

SNV

Grain Banks in Ghana: Credit for
Caterers Brings Farmers into the Market

**2016
CASE**



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Credit for Caterers Brings Farmers into the Market

SNV

SNV is a not-for-profit international development organisation. Founded in the Netherlands 50 years ago, we have built a long-term, local presence in 38 of the poorest countries in Asia, Africa and Latin America. Our global team of local and international advisors works with local partners to equip communities, businesses and organisations with the tools, knowledge and connections they need to increase their incomes and gain access to basic services – empowering them to break the cycle of poverty and guide their own development.

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 **(Cover)** *Local farmer, Alhassan Osman (right), Tolon caterer, Muniru Zeinabu (center), and another farmer (left).*

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This experience in Northern Ghana is about creating a successful connection between smallholder farmers and the school feeding market by way of existing local grain banks. This intervention model converts grain banks into a market channel and at the same time, overcomes the reluctance of caterers—who are central actors in the national school feeding programme—to buy from local farmers because of late payments by the government. This grain bank model has been implemented by the Procurement Governance for Home Grown School Feeding (PG-HGSF) project since February 2014. Despite its small scale, the model has enabled 158 smallholder farmers to sell 23 MT of maize, cowpea and groundnuts to 11 caterers through five grain banks for a total amount of 31,678 GHS (around \$8,000 USD).



 **(Left)** Pupils at Adusa M.A. School, Ga West, Ghana.

Background

The initial grain bank concept was developed in 2005 by the international NGO ActionAid in partnership with the district Ministry of Food and Agriculture (MOFA) office and the local NGO ASUDEV¹, as a solution for food security in drought-vulnerable communities. They supported communities in the Sissala East District of the Upper West Region of Ghana by providing storage infrastructure, funds for purchasing an initial stock of grains (maize only) and forming grain bank management committees. These grain banks were established to purchase and store excess harvest for the community to access during the lean season when consumer prices rise. Community members then buy back grain at reasonable prices, paying directly in cash or on credit. The credit is paid back in-kind with interest, i.e., with additional quantities of grain credited, at the next harvest.

The impact of the grain banks on food security for households was pronounced during the first years that the banks were operational. But in 2011, when the PG-HGSF project started, there had been improvements in grain production and food security in the communities, to the extent that households' dependence on grain banks for food needs reduced significantly. As a result, the banks had to seek external markets to dispose of their grains during the lean season so that they could replenish with new produce at the time of harvest. The Ghana School Feeding Programme (GSFP) is part of Ghana's efforts towards addressing the United Nations Millennium Development Goals on hunger, poverty and primary education. The programme is designed to provide children in selected public primary schools and

1 ASUDEV (Action for Sustainable Development) is headquartered in Sissala East District of Upper West Region of Ghana.

kindergartens in the poorest areas of the country with one hot, nutritious meal per day, using locally grown foodstuffs. The long-term goal is to contribute to poverty reduction and food security and to provide a ready market for local farm produce, leading to wealth creation at the rural household and community levels.

Although the programme has seen tremendous improvement and is reaching 1.7 million children throughout the whole of Ghana in 2015, it still faces substantial challenges, particularly with the objective of using school feeding to boost domestic food production. GSFP does not document the use of local products and there has not been any irrefutable evidence that increased production is attributable to the programme or that participation in the programme benefits smallholder farmers.

One of the programme's primary challenges has been the late payments by GSFP to caterers who distribute the meals in the schools and are contractually expected to pre-finance their activity. In practice, this makes caterers depend on traders who supply food on credit, something impossible to provide for smallholder farmers who need the direct payment when selling their products.

SNV's innovative grain bank model in the Sissala East District was designed to tackle both issues, offering a new market prospect for grain banks and at the same time, mitigating the perennial challenge of GSFP payment delays, which force caterers to buy products on credit. The project deployed small funds as loans to the grain banks to enable them to purchase grains from local farmers and supply to GSFP caterers within their areas. The District Assembly (DA) pays for the grains on behalf of the caterers by directly transferring the indebted



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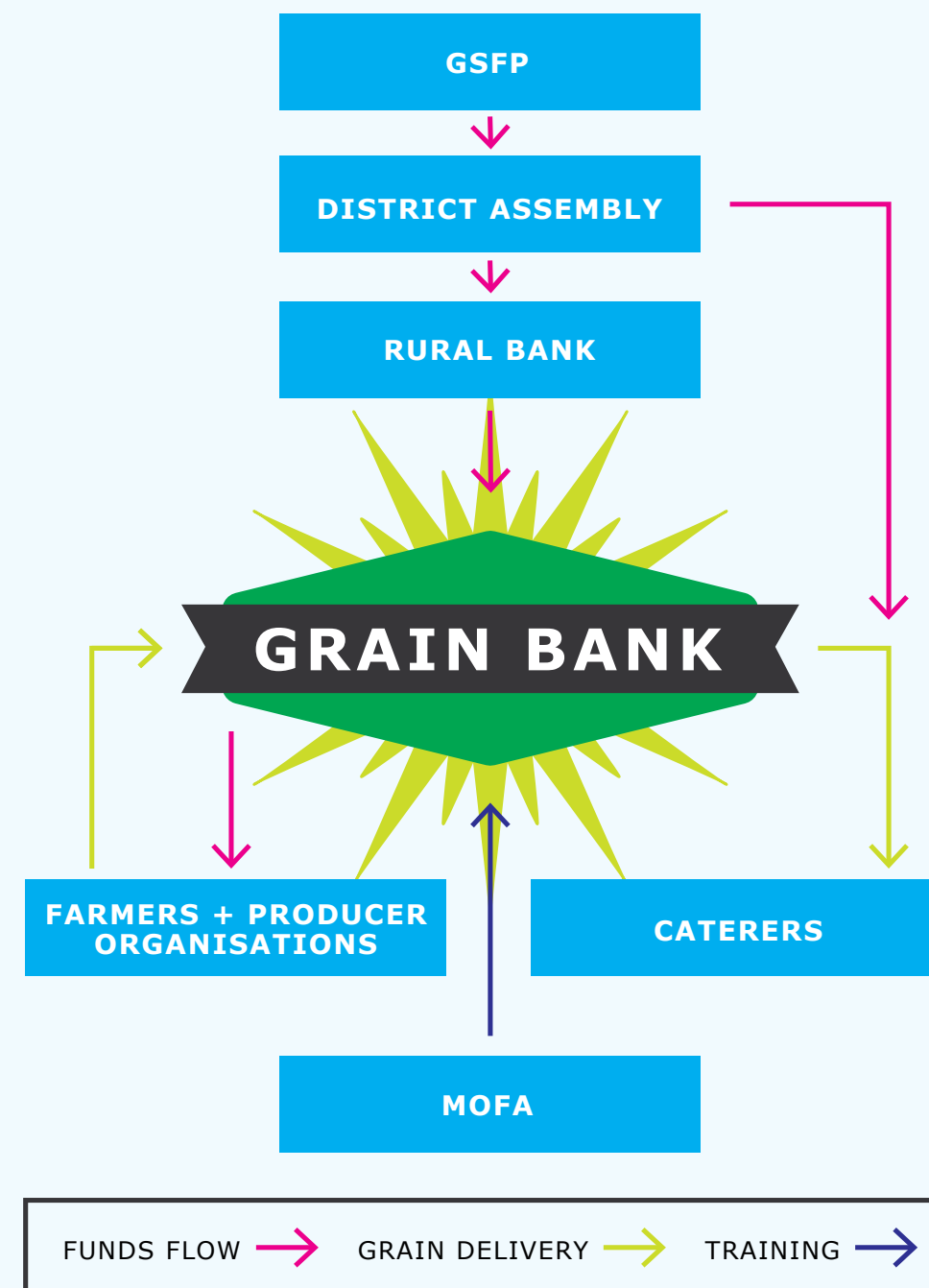
amounts to the grain banks when caterers' funds are released by the Government of Ghana. The project, together with local actors, supports the grain banks in strengthening their management to improve record-, book- and storekeeping. The purchases include a broad range of commodities such as: maize, rice, cowpea and groundnuts, and other locally available grains.

Approach

The diagram on the opposite page is a simple illustration of the grain bank model: The grain bank purchases products from local farmers and producer organisations and sells them on credit to the caterers contracted by the DA to provide school meals. When the GSFP pays for the school feeding to the DA, normally more than half a year later, part of the money goes directly into the grain bank's account to repay the credit on behalf of the caterers. The rest is paid directly to the caterers. No direct payment from caterer to grain bank takes place, reducing the risk of non-repayment by the caterer.

The model relies on the involvement of the local commercial bank to facilitate direct payments into the grain bank's account and by the MOFA to build capacity of and monitor the management of the grain bank. As the lead implementer of GSFP, the role of the DA is vital in leading the coordination among all stakeholders in the chain and facilitating their agreement on all relevant issues.

The pilot began in February 2014 with five grain banks in the Sissala East district; the first tranche of loans worth GHS 13,060 (around \$3,300 USD) was released



to grain banks in June 2014. With this initial loan, the grain banks stocked and supplied to 11 caterers a total of 59 100-kg bags of maize, 26 bags of beans and 13 bags of groundnuts. Including subsequent tranches of GHS 8,280 (\$2,100 USD) in October 2014 and GHS 10,338 (\$2,600 USD) in January 2015, a total of 230 bags (23 MT) of maize, 28 bags (2.8 MT) of cowpea and ten bags (1 MT) of groundnuts were purchased from 158 smallholder farmers (57 women, 101 men) by the grain banks of Sakai, Bujan, Kassana, Gwosi and Banu.

The Sakai Grain Bank

The catchment area of the Sakai Grain Bank has a comparative advantage in grain production due to its rich soil profile. Thus, it has a relatively high grain-producing smallholder farmer population. However, the lack of a local market compels farmers to transport produce to Tumu or Bugubelle (see map) at a high cost. Therefore, the project investment in the grain bank in Sakai has been strongly embraced by the communities as a new market channel for their produce, and contributed to the good performance.

The grain bank in the Sakai community began operations in 2005 with seed capital of GHS 3,000 from ActionAid. The seed money was used to stock 142 bags of maize. It has Sakalu, Sakai and Nankpawie as its catchment communities, and representatives of these communities are designated as part of the management committee. Over the years, the grain bank has operated by buying, storing and reselling maize to community members. With SNV's intervention, the bank currently supplies three caterers in the catchment area with maize, beans and groundnuts on credit

to feed the school pupils of the three communities. The Sakai Grain Bank is managed by a committee composed of four men and two women. The committee meets monthly as a team, but the chairperson, the store keeper and the secretary hold weekly meetings at the facility to inspect the stocked grains and perform routine storage management. The monthly meetings are used to agree on purchase prices, time of purchase and points of purchase, as well as sale decisions.

In March 2014, SNV initiated its engagement with the grain bank, explaining the market-oriented approach to the committee members and caterers. Once the committee agreed to participate, in the same month, they were trained in proper record keeping, grain and storage management, basic financial and credit administration, effective processes and procedures, group dynamics and conflict resolution. In a special meeting, the caterers and the grain bank representatives identified the product types and quantities needed and negotiated prices based on the prevailing market prices, plus 1% monthly interest. These negotiations informed the exact amount of funds needed by the grain bank. In May 2014, the project transferred these funds into the grain bank's account in Sissala Rural Bank. As this was not the harvest season, the grain bank bought from smallholder farmers who had grains stored from the previous harvest while other farmers sold grains they had already stored in the grain bank.

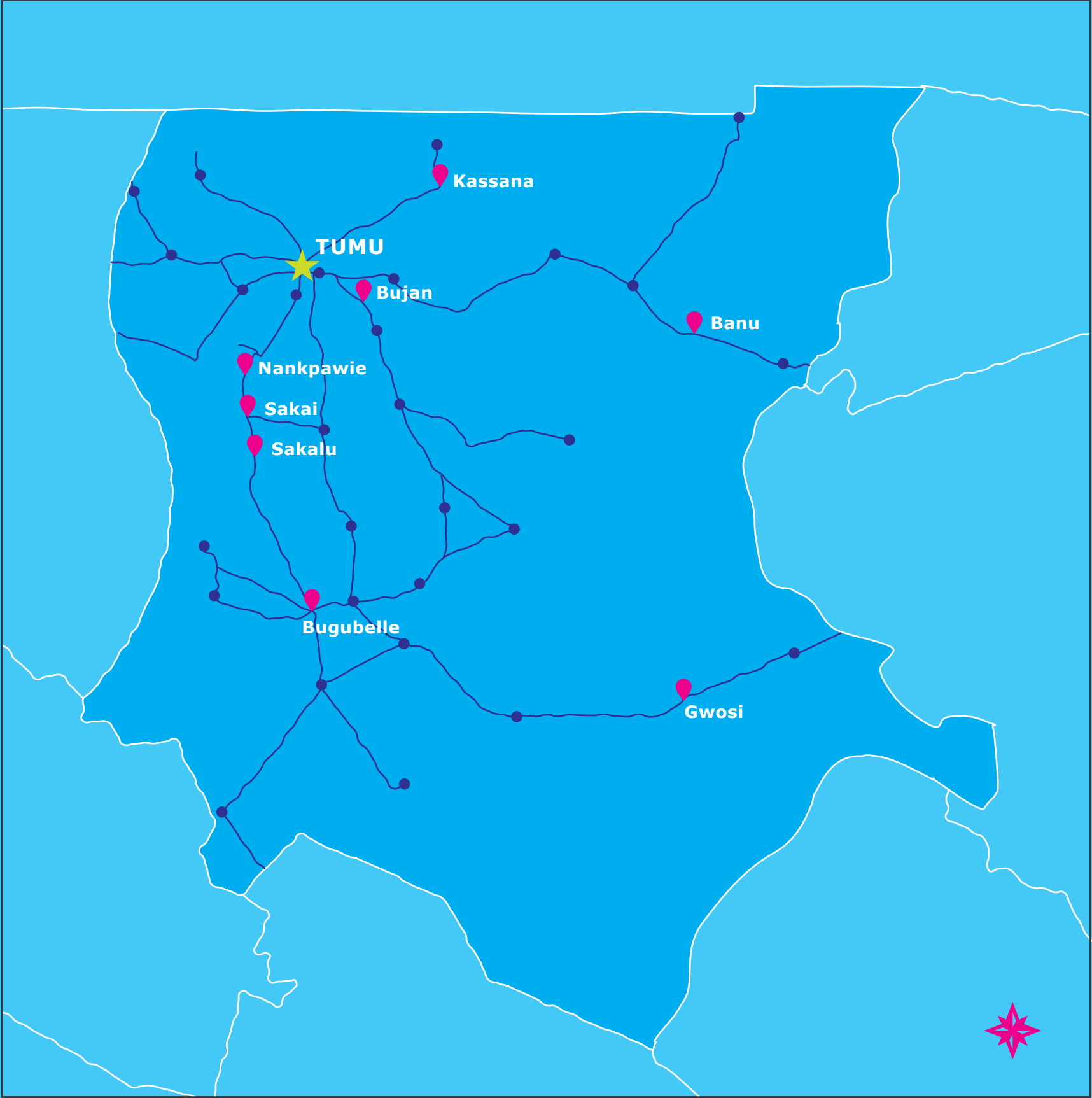
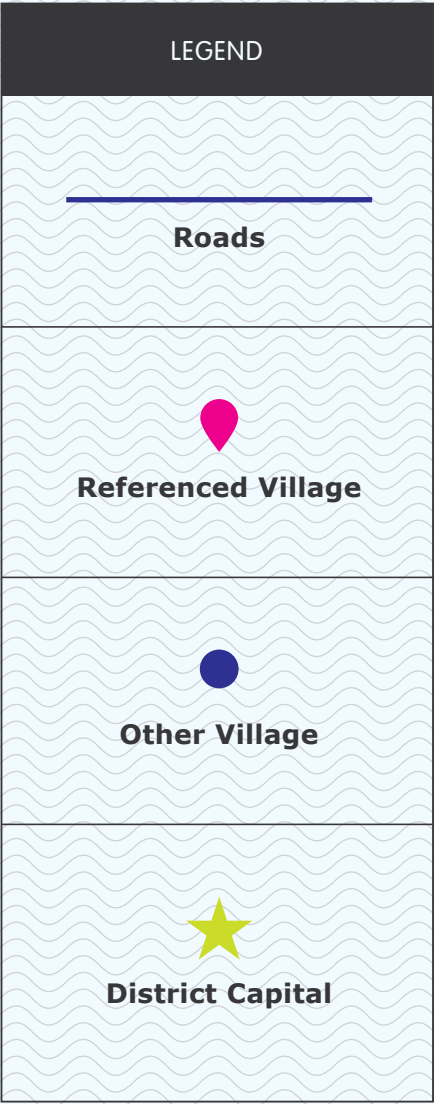
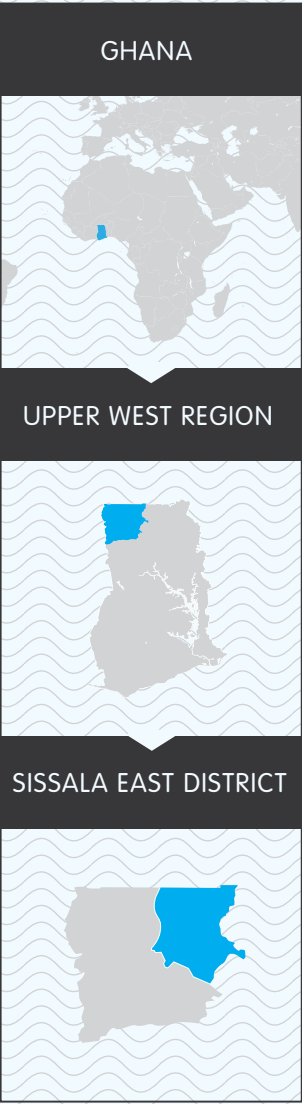
In previous years, the strategy for grain collection involved temporary collection points in each of the three catchment communities where farmers would deliver their grains for initial stockpiling before transporting them to the grain bank in Sakai. However, farmers' failure to deliver the grains to the temporary



📷 Staff at Sakai grain bank.



SISSALA EAST DISTRICT Ghana



collection points compelled the grain bank committee members to travel to each farmer to purchase grains, thus incurring higher transactional costs for the transportation of grains to the store. This situation changed in May 2014 when SNV began its intervention. Owing to increased community sensitisation and buy-in, the farmers in each community committed to mobilising their grains in a central collection point to later transport to Sakai. This significantly reduced the level of effort by the grain bank committee in stockpiling grains for sale to school-feeding caterers and other buyers.

Starting in March 2014, SNV held several conversations with the Sissala Rural Bank and the DA to agree on their roles in the pilot. The Rural Bank is the account holder for the grain bank, and also monitors the use and repayment of the loans to inform the grain bank committee. They took interest in the initiative “to deepen our corporate responsibility work and also experiment with a new financial product that brings innovation into our operations,” said Grants Manager Narima Salam. The DA’s contract with the caterers to supply school meals serves as collateral for the in-kind loan from the grain bank to the caterers and the DA pays the loans back directly in the grain bank account in the Rural Bank, on behalf of the caterers.

MOFA and ASUDEV guaranteed much-needed and timely technical support to the grain bank. This has been important in the past; for instance, when Sakai once experienced pest infestation, MOFA came to their aid and guided them in re-drying, fumigation, preservation treatment and re-bagging. During this intervention period, MOFA supported the farmers in good agricultural practices and post-harvest management. ASUDEV’s assisted with administration, stock management,

moisture control, pest infestation, etc., and with keeping the purchase price within the agreed-upon limits.

Sakai Grain Bank identified several weaknesses that emerged from the experience of selling their products to the market. It lacked the basic equipment that would help them in meeting basic quality standards, including grain cleaners, scales, tarpaulins, bagging and stitching equipment, gloves, spray masks, and moisture meters for quality grain handling. Regarding the operational functioning, this depends almost completely on the management committee. Because in the pilot period the committee members were only from Sakai, the Sakalu and Nankpawie community members had little involvement with the operations of the bank and no grain collection and purchase from these communities took place. These communities still have the potential to purchase grains from the bank this lean season, but may only benefit from this new market channel to sell their produce in the coming years.



Namei Luki

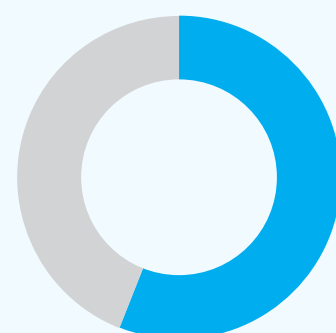
Grain Bank Chairperson

“I never knew this grain bank concept could be linked to School Feeding! It is an asset to the community and the presence of the grain bank in Sakai gives the community a facelift as it has come to stay. If we had this SNV model from the beginning of the concept, we would have been in good business by now. I have seen that we can do good business here and even create employment for ourselves as we can use the profits gained to pay for some of the services like transportation of grains, packing/repacking which we usually suffer to get people to do. Our work is going well and with the funds we have, we shall still continue to deal with the caterers because we also take pride in seeing our children fed with our produce.”

BY THE NUMBERS

THE SAKAI GRAIN BANK BOUGHT MAIZE, COWPEA AND GROUNDNUTS FROM:

34 FARMERS (24 WOMEN)



REPAYMENT RATE

56%

By September 2015, 5,450 GHS or 56% of the loans were paid back*

**anticipated that by the time of the new harvest starting early 2016, all debts will have been paid*

Results

From June 2014 to January 2015, the Sakai Grain Bank bought maize, cowpea and groundnuts from 34 farmers, of which 24 were women. 11.4 MT of products were sold to three caterers for a value of \$2,828 USD, leading to an average income for the farmers of \$83 USD.

By September 2015, 5,450 GHS or 56% of the loans were paid back, including an additional 381 GHS for interest. With the GSFP's promise to pay off all outstanding debts it owes to caterers, it is anticipated that by the time of the new harvest starting early 2016, all debts will have been paid. This will guarantee sufficient cash flow so that the grain bank can replenish stock with local farmers' new harvest.


Before SNV's intervention, caterers were buying foodstuff from traders in the open market. Although they admitted that the quantities of grains usually measured up to standard, caterers were frequently faced with harassment from creditors due to failure to promptly service the debt to their suppliers. Caterers also used to pay high and unrealistic amounts of interest to these traders, up to 6% on a monthly basis. The three caterers now largely depend on the grain banks for their supplies. The grains provided by the grain banks on credit allow them to continue cooking for schools while waiting for funds from the government through the District Assembly. Also, proximity of grain banks to the schools relieves the caterers from burdensome transportation and storage costs and helps to guarantee proper store management. Caterers report that they are very pleased with this arrangement and want it to continue.



Lunch being served.

The Sakai Grain Bank, as well as the other grain banks participating in the intervention, received applications and requests from other caterers to join the initiative. There was consensus among the stakeholders that the interest rate needs to be renegotiated, especially now that the payment from the government programme to the caterers has been increased to 0.80 GHS, or \$0.20 USD) per child per day.

The financial performance of the Sakai Grain Bank has improved considerably with the sales to school-feeding caterers, as shown in the following table:



	Year Before Project Intervention	With Project Intervention
Net Sales (GHS)	4,340	34,560
Net Profit (GHS)	-503	8,290
Gross Margin	20%	33%
Inventory Turnover	1.05	3.18

Net income was negative – GHS -503 – before SNV’s intervention, but between July 2014 and June 2015, with SNV’s injection of funds, it increased to an impressive GHS 8,290. Gross margin also improved from 20% to 33%.

The inventory turnover, which is a measure of business efficiency, increased from 1.05 to 3.18. Considering this robust grain bank activity is based on one agricultural harvest season per year, these results reveal an enterprising approach in selling the grains when beneficial market opportunities arise.

The training and coaching support to the grain bank also contributed to a smoother overall functioning. The management committee cited improvements in the reduction of conflicts, up-to-date record keeping, transparency and accountability in terms of grain procurement from the farmers, storage, handling, standardisation and receipting. The grain bank is now better able to quickly mobilise grains and take advantage of opportunities, including offering storage space at a fee for any community member or trader who wants to deposit products in the grain bank.

The Sissala Rural Bank expressed interest in supporting the increase of the grain bank’s financial capacity, after a routine due-diligence exercise to determine its creditworthiness. However, feasibility for the grain bank of such a loan would depend on the agreements they reach with the caterers about the interest rate, as the Sissala Rural Bank market interest rate would be at least 28% per year.

“Between July 2014 and June 2015, with SNV’s injection of funds, net income increased to an impressive GHS 8,290. Gross margin also improved from 20% to 33%.”

Lessons Learned

✓ ONE

The model helped grain banks strengthen their operations to meet the needs of the structured demand market of the GSFP. Besides strengthening the grain banks' food security objective, it achieved progress in their overall performance by way of enhanced organisational, financial and stock management; better positioning as a supplier to caterers and potentially other markets; and as the representative organisation of local farmers' interests. Well-functioning grain banks will continue to safeguard the reduction of farmers' post-harvest losses, offering them a well-managed deposit for their grains at minimal fees. Finally, continuing the practice of the grain banks to buy only from local farmers, the model offers guaranteed market access for the smallholder farmers and their organisations.

✓ TWO

The situation of the caterers, mainly local small, female-led enterprises improved: The ability for caterers to access grain on credit has relieved the caterers from dependence on local traders. Proximity of grain banks to the schools relieves the caterers of associated transportation costs, as caterers used to store food on the school premises, which required security. Currently, it is now stored in the grain bank until the caterer needs it, thus reducing incidents of stealing and conflicts.

✓ THREE

The initiative successfully institutionalised collaboration among players in the GSFP value chain in the Sissala

East District—including farmer organisations, caterers, the District Assembly, Ministry of Food and Agriculture, Sissala Rural Bank and grain banks— resulting in the signing and implementation of formal agreements among the parties and giving it an important basis for continuity and sustainability.

Conclusions

The primary goal in implementing the grain bank programme in 2005 was to ensure food security at the household and community levels. Today, improved food security compels banks to seek external markets for their grains. SNV's model promises to ensure farmers' market access by using the existing structured demand of the school feeding programme, improving their income levels sustainably, innovating the grain bank concept and creating a more sustainable livelihood.

Overall, the pilot with five grain banks was successful, linking smallholder farmers (57 women and 101 men) to the school feeding market. Given that more than 200 grain banks exist in Ghana, scaling this model to other communities and districts has the potential to engage significant numbers of farmers in new markets.

The services of the grain banks are highly beneficial to the communities in which they operate and to the caterers of the school feeding programme. However, the scale of the individual grain banks' operations must increase, as some grain banks currently have supplies that can only meet the needs of the school feeding caterers for one of the three terms in the year. The funds from the PG-HGSF project provided to the grain banks contributed to the successful implementation



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 **Farmers Ekua**
Atingabono (left)
and Donkor
Atingabono (right)
with Donkor's
children.

of the programme model and based on the good performance of the banks, after the pilot they were donated as working capital. The positive financial performance of the grain banks justify that additional funds can be invested in each bank, making the current business model even more sustainable.

Additionally, most grain banks lack proper equipment to conduct high-quality business, including grain cleaners, scales, tarpaulins, bagging and stitching equipment, moisture meters, etc. Investments in these items will pay off in the sustainability of the grain banks, as well as in the nutritional quality of the products and improved health conditions of the schools' pupils.

The pilot facilitated supply of smallholder farmer products to school feeding, but this experience can easily be used to establish commercial relations between grain banks and other formal markets, opening access to new and more stable markets. It also opens the door to adding other agricultural services to the activities of the grain banks, helping them to evolve into grain business hubs to the benefit of farmers in the communities.

Procurement Governance for Home Grown School Feeding Project Learning Series

DOCUMENTS

Challenges and Opportunities: Smallholders and School Feeding Initial Baseline report

Analysis of Supply Chain Studies for Home Grown School Feeding

Inclusive Procurement and Transparency: Connecting Smallholder Farmers to School Feeding

Producer Organisations: Going into Business with Formal Markets

Social Audits: Speaking up for Home Grown School Feeding

Structured Demand Markets and Smallholder Farmers: Relevance and Access

CASES

Turning Challenges into Change: How Social Audits are Improving School Feeding in Sissala East

The market for our food is right here with us: A Case Study from Kenya on Social Audits for School Feeding

Mobilising communities around school feeding: A public restitution in Dogoni, Mali

Linking school feeding caterers to finance: Loan opportunities enabling caterer purchases from smallholder farmers

Ghana matchmaking events: Building links between farmers and school feeding caterers

Knowing the source of the food: Matching smallholder farmers to the school meals market in Kenya

Matchmaking Events Connect Farmers with the School Feeding Market in Mali

Improving Procurement Tools for Smallholder Farmer Inclusion in Kenya

Accessing the Future: School Feeding Data Goes Online

Procurement Governance for Home Grown School Feeding
www.snvworld.org/procurement-for-hgsf
www.snvusa.org

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