

GHANA

Strategy Support Program



Session 7: Role of agro-processing in industrialization: What are the binding constraints?

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SESSION SUMMARY

In this session we discussed the need to expand the market for agricultural output beyond consumption, and identified agro-processing as a promising means to increase demand for agricultural commodities. Drawing on case studies of value chains for tomatoes, fresh-cut fruit, and cocoa, we identified current constraints to the growth of these industries and ways in which some companies have successfully overcome them.

Tomatoes are an important component of the Ghanaian diet, with both locally-produced fresh tomatoes and imported tomato paste being close substitutes. The import price for tomato paste is relatively low, and—due to high costs of production—the price of the locally produced fresh tomato is too high for the processing sector to compete with imported paste [[GSSP Discussion Note #020](#)]. Consequently, imports of tomato paste have increased. Improvements in productivity via the use of better seeds, planting and protection would bring down the costs. The challenge is to also meet the quantity requirements of the processing industry as existing tomato processing factories are capital-intensive and require a large operational scale to be profitable. After meeting the consumer demand for fresh tomato, the current tomato supply that can be used as a processing input is not adequate. It is the lack of a competitive and stable supply of fresh tomatoes that discourages foreign manufacturing companies from investing in Ghana.

However, the fresh-cut fruit industry has attracted foreign investment since the 1990s with the growth of Blue Skies - a joint venture company with British and Ghanaian investment. The company has experienced excellent success with annual exports of fresh-cut fruit worth \$30 million [[GSSP Discussion Note #021](#)].

While some of the produce is sold domestically, the majority is sold in supermarkets in Europe. The company experienced the usual constraints—credit, electricity failure, land tenure—but has found ways to overcome them. To be able to develop a reliable supply of high quality fruits, the company provides credit or loans at subsidized interest rate to farmers for business expansion. Such efforts to support smallholder farmers have won the company numerous awards. Much of Blue Skies' success seems to be attributable to their adaptability. For example, they periodically face shortages of local fruit provided by its contracted farmers (as in the case of tomato), but they resolved this problem by establishing packing houses in Gambia and Senegal that serve as backup suppliers.

Cocoa is an extremely important crop in the Ghanaian economy and consequently a great deal of attention has been paid to the value chain of cocoa from bean to chocolate. Ghanaian cocoa beans are of high quality and attract a premium in the international market but Ghana is engaged in limited processing. Our discussion identified two factors that may play a role in this situation. First, the cocoa sector is overseen by the parastatal COCOBOD and they dictate who can grow and sell cocoa. Second, there is little domestic market for chocolate and substantial international competition in various grades of chocolate. In our discussion of the binding constraints to the growth and upgrading of the cocoa sector, it was clear that the role of the government in promoting agro-processing should be reconsidered. For Blue Skies, the role of the government was small. For cocoa, the private sector may be better equipped to facilitate agro-processing and take advantage of increasing domestic demand for high-value products due to urbanization.

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