

### **The tomato paste value chain: Trends, tensions and transformations** **Guyslain K. Ngeleza, Economist, MCC**

A typical market in West Africa is characterized by a two-level marketing system whereby itinerant traders are the direct link between rural farm producers and urban consumption, rather than by a set of assembly markets which bulk the produce before it is sold to urban wholesalers at relay markets. Despite their long standing relationships that arise from such marketing system with traders, West African farmers often complain about receiving low prices and claim that removing traders and other supply chain intermediaries would raise their profits.

Traders often respond by arguing that they play valuable role. They pay for transport and take the risk of moving produce long distances to find wholesalers and final consumers. Traders and collectors justify the margin above and beyond the price they offer farmers by the risks they take and the services they offer including transport service.

In the media and public opinion, traders are variously portrayed. Some ostracize them, accusing them of forming cartels that hurts consumers (by charging inflated prices) and producers (who receive lower prices or get no market at all). For others traders and collectors are the only groups in value chains that are disciplined and organized, reducing risk, uncertainty, and spoilage.

This of course begs a number of questions: (1) Are farmers really being unfairly given lower prices? (2) Do traders play a valuable role or would assembly markets be a better option (3) Would support for agro-processing improve conditions for farmers? (4) What government policies would best help farmers: greater farmer organization to increase their bargaining power; or increased access to the urban markets?

To address some of these questions we conducted a study in the tomato sector in Ghana. We focused on the interface and therefore the relationships between farmers and traders, not simply on prices and quantities. In our study, farmers can sell to traders, who act as a monopolistic cartel; to the local rural market to which access is unrestricted; or to the local agro-processor, if it is active. Our data reveal that farmers actually receive higher prices from the traders than from the local market or from the processors, which at first glance suggests that farmers are not being offered unfairly low prices. Rather, traders appear to be sharing their monopsony rents with the farmers they buy from. However, by restricting access to the large urban markets, not only do urban consumers pay higher prices than in an unrestricted market, but overall demand for tomatoes is lower; prices in the rural markets are depressed such that farmers who are not able to sell to the traders suffer prices that may be below cost; and some farmers have switched out of tomato farming altogether.

Why would market traders accept to give higher prices? The data suggest that they are able to access somewhat higher quality tomatoes (along two quality dimensions) and the larger volumes that farmer groups can offer. But traders have also been under pressure from politicians and NGOs to offer more favourable terms to farmers and so may be responding to that pressure.

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Increasing farmers' bargaining power by helping them to better organize could increase price farmers receive from traders. However, our model suggests that the benefits that these organized farmers would gain would come at a yet greater cost to urban consumers, and to those farmers unable to sell to the traders. Alternatively, politician could put in place policies that encourage more processing of locally produced fresh tomato into tomato paste. However, another set of studies conducted in Ghana, showed that fresh tomato production in Ghana is low productivity, low volume and high cost. Because the price of imported tomato paste limits the amount processors can pay for fresh tomato and thus remain competitive with imports, until productivity increases, domestic processing is unlikely to be competitive.

Increasing farmer access to urban markets, combined with assembly markets where tomatoes are sorted and graded thus providing farmers with incentives to increase the quality of their produce, may be key to improving the sector. However, any transition to a new marketing model would need to be managed carefully.

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## References:

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