

# POLICY DOCUMENT AND BRIEF FOR ENGAGEMENT WITH GOVERNMENT AND PRIVATE SECTOR IN COCOA: A CASE OF GHANA

## WRITTEN AND COMPILED BY

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## About IITA

The International Institute of Tropical Agriculture (IITA) is a non-profit institution that generates agricultural innovations to meet Africa's most pressing challenges of hunger, malnutrition, poverty, and natural resource degradation. Working with various partners across sub-Saharan Africa, we improve livelihoods, enhance food and nutrition security, increase employment, and preserve natural resource integrity. The Climate Change Agriculture and Food Security (CCAFS) program in IITA-Ghana is determined to develop tailor-made stepwise climate smart management and finance packages to enhance the resilience and productivity of Ghanaian Cocoa farmers in the face of the adverse effect of climate change on Cocoa production.

## About RAINFOREST ALLIANCE

Rainforest Alliance is an alliance of farmers, forest communities, companies and consumers committed to creating a world where people and nature thrive in harmony. By bringing diverse allies together, it believes to be making deep-rooted change on some of the most pressing social and environmental issues of our time. Rainforest Alliance is implementing proven and scalable solutions on the ground while testing innovative ways to drive change. On the CCAFS program in Ghana, Rainforest Alliance is partnering IITA to develop a *policy document and brief for engagement with government and private sector in cocoa sector on the critical subject of Climate-Smart Cocoa financing*.

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## Brief for Government and Private Sector Stakeholders

There is a gap today in funding for investment in developing countries. A recent assessment of financing in the agriculture sector in Ghana based on existing financial sector laws showed that, there is currently no distinct policy to enable lending to the agricultural sector. However, with an ever increasing need to address the challenges of climate change, the need for such policies and resulting finance opportunities for smallholder farmers and other supply chain actor will only increase and become more urgent. Unchanged, most needed investments to address the growing challenges will be made by the private sector or by the farmers themselves. Therefore, public actors, including COCOBOD, need to play a key role in building an enabling environment, including the development of supportive policies, institutions and making matching-funds available. Reducing supply chain risk and improving resilience through such efforts that signal a more secure and favourable framework is key to enabling private actors, especially the more financially vulnerable, to invest. Existing policy initiatives and programs geared towards creating an enabling environment for finance to the sector are currently led by the Ministry of Food and Agriculture (MOFA) and other sector agencies and financial NGO's.

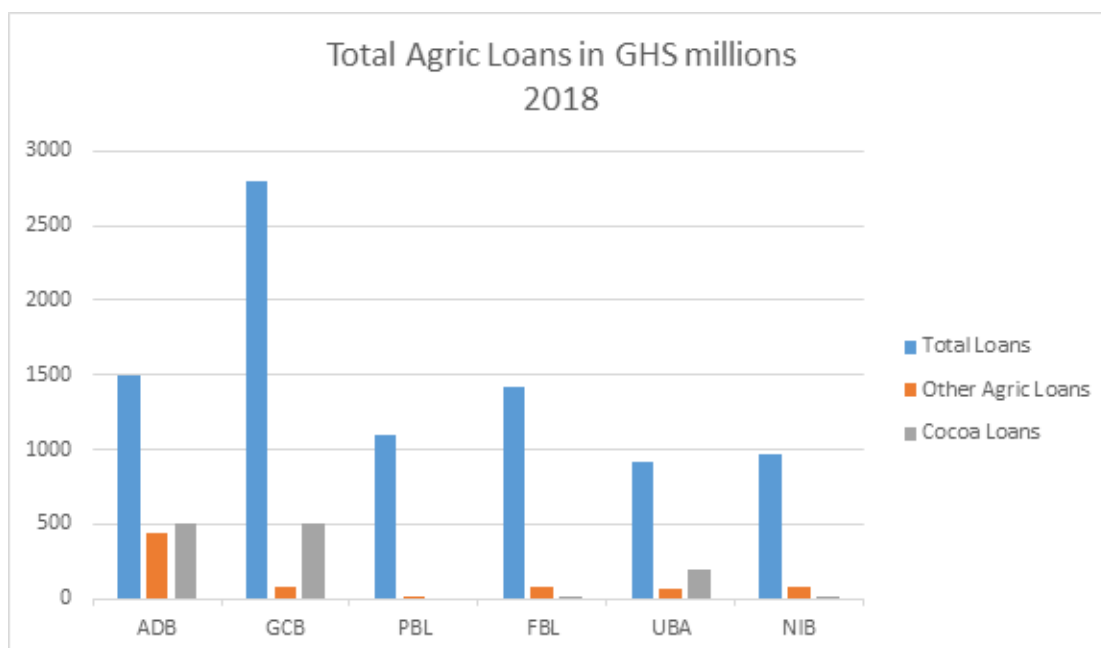
The “**Climate Smart Cocoa and its influence on voluntary standards and Impact lending in West Africa**” project was launched in 2019 under CGIAR's global ‘Climate Change, Agriculture and Food Security’ (CCAFS) research program and is being implemented by a consortium made up of IITA and Rainforest Alliance. The project seeks to propose measures on how to enable scaling of finance and uptake for climate smart cocoa (CSC) production and to formulate a business case for it in Ghana. This is a continuation of the Mainstreaming Climate Smart Value Chains project that concluded in 2019 under CGIAR's global ‘Climate Change, Agriculture and Food Security’ (CCAFS) research program and was being implemented by a consortium made up of CIAT, IITA, Rainforest Alliance, Root Capital and Sustainable Food Lab.

### **What is the state of agricultural financing in Ghana?**

A study of the various financial products available within the cocoa sector in Ghana found that ADB is the only bank which is currently financing smallholder farmers. All the Banks however finance the Licensed Buying Companies (LBC's) to purchase cocoa. The reasons

given by the Banks for non-finance of smallholder farmers and groups is the heightened default risk of farming and limited access of Banks to long term funds.

**Table 1 - Total Agriculture loans of selected Banks in 2018\***



Source: Banks published annual reports for 2018 and questionnaires. The NIB report was for 2015\*

**Towards CSC finance, what funding arrangements already exist for smallholders?**

1. In November 2019, the Ghana Cocoa Board (COCOBOD) officially signed a \$600-million loan agreement with the African Development Bank (AfDB) in Johannesburg, South Africa. The facility was a syndicated loan with the AfDB and the Credit Suisse Group AG to finance key components of COCOBOD’s productivity enhancement programmes. This facility is to ensure that COCOBOD implemented production, warehousing and processing interventions, with the aim of boosting farmers’ incomes and adding value to Ghana’s cocoa beans.

**Table 2 – Cocoa Purchases of selected LBC’s in 2017-2018 season**



Source: COCOBOD research department

2. LBCs invest in sustainability programmes. They source and purchase cocoa directly from certified farmers while building stronger relationships both with them and their communities. With this, the supply chain makes sustainable premium payments which are used directly by the farmers to increase productivity and invested in a range of projects such as crop financing and protection, distribution of fertilizer and improving logistics and infrastructure.

3. However, in total, we found that for the 2017-2018 season, the assistance of LBCs to farmers in the way of financing was very limited, amounting to less than 2% of the value of cocoa purchases and it was mainly in the form of inputs (agro-chemicals, farm equipment). The LBCs attributed the low level of financing to farmer disloyalty and the proliferation of LBC’s.

4. The financing models of the cocoa brands follow a similar pattern to that of the LBC’s and Traders.

### How can private sector and government transition to CSC financing?

The transition to CSC financing requires several actions by both government and private sector including the following:

Activity Area	Actions for Transition	Outcomes
Policy	<ul style="list-style-type: none"> <li>Analyse, review and reform existing laws, policies and strategies that hamper CSC financing</li> </ul>	<ul style="list-style-type: none"> <li>Enabling policy environment for private sector registration and set up</li> <li>Enabling environment for private sector financing</li> </ul>
Technical Capacity	<ul style="list-style-type: none"> <li>Embark on education, awareness raising and capacity building on the need for improving adaptive capacity to achieve increased resilience in the cocoa sector</li> <li>Continued engagement between government and private sector actors (especially the financiers) in resilience discussions</li> <li>Investigate and showcasing business cases of CSC</li> <li>Conduct robust research on the long-term costs under a no-CSC scenario versus costs under a CSC scenario.</li> </ul>	<ul style="list-style-type: none"> <li>Clear understanding of CSC relevance enhances the attraction for investments</li> <li>Identified priority areas requiring finance</li> <li>Evidence of profits associated with CSC would inform and influence engagement</li> <li>Evidence of shared values to be enjoyed by both government and the private sector</li> </ul>
Institutional Arrangement	<ul style="list-style-type: none"> <li>Reduce operational bureaucracies such as business registration processes</li> <li>Improve access to green loans and finance</li> <li>Introduce innovative approaches including national awards and recognition, marketable at the international level</li> </ul>	<ul style="list-style-type: none"> <li>Enabling environment for private sector workflow</li> <li>Favourable lending periods and rates</li> <li>Increased goodwill and branding will promote CSC financing by businesses</li> </ul>

### What would be the benefit from making this transition?

There are several benefits of government and private sector transitioning to CSC financing including:

- Emergence of new and innovative ways of farming cocoa that can withstand climate shocks, ensure sustainable use of resources to avoid scarcity, and long-term sustainability and resilience of the cocoa sector.

- Improved yield from cocoa in areas that would otherwise be unsuitable for cocoa cultivation and ensure good quality and quantity of the beans produced enhancing food security.
- Improved farmer resilience by achieving living income thresholds through diversified livelihood opportunities including gender considerations.
- Gross Domestic Product earnings from a growing ready market in demand for sustainably sourced cocoa.
- Increased attraction of cocoa farming to avoid the switch by farmers from cocoa to other crops and encourage the youth to engage in cocoa cultivation.
- Farmer protection (health and nutrition) and livelihood and income assurance.
- Create co-benefits such as improved natural resource use and resilient systems that support adaptation to pressures from climate change. For example, quality and quantity of watershed systems; and undisturbed habitats for flora and fauna.

What value proposition are available to make government and private sector transition and what are the appropriate products and services available to support this process?

Provides a CSA blueprint that will support the industry (private sector), through a step-by-step process to implement and complement the climate smart standard and cocoa practices developed for the sector.

Provide accompanying tools and frameworks with extensive portfolio of content and highly visual design that will allow users to find specific points of interest and entry points (CSA practices, systems approach, and Enabling environments) to CSA investments.

Co-design and share with the industry, CSA tools, investment pathways, with user friendly interface that allow users to follow the flow of information from the entry points to maturity.

Supporting the industry to establish pilot sites that showcase the learnings, stepwise options and transition along the gradient; and a closer link up to the living income debate; the business model of a comprehensive and broader livelihoods options; with resilience = achieving living income benchmarks in the context of climate change through diversified climate smart livelihoods.



Provide a platform for engagement with investors, long term financiers, sharing and guidance for CSA planning, investments, implementation and monitoring at scale; and a resource library and case studies.

Provide a link to the Africa Climate Smart Agriculture Alliance to link with wide-ranging stakeholders from across the continent to facilitating peer exchange and learning, building a common understanding of contributions to CSA, and aligning and harmonizing various climate change and agriculture programmes being undertaken across Africa and at multiple scales.

**How would this transition benefit and align with National Strategy and Initiatives in the sector in Ghana?**

A transition to financing climate smart cocoa will benefit the agricultural and natural resource sectors, and national strategies and initiatives including the Sustainable Development Goals, Nationally Determined Contributions, and REDD+. Financing climate smart cocoa will embolden existing frameworks, strategies, and initiatives already aimed at building resilience, and propel complementary gains economically, socially, and environmentally.

National Strategy	Objectives	How transition to CSC can support
Cocoa Sector Development Strategy II (CSDS II)  Technical Capacity	<ul style="list-style-type: none"> <li>• Raising current productivity from 500kg/ha to an average of 1000kg/ha by 2027</li> <li>• Establish an income balance between the farmer and other stakeholders in the industry</li> <li>• Secure a modernized, resilient and competitive environment to produce sustainable cocoa</li> </ul>	<ul style="list-style-type: none"> <li>• Raising productivity</li> <li>• Diversification of revenues through enterprise development</li> <li>• Increased demand for sustainably sourced commodities in the global market</li> <li>• Farmer protection and livelihood and income assurance</li> <li>• Access to green and additional investment and funding to support the industry</li> </ul>

Activity Area	Actions for Transition	Outcomes
Sustainable Developments Goals	<ul style="list-style-type: none"> <li>• Strengthen resilience and adaptive capacity to climate - related hazards and natural disasters</li> <li>• Achieve the sustainable management and efficient use of natural resources</li> <li>• Developing Financing Framework including actions to mobilise private sector finance in delivering the SDGs</li> </ul>	<ul style="list-style-type: none"> <li>• Contribute to the achievement of Goals 12 (Responsible consumption and production) and 13 (Climate Action).</li> </ul>
Nationally Determined Contributions	<ul style="list-style-type: none"> <li>• Ensure agricultural resilience is built in climate vulnerable landscapes</li> </ul>	<ul style="list-style-type: none"> <li>• Increase adaptive capacity and resilience of cocoa growing areas</li> <li>• Promote the penetration of climate smart technologies</li> </ul>
Reducing Emissions from Deforestation and Forest Degradation (REDD+)	<ul style="list-style-type: none"> <li>• Significantly reduce emissions from deforestation and forest degradation over the next twenty years</li> <li>• Address threats undermining ecosystem services and environmental integrity</li> </ul>	<ul style="list-style-type: none"> <li>• Contribute to improved forest and biodiversity stewardship</li> <li>• Contribute to achievement of a REDD+ programme that would generate revenue via carbon payments</li> <li>• Generate outcomes that can influence the adoption of sustainable approaches under government's priority to establish a vibrant oil palm sector</li> </ul>
An agenda for jobs: creating prosperity and equal opportunity for all	<ul style="list-style-type: none"> <li>• Safeguard the natural environment and ensure a resilient built environment</li> <li>• Build a prosperous society</li> </ul>	<ul style="list-style-type: none"> <li>• Promote food security</li> <li>• Farmer protection and livelihood and income assurance</li> </ul>



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**Climate Change,  
Agriculture and  
Food Security**



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## About CCAFS Policy Brief

The CGIAR Research Program on Climate Change, Agriculture and Food Security (CCAFS) is led by the International Centre for Tropical Agriculture (CIAT). CCAFS brings together some of the world's best researchers in agricultural science, development research, climate science and Earth System science, to identify and address the most important interactions, synergies and tradeoffs between climate change, agriculture and food security. Visit us online at <https://ccafs.cgiar.org>

This CCAFS policy document is a guide for the engagement of both public and private sector on discussions centered on financing climate-smart cocoa production in Ghana. They are not necessarily peer reviewed. Please contact the author for additional information on their research.

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