



Linking school feeding caterers to finance:

Loan opportunities enabling caterer purchases from smallholder farmers

By Ernestine Sanogo and Wan Lee

Introduction

Currently, over 1.7 million children in Ghana are fed a meal a day at school through the Ghana School Feeding Programme (GSFP) and this would not be possible without the key role of caterers that ensure that Ghana's schoolchildren receive one nutritious, hot meal a day at school. Caterers are owners of small or medium-sized private-sector businesses that are contracted by District Assemblies (DA), the local government authorities, to prepare and cook meals for schools in their jurisdiction. Often run by women, catering companies usually supply meals for one school. Caterers are allotted 50 Ghanaian Pesewas¹ per child per day to procure foodstuffs, store food products, cook and deliver meals to schools.

SNV is an international non-profit development organization. Through our expertise in Agriculture, Renewable Energy and WASH, we use local solutions to tackle global challenges.

The Procurement Governance for Home Grown School Feeding (PG-HGSF) project is a 5-year programme funded by the Bill and Melinda Gates Foundation and implemented by SNV USA in Ghana, Kenya and Mali. In Ghana, PG-HGSF is implemented in 20 districts with the goal of involving 10,000 smallholder farmers in local school feeding programmes, including at least 30% women.

This document is part of a series of PG-HGSF learning cases that capture lessons from pilot interventions linking smallholder farmers to school feeding programmes. To find out more about PG-HGSF, contact Katherine Casey, Learning Manager, at kcasey@snvworld.org or visit www.snvworld.org/en/procurement-for-hgsf

In all regions of Ghana, caterers face difficulties purchasing food and preparing school meals due to late and irregular payments for their services from the Government of Ghana. When GSFP was established in 2005, approximately 60% of the funding came from the Dutch Government and funds were released to caterers every two weeks in regular instalments. However, since 2010 when the Dutch Government stopped funding school feeding and the GSFP became fully funded by the Government of Ghana, it has struggled to make timely and consistent payments. Today, there are often delays of three months or longer, even extending up to eight months.

These delays have a twofold effect. Firstly, they create an impediment for Ghanaian caterers to effectively run their businesses, as most do not have sufficient capital, savings, or access to forms of credit to sustain their businesses during these delays. Secondly, delayed payments affect the buying choices of caterers—instead of buying from smallholder farmers and farmer-based organisations (FBOs) that need to be paid in cash upon the delivery of their goods, caterers often choose to buy from traders that provide products on credit. Thus, late payments for caterer services not only negatively affect caterers, but this effect also trickles down to farmers that could benefit from the caterer and school feeding market.

The GSFP and other school feeding partners have called on the Government of Ghana to normalise school feeding payments,² however, this problem has yet to be rectified.

In order to address late and irregular payments, SNV’s Procurement Governance for Home Grown School Feeding Project (PG-HGSF) in Ghana piloted a loan facility intervention in five northern districts in conjunction with a local rural bank.³ The objective of the intervention was to aid caterers through times of delayed payments and to encourage them to purchase goods from local smallholder farmers. This case study illustrates the loan facility piloted with Bonzali Rural Bank in the Tamale municipality and the districts of Tolon, Kumbugu, Sagnarigu and Karaga in the Northern Region and presents lessons learned in its implementation.

The need for a loan facility

GSFP was launched in 2005 by the Government of Ghana in collaboration with the Dutch Government as part of Ghana’s efforts to meet the Millennium Development Goals (MDGs) on education, poverty alleviation and food security. The programme started with a total of ten schools nationwide and since 2014, serves over 4,900 schools⁴ with three basic objectives:

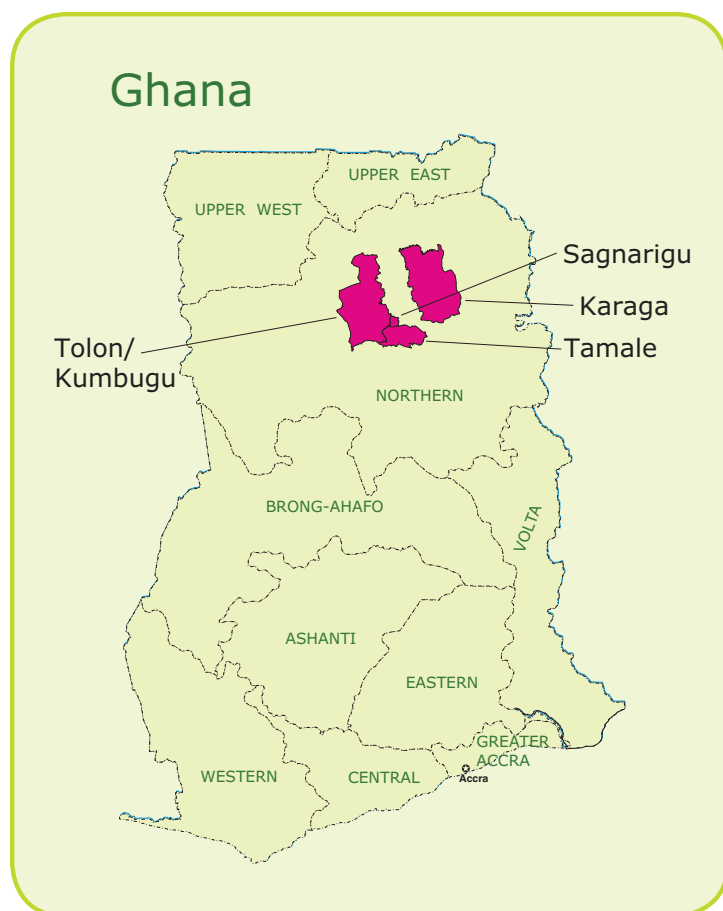
1. Increase school enrolment, attendance and retention
2. Reduce short-term hunger and malnutrition among schoolchildren
3. Boost domestic food production

1 Approximately US \$0.13 as of April 2015.

2 <http://www.snvworld.org/en/procurement-for-hgsf/news/ghana-school-feeding-programme-calls-on-the-government-to-address-payment>.

3 A rural bank can be described as a small, privately owned bank that only has a local presence.

4 According to a GSFP representative based in the Tamale Municipality office.



While studies⁵ have shown that the programme has a positive impact on school enrolment, retention and malnutrition, the same cannot be said about its impact on boosting domestic food production. GSFP procures approximately USD 44.8 million in food annually—which should represent a large and locally accessible market for smallholder farmers. However, no clear procurement procedures regarding the purchase of domestic foodstuffs have been developed or followed: currently, the GSFP operational manual states that 80% of the foodstuffs for meals should be bought from local farmers, but this figure is not enforced⁶ nor monitored. According to studies⁷ and baseline reports from PG-HGSF conducted in the Northern Region, caterers are not buying from farmers mainly due to delayed school feeding payments, as buying from smallholder farmers often necessitates a cash, rather than credit, transaction.

The Caterer Model in Ghana

Caterers in Ghana are contracted by the District Assemblies (DA)—the local government—to supply meals to schools. The DA helps implement the Ghana School Feeding Programme (GSFP) in their districts and also distributes and monitors school feeding payments from the GSFP national secretariat to the caterers. These payments to caterers are based on the number of students they feed over a given period.

The model works through caterer pre-financing: the Government of Ghana will only pay caterers for their services after meals have been distributed to students. Upon contracting, new caterers are not given any GSFP funds to purchase initial supplies or foodstuffs to feed their schools.

In December 2014, as a result of a National Learning Event initiated by PG-HGSF, a communiqué from the GSFP in collaboration with SNV, the World Food Program (WFP), the Partnership for Childhood Development (PCD) and the Alliance for a Green Revolution in Africa (AGRA), pointed out how irregular funds to caterers has a negative impact on caterer operations, affects the quality and quantity of meals served to children and inhibits the ability for caterers to purchase foodstuffs from smallholder farmers. “We appeal to the government through the Ministry of Finance to rectify the current fund flow gaps [to caterers] for the benefit of our children in deprived communities who look up to these meals for their survival in the classroom...caterers often resort to credit facilities at high interest rates, and this in some cases leads to compromises in the quality and quantity of meals served to pupils.”

Because the Government of Ghana is yet to address delayed payments, PG-HGSF Ghana developed an intervention where caterers can access loans with reduced interest rates and without a default penalty for delayed repayment from a local rural bank.

Rural bank loans vary in size according to the type of loan given out, but it is typical for loans from these banks to have interest rates in the range of 28–30%⁸ per annum or approximately a **2.3–2.5% interest rate per month**. These loans from rural banks come with a defined period before a borrower goes into default on a loan; this can lead to high fines or the bank taking the defaulter to court. In an analysis



Caterers Suweeiba Mustapha and Wakaso Mohammed Gazali

- 5 Anselm Komla Abotsi, “Expectations of School Feeding Programme: Impact on School Enrolment, Attendance and Academic Performance in Elementary Ghanaian Schools,” *British Journal of Education, Society & Behavioural Science*, ISSN: 2278-0998, Vol.: 3, Issue.: 1 (2013).
- 6 Wievenlien Punt, “From Exogenous to Endogenous: The Way Forward for the Ghana School Feeding Programme,” *Ghana School Feeding Programme*, October 2009, accessed March 2015. http://hgsf-global.org/en/bank/downloads/doc_download/96-from-exogenous-to-endogenous-gsf.ors, and reports on the implementation of governance activities taking place within the communities under its jurisdiction.
- 7 A. F. Shaibu, R. M. Al-hassan, “Analysis of Factors Influencing Caterers of the Ghana School Feeding Programme to Purchase Rice from Local Farmers in the Tamale Metropolis, Tolon-Kumbungu and Karaga Districts,” *Agris on-line Papers in Economics and Informatics*. Vol: 5. No. 2 (2014).
- 8 Rates reported from Bonzali Rural Bank and Tizza Rural Bank in 2014. Interest rates are usually based on the official government interest rate (Monetary Policy Rate) of around 20%, plus the banks’ administrative costs, risk costs and profits.



Approximate interest from traders: foodstuffs bought on credit (Tamale 2013)

Crops	During harvest			During non-harvest season		
	Cash price (GHS) ⁹	Credit price (GHS)	Interest rate for 3 months	Cash price (GHS)	Credit price (GHS)	Interest rate for 3 months
Rice	160	180	12.5% (4.1%/month)	280	300	7% (2.3%/month)
Beans	180	200	11% (3.6%/month)	280	300	7% (2.3%/month)

conducted by WFP's Purchase for Progress (P4P) programme and PG-HGSF, typical interest rates from rural bank loans actually fall below or are equal to the interest that traders charge, which they do by increasing prices of products to be sold on credit.

With cash in hand, caterers can become more autonomous and empowered when making decisions on the quality, quantity and origin of the supplies they procure for school meals—something they may have lacked when restricted to only buying goods from traders on credit. Thus, SNV's PG-HGSF project developed the rural bank loan facility to address the cash flow problem and free caterers to purchase from smallholder farmers, or the suppliers of their choice.

Loan planning and Negotiations with Bonzali Rural Bank

Timeline of Planning and Negotiations

In April 2013, the PG-HGSF team, in close collaboration with the Northern Region secretariat of GSFP and selected DAs, began to plan the rural bank loan pilot intervention.

The Karaga DA recommended Bonzali Rural Bank to the PG-HGSF team, as a new branch had recently opened in Karaga and the bank had a good reputation with area clients. Thus, PG-HGSF approached the bank to pitch and negotiate initial and favourable terms of the loan facility, including a lowered loan interest rate. During November 2013, a Memorandum of Understanding (MOU) for the pilot was drafted among the bank, PG-HGSF, and the DA. From December 2013 to February 2014, PG-HGSF participated in negotiations with Bonzali to create clear and binding terms indicating specific and defined responsibilities of PG-HGSF, the bank, the DA and caterers.

On March 31, 2014, a finalised contract was signed by both PG-HGSF and Bonzali Rural Bank. Due to the particular conditions of the caterer situation detailed below, PG-HGSF was able to negotiate favourable loan conditions, including a lowered interest annual rate of 22% and no penalties upon default.

Planning the loan terms

To reassure the bank that it would not be taking a risk when lending to caterers, PG-HGSF created a guarantee fund. This fund amounted to 50% of the loans the bank would be giving to caterers and would cover 50% of the liability, in the case that any loans defaulted. PG-HGSF and the bank agreed that, together, both parties would provide an orientation for caterers on the conditions of the loan. To complement this orientation, PG-HGSF committed to strengthening participating caterers' businesses and financial management skills before receiving the loans. Finally, PG-HGSF encouraged the bank to only lend each caterer an amount of money that would equal slightly less than 50% of the total amount of money needed for feeding a school for one term. This would ensure that caterers would not become completely reliant on the loan and would reinforce the need for financial planning.

⁹ GHS is the abbreviation for Ghanaian Cedi, the monetary unit for Ghana.



Collaboration with the DA and caterers

While contract negotiations and loan planning with Bonzali Rural Bank were ongoing, PG-HGSF worked with the DAs, as their role was key in the pilot. In Ghana, the caterer model works in conjunction with the DA for payment disbursement. The DAs are mandated by the government to contract caterers for school feeding. The government then releases funds through the DA to be disbursed to caterers based on the number of pupils fed over a given period. In order to work with this model, the loan agreement between the bank and the caterer indicated that each caterer is required to open a bank account at Bonzali Rural Bank. When funds from the government are released to the DA, the DA disburses them directly into caterers' bank accounts, from which the bank automatically deducts the loan principal and interest due. The bank accepted a DA undertaking letter, stating their responsibility to release payments into caterers' bank accounts, as a guarantee to the bank. Because the DA committed to pay the bank directly, the bank considered the loan repayments without risk.¹⁰ PG-HGSF also worked with the caterers to ensure they were able to obtain an undertaking letter from their respective DA to submit to the bank, although most caterers were able to do this without the facilitation of PG-HGSF.



Farmer preparing paddy rice into milled rice for market

Eligibility of caterers and conditions for loans

PG-HGSF and the bank agreed on the following selection criteria for caterers to qualify for loans. Caterers should:

- 🌾 Have a regular contract document from the DA.
- 🌾 Have a letter of undertaking from the DA, guaranteeing repayment when the caterers' funds are released by the government.
- 🌾 Have an active account with Bonzali Rural Bank.
- 🌾 Be committed to buying from smallholder farmers—80% of the foodstuffs for cooking should be bought from smallholder farmers.
- 🌾 Attend the caterers' training programme in record keeping organised by PG-HGSF.
- 🌾 Keep records in a proper record-keeping book detailing the quantity of crops purchased, the prices, and information on the farmers supplying the crops.
- 🌾 Be ready to comply with monthly monitoring from the DA and the bank.

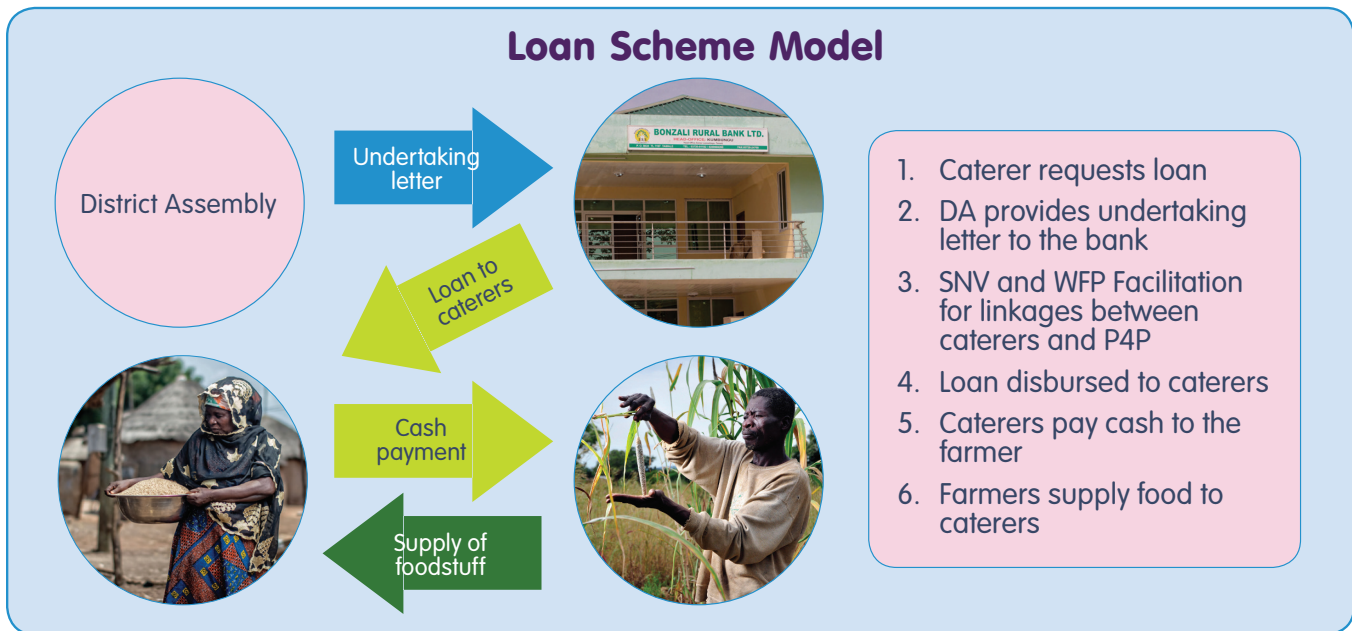
The conditions of the initial loans, set by PG-HGSF and Bonzali Rural Bank are:

- 🌾 Ten caterers from Karaga, Tolon and Tamale will be granted loans at 22% annual interest, or 1.83% per month. A fixed, one-time amount representing the insurance premium (1%) and a commitment fee (3%) will be added.
- 🌾 In the case of a payment default after six months, due to late payment by GSFP, there will be no penalty and the interest rate will remain the same.
- 🌾 The caterer shall instruct the DA to make a direct transfer of school feeding funds to the caterer's Bonzali Rural Bank account.
- 🌾 The bank will deduct credit repayment, together with interest from the caterer's bank account, after the payment is made into the caterer's bank account by the DA.

¹⁰ Repayment is considered without risk, because it is a government commitment and it is paid directly to the bank. Only the time of repayment is not fixed.



Rural bank loan facility pilot implementation:



Before the initiation of the pilot, the project provided trainings on record keeping so caterers could plan, budget and record their finances accordingly, as many caterers lacked the appropriate financial skills to run a profitable business.¹¹ In addition to these trainings, PG-HGSF organised a one-day orientation for caterers with a bank representative to help caterers fully understand loan repayment terms. These trainings were also meant to strengthen their relationship with the bank by increasing the caterers' capacities to manage and successfully repay loans, allowing them to build a credit history to ensure long-term access to credit.

After PG-HGSF finalised their negotiations and contract with Bonzali Rural Bank in March 2014, word was spread by PG-HGSF and other caterers that loans would be available to caterers. Ten caterers in Tamale quickly applied for the loans. After the applications were reviewed, the letters of undertaking were issued by the DA and the applications were approved. Bonzali Rural Bank then disbursed the loans in May 2014.

In total, the bank disbursed¹² GHS 30,000 or approximately US\$7,900.¹³ Each caterer was loaned GHS 3,000, which, on average¹⁴, was calculated as just under half of the full allotment of money needed to feed a school for a term of 65 days.

Results and Reactions from Caterers

The loans were distributed in two staggered batches of twenty loans. The first batch of loans, which included an initial round of ten loans and secondary round of ten loans, was disbursed to only Tamale caterers. The second batch of loans was open to and distributed to caterers in Kumbugu, Tolon, Sagnarigu and Karaga.

First batch of loans in Tamale

Before the pilot, all ten caterers were accustomed to procuring their foodstuffs for school feeding directly from traders. However, starting with the first Bonzali Rural Bank loan disbursement, the caterers started procuring from other suppliers, including smallholder farmers. For the first time, caterers in Tamale bought 63 maxi bags of food commodities, including rice, Bambara beans, cowpeas and maize, from an FBO in the Nyohini community. In total, during the first round of loans, these ten caterers on average spent about 43%,

11 According to Crown Agent's Procurement & Funds Flow Assessment Report—Ghana Home Grown School Feeding Programme and PG-HGSF Baseline Report.

12 During the first round of loans, SNV deposited GHS 15,000, 50% of the first round of loans.

13 As of May 2014.

14 The average amount of money needed to feed a school in Ghana was calculated to be slightly over GHS 6000; however the actual amount a caterer may need can vary, according to how many children attend the school they work with.



or GHS 12,900 of their loans solely on purchases from smallholder farmers—previous to the loans, they had not made any smallholder farmer purchases.

All of the caterers who received loans were able to pay off their loans with funds transferred by the DA before December 2014. Subsequently, all ten Tamale caterers wanted to renew their loans, with the exception of one caterer who had passed away.¹⁵

The second round of loans was granted in January 2015. The amounts for the second round ranged from GHS 3,000 to GHS 8,000, which were disbursed depending on the number of pupils each caterer needed to feed. As a Bonzali Rural Bank official noted,

“Caterers and the bank have established a positive credit relationship” and, as a result, the total loan program nearly doubled in size, from GHS 30,000 to GHS 54,000. After the second disbursement, records show that Tamale caterers used approximately 40% of their loans to buy from smallholder farmers.

Interviews with caterers revealed that some caterers chose to use their second round of loans to purchase from mainly traders. According to Mariama Gamal, a caterer from Tamale, “During the first loan, I bought 100% of my food staples for school feeding from farmers—in fact, I always wanted to buy from the farmers from the beginning.” However, Mariama was disappointed to find that her new suppliers delivered fewer quantities of maize and beans than she requested. As a result, after her second loan disbursement, she purchased almost all of her foodstuffs from a trader. Mariama was not the only caterer whose first experience procuring from farmers was lacklustre. Other caterers reported a lack of satisfaction stemming from improper waybills, inadequate record keeping, and the inability of farmers to fulfil large orders. Caterers also struggled from a lack of understanding on farming seasons and cycles. Both parties acknowledged that solid, working and mutually trusting relationships had not yet been established. Nevertheless, caterers remained open to the idea of procuring from farmers, even Mariama, who stated that if she were able to create such a relationship with a farmer, she would welcome the collaboration when she receives her next loan.

Second batch of loans in Kumbugu, Tolon, Sagnarigu and Karaga

After the first round of loans were released in Tamale, SNV and Bonzali Rural Bank were approached by additional caterers interested in taking advantage of the loan facility. In July 2014, PG-HGSF and the bank signed an addendum to increase PG-HGSF’s guarantee fund by GHS 30,000 and enable the bank to extend its loans to more caterers in other districts. The addendum detailed that the bank would extend twenty additional loans of GHS 3,000 each to caterers in Kumbugu, Tolon, Sagnarigu and Karaga in the following months. In October 2014, caterers interested in these loans were invited to a loan orientation meeting with the bank. Shortly after this meeting, caterers were also able to meet with farmers and FBOs at a matchmaking event organised by PG-HGSF and WFP. From January to March 2015, these loans were subsequently distributed to five caterers in Tolon and to six caterers in Sagnarigu.

Despite the demand that moved PG-HGSF and Bonzali Rural Bank to expand the programme, there are still nine remaining loans available. The reason these loans were not quickly applied for was not clear initially. However, according to caterers in Kumbugu and Sagnarigu, the hesitation is due to a misunderstanding regarding the terms and conditions of the loans. Salamatu Larry, a Sagnarigu caterer that took a loan in March 2015 said, “Some caterers in Kumbungu and Karaga believe the caterer loan is like a normal loan and it will penalise you after default...they fear taking the loan because they do not want to be in court if they default.”



Caterer Larry Linda Salamatu meeting with Bonzali Rural Bank

¹⁵ A different caterer applied for the deceased caterer’s loan renewal and received the second disbursement of the loan.





Early Results


While the loans distributed to Tolon and Sagnarigu are very recent, the initial results indicate that they are even more promising than the first and second rounds of loans distributed in Tamale. Janet Atawura Tenkong and Salamatu Larry, both caterers who provide meals to schools in Sagnarigu, had positive experiences with the loans and purchased almost all their food staples from a FBO called Bobgu Nye Yaa Farmers' Group.


Salamatu Larry purchased GHS 3,310 worth of foodstuffs from the FBO, exceeding the loan amount of GHS 3,000, and Janet Tenkong purchased GHS 2,920—97% of the loan. According to them, this amount of food purchased from the farmers should last approximately just over one term, or 100 days. The rest of the school meal ingredients, including supplementary foods such as vegetables, oil and salt, were purchased with their own funds from traders or local shops. Janet said, "So far what Iddy [the FBO contact] has given us is good. He delivers it to my door and it is cheaper than from a trader. The loans are beneficial—it is only that I think they should increase the loan amount." Both Salamatu and Janet intend to continue their business relationship with the FBO and plan to sign up for a second round of loans, when it becomes available. Yegorme Samuel, the Special Purpose Credit Co-ordinator for Bonzali Rural Bank, and his colleagues had a very favourable view of the caterer loans when interviewed. Representatives from Bonzali Rural Bank viewed the pilot as a success and expressed it is likely the bank will agree to later batches of loans. Currently, PG-HGSF is working to facilitate a sustainable loan system between the banks and caterers after the pilot ends and SNV withdraws the guarantee fund.

Lessons Learned

 Not all transactions between caterers and farmers were successful or positive—some caterers stated that farmers were not able to supply the amount of food they wanted, or that farmers did not properly dry foodstuffs for storage, leading to some spoilage. However, all caterers interviewed had a desire to buy from farmers, as direct purchases from farmers are cheaper than from traders. Farmer capacity and reliability needs to improve if caterers are to buy from farmers rather than traders.

 While farmers need to understand how caterers purchase foodstuffs, caterers also need to fully understand the cycle of planting and harvest if they want to purchase food from farmers and plan accordingly. Farmers often sell their food during harvest time. Thus, in post-harvest times, they do not have sufficient quantities to sell to caterers. Moreover, caterers need to be better oriented in good storage management, as buying from farmers usually requires that they buy in bulk.

 Traders can be a great asset to a caterer, depending on the relationship. Some traders did not charge an extra fee for products delivered on credit. Others did, but according to caterers, the fee was worth the convenience, as they already understood how traders operated. And, when loans were received, some caterers purchased products from traders in cash, eliminating credit fees altogether. While the convenience of purchasing from traders can be beneficial to caterers, the challenge that remains is how to link those traders with smallholder farmers in an evidenced way. Caterers should inquire about the origin of products that traders purchase. Likewise, traders need to document the origin of their supplies to ensure caterers are buying products that come from smallholder farmers.

 There is a need for an improved communication strategy to ensure that caterers completely understand the terms and conditions of loans. Further sessions on loan management and trainings on record keeping can be facilitated by banks, caterer associations, and other actors like DA or development organisations. Miscommunication led to some caterers' lack of awareness on the special conditions of the loan and therefore, did not want to take a loan. Others took the loan, but did not completely understand the process of repayment and were surprised when the loan repayment plus interest was automatically taken out of their accounts after the DA's direct deposits.

continued



Regardless of whether caterers bought from farmers or traders, they all unanimously wanted a second or third round of loans. According to the caterers, the loans were a great help to them and they hoped that the next round of loans would be even larger.

The experience with the loan facility permits replication. Initially, SNV's guarantee fund was a major factor that gave Bonzali bank the confidence to participate in the pilot. PG-HGSF is now negotiating with two other rural banks, Tizza Rural Bank and the Salaga Farmer's Cooperative Credit Union, to provide small loans to caterers with only the guarantee of the District assembly. If successful, other banks can easily copy these conditions, engage with DAs and inform caterers to become new clients without an external party's financial guarantee.

Conclusions

The Government of Ghana needs to address its late and irregular payment issues, but in all likelihood, that will not happen anytime soon. Alhaji Inusah Mahama, Regional Monitoring and Evaluation Coordinator for GSFP in the Northern Region, states, "The Government of Ghana is trying its best, but the truth is that it doesn't have the funds for regular payments. The payments come when the government is able to pay." Because the payment issue might not be rectified for some time, caterers agreed that the loans from Bonzali Rural Bank are alternative financing facilities they can rely on and can help them run their businesses more effectively. It was also observed that caterers did not have issues with the bank interest rate negotiated or the terms agreed upon. However, the results of caterers buying directly from smallholder farmers and FBOs at the rate suggested by the GSFP guidelines (80%) are still yet to be seen. While some caterers have had positive experiences with farmers, others clearly did not, indicating that farmers still need to build capacity and communicate more effectively with caterers to be viable suppliers to the school feeding market. It is hoped that by creating stronger relationships between caterers and farmers and ensuring proper records are kept, caterers can sustain their businesses with the help of rural bank loans, through the difficult times of irregular and delayed payments from the Government of Ghana.



Catering organisation Representative, Mumunu Zakaria meets with a group of farmers

