



RESEARCH PROGRAM ON  
Climate Change,  
Agriculture and  
Food Security



# ROLLING OUT CLIMATE SMART COCOA THROUGH PUBLIC- PRIVATE PARTNERSHIP IN GHANA

A Framework highlighting the step-by-step procedure towards  
climate smart cocoa finance in Ghana

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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*.

## Correct Citation for CCAFS Finance Strategy:

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## BACKGROUND

The cocoa industry has been the mainstay of the Ghanaian economy over the years through the provision of revenues from foreign exchange earnings and the generation of employment for farmers who are mainly small holders. Climate change is a phenomenon that has been taking place throughout history but over the last century it has accelerated and scientists believe it is increasingly due to human activities (Cook et al, 2016). The climate in Ghana has likewise been affected and it is having an impact on agricultural production and therefore cocoa. Thus, cocoa farming areas have been delineated into three climatic impact zones - Cope, Adjust and Transform. The Consultative Group for International Agricultural Research (CGIAR) through the International Institute of Tropical Agriculture (IITA) in Ghana together with the Rainforest Alliance has recently documented and aligned Climate Smart Cocoa practices across the three impact zones to help farmers mitigate the effects of climate change. This document is a step-by-step process to facilitate the partnership among public and private sector financing of Climate smart cocoa (CSC). IITA and Rainforest Alliance has as a result initiated an assessment of the current agriculture finance sector with a major focus on cocoa to the lay the foundation towards identifying novel financing mechanisms to facilitate the adoption of climate smart cocoa.

### **Highlights of Current state of available finance for smallholder cocoa farmers**

#### 1. Licence Buying Companies (LBC's) & Cocoa Traders

The LBC's and Traders, with the exception of OLAM, do not provide any financing to the cocoa farmers. They assist farmers with the provision of farm inputs like fertilizer and pesticides and support in the form of training in farm best practices and financial and entrepreneurial literacy.

Key take-aways for CSC finance ecosystem

- They organise farmers into groups
- They build capacity of farmers - training, support

#### 2. Village Savings and Loans Association (VSLA).

A community based self-selected and self-managed farmer based group designed to help farmers develop a savings culture and facilitate access

to affordable finance. Farmers contribute monies into a fund from which loans are made to members and the interest shared among members.

Key take-aways for CSC finance ecosystem

- The farmers organise themselves into groups
- The farmers develop a savings habit and learn financial literacy
- Ready-made vehicle for farmer training in best practices
- Farmer groups usually based in same climate zone

### 3. Direct Local Bank Financing.

Organised and registered cocoa farmer cooperative groups like Kuapa Kokoo are able to access loans directly from the Universal Banks on the strength of their balance sheets. These loans are distributed among the members for farm improvement activities.

Key take-aways for CSC finance ecosystem

- The farmers get access to much needed funding
- The risk of farmer loan default is underwritten by the cooperative
- The cooperatives can organise their members according to climate zones for CSC financing.

### 4. Outgrower and Value Chain Fund (OVCF).

The OVCF provides long term financing for the smallholder farmer (Outgrower) through a tripartite arrangement with the Bank (Financial Operator) and the LBC (Technical operator). This provides a guaranteed market for the cocoa which secures the loan repayment to the Bank.

Key take-aways for CSC finance ecosystem

- The farmers get access to much needed funding at lower rates
- The risk of farmer loan default is underwritten by the LBC
- The farmer gets increased cocoa yields through improved farm practices
- The LBC benefits in additional cocoa purchases

### 1. Ghana Incentive-based Risk-sharing System for Agricultural Lending.(GIRSAL).

GIRSAL is a non-bank finance entity under the Ministry of Food and Agriculture (MoFA) set up by the government to de-risk agricultural financing by banks through the provision of credit guarantees to the banks to lend to agriculture thereby sharing in the risk. Additionally they provide technical support to farmer-based organisations to build

their capacity for access to finance.

Key take-aways for CSC finance ecosystem

- Access to increased financing for the farmer
- Provision of technical support to the farmer
- Spreading of agricultural risk through risk-sharing

Reduction in finance charges to the farmer

**How can the current state of agricultural finance mechanisms facilitate CSC finance through public-private partnerships in Ghana?**

Rolling out CSC through the cocoa value chains requires a concerted effort amongst the Ghana COCOBOD, State owned (GIRSAL) and private financial entities/banks, Licence Buying companies (LBS's) and cocoa farmer cooperatives through public-private partnership arrangements. The following proposed procedures are to be adopted to get the farmers ready to access loan financing for CSC:

- Formation of farmer groups and cooperatives.
- Set up groups into village savings and loans associations
- Build financial and entrepreneurial capacity of the groups
- Segment farmers into groups based on their climate zones (cope, adjust, transform)
- Sub-divide the groups into their resource endowment (minimum, bronze, silver, gold)
- Provide CBA data under each sub-division (CSC package)

**Proposed process for CSC finance**

When the farmer groups have been set up and prepared for CSC finance, the underlisted stages must be followed to access financing from the Banks.

- Licence Buying company(LBC) / Farmer Business Organisation(FBO) or Cooperative approaches the bank for financing
- LBC / FBO engage the bank with CBA data and make a case for finance
- LBC / FBO apply to OVCF for re-financing
- Bank conducts due diligence on the LBC/ FBO request
- Bank makes application to GIRSAL for risk-sharing
- GIRSAL approves request
- Bank approves finance and / or enters into tripartite arrangement with OVCF
- Bank disburses loan to the LBC / FBO for onward distribution to the farmers
- LBC / FBO deducts loan repayments from farmers proceeds of cocoa
- LBC / FBO makes repayment to the Bank

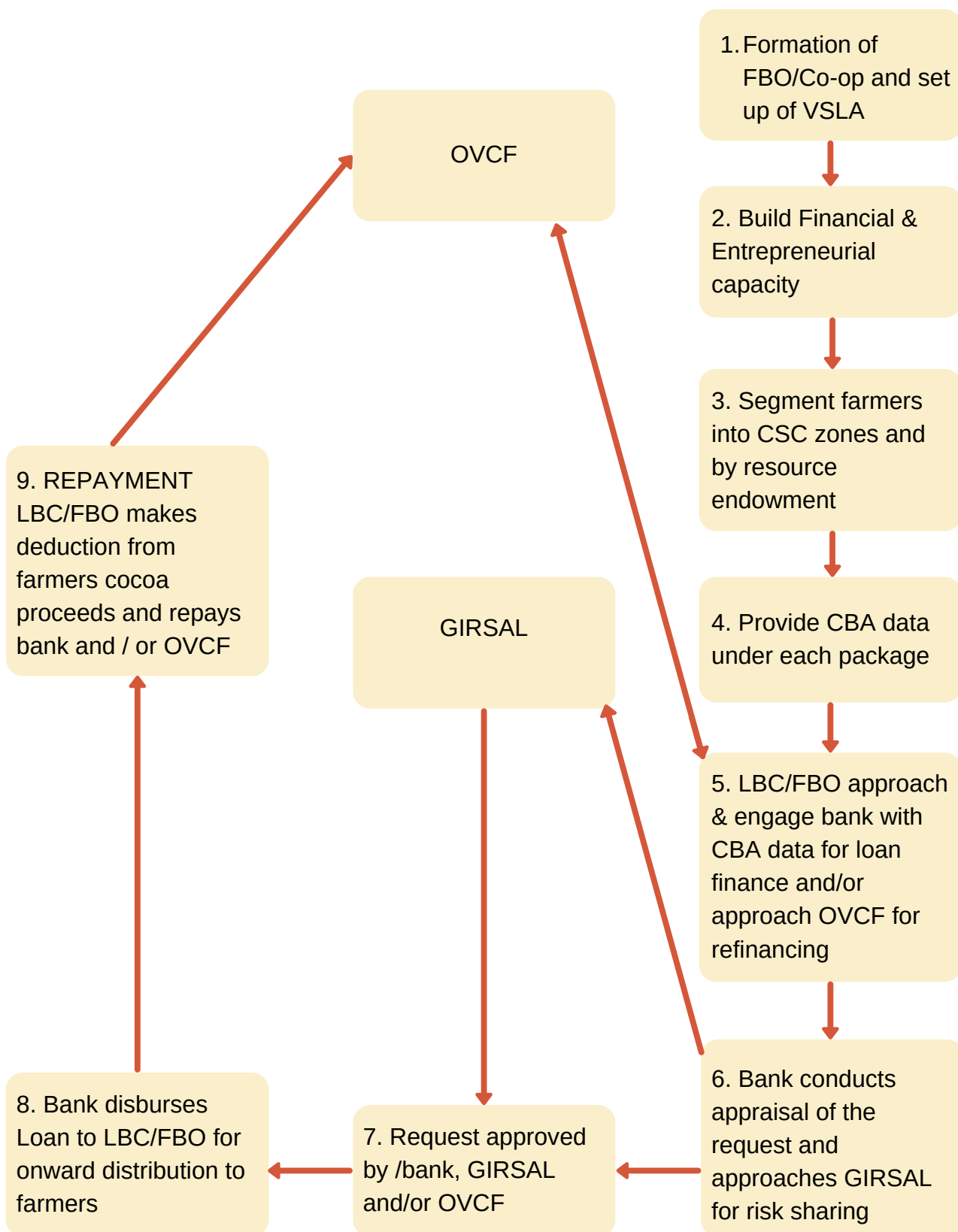


Figure 1: Diagrammatic representation of the process towards CSC finance

### CSC Loan Repayment Process

The loan disbursement and repayment process is as follows:

- In all instances Loan is disbursed to the LBC or the FBO
- The LBC / FBO is responsible for distribution of the monies to the farmers
- When cocoa is harvested and beans sold to the LBC / FBO the agreed loan deductions of capital and interest are made and the balance paid to the farmer
- Loans given to the VSLA's are collected through the executives of the association
- The LBC / FBO guarantees the loan repayment with their assets
- The VSLA members serve as guarantors for each other's loan

### Useful Technical Support Materials for CSC

Farming in developing countries is largely rain-fed hence vulnerable to climate and its variability (Mango et al, 2018). There is the need for innovations to help make smallholder farmers' climate resilient and reduce the negative impact of climate variability on farming. If not, farmers in developing countries will continue to have challenges with increasing pest and disease outbreak, crop failure, degradation of land and water resources (Nyasimi et al, 2017). In a quest to adapt to changing climate conditions farmers in developing countries and globally keep altering their agronomic practices. These reflect in the timing of planting, spacing of crops, water conservation and adoption of improved breeds and agronomic practices. This innovation is termed climate smart agriculture.

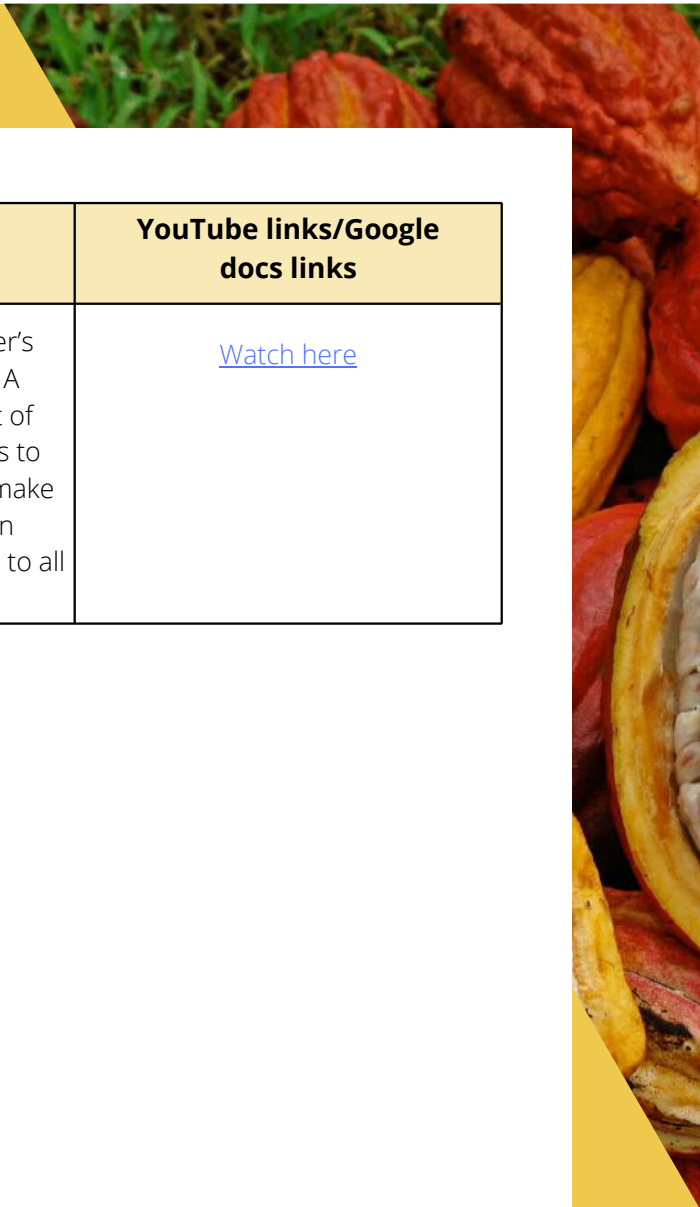
The table below contain useful technical materials developed to help cocoa farmers adopt climate smart cocoa recommendations in Ghana;

| Product Name/<br>Title    | Description   | YouTube links/Google docs links |
|---------------------------|---|---------------------------------|
| Stepwise approach brief   | This brief is a 4 -pager giving an overview of the Stepwise approach to determining smallholder farmer incremental investments in cocoa in Ghana. | <a href="#">Read here</a>       |
| Farmer segmentation brief | A 3-pager giving an overview of the farmer segmentation approach to determining farmer typologies in cocoa systems in Ghana                       | <a href="#">Read here</a>       |



| Product Name/<br>Title   | Description   | YouTube links/Google docs links |
|--|---|---------------------------------|
| Climate Smart Cocoa Implementer Application brief  | This brief serves as a guide on how to use the Climate smart Cocoa Implementer APP ( Combines cocoa farmer segmentation tool and the stepwise cocoa APP)                                  | <a href="#">Read here</a>       |
| “Unlocking Barriers to Adoption and Scaling of Climate Smart Cocoa Practices in Ghana” Tropentag 2019 conference ,University of Kassel, Germany. | This poster highlights the cocoa farmer typologies in Ghana and how CSA recommendations can be mapped to these farmer types to easy adopting while consideration the challenges the face. | <a href="#">Read here</a>       |
| STEP 1A_Weeding  | Short video for stepwise practices at the demo sites (STEP 1A_Weeding)  | <a href="#">Watch here</a>      |
| STEP 1B_Pruning  | Short video for stepwise practices at the demo sites (STEP 1B_Pruning)  | <a href="#">Watch here</a>      |
| STEP 1C_Cultural Management for Pest and Diseases  | Short video for stepwise practices at the demo sites (STEP 1C_Cultural Management for Pest and Diseases)  | <a href="#">Watch here</a>      |
| STEP 2A_Insecticide Application  | Short video for stepwise practices at the demo sites (STEP 2A_Insecticide Application)  | <a href="#">Watch here</a>      |
| STEP 2B_Fungicide Application  | Short video for stepwise practices at the demo sites (STEP 2B_Fungicide Application)  | <a href="#">Watch here</a>      |
| STEP 3_Fertility Management (organic matter)   | Short video for stepwise practices at the demo sites (STEP 3_Fertility Management (organic matter) )  | <a href="#">Watch here</a>      |
| STEP 4_Fertilizer Application (inorganic)  | Short video for stepwise practices at the demo sites (STEP 4_Fertilizer Application (inorganic))  | <a href="#">Watch here</a>      |
| Mixed videos (Step 1 -4 )  | short videos for the for all the stepwise practices at the demo sites Mixed (Step 1 -4 ) all combined with an introductory note explaining the concept of Stepwise                        | <a href="#">Watch here</a>      |

| Product Name/<br>Title | Description   | YouTube links/Google<br>docs links |
|------------------------|---|------------------------------------|
| Supervisor Video       | Climate Smart Cocoa Pilot Partner's perspective on Stepwise Cocoa : A discussion on the whole concept of Stepwise cocoa and what it seeks to achieve, challenges and how to make it easier for partners interested in investing CSC to adopt and scale to all their farmers | <a href="#">Watch here</a>         |



## References

J. Cook, et al, "[Consensus on consensus: a synthesis of consensus estimates on human-caused global warming](#)," *Environmental Research Letters* Vol. 11 No. 4, (13 April 2016); DOI:10.1088/1748-326/11/4/048002

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Nyasimi, M., Kimeli, P., Sayula, G., Radeny, M., Kinyangi, J., & Mungai, C. (2017). Adoption and Dissemination Pathways for Climate-Smart Agriculture Technologies and Practices for Climate-Resilient Livelihoods in Lushoto, Northeast Tanzania. *Climate*, 5(3), 63.



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