



Food and Agriculture
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INSTITUTIONAL PROCUREMENT OF STAPLES FROM SMALLHOLDERS

The case of purchase for progress in
Ghana

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PREFACE

The Food and Agriculture Organization of the United Nations (FAO) under the strategic objective to enable inclusive and efficient food systems, is interested in analyzing the role of institutional buyers in the development of smallholder-based food supply systems.

An institutional buyer refers to either a public or a private sector entity with presence in the domestic market that purchases large quantities/volumes of produce. Usually an institutional buyer refers to public institutions such as schools, food reserve authorities, the military, prisons, hospitals, food aid organizations and relief development agencies. Typically these buyers do not have a profit motivation and are usually driven by the need to acquire food products for consumptions within their own institutions or as food donations. They are generally guided by public procurement policies which can leave them with little room for flexibility in contract negotiations or choosing suppliers.

Institutional buyers can also refer to private sector entities such as schools, hospitals, universities, as well as breweries, large agro-processors and supermarkets, which have a different set of needs and requirements from the public sector. In addition to the profit motivation, they will also be driven by their customers' demand criteria, as well as the market dynamics and structure within which they operate.

To increase the knowledge on institutional procurement for smallholder market integration, the Rural Infrastructure and Agro-Industries Division of FAO (AGS), in collaboration with the World Food Programme (WFP) performed a series of case study appraisals. WFP's Purchase for Progress (P4P) was identified as an entry point for analyzing models of institutional procurement.

WFP is the world's largest humanitarian relief organization providing food assistance in developing countries. The P4P pilot was launched in 2008 in 20 countries to leverage WFP's purchasing power to support local agriculture and market development. P4P links WFP's demand for staple food commodities with the technical expertise of a range of partners, to stimulate smallholder productivity and collective marketing with the objective that smallholders sell their surplus to formal markets. P4P is a good example of an institutional effort that links the organization's procurement needs to local development concerns by building a support initiative to increase the volume of staples procured directly from smallholders and/or small actors as traders.

The objective of the cases is to analyze the role of P4P within the overall framework of inclusive food systems and to identify examples of other institutional procurement models with potential for smallholder inclusion. Despite the recognized potential of private actors as institutional buyers, the focus of this work is mainly on the public sector.

The series of case studies comprises seven countries: Ghana, El Salvador, Ethiopia, Guatemala, Kenya, Rwanda and United Republic of Tanzania. The analysis is based on a series of scoping missions that took place between October 2012 and February 2013 and secondary information collected afterwards.

The aim of the cases is not provide up-to date information on the progress of P4P, but instead to analyse the P4P experience in each country, including an identification of the main challenges and an assessment of their sustainability, potential for scaling up and replication. The cases constitute background papers for a forthcoming publication comparing the P4P across countries with the Brazilian institutional procurement programmes, identifying lessons learned and offering policy guidance for upscaling and replication.

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EXECUTIVE SUMMARY

This report describes the experience of a range of institutional buyers in Ghana, with a special focus on the Purchase for Progress (P4P) initiative. P4P Ghana is still in its infancy, having started in 2010. As of January 2013, only 541 tonnes of maize had been procured. Nonetheless, the insights gained from this study can inform the future direction of the programme, help it overcome some of the observed challenges and enhance the effectiveness of the P4P procurement model. Recommendations specifically for P4P include the following:

Capacity development of FBOs

The capacity of some of the FBOs selected by P4P is very low and it is doubtful if they can meet P4P supply requirements, even if training is intensified. For future selection, it is important that a rigorous capacity assessment is conducted to determine if the group has the potential to meet P4P supply requirement. This will not only enable P4P to procure larger quantities from well organized smallholder groups, but it will also avoid raising expectations of weak groups who have been selected but cannot supply.

It is also important to reinforce training/capacity building of the selected groups particularly in the areas of group governance and business skills as it is apparent that the training received thus far is not sufficient. The training modules need to be reviewed and reinforced. It may also be advisable to conduct a capacity assessment of the NGOs or other service providers who have been conducting the training and conduct a Training of Trainers (ToT) to enhance their knowledge and training skills.

Review of P4P pricing policies

The groups in the Northern region are not able to meet the P4P price requirements i.e. selling at a price lower than international parity price. Unless this pricing policy is reviewed and some flexibility introduced, P4P will not be able to procure from these groups. This will raise expectations that cannot be met and could damage P4P's reputation.

Learning from other initiatives

There are a number of initiatives in Ghana that have successfully used value chain approaches to improve smallholder access to markets and P4P can learn from these and adopt some of their good practices. The Savanna Marketing Company provides various services and inputs to smallholder farmers and facilitates marketing and linkages to buyers. ACIDI/VOCA operates a nucleus farm/outgrower scheme and smallholders thereby gain access to various inputs and services that enhance their productivity and market access. The Northern Rural Growth Programme has established value chain committees which represent farmers, MoFA, NGOs and service providers. They identify and facilitate market linkages and consolidate activities for each commodity.

Sustainability

P4P has not yet managed to develop and articulate a clear exit strategy that will enable the FBOs currently supplying P4P to transit to other large, formalized markets. It is clear that the groups appreciate the market opportunity offered by P4P but at the same time, P4P needs to sensitize them about the importance of looking for alternative markets and facilitating linkages to other private sector buyers. In particular, P4P needs to place greater emphasis on strengthening existing value chains and working more closely with the private sector and other value chain actors rather than creating parallel structures which are not sustainable in the long term. There is also a need to develop a stronger internal link between P4P procurement and WFP's support to the Ghana School Feeding Programme (GSFP). This could be an excellent opportunity to enhance smallholder

procurement, but yet, this opportunity has not been well exploited and there appears to be a lack of coherence between P4P and WFP objectives.

Broader recommendations are also proposed for government on how to create a more enabling environment that is conducive to the development of the staple foods sector and enhance the participation of smallholder farmers. These include:

Coordination of mandates and functions between Ministries and government agencies

There are overlaps in the functions and mandates of several Ministries and government agencies relating to the development of FBOs and regulation of food standards. The Government needs to harmonize and eliminate duplication between line Ministries and agencies to enhance efficiency and prevent certain functions from falling through gaps between mandates.

Review role of National Buffer Food Stock Company (NAFCO)

The minimum purchasing price determined by NAFCO has come under a lot of scrutiny. It is generally perceived that the mechanism for establishing the price is not transparent, protects inefficient farmers and does not provide incentives for enhancing productivity. Furthermore, it creates distortions in the market by establishing a price that is often above the open market price. A review of NAFCO core functions is needed, not only to review the case for establishing a minimum price, but also to ensure that there is no conflict of interest in the role played by NAFCO as a national strategic food reserve and its role as a commercial grain trader.

Review of National Institutional Procurement Act

The National Institutional Procurement Act is cumbersome and not suited to the situation of smallholder farmers supplying large institutions. It would be useful to review this Act in order to make it more flexible and smallholder friendly while still maintaining the core principles that protect the interests of the institutional buyer such as adherence to quality standards, meeting specified volumes and ensuring timely delivery.

Advocacy for accessible finance to the agricultural sector

Lack of credit and high interest rates for commercial and smallholder farmers is a major constraint that farmers faces throughout Africa and Ghana is no exception. This situation creates gaps in the value chain and disrupts the efficiency of production, value addition and marketing. There is the need to develop a set of financial products that address linkages within the agricultural value chain. The Ghana Grains Council should be supported in its advocacy with the banking sector to reduce agricultural interest rates, based on the reduced risk associated with storage through the Warehouse Receipts System.

ACRONYMS

CAADP	Comprehensive African Agriculture Development Programme
FAMAR	Farmers Production and Marketing Project
FAO	Food and Agriculture Organization
FASDEP	Food and Agriculture Sector Development Policy
FBO	Farmer Based Organization
FDA	Food and Drug Authority
GGC	Ghana Grains Council
GSA	Ghana Standards Authority
GSFP	Ghana School Feeding Programme
METASIP	Medium Term Agriculture Sector Investment Plan
MIDA	Millenium Challenge Account Project
MLGRD	Ministry of Local Government and Rural Development
MoFA	Ministry of Food and Agriculture
NAFCO	National Food Buffer Stock Company
P4P	Purchase for Progress
SMFC	Savanna Marketing Company
WFP	World Food Programme

1. BACKGROUND AND STUDY CONTEXT

1.1 Objective of this Study

The present study seeks to document the case of Ghana and its experience in the structured marketing of its staple crops. Principally, the study looks at models for linking smallholder producers to public institutional as well as large private buyers. While staple crops in Ghana include maize, rice, sorghum, millet, cassava and yam, this case study focuses on the structured marketing of maize.

This report describes the experience of a range of institutional buyers in Ghana, with a special focus on the Purchase for Progress (P4P) initiative. P4P Ghana is still in its infancy, having started in 2010. As of January 2013, only 541 tonnes of maize had been procured. Nonetheless, the insights gained from this study can inform the future direction of the programme, help it overcome some of the observed challenges and enhance the effectiveness of the P4P procurement model.

1.2 Methodology

Information documented in this report was gathered during a field mission in the country by officers from FAO and WFP. The mission took place from 9th to 20th of January 2013. Focus group discussions and interviews were conducted with key informants and relevant stakeholders in Accra, Tamale, Techiman and Ejura. Informants included members of farmer organizations, government officials, private traders, and staff of relevant development agencies.

Additionally, various sources of secondary information were consulted including reports on the Ghana P4P model, Value Chain reports, agricultural investment reports, project reports and government documents. Data relating to P4P and WFP was mainly provided by the P4P team and the WFP procurement unit.

In an ideal situation, information gathering should have been more extensive and included interviews with all the maize and rice value chain actors including individual farmers not participating in FBOs, small scale traders as well as some of the final buyers/customers. However, time and resource constraints dictated a targeted and narrow focus of the study.

The report is organized in five sections. Section 1 provides the background to the study in relation to the P4P concept and FAO's work on supporting smallholders' participation in agricultural value chains. Section 2 gives an overview of Ghana's agricultural sector, focusing on policies and the key supporting institutions. Section 3 investigates the P4P model in Ghana and its links to the wider WFP programme, while Section 4 examines the procurement models of other institutional buyers. Finally, Section 5 provides a number of recommendations specifically for P4P and also for the government based on the insights from this study.

2. OVERVIEW OF GHANA'S AGRICULTURAL SECTOR

2.1 Agricultural Policy

Agriculture is a key driver of the Ghanaian economy accounting for 40 percent of national GDP and 51 percent of national employment and growth of the agricultural sector is fundamental to the overall economic development of the country. Ghana has experienced annual agricultural GDP growth of 4.5 percent between 2006 and 2010. The sector continues to receive strong support from the government (Proinvest, 2011). Nonetheless, agriculture in Ghana continues to be dominated by smallholder farmers who rely on rain-fed conditions with limited use of improved seeds, fertilizer, mechanization, and post-harvest facilities. The main staples commodities are maize, rice, millet, yam, cassava, plantain and sorghum.

Throughout the post-independence era, Ghana witnessed significant growth mainly through large state farms. These large farms were later mismanaged by the state and as a result, the agricultural sector in the 1970s suffered sustained decline in production and in growth. This trend continued until the introduction of the Economic Recovery Programme (ERP) in the 1980s and then in 1991, the Medium Term Agriculture Development Program (MTADP) which was an umbrella for agricultural development and achieved sector growth of 2.3 percent per annum.

In 1996, to further accelerate the development of the agriculture sector, the government introduced the Accelerated Agriculture Growth and Development Strategy. This strategy led to the formulation of the first Food and Agriculture Sector Development Policy (FASDEP), with the aim of modernizing the agriculture sector and subsequently to the development of FASDEP II which is more comprehensive in nature and better captures the issues around decentralization. It also embraces other policy and programmatic frameworks such as the Growth and Poverty Reduction Strategy, the Comprehensive African Agriculture Development Programme (CAADP) and other regional policies.

The stated objective of FASDEP II is the sustainable use of national resources towards the achievement of commercialization of the agriculture sector with a market driven growth (MOFA, 2007). The major difference between the FASDEP I and the FASDEP II is that FASDEP II adopts a more holistic, value chain approach to agriculture development and places greater emphasis on value addition and market access. Although FASDEP II maintains a strong focus on food security, it targets fewer commodities for food security and diversification. The FASDEP II has six objectives, namely: (i) Food security and emergency; (ii) Improved growth in incomes variability; (iii) Increased competitiveness and enhanced integration into domestic and international markets; (iv) Sustainable management of land and environment; (v) Science and technology and its application in food and agricultural development; and (vi) Enhanced institutional coordination. The Medium Term Agriculture Sector Investment Plan (METASIP) 2011-2015 has been formulated by the Ministry of Food and Agriculture to implement FASDEP II.

There is general recognition that agriculture can contribute more to the national economy if efforts to add value are strengthened. However, the major part of agricultural produce in Ghana is marketed in a raw form with little or no value addition. This is attributed to a lack of adequate infrastructure and modern agro-processing equipment and is compounded by a lack of technical and business skills of small scale producers and processors. Agro-processing has the potential to create employment especially in the rural areas and increase income for the rural poor, enhance food availability and reduce post-harvest losses. The development of ancillary industries and services such as packaging, transportation, handling, processing and marketing of agriculture produce is therefore key to the development of the agricultural sector.

The METASIP and the FASDEP II not only give attention to agricultural production, but also prioritize the capacity building of FBOs as part of a strategy for improved market access for smallholder farmers. The aim is to encourage the evolution of FBOs at the grass roots and network them through a hierarchy of local, district and regional groupings to a national apex. It is expected that this will give the FBOs greater bargaining and negotiating power.

In this regard, five farmer organizations were formed in 2009; Ghana Federation of Agricultural Producers (GFAP); Ghana National Association of Farmers and Fishermen (GNAFF); Peasant Farmers Association of Ghana (PFAG); Farmers' Organization Network in Ghana (FONG); and the Apex Farmers Organization of Ghana (APFOG). GFAP was launched under the theme of 'enhancing agricultural development with a united voice'. GFAP is a private Non-Governmental Organization and a Farmer Based National Apex Organization formed to lead the course of unifying all farmer groups in Ghana and advocate for favorable policies in the agriculture sector (Proinvest, 2011).

2.2 Supporting Institutions

The Ministry of Food and Agriculture (MOFA) has the mandate for agriculture, food production, extension services and the development of FBOs. However, it does not have direct oversight for the registration of farmer groups. There is also a cooperative movement in Ghana that is actively engaged in the agriculture sector. Cooperatives operate under the responsibility of the Ministry of Social Welfare and Employment. As a result, it is very difficult to monitor the activities of cooperatives engaged in the agricultural sector and they do not receive the training or other support afforded to FBOs.

The Ghana Food and Drugs Authority (FDA) was recently upgraded by an act of parliament from Board to Authority. It was established under the mandate of the Ministry of Health and is responsible for regulating national food safety. The FDA monitors food sold in supermarkets and other retail outlets and food exports. Although FDA is a competent authority on several export products including palm oil it does not yet cover other agricultural export products. It has a mandate to define food safety policy, but there is poor coordination with other institutions involved in food safety. There are also overlaps with other institutions such as the Ghana Standards Authority which has a similar mandate with regards to processed food and food market surveillance (Ghana Food and Drug Authority, 2012).

The Ghana Standards Authority (GSA) which is the national Standards body was established by the Standards Decree, 1967 (NLCD 199) superseded by the Standards Decree, 1973 (NRCD 173). The Authority is also the custodian of the Weights and Measures Decree (NRCD 326, 1975). The institution functions under the Ministry of Trade and Industry and has the mandate to carry out standards development, inspection services and certification. As noted above, GSA has an overlapping mandate with FDA. However neither GSA nor FDA have a specific mandate on staple food crops, as these are under the mandate of the Ministry of Agriculture.

The Ghana Grains Council (GGC) is a private sector initiative established in 2010 to address the unstructured market for grain, weak value chains, and lack of standards, weights and storage facilities. It advocates for favourable government policies in the grains sector and focuses on establishment and implementation of quality standards, access to quality inputs including seeds and certified warehousing. These measures aim to support the grain value chain in order to improve productivity, quality and greater commercialization of the industry. It is a membership based non-for-profit organization and includes many leading private grain industries as well as farmer organizations and several banks. GGC is not a buyer, but tries to resolve problems facing the industry. It receives financial support from USAID. The specific objectives of GGC are:

- Advocacy and lobbying for favorable government policies in the grains sector
- Development of a warehouse receipts system that can certify and enforce agreed standards in the grains industry
- Increase quality, productivity and profitability in the grain value chain
- Facilitate the dissemination market price information
- Facilitate institutional sale for grain that meets agreed industry standards

GGC is currently piloting the warehouse receipts system in Techiman, Nkoranza, Ejura, Tamale, Accra and Tema. The company hopes that with the introduction of the WRS, interest on loans to the agricultural sector will be reduced, enabling access to more affordable financial products for grain farmers. Although GCC is a private sector initiative, it has strong support from the government and is active in advocating for government policies that will professionalize the grains sector.

Financial institutions supporting agriculture; the absence of credit and high interest rates are key constraints smallholder farmers in Ghana face, although a few banks and micro-finance institutions do provide credit to the agricultural sector. Interest rates for agricultural activities are around 30 percent annually and accessing credit requires collateral security. The majority of banks in Ghana are reluctant to lend to the agricultural sector due to the lack of proven financing instruments for mitigating production and credit risk, as well as the poor adaptability of financing instrument suitable to the needs of farmers. Furthermore, the history of bad lending and poor loan recovery makes banks wary of lending to the sector. The risk of lending to the agriculture sector is exacerbated by a number of factors; government intervention in the domestic market, provision of credit subsidy, weak lending technology, insecure land ownership, weak collateral and weak contract enforcement. The Ghana Grains Council has recognized the lack of affordable credit as a major constraint to the development of the agricultural sector. It hopes that the establishment of the warehouse receipts system will give banks greater confidence to lend to the agriculture sector, and the reduced risk associated with warehouse storage will also translate into lower interest rates.

The previous Millennium Challenge Account Project (MIDA) had deposited funds into a number of financial institutions in the country and provided production and business training to farmer organizations with the aim of establishing linkages between banks and FBOs. Most of the FBOs now participating in the P4P were previously part of the MIDA initiative.

3. P4P IN GHANA

3.1 Purchase for Progress Model in Ghana

Among the 20 pilot countries, Ghana was the last to start the P4P in 2010. In Ghana, the model works with AGRA (Alliance for Green Revolution in Africa), ACDI/VOCA, AMSIG Resources (a private intermediary company) and the Ministry of Food and Agriculture. The initiative concentrates its effort in the Ashanti and Northern regions and works with 24 farmer based organizations (FBOs). In Ashanti region the focus is on maize and in Northern region on parboiled rice. P4P focuses mainly on upgrading the market segment of the identified value chain, through market collection points where farmers can stockpile and store their produce, connecting farmers to the warehouse receipts system, newly established by the Ghana Grains Council, and the provision of various inputs to support production and post-harvest management.

WFP has its own warehouses located in the three northern region of the country and use these for storing their procured commodities. Previously WFP engaged the service of the Ghana Transport Road Union to transport their procured commodities to the designated warehouse for storage.

The P4P also supports their FBOs to construct community warehouses through the WFP food for work programme. The FBOs receive materials such as roofing sheets and woods to supplement their efforts. The warehouses are mostly being promoted for the FBOs in the Northern region. The community warehouses are supposed to promote aggregation at community level and allow farmers to store their grain until prices in the market rise.

As of January 2013, the initiative had procured 541 tonnes of maize from farmers in the Ashanti region. No purchases have so far been made from FBOs in the Northern region due to the WFP pricing policy which dictates that if local price exceeds the international parity price, WFP will procure from the regional or international market. As a result P4P Ghana has been unable to procure rice from FBOs in the Northern region because local rice is more costly than imported. This is a result of inefficient production methods leading to a high cost of production.

There are plans to pilot various types of contracts with the FBOs, such as soft tendering and forward contracting, but for the time being, direct contracting is used. Where an agreement is signed with the FBOs upon harvesting, and once the commodities are loaded on to a truck and delivered to a WFP warehouse, the FBO receives payment within two weeks of delivery through a rural bank of their choice.

3.2 Organization and capacity of P4P farmer groups

The FBOs selected under P4P were formed under the Millennium Challenge Account Project (MIDA). As a result, farmers were already organized and registered into groups. However, the MIDA legacy also brought a number of disadvantages. Farmers had received loans, training from extension services and free inputs and they expect to receive the same type of support from P4P. P4P has assisted them with training and provided a variety of equipment including reapers, improved parboiling stoves, weighing scales and moisture meters, but the fundamental concepts of group governance and business skills have not been well understood by the targeted FBOs and they continue to wait for free inputs and loans. In particular, the mission noted that the concepts of group storage and joint marketing were not appreciated and farmers did not have a clear idea of the benefits in group membership. As a result, the community warehouses constructed under P4P are for the most part lying empty as farmers are suspicious of communal storage. Furthermore, farmers are free to sell their produce individually whenever they wish, undermining the rationale for aggregation and group marketing. There needs to be a fundamental change of mind set if the groups

can meet the requirements of P4P and become reliable suppliers. The lack of group capacity was particularly notable in the Northern region.

P4P has provided training in business skills through selected NGOs but it is clear that this training is not sufficient. The training modules need to be reviewed and reinforced if the groups are to professionalize and apply the fundamental concepts relating to group organization and business management.

P4P has also linked with private sector service providers to facilitate procurement from FBOs. One such company is AMSIG Resources. Their role is to provide training to FBOs in improved production, post-harvest management and business skills. They also aggregate farmer produce and transport to WFP warehouses. However, AMSIG also confirmed that professionalizing the FBOs and building their capacity was very difficult. Many farmers are resistant to change and don't appreciate the role that AMSIG plays in training and facilitating market access.

Despite the lack of FBO capacity, P4P has registered some success in raising awareness amongst FBOs on standards relating to moisture, weight and overall grain quality. P4P has engaged the services of a private contractor who goes to the collection points of the FBOs to inspect their commodity before procuring. One of the FBOs in Ashanti region, Nso Nyame Ye Women's Group, gave an example of how the scales provided by P4P have increased their profit. Previously their commodities were procured using the so-called bush weight which uses a sack of approximately 170 kg as the unit measure. Now they sell according to weight rather than volume and are able to increase their profit.

P4P has not yet managed to develop and articulate a clear exit strategy that will enable the FBOs currently supplying P4P to transit to other large, formalized markets. It is clear that the groups appreciate the market opportunity offered by P4P but at the same time, P4P needs to sensitize them about the importance of looking for alternative markets and facilitating linkages to other private sector buyers. In particular, P4P needs to place greater emphasis on strengthening existing value chains and working with other value chain actors, not just the farmer groups. Working through existing value chains will enhance the ability of FBOs to participate more effectively and more sustainably in the market. There are some good models in Ghana of using the value chain approach to integrate smallholders into markets and P4P can learn from these. There is also a need to develop a stronger internal link between P4P procurement and the WFP core team that purchases food locally for the school feeding programme. This is described in more detail below.

3.3 WFP Operation in Ghana

The World Food Programme in Ghana has three main components:

- Health and Nutrition (supporting the school feeding programme in the three northern regions)
- Supporting girl education
- Climate change and resilience to shocks

WFP supports the Ghana School Feeding Programme (GSFP) which covers 1.5 million school children. Funds for GSFP are not released on a timely basis and WFP helps the government in the three northern regions by providing food for 2 days a week. Food is purchased locally wherever possible, but is also procured regionally or internationally depending on supply. However, at least 60 percent of food is procured locally. In 2007, the monetary value of locally procured food amounted to USD 1.9 million. Apart from procuring food locally, WFP is also trying to link caterers (who prepare the food in the schools) to small scale farmers. This could be an excellent opportunity to develop a stronger linkage with the P4P procurement model. However this opportunity is not well exploited and therefore it appears to be a disconnection between P4P and WFP objectives.

As of 2013, WFP was supporting 150,000 students but aims to reduce this number by 2014 and by 2016, to hand over 70 percent of the students to government. WFP is also assisting with the development of a school feeding policy focusing on home grown feeding.

4. OTHER INSTITUTIONAL BUYERS OF STAPLES IN GHANA

Institutional buyers can be broadly categorized into public institutions and large private companies and traders. Public institutional buyers such as the Ghana Prison services, educational establishments and hospitals buy directly from identified local traders while institutions such as the Ghana School Feeding Programme procure from the National Food Buffer Stock Company. Private companies such as processors, caterers and the poultry industry procure through traders and middlemen who are also procuring from farm gate level. Below major institutional buyers are described.

National Food Buffer Stock Company

In March 2010, the Government of Ghana set up the National Food Buffer Stock Company (NAFCO), a state owned enterprise operating as a limited liability company, mandated to buy, store, sell, and distribute excess grains (including maize) in warehouses across the country. The creation of NAFCO is part of the strategy to reduce post-harvest losses, ensure price stability and establish emergency grain reserves.

Specifically, the NAFCO mandate consists of: a) assuring farmers' income by providing a minimum guaranteed price and ready market; b) reducing post harvest losses due to poor storage; c) purchasing, selling and distributing food staples in times of crisis; d) employing a buffer stock mechanism to ensure stability in demand and supply; e) expanding the demand for food grown in Ghana by selling to state institutions such as the military, schools, hospitals, prisons; f) earning foreign exchange by exporting surplus food staples when the local food requirement has been met. NAFCO keeps two kinds of stocks, operational stocks and emergency Government stocks. Operational stocks are the stocks used to run and operate the company, and the emergency Government stocks are those held for Government for use in emergency situations. The target quantities for 2012 for maize were 15 000 tonnes white maize, 15 000 tonnes yellow maize; 15 000 tonnes paddy rice; 1 000 tonnes soya. The Emergency Government Stocks include 10 000 tonnes white maize; 10 000 tonnes milled rice; 1 000 tonnes soya. However, it is unclear to what extent these targets have actually been met, especially as NAFCO has limited funds for procurement.

Given the difficulty of reaching farmers in remote areas, 73 Licensed Buying Companies (LBCs) are mandated by NAFCO to purchase maize and rice from farmers in the rural areas at a minimum purchasing price determined by NAFCO in consultation with the post-harvest committee within MoFA. The committee takes into consideration costs including transportation, drying, bagging, sewing and handling to come up with this margin. The farm gate price is calculated on the basis of the production costs described above plus a 15 percent profit margin in the case of maize. However, many stakeholders interviewed during the course of this study were highly critical of the way that the minimum price is calculated. NAFCO bases its price on a yield of 1.8 Mt/ha. (**Angelucci F., 2012**) This is considered too low, protects inefficient farmers and does not provide incentives for enhancing productivity. NAFCO's main buyers are poultry farmers, schools and other public institutions.

NAFCO operations are wholly financed by the Government of Ghana for an amount of 15 million Ghana cedis, five million from the Government of Ghana and 10 million from donors through the Highly-Indebted Poor Country Grants.

The impact of NAFCO price announcements on the open market price requires further analysis, especially in those regions and areas that are close to NAFCO storage facilities. Lastly, it is claimed that the role of NAFCO is to absorb excess production and stabilize prices; however it is not clear how the level of excessive production is defined as well as the quantities that are to be purchased. What is clear however, is that by setting a minimum price that is often above the open market price,

NAFCO raises expectations of farmers who are then reluctant to sell on the open market. As NAFCO has limited funds for procurement, this has resulted in farmers refusing to sell their grain to other buyers while NAFCO does not have funds to procure.

Savanna Marketing Company (SMFC)

The Savanna Marketing Company based in the Northern region is a private company set up to facilitate farmer-market linkages. The company was registered in July 2005 as a private limited liability company, set up as part of the Farmers Production and Marketing Project (FAMAR) of the Association of Church development projects. The objective of the company is to provide market channels for smallholder farmers' produce in the three northern regions of Ghana. The company provides services to FBOs and facilitates linkages between small farmers and buyers by acting as a reliable trading counterpart.

SMFC currently procures three commodities, soybeans, sorghum and maize and has a network of 650 FBOs representing a total of 12 000 farmers in the three northern regions. The company offers a semi-fixed pricing model for farmers when procuring maize and soybeans from FBOs. A target price is communicated to farmer groups before the commencement of production, after which a fixed guaranteed price which takes account of the production cost, the market price in the previous years and a profit margin per kilogram is then agreed upon with the executives of the FBO groups after harvest. The target price is roughly 30 percent higher than farmers' production cost.

SMFC has put a system in place to control quality as well as a traceability system that allows it to trace commodities to the FBO/farmer level. Furthermore, the company provides services to FBOs and their members including credit, certified seeds and mechanization services. They monitor through field staff. After procuring from FBOs, SMFC cleans and grades the commodities for onwards selling. It does not have its own machines for cleaning but use those of the regional MoFA office.

SMFC negotiates a price with buyers based on prevailing market prices. Customers include Guinness Ghana, Premium Foods, Ghana Nuts, Golden Webb, Vester Oil Mills, Alpha Omega and Yedent. SMFC transports produce using contracted commercial trucks from its collection points in the field to its headquarters in Tamale before onward forwarding to customer premises. P4P could learn from the SMFC model to enhance its procurement operations.

Premium Foods

Premium Foods is a major maize trading and processing company which started its operations 18 years ago. It buys approximately 30 000 tonnes maize per year but could buy more if the produce was available. Major buyers include the breweries, other large processors and WFP. The company's philosophy is to strengthen the entire value chain through improved seed, fertilizer, mechanization and credit. The main challenge is the high cost of production due to the price of raw materials. The company has explored three options to tackle the cost of production; a) establishing its own farm; b) creating an outgrower scheme; and c) working with smallholder farmers. It decided that the most cost effective and practical option was to work with smallholders and now runs a scheme called 'Go Farming' targeting 25,000 farmers. However, it is not easy working with smallholders. Side-selling is a problem and it is difficult to change the mind-set of the farmer from that of a subsistence producer to an entrepreneur.

The company has a long term vision to professionalize the agricultural sector. In this regard, it is making efforts to attract youth interest in small-scale. For the past two years, the company has also been running an incubation project that trains young graduates from colleges and universities to work on Premium's farms and take up agriculture as a business.

With regard to P4P, Premium Foods felt that P4P needs to work more closely with the private sector to strengthen existing value chains rather than setting up parallel structures which are not sustainable in the long term.

Prisons Service

The National Procurement Act covers all procurement in Ghana including food. The Prison Service has set up Regional Procurement Boards and Food Tender Committees. All suppliers must register with the service for a particular region. Tendering (only open to registered suppliers) is done quarterly. The committee also meets quarterly to revise prices and review supplier performance. If a supplier is not performing or meeting quality specifications, he is delisted. Suppliers must supply to the prison gate and so need to arrange their own transport. They must also pre-finance their supplies and may get paid as late as six months after delivery, due to delays in the release of funds from the government.

Twenty percent of food supplies come from the prisons' own agricultural sector where the farming is done by inmates. This is run on a revolving fund with no tender process. Grains and tubers are purchased at 10 percent less than the normal commercial supplier price while vegetables are reduced by 40 percent. The Prisons Service wants to increase its own production from the existing 20 percent and also wants to go into irrigation and mechanization to improve the productivity and reliability of their production. They are also looking at constructing their own warehouses. The Service is conscious that relying on its own production will reduce its vulnerability to untimely release of funds from government.

The complex tendering process, the need to pre-finance supplies and provide transportation as well as the frequently delayed payment, make it very difficult for small farmers to become suppliers to large public institutions such as the Prisons Service.

Tamale Teacher Training College (Public Institution)

The procurement committee is given a budget for foodstuffs. For provisions such as rice, dried milk, sugar, oil etc., tenders are invited and the supplier who best meets the criteria selected. For food staples, there are no food contractors and the college buys directly from the local market. Purchases are made weekly usually from traders in the market. Sometimes farmers themselves will call to offer food. Payment is done in cash on the spot. The college has its own vehicle for transportation. However, contacts have been established with certain suppliers for specific products. Some suppliers don't like to identify themselves because they don't want to pay tax. It is therefore difficult to obtain receipts and the college pays the 5 percent withholding tax on the suppliers' behalf.

The college is open to buying from local farmers but are reluctant due to lack of consistency and reliability of farmers supply. They have also purchased from Savanna Marketing Company and prefer to buy from recognized and registered suppliers as this makes documentation and auditing easier.

Techiman Market Maize Traders Association

The Maize Traders Association in Techiman is arguably the most powerful actor in the country's maize trade. It sources maize from all over the Brong Ahafo region (the main producing area of the country) as well as Upper West region and sometimes as far away as Burkina Faso. It collects maize from the farm gate using its own vehicles and charges according to distance and quality of the road. Farm gate price is based on the bush weight of approximately 170 kg. (Bush weight refers to the Kg procured at the farm gate, mostly induce upon the farm by the trader to mitigate unforeseen risk)

In Techiman market, the maize is re-bagged into weights of 100 kg and 130 kg depending on the customer and final destination. The association has a comprehensive distribution network and supplies maize to the main urban areas in Ghana including Accra, Tema, Takoradi and Ho.

Farmers complain that selling by bush weight reduces their profit but without their own transportation and marketing channels they have little choice than to deal with the Maize Traders Association. On its part, the trader association claims that it provides an invaluable service to evacuate farmers' maize from remote and inaccessible areas and that the difference between the bush weight and the market weight is the cost of the service rendered. The only way for farmers to get access to market at the moment is to sell to traders at bush weight (170kg), which the middle trade intend sell for 100 kg which is the actual market reference price. While both sides may have a valid point, what is clear, is that the current marketing system lacks transparency and could be markedly improved by the adoption of defined weights and quality standards whereby the price of maize is calculated per kg rather than according to an arbitrary bag volume and defined quality attributes.

Grain Leaders, Nkoranza

Grain Leaders is a grain trading company registered in 1996 that operates a warehouse certified by the Ghana Grains Council for the purpose of warehouse receipts. The company works with three local FBOs who have participated in training programmes supported by GIZ, MoFA and ADVANCE. Grain Leaders procures maize from the FBOs and assists them with inputs. Repayment is calculated in volume of maize. Maize is also procured from other traders and from the company's own nucleus farm of 4 Ha.

Challenges include default and side-selling by the farmers and difficulty to access some of the maize growing areas. However, overall, the business appears to be thriving. Currently, the company buys and stores approximately 5,000 Mt per year but there is growing interest by farmers to use the Warehouse Receipts System so a warehouse extension is being planned. There is also interest to expand into procurement of soya and cashew. The company has contracts with NAFCO, Premium Foods, Yedent, Poultry Farmers Association and WFP.

The Ghana School Feeding Programme (GSFP)

GSFP was launched in 2005 under the Ministry of Local Government and Rural Development (MLGRD), with the goal of increasing school attendance and retention, improving nutrition and food security and boosting domestic production; at least 80 percent of procurement should be done locally. It is currently feeding 1.6 million students. (June 2011, Ghana School Feeding Program: Re-tooling for a sustainable future). A catering system has been adopted using a contractor to prepare the food for student. This has been due to the large number of audit queries when the school matron and cooks were purchasing and distributing the food. MLGRD facilitates linkages between the caterers and smallholder farmers but it is difficult ensure that the contractor is buying from smallholders especially as farmers don't want to sell on credit and contractors don't have sufficient working capital to pay immediately on receipt of goods. GSFP is now trying to work with NAFCO and getting the buffer stock to supply the caterers.

The major challenge facing the GSFP is the unpredictable release of funds from the Ministry of Finance. If funds are not released in a timely manner, there is no money to buy food. The quantity and quality of food being served in the schools is another challenge. Presently, there is no independent inspection or verification body which can certify that the food being served in schools meets minimum standards of quantity and quality. This means that caterers can economize by serving small quantities of poor quality food. Food and Drugs Authority has now been brought in to train and certify the caterers and it is anticipated that in the near future, only those caterers certified by FDA will be licensed to operate in the school feeding programme.

5. CONCLUSIONS AND RECOMMENDATIONS

Issues that currently impede smallholder farmers' access to markets include a weak legal, regulatory, and institutional framework; poor-quality agricultural products and poor access to storage facilities and market information and intelligence. The position of smallholder farmers as participants of structured markets is further weakened by their pressing need to meet household immediate cash needs following the harvesting period. P4P Ghana is still in its infancy but the insights gained from this study can inform the future direction of the programme, help it overcome some of the observed challenges and enhance the effectiveness of the P4P procurement model. The findings from this study have been used to propose recommendations specifically for P4P as well as broader recommendations for government on how to create a more enabling environment that is conducive to the development of the staple foods sector and enhance the participation of smallholder farmers.

5.1 Recommendations for P4P

Capacity development of FBOs

The capacity of some of the FBOs selected by P4P is very low, especially the groups in Northern region. It is doubtful if these groups can meet P4P supply requirements, even if training is intensified. For future selection, it is important that a rigorous capacity assessment is conducted to determine if the group has the potential to meet P4P supply requirement. A set of criteria can be drawn up for this purpose. This will not only enable P4P to procure larger quantities from well organized smallholder groups, but it will also avoid disappointment by weak groups who have been selected but cannot supply.

It is also important to reinforce training/capacity building of the selected groups particularly in the areas of group governance and business skills as it is apparent that the training received thus far is not sufficient. The training modules need to be reviewed and reinforced. It may also be advisable to conduct a capacity assessment of the NGOs or other service providers who have been conducting the training and conduct a ToT to enhance their knowledge and training skills.

Review of P4P pricing policies

The groups in the Northern region are not able to meet the P4P price requirements i.e. selling at a price lower than international parity price. Unless this pricing policy is reviewed and some flexibility introduced, P4P will not be able to procure rice from these groups. This will raise expectations that cannot be met and could damage P4P's reputation.

Learning from other initiatives

There are a number of initiatives in Ghana that have successfully used the value chain approach to improve smallholder access to markets and P4P can learn from these and adopt some of their good practices. The Savanna Marketing Company provides various services and inputs to smallholder farmers and facilitates marketing and linkages to buyers. ACDI/VOCA operates a nucleus farm/outgrower scheme but also works with some FBOs. Smallholders have access to financial services, mechanization and inputs. Aggregators pre-finance the harvest, transport, mill, and store and market the rice. The Northern Rural Growth Programme has established value chain committees at district level which represent farmers, MoFA, NGOs and service providers. They identify and facilitate market linkages and consolidate activities for each commodity.

Sustainability

P4P has not yet managed to develop and articulate a clear exit strategy that will enable the FBOs currently supplying P4P to transit to other large, formalized markets. It is clear that the groups appreciate the market opportunity offered by P4P but at the same time, P4P needs to sensitize them

about the importance of looking for alternative markets and facilitating linkages to other private sector buyers. In particular, P4P needs to place greater emphasis on strengthening existing value chains and working more closely with the private sector and other value chain actors rather than creating parallel structures which are not sustainable in the long term. Working through existing value chains will enhance the ability of FBOs to participate more effectively and more sustainably in the market.

There is also a need to develop a stronger internal link between P4P procurement and WFP's support to the Ghana School Feeding Programme (GSFP). GSFP purchases food locally for the school feeding programme and also tries to link caterers (who prepare the food in the schools) to smallholder farmers. This could be an excellent opportunity to develop a stronger link with the P4P procurement model, but yet, this opportunity has not been well exploited and there appears to be a lack of coherence between P4P and WFP objectives.

5.2 Recommendations for the Government

Coordination of mandates and functions between Ministries and government agencies

There are overlaps in the functions and mandates of several Ministries and government agencies relating to the development of FBOs and regulation of food standards. The Ministry of Food and Agriculture (MoFA) has the mandate for agriculture, food production, extension services and the development of FBOs. However, there is also a cooperative movement that is actively engaged in the agriculture sector operating under the responsibility of the Ministry of Social Welfare and Employment. As a result, it is very difficult to monitor the activities of cooperatives engaged in the agricultural sector and they do not receive the training or other support afforded to FBOs.

In the area of food standards, Food and Drugs Authority, Ghana Standards Authority and the Ministry of Food and Agriculture all have overlapping mandates relating to establishment and regulation of food standards. Government needs to harmonize and eliminate duplication between line Ministries and agencies to enhance efficiency and prevent certain functions from falling through gaps between mandates. It may be prudent to transfer responsibility for staple food crops from the Ministry of Agriculture to the Food and Drugs Authority since FDA's mandate has been revised and it has competence to cover staple commodities. In terms of FBO development, transferring responsibility for cooperatives engaged in the agricultural sector from the Ministry of Social Welfare and Employment to Food and Agriculture would help streamline operations and ensure that all farmer organizations are entitled to the same training and technical assistance.

Review role of NAFCO

The minimum purchasing price determined by NAFCO has come under a lot of scrutiny. It is generally felt that the mechanism for establishing the price is not transparent, protects inefficient farmers and does not provide incentives for enhancing productivity. Furthermore, it creates distortions in the market by establishing a price that is often above the open market price. NAFCO thereby raises expectations of farmers who are then reluctant to sell on the open market, while NAFCO does not have sufficient funds to procure their grain.

The impact of NAFCO price announcements on the open market price requires further analysis, especially in those regions and areas that are close to NAFCO storage facilities. Lastly, it is claimed that the role of NAFCO is to absorb excess production and stabilize prices; however it is not clear how the level of excessive production is defined as well as the quantities that are to be purchased.

A review of NAFCO core functions is needed, not only to review the need for establishing a minimum price, but also to ensure that there is no conflict of interest in the role played by NAFCO as a national strategic food reserve and its role as a commercial grain trader.

Review of National Institutional Procurement Act

As evidenced from the procurement by Prison Services, the National Institutional Procurement Act is cumbersome and not suited to the situation of smallholder farmers supplying large institutions. It would be useful to review this Act in order to make it more flexible and smallholder friendly while still maintaining the core principles that protect the interests of the institutional buyer such as adherence to quality standards, meeting specified volumes and ensuring timely delivery.

Advocacy for accessible finance to the agricultural sector

Lack of credit and high interest rates for commercial and smallholder farmers is a major constraint that farmers faces throughout Africa and Ghana is no exception. This situation creates gaps in the value chain and disrupts the efficiency of production, value addition and marketing. The availability of credit facilities for farmers and input dealers as well as the various actors in the value chain can increase the profit margins for farmers and can help farmers increase production and invest in the post-production component of the value chain. There is the need to develop a set of financial products that address linkages within the agricultural value chain. The Ghana Grains Council should be supported in its advocacy with the banking sector to reduce agricultural interest rates, based on the reduced risk associated with storage through the Warehouse Receipts System.

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