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REPUBLIC OF GHANA

JOINT MEMORANDUM TO CABINET

BY

MINISTER FOR FINANCE

&

MINISTER FOR FOOD AND AGRICULTURE

ON A

**PROPOSED SDR 34.8 MILLION (US\$50.00 MILLION)
ADDITIONAL FINANCING**

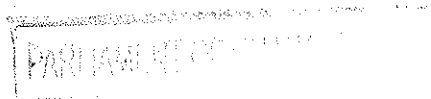
FROM THE

**INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) OF
THE WORLD BANK GROUP**

TO FINANCE THE

GHANA COMMERCIAL AGRICULTURE PROJECT (GCAP)

10th JULY, 2018



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ATTACHMENT

- a. *Negotiated Draft Financing Agreement*
- b. *Brief on USAID Grant*

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CABINET DECISION REQUESTED

1. Cabinet is respectfully requested to consider and approve a proposed additional financing of **SDR34.8 million** (equivalent of **US\$50.0 million**) credit from the International Development Association (IDA) for the ongoing Ghana Commercial Agriculture Project (GCAP).
2. The Additional Financing (AF) is being sought to fill a financing gap under the ongoing GCAP. The funding gap is as a result of restructuring of the project; change in Government priorities for the Agriculture Sector; reduction in USAID funding and design cost overrun. The AF will among others, be used to:
 - offset costs of planned rehabilitation and modernization of three major irrigation schemes (Kpong Left Bank, Kpong and Tono Irrigation Schemes); and
 - support the Planting for Food and Jobs (PFJ) Campaign.

BACKGROUND

3. The original financing (**US\$ 100.0 million** IDA credit and **US\$45.0 million** USAID grant) for the GCAP was approved by Parliament on August 16, 2012 and became effective on April 8, 2013. The objective of the project was to increase access to land, private sector finance, input and output markets by smallholder farms from public-private partnerships (PPPs) in commercial agriculture in the Accra Plains and Savannah Accelerated Development Authority (SADA) zone.
4. **Project Components:** The above objective was to be achieved through implementation of the following four (4) components:
 - Strengthening investment promotion infrastructure, facilitating secure access to land;
 - Securing PPPs and smallholder linkages in the Accra Plains;
 - Securing PPPs and smallholder linkages in the SADA Zone; and
 - Project management, monitoring and evaluation.

STATUS OF THE PROJECT

5. **Project Restructuring:** After two years of implementation, the project was restructured in November 2015 to reflect realities on the ground. The restructuring involved the following:

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- The Project Development Objective (PDO) was revised as follows- *'to improve agricultural productivity and production of both smallholder and nucleus farms in selected project intervention areas with increased access to reliable water, land, finance, and agricultural input and output markets'*. The revised objective particularly gave the project a national and sector wide scope as against the initial restriction to only Accra Plains, SADA Zone and PPPs;
- Substantial reform of the Project Implementation Unit (PIU) to improve project management including changing the project coordinator and adding on relevant technical staff to the PIU;
- Cancellation of implementation of the Accra Plains Irrigation PPP component/activity due to lack of interest from private investors;
- Downsizing inland valley development for improved rain-fed rice cultivation to an achievable target considering the project implementation period;
- Re-allocation of **USD 85.6 million** to the three new components and project management;
- Extension of the closing date of the IDA credit to September 30, 2019; and
- Introduction of three (3) new components that became components 5, 6 & 7 to the project. These are:
 - i. Rehabilitation of existing public irrigation and drainage infrastructure including Tono and Vea Irrigation Project, Kpong Left Bank and Kpong Irrigation Scheme;
 - ii. Strengthening of Public Irrigation and Drainage Institutions for effective management of the schemes; and
 - iii. Development of Water Users' Associations and Private Scheme Management Entities for sustainable operation of the schemes.

6. **Disbursement.** As of end June, 2018, about US\$62.1 million of the IDA credit had been disbursed by the World Bank, representing 68.32 percent of the total credit. This excludes over US\$30 million committed for rehabilitation works and supervision contracts for Kpong Left Bank Irrigation Project (KLBIP).

7. **Key Achievements.** Some of the major achievements of the Project to date include the following:

- **Published the Model Lease Agreement** and two other documents to guide investors and land owners on large scale land transactions;
- Worked with the Ghana Investment Promotion Centre (GIPC) to develop and operationalize **an online Investor Tracking System** to monitor and assist investors in agriculture and other sectors. This is a precursor to a one-stop-shop interactive platform that brings GIPC, Registrar-General and the Ghana Revenue Authority systems together;

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- **A total of 6,287.48ha of land developed for 36 nucleus farmers** which has enhanced their yields in the past four years;
 - Yield per hectare of major crops on nuclear farms and out-grower schemes within the SADA Area have increased. For instance, from a baseline of 1.96 and 1.53 metric tonnes (MT) per hectares(ha) for maize and rice respectively, the status as at May 2017 was 2.09MT and 3.79MT/ha, respectively. A farmer was even able to achieve 7.9 MT/ha paddy rice yield during the 2017 cropping season;
 - In the Accra Zone, the project target of yield per hectare of rice on nucleus farms and out-grower farms of 3.09MT/ha has been exceeded - 4.51MT/ha as at May 2017;
 - As at end May 2017, **9,350 farmers have been directly supported** by the project, with 3,695 (39.51%) being women.
 - **Restructuring of the two main public irrigation and drainage institutions** - Ghana Irrigation Development Authority (GIDA) and the Irrigation Company of Upper Region (ICOUR);
 - **Modernization of irrigation practice** in Ghana by making GIDA a Regulator; changing ICOUR into a private sector Scheme Manager, automation of gates; metering of Irrigation water and popularising the use of Centre Pivot Irrigation Systems;
 - **Passage of the Irrigation Development Authority (Irrigation Water Users Associations) Regulations, 2016 (L.I. 2230)**. This law governs the operations of users of irrigation infrastructure constructed by government and other parties on behalf of or in consent with Government;
 - **Agricultural Innovations** introduced by GCAP that is in use include an inclusive farming approach that integrates out growers with nucleus farmers; 8 Pivots providing for an area of 467ha; Protected farming under Envirodomes covering 0.38ha; 2 Solar-Powered Boreholes being used to irrigate 40ha; 18 warehouses (with built in offices) with total capacity of 15,340MT; construction of 8km access road; and facilitating electricity access to rice mills, pivots, etc. for 7 nucleus farmers;
 - Establishment of the Nasia Nabogo Inland Valley Improved Rain fed rice production Scheme as an Agro-pole, where 6 Nucleus farmers have successfully cultivated 600ha of rice in two consecutive seasons.
 - GCAP has established and operationalised 2 zonal Grievance Redress Committees (GRCs) and 21 Community Grievance Redress Committees (CGRCs) for managing conflicts and grievances in its operational areas.
8. **USAID Grant:** The project has had difficulties in assessing the USAID grant with only **US\$3.9 million** disbursed so far. This situation resulted in a significant financing gap for the project, one of the key reasons for the Additional Funding (please refer to attachment b for further details).

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ADDITIONAL FINANCING

9. In processing the Additional Financing, the Project is further restructured to reflect current priorities and financing situation. Project components will be simplified by merging the current seven (7) components into four (4); new activities introduced to support the Planting for Food and Jobs Campaign; project development objective and indicators will be revised to reflect these changes; component three will be financed 100 percent by IDA with the entire US\$50.0 million AF allocated to that component; and the closing date of the project extended to December 31, 2020.
10. **Project Development Objectives (PDO):** The revised PDO is to improve agricultural productivity and production of both smallholder and nucleus farms in selected project intervention areas within the country.
11. **Project Components:** The restructured project will have the following four (4) components:
 - **Component 1: Facilitating investment promotion in commercial agriculture - US\$5.9 million** (Original Credit = US\$3.8m; Grant = US\$ 2.1 m): This component aims at strengthening government's capacity to identify, attract, retain and expand investment; improving land access and local rights; and strengthening out-grower arrangements all in the context of commercial agriculture. The implementation of this component will be strongly promoted with the help of the International Finance Corporation (IFC) working in collaboration with the Ghana Investment Promotion Centre (GIPC), the Agribusiness Unit of the Ministry of Food and Agriculture (MOFA), the Ghana Irrigation Development Authority (GIDA) and the Land Commission (LC).
 - **Component 2: Promoting private sector investments and small-holder linkages in selected areas - US\$21.73 million** (Original Credit = US\$ 13.93m; Grant = US\$ 7.8 million): The interventions supported under this component are meant to promote sustainable land use and enhanced food security (i.e. through improved rainfed crop production technologies), rehabilitation and support for commercial seed production under the Planting for Food and Jobs (PFJ) Campaign, including targeted support for climate smart agricultural technologies focusing on the drier parts of the northern regions of the country.
 - **Component 3: Rehabilitation and modernization of irrigation schemes and reforming of irrigation institutions and management - US\$116.95 million** (Original Credit = \$US 66.95 million; AF = US\$ 50 million): The interventions supported under this component are meant to fully finance the rehabilitation, modernization and construction of new irrigation and drainage infrastructure to

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help reduce farmers' exposure to the risk of drought. Additionally, it supports the restructuring and modernization of irrigation practice in Ghana by strengthening the two main institutions managing irrigation and reorienting the farmers to pay for and better manage water conveniently made available to them. The component will also support the purchase of seeds for the PFJ Campaign.

- **Component 4: Project management, monitoring and evaluation - US\$21.25 million** (Original Credit = US\$ 14.15 m; Grant = US\$ 7.1 million).

INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

12. The Ministry of Food and Agriculture (MoFA) have the overall responsibility for project coordination and implementation. The implementation structure consists of a **Project Steering Committee (PSC)** and a Project Implementation Unit (PIU) under MoFA. the PIU is responsible for the day-to-day project operations.

EXPECTED OUTCOMES

13. The Project interventions are expected to benefit 3,000 more small-holder farmers in addition to the existing 5,000 currently on the public irrigation schemes.
14. **Improved Production, Productivity and incomes:** It is expected that there will be an improvement in the overall production and productivity of the small-holder farmers. There will be higher rate of returns to a small-holder rice farmer with project support compared to a traditional rice farmer without the project intervention. For instance, average annual farm income per smallholder is expected to increase from the current GHS1,480 to about GHS12,600 post rehabilitation of the 3 schemes as a result of increased cropping intensity and efficiency in farm operations. In addition, the increasing crop yields, provision of storage facilities and market linkages will result in income dividends to the smallholder farmers.
15. **Job Creation:** An additional 3,142 direct jobs and about 14,760 indirect jobs will be created following completion of project interventions by year 2020. These outcomes will eventually enhance economic activity within the project areas and lead to improved revenue for government following increased business transactions along the agricultural value chain.
16. Other expected outcomes include improved land governance regime, and policy environment; expected reduction in rice importation by approximately 45,000MT, improvement in general well-being of beneficiary communities as a result of social infrastructure that will be provided to open up the communities to investors.



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FINANCIAL IMPLICATIONS

17. The **US\$50.0 million** is provided as a credit on standard IDA terms and conditions as follows:
- a. Grace Period (Moratorium) - 5 years
 - b. Repayment Period - 25 years
 - c. Maximum commitment charge - 0.5% per annum
(This is waived for FY18)
 - d. Service charge - 0.75% per annum
 - e. Interest charge - 1.25% per annum
18. The financing has a **grant element of 33.23%** and covers the full cost of the proposed activities. Government will however, bear the exchange rate risk (gains/losses).

INTER-MINISTERIAL/ INTER-AGENCY/ STAKEHOLDER CONSULTATIONS

19. The Project Preparation/Negotiation Team comprised representation from the following Ministries, Departments and Agencies:
- Ministry of Finance;
 - Ministry of Food and Agriculture;
 - Ministry of Justice and Attorney- General's Department;
 - Lands Commission;
 - Northern Development Agency;
 - Ghana Investment Promotion Council;
 - GIDA, and
 - Environmental Protection Agency.
20. Representatives of these institutions were consulted during the restructuring process and participated in the negotiation of the Additional Financing. The Project Preparation Team (PPT) consulted with the private sector and small-holder farmers during the Project design.

JUSTIFICATION FOR GOVERNMENT ACTION

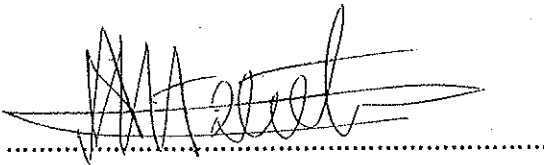
21. **Alignment with Government Policy:** The Project is well-aligned with the President's Co-ordinated Programme of Economic and Social Development Policies (2017-2024) presented to Parliament in November 2017. The rehabilitation and modernization of the irrigation schemes; reform of irrigation institutions; and support to GIPC for effective service delivery are directly linked to three of the five pillars of the Programme - transforming agriculture and industry; revamping economic and social infrastructure; and reforming delivery of public service institutions. The project is highly transformational as it seeks to promote the commercialization of Agriculture through private sector participation and involvement of small-holder farmers.
22. The project design also took into consideration the six thematic priorities outlined in the Medium Term Agriculture Sector Investment Plan (METASIP) and the Second Private Sector Development Strategy (PSDSII).
23. **Job Creation:** Agriculture is one of Government's priorities considering its contribution to GDP and the potential for job creation. The project will contribute to job creation by supporting the Government's '**Planting for Food and Jobs' Campaign**. Further benefit will be in the form of direct employment resulting from the construction works.
24. **Food Security:** The Project also aims at addressing the food security situation by increasing crop yields (productivity), household incomes, improving the competitiveness of rice, maize, and soya value chains, and expanding market opportunities for small-holder farmers. **This will ultimately lead to poverty reduction among project beneficiaries.**
25. **Alternative Options Considered:** Other options considered as alternatives to the Additional Financing included reducing the scope of the project to fit the existing budget or allowing the current project to close as currently planned and prepare a new project to cover the remaining activities related to the planned rehabilitation and modernization of the irrigation schemes. These alternatives would significantly delay the benefits to beneficiaries and not guarantee the achievement of the project development objectives. Furthermore, Government considered providing its own financing to complete the irrigation rehabilitation and modernization, but the current macro-economic challenges would not allow for this option.
26. **Economic Viability:** The economic Internal Rate of Return (EIRR) for all the schemes (KLIBP, KIS, and Tono) is estimated at 18.9, 30.5 and 14.7 percent, respectively. All the estimated returns are above the assumed discount rate (of 12

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percent), implying that even with increased costs, the rehabilitation and modernization of the irrigation schemes is still economically viable, given the expected cropping patterns and the higher productivity after the rehabilitation of the schemes.

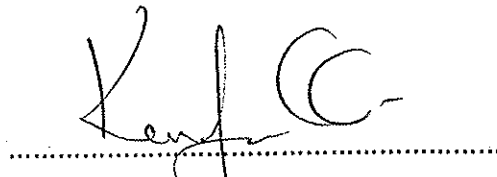
CONCLUSION

27. Considering the socio-economic benefits to be derived from the implementation of the Project, Colleague Members of Cabinet are respectfully requested to consider and approve the **SDR34.8 million** (equivalent of **U\$50.0 million**) Additional Financing from the International Development Association, and recommend same to Parliament for ratification, in accordance with the provisions of Article 181 of the 1992 Constitution.



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MINISTER FOR FOOD AND AGRICULTURE

10th JULY 2018



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MINISTER FOR FINANCE

10th JULY 2018

