impact of the intervention in terms of income, employment, production and productivity**

The expected impact of the intervention is significant given that increased access to both short and long term credit would lead to increased production which would require an increased number of human resources to enhance productivity. Increased production and employment would lead to increased incomes to improve the standard of living of the farming communities. Given that most of the active population in rural area are engaged in agriculture, it is expected that intervention in the Agricultural sector would trigger economic growth with multiplier effects on other sectors of the economy to create employment opportunity and to also ensure sustainable development. In the northern regions (northern, upper west and upper east) of Ghana poverty is rampant, yet the region has great crop production potential especially in the production of staple food crops. Rising poverty has been attributed partly to low and declining smallholder farm productivity. There are also factors relating to lack of improved and high cost of seed and other inputs, reliance on rain-fed agricultural production, post-harvest losses and limited access to credit due to high interest rates and stringent collateral requirements are the main constraints limiting crop productivity. The intervention is expected to boost economic activity to ensure increased incomes for improved livelihoods.

**Willingness of individual SMEs to commit to the loan application process and see it through**

- 61.5% of the SMEs interviewed have expressed the desire to finance their growth through acquisition of loans. Only 11.5% look forward to obtaining grants for expansion of businesses. This is a positive trend given that dependency on grants is gradually becoming a thing of the past. Grants by their nature are not a sustainable source of funding for businesses. Moreover, grants also do not take care of long finance needs that leads to sustained growth.

- **Information on other similar loan facilities available to SMEs in the 3 regions of Northern Ghana provided by other development partners**

There are quite a number of donor driven financings mechanism such as NRGP and ADVANCE. These two programmes offer matching grant for purchase of equipment and machinery. The MiDA project also provided starter packs for the farmers. Some of the SMEs expressed concern about the stringent procedures involved in accessing
available grants e.g. EDAIF. Furthermore, the matching grant facilities available are limited to equipment purchases whereas the needs of the SMEs are diverse and span beyond acquisition of machines or equipment.

- **The Banks involved in agriculture Value Chain Term Financing and the capacity building needs of staff of such Banks to help improve access to agriculture Value chain Term financing**

  Virtually, all the banks interviewed have agricultural value chain portfolios. However, they all have peculiar problems ranging from capacity deficiencies in agricultural value chain financing and lack of bulk credit to onlend. The rural banks in particular revealed this capacity gap that need to be addressed. Given the scarce funding opportunities most of the nucleus farmers, aggregators and marketers work with rural bank to source short term credit for their suppliers. Interestingly, it is worth mentioning that the current nature of Stanbic Bank’s operations in relation to term financing for the agricultural sector revealed gross weaknesses which have been expressed by the SMEs. Some of the SMEs interviewed actually recommended capacity building for Stanbic Bank in agricultural value chain financing since they do not seem to understand the dynamics of this innovative way of financing a sector that has been perceived as risky. ECOBANK however, seem to be managing its agricultural value chain portfolio quite well having received training under the ADVANCE programme as well as IFDC. The Bank highlighted the key success factor for an effective value chain financing as building strong relationship with the actors and sustained monitoring of the agric portfolios to avoid credit defaults. Some of the Aggregators and marketers have managed to access credit for their suppliers from external sources such as OIKO Credit and ROOTS Capital outside Ghana. The cost of credit in this transaction is very high but it is considered as a last resort in the face of scarce term facilities in Ghana.
6.0 PRESENTATION OF KEY RECOMMENDATIONS AND CONCLUSIONS

6.1 Key Recommendations

52% of the SMEs interviewed are not aware of the facility and this factor requires extensive promotion of the facility extensively particularly in the Upper East and Upper West regions. With 78% of the SMEs expressing interest in the Stanbic facility in spite of substitute facilities such as the NRGP and EDIAF, it is recommended that Stanbic should adopt innovative measures to create value out of the 50/50 credit guarantee arrangement. ECOBANK is working effectively and efficiently under the same arrangement. The study revealed that 80.2% of the SMEs meet Stanbic Bank's lending criteria and are capable of going through the loan process.

Given that 98% of the total amount funding needs are in respect of SMEs in the Northern region, the AVCMP should include more Aggregators and Marketers who could be eligible for the Stanbic facility as project SMEs targeted under the arrangement. Stanbic already has in its depositors portfolio some aggregators and agribusinesses that are not able to access long term credit from the bank. It is recommended that these SMEs are made part of the AVCMP to become eligible for the Stanbic term lending facility. It appears the AVCMP serves as a form of guarantee that the non-AVCMP SMEs need to access loans from Stanbic facility.

The current monopoly status being enjoyed by Stanbic is one of the major factors inhibiting the absorption of the facility. The AVCF Agreement should be reviewed to allow other commercial banks particularly in the Northern region where most of the SMEs are based to participate in the term lending facility as soon as possible to meet the huge demand for term lending identified. New funding mechanisms i.e. FINGAP supported by USAID will soon be launched which could worsen the issue of low absorption of the AVCF in the near future.

Review of the Agreement would also make funds available to Rural Banks which are the main financiers for the producers and agribusinesses in the three Northern regions through Secondary farmer groups linked to large processors and commodity buyers such as Premium Foods, Guinness, Nestle, Yedent, Presby Agricultural Services, AVNASH and others.

Critical synergies should be explored between the Danida Programme Components i.e. Agricultural Value Chain Facility and the Rural Finance component to facilitate wholesale lending from Stanbic to Rural Community Banks through the Rural Finance Component being implemented by ARB APEX Bank.

The Financial Capacity Building Sub-component should be operationalised as soon as possible to ensure capacity building for Stanbic bank staff to position them appropriately for agricultural value chain financing. This facility should also benefit future participating financial institutions in the AVCF.
6.2 Matching Agricultural Value Chain SMEs Funding needs with the Appropriate Financing Mechanisms

To conclude it is necessary to highlight the fact that the initial assumption made by development partners and their implementing agencies that long term funding needs of SMEs in the agricultural sector could be met on sustainable basis by credit from a commercial bank could have been overemphasized. This is based on the known characteristics of the supply-side players (Financial Institutions) as summarized below:

1. Commercial Banks based on rules governing financial systems are custodians of depositors monies and must ensure that best practices and innovative measures are adopted to avoid credit defaults that could lead to bank failure affecting the whole banking system which ultimately affect the value of shareholders contributions.
2. Most Commercial Banks do not consider agribusinesses as core clients based on risks associated with agriculture, i.e. rain-fed agriculture and seasonal capital inflows and are cautious in lending to this sector
3. Commercial Banks are more interested in big loans as opposed to small loans, in order to leverage transaction costs.

These facts notwithstanding, current trends in the agricultural value chain financing landscape has resulted in the proliferation of many players in the financial sector, notably microfinance institutions and some commercial banks such as Pro-Credit, Ecobank and UT Bank which are adopting innovative measures to take advantage of emerging opportunities. The Sinapi Aba Trust has a profile that positions it as banking institution that combines both commercial and development strategies to achieve results and addresses the needs of producers and other actors effectively and efficiently.

The ACVF as a donor supported intervention should not be limited to only commercial banks due to their high risk aversion attitude. It will be necessary to have two levels of SMEs and link them to the appropriate financial products that will be sustainable. The first level should comprise the 76 Aggregators and Marketers identified who are capable of meeting the lending requirements of commercial banks. These SMEs should be linked to the Stanbic Bank as soon as possible through the AVCMP. The next level should comprise project SMEs like those mentored by the AVCMP who should be linked to financial institutions with a development focus. This category also has greater opportunities since they are also capable of accessing short term credit from the Rural Banks.