Ghana – Seizing New Agribusiness Opportunities*

Denise Wolter

- Ghana has a two-speed agricultural sector: export-oriented agriculture is growing strongly, while food crop production is lagging behind.
- Ghana needs to sustain and scale up both traditional and non-traditional agricultural export sectors.
- The country needs to devise credible strategies to boost productivity in food to meet rising local demand and develop a viable local agro-industry.

Ghana is one of Africa's success stories: in the past 20 years the economy has been growing at an average of 5 per cent. Lately, a major growth driver has been the high demand for gold from emerging economies. In 2006, gold overtook cocoa for the first time as Ghana's most important export. Yet the agricultural sector continues to dominate the economy, employing over 55 per cent of the workforce and accounting for 40 per cent of GDP. The agricultural sector has performed quite well in the recent past with growth averaging 5.5 per cent over the past five years. However, closer examination shows it is growing at two speeds. While agriculture for export, such as cocoa and horticulture, is flourishing, food crop production remains dominated by subsistence farming.

Paying the Price for Neglecting Food Production

Ghana's agricultural production meets only half of domestic cereal and meat needs and 60 per cent of domestic fish consumption, according to the Ministry of Food and Agriculture (MoFA). Food production is dominated by subsistence farming, and without transport and storage infrastructure small farmers have hardly any access to local markets. However, there is significant untapped potential as yields for cereals and starchy staples are far below the maximum attainable (see Table 1). Furthermore, as food production is concentrated in the poverty-stricken North, commercialising food production could also help reduce the North-South divide of the Ghanaian economy.

Ghana is paying the price for neglecting food crop productivity as high food prices are fuelling inflation. In 2007, inflation averaged 12.7 per cent, up from 10.5 per cent in 2006, and is expected to reach a new high of 13 per cent in 2008. President Kufuor has announced short-term relief measures such as removing import duties on rice, wheat, yellow corn and vegetable oil and a ban on their re-exportation. However, in the medium to long term modernising food crop production will require substantial productivity-enhancing investments, including rural infrastructure, irrigation, marketing, extension, and agricultural research and development (R&D).

Costly Imports, but Local Processing Struggles

The growing segment of middle-income households (about 5 per cent of the population) could provide a significant consumer base for locally processed foods. But as local food processing remains too small to meet local demand, high-value food imports have been increasing. Ghana currently produces less than 30 per cent of the raw materials needed by its agro-based industries. The government has introduced incentives (e.g. tax holidays) to promote food processing but the response has been low as major bottlenecks such as lack of space infrastructure, finance, etc. remain.

However, the market entry of South African retailer Shoprite, in its first large investment in West Africa, could change the scene. Dr. Lucian Peppelenbos, senior advisor at the Dutch Royal

Tropical Institute, expects large spin-off effects for the agriculture and agribusiness sector as Shoprite's supply chains are set up.

Table 1: Current and Potential Yields of Ghana's Major Food and Export Crops

Crop	a) Average Yield (tonnes per hectare)	b) Potential Yield (tonnes per hectare)	Yield Gap (b-a)	Yield Gap
I. Major Food Crops				
Cereals				
Maize	1.5	2.5	1	40%
Millet	0.8	1.5	0.7	47%
Rice – rainfed	2.1	3.5	1.4	40%
Rice – irrigated	2.8	5	2.2	44%
Starchy Staples				
Cassava	11.9	28	16.1	58%
Cocoyam	6.7	8	1.3	16%
Plantain	8.1	10	1.9	19%
Yam	12.4	20	7.6	38%
II. Major Export Commodities				
Cocoa	0.4	1	0.6	60%
Pineapple	60	100	40	40%

Note: Author's presentation based on Breisinger, C. *et al.* (2008).

Cocoa – A Success Story

In 2006, Ghana regained its position as the world's second-largest producer of cocoa beans, with an output of 740 000 tonnes, after Côte d'Ivoire which remains the largest, producing almost twice as many cocoa beans as Ghana. However, production figures must be treated with caution as about 100 000 tonnes of Ivorian cocoa are smuggled into Ghana each year because of political instability in Côte d'Ivoire and the higher producer prices paid in Ghana (EIU, 2007).

Like other export crops, cocoa production is concentrated in the South, and carried out by around 1.6 million farmers on plots smaller than three hectares. Provision of technological packages and improved access to credit, together with partial liberalisation of cocoa marketing, have improved producer skills and incentives to raise productivity. Potential for further productivity improvements still exists; as current yields remain 60 per cent lower than attainable yields (see Table 1). However, the objective of the Ghana Cocoa Board (Cocobod) to raise annual production to 1 million tonnes by 2010 appears overambitious, as in the past five years annual cocoa production has averaged only 600 000 tonnes (Business Monitor International, 2007).

International market risks are likely to rise as competitors such as Côte d'Ivoire, Indonesia, Cameroon, Nigeria and Brazil expand their production. While cocoa demand is steadily increasing by 3 per cent per annum with new markets emerging in Asia, the current capacity of producer countries already exceeds demand. Without an annual loss of 30 per cent of the cocoa yield to disease, the market would be oversupplied.

In an effort to reduce its exposure to international price volatility, Ghana is trying to increase to 50 per cent the amount of cocoa beans processed; yet as of 2005/06, only 13 per cent of cocoa beans were processed in Ghana.

Ghana has a small chocolate label, Golden Tree, but this is sold only in small quantities in the UK.

According to the US-based Archer Daniels Midland Company (ADM), the key to developing a successful chocolate industry is the existence of a local market. However, so far chocolate is not part of the local diet and the high-income consumers prefer imported brands. Nevertheless, Ghanaian government subsidies and tax incentives make it attractive for foreign companies such as ADM, Barry Callebaut and Cargill to invest in or set up processing plants.

Horticulture – An Emerging Growth Sector

The Ghanaian government and donors such as the World Bank and the United States are promoting horticulture to reduce Ghana's dependency on cocoa exports. While the value of horticultural exports was USD 9.3 million in 1994, it had increased to USD 50 million in 2006, mainly thanks to pineapple exports; in 2006, these amounted to over USD 19 million, 38 per cent of total value of horticultural exports.

Pineapples are also one of the products besides cocoa where private enterprises, such as the British company Blue Skies and the Dutch Togu Fruits, have been increasingly involved in processing. However, Ghana has yet to learn how to adapt more rapidly to market developments; changing consumer preferences to the sweeter MD2 pineapple variety posed a considerable challenge to producers. Because of the production shift to MD2, Ghana's share in European pineapple imports fell by 18 per cent between 2003 and 2007 (FAGE, 2007).

Internationally, Ghana faces the problem of being a small player with limited visibility. Currently the fourth largest supplier of pineapples to the EU, its production of 38 000 tonnes (5 per cent of European pineapple imports) is well behind leader Costa Rica's of 574 000 tonnes (69 per cent) (FAGE, 2007). Ghana's international market share for other fruit exports, such as bananas, mangoes and papaya, is even smaller, often below 1 per cent. Even if it significantly increases volume, Ghana will still have to base its competitive advantage in horticulture on quality rather than quantity.

Ways Forward

The recent discovery of oil in Ghana risks diverting attention again from the commercial potential of agriculture, which would be an imprudent move. Significant gaps between achievable and actual yields for all major food and export crops show that agricultural growth potential exists in Ghana. Furthermore, income growth in many Asian countries is likely to create fresh demand for Ghana's traditional agricultural exports, and high world food prices, combined with rising domestic demand, offer new market opportunities for staple crop producers. To take advantage of these opportunities, Ghana must increase agricultural productivity and support the local agro-industry to regain domestic market shares and expand international business.

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