

Ghana: Making local rice production competitive

Improving farmers' livelihoods through trust-based reliable market linkages

Agribusiness in Ghana

By engaging in the modernisation of the agricultural sector, the government of Ghana aims to promote agricultural growth as a means to improve rural livelihoods. The *Ministry of Food and Agriculture (MoFA)* implements institutional reforms and has initiated a comprehensive investment programme. Cooperation with the private sector plays a crucial role in this reform process.

Substitute rice imports with local supplies

Although rice is the second most important staple food after maize, only one third of rice consumed is produced locally. Large volumes are imported each year, worth between USD \$300 million and USD \$500 million. While Ghanaian production increased by 12 % between 2010 and 2015, consumption increased by 25 % in the same period, leading to continued dependency on imported rice. Due to population growth and shifting consumption patterns following urbanisation, per capita consumption of rice is growing steadily; from 35 kg in 2016 to an expected amount of 40 kg in 2018.

As local rice production and processing has not increased sufficiently despite heavy public investment and engagement of international programmes over decades, root causes need to be analysed again and concepts rethought.

The *Green Innovation Centres for the Agriculture and Food Sector (GIAE)*, German Development Cooperation (GIZ) states: *'We believe that there is huge potential in rice production in Ghana, which is untapped. We don't believe that it is the task of only the government to promote the local rice industry. It is the responsibility of the government to create a conducive framework for innovations that work so that the private sector takes over the task of investing in machinery and logistics that will help the industry to thrive.'*



Facts & Figures CARI (10/2013 to 06/2018)

Contract parties	4,663 farmers as suppliers, thereof 1,617 female, organised approximately into 200 FBOs, FYSSO Ghana as intermediary and three rice mills as off-takers
Project	Competitive African Rice Initiative (CARI)
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With this in mind, producers and processors need support to develop their own tailor-made solutions for addressing issues that put the competitiveness of locally produced rice at risk.

At the moment, rice producers and millers in Ghana cope with inefficient seed systems, low productivity in rice production, inappropriate harvesting and threshing technologies and equipment, costly transport and logistics, insufficient milling capacities and inadequate storage facilities, resulting in volume and quality post-harvest losses. Inadequate financial services required for investing into appropriate technologies and largely unavailable rural advisory services, which are needed by farmers and rice millers, aggravate the situation. Meanwhile consumers regard local rice as inferior to imports and are willing to pay premium prices for imported rice.

Broad implementation of inclusive business models to increase local rice production

Contract farming as an inclusive business model may provide a feasible solution for producers and millers to seize existing opportunities in this fast-growing market. As a forward agreement, contract farming assures farmers of a market even before sowing. Rice millers can count on raw material supplies at an early stage of planning the processing season. The contract entails that farmers are obliged to supply the volumes and qualities as specified and the off-taker is obliged to buy the produce and realise payments as agreed.

Furthermore, the off-taker normally provides reliable timely access to seeds, fertilisers and finance to farmers through either embedded services, pre-financing or inclusion of ser-

vice providers in the agreement. Other services, such as extension, training, transport and logistics might also be included. To be successful, contract farming requires a well thought through business model, transparent negotiations and competent day-to-day management to assure mutual benefits ('win-win') motivating farmers and millers to engage and comply with the contracts.

The *Competitive Africa Rice Initiative* (CARI) promotes contract farming as inclusive business in this sense.

FYSSO's contract farming business model

The contract farming business model operated by FYSSO Ghana links 4,663 farmers, including 1,617 female farmers organised in 200 Farmer Based Organisations (FBOs) with three small-sized rice mills. FYSSO Ghana signs contracts with the FBOs on one side and the millers on the other. The FBOs and their members are supported with embedded services, such as technical training (Good Agricultural Practices, Farmer Business School etc.) and advisory services.

Furthermore, FYSSO Ghana facilitates access to finance through its own micro-finance system by supporting Village Savings and Loans (VSL) groups. It also uses the contracts with the millers to secure loans from other financial institutions. The farmers can use the credits provided to buy inputs (e.g. quality seed, fertilisers) or pay for operational services (e.g. land preparation, harvesting). FYSSO Ghana identifies appropriate service providers to assure the quality and negotiate favourable prices for the services provided (e.g. discounts for bulk purchase).





The FBOs commit to supply the production of 30 hectares from member-farms to FYSSO Ghana. This volume represents the counter value of embedded financial and other services provided thus assuring reimbursement of advance financing. FBOs that produce rice on more than 30 hectares are free to sell the produce to FYSSO Ghana or any other buyer. This arrangement considerably reduces problems of side-selling.

Contract partners and supporters of the inclusive business model

FYSSO Ghana is a social enterprise aiming to assist rural communities to gain access to capital and entrepreneurial skills to grow rural businesses and increase household incomes.

Rice farmers in FBOs are growing rice and aggregating the harvest while the FBOs represent their members in contract negotiations with FYSSO Ghana and coordinate contract fulfilment.

Rice millers buy local paddy rice from FYSSO Ghana. The contract specifies the quantities, qualities and the pricing mechanism for fixing the price at harvesting time.

Service providers offer technical assistance such as training or advice, financial services or operational services such as land preparation, mechanical harvesting or aggregation.

CARI, the Competitive African Rice Initiative supports rice producers, FYSSO Ghana and the millers with technical assistance and financing (Matching Fund). Direct beneficiaries of this project are male and female smallholder farmers with a daily income below USD \$2. Secondary beneficiaries are rural service providers and rice millers who improve their sourcing capacity of quality supply.





Impacts achieved and outlook

At the initial stage, farmers hesitated to sign the contract since they were either afraid of being cheated or not being capable of complying with the contract. Thanks to transparency in negotiations and the embedded services provided, the contract partners are slowly developing a stable, trust-based relationship. It was important to change from fixing the price upon contracting to the prevailing market price upon harvest. This reduces risks of side-selling by farmers when prices are high and risks of millers switching to other sources of supply when prices are low.

Farmers appreciate that the productivity has increased thanks to timely delivery of quality inputs. Most farmers boosted yields from 1.5 tonnes in 2014 up to 5.3 tonnes per hectare in 2017. This motivated many farmers to increase the area under production of rice from 1 hectare to sometimes 3 hectares. Millers are guaranteed a timely supply of quality paddy rice for processing and storage. This ensures better utilisation of installed processing capacities.

Knowing that contracts are complied with, FYSSO Ghana can now attract more service providers to offer favourable conditions. These include financial institutions, suppliers of fertilisers and providers of mechanisation services. FYSSO Ghana also intends to increase the number of contracted FBOs to satisfy the increasing demand of millers and other customers.

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