INNOVATIVE ACTIVITY PROFILE

GHANA: INVENTORY CREDIT FOR SMALL-SCALE FARMERS

The contribution of warehouse receipt systems to developing agricultural markets is well known. In addition to providing a source of collateral and facilitating access to credit, warehouse receipts help to create standards for weights and measures, and develop grading systems. They also help increase awareness of quality issues, moderate seasonal price variability, and pave the way for the development of futures and derivative markets for managing price risks. However, the spread of warehouse receipts and inventory credit has been limited in those countries without trusted warehouse operators, with weak regulatory and supervisory capacity, and with heavy state intervention in markets. This is particularly the case for Sub-Saharan Africa, where postharvest price fluctuations are often large and benefits from storage are significant. Where inventory credit has been successful, it has generally excluded small-scale farmers due to high administrative costs and low produce volumes.15

What’s innovative? Using warehouse receipt systems to provide inventory credit to small-scale farmers.

PROJECT OBJECTIVES AND DESCRIPTION

In 1989, an international technical service provider pioneered the use of inventory credit for small-scale farmers in Ghana for grain marketing, particularly maize. Given immediate cash needs, small-scale farmers often sell their produce shortly after harvest, when prices are at their lowest. Without adequate storage facilities and access to loan funds, they are unable to hold their crops for later sale during the “lean season,” when prices are much higher. The goal of the project was to provide small-scale farmers with an opportunity to take advantage of these seasonal price swings.

The Ghana Inventory Credit Project works in the following way. Farmers form groups typically of 20-50 members to store their produce. The technical service provider operates the warehouse, and a lending institution provides credit based on the warehouse receipt. Upon arrival of the goods at the warehouse, the products are graded according to moisture content and nonproduct materials. The farmers then receive a receipt stating the quantity and quality of the goods deposited. Loans are given to groups on behalf of their members, which then disburse them individually. Once the grain is warehoused, the goods are the collective property of the group, which is jointly responsible for treatment, storage, and sale. Nevertheless, each farmer’s account is tracked separately by the group. Throughout this process, the technical service provider gives market advice.

Initially, the credit amount was limited to 70-80 percent of the stored grain’s harvest value to limit the lender’s risk, in case prices did not rise as anticipated. With increasing warehouse activity and competitors entering this market, the interseasonal price gap was narrowed. This resulted in the loan percentage declining to 40-50 percent due to the farmers decreasing debt capacity.

BENEFITS AND IMPACTS

By the late 1990s the scheme was assisting over 100 farmer groups with loans in excess of US$170,000, and with nearly a 100 percent repayment rate. Based on the success of the program, the Agricultural Development Bank of Ghana has promoted large-scale commercial

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inventory credit. The schemes have dramatically reduced interseasonal price fluctuations, benefiting those small-scale farmers with no choice but to sell immediately after harvest.

It therefore appears that inventory credit programs can offer farmers marketing and credit options that spur productivity and increase their incomes. Financial institutions benefit from decreased risks and from liquidity as a result of instant collateral to guarantee or reimburse defaulted loans. The farmers benefit from increased profitability due to the ability to delay sales, from improved price transparency, and from enhanced negotiating ability as a result of working in farmers’ groups.

LESSONS LEARNED AND ISSUES FOR WIDER APPLICABILITY

While the project brought almost immediate significant benefits to small farmer groups, its major role has been to contribute to the increased efficiency of agricultural markets. As a result, inventory credit may be viewed more as a means to an end rather than an end in itself. As the markets have improved and inventory credit has spread, price fluctuations have decreased, such that the benefits of farmer inventory credit are diminished.

An inventory credit program is profitable only when the increase in the value of the stored goods exceeds the cost of storage and borrowed funds. This is difficult to achieve where price fluctuations are low and costs high due to small volumes and high administrative costs. This suggests that the model put forward by the technical service provider is best considered as a temporary intervention where markets are weakly developed, as reflected in high price fluctuations, and where obstacles to introducing inventory credit further up the marketing chain will take time to address.

For a model based on small-scale farmers to be sustainable, it is crucial to increase warehouse volumes, and thus reduce unit costs and increase system efficiency, for instance by expanding into other crops or attracting a wider clientele. The use of farmer groups can help to increase unit volumes and share monitoring costs.

PROJECT COUNTRY: GHANA

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