

Access to Agriculture Finance in Ghana

AgriFin (September 2012) | This technical brief summarizes the Finance chapter of the World Bank report on Agribusiness Indicators: Ghana

(<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTARD/0,,contentMDK:23184661~pagePK:210058~piPK:210062~theSitePK:336682,00.h> in April 2012.



Ghana's financial landscape has changed

tremendously since the 1980s. Today, the financial sector is composed of private commercial banks, non-bank financial institutions, and microfinance institutions (MFIs). The legal framework that governs the financial sector is quite flexible. Both bank and non-bank institutions are allowed to "accept pledges of livestock and equipment as collateral, purchase livestock or equipment on credit, finance standing crops as preferred collateral, provide a security interest that can attach to rotating inventory or to proceeds of collateral, and lend on the strength of a signature."

There has been an improvement (albeit very marginally) in commercial banks' share of the total agricultural loan portfolio, from 4.3 percent in 2008 to 4.7 percent in 2009 and 6.1 percent in 2010. Some of the reasons cited by financial service providers for low investment in agriculture include a history of default on subsidized loans, issues of land tenure, weather risks, and a lack of knowledge on how to appropriately finance this sector.

To increase access to agriculture finance, the government established the Agricultural Development Bank in the mid 1960s. The Bank's interest rates are lower than those offered by commercial banks: 19 percent for maize farmers and 22 percent for other producers. Nevertheless, its performance has been characterized by low repayment rates. As of 2010, only 29 percent of its lending went to agriculture. Rural Ghana is served primarily by numerous Rural and Community Banks (RCBs). According to the data collected from 11 RCBs, only 9 percent of its lending was disbursed for agriculture, forestry, and fishing. Despite a steady increase in the number of leasing companies in Ghana, less than 1 percent of the total leasing value is devoted to agriculture.

Based on the data collected by the Living Standards Measurement Survey in 2008, a mere 8 percent of rural households in Ghana had access to credit for financing agriculture. The majority of these rural households received credit from informal sources while the rest accessed credit from State Banks and Cooperatives.

The difficulty in accessing credit is not confined to farmers and rural household. Access to credit is also severely limited for aggregators, traders, and processors. The cost of credit is quite high, ranging between 25 and 40 percent according to Bank of Ghana. The lower interest rates are reserved for large importers, while medium-sized firms are charged approximately 30-35 percent. Meanwhile, smallholders, including farmer-based organizations and smaller agro-enterprises, are offered the highest interest rates (in the range of 35-40 percent) with short repayment periods, which make them very unattractive.

Several mechanisms are being introduced to expand access to agriculture finance in Ghana. The Stanbic/AGRA loan guarantee program was signed in March 2010. For every US\$1 that Stanbic Bank invests in agriculture, AGRA will guarantee 20 percent of the loan in the first year, 15 percent during the second year, and 10 percent between the third and fifth years. The program intends to reach at least 5,000 smallholders with total lending of US\$25 million.

The government also established a Collateral Registry on February 1, 2011. The Registry is currently being subsidized by the Central Bank and can therefore charge low fees to its users. The system is meant to provide information about "borrowers' assets that are registered as collateral" for the purpose of borrowing and to allow financial institutions to "recover assets from defaulters and place them on sale (with 30 days notice) without having to go to court." To date, 70 financial institutions have registered.

Ghana does not have a formal warehouse receipt financing system. However, the Ghana Grains Council (GGC), an advocate for the grain industry, has certified five warehouses and trained owners of private grain storage facilities. In addition, the government, in collaboration with the GGC and donor communities, has established a task force to prepare a law for the implementation of a warehouse receipt financing system. This law is expected to be finalized in 2012.

The Credit Reporting Law was implemented in 2007 and the government has granted a license to a private company and is in the process of granting two other companies the right to function as credit reference bureaus. The establishment of these bureaus is expected to overcome the asymmetry of information regarding potential borrowers.

Based on Parliamentary Act 582, the government set up the Export Development Investment Fund (EDIF). The organization is currently being reorganized and will be renamed Export Development and Agriculture Investment Fund (EDAIF) to reflect the importance of agricultural lending. EDIF/EDAIF aims to promote the development of export trade by offering short, medium, and long-term loans at a subsidized rate of 12.5 percent annually. The agriculture sector received 16 percent of EDIF/EDAIF's loans.

Summary Observations on Agricultural Finance in Ghana

Indicators	Results of Indicators
% of commercial bank lending to agriculture	6.1% (includes crops, livestock, forestry, and fishing) (2010)
% of non-performing loans within the agriculture portfolio of commercial banks	Commercial bank interest rates for agricultural loans
% of rural households receiving credit for agriculture	Bank branches per 100,000 rural adult population
5 per 100,000 rural adults	5 per 100,000 rural adults
% of Farmer-Based Organizations (FBOs) with access to finance	Existence of a warehouse receipt program (Y/N; Scale:0-5)
Y; rating = 1. A task force has been formed to prepare the groundwork for a warehouse receipt law to be completed in 2012	Availability of loan guarantee programs for agriculture
Existence of law on leasing (Y/N)	Y; in 2007, there were 14 leasing companies, including 9 banks and 5 non-bank financial institutions
Existence of a law for use of movable assets as collateral (Y/N)	Y; the Collateral Registry was established and began operations on February 1, 2011
Existence of a credit reference bureau (Y/N)	Y; the first license was awarded to a private company to operate as a credit reference bureau in 2009

Agribusiness Indicators in Africa
<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTARD/0,,contentMDK:23184287~pagePK:148956~piPK:216618~theSitePK:336682,00.html>
 is a three-year (2010–2012) project, funded by the Bill and Melinda Gates Foundation, which is developing an approach for assessing the ease of doing agribusiness in at least seven pilot countries—Burkina Faso, Ethiopia, Ghana, Mozambique, Kenya, Tanzania and Zambia.

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