BANK OF GHANA’S EXPERIENCE IN SUPPORTING AGRICULTURAL FINANCE IN GHANA
Bank of Ghana was established after Ghana’s independence in 1957. Government’s policies then were geared towards development on all fronts, especially in agriculture at a time when funding support from government or the private sector was inadequate.

The government of the first Republic quickly adopted interventionist policies in the agricultural sector to boost production for food security and export. The interventions were:

- **State and co-operative farms** were established to produce crops, such as rice, corn etc. This went on until the adoption of the Structural Adjustment Programme in 1983.

- The **Agricultural Development Bank (ADB)** was set up in 1965 by the Government to provide credit to crop/livestock farmers and small agribusinesses.
The policy of “Operation Feed Yourself/Industries” was launched in 1972 by General Acheampong. This self-reliant policy resulted in tremendous success between 1972 and 1975, as it resulted in very high growth rates as for example 4.5% in 1972, 6% in 1973 and 7% in 1974. In real terms, the quantity of rice produced rose from 11,000 tons in 1971 to 61,000 tons in 1973 while maize witnessed a spectacular increase from 53,000 tons in 1971 to 430,000 tons in 1973. Dwindling foreign earnings; poor fiscal management; gross mismanagement and long drought and bush fires adversely affected agricultural output in the late 1970s.

Rural and Community Banks were set up by policy, beginning in 1976 to support rural agriculture and other rural activities. Since then, these Rural and Community Banks with their branches have increased to over 500 communities mobilizing and delivering credit. Subsequently, An Apex Bank was formed to oversee the activities of the Rural Banks set up in year 2000.

The Export Development and Investment Fund (EDAIF) set up originally in 2000 to finance Ghana’s trade, was transformed in 2011 to include development and promotion of agriculture relating to agro-processing and agro-processing industry.

In 2016, EDAIF has approved GH₵10 million for the implementation of Phase I of its “Cassava Integrated Enterprise Development Project”, aimed at large scale production and processing of cassava in 3 cassava producing towns in 3 regions respectively, for industrial use and export.
In line with Government’s intervention policies, the Bank of Ghana implemented some direct agricultural development schemes such as the Cocoa Bill Financing Scheme (1958), Grains Bill Financing Scheme (mid 1970s) and Grains Warehousing Company (1975).

Other Bank of Ghana projects included Shai Hills Cattle Ranch (1973), Agricultural Development Company (ADC), Wulugu Livestock Company (1979) and the Jukwa, Okumanin, Fosu and Akwamsrem (JOFA) Project.

The JOFA project financed by Bank of Ghana through the ADB, developed 300 hectares of plantations in 4 localities in the Central and Eastern regions which performed satisfactorily until the former State Farms Corporation undertook the project between 1975 and 1983. These projects apart from the JOFA, achieved little in terms of their set objectives due to inappropriate policies adopted by their managements.
With the Structural Adjustment Policy (SAP) in place in 1983, the Bank of Ghana refocused her involvement in agriculture through indirect schemes such as:

- Establishment of a Rural Finance and Inspection Department to oversee the activities of Rural and Community Banks;

- Managing various foreign and Government of Ghana funds/projects on behalf of the Government of Ghana for Food Crops Development Project etc. ,Community Banks Refinance Scheme; Ghana Women Fund Scheme; and Special Rural Credit Scheme.
Lessons Learnt / What was the Missing Gap?

- **Challenges with Intervention Programmes**
  - Agricultural projects heavily dependent on public intervention normally had a top-down approach in planning and implementation, resulting in less than satisfactory relevance, less cost-effectiveness and poor ownership. New projects should be managed in a decentralized manner.

- **Credit Delivery Challenges**
  - Weak credit appraisal by banks because credit officers lack the technical capacity in delivering agricultural credit, resulting in banks carrying high non-performing loans in their books. There is therefore, the need for technical capacity building and introduction of risk mitigating schemes.

- **Delays in Implementation, Slow Disbursement and Inadequate Counterpart Funding**
  - The requirements of agreements that Government contributes counterpart funds upfront before project accounts are credited or utilized cause delays. The need to seek more partnerships and negotiate what the country itself can realistically contribute is an imperative.
The challenge of Low Absorptive Capacity

Some projects are designed in such a way that, with prevailing manpower resources at various levels, it is not possible to utilize the funds allocated, leaving some donor funds undisbursed at the end of these projects. Hence the frequent request for extension of projects. Request for these projects should go alongside the preparation of needed manpower needs.

The support given to agriculture during the period before this millennium did not achieve much in terms of the objectives because apart from management problems, farmers lacked innovation, risk mitigating measures and technical capacity to transform agriculture. This is where the need for innovation and risk mitigating schemes become relevant.
In 2001, the Bank of Ghana Act (ACT 612) was revised and the Bank became operationally independent with inflation targeting as the objective. But within the past decade, BOG, like other central banks are now looking beyond narrow mandates for macroeconomic stability and aligning the financial system with sustainable development goals.

In order for central banks to better promote risk sharing for agricultural finance, it is essential that the nature of the risks in agricultural finance are identified.

The FAO and NEPAD have documented a spectrum of agriculture risks common in Africa and have classified these according to the frequency of occurrences, impact and sources. Some of the identified risks common to agriculture in Africa include:
The FAO and NEPAD’S Documented Risks

- Variations in yields and production losses;
- Variations in market prices of produce and inputs;
- Natural disasters such as floods and droughts;
- Inputs and Market availability/unavailability;
- Inadequate regulatory measures, policy decisions, weak market information systems and sudden change of government policies;
- Foreign exchange risks; and
- Inadequate access to financing.
Why Banks Shy Away From Lending to Agriculture

All these need risk mitigating measures but the key to doing this is to improve access to finance, and this is the challenge that falls directly in the domain of the central bank - access to agric finance. The main reasons why banks have been reluctant in lending to agriculture include:

- High risk perception of the sector and lack of adequate risk management tools. Sometimes the risks are real;
- Sector not considered as of strategic importance to banks;
- Lack of reach of the banks and high service delivery costs.
Bank of Ghana’s Commitment

The need for committed institutions with adequate capacity to help bail our hardworking farmers from these constraints necessitates the topic “THE ROLE OF CENTRAL BANKS IN PROMOTING RISK-SHARING FOR AGRIC FINANCE”

The Bank of Ghana is ready and committed to support selected agriculture value chains to increase productivity and also meet the Bank’s development objectives of generating additional inflows from exports and also curbing some imports to conserve foreign exchange. For example, the country spends over USD500 million annually on rice imports. Supporting rice production therefore, would reduce rice imports and save the country some foreign exchange.

These developments influenced the Bank of Ghana to initiate a national stakeholders’ dialogue in 2014 in Accra to seek consensus on how to effectively finance agriculture under the topic “Boosting Ghana’s Foreign Exchange Resources”. The outcome led to the collaboration with the Ministry of Agriculture, with technical support from AGRA to adopt the “Ghana Incentive-based Risk Sharing System for Agricultural Lending” (GIRSAL) as a vehicle for leveraging financial institutions’ lending to agriculture in Ghana.
A technical committee comprising Bank of Ghana, Ministry of Agriculture and AGRA doing the preparatory work required for launching of GIRSAL and implementation by end year. (Even though we are yet to implement the risk sharing model, we have showed more than enough commitment to start it)

Recommendations from other stakeholders meetings included modeling GIRSAL on the lines of the Nigerian and Kenyan models, the significant difference being that within the framework, Ghana has six pillars whiles Kenya and Nigeria have five.

GIRSAL seeks to minimize lending risks in the full cycle of the agriculture value chain in Ghana and is envisioned to be based on six pillars:

- Risk Sharing Fund;
- Technical Assistance Programme; for banks and all involved in the agric value chain
- Integrated Insurance Policy; for farmers and agribusiness operators
- Financial Institutions’ Rating System;
- Bank Incentive/Reward Mechanism; as well as
- Digital Financing
GIRSAL’s goal is to double the percentage of lending by the banking sector to the agriculture sector in 5 years from 3.4% (As at September 2015) to 6.8%, and increase by 4 times (13.6%) of total lending to the agricultural sector in 10 years.

The processes for the engagement of a consultant are already under way and we plan to launch GIRSAL by the end of the year. Bank of Ghana has already indicated her commitment to initially start with a seed capital of GHC100 million for the establishment of GIRSAL.

It is the belief of the Bank that by playing this leadership role, we can help change the perception of risk in agriculture and motivate more investments in agriculture in Ghana. We are ready for bilateral consultations with sister institutions that have gone far in this risk sharing business.

In order to build GIRSAL on the strengths of current on-going Government of Ghana initiatives, the Bank of Ghana has arranged discussions with the authorities of the following two entities.
First is the newly established Ghana Commodity Exchange (GCX) which is designed to address the significant losses in farm produce that constantly happen to the detriment of farmers and society at large.

This will benefit the BOG-initiated GIRSAL because, addressing Post Harvest Losses by the ready market with professional market institutions will strengthen the activities of value chain actors. Some of the initial crops mentioned to feature on the GCX may be the same as some of GIRSAL’s – eg. Maize, Soya and Paddy rice.

Second is the Savannah Accelerated Development Authority (SADA 2) which is an independent agency for coordinating a comprehensive development agenda for the northern savannah ecological zone in Ghana. There is currently a private sector proposal that seeks to partner government to set up 50 Farm Centers as one-stop shops in the SADA 2 region to primarily provide an umbrella package to local farmers in the form of Crop inputs, advisory Services, farm machinery rental and produce buy-back. It essentially aims to de-risk the agriculture value chain to make it very attractive to banks.

The Bank of Ghana will leverage on these Government of Ghana initiatives and also take advantage to make GIRSAL work better.
Establishing an African Agriculture Risk Mechanism

- Developing risk management tools to mitigate risks in agriculture will enable us to match up with countries in Asia and Latin America in technology adoption, growth in food and agricultural production.

- Therefore, the call by AfDB to build consensus on the ingredients for the establishment of an African Agriculture Risk Mechanism is timely.

- I will add my voice to this call and point out that, even as we may be guided by best practices elsewhere, we should be reminded of our peculiar circumstances as Africans and model the Agriculture Risk Mechanism for our own benefits.