



# TRANSFORM

**Transforming the Agrifinance Market System in Ghana**  
Positive Impact Case Study



## The Overlooked Agricultural Input: Financing

Agricultural finance is key to transforming the global food system and reducing poverty in agrarian, developing economies. Yet despite recurrent efforts by developing country governments and donor agencies to increase access to finance and investment for agribusiness, a formidable financing gap persists in this sector.

Finance is difficult to mobilize for agriculture due to:

- The widespread perception among financial institutions (FIs) that financing agribusiness is inherently riskier and less profitable than financing other sectors,
- High costs associated with serving smallholder farmers and small and medium-sized enterprises (SMEs),
- Sector inexperience and inappropriate financial products offered by financial institutions, and
- Limited availability of financial intermediation services for agribusinesses.

This case study presents an innovative program implemented by Palladium that transformed Ghana's agrifinance market by realigning incentives to motivate behavior change among private sector actors, stimulating commercial lending to the long-overlooked agriculture sector with a focus on staple crops of maize, rice, and soy (MRS). By doing so, we were able to significantly expand high-quality agricultural lending by local FIs. Of more enduring value, we helped create a market where FIs now compete—in the absence of donor funding—for market position in agricultural finance. This case study looks at the pathways that created economic and social value for the actors in the system and quantifies the new value created.

The program, a \$22 million five-year (2013-2018) project funded by the U.S. Agency for International Development (USAID), is known as the Financing Ghanaian Agriculture Project (FinGAP).

### Who We Are

**Palladium** is a **global impact firm**, working to link social progress and commercial growth. For over 50 years, we've been helping our clients to see the world as interconnected—by formulating strategies, building partnerships, and implementing programs that have a lasting social and financial impact. We simply call this "Positive Impact."

We work with corporations, governments, investors, communities, and civil society. With a global network operating in over 90 countries, Palladium is in the business of making the world a better place.

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# Meet the Actors



## Smallholder Farmers

Low productivity, high post-harvest losses, and inadequate access to markets limited smallholders' income-generating potential. Smallholders also lacked sufficient access to finance and were thus unable to make the necessary improvements in productivity and quality to boost incomes.



## Agribusinesses

In 2013, SMEs in Ghana's agriculture sector consistently cited lack of access to financing as the principal barrier inhibiting business growth. SMEs were unfamiliar with the financial system; they weren't sure which sources of funds were best aligned to their needs or how to create bankable financing applications that met the requirements of FIs. Furthermore, the financing requirements of these SMEs fell in the "missing middle" of amounts that FIs are not willing to disburse: \$10,000 to \$500,000.



## Business Advisory Service (BAS) Providers

BAS providers who focused on the agriculture sector lacked a commercial orientation and relied on the government and donor-funded projects for funding. Two major barriers prevented BAS providers from making inroads in the market for agribusiness advisory services: (1) their lack of subject matter expertise, and (2) potential clients' skepticism about the value of their advisory services.



## Financial Institutions (FIs)

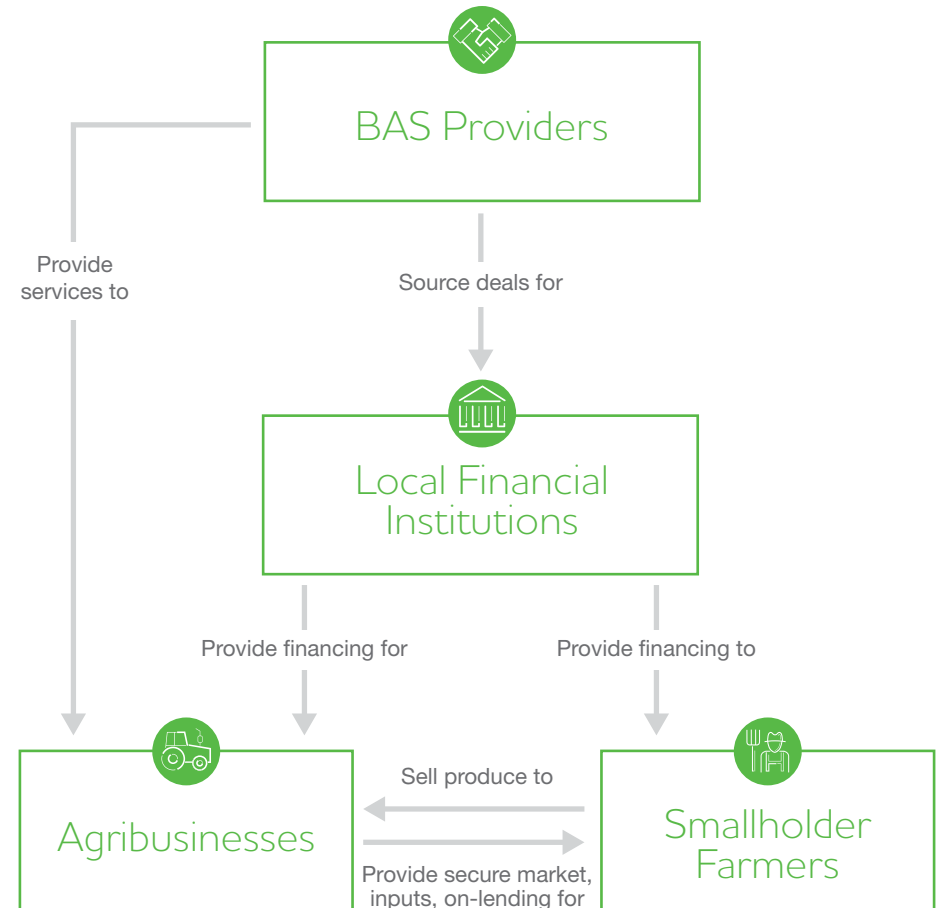
Citing high systemic risks, bad experiences, and lingering sub-standard agricultural portfolios, FIs were allocating only 5% of their collective lending assets to agriculture at the start of FinGAP. Rural community banks and non-bank FIs were dedicating a higher percentage of their lending portfolios to agriculture, but even so did not have portfolios that reflected the size of the agriculture sector.

# The FinGAP Model

Palladium simultaneously addressed barriers limiting the **supply of** and **demand for finance** as well as those inhibiting the broader **enabling environment**. We did so by pairing a range of incentives for FIs and BAS providers via **pay-for-results (PfR) methodologies** with **intensive technical assistance** to FIs, BAS providers, SMEs, and key government institutions.

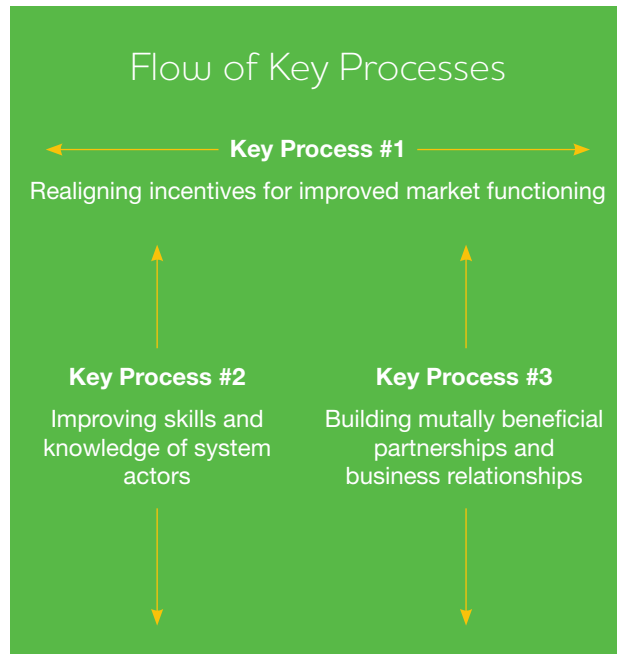
As shown in the figure below, USAID FinGAP's interventions helped restructure the ecosystem for agribusiness finance and business services, drawing both FIs and BAS providers into this underserved market, and strengthening commercial relationships between lead firms and smallholder farmers to the benefit of all system actors.

**Figure 1:** Ghana's agricultural finance ecosystem after the FinGAP intervention



# New Value Creation in the System

Three processes had the greatest effect on creating new value in Ghana's agricultural finance market system.



## Key process #1:

### Realigning incentives for improved market functioning

Prior to FinGAP, both FIs and BAS providers struggled to realize the growth and profit potential of the agriculture sector because they were not incentivized to innovate or invest in new service models that would allow them to meet agribusiness needs. To change this dynamic, Palladium designed a two-part, pay-for-results (PfR) approach to address both the supply and demand sides of agricultural finance to the three target supply chains of maize, rice, and soy.

**Incentives for BAS provision.** On the demand side, Palladium identified and contracted with 56 Ghanaian BAS providers, placing them on results-based contracts to identify, package, and present investment opportunities

to prospective investors. We paid BAS providers success fees upon meeting specific targets for deal identification, structuring, and financial closure.

**Supply-side measures to incentivize sector loans and investment.** Palladium designed a parallel PfR incentive for FIs to encourage expanded lending to the target agribusiness sectors. The project competitively selected 39 private Ghanaian FIs and placed them on performance-based grants. FIs invoiced FinGAP upon achieving increased lending outcome targets that the FIs self-determined, motivating a focus on results rather than process and ensuring efficient use of project funds. The project did not mandate how FIs had to use grant funds; they were free to innovate as needed to reach their lending targets. Partner FIs attest that this was a critical success factor to the grants program, giving FIs the "breathing room" to make needed, internal changes to expand their lending portfolios and mitigate the associated risk.







### Key process #2:

#### Improving skills and knowledge of system actors

As we incentivized increased financing through PfR strategies in key process #1, we also built the capacity of project partners so they could take advantage of these incentives. We provided more than 9,000 hours of training and technical assistance to 93 FI actors and 53 BAS providers over the course of the project, who collectively designed 31 new products for the agricultural market.

**Demand-driven training for FIs.** The banks defined their own training priorities and requested support from the project on a rolling basis as needs were identified. FIs received both group and institution-specific training on a variety of topics, including agricultural value chain finance methodologies, financing of agricultural machinery and equipment, customer relationship management, management information systems, environmental due diligence, gender and financial inclusion, and financial product development. The combination of a demand-driven training focus, together with seasoned project developers bringing vetted deals to be serviced immediately by FIs, was unique and underscored success.

**New product development.** BAS providers co-designed new loan products jointly with specific FIs on a demand-driven basis and based on actual opportunities present in the geographic area the FI covered, rather than developing a generic loan product and then attempting to convince FIs of its suitability for their target market.

**BAS capacity building.** The project gave BAS providers formal training and capacity building in value chain finance, opportunity identification and development, deal initiation and closing mechanisms, financial analysis, facilitating equity investment, and listing agribusiness securities on capital markets, among other topics.

### Key process #3:

#### Building mutually beneficial partnerships and business relationships

Given the fragmented nature of the agrifinance system in Ghana, one of the key opportunities for value creation was to forge formal partnerships between value chain actors to increase sales and exports, as well as strengthen informal relationships to get system actors working together, trusting each other, and understanding each other's needs.

**Value chain partnership structuring.** Palladium helped incubate dozens of strategic partnerships among farmers, lead firms, and FIs that collectively unlocked financing at scale for thousands of actors in northern Ghana, and provided them with stable markets and a continuous supply of raw materials for processing. Through these partnerships, lead firms provided smallholders with inputs, credit, mechanization services, and extension support. In turn, smallholders were able to increase yields, income, and provide the lead firms with more, higher-quality produce, while FIs were able to significantly expand their clientele and portfolios.

**Networks and business relationships.** In addition to creating formal partnerships, the project also deliberately cultivated expanded relationships among agribusinesses, FIs, and BAS providers, and acted as the honest broker to mitigate risk for all actors to engage in partnerships. The project held annual investment summits, as well as periodic “mini-summits” located closer to production zones, to stimulate networking between actors and transactions for enterprises with smaller financing needs, especially women-led businesses. Frequent networking opportunities, joint training sessions between FIs and BAS providers, and participation in industry events helped build trust among actors and increase understanding of the constraints and opportunities faced by their counterparts.

# Measuring the Social Value Created

Palladium measures positive impact not only by economic improvements at the firm and smallholder level, but also by the social value that results from project activities.



**Job creation.** The 2,995 agribusinesses supported by the project created an estimated 17,900 full-time jobs.



**Women's empowerment.** By the end of FinGAP, 1,231 (40%) women-led businesses accessed financing directly through the project and 72,225 women accessed financing and other agribusiness support indirectly through other actors that received loans and investment from FIs.



**Improved quality of life.** In 2018, 43% of smallholders reported that they were able to make improvements to their sanitation facilities, 25% reported improved access to water, and 75% reported improved access to electricity thanks to FinGAP.



**Food security.** FinGAP's financing support to firms and farms meant that fewer vulnerable families in northern Ghana suffered days without eating (from 6.4% in 2013, to 4% in 2018).



**Household investments.** Smallholder farmers reported that in the last three years of the project they increased their savings, investments in education for both boys and girls, and expenditures on healthcare for their families.



**Widespread effect.** Through expanded financing, FinGAP ultimately helped 169,000 farming families in northern Ghana improve their economic well-being.



FinGAP was a market disruptor that completely transformed the landscape for agricultural finance in Ghana.

With a USAID investment of \$22M, Palladium facilitated \$260M in private capital into the target value chains of maize, rice, and soy. Furthermore, Palladium pulled local FIs into sustainable agricultural lending and created a market for business advisory service provision. FinGAP should serve as a model for other countries on how to change behavior and agricultural lending systems to be more responsive to the agriculture sector.

“

With benefits from Bonzali Rural Bank, as a result of financial support to expand our farms, I am now able to send my children to school, and when they return from school and tell me what they learned at school, it gives me and my husband great joy and hope. Indeed, as a mother, I am always delighted when my children are happy, and school is one thing that makes my daughter and son very happy. We are very grateful.

”

Female smallholder and group loan recipient



# Measuring the Economic Value Created



## For Smallholder Farmers

↑344%

Increase in number of farmers receiving loans

↑57%

Increase in farmers' gross revenue

↑74%

Increase in average annual profits

↑19%

Increase in production across MRS value chains

44%

Have commercial relationships with lead firms



## For Agribusinesses

2,995

Number of agribusinesses (40% women-owned) that accessed finance as a result of FinGAP support

↑1,191%

Increase in investment in seeds by agribusinesses

↑158%

Increase in investment in fertilizer by agribusinesses

\$565M

New, incremental sales achieved over the life of the project thanks to FinGAP financing

\$260M

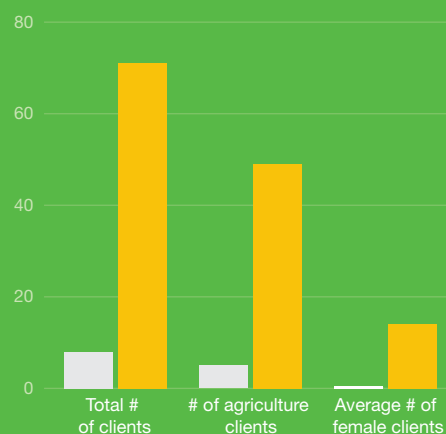
New financing unlocked (\$127M working capital, \$41M CAP-EX, and \$92M from capital markets)



## For BAS Providers

■ 2013 ■ 2018

BAS providers increased their client bases almost **eight-fold**, with **69%** of the new clients engaged in agriculture.



BAS providers saw significant increases in **revenue** from agriculture and MRS clients.

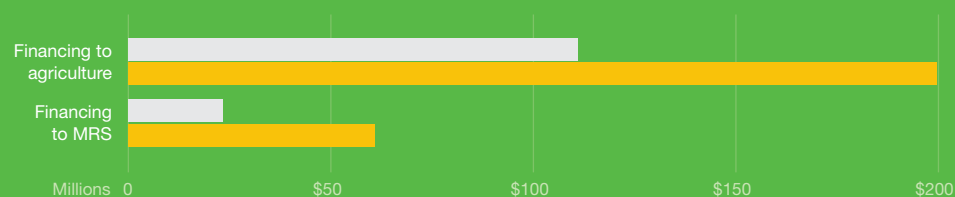


## For Financial Institutions

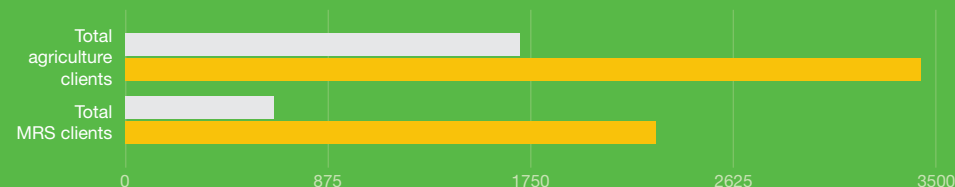
■ 2013 ■ 2018

FIs increased their loans to agribusinesses by **80%**.

FIs increased their loans to maize, rice, and soy enterprises by **160%**.



FIs doubled their number of agribusiness clients over the life of the project.



## Economic Growth at Palladium

Palladium believes that innovative thinking is key to addressing the world's toughest challenges.

In economic growth, we focus on private sector solutions to development challenges. We work with firms, governments, farmers, and donors to find ways to **create new value**. We are not content to “share value” — we want to do more to grow the pie and catalyze enduring social and economic gains.

We are facilitators, fostering and leveraging successful partnerships and building local capacity to help bring about sustainable change. We are change agents, working to evolve market ecosystems so that they will function effectively without ongoing support.

We take pride in structuring and implementing breakthrough market-led solutions to some of the most critical challenges facing the developing world. From food security to youth unemployment, these often have economic issues at their core.

Recognizing that the way markets function determines the pace and reach of economic growth and in turn improvements to standards of living, we provide market solutions to increase agricultural production, protect scarce natural resources, create jobs and train a skilled workforce to fill them, and improve the livelihoods of the world's most vulnerable populations.

Palladium is a catalyst.

Photo credits: FinGAP (pp. 2, 4, and 6);  
Propcom Mai-karfi program (p. 5).