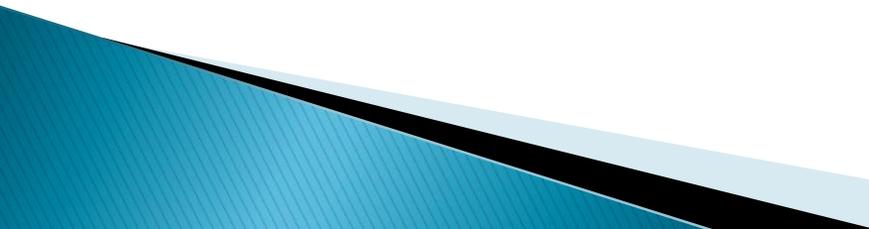


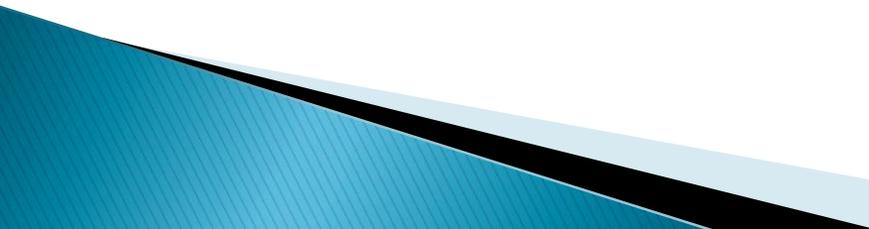
***FDI to Agriculture:
Examples of inclusive
models with Smallholders in
Ghana***

***Roble Sabrie-Lisa Paglietti
FAO-TCI***

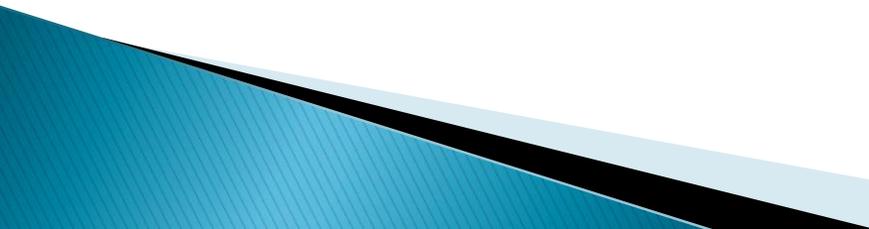
Outline of the presentation

- ▶ Brief summary of the Smallholder Linkages study
 - ▶ Methodology
 - ▶ Ghana Context
 - ▶ Case studies in Ghana: Rubber and Sorghum
 - ▶ Critical success factors
- 

The Smallholder Linkages study: Commercial Agriculture project Ghana

- ▶ This study is a preparatory work in support of a new World Bank/Government project: “Ghana Commercial Agriculture Project”;
 - ▶ Investments in agriculture do not automatically translate into development benefits for host countries and smallholders;
 - ▶ Objective: to gain insight into current “collaborative business models” that provide an alternative to large-scale land acquisitions and opportunities for smallholder farmers to be linked to markets.
- 

Methodology

- ▶ Literature review on inclusive business models, experiences of project initiatives, and policy interventions across a range of countries and sectors
 - ▶ Review complemented with fieldwork in Ghana and identified 6 case studies, mainly in horticulture (pineapple), oil palm and rubber
- 

Ghana Context

- ▶ Business models include contract farming, management contracts, joint ventures, hybrid
 - ▶ **Contract farming** is the prevailing business model varying from informal verbal agreements, to formal contracts (centralized, outgrower models);
 - ▶ **Hybrid models** that combine spot buying and contract farming have been slowly emerging;
 - ▶ Traditionally: **sharecropping** (this is a form of management contract).
- 

Ghana Case studies

	GREL Rubber	TOPP Oil palm	GGB Sorghum	AFIFE Rice	Blue Skies Fresh Fruit	MAFA Maize
Business Model	Outgrower nucleus estate	Outgrower nucleus estate and Tenancy	Outgrower nucleus farmers	Tenant Farming	Contract Farming	Contract Farming
Objective	Expand production	Expand production	Import Substitution	Welfare programme	export of fruit	Expand
Technical Assistance	GREL	TOPP	Technoserve	Govt.	Blue Skies	Wienco
Credit provider	ADB/GREL may act as guarantor	ADB	Sinapi Aba Trust	n.a.	Bank/company may act as facilitator	Yara/Wienco /AGRA
Input providers	GREL	TOPP	private	private	private	Yara/Wienco
Development Partners	EU, WB, AFD, KFW,	AFD, KFW	CFC	JICA	None	Dutch company
Nucleus Estate (ha)	15,000	4,234	none	none	none	n.a.
Number of Smallholders	5,450	1,000	7,000	1,024	140	3,500
Smallholders (ha)	21,555	3,000	17,500	880	386	6,250
Average area per farmer	4	3	2.5	1	2 - 4	2
Average investment at farmer level USD/Ha	2,400	2,000	n.a	n.a	n.a	n.a.
Interest rates	6.45 percent 1.5 percent		n.a.	n.a.	20 percent.	n.a.

Ghana Rubber Estate Limited (GREL)

Case study -Tree crop outgrower scheme

- ▶ GREL has a 15,000 ha concession operating in a quasi-monopoly;
- ▶ Why O.S. : **expand their supply base** -need of new land (very difficult to acquire in Ghana); and **share the financial needs/risks** for plantation;
- ▶ 1800 Outgrowers; 7900 ha (4ha/farmer average) (2010). New plantation on-going;
- ▶ Investment requirement 2400 USD/ha (seedlings; TA; fertilizer) over a period of 6 years;
- ▶ Provision of credit (Bank), repayment is flexible and cannot exceed 25% of the farmer's revenue at selling (During the repayment period they have to sell to the company).

Ghana Rubber Estate Limited (GREL)

Case study- Tree crop outgrower scheme

- ▶ Tripartite agreement: Bank (AFD funds)-GREL (TA)-Farmers (owns the land or tenants/sharecropping arrangements).
- ▶ A yearly negotiation is held with the Farmer's Association in order to define the price formula (indexed on SICOM-Singapore prices). Second payment at the end of the year based on the actual Rubber content;
- ▶ Farmers paid within 1 week in their bank account;

Ghana Rubber Estate Limited (GREL)

Case study - Tree crop outgrower scheme

- ▶ The price formula is as follows : **64%PSICOM_{m-1}**

$$I_g = [64\%PSICOM_{m-1} * Q(58.5\%_{rc})]$$

$$I_n = I_g - (I_g * 2.5\%Ext) - (I_g * 1.5\%Ass) - (I_g * 4\%Sav) - (I_g * 25\%Loan)$$

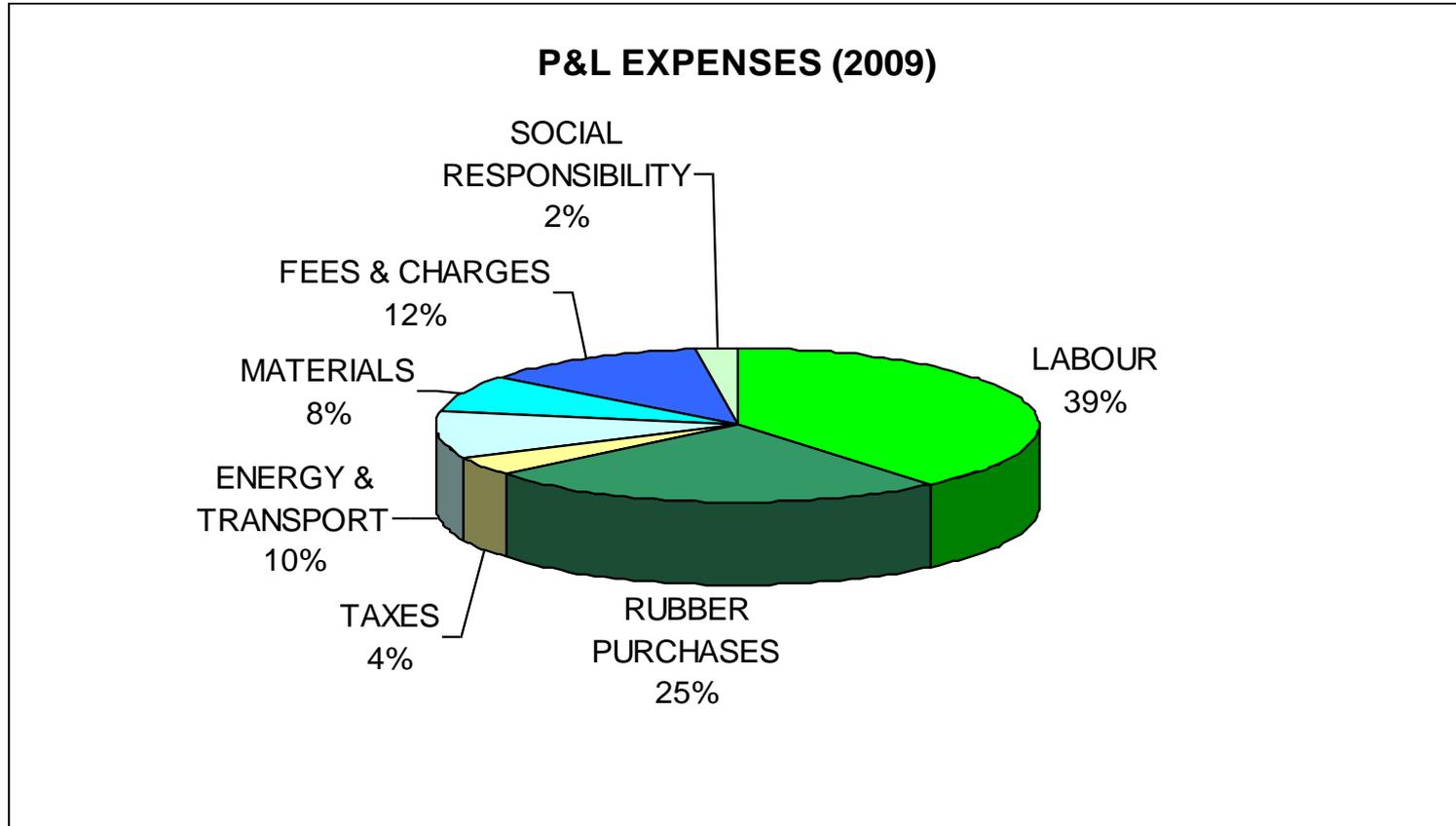
g=gross n= net m= month

I= income rc = rubber content Ext=extension

Ass= association rc= rubber content

Ghana Rubber Estate Limited (GREL)

Case study- Tree crop outgrower scheme



85% of GREL Operating Expenses are local added value, with virtually no import content.

GREL Rubber outgrower scheme: Conclusion

- ▶ Farmers, who developed a Rubber Farm, have a good and regular income that enables them to repay the loan. Also, they increased their creditworthiness within the local banks. They have a voice in the price settings;
- ▶ Corporate social responsibilities (e.g. schools, TA, environment responsibility);

BUT:

- ▶ High investment level as well as the long maturity period (6 year): cash flow issues;
- ▶ Target: minimum 4ha of land hence not the poorest farmers

Case study Ghana: Guinness Ghana Breweries

- ▶ The company produces beers and other non alcoholic products, and operates mainly with imports of raw materials;
- ▶ Beer production: the raw material is mainly barley that may be partially substituted by sorghum;
- ▶ In 2007, they started the development of the local sorghum supply chain for three main reasons:
 - Substitute imported Barley with Sorghum
 - Provide livelihood for the communities
 - Create opportunities for local grains

Case study Ghana: Guinness Ghana Breweries (GGB)

Programme arrangements :

- ▶ **Government made available the venture capital fund for the business development and the credit to smallholders provided by Sinapi Aba Trust;**

- ▶ **Technoserve was the implementing agency (financed by Common Fund for Commodities and the GGB):**
 1. **3 nucleus farmers were selected to develop a network of out-grower farmers;**
 2. **Starting point 1000 farmers, currently 7000;**
 3. **Smallholder average land size 2 ha. Productivity at project start 0.8 T/ha currently 1.7/T/ha.**

Case study Ghana Breweries

Conclusion

- ▶ Repayment of loans 100%. Increase in productivity and efficiency; However, the high level of subsidy on seed, fertilizer, credit, artificially lowered the cost of production;
- ▶ Sorghum price (700 GHC/T) is still not competitive for the company with respect to barley (400 GHC/T)
- ▶ Seed variety not appropriate to obtain higher yield (hybrid not available in Ghana);
- ▶ Alternative markets outlets for sorghum needs to be developed to absorb the production not acquired by the company.

Critical success/failure factors

1. Direct engagement and economic interest of the company
 2. Government, private companies, smallholders, and developing partners played a major role;
 3. Continuous relationship among the parties;
 4. Extension services and supervision by the company;
 5. Access to finance and creditworthiness;
 6. Clear and transparent price mechanism;
 7. Prompt payment to the smallholders;
 8. Assured market for all the smallholders supply;
 9. No side-selling.
- 

Final Report on “Review of smallholder linkages for inclusive agribusiness development” will be made available in early 2012.

Authors

Lisa Paglietti , TCIA, lisa.paglietti@fao.org

Roble Sabrie, TCIA, roble.sabrie@fao.org

Thank you!

