

## Scaling up note



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Ghana – Rural Enterprises Programme

### The context

Since the mid-1980s, Ghana's impressive development has made the country one of the strongest performers in Africa, although economic challenges and a fiscal deficit are currently slowing down the pace of growth.

About 40 per cent of the rural population (or five million people) in Ghana live below the national poverty line.

With approximately 90 per cent of farm holdings of less than 2 hectares, Ghanaian agriculture is still dominated by traditional smallholder farms. Rural poor and food-insecure households consist mainly of smallholder food crop farmers with limited access to markets. This results in low productivity of land and labour, poverty, low investment capacity and a lack of opportunities for young people. Nevertheless, domestic and regional demand for food crops is strong and although agribusinesses are interested in working with smallholders, they are asking for more formalized business relationships along the value chains. Rural women and girls contribute significantly to farm labour, particularly as a result of the high migration rates among young men stemming from the lack of economic opportunities.

This has produced an ageing and generally less dynamic rural population, high rates of youth unemployment, underemployment and social inequality.

The focus on employment opportunities for rural youth is a top priority of the Government of Ghana. Between 1991 and 2006, the poverty profile of Ghana improved remarkably both at the national level and in urban areas. Nevertheless, rural poverty remains the topmost challenge, in particular because of its impact on the livelihoods of young people and women. Ghana is reasonably food-secure at the national level but household food insecurity is a concern, particularly in the Northern, Upper East and Upper West regions. Through implementation of its Medium Term Agriculture Sector Investment Programme (METASIP), the government aims to give food crop production a more commercial orientation in order to enhance incomes of smallholders and reduce structural food insecurity and poverty in rural areas. Unfortunately, weak institutional capacity and decades of supply-driven development interventions that have given inadequate attention to private-sector and market linkages have not helped transform smallholder farms and cooperatives into entrepreneurial entities. Meanwhile, the weak capacity of public extension services to respond to the needs of commercial agriculture has left a climate characterized by high production and transaction costs for smallholders and by mistrust, which undermines the scope for contractual relationships between value chain actors. Finally, climate change is putting extra pressure on smallholder producers, especially in the form of water stress, land degradation and intermittent floods.

### **Key elements of IFAD's country programme**

IFAD has acquired experience in Ghana and globally in the development of: (i) pro-poor agricultural value chains; (ii) rural and agricultural finance; and (iii) rural enterprises and employment creation, often in very remote and deprived areas. Its comparative advantage as an institution that finances government-owned programmes could be leveraged into a longer-term engagement seeking to mainstream institutional development at grass-roots and district levels, in order to provide an effective support structure for smallholder farmers and rural enterprises with a view to private sector-led growth.

IFAD aims at increasing the access of small farm and off-farm enterprises to markets and adequate technologies, allowing them to improve their commercial and environmental sustainability in agricultural value chains, and to efficient, sustainable services to strengthen their capacity, skills and financial assets.

IFAD-financed projects in Ghana develop models enabling small-scale rural entrepreneurs to overcome their constraints, enhance their asset base and become more competitive. Participatory planning, testing, and monitoring and evaluation of the financial, economic and environmental outcomes of these projects are integral to IFAD's approach. In the medium term, IFAD's support to Ghana will focus on the Rural Enterprises Programme and the Ghana Agriculture Sector Investment Programme (GASIP).

With the establishment of a country office in Ghana in 2011, IFAD's collaboration with government agencies, civil society, farmers' organizations, development partners, the corporate private sector, and academia and research institutions has significantly increased. IFAD is engaging in policy dialogue and knowledge management to build links with its partners' programmes to foster complementarity and synergy between IFAD-funded projects and other interventions, with the aim of scaling up the impact of its investment in Ghana.

## **Scaling up the development of inclusive agricultural value chains in Ghana**

Through GASIP, IFAD is scaling up a value chain investment approach and contributing to METASIP. The GASIP approach is based on successfully used building blocks, in particular: (a) formalized linkages to agribusiness, input suppliers and participating financial institutions; (b) value chain committees at community and district levels; (c) enhanced farmer-based organizations (FBOs) to build confidence along the chain; (d) external value chain facilitation; (e) partnerships with public services to provide technical know-how; (f) collaboration with rural banks to finance seasonal credit and investments; (g) matching grants to leverage external financing; and (h) enabling public rural infrastructure.

It builds on the successful examples of two IFAD-financed projects: the Northern Rural Growth Programme (NRGP) and the Root and Tuber Improvement and Marketing Programme (RTIMP). NRGF successfully intervened in value chains of maize, soybean, sorghum and irrigated vegetables, which allowed district-level linkages to be built between FBOs, input suppliers, rural banks, service providers and agribusinesses. Improved access to and use of inputs has resulted in significant productivity increases for sorghum and maize. Evidence from RTIMP exists for cassava and yam, where project support has resulted in:

(i) markedly higher incomes for farmers, small-scale processors and labourers; and (ii) the establishment of highly profitable good practice centres for gari processing as value chain drivers and for testing and promoting processing technology, outgrower schemes and structured market linkages, including certification, traceability, packaging and market prospecting.

IFAD's target group is typically qualified as resource-poor segments of rural communities, often trapped in subsistence-based production systems characterized by weak market integration, low productivity and weak organizational capacity. Well-intended, production-oriented "food security" interventions and supply-driven support to poor and vulnerable people in the past have increased aid dependency rather than sustainable outcomes. Recognizing that agricultural and rural enterprises are private entities, IFAD focuses on market- and private sector-driven approaches, which are increasingly embraced by government and other development partners.

#### **Box 1: The Rural Enterprises Project**

The Rural Enterprises Project is a good example of scaling up, where structures at the district level have been replicated and scaled up, eventually on a national scale. In its first phase in 1995, it was implemented in only 10 districts of 2 regions in Ghana, meaning that it was able to effectively promote rural enterprises in the project area as well as learn lessons for subsequent investments. The second phase, launched in 2002, covered 66 districts in all 10 regions of Ghana and included cofinancing from the African Development Fund. Based on the maturity of the project implementers and on important lessons learned, the Rural Enterprises Project made substantial contributions to institutional change within the decentralization framework for Ghana. For example, it set up district assembly subcommittees for micro and small-scale enterprise (MSE) development that became a precursor to the decentralized departments of trade and industry to support MSEs. The government, with support from IFAD and AfDB, designed the current third phase and reinvented the project as the national Rural Enterprises Programme in 2011 to lead institutional development and the creation of a favourable environment for MSE development in all rural districts of Ghana.

As an entry point to leveraging financially viable and mutually profitable business transactions along inclusive value chains, GASIP facilitates the emergence of value chain committees to effectively link producers, aggregators, suppliers, service providers (including financial institutions) and the regulating public entities. IFAD's support focuses on: public goods that reduce transaction costs and enhance productivity, such as research and knowledge management; technical assistance to make adequate technologies accessible, strengthening capacities of IFAD's target group, their partners and their organizations; policies, regulations and standards to enhance efficiency; and productive infrastructure.

While building trust, transparency and strengthening the capacity of the enterprises, including farmers' organizations, to become more professional, productive and credible, GASIP is working with rural financial institutions and universal (i.e. commercial) banks, helping them to overcome their constraints and barriers in order to scale up investment in credible business opportunities and finance the growth of the rural economy.

The emerging interprofessional linkage and collaboration based on mutually beneficial commercial relationships leads to increasing levels of productivity, competitiveness and profits at all levels of the value chain – which, over time, leads to increasing levels of prosperity and disposable income, including savings. This way, IFAD's support is operationalized as investment support that can leverage opportunities to overcome bottlenecks and upgrade the capacity and business transactions in a given chain to a different level. This is specifically promoted through competitive grant mechanisms that provide private enterprises with investment support to upgrade productivity levels, with positive upstream and downstream effects along the value chain, including the potential for crowding in additional private operators. This includes challenge grants to promote innovation and matching grants to promote investment in productive capital assets.

In summary, IFAD's conceptual basis for scaling up in Ghana gravitates around facilitating private sector-led investments for the promotion of inclusive, commercially-viable development rural businesses.

#### **Potential obstacles to achieving results**

It is obvious that the effects of the macroeconomic and current fiscal challenges on the cost of financial services in Ghana represent a major constraint to small and medium-size enterprises (SME) development,



particularly in rural areas, and can create bottlenecks in agricultural value chains. Public reforms aimed at reducing public deficit and debt are unlikely to have an effect before 2017-2019, particularly in view of the impending elections in 2016. Irrespectively of that, what in theory sounds simple is in reality a very complex and ambitious process, given the current infrastructure and environmental constraints and the extremely low levels of capacity and productivity of the target population in the poorer, more remote parts of the country. In addition, the weak capacity of service providers and the current fiscal challenges and resource constraints in the public extension system are likely to limit the pace at which rural transformation can occur. Enabling IFAD's target group to form credible business entities that are able to manage their backward and forward linkages and risks, while enhancing their productivity, income and resilience, is without doubt a long-term undertaking.

The perceived "urgency" and impatience of the political leadership and the international community in reducing poverty, and the associated supply-driven, mostly production-oriented interventions, can undermine the efforts to create a conducive environment for investment and rural transformation, which largely depend on market forces to drive innovation and competition on a level playing field. Lack of coordination can thus lead to undue competition between development programmes and aid interventions, whereby the more sustainable and developmental approaches are less appealing than those that offer direct short-term benefits. Hence, there is need to strengthen coordination towards a coherent development approach and standards based on good practice. Given the key role of the government in driving policy, alignment and coordination, IFAD's support is well placed to strengthen the government's role in coordination and standard-setting. This has been one of IFAD's comparative advantages, as highlighted in the country strategic opportunities programme (COSOP) for 2013-2018, and was a key objective underlying the design of GASIP.

## Key pathways for scaling up

IFAD's country-specific approach for scaling up in Ghana addresses different action domains or pathways that are pursued jointly by the government and IFAD to achieve the goal of scaling up results and impact. These include policy engagement, investment and knowledge. In fact, the pathways for effective scaling up are closely interdependent. In Ghana, scaling up has consciously been operationalized within a more tangible programme approach, in which actual *investment* in inclusive and viable rural businesses remains at the core of IFAD's mandate.

### Policy engagement

GASIP is serving as a flexible vehicle to support the METASIP framework for value chain development of the Ministry of Food and Agriculture (MOFA), so as to create an enabling socio-economic and regulatory environment for pro-poor, private sector-led value chain development. To achieve this, the GASIP agenda can be seen as having three main thrusts:

- First, it supports the implementation of existing policies and in that context assists the government both in mainstreaming good practice for smallholder engagement in value chains and in providing an umbrella under which additional and complementary funding from the development partners can be slotted. The focus is on: (i) removing obstacles and providing incentives to private investment (transparent markets, financial discipline and smart subsidies); (ii) ensuring competition on a level playing field through transparent regulations and communication, as well as incentives and reduced risks for private investment; (iii) enhancing the role of private actors in service provision, including technical assistance, seed production, input trade and finance; and (iv) strengthening local members' institutions to provide effective and competitive services to their members, and building capacity for advocacy and representation in local policy forums.
- Second, it helps to build processes that link operational experiences and lessons learned to improved policy outcomes and institutional practice (and seeks to moderate policies that work against the establishment of an enabling framework).
- Third, GASIP supports implementing agencies to enhance learning and knowledge management based on lessons learned in the field, as well as to empower apex FBOs and business organizations to advocate for their members' interests.

This work is complemented by assisting the government to shape its policy agenda through the Agriculture Sector Working Group and other working groups, Joint Sector Reviews, the Ghana Rural and Microfinance Forum, and government-led processes with development partners and the United Nations system. Particular focus is given to strengthening linkages with the business community, rural banks, representatives of the corporate private sector, and farmers' and business organizations. This will also contribute to enhance alignment and coordination among various development partners. The IFAD Country Office (ICO) is also enhancing dialogue with the METASIP steering committee and secretariat, as well as with the parliamentary select committee for agriculture. In addition, the establishment of databases on programme clients and comprehensive knowledge management on climate change resilience adaptation is contributing to more efficient decision-making and planning.

## **Project financing**

IFAD will scale up a value chain investment approach through GASIP. It aims at providing a framework for a long-term engagement and supplementary financing for private sector-led, pro-poor agricultural value chain development. The programme is fully aligned and contributes to the METASIP, which provides the road map for the Comprehensive Africa Agriculture Development Programme (CAADP) in Ghana.

More specifically, IFAD aims: (i) to promote the GASIP approach as a standard-setting approach; (ii) to serve as a core investment for value chain development in Ghana; (iii) to drive its efforts to harmonize value chain intervention tools; and (iv) to mobilize additional parallel financing, following the modalities that each of the development partners prefers. Nationwide and sector-wide coverage, alignment to decentralization and the programmatic approach of GASIP will imply (i) gradually mainstreaming implementation into district assembly and regional institutions and (ii) institutionalizing mechanisms to leverage private and public investments in value chains.

The strategic focus of GASIP is on smallholders to make them more competitive by increasing their capacity to respond to market demand in terms of quality, price, time and volume. This is being operationalized through the formalization of relationships with agribusinesses, in order to give smallholders reliable access to technologies, financial services, and factor and output markets. The approach aims to be pro-poor, pro-youth, gender-equitable, inclusive and private sector-driven. Partnerships with agribusinesses are being expanded through targeted facilitation support, smart subsidies to leverage private investments and adequate provision of public goods and enabling infrastructure to reduce risk.

## **Knowledge generation and sharing**

Learning and knowledge management play a central role in IFAD's innovation mainstreaming and scaling-up agenda. The M&E system focuses on efficiency and effectiveness of value chain development tools, and on providing learning backed by rigorous data collection and scientifically accepted evidence to fine-tune the models for systematic scaling up. M&E is done in a participatory manner to promote partnership and learning. Partnerships are actively being sought with research institutions to evaluate parts of IFAD's programme and to access new knowledge that can improve the delivery of programme objectives. Lesson learning is focused on linking smallholders to agribusinesses to enhance pro-poor growth and on mainstreaming climate change adaptation in value chain programmes. Knowledge management is also at the heart of IFAD's partnership efforts and policy dialogue with the government. Moreover, coordination meetings are organized by the project on a regular basis to share good practices and challenges with the different implementing partners.

# **Drivers and spaces for scaling up**

## **Financial/fiscal space**

With the current macroeconomic challenges coupled with fiscal crises, high depreciation and soaring treasury bill and interest rates, only limited liquidity is accessible to the rural economy. Further, given the low productivity with relatively high production and marketing risks, access to finance and the high cost of financial services are likely the single most important constraint to SME development in Ghana. This issue is being addressed at the macro level through improved fiscal discipline and debt management and improved governance, as well as financial sector reforms that are expected to lead to improved macroeconomic performance and to decreasing interest rates over time.

At the same time, capacity-building and access to data, information and knowledge for appropriate risk management and enhanced efficiency are being provided to rural and commercial financial institutions to enhance their outreach in the rural and agricultural sector. Programmes with technical support from the IFAD Country Office help rural and commercial banks develop financial instruments and tools to manage risks for agricultural lending. Matching grants are used to promote investment in capital assets to increase productivity along value chains and to crowd in financial institutions, while SMEs, farmers and other clients receive support to develop viable business models, with training on financial literacy and technical support to maximize their productivity.

### **Institutional space**

With increasing differentiation and professionalization of the productive sector and inclusive value chains in Ghana, a more sophisticated institutional system will be required to integrate and govern collective action towards enhancing efficiency and productivity maximization. Markets will require standards and norms with adequate control and certification mechanisms. Policies, regulations and laws, as well as capacity for enforcement of law and contracts, will mitigate risk and protect the actors' interests and investments. Strong political will and determination will be crucial to enhancing attention to technical aspects, data and analyses in political decision-making, as a basis for stronger policy support. Such development will also depend strongly on the emergence of strong and legitimate representatives and advocates in civil society and on professional organizations that can effectively advocate in the interest of their constituencies, and contribute to more effective governance overall.

Further facilitation, integration and institutionalization of commercial entities and their transactions can lead to greater efficiency and economic growth. Institutions build trust, which in turn can reduce transaction costs significantly. There is evidence that increasing productivity drives organizational capacity and the willingness to sustain institutions based on the commercial utility of the associated cost. Moving forward, IFAD will support the emergence of apex organizations, higher-level value chain committees and other forms of interprofessional coordination, according to the strength of the base. The programme's work as well as its support to policy engagement will be crucial to optimize this development.

### **Political space**

Ghana has had two decades of stable democracy, with free and open elections, comparatively low levels of corruption and a lack of broader social instability. This has helped to improve the business environment, increase private-sector investment and improve public infrastructure development, areas that are critical to the agricultural sector in the country. However, this development, which makes Ghana already stand out as one of the best performers with regard to foreign direct investment in West and Central Africa, still needs to translate into greater trust in the rural areas. The recent devolution of fiscal powers to the districts has decentralized decision-making in Ghana. This empowerment may – after some embryonic challenges – effectively enhance local leadership in building the social capital required to engage the formal and private sector.

### **Cultural space**

With actual programme implementation being driven by local producers and entrepreneurs, the main dimension of expanding the cultural space for scaling up change has to do with enhancing the application of sound business skills and diligence to professionalize the rural economy. Value chain committees and other organizational approaches are charged with generating trust and transparency, allowing win-win business relationships to be recognized, valued and sustained.

Young people and women can be agents of change, as many examples in all regions of Ghana demonstrate. GASIP will facilitate dialogue across gender and generational groups at the community level to facilitate and accelerate the required cultural and behavioural change that can empower entrepreneurial but poor persons to access the assets they require to prosper. Such facilitation will include dialogue towards a modernized perception of "leadership", enabling productive, inclusive and dynamic individuals in the rural and administrative arenas to bring their potential to bear for inclusive transformation and growth, without challenging the established social and cultural norms and authority structures.

## Partnerships

GASIP is being promoted and implemented by the Ministry of Food and Agriculture as an instrument to develop and promote good practice standards for agricultural value chain development in Ghana. The government is committed to mobilize and integrate cofinancing from other international financial institutions and possibly parallel implementation arrangements with bilateral partners, such as already envisaged by Canada and Germany (GIZ's Market Oriented Agriculture Programme and the Ministry's KfW-financed Outgrower and Value Chain Fund).

Replication and alignment of additional partners and greater harmonization can lead to a third level of scaling up, as well as eventually to transforming harmonized support systems into policy, and mainstream private sector-led development of productive sectors into standard practices of government and development partners.

## Monitoring and evaluation

The logical framework of GASIP forms the basis of measuring outputs, outcomes and impact. The M&E system focuses on efficiency and effectiveness of value chain development tools and provides learning backed by rigorous data collection and scientifically accepted evidence to fine-tune the models for systematic scaling up. Moreover, it feeds into the M&E system of the Ministry of Food and Agriculture. GASIP is working with the ministry on developing a single mainstreamed data collection template that is filled out by the districts on a quarterly basis.

### Box 2: Key messages: IFAD's scaling-up agenda in Ghana

1. Scaling up of economic activities means focusing on public investment that can leverage private investment in financially viable, inclusive business models.
2. Mixing charity and development is a recipe for failure. Respecting competition among private entities and focusing on public goods is key to ensuring a level playing field and maximizing the innovative potential of the actors in the system. Business diligence and professional rigour are required in order to avoid providing incentives for poor performance.
3. Based on capacity-building and investment support, local stakeholders themselves are leveraging additional resources on their own to take pilot activities to scale.
4. Scaling up is a key management objective and as such requires continuous attention and flexibility. Factors such as structural changes in the world economy, price dynamics, changes in government and implementation/project management performance, as well as personnel changes in any of the institutions identified as drivers for scaling up, can have a major impact on the process and trigger the need for reconsideration and change.
5. Scaling up within the Ghana Country Programme is about building partnerships and mainstreaming leadership capacity at all levels to increase the institution's sphere of influence.

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