When a firm, farmers and a bank **join forces in the rubber sector**

While rubber is not an important sector in terms of volume in Ghana, it is a good example of private firm's involvement in agriculture. Representative of two major players of a contractual scheme, a leader of the producers association and a staff of the agribusiness firm, explain the tripartite model set up to structure the rubber value chain.

Grain de Sel (GDS): Can you present the rubber sector in Ghana?

Simon Tetteh – ST (GREL): Rubber production in Africa extends from Guinea Conakry to Gabon. But with a little more than 5% of the world production, Africa is still a minor producer compared to Asia. Ivory Coast ranks the 9th in world and 1st in Africa with an annual output of 312,029 tons, followed by Nigeria at 151,104 tons. In Ghana, the annual output for 2018 stood at 47,241 tons and is estimated to reach 100,000 tons by 2025.

The first industrial plantation of rubber in Ghana was set up in the 1950s. In 1968, GREL was created as a joint venture between the Government of Ghana (GoG) and the American-based Firestone Tyre Company. The first established a rubber plantation, the latter settled a tyre factory. In 1981, Firestone withdrew and GREL became a State company until its privatization in 1997. Today, the State still holds 25% of the shares. Facing aging plantations and a declining production, GREL established in 1992 the Rubber Outgrower Purchases Unit to buy rubber from external producers. GREL was providing technical assistance and inputs. In 1995 the first outgrower scheme-the Rubber Outgrowers' Plantation Project-was launched.

In 2018, GREL plantation stands at 18,000 hectares (ha) with an output of 17,193 tons. The Outgrower Plantation covers a total of 45,600 ha with an output of 30,356 tons, the majority of the plantations being in their immature stage.

Isaac Bosomtwe – IB (ROAA): Despite difficulties in accessing land, the hectares planted have been increasing over the years. In 2014, 6 697 ha of rubber were planted, in 2015, 7 054 hectares, in 2016, 8 930 ha and 14 833 ha in 2018. The price of rubber fluctuates depending on the world market price (the reference price is the Singapore Commodity Market, SICOM), the local exchange rate and the percentage of Dry Rubber Content (DRC). The World rubber price and the exchange rate are beyond anyone's control. The processor determines the DRC.

GDS: The rubber industry has been structured over a tripartite agreement. Can you explain it?

ST (GREL): The tripartite agreement includes the technical operator (GREL); the organized farmer group (the Rubber Outgrowers Agents Association - ROAA); and the financial operator, the Agricultural Development Bank of Ghana (ADB). Every player has some obligations.

IB (ROAA): ROAA represents 8,000 to 9,000 farmers. Some are self-financed Outgrowers who are planting on their own. ROAA is structured at national, regional and district level. According to the contract, farmers participating in the outgrower scheme with GREL need to prove tenure rights on the land (at least four hectares), to deliver the rubber twice a month to GREL; to repay the loan to ADB with interests and to pay in full for the planting materials to GREL, etc.

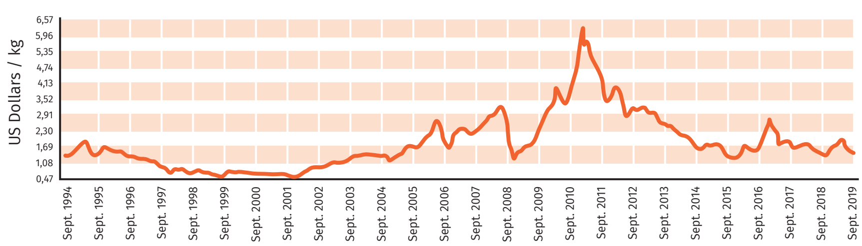
In view of the financial demand from the tappers, each farmer sends his product at least once a month. The frequency is not fixed and also depends on the distance of the farm to the processor.

ST (GREL): The agreement has involved 8,012 farmers with a total planted surface of about 30,155 ha from 1995 to 2016. In addition, 1200 farmers are self-financed outgrowers. To date, 5,500 farmers under the project are in production equivalent to 26,800 ha. GREL provides inputs to farmers (high quality seedlings, fertilizers, chemicals and tools) and offers technical assistance. GREL also purchases the rubber cuplumps of farmers at the prevailing SICOM monthly average price.

IB (ROAA): The two financial institutions (the ADB and the National Investment Bank) provide long-term loans to outgrowers and offer financial training to farmers.

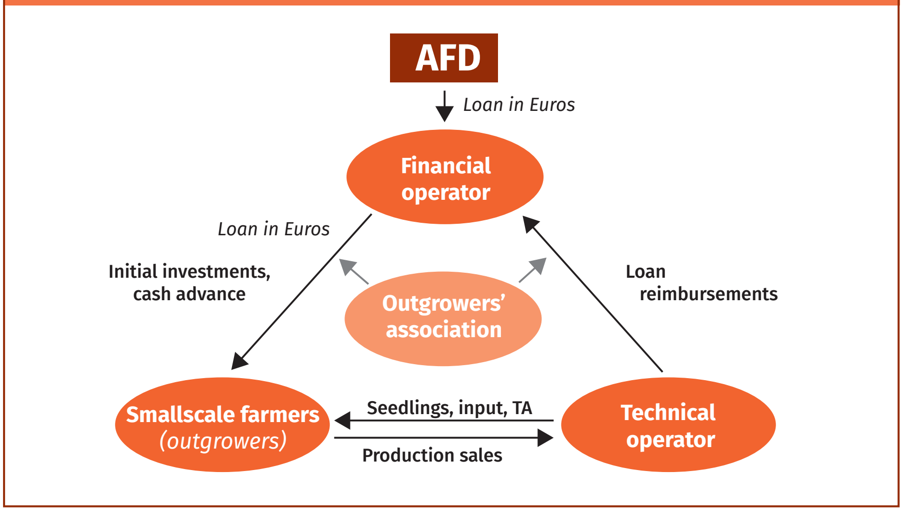
ST (GREL): And GREL is supposed to help the financial institution to recover their loans through an upfront 25% deduction from farmers' proceeds on behalf of the Banks towards the repayment of the loan. The last phases of the agreement are in EURO. Indeed, the real interest in foreign exchange paid on farmers loans is generally expensive for Phase I, II & III, as interest in Ghana Cedis is high with a devaluation lower than the interest. This fluctuates from one year to the other, but in

SICOM Price of DRC* per Kg in USD since 1994 ($ US / kg)



*dry rubber content

Tripartite agreement



the long term it is better to take fewer risks and move to a foreign exchange denominated loan provided the rate is attractive.

THE TRIPARTITE AGREEMENT IS A WIN-WIN SITUATION

GDS: What are the main benefits and challenges of the tripartite agreement for every player?

IB (ROAA): The tripartite agreement has contributed to reducing poverty for the producer. Rubber ensures them an income eleven months a year unlike other tree crops which are seasonal. This agreement has also helped securing a market for producers: without a guarantee of purchase of their production, the producers would not have invested in rubber. But even if GREL is under obligation to purchase the produce from farmers whether it has money or not, it takes a strong peasant power to make it work.

ST (GREL): The main aim of the project is to alleviate poverty and promote sustainable economic growth through the cultivation of rubber plantations. A rubber farmer is getting not less than 15,000 Ghana cedis (GHS) per annum with a monthly net income of 1,300 GHS per an average of 4 ha, while in Ghana today the minimum wage is only 265 Ghana cedis!
But of course, there are also some challenges. Just like any other commodity, rubber price fluctuates. Notwithstanding, prices paid to farmers are competitive and remunerative to guarantee sustainability.
The greatest difficulty is loan repayment. Over 2000 farmers in their bid to evade loan repayment prefer to sell to side buyers-not mandated by the agreement as buyers. Most farmers have the belief that, just like the cocoa industry, every loan that was given would eventually become a bad debt.

IB (ROAA): This situation is a concern for both the ADB and NIB because their loans are not repaid. The producers in default are also breaching the tripartite agreement which stipulates GREL as the only buyer.

GDS: Producers start paying the loan once they are in production, and they keep delivering rubber until the loan is refund. From how long are the producers able to live from their own production?

IB (ROAA): In the tripartite agreement, 25% of your product is dedicated to loan repayment and 2,5% of the Free on-Board price to the extension services provided by GREL. The tenor of the loan shall be up to 15 years effective from the 1st day of disbursement. There is also a moratorium period of up to 7 years on principal. Within 8 years of production, the farmers are supposed to have finished paying the loan. Then, the farmer is not bound by any tripartite agreement and he can decide to sell his product to any buyer.

GDS: According to some analyses, such a scheme enables agro-business companies to dominate agriculture, at the expense of producers. What do you think?

IB (ROAA): No, it does not. But sometimes the perception is that GREL, because it has the monopoly, is cheating the farmers on price. Currently, GREL is the only legitimate buyer and ought to pay the price. With the coming into force of the Tree Crop Authority which will be a regulator, this perception will be eroded.

ST (GREL): The producers are mainly small scale or artisanal in nature and have limited access to capital, technical assistance and are unable to participate in a competitive marketing opportunities. The tendency of agro-businesses to dominate the industry will always exist but, with strong institutional regulations, agro-business and the producers both stand the chance to benefit from each other. In a structured project like the tripartite agreement on rubber, I think it's a win-win situation.

IB (ROAA): Yes, the rubber industry is going to peak, because a lot of individuals are also planting rubber and see its potential. This shows that there's hope. ■

Simon Tetteh

Simon Tetteh is the Project Director for the Rubber Outgrower Unit of Ghana Rubber Estates Limited (GREL).

Isaac Bosomtwe

Isaac Bosomtwe is Chairman for the Rubber Outgrowers and Agents Association (ROAA).

** An outgrower is a farmer who is supported through a project under a contract agreement which encompasses technical, commercial and financial terms.*