FARMER SEGMENTATION, DEVELOPMENT OF LOAN PRODUCTS FOR SMALLHOLDER COCOA FARMERS AND PARTNERSHIP BUILDING WITH FINANCIAL INSTITUTIONS IN WESTERN NORTH REGION

Financial Sector Engagement Report

October 21, 2020

Submitted by:	Submitted to:
Financial Access	SNV PARTNERSHIP FOR PRODUCTIVITY PROTECTION & RESILIENCE IN COCOA LANDSCAPES
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Introduction

The urgently needed replanting of almost 40% of Ghana's smallholder cocoa farms (>700,000 hectares), represents a financing gap of about $1 billion. This current shortfall threatens the livelihoods of 800,000 households and exacerbates what is already the largest driver of forest loss in Ghana's high forest zone - forest encroachment for new cocoa plantations.

SNV is engaged in projects with smallholder cocoa farmers in the districts Juabeso and Bia West in the Western North region of Ghana. To help smallholders improve their incomes in a sustainable manner, Financial Access Consulting Services (FACS) was engaged to help catalyze commercial finance into the landscape to support better use of inputs and eventually towards cocoa replanting and post replanting management services. In the short run this will be addressed by working closely with local financial institutions (FIs) to enhance their operations and procedures and help them supply input financing to smallholders. In the long run, a more holistic approach, combining investors, FIs, value chain actors and smalholders groups will be needed to operationalize a replanting finance scheme.

The activities undertaken by FACS are aimed at understanding the conditions, challenges and opportunities in the landscape and to help design and operationalize innovative financing schemes in the landscape. This can only be done by identifying institutional gaps in current replanting schemes, building and understanding of the credit needs of farmers, and quantifying the costs and risks to FIs in engaging with smallholders. In addressing these challenges and leveraging the strengths present in the area and within the various institutions, can an innovative financing scheme be designed that presents a strong, low cost and low risk investment case to all actors involved, giving them the tools and confidence to invest in smallholders. The reports, of which this one is the first, highlight various aspects of the activities and analysis undertaken and the insights learned.

This report starts with an overview of the financial sector in Ghana. Secondly it discusses the main challenges for financial institutions and smallholders that create a financing gap. Thirdly potential replanting financing schemes are given, and their pros and cons analyzed. Fourthly, an initial analysis of the particular financial institutions in the area is conducted, to identify key actors. Fifthly, the engagement with Amenfiman Bank, Sefwiman Rural Bank and Suma Rural Bank is discussed and the three institutions are compared. Lastly recommendations and next steps are given.

Financial Sector Overview

The Government of Ghana as well as the Bank of Ghana have supervisory and oversight roles over the financial sector in Ghana. The legislation that currently regulates the banking sector is the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930). In this report we will focus on the banking sector and ignore the insurance and pension sector as well as capital markets. The banking sector consists of 3 types of financial institutions, all with a different legal status and legislation, namely: Universal Banks, Microfinance Institutions (MFIs), and Non-Bank Financial Institutions (NBFIs). All three types of institutions can lend to smallholders and Micro, Small and Medium Enterprises (MSMEs). Their main legal and other restrictions are outlined below.

Universal Banks manage most of the financial system's assets (85%). They hold a universal banking license, with which they can engage in retail, merchant, development and investment banking. Their funding comes from depositors, inter-bank loans and various insurance, savings and investment products. They allocate their money to business and consumer loans, investments, stocks, bonds and inter-bank loans. Most universal banks have Small and Medium Enterprises (SME) desks which provide banking services to SMEs, though they oftentimes target urban SMEs like shops and commercial vehicles, which generate income continuously.

Microfinance Institutions are divided into 3 tiers, each falling under different regulatory regimes. There are 137 MFIs currently operational in Ghana.

> **Tier 1**: Consists of the Rural and Community Banks (RCBs). These financial institutions manage about 4.4% of assets in the financial system. Their operations are mostly funded through deposits. RCBs are locally owned and managed and typically serve small-scale farmers and businesses within a given area. They are subject to similar rules as Universal Banks, though the activities they can engage in are much more limited.
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> **Tier 2**: Micro savings and loan institutions, including traditional susu (savings and credit cooperatives) fall into this category. They are fully funded through deposits and can only engage in basic lending activities, which are usually micro-credit facilities. Deposit taking non-governmental organizations also fall in this category.
>
> **Tier 3**: The final group encompasses all non-deposit taking organizations that offer loan facilities. As these organizations must be self-funding, there are rather light regulatory requirements.

Non-Bank Financial Institutions include savings and loans companies, finance houses, cooperatives and credit unions, leasing and hire purchase companies, mortgage finance companies and venture capital finance. These institutions are regulated under the Non-Bank Financial Institutions Act, 2008 (Act 774), and may be deposit taking and/or providers of loan facilities. Savings and loans companies are the most relevant for our purposes. As the name suggests, they can take deposits, give out loans and make short term investments. They can also receive funding from the inter-banking market, but many smaller institutions are unable or unwilling to do so.

Type of Financial Institution	Lending Rates (%)	Non Performing Loans (%)
Universal Banks	23 - 35	18 - 20
MFIs	34 - 38	30 - 38
Rural and Community Banks	28 - 30	11 - 12

Table 1 – Common interest rates per type of FI

Although the Central Bank lowered cut its policy rate from 25.5% in January 2017 to 14.5% in March 2020, financial institutions have not significantly lowered their lending rates. The most likely explanation for this is that the rate of non-performing loans has increased, leading to higher loan provisioning costs for FIs. Agriculture accounts for around 17.5% of the sector's loan book. Engagement with the sector has grown over the past five years, in large part due to the Planting for Food and Jobs initiative. Under this program more than 600,000 smallholder farmers were given access to finance, with the aim to catalyze more investment. Currently, the Ghana Incentive-Based Risk-Sharing System for Agricultural Lending (GIRSAL) initiative is being rolled out, for which the Government set aside 400 million GHS (72 million USD) in 2018. The program provides guarantees for loans issued by financial institutions to the agricultural sector.

Access to Smallholder Finance Challenges

Even though there are substantial benefits that both smallholders and FIs can realize from expanding access to finance, the reasons why at present financial institutions do not engage with smallholders offer important lessons and considerations for designing an effective intervention. These challenges can be broken down into four broad categories, each of which will be discussed in turn below.

Operational costs for FIs are higher when dealing with smallholders than for other types of customers. These costs can be divided into two groups. First are the onboarding costs, which includes the time and effort spent on client identification, selection and loan decision-making. Although this process varies depending on the loan size and type of customers, onboarding costs are relatively higher for small loans than for larger ones. Second are the costs incurred to collect loan repayments. When borrowers come to a bank branch to make these payments, the costs are very low. However, due to the distance between farmers and the nearest branch, it is common for loan officers to collect loan repayments at borrowers' homes or villages. This means that the bank may have to incur the associated travel costs 5 to 10 times during a loan cycle. Though the absolute value of operational costs may be small, relative to the loan size, they are significant. On average operational costs absorb around 65% of the interest income that FIs earn on small agricultural loans.

Perceived individual credit risk is higher in agriculture than in many other sectors. The perceived risks stem from the fact that the agricultural business cycle is very distinct from those of urban MSMEs. The latter have daily sales and cash flows, whereas agriculture has a planting season in which major expenditures must be made and income is received several months later as lump sums. This timing mismatch between costs and revenues is often not understood well by FIs, which deters them from engaging in agricultural lending in general and smallholder lending in particular.

Real individual credit risks are much harder to address than perceived risks. Weather and climate shocks, pests, wildlife conflicts, poor agricultural practices and low-quality inputs are just a few risks that are hard to measure, hard to predict or both. The effect of these risks is exacerbated by the fact that income from agriculture mostly comes in one, or a few, lump sums, meaning that it is hard for FIs to predict cash flows and repayment capacity. Note that general risks such as loss of life, disease or a borrower simply refusing to repay are important for agricultural and urban loans alike.

Market risk is generally higher in agriculture than in other sectors. Though these risks are substantially lower in the cocoa sector due to high levels of government involvement and predetermined prices, they are still present for the other crops they grow, which increases uncertainty for the overall income of the household. As smallholders incur their costs long before the harvest season, and yields are hard to predict, it is difficult for FIs to gauge the repayment capacity for farmers and therefore will not enable farmers to access the financing they would need. These three types of risks translate into an increased default risk and high provisions for defaults on smallholder loans, which take up 25% of an FI's interest income on average.

Bridging the Finance Gap

The four groups of challenges mentioned above need to be addressed holistically, as they all have a similar effect on an FI by increasing lending costs. Operational costs can be lowered by standardizing, digitizing and streamlining the internal processes of an FI, ensuring credit decisions can be made quickly and accurately. Technology can play an important role here, as the core loan processes of many FIs are still paper based, which leads to delays in decision-making, waste and creates the potential for fraud. Operational travelling costs can be lowered by aggregating farmers. This can be done at the village level, meaning that a loan officer could collect repayments from many farmers in one visit to a village or by working through VSLAs or supply chain actors, where these farmers are aggregated. This approach has the added benefit of being a natural entry point for more extensive cooperation with the various actors in the value chain. By offering smallholders training and supporting them gain access to finance, off-takers can benefit significantly, strengthening their supply base and ensuring consistency of supply.

These challenges are all addressed in the 3PCRL program by conducting data collection through SNV enumerators, creating individual-level credit scores by FACS, and possible aggregation of farmers through Touton.

Perceived risks can often be addressed through training and awareness building. Mapping the seasonal cash flows of a farm and taking this into account in structuring a loan product can reduce the timing mismatch of cash flows and hence reduce repayment risk. Furthermore, by creating a formal credit score card, where loan applicants are graded against objective risk criteria enables the mapping of real credit risks and eliminate perceived ones. The process of making a score card means defining and identifying important risk drivers a priori and applying them objectively to all applicants ex post. This makes the credit decision more solid and the process fairer, more transparent, less prone to fraud or mistakes, and faster, thereby lowering processing costs.

Again, these challenges are addressed by FACS through the standardization of their credit score card and offering capacity building training to the FI's staff to lower perceived risks and increase loan officers' understanding of the cocoa cash flow cycle.

As farmers develop a credit history over time, it will be easier to predict future repayment risk. This means that farmers who repaid their loans in the past should be better qualified and eligible for new, larger loans with longer tenors in the future. This benefits FIs in the long run, as it may provide the most creditworthy customers with loans at lower cost. Over time the built-up credit history is also important when 'graduating' smallholders from micro loans into larger loans in the formal banking sector and therefore the credit history built up by farmers could provide a potentially good starting point for the expansion of access to finance for smallholders in the western North region. Furthermore, by starting with small input loans and building a repayment track record, smallholders could be graduated into gaining access to large replanting loans over time.

Potential Replanting Financing Schemes

Whereas smaller input loans can be financed directly by financial institutions through existing channels, either the interbank market or from their deposits, replanting loans are usually too large for smaller FIs to provide without outside help. Broadly speaking, two different financing schemes can be used, direct loans or loan channeling, the choice of which will largely depend on the specific FI's needs. The difference between the schemes are whether the FI provides loans directly to smallholders from its own balance sheet and absorbs the credit risk or would just act as a loan channel to distribute the loan proceeds from a third party, who would then generally take the credit risk.

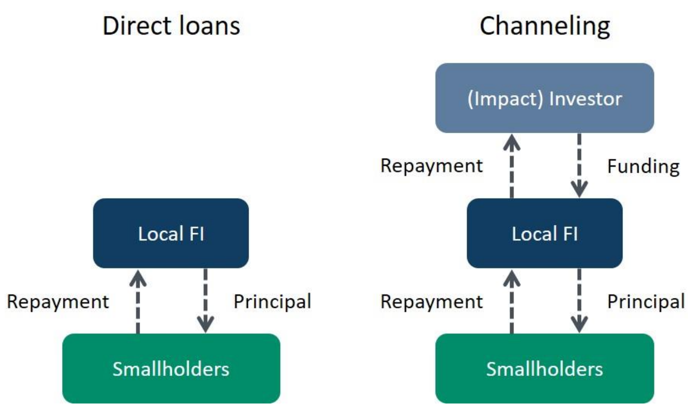

Figure 1 – Channeling mechanisms

In a direct financing scheme, an FI will directly provide loans to the farmer, without any intermediaries. This means that the FI will use its own funds to provide loans to farmers and carries the entire smallholder loan portfolio on its balance sheet. The main advantage of this scheme is its simplicity, creating a direct relationship between the FI and the smallholder, though other stakeholders (input suppliers, credit guarantors, credit insurance providers, etc.) could be involved as well to mitigate risks. The drawbacks are twofold. Firstly, to reach scale it requires the local FI to have the required funding capacity available to be able to lend to large numbers of smallholders. Though this may be feasible for input loans to a few hundred farmers, scaling up to reach thousands of new clients or providing replanting loans is beyond the reach of many local FIs. Secondly, the local FI will need the financial, human resource and institutional capacity to manage the risks associated with the increased portfolio size.

A channeling scheme is no different from the perspective of the smallholders but is very different for the FI. The loans disbursed to the farmers will not be funded by the FI itself and will not appear on the FI's own balance sheet, but the FI channels the capital from a third party, either a large commercial bank or an impact investor to smallholders. The exact arrangements can vary widely. The FI can for instance be merely an agent bank, not taking the loans on its books and just using its network and staff to administer the loans, for which it will receive a processing fee. Alternatively, it may receive a concessional loan from the third party for on-lending to creditworthy smallholder farmers that meet certain credit, environmental and/or social criteria. In this case the FI would carry the loans on its books and be at least partially exposed to the credit risk in the new portfolio. The exact nature of the scheme would have to be designed together with the FI and investor. The advantages of this system are its flexibility and scalability, as there is an abundant pool of capital available from international impact investors who would be keen to invest in smallholder loan portfolios in coca, as long as it is clear that the investment will lead to measurable and scalable impact. However, the involvement of more actors can be a major disadvantage as it creates the potential for uncertainty, misunderstandings and misalignment between the players. Furthermore, the disconnect between the funder and smallholder may mean that the (impact) investor becomes too aggressive and push debt on local communities, causing overindebtedness.

A loan guarantee scheme can be applied to both the direct and channeling lending scheme. A third party, national or international, would provide a loan guarantee to the FI and/or investor under certain conditions. Most common are guarantee structures whereby a first loss guarantee up to a specific percentage of the total principal is provided. For instance, the total value of the outstanding principal that default is paid out to the FI quarterly, up to a maximum of 50% of the total principal disbursed. This means that if 1 million USD of loans are disbursed, total defaults up to 0.5 million USD will be guaranteed, irrespective of which farmers default and how many of them default. Another common guarantee is on the individual level, where individual defaulters are guaranteed up to 50% of their principal. The difference between the two schemes is obvious if we assume 50% of farmers default in the first month after disbursement. Under the first guarantee, the FI will suffer no losses on the principal, as the default amount is 50% of the total principal, but under the second scheme the PFI will suffer losses of 25% as the farmers are only guaranteed for half their principal. The goal of a guarantee scheme is to enable the FI or investor to take more risk, become comfortable with smallholder lending and provide loans to farmers that they might have not extended loans to otherwise.

The two schemes, and a potential guarantee, should not be considered fixed. Again, it is highly possible and desirable to provide smaller input loans directly from the FI's balance sheet, as the loan sizes are usually too small to be interesting for investors regardless. However, investors could certainly provide general capital, or capital earmarked for loans to the cocoa sector to an FI. Especially if replanting loans are distributed, where an investor will most certainly be required, the relationship with this investor could be leveraged to be extended to input loans as well. Furthermore, if the FI is willing to expand its agricultural portfolio further, beyond cocoa, impact investors could be very interested in providing support to the rural communities in the north Western region writ large.

Target Financial Institutions

In May 2019, SNV conducted preliminary conversations with twelve financial institutions in Juaboso, Bia West and Sefwi Wiawso districts. Their analysis of the institutions was shared with FACS and together a decision was made on with which FIs to move forward in the project. Their evaluation furthermore helped inform the follow-up discussions with the FIs, which will be discussed in more detail in the next section.

The twelve institutions approached by SNV were Midland Savings and Loans, Kaaseman Rural Bank, Sefwiman Rural Bank, Asawinso Rural Bank, Agricultural Development Bank, Liberty Microfinance, Republic Bank, Amenfiman Rural Bank, Ghana Commercial Bank, ACCESS Bank, Bia Torya Community Bank, and Suma Rural Bank. Surprisingly for an area so dependent on cocoa production, only five institutions were engaged in the cocoa sector at the time. Of the remaining seven, three do not offer agricultural finance at all, and the remaining four used to have a cocoa loan portfolio but disengaged with the sector due to low recovery rates, of which two did so only earlier in 2019.

The five FIs that still had an active cocoa loan portfolio, complaints about low recovery rates were abundant. The main challenges that they mentioned in engaging with cocoa smallholders in particular were (i) their poor attitude/discipline regarding repayment, (ii) their poor savings culture, and (iii) their poor educational attainment. Whereas it is difficult to gauge the objective truth of the first challenge, the latter two challenges are likely to be a fair representation of the experience of the FIs. Furthermore, general challenges for engaging with smallholders include (i) yield risk from freak weather events or disease, (ii) low yields due to ageing plantations, and (iii) land and family disputes. The combination of these challenges, if they are indeed as pronounced as suggested by the FIs, would indeed be hard to surmount for any individual FI if not tackled holistically. They do also provide a clear road map for the types of interventions that might prove most useful in the landscape. Specifically by (i) providing ready-to-use data on smallholders, (ii) applying a evidence-based credit scoring methodology to the smallholders to identify low-risk farmers, and (iii) providing capacity building to FIs to overcome biases and enhance agrifinance capacity, almost all issues above can be addressed and significantly reduced. When combined with creating access to replanting loans, lowering the age of plantations and implementing good agricultural practices from day 1 to maximize yields, these interventions would provide tremendous value to FIs and smallholders alike. Though a one-off project is unlikely to be transformative on the landscape level, it can certainly be a catalyze a virtuous cycle that can strengthen and deepen the relationship between FIs and smallholders and generate substantial benefits for both over time.

Of the twelve institutions, Sefwiman Rural Bank, Suma Rural Bank and Amenfiman Bank were selected as the highest-potential institutions with which further engagement should be sought. More specifically, Amenfiman has an extensive agricultural portfolio and seemed eager to expand its footprint in the cocoa value chain. Sefwiman has a limited agricultural portfolio and its internal capacity seemed limited, however it was very eager to pursue a partnership and successful integration into a project could start a virtuous cycle in their general, agricultural and cocoa portfolio. Thus, even though it might be a more challenging FI to work with than Amenfiman, the benefits could also be wider and deeper. Suma was chosen for similar reasons as Sefwiman, though they mentioned non-repayment as a significant constraint on their exposure to cocoa. Assisting them in scoring the credit risk of farmers could therefore lead to large organizational changes and substantial benefits for the rural communities the bank serves.

Financial Sector Engagement

During a weeklong field visit to Juabeso and Bia West, a joint team from SNV and FACS met with the three financial institutions identified above. The meetings lasted for around one hour and started with a joint presentation from the team (attached as an annex to this report), after which there was ample time for a discussion and questions. The team met with Amenfiman Bank on March 11th, Sefwiman Rural Bank on the 12th and Suma Rural bank the 14th.

Amenfiman Bank

Attendees:

- Head of HR – Anthony
- Credit Administrator – Kofi
- Head of Business – Charles
- Finance Manager – Michael
- Head of IT – Ebenezer
- Head of Financial Operations – Evans

Amenfiman is the largest rural bank that we targeted. It has an extensive branch network across the region. Though the conversation did not focus too much on technical aspects, the team made a professional impression and their procedures seemed sophisticated and well-structured. The bank holds a smallholder portfolio of around 10,000 smallholders, totalling GHS 22.5 million, most of whom are cocoa farmers. They currently provide only input financing, as both the principal for replanting loans is too large and the required tenor too long. However, the bank would be interested in moving into replanting loans, given the right financial support and training. Most cocoa loans are given to farmer groups, rather than individuals. Farmers are organized either through formal farmer organization or by value chain actors. The exact nature of the value chain actor in the financing scheme was not discussed, so it is unclear whether they are also involved in the disbursement of repayment of loans. Amenfiman has grown rapidly in the recent past, especially in cocoa and aims to have 30% of its loan book in cocoa.

Amenfiman engages in several corporate social responsibility projects and is committed to allocate 8% of annual after-tax profits to various community-initiatives. Furthermore, in response to COVID-19 it cut its interest rate by 2 percentage point to support micro, small and medium enterprises.

The main constraint mentioned by the institution is having the capital to provide more financing. Especially in agriculture, where the mismatch between cash inflows and outflows is substantial this is limitation is acute.

Sefwiman Rural Bank

Attendees:

- General Manager – Richard
- Head of Credit – Vincent
- Head of Finance – Alhassan
- Head of Micro Loans – Abdul
- Head of Audit – Samuel
- Assistant Head of Audit
- Credit Officer in charge of Funds – Eric

Sefwiman is a small rural bank with seven branches. Their deposits total almost GHS 30 million, of which 38.5% is used to finance their loan portfolio of GHS 11.5 million. Their lending is almost entirely dedicated to SMEs, with only 5%, or GHS 600,000 engaged in agriculture, mostly for poultry farmers. The cocoa customers number just 24, 21 of which received group loans. They provide mostly input financing to smallholders, though their official maximum loan size of GHS 30,000 for repeat clients could cover significant investments as well. They have extensive project experience, for instance with a GHS 1 million project for the African Development Bank, and they often offer concessionary loans under these projects. The attendees made a professional impression, but their described way of working was rather unsophisticated and there are ample basic interventions that could generate significant benefits for the institution.

Their default rate stands at over 7%, which is average in the region. The attendees complained that especially agriculture poses risks to the institution, which explains its small footprint in the sector. They have been very careful about selecting 'the right' farmers in the past, but obviously these efforts have not paid off as expected. However, they still expressed an eagerness to expand their agricultural portfolio, if given the right tools and procedures to keep risks manageable.

Suma Rural Bank

Attendees:

- General Manager
- Chair of the Board
- Secretary of the Board
- 2 General Board Members

Suma, like Sewfiman, has just seven branches, though it has a much smaller loan portfolio of just GHS 7 million, which is completely financed from their deposits. They offer tailored agricultural loans, though they have a maximum tenor of 6 months. Around GHS 2 million, or 30% of their outstanding portfolio is in agriculture. Out of the three institutions, Suma made the least professional impression and showed the lowest level of sophistication. Notably the attendees expressed their positive experience with financing the cocoa sector, priding themselves on a 95% recovery rate in good years, which cannot be seen as very impressive. In bad years, with adverse weather shocks, recovery rates fall even below this threshold. They noted a significant weakness in their ability to assess agricultural loans appropriately, and they would be very interested in receiving help and training in this area. Even though they have a significant share of their portfolio in agriculture, they do not have a specific agricultural department or significant in-house expertise in agriculture. Lastly, they expressed an interest in expanding their customer base, but to do so they would most likely need access to capital in which they would be very interested as well.

Suma does not directly engage in development projects, but does set up branches in poor communities with the explicit goal of leveraging access to finance as a way to help people improve their livelihoods. Furthermore, it provides special support to women SME clients and has special Vegetable Growers and Cashew Farmer Special Loan Scheme to help farmers diversify and intensify their farms.

Comparison

After the meetings with the three FIs, an information request was sent to all institutions to get a better understanding of their operations, portfolio and offering to borrowers. Where information was still missing, publicly available information was taken from their website and other sources. A full overview of the FIs can be seen in the appendix to this report. The three institutions are briefly compared and contrasted below, after which the FIs are ranked against each other in terms of their suitability to be included in a lending program.

Amenfiman could be a very interesting partner in a lending pilot. Firstly, it has the internal capacity to make the necessary resources available for the project. Secondly, its large existing portfolio means that there is little uncertainty about their willingness to scale up any initiative that can provide clear benefits to them. Thirdly, their scale and sophistication also mean that at first sight, they seem like a strong contender for receiving the (impact) capital needed to provide replanting loans in the medium run. However, the additionality of the project would be less clear, certainly in the short run where only input loans are provided. It is far from obvious that they would not be willing and able to leverage their own resources to deepen their engagement with the cocoa sector.

Sefwiman would be a very good partner under an input loan scheme. They are probably not strong enough to get to an extensive due diligence process for a large investor yet, which would put replanting loans out of reach. Firstly, Sefwiman is clearly eager to expand it agricultural portfolio and would therefore be very open to training its staff and professionalizing its procedures to help it achieve this goal. Secondly, the capacity built under a lending program would have broad benefits for the institution and could entice to further enhance its engagements with agriculture, well beyond the cocoa value chain. However, its in-house capacity would have to be examined in more detail, and a strong training program would be needed to ensure the benefits generated under the program are maximized.

Suma is the most motivated of the three FIs, wanting to have signed an MOU before March already, though the current COVID-19 situation could have obviously changed that. The additionality of the project is also clear, both for expanding their rural financing work and strengthening their current work in the area. They expressed their interest in moving beyond cocoa into the cashew and vegetable value chains as well, meaning they could really benefit from gaining more expertise in agrifinance. Their main presence is in the hart of SNV's project communities and they have strong local bonds with the 'migrant' farmers in Suma. These two factors would make it a strong contender for inclusion in the project. However, they have a very limited loan portfolio and would not be able to extend loans to many cocoa farmers without significant outside capital. And that is complicated by the fact that they do not seem like the ideal candidate bank for receiving external capital, as they might be ruled out during a due diligence process. Lastly, they have limited in-house capacity to scale, though that could be addressed through external financing and a significant training program.

Table 2 ranks the three FIs on six traits. First their sophistication, or level of professionalism. Second on the size of both their branch network and portfolio. Third their funding need in reverse order, or how many farmers they could potentially finance without needing capital. Fourth the additionality of a lending pilot, in the cocoa sector, agriculture or for the institution in general. Fifth the experience in agriculture and how well-tailored their products are to agriculture. Sixth, their project experience and whether they have worked with institutional players before to expand access to finance for certain groups of focus.

	Amenfiman	**Sefwiman**	**Suma**
Sophistication	1	2	3
Size	1	2	3
Funding need (rev)	1	2	3
Additionality	3	1	1
Agri experience	1	3	2
Project experience	2	1	2
Total	9	11	14
Rank	**1**	**2**	**3**

Table 2 – Ranking of the financial institutions

From this analysis Amenfiman clearly, and unsurprisingly, comes out as the strongest candidate. It is by farm the most sophisticated FI that could easily fund input loans without external help and would be very likely to qualify with various investors for an onlending scheme for replanting loans. However, the additionality of the program would be minimal, as there is significant in-house capacity already. Sefwiman and Suma score closely to each other. Where Sefwiman is more sophisticated and larger, Suma has more agri experience. Especially for smaller input loans, both institutions should be strong and willing partners to provide financing to a small number of farmers, in exchange for significant advisory services and capacity building.

Recommendations

Considering the clear division in terms of capacity at the three financial institutions and the equally stark division in the project between short term input financing and long-term replanting financing, it is our recommendation to move forward with all three institution. As Sefwiman and Suma are in two distinct areas in Juabeso and Bia West, it should be relatively easy to tailor make a financeable portfolio of smallholders for each institution, without creating internal competition between the two. Their combined financial capacity should be able to provide input loans to a few hundred smallholders. An extensive, and demand-driven technical assistance package should be offered to both institutions. Especially on the loan appraisal processes and methods and internal controls we foresee a large, and similar, need between the two institutions.

Next, Amenfiman's superior strength should be leveraged in the second step of the graduation approach, where farmers are offered long term replanting loans. There would obviously need to be a need to share information between the institutions, but with a strong project lead like SNV, we believe there would be ample scope to operationalize this cooperation. Amenfiman would need a light TA package on the lending side, with a focus on assessing the credit risks for long term loans, which are significantly higher than for input financing. However, it would likely need significant support on the capital side, finding appropriate funders and guidance through their due diligence process.

This two-step approach has many advantages. First it broadens the scope of the project and involves as many financial institutions as could realistically benefit from the project. Second, the input financing scheme would be relatively easy to set up and we judge it realistic to have it operational by early 2021. The long-term financing scheme would need a more in-depth analysis of the smallholder population and the process of an investor disbursing money to Amenfiman is likely to take place in mid-2021 the earliest. The long-term financing scheme could therefore be operational as soon as smallholders have completed their first loan cycle. Third, it leverages the strengths of the three institutions, Sefwiman and Suma have a strong relationship with the communities and offer very high-touch loan products whereas Amenfiman's size and sophistication means it can handle larger and longer-term risks. Fourth, for the smallholders, the switching between FIs would be only a minor inconvenience, but the prospect of graduating to a larger replanting loan gives them a very strong incentive to repay their input loan successfully. The graduation approach therefore maximizes the internal discipline of farmers for their own benefit, as well as the benefit of the FIs.

APPENDIX – FI Table

	Amenfiman	Sefwiman	Suma Rural Bank
General			
Name	Evans Aikins	Richard Kwame Adjei	Martin Adjei Amponsah
Phone	0202 030 024	0202 447 994	0202 077 801
Email	eaikins@amenfimanbank.com	kwameadjeirich@yahoo.com	sumaruralbank@yahoo.com
Reports to		Board	
Website	http://www.amenfimanbank.com/	https://sefwimanbank.com/	http://www.sumaruralbank.com/
Portfolio			
Agri loans (% of total loans)	22,375,331 GHS 41.3%	182 loans 589,860 GHS 5.1%	1,647,143 GHS 24.5%
Cocoa loans	NA	24 loans 21 group – 3 individuals	NA
Total loans (% of deposits)	54,159,900 GHS 28.6%	11,426,039 GHS 38.5%	6,718,066 GHS 40.6%
Deposits	189,225,771 GHS	29,715,118 GHS	16,525,299 GHS
Geography			
Areas		Bibiani, Bekwai, Dwenase, Asawinso Bodi, Abuakwa	Brong Ahafo Region, Bia East, Bia West (Western Region)

Branches	Wassa Akropong, Manso Amenfi, Asankragwa, Samraboi, Asankragwa, Dunkwa, Prestea, Bawdie, Enchi, Tamso, Kumasi, Sefwi Dwenase, Tarkwa, Sefwi Bekwai, and Suame	Bibiani, Bekwai, Dwenase, Boako, Asawinso, Bodi, and Abuakwa (Ashanti)	Suma Ahenkro, Berekum, Brodi, Camp Junction, Elluokrom, Goka, Japekrom, and Sampa
Agri Lending			
Agri department	Yes	Yes	Yes
Agri loans	Yes	Yes	Yes
Group / Individual	Both	Both	Both
Loan Size	Max 30,000	500 – 30,000	NA
Interest	26% group loans	17.5 – 25% project-based 35% commercial loans 40% micro loans	NA
NPL	8.7%	7.32%	NA
Collateral	Yes	Yes	Yes
Insurance	All loans are insured	Life and disability	NA