

IN THE THIRD SESSION OF THE SECOND PARLIAMENT
OF THE FOURTH REPUBLIC OF GHANA

REPORT OF THE FINANCE COMMITTEE
ON THE AFRICAN DEVELOPMENT FUND
4TH LINE OF CREDIT OF US\$20.25 MILLION BETWEEN
THE GOVERNMENT OF THE REPUBLIC OF GHANA AND THE
AGRICULTURAL DEVELOPMENT BANK OF GHANA

1.0 INTRODUCTION

The above 4th line of credit agreement was laid in the House on 11th November, 1999 in accordance with Article 181 of the Constitution and referred to the Finance Committee for consideration and report pursuant to Standing Order 171 (1).

The Committee met with the Deputy Minister of Food and Cocoa Affairs, Hon. Asiedu Nketia, the Managing Director of Agricultural Development Bank Dr. Kuranche and officials of Agricultural Development Bank (AgDB) and reports as follows:

2.0 BACKGROUND INFORMATION

The agricultural sector is the main stay of the economy and the Agricultural Development Bank is the major formal financial institution responsible for the provision of credit to the sector. Regrettably, rural credit availability and accessibility have been a critical constraint in the process of modernizing the sector. In the face of the current macro-

economic reforms and sectoral policies under the Structural Adjustment Programme (SAP) the above problems have become more critical.

The projected financial requirement of Agricultural Development Bank reveal that from the beginning of year 2000 there will be a large resource gap. The available and the projected funds flow from donors and internal resource mobilization would however be adequate to meet its lending target.

The proposed line of credit from the African Development Bank is therefore crucial to the extent that it would account for twenty-two percent (22%) of the over US\$92 million needed for agricultural financing for the year 2000. Other sources of donor finance to the Agricultural Development Bank have been IFAD, EDF and IDA.

For the reasons mentioned, the Ministry of Finance in consultation with the Ministry of Food and Agriculture applied to the African Development Bank to consider the provision of a line of credit to Agricultural Development Bank. Three previous lines of credit provided by African Development Bank to Agricultural Development Bank in 1980, 1984 and 1993 amounted to US\$9.6 million, US\$18.0 million and US\$32.28 million, respectively.

Those lines of credit assisted the Agricultural Development Bank in meeting the credit needs of the following sub-sectors in the agricultural sector:

- Fisheries
- Poultry
- Food and Industrial crop
- Non-traditional export crops

3.0 PURPOSE OF THE LOAN

The purpose of the credit amounting to US\$20.25 million is to provide credit facilities to farmers, fishermen and agro-processors in the areas of food and cash crop production. Specifically the following sub-sector needs are to be addressed:

Sub-Sector

- FOOD CROPS - (Maize, Legumes)
- CASH/INDUSTRIAL CROPS - (Cotton, Cashew, Coffee)
- HORTICULTURAL CROPS - (Pineapple, Vegetable)
- FISHERIES - (Outboard motors, Fishing gear)
- LIVESTOCK - (Feed ingredients, Poultry equipment)
- AGRO-PROCESSING/
MARKETING - (Gunneries, other agricultural processing units, marketing equipment etc.)

as attached as Appendix "I".

4.0 TERMS AND CONDITIONS OF CREDIT LINE

The terms and conditions of credit line are:

1. Interest Rate - Nil
2. Grace Period - 5 years
3. Repayment - 20 years (inclusive of grace period)
in thirty (30) consecutive and
semi-annual instalments
4. Service Charge - 0.75% per annum on all amounts
disbursed and outstanding
5. Commitment Charge - 0.5% per annum on the
undisbursed portion of the loan
which shall begin to accrue 120
days after the date of signature of
the agreement.

5.0 OBSERVATIONS

The Committee recalled that not long ago, the Government secured a loan from the World Bank to restructure the commercial banks which are wholly or partly owned by the State. The diagnostic studies of the banks, which preceded the Financial Sector Adjustment Programme

(FINSAP), revealed that the banks which had obtained foreign loans were the most vulnerable. This was because whereas most of the ultimate beneficiaries of the foreign loans had made repayments to the local banks, the banks were compelled to make repayments some years later due to the relatively low repayment terms of the original loan. Meanwhile, the Cedi was depreciating and since the Government did not undertake to bear the foreign exchange risk, the exchange losses were borne by the banks.

To avoid a repetition of the above situation, the following arrangements have been made under the loan under consideration:

(i) **Interest Rate of Loan**

The loan is to be on-lent to Agricultural Dev. Bank at an interest rate of five percent (5%) per annum;

(ii) **Foreign Exchange Risk**

The Government would bear the foreign exchange risk. To meet part of the exchange losses, the Agricultural Dev. Bank would always convert each disbursed amount at the prevailing rate of exchange of the cedi to the UA and the Agric. Dev. Bank would pay the Government a premium amounting to 7.5% of the amount so converted.

(iii) Interest Rate to Borrowers

The rate of interest plus all other tariffs chargeable to the end beneficiaries of the Agric. Development Bank loans should not, at any time, exceed the lower level of the range of interest rates chargeable by the Bank for agriculture. This is premised on the condition that the spread of the Agricultural Development Bank should not be more or less than 15%. Whenever either of the two occur, the Government and the Agricultural Development Bank would review the premium payable by the Agric. Development Bank against foreign exchange risk.

5.0 IMPACT OF ADF (I) LINE OF CREDIT (ADF I LOC)

Under ADF (I) Line of Credit, the Government on 31st November, 1981 procured from the African Development Fund, UA 8 million which was on-lent to the Agricultural Development Bank to support the following agriculture activities:

- Oil Palm Development Scheme
- Food Crops Cultivation (Rice, Sorghum and Groundnuts in the Northern Region.
- Fisheries.

The fund was disbursed over a three-year period.

The utilization of the first line of credit on the agricultural sector had the following impact:

- **Oil Palm Sub-sector**

It supported the cultivation of 3200 hectares of oil palm through an out growers scheme by supporting the operation of oil mills at Anyinase, Anwiankwanta and Bogosu oil mills.

- **Food Crops**

The activities of 2000 rice, sorghum and groundnut farmers were supported, enabling each farmer to cultivate an average of 1 hectare of the listed crops.

- **Fisheries**

This credit line supported the fishing business of 21,100 fishermen in the Greater Accra, Central, Western and Volta Regions. It was estimated that during the implementation period, beneficiaries contributed an average of 700 metric tonnes of fish to the national fish supply over the life-span of the marine engines and outboard motors.

Repayment of Line of Credit to Government

With the restructuring of state banks under the (FINSAP) programme in 1990, the government decided to absorb all foreign denominated loans procured for the said banks, accordingly it undertook to underwrite the UA8.0 million ADF I line of credit.

6.0 IMPACT OF ADF II LINE OF CREDIT (ADF II LOC)

This amounted to UA 15.0 million and became effective on 9th July, 1985. The major project areas identified under this project included fisheries development, industrial and export crop production, poultry, rehabilitation of oil palm mills and the marine and outboard engines imported under the ADF I LOC.

Of the UA 15.0 million, an amount of UA 1.982 was used by the Bank for logistics and Institutional Support.

Fishing

Of a canoe fleet of 7,000 at the end of 1985, 90% of the fleet was motorized with the reactivation of 2,500 outboard motors and the importation of 4,550 outboard motors.

The fishing inputs provided under the LOC saw the contribution of at least 93,800 metric tonnes of fish a year with an annual foreign exchange savings amounting to US\$12.5 million and employment for about 32,000 fishermen.

The LOC injection, revived the poultry operation of small and medium scale poultry farmers which had declined by 25% by the end of 1985.

The poultry population increased from 6.0 million to 10.0 million from 1986 to 1991 as a result of sustained supply of inputs.

Food, Industrial and Export Crops

Remarkable increases were achieved in the production of pineapples and cotton. Export of pineapples increased from 2,000 mt in 1984 to 10,000 mt. by the end of 1991. Seed cotton production increases from 500 mt in 1983 to about 20,000 mt high in 1992, all resulting in increase in export revenue.

7.0 IMPACT OF ADF III LINE OF CREDIT (ADF III LOC)

The 3rd line of credit contracted was to enable the Agricultural Development Bank meet the foreign exchange requirements of identified enterprises with capacities in agriculture sector to contribute substantially to the national economy.

The major activities identified and funded with this credit line included cotton, fisheries, food crops, non-traditional export crops, poultry and agro-processing. Special provision was made for women-managed enterprises.

The total amount approved was UA 23.0 million. It emerged that during the implementation stage, sub-project allocations had to be revised to reflect the absorptive capacities of the various sub-projects.

Project Impact

Cotton

Under the project UA7.46 million was used to procure fertilizers, improved cotton seeds and other agricultural inputs. Farm level productivity during implementation increased from an average of 800 kgs of seed cotton to about 920 kgs. A total number of 68,518 farmers were covered by the project compared to an inception coverage of 43,236. Foreign exchange saving within the project period amounted to US\$23.83 million from lint whilst generating about US\$2.10 million from cotton seeds exports.

An average per acre incremental income of about US\$40.00 which accrued to the LOC beneficiaries attested to their enhanced living standards compared to non-beneficiaries.

Cocoa

An amount of UA31.81 million expended under this sub-project enabled beneficiaries to procure 4 articulated trucks, 14 4 x 4 pick-up trucks, 107-tonner trucks and raw materials for formulation of 273,723 litres of Uden EC 200.

The formulation of 273,723 litres of Uden EC200 allowed the spraying of 172,327 acres of cocoa holdings. The application of the

pesticides was expected to increase yield per acre from 250 kgs to 300 kgs. The overall incremental yield of 8616.35 mt culminated in an average net gain per acre of US\$38.79.

Poultry

The credit was channelled through medium and large-scale producers with outlets to small-scale farmers to ensure regular supply of essential inputs at fair prices.

In terms of output, the ingredients imported under LOC sustained 313,697 broilers and 666,608 layers. While the broilers increased the supply of poultry meat to the domestic market by about 705 mt the layer produced about 155.0 million eggs. The production of 313,697 broilers meant that about US\$1.76 million was saved by the country.

Food Crops

The allocation to the sub-sector funded the procurement of 7,400 mt of NPK fertilizer and 2800 mt. of Ammonium sulphate for the cultivation of (mainly) maize. The fertilizer cumulatively met the requirement of 19,200 small-scale farmers over the project period.

71,000 or about 70% of the farmers cultivated about 35,500 hectares of maize. At an average yield of 1,250 kg per 0.5 ha. The beneficiaries collectively produced 88,750 metric tonnes of maize during the project

implementation period. At an average CIF price of US\$220 per mt, the output saved the country a foreign exchange of about US\$19.53 million.

Fishing

Under the LOC, 1,250 outboard motors were procured.

The average incremental output of fish was 1,170 crates of fish per canoe per year from Ghana's canoe fleet of about 7,000. The line of credit contributed at least 26,325 metric tonnes of fish per year to the national catch (marine and inland). The annual savings of foreign exchange to the country was about US\$15.0 million with an employment generation of about 10,000 fishermen, an average rate of 8 people per canoe during the loan period.

Agro-processing

An amount of UA1.09 million was allocated to the sub-sector for the purchasing of spare parts for the maintenance and rehabilitation of three gunneries of Ghana Cotton Company. A further UA0.977 million was disbursed to part-finance the acquisition of a new gunnery at Bolgatanga. The procurement of the gunnery parts helped to reduce the down-time of the three gunneries during break down, thereby increasing their efficiency and profitability. Part of the resultant savings was passed down to the farmers in the form of higher seed cotton price i.e. the seed.

Cotton price increased from cedi 450/kg to cedi 570/kg between 1996/97 and 1997/98 crop years an increase of about 26.7%.

Non-traditional Export Crops

The UA 0.83 allocated was committed to the funding of equipment and inputs for pineapple, cashew banana/plantain and vegetable farming.

The beneficiaries of the sub-component included; John Lawrence Farms, Cashpro, Contos Farm, Combined Farms and Volta River Estates Ltd. (VREL) which are linked with small-scale farmers as out-growers.

Women-In-Development

The disbursement of the allocation to this sub-sector was stalled because the financial requirement of most women entrepreneurs was for the acquisition of domestic inputs. The few who could access the LOC had difficulty in providing the requisite collateral security.

Instructional and Logistical Support

UA0.63 million was utilized to part finance the Agricultural Development Bank's computerization which had the effect of reducing transaction costs to both depositors and borrowers on one hand and the Bank on the other and also the training of some 37 bank staff.

This increased their proficiency and competence in accomplishing tasks efficiently and profitably.

IMPACT ON ADB

The financial base of the bank, specifically loan asset increased by the cedi equivalent of about US\$28.20 million, credits created out of the LOC. Secondly by the end of 1997 a cumulative loan portfolio of about UA20.99 million equivalent US\$28.20 million or ₵64.86 billion had been advanced out to the LOC as loan to beneficiaries.

At an average interest rate of 38% (inclusive of 2% for processing) during the loan period, Agricultural Development Bank was projected to have earned a cumulative gross interest income of about ₵24.65 billion.

Repayment Status

The Committee noted that the repayment of the 3rd LOC to Government starts from 1st January 2000 and had the assurance that the bank is well positioned to meet all instalments as a result of the prudent credit utilization of the proceeds of the line of credit.

8.0 RECOMMENDATION AND CONCLUSION

The performance of Agricultural Development Bank with respect to the utilization of previous lines of credit has not only contributed to the agricultural GDP growth and for that matter the overall growth of the economy but has also attracted high commendation from the African Development Bank.

Indeed, the provision of funds under the 4th line of credit manifested as a result of the excellent implementation of the previous three (3) lines of credit. In the light of its performance, the Committee recommends to the House the approval of **UA15.0 million (equivalent US\$20.25 million)** between the Government of Ghana and the African Development Bank in accordance with article 181 of the Constitution and Section 7 of the Loans Act 1970 (Act 335) to **provide credit facilities to farmers, fishermen and agro-processors in the areas of food and cash crops production.**

Respectfully submitted.

HON. CDRE S.G. OBIMPEH (RTD)
CHAIRMAN

ASANTE AMOAKO-ATTA
CLERK TO THE COMMITTEE

23RD NOVEMBER, 1999