



SECTOR INDUSTRY ANALYSIS

COMMODITIES (RICE & SUGAR IMPORTS) REPORT



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Executive Summary

Value Chain	<ul style="list-style-type: none"> • Importers • Wholesalers • Haulage Companies • Distributors • Corporate Consumers • Retailers and Consumers
Major Players	<ul style="list-style-type: none"> • FNJ Investment Ltd • Fan Milk Ghana Ltd • Tradepass Ltd • Multi-Pac Ltd • Kasapreko Company Ltd • Olam Ghana Ltd • Three Hills Ghana Ltd • Sika Krobea Company Ltd • Wilmar Africa Ltd
Demand dynamics	<ul style="list-style-type: none"> • The most important drivers which influence sugar demand include: population growth, per capita incomes, the price of sugar and alternative sweeteners, and health concern debate. • Increasing urbanization, a large and growing expatriate community, a growing entrepreneurial middleclass, a rapidly growing tourism sector, and increasing number of restaurants and fast food vendors in major cities and towns are the contributory factors driving the demand for rice.
Supply Dynamics	<ul style="list-style-type: none"> • The industry operates within a global market and prices are dictated by international market forces. Local Sugar/rice importers do not usually enjoy much leverage over their suppliers. The offshore suppliers sell to the importers through Letters of Credit, advance payments and Bills of Collections. The terms depend on their negotiation power and relationships with suppliers.
Regulatory Dynamics	<ul style="list-style-type: none"> • The sale of these commodities is subject to governmental regulation regarding the labelling, composition/ingredients and origin of such products through its Agencies-Ghana Food & Drugs Authority and Ghana Standard Authority. Generally, the level of regulations in the industry is considerably strict but favourable to industry practice.
Key Success Factors	<ul style="list-style-type: none"> • Wide and effective distribution network along with Strong Relationships within the distribution chain. • Good Stock Management. • Access to spontaneous finance. • Product Quality. • Good terms of trade with retailers/customers. • Proper Storage of Products. • Competitive pricing.
Key Risk Considerations	<ul style="list-style-type: none"> • Increased competition. • Risk of burglary, fire and theft. • Changes in inflation and interest rates. • Exchange rate depreciation. • Government policy (particularly concerning duties and taxes). • Change in consumer preference, especially as a result of lifestyle changes (e.g. growing health concerns about the intake of Sugar).
Banking Needs	<ul style="list-style-type: none"> • Short term/long term financing. • Trade finance. • Asset finance/Lease. • Suppliers Finance. • Payroll Management. • Personal loans. • Receivable Financing. • Fx Trading. • Working Capital Financing. • G-Money.

THE COMMODITIES (RICE & SUGAR IMPORTS) INDUSTRY IN GHANA

1.0 Introduction

The commodities sector is a very important sector of most developing economies and exports revenues from these commodities dominate foreign exchange earnings. In some cases, earnings from the sale of commodities dominate government revenues as well. Domestically, majority of the workforce in some cases, as high as 65% is often employed in the sectors that produce these commodities.

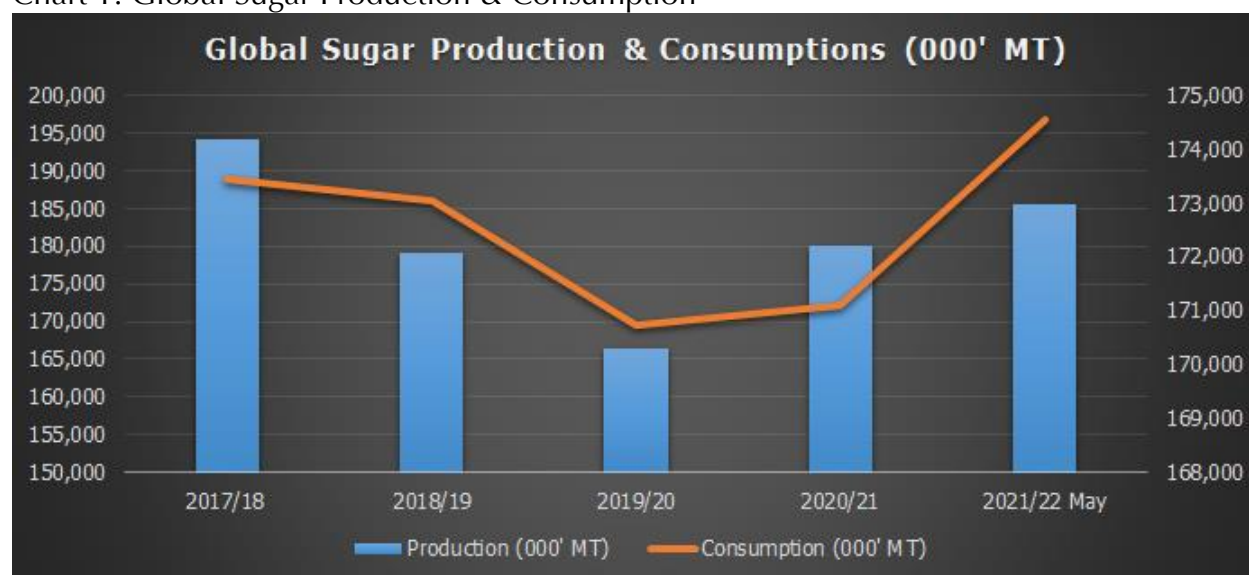
Over the years, Ghana has become a net importer of goods and services which is normally referred to as Non-Oil in the accounting of the Balance of Payment (BoP). Ghana spends approximately US\$ 400 million on the importation of sugar and related products each year. It also spends about US\$600m annually to import rice and related products. Total rice imports to Ghana stood at about 600K MT in 2021 whilst raw sugar imports stood at approximately US\$151 million in 2020.

This report place emphasis on the imports of rice and sugar by focusing on the key players in the sector, value chain, demand and supply dynamics, foreign exchange dynamics and financing opportunities for the Bank.

2.0. Sugar Sub-Sector-Global Overview

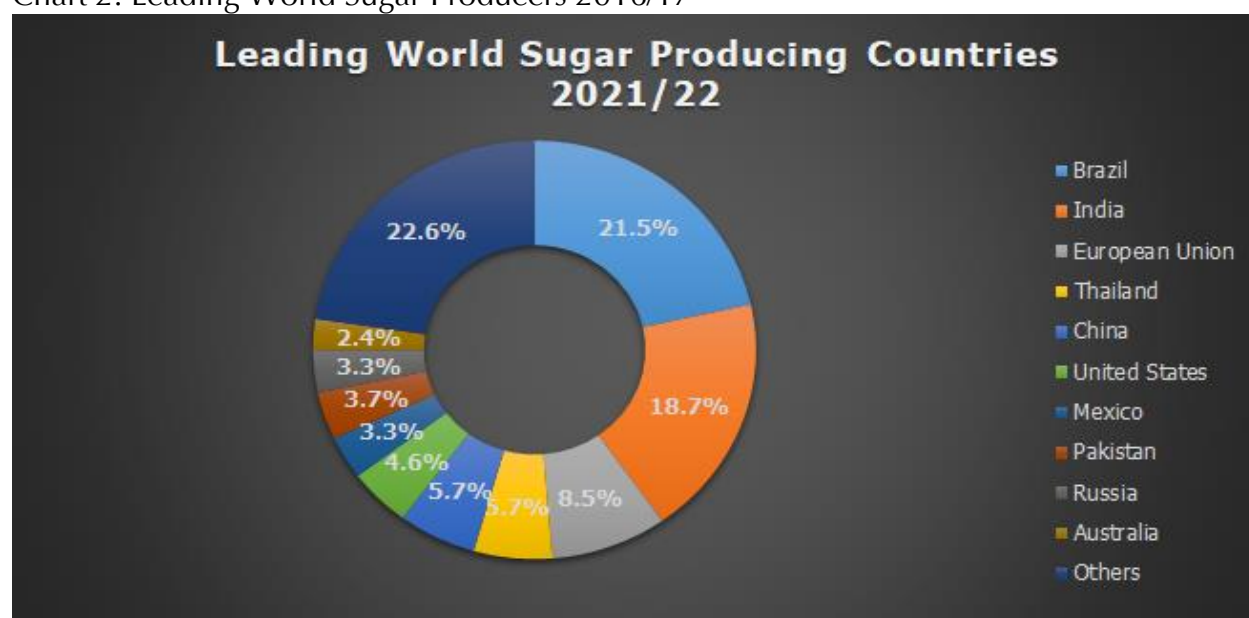
Currently, about 110 countries produce sugar from either cane or beet, and eight countries produce sugar from both cane and beet. Sugarcane, on average, accounts for nearly 80% of global sugar production. Last October/September season the top ten producing countries (India, Brazil, Thailand, China, the US, Mexico, Russia, Pakistan, France, Australia) accounted for nearly 75% of global output. Global production for 2021/22 is estimated flat at 181 million tons, with the drop in Brazil expected to be offset by gains in the European Union, India, Russia, and Thailand. Consumption is expected to rise due to growth in markets including China, India, and Russia. Stocks are lowered due to a drop in China, Indonesia, and Thailand. Exports are expected to be flat as the steep rise in Thailand trade is offset by lower shipments from Brazil.

Chart 1: Global Sugar Production & Consumption



Source: United States Department of Agriculture

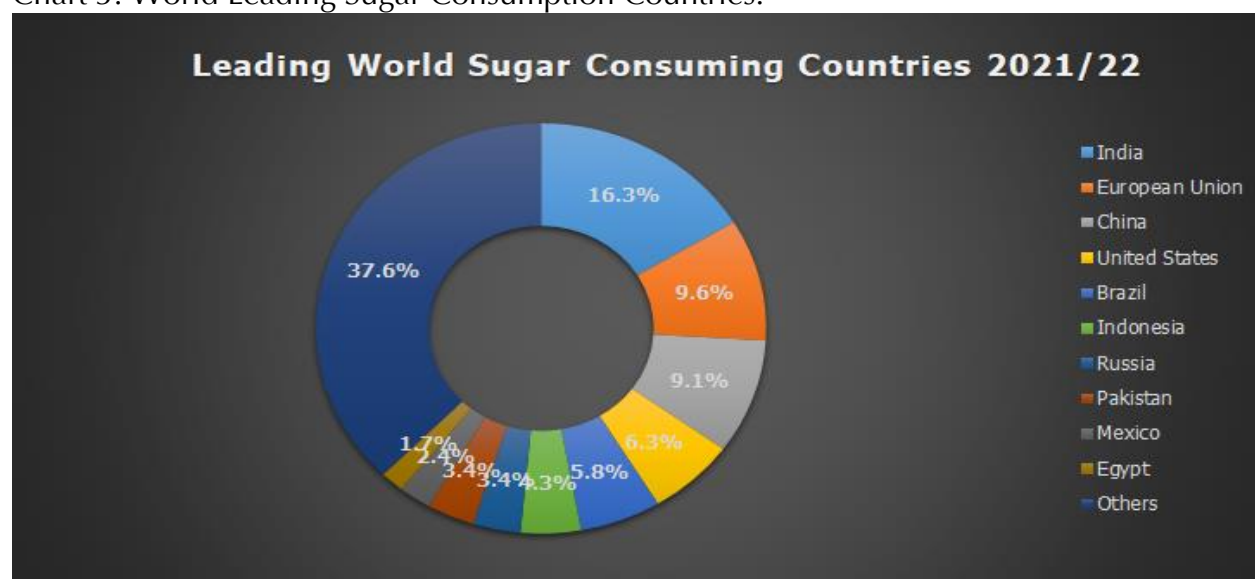
Chart 2: Leading World Sugar Producers 2016/17



Source: United States Department of Agriculture

Sugar is grown in over 120 countries, with Brazil and India being the world's two largest sugar producers. A little over 75% of global output is produced by the world's top ten sugar producing countries: Brazil, EU, India, China, United States, Mexico, Russia, Australia, Thailand and Pakistan. For the 2021/22 crop season Brazil produced 39 million MT of raw sugar while India produced 35 million MT representing 21.5% and 18.5% of world sugar production respectively.

Chart 3: World Leading Sugar Consumption Countries.



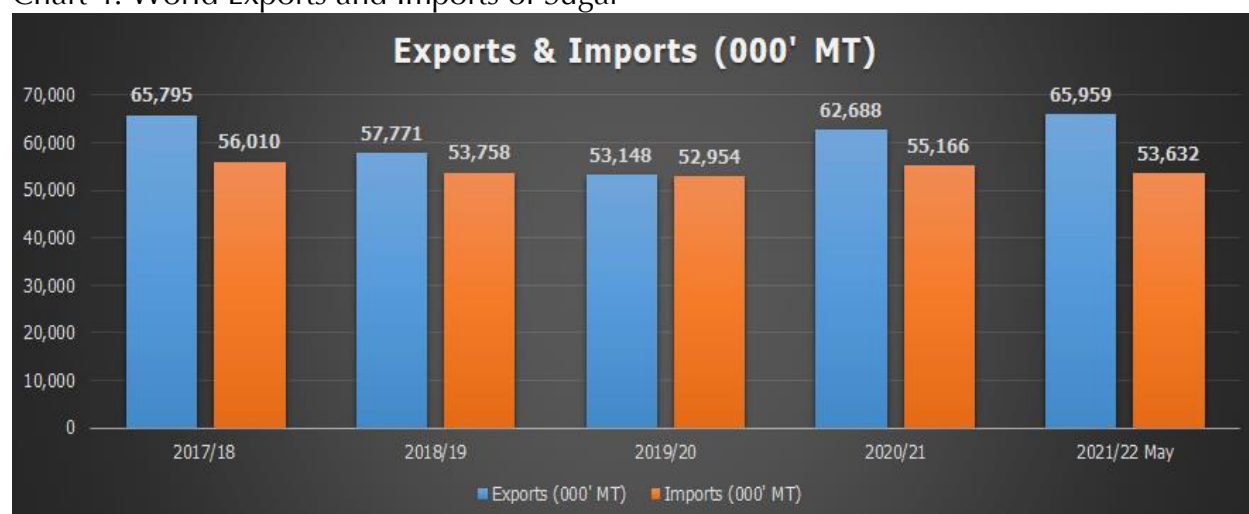
Source: United States Department of Agriculture

In relation to consumption, the top 10 consuming countries such as India, European Union, China, United States, Brazil, Indonesia, Russia, Pakistan and Mexico consumes about 62% of total consumption. India consumed 28 million MT representing 16% while the European Union consumed 17 million MT with a share of 9.6% for 2021.

Trade

Over the coming decade, sugar exports are expected to remain highly concentrated. It is expected that Brazil will keep its position as the leading exporter. In Thailand, the world's second largest exporter, shipments are expected to increase driven by a steady growth in production and export availabilities. Similarly, in Australia, with rising investment in irrigation, expansion of the sugarcane area and milling capacities, higher production is expected to boost export sales over the medium term.

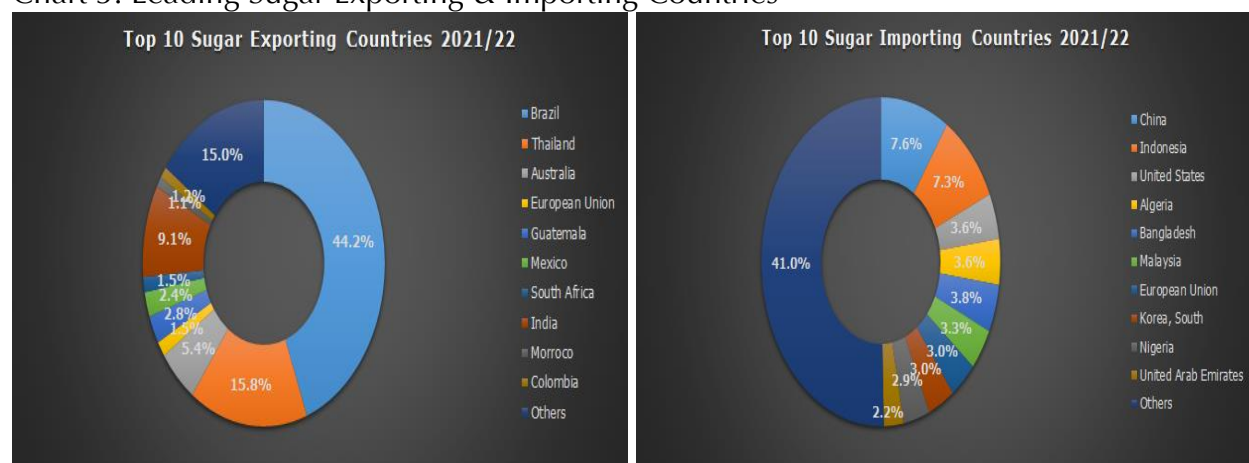
Chart 4: World Exports and Imports of Sugar



Source: United States Department of Agriculture

World sugar imports are more dispersed than exports as more countries begin importing. According to Food & Agriculture Organisation (FAO) projections, Asia and Pacific, and Africa will see the strongest growth in sugar demand and this will influence the growth in imports for those regions. During the base period 2021/22, China and Indonesia were the leading importers followed by United States and Algeria.

Chart 5: Leading Sugar Exporting & Importing Countries



Source: United States Department of Agriculture

Leading Companies

Demand for the Global Sugar Manufacturing industry is forecast to remain steady despite the COVID-19 (coronavirus) pandemic, as sugar has largely inelastic demand. Revenue is expected to grow in 2022 as scarcity in production is forecast to drive up prices in some regions, but this is expected to normalize in the years ahead. Sugar futures are still suggesting higher prices for sugar, due to a lack of supply in relation to demand. There is disagreement about whether production will catch up to demand. However, the International Sugar

Association is forecasting a persistent sugar deficit. This means higher prices for sugar and more profits for sugar companies. The chart below presents performance for some leading companies in the world.

Chart 6: Some leading Sugar Producing Companies.



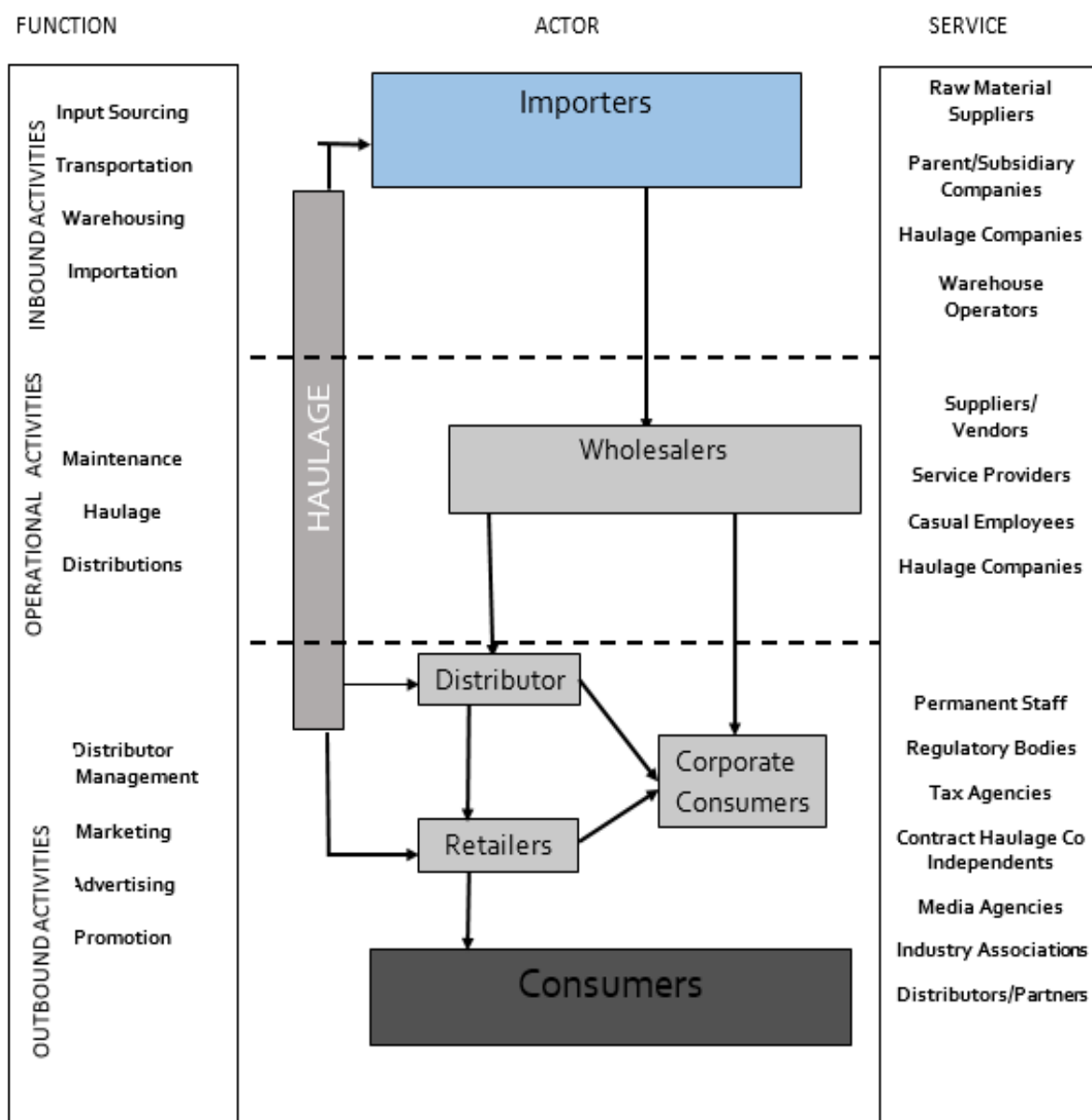
Source: <https://www.value.today/world-top-companies/sugar>

2.1 Sugar Industry in Ghana

Ghana's sugar industry is virtually fully dependent on imports from sugar producing countries such as Mexico, Brazil, and United States of America etc. Local production is negligible at a mere 150 tons in 2013 and a mere 6,000 hectares of sugar plantations in existence. Ghana has two sugar mills in Asutuare and Komenda, but these mills have been lying idle since 1983 largely due to inefficient management. However, the Komenda sugar factory was revived 2015/16 but was shut down again due to lack of raw materials. However, a number of plans are under way to develop sugarcane plantations for the second revival of the Komenda sugar factory. There are also plans by the multinational trading house, Cargill, to build a refinery in Tema (Ghana).

2.2. Sugar Sub-Sector Value Chain

Figure 1: Sugar Sub-sector value chain.

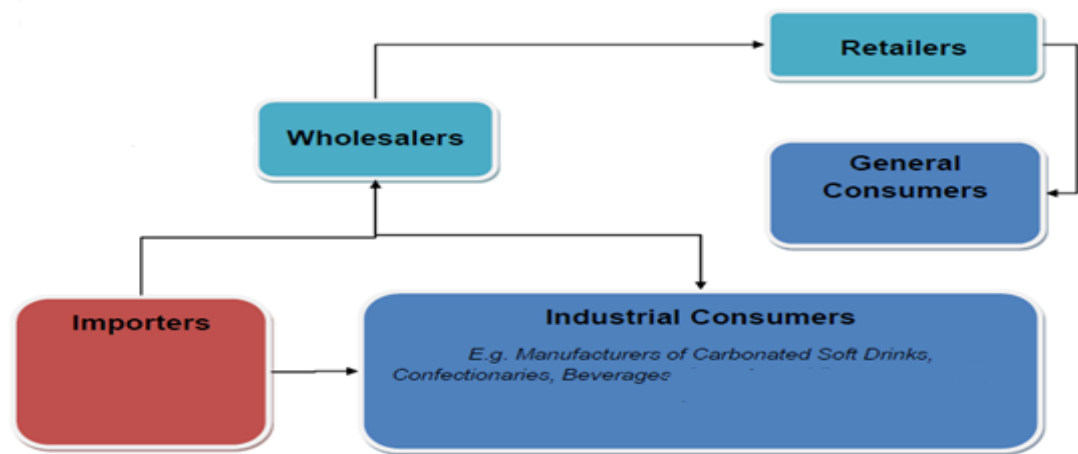


2.3. Structure of the Sugar Industry

The Sugar industry consists mainly of importers who bring sugar into Ghana. Sugar is generally imported in bulk quantities but some importers also import sugar in packaged forms ready for retail. There are also some small scale manufacturers of sugar who produce brown sugar and refined sugar but production is in negligible quantities.

Below this level, there is a chain of Wholesalers and Retailers. Finally, there are bulk consumers of this commodity who usually source products directly from importers and/or wholesalers and at the lower end of the chain are retailers and consumers.

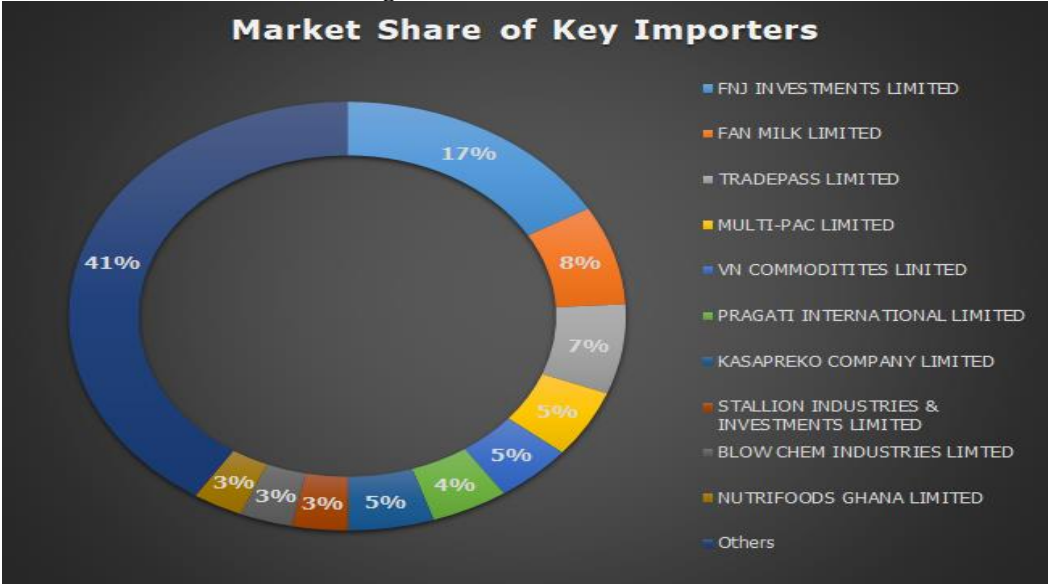
Figure 2: Industry Structure.



2.4. Key Importers and Their Market Share

The industry players are usually big commodity traders who deal in sugar amongst other commodities. FNJ Investments Limited is the market leader with approximately 17% share of the industry’s sales. The chart below is a representation of the players in the industry. Some of the key importers consist of companies in the manufacturing of food and beverages such as Kasapreko Company Ltd and Nutrifoods Ghana Ltd.

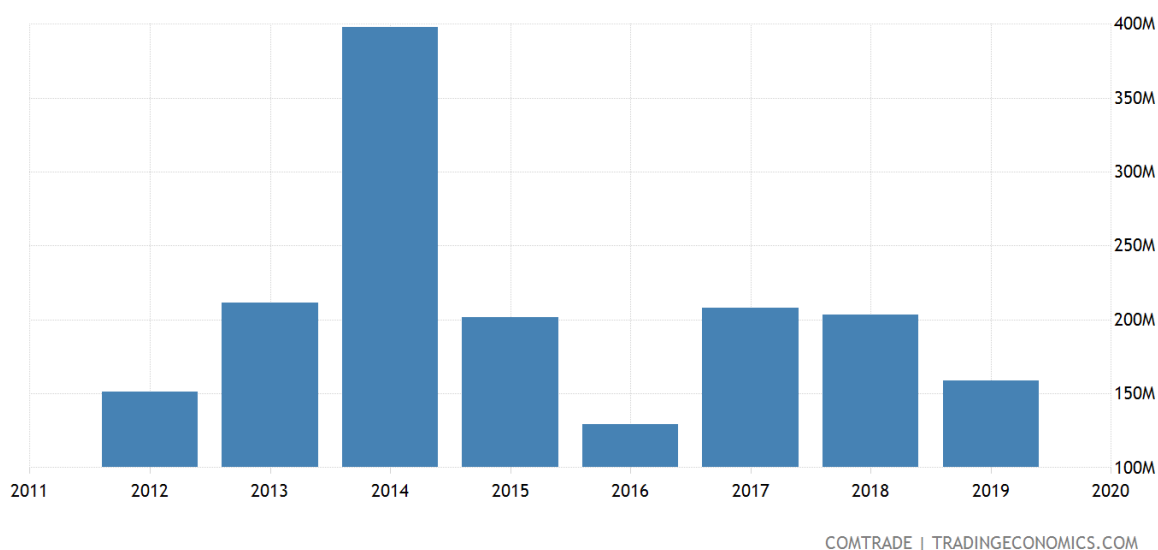
Chart 7: Market Share of Sugar Sub-Sector.



2.5. Supply Dynamics

The industry operates within a global market and prices are dictated by international market forces. Local Sugar importers do not usually enjoy much leverage over their suppliers. The offshore suppliers sell to the importers through Letters of Credit, advance payments and Bills of Collections. The terms depend on their negotiation power and relationships with suppliers. Based on relationships and track record with global commodity traders, some importers may obtain credit of up to 120 days. Ghana Imports of Sugars and sugar confectionery was US\$158.39 Million in 2019, according to the United Nations COMTRADE database on international trade. In 2020, Ghana imported \$151M in Raw Sugar, becoming the 45th largest importer of Raw Sugar in the world. At the same year, Raw Sugar was the 24th most imported product in Ghana. Ghana imports Raw Sugar primarily from: Brazil (\$98.8M), Morocco (\$20.2M), Guatemala (\$15M), France (\$6.94M), and India (\$2.1M).

Chart 8: Ghana Sugar Imports



2.6. Demand Dynamics

Sugar is used in the production process of many soft drinks, alcoholic beverages, pharmaceuticals and food items. Sugar is also part of everyday life style of many consumers in Ghana and forms part of the daily diet of the average Ghanaian. The most important drivers which influence sugar demand include:

- population growth,
- per capita incomes,
- the price of sugar and alternative sweeteners, and
- health concern debate.

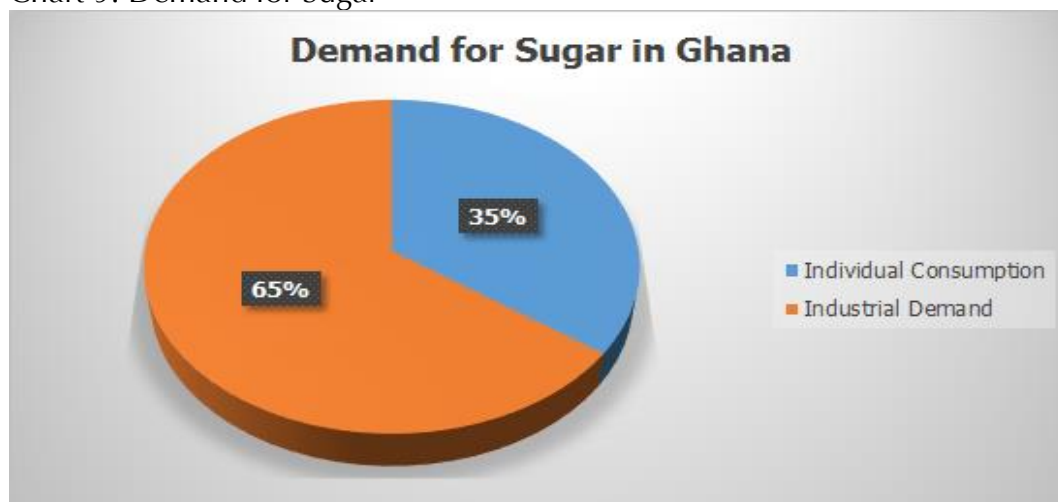
Demand for sugar is derived from the foregoing and accordingly the major customers of the sugar industry are companies who are into the production of soft drinks, food and beverages.

Internationally, sugar is graded according to a set of ratings -the ICUMSA (International Commission for Uniform Methods of Sugar Analysis) which reflects the grade and quality of sugar. The ratings system is based on the colour of sugar, which is regarded as being an effective measure of how refined and free from impurities the sugar is. The ratings are as follows:

- Refined Granulated Sugar - ICUMSA 45: The most highly refined form of sugar. This sugar has a sparkling white colour, and is the type most often sold direct to consumers in the form of sugar cubes, bags of sugar, and in sugar sachets. The focus of the bank (RMs) is to target companies that import this grade of sugar.
- Extra Special Crystal Sugar - ICUMSA 100 – 150: Considered food grade sugar, this sugar is often used in large scale baking, drinks making, or the production of other food stuffs.
- Special Crystal Sugar - ICUMSA 200: Food grade sugar suitable for less demanding applications where appearance is not integral to the function of the sugar.
- Consumable Raw Sugar (Brown Sugar) - ICUMSA 600-800: This sugar is consumable by humans, and is generally regarded as being very tasty on porridge. Any sugar above ICUMSA 800 is not suitable for humans however, and needs to undergo further refining to remove bacteria and other contaminants.
- Raw Sugar-ICUMSA 1600 – 2000: Suitable for further refining, and in some areas of the world may be incorporated into beauty products.
- Very Raw Sugar-ICUMSA 4600 MAX: This type of sugar has undergone very little refining, if any. This is generally regarded as being raw sugar which is then sent to refineries to be refined into any of the above grades of sugar.

The Ghanaian market consumes very high quality of centrifugal sugar (ICUMSA 45).

Chart 9: Demand for Sugar



The industry has significant advantage over its distributors but not over industrial consumers (like manufacturers of Food & Beverage products). Sales to Industrial consumers are usually

on credit basis. Since these customers are bulk buyers with very strong financial capacity, payments are usually received after 30-60 days.

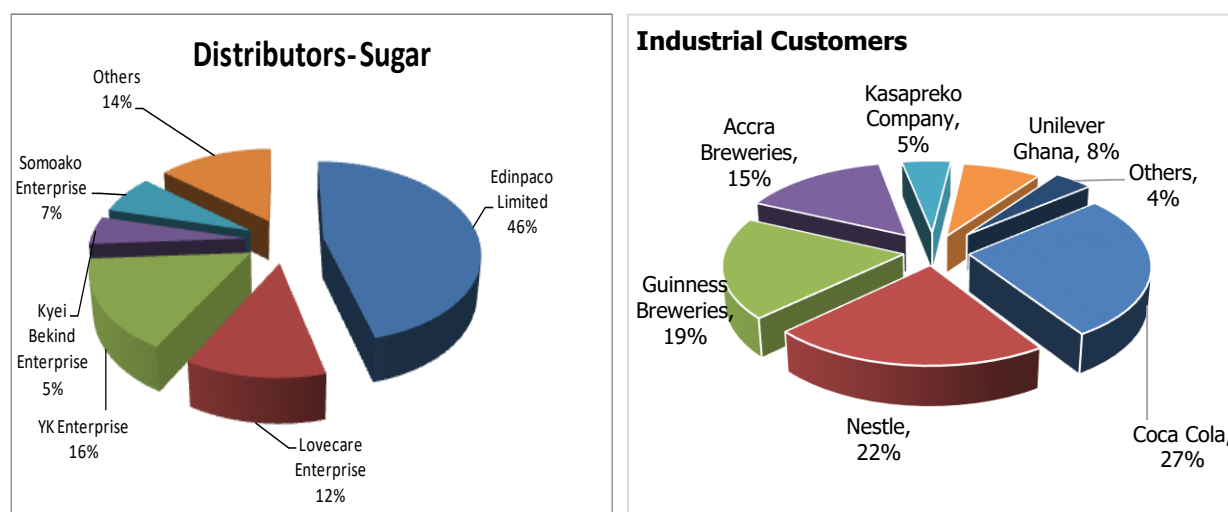
The local sugar industry's pricing mechanism is totally deregulated. It is also noteworthy that, the strength of the local currency (Ghana cedi) relative to other foreign currencies also plays a major role in the local pricing structure. Deterioration of the local currency translates into higher prices of sugar as the unfavourable cost of import is passed on to consumers.

The industry's products are perishable but may last for about 12 -24 months if well stored. There are very few practical substitutes for sugar especially for industrial use. However, there can be substitutes for consumer demand for sugar. This is because sugar consumption can be foregone outright or can easily be replaced by other substitutes such as honey or sweeteners. In addition to this the awareness of healthy living to ensure long life through educational campaigns on radio, social media and TV, has resulted in the decline of the consumption of sugar and other related consumables that have unhelpful impact on the health of people in the country. Therefore, any changes in the price of sugar can bring about adverse impact on the demand for sugar.

2.7. Distribution Dynamics

Sugar reaches consumers through a chain of distributors, retailers and direct distribution channels. These groups of people are located nationwide with greater presence in Accra and Kumasi. Most importers have wholesalers who distribute on their behalf and they are categorised based on volumes. The major wholesalers and industrial customers for sugar in Ghana are;

Chart 10: Key Distributors and Major Industrial Customers



2.8. Trade Dynamics

Major trade activities in the value chain relate to importation and distribution of sugar. The industry's trading cycle is about 104 days and virtually there are very little spontaneous financing from Non-Interest Bearing Liabilities ("NIBL"). It relies heavily on short term borrowings to augment its working capital. Most players import goods usually enjoying 30 – 90 days credit. Imports are financed with letters of credit and bills for collections. Sales to Wholesalers are on cash or credit Basis. Credit sales are also prevalent with major distributors and payment is usually received between 7 to 14 days. Most importers prefer immediate payment for sugar purchased as a result of the depreciation of the Ghanaian cedi and so purchases are financed with short term borrowings to avoid exchange losses.

2.9. Foreign Exchange Dynamics

The Industry imports 100% of its requirements and needs foreign exchange to make payments to its suppliers. The industry is a key user of FX and faces exchange rate risk since its revenues are typically generated in local currency. The foreign exchange requirement for the industry is about \$400 million.

2.10. Margins Structure

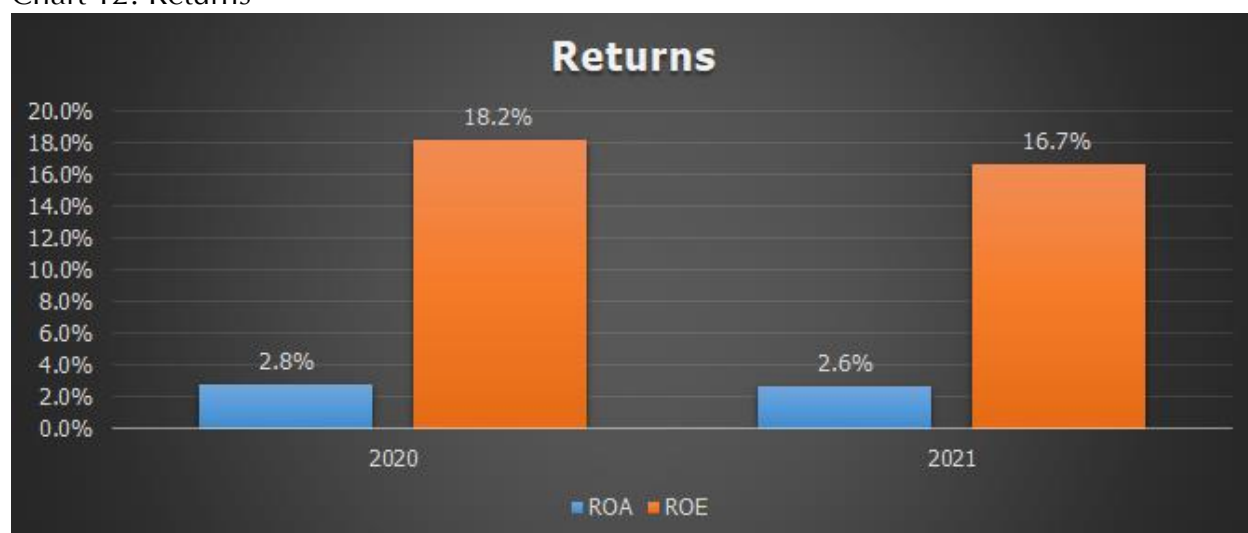
Chart 11: Profit Margins



Source: Audited Financial Reports of Major Players, GCB Strategy & Research Estimates

Profit margins for the industry increased marginally from 18% in 2020 to 20% in 2021. Operating profit margins also increased marginally from 4% in 2020 to 5% in 2021. Profit margins are good for industry players due to increase in the volume of sales coupled with inelasticity of demand for sugar.

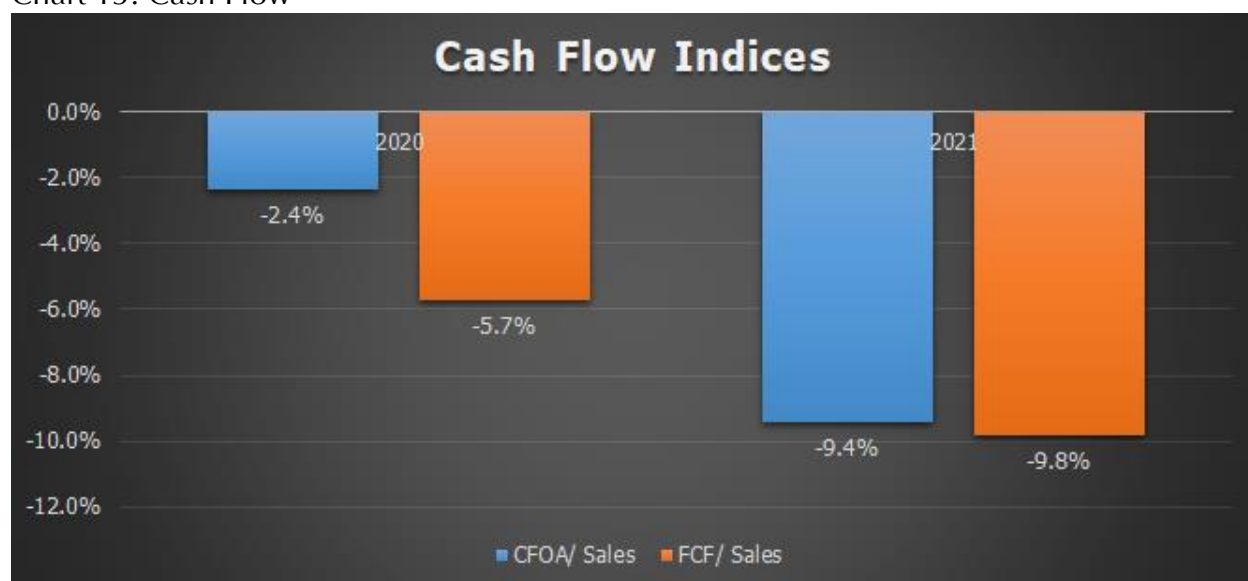
Chart 12: Returns



Source: Audited Financial Reports of Major Players, GCB Strategy & Research Estimates

2.11. Cash flow Analysis

Chart 13: Cash Flow



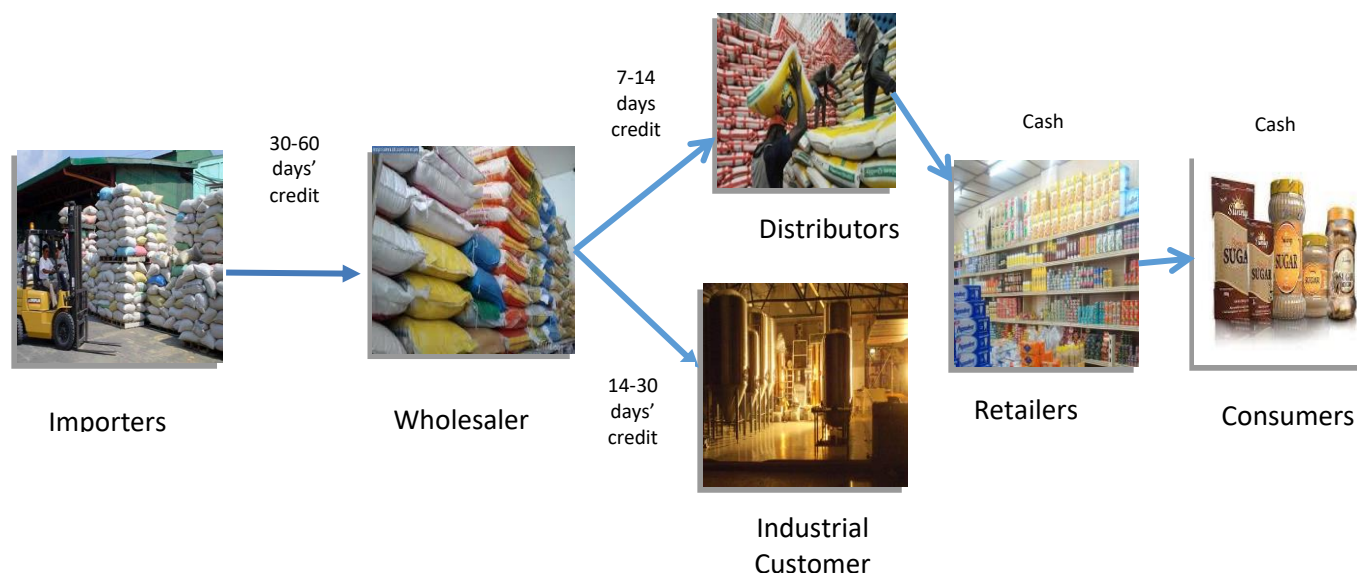
Source: Audited Financial Reports of Major Players, GCB Strategy & Research Estimates

The industry is largely dependent on credit financing and this accounts for the negative cash flow indications. In respect of its 2021 financials, the industry recorded a negative operating cash flow ratio (CFOA/Sales) of -9.4%. In 2020 it recorded operating cash flow ratio of -2.4%, recording a negative cash margin per each cedi of sale. This is mainly attributed to its high trade receivables.

As a result, the industry's Free Cash Flow ratio which is estimated as operating cash flow less CAPEX were also negative.

Cash flow Structure

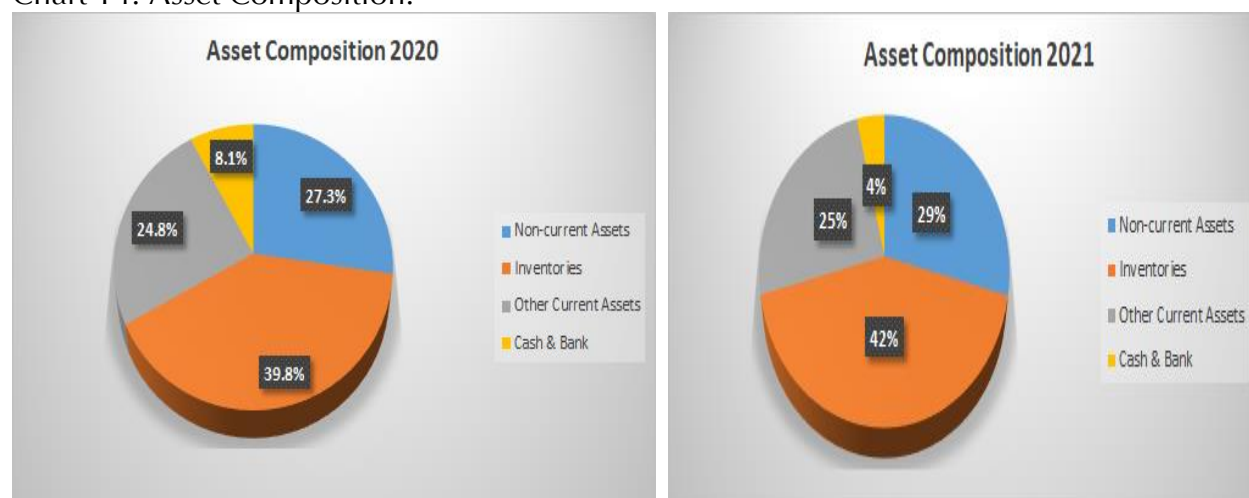
Figure 3: Cash flow Structure.



The industry's cash flow cycle is estimated at an average of between 60-90 days for major players in this sector.

2.12. Assets Structure

Chart 14: Asset Composition.



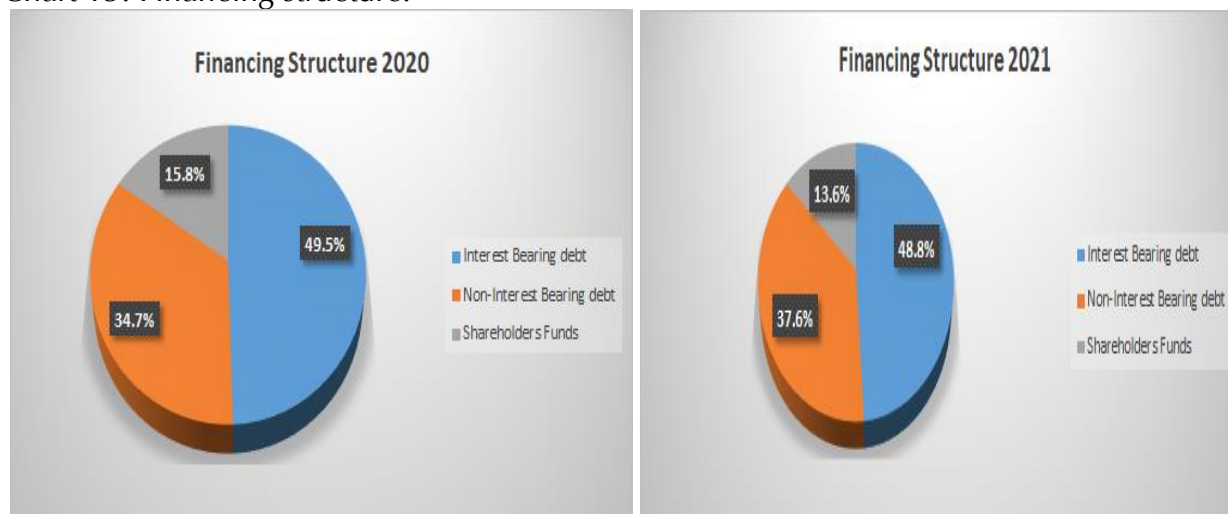
Source: Audited Financial Reports of Major Players, GCB Strategy & Research Estimates

About 42% of the industry's total assets are in inventories while, non-current assets account for about 29% of total assets. Most of the major Industry players invest in building warehouses to stock up more commodities purchased to increase volumes. This explains the considerable fixed assets base of the companies even though they are basically traders.

Cash accounted for about 4% while other current assets accounted for about 25% compared to 24.8% in 2021.

2.13. Financing structure

Chart 15: Financing structure.



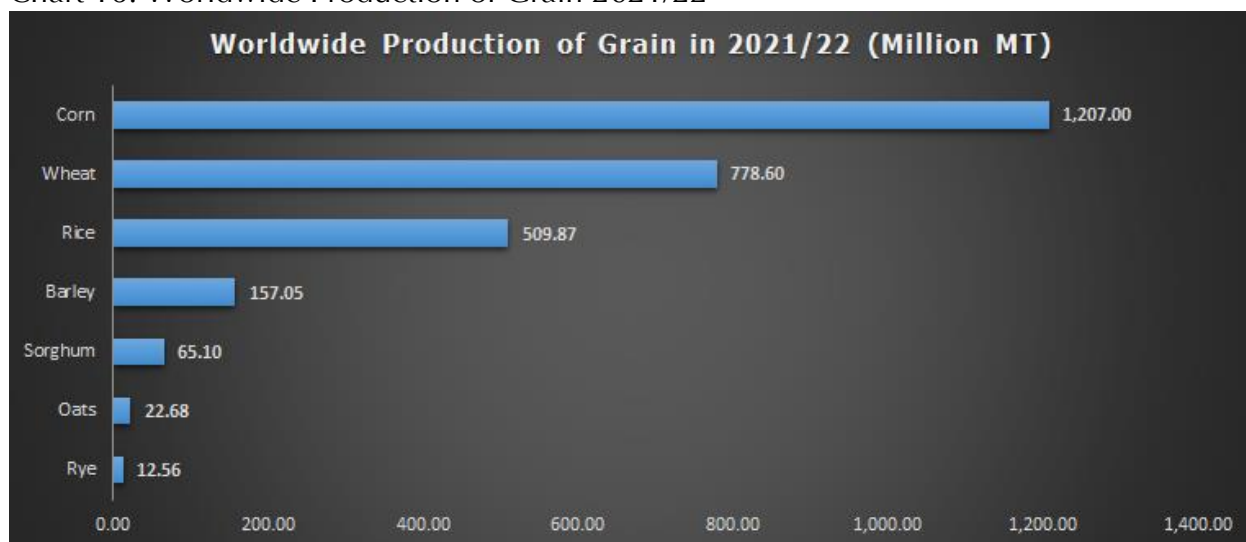
Source: Audited Financial Reports of Major Players, GCB Strategy & Research Estimates

The industry relies heavily on Interest Bearing Liabilities. This type of financing contributed about 48.8% of the total financing for the industry in 2021. The financing structure is very symbolic of the sugar trading businesses. Since their trading cycle is comparatively short, they usually are able to adequately cover the cost of borrowing, with margins from the proceeds of their sales.

3.0. RICE SUB-SECTOR OVERVIEW

Rice is one of the most widely consumed foods in the world though the bulk of its production is concentrated in only a particular continent. World rice production in 2021 was approximately 509.9 million tons. Approximately 90% of the world's rice production takes place in Asia, with China and India producing more than half the total yield.

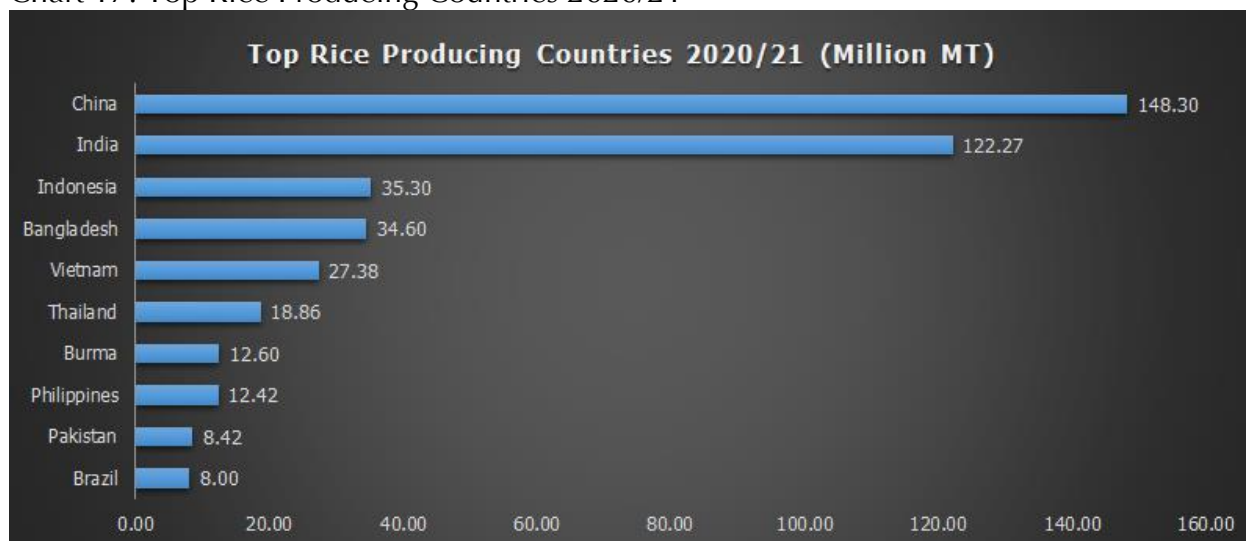
Chart 16: Worldwide Production of Grain 2021/22



Source: Statista

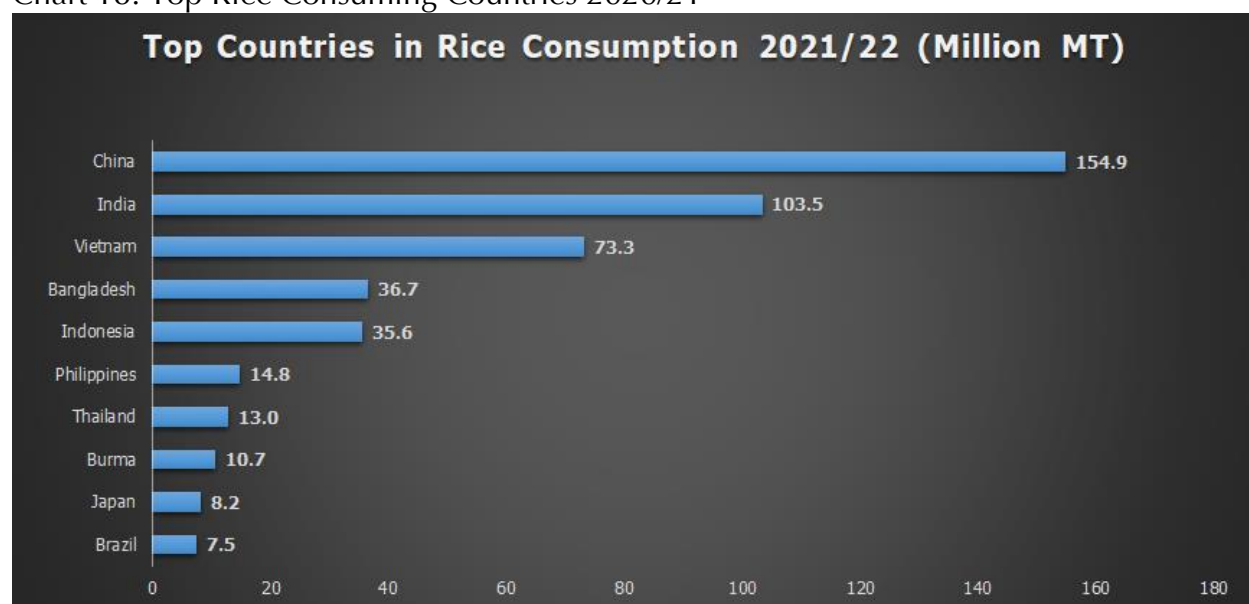
The top ten rice-producing countries in the world are India, China, Indonesia, Thailand, Bangladesh, Vietnam, Myanmar, Philippines, Cambodia and Pakistan. China also assumes the position as the top consuming rice country globally consuming a total of 154.9 million tons.

Chart 17: Top Rice Producing Countries 2020/21



Source: Statista

Chart 18: Top Rice Consuming Countries 2020/21

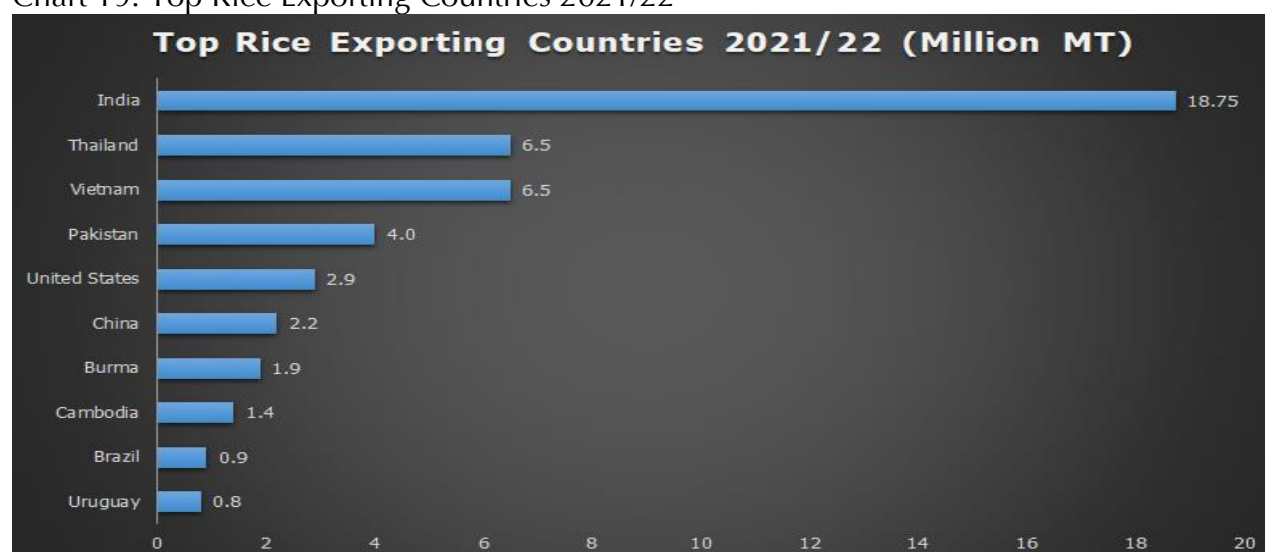


Source: Statista

Global Trade

India had the highest export volume of rice worldwide, at 18.75 million metric tons as of 2021/2022. Vietnam was the second largest rice exporter, with about 6.5 million metric tons of rice worldwide in that year. In the last few years, the global rice supply amounted to over 700 million metric tons of milled equivalent each year. The production of milled rice was projected to increase to over 504 million metric tons worldwide in 2022. Among the many varieties of rice, Pak Basmati rice had the highest export price.

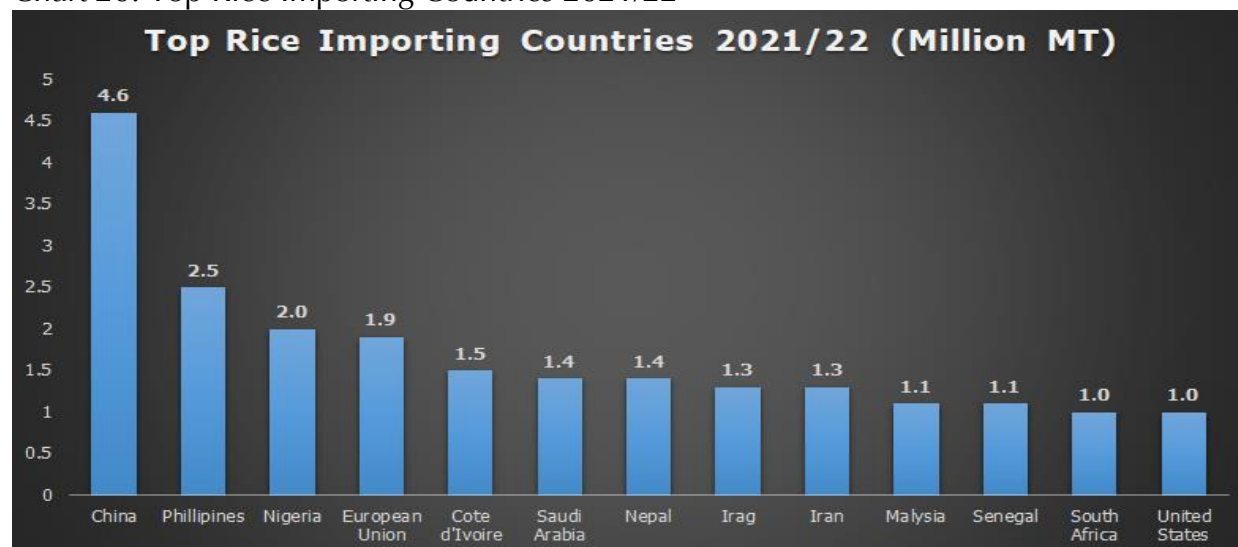
Chart 19: Top Rice Exporting Countries 2021/22



Source: Statista

The chart below shows the principal rice importing countries worldwide in 2021/2022. In that year, rice imports to China amounted to about 4.6 million metric tons.

Chart 20: Top Rice Importing Countries 2021/22

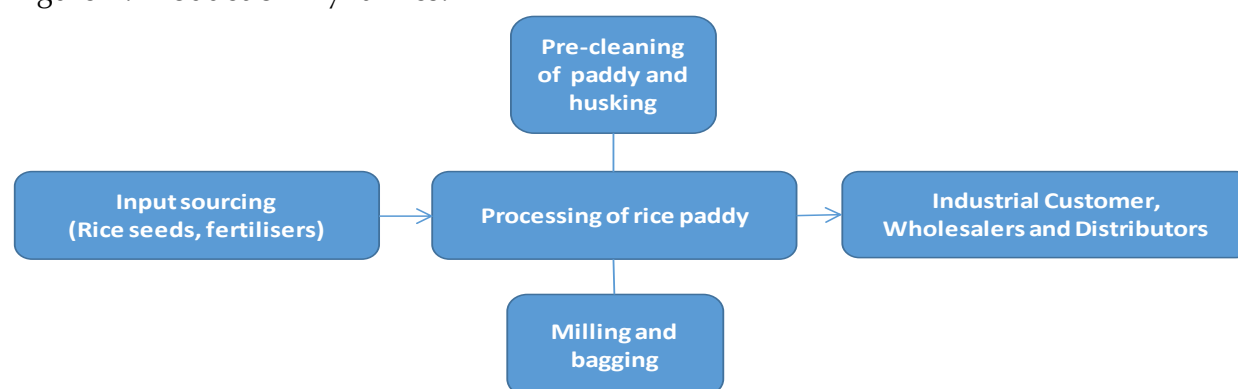


Source: Statista

3.1 Rice Production in Ghana

Milled rice production in Ghana in the last three years has averaged about 572K metric tons. Rice producers in Ghana source rice seeds locally. Produced rice is pre-cleansed before the husking process, which is then milled and bagged. Milled rice is supplied by producers directly to industrial customers, wholesalers and distributors. The diagram below presents the production processes of rice producing firms in Ghana.

Figure 4: Production Dynamics.



Domestic rice production for 2021/22 is forecast at 600,000 MT, an increase of about five percent above the 2020/21 estimate of 570,000 MT. With renewed vigour to realize increased rice production, which is indicated by the increased cropping area under rice

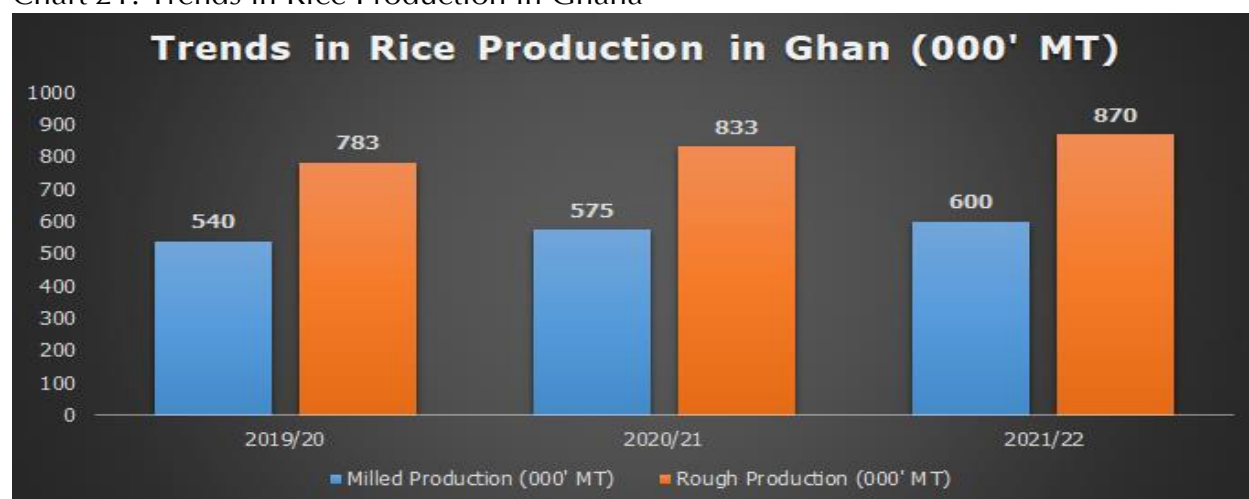
production, Ghana remains focused on the attainment of self-sufficiency with regard to rice. The potential yield is reported to be above 6.00 MT per hectare (HA) but the national average for 2020/21 is forecast at 3.34 MT/HA by the Ministry of Food and Agriculture. Despite delays in making subsidized inputs like fertilizer available to all registered rice farmers across the country, domestic rice production in Ghana is expected to increase in the coming years. The current year's crop has been reported as better than that of the past year. Appreciable gains are being made in the quest to increase production to meet the domestic demand so as to be able to reduce and eventually eliminate rice importation but it will still take some years of sustained efforts and corresponding results to achieve this target of the Government of Ghana (GOG).

In 2017, the GOG introduced a 50 percent subsidy on rice seed and fertilizer under the current government's flagship project, 'Planting for Food and Jobs' (PFJ) campaign, to make it affordable for producers to increase rice production. Under the program, about 10 percent of the rice seeds were imported by licensed agrochemical companies and the remainder supplied by local seed growers. The PFJ agenda is still being pursued by the GOG, and expected to be the pivot for realizing the target of rice self-sufficiency.

Rice is grown throughout all regions of Ghana. However, the top five production areas are the Volta, Northern, Upper East, Ashanti, and Western in descending order. In most cases, rice is grown once per year, but in rare instances where irrigation is available, producers may plant two crops per year. The primary growing seasons are April/May (planting) and July/August (harvesting) for Volta, Ashanti and Eastern Regions. In the Northern and Upper East, producers will typically plant in July/August and harvest in October/November.

Most locally-produced rice which constitute about 30% of consumption is grown by smallholder farmers, and with limited access to modern seeds and inputs, productivity tends to be low. Additionally, the rice mills available to the typical farmer produce a large percentage of broken grains. These factors make it difficult for small farmers to compete with high-quality imports from the Americas and Asia.

Chart 21: Trends in Rice Production in Ghana



Source: United States Department of Agriculture

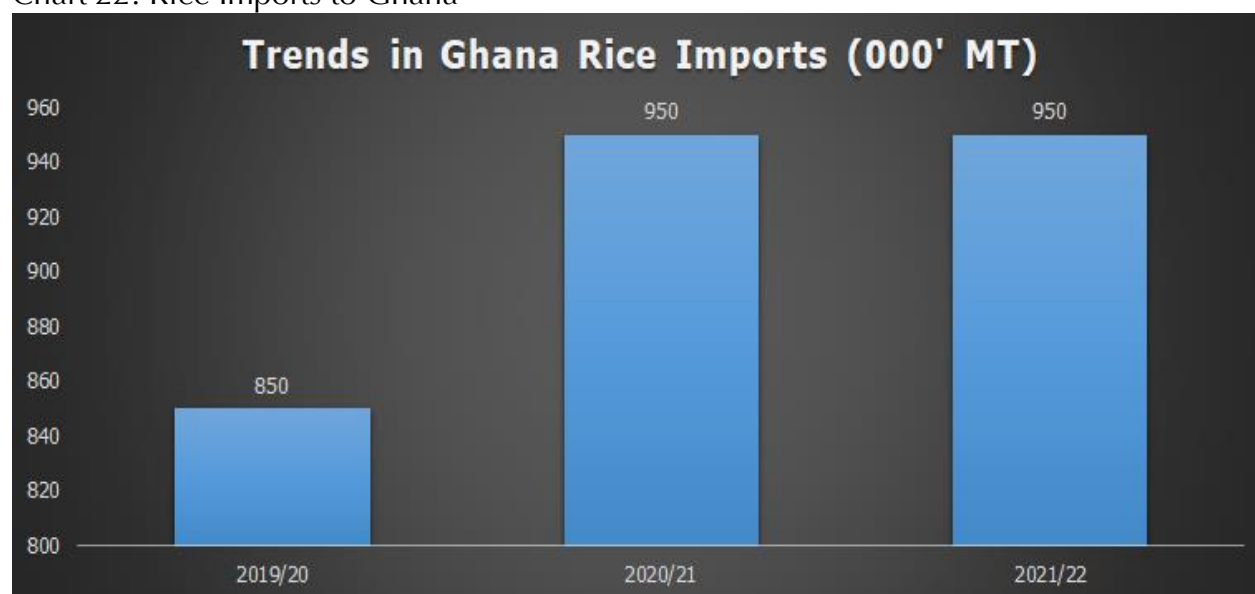
3.2 Rice Importation in Ghana

Rice is widely regarded as a staple food in Ghana. Despite the fact that rice forms a major part of the local diet in Ghana, about 30% of rice sold is produced locally. Ghana spent an estimated total of ₵6.874 billion on the importation of rice from 2017 to 2020. This was disclosed by the Trade Minister, Allan Kyeremanten when he appeared before Parliament to respond to a question on how much the state spent on the importation of rice and other foodstuffs into the country in the past four years.

Ghana's 2021/22 rice imports are forecast at 950,000 MT, unchanged from 2020/21. This trend of stabilization and potentially an eventual dip in rice imports is expected in the coming years a result of aggressive domestic efforts to increase production and also improve processing quality. Major importers revealed that the Covid-19 pandemic did not affect sales as was anticipated.

Vietnam, Thailand, India and Pakistan are the major rice suppliers. Different grades of rice are imported ranging from the fragrant Vietnamese and Thai rice, U.S. long grain rice, to cheaper 70 percent broken rice from other sources such as Cote d'Ivoire. The preferred Southeast Asian long grain rice has an average length of 6.8mm; Indian rice averages 6.2 mm in length and Brazilian rice 5.9 mm. Local varieties tend to be shorter. Urban markets in Ghana represent 80% of total rice consumption. Aromatic long-grain, white rice is preferred by consumers and comprises 20% of imports.

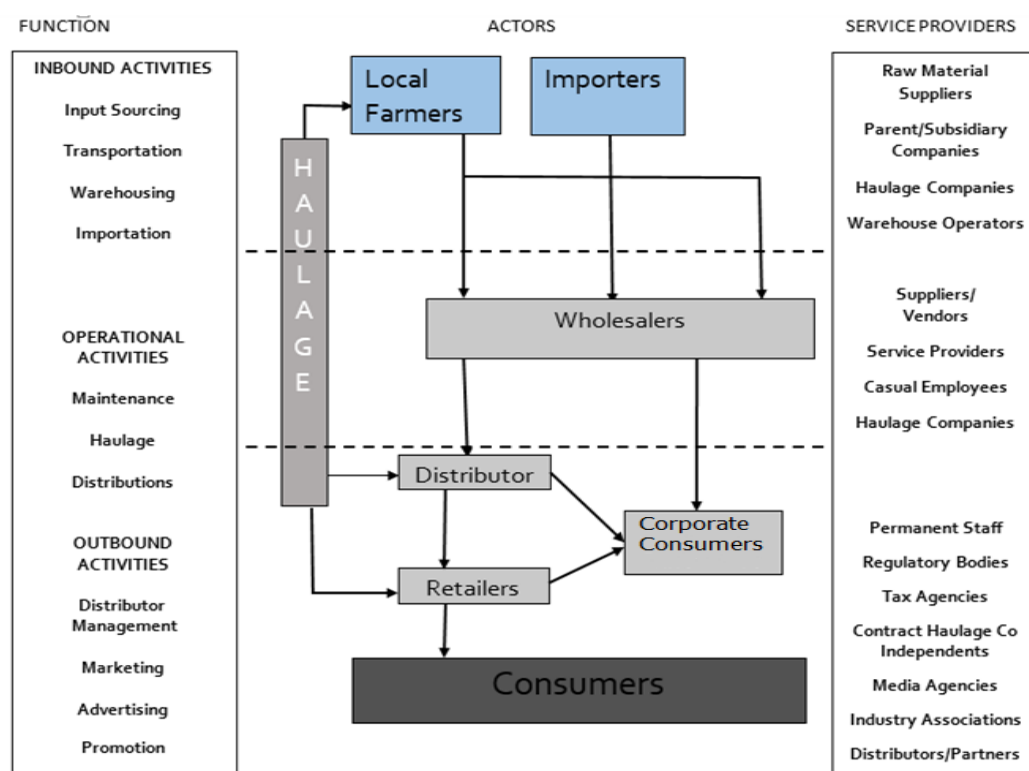
Chart 22: Rice Imports to Ghana



Source: United States Department of Agriculture (USDA) & GSS

3.3. Rice Sub-Sector Value Chain

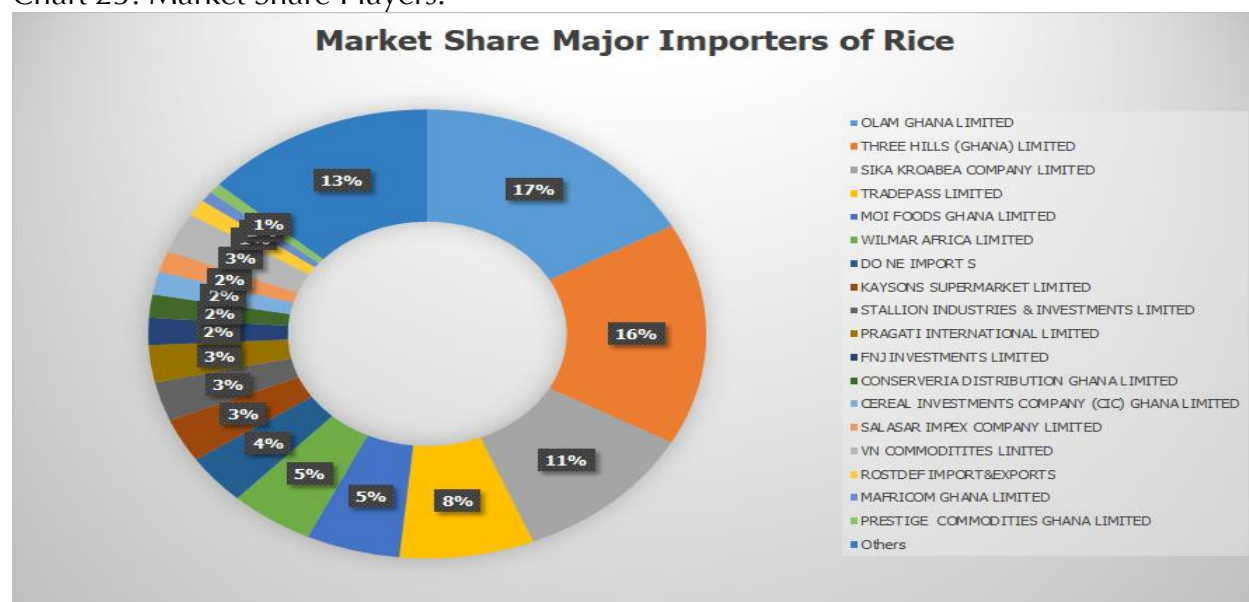
Figure 5: Rice Sub-sector value chain.



3.4. Key Players in Rice Sector

The industry players are commodity traders who deal in rice, amongst them are Olam Ghana, Three Hills Ghana Ltd, Sika Krobea Company Ltd, Stallion Industries & Investment Ltd etc. Olam is the market leader with approximately 17% share of the market. The top 6 players' controls about 62% of rice imports into the country. The chart below is a representation of the major players in the industry.

Chart 23: Market Share Players.



The industry's trading cycle is about 74 days and virtually there are very little spontaneous financing from Non-interest Bearing Liabilities ("NIBL"). It relies heavily on short term borrowings to augment its working capital. Most importers prefer immediate payment for rice purchased as a result of the depreciation of the Ghanaian Cedi and so purchases are financed with short term borrowings to avoid exchange losses.

3.5. Supply Dynamics

Imported rice makes up 70% of domestic rice consumption and this figure is projected to grow especially with challenges facing local production. Local rice production (30%) is expected to increase gradually in the coming years due to investment in the sector by Government through its PFJ programme and gradual investment by private sector. Appreciable gains are being made in the quest to increase production to meet the domestic demand so as to be able to reduce and eventually eliminate rice importation but it will still take some years of sustained efforts and corresponding results to achieve this target.

3.6. Demand Dynamics

Rice is the second most important cereal after corn in Ghana, and has become a major staple food. In 2021/22, consumption has been forecast at 1.58 MMT, up by almost two percent from 2020/21 estimate of 1.55 MMT. The per capita rice consumption is estimated at about 48kg/year, and with Ghana's population now estimated at over 31 million in 2021, and growth rate of 2.12%, rice consumption is expected to increase accordingly. Rice is increasingly a main part of the diet in many Ghanaian homes due to its relative ease of preparation and palatable recipes.

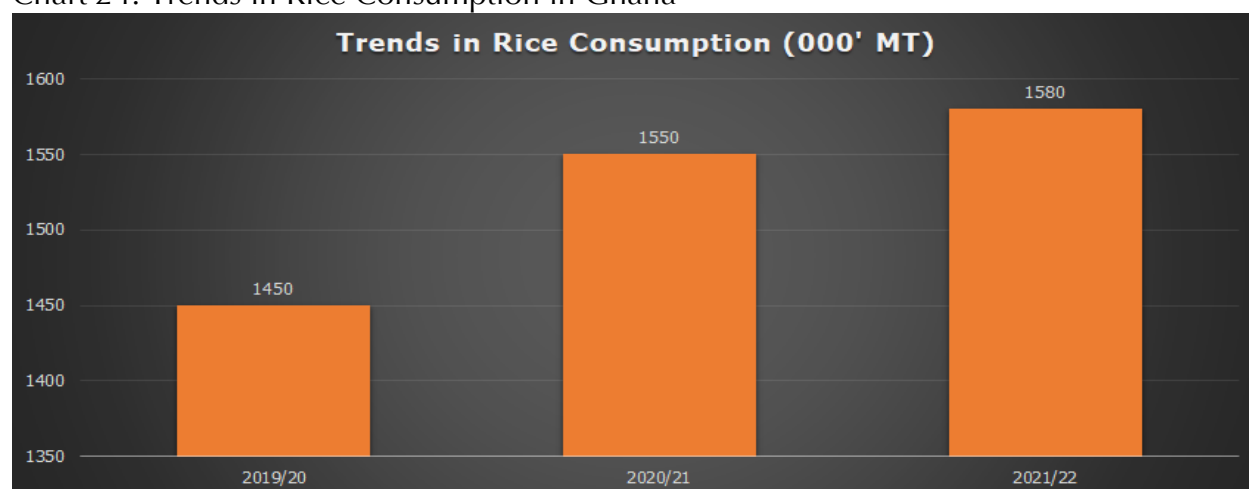
Increasing urbanization, a large and growing expatriate community, a growing entrepreneurial middleclass, a rapidly growing tourism sector, and an increase in women working outside the home are all responsible for the increase in rice demand. Admittedly, increased demand for rice, is mostly driven by the increasing number of restaurants and fast food vendors in major cities and towns. Also, increase in households' demand is a contributory factor to the demand for rice in Ghana.

Furthermore, aggregate demand of rice usually increases during various ceremonies and festive seasons such as Easter, Eid al-Fitr and Christmas. On average, demand for rice is moderately price inelastic. Changes in aggregate income levels will only affect demand slightly because rice is an essential part of the everyday diet in Ghana.

Urban consumers, who represent 55 percent of Ghana's population, account for about 80 percent of total imported rice consumption. Ghanaian urban consumers prefer imported rice due to its higher quality. There is increasing demand for high quality rice and consumer preferences are changing towards fragrant and long-grain white rice. A lesser proportion of domestically produced rice that gets processed to meet the quality standard of imported rice earns the patronage of urban dwellers.

The aromatic rice is becoming the preferred rice of those shopping in the "quality" segment of the market, chosen for its special taste (60 percent of consumers buy aromatic rice because of its taste). High-end restaurants and eateries rely heavily on aromatic rice to deliver quality and taste to their customers.

Chart 24: Trends in Rice Consumption in Ghana



Source: United State Dept of Agriculture

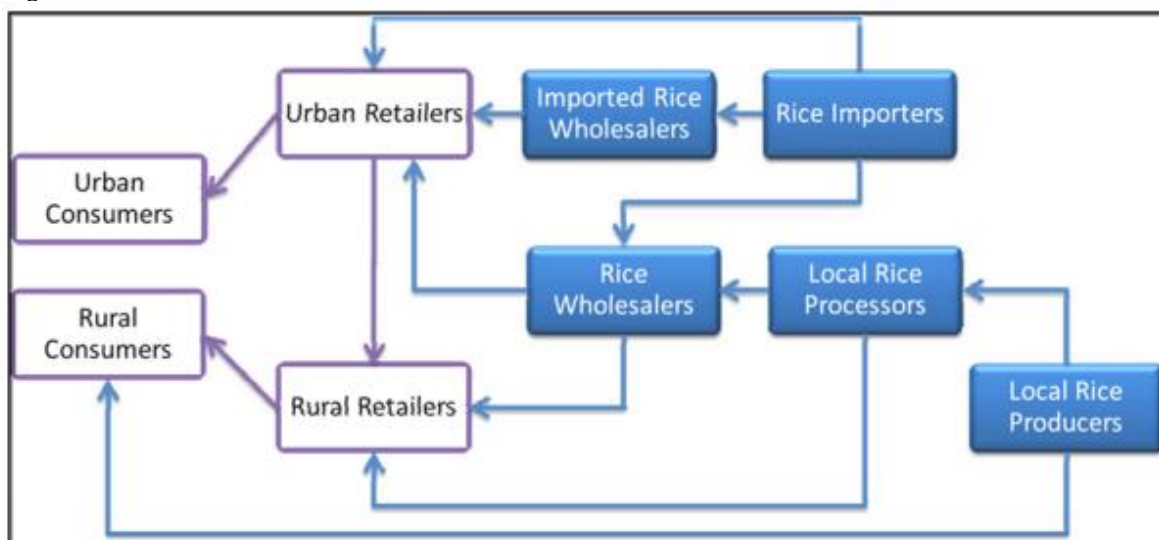
3.7. Distribution Dynamics

Rice is distributed directly by producers and importers usually on cash basis to industrial customers, wholesalers and distributors. Unlike importers who handle only imported rice, wholesalers may handle either imported rice or both local and imported rice. The wholesalers who handle only imported rice tend to be large and generally serve large urban retailers, who not only service urban consumers but may also supply smaller urban and rural retailers. Poor market information makes it difficult for small retailers to exercise much power in their transactions with wholesalers. Importers' relative size, capital position and access to relevant and timely information generally provide them with a power advantage in this market. Indeed, most importers also provide wholesale services. On credit terms, however, trade receivable collection period between 7 to 30 days are allowed for a few of these customers.

In Ghana, both imported and domestic rice are sold on the same market in the urban centers, but local supply can be irregular. About 70 percent of rice sold through retail outlets in Ghana is imported. Importers prefer to buy rice in bulk and re-bag locally into 50kg, 25kg, and 5kg, to accommodate consumer preferences and to maximize their profits. Rice importers sell to wholesalers, retailers, and directly to consumers. The traders then retail the rice on the open market. The imported rice sold in 5kg bags is preferred by customers and is convenient to carry. Several smaller private companies, however, actively import packaged rice in 1kg and 2kg bags of various types, brands and qualities. Also, retailers sell to consumers in either large bags of 50kg or in accepted units known as olonka or margarine tins. There is also increased promotional activity of Viet and Thai origin brands of rice on Radio, TV and billboards.

Currently, the retail price of a 25 kg bag of U.S. rice averages GHS197.00 (about USD 27.73); Thai rice of same weight averages GHS281.00 (USD 39.51); Vietnamese rice of 25kg averages GHS195.00 (USD27.38). Imported rice as a whole provides greater variety at more affordable prices than domestically produced varieties. The local rice (parboiled, white and brown) is perceived to have higher nutritional qualities, but is less preferred by most consumers due to perceived poor quality. Nonetheless, the GOG has created demand for the envisaged increase in domestic rice production by linking it to the feeding program of the public second cycle institutions nationwide through the guaranteed purchases by the reinvigorated National Food Buffer Stock Company.

Figure 6: Distribution chain of Rice.



3.8. Foreign Exchange Dynamics

The Industry imports 100% of its requirements and need foreign exchange to make payments to its suppliers. The industry is a key user of FX and faces exchange rate risk since its revenues are typically generated in local currency. The foreign exchange requirement for the industry is over \$600 million annually.

3.9. Margins Structure

Chart 25: Profit Margin.

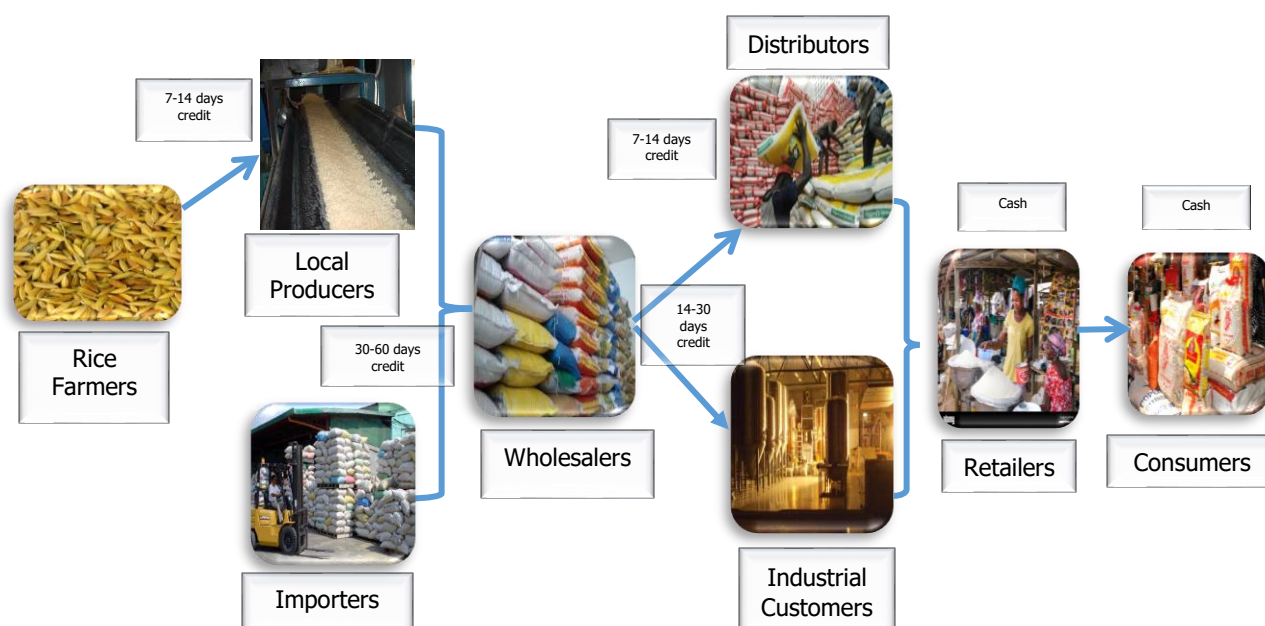


Source: Audited Financial Reports of Major Players, GCB Strategy & Research Estimates

Profit margins had increased from 15% in 2020 to 19% in 2021. Margins improved considerably due to the relative stability of the currency. Industry players continue to increase stock levels and the management of exchange losses through forward contracts in order to stay afloat.

3.10. Cash flow Structure

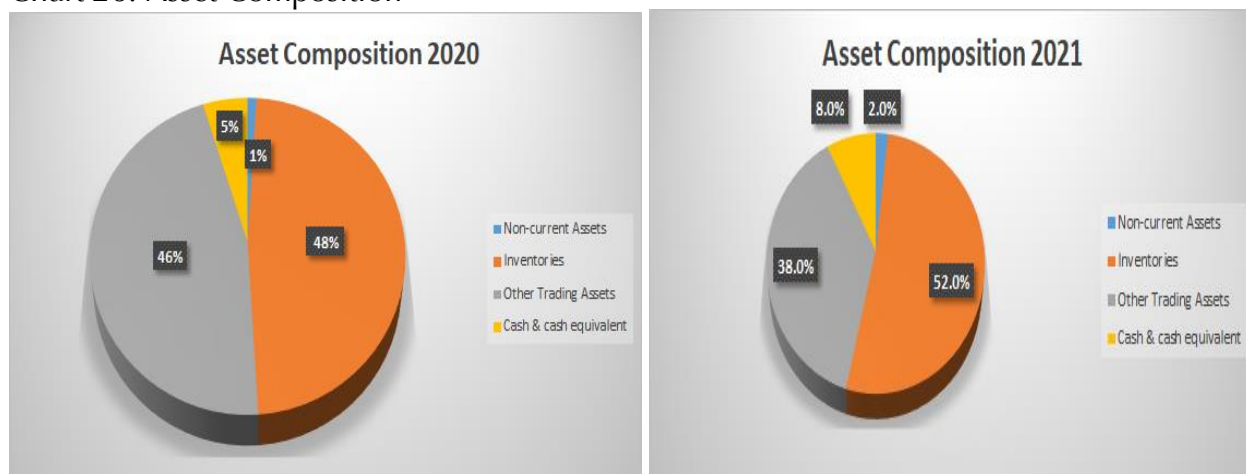
Figure 7: Cash Flow Structure.



The industry's cash flow cycle is estimated at an average of between 60 - 90 days for major players in this sector.

3.11. Assets Structure

Chart 26: Asset Composition

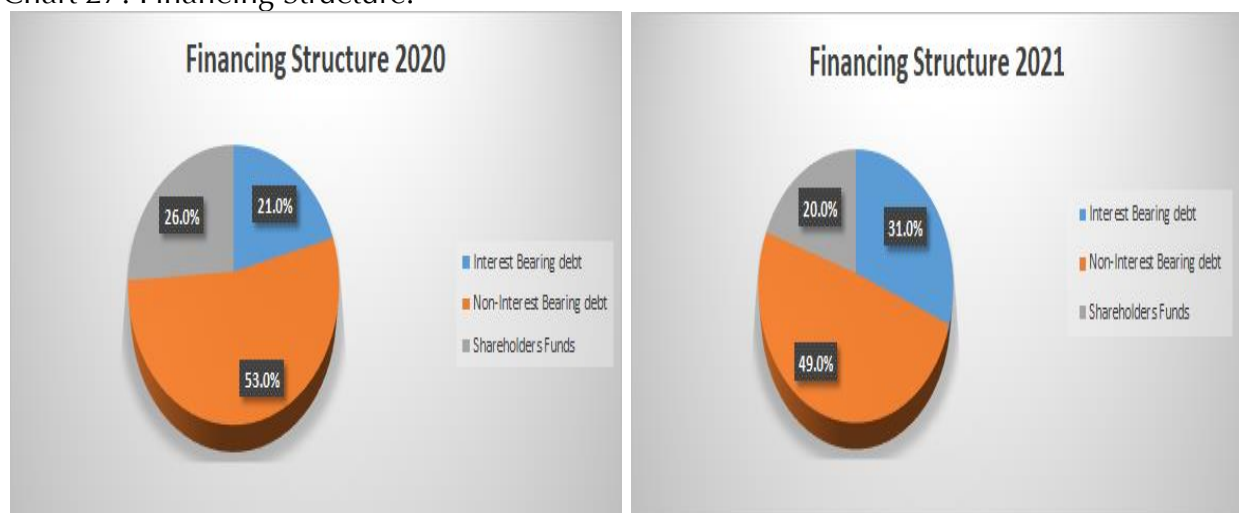


Source: Audited Financial Reports of Major Players, GCB Strategy & Research Estimates

In 2021, inventories constituted approximately 52% of the industry's total assets, while non-current assets were 2%. Other trading assets and cash constituted 38% and 8% of the industry's total assets respectively.

3.12. Financing structure

Chart 27: Financing Structure.



Source: Audited Financial Reports of Major Players, GCB Strategy & Research Estimates

The industry relies heavily on Non-Interest Bearing Liabilities. This type of financing contributed about 49% of the total financing for the industry in 2020. The financing structure is very symbolic of the rice trading businesses. Since their trading cycle is comparatively

short, they usually are able to adequately cover the cost of borrowing, with margins from the proceeds of their sales.

4.0. Entry & Exit Barriers

Entry Barriers into this industry are moderately low. Importers may enter or exit the market with little restrictions.

However, access to low cost financing is a key requirement for moving large volumes that would enhance profitability and business success. Another key requirement is sufficient knowledge of and experience in the trading industry, along with strong relationships in the distribution chain.

5.0. Regulatory Dynamics

The activities of this industry segment are regulated by the following:

- The Ghana Standards Authority.
- The Food and Drugs Authority.
- The Ministry of Health.
- The Revenue Agencies Governing Board.
- Customs Excise & Preventive Service.
- Environmental Protection Agency.
- Ghana Investment Promotion Centre.
- Ministry of Trade and Industry
- Trade Associations

The sale of these commodities is subject to governmental regulation regarding the labelling, composition/ingredients and origin of such products. Generally, the level of regulations in the industry is considerably strict but favourable to industry practice.

Regulations have had a positive impact on the activities and quality of products. Regulations also offer opportunities and the various mechanisms for their realization and enhancement of the local industry.

Recognizing some of the challenges of past efforts, the Government is adopting a new approach of public-private partnerships (PPPs) in which complementary and targeted public support helps leverage on private investment to develop commodity production and market.

Furthermore, the Ministry of Trade and Industry (MOTI) has developed National Sugar Policy to help revamp the industry and make it a globally competitive one. The policy seeks to provide an enabling infrastructural and institutional environment for a globally competitive private sector sugar industry, to help reduce foreign exchange expenditure on

imported sugar, contribute to rural industrial development and provide supplementary electricity through co-generation for the national grid.

Also, the government continues to actively use the media to draw consumer attention to the availability of local rice and encourage its use. The GOG is determined to reduce rice importation by raising domestic production through the PFJ campaign. However, it is unlikely that imports will be reduced if rice continues to be grown at the subsistence level under rain fed conditions in valley bottoms/low lying areas, employing only traditional methods with limited irrigation and mechanization.

The industry's players currently conform to the standards set out by the Environmental Protection Agency (EPA). The industry's impact upon the environment is considered to be at a low level.

6.0. Key Success Factors

The following are the Key Success Factors that are required for the trade of Rice and Sugar.

- Wide and effective distribution network along with Strong Relationships within the distribution chain.
- Good Stock Management.
- Access to spontaneous finance.
- Product Quality.
- Good terms of trade with retailers/customers.
- Proper Storage of Products.
- Competitive pricing.

7.0. Key Risk Areas

The following are the key issues that may adversely affect the output and/or financial condition of industry's players:

- Increased competition.
- Threat of price reduction by other competitors. Smuggling of rice from neighbouring countries especially the Ivory Coast to Ghana to be sold at a cheaper price.
- Lack of adequate storage facilities.
- Risk of burglary, fire and theft.
- Changes in inflation and interest rates.
- Exchange rate depreciation.
- Government policy (particularly concerning duties and taxes).
- Change in consumer preference, especially as a result of lifestyle changes (e.g. growing health concerns about the intake of Sugar).

- The risk associated with transport of rice/sugar from the port to the warehouses and to other distributors in the regions. It is worthy to note that most of the companies in the industry ensure that these goods are insured.

8.0. Key Banking Needs- Current & Potential

Table 1: Key Banking Needs.

Value Chain Phase	NEEDS	TYPE OF FINANCE
Inbound Activities	Raw Material Locals	<ul style="list-style-type: none"> • Short term finance • Supplier finance
	Haulage/Transport	<ul style="list-style-type: none"> • Asset finance/lease • Working capital finance
	Raw Material import	<ul style="list-style-type: none"> • Trade finance- LC • FX Purchase
Operations	Expansion	<ul style="list-style-type: none"> • Long term finance/Commercial finance (factory)
	Capital Expenditure	<ul style="list-style-type: none"> • Equipment finance
	Spare parts importation/Equipment maintenance	<ul style="list-style-type: none"> • Trade finance • FX • Short term finance
	Operating expenses	<ul style="list-style-type: none"> • Working Capital
	Employees	<ul style="list-style-type: none"> • Consumer loans • Payroll management • G-Money
Outbound Activities	Distributors	<ul style="list-style-type: none"> • Distributor finance • Inventory finance • Property (Warehouse) financing • Cash collection
	Marketing/Advert Cost	<ul style="list-style-type: none"> • Invoice discounting (for vendors) • Short term loan
	Haulage/Transport	<ul style="list-style-type: none"> • Asset finance/lease • Working capital finance

9.0 Outlook & Conclusion

The government is aiming at shoring up Ghana's rice production capacity and eventually becoming a net-exporter rather than an importer. Ghana currently spends about \$600m annually to import rice. The country spends an additional US\$400m annually to import sugar. As part of a long term measures toward reducing pressure on the local currency, government is targeting a reduction in US\$1b imports of food by developing the local capacity to produce more of them especially rice and sugar. Also, government through MOTI in the implementation of its National Sugar Policy would ensure the revamping of

sugar manufacturing in Ghana. Despite significant demand for sugar, domestic production remains zero. The recently revamped Komenda Sugar factory is yet to be operational. Hitherto Ghana enjoys the climatic and soil preconditions necessary to produce sugar. Agronomic studies continue to emphasise the potential for sugar production in Ghana, particularly in the drier northern regions, and have identified specific locations with attractive drainage, water resources, and topographical attributes.

Until there is massive investment in the local production for rice and sugar, their importation will continue to be the order of the day. Therefore, we foresee a nonstop growth in the import of rice and sugar into the country in the medium to long term. The massive dependency on imported rice especially which constitutes about 70% of rice consumption in the country is as a result of the fact that rice has become a daily staple in most Ghanaian homes, restaurants and fast food joints all year round leading to tonnes of rice imports by various companies. This therefore goes to affirm that the industry abounds with a lot of banking opportunities for GCB to tap into. Therefore, trade related transactions, payment solutions, source of FX purchases, overdraft facilities, cash collections, term loans and personal banking products are some of the bankable opportunities that abounds for the bank to capitalize on.