



Evaluation of the SPEG Loan Program Final Report

June 4, 2015

ACRONYMS	
ACRONYM	MEANING
EDAIF	Export Development and Agricultural Investment Fund
EDIF	Export Development and Investment Fund
EU	European Union
FAO	Food and Agriculture Organization
GEPA	Ghana Export Promotion Authority
GHC	Ghana Cedi (currency)
GOG	Government of Ghana
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MiDA	Millennium Development Agency
MD2	Technical nomenclature for a pineapple variety developed by the Del Monte Fresh Company in Costa Rica
SC	Smooth Cayenne pineapple variety
SPEG	Sea-Freight Pineapple Exporters of Ghana

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Executive Summary

This report presents the results of the final evaluation of the loan program administered by the Sea-Freight Pineapple Exporters of Ghana (SPEG) under the Agricultural Component of the first Ghana Compact that was funded by the Millennium Challenge Corporation (MCC). The SPEG loan program provided intermediate-term loans for the purchase and installation of post-harvest facilities and equipment by SPEG for the benefit of selected pineapple exporters who were members of its association. The loans were provided to seven members under a grant agreement between the Millennium Development Authority (MiDA) and SPEG during 2008 and 2009, as one of MCC's post-harvest investments.

The work to complete the assessment was carried out by an international agribusiness consultant during September and October 2014. The objective of this effort was to develop a clear picture of the background and events leading up to the SPEG loan program, the program's outcome, and a balanced view of the main factors that affected the program's results.

The SPEG loan program was created as a means for enhancing the competitiveness of Ghana pineapple exporters in overseas markets, primarily in Northern Europe. Ghana's export pineapple industry had been severely affected by the loss of international markets due to its slow response to meet the changing demand in European markets to a new and improved pineapple variety that had been developed earlier in Central America and quickly reached a dominant position in European markets. The loan program supported the re-vitalization of the industry by facilitating the purchase and installation of packing lines, providing pre-cooling and cold storage facilities, and installing standby electric generators at existing pack houses belonging to SPEG exporters. It was expected that with these facilities and equipment, the SPEG members would be able to export fresh pineapples in good, fresh condition, with an adequate shelf life to meet European market requirements, and to provide high-quality fruit that was competitive with fruit from other worldwide suppliers. Unfortunately, these expectations were not fully achieved due to the failure of some SPEG members to repay their loans.

MiDA entered into a grant agreement in September 2008, with SPEG, which provided a conditional grant in an amount up to \$5,426,069 to provide loans to SPEG members for the purchase of cooling and ancillary post-harvest equipment. Under the first phase of the grant agreement, the amount of \$2.17 million was provided to SPEG to serve as a revolving credit fund to its members to procure post-harvest equipment and facilities. It was planned that the remaining portion of the grant would be funded under a later, second phase, once the first phase had been successfully completed.

Findings

On September 19, 2008 MiDA established a conditional grant program in the amount of \$5.3 million to be provided in two tranches for improvements to existing nucleus farm pack houses owned by SPEG exporters. The first tranche in the amount of \$2.17 million was used to provide term loans for seven exporters. Loan principal and interest

repayments were to be used to create a rotating credit fund for successive groups of SPEG exporters.

The loans were provided for a five-year term at a flat interest rate of 5% per year, with annual loan repayments amounting to 20% of the original loan amount, plus interest. The repayment mechanism was an assessment on each borrower's pineapple exports by SPEG.

At the time when the equipment provided under the SPEG loans was installed (2009), Ghana's pineapple industry had suffered a 50% reduction in export volume due to the exporters' inability to meet market demand for the new MD2 pineapple variety.

Soon after the SPEG loan program went into effect, the exporters declared that they were unable to meet their required repayment schedules due to their low export volumes. All seven exporters fell behind on their loan repayments.

SPEG had the legal authority to withhold the agreed amount for debt service from its payments to the borrowers as pineapple export revenue, or alternatively, to foreclose on the equipment and facilities provided to the exporters under the grant agreement. It chose to do neither of these possible courses of action.

MiDA was not sufficiently forceful in its interactions with SPEG to require compliance by the exporters with their loan agreements.

By the end of the Compact the seven exporters had paid only an amount of \$409,619 for debt service, which included an amount of \$106,323 as payment of loan principal. The repayment of principal was only 5.3% of the original loan amount. Under MCC's instructions, MiDA cancelled the grant agreement with SPEG on January 27, 2012.

After the grant agreement between MiDA and SPEG was cancelled, MiDA prepared a draft grant agreement with EDAIF that would transfer the accounts receivable for the SPEG loans from MiDA to EDAIF for collection by the latter organization after the Compact had ended. The grant agreement between MiDA and EDAIF was never put into effect.

The SPEG borrowers have made no further payments against their loan principal since the Compact ended.

On January 14, 2013, MCC sent a letter agreement to MiDA specifying that the SPEG loans should be transferred to EDAIF as agreed by MiDA's Board of Directors, and requested that EDAIF provide periodic status reports to MCC on the repayment of the SPEG loans during the post-compact period. MiDA did not comply with the letter agreement, and the consultant found no evidence of monitoring or follow-up action by MCC on this matter after the letter was sent to MiDA.

In terms of the direct impact of the SPEG loan program, the first disbursement that was made under the grant provided for facilities and equipment in an amount of \$2.17 million. Had the loan program eventually reached all 22 potential exporters, then a total benefit of around \$6.8 million could have been provided.

Conclusions

The slow reaction by Ghana's pineapple producers to convert their farms to the new MD2 pineapple variety to meet the marketing threat posed by pineapple exporters from Costa Rica resulted in a decline in Ghana's pineapple exports by more than 50%.

The early cancellation of MiDA's separate, Agricultural Production Loan Program funded by MCC had a negative impact on Ghana's pineapple industry; since it eliminated a possible source of production financing that was needed for converting pineapple farms from the Smooth Cayenne pineapple variety to the new, MD2 variety that was demanded in European markets.

The quality of the fresh pineapples produced by those exporters who were beneficiaries of the SPEG loan program was competitive with that from other countries in European markets.

The failure of the first group of SPEG borrowers to repay their loans broke the funding cycle that was required to create a rotating credit program for the benefit of all qualifying SPEG exporters. Had the SPEG loan program actually functioned as planned, it could have provided loan funds for post-harvest equipment and cooling facilities for 22 active pineapple exporters, as well as providing a funding mechanism with an amount of more than \$10 million of available funds that could have greatly enhanced the competitiveness of the pineapple industry.

The SPEG loans served their purpose by improving the competitiveness in their export markets of the pineapple exporters who were the loan beneficiaries. MCC's investment in the SPEG loan program was effective, in that it produced the desired, intended result.

The impact of the SPEG loan program in terms of the availability of financing for post-harvest facilities and equipment was less than 25% of its potential impact, as the result of the loan default by all the borrowers in the first phase of the program that eliminated the possibility of creating a rotating credit fund and the release of the second funding tranche under the MiDA grant. As a result of the shortfall in the amount of loans provided through credit rotation, the impact of the program was limited to about ¼ of the amount that would otherwise have been available.

During the approximately three years and four months that the SPEG loan program was active, the initial group of SPEG borrowers managed to repay only 5.3% of their outstanding loan amount. As a result, given its poor repayment history, MiDA closed the grant agreement with SPEG. The SPEG loan program was clearly not sustainable, in view of its early closure.

The failure of the SPEG exporters to repay their loans in a timely manner was justified from their low export volumes, which would have placed them in considerable economic difficulty had they been forced to comply. However, there was undoubtedly an element of bad faith by all seven exporters who made little effort to repay their loans, as well as an element of collusion between the exporters and SPEG to ensure that the latter did not employ the most aggressive mechanisms for loan collection that were available under the grant agreement. It is the consultant's opinion that when considering the two underlying factors of bad faith and bad financial results, the effect of bad faith accounted for around

1/3 of the negative outcome of the SPEG loan program, while poor financial results accounted for 2/3 of the outcome.

Even had they acted fully in good faith, the SPEG exporters showed poor judgment and poor planning by taking on heavy loans with a relatively short repayment period in the face of low production of the required pineapple variety.

MiDA and MCC carried out a comprehensive analytical review and a thorough due diligence before initiating the SPEG loan program. The preparation for the program was substantial, and the program had a sound analytical footing. An appropriate mechanism for loan repayment was in place. The primary reason for the failure of the program was the lack of loan repayment by the exporters, reinforced by the failure by SPEG to take strong action against the exporters whose loans were in default, and the hesitancy by MiDA to apply pressure to SPEG to ensure that the loans were repaid.

The failure by MiDA to follow through on the requirement to transfer the accounts receivable from the SPEG borrowers to EDAIF under a new grant agreement has placed MCC in a difficult position. MCC's options are: a) require the re-initiation of the legal process of transferring the accounts receivable from MiDA to EDAIF by engaging in negotiations with Ghana's new, incoming Minister of Trade and Industry almost three years after the compact ended; or b) fully accept the current situation where the loans have effectively been written off by MiDA and there is almost no chance that SPEG and its producers will voluntarily repay the loans.

Recommendations

For future initiatives similar to that undertaken under the SPEG loan program, MCC should channel the loans to the borrowers through a commercial financial institution. This would be, in effect, a partial loan guarantee placed on deposit with the financial institution.

It is recommended that MCC not re-open the issue of MiDA's failure to transfer the accounts receivable corresponding to the SPEG loans to EDIAF, nor require that EDIAF aggressively pursue loan repayment by the SPEG borrowers. This action by MCC would undoubtedly place a cloud over MCC's relations with government in the early days of the second Ghana Compact. In addition, in view of the time that has passed since the first compact ended and the lack of institutional memory at EDIAF, the Ministry of Trade and Industry, and MiDA, it would be necessary to start the entire process afresh. Furthermore, without MCC's direct intervention, enforcement of any new agreement would likely be inconsistent.

Lessons Learned

Loan programs of this nature that are supported by MCC in the future should be channeled through the formal financial sector, instead of being administered by an association of exporters who are also the borrowers.

Proactive monitoring and verification of action taken by its implementing partners (i.e. MiDA) is required by a funding agency such as MCC to ensure that program activities are executed as required. This is relevant to the transfer of the loan program to EDIAF. The driving philosophy should be "trust, but verify".

1.0 Introduction

This report presents the results of the final evaluation of the loan program administered by the Sea-Freight Pineapple Exporters of Ghana (SPEG) under the Agricultural Component of the first Ghana Compact that was funded by the Millennium Challenge Corporation (MCC). The SPEG loan program provided intermediate-term loans for the purchase and installation of post-harvest facilities and equipment by SPEG for the benefit of selected pineapple exporters who were members of its association. The loans were used for the purchase and installation of cold rooms, cooling equipment, and stand-by generators required for pineapple export by SPEG members to enhance their export competitiveness. The loans were provided to seven members during 2008 and 2009 as one of MCC's post-harvest investments under a grant agreement between the Millennium Development Authority (MiDA) and SPEG.

The work to complete the assessment was carried out by an international agribusiness consultant during September and October 2014. This work included in-depth interviews with senior SPEG management personnel and also with members of the remaining MiDA staff in Accra who were involved in the loan program; meetings and telephone interviews with relevant members of MCC staff in Washington, DC; telephone interviews with previous members of MCC headquarters staff and a senior staff member of Development Alternatives, the previous contractor that worked closely with the SPEG loan program; and a desk review of documents and other information that was provided by both MCC and MiDA¹.

The objective of these efforts was to develop a clear picture of the background and events leading up to the SPEG loan program, to analyze the program's outcome, and to provide a balanced view of the main factors that affected the program's results.

The following pages of this report present background information, an analysis of the loan program including its impact and effectiveness; a summary of findings, and the conclusions, recommendations and lessons learned from the implementation of the program. Annexes of this report present several supporting tables and other information, the work plan for the study, the work calendar, the meeting notes that were taken during the different interviews, and contact information for the people whom the consultant met over the course of the evaluation.

2.0 Background

The SPEG loan program was conceived as a means for enhancing the competitiveness of Ghana pineapple exporters in overseas markets, primarily in Northern Europe. In 2008, when the loan program was conceived, Ghana's export pineapple industry had been severely affected by the loss of international markets. This was a result of the slow response by Ghana's pineapple exporters to meet the changing demand in European

¹ In an earlier visit to Ghana in December 2013 to conduct an interim assessment of MCC's post-harvest and irrigation investments, the consultant conducted in-depth interviews with five of the seven recipients of the first tranche of SPEG loans.

markets to a new and improved pineapple variety, MD2, which was developed earlier in Costa Rica by the international agribusiness company Del Monte Fresh, which quickly reached a dominant position in international markets. Ghana's pineapple exporters that had traditionally produced the Smooth Cayenne (SC) variety were caught unprepared and were not able to quickly adapt to the sudden shift in market preference. Consumers, as well as supermarket chains preferred MD2 pineapples due to their low acidity, which provided a sweeter taste and a longer shelf life for the fresh fruit. Also, the shape of the MD2 fruit enabled it to be placed upright on supermarket shelves for attractive display, and therefore occupy less shelf space than the SC variety. Furthermore, due to its lower acidity, MD2 fruit was less delicate and was not as susceptible to handling, damage, and temperature variations as the SC variety.

One of the factors that limited the ability of Ghana exporters to shift to MD2 cultivation was the severe limitation of planting material ("suckers") for the new variety. Since the MD2 variety had been developed in Costa Rica, the main source of planting material was from plant nurseries and producers in that country, who were not greatly concerned of the plight of competing pineapple growers in Ghana. To accelerate the process of variety transformation, in 2005, the Government of Ghana (GOG) provided a \$2 million subsidy to pineapple growers to obtain MD2 planting material, and USAID funded the development of a tissue culture laboratory that could clone MD2 suckers. Despite these advances, the initial cost of MD2 planting material was \$0.70 per unit, compared to a cost of \$0.03 for SC planting material. Since the required planting density for Ghana's producers who cultivated the new variety was 55,000 plants per hectare, the cost of converting to the new variety during this early period was enormous.

A related problem was that the agricultural requirements for producing the MD2 variety were considerably more demanding than for SC, and Ghana producers - large as well as small - initially lacked the technical knowledge and agronomic skills to produce MD2.

It was initially planned that part of MiDA's \$30 million Agricultural Production Loan Program funded by MCC would also provide credit to Ghana's pineapple exporters to enable their change to the MD2 plant variety. Although the credit scheme was a separate program component, it was part of the Agricultural Project.

The separate, agricultural credit component was stand-alone program that, with benefit of hindsight, seems to have been poorly conceived. MiDA provided funding to support this loan program to Ghana's rural banks without adequate oversight over their lending activities and without benefit of critical financial systems, such as credit and financial ratings for individual borrowers and verification of outstanding loans by other production loan creditors. Furthermore, these loans were issued for a wide range of agricultural production, including subsistence crops, instead of being targeted on higher-value commercial crops. The MiDA-guaranteed credit facilities were provided directly to small-scale farmers by financial institutions without the benefit of a supporting commercial structure, such as that of an anchor firm or an outgrower smallholder production scheme that was led by a commercial agribusiness company. A loan structure of this nature would have increased the likelihood of loan repayment by smallholders, since repayment amounts could have been withheld from the purchase of agricultural products from smallholders and paid directly to the lending financial institutions. In the absence of a supporting commercial structure, many farmers treated the loans as "free"

government money, and repayment rates were low. After heavy losses (whose value was later reimbursed to MCC by the Ghana government), the loan program was cancelled from the Compact. Unfortunately, the effects of the cancellation of the credit facility spilled over to larger commercial farmers – in particular, pineapple exporters. At that time, pineapple exporters had high investment requirements (reportedly, in the amount of up to US \$5,000 per acre) for the conversion of their pineapple farms to the new MD-2 pineapple variety as required by changing international market preferences. The limited availability of affordable investment credit and working capital financing for crop production by pineapple farmers has had a substantial negative impact on pineapple production in Ghana, since the farmers have not been able to convert their farms on a timely basis.

As late as 2009, before any loans had been made under the MiDA-SPEG loan program, there was considerable optimism in terms of the role that national and regional banks would eventually play in providing both smallholders and nucleus farmers with credit lines which would enable them to maintain their new plantings during the 18 months (in the case of pineapple) to 60 months (in the case of mango) between the time of planting and harvest. While the MiDA agricultural loan program could have served as an excellent platform for expanding these agro-industries, the fact that early credit recipients did not comply with their scheduled payments of interest and principal meant that the "revolving" element of this funding program was never able to enter into force. Rather than providing initial capital to allow several generations of new plantings to take place, this truncated repayment performance by the front-end beneficiaries dried up the availability of rotating funds and greatly limited the expansion of new plantings which might otherwise have been possible.

Based on the consultant's observations during the assessment, none of the MiDA-provided facilities and equipment for the SPEG producers is being operated at full capacity as a result of limited crop production and throughput at the various facilities. The limited availability of affordable credit is the recurring theme cited by facility operators as the main contributing factor to facilities being less-than-fully-utilized.

Another casualty of the cancellation of MiDA's rural credit program was the outgrower export program for small-scale pineapple producers. Due to the non-availability of long-term credit, smallholders have been unable to convert their pineapple farm to the MD2 pineapple variety that is required by export markets for fresh fruit. As a result, they continue to produce the other pineapple varieties such as smooth cayenne or sugar loaf pineapples for local markets, or for sale to those processors that export fresh-cut pineapple for overseas food service markets. The result is that virtually none of Ghana's fresh pineapple exports of whole fruit are supplied by small-scale farmers.

After the loan default rate began to accelerate, the banking sector was slow to take action. The program was clearly mismanaged by the participating financial institutions. After a year, MCC cancelled the production loan program and, with it, the possibility that pineapple exporters could obtain credit required for variety change².

² In this regard, a valid question can be posed that in light of MiDA's earlier experience with the Agricultural Production Loan Program, then why should the outcome of the SPEG loan program administered by a financial institution be any different from the previous agricultural loan program? Based

The “MD2 shock” has been devastating for Ghana’s pineapple industry. Table 1, below, shows annual pineapple exports from 2000 – 2013. As the table indicates, Ghana’s pineapple exports increased to more than 70,000 tons from 2000 – 2004, and then rapidly declined to a level of slightly more than 30,000 tons by 2009, the year in which the SPEG loan program became fully operational. In terms of export value, it was estimated that in 2006, Ghana earned an amount of \$19 million from exports of fresh pineapples to the European Union (EU), its major market. By 2009, pineapple export receipts had fallen to \$15 million, and declined even further in 2010 to \$13.6 million despite a substantial increase in pre-cut pineapples for the food service industry. Note that sea-freight exports of Smooth Cayenne ceased in 2006, which explains the sharp decline in exports from 2006 to 2007.

Table 1 Pineapple Export Volume and Value, Ghana 2000 - 2013					
Year	Exports (Tons)	Export Value (US \$000)	Year	Exports (Tons)	Export Value (US \$000)
2000	32,677	N/A	2007	40,456	12,661
2001	41,428	N/A	2008	35,134	12,848
2002	49,700	N/A	2009	31,567	15,017
2003	57,392	N/A	2010	40,141	13,555
2004	71,158	N/A	2011	45,057	16,972
2005	66,200	12,784	2012	41,212	16,816
2006	60,751	19,086	2013	40,095	19,209
Exports include both sea-freight and air-freight pineapple shipments					
Source: Sea-Freight Pineapple Exporters of Ghana (SPEG)					
Data on export value provided by the Ghana Export Promotion Authority (GEPA)					

In addition to the decrease in pineapple exports, a recent study by the Food and Agriculture Organization (FAO)³ reports the following additional changes in Ghana’s pineapple industry that resulted from the industry crisis:

- a) Ghana’s market share of fresh pineapple exports to the EU declined from 10% in 2004 to no more than 4% in 2011. During this same period, EU imports of fresh

on the consultant’s review of the previous loan program, it is our perception that this was a poorly managed, open-door lending program with extremely broad coverage and little due diligence of the creditworthiness of the borrowers by the financial institutions, and with no single organization in control of loan policy. The banks that provided smallholder loans were fully covered for bad loans, and incurred minimal risk. On the other hand, what is envisioned for commercial bank administration of the SPEG loans is a less-than-100 percent guaranteed loan arrangement whereby the bank would incur some risk, and would be less reticent than SPEG proved to be, about declaring the producers to be in default and negotiating extended repayment terms. In other words, simply because the first loan program was poorly executed and subsequently failed, does not necessarily mean that the second loan program must also be poorly executed.

³ Food and Agriculture Organization of the United Nations, Julius Gatune, Mitchris Chapman-Kodam, Kwesi Korboe, Francis Mulangu, and Manitra A. Rakotoarisoa, *FAO Commodity and Trade Policy Research Working Paper No. 41, Analysis of Trade Impacts on the Fresh Pineapple Sector in Ghana*, 2013

pineapples shipped by sea freight increased considerably, largely supplied by exporters in Costa Rica.

- b) Prior to the shift in demand, pineapple exports in 2004 amounted to around 60% of horticulture exports from Ghana. In 2010, pineapples accounted for only about 30% of horticulture exports, notwithstanding an increase in pre-cut pineapple exports from 1,000 to 3,000 metric tons (MT) during this period.
- c) Ghana has seen a decline in the number of exporters from an average of 60 before 2004 to about 14 at present. Of these, eight key exporters account for about 93% of sea-freighted pineapples as of 2011. It is estimated that no more than 30 medium- to large-scale farmers are currently engaged in commercial pineapple production in Ghana.
- d) Smallholder farmers have been the biggest losers and the group most affected by the MD2 crisis. In 2004, it was estimated that smallholders contributed about 50% to fresh pineapple export volumes. Today, the smallholder's share of fresh pineapple exports is negligible. From a total of approximately 1,600 identified smallholders in 2004, Ghana currently has less than 200 smallholders engaged in the commercial production of pineapples.
- e) Presently, MD2 constitutes about 90% of total production in Ghana, with smallholders accounting for about 2% of current production volumes. Not more than 10% of current pineapple production in Ghana is the Smooth Cayenne variety. Most Smooth Cayenne production is exported by air cargo as fully ripe, fresh fruit, as well as fresh-cut fruit salad by specialty exporters such as Blue Skies and Peelco. Fresh-cut exports are estimated to be more than 6,000 tons annually. This fruit is supplied mostly by smallholders and a very few large commercial farms.
- f) The processed pineapple industry in Ghana, which uses Smooth Cayenne (SC) as well as local fruit varieties, has grown substantially over the past ten years. In addition to exported pre-cut products, SC fruit is increasingly sold to local processors for juice and other pineapple products.
- g) For the past six years, most pineapple exporters have had access to the high end of the EU market due to improvements in post-harvest infrastructure, and compliance with different international quality standards. For example, a key strategy employed by the major pineapple exporters has been to acquire Fairtrade and other certification, such as GlobalGap. While GlobalGap certification is required to access high-end markets, fruit sold under the Fairtrade category provides approximately 20% higher prices in comparison to conventional fruit. An additional benefit of Fairtrade is that a premium of 4 Eurocents per kilogram is paid to promote social programs for workers and those living in their communities.
- h) Aided by the SPEG loan program, Ghanaian exporters have invested in post-harvest infrastructure such as pack houses with installed modern packing lines and cooling systems for quality control similar to pack houses in Costa Rica. Farming practices have also improved reflecting in increased production yields to approximately 60 metric tons (MT) per hectare, of which around 65% is exported. However, this performance is much lower than that for Costa Rica producers, whose production

yield is around 120 MT per hectare, with exports amounting to about 85% of the amount produced.

- i) Despite government incentives provided to support Ghana's pineapple industry through means such as reduced duties on imported inputs, low income taxes, and a fertilizer subsidy, Ghana's exporters are not considered competitive with their counterparts in Costa Rica. For example, Ghana has a gross margin on sales of approximately 20%, compared to an estimated 50% margin by exporters in Costa Rica. This reduces the profitability of Ghana exporters.
- j) In addition to the high per-unit production cost for pineapples, Ghana exporters must also bear the burden of a higher sea-freight shipping cost than what is incurred by their counterparts in Costa Rica. Shipping costs from Ghana are elevated due to its inefficient and costly port operations, and higher ocean freight charges than those charged for higher shipping volumes from Costa Rica.

3.0 Analysis

3.1 The SPEG Loan Program

Under the post-harvest activity of the Compact, MiDA entered into a grant agreement on September 19, 2008, with SPEG, under which MiDA granted to SPEG an amount up to \$5,426,069 to provide loans to its members for the purchase of cooling and ancillary post-harvest equipment. The purpose of these loans was to enhance the competitiveness of Ghana's pineapple exporters in European markets. With better post-harvest handling and cooling for export pineapples, it would be possible for Ghana's exporters to ensure that the quality of their fruit in export markets was competitive with that from other countries. Separately, through its Rural Development Project, MiDA provided electricity to these SPEG members' pack houses (and to nearby communities) by constructing electric power lines that connected the pack house and the adjacent communities to the national power grid.

Under the first phase of the grant agreement, the amount of \$2.17 million was provided to SPEG to serve as a revolving credit to its members to procure cooling facilities and packing lines. Under this arrangement, seven SPEG members were to benefit simultaneously. Additional members were expected to benefit after the loans had been substantially repaid by the first set of members. It was initially planned that 22 active SPEG members would obtain cooling equipment and packing lines. The first seven cooling facilities were constructed and are presently operating. Table 2 shows the initial loans for equipment purchases that were provided to these members.

Table 2 **SPEG Equipment Loans - First Phase Borrowers (US\$)**

Exporter	Cold Rooms & Equipment	Packing Line	Generator	Total
Jei River Farms	97,167	32,293	-	129,460
Bomart Farms	151,844	326,426	52,650	530,920
Koranco Farms	229,710	96,847	48,517	375,074
Prudent Farms	120,239	350,807	52,650	523,696
Georgefields Farms	37,004	-	52,650	89,654
2K Farms	107,900	-	50,200	158,100
Gold Coast Fruits	49,520	110,130	34,825	194,475
Total	\$793,384	\$916,503	\$291,492	\$2,001,379
Note: The difference between the equipment cost of \$2.0mm and the grant amount of \$2.17mm corresponds to the cost of equipment warranty, service, and insurance.				
Source: SPEG				

Under the grant agreement, SPEG was expected to have submitted plans to MiDA and MCC for re-utilization of loan funds by other members of the association, once they had repaid 25% of the investment provided during the first phase. Successful repayment could also have triggered a drawdown of additional funds that remained from the original grant amount of \$5.4 million. Unfortunately, the re-payment amounts by the first group of borrowers were not made as scheduled, and the repayment targets were not achieved. Inflows from loan repayments were insufficient to continue the process of providing loans to additional beneficiaries.

The grant agreement between MiDA and SPEG specified the following:

- 1) MCC funding would be used for improvements to existing nucleus farm pack houses in the form of forced-air cooling and cold storage units, to be owned and operated by the owners of the pack houses. The beneficiaries were nucleus farmers that owned and operated existing nucleus farm pack houses. The beneficiaries were required to engage in procuring pineapples from small-scale farmers, or to demonstrate their willingness to procure smallholder-grown product in the future.
- 2) The amount of the grant was the equivalent in cedi of \$5,426,069. SPEG was authorized to finance the purchase of cooling equipment by its members. The entire grant amount was to have been provided through two phased disbursements, termed phase I and phase II. Under the first phase, MiDA was required to provide SPEG the equivalent cedi amount of \$2,171,136 no later than September 30, 2008. Loan funding under the first phase was made available to a pre-qualified group of seven members who had previously met funding criteria and were able to accept delivery and to install cooling and ancillary equipment during October 2008. The deadlines were set to ensure the rapid installation and use of the post-harvest facilities.

Funding for the second disbursement was to have been made available to SPEG at the discretion of MCC and MiDA, under a separate agreement with SPEG.

- 3) The participating SPEG members entered into an agreement with a vendor to purchase cooling equipment of a size that was scaled to the members' throughput

capacity. The equipment purchase was approved beforehand by MiDA and SPEG. Each member further secured a warranty and service agreement with the vendor for the equipment to be procured. SPEG arranged for a group insurance policy to cover the loss of the cooling equipment, whose cost was allocated to each member. SPEG and the respective members executed a loan agreement for the value of the equipment, the additional cost of the warranty and service agreement, and insurance. SPEG paid this amount to the vendors. The total investment for each member included equipment cost, warranty and service agreement, and insurance. The members were required to maintain the equipment in operable condition over the life of the loan agreement. The cost of the warranty, service agreement, and insurance were written off by SPEG, and the members' loans were for the cost of facilities and equipment, only.

- 4) The rate of interest for the member loans was fixed at the prime rate published by the Bank of Ghana on the date of the loan agreement. The maximum loan term was five years. The interest rate fixed by SPEG was 5%, which was later considered by some members of MCC staff to be less than the amount that was required by the loan agreement.
- 5) Under the terms of the loan agreement, each member was required to authorize SPEG to deduct an agreed repayment charge for principal and interest on a per pallet basis from its export sales revenue. The per-pallet repayment charge levied by SPEG against a member's exports was constant, regardless of fluctuation in the number of pallets exported. This mechanism was similar to the method that was already in effect for collecting the charges imposed on its members for export services by SPEG.
- 6) To guard against the diversion of product by the borrowers as a means to avoid their loan repayment charges, the members were obligated to pay the projected annual repayment charge even if their yearly forecast of export cargo volume was not satisfied by the borrower.
- 7) SPEG was required to open a separate bank account to hold all the funds available under the grant agreement, including funds re-flow. Funds in the account could not be commingled with those from other sources.
- 8) Reinvestment of funds generated from the repayment of loans and interest charges was authorized after at least 25% of the amount subject to repayment under Phase 1 had been deposited into a bank account managed by SPEG. Reinvestments were targeted on activities that enabled the export horticulture industry to respond effectively and competitively to market volume requirements and quality demands.
- 9) The members were required to provide sufficient collateral under the loan agreement to cover the outstanding principal amount of the agreement.
- 10) In the event that a member failed to export its produce in accordance with the agreed terms with SPEG, or otherwise comply with the repayment schedule, SPEG was empowered to declare the member in default and take steps to recover the entire amount due and/or repossess and sell the equipment that was provided.
- 11) In the event of *force majeure* the affected party would be relieved of their obligations during the period of such events. For *force majeure* events lasting more than six

weeks, either party could terminate the agreement by giving ten days' written notice to the other party.

3.2 SPEG Borrower Repayment Performance

Despite the requirements for loan repayment under the grant agreement, the seven SPEG borrowers alleged that they were unable to meet their loan repayment obligations, because their low export volumes did not permit them to deduct the full amount of the pallet charge from their export revenues that were required for them to meet their respective loan repayment schedules. They further maintained that the cancellation of the earlier production loan program that was being implemented by MiDA as a separate project element eliminated a planned source of credit and made it impossible for them to fully convert their farms to the new MD2 pineapple variety in a timely manner. The status of their loan repayments at the end of the Compact is shown by the following Table 3. By the end of the Compact, the exporters had repaid only 5.3% of the original loan principal. At MCC's insistence, MiDA cancelled the SPEG grant agreement on January 27, 2012, shortly before the end of the Compact.

Table 3 SPEG Equipment Loans – End of Compact Status (US\$)					
Exporter	Beginning Balance	Principal Paid	Interest Paid	Total Paid	Ending Balance
Jei River Farms	129,460	27,019	24,348	51,367	102,441
Bomart Farms	530,920	24,873	82,546	107,419	506,047
Koranco Farms	375,074	18,177	56,773	74,950	356,898
Prudent Farms	523,696	8,526	78,885	87,410	515,170
Georgefields Farms	89,654	11,994	15,175	27,169	77,660
2K Farms	158,100	0	16,758	16,758	158,100
Gold Coast Fruits	194,475	15,735	28,812	44,546	178,740
Total	\$2,001,379	\$106,323	\$303,296	\$409,618	\$1,895,056
Source: SPEG					

Table 3 shows the status of the equipment loans as of the end of the Ghana Compact on February 15, 2012. The exporters have made no further payments on loan principal since that time.

During the approximately three-year and four-month period after the loans were provided until the end of the Compact, the seven exporters altogether had paid \$409,618 in debt service. Since most of the payments made by the exporters were allocated to interest charges instead of loan principal, only \$106,323 of the amount paid by the exporters was used for principal repayment, which equates to 5.3% of the original loan amount.

3.3 Borrowers' Export Performance

Figure 1, Annex 1, provides an annual summary of the amount of exports by SPEG borrowers from 2003 – 2013. As shown by Figure 1, the export performance of these seven exporters had a similar pattern as that for the industry as a whole, which was shown earlier in Table 1. The consolidated amount of exports for the seven SPEG borrowers over the 2003 – 2013 time period was taken from Figure 1 of Annex 1, and is presented in the following Table 4.

Table 4 Export History of the Seven SPEG Borrowers 2003 - 2013			
Year	Exports (Tons)	Year	Exports (Tons)
2003	17,120	2009	8,384
2004	19,452	2010	13,175
2005	20,227	2011	21,315
2006	18,398	2012	20,345
2007	13,957	2013	15,402
2008	8,436		

As shown by Table 4, the total exports of the seven SPEG borrowers peaked at 20,277 tons in 2005. By 2009, the year in which the post-harvest facilities and equipment were provided to them, these seven producers exported 8,384 tons, corresponding to a decline of 59% from 2005. However, the exporters showed a rapid recovery in their export volumes after 2009, and by the 2011 – 2012 period had surpassed their earlier peak export volume reported for 2005. The annual growth rate in their exports from 2009 – 2013 was approximately 17%, compared to an annual rate of increase of only 6% for the industry as a whole over the same time period (Table 1).

While it is not possible for the consultant to determine the financial condition of the SPEG borrowers during the time when the loans were in force before the end of the Compact, Figure 1, Annex 1, indicates that all exporters, with the exception of 2K Farms, registered considerable increases in their export shipments after the equipment loans were provided to them⁴. 2K Farms, a papaya producer, suffered a total production loss of its crop of export papaya due to an outbreak of pests and disease, and was unable to export any of its products during the Compact period. This exporter was able to pay a small amount of interest, but could not repay any of the principal that was due on its post-harvest loan. However, all the other SPEG borrowers showed strong growth in exports over this period.

As shown by Figure 1, Annex 1, in 2013 all exporters suffered a reduction in their export amounts from the year before, by an average of 25%. In recent discussions between the consultant and the SPEG general manager, it was revealed that a further reduction of approximately the same magnitude is being seen during the 2013 – 2014 period.

⁴ The projections that were made by SPEG before the loans were issued showed that all seven exporters were expected to easily repay their loan amounts by the method of deducting a “pallet charge” from their pineapple export revenue.

3.4 Exports Required for Loan Repayment

Figure 2, Annex 1, shows the amount of exports that were required for debt repayment by the seven SPEG exporters for each year of the loan period, compared to the amount of exports that were actually made by these exporters. As shown by Figure 2, the amount of pineapples actually exported by the seven exporters over the loan term was only 47% of the total amount of exports required to adequately service their debt. The amount of debt service was based on the “pallet charge” calculated by MiDA, which varied from producer to producer depending on their initial loan amount and their projected export volume.

A comparison of the actual amount exported over the five year loan term with the targeted amount required for debt services by each exporter is shown by the following Table 5.

Table 5 Comparison of Actual Exports with Targeted Amount Required for Debt Service by Seven SPEG Exporters Over the Original Loan Term (Tons)							
	Bomarts	G’fields	Prudent	Gold Cst	Koranco	Jei River	2K
Target	31,980	21,320	26,650	21,320	31,980	31,980	10,660
Actual	25,691	6,506	10,594	12,125	12,425	15,616	0
Percent	80.3%	30.5%	39.8%	56.9%	38.9%	48.8%	0.0%
Source: SPEG							

None of the exporters achieved a sufficient amount of exports that was needed for their required debt service. Five of the seven SPEG borrowers achieved a level of exports under 50% of what was required to fully service their debt. All the exporters exported exclusively the MD2 pineapple variety, which was required by the market.

3.5 EDAIF Grant Agreement

On January 27, 2012, MiDA terminated the grant agreement with SPEG while reserving the right to take further steps as needed to recover the outstanding loan amounts that were in default by SPEG members. The residual amount of the SPEG loan portfolio as of the end of the Compact is shown by the earlier Table 3. Once the agreement with SPEG had been terminated, under MCC’s direction, MiDA prepared a separate grant agreement with the Export Development and Agricultural Investment Fund (EDAIF) whereby the amount of the outstanding loans owed by SPEG members was to have been provided to EDAIF as a grant. The basis for MiDA’s proposed grant agreement was that EDAIF would be able to recover the outstanding loan amounts from the SPEG members and invest the funds obtained to promote agriculture infrastructure in rural areas.

EDAIF was established on October 4, 2011, as a successor organization to the Export Development and Investment Fund (EDIF). It provides grants and credit for the promotion and development of businesses for export trade and agro-processing through three main financing windows: a) export development and promotion; b) agriculture and agro-processing; and c) export credit.

MiDA had proposed to grant the entire amount of the SPEG loan portfolio that was in effect as of December 31, 2011, to EDAIF for collection after the Compact ended. The requirement was that the amounts collected would be used by EDAIF for the public good

through agriculture and agri-business projects under its second financing window, the Agriculture and Agro-processing Development Fund. The proposed grant agreement prepared by MiDA specified that the funds would be used “for EDAIF to manage a grant facility comprising the residual credit portfolio of agricultural infrastructure loans to seven members of the Trade Association (i.e. SPEG) from resources granted under the MCA Ghana Compact”. Annex 1, Figure 3, provides a copy of the draft grant agreement between MiDA and SPEG.

It was noted by the consultant that there was apparent confusion by MiDA’s staff during the preparation of the grant agreement with EDAIF as to the actual amount of loan funds that were owed by the SPEG borrowers. The draft grant agreement between MiDA and EDAIF specified that an outstanding loan amount of \$1,127,640.65 was due from SPEG members as of December 31, 2011 (Annex 1, Figure 3). However, information provided by SPEG as shown by the previous Table 3 indicated a considerably higher outstanding loan balance of \$1,895,056 at the end of the Compact.

Unfortunately, the grant agreement that called for the transfer of ownership of the loan accounts receivable from MiDA to EDAIF was never put into place, for reasons that are not entirely clear. In the consultant’s follow-up interviews with previous MiDA senior staff it was reported that at the time when the grant agreement between the two parties was being transacted there was a cabinet re-shuffle leading to the replacement of the incumbent Minister of Trade and Industry, and the replacement Minister never fulfilled the requirement to sign the document that would legally transfer ownership of the accounts receivable from MiDA to EDAIF. Another reason given by a member of SPEG senior staff was that as a government funding agency within the Ministry of Trade and Industry, EDIAF had neither the legal nor the administrative capability to receive loan repayments as income from SPEG borrowers⁵. Consequently, the transfer of the accounts receivable from MiDA to EDIAF never took place. Not surprisingly, the SPEG exporters have made no additional loan repayments after the SPEG grant was cancelled and the Compact ended.

In a letter from MCC to MiDA dated January 14, 2013, that constituted an agreement to finalize the post-harvest activity under the Compact, MCC requested that MiDA take concrete steps to resolve the unrecovered amount of loans outstanding by the SPEG exporters for the purchase of cooling and other post-harvest equipment. The letter pointed out that MiDA’s Board of Directors had agreed that the SPEG loan facility, including both outstanding principal and interest, should be transferred to EDIF, which was the predecessor government organization before the formation of EDAIF. The letter also noted that the Board had agreed that any borrower with an outstanding balance under the loan facility would be barred from receiving assistance or funds from the facility until the borrower had settled its obligations. The letter further requested that MiDA provide evidence that these two organizations had completed the agreed assignment of the facility’s loans to EDIF within 45 days of the letter agreement. Finally, MCC requested that EDIF provide it with quarterly updates on the status of the SPEG facility, including amounts of recovered principal and interest, remaining amounts outstanding, measures

⁵ During the final days of the Compact, there were numerous, pending items that had to be resolved. It is likely that this administrative oversight was caused by the time pressure related to ending the Compact. However, this should have been discovered by MiDA before the Compact ended.

taken to recover the remaining outstanding amounts, and an indication of how recovered amounts had been reused. A copy of the January 14, 2013, letter from MCC to MiDA is shown in Annex 1, Figure 4. The consultant saw no evidence that any of the action items specified by this letter was carried out, nor was there any evidence of follow-up action taken by MCC on the letter agreement.

The legal situation regarding the outstanding loans repayments due from the SPEG borrowers is undefined. SPEG continues to hold the title to the equipment that was purchased on behalf of the SPEG borrowers. The loan balances of the SPEG exporters are still owed to the GOG, represented by the Ministry of Trade and Industry. Resolving this issue would require that the Minister of Trade and Industry convene a meeting with all concerned organizations, including MiDA, EDAIF, SPEG, and possibly MCC, to re-initiate the process of transferring the debt. This could be difficult to achieve in light of the time that has passed since the Compact ended, staff turnover at the involved institutions, and their lack of institutional memory of the related events.

3.6 Effectiveness

The objective of the SPEG loan program was to improve the competitiveness of Ghana's pineapple exporters in overseas markets by facilitating the installation of on-farm facilities and equipment to improve the post-harvest handling of their export pineapples, and thereby achieve better product quality in their targeted markets. These facilities and equipment included pre-cooling equipment and cold storage rooms, packing lines and stand-by generators that enabled the exporters to ensure their fresh pineapples arrived at their destination in the best possible condition, and with a sufficient shelf life to meet market requirements.

The Compact agreement with the GOG was generally satisfied in the sense that MCC's investment funds that provided the resources for the SPEG loan achieved the stated objective of improving the post-harvest infrastructure by SPEG exporters. The requirement was to put in operation post-harvest infrastructure at a sustainable facility, which was fully executed. The loans served their purpose of improving the competitiveness of the pineapple exporters who were the loan beneficiaries. Therefore, MCC's investment in the SPEG loan program was effective, which is defined as producing the desired, intended result.

3.7 Impact

The MCC-funded grant provided by MiDA to SPEG in the amount of \$2.17 million was the first disbursement made under the conditional grant available to SPEG in the amount of \$5.4 million. The successful repayment of the equipment loans by the first group of seven SPEG exporters – or even a substantial, partial repayment by the exporters that was made in good faith - could have triggered a drawdown of the additional funds that remained from the original grant amount of \$5.4 million. Furthermore, under the grant agreement, it was anticipated that SPEG would submit plans to MiDA and MCC for the re-utilization of loan funds by other members of the association, once the first group of borrowers had repaid 25% of the investment provided them during the first phase. Thus, it was planned that the initial grant would be transformed into a revolving credit fund to assist a second, and even a third, group of exporters to install post-harvest facilities and equipment and thereby become more competitive in export markets. With the failure of

the first group of exporters to repay their outstanding loans, the planned reflows of loan funds did not take place and there was no possibility of creating a revolving credit fund for the benefit of subsequent exporters. The cycle was broken.

Clearly, the MiDA grant did not achieve the desired impact, which was to provide financing for at least 22 active members, and possibly all 30 (including inactive members) of the SPEG group of exporters. Based on the consultant's discussions with SPEG staff, there were 22 exporters who were in a position to fully benefit from SPEG loans for post-harvest facilities and equipment. Projecting the average loan amount per exporter within the first group of seven to all 22 potential exporters, then the potential value of the post-harvest facilities and equipment that could have been purchased under the revolving loan fund is calculated to be \$6.82 million. In addition, had the first group of loan beneficiaries repaid their outstanding loans, the second and final disbursement from MiDA's conditional grant would have provided additional funding to SPEG in the amount of \$3.26 million. Furthermore, what could have remained from the successful completion of the revolving loan program and the second grant disbursement was a viable financing mechanism in a total amount of \$10.08 million that could have provided enormous benefit to Ghana's export pineapple industry in its quest for international competitiveness. This was the real tragedy that resulted from the failure of the first group of exporters to repay their loans.

In terms of the direct impact of the SPEG loan program, the first disbursement that was made provided for facilities and equipment in an amount of \$2.17 million. Had the loan program eventually reached all 22 potential exporters, then a total benefit of approximately \$6.82 million might have been provided. This simple comparison shows that conceptually, the direct impact of the SPEG loan program was to provide equipment with a total value of only 1/3 of that which could have been provided under a successful program. A similar comparison between the \$2.17 million initial disbursement and the \$10.08 million potential financing mechanism that could have remained from the successful program would reduce the impact of the program to only 22% of its potential funding amount. As a result of the shortfall in the amount of loans provided, the impact of the program was limited.

3.8 Sustainability

As described earlier, during the approximately three years and four months that the SPEG loan program was active, the initial group of SPEG borrowers managed to repay only 5.3% of their outstanding loan amount. As a result, on January 27, 2012, MiDA prepared the Program Closure Plan for the grant agreement with SPEG, which brought the SPEG loan program to a premature end. Afterwards, MiDA prepared the legal agreements required for transferring the outstanding accounts receivable from the MiDA to EDAIF. These agreements were never executed and the transfer of the accounts receivable to EDAIF was never made. It is evident that the SPEG loan program was not sustainable, given its poor repayment history. Program sustainability implies continuity; since the program was closed, it was not sustainable.

4.0 Findings, Conclusions, and Recommendations

4.1 Summary of Findings

On September 19, 2008, MiDA established a conditional grant program in the amount of \$5.3 million to fund improvements to existing nucleus farm pack houses owned by SPEG exporters. The grant was to be provided in two tranches. MiDA approved the first tranche in the amount of \$2.17 million that was used to provide term loans for seven exporters who made up the first phase of the loan program. The loans were provided to finance the construction of cold rooms, install automated packing lines, and provide stand-by generators for their pack houses.

It was planned that repayment of loan principal and interest would be used to create a rotating credit fund for the benefit of successive groups of SPEG exporters, once the first group had repaid 25% of the investment provided them during the first phase of the program. Successful repayment could have also triggered the drawdown of additional funds that remained from the original grant amount of \$5.4 million.

The loans were provided for a five-year term at a flat interest rate of 5% per year, with annual loan repayments amounting to 20% of the original loan amount, plus interest. The repayment mechanism was an assessment by SPEG made on each pallet-load of 60 boxes of export pineapples that varied for each exporter based on the loan amount and the projected export volume for each borrower.

The rate of interest for the member loans was specified as the prime rate published by the Bank of Ghana on the date of the loan agreement, which was fixed by SPEG at 5% per annum. Some of the MCC officers and MiDA contractors whom the consultant interviewed expressed their belief that the actual prime rate that was in effect at the time was somewhat higher than the 5% rate charged the exporters, on the order of 7 – 8%. An inquiry with the Bank of Ghana revealed that the bank does not publish a prime lending rate for US-dollar denominated loans; instead, the individual financial institutions in Ghana establish the rate charged for US dollar loans based on the competitive marketplace. However, the prime lending rate in effect in Ghana during September 2008 for Cedi-denominated loans was 17 percent per annum. Although the consultant was unable to verify the basis for the interest rate of 5 percent with either SPEG or MiDA, it could have been that the SPEG staff used the basis of the LIBOR international overnight inter-bank lending rate for the SPEG loans, which, at the time the loans were provided, varied around the rate of five percent.

The exporters declared that they were unable to meet the required repayment schedule due to low export volumes. All seven exporters fell behind on their loan repayments.

At the time when the equipment provided under the SPEG loans was installed (2009), Ghana's pineapple industry had suffered a severe reduction in export volume due to its inability to meet market demand for the new MD2 pineapple variety. Ghana's exports declined from a high of more than 71,000 tons in 2004 to a low of less than 32,000 tons in 2009, corresponding to a reduction of 55 percent. Since the low point of 32,000 tons in 2009, the industry has made a slight recovery to approximately 40,000 tons in 2013, which corresponds to a modest growth rate of around 6%. On the other hand, the seven

SPEG loan beneficiaries increased their pineapple exports by approximately 17% annually from 2009 to 2013.

SPEG had the legal authority to withhold the agreed amount for debt service from its payments to the borrowers as pineapple export revenue, or alternatively, to foreclose on the equipment and facilities provided to the exporters under the grant agreement. It chose to do neither of these possible courses of action.

MiDA was not sufficiently forceful in its interactions with SPEG to require compliance by the exporters with their loan agreements.

By the end of the Compact the seven exporters had paid only an amount of \$409,619 for debt service, which included an amount of \$106,323 as payment of loan principal. Under MCC's instructions, MiDA cancelled the grant agreement with SPEG on January 27, 2012.

After the grant agreement between MiDA and SPEG was cancelled, MiDA prepared a draft grant agreement with EDAIF that would transfer the accounts receivable for the SPEG loans from MiDA to EDAIF for collection by the latter organization after the Compact had ended. The draft grant agreement between MiDA and EDAIF was never put into effect.

The SPEG borrowers have made no further payments against their loan principal since the Compact ended.

On January 14, 2013, MCC sent a letter agreement to MiDA specifying that the SPEG loans should be transferred to EDAIF as agreed by MiDA's Board of Directors, and requested that EDAIF provide periodic status reports to MCC on the repayment of the SPEG loans during the post-compact period. MiDA did not comply with the letter agreement, and the consultant found no evidence of monitoring or follow-up action by MCC on this matter after the letter was sent to MiDA.

In terms of the direct impact of the SPEG loan program, the first disbursement that was made under the grant provided for facilities and equipment in an amount of \$2.17 million. Had the loan program eventually reached all 22 potential exporters, then a total benefit of around \$6.82 million could have been provided.

4.2 Conclusions

The slow reaction by Ghana's pineapple producers to convert their farms to the new MD2 pineapple variety in order to meet the marketing threat posed by pineapple exporters from Costa Rica resulted in a decline in Ghana's pineapple exports by more than 50%.

The cancellation of MiDA's agricultural loan program had a negative impact on Ghana's pineapple industry, since it eliminated a possible source of financing that was needed for converting pineapple farms from the Smooth Cayenne pineapple variety to the new, MD2 variety that was demanded in European markets. A lack of funding dramatically slowed the rate of conversion by pineapple growers to the new variety, which was required for market competitiveness. This was emphasized repeatedly by pineapple exporters as well as SPEG officials.

The quality of the fresh pineapples produced by those exporters who were beneficiaries of the SPEG loan program was competitive with that from other countries in European markets.

The failure of the first group of SPEG borrowers to repay their loans broke the funding cycle that was required to create a rotating credit program for the benefit of all qualifying SPEG exporters. Had the SPEG loan program actually functioned as planned, it could have provided loan funds for post-harvest equipment and cooling facilities for 22 active pineapple exporters, as well as providing a funding mechanism with an amount of more than \$10 million of available funds that could have greatly enhanced the competitiveness of the pineapple industry.

The SPEG loans served their purpose by improving the competitiveness in their export markets of the pineapple exporters who were the loan beneficiaries. MCC's investment in the SPEG loan program was effective.

The impact of the SPEG loan program in terms of the availability of financing for post-harvest facilities and equipment was less than 25% of its potential impact, as the result of the loan default by all the borrowers in the first phase of the program.

The SPEG loan program was clearly not sustainable. On January 27, 2012, MiDA prepared the Program Closure Plan for the grant agreement with SPEG.

The failure of the SPEG exporters to repay their loans in a timely manner was justified based on their low export volumes, which would have placed them in considerable economic difficulty. However, there was undoubtedly an element of bad faith by all seven exporters who made little effort to repay their loans, as well as an element of collusion between the exporters and SPEG to ensure that the latter did not employ the most aggressive mechanisms for loan collection that were available under the grant agreement. It is the consultant's opinion that when considering the two underlying factors of bad faith and bad financial results, these effect of poor financial results accounts for about 2/3 of the negative outcome, while bad faith accounts for around 1/3 of the negative outcome of the SPEG loan program.

Even had they acted in good faith, the SPEG exporters showed poor judgment and poor planning by taking on heavy loans with a relatively short repayment period in the face of low pineapple production.

MiDA and MCC carried out a comprehensive analytical review and a thorough due diligence before initiating the SPEG loan program. The preparation for the program was substantial, and the program had a sound analytical footing. An appropriate mechanism for loan repayment was in place. Based on the information that has been presented, it is the opinion of the consultant that the primary reason for the failure of the program was the lack of loan repayment by the exporters, reinforced by the failure by SPEG to take strong action against the exporters whose loans were in default, and the hesitancy by MiDA to apply pressure to SPEG to ensure that the loans were repaid⁶.

⁶ In light of the "MD2 crisis" that Ghana was experiencing at the time when the SPEG loans were provided, it could be argued that MCC and MiDA confronted the wrong problem: Instead of providing loans for post-harvest handling and cooling, the Ghana Compact should have supported the conversion of export pineapple farms from Smooth Cayenne to the new MD2 pineapple variety. However, an important part of

The failure by MiDA to follow through on the requirement to transfer the accounts receivable from the SPEG borrowers to EDAIF under a new grant agreement has placed MCC in a difficult position. MCC's options are: a) require the re-initiation of the legal process of transferring the accounts receivable from MiDA to EDAIF by engaging in negotiations with Ghana's new, incoming Minister of Trade and Industry almost three years after the compact ended, or b) fully accept the current situation where the loans have effectively been written off by MiDA and there is almost no chance that SPEG and its producers will voluntarily repay the loans.

4.3 Recommendations

It is recommended that for future initiatives similar to that undertaken under the SPEG loan program, MCC channel the loans to the borrowers through a commercial financial institution. While this would be more expensive in terms of the administrative costs and the fees charged by the financial institution, it would ensure that the loans did not distort local credit markets through subsidized interest rates, and would further impose commercial discipline on loan administration and repayment. This would be, in effect, a loan guarantee placed on deposit with the financial institution. Benefits to the borrower from the guarantee might include a relaxation of collateral requirements, a lengthening of the term of the loan, and a comfortable grace period before repayment would be required.

It is recommended that MCC not re-open the issue of MiDA's failure to transfer the accounts receivable corresponding to the SPEG loans to EDAIF, nor require that EDAIF aggressively pursue loan repayment by the SPEG borrowers. This would undoubtedly place a cloud over MCC's relations with government in the early days of the second Ghana Compact, and in view of the time that has passed since the first compact ended and the lack of institutional memory at EDAIF, the Ministry of Trade and Industry, and with MiDA's current staff, it would be required to start the entire process afresh. Furthermore, without MCC's direct intervention, enforcement of any new agreement would likely be inconsistent.

5.0 Lessons Learned

Loan programs of this nature that are supported by MCC in the future should be channeled through the formal financial sector, instead of being administered by an association of exporters who are also the borrowers.

Proactive monitoring and verification of action taken by its implementing partners is required by a funding agency such as MCC to ensure that program activities are executed as required. The driving philosophy should be "trust, but verify". Had MCC verified that the outstanding SPEG loans had, in fact, been turned over to EDAIF before the end of the compact for its follow-up efforts and continued collection, the outcome of SPEG loan repayments might have been different.

the Ghana Compact was designed around post-harvest improvements for fresh fruit exports including pineapple and mango, and the SPEG loans supported this initiative. Furthermore, the Agricultural Credit Activity was initially planned to support the conversion of pineapple farms from Smooth Cayenne. It is the conclusion of the consultant that instead of focusing on the wrong problem, the Compact was overtaken by circumstances related to international market changes.

ANNEXES

ANNEX 1.
SUPPORTING INFORMATION

Figure 1 – MiDA/SPEG Loan Beneficiaries' Export Volumes

Figure 1.	MiDA/SPEG Loan Beneficiaries' Export Volumes (Metric Tons)										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Exporters											
Bomarts	0	680	3,655	2,074	3,551	3,577	2,449	2,998	6,158	7,075	5,103
Georgefields	3,000	3,704	2,852	2,037	1,317	607	895	908	2,012	1,565	932
Prudent	4,235	4,897	2,544	2,820	3,097	1,932	1,576	2,229	2,789	1,831	1,130
Gold Coast	0	0	0	292	1,338	559	1,401	1,710	3,133	3,014	2,551
Fruits											
Koranco	1,478	1,926	2,671	2,879	2,558	1,061	1,576	3,315	3,193	2,283	1,669
Jei River	8,407	8,245	8,505	8,296	2,096	700	487	2,015	4,030	4,577	4,017
2K	0	0	0	0	0	0	0	0	0	0	0
Total	17,120	19,452	20,227	18,398	13,957	8,436	8,384	13,175	21,315	20,345	15,402

Figure 2 – Comparison of SPEG Loan Beneficiaries' Export Volumes with Targeted Amount Required for Loan Repayment

Figure 2		Comparison of SPEG Loan Beneficiaries' Export Volumes with Targeted Amount Required for Loan Repayment							
Exporter		2008 (Sept - Dec.)	2009	2010	2011	2012	2013	Cumulative Total	Percent of Target
Bomarts	Target	1,980	6,000	6,000	6,000	6,000	6,000	31,980	
	Actual	1,908	2,449	2,998	6,158	7,075	5,103	25,691	80.3%
Georgefields	Target	1,320	4,000	4,000	4,000	4,000	4,000	21,320	
	Actual	194	895	908	2,012	1,565	932	6,506	30.5%
Prudent	Target	1,650	5,000	5,000	5,000	5,000	5,000	26,650	
	Actual	1,039	1,576	2,229	2,789	1,831	1,130	10,594	39.8%
Gold Coast Fruits	Target	1,320	4,000	4,000	4,000	4,000	4,000	21,320	
	Actual	316	1,401	1,710	3,133	3,014	2,551	12,125	56.9%
Koranco	Target	1,980	6,000	6,000	6,000	6,000	6,000	31,980	
	Actual	389	1,576	3,315	3,193	2,283	1,669	12,425	38.9%
Jei River	Target	1,980	6,000	6,000	6,000	6,000	6,000	31,980	
	Actual	490	487	2,015	4,030	4,577	4,017	15,616	48.8%
2K	Target	660	2,000	2,000	2,000	2,000	2,000	10,660	
	Actual	0	0	0	0	0	0	0	0.0%
Group of Seven									
Total	Target	10,890	33,000	33,000	33,000	33,000	33,000	175,890	
Total	Actual	4,336	8,384	13,175	21,315	20,345	15,402	82,957	47.2%
Percent of Target		39.8%	25.4%	39.9%	64.6%	61.7%	46.7%	47.2%	

Figure 3

Draft Grant Agreement MiDA – EDAIF

(Drafted but Not Executed)

MiDA MCA GHANA PROGRAM ASSET GRANT AGREEMENT

This GRANT AGREEMENT (the "*Grant Agreement*") is made this _____ day of _____ 2012, by and

Between

The Millennium Development Authority, a public entity organized under Ghanaian law (hereinafter referred to as the "**MiDA or the Grantor**"), represented by the Chief Executive Officer of the first part,

And

The Ministry of Trade and Industry (MOTI) acting on behalf of the Export Development and Agricultural Investment Fund (the "*Grantee*" or "*EDAIF*,"), represented by the Minister, each a Party and collectively referred to as the Parties.

RECITALS

WHEREAS, the United States of America, acting through the Millennium Challenge Corporation ("*MCC*"), and the Government of the Republic of Ghana (the "*Government*") have entered into that certain Millennium Challenge Compact dated 1st August, 2006 (the "*Compact*") which entered into force on 16th February, 2007.

WHEREAS, The Government of Ghana, under Act 702 and 709 (Amended), established MiDA as an independent Organization to implement the Ghana MCA Program, as described in the Compact and designated it as its Permitted Designee under the Compact.

WHEREAS, the Compact will expire on February 16, 2012, after which time for the subsequent 120 days MiDA will close out the Compact and complete all Projects and Activities thereunder to assure the orderly closure of the Compact program.

WHEREAS, the Program Closure Plan for the Compact has been approved by the Board of MiDA on 8th December, 2011 and by the MCC.

WHEREAS, the MiDA Closure Plan contemplates that MiDA will grant certain assets to The Export Development and Agricultural Investment Fund (EDAIF);

NOW, THEREFORE, the Parties agree as follows:

1. The Grantor hereby irrevocably grants and transfers to the Grantee the assets described in Annex A to this Grant Agreement, which have been purchased with funding from MCC in accordance with the Compact; and
2. That, where the asset is a quantity of infrastructure, the Grantor shall, for purposes of overseeing the Defects Notification Period (DNP) relating to the construction of the said infrastructure, continue to exercise oversight responsibility for the DNP, including contracting with the supervisory engineer that will inspect the works at the close of the DNP and for ensuring completion by the contractor for remedial or corrective works that arise as a result of a defect in the works pertaining to said infrastructure and its respective contract; but Grantor shall not have responsibility for any routine maintenance or otherwise with respect to that infrastructure and

Grantee shall retain oversight and responsibility for all maintenance and upkeep requirements for the infrastructure from the date of this Agreement provided that such maintenance and upkeep do not interfere with the DNP and the contractual terms and/or commitments related thereto and that Grantee shall coordinate with Grantor to ensure that any acts by Grantee related to the infrastructure do not affect the DNP and the works contract.

3. The Grantee hereby accepts the assets and agrees to utilize and maintain the assets in accordance with, and in furtherance of, the provisions of Annex B to this Grant Agreement, the Compact, and any related agreement, policy, or similar document. The Grantee further agrees that the transfer of assets contemplated under this Grant Agreement shall not affect the restrictions on the use of such assets imposed by the Compact.

[Remainder of this page left intentionally blank]

IN WITNESS WHEREOF, the parties have signed this Agreement, on [____], 2012.

For the Grantor:
Millennium Development Authority

Mr. Martin Eson-Benjamin

Chief Executive officer

Witnessed by:

Name

Title

For The Grantee:

The Ministry of Trade and Industry on behalf of EDAIF

Minister of Trade and Industry

Witnessed by:

Name

Title

ANNEX A

The outstanding balance on SPEG's obligations amounted to Ghc1.12 million as at December 31, 2011. The individual borrowers from the SPEG grant and the details of the indebtedness are presented below:

SPEG Loan Repayment Table Summary

SPEG Member	Loan Amount Due as @ 31/12/2011	Loan amount Paid as @31/12/2011	Balance Due to Remain Current	% Paid as at 31/12/2011
Koranco	184,513.19	71,643.79	112,869.40	39%
Gold Coast Fruits	128,839.47	42,790.00	86,049.47	33%
Prudent	296,359.00	83,435.67	212,923.33	28%
Bomart	260,150.31	121,053.71	139,096.60	47%
Jei River	93,211.49	48,015.00	45,196.49	52%
2 K	113,832.00	10,785.00	103,047.00	9%
Georgefields	50,735.20	25,692.00	25,043.20	51%
	1,127,640.65	403,415.17	724,225.49	36%

MiDA hereby grants the entire SPEG portfolio as at December 31, 2011 to EDAIF for collection, and applying the proceeds therefrom to the funding of public good agriculture and agri-business projects under the Agriculture and Agro-processing Development Fund.

ANNEX B
MiDA PROPOSAL TO TRANSFER PROGRAM ASSETS

1. Name of proposed Grantee

The Export Development and Agricultural Investment Fund (EDAIF) formerly the Export Development and Investment Fund (EDIF).

2. Mission of the proposed Grantee

EDAIF is mandated to “provide financial resources for the development and promotion of export trade, agriculture relating to agro-processing and agro-processing industry, and to provide for the management of the fund and related matters”.

3. List of Assets to be transferred to EDAIF from MiDA

The proposal regarding the MiDA’s Post-Harvest Infrastructure Grant to Sea-Freight Pineapple Exporters of Ghana (SPEG) is also for EDAIF to manage a grant facility comprising the residual credit portfolio of agric infrastructure loans to seven (7) Members of the Trade Association (i.e. SPEG) from resources granted under the MCA Ghana Compact. The value of the portfolio as at December 31, 2011 was US\$1.12million.

The basic proposal is for EDAIF to recover the outstanding amount from the SPEG and its Members and invest the proceeds under its Agriculture and Agro-processing Development and Credit Account Fund specifically to promote agriculture infrastructure in rural areas.

4. Exclusive use of the Assets of the Program for the Objectives of the Compact

Outline of Proposal: The outstanding balance on SPEG’s obligations amounted to US\$1.12 million as at December 31, 2011. The individual borrowers from the SPEG Grant and the details of the indebtedness are presented below:

SPEG Loan Repayment Table Summary

SPEG Member	Loan Amount Due as @ 31/12/2011	Loan amount Paid as @31/12/2011	Balance Due to Remain Current	% Paid as at 31/12/2011
Koranco	184,513.19	71,643.79	112,869.40	39%
Gold Coast Fruits	128,839.47	42,790.00	86,049.47	33%
Prudent	296,359.00	83,435.67	212,923.33	28%
Bomart	260,150.31	121,053.71	139,096.60	47%
Jei River	93,211.49	48,015.00	45,196.49	52%
2 K	113,832.00	10,785.00	103,047.00	9%
Georgefields	50,735.20	25,692.00	25,043.20	51%
	1,127,640.65	403,415.17	724,225.49	36%

MiDA hereby grants the entire SPEG portfolio as at December 31, 2011 to EDAIF for collection, and applying the proceeds therefrom to the funding of agriculture and agri-business projects intended for public good, under the Agriculture and Agro-processing Development Fund.

Funding for EDAIF is obtained from the following sources: 0.5% of CIF value of imports of non-petroleum products, 10% of the net proceeds received from divestiture of any State Owned Enterprise, recoveries of loans and interests from beneficiaries of EDAIF and from the Ministry of Finance with approval by Parliament.

The Fund has three main facilities namely; Export Development and Promotion Account, Agriculture and Agro-processing Development and the Credit and Export Credit Facility. These can be accessed by applicants who may be organisations or institutions that support exports and Trade Associations in both the private and public sector, providing export services.

Activities supported fall within the categories listed below:

- Export product promotion and development of agricultural production and agro-processing activity
- Capacity building, market research and development of infrastructure
- Development and promotion of other entrepreneurial activities
- Export trade oriented activities of institutions
- Provision of credit, export insurance, re-financing and credit guarantee through designated financial institutions to persons in the export trade, agricultural and agro-processing sectors of the economy
- Appraisals and studies required to determine areas of the agricultural and agro-processing sectors that need intervention
- Monitoring and evaluation of the impact of the interventions

EDAIF thus has staff competent and experienced in the management of funds in the manner anticipated under these grant arrangements.

5. Organizational capacity of the Grantee to maintain the assets

a. The Export Development and Agricultural Investment Fund (EDAIF) was established by Act 823 on October 4, 2011 through an amendment to the Export Development and Investment (EDIF) Act 582 of 2000. Act 582 set up EDIF as a Fund and in Sections 6 and 22 grants the President of Ghana, appointing authority for the Members of the Board of Directors as well as the Chief Executive.

b. The Export Development and Investment Fund (EDIF) has disbursed a total of 157, 266, 437 Ghana Cedis worth of credit facilities to various businesses and enterprises since 2002 till date. Within the same period, EDAIF also disbursed a grant total of about 57,212,569.38 Ghana Cedis.

Out of these cumulative amounts, about 19 million Ghana Cedis was disbursed last year.

c. **MiDA Post-Harvest Infrastructure Grant:**

Under the Post-Harvest Activity of the Millennium Challenge Account Compact, MiDA entered into the grant agreement on 19th September, 2008 with Sea-Freight Pineapple Exporters of Ghana (SPEG), under which MiDA granted to SPEG up to USD5,426,069 ("SPEG Grant") to make loans to its Members for the purchase of cooling and other post-harvest equipment.

This approach was amended slightly in favor of a grant of \$2.1m to serve as a Revolving Credit to its Members to procure their own cooling facilities. Under this arrangement, seven (7) Members of SPEG were to benefit at a time. Other Members were expected to benefit after repayment by the first set of Members. All seven (7) cooling houses have been constructed and are in operation.

Under the Agreement, SPEG was expected to have submitted plans for re-utilization of funds by other Members of the Association, if they were able to repay about 25% of the investment. Unfortunately, re-payment did not go according to plan and the Organization could not meet the target. The beneficiary's record of repaying the facility was unimpressive.

It was for this reason that MiDA, on March 16, 2012, finally terminated the Grant Agreement reserving the right to take further steps as needed to pursue the recovery of the outstanding default amount against SPEG and its Members. It is the residual amount of the portfolio, as listed in Section 4(a) above, which is the subject of this agreement.

6. Policy in place to ensure proper use and supervision of assets

a. EDAIF is governed by a 13 member board, and a Chief Executive (CE) who heads a secretariat for fund management. Though there are and have been other government agencies such as the Ghana Export Promotion Council, Gateway and Free Zones Board that promote exports, their focus have been on service provision rather than finance. Hence, Ghanaian exporters and agro-processors have had to borrow money on the open market at exorbitant interest rates which do not nurture growth in their respective industries.

To address the financial and other challenges faced by Ghanaian export businesses and agro-processing industry, EDAIF focuses on the provision of grants and credit for the promotion and development of export trade and for agro-processing. This ties in perfectly with Ghana's foreign trade policy of promoting private sector led export development and also addresses Objectives 3 and 5 of the Ministry of Food and Agriculture's Policy of "Increased competitiveness and enhanced integration into domestic and international markets" and "Science and Technology Applied in food and agriculture development", respectively.

It is expected that providing financial support, coupled with services provided by other institutions that promote exports and agro-processing, will go a long way to increase productivity and production in the agro-processing industry and boost volumes and values in export trade, thereby reducing the import -export trade gap and contributing substantially to the foreign exchange and agro-processing earnings of the country.

b. Since EDAIF was established some twelve years ago, the Organisation has sponsored a number of activities undertaken by firms, organisations and institutions in the export industry. Proposals have been received, feasibilities conducted and sponsorship given either as credit or grant, in accordance with EDAIF's laid down disbursement criteria. EDAIF has disbursed a total of 157,266,437 Ghana Cedis worth of credit facilities to various businesses and enterprises since 2002 till date.

c. EDAIF has a newly created Monitoring and Reporting Unit which will provide a focused oversight of all its operational activities.

d. The debtors may not be able to repay their loans and this will have a negative impact on their Credit ratings with EDAIF. SPEG Members would be able to negotiate a repayment schedule which exceeds the Compact Timeline.

e. With regards to human health, safety and environmental impact, to the extent that the original facility was granted by MiDA upon the satisfactory compliance of SPEG and its Members to the required standards, no negative impacts are envisaged now or in the near future.

Figure 4 – MCC Letter Agreement January 14, 2014

Requiring the Transfer of the SPEG Lending Facility to the Export Development and Investment Fund (EDIF)



January 14, 2013

Professor Samuel Sefa-Dedeh
Chairman of the Board
Millennium Development Authority
Private Mail Bag 56
Stadium Post Office
Accra, GHANA

Re: SPEG LENDING FACILITY

Dear Professor Sefa-Dedeh:

I wish to bring to your attention certain issues related to implementation of the Post-Harvest Activity under the Millennium Challenge Compact signed on August 1, 2006 (the "**Compact**") between the Government of the Republic of Ghana ("**Government**") and the United States of America, acting through the Millennium Challenge Corporation ("**MCC**"). Pursuant to Section 3.5(b), this letter constitutes a letter agreement to memorialize the terms and commitments herein for the close-out of the Post-Harvest Activity under the Compact. Each capitalized term used but not defined in this letter has the meaning given to such term in the Compact.

Through this letter, MCC aims to ensure that concrete steps are taken to resolve the outstanding and unrecovered amounts pertaining to the loans made with MCC Funding to the members of Sea-Freight Pineapple Exporters of Ghana ("**SPEG**"). MCC understands that approximately USD\$1.54 million remains due and in arrears of the USD\$2.1 million of MCC Funding that the Millennium Development Authority ("**MiDA**") Re-Disbursed under the grant agreement with SPEG dated September 19, 2008 (the "**Grant Agreement**"), which amount SPEG lent to its members (the "**Facility**") for the purchase of cooling and other post-harvest equipment.

Both the audit committee of MCC's Board of Directors and the Office of the Inspector General ("**OIG**") have expressed their continuing concerns about the operations of the grant made to SPEG and the Facility. The audit committee and OIG have focused on the January 1, 2011- June 30, 2011 audit report for SPEG as a Covered Provider which questioned costs of USD\$1,874,672 of the original USD\$2.1 million of funding disbursed under the Grant Agreement. In the financial audit for MiDA for the same time period, the OIG has recommended that MCC determine the allowability of these questioned costs.

MCC understands that MiDA's Board of Directors has deliberated on this issue and agreed that the Facility, including both outstanding principal and interest, should be transferred to the

Government's Export Development and Investment Fund ("**EDIF**"). By this letter agreement, the Government confirms that each borrower who has any amount outstanding under the Facility will be barred from accessing EDIF assistance or funds until that borrower has settled its obligations to the Facility. Please provide evidence that MiDA and EDIF have completed the assignment of the Facility's loans to EDIF within 45-days of this letter agreement. The Government also agrees that EDIF shall use any funding recovered from the Facility for future agriculture related export development activities in accordance with the original objectives of the grant to SPEG.

MCC will look for evidence that EDIF makes a continuing effort to recover the entire outstanding amount of the Facility. MCC requests that EDIF provide quarterly updates to MCC on the status of the SPEG Facility, including amounts of recovered principal and interest, remaining amounts outstanding, measures taken to recover the remaining outstanding amounts, and how recovered amounts have been reused.

Please indicate your agreement with this letter by countersigning below and delivering the signed letter to my attention via facsimile or email. Except as expressly set forth herein, nothing in this letter shall be deemed to modify any provision of the Compact or any Supplemental Agreement. To the degree any of the above modifies the Program Closure Plan adopted for the Compact as of the letter agreement dated January 27, 2012, the provisions of this letter agreement shall prevail.

THE MILLENNIUM CHALLENGE CORPORATION

By: 
Patrick C. Fine
Vice President, Compact Operations

Acknowledged and Agreed:

**PRINCIPAL REPRESENTATIVE OF THE
GOVERNMENT UNDER THE COMPACT,**
on behalf of the Government of the Republic of Ghana

By: _____
Samuel Sefa-Dedeh
Chairman of the Board

Copy: Martin Eson-Benjamin, Chief Executive Officer, MiDA
Matthew Armah, Chief Operating Officer, MiDA
Katerina Ntep, Resident Country Director, MCC
Melvin F. Williams Jr., General Counsel and Corporate Secretary, MCC

ANNEX 2.
CONSULTANT'S WORK PLAN

WORK PLAN

SPEG Loan Program Final Evaluation Report

The analysis of the Sea-Freight Pineapple Exporters of Ghana (SPEG) Loan Program will build on the previous work carried out by the NORC consultant during December 2013. The consultant will interview a broad range of informants and will conduct a thorough background review to gain a deep understanding of the circumstances leading up to the grant award from the Millennium Development Authority (MiDA) to SPEG, which gave rise to a number of loans for the procurement and installation of post-harvest processing and cooling equipment that was provided by SPEG to selected exporters of fresh pineapples and other tropical fruit. Specifically, the consultant will interview past, as well as present MCC officials in Washington, DC who were involved with the SPEG loan program when it was being implemented. The consultant will also conduct follow-up interviews with both MiDA and SPEG staff in Ghana to fully understand the circumstances under which the loans were awarded, and the loan repayment experience by the borrowers. The consultant will also obtain and review relevant background information including the grant agreement between MiDA and SPEG, and the repayment history of the borrowers.

Specifically, the consultant will seek to interview the following key informants:

MiDA Staff

- ♦ Mr. Matthew Armah, Chief Operating Officer
- ♦ Ms. Abigail Abandoh-Sam, Director, Monitoring and Evaluation

SPEG Staff

- ♦ Mr. Stephen Mintah, General Manager
- ♦ Mr. Awal Baba, Financial Director

MCC Previous Staff

- ♦ Mr. Mark Huisenga, previous Agricultural Director, MCC
- ♦ Mr. Duke Burruss, previous Project Officer, MCC

MCC Current Staff

- ♦ To be determined

In addition, the consultant will attempt to gain access to the following documents from MiDA, SPEG, or MCC:

- a) The initial analysis that was conducted to justify the SPEG loan program
- b) The Grant Agreement between MiDA and SPEG
- c) A summary of the investments made by each borrower that were funded by the loans that were provided to them.
- d) The amount currently owed by each borrower (principal and interest) as of July 31, 2014

- e) The repayment history (principal and interest) for each borrower from 10/28/2011 (latest available report) until July 31, 2014
- f) Monthly data on the quantity (tons) of fresh fruit exported by each loan recipient for the period of time since the loans were provided.

This work will be carried out primarily in Ghana from approximately September 23 – 27, 2014. The meeting with MCC's current staff is planned for September 29, 2014. The interviews with MCC's previous staff will be arranged during August 2014.

The deliverable for this work will be a consultant's report presenting background information, findings, conclusions, recommendations, and lessons learned from the SPEG loan program.

The proposed report outline is the following:

Cover Page

Acronyms

Table of Contents

Executive Summary

Introduction

Background

Analysis

Summary of Findings, Conclusions, and Recommendations

Lessons Learned

Annex

- Consultant's Scope of Work
- Consultant's Work Plan
- People Met

The draft report is scheduled to be submitted by the consultant to NORC on October 9, 2014. The final draft report is scheduled to be submitted by NORC to MCC on October 17, 2014.

Interview Guides - SPEG Loan Program

A. Interviews with MCC Officers

1. How long have you (did you) worked at MCC?
2. What was your relationship with the MCC/Ghana Compact?
3. What was your involvement with the SPEG Loan Program?
4. What was the general situation in Ghana at the time, regarding the exports of pineapple and other fresh fruit?
5. Can you please describe the background and setting of the program? What was to be accomplished?
6. Can you please provide the details of the program? How was the program designed? Any conditions on the MCC grant to MiDA? Was there a revolving fund? Reflows? Interest rates? Any subsidy element to the loan program for SPEG members?
7. Do you know what went wrong? Why were the loans not repaid?
8. What action was taken to collect the loans?
9. What has been the effect of the non-repayment of the loans?
10. What, if anything should have been done differently?
11. Is there anything - any corrective action – that could be done now by MiDA or SPEG to resolve the problem?
12. What were the most important lessons learned from the SPEG loan program?
13. Any other comments?

B. Interviews with MiDA staff

Similar questions will be asked of MiDA staff members that are interviewed. In addition, they will be asked to provide the following information:

- ♦ A copy of the initial analysis that was conducted to justify the SPEG loan program
- ♦ A summary of the investments made by each borrower
- ♦ The amount currently owed by each borrower (principal and interest) as of July 31, 2014

C. Interviews with SPEG staff

In addition to the above questions, the SPEG management team will be asked to respond to the following queries:

14. Do you know the specific circumstances of each borrower – what led to their failure to repay the loans?
15. What is the current legal status of the outstanding loans owed by the different SPEG members?
16. What happened to the reflows to SPEG from the repayments of loan principal and interest?

17. Based on your experience with the loan program, what should have been done differently?

SPEG will also be requested to provide the following information:

- g) A summary of the investments made by each borrower that were funded by the loans that were provided to them.
- h) The amount currently owed by each borrower (principal and interest) as of July 31, 2014
- i) The repayment history (principal and interest) for each borrower from 10/28/2011 (latest available report) until July 31, 2014
- j) Monthly data on the quantity (tons) of fresh fruit exported by each loan recipient for the period of time since the loans were provided.

**ANNEX 3.
WORK CALENDAR**

Consultants' Work Schedule for Phase 1: Review MCC's Investments in Irrigation, PCC, and SPEG Loans							
Month 2014	Date	Day	Location	Activity	Time	Contact	Tel.
August	30	Sat	Travel	International consultant Travels Home-New York-Accra			
August	31	Sun	Accra	International consultant arrives Accra			
September	1	Mon	Accra	Meet with MIDA staff re. PCC, irrigation scheme status, and SPEG loan status	9:00 AM	Matthew/Abigail	0202010201; 0202010408
September	2	Tue	Accra	Consultant analyzes PCC and Air Ghana data			
September	2	Tue	Accra	Meet with PCC staff; obtain financial and operating data	1:00pm	Micheal Yegoya	024 4 20 27 21
September	3	Wed	Accra	Meet with Air Ghana staff; obtain air cargo export data for refrigerated cargo	9:00am	Rob Killick	0540115790
September	4	Th	Accra	Meets with Blue Skies	9:00am	Mr Ablor	0244333699
September	4	Th	Accra	Meets with EDAIF officials; obtain loan repayment data	3:30pm	Mrs. Sarah Arhin	0501322899; 0244 97 35 21
September	5	Fri	Accra	Meet with ACDI/VOCA for Overview including Southern Horticultural Zone	10:00am	Kwasi Korboe	0244895760
September	6	Sat	Accra	International consultant, engineer and facilitator plan for irrigation visits	12:00pm	Nana Ama; Collins	
September	7	Sun	Travel	Int. consultant and local engineer travel Accra - Tamale			
September	8	Mon	Tamale	Visit Bontanga irrigation scheme; meet with scheme officials; Facilitator travels Accra-Tamale	9:00am	Mr. Stephen Adegle	0245 87 0325; 0202 419 8180
September	9	Tue	Tamale	Visit Bontanga irrigation scheme; visit anchor farm	9:00am	Steiner Kolnes/ Awal Adam	0200 313 133; 0243 062 276
September	10	Wed	Tamale	Conduct Bontanga focus group discussions with scheme farmers, chaired by facilitator	9:00am	Mr. Stephen Adegle	0245 87 0325; 0202 419 8181
September	11	Th	Tamale	Visit Bontanga irrigation scheme; develop irrigation monitoring procedures	9:00am	Mr. Stephen Adegle	0245 87 0325; 0202 419 8182
September	12	Fri	Tamale	Visit Golinga irrigation scheme; meet with scheme officials	9:00am	Ibrahim Luvlyraba	0249 22 68 98
September	13	Sat	Tamale	Conduct Golinga focus group discussions with scheme farmers, chaired by facilitator	9:00am	Ibrahim Luvlyraba	0249 22 68 99
September	14	Sun	Tamale	Facilitator travels Tamale-Accra			
September	15	Mon	Tamale	Visit Golinga irrigation scheme; develop irrigation monitoring procedures	9:00am	Ibrahim Luvlyraba	0249 22 68 99
September	16	Tue	Travel	Consultant and engineer travel Tamale - Accra; plan Torgorme irrigation visit with Facilitator	2:00pm	Nana Ama; Collins	
September	17	Wed	Torgorme	Visit Torgorme irrigation scheme; meet and visit anchor farm	10.00am	Mr. Jagdish Patel	0549 940 606

Consultants' Work Schedule for Phase 1: Review MCC's Investments in Irrigation, PCC, and SPEG Loans							
Month 2014	Date	Day	Location	Activity	Time	Contact	Tel.
September	18	Th	Torgorme	Visit Torgorme irrigation scheme; meet with scheme officials	9.00am	Sammy Akargbor	0208 132 484
September	19	Fri	Torgorme	Visit Torgorme irrigation scheme; develop monitoring procedures; Facilitator prepares focus groups	9.00am	Sammy Akargbor	0208 132 484
September	20	Sat	Torgorme	Conduct Torgorme focus group discussions with scheme farmers, chaired by facilitator	9.00am	Sammy Akargbor	0208 132 484
September	21	Sun	Accra				
September	22	Mon	Torgorme	Visit Torgorme irrigation scheme; develop irrigaton monitoring procedures	9.00am	Sammy Akargbor	0208 132 484
September	23	Tue	Accra	Consultant follow-up meeting with MiDA staff for project information and background briefing	9.00am	Matthew /Abigail	020 2010201; 020 201 0408
September	24	Wed	Accra	Consultant and Facilitator meet with SPEG officials; obtain loan repayment status	9.00am	Mr. Stephen Mintah	0244 23 78 05
September	25	Th	Accra	Consultant and Facilitator meet with SPEG officials; obtain loan repayment status			
September	26	Fri	Accra	Consultant analyze SPEG and EDAIF data			
September	27	Sat	Accra	Analyze SPEG data ; international consultant travels Accra-New York-W/DC			
September	28	Sun	Travel	International consultant arrives W/DC			
September	29	Mon	W/DC	Meeting with NORC senior officials and MCC staff: debriefing and background review of SPEG loans			
October	6	Mon	Away	Consultant writes draft report on SPEG loans			
October	7	Tue	Travel	Consultant writes draft report on SPEG loans			
October	8	Wed	Home	Consultant travels home			
October	9	Th	Home	Consultant submits draft report on SPEG loans to NORC			
October	10	Fri	Home	Consultant writes draft report on Perishable Cargo Center			
October	13	Mon	Home	Consultant writes draft report on Perishable Cargo Center			
October	14	Tue	Home	Consultant writes draft report on Perishable Cargo Center			
October	15	Wed	Home	Consultant submits draft report on Perishable Cargo Center to NORC			
October	17	Fri	Home	NORC submits final reports on SPEG loans and Perishable Cargo Center to MCC			
October	21	Tue	Home	Consultant writes draft report: Interim Assessment of Irrigation Systems			

Consultants' Work Schedule for Phase 1: Review MCC's Investments in Irrigation, PCC, and SPEG Loans							
Month 2014	Date	Day	Location	Activity	Time	Contact	Tel.
October	22	Wed	Home	Consultant writes draft report: Interim Assessment of Irrigation Systems			
October	23	Th	Home	Consultant writes draft report: Interim Assessment of Irrigation Systems			
October	24	Fri	Home	Consultant submits draft report: Interim Assessment of Irrigation Systems to NORC			
November	3	Mon	Home	NORC submits report: Interim Assessment of Irrigation Systems to MCC			

**ANNEX 4.
PEOPLE MET**

People Interviewed by the Consultant		
People met, and titles	Address	Telephone, Fax, E-mail contact
Millennium Development Authority (MiDA)		
Ms. Abigail Abandoh-Sam Director, Monitoring and Evaluation	4th Floor, Heritage Tower, PMB MB 56, Stadium Post Office, 6th Avenue, Ridge, Ministries, Accra, Ghana	AAbandoh-Sam@mida.gov.gh Mobile +233 (0) 202-010408 Tel +233 (0) 2160 66624 Ext. 108
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ANNEX 5. COMMENTS FROM SPEG GENERAL MANAGER, MR. STEPHEN MINTAH

Below we present comments from the SPEG General Manager. NORC appreciates the time and effort put into providing these comments. We have no specific responses to the comments.

1. The expected volumes used for the repayment mechanism was flawed because it was based only on the beneficiaries previous performance in Smooth Cayenne. Challenges in the cultivation of MD2 variety were never anticipated.

This wrong assessment was done by both the MiDA consultant and SPEG personnel.

2. The MD2 agronomic practices were new with long learning curve - a reason expected volumes could not be achieved.
3. It was because of the above reasons that SPEG requested for a review of payment terms as follows:-
 - i. A change of repayment period from 5 - 6 years.
 - ii. Request for graded incremental repayment amount over 6 year period.

MiDA declined this review on the grounds that a review was not allowed under the terms of the contract. We believe this was also a flaw.

4. It is incorrect to say that SPEG and the beneficiaries showed bad faith because little effort was made in making repayments. Indeed the expected volumes could not be achieved and for the volumes that were attained the repayment rates per pallet were applied to the full.

There was no collusion between SPEG and the beneficiaries. Poor financial results accounted for 100% of the outcome.

5. Good faith was shown when SPEG sent a proposal to EDAIF for the consolidation of payment of the loans with new loans for development of the pineapple sector in February, 2013.
6. Poor judgement on the part of beneficiaries for taking on heavy loans could be pardoned because having lost huge investments on growing crops, the farms were very anxious and were eager to get over the challenges.
7. With insufficient volumes resulting in low repayments, the only strong action SPEG could take was to look for funds to increase the production base. This SPEG did by sending proposals to the Ministry of Trade and Industry and EDAIF.
8. The project document actually showed a weak monitoring mechanism as well as lack of a review mechanism.
9. As indicated earlier the MiDA, MCC and SPEG teams failed to envisage the capacities of beneficiaries to produce the new MD2 variety and the expected challenges.
10. Again inadequate monitoring did not make MiDA appreciate the real challenges on the ground and thereby make appropriate recommendations to MCC.
11. The interest rate of 5% was not fixed by SPEG but by MiDA.

12. Pineapple export revenue quoted by GEPA always did not include pre - cut pineapple values. Processed pineapples values were quoted separated.
13. The per pallet rate was constant, but the repayment amounts were based on the number of pallets. Therefore the higher the number of pallets, the higher the repayment amounts.
14. SPEG did not have the authority to withhold the agreed amounts for debt service from payments to borrowers since SPEG did not have control over beneficiary revenues apart from the levies.
15. The pallet load always had 75 or 80 boxes depending on the sizes of fruits.
16. SPEG decided to approach MOTI and EDAIF for support to diversify its production and export base.